

PENSION AND INSURANCE PROVISION

Pension and insurance provision is important, you need to consider:

Pension provision

Health and sickness and income protection insurance

Equipment insurance

Professional/public indemnity insurance

Employers liability insurance

Pension provision

From April 2006 the previous distinctions between personal, stakeholder and executive pensions are largely irrelevant. Additionally the old cap on contributions at £3,600 or a percentage of salary are no longer in place. The only restriction is one of reasonableness of contribution level, and for most contractors this should not be a practical issue of concern.

For most contractors there is little to choose tax wise whether pension provision should be made through the company or privately – if paid through the company then the company pays gross and gets Corporation Tax relief, if paid privately then premiums are paid net of basic rate tax. Individuals who are Higher Rate taxpayers can get additional relief on personal pension contributions via their Self Assessment return, and if the premium is paid via their company should benefit from a similar saving by virtue of dividends being lower.

If income is caught by IR35, or there is a risk it may be, then its better to pay premiums via the company as you get set off against the IR35 deemed salary.

Many contractors combine regular investment in a pension plan with regular investments in other savings schemes such as a ISA or Unit Trust; ISAs in particular have particular tax advantages and a high annual investment limit.

Contributions to non-pension savings schemes will not be tax deductible.

Expert advice from an Independent Financial Advisor (IFA) is needed on pension and retirement investment planning.

From April 2011 tax relief will be restricted to basic rate for certain high earners - broadly earning over £150,000 pa and pension contributions of over £20,000 pa.

PENSION AND INSURANCE PROVISION - continued

Health and sickness and income protection insurance

Consideration needs to be given to matters such as:

Mortgage protection.

Short term sickness/accident cover.

Long term disablement/death cover.

In most cases the costs of this cover will not be tax deductible, and therefore should not be put through your company.

Expert advice from an IFA is needed on all of the above. We recommend a thorough review of your investment and insurance position when you start running your own company, and then periodic reviews afterwards, say every five years, at major birthdays or at times of change like marriage, starting a family, etc.

Your Independent Financial Advisor

It is important that you establish a rapport with a qualified Independent Financial Advisor to review both your pension and retirement provision, and your health, sickness and income protection insurances.

Our Associate company, Garbetts Financial Strategies (a trading name of Heritage Financial Services) is authorised to provide advice on the above, and understand contractors, PSCs and matters such as IR35.

Alternatively, we will happily liaise with your own IFA to ensure a common approach.

General Insurance – Equipment, Professional Indemnity, Employers Liability

You need to consider your general insurance requirements – they will vary from person to person, but you should consider:

Business equipment – this may be covered by your household insurance, but this needs to be checked.

Professional Indemnity – against claims for negligent or defective work. Historically only a few contractors have carried insurance of this nature, but more and more contracts are stipulating it. Obtaining professional indemnity insurance can assist in proving non-IR35 status for a contract.

Employers liability – unless your only employees are yourself and family members, you will need employers liability cover.

Our separate sheet on Insurances covers these aspects in more detail.

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