Tax efficient death-in-service benefits via a contractor limited company

Limited company contractors who want to provide a safety net for their loved ones in the event of their untimely death can take out a death-in-service insurance policy. This can be paid for by their limited company and, unlike products like 'key-person insurance', there is a policy that pays out to spouses and family members tax free in the event of a claim yet has no benefit in kind implications to the contractor.

According to Mark McBurney of financial adviser Contractor Financials, as long as the contractor is an employee of their limited company, the policy premiums are usually a tax-deductible expense for the business.

"Contractors who want to provide security for loved ones in the event of an untimely death have often had to take out personal life assurance policies paid for out of their own net earnings," he explains. "But death-in-service cover can be paid for by the company without benefit in kind costs and yet pays out to the family."

Tax-deductible safety net

Most contractors who were permanent employees before they made their choice of a contracting career will recall that they almost certainly had a little-recognised employment benefit of death-in-service. Typically, this would have paid out three to four times their annual salary to family in the event of a premature death.

When leaving permanent employment, the new contractor is suddenly without death-in-service cover. For a single contractor with no dependants, of course, this is less of an issue than for a contractor with a spouse and family.

As McBurney explains, when contractors have left full-time employment, they often take out a life assurance policy in their own name, paid for out of their net earnings: "A death-in-service policy through a contractor limited company means the business pays the premiums, which are a tax deductible expense."

Benefit to the contractor's family, not the company

"In addition this death-in-service policy is not owned by the contractor yet it pays out to the contractor's nominated dependants," explains McBurney. "This is not the case with other policies, such as key-person insurance, where the company owns the policy and may receive any pay-out."

So, the contractor can enjoy exactly the same benefits from a death-in-service policy through their contractor limited company safety net they may have had with a former employer. In addition, as long as he or she is also an employee, a contractor's spouse could also be covered by a policy with the same tax benefits.

Policy conditions

Contractors can take out cover up to 25 times the combined salary and dividend earnings that the contractor takes out of the company, although it is more common for contractors to insure for a lower multiple.

"Unlike some Insurers, the underwriters behind this policy also take a more pragmatic view about pre-existing medical conditions than is the norm and do not weight the premiums as heavily as larger insurers," says McBurney. "Premiums for a 35 year male old requiring £300k cover over 25 years would be £21.56 per month for a multiple of only 6 times income, assuming salary and dividend earnings of £50k per year."

> **New and existing contractors can enjoy the same safety net when contracting as they did when in employment and they can be confident that their dependants will be financially secure should the worst happen**
>
> Mark McBurney, Contractor Financials


Mark McBurney

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Mark McBurney is an experienced financial adviser, with ten years' history in the mortgage market, now specialising in protection for contractors.

Contractor Financials specialise in providing financial advice tailored to the needs of contractors and freelancers. Read Full Profile...

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This death-in-service policy makes financial sense when compared with personal life assurance policies paid out of net income, where a contractor spending £30 net every month on a policy has to earn in excess of £50 gross.

“Most of all, new and existing contractors can enjoy the same safety net when contracting as they did when in employment,” says McBurney. “And they can be confident that their dependants will be financially secure should the worst happen.”

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