

# **Pensions Training**

**Company Pensions, Max Funding  
& Wealth Extraction**

- Revenue Maximum benefits
- Final salary
- Max funding
- Company profits to Personal Wealth
- Funding for Retirement Lump Sum
- Employer Contributions & Tax Relief
- Employee Contributions & Tax Relief

- Tax advantages controlled by the imposition of limits on benefits
- The basic requirement is that fund is not larger than required to provide the benefits the scheme is committed to paying
- Benefits allowed are limited by reference to service and earnings
- ARF options mean that funding for a pension simply means accumulating an investment fund
  - More flexible and accessible

# **1. Revenue Maximum Benefits**

## **Max benefits are defined in relation to individuals**

1. Final remuneration
2. Service completed by NRA
3. Retained benefits from previous employments

## 2. Final Salary

- Remuneration is all income and benefits provided by the employer and taxed under Schedule E

## Includes

- Salary
- Overtime & commission payments
- Bonuses
- BIK
- Directors Fees



For regular employees can be calculated in one of three ways

1. **(a)** Basic salary over one year within the last five years before date of leaving service, plus  
(b) the average of any fluctuating earnings over three or more consecutive years ending on the last day used in **(a)**
2. Average of total earnings for any three or more consecutive years ending not earlier than 10 years before leaving service
3. **Rate of basic pay at the date of leaving service plus average of any fluctuating earnings**  
calculated as in **(1)** above



- Average of total earnings for any three or more consecutive years ending not earlier than 10 years before leaving service.
- Increase by CPI allowed if salary more than 1 year old
- Increase by CPI restricted for 20% directors if Retirement Lump Sum more than 1/3<sup>rd</sup> of total fund.



- The maximum benefits that can be provided under a company pension scheme is determined by the employee's service with that employer.
- Remember: service means in receipt of schedule E income

### **3. Maximum Funding**

## Two methods of calculating maximum pension

### 1. N/60ths Scale

1/60<sup>th</sup> of final remuneration for each year completed service. Max 40/60ths

### 2. Uplifted Scale

Alternative higher pension of the lower of

A) 4/60ths of final remuneration for each year service. Max 40/60ths

B) 2/3rds x final remuneration less retained benefits

**Can accumulate whatever fund is required to provide this level of pension subject to standard fund threshold of €2,000,000**

# Revenue Maximum Pension Example 1 Irish Life

- Joe has 25 years service at NRA
  - Final remuneration of €24,000
  - Retained benefits at 65 of €1,700pa
  - Joe has over 10 yrs service so can fund for a pension of 2/3rds final remuneration less retained benefits
- $2/3 \times €24,000 - €1,700 = €14,300\text{pa}$

- Joe has 8 years service at NRA
- Final remuneration is €24,000
- Retained benefits at 65 of €10,000pa

**Joe can fund for the lower of**

- $32/60\text{ths} \times €24,000 = €12,800\text{pa}$  , and
- $2/3\text{rds} \times €24,000 - €10,000 = \underline{€6,000\text{pa}}$

## To increase Rev Max Limits

Company Director age 52 next

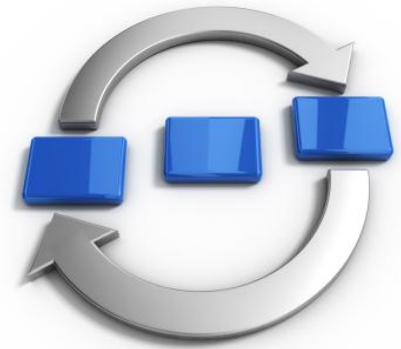
- **Aims to retire at 60**
- **€2m pension**
- **Current Salary €70,000**
- **Wants to invest €5,000 per month**

- Increases Salary to €100,000
- Regular AVC of €30,000 (30% of gross salary)
- Income Tax based on net taxable salary €70,000
- Revenue maximum calculation based on increased gross salary €100,000

