



SMEs talking technically about planning for SMEs

Extracting profits & investing surplus corporate cash



This content is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice. The impact of any taxation (and any tax reliefs) depends on individual circumstances.

Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

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Learning Objectives

By the end of this session, you will be able to:

Describe retirement planning considerations for business owners

Evaluate the tax treatment of company withdrawals

Identify the practicalities and wider tax considerations when advising on corporate investments

Understand the tax and accounting treatment of companies who make investments in bonds and OEICs.



Your business is your pension

Spot the difference

“....my retirement is sorted out, I heard about this unlisted company no-one has heard of and bought up the shares with my SIPP, it'll definitely do well enough to cover my retirement and it's not too risky.....”

No-one, ever, probably

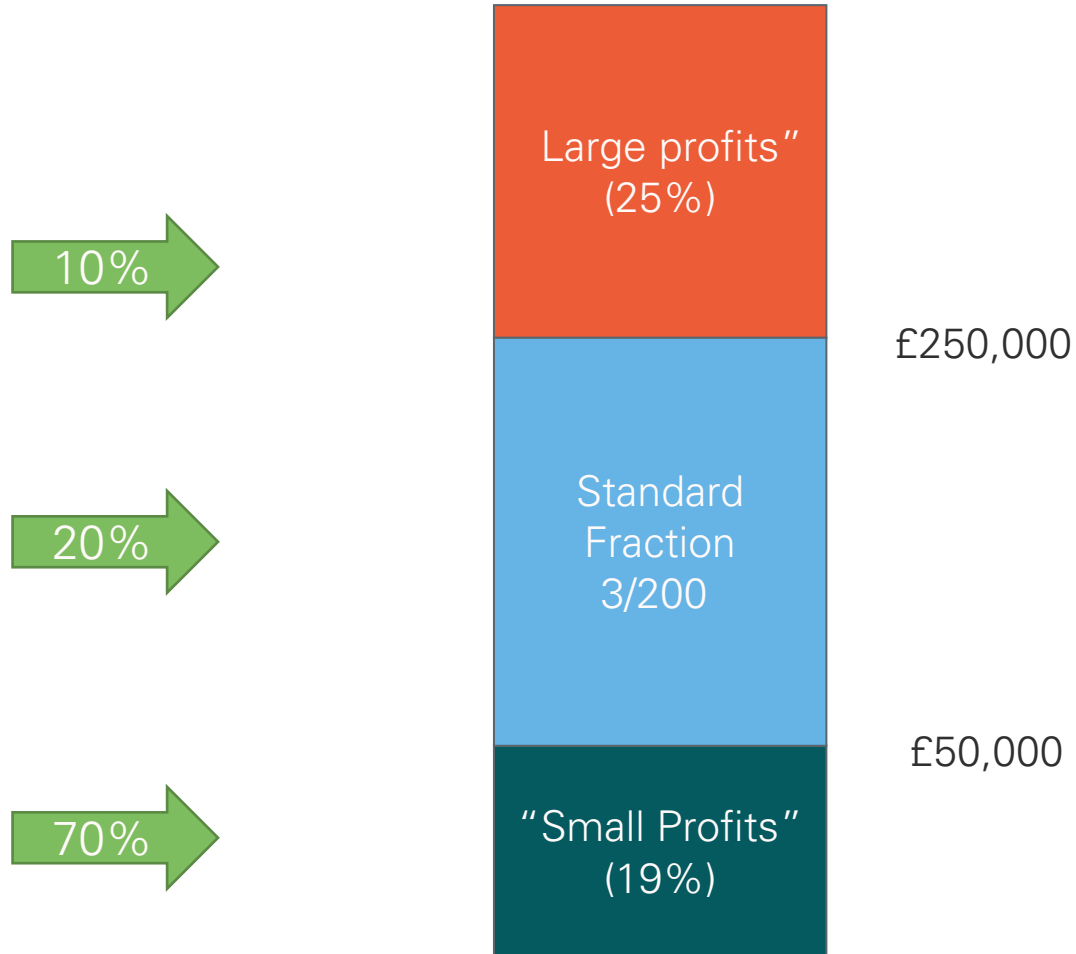
“.....my business is my pension....”

Lots of people, definitely



Corporation Tax

Corporation Tax Rates



1 April 2023

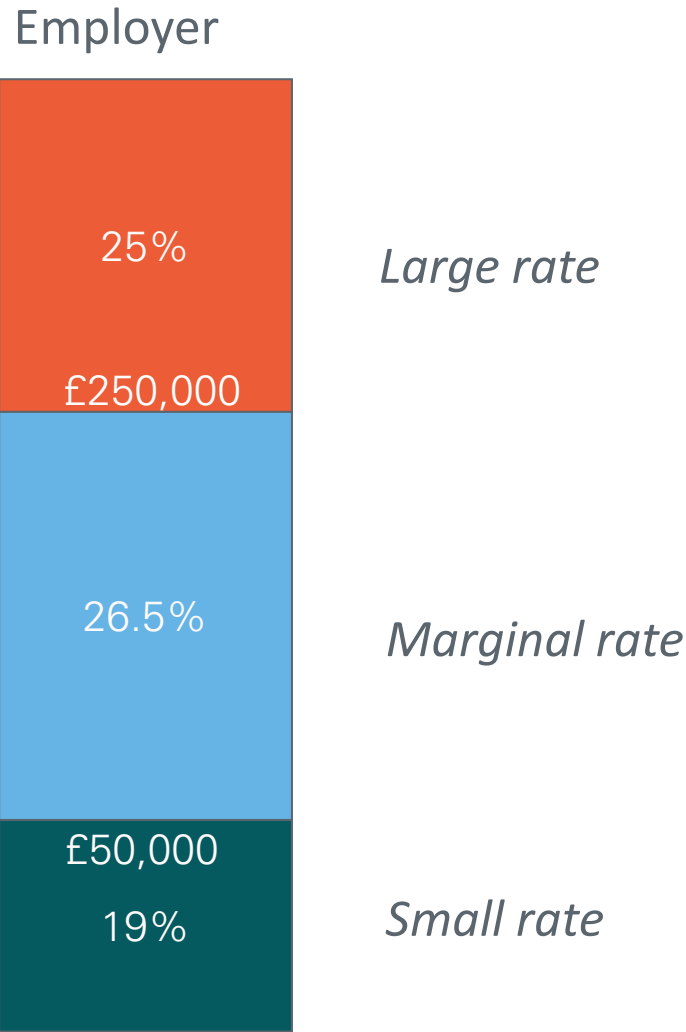
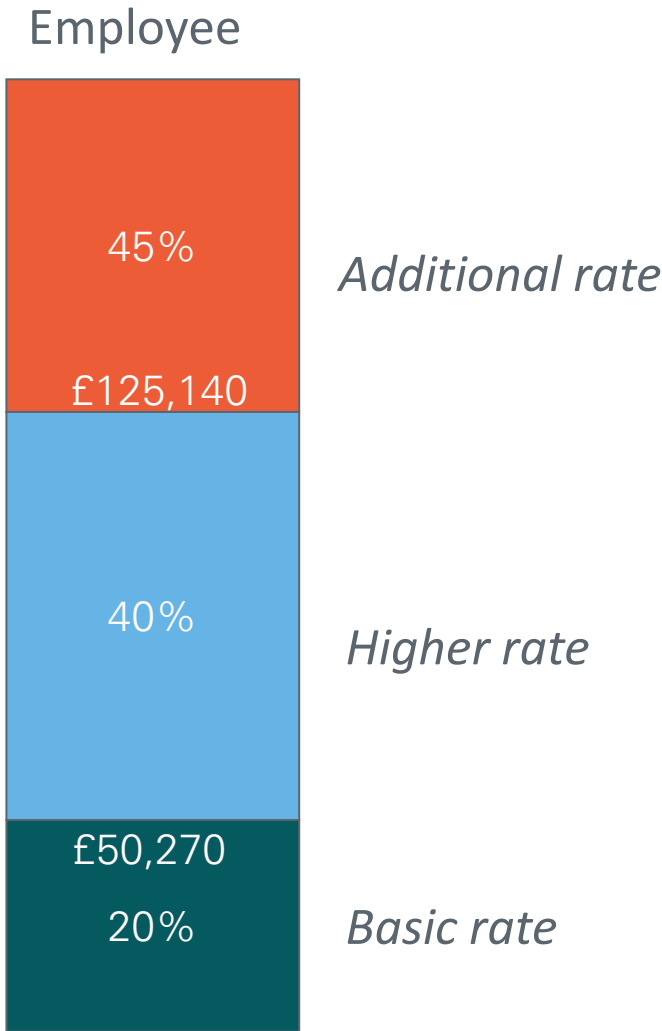
Calculating Corporation Tax

Profit		£130,000
Corp Tax	25%	£32,500
Marginal relief	£250,000	
	<u>£130,000</u>	
3/200	£120,000	£1,800
	Tax due	£30,700
	Effective Rate	23.62%

