CORDINER WEALTH

Business owner?

5 positive ways your pension can help your business

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As a business owner, it's important to constantly be on the lookout for strategies and opportunities to boost your company's bottom line.

But did you know that you may have one of these opportunities well within reach, bringing various money- and tax-saving benefits with it?

This simple but effective tool is actually your pension, and you can use it in a whole range of ways to make your business even more cost-efficient.

This guide will introduce you to some of the ways in which your pension could assist your business.

From buying your business premises within a pension, to reducing the amount of tax you have to pay, your pension can transform your business finances and give you the opportunity to make the most out of your money.

If you'd like personalised advice on how to make your pension work for you in your business, please get in touch with us at Cordiner Wealth.

We can help you find the best ways to turn your retirement fund into an effective business tool for you.

Email us at **hello@cordinerwealth.co.uk** or call **0113 262 1242**.

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What kind of pension could you have?

Before you find out how a pension can help a business, it's first important to know what kind of pensions business owners typically choose and the benefits that come with them.

Pensions are one of the most popular ways for UK residents to save for retirement. The combination of tax benefits alongside the potential investment returns the fund can generate make a pension an attractive way to build a pot for later life.

You may already have a private pension scheme, or potentially even a workplace scheme in place in your business that you contribute to. Schemes like these are useful for employees, with a pension manager investing the funds on behalf of savers.

But, while suitable for many workers, these kinds of schemes may not provide the flexibility that you might need as a business owner. That's why it can be worth looking at pension schemes that are more suitable for you.

Two types of pension that business owners often favour are a **self-invested personal pension (SIPP)** or **a small self-administered scheme (SSAS).**

Small self-administered scheme (SSAS)

An SSAS is an occupational pension scheme that's usually set up by company directors or other senior staff who want more flexibility and greater control over their pension investments.

As the name suggests, an SSAS is typically only for a small number of people, such as company directors, their spouses, and other senior employees.

SSASs receive the same benefits as other pensions, including tax relief on contributions, and no Income Tax or Capital Gains Tax to pay on returns.

SSAS at a glance

- Useful for those running a small business looking for a scheme for senior staff
- Offers the flexibility to choose a range of assets, including company shares and property
- Allows you to make a loan from your pension directly to your company.

Self-invested personal pension (SIPP)

A SIPP is pension plan that's set up and run by an insurance company, stockbroker, or other specialist pension provider.

Rather than your money being invested in one of a pension provider's funds, SIPPs allow you to choose the investments held within them.

This could include anything from stocks and shares to unit trusts, cash, and property.

You still get the usual benefits of a pension, such as tax relief, alongside this flexibility in investments.

Anyone can open a SIPP, from employed workers to business owners, but some providers have rules, such as a minimum fund size.

SIPPs at a glance

- Allows you to choose your own investments while still receiving the benefits of pension tax relief
- Keeps your pension benefits in your name, separate from your colleagues or business partners
- Tends to be a cost-effective way to choose investments within a pension.

Now that you know the types of pensions that are most suitable for business owners, you can start looking at the ways in which you can use your retirement fund to give your business a boost.

Here are five ways that a pension can help you make the most of the money in your business.

1. Buying business premises using your pension

The first way your pension (a SIPP or SSAS) could help your business is by using it to buy your business premises.

There are a range of reasons why this can be a sensible decision for business owners.

Gain more control and boost your pension fund with rent payments

If you don't currently own your business premises, you're most likely paying rent to a landlord.

For one thing, this means you're somewhat in the hands of the landlord if they decide to sell the property.

Additionally, the rent money you're paying is going into someone else's pocket, when it could be going into yours.

Buying your business premises using your pension gives you greater control and security over your company property, as well as allowing you to pay rent from your company directly into your pension.

As a result, you can gain more control over your business, while simultaneously turning your rent payments into contributions that boost your retirement fund.

Sharing ownership of the property

You can share ownership of property with your business partners and other company directors, holding a share of the property across multiple pensions.

For example, if you and your business partner had a property valued at £400,000, you could each purchase £200,000 and hold half the value of the property in your pensions.

You'd then both be entitled to half the rent payments and other profits that come with it.

Reduce a potential Capital Gains Tax bill

When you sell or dispose of assets such as shares or property, you may have to pay Capital Gains Tax (CGT) on any gains in value after any tax exemptions you have left.