## **4. Company Profits to Personal Wealth**



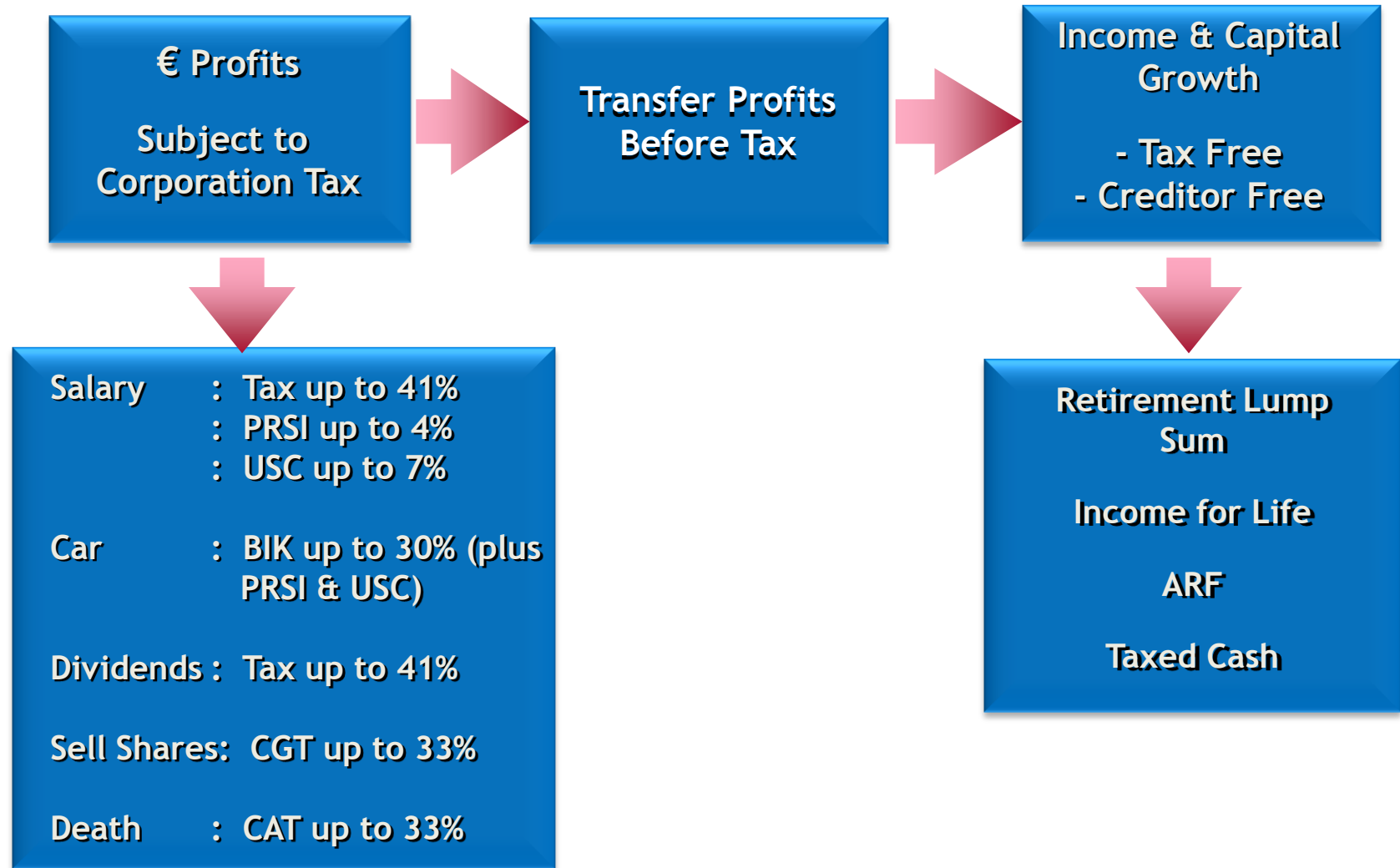
- 55yr old owner director, with an NRA 65
- Salary of €58,000
- How much can this client transfer from his company into his pension fund tax free?
- Up to €110k p.a. !!!!



