LAGOS STATE GOVERNMENT

PUBLIC NOTICE

TREATMENT OF SAVINGS ELEMENT IN INSURANCE PREMIUM

The Lagos State Internal Revenue Service (LIRS) is issuing this Public Notice to all employers, company owners or their representatives, employees, high net worth individuals and other members of the public.

Definition

A life insurance is a contract where the insurer promises to pay a beneficiary a designated sum of money in exchange for a premium, upon the death of an insured person. An annuity life contract provides for the annuitant to be paid a fixed monthly amount until death or benefits are exhausted.

Legal basis

Section33(4)(d) of Personal Income Tax Act (PITA) allows a deduction of the annual amount of any premium paid by an individual in respect of insurance on his life or that of his spouse, premium paid for a contract for a deferred annuity on his own life or that of his spouse. The law only allows as tax relief the insurance premiums paid during the year preceding the year of assessment (YOA)

Compliance Requirements

1. Only the insurance premium relating to the life insurance or deferred annuity on life are deductible in computing personal income tax. Any savings scheme element which sometimes forms part of the life insurance premium or contract should not be included in the deduction. For any life insurance policy to qualify for tax relief, it must include the following:

   - A cover for the death of the insured or their spouse: or

   - It must not include or anticipate a payment to the insured before the age of 50 i.e. for deferred annuity contracts.

2. Deferred annuity contracts in line with the provisions of the Pension Reform Act (PRA), 2014 are tax exempt where the holder has no control over the funds (i.e. it must be completely locked in until retirement age).

3. Reporting Obligation: Every employer/taxpayer is required to submit the Claims for Allowances and Relief (FORM A) for each relevant tax year detailing the life insurance and qualifying deferred annuity contributions. Also, the taxpayers will be required to submit a certificate from their Life Assurance companies specifying the portion of the premium relating to death policy and the portion relating to the savings element.

For further enquiries, please call **0700-CALL LIRS (0700 2255 5477)** or visit **www.lirs.gov.ng**

Thank You

Signed
Ayodele Subair
Executive Chairman
Lagos Internal Revenue Service

1. TREATMENT OF SAVINGS ELEMENT ON INSURANCE PREMIUM

Definition

A life insurance is a contract where the Insurer promises to pay a beneficiary a designated sum of money in exchange for a premium. upon the death of an insured person.

An annuity life contract provides for the annuitant to be paid a fixed monthly amount until death or benefits are exhausted. However, this is not the same thing as "an annuity on the taxpayer's life" that is deductible under PITA, which we interpret to mean that the annuity is only payable to beneficiaries at the death of the policy holder (is. the taxpayer).

Therefore, where the life insurance or deferred annuity contract is structured in a way that provides potential policy holders (or the insured) a medium or long term savings or a lump sum payment at the end of the selected policy duration, a portion of the premium is no longer covered under the scope of a life insurance scheme that is tax exempt under the Personal income Tax Act. There is a portion of the premium that constitutes a savings scheme and the income, before it is set aside into the fund, will be taxable in the hands of the taxpayer like any other payment into a savings accounts and will only be shielded by the premium that relates to life insurance.

Legal Basis

Section 33(4)(d) of PITA allows a deduction of the annual amount of any premium paid by an individual during the year preceding the year of assessment (YOA) to an insurance company in respect of insurance on his life or the life of his spouse, or of a contract for a deferred annuity on his own life or the life of his spouse.

In recent times, insurances packages come with an investment element for example "individual Savings and Protection Plans" or "Education Plans". Taxpayers have assumed that the savings element also forms part of the claimable tax relief even though the law actually prescribes that the relief is only available for deferred annuity on the taxpayer's life (or that of his spouse). As such, there is a need for the LIRS to provide clarification with respect to the savings scheme element which sometimes forms part of the life insurance premium.

Objective

The purpose of this explanatory note is to clarify Lagos State Internal Revenue Service (LIRS)' position on the treatment of 'savings element" on insurance premium in accordance with the Personal income Tax Act (PITA), as Amended.

Compliance Requirements

1. Deduction of PAYE: The employer/taxpayer is required to compute tax on the savings scheme element which sometimes forms part of the life insurance premium. The savings element should not be taken as a deduction for the purpose of arriving at the tax payable under PAYE or direct assessment. Thus, for any annuity to qualify for tax relief, there must be:

   - An occurrence of a primary condition is. payment to the designated beneficiary is triggered upon the death of the insured: or

   - No payment is made to the insured before the age of 50.

2. Deferred annuity contracts in line with the provisions of the Pension Reform Act (PRA), 2014 are tax exempt where the holder has no control over the funds (Le. it must be completely locked in).

3. Reporting Obligation: Every employer/taxpayer is required to submit the Claims for Allowances and Relief (FORM A) for each relevant tax year detailing the life insurance and qualifying deferred annuity contributions. Also, the taxpayers will be required to submit a certificate from their Life Assurance companies specifying the portion of the premium relating to death policy and the portion relating to the savings element.