

Property 'not tax efficient' as an option for retirement

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INVESTORS who are relying on increasing property values to provide for their retirement years could be in for severe disappointment, actuarial consultant Martin Haugh warned yesterday.

Only the very wealthy can rely on property to provide an income in retirement, Mr Haugh warned, while the Irish tax regime also discriminates against property for pension purposes, he said.

Using one's own home to provide a fund for retirement has its limitations, he warned.

"The full value of the home cannot be released as a new house will have to be purchased, while use of so-called 'equity release' products is also restricted as they place limits on the amount of equity which can be released at each age," he said.

In recent years, many people have acquired 'buy-to-let' properties with the intention of providing for retirement.

"Many buy-to-let properties are purchased using interest-only mortgages, which means that the full loan must be repaid when the house is sold," he said.

If rental yields fall, the investor must make up the shortfall – effectively funding their own retirement without the tax reliefs that pension schemes offer.

A fund of €600,000 is required to provide a modest income of €20,000 a year from age 60.

"The tax advantages of pension schemes allow the acceleration of the build-up of retirement funds by providing full tax relief on contributions and by allowing all income and gains to be tax-free within pension schemes," Mr Haugh said.

Another advantage of

pension schemes is that 25pc of the pension fund can be taken tax-free at retirement. Property investments do not carry such tax efficiencies.

"Property investment should be viewed as an accompaniment rather than as a substitute for pensions in retirement, while the tax advantages of pension plans should not be overlooked," Mr Haugh said.

Recent changes to the pensions legislation allow some individuals to borrow within their pension scheme, which allows the use of the pension scheme to fund and leverage property purchases.

"The rate of return achieved by using the tax advantages of pension schemes in this way can increase the returns from property by up to 50pc depending on the investor's term to retirement," he added.

