

How You Can Use Your Pension Fund To Help Your Business

Be your own lender

Back your own business

Back other people's businesses

Invest in your own future

Have total control

Get significant tax advantages

Better than other methods of investing and financing?

Penguin 

Plan - Perform - Protect

Introduction

If you have a pension fund and you own a business or want to invest in one, then you may be able to use your pension to get funding into your business.

This can be beneficial in a number of ways:

1. Funds can be accessed from a pension fund which may not be accessible from any other source. Many businesses struggle to secure or find funding; the pension may be the only viable option.
2. Many business people like the idea of borrowing or using money from their own pension fund; because they are repaying themselves not some third party lender or investor.
3. There can be considerable tax benefits from using a pension to help get funds into your Business.



Even if you are age 55 or over and can access/cash in your pension in full, under the Pension Freedom rules, introduced on 6th April 2015, there are compelling reasons to consider allocating monies from your pension fund into your Business. See our section below on the Pension Freedom Rules.

What's Achievable?

Even allowing for the greater pension freedoms introduced under new legislation from April 6th 2015 (which are only for those age 55 and above, mainly affecting private pensions) these areas remain complex; pension legislation still restricts what can be done within a pension and then there are various tax rules that have to be heeded.

The following list is one which aims to show you what is feasible or achievable, but to find out if this works in any particular or individual situation you must seek and take appropriate, qualified advice before you make any decisions and any use of a pension must be in accordance with HMRC regulations:

1. You can lend money from your pension to your business.
2. Your pension fund can be used to buy shares in your business.
3. You can lend money from your pension to other businesses.
4. Other people's pension funds can invest in or lend to your business.
5. Your pension fund can be used to buy certain assets for your business.
6. Your pension fund can acquire Intellectual Property from your business.
7. Your pension fund can buy commercial property.
8. Your pension fund can even borrow money itself to do some of the above....

Example Cases

These examples are based on real cases:

- A director/shareholder of an established IT services business was able to create security against Intellectual Property (IP) built up within the company. He was able to arrange a loan from his pension to the company as a result.
- A manufacturing business was able to pool the money from the pension funds of four shareholders/directors to purchase their own factory and expand their business into new overseas territories as a result.
- An individual taking redundancy used their pension to fund the acquisition of a franchise.
- A marketing agency was able to raise funds from shareholders/directors pensions to purchase newly issued shares in their company to develop a new licencing arrangement under a joint venture deal.

Why Funding is Important to a Business

Funding is the lifeblood of a business; it can free up valuable working capital, help ease cash flow, allow for development of a new product or enable expansion.

Surveys show that businesses with better or greater funding increase turnover and profitability.

Funding is not necessarily the be-all and end-all for a business and it cannot replace the virtues of having a good business plan or operating a business in an efficient manner. But as part of a wider package of business development and management funding can be crucial.

The Advantages of this DIY Approach

Many people like the idea of using their pension because of the **control** it gives them; simply being able to co-ordinate their pension with their business funding is an attractive idea.

In addition there is no third party to throw any difficult terms into the equation; personal guarantees which are often required with other funding sources are not needed; people or businesses with bad credit histories can still access funds; any 'profit' from the investment or lending can be redirected back to one's own pension.

The attractions and advantages of this type of funding can be wide ranging and significant.

The Pension Freedom Rules

If you are over age 55 then you are now free to draw on your defined contribution pension (e.g. a Personal Pension) without restriction. This means you can access the whole fund in full when you want. However the twist here is **tax**.

If you plunder the whole of your fund on one day there could be very high levels of tax to pay.

This makes the position for someone who wants to use their pension fund money to support their business potentially very tricky.

Take the example of an individual (age 55 or higher) with £200,000 in a pension fund who is running their own business and they want to get fresh funding into their business of £100,000.

They may decide that the easy option is to take £100,000 from their pension fund. £25,000 as tax free cash and £75,000 as a withdrawal, which will be taxed. This £75,000 could easily attract a tax bill of £25,000 or more.

The alternative option is to lend the money from the pension to the business; in this way the £100,000 is paid across and the business has the full use of this amount, the individual keeps their pension fund intact. They do not trigger a tax bill.