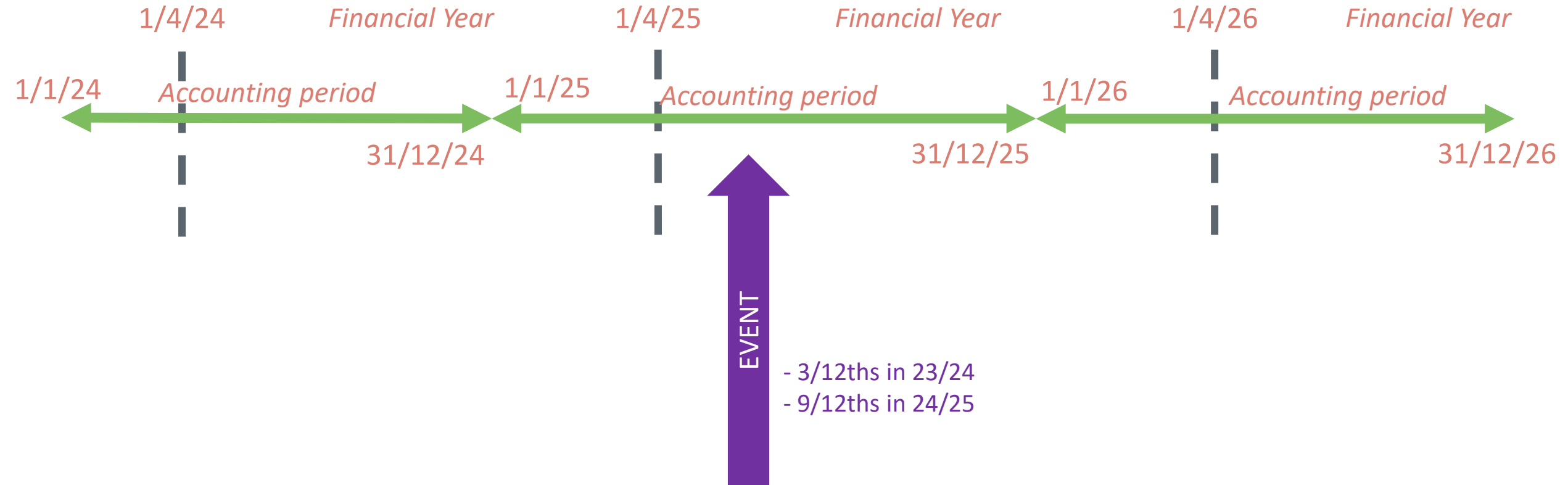
Effective Rates

Profit	19%			26.5%			Total Tax	Effective Rate
£10,000	£10,000	19%	£1,900				£1,900	19.00%
£20,000	£20,000	19%	£3,800				£3,800	19.00%
£30,000	£30,000	19%	£5,700				£5,700	19.00%
£40,000	£40,000	19%	£7,600				£7,600	19.00%
£50,000	£50,000	19%	£9,500				£9,500	19.00%
£60,000	£50,000	19%	£9,500	£10,000	26.5%	£2,650	£12,150	20.25%
£70,000	£50,000	19%	£9,500	£20,000	26.5%	£5,300	£14,800	21.14%
£80,000	£50,000	19%	£9,500	£30,000	26.5%	£7,950	£17,450	21.81%
£90,000	£50,000	19%	£9,500	£40,000	26.5%	£10,600	£20,100	22.33%
£100,000	£50,000	19%	£9,500	£50,000	26.5%	£13,250	£22,750	22.75%
£110,000	£50,000	19%	£9,500	£60,000	26.5%	£15,900	£25,400	23.09%
£120,000	£50,000	19%	£9,500	£70,000	26.5%	£18,550	£28,050	23.38%
£130,000	£50,000	19%	£9,500	£80,000	26.5%	£21,200	£30,700	23.62%
Profit	19%			26.5%			Total Tax	Effective Rate
£130,000	£50,000	19%	£9,500	£80,000	26.5%	£21,200	£30,700	23.62%
£160,000	£50,000	19%	£9,500	£110,000	26.5%	£29,150	£38,650	24.16%
£170,000	£50,000	19%	£9,500	£120,000	26.5%	£31,800	£41,300	24.29%
£180,000	£50,000	19%	£9,500	£130,000	26.5%	£34,450	£43,950	24.42%
£190,000	£50,000	19%	£9,500	£140,000	26.5%	£37,100	£46,600	24.53%
£200,000	£50,000	19%	£9,500	£150,000	26.5%	£39,750	£49,250	24.63%
£210,000	£50,000	19%	£9,500	£160,000	26.5%	£42,400	£51,900	24.71%
£220,000	£50,000	19%	£9,500	£170,000	26.5%	£45,050	£54,550	24.80%
£230,000	£50,000	19%	£9,500	£180,000	26.5%	£47,700	£57,200	24.87%
£240,000	£50,000	19%	£9,500	£190,000	26.5%	£50,350	£59,850	24.94%
£250,000	£50,000	19%	£9,500	£200,000	26.5%	£53,000	£62,500	25.00%

Tax Relief



What year?



Wholly and Exclusively

Will tax relief be granted for an employer contribution?

.....the same rules apply as for any other expense In particular, any contribution must be paid wholly and exclusively for the purposes of the trade for it to be deductible (ICTA88/S74 (1) (a) for corporation tax and ITTOIA05/S34 for income tax).....

.....it is important to emphasise that as part of the cost of employing staff pension, contributions will, prima facie, be allowable.....,

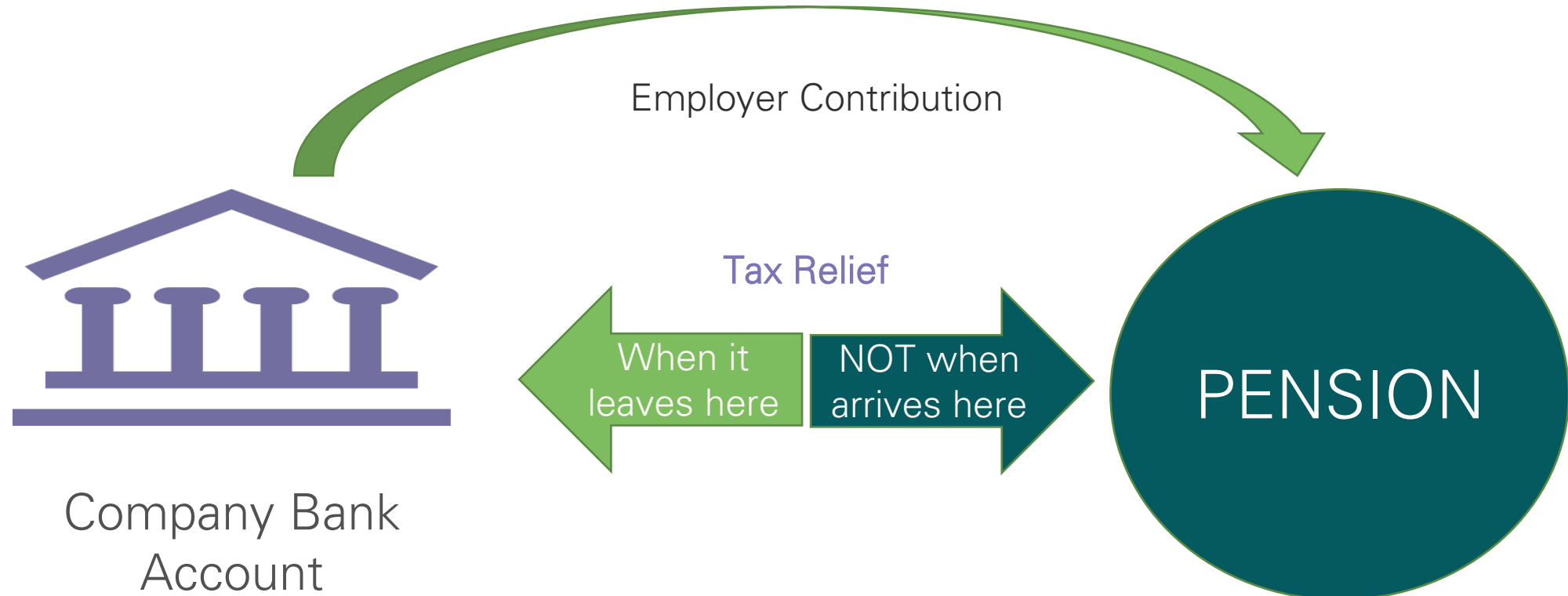
..... Whether there was a non-trade purpose for the payment will depend upon the facts of the individual case.

.....One situation is where the level of the remuneration package is excessive for the value of the work undertaken

..... accept that the contributions are paid wholly & exclusively where the remuneration package paid in respect of a director of a close company, or an employee who is a close relative or friend of the director or proprietor (where the business is unincorporated) is comparable with that paid to unconnected employees performing duties of similar value.....

Answer - Probably! Sort it out with the accountant.

