

Group Income Protection (GIP) Product Range Tax Table

Unum recommends that as an employer you obtain specific professional advice on the matters discussed within this document, before considering how best to proceed.

This document is intended to provide generic guidance only, and as such, Unum cannot accept responsibility for any legal, taxation or other liabilities that may arise.

This information is based on our understanding of tax legislation, which may be subject to change.

		Standard Protection	Capital Option	Pay Direct	
			Lump sum at employer discretion	Lump sum on a contractual basis	
Treatment of your premiums as a business expense		Premiums should normally be deductible in calculating the UK taxable profits of the business.	Premiums should normally be deductible in calculating the UK taxable profits of the business.	Premiums should normally be deductible in calculating the UK taxable profits of the business.	Premiums should normally be deductible in calculating the UK taxable profits of the business.
Tax treatment on employee of premiums paid by you, the employer		Premiums do not give rise to any UK tax consequences for employees.	Premiums do not give rise to any UK tax consequences for employees.	Premiums do not give rise to any UK tax consequences for employees. Class 1 NICs would be payable on the premium	Premiums do not give rise to any UK tax consequences for employees.
Treatment of annual income and under a Capital option policy a lump sum benefit paid to you, the employer, by Unum		The benefits payable to you are likely to be treated as taxable receipts of your business.	The benefits payable to you, the employer, are likely to be treated as taxable receipts of your business.	The benefits payable to you are likely to be treated as taxable receipts of your business.	The benefits payable to you, the employer, are likely to be treated as taxable receipts of your business.
Treatment of annual income benefit paid by you, the employer, to employees	Your UK tax position	You should be able to obtain a tax deduction for the payments you make to the incapacitated employees if the payments are either required by the employment contract or are your usual practice.	You should be able to obtain a tax deduction for the payments you make to the incapacitated employees if the payments are either required by the employment contract or are your usual practice.	You should be able to obtain a tax deduction for the payments you make to the incapacitated employees if the payments are either required by the employment contract or are your usual practice.	You should be able to obtain a tax deduction for the payments you make to the incapacitated employees if the payments are either required by the employment contract or are your usual practice.
	Employee's UK tax position	The payments received by the employees are treated for UK tax purposes as earnings from their employment. They are subject to PAYE and NIC deductions.	The payments received by the employees are treated for UK tax purposes as earnings from their employment. They are subject to PAYE and NIC deductions.	The payments received by the employees are treated for UK tax purposes as earnings from their employment. They are subject to PAYE and NIC deductions.	The payments received by the employees are treated for UK tax purposes as earnings from their employment. They are subject to PAYE and NIC deductions.

Standard Protection

Capital Option

Pay Direct

Treatment of annual income benefit paid directly to a former employee by Unum

See note 1 below

The payments received by the employees are treated for UK tax purposes as earnings.

Unum will normally deduct basic rate income tax and the former employee will be liable for any higher rate income tax that may be payable.

Lump sum at employer discretion

The payments received by the employees are treated for UK tax purposes as earnings.

Unum will normally deduct basic rate income tax and the former employee will be liable for any higher rate income tax that may be payable.

Lump sum on a contractual basis

The payments received by the employees are treated for UK tax purposes as earnings.

Unum will normally deduct basic rate income tax and the former employee will be liable for any higher rate income tax that may be payable.

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Treatment of the lump sum payment under a Capital Option policy

- If the employee has no right to a lump sum from you and you have no automatic practice of paying one, the Inland Revenue might seek to tax the lump sum in full as an ex gratia payment on retirement.

- To rebut that claim, you would have to be able to show that the decision to make the payment was made not in connection with retirement, but on account of the employee's disability.

- The fact that you make a one-off decision in each case whether or not to make a payment would support that line of argument.

- The element of the termination payment that relates solely to termination because of the employee's medical condition should be wholly tax-free, even if it exceeds the normal £30,000 limit on tax-free termination payments

- On the face of it, you could pay this element of the termination package tax-free, even if it exceeds the £30,000 tax-free limit that normally applies. However, employers need to take great care before deciding that they can pay gross.

- If you make a payment of (say) £200,000 tax-free, and the Inland Revenue is subsequently successful with a claim that £170,000 of the payment is taxable, then you are liable for the PAYE (and possibly NIC) it should have deducted from the £170,000, and might have no legal right to recover it from the employee.

- The lump sum benefit will not be chargeable as employment income because benefits in respect of the ill-health or disablement of an employee during service is excluded from the usual charge on benefits from a non tax approved retirement benefits scheme.

- There will be no charge, as a payment on termination of employment, provided that the payment is made on account of injury or disability.

Note 1

The Welfare Reform Act 1999 provides that the amount of Incapacity Benefit an individual can get may be affected if they have pension income. Pension income includes personal pensions, occupational pensions, and group income protection insurance payments paid direct, such as this. The first £85 of the weekly gross amount of pension income is ignored. Gross amount means before any deductions are made for things like income tax. After that the amount of Incapacity Benefit is reduced by half the amount of pension. For example, with a pension income of £86 a week gross, the first £85 is ignored and the balance of the Incapacity Benefit is reduced by 50 pence a week (half of £1).