The PENSIONS Advisory Service

Spotlight

Pension saving for the self-employed and small business owners

This spotlight is aimed at those who live and work in the UK and are self-employed or own their company as a sole director or in a partnership. The spotlight gives some useful tips for setting up and saving into a pension.

The Pensions Advisory Service (TPAS) is unable to give individual specific advice and you should seek alternative tax or independent financial advice.

Why save into a pension?

Saving into a pension can be a very tax efficient way for the self-employed and business owners to save for their retirement.

If the unique selling point of your business is you, then you may have to rethink using your business as your retirement plan as the value could be less with you removed from the proposition. If you plan to continue working as long as you can, health or other life events could get in the way of this in the future. This is why it is important to have other savings put aside for the long term and some of the points below show why a pension is one of the most tax efficient ways of doing so.

If you pay contributions out of your earnings, this will help to reduce your tax bill as they help to reduce your taxable income. If you are a basic tax payer and contribute £10,000 per annum into your pension from your gross earnings you save yourself £2,000 per annum in tax that goes towards your retirement. If you own and run your own company you can pay in employer pension contributions instead of paying yourself additional salary or dividends whilst also helping to reduce how much your business will pay in tax.

Some pensions such as Self-Invested Personal Pensions (SIPP) and Small Self-Administered Schemes (SSAS), also allow you to hold commercial property such as your business premises as an investment allowing for the possibility that every time your business pays rent your pension pot should grow and this should help towards your retirement. It is best to use a regulated financial adviser and a solicitor if this something you are considering.

If you have a SSAS you may even use 50% of the value of your pension pot as a loan for your business, therefore allowing you to both plan for your retirement and have some flexibility if needed.

Some pensions will also allow you to hold shares in your own company as part of your portfolio.

Receiving tax relief on your pension contributions

When paying into your pension, you receive tax relief on any contributions that you make. This is at the highest rate of income tax that you pay, provided that the total gross pension contributions paid into your pension scheme, by you, your employer and anyone else don't exceed the lower of your annual taxable income and the annual allowance.

The way that you receive tax relief on your contributions depends on the type of scheme you belong to. If you have set up your own scheme, the contributions that you pay into the scheme are usually treated as being paid net of basic rate income tax relief.

Like workplace personal pension schemes, your pension provider will claim back basic rate tax at 20% from HMRC adding this to your pot. This means that if you pay a contribution of £80, your pension provider claims back a further £20 so a total gross contribution of £100 is paid into your pension pot.

If you're a higher rate taxpayer, you can claim further tax relief (at your higher rate less the basic rate already claimed on your behalf) from HMRC. This is usually claimed through your self-assessment tax return, although HMRC may also adjust your tax code to give you this additional relief. This means that if you pay income tax at 40%, you could claim an additional £20 tax relief, making your net contribution £60 in the above example.

How to choose a pension

- **Speak to a financial adviser.** When setting up a pension, it is worth getting advice from a professional. A regulated financial adviser will look at all of your financial circumstances and your goals and put in place a retirement plan that's suitable for you. You can find a financial adviser here - https://directory.moneyadviceservice.org.uk/en or https://www.thepfs.org/yourmoney/about/)

- **Speak to your bank, building society, insurance company.** Most people will use a bank account, building society or an insurance provider (for example home or car insurance) who may also offer pension schemes or at least signpost to a trusted partner organisation. It's important to note that this doesn't necessarily mean that their scheme is the most suitable one for you, but it is a good place to start.

- **Do you have any old pensions?** You may have an old pension which you are no longer contributing to, perhaps from an old employer. If you do, you may be able to speak to the provider to see if you are able to restart contributing to it.

- **Look online.** Most pension providers will have a website which will detail the schemes they offer. If you decide to do this you will need to make sure the company is regulated by the Financial Conduct Authority (FCA). You can check the FCA register by visiting www.fca.org.uk/register

How to maximise your pension savings: Carry Forward

Carry forward allows you to make use of any annual allowance that you may not have used during the three previous tax years, provided that you were a member of a registered pension scheme.
Carry forward may be particularly useful if you are self-employed and your earnings change significantly each year, or if you're looking to make large pension contributions.

To use carry forward, you must make the maximum allowable contribution in the current tax year (£40,000 in 2018/19) and can then use unused annual allowances from the three previous tax years, starting with the tax year three years ago. You can't receive tax relief on contributions in excess of your earnings in a tax year.

If you are a company director and run your own business

If you run your own business, you have the ability to switch contributions between your own personal contributions and employer contributions depending on the nature and level of income from the business. The company rules for making a contribution to your/the employee's pension fund do not depend on the amount of salary/ dividends you receive.

