

Pension Relief in 2011



Pensions

There have been many changes to the tax treatment of pension funds over the last few years and Finance Act 2011 introduced new lower limits for taxation relief and tax free lump sums. The 2011 treatment of pensions is reviewed below.

Tax Relief for Pension Contributions

Tax relief for pension contributions is subject to two main controls. The first control is an age-related percentage limit of an individual's remuneration/net relevant earnings (see table below). This means that the maximum pension contribution for tax relief purposes may not exceed the relevant percentage of the relevant income (known as net relevant earnings) in that year.

Example:

A taxpayer aged 50 with net relevant earnings of €100,000 can get pension relief on payments of up to €30,000 (30% of his net relevant earnings).

The second control is an upper limit set on the amount of remuneration/net relevant earnings that can be used to calculate tax relief. Budget 2011 changed the earnings limit to **€115,000** for 2011 (down from €150,000 in 2010 & 2009 and €275,239 in 2008). This limit applies whether an individual is contributing to a single pension product or to more than one pension product.

Example:

A taxpayer aged 50 with net relevant earnings of €200,000 can only get pension relief on payments of up to €34,500 (30% of the earnings limit of

€115,000 as his net relevant earnings are higher than the cap).

A taxpayer can set a pension contribution back against tax in the previous year if the contribution is paid before the tax return for that year is due (31 October in the following year). If a taxpayer elects to set a pension contribution paid in 2011 back against 2010 income the 2011 earnings limit of €115,000 applies.

Contributions to Two or More Pensions

Where an individual has two sources of income (e.g. earnings from employment and profits from self-employment) and he is making pension contributions to an occupational pension scheme (in relation to the employment) and to a personal pension plan (such as a RAC and/or PRSA in relation to the trade or consultancy income) then a single aggregate earnings limit (now €115,000) applies in determining the amount of tax relievable contributions.

If there are any unused pension contributions (i.e. if the contributions exceed the level of contributions on which tax relief will be allowed) they can be carried forward for tax relief in a subsequent tax year.

It should be noted that the scope for payment to an occupational pension scheme is prioritized so that if the taxpayer has income from the employment which exceeds the pension cap (now €115,000) then he cannot get tax relief on contributions to the personal pension scheme even if his occupational pension contributions are not sufficiently high to maximize his tax relief and even if he made contributions to the personal pension scheme. Revenue have issued guidance for taxpayers in [Tax Briefing 74](#) and guidance specifically targeted at GPs with GMS income in [Tax Briefing 11](#).

Example:

A GP aged 50 has net GMS remuneration of €180,000 in 2011 and private practice income of €100,000. He made a monthly contribution to the GMS Plan (total of €10,000) and paid an AVC to it of €8,000. He also paid 15% of his private practice income (i.e. €15,000) to a personal pension. Based on his age, the maximum amount

Age	% of Net Relevant Earnings
Under 30 yrs	15%
30—39 yrs	20%
40—49 yrs	25%
50—54 yrs	30%
55—59 yrs	35%
60 yrs	40%



2011

Pension Jargon

AVC	Additional Voluntary Contribution - top up payments to an employment pension
SFT	Standard Fund Threshold - maximum tax free capital fund
PFT	Personal Fund Threshold - an increased personal capital "cap" agreed with Revenue
ARF	Approved Retirement Fund - investment vehicle which retains the capital of a pension fund for investment by the retired taxpayer
AMRF	Approved Minimum Retirement Fund - if a taxpayer does not have a guaranteed minimum income, he has to invest some capital in an AMRF to ensure receipt of a minimum income
RAC	Retirement Annuity Contract - a personal pension for non employment income
PRSA	Personal Retirement Savings Account - pension for employees with no occupational pension



of pension contributions on which he is entitled to claim tax relief in 2011 is €34,500 (30% of the new earnings limit of €115,000). He can claim tax relief on total contributions to the GMS Plan (€18,000) and he can put a further €16,500 into this pension (as an AVC) to bring his total contributions to €34,500. However, no tax relief is available in 2011 for the personal pensions contributions even if he does not make the further AVC to the GMS Plan. The employment income is in excess of the aggregate earnings limit of €115,000 so tax relief is only available on the employment pension contributions.

Maximum Allowable Tax-relieved Pension Fund

There is a limit on the level of tax relief for a pension fund (the standard fund threshold or SFT) and once the capital value of the fund exceeds this threshold the excess may be subject to tax once the fund is drawn down. If the capital value of all pension benefits drawn down by an individual exceed his SFT (or PFT—see below) a tax charge of 41% applies to the excess when the fund is drawn down, and will be paid to Revenue by the pension scheme administrator. This charge is in addition to any tax charge that may be applied to the pension/annuity when it is paid out.

Finance Act 2011 reduced the Standard Fund Threshold to €2.3m (from a cap of €5,418,085 pre Budget 2011). Individuals with pensions whose capital value exceeds this new SFT of €2.3m, but which are lower than the old SFT of just over €5.4m, can protect that higher capital value by claiming a Personal Fund Threshold (PFT) within 6 months of Budget Day (i.e. by 7 June 2011). Individuals who agreed a PFT when the SFT was first introduced do not need to notify Revenue again.

Example

A taxpayer had uncrystallised pension rights of €2m on 7 December 2010 (a pension not yet drawn down). He is entitled to pension benefits under another scheme with a capital value of €1.5m. As the total value of the pension rights is €3.5m which exceeds the SFT of €2.3m, he may claim a PFT of €3.5m which will be his maximum allowable pension fund for tax purposes. If further capital is accumulated in the pension funds he will pay income tax on the excess when funds are drawn down on retirement.

Restriction of Pension Tax Free Lump Sum

If the pension scheme allows a member to take a tax free lump sum on retirement the level of this tax free lump sum is now capped at €200,000. The next €375,000 taken will be liable to income tax at a flat rate of 20% (taxed separately from other income) and the balance of any sum taken (over €575,000) will be subject to income tax at the marginal rate. This is a lifetime limit so all tax-free retirement lump sums taken on/after 7 December 2005 (when the original limit was introduced) "use up" part of this tax-free limit.

Approved Retirement Fund (ARF) rules

Taxpayers with personal pensions have more flexible retirement options as they can make commercial investments *via* an ARF, but historically an employee had no option but to buy an annuity on retirement. Finance Act 2011 extends the more flexible ARF option to employees with defined contribution schemes.

Approved Minimum Retirement Fund (ARF) rules

There are minimum "set aside" rules designed to ensure that a retired person with an ARF has a minimum level of protected income up to the age of 75. Up to Finance Act 2011 if a retired person did not have guaranteed regular income of at least €12,700 per annum on retirement he had to invest €63,500 in an AMRF (effectively buying an annuity). Finance Act 2011 increased the thresholds to €18,000 in income (the equivalent of 18 months' old age pension) and increased the AMRF investment amount to €120,000 (the equivalent of 10 years' old age pension).

Imputed Distributions from ARFs

A taxpayer can avoid tax on his ARF by not drawing income (as the income is taxed when it is drawn down). To encourage a certain level of distributions from ARF the Revenue taxes a deemed distribution each year. Up to Finance Act 2011 the imputed distribution was 3% of capital value but the Finance Act 2011 increased it to 5% of capital value from 31 December 2010.



Caveat: These notes are an informal general guide. Formal tax advice should be obtained if required.