

Positive options for contractor pensions

We are in the midst of a 'planning blight,' on contractor pensions, but relief is about two weeks away. In the meantime, there are some options you should consider.

The Revenue has ruled that it will police and penalise "excessive" contributions by contractors to pension funds, and up until now, it has been unwilling to say what 'excessive' means. This has put the whole industry on hold, and local tax inspectors have completely refused to commit themselves on the subject. But guidance from The Revenue is due in about two weeks, so and readers should watch this space for the lowdown when it comes in. It is, of course, grossly unfair that employees can put up to 100 per cent of their income in pension funds, while contractors have to obtain special guidance, but hopefully the new rules will allow a fair amount of flexibility.

In the meantime, while we wait for clarification, there are some options that contractors can consider for their pensions.

Contractors with relatively small earnings should probably stick to the stakeholder pension, according to Tony Harris, a pension advisor with the Richmond, Surrey-based advisory firm Contractormoney. "It's true that, from the overall point of view, the stakeholder pension hasn't worked well, because it has not really encouraged small businesses to set up pension funds for their employees." Employers with more than five employees are supposed to set up stakeholder pension schemes, but, as statistics from the Ministry of Finance show, many have not done so.

"But the bad hype about stakeholder pensions should not discourage contractors from setting them up when they can, either through their limited companies or through umbrellas," Harris continues. "This option is a good one for companies with relatively low earnings, because there are no setup costs, and the management charges are fixed at one per cent by law. "

As Harris notes, the stakeholder pension, which the government instituted about five years ago, has had a beneficial effect on the pensions industry though.

"Charges for managing pensions had been very high. The effect of the stakeholder pension was to reduce charges not only for that kind of pension, but all across the industry. Contractors can now take advantage of lower costs for very sophisticated pension schemes." Contractors with larger revenue streams should consider a Self-Invested Personal Pension (SIPP). The charges on SIPPs are relatively high, but returns make them worthwhile, Harris adds.



Although contractors cannot be certain of how much to contribute to pension plans, they are able to take advantage of the changes that the so-called "pension simplification" made as of last April. "It is now possible to invest pension funds in almost any way the contractor chooses to," Harris explains. "You can't bet it on the Derby, you can't buy a yacht, but almost any responsible investment is possible. This allows pension managers to use all the refined techniques available to modern finance; the only limitation is on how much you able to put in." The one area of investment that is not permitted is investment in property. The Revenue feared a massive flow of funds into tax-free investment if that had been allowed.

There are now no schedules for investment either: contractors can put money into pension funds when and if they choose, Harris continues. "At one time, there were penalties for reducing or not making contributions, but all that is long gone." There may be difficulty in transferring funds from one pension fund to another, but this is another matter in which pension advisors are still seeking guidance from The Revenue.

"And there is no longer any obligation to purchase an annuity with pension funds when you retire-- this was previously the only option. Contractors have gained much from this change, because the annuity would revert to the insurance company after the death of the contractor. Now it is possible for contractors to pass the full amount in their pension funds on to their heirs," Harris adds.

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