

## Contractor life insurance cover – policy options for limited company contractors

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**Limited company contractors** seeking to protect their families from financial hardship in the event of their untimely death have a range of **life insurance policies** to choose from. Certain policies, such as relevant life insurance, may be more tax efficient, as they are funded by their business with no benefit in kind tax charge and payouts could be protected from inheritance tax.

"No contractor wants to think about death, but equally most will want to ensure that their loved ones are financially secure if the worst should happen," says **Mark McBurney** of **Contractor Financials**, who specialise in advising contractors.

"Prior to starting their contracting career when in permanent employment, many contractors would have benefitted from a death-in-service policy paid for by their employer, so incurred no cost personally," he continues.

"Contractors can benefit from a similar policy that will pay out a multiple of salary and **dividends** funded by their limited company, allowing a corporation tax deduction, with no benefit in kind or inheritance tax liabilities, based upon current tax allowances."

### Life insurance policies for contractors

According to McBurney, there are two main types of life insurance available for contractors:

**Term cover:** as its name suggests, this type of policy lasts for a given period specified by the contractor and cover ends when the term expires. It will provide financial support to a contractor's family if the contractor dies during the cover period, but provides no protection once the policy expires

**Whole of life cover:** this type of policy will pay out in the event of a contractor's death at any age, assuming the premiums are up-to-date. Because the level of cover, and financial protection for a contractor's family, is greater, whole of life cover is typically more expensive than term cover.

In turn, says McBurney, each main type of life insurance policy can be further subdivided into products tailored to contractors' specific requirements:

**Level term assurance plan:** a type of term cover that pays a set lump sum to a contractor's dependants. Interest rates and inflation can impact on the value of the lump sum, so contractors should buy cover that is inflation proofed so it holds its value. This is designed to pay off debts such as loans and mortgages and cover contractors during a specific period in their life, such as when their children are under 21 and still dependants. The premiums are payable personally, or if through a company, attract a benefit in kind income tax charge.

**Decreasing term assurance plan:** term cover which will pay out a lump sum. The value of the payout decreases steadily during the term, so it can be used, for example, to settle a repayment mortgage. The premiums are payable personally, or if through a company, attract a benefit in kind income tax charge.

**Family income benefit plan:** available as term or whole of life cover, this policy is designed to provide a contractor's family with an income for a set period after the contractor's death. The premiums are payable personally, or if through a company, attract a benefit in kind income tax charge.

**Relevant life cover:** this is a relatively new entrant to the contractor life insurance marketplace and enables contractors to fund their life insurance policies tax efficiently via their limited company. It also protects payouts from inheritance tax and it is possible to take out policies for both the contractor and their spouse, if the spouse is employed by the company.

### Relevant life insurance: tax efficient policies for contractors

**Relevant life insurance cover** can be particularly attractive to limited company contractors because it can be highly tax efficient. McBurney explains: "Because the life insurance policy is structured via a discretionary trust, the payments by the company do not attract a benefit in kind income tax and National Insurance Contributions (NICs) charge.

"Furthermore, the premiums are considered by HMRC to be a legitimate business expense and therefore qualify for a corporation tax deduction. The trust also protects payouts to a contractor's family from inheritance tax and the lump sum from any liabilities of the company, so the family receives the full amount."

Paying insurance premiums tax efficiently via their limited company has no impact on pension contributions, so contractors can still make generous provision for a pension and benefit from tax relief.

### Flexible death-in-service life insurance

"In the event of a contractor's death, it is possible to choose a relevant life policy that will pay out a multiple of the contractor's total remuneration, typically salary and dividend income, similar to death-in-service benefits based on salary offered by larger employers," continues McBurney.

"The contractor chooses the multiple, which can be up to twenty-five times total remuneration from the company. The contractor can also create a policy for a spouse or civil partner who is also an employee of their limited company."



**Mark McBurney**

Protection Team Manager

ContractorFinancials

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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McBurney adds that relevant life insurance policies are also eminently flexible: "A contractor taking a permanent role can maintain the same policy and switch to paying the premiums personally out of net income. This continuity is particularly important if a contractor develops a condition that would make them uninsurable for a new life insurance policy.

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