



Isle of Man
Government

Reillys Ellan Vannin

The Treasury *Yn Tashtey*

Assessor
I Q Kelly

Telephone: (01624) 685400
Fax: (01624) 685351
E-mail: incometax@itd.gov.im
Website: www.gov.im/incometax

INCOME TAX DIVISION

Government Office, Douglas
Isle of Man, British Isles
IM1 3TX

PRACTICE NOTE

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Date:

Life Insurance Policies Proposals

The Division is aware of the growing variation in insurance policies available and following a number of requests for guidance, this Practice Note sets out the position for the availability of relief in respect of some of the more common types of policies. In addition, the position is also clarified for situations where premiums are being paid in respect of relationships outside of marriage.

The principal and overriding requirement for life insurance relief to be granted in respect of any policy is that the policy must have a definitive sum assured on death no less than the total premium paid. i.e. (An exact and guaranteed base figure stated within the policy as becoming payable on the event of death irrespective of what circumstances and or events surrounding it).

Where the sum assured on death is on a "second to die" basis the Division cannot accept the policy as falling within Section 44(3)(a) of the Income Tax Act 1970, ie "an insurance on the taxpayer's life or on the life of his wife", as the requirement for the death of two persons is an entirely different risk.

Policies Other Than "Own Life" Policies

Where an individual as policy holder or joint policy holder pays a premium on a policy in respect of a life other than their own or pays a premium on a "joint lives" policy, then relief will be available to that individual on the amount of the premium paid, provided that at any time in the year of assessment for which the claim is being made the other party is their spouse or had been their spouse in some year prior to that year.

In respect of two individuals who have never been married to each other holding a "joint lives" policy the practice for granting relief will be as follows: -

1. If they each pay half of the total premium then each will be granted relief for the half they have paid.
2. If one party pays more than one half of the total premium then relief will still only be granted to the extent of one half of the total premium. The party paying less than half will obtain relief only in respect of the amount they have actually paid.

Single Premium Insurance Bonds

The only situation where the Division is able to grant relief for a single premium insurance bond is where the sum payable on death is a sum calculated by way of reference to an exact figure, in practice the premium paid. Relief will therefore be granted where the sum payable is 101% of the premium paid. Relief will not be granted where the sum paid on death simply relates to the bid value of units. Neither will relief be granted, where a sum payable under ordinary circumstances may be reduced or varied because of externally prevailing circumstances, e.g. a change in stock market performance.

Modularised Endowment Policies

Where a life policy contains a facility to be extended by way of adding additional separately identifiable segments or modules which in themselves do not offer any additional element of life cover then life cover cannot be accepted as existing in respect of the additional premium. Further relief will therefore not be available for that additional premium.

Mortgage Protection Policies

Although the sum assured on such policies diminishes in line with the reduction in capital sum outstanding the Division will continue with its long-standing concessional practice to grant relief on the premium paid.

Critical Illness/ Permanent Incapacity Policies

As they have no sum assured on death these policies do not qualify for income tax relief.

Combined Death/ Critical Illness/ Permanent Incapacity Policies

Provided that the Division can be fully satisfied that the element of premium relating to critical illness/ permanent incapacity is not more than 50% of the total premium then relief will be granted by concession on the whole of the premium.

Where the Division considers that more than 50% of the premium relates to critical illness/ permanent incapacity then no relief will be granted except for a situation where the policy clearly splits the premium into its two component parts or where the policy holder is able to provide evidence from the insurance company as to how much premium relates to each part . Relief will be granted only on that part which relates to death.

Family Protection Policies

Although these policies do not pay out a lump sum on death it has been the Divisions long standing practice to concessionally grant relief on the premium paid.

Policies Not Conducted Or Classified As Life Insurance

Although some policies may in various circumstances pay out a lump sum on death, these policies are not conducted or classified within the insurance industry as life insurance business and moreover do not lend themselves to any form of premium split with regard to the various elements of risk involved. Relief is therefore not available. For example: -

- accident policies

- dangerous pursuits policies
- holiday and travel policies
- policies acquired in conjunction with or for the purpose of short term borrowing from banks and other financial institutions.

I Q Kelly

Assessor Of Income Tax

NOTE: This Practice Note is intended only as a general guide and must be read in conjunction with the appropriate legislation. It does not have any binding force and does not affect a person's right of appeal on points concerning their own liability to income tax.

Comments and suggestions for improvement of issued Practice Notes and suggestions for future Practice Notes are always welcome.