

# UPDATE - OCTOBER 2009

## 31st October & 16th November 2009 Tax Deadline (Pay and File Income Tax Return for 2008 Tax Year)

### An Opportunity to Reduce your 2008 Tax Bill

**31st October 2009** is the final date to pay a pension premium and elect to backdate the tax relief into the previous tax year.

The date for filing the tax return and payment of tax due will be extended to Monday 16th November 2009 where both are made through the Revenue On-line Service (ROS). If a client qualifies for this extension they also have until 16th November to make a pension contribution.

Clients don't have the option to defer. If they don't take this opportunity, they will not get another chance to reduce their 2008 income tax liability and will not get another opportunity to avail of the €275,239 earnings cap for pension contributions.

### How Much Can an Individual Contribute to a Personal Pension Plan, PRSA, PRSA AVC or AVC?

For contributions set against 2008 earnings, an earnings cap of €275,239 applies for tax relief purposes to aggregate contributions to PRSAs, RACs and employee / AVC contributions to occupational pension schemes. For relief against 2009 earnings the cap is reduced to €150,000.

Tax relief limits for personal contributions as a percentage of earnings:

Age	Tax relief limits
Up to age 29	15%
30 to 39	20%
40 to 49	25%
50 to 54	30%
55 to 59	35%
60 and over	40%

#### Note:

1. The above limits include any employer contributions made to a PRSA.
2. For Occupational Pension Schemes the total contribution (Employer and Employee) must be within overall Revenue maximum contribution levels.
3. The earnings cap does not apply to employer contributions to occupational pension schemes.

### Who Files a Self-Assessment Tax Return?

The Self employed, proprietary directors (those who own more than 15% of a company) and people with non-PAYE income are required to file self-assessment income tax returns under the Pay and File system with Revenue.

To avoid interest and surcharges they must by 31st October 2009

- File their 2008 Income Tax Return
- Pay any balance of Income Tax outstanding for 2008
- Pay Preliminary Income Tax for 2009

Employees and Directors in an Occupational Pension Scheme can also reduce their tax bill for the 2008 tax year, once they pay an AVC single premium on or before 31st October 2009 and file a return before the 31st October.



**Irish Life**

# Earnings Cap – Those With More Than One Source of Income

This has become more of an issue recently with the reduction of the earnings cap to €150,000.

## Tax relief for pension contributions are subject to two limits

1. The age related percentage of salary limit as shown above.
2. The second is the earnings cap, which is set at €275,239 for the 2008 tax year and was reduced to €150,000 for the 2009 tax year.

Where someone has two sources of earnings, (e.g. earnings from an office of employment where the individual is a member of a contributory occupational pension scheme and earnings from self-employment) it is the pensionable earnings that uses up the salary cap first.

The two examples below will show how this works in practice.

### Example 1:

John aged 33 has earnings from employment of €120,000. He is a member of his employer's occupational pension scheme; he pays an employee contribution of 8% of salary (€9,600) to the scheme. John also has self-employed earnings of €80,000.

Based on his age the maximum contribution John can make to the occupational scheme and claim tax relief is 20% of his salary (€24,000).

In respect of his self-employed earnings he has already used up €120,000 of the earnings cap of €150,000 so in 2009 he has scope to make a personal pension or PRSA contribution of 20% of €30,000 (i.e €6,000).

This is the maximum he can pay and claim tax relief against his self-employed earnings irrespective of whether he maximises his contributions to the occupational pension scheme in respect of his employed earnings.

### Example 2:

Tom aged 53 has an income of €200,000 from his office of employment where he is a member of an occupational pension scheme.

He currently makes a contribution of 10% of salary (€20,000) to the pension scheme. Based on his age the maximum contribution he can make for 2009 is 30% of €150,000 (€45,000).

Tom also has self-employed earnings of €100,000. However as his pensionable income uses up the earnings cap first he cannot claim tax relief against any personal pension or PRSA contribution in respect of 2009 tax year.

Tom may have scope to make Additional Voluntary Contributions / PRSA AVCs and if so can increase the amount of tax relief receivable in respect of his pensionable earnings by a further €25,000.

The earnings cap for the 2008 tax year is €275,239 so assuming his pensionable income for 2008 was also €200,000 Tom still has scope make a personal pension or PRSA contribution before 31st October 2009 in respect of his self-employed earnings and backdate it against his 2008 tax bill.

The maximum he can claim tax relief on in is 30% of €75,239 (that is the 2008 earnings cap less his pensionable income for 2008).

## Summary of Backdating of Tax Relief and PRSI

	Income Tax Relief	PRSI Relief (Employees Only)
When do I make claim?	<p>Must elect to backdate contribution <b>prior to 31st October 2009</b> for 2008 tax year</p> <p>Extension to <b>16th November 2009</b> for those using Revenue On-Line Service (ROS)</p>	<p>First, an application for tax relief on the pension contribution must be made</p> <p>Once Income Tax relief has been received the client can claim relief after end of relevant tax year (that is, <b>after 31st December 2008</b> for 2008 tax year)</p>
What do I send to make	<p><b>Self Employed and Proprietary Directors</b> (more than 15%) need to complete Income Tax Form 11 or the shorter version Form 11 E.</p> <p><b>PAYE Employees</b> (including non-proprietary directors) need to complete Income Tax Form 12</p> <p>Clients should <b>not</b> include RAC or PRSA 1 certificates with their self-assessment tax return.</p> <p>Clients should instead retain supporting documents, accounts, certificates, etc. in case they are subsequently requested by Revenue as part of an audit at a later date.</p>	<p>Written request for relief stating amount of pension contribution.</p> <p>P60 for the relevant tax year.</p>
Where do I make a claim?	<p>Income Tax form should be sent to the Return Address stated on the relevant Income Tax form</p> <p>Returns can also be made using ROS.</p> <p>See <a href="http://www.revenue.ie">www.revenue.ie</a></p>	<p>Customer Service Section Office of the Collector-General Sarsfield House Limerick</p> <p>Lo-Call: 1890 203070 Fax: 061 488673</p>

### Does a client need anything from Irish Life to show they have paid a pension contribution by 31st October?

No. Revenue no longer requires a person to submit a RAC / PRSA / PRSA AVC certificate with their final tax return. However Revenue reserves the right to request this at any stage in the future.

