

PRIVATE LANDLORDS: WILL YOU QUALIFY FOR A FULL STATE PENSION?

By specialist property accountant Stephen Fay FCA

Rental income is not subject to National Insurance, and as entitlement to the State Pension is only possible if National Insurance is paid, this can mean that landlords could miss out on this potentially valuable income stream.

This article looks at how State Pension entitlement is achieved, what the State Pension is worth, and how landlords can check their own National Insurance record and make up for any missing entitlement.

Why should I care about the State Pension? After all, I've got my property portfolio for my old age.

The 'new' full State Pension is £156 per week (£8,112 per year) – this is the 'new' value for people reaching State Retirement Age (currently age 65, increasing to 66 in 2018, 67 in 2026, and 68 in 2046).

For a couple, both at State Retirement Age, a full entitlement of £16,224 per year is a significant income – and, unlike rental

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income it is completely passive income of course. It is also an ever-increasing income, as it rises by 2.5% (or higher if prices / earnings are higher).

To put this in perspective compared to property rental income, assuming a net income of 4% after all repairs / voids /

mortgages, etc, a landlord would need to have £405,000 of mortgage-free property to achieve a net income of £16,224 per year – and this is risk-free income of course, so not subject to usual up-and-down nature of property rental income.

In summary – the State Pension is not to be ignored as a part of a landlord's overall financial position.

OK – I'm convinced – the State Pension is worth having. How do I check how much I'm entitled to?

The first step is to get a 'State Pension Statement', which is a forecast of how much State Pension entitlement you have currently, when you will receive the State Pension, and how you can increase your entitlement.

The following Government web page allows you to check your own personal entitlement: <https://www.gov.uk/check-state-pension>

A person needs to have at least ten 'qualifying years' to get any State Pension at all, and 35 qualifying years to get the full State Pension. For qualifying years between this minimum and maximum, the amount of State Pension is pro-rata, ie if a person has 20 qualifying years, they would receive 20/35 of the £8,112 annual State Pension (£4,635).

But I pay tax, so why would I NOT be entitled to a State Pension?

State Pension entitlement is built up via a person's National Insurance contributions record. As rental income is not subject to National Insurance, this can mean that private landlords (ie landlords investing in their personal name) can miss out on the State Pension, as they don't pay National Insurance.



So, it is important for private landlords to check their State Pension entitlement, and to check on their options to increase their entitlement. Landlords are one of the most common taxpayer groups who unfortunately don't end up with a full State Pension, despite often having paid substantial income tax throughout their investing years – and, of course, with 'Section 24' mortgage interest relief starting in April 2017, it is even more important that residential private landlords get all that they are entitled to out of 'the system'.

I have been employed and 'contracted out' of National Insurance – how does that affect my entitlement?

The starting amount of State Pension may be reduced if a person paid into certain types of employer-pensions, and so paid a lower amount of National Insurance (known as 'contracting out').

It's simple to check if you were contracted-out in the past – check your old payslips. If you were contracted out, you were **NOT** contracted out if the National Insurance contributions line had the letter A next to it. Or, you can find contact details for an old employment pension scheme via the following Government webpage:

<https://www.gov.uk/find-pension-contact-details>

So, I've applied for my State Pension – and I need to increase my contributions to get the full State Pension. How do I do that?

Firstly, it's important to check that there aren't any free ways in which to increase your historical State Pension entitlement.

For example: you may get National Insurance credits if you are ill or disabled, or are a carer, or are unemployed, or receive Child Benefit for a child under age 12 (16 before 2010).

Assuming that you don't have enough contributions to receive the full State Pension, landlords have the following options in order to obtain more qualifying years of State Pension entitlement:

1. 'STATE PENSION TOP-UP'

Until 5 April 2017, up to £25 extra per week can be added to your State Pension in exchange for a lump sum payment (a 'Class 3A' contribution). The amount to pay depends on your age and how

much you want to receive per week – and, the cost reduces the older you are. The following government web page enables you to calculate how much you'll need to contribute:

<https://www.gov.uk/state-pension-topup>

2. MAKE 'CLASS 3' NATIONAL INSURANCE CONTRIBUTIONS

Private landlords can make voluntary Class 3 National Insurance contributions, to increase their entitlement to the State pension – via the following government web page:

<https://www.gov.uk/pay-voluntary-class-3-national-insurance/overview>

3. SET UP A PAYE SCHEME FROM YOUR PROPERTY COMPANY

Many landlords these days have a property management company, or a property investment company (for property purchases post-Section 24). This then allows for a PAYE scheme to be set up for the property company, which in turn means that a salary can be paid above the 'Lower Earnings Level' (LEL), which then enables the landlord to make Class 1 National Insurance contributions, which increases State Pension entitlement.

A PAYE scheme also allows family members to be paid a salary above the LEL, which then allows those family members to increase their own State Pension entitlement. For private landlords who also operate through a company, this is by far the most cost-effective solution to the issue of State Pension entitlement.

Summary ...

The State Pension is a valuable income stream at retirement age, and many private landlords don't realise that they may not qualify for a full State Pension. It is therefore important to understand the value of the State Pension, and for private landlords with less than the full entitlement, what options are available to ensure that the full benefit of this future income entitlement is achieved.

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