Irish Life

Finance Bill 2014 Update

Pension Advisory Services

While there was little in Budget 2015 on pensions, the Finance Bill 2014 published 23rd October included a number of changes affecting pensions, in particular ARFs, ARMFs and vested-PRSAs.

Minimum Income Withdrawal

In 2015 there will be a change to the Minimum Income Withdrawal percentage. This applies to the value of ARFs, and also to the value of vested-PRSAs in excess of the restricted fund (i.e. the value of vested-PRSAs above the AMRF requirement if applicable). Going forward the percentage will be

- No minimum income withdrawal is required until the year in which the client turns age 61
- From the year the client turns age 61 the minimum income withdrawal is 4%
- From the year the client turns age 71 the minimum income withdrawal is 5%
- If the total value of ARFs and vested-PRSAs (less restricted fund) is over €2 million, then from the year the client turns age 61 the minimum income withdrawal is 6%. The percentage remains at 6% when the client turns age 71

There is no change to the valuation date of 30 November.

The effective date of this change is 1 January 2015, and so it appears there is no change to the 5% minimum income withdrawal for 2014. This change is to be welcomed as it will help to reduce the risk of individuals outliving their ARFs and Vested PRSAs.

AMRF Withdrawal

Currently any growth in AMRF value over the initial investment amount can be withdrawn by the client. This option is being removed.

Instead the client will have the option to withdraw 4% of his AMRF value in any one year. This will be based on 4% of the value as at 1 February in that year.

The proposed date for this change is 1 January 2015. While increased access to AMRFs is welcome, there are a number of practical issues that need to be considered before this change is finalised

- There change was not flagged in advance, and this leaves little time for the necessary process and system changes to be made to allow this by 1 January 2015.
- The valuation date of 1 February will cause difficulty if a client wishes to make an AMRF withdrawal in January. We will not know the 1 February value in advance, and so cannot calculate the 4% amount.
- The Bill does not make any changes to vested-PRSAs, and so this would need to be amended before the Act is finalised if treatment between AMRFs and vested-PRSAs is to be equalised.

AMRF withdrawals continue to be treated as taxable income.

Tax Rate on Excess over €2m Standard Fund Threshold / Personal Fund Threshold

Current the tax rate applying to excess over SFT/PFT is a specified rate of 41%. From 1 January 2015 the rate will be the “higher rate” for the tax year in which the retirement claim or overseas transfer is made. As such the rate for 2015 will be 40%, and going forward any changes to the higher rate of income tax will automatically apply to excess over SFT/PFT.

The offset relating to tax deducted at the 20% rate on retirement lump sums over €200,000 (and under €500,000) continues to be available.

Other Changes

The Finance Bill makes changes to the legislation relating to cases where a pension is split under a PAO, and the total funds are in excess of the €2m SFT or PFT. This is an extremely complex area, and an attempt to bring clarity is welcome. In the current situation, the tax on the excess value would apply to the original member solely. The new legislation is intended to split the tax more equitably between the original member and the beneficiary of the PAO.

The Finance Bill also makes a number of technical changes to ARF legislation to put beyond doubt that any assignment of an ARF or assignment of assets out of an ARF are a taxable distribution. This also applies to AMRFs and vested-PRSAs. This is not a change in practise for Irish Life and our process continues to be that we do not facilitate ARF assignments.

The information contained in this document is based on Irish Life’s understanding of legislation as at October 2014 which may change in the future