Inside IR35? Get huge tax savings with a pension

Get pensions quotation now

If you are caught by IR35 and currently do not have a pension you are missing out on huge tax savings.

Why? Because you can avoid paying all that extra IR35 tax simply by diverting money from the tax man into a pension. Here's how...

What can be saved?

Contractors caught by IR35 pay significantly higher taxes due to employers NI, employees NI, and Income Tax (PAYE) being applied to all of their income. For example, a contractor on £40 per hour has an increased tax burden of 44%.

Tax paid into a pension comes from your income **before** any of those taxes are applied. So you get 'tax relief' on it.

An example

For someone caught by IR35 earning £40 an hour, each £100 drawn as gross salary at the top end of their earnings attracts £50 tax with only £50 ending up in their pocket.

But instead of drawing it as salary the entire £100 could be channelled pre-tax into a pension.

This reduces net income by £50, but almost doubles the pension contribution, leading to tax relief of 50%.

Tax relief for contractors taking dividends of between £100,000 and £120,000 can be as high as 50%, as a result of the withdrawing of the personal allowance on earnings between £100,000 and £120,000.

For those contractors earning more than £150,000 per year paying the top rate of tax the tax relief will be 44%. For high earners inside IR35, pensions are now an even more attractive option as a tax saving device for contractors than before.

The amount of tax relief depends on a contractor's rate. Contractors can calculate their own level of tax relief using the Contractor Pension Calculator.

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Some quick facts about Pensions

Contractors can invest up to £40,000 each year without any additional tax implications, up to a lifetime allowance of £1m

Pensions are no longer about saving money to buy an annuity. Contractors can draw down on their pension funds from age 55 following new rules announced in 2014 that enable contractors to take multiple lump sums direct from their pension fund.

A contractor's pension savings can be passed onto their family if they die before age 75 - provided you've not bought an annuity.

A contractor's pension savings are perfectly safe as pensions funds cannot become insolvent. A private pension fund is carefully protected by law.

If a contractor is risk adverse and concerned about funds invested in the stock market, they can choose to keep their pension pot in cash - just like an ISA.

You can find out more by reading Pensions for Contractors - an Overview.

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