

Make it your business to invest in an exit strategy

Consider splitting investment risk and cutting tax exposure by building up your pension fund

BY LORRAINE COURTNEY

Business owners are not always aware of how to extract wealth tax using a pension, Eoghan Gavigan of Highfield Financial Planning, said.

"Business owners are very conscious of how much tax they pay, but relatively few fully appreciate the scope they have to extract wealth tax effectively using a pension.

"Most people are familiar with the age-related tax-relievable percentages that apply to pension contributions.

However, if you have your company establish an occupational pension for you, the limit on company contributions is calculated based on your salary and service and the level of pension provision you have made, taking into account how long you have left until your chosen retirement date.

This means that the company can backfund if you are a late starter and the contributions which are allowed are usually substantial.

"So company directors have significant scope to do some very easy tax planning at a time when their business may well be cash rich and when they may be thinking about how much tax they pay and



Eoghan Gavigan of Highfield Financial Planning

their exit strategy."

Some business owners favour building up the value of their business instead of funding a pension. There could be a number of issues with this, he said. "They will invariably pay more tax. They lose the benefit of gross roll-up (the fact that investment growth isn't taxed within a pension vehicle). Also, having a large proportion of your net worth wrapped up in your business can lead to concentration of risk."

Gavigan said every business owner should make pensions a part of their tax planning.

"They should revisit their contribution levels at least once per year, and if they are going through a restructuring. Apart from the annual review of funding, they and their

adviser should carry out an in-depth review at least ten years prior to their intended retirement date.

"There are a number of reliefs available against capital gains tax and capital acquisitions tax which can be used when exiting a business, and pensions can be used in conjunction with these."

"Conditions apply, so I would recommend that anyone who owns a valuable business consult a tax adviser to start the process of devising an exit plan as early as possible."

Start taking a nominal income from day one of your business, said Gavigan. "Your pensionable service starts when you start taking taxable remuneration, so starting early could help you extract funds tax effectively down the line.

"One of the obstacles to effective retirement planning is that because it is long term in nature, it's easy to kick the can down the road. Even if you don't have the capacity to make the level of contributions that would provide you with the pension you want, start a pension now.

"If you are in your 40s, the 20 odd years you have left until retirement age is likely to pass as quickly as the 20 years since the first Harry Potter movie, which was released in 2001."

Devising an investment strategy and sticking to it is important, said Gavigan. "Advisers are required to risk-rate pension savers, but there is

too much focus on short-term volatility.

A young investor might produce a relatively low risk rating, but you have to ask the question: how relevant is short-term volatility to a 30-year-old pension saver who won't be accessing the funds for at least three more decades?"

Gavigan said that for these types of savers, the key focus should be on "volatility resilience". "Even if you are a member of a company scheme, there's nothing to stop you from retaining an adviser to help you with your investment strategy.

"You'll need a fee-based (rather than commission-based) adviser, but due to the long-term nature of retirement saving, the benefits of doing it right should more than offset the fee."

If the current debate in relation to the state pension should tell us anything it's that you can't rely on it being there when you get to retirement. "A debate that isn't really taking place in any meaningful way is the pensions apartheid that exists between public sector [workers] who have gold-plated pensions, and the private sector, where there is a time bomb [waiting to go off]. When combined with the lack of affordable housing, we are storing up a huge problem for the future.

"Addressing the imbalance between public and private sector might go some way towards solving the problem, but it's not on the cards."