

Insurance

If you are looking to take out medical insurance there are generally 3 ways in which you can do so:

- 1) Take out a personal policy and pay for the premiums personally
- 2) Take out a personal policy and pay for the premiums from the business bank account
- 3) Take out a company policy and pay for it from the business bank account.

Our advice would normally be to consider a personal policy over a company policy as in our experience company policies that only cover one or two employees are more expensive than personal policies. There are also no additional tax implications of personal policies compared to company policies and although the payments have to come out of taxed income they generally work out more tax efficient.

If you were to take out a personal policy but pay for it direct from the company account (as per option 2 above) then this would have to go through payroll. In effect this would be treated as a salary payment and, as such, the normal PAYE rules would apply (PAYE, employees NI and employers NI).

If you were to take out a company policy to cover an employee and pay for it from the company account then this would be seen as a benefit in kind (BIK) on the employee. The value of the benefit in kind would simply be the total of the medical insurance payments during the tax year and this would have to be reported on the P11d each year it is provided. The employee would pay tax on this benefit in kind at their marginal rate (it is taxed as salary on the tax return) and the employer would pay employers NI on the benefit in kind (currently 13.8%).

For comparison, please see the worked example below assuming a monthly insurance premium of £50 (personal policy) and £52.50 (company policy assuming a 5% increase compared to the personal cost).

Basic Rate Tax payer

	Option 1	Option 2	Option 3
Total Annual Payments	£600	£600	£630
Dividend to cover premium	£600	-	-
PAYE/NI	-	£192	£126
Employers NI	-	£83	£87
Corporation Tax relief	-	(£137)	(£143)
Total Cost for Comparison	£600	£738	£700

High Rate Tax payer (on dividends only, basic rate tax payer for salary purposes)

	Option 1	Option 2	Option 3
Total Annual Payments	£600	£600	£630
Dividend to cover premium	£800	-	-
Additional dividend tax	£200	£150	£158
PAYE/NI	-	£192	£126
Employers NI	-	£83	£87
Corporation Tax relief	-	(£137)	(£143)
Total Cost for Comparison	£800	£888	£858

Please contact your account controller if you wish to discuss this further.



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