

For intermediaries only

Tax-efficient protection planning for the small business

By their very nature, small businesses don't have the scale to qualify for group risk schemes. But without offering a competitive employee benefits package, will they be able to attract and retain the right employee base to help them grow?

Employers can use protection policies to develop a competitive benefits package for employees in a tax-efficient way.

The following information is based on our understanding of current legislation, taxation law and HM Revenue & Customs (HMRC) practice, which may change.

The value of any tax relief depends on the individual circumstances of the investor. As the tax legislation surrounding relevant life policies is complex, we recommend that the employer and employee take advice from a qualified tax adviser to make sure that there aren't any adverse tax consequences.

According to the Centre for Entrepreneurs (CFE), there were

663,272

new business start-ups in 2018.

Source: CFE, Business formations recover to reach new high in 2018, January 2019

Relevant life

Employers can choose a relevant life policy to provide employees or their families with a lump sum on death or terminal illness. This provides tax benefits for both the employer and employee.

Employer benefits	Employee benefits
Corporation tax relief (as long as the policy payments are wholly and exclusively for the purposes of the business). The policy payments won't be taxed as a benefit in kind. Normally no National Insurance contributions on the policy payments made to fund the relevant life policy.	The policy payments won't normally be taxed as a benefit in kind. Normally no National Insurance contributions on the policy payments made to fund the relevant life policy. Policy payments and benefits don't count towards pensions annual or lifetime allowances.

Note: the beneficial tax treatment won't apply where the policy payments are paid by the employer under a flexible benefits or salary sacrifice arrangement.

Statistically it's more likely that an employee will be unable to work due to an illness or injury as opposed to dying. This makes income protection a powerful benefit to include in an employee benefits package – especially when considering the limited state benefits available.

Executive income protection

Employers can choose an executive income protection policy to sit alongside their employees' relevant life policy. This will allow the employer to continue paying a salary to their ill or injured employees while they're unable to work, aiding their recovery. This could also provide tax benefits.

Employer benefits	Employee benefits
<p>Corporation tax relief (as long as the policy payments are wholly and exclusively for the purposes of the business).</p> <p>No National Insurance contributions on the policy payments made to fund the executive income protection policy.</p>	<p>The policy payments won't be taxed as a benefit in kind.¹</p>

¹ It's important to be aware that unlike personal income protection, the proceeds will be paid to the employer and be subject to income tax and National Insurance contributions on a payout to the employee. Employees should bear in mind that the income tax and National Insurance contributions on a payout could end up being much higher than the tax savings on the policy payments.

With executive income protection, the provider is likely to take on the responsibility of assessing the employee's health and helping them get back to work as quickly as possible, to avoid further disruption to the business. Should the company stop trading for any reason, the benefit would be paid directly to the insured person while they remain eligible to claim.

Why consider this?

Relevant life can help you open conversations with new prospects in the corporate market. Not only that, but by packaging this with a separate executive income protection policy, you're able to add more value by providing these businesses with an attractive employee benefits package - helping them attract and retain the talent they need to develop and grow their business.

To find out more about this, and for support in putting this into practice, speak to your usual Aegon sales representative.