

The statutory conditions for a relevant life policy

Synopsis: The legislation in relation to relevant life policies.

Date published: 26.06.2023

There are two key relevant provisions in the legislation in relation to relevant life policies (RLPs). The first is in section 393 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) and the second in sections 480 – 482 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA).

It is significant that section 393 deals with 'relevant benefits provided under an employer-financed retirement benefits scheme'.

Sub-section 393(B)(4) defines a RLP as...

- (a) an excepted group life policy as defined in section 480 of the Income Tax (Trading and Other Income) Act 2005, or
- (b) a policy of life insurance the terms of which provide for the payment of benefits on the death of a single individual and with respect to which...
 - (i) condition A in section 481 of that Act would be met if paragraph (a) in that condition referred to the death, in any circumstances or except in specified circumstances, of that individual (rather than the death in any circumstances of each of the individuals insured under the policy) and if the condition did not include paragraph (b), and
 - (ii) conditions C and D in that section and conditions A and C in section 482 of that Act are met, or
- (c) a policy of life insurance that would be within paragraph (a) or (b) but for the fact that it provides for a benefit which is an excluded benefit under or by virtue of paragraph (a), (b) or (d) of subsection 3 [of ITEPA section 393B].

The relevant conditions to be met for a policy to be an RLP within the single life category are...

- under the terms of the policy a capital sum is payable or arises on the death in any circumstances of the insured person under the age of 75; the policy does not have and is not capable of acquiring a surrender value;
- no sums or other benefits may be paid under the policy except those prescribed; and
- any sums payable or other benefits arising under the policy must be paid to or for, or conferred on, or applied at the direction of...

(a) an individual or charity beneficially entitled to them, or

(b) a trustee or other person acting in a fiduciary capacity who will secure that the sums or other benefits are paid to or for, or conferred on, or applied in favour of an individual or charity beneficially.

Under section 393B(4)(c) ITEPA 2003 it is provided that apart from a death benefit other benefits that can be provided are an ill-health, disablement or death by accident benefit for an employee during service.

There is an additional condition in section 482 ITTOIA 2005 which states that a tax avoidance purpose must not be the main purpose, or one of the main purposes, for the policyholder (the employer) or any person beneficially entitled under the policy. There is no guidance on when HMRC will treat effecting an RLP as amounting to tax avoidance.

020 7183 3931
www.riskassured.co.uk