

# Contractor pensions - pension options and pensions advice for contractors

## Introduction

Pensions are a great way for contractors to invest due to the significant tax breaks available from HMRC.

This article explains away the jargon and points out the opportunities available to contractors who are looking to channel their hard earned income away from the tax man and into their own pocket.

## Why are Pensions Advantageous?

Pension investments can be invested from gross income (before tax) and thus attract tax relief at the investors highest marginal rate of tax.

The tax relief available depends on the level of income and can be up to as much as 48% for contractors caught by IR35.

For example, with 48% tax relief it means for each £100 contributed, the tax man invests £48 whilst you invest £52.

The funds invested then grow in an efficient tax-free pension fund.

Calculate your own personal advantages using the [Contractor Pension Calculator](#)

## How do Pensions Compare with ISAs or Property?

Alternative investments such as ISAs or property investment are funded personally from 'net' income (after tax). Thus, they start at a huge disadvantage by virtue of the initial tax hit needed to get the money out of your company in the first place.

## What are the Pension Options?

There are two distinct options:

- o Personal/Stakeholder Pensions
- o Executive Pensions

The most appropriate depends on the contractors circumstances.

### Personal/Stakeholder Pensions

- o Are available to virtually anybody.
- o Can be funded for children/grandchildren and non working spouses.
- o Up to £300 per month can be invested irrespective of salary.
- o More than £300 can be invested based on age related allowances\*.
- o Can be funded from your limited company.

[Note: In the March 2006 Budget the age related allowances were replaced by an annual and lifetime allowance that could mean contractors could potentially invest much more than pre-2006. However, these limits were introduced together with a set of rules that are unclear exactly how much contractors could invest. Until these rules are made more clear Contractor Financials are advising their clients to continue to work with the previous rules to avoid being challenged by HMRC.]

For contractors caught by IR35 a personal stakeholder pension represents a very efficient way of transferring funds from corporate to personal hands.

For contractors not caught by IR35 it can be more efficient to fund the pension personally to gain higher rates of income tax relief than the saving in corporation tax on a company funded contribution.

A 'base year' from the past 5 years can be nominated and investments made on the basis that current earnings are the same as the base year. Thus, it is possible to use a higher salary from non-pensioned permanent days to maximise funds transferred from company to pension fund.

Stakeholder pensions are almost identical to personal pensions but have a 1% cap on the levied charges. Whilst most personal pensions have matched this low charge regime in some cases there are benefits looking at the personal route in terms of the range of funds available.

## Executive Pensions

'Executive pensions' aid entrepreneurs and executives who run their own limited companies and neglect pension planning whilst they build their business.

For any given salary and age HMRC set allowances taking into account previous pension history, marital status and the length of service with the company.

These maximum-funding calculations can often provide far greater scope to invest in an EPP than a personal pension/stakeholder plan. A downside is that the plan is tied more rigidly to the limited company and benefits are salary related.

Providers often charge high admin fees to administer this niche pension product. Contractor Financials have access to EPPs that have come into line with the low cost personal/stakeholder pension.

## Which Provider to Choose

The following attributes are considered attractive when choosing a pension provider:

- o Low set up costs.
- o Flexible to reflect the likelihood that you will not always be a contractor.
- o Ability to stop, start or cease contributions on a monthly basis.
- o Financial strength to be around in 10 years.

## About Contractor Financials

Contractor Financials are specialists in the field of looking after contractors. They have the experience to fully make use of some HMRC rules that are little understood by more general advisers/direct providers to ensure that you'll be able to contribute more for a given salary and benefit fully from your pension investment.

**Published: Monday, January 09, 2006**

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