

Pensions for Owner-Managers

How company and personal pension contributions work, the limits that apply, and why a pension is often the most tax-efficient way to build wealth.

FOR: DIRECTORS AND OWNER-MANAGERS • SOME EXPERIENCE

Why pensions matter for owners

Employees usually get a pension through their employer. Owners of businesses often get none, because they have never set one up, or they plan to rely on selling the business. That is a risk: the business may not sell for what you hope, and you may need an income long before you sell. A pension is a way of taking some value out of the business, tax-efficiently, and keeping it outside the business, where it is protected from its fortunes.

Why they are tax-efficient

- **Contributions attract tax relief.** Personal contributions normally receive relief at your marginal rate, and company contributions are normally deductible for corporation tax and not treated as your income.
- **The fund grows largely free of tax** on income and gains.
- **A portion can usually be taken tax-free** when you start drawing it, and the rest is taxed as income.
- **They can be passed on**, with different tax treatment from other assets, depending on the rules in force.

Contributions have to stay within limits, and money in a pension is generally locked in until you reach the minimum access age, so it needs to fit your wider plans.

Personal or company contributions?

- **Personal contributions** come from your taxed income, and relief is added or claimed. They are limited by your earnings.
- **Company contributions** are paid by the business, and, provided they meet the conditions, are usually deductible. They can be larger than you could afford personally, because they come from company profits that would otherwise be taxed.

Which is better depends on your income, the company's profits, and whether you are near a tax band or limit. Often a mix is best.

Who this is for

- Directors who have no pension
- Owners relying on a sale to fund retirement
- Anyone wanting to reduce a large tax bill

Key points

- Company contributions are usually the most efficient route.
- There are annual limits, with some carry-forward.
- Access is restricted until a minimum age.
- A pension is outside the business and its risks.
- Plan contributions before the year-end.

The limits

Each tax year there is an **annual allowance** on the total tax-relieved contributions you can make, and for high earners the allowance is reduced. If you have not used earlier years' allowances, you may be able to carry them forward for a limited period. The rules for the tax-free lump sum and for how much you can take have also changed in recent years. Check the current figures, and ask us before making a large contribution.

What to consider before you pay in

- **Cash flow.** Can the business afford it, with tax and working capital in mind?
- **The wider plan.** Will you need the money before you can access it?
- **Investment choice.** A pension can be invested in many ways, and the choice of scheme and the investments is a regulated area where you should take advice from an authorised adviser.
- **Business property.** Some schemes can hold commercial property and rent it to the company. The rules are detailed, so take advice.

Pension planning checklist

- Current provision
- Annual allowance and carry-forward
- Company or personal route
- Cash-flow impact
- Authorised financial adviser
- Link to your exit plans

Employees and auto-enrolment

If you employ staff, you must provide a workplace pension, as described in our guide on first employees. This is separate from your own arrangements, but the two can be combined in some cases.

Taking the money out

When you reach the minimum age, you can usually take some tax-free and draw the rest as income, buy an annuity, or leave it invested. The tax on drawing depends on your other income that year. Plan this in advance, particularly if you expect to sell the business, so the two events are coordinated.

Leaving it too late

Many owners leave pensions until the last few years before they plan to stop. By then, the limits can restrict how much can be contributed. Regular, planned contributions are usually more efficient than one large one.

Related guides

If this is useful, you may also want:

- Paying yourself
- Personal tax planning
- Preparing to sell

How King Street can help

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We work out how much the company can contribute, tax-efficiently, within the limits, and fit it with your pay and your business plans. For advice on pension products and investments, we work with authorised financial advisers whom we can introduce.

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