

# HOW CAN THE APRIL 2015 PENSION CHANGES HELP YOUR PROPERTY BUSINESS?

The latest (2014) Budget saw the announcement of a radical liberalisation of the entire concept of pensions as a savings strategy. In short, from April 2015, millions of pension savers aged 55+ will be able to take their entire pension fund in one lump sum, to spend as they wish. There is growing excitement about what this ‘wall of money’ could mean for property investors, in light of the biggest shake-up of pension rules ever seen.

Specialist property accountant Stephen Fay FCA looks at how the April 2015 pension changes can help property investors to become more successful, or even to exit on a high.

## WHAT’S HAPPENING WITH PENSIONS IN APRIL 2015 EXACTLY?

The latest (2014) Budget saw the announcement of a completely changed pension world. For the first time, pension savers aged 55+ will be ‘trusted’ to make their own decisions with their pensions. So, rather than swapping a pension fund for a poor-value annuity, pension savers will be able to take out their pension money and do with it as they please – effectively, pensions are now just savings accounts, that can be drawn on as needed. No more forced annuities, red-tape, and pension fund charges – if you choose.

However, there is a tax trade-off – only 25% of pension money can be taken tax-free. Funds taken beyond this amount are taxed at the individual’s highest tax rate. Some might say – not me – that the Government has a vested interest in relaxing pension rules as there will be a tax windfall as a result!

## I’VE HEARD PENSIONS ARE TAXABLE – WON’T I BE STUNG FOR A BIG TAX BILL IF I TAKE MY PENSION?

Careful extraction of a pension fund can easily mean a relatively modest tax bill – for example:

*Mr Landlord has £100,000 in his pension fund at age 55, and wishes to extract his pension funds tax-efficiently. Mr A has a day-job, earning £25,000 per annum, and will not retire in the traditional sense when he takes his pension monies – he simply wants to use the funds in his property business.*

*In ‘year one’, aged 55, Mr Landlord takes 25% of his £100,000 pension fund tax-free as a lump-sum. However, Mr Landlord is anxious to avoid 40% tax, and so wishes to take only as much as he can from the remaining funds to stay under the 40% threshold (around £42,000).*

*Mr Landlord therefore takes an extra £17,000 from his pension, on top of his £25,000 tax-free lump sum, and pays 20% income tax (£3,400) on the £17,000. This means that Mr Landlord has taken £42,000 (£25,000 + £17,000) from his pension and suffered just £3,400 income tax (8%). There is £58,000 remaining in his pension.*

*In year two, assuming Mr Landlord earns £1,000 more in his day-job, and the 40% tax rate moves up £1,000, a further £17,000 of pension can be taken, with a £3,400 tax bill (20%). This is repeated in years three and four, and finally in year five*



*Mr Landlord takes the final £7,000 of pension funds. All in, Mr Landlord has paid £15,000 in income tax to fully extract his £100,000 pension fund.*

## THAT’S ALL VERY INTERESTING – BUT HOW EXACTLY CAN THIS HELP MY PROPERTY BUSINESS?

### OPPORTUNITY #1 NEW CAPITAL SOURCE TO REPAY YOUR MORTGAGES

Most landlords use interest-only mortgage finance to purchase rental property. But, of course, this borrowing has to be repaid at some point. For those that intend to pay off their mortgages, accessing their pension fund is a new and potentially very lucrative way of repaying chunks of borrowings.

For the reasons above, it makes tax sense to draw down up to £42,000 per tax year and stay below the 20% income tax limit, and drip-feed the funds into the mortgage – rather than waiting until the mortgage term expires and extracting a large amount in one lump and paying 40% income tax.

Or, for those landlords whose strategy is to gear their portfolio into their old age (some lenders will now lend up to age 85-90 as the age at the end of the mortgage), it may be that this extra capital allows a lower loan to value (LTV), and so better mortgage rate, for that ‘final’ mortgage. And for those landlords, while making handsome rental profits as a result of the current low interest rates, whose properties have fallen in value, the pension cash can mean that they now have the option to re-finance at whatever LTV is available to them, rather than being forced to sell their properties.

### OPPORTUNITY #2 SELL UP AFTER THE MARKET ‘TOPS OUT’

Potentially hundreds of millions of pounds of pension money could be leaving pension schemes and literally transferring into the current account of pension holders, from April 2015. Many people are sceptical about pensions, and unscrupulous and / or expensive pension fund managers, and there are widespread expectations that pension money will be invested into residential property – whether owner-occupied or rental property.

This of course would inevitably have a huge inflationary effect on property prices, and could mean a temporary spike in prices that represents a selling opportunity for landlords who are looking to exit the market, either partly or fully.

Or, it may be that the entire property market price level shifts upwards permanently, as a result of a huge amount of money that was previously barred from being invested in residential property suddenly finding its way into the property market.

### OPPORTUNITY #3 SPRUCE UP YOUR PROPERTY PORTFOLIO

Many landlords could do with spending some money on improving their properties – essential repairs, and even ‘nice to have’ refurbishments, which will enable better rents to be charged. Rather than leaving the funds stuck in a poorly-performing pension – and possibly invested in something you don’t understand! – why not tap your pension to do all those refurbishment works you have wanted to do, or perhaps extend your lease, or even just put some working capital in the bank. Don’t forget – your pension is just that – **YOUR** money, and the new rules will let you spend however you want to.

### OPPORTUNITY #4 BUY SOME MORE PROPERTIES

Landlords make money by renting property – so why not use your pension money to buy more property, to make more money – sounds like a plan! With the pension changes affecting pension savers aged only 55+, and lenders willing to lend up to age 90, there is potentially a 30+ year investing period beyond the age at which pension funds can be tapped. And, with property being a business in which almost every aspect can be delegated, why can’t a person in their 60’s and 70’s continue to make money as a landlord?

### OPPORTUNITY #5 BORROW FROM OTHER PENSION SAVERS

Of course, not everyone has a pension, and even if they do, isn’t most investors’ success built on using ‘Other People’s Money’ (OPM)? So, why not borrow from pension savers who are looking for a more hands-on approach to managing their money, and who have pension money available and waiting for investment? There is a lot of money out there, and cash-rich people just waiting for someone credible to make them an offer.

### IN SUMMARY

The pension world is about to change radically in April 2015 – and a huge wall of money is predicted to hit the property market, whether owner-occupied or rental property. Many landlords will then be able to use their pension to repay their mortgages, refurbish their properties, and buy more property. Or, this may well mean the entire property market is under-pinned by a new injection of investment that means property makes even more sense as an investment. Interesting times are ahead for property investors who are able to spot a game-changing opportunity...

Visit our website ([www.fyldetaxaccountants.co.uk](http://www.fyldetaxaccountants.co.uk)) for useful tools, tax tips and free reports

## Is your accountant a property specialist?



Stephen Fay ACA

- ✓ **Specialist property team** led by Stephen Fay ACA
- ✓ **Tax-planning** services for property investors
- ✓ **500+** property clients - property is all we do!



**Fylde tax accountants**  
...the property specialists

Tel: **01253 398 082**  
Web: **[www.fyldetaxaccountants.co.uk](http://www.fyldetaxaccountants.co.uk)**