Broadcast

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FACTSHEET: EQUAL PENSIONS

SPECIAL ISSUE

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ALL PENSIONS ARE CREATED EQUAL

BUT SOME ARE MORE EQUAL THAN OTHERS

As we all know, Entrepreneur's Relief was reduced in the 2020 Budget from £10m, to £1m per person. The previous limit offered many business owners the option of leaving money in their companies until an eventual sale, knowing that it should only be taxed at 10%. We often hear clients describe their business as their retirement plan and this change means that many company directors will pay more tax on the eventual sale of their businesses than they would have previously.

Moreover, IR35 and other measures are making the difference between dividends and salary less dramatic, so it has never been more important for company directors to focus on their remuneration strategy along the journey to an exit and not just wait until they get there.

Pensions have historically been underused by entrepreneurs as an effective means of director remuneration. Here are three of the most common issues raised:

Pensions lock away money until the age of 55 that may be needed by the business.

Pensions designed specifically for company directors do exist and they allow directors to lend money back to their company, buy new or existing commercial premises, and to some extent buy back shares in their company. Used with the correct advice these pensions can significantly enhance a company's liquidity position, not hinder it.

The £40,000 Annual allowance makes the contributions pointless

Company director pensions are available with much greater contribution limits. In the right circumstances, using carry forward and a spouse's pension, the maximum contribution can be as much as £1m in a single year. Injecting these kinds of numbers into a pension can save considerable amounts in corporation tax but the future savings in capital gains, income tax and inheritance tax for most clients can dwarf these.

You have to pay tax when you take the money out of a pension anyway and the lifetime allowance charge is too high

The facts are: 6 out of 7 people who pay higher rate tax whilst working only pay basic rate tax in retirement; secondly, the lifetime allowance charge should only be 25%, although, if not reviewed, some older pensions only offer a 55% option.

In addition, this charge can be met with non-pension assets, and after 75 there are no more tests, which means the funds can grow unencumbered; and finally, you pay 0% instead of 40% inheritance tax on qualifying pension funds. From an estate planning perspective this is hard to compete with and therefore clients should consider drawing on other assets before their pensions.

The main problem with pensions today is that ever changing legislation makes them very difficult to understand fully and utilise effectively. For many of our clients who are company directors, their pension has the potential to represent a large proportion of their assets which means a little extra planning now can make a big difference in the future.

How We Can Help

If you would like to discuss any of the issues raised in this Broadcast, please contact, Stephen Cook, Tax Partner on **01753 888211** or email **info@nhllp.com**

Visit our website for more details **www.nhllp.com**