TOBIN FINANCIAL

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 40% PRSI/USC up to 12%
Car	Benefit in Kind (BIK) up to 30% (calculation of BIK (i.e. taxable benefit) is 30% x Open Market Value of the car). Please note that the taxable benefit amount is subject to income tax, PRSI and USC.
Dividends	Income tax up to 40%. PRSI up to 4% and USC.
Sell Shares	Capital Gains Tax (CGT) of 33%
Death	Capital Acquisitions Tax (CAT) of 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 of 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,
- Invest into an Approved Minimum Retirement Fund (AMRF) and / or Approved Retirement Fund (ARF)
- Take as taxed cash, subject to certain restrictions

Pension income in retirement and withdrawals from ARFs & AMRFs are subject to income tax, Universal Social Charge (USC) and PRSI (if applicable) and any other taxes or government levies due at that time. Income tax relief is not guaranteed. Tax rates are current as at August 2018.

Warning:

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

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

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:

OPTIONS FOR DAVID

Let's take a look at David's situation.

David is 45, married and has been running his own business for 5 years. He is currently drawing a salary of €45,000 and hopes to retire at age 65. He is currently contributing €12,000 a year into a director's pension plan and it is now worth €52,000. His company has been making profits of over €100,000 for the last couple of years and he expects this to continue. As a result of these profits, David is considering increasing his pension contribution to increase his retirement fund.

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What contribution options are available for David?

There are three options for David, depending on whether he wants to use the full company profit for the year or not and the tax treatment for each of these options. In each case, the projected value of the fund is approximately €1.5 million.

Option	New Single Premium Contribution	New Regular Premium Contribution
1	€118,000	€34,000 per annum
2	€38,000	€38,000 per annum
3	€0	€40,000 per annum

So, what tax relief would be available on the employer contributions if David chooses one of these option?

OPTION 1

David's company could offset the €34,000 a year regular premium contribution in the current trading year, reducing the corporation tax in this trading year.

Since the new single premium contribution of €118,000 is more than the regular premium contribution; David's company will spread the tax relief forward over a number of years. So, for this example, as the single premium is about 3 times the regular premium contribution, he will spread forward the relief over the next 3 trading years (€39,333 x 3 years), potentially reducing the company's corporation tax in each of those years too.

OPTION 2

Here, the new single premium contribution is equal to the new regular premium contribution. Once the single premium contribution is less than or equal to the regular premium contribution, it is permissible for a company to offset both the regular premium and single premium contributions in the current trading year.

Since David's company has sufficient profits this year to do so, it would be able to offset the full €76,000 (€38,000 x 2) in the current trading year, thus reducing their corporation tax bill.

OPTION 3

Under this option, the company pays the maximum regular premium contribution and, again, can offset the full amount in the current trading year, given their profits. Once again, this would reduce the company's corporation tax bill for the current trading year.

If David continued to make a contribution of €40,000 per annum in future trading years he could offset this amount in those years, potentially reducing his corporation tax bill each year.

BENEFIT-IN-KIND

A further important benefit for David is that none of the contributions under the three options shown are viewed as being Benefit-In-Kind for David. As a result, as well as reducing corporation tax for his company, David would not have to pay any income tax, PRSI or USC in relation to the contributions even though he will get the benefit of the pension pot in retirement.

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

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

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

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