### Backdating of Tax Relief – Personal Pension Plans (RACs) / PRSAs / AVCs

A person who wishes to pay a pension contribution now and backdate relief against their 2008 income needs to do the following

1. Pay the contribution to the Life Office or PRSA Provider on or before the return filing date (i.e 31st October 2009 or 16th November for those qualifying for the ROS deadline extension).
2. Send in their tax return to Revenue on or before the return filing date (i.e 31st October 2009 or 16th November for those qualifying for the ROS deadline extension).

If there is any doubt on qualifying for the ROS extension we would recommend customers pay their pension contribution and file their tax return by 31st October to ensure they meet the deadline.

## Late Returns – Tax Relief disallowed

Revenue will not permit tax relief to be granted in the preceding tax year (even though the pension premium has been paid before 31/10/2009), if the client has not elected to claim the tax relief in the preceding tax year in his final tax return, or, if he has not filed his tax return on time.

Revenue has made an exception for employees who are not normally self-assessed where they:

- pay a contribution before 31st October 2009.
- retire in the year in which the contribution is made i.e. retire in 2009

If they elect to backdate the contribution on or before 31st December 2009 they can claim relief against 2008 tax year.

If a client is not eligible for tax relief for any reason this is not grounds for a refund of contributions. If tax relief cannot be claimed currently, then the client can carry the relief forward, and may be able to claim relief against relevant earnings in the future.

## Who can claim Tax Relief on Personal Pension or PRSA Contributions?

In order to claim tax relief on contributions to a Personal Pension or PRSA the individual must be "chargeable to tax in respect of relevant earnings". Relevant earnings refers to income of individuals who are:

- Self employed (Income from a Trade or Profession taxed under Schedule D, Case 1 or 2)
- Employees (Schedule E, PAYE and not in a company pension scheme)
- Directors of companies (Schedule E, PAYE and not in a company pension scheme)

Net Relevant Earnings are relevant earnings less Charges in Income (e.g. covenant payments, tax deductible maintenance payments, allowable interest) and Losses or Capital Allowances related to the individual's relevant earnings.

Income which is not Relevant Earnings include:

- Investment Income (e.g. Rental Income)
- Sleeping partner
- Earnings from an investment company (not relevant earnings if client is able to control more than 15% of the company either directly or indirectly)
- Pension income
- Spouse's income, you cannot take out a pension for your spouse's income

## Can Employees Backdate Tax Relief on AVCs or PRSA AVCs?

Yes. AVC or PRSA AVC contributions paid before 31st October 2009 can be backdated to 2008 for tax relief **provided the individual is still in the same employment.**

An employee has until 31st October 2009 to:

1. Pay a single premium AVC through their main scheme at work (if the scheme offers this option), a PRSA AVC, or through their existing AVC plan (if they have one), and claim relief for the 2008 tax year.
2. Send their tax return to Revenue, electing to backdate the pension contribution to the 2008 tax year.

If an employee elects to backdate a contribution to a previous tax year for income tax relief he needs to make sure that relief has not already been given in the current tax year. Where income tax and PRSI relief is given through the employee's payroll under the net pay arrangement the relief is automatic and is given in the current tax year.

## Who can claim tax relief on Additional Voluntary Contributions or PRSA AVCs?

Tax relief on an AVC or a PRSA AVC can be claimed by individuals who are:

- Employees (Schedule E, PAYE and in a company pension scheme)
- Directors of companies (Schedule E, PAYE and in a company pension scheme)

Income from employment is subject to tax under Schedule E. Examples of Schedule E income would include Salary, Bonus and Benefit-In-Kind (BIK).

Where a client has changed employment recently this may affect his ability to make a pension contribution and / or his ability to backdate tax relief to the previous year. Once a client leaves an employment where they were a member of an occupational pension scheme, they cannot make any further AVCs in respect of the earnings from that employment.

Note that a Termination Payment made to a client on leaving employment (taxed under S.123 of TCA 1997) would not be considered remuneration for pension purposes. This would include termination payments on redundancy, payment in lieu of notice and other ex-gratia payments. However, part or all of such a termination payment may qualify for tax relief under other available exemptions.

## PRSI Relief on Pensions – for employees only

**Employees**, people subject to Income Tax under Schedule E, who contribute to a pension arrangement, are entitled to PRSI relief.

PRSI relief is available to contributions employees make to Occupational Pension Schemes (either as a regular employee contribution, an Additional Voluntary Contribution, or an AVC to a PRSA), a PRSA or a Personal Pension.

Where income tax and PRSI relief is given through the employee's payroll under the net pay arrangement the relief is automatic and is given in the current tax year.

Where contributions are paid by cheque or direct debit and relief will not be claimed under the net pay arrangement, employees can apply at the end of the tax year for PRSI relief to Revenue Customer Service Section in Limerick, enclosing a P60 for the appropriate tax year. PRSI relief must be claimed in respect of the same year in which income tax relief was granted.