Wholly and Exclusively



Tax Relief

Tax relief

- Individual Contributions
- Tax Years
- 100% of relevant earnings or £3,600 if higher

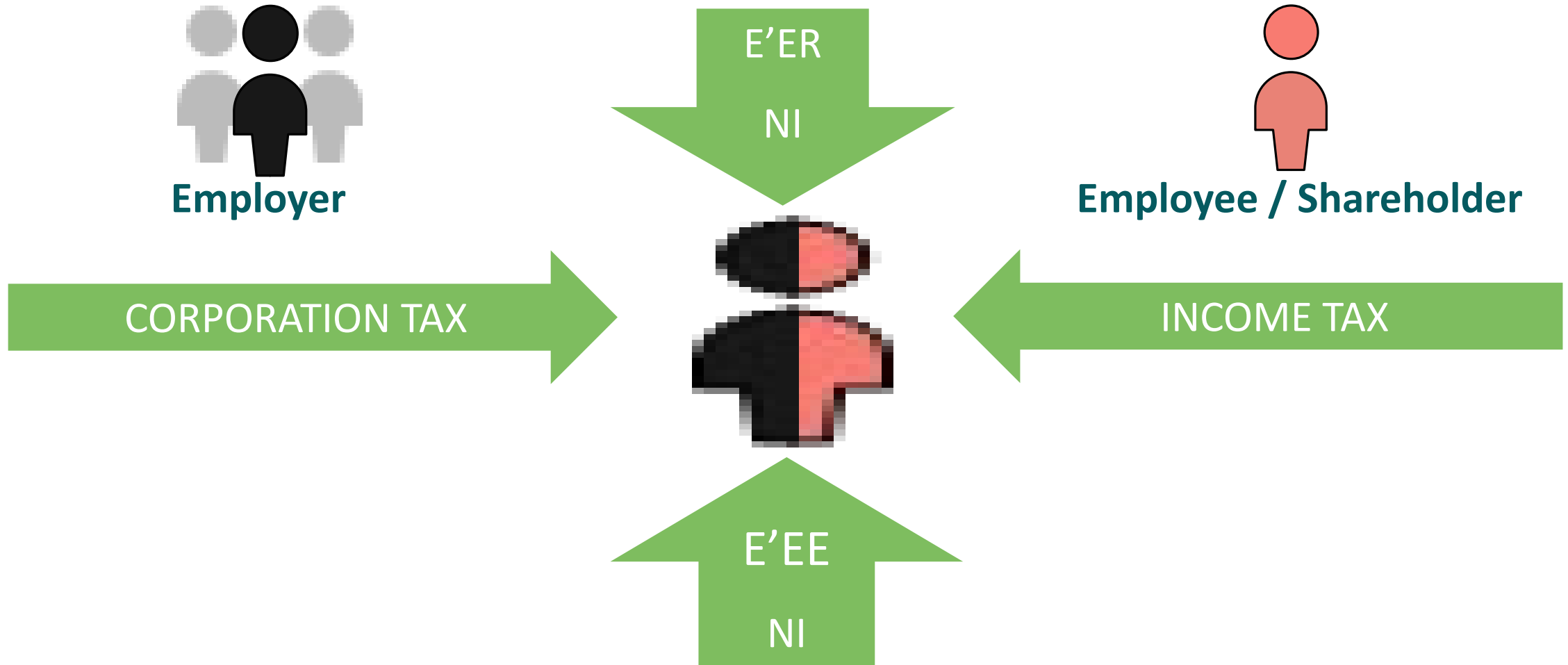
Employer Contributions

- **NOT** linked to Salary
- Employer may get corporation tax relief
- Tax Relief granted in period of account the payment is made.

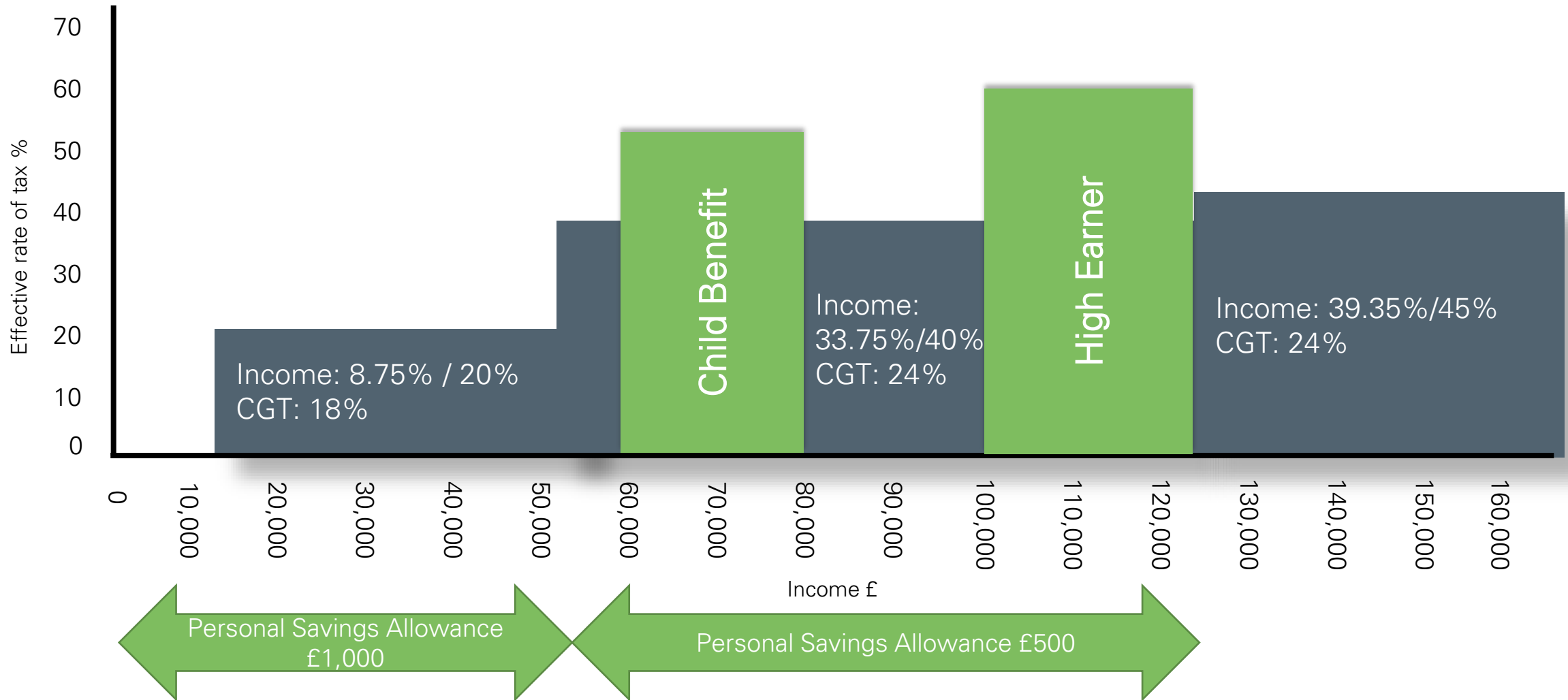


Tax and National Insurance

A foot in both camps

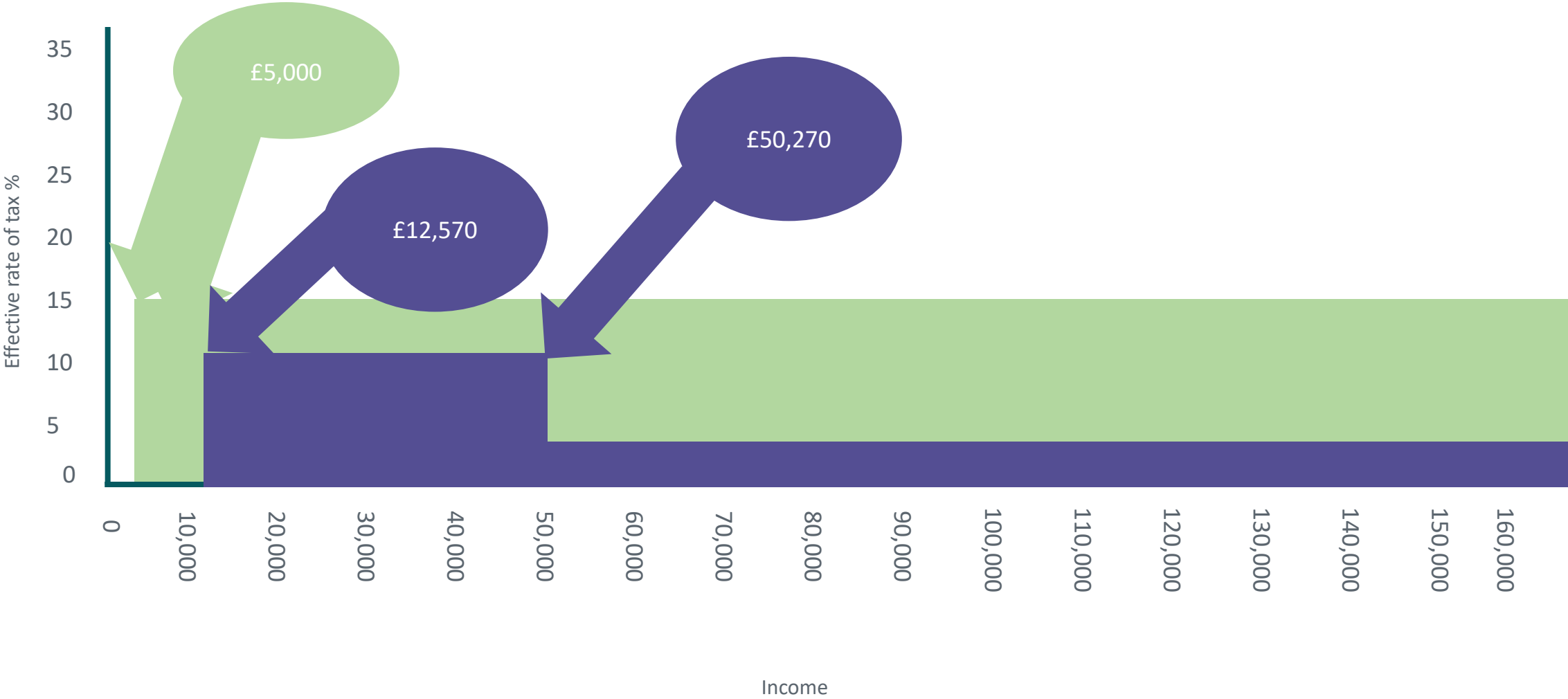


UK Income Tax Landscape



The full amount of bond gains and interest and dividends are included at Step 1 of the UK income tax computation.

