RATHBONES

Don’t neglect your pension

“My business is my pension” is a common refrain among business owners. But is relying on a sale to fund your retirement a sound strategy? Faye Church of Rathbones explores the importance of pensions for your personal financial well-being and for supporting your business, providing actionable steps for private company owners.

Why business owners often neglect pension investments

Many business owners invest in pensions sporadically, if at all. A staggering 83% of owners of family-run businesses rely on their business to fund retirement, with 25% expecting it to cover over half of their retirement expenses. Of course, early-stage businesses face conflicting financial priorities. But even owners of more mature, profitable businesses depend on future sale proceeds for their retirement.

That can be a risky plan. External factors such as economic fluctuations, regulatory changes and market conditions can significantly impact your business’s value. So diversifying your retirement planning is crucial for financial security. Here are some key steps to consider.

Maximising pension contributions

Take advantage of your limited company status to make employer pension contributions from pre-tax income. This allows up to £60,000 a year into your pension with tax relief.

If your spouse is involved in the business, ensure they also receive pension contributions to maximise your combined allowances.

Tax efficiency

Employer pension contributions are allowable business expenses, saving up to 19% in Corporation Tax.

Pension contributions avoid National Insurance, so you save 13.8% compared with paying the equivalent in salary.

Inheritance Tax planning

Use pensions as generational planning tools. Your pension is outside your estate for inheritance tax purposes. You can leave the pension pot to whoever you choose.

Support your business with your pension

Consider a Self-Invested Personal Pension (SIPP) or a Small Self-Administered Scheme (SSAS) for direct investment in UK commercial property. This allows you to support your business by purchasing company property via the pension fund.

Potential benefits include rent paid to your pension plan, rent treated as a company expense, avoiding Income Tax on rent received and Capital Gains Tax on any increase in your property’s value on sale, and protection from creditors if the business fails.

Diversification and liquidity

Avoid holding a significant proportion of your pension in one asset. Ensuring a diverse range of assets can help to mitigate risks.

Remember that property can take time to sell, which may affect retirement cash flow. Diversify to ensure liquidity.

Use SSAS borrowing flexibility

SSAS allows you to borrow up to 50% of the pension’s net value, repayable within five years, at an annual percentage rate at least 1% above base rate. This can be an invaluable source of liquidity for your business.

Conclusion

While your business can be a valuable asset for retirement, it is essential to seek advice and diversify your retirement planning. Building your pension can help not only ensure your financial security but also complement your business strategy.

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