O'LEARY
FINANCIAL PLANNING

Financial Planning Solutions for

BUSINESS OWNERS, COMPANY DIRECTORS & SENIOR EXECUTIVES

Are you Minding your Own Business?

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To what degree do you expect the business to form part of your assets?

How do you view your business in the context of your overall financial goals?

You might find that relying on your business to fund your retirement restricts your options for the future...

Probably the most tax efficient way of extracting some of the wealth from your business into your own name is through a Pension. A salaried director of a limited company can avail of very attractive levels of pension funding with tax relief for themselves and the company.

- If you take profit by way of salary, you may have to pay income tax at up to 40%, USC up to 8% and PRSI of up to 4%
- If you take it as dividends, you would pay tax up to 40%, PRSI and USC
- If you use the money to buy a car for yourself, you pay Benefit in Kind
- If you sell your company, you pay Capital Gains Tax at 33% unless you avail of Retirement Relief/ Entrepreneurial Relief
- In the event of your death, your beneficiaries could pay up to 33% Capital Acquisitions Tax

A Pension should be an integral part of your financial plans. Both the tax relief and the long-term nature of a pension makes it one of the best retirement planning and wealth extraction tools available for Co-Directors and Business Owners today.

Extracting Weath from Your Business to Fund Your Retirement

Amendments to the Finance Act 2022 which came into force on 1st Jan 2023 have now made the Personal Retirement Savings Account (PRSA) a comparable alternative to an Executive Pension with the same benefits, features, and investment choices including:

- The company can make whatever contributions that cashflow will allow in respect of any employee, corporate tax relief is given in the year it was paid with no Benefit in Kind implications
- Not only can an Employer make an Unlimited Employer Contribution to a PRSA they can also claim tax relief in the accounting period in which its paid based on the current legislation
- Full PRSA fund is paid to employees' estate should they die in service
- PRSA holders can drawdown their retirement benefits in stages, up to age 75, using multiple PRSAs
- Company director – spousal employment
- Self Employed Person or Partnership can pay a Benefit in Kind Free Employer PRSA Contribution for an employee
- Company Directors who already access benefits but are still in employment
- Not subject to IORP II – investment rules, trusteeship
- Client & advisor have more control
- PRSA at the centre of every retirement plan
- Allows employees to contribute more and claim tax relief via PRSA

Key Benefits

- Tax free growth
- Saving of 12.5% Corporation Tax on company profits
- Company creditors don't have access to Directors Pension
- 25% of the fund can be taken as tax-free lump sum on retirement
- No USC, PRSI payable on the company's pension contributions
- No Benefit in Kind liability on pension contributions received from company
- Directors can retire from 50 yrs onwards
- Contributions are flexible
- Multiple options at retirement

Taking Company Profits into Private Ownership

Case Study

Michael is a 40 year old proprietary director.
The company has €250,000 in its accounts that it wishes to dissipate.

Option 1
Pay the €250,000 as salary over 5 yrs

Additional salary	€250,000
Less tax @ 40%, (note 1) + PRSI /USC@ 12% (note 3)	€130,000
Net Figure	€120,000

Option 2
Company effects an EPP (employee pension plan) and pays €250,000 single contribution

Total fund @ age 60 (note 2)	€800,000
Tax free cash @ 25%	€200,000
	€600,000
Less tax @ 40%+	€288,000
	€312,000
Plus Tax Free Cash	€200,000
Combined Figure	€512,000

In addition, the company is allowed write-off pension contributions against Corporation Tax which we will assume to be at 12.5% (Note 4). Thus, the net cost to the company of contributing €250,000 on Michael's behalf, is only €218,750, representing a tax saving of €31,250.

Furthermore, while it is in the pension fund, your money grows tax free. You can invest it in a myriad of different ways, reflecting your attitude to risk. No DIRT or exit taxes are deducted. When you reach your retirement age, you can draw down up to €200,000 tax free depending on the fund size and up to another €300,000 at 20%.

Note 1 - PRSI implications for company have been ignored
Note 2 - Assumes a net growth rate of 6% and an investment term of 20 years
Note 3 - Assumes a 8% USC rate and no PRSI on pension draw down if your over 65
Note 4 - Based on Government's objective to have a rate of 12.5% Corporation Tax.