NI Landscape





Dividends

Dividend Tax Allowance 2025/26

£500 @ 0%

BRT	8.75%
HRT	33.75%
ART	39.35%

How dividends are paid (£1,000 of profit)



* After the dividend nil rate of taxation

Effective Rates of Tax

25% CT

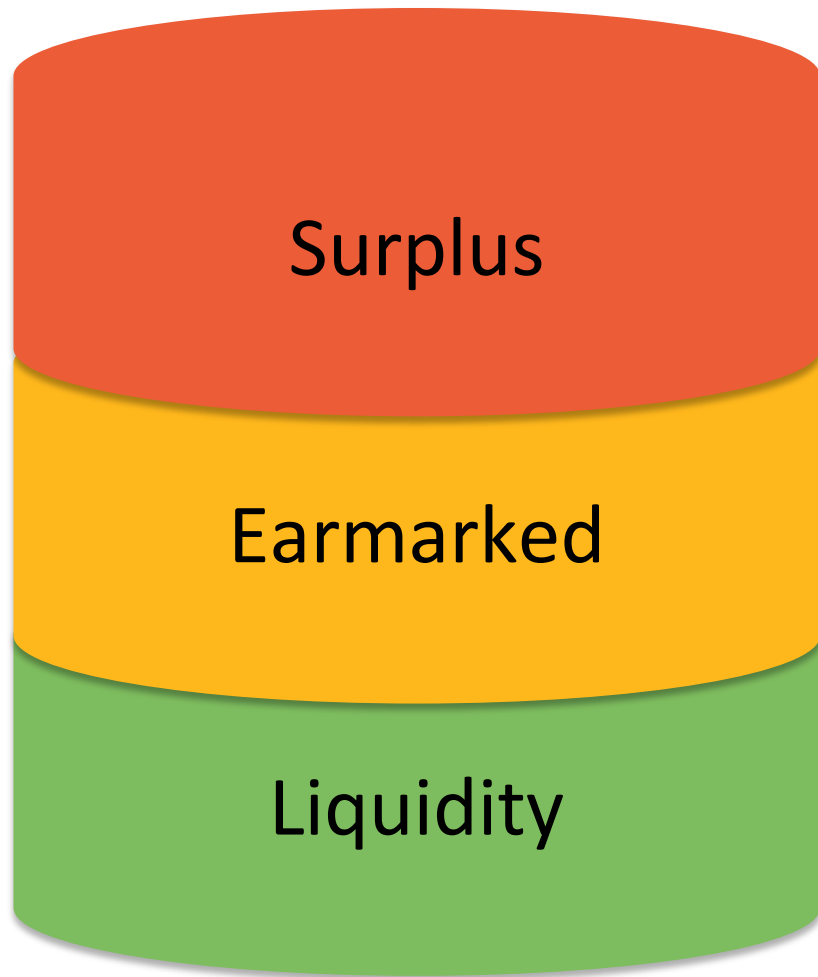
		Corporation Tax	Employer National Insurance	Employee National Insurance	Income Tax (assuming 25% tax free cash)	Dividend Tax	Per £1,000 of business profit in your pocket	Percentage rate of taxation on the £1,000	Per £1,000 of business profit in your pocket	Percentage rate of taxation on the £1,000
Basic Rate	Salary	0.00%	15.00%	8.00%	20.00%	0.00%	£626.09	37.39%	£626.09	36.73%
	Dividend	19.00%	0.00%	0.00%	0.00%	8.75%	£739.13	26.09%	£684.38	31.56%
	Pension Contribution	0.00%	0.00%	0.00%	15.00%	0.00%	£850.00	15.00%	£850.00	15.00%
Higher Rate	Salary	0.00%	15.00%	2.00%	40.00%	0.00%	£504.35	49.57%	£504.35	49.03%
	Dividend	19.00%	0.00%	0.00%	0.00%	33.75%	£536.63	46.34%	£496.88	50.31%
	Pension Contribution	0.00%	0.00%	0.00%	30.00%	0.00%	£700.00	30.00%	£700.00	30.00%
Additional Rate	Salary	0.00%	15.00%	2.00%	45.00%	0.00%	£460.87	53.91%	£460.87	53.43%
	Dividend	19.00%	0.00%	0.00%	0.00%	39.35%	£491.27	50.87%	£454.88	54.51%
	Pension Contribution	0.00%	0.00%	0.00%	33.75%	0.00%	£662.50	33.75%	£662.50	33.75%

* After the dividend nil rate of taxation

The Best Salary

	Net Income	£5,000	£6,500	£12,570
Salary	Profit Needed	£5,000	£6,725	£13,705
	Employers NI	£0	£225	£1,135
	Effective Reduction	0%	3.35%	8.28%
Dividend (19% CT)	Profit Needed	£6,172.84	£8,024.69	£15,518.52
	Total Profit Needed	£1,172.84	£1,524.69	£2,948.52
	Effective Reduction	19%	19%	19%
Dividend (25% CT)	Profit Needed	£6,666.67	£8,666.67	£16,760.00
	Total Profit Needed	£1,666.67	£2,166.67	£4,190
	Effective Reduction	25%	25%	25%

The crux of it all



Eroding value
or
not funding
retirement?



Mary

Here's somethings about ...

- Early 40s, married to Ted, who is self employed
- She's the main breadwinner
- 1 young child, 5 years
- IT contractor, through limited company
- Contracts expected to be around £200,000 p.a. as she is back contracting full time
- Her company has been making £3,000 p.a. pension contributions to her SIPP for the last 5 years.

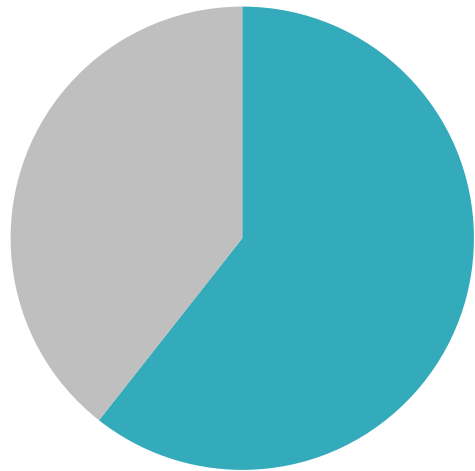
How much AA does she have left?

Input Year	2022/23	2023/24	2024/25	2025/26
Pension Inputs	£3,000	£3,000	£3,000	£0
Unused	£37,000	£57,000	£57,000	£60,000
Available in 2025/26				£211,000

Decision Time

SALARY
£12,570
DIVIDENDS
£140,676
PENSION
£0
CO BANK AC
£0

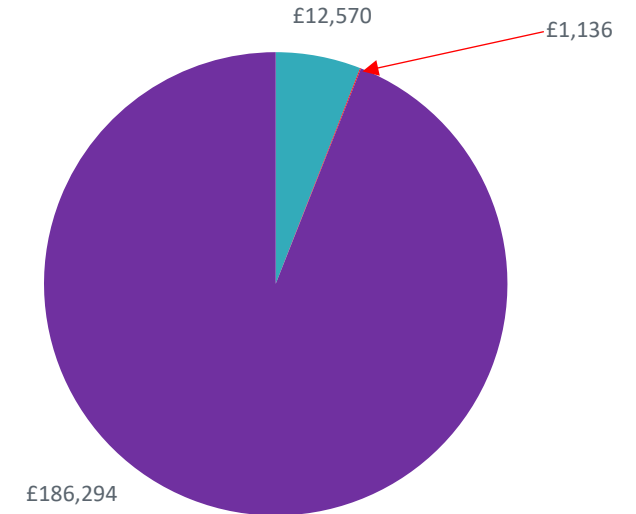
£91,993



■ Mary ■ HMRC

- Tax inefficient extraction – relatively high tax (c43%)
- Significant cash for living expenses.
- No funds retained in company – future dividend source
- Higher rate tax liability
- Lost personal allowance
- Child benefit charge to pay
- No pension provision

SALARY
£12,570
DIVIDENDS
£0
PENSION
£186,294
CO BANK AC
£0



■ Mary ■ HMRC ■ Pension

- Reduced taxation (c0.30%)
- Less money for living expenses
- No funds retained in company – future dividend source
- No tax liability (National Insurance £1,136)
- Personal allowance retained
- No Child benefit charge to pay
- Annual Allowance and carry forward used (almost)

Or just take what is needed

Discretionary	
Eating out and takeaways	200
Clothing	150
Gym / Fitness Club	50
Beauty Products	100
Subscriptions (magazine, Netflix, etc.)	20
Professional / Club dues	40
Hobbies and Sports	60
Holidays	450
Gifts/Presents	100
Total	£1,170

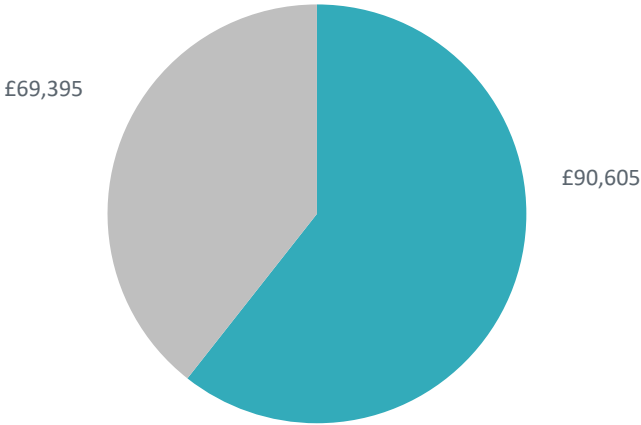
Essential / Lifestyle	
Mortgage	£1,700
Buildings and Contents	£210
Council Tax	£270
Gas / Electric	£145
Water	£45
Phone(s)	£80
Internet	£30
TV Licence Fees	£140
All the other essential stuff	£100
Total	£2,720

$$£1,170 + £2,720 = £3,890$$

$$£3,890 \times 12 = £46,680$$

Swap excess dividends for a pension

Salary & Dividend



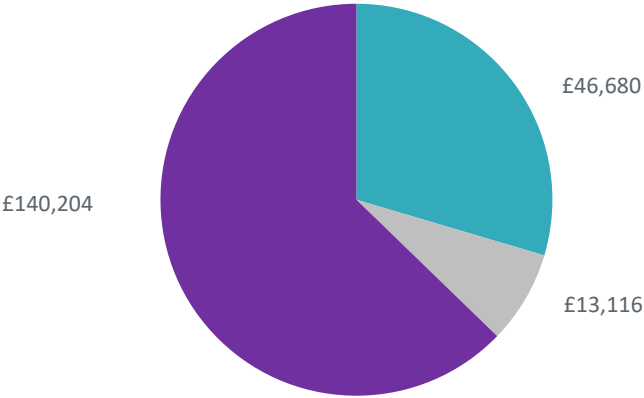
■ Mary ■ HMRC

SALARY
£12,570
DIVIDENDS
£140,676
PENSION
£0

DIVIDEND SWAP?