That means if you wanted to buy and hold the property within the business, you may have to pay CGT if you want to sell it at a later date.

Meanwhile, property held within a pension is entirely free from CGT. So, if the value of your business property rises over time, there will be no CGT to pay when you come to sell it.

Remember: you may still pay Stamp Duty Land Tax (SDLT) when you buy the property in your pension.

Mitigate an Inheritance Tax bill

Property that's held outside of a pension will usually count towards the value of your estate when you die. And, as property is typically expensive, it will most likely exceed your nil-rate band for Inheritance Tax (IHT).

As a result, this value could be included in your estate and taxed at the standard IHT rate of 40%.

Meanwhile, pensions typically fall outside the value of your estate on your death. This means that you may be able to pass the pension, including the property, to your nominated beneficiaries without them having to pay IHT on it.

Please note

Property can be an illiquid investment, meaning it can be more difficult to access the value than with other types of investment. Additionally, you may incur costs when selling a property, whereas encashing other investments may not give rise to a charge. The value of property can also fluctuate, meaning that you may get back less then you paid.

Buy-to-let (pure) and commercial mortgages are not regulated by the FCA.

You can hold various different kinds of property in your pension

While certain pension providers and schemes will differ in what you can have, there are many types of property that you can hold in your pension. This could include:

- Offices
- Factories
- Warehouses
- Industrial units
- Shops
- Pubs
- Golf courses
- Campsites
- Football grounds

The nil-rate band

There is a nil-rate band (NRB) before IHT is due, which stands at £325,000 in the 2021/22 tax year. On top of this, there's also an additional residence nil-rate band (RNRB) if you pass your main residence to your children or grandchildren.

So, depending on whether you're married or not, you'll be able to pass on between £325,000 and £1 million without having to worry about IHT.

However, any value over this threshold could be charged at the standard rate of 40%.

2. Moving property that you already own into your pension

If you already own your business premises or other commercial property, either personally or through your company, you may want to consider using your pension to buy it from yourself.

There are a couple of key ways that this can transform your business finances.

Boost your personal finances or business cash flow

Firstly, buying your property from your company and moving it into your pension can provide a healthy injection of cash into your personal finances, or your business cash flow.

If you personally own your business premises, buying it within your pension frees up your retirement savings and allows you to make use of this money now.

This could be a great option if you're in need of some extra money to achieve a personal life goal, such as going on holiday or moving home.

Similarly, if the business owns the premises, using your pension funds to buy it can give the business a healthy injection of capital. This money could be invaluable for investing in the business, perhaps for hiring new staff or buying machinery.

Sharing ownership

Just as you can share ownership of new premises that you buy, you can also move part of the business into multiple pensions.

You could even leave a portion of the property within the control of the business instead if you didn't have enough to buy it from your company outright.

So, if you had a business property worth £600,000, you and a business partner could each purchase one-third of it for £200,000 through your pensions.

You could then leave the final third in the name of the company.

This can help to spread out the risk of owning the entire property between you and your business partner.

Greater tax efficiency

Just as buying your business premises from your landlord would give you the tax-efficient benefits of a pension, so too would moving property you already own into your pension.

You could both remove the possibility of having to pay CGT when you sell or dispose of the property, while also ensuring that your beneficiaries can inherit it without having to worry about IHT.

The only difference would be that, as you already own the property, you may have to pay CGT when you sell it to your pension fund, depending on how much value the property has gained since you bought it.

But there'll be no more CGT to pay while contained within your pension moving forwards. This could save you a tax bill down the road.

Please note

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3. Making lump sum pension contributions to reduce your tax liability

By making lump sum contributions to your pension from business income, you can potentially reduce the amount of tax you pay in your business.

That's because contributions you make to your pension as a business owner usually count as employer contributions.

Tax relief

When you make pension contributions, the UK government will give you tax relief at your marginal rate of Income Tax on those contributions.

That means, if you pay basic-rate Income Tax, a £100 contribution into your pension costs you just £80.

For higher-rate taxpayers, a £100 pension contribution costs £60, and the same contribution costs just £55 for additional-rate taxpayers.

Higher- and additional-rate taxpayers must claim tax relief above the basic-rate through a self-assessment tax return.

