

## Cash flow generator

Using your pension to provide capital for your business

Would you or your business benefit from being able to use your pension to provide **funding for capital expenditure**?

Many of my clients have done exactly that. Your company could, for example, use your pension fund to **pay for new equipment or premises** or to help **fund a new project**, where other means are not possible.

There are different sets of HM Revenue & Customs rules that could allow you and/or your company to access a proportion of your total pension fund:

- Taking up to 25% of the fund value
- Taking up to 50% of the fund value
- Taking up to 75% of the fund value
- Taking over 75% of the fund value

In many cases **you would need to transfer your pensions**, perhaps to a different type of scheme, in order to benefit in this way. **There are usually disadvantages** when you transfer, and these may outweigh the benefits.

Before reading any further, please take note of the following:

- Accessing pension benefits early is **only suitable for a limited number of people** and should **typically only be taken as a last resort** where other sources aren't available. Taking money from your pension now is **likely to reduce the amount of income available to you** at retirement. Until I meet with you to discuss this and look carefully at your own circumstances I cannot comment on whether it might be appropriate for you.
- In order to access money from your pension it may be necessary for you to transfer it to a Small Self Administered Scheme (SSAS), a Self Invested Personal Pension (SIPP) or other new arrangement. This may incur an **exit penalty or charge** from your existing provider and also **new initial setting up charges** on inception of a new plan. These costs will, of course, **reduce the amount of cash in your own hands or in the company** from the amount suggested in the name of the rule set. If you decide to investigate any of these strategies further we will outline to you beforehand the likely total costs involved.
- In some cases the money would go to your company, and in others to you personally. If the money is paid to you personally you may choose to lend it to or invest it in your company. If it is paid to your company, however, the rules may not allow you to access it personally.

## Taking up to 25% tax free cash from your Personal Pension

Some of the directors I work for, who are over 55, have found it helpful to take 25% tax free cash from their pension now, for their own **personal use** or to **lend it to their company**.

- Many were not aware that **the rules have now changed** and that they could even do this with their **pensions funded from National Insurance contributions**.
- Some were also unaware they could take the cash, but still not take any pension income.
- They were often surprised to learn that they could even continue to invest in their pension after taking this cash.

You should be aware that if you take cash out of your pension now, this **money is no longer growing in a tax beneficial environment** and **your pension benefits in retirement will be lower** as a result. **Once you have taken all the tax free cash from your pension you will not be able to take any more.**

You should also be aware that tax relief may be restricted in certain circumstances if you pay more money than usual into your pension after taking the tax free cash.

## Taking up to 50% as a loan against your Occupational Pension Scheme

Other directors I have worked for have arranged for their company to borrow up to 50% of their pension fund. This can be done whether or not the director is over 55, but must be done as a commercial loan and be repaid (over no more than 5 years).

- By involving fellow directors, some clients were able to access significantly larger amounts.
- Other clients were originally informed by their accountants or financial advisers that as they did not have a suitable property to use as security their company could not borrow money from their pension. But the rules allow for a **very wide range of company or personal assets to be used as security**, not simply properties as many clients and their advisers believe, and **we were able to help these clients proceed with the loans.**

In cases where other directors “pooled” their pensions to increase the funding for their company, these directors were all equally concerned to obtain additional funding and were equally willing to use their pensions in this way. Please be aware we would not consider it ethical for any pressure to be put on fellow directors to coerce them to “pool” their pensions, and could not get involved in any strategy where we believed this to be the case.

## **Taking up to 75% as a combination of tax free cash and a loan**

By combining both of these techniques it is even possible in some cases to access up to 75%.

In other words, a director may decide to have the pension make a commercial loan of up to 50% to his company. This loan must be repaid to the pension scheme. Later he may decide to take out his 25% tax free cash, perhaps lending this to his company too for a project.

## **Taking over 75% of the fund value**

More dramatically, other directors have accessed more than 75% of their combined pension funds.

This can be achieved in a number of different ways.

For example the pension may buy:

- the trading premises from the company
- the trading premises from the directors
- new shares issued by the company
- shares owned by the directors

Alternatively, directors who are over 55 and already have guaranteed income of at least £20,000 a year (“guarantee” as defined by HMRC) may choose to use “flexible drawdown” to access as much of their pension as they require.

In the case of trading premises you should note that there are restrictions on the type of property HM Revenue & Customs will allow to be purchased by a pension scheme in this way, particularly if there is any residential element. We have a great deal of experience of this type of transaction and will be able to advise you whether or not the property you have in mind is suitable.

In the case of company shares there may be tax implications, depending on the nature of your business and the structure of the balance sheet. We will advise you whether there are likely to be any such tax implications before recommending a strategy.

Please note the comment at the beginning of this letter. **There will, of course, be costs associated with each of these strategies,** which will reduce the amount of cash you or your company can obtain.

## Permitted by HM Revenue & Customs

All these types of arrangement are **permitted by HM Revenue & Customs** as long as the rules and guidelines they provide are followed. We do not recommend strategies that are not permitted by the Revenue.

This is a specialist area of pension planning, and it requires experience and expert knowledge. As specialist corporate financial advisers, we have a thorough knowledge and understanding of these rules and ensure our clients follow them. We have been working closely with company directors for many years helping them benefit from the above arrangements. We work alongside our clients' other financial and business advisers, and make sure everyone understands the implications of the chosen strategies and applies them appropriately.

Money in a pension is there, of course, to provide an income in retirement. **Unless there is an extremely good reason to access it now it is normally not advisable to do so before retirement.**

Each of these types of **funding has** its own inherent risks and conditions attached, and **there are no guarantees that it would be suitable or even possible** in your particular circumstances. I am a specialist Independent Financial Adviser concentrating particularly on this area, and **I can provide the advice that it is imperative you obtain** before considering any of these strategies.

If you are interested in finding out more, or would like to discuss this further, please **call me on:**

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or email me at:

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