

# Pension Contributions - Employer

## Tech-Bites

A bitesize look at the criteria and issues around making employer pension contributions and the potential pension planning opportunities.

### Key points



Employers can make contributions to a registered pension scheme.



Employer contributions are not restricted by the level of the member/employee's remuneration.



Employer contributions can get relief against corporation tax subject to the 'wholly and exclusively' rules.



Employer contributions will count towards the annual allowance and any charge will be payable by the member/employee.

## What are the main points associated with employer contributions?

### How do employer contributions qualify for tax relief?

#### Employer contributions:

- Are not restricted by employees' UK relevant earnings
- Must satisfy the 'wholly and exclusively' rules
- Are paid gross and corporation tax relief granted via company accounts
- Are given tax relief in the accounting period the contribution is made but if the contribution is over a certain size it may be spread over more than one year\*

\* PTM043400: Contributions: tax relief for employers: spreading

### How are employer contributions treated for annual allowance purposes?

#### Employer contributions:

- Count towards the annual allowance, including the tapered annual allowance and Money Purchase annual allowance
- Can take advantage of any carry forward of unused annual allowance the employee may have available
- Can be subject to an annual allowance charge on the employee, if they exceed the annual allowance limits

## What are the ‘wholly and exclusively’ rules?

These are the rules by which HMRC determine whether an employer contribution is justifiable or not for relief against corporation tax.

### Things to consider:

**If contributions seem excessive in relation to remuneration:**

**For controlling directors:**

- Is the total remuneration package (not just the pension contributions) commercially reasonable for the work done?
- Are they a driving force behind the company and the income it generates?

**For employees (including family members employed by the company):**

- Is the level of remuneration on a commercial basis (and in line with non-connected employees doing similar work)?

## WHOLLY & EXCLUSIVELY RULES

## Planning considerations

### MAXIMISING PENSION BENEFITS



**Employer contributions can help clients:**

- Make full use of the annual allowance
- Utilise any carry forward of unused allowances
- Build up retirement benefits (particularly where some employers will offer matching contributions up to a certain percentage)

### MITIGATING TAX



**Pension tax planning can help clients:**

- Looking for tax-efficient solutions using a combination of employer contributions and remuneration from salary, bonuses and dividends
- Looking to maximise tax efficiency by using a salary sacrifice arrangement, where the national insurance saving can boost either pension contribution or take home pay. Employer’s national insurance savings can also be passed on in part or full to help boost member’s contribution

This document is based on Canada Life’s understanding of applicable UK tax legislation and current HM Revenue & Custom’s practice, as at March 2020 and could be subject to change in the future. It is provided for professional advisers only. Any recommendations are the adviser’s sole responsibility.



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