The Business Review

HERITAGE WEALTH
FINANCIAL PLANNING

www.heritagewealth.ie | Winter 2017

Financial Insights

PROPERTY PURCHASE WITH YOUR PENSION
A tax efficient solution

LIFESTYLE FINANCIAL PLANNING
The benefits of cash flow forecasting

IS THE OCTOBER SELF-ASSESSMENT DEADLINE IMPORTANT FOR YOUR PENSION?
For employees and the self-employed

Property purchase with your pension

Purchasing a property through your pension is an excellent tax efficient investment opportunity.

Pension tax exemption:

1. Rental income payable into your pension is tax free
2. If you sell the property in your pension, no capital gains tax is payable (CGT is currently 33%)
3. You receive income tax relief (20 or 40%) on your contributions into your pension.

Benefits and structure of pension property purchase:

- Property is held in the name of the pension fund
- All rents accumulate tax free in the pension
- Any capital gain is tax free in the pension fund
- All fees relating to the property are paid from the pension fund
- Rent can be used as part of your retirement income
- Joint/multiple purchases are permitted.

"All investment income and gains are tax exempt within the pension structure. This makes your pension fund the ideal place to purchase property".

Let's look at the tax treatment and compare to purchasing direct.

Purchase Details	**Purchased Personally**	**Purchased by Pension**
Purchase Price	€200,000	€200,000
	After 5 years	
Current Value of Property	€260,000	€260,000
Annual Rent	€15,000	€15,000
Management Fee	€475	€475
Property Tax /Other Bills	€1500	€1500
Annual Net Rent	€13,025	€13,025
Income Tax @ 40%	€5,210	0
USC & PRSI (assume 11%)	€1,433	0
Net Annual Rent	€6,383	€13,025
Current Annual Rental Yield	3.2%	6.5%
Decide to Sell the Property		
Gain on Disposal	€60,000	€60,000
CGT Tax @ 33%	€19,800	0
Net Capital Gain	€40,200	€60,000
Net Return on rent for 5 Years	€31,910	€65,125
Net Return on Capital	**€72110**	**€125,125**
Net Yield on Capital	**36%**	**63%**

Please note that these figures are for illustrative purposes only. We have not assumed legal costs, selling fees & stamp duty associated with buying and selling.

Clarity and Focus – Heritage Lifetime Cash Flow

The development of our lifetime cash flow modelling, and the engineering of a comprehensive financial plan, is aimed at individuals who wish to become and remain financially well organized, achieve their lifetime goals and control any potential future tax liabilities (income tax, capital gains and inheritance taxes).

Whilst financial planning based on current and expected circumstances is important, often we forget to think about the impact of certain unforeseen events. Cash flow modelling allows us to clearly demonstrate this, with 'what if' scenarios. This can involve variables such as what age to retire at; investment growth rates; when to sell a business; passing assets to the next generation; when to set-up an education fund for your children etc.

Benefits of a lifetime cash flow plan:

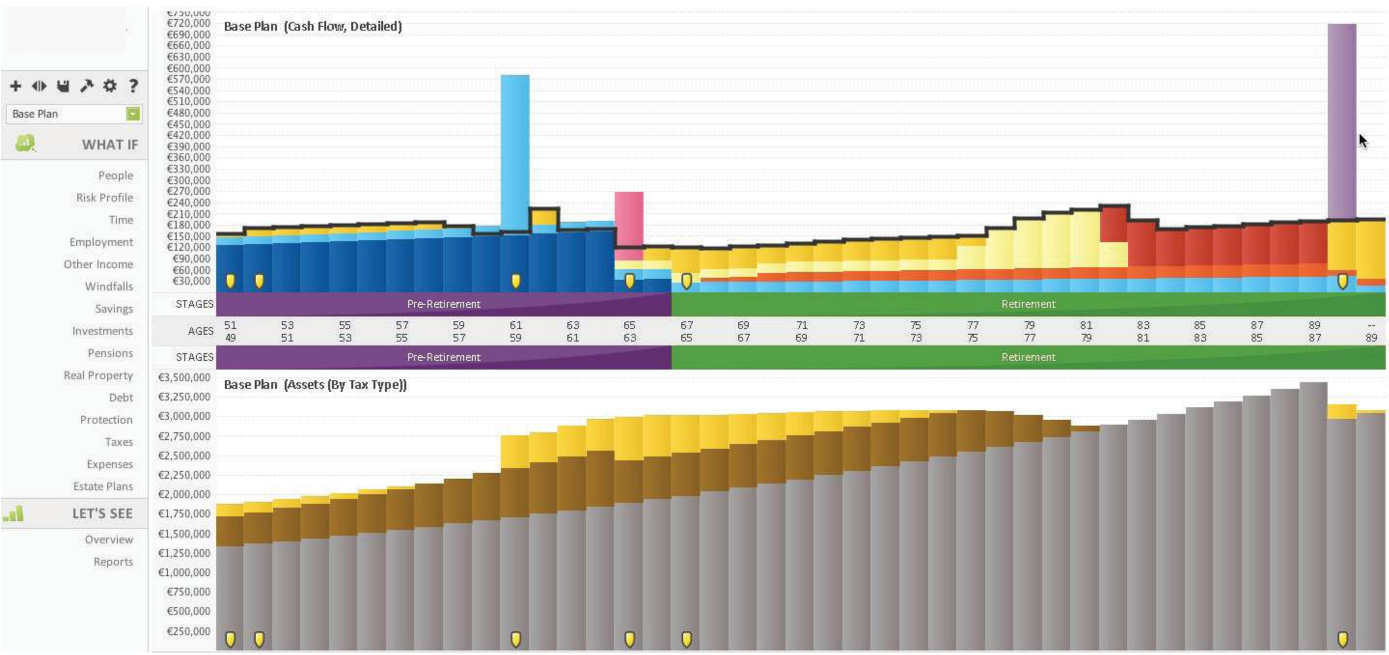
- Produce a clear and detailed summary of your financial arrangements.
- Work towards achieving and maintaining peace of mind, financial security and financial independence.
- Helps you to reduce your risk and lower potential tax liabilities.
- Produce an analysis of your personal expenditure, planning assumptions, balancing your cash inflows and desired cash outflows.
- Estimate future cash flow based upon realistic assumptions (inflation, growth and taxation)