<i>Before</i>	<i>After</i>
Bank	Bank
£108,006	£46,680
	£61,326
Pension	Pension
£0	£140,204

Salary & Dividend
& Pension



■ Mary ■ HMRC ■ Pension

SALARY
£12,570
DIVIDENDS
£37,333
PENSION
£140,204

@20% = 94.33%
@40% = 60.03%
RISK FREE RETURN?

How much AA does she have left?

Input Year	2022/23	2023/24	2024/25	2025/26	2026/27
Pension Inputs	£3,000	£3,000	£3,000	£140,204	£0
Unused	£37,000	£57,000	£57,000	£60,000	£60,000
Used by 25/26	£37,000	£43,204	£0	£60,000	N/a
Unused by 25/26	£0	£13,796	£57,000	£0	N/a
Available in 2026/27					£130,796

The easy way

Extracting Company Profits Tool

built by M&G

Tax Year 2025/26

RESET

Pre change position

Scottish Tax Payer

No

Available Profits

£200,000

Salary Paid

£12,570

Dividends Paid

£140,676

Gross value of individuals pension

Paid gross incl. OPS, RACs, AVCs

£0

Relief at Source incl. PP, GPP

£0

Employer Contributions

£0

Change (use a - for reductions)

Salary Paid

£0

Dividends Paid

-£103,343

Employer Contributions

£140,204

After change

Salary

£12,570

Dividends

£37,333

Paid gross incl. OPS, RACs, AVCs

£0

Relief at Source incl. PP, GPP

£0

Employer Contributions

£140,204

Assumed rate of tax on pension income

20%

Reduction in individuals bank account

£61,326

Increase in pension provision

£140,204

Amount after PCLS and tax

£119,173

Return on bank account reduction

94.33%

Short Summary

Pre Change

After change

Difference

Individual Bank Account

£108,006

£46,680

-£61,326

-57%

Company Bank Account

£0

£0

-£0

-33%

Pension Contributions

£0

£140,204

£140,204

Infinite Increase

HMRC total take

£91,993

£13,116

-£78,878

-86%

Detailed View

Individual

Pre Change

After change

Difference

Salary

£12,570

£12,570

£0

No change

Plus Dividend received

£140,676

£37,333

-£103,343

-73%

Less Income Tax

£45,240

£3,223

-£42,017

-93%

Less National Insurance

£0

£0

£0

No change

Less Contributions gross

£0

£0

£0

No change

Net Income

£108,006

£46,680

-£61,326

-57%

Less Contributions paid net

£0

£0

£0

No change

Cash remaining

£108,006

£46,680

-£61,326

-57%

Employer

Pre Change

After change

Difference

Available Profits

£200,000

£200,000

£0

No change

Less Dividend Paid

£140,676

£37,333

-£103,343

-73%

Less Employer Pension Contributic

£0

£140,204

£140,204

Infinite Increase

Less Corporation Tax

£45,618

£8,757

-£36,861

-81%

Less Salary Paid

£12,570

£12,570

£0

No change

Less Employers National Insurance

£1,136

£1,136

£0

No change

Profit remaining

£0

£0

-£0

-33%

Pension Contributions

£0

£140,204

£140,204

Infinite Increase

This tool will enable you to sit with a client and discuss the different options that they have for extracting profits from their business. You can input a client's current remuneration structure and highlight the difference adjusting this structure can benefit them and possibly mitigate the tax and national insurance payable to HMRC.

The above is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which is subject to change without notice. Every care has been taken as to its accuracy, but it must be appreciated that neither M&G nor its representatives can accept any responsibility for loss, however caused, suffered by any person who has acted or refrained from acting as a result of material contained in this calculator.

Please note that the tool uses Category A National Insurance. Any employment allowance which may be available is not taken into account. The employment allowance is not available for sole owner/directors.

Please note, this tool will cease to operate at the end of the tax year displayed above.

Tax legislation states that that the personal allowance may be deducted in the way which will result in the greatest reduction in the taxpayer's liability to income tax. The calculator however proceeds on the basis that it is offset firstly against non-savings income, then savings income and then dividend income. In particular circumstances, a different order may produce a more beneficial result for the individual.

Plan B, and beyond

“Business is my pension”

- b) Can't sell when you want?
- c) Can't get what you want?
- d) Usually tax free on death (BPR 100%/50%)
- e) Creditor risk?
- f) Entrepreneurs relief (risk of retained profits)
(now called Business Asset Disposal Relief)
- g) Would you advise a client to invest not only in a single asset class, but a single company share (probably unlisted) for retirement?



Investing surplus company cash

Investing



- Not all companies have investable funds
- Our focus today is on companies able to tie funds up for a minimum of five years

Three is the magic number – yes it is!

