# Pensions for Company Directors

What do you need to know?

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**As a director of a company, you can save tax by paying into your pension.**

**Making pension contributions from your company reduces your corporation tax bill. You'll also pay no income tax on these contributions, unlike salary & dividends.**

## Benefits of making pension contributions from your business?

Making an employer pension contribution from your business has 3 key tax-saving benefits:

1. **It's an allowable business expense,** reducing your company's corporation tax bill
2. **You pay no income tax** on the contribution, unlike salary or dividends
3. **Your pension can grow tax-free**.

Making the contribution through your limited company is usually more tax-efficient than making the contribution from your own fund.

## What's the tax saving?

**For every £1,000 contributed into your pension, you can save up to £453 in tax.**

As a business, you pay corporation tax on any profits you make. The corporation tax rate is 19% for 2020/21.

Imagine that your business has profits of £10,000. From this, £1,900 will be deducted in corporation tax, leaving you with £8,100.

You decide to take this £8,100 as a dividend. As you may well know, any dividends you pay yourself will attract dividend tax.

Depending on your rate of this, this will be:

- **7.5%** - for basic rate taxpayer (those earnings under £50,000)
- **32.5%** - for higher rate taxpayers (those earning more than £50,000 but less than £150,000)
- **38.1%** - for additional rate taxpayers (those earning more than £150,000)

**National Insurance Contributions:**

An additional benefit is that the business doesn't have to pay national insurance contributions on pension contributions, unlike salary.

The national insurance rate for 2020/21 is 13.8%, so by contributing directly into your pension rather than paying the equivalent in salary, you can save an additional 13.8%. This hasn't been included in the following example, as most company directors take the majority of their income via dividends.

### An Example

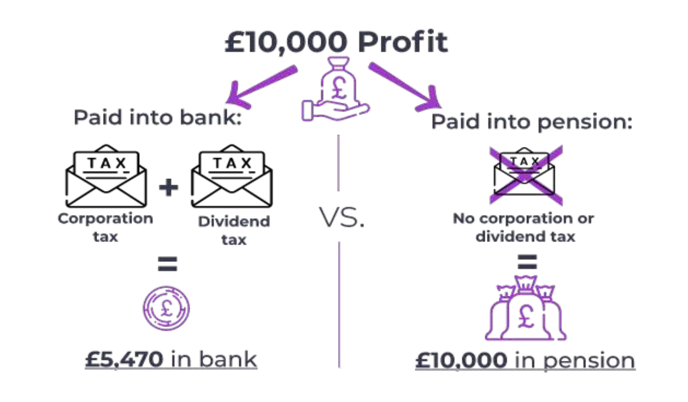
Let's assume that you're a higher rate taxpayer and you take dividends of £8,100. From this, you will pay dividend tax of £2,630 (£8,100 x 32.50%). After tax, you are left with £5,470 (£8,100 - £2,630).

In total, you have paid tax of £4,530, made up of corporation tax (£1,900) and dividend tax (£2,630).

***So for £10,000 of profit, you receive £5,470. That's an equivalent tax rate of 45.3%.***

Now let's compare this with making a pension contribution. Taking the same scenario, assume the business has profits of £10,000. Instead of paying dividends, the whole amount (£10,000) is contributed into a pension.

The pension contribution is treated as a deductible expense, reducing the company profits to £0. There's no corporation tax to pay as there are no company profits. There's also no dividend tax to pay.




**Summary: By making a pension contribution of £10,000, you can save £4,530 in tax.**

# How much can my business pay into a pension?

In brief, **you can pay £40,000 per year into your pension**, subject to HMRC's contribution limits and rules.

Your contributions are tax-free as long as they do not exceed the annual allowance, which is currently capped at £40,000 (2020/21 tax year). The amount that you pay must not exceed your company's income for the year as this could raise questions from HMRC as to whether the amount has actually come from your company's trading.

Although £40,000 is the annual limit, there are occasions where you can contribute more than £60,000.

## Here to help...

As Independent Financial Planners that specialise in working with small business owners, we are here to support & advise you on your financial affairs.

If you'd like to know if we're a able to help you, please get in touch by calling **01179 902 602**, or you can **book yourself in for a free initial consultation here.**

Using "Carry Forward" - **can increase the maximum from £40,000 to £160,000.**

Technically, the business can pay up to £160,000 into a pension. It does that by making use of 'carry forward'.

Carry forward is the ability to use your unused allowances (£40,000 pa) from previous years. You can go back up to 3 years and therefore can potentially use all three previous years allowances plus the current year (£40,000 x 4 = £160,000).

If you're thinking about using 'carry-forward' to make a large contribution, you must use your current annual allowance first. Only once this is used can you carry forward previous years allowances.

To be eligible for carry forward, you'll need to have a pension set up for each of the previous years. You don't necessarily need to have been making any pension contributions during these years, only that it's in existence.

The other limit to be aware of is the Lifetime Allowance. This is the maximum amount that your pension can be worth before tax charges apply (currently £1,073,100).

For more information on the lifetime allowance, see our 'Lifetime Allowance, explained' article.

# What's the best pension for a company director?

There are a number of options for company directors.

**Self-invested personal pensions (SIPP)** tend to be the most popular option, as they provide you with additional flexibility on how funds are invested.

**Small self-administered schemes (SSAS)** are sometimes used, usually to provide retirement benefits for multiple company directors and key staff.

**Executive Pension Plans (EPP)** are ran by life assurance & set up to provide directors & key employees. with a workplace pension.

Knowing which pension is right for you will depend on a number of factors & you should seek indepdenent financial advice.

# Can I use my pension to purchase commercial property?

With both SIPP & SSAS pensions, you can use your pension funds to purchase commercial property, such as your own offices or business premises.

You can also borrow up to 50% of the value of your fund to help you do this. For example, if you had £160,000 in a SIPP, you could borrow an additional £80,000.

There are a number of tax benefits to considering holding your business premises in your pension, but there are also a number of drawback that must also be factored into your decision.

For more information, see our guide to 'buying commercial property in your SIPP'.

We hope this guide helps you to put a plan in place.
If you would like to speak to an adviser about your pension options, you can call us on **01179 902 602.**

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