TAX-EFFICIENT LIFE INSURANCE FOR PROPERTY INVESTORS WHO HAVE A COMPANY

Most property investors carry fairly large levels of personal borrowings, given the financial benefits of gearing when investing in property. Having a good amount of life insurance in place to repay borrowings in the event of death is common sense – but, life insurance for 'private landlords' is not tax-deductible … making it effectively more expensive.

Specialist property accountant Stephen Fay FCA explains how property investors who have a company can get tax relief on their life insurance costs.

WHY IS LIFE INSURANCE IMPORTANT? ONCE I'M GONE, I'M GONE!

The majority of landlords invest in property for income, either to supplement or to replace a day-job income source. And, quite naturally, the family of the investor becomes used to a certain level of income and lifestyle. Life insurance offers security for those landlords that want to maintain their family's income in the event of their own death – so, not for the investor's benefit, but for the investor's loved ones!

BUT WON'T MY MORTGAGES JUST PASS TO MY NEXT OF KIN IF I DIE?

No. Mortgages in the sole name of the investor would become immediately repayable in the event of the investor's death. Mortgages in joint names **MAY** – or may **NOT**, depending on the mortgage small print – pass to the joint owner.

This is an absolutely crucial point to understand: in the event of death, an investor's family could be left in the unenviable position – apart from the death of their family member – of having to sell properties to repay mortgages, assuming the deceased's estate didn't include large cash reserves.

This could mean:

- **Properties with great yields having to be sold = loss of income for deceased's family.**
- **Properties in negative equity being sold and the loss having to be paid by the deceased's estate.**
- **Properties that have just been refurbished having to be sold; and the refurbishment not usually adding the same amount of value to the sale price = financial loss.**
- **Huge loss of income if mortgages held by the deceased were attractive Base Rate trackers, and so even if the family could buy the property with a mortgage, the net income is hugely reduced when these mortgages are replaced by 'standard' mortgages.**

OK, SO IT MAKES SENSE TO HAVE LIFE INSURANCE. ISN'T IT EXPENSIVE THOUGH?

Obviously, life insurance is more expensive the older you are, or if you smoke, or if you have major health issues. However, by shopping around, buying policies for a longer period (say 25 years rather than 10 years), and quitting smoking, life insurance becomes much more affordable.

However, the 'elephant in the room' for property investors is that the often-quoted £100,000 of cover is nowhere near enough for their needs, and so getting quotes for £1m+ of cover can lead to rather large premium quotes!

BUT ISN'T LIFE INSURANCE TAX DEDUCTIBLE?

For 'private landlords' (individuals who own their properties in their personal names), life insurance premiums are **NOT** tax deductible against either rental income or capital gains.

The reason for this is that HMRC don't regard life insurance as a business expense – even if the landlord wishes to use the proceeds to repay mortgages!

However, there is one way to get a tax deduction for life insurance.

INTRODUCING THE 'RELEVANT LIFE POLICY' – TAX-DEDUCTIBLE LIFE INSURANCE FOR PROPERTY INVESTORS WHO HAVE A COMPANY

Investors who have a company can pay for their life insurance via their company, and get tax relief for the insurance premiums. A Relevant Life Policy (RLP) is a life insurance policy taken out by an employer-company on the life of an employee (in this case, the owner).

This kind of life insurance allows a company to pay the premiums, which are tax-deductible just like any other business expense, while allowing the proceeds on a death to be paid to the nominated beneficiaries tax-free.

Companies who set up RLPs for employees, including owners, don't pay any Benefit in Kind National Insurance on the provision of this benefit, and nor does the employee.

This, of course, is far more preferable to life insurance premiums being paid from taxed income, and is yet another example of the tax benefits of being 'self-employed', i.e. the option to pay expenses and be taxed on what's left, rather than be taxed at source and then spend tax-paid money on business-related costs.

A FINAL POINT – BE REALISTIC

Many landlords are carrying multi-million pound mortgage liabilities. Even by securing a great deal, and getting tax relief, it simply isn't realistic to buy life insurance that will fully settle their entire mortgage borrowings.

So, investors should prioritise their properties according to their own criteria, so that life insurance proceeds can then be used to repay their mortgages in that preferred order. All landlords have their 'favourite' properties … for example, those with the best yield, those with the fewest repair bills, those that are ripe for capital growth, etc.

So, for a (say) 10-property portfolio, it may be that the 'top' 5-6 properties (with the best yields / locations, etc.) may be the ones that the investor wishes to be retained by their family. It would then simply be a case of totalling the mortgages on those properties, and getting life insurance for that amount. The remaining 4-5 properties would simply be sold off on the investor's death, and the net sale proceeds would then be their family's cash reserves, along with the 5-6 newly mortgage-free properties.

SUMMARY

Life insurance is a must-have for most property investors – enabling a chunk of mortgage borrowings to be repaid on the investor's death, thereby setting the surviving family up with debt-free properties that will generate income for the future.

However, life insurance has to be affordable – and obtaining tax relief via a company goes a long way to ensuring that life insurance costs make sense in life as well as death.

And, ensure you take financial advice from an Independent Financial Advisor before buying any insurance product…