# Turning Co Profits into Personal Wealth?

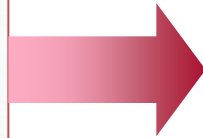
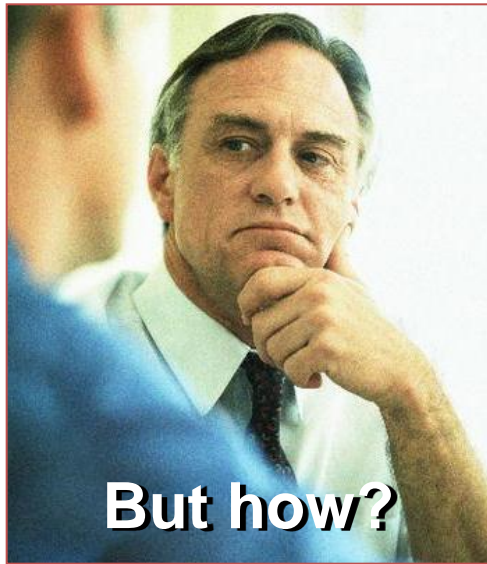


Irish Life



- Director ANB 45 retiring at 60
- Take **€60K p.a.** over a **15** year timeframe
- If the **€60,000** is taken as income tax at **41%** will be paid on it, plus
- Class S PRSI at **4%**
- Universal Social Charge at **7%**

