Turn your company profit into personal wealth - Maximum contribution options

One of the most attractive, tax efficient ways for company directors to extract profits from the company and turn them into personal wealth, is to transfer these profits into a company pension.

€ Profits Subject to Corporation Tax → **Transfer profits before tax into a company pension plan** → **Capital growth - Tax free**

Salary:	Income tax up to 41% PRSI/USC up to 11%
Car:	Benefit in Kind (BIK) up to 30%
Dividends:	Income tax up to 41%
Sell shares:	Capital Gains Tax (GCT) up to 33%
Death:	Capital Acquisitions Tax (CAT) up to 33%

Retirement lump sum
and
Income for life (taxed)
or
ARF (income taken is taxed)
or
Taxed cash

Directors who take profit as salary will fall into the personal tax band today. However, those who invest in a company pension plan enjoy benefits such as: **No Benefit in Kind on company contributions, income tax relief on personal contributions, tax free investment growth, a Retirement Lump Sum, some or all of which may be taken tax free.** They can also invest the balance of the fund into an Approved Retirement Fund (ARF), opt for a guaranteed income for life (Annuity) or take the remainder as taxed cash. Employer contributions will receive corporation tax relief in the year the contribution was made. Personal contributions deducted from salary will receive immediate income tax relief. In some instances tax may be due on investment gains or income from property or other assets outside of Ireland depending on the domestic tax rules of the relevant country. In order to be eligible to take out a company pension plan the employee must be in receipt of Schedule E (PAYE) remuneration. A company director is only eligible to take out a company pension if they are set up as an employee of the company and are in receipt of Schedule E income from the company. You should note that annuity income or withdrawals from ARFs are taxed as personal income and are subject to income tax at your highest rate, Universal Social Charge, PRSI (if applicable) and any other taxes or government levies applicable at that time. Pensions are long term savings plans that can only be taken at retirement. Tax rates are current as at September 2013.

Warning: If you invest in this product you will not have access to your money until age 60 and/or you retire.

Warning: The value of your investment may go down as well as up.

Warning: If you invest in this product you may lose some or all of the money you invest.

Company Director Case Study

Let's take a look at a typical client example:

David is 45 and married and has been running his own business for 5 years.

He is currently drawing a salary of €50,000 a year and wishes to retire at age 65.

He is currently contributing €12,000 a year into a director's pension plan which has a current value of €70,000.

David has advised that the company regularly makes additional profit of €150,000 a year and is considering increasing his pension contribution to increase his retirement fund.

What contribution options are available for David?

Option	New Single Premium Contribution	New Regular Premium Contribution
1	€119,000	€37,800 p.a.
2	€41,000	€41,000 p.a.
3	€0	€43,000 p.a.

If David chooses option 1 above, then what tax reliefs would be available assuming the business paid the contributions?

David's company could offset the €37,800 a year regular contribution in the current trading year and also could offset the €119,000 single premium investment over the next 3 years (€39,667 x 3 years), thereby reducing the company's corporation tax bill.

If David chooses option 2 or 3 above, then what tax reliefs would be available assuming the business paid the contributions?

Under both options 2 & 3, David's company could offset all contributions (Regular & Single if appropriate) in the current trading year and thereby reduce the company's corporation tax bill.

Investing the contributions detailed in option 1 will take into full consideration the €150,000 company profits. Option 2 and 3 does not use up the full company profits of €150,000. They use up €82,000 and €43,000 respectively.

Pension income in retirement is subject to income tax at your highest rate on withdrawal, Universal Social Charge, PRSI (if applicable) and any other taxes or government levies applicable at that time.

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Warning: These figures are estimates only. They are not a reliable guide to the future performance of your investment.

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The tax efficiencies don't stop there

ARF – Tax treatment on death/inheritance

Assets held within your ARF can pass onto your estate. Tax may be due depending on who inherits your fund as follows:

ARF / inherited by	Income tax due	CAT due
Surviving spouse or Registered Civil Partner	None if transferred into an ARF is the spouse's or registered civil partner's name. Subsequent withdrawals subject to PAYE	No
Children under 21	No tax due	Yes*
Children 21 and over	Yes at 30% rate	No
Others, (including spouse or registered civil partner if benefit paid out as a lump sum)	Yes, at deceased's marginal rate (either 20% or 41%)	Yes*
Death of Surviving Spouse or Registered Civil Partner		
Children under 21	No	Yes*
Children 21 and over	Yes at 30% rate	No
Others	Yes at 30% rate	Yes*

* Normal Capital Acquisitions Tax (CAT) thresholds apply.

The above applies to gross ARF funds set up after 2000.

We advise that you seek professional tax advice as the information given is a guideline only and does not take into account your personal circumstances.

For more information on pensions, please contact your Financial Adviser.

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Irish Life