

Instalment option

Business Protection

The right steps to help your
client's business run smoothly

Business made easier by Legal & General



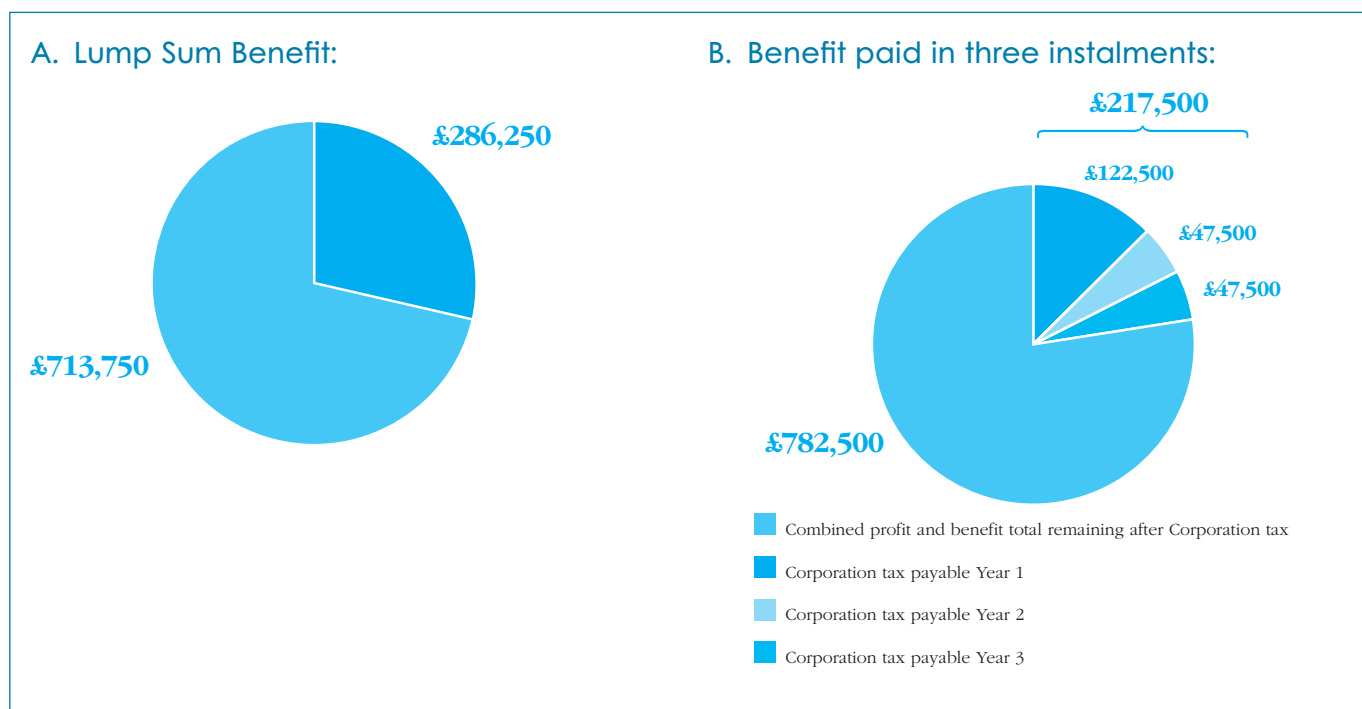
How to make the most of a claim

Choosing Legal & General's instalment option could enable your client to save thousands of pounds in the event of a claim.

By paying out key person benefit in a series of instalments rather than a lump sum we can help reduce the burden of corporation tax.

Note: This is most appropriate for key person protection as any benefit received by the company following a valid claim would normally be treated as a trading receipt in the company's accounts.

The two charts below illustrate just how effective this money saving option can be (using an initial profits and benefits total of £1 million as detailed in the sample case study shown opposite).



By choosing Legal & General's instalment option, the company used in this instance would save £68,750. (For details see the case study opposite).

How much could your client save?

This is not a consumer advertisement. It is intended for Professional Financial Advisers and should not be relied upon by private investors or any other persons.

Case Study

A shipping agency has a key person term policy for £750,000 on the life of their Sales and Marketing Director responsible for exports. Sadly this individual dies in November 2004.

Option A. Lump sum at claim.

If we assume that profits subject to corporation tax in financial year 1 April 2004 to 31 March 2005 are £250,000 and that the key person benefits are payable as one lump sum then the corporation tax payable is as follows:

(a) Tax calculation excluding key person benefit:

- First £250,000 @19% = £47,500
- Total Payable on £250,000 = £47,500

(b) Tax calculation including key person benefit of £750,000:

- First £300,000 @19% = £57,000
- Balance £700,000 @32.75% = £229,250
- Total payable on £1m (£250,000 + £750,000) = £286,250

The extra amount of tax payable as a result of key person lump sum payment is £238,750 (£286,250 – £47,500).

Tax assumptions above are based on current legislation which may change in the future.

Option B. Instalments at Claim.

Again assumed profits in financial year 1 April 2004 to 31 March 2005 are £250,000 but in this instance the company have arranged for the key person benefits of £750,000 to be payable in three equal instalments of £250,000.

(a) Tax Calculation excluding key person benefit:

- First £250,000 @19% = £47,500
- Total Payable = £47,500

(b) Tax Calculation including first key person Instalment of £250,000:

- First £300,000 @19% = £57,000
- Balance £200,000 @32.75% = £65,500
- Total payable on £500,000 (£250,000 + £250,000) = £122,500

The extra amount of tax payable in year 2004/2005, as a result of the payment of the first instalment, is £75,000 (£122,500 – £47,500). Trading profits are likely to suffer as a result of the death of the key person. If we assume they fall to nil in the two years following death, then the amounts of tax payable on the second and third instalments of £250,000 would be £47,500 in each year.

The total tax attributable to the instalment method is therefore, £170,000 (£75,000 + £47,500 + £47,500), a saving of £68,750 (£238,750 – £170,000) over the amount of tax attributable to the lump sum payment.

Tax assumptions above are based on current legislation which may change in the future.

Your client will decide how much benefit they would like the plan to pay out. The level of benefit and the period of cover they choose will determine their premium. Policy benefits can be paid as a lump sum or alternatively if they choose level term cover, in capital instalments over two, three or five years. This option must be selected at outset. The sum assured will be paid in instalments over the term specified at outset. If the capital instalments option is selected at outset and a valid claim is made, the instalments can be commuted to a lump sum based on an interest rate set by Legal & General at the time. The plan only pays out once and then all cover ends.

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