

Director's Corner

I am Con Daly, Managing Director of Moneytree Finance Limited, based in Rosscarbery in the heart of West Cork. Over the coming months, I will be offering specialist advice to company directors, under the title 'Director's Corner'.

I am confident that this will be of huge benefit to business leaders, both professionally and financially.



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Wealth Creation and Pension Planning

Wealth is created in many ways and a pension, when properly used, is the easiest and most productive way to create wealth. Operating in a tax-free environment is what makes the difference.

As business owners we are good at creating wealth in the company; however, we are not so clever at transferring that wealth from the company to the family.

Since the change in PRSA (pension) law in 2023, we now have an opportunity for directors to fund pensions more aggressively. When the government removed the BIK (benefit in kind) for contributions into PRSAs, this enabled directors to properly fund their pensions.

The tax-free part of a pension or PRSA is the single most important element. You don't pay any tax. The company doesn't pay any corporation tax. You don't pay any income tax, PRSI or USC, and there's no tax in any growth on company paid contributions.

We have a situation where a director who has a good year can decide whether to pay 12.5% corporation tax or give themselves a pay rise and pay 50% tax; or they could put it into a PRSA and pay no tax at all.

In reality, business owners often leave their pension planning until the latter stage of their career, which is a mistake because even a small amount going into pension will grow tax-free, and over the longer period will be worth more than the capital.

As your affordability increases you will be able to see that pensions are legacy and wealth creation tools.

Also, with the change in PRSA law, if you pass away before you retire the full amount, regardless of its value, goes tax-free to your spouse.

MoneyTree Finance helps lots of directors to evolve their pension. Over time, small initial amounts grow into larger amounts. While some directors start their pensions with as little as €500 to €1,000 per month, we have several business owners putting €15,000 or more a month into their pensions, viewing it as a legacy and proper wealth creation exercise.

It's more important that you start the fund so you can start the programme, and start the conversation, allowing it to evolve over time. Doing nothing means that you will not be able to avail of the massive growth opportunities in a pension.

As one of the three exit mechanisms for a director, pension planning is one that can be done while in the company. You don't have to retire, you don't have to sell the company, you can just fund the pension and you can choose every year to not pay corporation tax on some of your profits, and put that money away.

Here at MoneyTree Finance we are a CFP® (Certified Financial Planner) led team that will help you understand how your pension can evolve and grow, and in our next article we will discuss what actually happened with the PRSA change in law last year and how you can once again purchase property directly into your pension. We are a fully independent broker with multiple agencies, so we can help you with your planning without bias to any single company.

Give us a call and see how we can help you to get the best value out of your business for you and your family. Have your own financial planner on board to enable you to benefit from the exit strategies.

Next month's article will cover Property Based Self-administered PRSAs. If you want an early copy get in touch. A lot of directors are now looking at front loading their pension so that they can purchase property and put it into a tax-free environment.