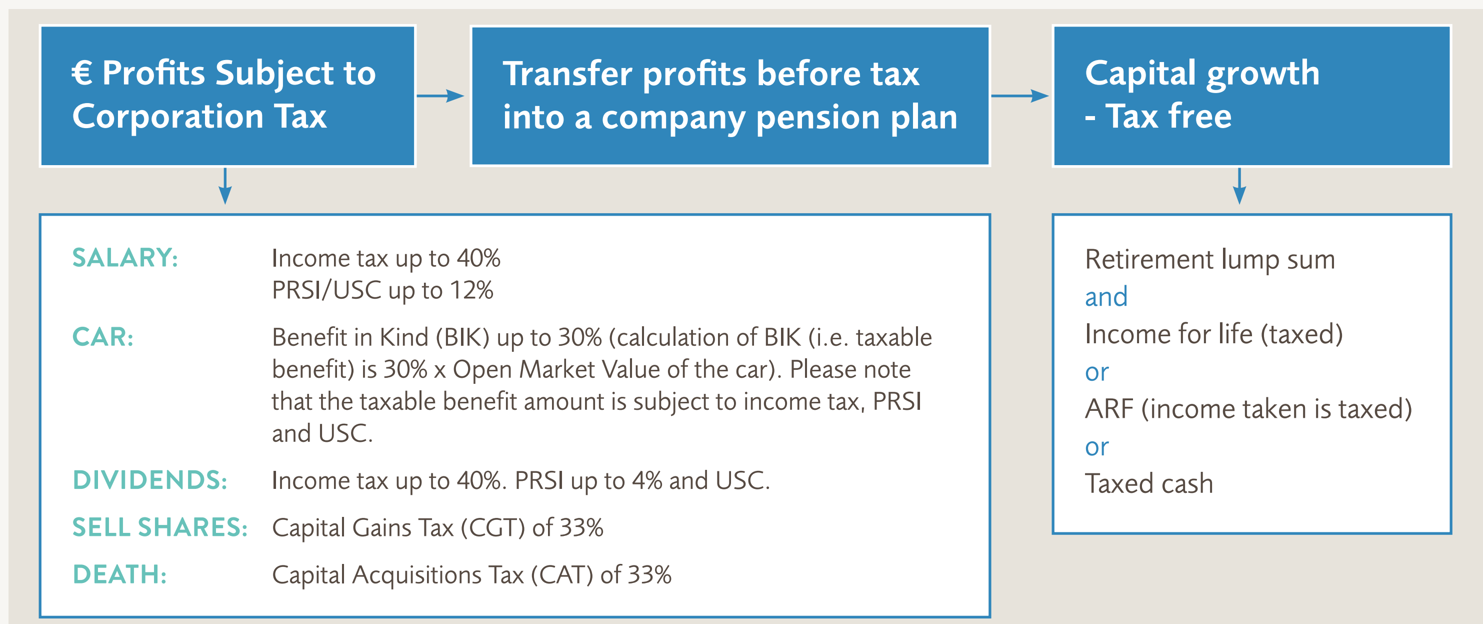
PENSIONS
INVESTMENTS
LIFE INSURANCE

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.



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.

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:

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.

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

OPTION 1:

If David chooses this option then what tax relief would be available on the employer contributions?

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:

If David chooses this option then what tax relief would be available on the employer contributions?

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:

If David chooses this option then what tax relief would be available on the employer contributions?

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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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 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 €70,798 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	€70,798	€70,798
Less Tax*	€36,815	€0
Net Amount received	€33,983	€75,000 (Lump sum received)

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 40%, PRSI at 4% and USC at 8%

Pension fund growth of 3.75% per annum

Complete Solutions 1 company pension plan

Assuming 100% net allocation

MAPS fund with a 0.9% fund management charge

Plan charge of 0.25%

Required level monthly premium of €1179.97

Required total premiums of €70,798

No indexation applies

If you leave early, exit penalties may apply

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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 income 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 40%)	Yes*
Death of Surviving Spouse or Registered Civil Partner		
Children under 21	No income tax due	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 in this flyer is a guideline only and does not take into account your personal circumstances.

NEED SOME ADVICE?

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

The information and figures stated are correct as at August 2018.

Irish Life Assurance is regulated by the Central Bank of Ireland.

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