A Guide to Qualifying Policies

Qualifying policies are life insurance policies with a special tax status. This means that the proceeds are free of tax for the beneficiary providing the policy is held to maturity.

Normally a qualifying policy would be an endowment plan held with a life insurance company or friendly society, with fixed premiums over a term of at least 10 years. The plans are primarily designed as savings policies, but may also include some life insurance cover to satisfy the qualifying policy rules. Some qualifying policies are also called maximum investment plans.

Friendly society tax exempt savings plans are a type of qualifying policy, but enjoy an additional tax advantage. As well as being free of tax if held to maturity, friendly society plans also enjoy growth in a tax free fund (except for the withholding tax on dividends which can't be reclaimed). Friendly society plans may also be pure endowments i.e. without life cover.

Because of their unique tax advantages friendly society qualifying plans have always been subject to a specific limit on premiums - currently £25 per month or £270 for annual premiums. This is an overall limit per individual not per friendly society. For example if someone has a £10 per month policy with friendly society (a) they may have another for £15 with friendly society (b). Every individual has a friendly society tax free plan entitlement, including children from birth.

On 6 April 2013 the Government introduced an overall premium limit for qualifying policies of £3,600 in any 12 month period. This limit applies to qualifying policies issued on or after 6 April 2013, issued in the transitional period between 21 March 2012 and 5 April 2013, or issued before 21 March 2012 which become restricted relief qualifying policies (RRQPs) after that date. A RRQP is a policy which will not have full tax relief when a chargeable event occurs and this is because it may have been significantly modified, significantly varied or assigned (with certain exclusions). A significant modification would include for example changing the premium period or premiums payable.

The key point to remember is that qualifying policies taken out before 21 March 2012 and which have not been significantly modified on or after 21 March 2012 or assigned on or after 6 April 2013 are excluded from the new premium limit. Pure protection policies, which pay out only on death and/or disability, are also excluded from the premium limit, as are existing protected policies supporting the funding of an interest only mortgage. It is likely, therefore, that the vast majority of people taking out friendly society tax exempt plans will not be affected by the overall qualifying policy premium limit.

When applying for a qualifying policy on or after 6 April 2013, including a friendly society tax exempt plan, applicants will be asked whether or not the beneficiary is a beneficiary under another qualifying policy issued on or after 6 April 2013 or issued before that date where a premium limit event (such as a significant modification) has occurred. The beneficiary is the person who is entitled to the proceeds of the policy and not necessarily the person who has applied for the policy (known as the proposer). For example if someone acts as the proposer for a child policyholder it is the child who is the beneficiary and, therefore, the proposer would be answering this question on behalf of the child. If the answer to this question is 'yes' the proposer must be able to make a statement that the beneficiary is not in breach of the overall annual limit of £3,600. The friendly society tax exempt plan limit of £25 per month or £270 per annum also still applies within the overall annual premium limit.

The rules are complex and anyone not sure whether an existing policy is qualifying or whether they might breach the annual premium limit should contact their product provider for guidance.

Whilst every care has been taken in the preparation of this guide, it is based on the Society's understanding and interpretation of The Life Insurance Qualifying Policies Regulations 2013 and HMRC's published FAQs. If you have any doubts about your own circumstances you should seek professional advice. 02 September 2013