

RESOURCE



A Business Owners Guide to Pension Contributions

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Making a director's company pension contribution via your limited company saves you corporation tax while also saving for your retirement. It's therefore not only about putting aside way for your retirement but also a tax efficient way of using profits from your business.

Unlike personal pension contributions, employer contributions are not limited by your relevant earnings. So long as they pass HMC's 'wholly and exclusively' test they are restricted only by the annual allowance which is now £60,000.

You can also utilise unused contributions from the previous 3 years. So, if you or your employer contributed less than the annual allowance this can be aggregated and carried forward. However, in order to do this, you must have had your pension fund in place in the year in which the unused allowance is claimed.

You make pension contributions from pre-taxed company income and, as employer contributions are classified as 'allowable expenses', your business will receive tax relief, saving up to 25% in corporation tax.

Company director pension contributions are an allowable business expense providing the employer contributions passes the 'wholly and exclusively' test, meaning that HMRC deems the employer pension contribution to be wholly and exclusively for the employer's trade or profession.

This means HMRC will want to establish whether the level of total remuneration in terms of salary, dividends, bonuses, benefits in kind, pension contributions etc. is commercially 'reasonable' for the work being done.

Where the individual is a sole company director and the main generator of the company's income, the contribution is unlikely to fail this test.

HMRC may also check that the pension contributions aren't more than the company's annual profits.

So, if your company turns a profit of £30,000 in a tax year, £30,000 will likely be the maximum the company can contribute to your pension for that year. Also, if you employ staff, making sure you're making similar pension contributions to others in your company who are doing work of similar value.

Thank you for reading...

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