"Our cash flow modelling software allows us to forecast our clients' current and projected financial situation, including their income, expenditure, assets and liabilities to provide them with a long term financial outlook. This will help them to make well informed financial decisions".

- Develop an investment strategy for your capital and surplus income in accordance with a risk/reward trade-off, flexibility and accessibility
- Become aware of the inheritance tax issues that are likely to arise on your own death and that of your spouse / civil partner.

By using cash flow modelling we enable our clients to assess the impact of unexpected changes, and therefore stay in control of their financial future.

Cashflow modelling works best when the client can see their model and scenarios can be run in front of them. A client can immediately ascertain the impact their decisions will have before finalizing a strategy. It also forms the basis for regular reviews.



Is the October self-assessment deadline important for your pension?

Pension tax relief makes it more attractive to save for your retirement by giving you generous tax breaks on the money you place in your pension. It's not too late to make a one-off contribution before the 2017 deadline for completing your tax return (31 October for postal returns and 14 November for online returns).

Essentially, your tax relief is provided in three phases;

- Tax relief on contributions
- Tax relief on investment return
- Tax free lump sum at retirement

1. Tax relief on contributions

You can receive tax relief on your pension contributions up to the relevant age-related percentage limit of your earnings in any year.

The age-related earnings percentage limits are:

• under 30:	15%
• 30-39:	20%
• 40-49:	25%
• 50-54:	30%
• 55-59:	35%
• 60 or over:	40%

Tax relief is not available on earnings which are more than €115,000.

Sample Tax relief on a €1000 contribution:

Tax Band	40%	20%
Tax Relief	€400	€200
Net Cost	€600	€800

For example, an employee who is aged 42 and earns €80,000 can get tax relief on annual pension contributions up to €20,000. A 51-year-old earning €120,000 can get tax relief on contributions up to €34,500.

2. Tax relief on investment return

Usually, your contributions are invested in Irish pension funds, which are exempt from Irish Tax. This means that your pension investments grow free of income tax, capital gains and dividend withholding tax.

These exemptions also mean pension funds benefit from being able to reinvest your non-taxed returns to generate higher future returns for your retirement.

3. Tax free lump sum at retirement.

Under current rules, at your retirement date, you might be entitled to take 25% of your accumulated pension fund tax free, subject to a total limit of €200,000. The remainder of the fund can be used to either purchase an annuity or invest in an Approved Retirement Fund ('ARF').

"ARFs are special investment funds which can give you increased flexibility in terms of how you use your pension fund after retirement."

How this is applied to an ARF.

- From the year you retire your pension, tax is payable on a minimum withdrawal on the 30 November each year of 4% of the value of the fund at that date.
- This withdrawal is liable to Income Tax, Universal Social Charge and PRSI, if applicable. From the year you turn 71, the minimum withdrawal is increased to 5%.
- Where the fund value is greater than €2 million the minimum withdrawal will be 6%. If you have more than one Approved Retirement Fund (ARF) and these are with different managers then you must appoint a nominee Qualified Fund Manager (QFM) who will be responsible for ensuring a withdrawal of 6% is taken from the total value of your ARFs.
- It is your responsibility to let your ARF providers know if you have other Approved Retirement Funds and Vested Personal Retirement Savings Accounts with a total value of greater than €2 million.

Personal Pension Contributions or Additional Voluntary Contributions (AVC) are still one of the most efficient ways to save for your retirement and to help reduce your income tax bill.

It is important that you consider these benefits before the tax return deadline in October.