

# The Income Exemption Limit & Tax Relief on Pensions

## Pension Advisory Services

### Pension Income Tax Relief

Income tax relief can be received on pension contributions within the age related limits as shown in the table below. These limits include the total contributions paid to a PRSA and personal pensions as well as employee and additional voluntary contributions paid to company pension schemes.

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

Relief however is subject to an earnings limit of €115,000. This means that if for example an individual aged 40 has earnings of €150,000 the maximum pension contribution they can pay and receive income tax relief on is €28,750 (25% of €115,000).

### Dual Income

There is an added complication where an individual has two sources of earnings one being pensionable where they are a member of a contributory company pension scheme and the other either non-pensionable or from self-employed earnings.

In such cases the pensionable earnings uses up the earnings limit first. This can reduce the scope for individuals to receive income tax relief against their non-pensionable / self-employed earnings and in some cases result in no scope at all.

**Pensionable income** is PAYE income where the individual is a member of a company pension scheme with that employer. **Non-pensionable income** is PAYE income where the individual is not a member of a company pension scheme with that employer.

The examples below explain further how this works.

#### Example 1– Pensionable earnings greater than the €115,000 earnings limit:

The first example shows the impact where an individual's pensionable earnings is less than the earnings limit but their total earnings are greater than the €115,000 limit

John aged 45 earns €150,000 from his employment. He is a member of his employer's occupational pension scheme; where he pays an employee contribution of 5% of his salary (€7,500). John also has self-employed earnings of €45,000.

Based on his age the maximum contribution John can make to the occupational pension scheme and claim tax relief is 25% of his earnings, capped at €115,000. So John's maximum pension contribution is  $25\% \times €115,000 = €28,750$ . He is already contributing €7,500 so has scope to make an AVC of up to €21,250.

John's pensionable income uses up the earnings limit first and as that income is greater than the earnings limit he cannot claim tax relief against any personal pension or PRSA contributions made in respect of his self-employed earnings. This applies even if he does not maximise his AVCs to the company pension scheme.

### Example 2 – Total Income over the €115,000 earnings limit:

This second example shows the impact where the individual's pensionable earnings exceed the earnings limit of €115,000.

Tom aged 45 earns €80,000 from his employment where he is a member of an occupational pension scheme, and he pays 5% of salary (€4,000) as an employee contribution. Tom also has self-employed earnings of €55,000.

Based on his age the maximum contribution Tom can make to the occupational pension scheme and claim tax relief is 25% of his salary i.e.  $25\% \times €80,000 = €20,000$ . He is already paying employee contributions of €4,000 so he has scope to make further AVCs of €16,000.

Tom's pensionable employment uses up the earnings limit first, so he can only make pension contributions against €35,000 of his self-employed earnings i.e.  $€115,000 - €80,000 = €35,000$ . So the maximum pension contribution he can pay and claim tax relief on against his self-employed earnings is  $25\% \times €35,000 = €8,750$ . This applies even if he does not maximise his AVCs to the company pension scheme.

### Example 3 – Total Income less than €115,000 earnings limit:

Where an individual's total income is less than €115,000 then there is no impact on the pension contributions that can be paid against the non-pensionable / self-employed earnings (within the normal tax relief limits).

Kate aged 50 earns €30,000 from her employment and where she is a member of a company pension scheme to which she contributes 5% of salary (€1,500). She also has self-employed earnings of €60,000.

Based on her age the maximum she can contribute to the company pension scheme and claim income tax relief is 30% of salary i.e.  $30\% \times €30,000 = €9,000$ . She is already paying an employee contribution of €1,500 so has scope to make AVCs of up to €7,500.

As her total earnings are less than €115,000, the earnings limit has no impact on the personal pension or PRSA contribution she can pay against her self-employed earnings, which based on age would be  $30\% \times €60,000 = €18,000$ .

## General Medical Service (GMS) Scheme and GPs

GPs are one group of workers impacted by the operation of the earnings limit as they typically have two sources of income. One source being the GMS income they receive from the HSE and the other their private income from the GP practice.

While GPs are self-employed the GMS scheme is approved as an occupational pension scheme and the GMS income they receive from the HSE is treated as pensionable income. This therefore means that where their GMS income is greater than €115,000 they cannot claim tax relief on any personal pension or PRSA contribution paid in respect of their private practice earnings as shown in [Example 1](#).

Or as in [Example 2](#) if their GMS income is less than the earnings limit but their combined GMS and private practice earnings exceed €115,000 they will be restricted on the pension contribution they can pay against their private practice earnings.

## Option to Incorporate

Some self-employed individuals may wish to investigate the option of incorporating their business or practice. This may have advantages from a pension planning perspective. As employer pension contributions are not restricted by the earnings limit, this allows the new company as employer make further pension contributions for the individual in a tax efficient manner, subject to the Revenue company pension maximum funding limits. However, deciding if incorporation is suitable it is important to consider all implications, including possible disadvantages, such as the cost of corporate compliance or impact on professional indemnity cover. Anyone with concerns in these areas should obtain independent tax and legal advice to ensure they are aware of all the resulting implications and responsibilities. A number of professions such as solicitors, doctors etc. are also restricted in what services they can incorporate so may need to seek appropriate advice and consult with their professional representative body.

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