



Legal Update - July 2007

Investing in property and tax free company earnings

Many of our clients build up considerable sums of money in their consultancy businesses and are always asking us for methods to get the pot of money out of their company, whilst paying as little tax as possible. In this article we look at the advice we have received from our Financial Advisor, Barry Pearce, on investing in blue chip property companies via a company funded pension. We will look at the nature of these property companies and then at the tax relief given to you for the investment.

Some 37 years after they were introduced into the United States and years after they have become established in Hong Kong and Australia, Real Estate Investment Trusts (REITS) are becoming established in the UK. These are essentially blue chip property companies listed on the stock market which make their profits from owning and managing commercial and residential property. Whereas in the past these property companies paid tax on their gains and rental profits, they are now no longer taxed if that profit is paid out as dividends. Essentially this saves the investor 30% of corporation tax that the property company would have paid.

As ownership of commercial and residential properties becomes more and more expensive to purchase in full, these REITS are a method of investing in bricks and mortar on a smaller scale. Investors can buy as little or as much as they wish and to expose themselves to property to their own degree of comfort.

And so we get to the tax part of this scenario. Any profits that a company makes are not subject to tax (20% for most of our clients) if that profit is used to pay a pension contribution for the company owner. The contribution from the company must not exceed the salary of the director to ensure this full tax relief, and must be set out via a waiver of a discretionary bonus in the director's employment contract (speak to your client manager).

A company can therefore easily pay £10 000 of retained profit each year into a pension for the director and this will save paying £2 000 of corporation tax on this profit. Higher rate tax payers save double this amount! This pension money can be invested in any particular REIT thus turning some company profit into a long run tax free investment in property!

With the new rules on pensions, 25% of the value of your pension is available tax free upon reaching the age of 55. This means that you can sell the property holdings of your pension and receive 25% of it as a tax free cash lump sum. Considering your company would have lost at least £2 000 in tax, and that if the fund has grown, you now have more than this in a tax free handout it could be an attractive investment!

For further information on investing in property through a company pension fund please contact your client manager who can arrange a meeting with independent Financial Advisor, Barry Pearce of the LEBC Group.