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Pension funding for business owners – why it makes great sense

Good business planning involves preparing for the future, and one of the most effective ways to ensure long-term financial security is through pension funding. For Small Medium Enterprise (SME) owners, investing in a pension plan offers numerous advantages that go beyond immediate financial gains.

Key advantages of investing your business profits in a Pension

Tax Efficiency

- Contributions to a pension can provide Corporation Tax Relief for the employer at 12.5% (subject to contribution limits).
- Employee's benefit from pension contribution with no Income Tax, Pay Related Social Insurance (PRSI) or Universal Social Charge (USC) (subject to 100% of Salary limit on PRSAs).
- No PRSI Liability for Employers when remunerating employees through pension contributions.

Growth Potential

- Funds invested in a pension grow tax-free until retirement, allowing for significant accumulation over time.

Flexible Access

- Pension funds can be accessed as early as age 50 if all links with the business are severed, or anytime after age 60 without severing links, providing flexibility in retirement planning.

Favorable Tax Treatment at Retirement

- A tax-free lump sum of up to €200,000 is available at retirement, with a favorable 20% tax rate for the next €300,000.

Retirement Income Options

- Options for income in retirement include a Pension Annuity or an Approved Retirement Fund (ARF). There is also the possibility to pass wealth to a spouse and children via an ARF.

Take the next step

The pension funding options available:

1

Executive Pension Plan

Make 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 Profits withdrawn via an Employer contribution to an Executive Pension result in tax relief for the Employer (subject to Revenue limits) and no immediate tax liability for the employee.

An Executive pension Plan can allow for generous contributions based on your salary including making up for any shortfall in contributions for previous years, if necessary.

2

PRSA (Personal Retirement Savings Account)

A PRSA has also become a really popular route for retirement planning with business owners in recent years. The funding rules for PRSAs have changed with effect from 1st January 2025 with contributions from employers effectively limited to 100% of the employee's salary in the relevant year.

For those that may have built up significant pension pots already or wishing to contribute less than their remuneration for year of assessment, then a PRSA maybe an appropriate option.

Deciding the best Pension route available

Business owners can choose whether to fund for their retirement using an Executive Pension or PRSA and with both products subject to differing funding rules, advice from a Financial Broker or Advisor will be key in determining the best route based on each individuals circumstances.

Other Considerations

3

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.

4

Withdraw profits as salary

Profits withdrawn in this manner will be subject to Income Tax, PRSI and USC which would be as high as 52.1% (Income Tax 40%, PRSI 4.1%*, USC 8%).

*Personal PRSI rates increased by 0.1% with effect from 1st October 2024, with further 0.1% to apply in October 2025.

For more information, speak to your Financial Broker or Advisor today.

Warning: The value of your investment may go down as well as up.
Warning: This product may be affected by changes in currency exchange rates.
Warning: If you invest in this product you may lose some or all of the money you invest.

Zurich Life Assurance plc
Zurich House, Frascati Road, Blackrock, Co. Dublin, A94 X9Y3, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurich.ie

GR: 9069 Print Ref: ZL PSA 4474 0225

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