

# 6 TAX PLANNING PATHWAYS TO BUILDING WEALTH THROUGH PROFESSIONAL CONTRACTING

As experts in tax and contracting, we are here to provide personalised tailored advice to each of our contractors, but below is an overview of the most common effective ways that professional contractors can benefit from tax planning to increase both income and wealth.

## 1. Maximise Allowable Business Expenses

The ability to claim business expenses, although not ground-breaking from a tax planning perspective, is very effective at reducing a Contractor's taxes and therefore at increasing your after-tax earnings. Common examples include claiming work-from-home expenses, mobile and broadband costs, computer and software costs, education courses and so on.

## 2. Utilise Executive Pension Contributions

Pensions are an excellent way of reducing the tax you pay now whilst building wealth for your retirement. Setting up an Executive Pension allows Contractors to avail of significantly higher tax relief on pension contributions compared to the options more typically open to permanent employees.

## 3. Claim Tax Relief on Expensive Purchases

Certain purchases which are related to your professional work can be significantly cheaper when purchased through a Personal Service Company (PSC) due to tax relief available. Examples include purchasing a fully electric vehicle, building a home office, purchasing a home office pod, further education costs.

## 4. Maximise Married Couples Tax Relief

If your spouse undertakes work for your PSC, they can be paid a salary for what they do. For single income couples, or a low earning spouse who is not already using their full annual tax-free allowance, this can boost the couple's overall after-tax earnings by maximising the tax relief available.

## 5. Use the Entrepreneur Relief scheme

It's possible to save up to €1million cash in a PSC and to later pay it out to yourself with only 10% tax to pay. The 10% tax is Capital Gains Tax, instead of Income Tax. This low rate of 10% is available if you qualify for the Entrepreneur Relief scheme. A main condition to satisfy is that your company must have been trading for a minimum of 3 years, with you spending at least 50% of your time working in it.

## 6. Use the Retirement Relief scheme

It is also possible to build up to €750,000 in a PSC and to receive it tax free using the Retirement Relief scheme. Again, conditions apply to qualify for the scheme. A main condition is that you must be 55 years or older and have owned the shares in the company for 10 years.

# CHOOSING THE RIGHT CONTRACTING COMPANY SOLUTION

Choosing the right solution is key to your wealth planning. You can focus on maximising your opportunities from the outset by having a clear tax strategy for your contracting income and setting up with the most appropriate company structure, both of which Fenero can help with.

Umbrella Company solutions are a great option for many contractors who plan on contracting for a short period of time. As well as the convenience and flexibility offered by Umbrella Company solutions, there is the opportunity to boost earnings by claiming tax relief on business expenses.

However, due to the more limited tax planning options available, these solutions are less ideal for longer-term and more significant wealth planning. Using a Personal Service Company (PSC) solution is an alternative which opens many more potential opportunities.

However, it is highly beneficial to speak with an expert at the outset for help determining what tax planning opportunities may be open to you based on your circumstances, to guide you in your choice between an Umbrella Company or a PSC solution.

CONTRACTING CAREER LENGTH	TYPICAL CONTRACTING COMPANY SOLUTION	TAX PLANNING OPPORTUNITIES AVAILABLE
< 12 MONTHS	Umbrella Company	Claiming Business Expenses
1-2 YEARS	Personal Services Company (PSC)	The above plus: <ul style="list-style-type: none"><li>- Wider Pension Plan Choice</li><li>- Greater Tax Relief on Pensions</li><li>- Ability to Employ Spouse</li></ul>
3+ YEARS	Personal Services Company (PSC)	The above plus: <ul style="list-style-type: none"><li>- Entrepreneur Relief Scheme *</li><li>- Retirement Relief Scheme *</li></ul>

\* Conditions apply to qualify