PENSION FOCUS 2014

Irish Life

Turn your company profit into personal wealth

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

Where directors take profit from the company as salary there will be an immediate tax liability, however those who invest in a company pension plan enjoy benefits such as:

- No benefit in kind on employer contributions
- Immediate income tax relief on AVCs and employee contributions deducted from salary
- Corporation tax relief on employer contributions in the year the contribution is made

In order to be eligible to take out a company pension plan the director must be set up as an employee of the company and be in receipt Schedule E remuneration. At retirement the director will be entitled to a retirement lump sum, some or all of which may be tax free. The balance of the fund can then be used to

- Purchase an annuity which will provide a guaranteed pension income for life,
- Invested into an Approved Minimum Retirement Fund (AMRF) and / or Approved Retirement Fund (ARF)
- Taxed as taxed cash, subject to certain restrictions

Pension income in retirement and withdrawals from ARFs & AMRFs are subject to income tax, Universal Social Charge and PRSI (if applicable) and any other taxes or government levies due at that time. Tax rates are current as at August 2014.

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 Maximum Contribution 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.

Option 1

If the company pays the contributions shown in Option 1 above, the 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.

Option 2 or 3

Under these options the 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.

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

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

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

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

Maximum Retirement Lump Sum Case Study

Do you know that you are entitled to receive up to 150% of your final salary as a retirement lump sum assuming you have 20 years service at normal retirement age?

David is a 60 year old Company Director who wishes to retire at age 65. He will have 25 years service in his current employment at age 65 but he has no existing pension plan. David anticipates that his final average salary will be €50,000 and is asks how he can fund for a lump sum in retirement?

Possible Solution

David is entitled to receive a maximum tax free retirement lump sum at age 65 of €75,000 (150% of €50,000 Final Salary).

David therefore targets a retirement fund of €75,000 which can then be fully drawn down with no additional tax liability or residual pension payable.

Based on the assumptions below a total contribution of €67,520 paid over five years would provide David with a lump sum of €75,000 at normal retirement age.

	If taken as salary	If invested in pension
Gross amount paid at retirement	€67,520	€67,520
Less Tax*	€35,110	€0
Net Amount received	€32,410	€75,000 (Lump sum payable)

Assuming the pension option is selected, David would receive a retirement lump sum of €75,000 with no further tax liability due.

Assumptions:

* Income tax paid at 41%, PRSI at 4% and USC at 7%

Pension fund growth of 5.4% per annum

Complete Solutions 1 company pension plan

Assuming 100% net allocation

Consensus fund with a 0.75% fund management charge

Plan charge of 0.25%

Required level monthly premium of €1,125.33

Required total premiums of €67,520

If you leave early, exit penalties may apply

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.

ILA 9703 (REV 08-14)

Irish Life