

Save Tax And Save For Retirement By Paying Into A Pension

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Paying into a pension through your limited company

Thinking about saving for the future while keeping things tax-efficient? Paying into a pension directly from your limited company can be a smart move.

Here's how it works and why it often beats paying in personally.

How company pension contributions work

Your limited company can make employer pension contributions on your behalf just like a regular employer would, but these don't need to be done via [auto-enrolment](#), so there's less admin involved.

Instead, these payments go straight from the company to your pension provider. They don't go through your personal bank account, and you don't need to take a salary or dividend first.

You just need a registered pension scheme that accepts employer contributions (most do). Popular options include personal pensions and SIPPs (Self-Invested Personal Pensions).

The corporation tax saving

Pension contributions made by your company typically count as an allowable business expense, which means:

- They reduce your company's taxable profits
- And that lowers your corporation tax bill

Example:

If your company makes a £10,000 pension contribution and is paying 19% corporation tax, that's a **£1,900 tax saving**. If your profits fall into the marginal or upper bands for corporation tax, the savings could be even more. For example, if your profits are £55,000 (e.g. £5,000 above the small profits rate), this additional £5,000 would effectively be taxed at 26.5%, so a £5,000 pension contribution saves you £1,325 in tax and means the remaining £50,000 profit gets taxed at 19% as normal.

We often say that whilst the other tax allowances like the trivial benefits and annual event exemption are great, paying into a pension can be the big needle mover when it comes to reducing your corporation tax!

Why it can be better than paying in personally

If you pay into a pension personally, you'd typically have to:

1. Take money out of your company as a salary (which could trigger Income Tax and National Insurance), or
2. Take it out as dividends (and pay Dividend Tax)

Then you'd contribute to the pension from what's left, meaning less money gets into your pension overall as you'll be incurring personal tax.

By paying in directly from your company, you:

- Avoid Income Tax or Dividend Tax altogether
- Get more into your pension for the same company cost
- Reduce your corporation tax bill

So, paying into a pension directly from the company is a great way to extract money from the business without incurring any personal tax. Albeit, you could argue there's a big time trade-off, given you won't see that money until retirement!

A few tips and things to keep in mind:

- **The Annual Allowance:** The annual limit is £60,000 and while most don't get close to this, it's important to know that contributions above this may not receive full tax relief, unless you have unused allowance to carry forward.
- **Carry Forward Allowances:** If you've had unused allowance from the last 3 tax years, you may be able to use these too, as long as you were a member of a UK pension scheme in those years.
- **Keep it 'wholly and exclusively':** For the contribution to be tax-deductible, it must be made wholly and exclusively for the purposes of your trade, which is typically the case for genuine retirement saving.
- **Director-only schemes:** If it's just you, you typically don't need a full [auto enrolment pension](#). A standard SIPP or personal pension should do the trick. If you have employees, you will need to be aware of and comply with [auto-enrolment](#).

Need support?

It's worth noting that we aren't regulated to give anything that could be considered financial or pension advice. However, we can help advise on how the contributions work and the tax implications, so please feel free to reach out if you have any questions on the latter (support@mightyaccounting.com).