Financial Adviser

Company Director



Company Accountant

Different shapes and sizes



Big company



Small company



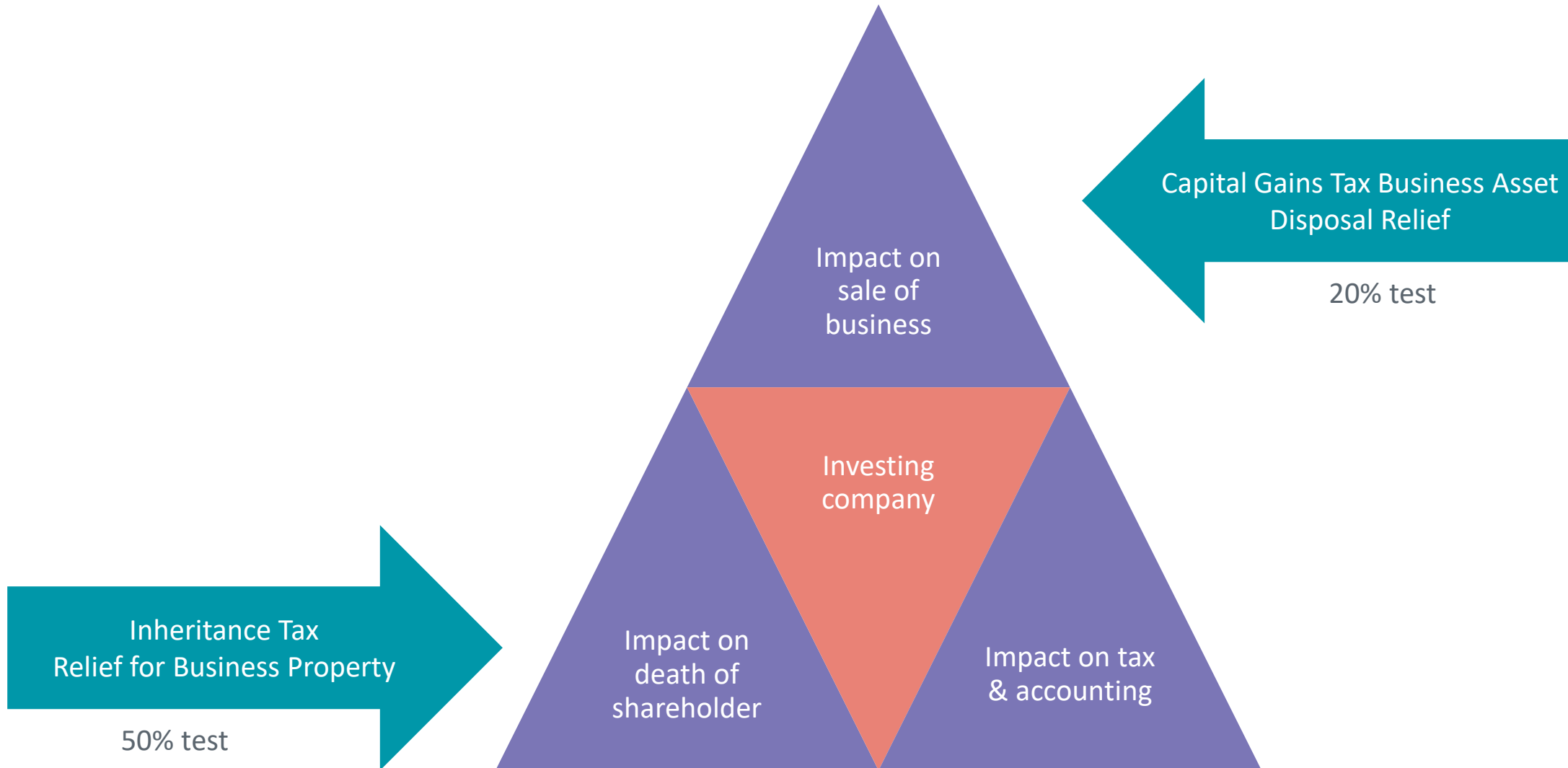
Investment company

Advice issues

~~Attitude
to
Risk~~

~~Capacity
for
Loss~~

Tax concerns



IHT reliefs – wef 6 April 2026



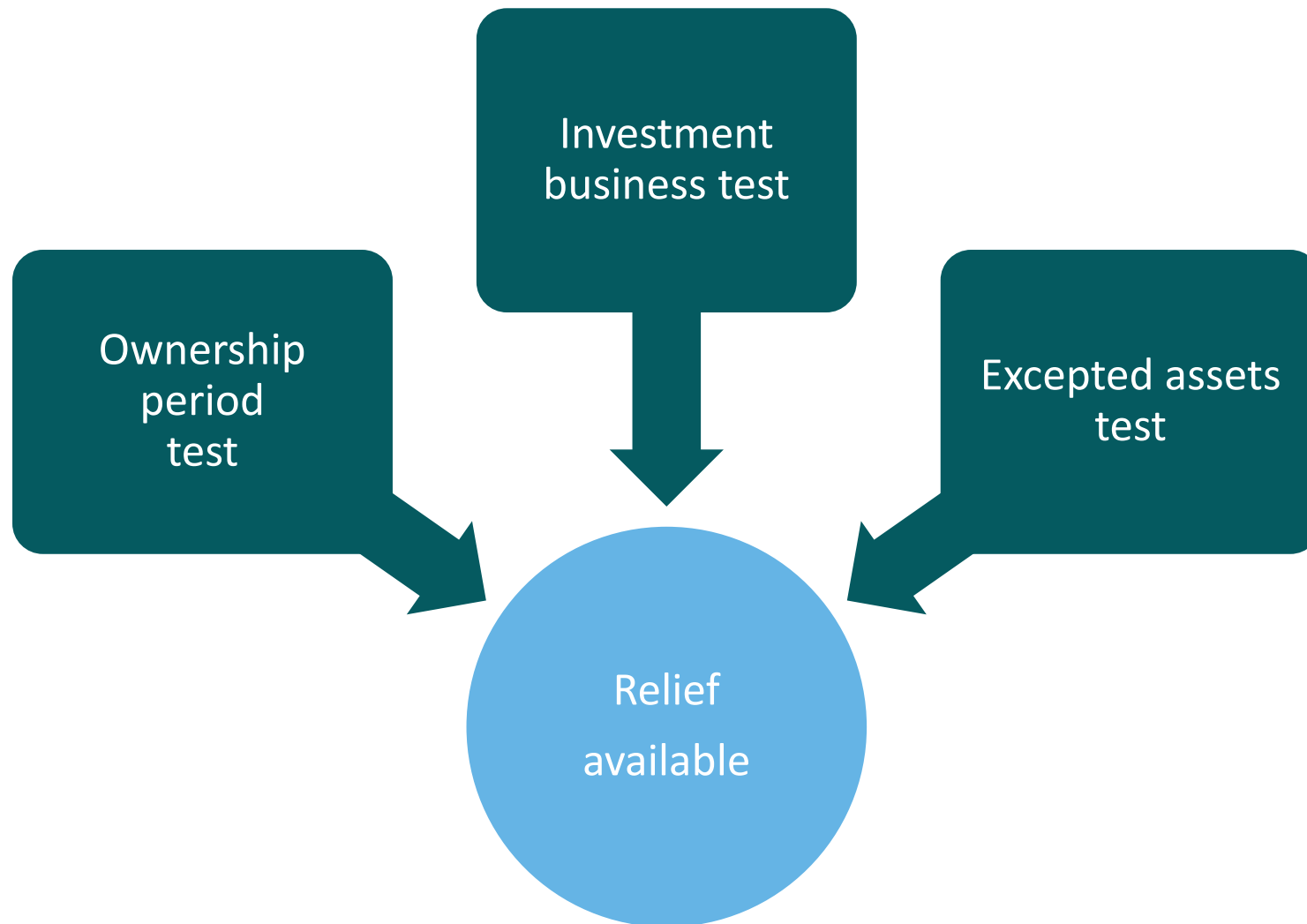
Qualifying Business Assets



Qualifying Agricultural Assets

£1m limit for 100% relief
50% relief for assets over limit

Business Relief Test



Investment Business

The company will be trading unless its business consists wholly or mainly of holding investments.

A generous test as “mainly” simply means more than 50%. HMRC will look at the main activities, assets, income and gains.



Excepted Assets



Trading business

Investment

Barclays Trust Company vs HMRC



Company turnover - £600k

Cash - £450k

Working Capital - £150k

Surplus = £300k

Special Commissioner

“Was the £300,000 cash held by the company required for future use for the purposes of the business?”

“This is a question of fact and on the evidence before me I cannot find that it was so required.”

In my opinion ‘required’ implies some imperative that the money will fall to be used upon a given project or for some palpable business purpose.”

Business Asset Disposal Relief (BADR)



2024/25

10%



2025/26

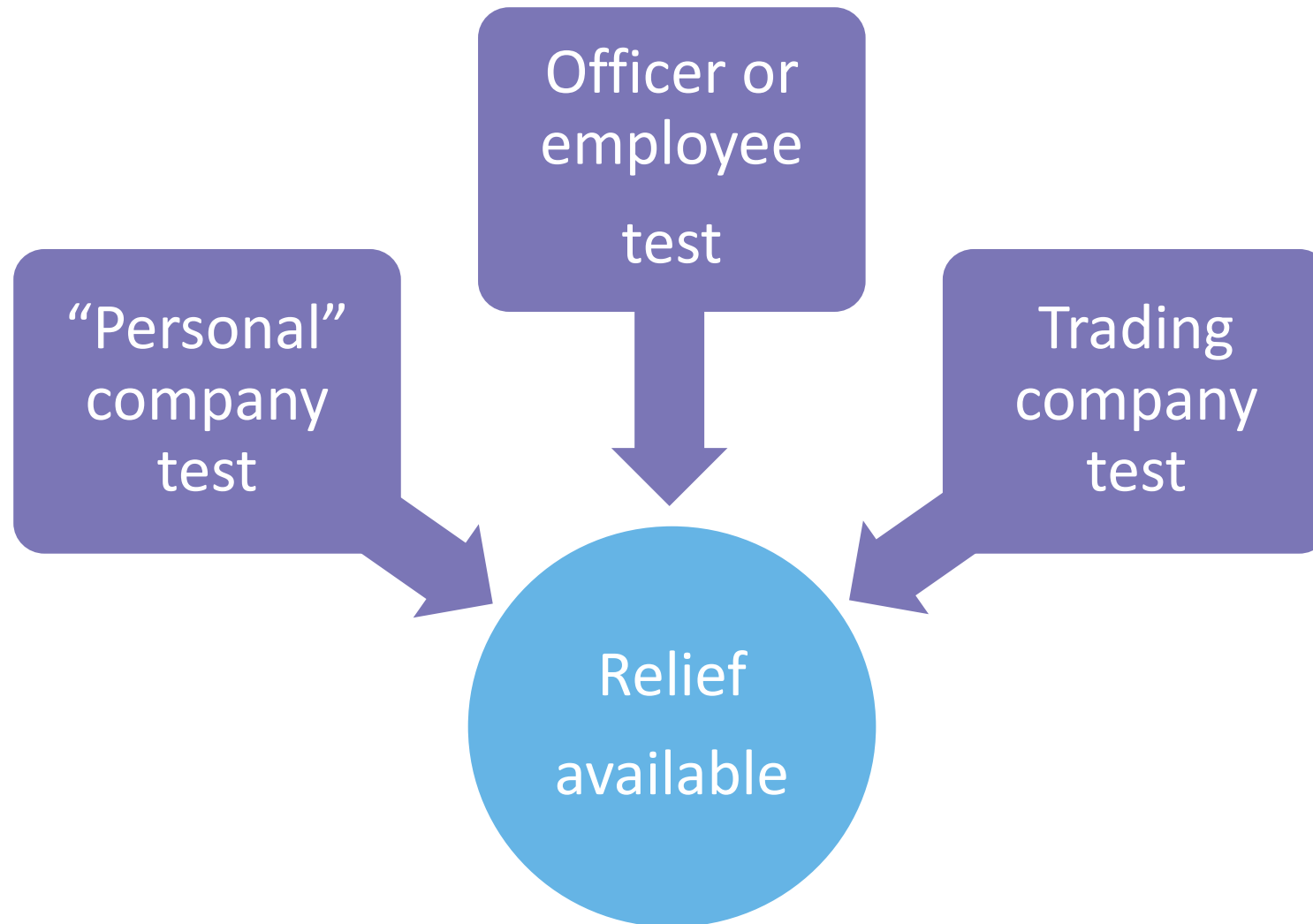
14%



2026/27

18%

Business Asset Disposal Relief (BADR) Test



Trading company?



...Most companies and groups will have some activities that are not trading activities. The legislation provides that such companies and groups still count as trading if their activities “... do not include to a substantial extent activities other than trading activities”...

..... The question to ask is how should a company's non-trading activities be measured to assess whether they are substantial?