By taking money out of a company by way of Pension Contribution the individual is getting the benefits of an "asset" with pre-tax money.

Funding at the Point of Retirement

it's never too late to fund your Pension or top up what you have

Just because a director hasn't availed of pension opportunities during employment doesn't mean it's too late to avail of them now. The Company can still make a contribution at the point of retirement or even after retirement. This contribution may be as much as 40 times final salary and is dealt with as follows;

- Company contribution is treated for tax purposes as a deduction against corporation tax
- Investment into a cash fund
- Revenue approval may take up to 12 weeks but if it's an existing case then it's pre-approved
- 25% of total fund can be taken as tax free cash up to a lifetime limit of €200,000
- Optimal lifetime limit of €2,000,000 applies

- Balance of fund i.e. 75%

  1) Can be taken as taxed cash, tax will have to be paid at the marginal rate

  2) Left invested in an Approved Retirement Fund (ARF) subject to certain conditions

Quite simply a director can benefit from an immediate 25% tax-free cash subject to certain restrictions. The only limit is that the total fund size cannot exceed €2 million.

The amounts quoted herein are subject to Revenue rules, requirements and restrictions and are subject to change. This document is for information purposes only and should not be used or interpreted as financial advice. You should always obtain your own independent financial, tax and legal advice based on your own particular circumstances, before entering into any financial contract.

Spousal Employment

Whether you are a self-employed business owner or a company director, if you're married and your spouse is not working it may be possible to reduce your personal income tax bill by employing them and also fund a pension for them. Employment must be bona fide, but this can result in significant income tax savings for you both and for the company.

Retirement Relief

Retirement relief from capital gains tax can potentially reduce your tax bill to nothing, when you dispose of your shares in the business. €200,000 in retirement relief is a lot more valuable than €200,000 in a pension and you can keep working in the business. Max. relief available - €750,000. Restrictions apply.

Death in Service

As a business owner you can set up Death in Service Cover to provide your family with financial protection in the unfortunate event of your death before retirement. It is a financial safety net, in the form of life cover, so that if you are not around to provide for your family, your family will be taken care of financially.

Income Protection

Ensure your family's income against your inability to work. Income Protection Cover will protect your lifestyle in the event of you becoming seriously ill or sustaining a long-term injury. It provides a replacement income until you get back on your feet so you can continue to meet your monthly financial commitments.

Succession Planning

Business succession planning is a critical part of any business strategy. A well-structured succession strategy helps mitigate against a wide range of risks and ensures future stability and value of the family business as well as considering the potential tax liabilities of transferring ownership and minimising tax liabilities.

There are a number of tax considerations which will inform your approach to succession planning. The Irish tax system is generally supportive of businesses transferring between generations, and there are several tax reliefs available, designed to minimise tax payable on such transfers.

Business Protection

Many problems can arise for a business when a partner or key employee dies suddenly or becomes seriously ill. Don't let this happen to your business. Arranging adequate business protection ensures the necessary funds end up in the right hands at the right time, helping to preserve the continuity of your business.

A keyperson is an employee/director whose expertise, knowledge, and contacts are vital to the continued financial success of the company. Keyperson Insurance is designed to protect the business against the financial consequences of losing a vital employee whose death or serious illness would have a significant impact on the financial or strategic position of the business. If anything happens the key person the policy will provide an immediate lump sum payment to offset any financial losses incurred by the company.

At O'Leary Financial Planning part of our job is to show you how to convert company income and/or profit into personal wealth in the most tax efficient and pragmatic way possible.

We can help you to maximise your pension contributions in a tax efficient, prudent and risk-appropriate manner and help you manage your personal financial investments and outgoings.

When thinking about what you want from your retirement, consider the following questions:

- How do you plan on spending your time in retirement?
- Where are you planning on spending your retirement?
- You have a retirement plan, if you have investments what's the money for?

By working with O'Leary Financial Planning, we will take away the financial stress and hassle of transitioning into your retirement.

We help you to utilise what you have, to live the life you want to live by looking at how your company can support you now and into retirement.

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