How to save tax on your life insurance

Get life insurance quotation now

Contractors can save tax on their life insurance through a Relevant Life Policy (RLP) taken out via their limited company.

“A Relevant Life Policy is a very tax efficient way of ensuring that a contractor’s loved ones are financially secure should the worst happen,” notes **Mark McBurney**, life and income protection expert at **Contractor Financials**.

“And when the policy is ‘written in trust’ – which is best practice for life insurance policies – the insurance is also tax efficient at the ‘back end’, as a contractor’s family will pay no tax in the event that the policy pays out.

The family benefits from a tax-free lump sum which can be paid out very quickly if the contractor suffers an untimely death. This can happen at a time when the family may be in need of a large cash sum to tide them over until **probate is granted** and the contractor’s estate is settled, which can take many months.

Company Relevant Life Policies are more tax efficient

According to McBurney, writing an RLP via a company is the most efficient method of saving tax on life insurance because the premiums are a **legitimate business expense** and so are tax deductible.

He explains: “If a contractor’s limited company takes out an RLP, rather than the contractor personally, then the company’s money is used to pay for the policy and the cost can be offset against **corporation tax**.

“If a contractor takes out a life insurance policy personally, then they lose this tax efficiency but don’t gain anything else in return. That’s why and RLP is usually the most effective solution for contractors.”

Not all contractor insurances can be taken out by the company. For example, income protection and critical illness policies need to be taken out by the contractor personally, and not by the company.

‘Written in trust’ ensures that the ‘back end’ of a policy is tax efficient

McBurney highlights that another key element of saving tax on contractor life insurance is to ensure that the RLP is ‘written in trust’: “If a contractor’s life insurance policy is not ‘written in trust’, which means it pays out to a trust and not directly to the contractor or their beneficiaries, the payout is added to the contractor’s estate.

“If part of the estate, depending on how much cash and how many assets the contractor has, the relevant life policy payout could have inheritance tax levied at 40%. It may also take some time to pay out, particularly if the contractor has no will.”

But McBurney says that if the policy pays out to a trust, the sum is not included in the contractor’s estate.

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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“A trust can pay out to whoever the contractor specifies, typically the contractor’s immediate family. And it won’t be subject to inheritance tax. A good financial adviser will ensure that the policy is written in trust automatically, but contractors should always ask the question and check. This ensure the back end of the policy is also tax efficient.”

McBurney concludes: “Contractors should review their protection policies annually with their financial adviser. This includes making sure that they have the correct level of protection for family as well as maximising tax efficiencies.”

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