31st October 2014 Tax Deadline

A whistle-stop tour of the current rules for backdating a pension contribution to 2013

Although it comes around each year, this date can throw up more than its fair share of complications on an annual basis. It is important to remember the purpose of the date 31st October 2014 (there is an extension to 13th November if returns are made online) is the final date for making a pension contribution and opting to backdate it for tax relief purposes to the previous year i.e.2013.

For self-employed clients, making the pension contribution prior to the tax deadline, ensures they will pay less income tax, as the pension contribution should reduce not only their final income tax liability for 2013, but also their preliminary income tax bill for 2014, which is also due.

However, in the case of PAYE clients, it means physically receiving a tax rebate from the Revenue, as all income tax would have already been paid in full for 2013 via the PAYE system. For backdating Additional Voluntary Contributions (AVCs) it is assumed that individuals are still in the same pensionable employment as they were in 2013. If they have retired or changed jobs since 2013 backdating an AVC contribution will not be possible.

It's important to note that even if an individual has finalised their liability for last year and is in receipt of a final balancing statement from the Revenue, their tax affairs can always be re-opened with a backdated pension contribution.

The system for tax relief on a personal contribution works on a "use it or lose it" basis. Any unclaimed pension allowance cannot be carried forward to future tax years. This rule should not be confused with a situation where somebody makes a pension contribution in excess of the age related tax relief thresholds, as any excess above these age related limits can be carried forward to the following tax year.

Relief can only be claimed against relevant earnings which is Schedule E income if employed, and Schedule D income, case 1 and 2 if self-employed. The choice of pension contract for backdating is an important point. For example, if a client was in pensionable employment in 2013, the backdating contract must be an AVC scheme or an AVC PRSA or an AVC contribution to the main scheme. However, if the client was in non-pensionable employment last year, the appropriate contract will be a Personal Pension or a Personal Retirement Savings Account (PRSA), even if they have since entered pensionable employment in 2014. Sole Traders should be using either a Personal Pension or PRSA contract only for their backdated contribution.

Revenue no longer requires submission of an RAC/PRSA/PRSA AVC certificate with final tax returns. However, Revenue reserves the right to request them at any stage in the future. Clients should retain such certs, in case they are requested by Revenue at a later date.

PAYE employees should complete a Form 12 and send it to the local Revenue office prior to the 31st October deadline, along with their P60 for 2013.

If the client is claiming tax relief against their 2013 income, then the age related tax relief threshold will be based on their age in 2013 (not their current age) and the earnings cap will be at the 2013 level of €115,000 although this figure remains unchanged for 2014.

If a person has a combination of pensionable PAYE income and self-employed income, the question arises as to how the earnings cap is apportioned between the two incomes. The Revenue now insist that the earnings already pensioned, where there is a mandatory member contribution, must firstly be deducted from the earnings cap (whether AVCs are being contributed to their maximum or not) to determine how much of the self-employed earnings can be pensioned, if any.

It is noteworthy that tax relief cannot be claimed at a higher rate than what would have applied to the earnings if the pension contribution had not been made. In other words, if only €1,000 of a client's earnings fall into the 41% tax bracket and the client makes a €2,000 pension contribution, then you will effectively receive 20% tax relief on €1,000 and 41% tax relief on the other €1,000.

Pension contributions backdated to the 2013 income tax year, will not qualify for PRSI relief or Universal Social Charge (USC) relief. Relief for 2013 is therefore restricted to income tax relief only, at marginal rate, subject to the client's age related tax relief threshold limits and earnings cap of €115,000.

It is also noteworthy, as previously mentioned, that clients who change jobs, where an occupational pension scheme was in place, or clients who retired in 2013/2014 are not in a position to backdate a pension contribution, unless such a contribution was made since 31st October 2013 and prior to them leaving service or retiring.

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

Irish Life has a selection of tools and materials on their b-line system (www.bline.ie) to assist brokers this pension season on every aspect of pension planning, tax relief and technical support including a selection of pension calculators. Please contact your Irish Life account manager for further information on these valuable tools.

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Kevin Fitzsimons, Pensions Development Manager, Irish Life