CASE STUDY

Mr and Mrs X, both 45, own a profitable business ABC ltd that looks set to achieve profits of £1m by its 2021 year end. If they were to take no action, this would equate to a corporation tax bill of £190,000 based on the main rate for the 2021/22 tax year.

OBJECTIVE:

Mr & Mrs X were looking for ways to legitimately reduce the business' corporation tax liability and extract profit in a tax efficient manner in a personal capacity.

SOLUTION:

To help to reduce corporation tax within a business, we recommended that they make pension contributions into their existing personal pensions.

We were able to establish that both clients had £46,000 of unused pension allowance from the previous three tax years, so the total amount that each director could contribute to the current tax year was £86,000

As a result, the couple have each made £86,000 employer funded pension contributions before their company's trading year end in November 2021, reducing their business' profit by £172,000 - and therefore corporation tax by £32,680. In addition, they have been able to increase their personal pension savings that they plan to supplement their income with in retirement. Albert Goodman also provided advice on the suitable investment of these pension funds into a suitable, low cost risk adjusted investment portfolio.

SUMMARY

For Directors of limited companies who have plenty of profits in their business, company pension contributions can be a tax efficient way to extract profits and save for your future. However, you also have to also bear in mind that you won't be able to access your pension until later in life (currently age 55).

If you would like to discuss your existing investment or pension portfolio with one of our advisers, please get in touch and we will be happy to discuss this in more detail.

CALUM BUTT

CONSULTANT

ALBERT GOODMAN CHARTERED FINANCIAL PLANNERS