

# **QUESTIONS & ANSWERS ON THE NEW ANNUAL PREMIUM LIMIT FOR QUALIFYING LIFE INSURANCE POLICIES**

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## **Introduction**

This document provides answers to questions you may have on the new annual premium limit for qualifying life insurance policies, which took effect from 6 April 2013. They are aimed at anyone contemplating taking out a metfriendly qualifying policy. Qualifying policies issued by all companies will count towards the limit (q 1-7).

### **A. Annual Premium Limit**

#### **1) What is a qualifying policy?**

A qualifying policy is a life insurance policy with a special tax status. When a qualifying policy comes to an end, or is treated as coming to an end, it is usually not subject to income tax or capital gains tax.

There are certain specific conditions that a policy must fulfil if it is to be a qualifying policy. 5 year plans and ISAs issued by metfriendly are NOT qualifying policies.

If you are in any doubt as to whether your policy was issued as a qualifying or non-qualifying policy, your insurance provider or your financial or tax adviser will be able to tell you.

#### **2) What is the annual limit for a qualifying policy?**

From 6 April 2013, the annual limit for premiums payable under qualifying policies is £3,600 in a 12 month period.

#### **3) Is the annual limit applied as a limit per policy or as an overall limit?**

The annual limit is an aggregate amount that generally applies to all qualifying policies held by an individual at any one time but see also questions 6 and 7 (certain exclusions).

#### **4) When does the annual premium limit apply?**

The annual premium limit applies from 6 April 2013.

#### **5) To whom does the annual premium limit apply?**

The annual premium limit applies to beneficiaries under a qualifying policy (See Section B).

#### **6) Which qualifying policies count towards the limit?**

Premiums paid to the following policies count towards the limit:

(a) All qualifying policies issued on or after 6 April 2013, and

(b) All qualifying policies issued in the transitional period (i.e. on or after 21 March 2012 and before 6 April 2013)

Tax Exempt Savings Plans (as issued by metfriendly and other Friendly Societies) are included within the annual premium limits.

#### **7) Are any policies excluded from counting towards the annual premium limit?**

Yes, the following policies are excluded from the annual premium limit:

- Existing policies as at 5 April 2013 which secure a capital sum payable on survival for a specified term or on earlier death or disability where the policy is issued and maintained for the sole purpose of ensuring that a borrower under an interest-only mortgage will have sufficient funds to repay the capital under the mortgage.
- Policies (referred to as “pure protection” policies in the legislation) which have no surrender value and are not capable of acquiring a surrender value
- Policies issued before 21 March 2012 (see Section D).

## **B. Beneficiaries under a qualifying policy**

### **8) When is an individual a beneficiary under a qualifying policy?**

An individual is a beneficiary under a qualifying policy if he/she is the beneficial owner of any rights under the policy or any share in rights under the policy.

You are likely to be the beneficial owner if you paid the premium(s) **and** you (or your estate after your death) are entitled to any benefits under the policy.

## **C. Policies issued on or after 21 March 2012 and before 6 April 2013 (the transitional period)**

### **9) How are policies issued in the transitional period treated?**

If a qualifying policy is issued in the transitional period the policy will count towards the individual's annual premium limit in the period from 6 April 2013.

## **D. Policies issued before 21 March 2012 (protected policies)**

### **10) Will qualifying policies issued before 21 March 2012 be affected by the annual premium limit?**

Qualifying policies issued before 21 March 2012 will not be affected by the annual premium limit and will not count towards the premium limit, unless they have been assigned on or after 6 April 2013.

## **E. Statements required from policy beneficiaries**

### **11) When is a statement required?**

A statement is required where a policy is issued on or after 6 April 2013.

### **12) Who should make a statement?**

Statements are to be made by each individual who is a beneficiary under the policy (see section B).

### **13) Who should make the statement in the case of a minor?**

Minors will usually be represented by a person who has parental responsibility over them and such a person may make a statement on behalf of the minor.

### **14) When must the statement be made?**

The statement must be made within 3 months of the policy being issued. However, the deadline is 12 November 2013 for business written prior to 12 August 2013.

### **15) What happens if the 3 month time limit has expired and I have not made a statement?**

If the time limit for making a declaration has expired the policy would automatically become a non-qualifying policy, so metfriendly will treat the policy as void and refund any premiums received.

### **16) What happens if I make an incorrect/false statement?**

If you make a false/incorrect statement your policy will be incorrectly treated as a qualifying policy when a chargeable event gain arises. If you make an inaccurate self-assessment return or fail to make a self-assessment return as a consequence of this incorrect treatment when you are liable to tax you will be required to pay the full amount of tax due together with interest and penalties for that inaccuracy or failure.

*This is a guide only and is based on metfriendly's understanding of current tax legislation.*

*There are more questions & answers available on HMRC's website ([www.hmrc.gov.uk/news/life-ins-policy-faqs.pdf](http://www.hmrc.gov.uk/news/life-ins-policy-faqs.pdf)).*