

## Relevant Life Case Study

ABC Limited are a recruitment company based in Nantwich.

The owner/directors are husband and wife, and they have no other employees.

David is 58 and Victoria is 53. They take a basic salary of £758 per month and dividend of £1,500 per month.

They were both non-smokers and in general good health.

They approached us as they had existing personal life cover in place that was coming to the end of the term and they were looking to replace this.

Their industry has been tough over the last few years, and they were interested to see if this could be replaced via the company in a way of rewarding themselves for their hard work.

We firstly explained that due to the small number of employees (just the two of them) it would not be possible to set up a Group Death in Service arrangement, however, they could both consider a relevant life plan.

### RELEVANT LIFE PLAN

Relevant life plans are aimed at small businesses that don't have enough eligible employees to warrant a group life scheme and can be used by Directors of the company

### THE AIM OF THE POLICY

The aim of the policy is to provide a lump sum benefit on the death of a single employee.

In this case it was agreed cover of **£200,000 over a ten-year term each** was sufficient cover and affordable to the company.

### TAX TREATMENTS OF THE PREMIUMS

The premiums were **£52.37 per month** for David and **£29.65** per month for Victoria.

The premiums paid by the company are not normally assessable for employer or employee National Insurance Contributions.

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**

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This means they are deducted from profit, in a similar way to pension contributions, giving a saving against the companies Corporation Tax Bill currently at 19%.

How much did the Relevant Life policy save David.

The below shows the difference in the gross cost to David of providing the life cover through a relevant life policy by the company compared to a personal policy taken themselves.

#### ORDINARY LIFE POLICY

|                                |               |
|--------------------------------|---------------|
| Employee Gross Salary Increase | £77.01        |
| Employee National Insurance    | £ 9.24        |
| Employee Income Tax            | £15.40        |
| Employer National Insurance    | £10.63        |
| Corporation Tax Relief         | £16.65        |
| <b>Net Cost</b>                | <b>£70.99</b> |

#### RELEVANT LIFE POLICY

|                        |               |
|------------------------|---------------|
| Corporation Tax Relief | £9.95         |
| <b>Net Cost</b>        | <b>£42.42</b> |

|                     |            |
|---------------------|------------|
| <b>Total Saving</b> | <b>40%</b> |
|---------------------|------------|

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