Relevant Life Policy

What is it?

The aim of the policy is to provide a lump sum benefit on the death of a single employee. This removes the need for the company to set up a registered group life scheme. The policy is designed to meet the requirements of a single life relevant life policy under S393B (4) (b) of the Income Tax (Earnings and Pensions) Act 2003.

Relevant life policies are primarily aimed at 2 groups:

- High-earning employees who have substantial pension funds and don't want their death-in-service benefits to form part of their lifetime allowance.
- Small businesses that don't have enough eligible employees to warrant a group life scheme.

Relevant life policies can also be used by directors of the company.

Provided the arrangement meets the criteria below, a relevant life policy has a number of advantages:

- The benefit won't form part of the employee's lifetime pension allowance.
- The premiums paid won't form part of the employee's annual allowance (the amount that can be contributed by, or on behalf of, an individual to any registered pension scheme with the benefit of tax relief). So the employee is still able to make full use of their annual allowance to make contributions to a registered pension scheme.
- Premiums paid by employers are not normally assessable for employer or employee National Insurance contributions.

A terminal illness benefit is available on most contracts so in the event of you being diagnosed as suffering from a terminal illness i.e. one where the expectation of life is less than twelve months the sum assured under the contract will become payable.

Eligibility

The policy must meet the following rules to qualify as a single person relevant life policy:

- The policy must only provide for a lump sum death benefit payable before the age of 75.
- No other benefit must be conferred under the policy.
- The policy must not be capable of having a surrender value. There are circumstances in which a small surrender value is allowed.
- Any benefit must only be payable to an individual, or a charity.
- The main purpose of the policy must not be tax avoidance.

Taxation

Premiums paid by employers are not normally assessable on the employees as a benefit in kind so they're not subject to income tax.

The premiums may be treated as an allowable expense for the employer in calculating their tax liability provided that the local inspector of taxes is satisfied they qualify under the 'wholly and exclusively' rules.

As the benefits are payable through a discretionary trust, in most cases the benefits are paid free of inheritance tax as the payment is not part of the employee's estate. But the trust will be subject to normal inheritance tax rules for discretionary trusts, which in some circumstances may give rise to the following charges:

- Up to 6% of the value of the trust fund on each 10th anniversary of the date the trust was established (the periodic charge). A periodic charge will only apply if there is a value held in the trust at the 10th anniversary. This could happen if, for example, an employee dies shortly before the 10th anniversary and the benefits have not been distributed to the beneficiaries.
- Up to 6% of the value of the fund on appointment of benefits out of the trust to a beneficiary (the exit charge).

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

Risk Considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- This contract is designed to provide a high level of cover at minimal cost and therefore does not acquire a surrender value at any time.
- If for any reason you stop paying premiums, cover will cease.
- Failure to disclose any requested or relevant information may adversely affect any future claims.
- At the end of the term selected, cover will cease and no further benefit will be payable.
- The present tax free treatment of the policy benefits may change.
- If any relevant information provided, when applying, is not disclosed accurately and honestly, this could result in any cover offered becoming invalid and/or may result in the non-payment of any future claims.
- If this policy is to replace any existing policy offering the same type / level of cover, you must not cancel any existing policy until the new policy is in force.