

## ***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 6 April 2011 the maximum annual pension contribution limit has been reduced to £50,000 (down from £255,000). However the good news is that investors will benefit from tax relief at their highest marginal rate. That is, a basic rate taxpayer will receive 20% tax relief, a higher rate taxpayer 40% and a 50% taxpayer 50% relief.

High earners in the UK are being urged to maximise pension contributions before the 50% tax relief disappears following Chancellor George Osborne's announcement that the rate is temporary.

Currently, people receive tax relief on their pension contributions at their marginal rate. High earners who pay income tax at 50% could make a £50,000 contribution at a net cost to them of only £25,000. If the 50% tax rate was abolished a £50,000 contribution would cost £30,000, an increase cost of £5,000.

For higher rate earners, if pension premiums are paid via their company they 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 them 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 are not tax deductible.

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

## ***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.

*© Garbetts – updated 27 April 2011 – guidance for illustration only, please seek advice before taking any course of action if you are unsure.*