

For financial adviser and accountant use only.  
Not approved for use with customers.

# Understanding Relevant Life Insurance with employee significant illness cover

This document should be read alongside the  
Policy Summary, which gives you important  
information regarding this product.



# Understanding Relevant Life Insurance with employee significant illness cover

Historically, relevant life policies have tended to only include a death benefit and a terminal illness benefit. Our Relevant Life Insurance also offers the option of including an employee significant illness benefit.

The inclusion of an employee significant illness benefit on our Relevant Life Insurance has been extensively researched by both internal and external legal counsels.

Aviva and HMRC are in agreement that Relevant Life Insurance with employee significant illness qualifies as a relevant life insurance product.

## How does the policy qualify as a relevant life policy?

Usually when an employer establishes a death or retirement benefit scheme for an employee (which isn't a registered pension scheme) that scheme will be taxed as an employer-financed retirement benefits scheme under the Income Tax (Earnings and Pensions) Act 2003 ("ITEPA").

However certain benefits are excluded from that definition – and S.393B(3) ITEPA defines the excluded benefits as:

- a) benefits in respect of ill-health or disablement of an employee during service
- b) benefits in respect of the death by accident of an employee during service
- c) benefits under a relevant life policy, and
- d) benefits of any description prescribed by regulations made by the Board of Inland Revenue.

S.393B(4) ITEPA goes on to define a "relevant life policy" as:

- (a) *An excepted group life policy as defined in section 480 of the Income Tax (Trading and Other Income) Act 2005 ("ITTOIA"), 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).*

The effect of S.393B(4)(c) is to do away with the requirement for compliance with condition D in s.481 ITTOIA (i.e. that the policy provides for death benefits only), provided that the additional benefit payable under the policy is an excluded benefit under S.393B (3)(a)(b) or (d) ITEPA (an 'excluded benefit' as defined by ITEPA S.393B(3) includes 'benefits in respect of ill-health or disablement of an employee during service').

Such a policy still has to satisfy conditions A and C in s.481 ITTOIA and conditions A and C in s.482, which are that:

- A capital sum is payable or arises on the death (in any circumstances or except in specified circumstances) of the individual.
- The policy has no surrender value (or a limited surrender value as prescribed)
- The payments must be made to, or for, or conferred on, or applied at the direction of:
  - An individual or charity beneficially entitled to them, or
  - A trustee or other fiduciary who will secure that the sums are paid to an individual or charity beneficially, and
- The purpose or main purpose of the policy is not to avoid tax by the policyholder or beneficiary.

Our Relevant Life Insurance has been designed to comply with these conditions. Further the inclusion of a terminal and employee significant illness benefit is compliant with the legislation because such a benefit (being made in respect of the ill health or disablement of an employee during service) is an excluded benefit under S.393B(3)(a) ITEPA so that the policy falls within S.393B(4)(c) ITEPA and is therefore a “relevant life policy” for the purposes of S.393B(3)(c).

For excerpts of the full legislative wordings, please see Annex 1

*We make every effort to ensure that our comments are accurate.*

*They are based on Aviva’s interpretation of current law and legislation and HM Revenue & Customs’ (HMRC) practice at the date of this publication.*

*Both the law and HMRC practice will change from time to time and our interpretation may be subject to challenge by HMRC or other regulatory bodies.*

*Our support material is provided for general technical support purposes only.*

*Aviva takes no responsibility for any decisions or actions taken as a result of the information given and should not be relied upon in place of legal or other professional advice. Aviva cannot act as a legal adviser for you or your clients. You should always seek appropriate professional assistance where formal advice is required.*

# Annex 1

## **Income Tax (Trading and Other Income) Act 2005**

The conditions that need to be met, within the 'single life' category set out in section (b) in the right hand column on page 2, where we provide the definition of a relevant policy, are:

- Condition A in section 481 of the Income Tax (Trading and Other Income) Act 2005 ('ITTOIA') that *"under the terms of the policy, a sum or other benefits of a capital nature is payable or arises -*
  - (a) *on the death in any circumstances of each of the individuals insured under the policy who dies under an age specified in the policy that does not exceed 75"*.
- Condition C in section 481 of ITTOIA that *"the policy does not have, and is not capable of having, on any day:*
  - (a) *a surrender value that exceeds the proportion of the amount of premiums paid which, on a time apportionment, is referable to the unexpired paid-up period beginning with the day, or*
  - (b) *if there is no such period, any surrender value.*
- Condition A in section 482 of ITTOIA that *"any sums payable or other benefits arising under the policy must (whether directly or indirectly) 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"*.
- Condition C in section 482 of ITTOIA that *"a tax avoidance purpose is not the main purpose, or one of the main purposes, for which a person is at any time:*
  - (a) *the holder, or one of the holders, of the policy, or*
  - (b) *the person, or one of the persons, beneficially entitled under the policy.*

## Need this in a different format?

Please get in touch with your usual Aviva contact if you would prefer this brochure (**AL18012**), in large print, braille or as audio.

Aviva Life & Pensions UK Limited. Registered in England No. 3253947. Registered Office: Aviva, Wellington Row, York, YO90 1WR. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Member of the Association of British Insurers. Firm Reference Number 185896.

[aviva.co.uk](https://www.aviva.co.uk)

