

Corporate planning using your pension scheme



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Most business people will have heard of the old cliché “people don’t plan to fail - they simply fail to plan”.

The Chancellors announcement in the 2007 budget of an increase in the smaller companies rate of corporation tax from 19% to 20% this year, rising to 21% next year and 22% from 1 April 2009 along with the phasing out of Industrial Building Allowances, increases the need for proper planning to reduce a companies tax burden.

In the past a company purchasing its own premises had the potential for significant tax breaks through the benefit of Industrial Building Allowances (IBA's) associated with certain classes of commercial property purchase (predominantly manufacturing and agricultural operations). The announcement of the phasing out of IBA's will leave some business owners to consider whether there are tax efficient alternatives on acquiring premises for their companies own occupation.

One possible solution is to establish or utilise a Directors own pension arrangement in the form of a Self Invested Personal Pension (SIPP) or Small Self Administered Scheme (SSAS), whereby the company makes significant contributions which provided they are deemed “wholly or exclusively for the purpose of trade” and within £225,000 in the current 2007/2008 tax year, would be allowable as a business expense and reduce the companies corporation tax liability.

Using a pension fund to acquire premises in this way has four distinct advantages:

- 1) Contributions will usually receive a corporation tax deduction.
- 2) The pension and therefore the premises it acquires are ring fenced from creditors in the event of business failure.
- 3) The company pays rent to the Directors pension scheme which itself will be allowable against corporation tax and yet it is not taxable within the Directors pension scheme.
- 4) The Director builds wealth, tax efficiently outside of the company to provide a tax free cash sum of 25% of the value of the fund at retirement and the residual fund is available to pay a pension.

Case Study:

Please note this is a brief outline of a SIPP property purchase and does not take into account costs of a property purchase which could include, legal costs, stamp duty, surveyors costs, bank arrangement fees and SIPP fees.

Objective:

The Company Directors want to move to new bespoke premises costing £475,000 in a tax efficient manner.

ABC Ltd has two Directors both with existing personal pension funds of £65,000. In the current trading year ABC Ltd have a net pre-tax profit for the year of £500,000.

They have established two SIPP's and transfer the personal pension funds into their individual SIPP's.

Director A Fund	£ 65,000
Director B Fund	£ 65,000
ABC Ltd Contribution to SIPP for A	£100,000
ABC Ltd Contribution to SIPP for B	£100,000
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	£330,000

Loan (max 50% of pension fund value) £165,000

Total Combined Pension Fund available for property purchase £495,000

- 1) The 2 x £100,000 pension contributions reduces the companies corporation tax liability at the marginal rate of 32.5%, therefore reducing the corporation tax bill by £65,000.
- 2) The property is ring fenced from creditors in the event of business failure.
- 3) Rent from company to pension = £36,000 per annum (approximate yield of 7.5%). Rent is allowable against Corporation Tax as a business expense. Assuming an interest rate of 7%, the loan is repaid in under 6 years. After the loan is repaid the rent accumulates in their SIPP's and is available for further investment.
- 4) Assuming an increase in the property value of just 3% per annum over the first 6 years, the Directors will have increased their pension from £165,000 (£65,000 transfer and £100,000 company contribution) to £283,500 each, equivalent to a 71.8% increase or 9.4% per annum compound.

Points to consider: Clearly, this route is not suitable in all situations and there are several other considerations when a company is planning the acquisition of premises for it's own occupation. Consideration should therefore be given to the following:-

The company must pay rent to the scheme for use of the premises at a commercial rate and therefore there is an added cost to the business. There could be a lack of diversification if the only (or main) asset is the commercial property. The property would no longer be available as security for any borrowing.

The level of company contribution to a pension will to a greater extent depend on Directors remuneration as to whether it is wholly or exclusively for the purpose of trade. The levels, bases and reliefs from taxation may be subject to future change and their value depends on individual circumstances of the investor.

If a specific opportunity is considered we would ordinarily complete a more detailed feasibility study and cost analysis before making a recommendation.

It is imperative you seek professional advice before embarking on a course of action that may involve high levels of contribution and/or property purchase.

The above case study is based on our understanding of the current law and HM Revenue customs and practice.