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Using a Pension to **extract wealth** for business owners

Good forward-thinking business planning means that SME owners should look at their options for extracting profits from their business in the most tax efficient manner. Better known as Wealth Extraction, this is the efficient means of withdrawing profits for the benefit of the **business owner** in the most tax efficient means possible which if done well, could lead to financial freedom in retirement.

Key Advantages of investing your business profits in a Pension

- ✔ Corporation Tax Relief for the Employer @ 12.5% (Subject to Contribution Limits).
- ✔ Generous Limits for Employer's to contribute.
- ✔ No Income Tax, PRSI or USC liability for the employee following the contribution.
- ✔ No PRSI Liability for the Employer as a result of remunerating the employee in this way.
- ✔ Profits invested in pension fund which allows tax free growth until retirement.
- ✔ Opportunity to plan for business exit strategy with access to funds available as early as 50 if all links with the business are severed or anytime after age 60 without having to sever any links with the business.
- ✔ Pension lump sum at retirement which is tax free up to the first €200,000 and subject to favourable rate of 20% for the next €300,000.
- ✔ Income in retirement via Pension Annuity or Approved Retirement Fund.
- ✔ Possibility to pass wealth to spouse and children via Approved Retirement Fund.





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Take the **next step**

The four options available:

1

Leave profits within the business

Profits retained in the company will be subject to Corporation Tax @ 12.5% and for close companies a further surcharge of 20% if they are not distributed within 18 months. In addition, on the sale of the company Capital Gains Tax (CGT) of 33% will apply unless a CGT Relief can be obtained.

2

Withdraw profits as salary

Profits withdrawn in this manner will be subject to Income Tax, PRSI and USC which would be as high as 52% (Income Tax 40%, PRSI 4%, USC 8%).

3

Withdraw profits via an Executive Pension Plan

Extraction of company profits via an employer contribution to an executive pension (via a Master Trust arrangement) is very popular with business owners. Profits withdrawn via an Employer contribution to an Executive Pension Plan result in tax relief for the Employer (subject to Revenue limits) and no immediate tax liability for the employee.

4

Withdraw profits via a PRSA (Personal Retirement Savings Account)

At the beginning of 2023 the Finance Act confirmed that the Benefit in Kind for an employee, which was previously triggered by an employer contribution to a PRSA, has been removed. This now allows for the extraction of company profits via an employer contribution to a PRSA with no upper limit on those employer contributions (Lifetime Pension Fund limit applies, currently €2M).

For company directors on low salaries with little or no scope to fund under an occupational pension scheme and those who have large profits which they want to extract now and obtain tax relief immediately, a PRSA might be an appropriate option.