

EXCLUSIVELY FOR CONTRACTORS

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Contractors and Insurance

In the early days of computer contracting the typical profile of a contractor was an individual who was young and probably single. In those days the industry was full of predatory insurance salesmen who saw the wealthy computer contractor as being a good source of income.

Now of course the situation is different. This is a mature industry and many contractors are married with families. Given the uncertain nature of his or her income a contractor with a young family should certainly consider at least three products which are likely to be on offer from an independent financial adviser. These are:-

- 1 Pension - elsewhere in this Newsletter are the chilling statistics which set out how much you have to save to have any hope of achieving a realistic pension when you retire. The earlier you make your contributions the more dynamic is the effect of compound interest. With tax relief available for contributions that you make you must consider contributing regularly to a pension scheme even if your retirement seems light years away.
- 2 Income protection insurance – this is particularly useful for a contractor and indeed anybody with an uncertain income. The products available are becoming more sophisticated and for payment of a regular sum if you are ill and cannot work then cover becomes available and you will receive regular payments to replace part of your lost income. The longer you are prepared to defer the cover kicking in, the cheaper it will be.
- 3 Life insurance – contractors with families typically have mortgages and if the contractor dies his or her spouse may well have difficulty not only raising the children but also paying off the mortgage on the reduced income that would be available to the family. So, temporary cover in the form of term assurance is important to look at. It is likely to be very considerably

cheaper than an endowment policy and will pay out a lump sum if the contractor dies within a particular period. The drawback is that it's a case of 'no death – no payout' but the cost of the premiums does reflect this.

It may well be worth combining this with critical illness cover. Apparently more people become incapacitated to the extent that they cannot work than actually die during their normal working life which can cause a real burden on the surviving spouse.

It is easy to make out a good case for almost any insurance product but if you have a young family and particularly if you are the breadwinner we suggest you look carefully at the above suggestions. The life products set out in points 2 and 3 are all affordable for the typical contractor and with a pension it is a question of making sure that you do something on a regular basis now rather than wait until retirement starts to cross your mind.

PENSIONS – AN UPDATE

There are two sides to the falling interest rate coin. On one side we have those of you with big mortgages who are almost certainly paying significantly less in interest each month than you did a year or two ago. It is the other side of the coin that presents the problem. Falling interest rates have meant that many people with endowment mortgages have projected proceeds which are not sufficient to pay off the capital sum. This is bad enough but corrective action taken now to either top up the premiums or to take out an alternative savings plan should mean that you can rectify the situation. What really worries us is the continuing crisis for those of you making pension contributions. Two or three years ago your fund would have produced a much better annuity than is currently forecast and for those of you getting close to normal retirement age who hoped that they could retire early the position is even more critical.

Pretty obviously, the older you are when you start planning, the more you have to contribute to achieve a worthwhile pension. If you start your scheme at the age of 35 with regular contributions of £250 per month ie. £3,000 per annum then you could expect to retire 30 years later at the age of 65 with an annuity of about £23,000 per annum. That's if you are a man, - if you are a woman you would receive about £2,000 less because of your greater life expectancy. Just think about it, - £250 a month, every month for 30 years and you end up with an amount which is almost certainly considerably less than you earn now. Although women do get

better annuity rates they are also less likely to save regularly because of 'natural breaks' in their career to bring up families.

The situation is of course far worse for people nearing retirement age who have much less time to rectify the position. Quite possibly they will opt not to take a pension immediately and hope that rates will improve but at the moment all the forecasts seem to be pointing towards a further drop in interest rates and if we are in a long term cyclical trend of low rates then this could last for years.

If you need help in assessing the best way forward please complete the response form appropriately.

THE FINAL CHANCE

The carry-back and carry-forward rules relating to pension contributions changed in April this year. There is still however one small window of opportunity to benefit from them if you act before 31st January 2002.

The easiest way to explain this is to give you an example. A self employed higher-rate taxpayer has earnings of £45,000 for seven years. He could have contributed 20% of his income in pension contributions in each tax year but has in fact only contributed 10%. If he proceeds in the same way as he has in the past and makes a contribution of £4,500 ie. 10% of his income, he can have this set off against his income for the year ended 5th April 2002.

In addition he can carry back £31,500 of 'unused contributions' relating to the seven previous tax years (£4,500 x 7) these will be set off against his income in the tax year ended 5th April 2001.

The payment can be made no later than 31st January 2002 and the relevant forms for claiming tax relief must be submitted at the same time or earlier otherwise you will not be able to make the necessary election.

A pretty complicated area,- to put it mildly, but if you have any surplus cash one that is well worth looking at for one final time.

BOOKKEEPING DISC

We now have a revised version of our 'bookkeeping disc'. This will deal with clients who have both IR35 and non IR35 income within the same accounting year. If this applies to you then please email Evan Jones on EvanJ@wheawill.co.uk and he will send you a free copy.

ACCOUNTING RECORDS

All of our clients with accounting periods ending on or before 30th September 2001 have been contacted with a request to send in their accounting records to us. In some cases we are still awaiting those records and so this is a general message for all of you. Please get those records in to us.

INLAND REVENUE CONFUSION WITH ICL

This relates to standard ICL contracts. Initially the Inland Revenue position on these contracts was that they were caught by IR35. It now seems that they are backtracking and certainly in some cases are now saying they are not.

If you have been working under the terms of a standard ICL contract since 5th April 2001 then please contact Gordon Morrison right away.
His email address is GordonM@wheawill.co.uk.

SELF ASSESSMENT TAX RETURNS

It's coming up to that time of year again! Tax returns must be filed by 31st January 2002. If they are not you will be fined £100. If you are already a personal tax client of ours then we will have contacted you to request any information that we need to complete the return. If you have not already done so will you please let us have the information as life in our personal tax department does get a little hectic in January!

Incidentally, we provide this tax return service for many clients and if you have any family members or friends who you think may be interested in having their tax affairs dealt with by a professional firm then please let them know. This may be of special interest to anybody who has become involved with the Buy to Let market. When properties are sold the capital gains tax computation can be complicated and there are tax reliefs available which not everybody is aware of.

HAPPY CHRISTMAS EVERYBODY!

Please keep introducing your workplace colleagues and friends to us. We will do our very best to provide them with a service that they are looking for and deserve.

Regular readers will know that no newsletter is published in December. We take this opportunity of wishing you festive greetings from all of us at Wheawill & Sudworth and we look forward to seeing you in the New Year.



GORDON MORRISON / RICHARD HAYNES / PAUL CROZIER / IAN ROSS
LONDON OFFICE
MOUNTBARROW HOUSE, 12 ELIZABETH STREET, LONDON SW1W 9RB
☎ 020-7730 8995 FAX: 020-7824 8108
EMAIL: gordonm/richardh/paulc/ianr@wheawill.co.uk
WWW: www.wheawill.co.uk

THAMES VALLEY OFFICE
CAVERSHAM HOUSE,
4 GOSBROOK ROAD,
READING,
BERKSHIRE RG4 8BS
☎ FREEPHONE 0800-590873

MARY HURST
COMPANY SECRETARY
12 ELIZABETH STREET,
LONDON SW1W 9RB
☎ 020-7730 0883
FAX: 020-7823 5953

IAN HEMSWORTH
HUDDERSFIELD OFFICE
PO Box B30,
35 WESTGATE,
HUDDERSFIELD HD1 1PA
☎ 01484-423691
FAX: 01484-518803

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