**This € 60K can be taken out of the company tax free!**



## **Advantage:**

- The company gets tax relief at 12.5%
- Tax free growth
- No BIK



**Company**

## PENSION

## SALARY

**Company pays**

**€60,000 p.a.**

**€60,000 p.a.**

**Over 15 years**

**Total  
Payment**

**€900,000**

**€900,000**

**Tax**

**€356,000**

**€468,000**

**Final  
Benefit**

**€544,000**

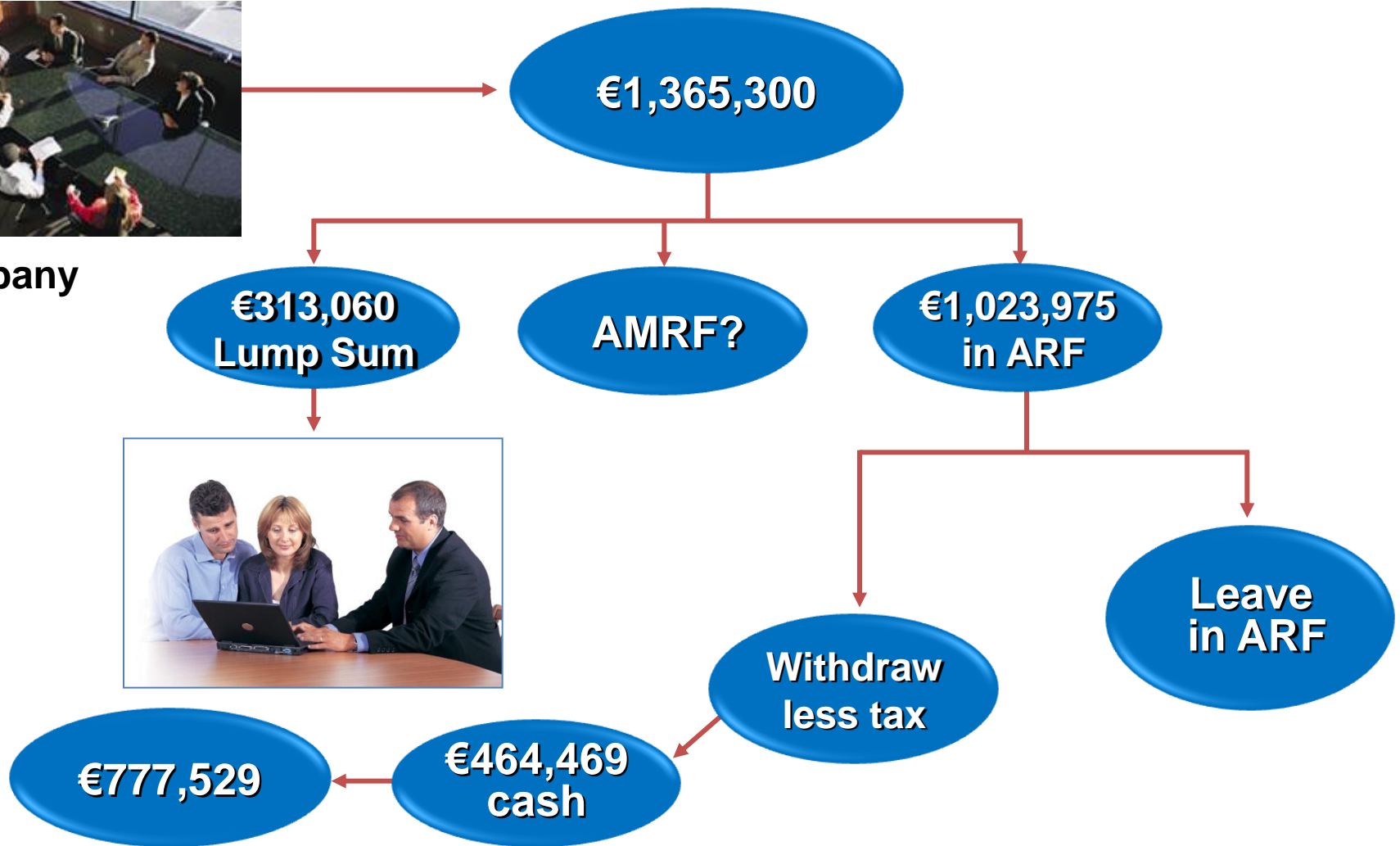
**€432,000**

**A gain of  
€ 112,000**

# Tax effective wealth extraction



Company



## **5. Funding for Tax free Lump sum**

- Example – 20% Director, aged 62
- Aims to retire at 65
- 14 years service to date in current employment
- No pension
- Salary €60,000
- Client will have 17 years service at retirement
- Insufficient resources for Rev max €30,690 pm
- Max TFLS €67,500 (90/80ths of €60,000)
- Target Fund at Retirement using EasyQuote

**Contribute €1,718 pm  
(level over 3 years)**



## **6. Employer Contributions & Tax Relief**

## Tax relief

- Employer usually pays a regular annual premium
- Employer must pay min 1/10th of total cost excluding AVCs/PRSA AVCs
- Must be paid in Company tax year
- Back dating to previous company tax year not allowed

## Annual Premium

- Pension contribution can be offset in current company financial tax year

## Single Premium

- Tax relief must be spread forward (to a max of 5 years)

***unless***

- Employer single premium equals total employer AP
- Employer single premium is €6,350 or lower

**If there is a shortfall in employee's pension**

**For example**

Previous service not already funded for

e.g. Joined company 1995

– Joined pension scheme 2005

– Employer can pay single premium for 10 years back service (i.e. from 1995 to 2005)

**Rev max formula for calculations**

## Divide total ER SP by ER AP (or €6,350)

- round down if below 0.5
- round up if above 0.5
- or between 1 and 2 round up to 2
- Max spread of 5 years

### Example

AP €12,000 SP €26,000

Quotient: 2.167 (SP €26,000 / AP €12,000)

Tax relief spread over 2 years (rounded down)

**Tax relief Year 1 : AP €12000 & SP €13000**

**Tax relief Year 2 : AP €12000 & SP €13000**

- Annual Payments must be paid for at least 3 company tax years
- Final payment could be made immediately before NRA
- If payments cannot be made over 3 company tax years will be treated as SP for tax relief

## **Example:**

Company tax year 1 January to 31 December

Director plans to retire in March 2015

## **Employer Contributes**

**€50,000** – September 2013

**€50,000** – December 2014

**€50,000** – February 2015

**Tax relief claimed as annual employer  
contributions in year of payment**

## **7. Employee Contributions & Tax Relief**



**Customers can get relief up to certain limits:**

Age	% of Salary
Under 30	15%
30 – 39	20%
40 – 49	25%
50 – 54	30%
55 – 59	35%
60 and over	40%

**Earnings cap of €115,000**

- Max 15% to 40% x Earnings
- Includes any employee contributions
- Relief is normally given under the Net Pay arrangement
- Regular must be paid in employee's tax year

## backdating and tax relief

### **Employee can claim tax relief on single premium in previous tax year:**

- If employee pays single premium on or before 31<sup>st</sup> October
- Employee files a tax return on or before 31<sup>st</sup> October
- Tax relief granted in previous tax year
- Relief only against income from same employment

- An employer can contribute as much as necessary to a company pension for an employee to provide Revenue Maximum benefits (subject to the Standard Fund Threshold of €2,000,000)
- Company pensions provide a tax efficient way of turning company profits into personal wealth
- Tax relief available on both employer and employee contributions
- Employees can backdate contributions to previous tax year if they are in the same employment

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