Contributing as an employer reduces your tax liability

You can contribute to your pension either as an individual or as your own employer. In general, it's more tax-efficient to do the latter as:

- Employer contributions made from pre-taxed company income will receive tax relief. This could save you up to 25% in Corporation Tax from 2023.
- You don't have to pay National Insurance on pension contributions, which could save you 13.8% in the 2021/22 tax year, rising to 15.05% in 2022/23.

The pension Annual Allowance

Each tax year, you can contribute and receive tax relief on pension contributions up to £40,000 or 100% of your earnings, depending on whichever is lower.

The Tapered Annual Allowance

If you're drawing a large income from your business, your Annual Allowance may be tapered.

The taper comes into effect if your threshold income is more than £200,000 and your adjusted income is more than £240,000.

For every £2 that you exceed the £240,000 limit, your Annual Allowance will be reduced by £1, down to a minimum of £4,000.

That means, if you take £312,000 or more from your business, you may only receive tax relief on £4,000 of your pension contributions.

4. Borrowing money from your pension

If your pension is a small self-administered scheme (SSAS), you may be able to benefit by borrowing money from your pension and using it directly in your business.

This is known as a "loan-back" and there are plenty of reasons to consider this for your business.

Remember: you can only borrow money from an SSAS pension, not from a SIPP.

Improve cash flow

Firstly, an SSAS loan-back can provide invaluable capital to help your cash flow in the short term.

During the Covid-19 pandemic, many business owners sought ways to provide an injection of cash into the business. In that time, SSAS loan-backs became a popular method to do so, allowing business owners to give their cash flow a quick boost in a tricky environment.

There may well have been plenty of other times during your business ownership when you wish you could have boosted your cash flow, too. An SSAS loan-back can allow you to do exactly that.

Help towards large purchases in your business

If you need to make a single large purchase in your business, perhaps on machinery or on hiring new staff, an SSAS loan-back can be an effective way to fund it.

This loan is typically quicker to access than a bank loan, meaning you'll be able to get your hands on what you need sooner than you might otherwise.

More favourable than a bank loan

Crucially, borrowing money from your pension may allow you to design more favourable terms for the business than you might be able to find with a bank loan.

An SSAS will generally require less underwriting, meaning you're able to access your funds in your business sooner than you might be able to when borrowing from a bank or building society.

Similarly, as you're making the loan from the pension, you can decide on an interest rate. So, while you may want to set an interest rate that ensures your pension funds continue to grow at the same rate as they would have when invested, it may still be lower than the rate that a bank offers you.

Important rules to bear in mind

There are a few key rules to bear in mind when borrowing money from your SSAS for your business:

- You can only borrow up to 50% of the SSAS's net asset value
- The minimum payable interest rate must be 1% above the base rate, rounded up to the nearest 0.25%
- The maximum term of the loan must be five years
- It must be a repayment loan, not an interest-only loan
- The loan must be used for legitimate purposes, and cannot be used to help a company that will otherwise collapse.

5. Withdrawing money from your pension

If you're over the age of 55, you may be able to withdraw funds from your pension and use it directly in your business to provide an injection of cash.

Taking a lump sum and putting it into your business

Under the current pension rules as of the 2021/22 tax year, you can take a 25% tax-free lump sum from your pension when you turn 55. This is set to rise to 57 in 2028.

You can do whatever you like with this lump sum, and one popular option for many business owners is to loan it straight to their company.

