



# CONTRACTING & PENSIONS

**BEN ALCOCK BSC (HONS) FCII** Chartered Financial Planner

Becoming a contractor has plenty of things to recommend it. You can, at least in theory, work when you want to, take only the work you like, and enjoy the feeling of being your own boss.

You could also see a much higher rate of pay. But there is one major disadvantage - you will miss out on all the benefits that PAYE employees can rely on, such as paid holidays, sick pay - and an employer's pension.

### Arrange a private pension

Unless you are planning to carry on contracting into your twilight years, the answer is of course to arrange a private pension, as soon as you make the decision to start contracting. But it's not just a matter of putting away money now for the future. Pension contributions are one of the few remaining tax breaks available to contractors. As a contractor with your own limited company, you could be enjoying an important advantage - which can make your pension the heart of your tax planning.

### And pay less tax

You can either make pension contributions from your own personal funds or directly from your company's income.

To make a pension contribution from your taxed income will attract personal tax relief, which means that the taxman will top up your contributions, in effect giving you back some of the tax he has already taken.

But pension contributions made directly from your company's income are a legitimate business expense deducted from your profits, so your company will pay less to Her Majesty's Revenue and Customs in corporation tax.

By getting your company to pay into your pension, you are reducing your overall tax liability.

### How this works

As a Limited Company contractor, for every £100 that your company earns as profit you pay 19% corporation tax, leaving £81. Most contractors take their income through a mixture of salary and dividends. If you were to take this £81 as a dividend

you would (if you had already used the dividend allowance of £5,000) incur dividend tax. You pay 7.5% dividend tax at the basic rate, and 32.5% in the higher rate band, making the sum you take home smaller still.

However, if your company puts the £100 in a pension you can contribute the whole amount without the taxman taking corporation tax or dividend tax.

### How much can you contribute to your pension?

Unlike personal pension contributions the amount that can be invested directly from your company income is not linked to the amount that you personally earn as a salary. You can pay as much into your pension as you like, as long as contributions do not exceed the annual allowance, currently capped at £40,000. You also can't exceed your company's income for the year as this could raise questions from the taxman as to whether the amount has actually come from your company's activities.

But there is an exception. If you have a large sum that you want to put into your pension you may be able to take advantage of the carry forward rule. This lets you use annual allowances that you have not taken advantage of in the three years previous, as long as you were a member of a registered pension scheme in those years.

You should also take into account your lifetime allowance, which is a limit on the amount that can be put in your pension pot. The lifetime allowance is £1.03 million for the 2018/19 tax year.

### What to do now?

If you are a contractor, getting professional help with your financial arrangements - and especially your pension planning is a must.

To find out more about a **full financial review**, **please contact me today.**

Investments and pensions can fall as well as rise and you might get back less than you invested. Your home is at risk if you do not keep up the repayments on your mortgage. Levels bases and reliefs from taxation are subject to change and depend upon your personal circumstances.



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CONTACT **BEN ALCOCK:**

**M: 07584 093 847 E: ben@mycontinuum.co.uk**

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