The 20% rule

Investment income

Versus total income of company

Time and expenses on investment activities

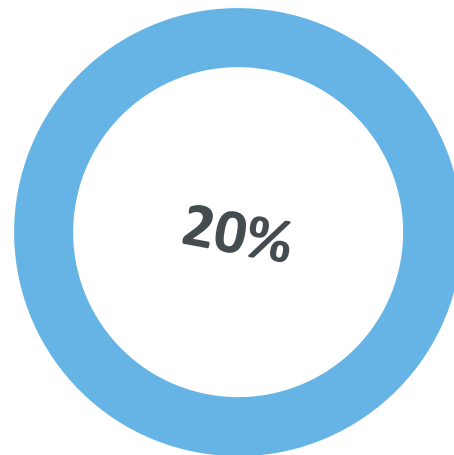
Versus total company time and expenses

Value of investments

Versus total company assets

Company history

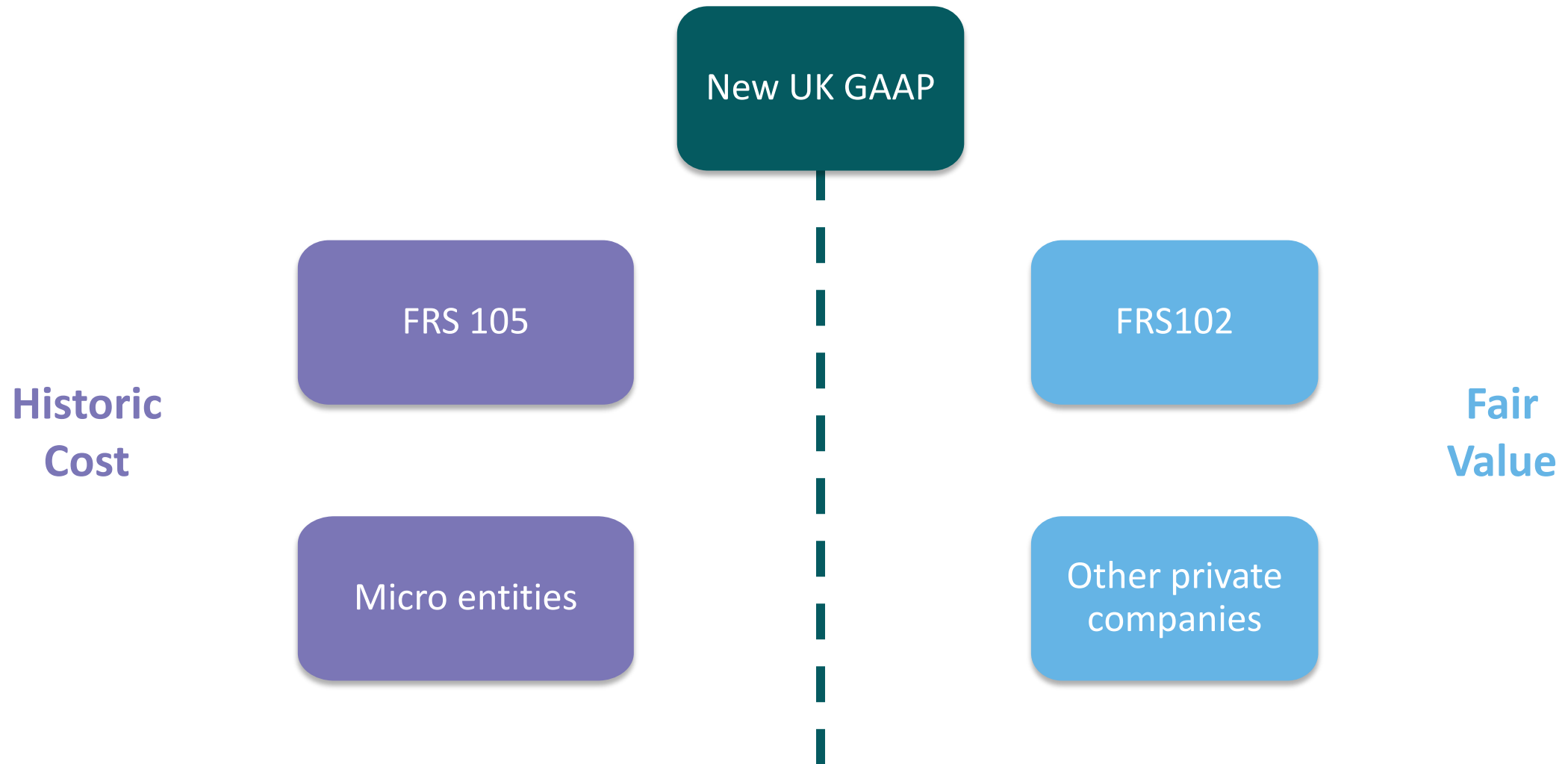
Versus total company assets



Shares disposed after **5 April 2020**, must satisfy the conditions for **2 years** prior to disposal



Accounting Standards



Micro Entities

Turnover

£1,000,000 (or less)

Employees

10 (or less)

Balance Sheet

£500,000 (or less)

Two out of three must apply

Micro Entities



Fair Value





Corporate Investment Options

Potential Investments



OEIC

Must distribute net income



Insurance Bond

Non-income producing



Corporate investing using Bonds

Who can't or shouldn't invest in a bond?



Unincorporated associations (e.g. clubs and societies) are not a legal entity and therefore **cannot** invest in a bond.



Charitable trusts and charitable companies **shouldn't** invest in a bond as they are not qualifying investments for charities.

Bond options



Onshore (uk) Life Assurance Bond

- Up to two lives assured
- Ends – death of last life assured
- Cash in at any time
- Taxed fund -yes



Offshore Capital Redemption Bond or Offshore Life Assurance Bond

- Up to ten lives assured or CRO
- Ends – death of last life assured or 99-year term
- Cash in at any time
- Taxed fund -no

Corporate owned bond taxation



- Taxed under loan relationship rules.
- Tax treatment follows the accounting treatment for the company.
- UK chargeable event rules not relevant
- No 5% tax deferred allowance
- Partial vs segment surrender not relevant

UK bonds

20%
TAX
CREDIT

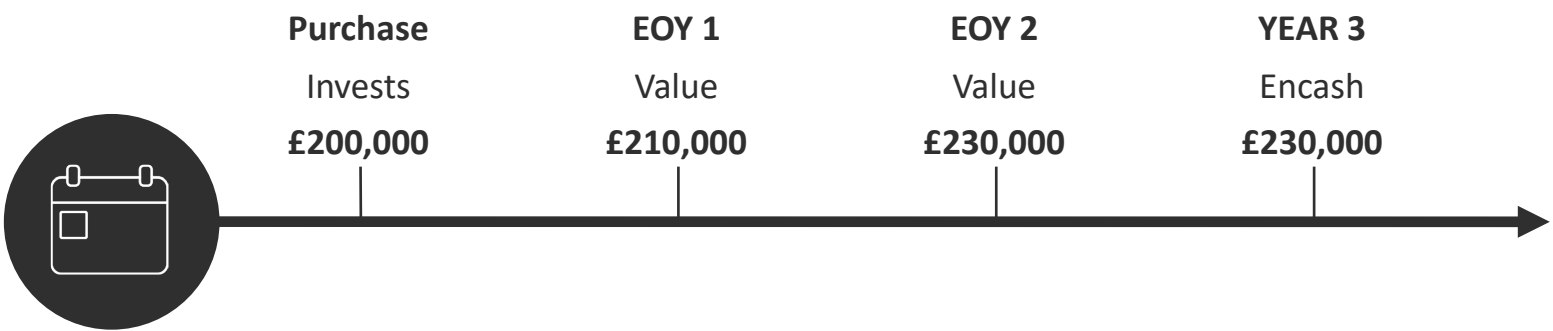
Disposals
(i.e. a 'related transaction')



Annual increases



UK Bond

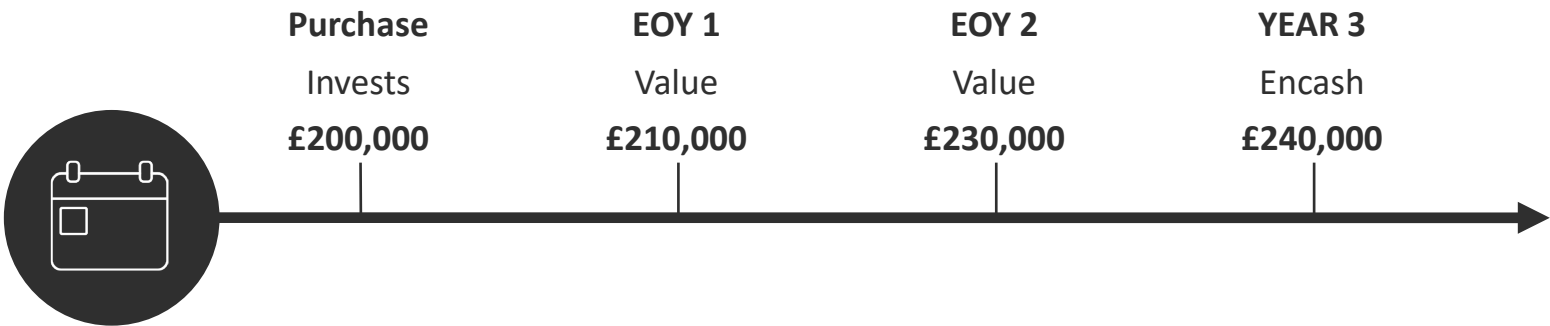


Micro Company Ltd (Historic Cost)		
EOY 1	Value £200,000	No tax
EOY 2	Value £200,000	No tax
YEAR 3	Encashed £230,000	NTC* (grossed up) £37,500
£37,500 profit taxed @ 26.5% £9,937.50		
Tax treated as paid and available for CY offset (£7,500)		
Tax payable £2,437.50		