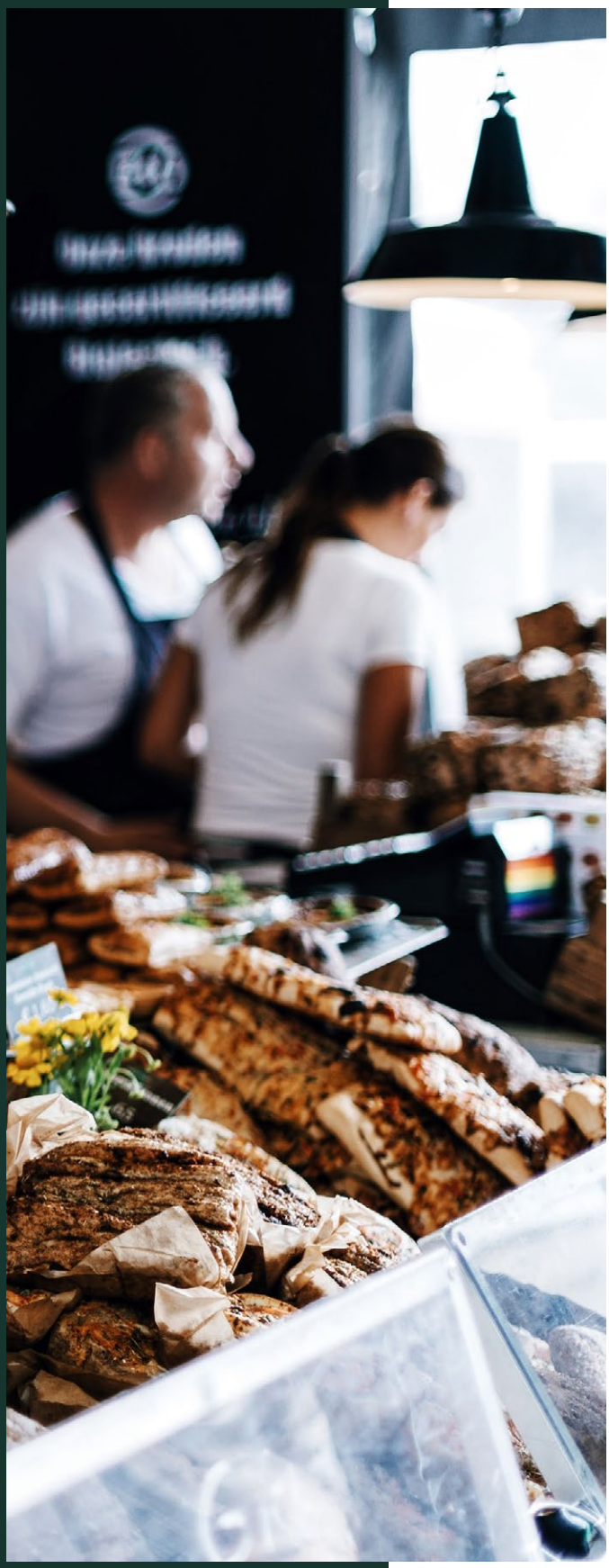
This provides the business with an injection of money to fund business endeavours, such as hiring staff or buying machinery and other assets.

Can you afford to take a lump sum?

Before you take your 25% tax-free lump sum, first ask yourself: can you afford to?

It's important to bear in mind that taking the lump sum could have an impact on your retirement lifestyle if you were planning to live on that money.

Make sure you take financial advice first before you take any money out of your pension to put in your business.



Director's loans come with tax advantages of their own

Technically, using your pension funds in this way would count as a director's loan. As a result, you would also see the benefits that come with this type of borrowing.

When you lend money to your company, it counts as a business expense. That means the business won't have to pay Corporation Tax on the loan.

Additionally, you could choose to charge interest to the company on the loan. Although your business would have to pay the interest less basic-rate Income Tax of 20% at source, this would still provide you with another stream of income from your business.

That means you can use your pension to give your business a tax-efficient boost to the cash flow, while also providing yourself with some extra income.

Business loan protection

When taking on debt through your business, it can often be sensible to consider business loan protection.

Business loan protection helps cover the cost of any business debts if you or one of your business partners becomes terminally ill or dies while the debt is being repaid.

This type of protection typically covers commercial mortgages or bank loans, but it can also be used to cover a director's loan.

Having this cover means you can be confident that the business will survive and the debt will be repaid, no matter what happens to you and your business partners.

Work with us

If you'd like to find out more about how using your pension can help you make the most of your business, please speak to us at Cordiner Wealth.

We're experts in helping business owners like you to find the right strategies that let you make the most of your money.

We can help you with:

- A personalised financial plan tailored to you and your business's needs
- Cashflow forecasting, giving you a clear picture of where your finances are now and how they'll look in the future in different scenarios
- Advice on the various protection options you could consider and, with your permission, implementing them on your behalf
- Peace of mind for the future with an exit plan for your business
- Regular reviews that ensure your plan keeps you on track towards achieving your goals.

Email **hello@cordinerwealth.co.uk** or call **0113 262 1242** to find out more about how we could help you.

Please note

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