

Contractor wealth creation strategies for 2010

Now might be a great time for contractors to benefit from medium- to long-term wealth creation opportunities, according to Tony Harris of [ContractorFinancials](#), the firm of Independent Financial Advisers (IFA) that specialises in advising contractors.

However, the economic outlook is still shaky, and could be subject to massive upheaval, irrespective of which party is elected within the next few months. So the only thing likely to be certain in 2010 is more uncertainty.

However, Harris is convinced that there are wealth management strategies to meet the risk profiles of all contractors and suggests that flexibility and creativity are the key to success. "Despite the current uncertainty and low returns of many of the investment avenues traditionally used by contractors, now is the time to speak to your IFA about positioning yourself to exploit what could be a very lucrative investment landscape in the next few years."

Maximise contractor tax breaks before 6th April

Contractors have only a few short months to maximise the few tax breaks available before the end of the current financial year on 6th April 2010, and Harris forecasts that taxation will rapidly increase later in the year.

"We will almost certainly see an emergency budget after the election in either May or June," he says. "This is likely to include further swingeing tax increases, particularly on higher earners. So contractors should consider paying increased [dividends](#) in the current financial year in what is currently a relatively low tax regime, with the expectation of potentially retaining profits in the business in 2010-2011 and beyond."

Current contractor tax planning strategies should include maximising [contractor pension](#) contributions from [contractor limited companies](#) and [umbrella companies](#), even for those high earners affected by the pension tax relief cap, who can still invest up to £20,000 tax-free.

Where to stash contractor limited company cash

Corporate bank account interest rates are incredibly low, even in deposit accounts. But, says Harris, there are alternatives: "Retained contractor limited company profits can be legitimately invested in offshore bonds in varying asset classes, like property or equities.

"These investments can work away in a closed offshore environment generating profits with no tax liability until they are repatriated," say Harris. "Using this route, the contractor can choose the best time to repatriate the funds and the most tax-efficient way to unwind the investments."

Harris says that contractors should talk to their IFA about company investments, and as long as they continue to trade as a contractor with regular contracting income, their limited company will remain as a legitimate trading business, and not an investment vehicle attracting a different set of rules, regulations, and costs.

Property investment

"Buy to let property should no longer be viewed as a 'get rich quick' investment, so contractors with existing portfolios should prepare to stay in the market for the long term," advises Harris. He warns: "Contractors coming into the property investment market should certainly not expect the landscape to be the same as it was pre-credit crunch. Mortgages are increasingly difficult to source from all lenders, especially as regulators are increasingly eager to be seen to be tightening-up on those more accommodating lending practices that are now deemed to be too lax."

Harris explains that whilst ContractorFinancials can still offer contractor mortgages based on a multiple of the contractor's rate, lenders are not only insisting on more significant deposits, but are also attaching a greater premium in terms of interest rates charged on buy-to-let mortgages. As for the market "Property values have been largely driven by lack of supply in the property market," he says. "But we may see a price slump in the first quarter as homeowners who have so far managed to stave off selling or even repossession finally throw in the towel.

"The good news," continues Harris, "is that low interest rates are likely to stay for the foreseeable future, despite warnings to the contrary. The next government is likely to use interest rates as one of the only viable economic tools to stimulate growth, and we may see the [Bank of England](#) sending letters to the Chancellor as inflation rises, but a rate rise still looks unlikely."

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Tony Harris,
ContractorFinancials

Equities and investments

The equity markets have given some "stellar returns" from March 2009 as prices have made good some of the losses of late 2008. But Harris warns that this performance is unlikely to be repeated in 2010, as slow growth plagues western economies. "But," he continues, "the United States has a track record of bouncing back strongly after a recession and may offer some unexpectedly strong gains".

"Longer term the BRIC – Brazil, Russia, India and China – economies along with a second division of countries such as Indonesia and Turkey should continue to offer the best opportunities for equity growth," comments Harris. "Corporate bonds and gilts are being seen as increasingly unattractive, but may still suit the investment profiles of some contractors."

Other market-based investments, such as gold, have the capacity to be volatile; Harris feels that the 'bubble' will burst, and that now is the time for profit taking.

Alternative wealth management strategies

With many of the traditional routes for contractor investments likely to give poor returns for the foreseeable future, and an increasingly hostile and costly tax regime expected later this year, contractors could consider alternative options.

"Traditional areas like cash deposits and residential property can't deliver the returns contractors have grown used to," says Harris, "which is why we've seen the popularity of more specialist areas such as business angel activity and UK film investment rise. We'd recommend steering clear of asset classes like art and antiquities, where prices are reliant on big city bonuses.



"Contractors with good commercial skills could consider business angel investment as an alternative. There are some potentially very good investments to be made, but due diligence and market knowledge is essential," he continues. "Venture Capital Trusts (VCTs) are also an option worth considering for those who want to leave the leg work to the professionals and they also attract valuable tax breaks,"

Harris recommends the UK film industry as an option for some contractors to consider, as the banks have pulled the plug on funding for the UK creative sector, despite the potential for good returns. He points out that there are also dedicated funds for those interested in investing in this sector.

"The world of wealth management is even more complex and uncertain than before the credit crunch and there is still no such thing as a 'sure thing' in investing," says Harris. "Therefore," he concludes, "I would strongly urge contractors to consult a specialist IFA before taking any key investment decisions."

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ContractorFinancials offer jargon free and timely mortgage, pension, insurance and investment solutions tailored to the unique needs of Contractors. [Read Full Profile...](#)

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