As an employer contribution to a registered pension scheme, it does not count towards your remuneration from the company. The contribution does count towards your annual allowance and therefore it can also take advantage of carry forward rules.

In terms of the company's profits, the payment is an expense of employing staff and in practice would be allowed as a deduction against trading profits of the company for Corporation tax purposes.

In addition, every deduction against trading profits has to pass a 'wholly and exclusively for the purposes of the trade' test. It is important to speak to your tax/financial adviser to see whether it is appropriate to make contributions on this basis.

Pensions and Bankruptcy

In the worst case scenario, were you or your business to file for bankruptcy, as of 29 May 2000, your pension is usually protected against claims from the Trustee in Bankruptcy (TIB). The courts can look at scenarios where it is considered excessive pension contributions were made prior to bankruptcy.

If you have invested in/lent money to your business via your pension then the value of your pension is likely to be affected but other assets should remain unaffected.

What happens when I retire?

You can take your pension benefits from age 55 upwards as the law currently stands. This does not have to mean full retirement as there are many self-employed people and small business owners who decide that they would like to keep going with the business and work that they enjoy but prefer to do less days/hours. Your options for a personal pension are:

- **Uncrystallised Funds Pension Lump Sum (UFPLS).** This is where you withdraw smaller sums of money as and when you want or need to. 25% of the amount you withdraw will be tax free, and 75% will be taxable as income tax. Some people use this option as if it were a savings account to draw upon for major expenses such as a holiday, a new car or a child's wedding. Other people use this option as a form of flexible income that allows them to cut down on work over time.
- **Flexi-Access Drawdown.** You can take up to 25% of your pot tax free then receive a taxable income using the rest of the funds. You can choose to receive as much or as little as you want until the pot runs out. Some people use this as a way of topping up earnings or again as a way to allow them to cut back on work over time. Some people like to use the tax free cash for a major purchase or to re-invest in their business.
- **Annuity.** You can take up to 25% of your pot tax free then give the rest of your pot to an insurance company to buy an annuity. They will then pay you an income until you pass away. Many people like the security of knowing that come what may they have a regular income and if they are continuing to work it then doesn't matter so much if earnings fluctuate. Some people use an annuity to help stop work altogether.
- **Cash the whole pot in.** Regardless of the size of the pot, you can take it all out as a one off lump sum. 25% will be tax free, and 75% will be taxable. With this option you may be pushed into a higher tax bracket but it is useful to know that you have that option if it comes to the crunch.
- **Do nothing with the pension pot.** You do not have to take any of your pension pot for instance you can pass your pot on to your beneficiaries, or save it for a rainy day.
- **You can mix your options.** For example, use some of your pot as a flexi-access drawdown and some to buy an annuity or a mix of any of the other options.

Where can I get more information?

We have published other spotlights which you may find useful.

- If you need more information on the Annual Allowance this spotlight will be useful to you www.pensionsadvisoryservice.org.uk/content/spotlights-files/uploads/Annual_Allowance_SPOT004_V1.8.pdf

- If you are interested in taking financial advice from a regulated professional this spotlight tells you how they can help you with your retirement planning. www.pensionsadvisoryservice.org.uk/content/publications-files/uploads/Financial_Advice_SPOT009_V1.3.pdf

TPAS Midlife Review Appointments

TPAS Midlife Review appointments have officially launched:

- You may wish to start with a digital Midlife Review which can be accessed using the following link: https://www.pensionsadvisoryservice.org.uk/about-pensions/saving-into-a-pension/midlife-review-for-self-employed-people.
- We are also offering telephone appointments held at a time of your choosing with a TPAS pension specialist.
- Appointments are aimed at supporting self-employed people with the particular retirement issues they face. The appointment will provide impartial and independent guidance to help you think about your pension planning and your next steps.
- The appointment will be a conversation about your personal circumstances which may cover your current financial, work, family and health situation. Please email Virtual.Appointments@pensionsadvisoryservice.org.uk if you would like to register your interest. When emailing, please provide **your name** and **contact email address**, so that we can email you with further information.

About Us

The Pensions Advisory Service (TPAS) works to make pensions accessible and understandable for everyone. We provide independent and impartial information and guidance about pensions, free of charge, to members of the public.

We help with all pension matters covering workplace, personal and stakeholder schemes and also the State Pension. We answer general questions, help with specific queries and offer guidance for people with complaints about their private pension scheme.

Contacting us

Pensions Helpline **(Monday- Friday 9:00am- 5:00pm)**	**0300 123 1047**
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