'Should I Cash-in my Pension to Purchase a Buy-to-Let?

We have been approached by a married client aged 57 who was keen to take all the money out of his pension plan in order to purchase a buy-to-let property. His earnings are £28,000 per annum and he was thinking of generating rental income for his retirement.

The home he owns is valued at £490,000 and he has others assets worth £170,000.

We explained the income tax position that he would face on a total withdrawal of his pension fund and this is shown below (figures rounded):

Pension Plan	**£350,000**
May be taken out Tax Free:	£87,500
£15,000 @20%:	£3,000
£135,000 @40%:	£54,000
£112,500 @45%:	£50,625
+ £2,100 (loss of Personal Allowance):	**Tax Bill = £109,525**

This leaves £240,275 to buy a property. However, the following costs need to be taken into consideration before a Tenant can move into the property and you can start to receive rental income, and these cost are estimated below:-

	Amount left to buy a property:	**£240,275**
Less:	Stamp Duty payable:	£2,300
	Solicitors & Legal Fees:	£950
	Survey:	£500
	Letting Agent/Tenancy Fees:	£300
	Safety Checks (Gas Certificates, Electrical & Fire Safety):	£1,400
	Total costs:	**£5,450**
	Amount left after costs =	**£234,925**

We have assumed that the property could achieve a gross rental income of £1,000 per month which we feel is a generous assumption, and then the following costs need to be deducted per annum:

	Rental Income @ £1,000 pm:	**£12,000 pa**
Less:	Letting Agency Fees @12% + VAT:	£1,728 pa
	Buildings Insurance:	£300 pa
	Annual servicing & minor maintenance:	£500 pa
	Net taxable income:	**£9,472 pa**

Assuming the client reverts to a basic rate tax payer from year two onwards he will pay tax as follows:

Less:	Income Tax @20%:	£1,894 pa
	Net receivable income:	**£7,578 pa**

This income figure equates to **2.16%** of the original £350,000 pension pot.

If you think that is a poor enough return, now consider the potential for Capital Gains Tax and Inheritance Tax….

The client's IHT position if he keeps his pension invested **V** Purchasing a Buy-to-Let		
House	£490,000	£490,000
Other Assets	£170,000	£170,000
Pension Fund	(£350,000)	£0
Buy-to-Let	£0	£235,000
The pension fund is shown in brackets as the Death Benefit is tax free and not part of your Estate.		
Total	**£660,000**	**£895,000**
IHT Allowance	£650,000	£650,000
Taxable Estate	£10,000	£225,000
IHT due @40%	**£4,000**	**£90,000**

The Inheritance Tax position is **£86,000** worse as a result of using his pension for buy-to-let.

If the property increases in value over the longer term and the client sells the property in the future he will be liable for Capital Gains Tax of up to 28% on the profit made.

This is just one example of taxation issues involved in cashing-in your pension pot. As you can see there are many aspects to take into consideration and we would strongly advise you to seek professional advice before taking any action.

Please don't hesitate to contact MJB **for pension advice on 01243 771777.**