Edison Wealth Management

Tax efficient life cover for business owners and high earners

6 Duke Street St James's, London, SW1Y 6BN, United Kingdom
+44 (0)20 7287 2225 hello@edisonwm.com edisonwm.com

Relevant Life Cover

Most businesses offer death in service benefits as part of their overall remuneration package. It is relatively straightforward and tax efficient for the employer and the member. What can be overlooked is that these schemes are usually set up on a similar basis to a registered pension scheme. This means that, when a claim arises, the pay out will be added to the member's total pension benefits and tested against their available lifetime allowance. The result might be an additional tax charge of up to 55% on some of the pension benefits, as we explain below.

A Relevant Life Policy can be an effective alternative to group life assurance cover. It is just as tax efficient but the benefits are not subject to potential lifetime allowance tax charges, leaving more behind for beneficiaries.

How can my death in service get 'taxed' as a pension?

Taking money from your pension, as income or a lump sum, or as a result of your death under age 75 (when your pension benefits are passed to your nominated beneficiaries) triggers a 'lifetime allowance' test. The lifetime allowance is a cap on your *total* pension benefits above which benefits are taxed at up to 55% (if your beneficiaries draw on the excess benefits as a lump sum) or 25% (if your beneficiaries draw on it as 'income').

The lifetime allowance currently stands at £1,030,000 (18/19 tax year) increasing in line with CPI every year.

Most company death in service benefits are subject to pension legislation. On your death, the benefits become payable. This means they would be assessed against your lifetime allowance along with your other pension fund death benefits.

Most group life schemes are on multiples of 3 or 4 times salary, so it would not take much to tip you over the lifetime allowance.

Example:

James is the MD of a SME and earns £150,000 pa gross (we'll ignore bonus etc). He is in his mid 40s, married with two young children, has savings and a mortgage. The company contributes to his SIPP which now has a value of £700,000 and growing. He is member of the 4x salary death in service plan. The company death benefit is what he counts on as a safety net for his family, once the mortgage is paid off. On death, the value of his SIPP and death in service benefits are tested against the lifetime allowance:

SIPP	£700,000
Death in service lump sum	£600,000
Total	£1,300,000
Lifetime allowance (18/19)	£1,030,000
Excess	£270,000

The excess of £270,000 would be subject to the lifetime allowance charge, at a % determined by how the benefits are needed by the beneficiaries. If the pension was taken as income and the death in service as a lump sum, almost half of the excess would be taxed at 55% and the remainder at 25%.

Clearly in this case, the total net benefit to James' beneficiaries is reduced by the additional charge. Something which one presumes James and his beneficiaries would prefer to avoid.

Relevant Life Cover

Relevant life assurance is similar to personal life assurance. It pays out a lump sum to your beneficiaries and the lump sum can be used for any purpose. It takes the form of an employer scheme with the premiums paid by the business.

But benefits from relevant life plans are <u>not</u> included in the lifetime allowance test. This could mean there is more money available to provide for your beneficiaries.

The sum assured is also typically expressed as a % of remuneration. Unlike traditional group life assurance, remuneration can include salary, bonuses, benefits in kind and regular dividends. The maximum cover available usually depends on the life assured's age and level of remuneration, but it's not uncommon for up to 25 x remuneration to be covered.

Are they tax efficient?

Relevant life premiums are normally an allowable business expense and as such, can be deducted against corporation tax.

Premiums are not usually treated as employee income, or classed as a P11D benefit in kind. This means you won't pay income tax on the premiums, and both you and your business avoid paying National Insurance contributions on the premiums.

Relevant Life Cover

Any pay-out should be free from UK income tax, national insurance and capital gains tax. Benefits should also not form part of your estate for inheritance tax.

Some other advantages:

- Tailored benefits - unlike group life schemes, where the terms are the same for all members, the business can offer different terms to different categories of staff. It may, for example, offer additional cover for higher earning members of staff.
- Recruiting senior staff - if recruiting an individual with significant pensions accrued elsewhere, a relevant life plan would be a more attractive addition to their overall package as it does not conflict with their pension benefits.
- Cover when employment ceases - the policy can be written in a way that cover can continue even for an individual who is no longer an 'employee' which can be attractive as run off cover for business owners and directors.
- Small business – A relevant life policy is for a single member, an important consideration for businesses with a small number of staff.
- Avoid losing pension protection - if you already have enhanced or fixed lifetime allowance protection, you would not be able to join a new registered death in service scheme as protection would be lost.

What is the cost of a relevant life assurance?

For the peace of mind it provides, the cost of relevant life assurance can be low.

For example, life assurance cover of £1,000,000 for a 50-year-old, might cost £143 per month (£1,716 per annum) for 25 years. Of course, the actual cost would depend on the type, benefit and term of cover, and would be subject to underwriting.

The financial benefits compared to personal life assurance

For some business owners, or those with influence over the company benefits scheme, relevant life assurance sometimes replaces their personal cover, resulting in substantial savings for both them and the business.

The example below highlights the potential annual savings that could be made on an example £1,000 premium:

	Personal life assurance	Relevant life assurance
Business owner pays (annual) premium	£1,000	n/a
Business pays (annual) premium	n/a	£1,000
Employee national insurance	£37.74	n/a
Employee income tax	£849.06	n/a
Employer national insurance	£260.68	n/a
Less corporation tax	-£407.96	-£190
Tax adjusted total cost	£1,739.21	£810
Total annual savings		**£929.21 or 53.43%**

Corporation tax rate of 19%; 13.8% employer national insurance contribution; business owner subject to 45% income tax and 2% national insurance contribution

How can we help?

We can guide you through:

- Your current exposure to the lifetime allowance charge and how to mitigate it
- What protection suits you and your business
- Source the most appropriate and cost-efficient cover

An initial phone conversation is free of charge. It will provide an opportunity for us to discuss your needs, how we can help, and to decide on next steps.

To contact us, do not hesitate to call on 0207 287 2225 or by email (hello@edisonwm.com).

Important information

The above is a simplification of the legislation. It does not constitute advice. The views expressed above are subject to changes in legislation. The Financial Conduct Authority does not regulate tax advice.

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