

PENSIONS

INVESTING IN A PENSION

through a Company

Working through a company can be made even more tax efficient by using pension schemes. Directors often neglect their personal financial needs such as saving for retirement. Since contractors have to forego the benefits of the corporation they are contracting to, such as holiday and sick pay, this can cause unnecessary financial stress. Personal pensions help to fill this gap and are an extremely tax effective way for an individual to save for their retirement.

Benefits

Personal pensions provide a variety of benefits to directors of limited companies:



- All personal contributions receive 22% tax relief i.e. for every £78 contributed, the government tops this up to £100 in the pension. Considering the director is only paying 20% corporation tax, this is a great benefit!
- If contributions are paid by the company, the director gets an effective tax relief of almost 46% which is made up of 22% tax relief, 11% employee and 12.8% employer national insurance relief. It also does not affect the amount of dividends that can be taken out before you pay higher rate tax.
- All contributions are fully flexible and can be stopped and started whenever required. For a contractor this is a great help when cash flow becomes thin.
- The investments can be selected by the director (with the exception of personal property) giving him/her full control over their risk/return requirements.
- The costs are low if a stakeholder pension is selected.
- The pension is the individual's and can't collapse even if the company or government runs into difficulties. The performance of the pension is entirely up to the choice of the investments (made by the director or his investment adviser).

- The pension is fully transferable to another pension and can be taken back to the home country of the individual. (For Australians this can be particularly beneficial as they can be transferred tax free to a superannuation pension, which then allows the benefits to be taken tax free after age 60) (For South Africans a foreign pension is also tax free so leaving the pension behind in the UK is also very beneficial). The director therefore gets a 45% tax rebate on funds going in and pays 0% on funds coming out.
- The pension is not lost and can go to any nominated person, in the unfortunate event of the client's early death.

Factors to be aware of when investing



- Although the contributions can be stopped at any time, any contributions made are locked in until age 55. Given the objective of a pension is to save for retirement this is unavoidable.
- The investments can fluctuate, and if the director chooses to be in risky investments the capital could be at risk.
- The size of the contributions is potentially limited to the earnings of the director.

Please note, this document is not meant to be a recommendation letter nor a full description of how pensions work. It merely highlights important points for directors. For a full understanding on the function of pensions refer to the key features guide.

For further information please contact us on **info@sablewealth.com** or by phone on **0845 345 1633**.

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