



MAY 2023

# Pensions for Company Directors

Optimising Your Endeavours



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fit to retire

UK company directors can make great tax savings when contributing to their pension, reducing their corporation tax bill, retaining their employers NI contributions and paying no income tax on the contributions.

## Pension contribution benefits

- **No Income Tax** - unlike salary and dividend payments, payments to a directors pension have 100% income tax relief
- **No Tax on Growth** - whilst in your pension, the investments that your contributions make are free from income tax, dividend tax and capital gains tax
- **Allowable Expense** - pension contributions effectively reduce your corporation tax bill as an allowable expense

## Tax Savings

As a business, you pay corporation tax on any profits you make. The corporation tax rate is 19% for profits under £250,000 and 25% for profits over £250,000 2023/24.

From £10,000 either £1,900 or £2,500 will be deducted in corporation tax, leaving you with £8,100 or £7,500.

If you take these net figures as a dividend, depending on your earnings, you will attract the following dividend tax:

- **8.75%** - for those earnings up to £50,270
- **33.75%** - for those earning more than £50,270 but less than £150,000
- **39.35%** - for those earning more than £150,000

Assume you are a taxpayer in the middle tax band and your company makes more than £250,000 profit.

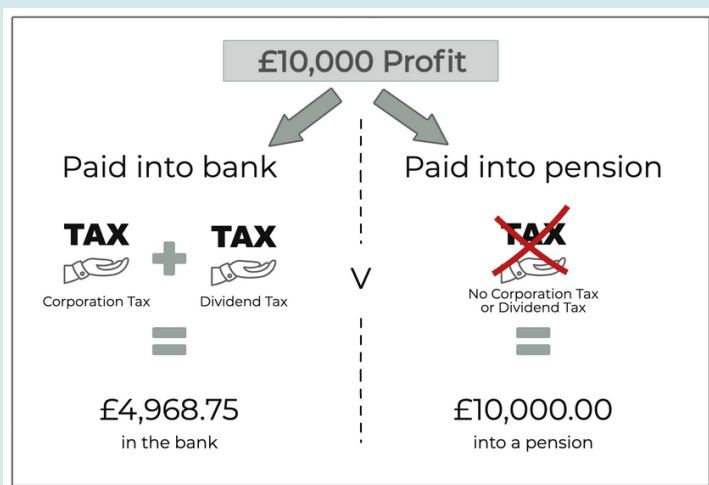
If you take the £7,500 net (from your initial £10,000 profit) as a dividend, you pay dividend tax of £2,531.25.

After tax, you are left with **£4,968.75** from your initial £10,000 profit.

**That's an equivalent tax rate of 50.31%.**

In the same scenario, instead of paying dividends, the original £10,000 contributed into a pension is treated as a deductible expense, reducing the company profits on which corporation tax is paid, and there is no dividend tax to pay either.

Here is a summary of that scenario in a diagram. By choosing a pensions contribution instead of a dividend, **£5,031.25 tax was saved**.



## National Insurance

There is another benefit to utilising a payment into a pension rather than taking salary.

Employers and Employee National Insurance contributions are saved when paying into a pension.

This hasn't been included in the example, as we showed the effect of pension v dividend, not pension v salary, but is worth noting.

## How Much Can I Contribute?

A company director can currently contribute up to £60,000 per year into a pension, subject to HMRC's contribution limits and rules, and your salary. (2023/24)

Contributions are tax-free as long as they do not exceed your annual allowance.

Contributions directly from the company, however, are not restricted to £60,000 as long as they do not exceed company profits.

Up to 3 previous years pension allowances can be **carried forward**, so if you haven't utilised them you may be able to make quite large contributions to bolster your pension.

You must have had a scheme in place in the years for which you

want to carry forward, so it makes a lot of sense to set up a pension scheme as soon as you can, rather than waiting until you are ready to pay into one.

## Pension Types

There are a variety of pensions:

**SIPP** - Self-invested personal pensions, flexible investment plans which are commonly used.

**SSAS** - Small self-administered schemes.

**EPP** - Executive Pension Plans, set-up by executives and run by insurance companies.

# How Can We Help You?

Fit to Retire is an Independent Financial Adviser, based in Dorset.

If you are a business owner, and would like help and advice on how to start utilising your pension to optimise your financial security, then we would love to help.

Additionally, if you are thinking about your retirement plan, and how to get started with it, we can help you to choose the right options.

We help people work-out what they want from life and create a plan to help them achieve it.

Understanding pension rules, tax efficiencies, investment strategies and asset classes is complex, and not what you should be spending your time worrying about. It is what we are here to help with.

We provide the advice to remove the risk that Warren Buffet highlighted in his famous quote.

"Risk comes from not knowing what you are doing."

WARREN BUFFETT

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