The advantages continue – the business repays money and pays interest to the pension fund; these interest costs are a business expense, reducing the taxable income of the business.

The payments of interest and capital are repaid into the pension fund helping to continue building the pension fund value into the future, growing the overall value of that fund, which in turn grows the value of the 25% tax free sum.

There are factors to consider here such as costs of arranging the pension loan and the overall current and future tax position of the individual, however it is clear that in many cases creating a pension loan to the business is much more efficient than simply cashing in part or all of the pension.

The same principles and potential advantages apply to other methods of releasing pension money into the business (e.g. acquisition of Intellectual Property). The key difference is that a withdrawal of money from the pension may well be tax inefficient in comparison to allocating the money direct from the pension into the business...

Meet Mike



Mike has a £200,000 pension fund

Mike owns his own business



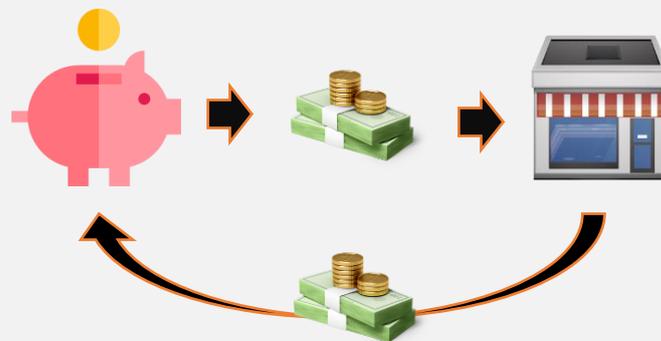
Mike wants **£100,000** of business funding. **How can he get it?**

Option 1: Take £100,000 from Pension Fund



The **£75,000** would be **taxed**, attracting a bill of up to **£30,000!**

Option 2: Lend £100,000 from Pension to Business



Business repays money
and interest to Pension

- ✓ Business has full use of **£100,000**
- ✓ **No Tax**
- ✓ Pension Fund Remains **Intact**

Discover what's Possible/Feasible?

If you are looking at **the possibility** of using a pension fund to help a business, yours or anyone else's, **you need to get specialist advice**. These are not straightforward areas. There are various rules to meet, tax considerations and risks to weigh up, depending on both your Business and your individual positions.

There are many ways to utilise a pension in support of a business requirement and there could be many other ways (i.e. nothing to do with the pension) that may be workable. All of which needs to be analysed, compared and contrasted.

These are exciting possibilities for many business people; at Penguin Wealth we have discovered time and time again that these are areas of possible funding which the majority of people (and this includes even accountants and financial advisers) are **not aware of**.

We are here to provide you with a comprehensive understanding of **what is possible in any given situation**; so if you let us know what your position and requirement is we can quickly assess what you may be able to do.

We don't just help at the outset, we work with you every step of the way. We can source the right solution and manage it to ensure you get the best outcome **and the funding you require**.

Taking Things Further

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About Us

Penguin is an Independent Financial Adviser firm in Cardiff, formed in 2010 by a group of Financial Planners with a shared vision and a love for their jobs. We get to help you plan for a more comfortable and enjoyable future. How could we not find satisfaction in that?

Penguin's founders share a vision of continuous professional development. It is their mission to become the best they can possibly be, to continuously learn and progress so that they can stay on top of the latest industry developments and provide people with the best possible advice.

It is this attitude towards development that has seen Penguin grow from four to fourteen and now has five Financial Advisers who have achieved the highest level of qualifications.

Voted 'Adviser Firm of the Year Wales' at the 2016 Citywire New Model Adviser Awards in London and 'Adviser firm of the year Wales' at the 2016 MoneyAge Awards, Penguin are now reaping the rewards of this development and growth.

Penguin became the very first firm in the U.K. to complete the hat-trick, becoming:

- A CISI Accredited Firm
- A Chartered Firm
- BS8577 Certified

These signify that we "demonstrate the highest professional standards of financial planning service and advice", "our clients are at the heart of our business" and that we "ensure our staff members acquire and retain the necessary knowledge and skills to deliver the highest quality advice".

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Let us give you peace of mind
Get in Touch to Book a Discovery Meeting at our Expense

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