Large Company Ltd (Fair Value)		
EOY 1	Value £210,000	NTC £10,000@26.5% £2,650
EOY 2	Value £230,000	NTC £20,000@26.5% £5,300
YEAR 3	Encashed £230,000	Profit (grossed up) £37,500 - £30,000
£7,500 profit taxed @ 26.5% £1,987.50		
Available for CY offset (£7,500 -£1,987.50) (£5,512.50)		

*non trading credit

Non UK Bond



Micro Company Ltd (Historic Cost)		
EOY 1	Value £200,000 (historic cost)	No tax
EOY 2	Value £200,000 (historic cost)	No tax
YEAR 3	Encashed £240,000	NTC* £40,000
£40,000 profit taxed @ 26.5%		£10,600
No CY offset		

Large Company Ltd (Fair Value)		
EOY 1	Value £210,000	NTC £10,000@26.5% £2,650
EOY 2	Value £230,000	NTC £20,000@26.5% £5,300
YEAR 3	Encashed £240,000	Profit £40,000 - £30,000
£10,000 profit taxed @ 26.5%		£2,650 (£10,600 total)
No CY offset		

*Non trading credit

Bond Assignments

Can a bond be assigned out the company?

Bond Assignments by way of gift between individuals



Assignor



Gift must be
“outright”



Assignee

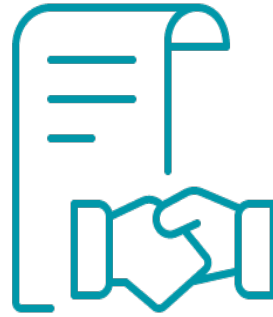
Key Point

The rules for assignment by individuals and trustees are not the same for companies

Assigning a bond owned by a company



Assignor



Reorganisation?



Assignee

Key Point

Deed of assignment will need to be drafted by company solicitor

Key Point

Might be a tax event for the company depending on the circumstances

Assigning a bond owned by a company



Assignor



Reward for
services



Assignee
(Director or
Employee)

Key Point

Deed of assignment will need to be drafted by company solicitor

Key Point

It will be a tax event for the company and will have salary or dividend tax implications for the assignee

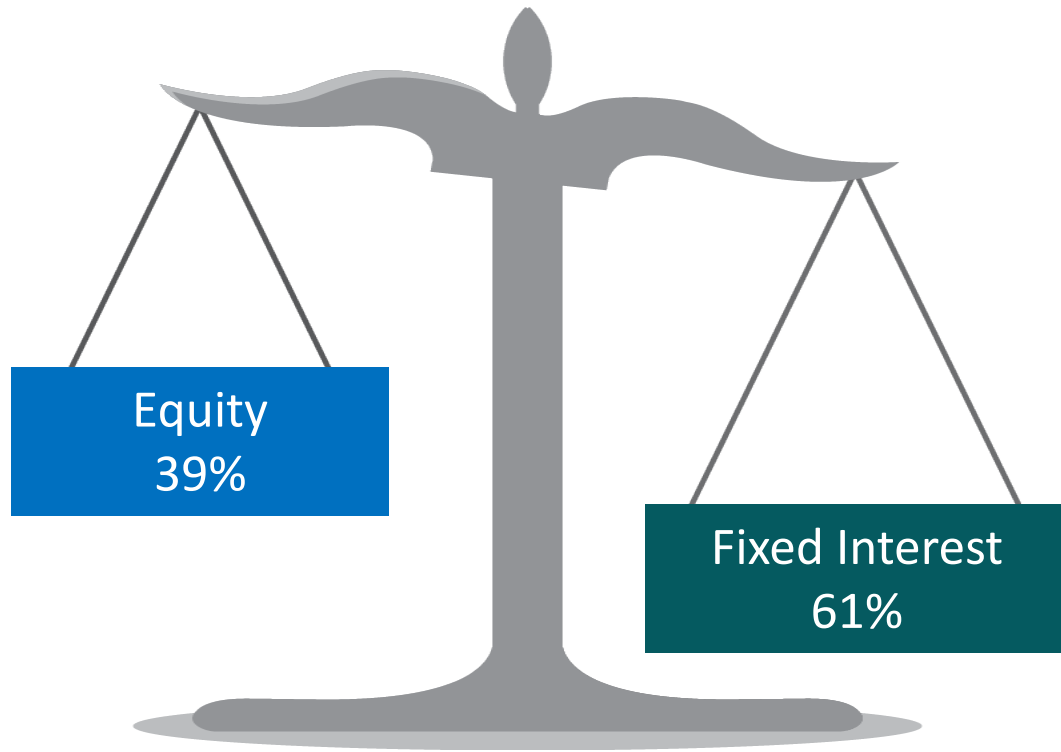
Key Point

No mechanism in tax rules for assignee to offset tax paid by company on subsequent chargeable events (double taxation?!)

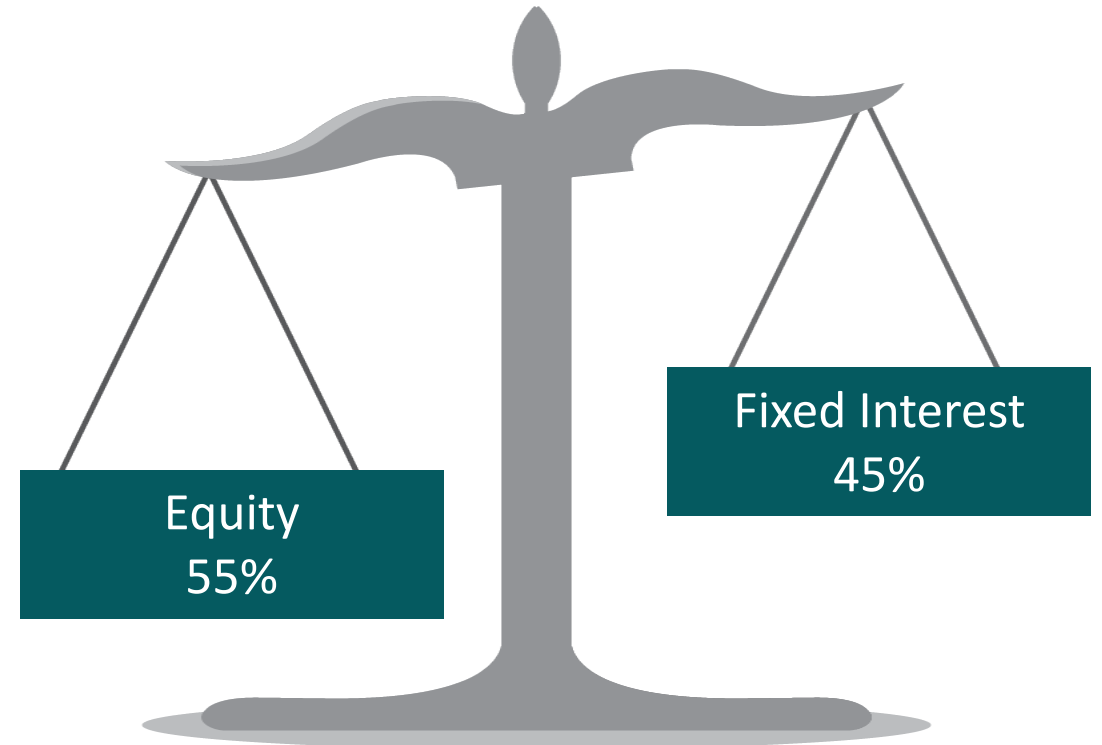


Corporate investing using OEICs

OEICs – dividends or interest



Interest



Equity

OEICs – tax treatment

	Interest	Dividends	Gains
Historic Cost			
Debt Fund	Taxed	N/A	Held at cost, taxed on disposal
Equity Fund	Taxed	Exempt	Held at cost, taxed on disposal
Fair Value			
Debt Fund	Taxed	N/A	Revalued, taxed annually
Equity Fund	Taxed	Exempt	Revalued, but taxed on disposal

The \$64,000 questions!

OEIC v BOND

ONSHORE v OFFSHORE



Learning Objectives - recap

By the end of this session, you will be able to:

Describe retirement planning considerations for business owners

Evaluate the tax treatment of company withdrawals

Identify the practicalities and wider tax considerations when advising on corporate investments

Understand the tax and accounting treatment of companies who make investments in bonds and OEICs.

QUESTION TIME





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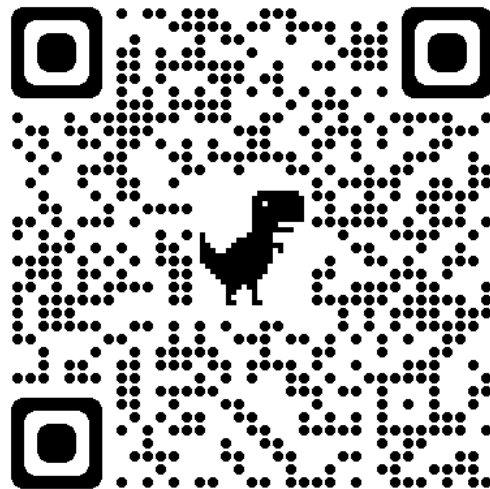


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Thank you for your time

Get in touch with your usual M&G contact if you need further help

