

Pension auto-enrolment for limited company contractors explained

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Limited company contractors running a one-person business with no employees are outside the scope of pension auto-enrolment rules. However, contractors with employees, such as a spouse or civil partner, may be affected.

"As long as a contractor is not paying themselves an annual **salary** above the automatic enrolment earnings trigger and they are the only worker in the business, then the pension auto-enrolment legislation will not apply," explains **Angela James** of **Contractor Wealth**, a financial advisor who specialises in contractor financial advice.

And even those limited companies with eligible employees that will be affected do not have to auto-enrol employees until 2016, which is the 'staging date', or start date for implementing auto-enrolment for the very smallest of companies.

Auto-enrolment eligibility and process

"One-person companies are automatically exempt from the legislation. But for a contractor's employees to be assessed as an 'eligible jobholder' for auto-enrolment, they must fulfil **specific criteria**," continues James.

To be eligible, a contractor's employees must:

Be aged between 22 and the state pension age

Work in the UK

Have gross annual earnings in excess of the lower earnings limit threshold – £10,000 at the time of writing.

James highlights that, according to these criteria, most limited company contractors will not be an 'eligible jobholder' and those employing a spouse or civil partner who is also a director and shareholder will be similarly exempt: "Crucially, **dividends** are not included in the gross earnings total so contractors operating the classic **low salary and high dividend** remuneration strategy will remain outside the scope of the legislation."

But contractors who **employ a spouse or partner** to keep the books or as company secretary on a salary above £10,000 may be required to operate pension auto-enrolment.

Contractors with existing pension schemes

The whole point of the pension auto-enrolment legislation is to encourage workers and their employers to invest more in providing a retirement income.

"Many limited company contractors have already chosen to **invest in a pension** as part of their broader financial and tax management strategy, because company funded pensions generally attract significant tax relief," says James.

"If a contractor is already funding a **Pension scheme** at or above the 2% of gross earnings **minimum employer contribution**, then auto-enrolment becomes academic. The same is true of an employed spouse or partner who meets the eligibility criteria but already has a company funded pension scheme in place."

Paying a salary above the earning threshold because of IR35

There are various options for contractors who have employees and who are themselves inside **IR35** and forced to pay themselves a salary above the lower earnings limit, making them eligible for pension auto-enrolment:

They may already have a pension in place which is funded at or above the 2% of gross earnings employer contribution, meaning auto-enrolment criteria are already satisfied

If they don't have a company pension scheme funded by their limited company, they can start one

A contractor can choose to opt out of auto-enrolment, although they must show a paper trail that they have opted themselves into their own company's scheme and then chosen to opt out.

"A company funded pension scheme is a highly tax efficient solution for contractors inside IR35, because it can be used to divert significant sums into a pension scheme that will benefit the contractor rather than paying the taxman. These contributions are allowable over and above the 5% maximum allowable for expenses," James adds.

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Angela James, Contractor Wealth

Staging dates for microbusinesses in 2016

Because the staging date for micro-businesses is not until 2016, James says that limited company contractors still have some time before they need to take action, and then only if they, or their employees, are eligible.

But do not leave this too late as if you miss your staging date and responsibilities your business could be liable to a fine by the pension regulator.

"However, contractors choosing to return to permanent employment or who join an [umbrella company](#) may find themselves auto-enrolled by their new employer because the staging dates for organisations with larger workforces began in October 2012," she notes.



[Angela James](#)

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Angela is a qualified Senior Financial Planner at Contractor Wealth and specialises in pension advice and financial planning for contractors.

Contractor Wealth are a specialist in offering tailored financial solutions for contractors, together with the building of excellent client relationships. [Read Full Profile...](#)

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"One-person limited companies should be aware of the new rules but are not required to take the same action, must write a letter confirming the reason for exemption to satisfy the pension regulator," confirms James. "Contractors with co-directors, employees or who are inside IR35 may be required to implement pension auto-enrolment and should discuss their options with their financial adviser before 2016."

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