Personal Fund Thresholds (PFT) Applications 2014

Pension Advisory Services – July 2014 Update

Finance (No. 2) Act 2013 reduced the Standard Fund Threshold to €2,000,000 with effect from 1 January 2014. This gives effect to last year's announcement that tax relief is available on pension contributions to subsidise income up to €60,000 per year in retirement, though the legislation only refers to the €2 million fund value threshold, not an actual pension income limit.

The majority of clients will not be affected by this change. For clients with over €2,000,000 in their pension at 1 January 2014, it will be necessary to apply to the Revenue Commissioners for a Personal Fund Threshold. There are a number of matters to be considered when assisting these clients:

1) Gathering key pension information
2) Revenue PFT application process
3) Retirement (Tax Free) Lump Sum option
4) Tax on any excess over SFT/PFT and alternative withdrawal options

The first step is to gather the full information on the client's pension benefits as it stands at 1 January 2014. That sounds obvious! But Revenue said that over half the PFT applications they received in the past did not contain the information and backup required.

Key Information

- Current value of all Defined Contribution company pensions, PRBs, personal pensions and PRSAs as at 1 January 2014
- Capitalised value of all Defined Benefit company pension plans. This is based on the pension entitlement as at 1 January 2014, based on the salary and service at that time. The pension entitlement is then multiplied by 20 to give the capitalised value for the PFT application.

Notes on DB pension benefits

- The PFT application is based on salary and service as at 1 January 2014. There is no allowance in the PFT application for the fact that pension entitlements would be expected to increase in the future due to salary increases and additional years of service.
- If the DB scheme allows a choice at retirement of full pension only, or a tax free lump sum plus a reduced pension, then the PFT application is based on the full pension only. If the only option under the DB scheme is a tax free lump sum and pension (typical in the public sector), then the PFT application should include both the lump sum information and the capitalised pension figures.

Pension Benefits taken since 7 December 2005

- If retirement benefits have been taken since 7 December 2005 these are also included. For Defined Contribution company pensions, PRBs, personal pensions and PRSAs that have been claimed the amounts to be included are the lump sum, ARF/AMRF original investment, amount retained in a vested-PRSA and annuity purchase price. The figures should be the value at the date benefits were taken, not the current value.
- For DB pension benefits that started since 7 December 2005 the figure to be included is based on the gross annual pension paid in the first 12 months when the pension commenced (before any commutation of lump sum as above), not the current pension amount. The pension entitlement is then multiplied by 20 to give the capitalised value.
- Any value transferred to an overseas pension arrangement since 7 December 2005 must also be included.

Revenue Personal Fund Threshold (PFT) application for pension funds over €2 million

Revenue launched their online PFT notification system on 1 July 2014. They will now no longer accept any paper-based PFT applications; all notifications must go through the online system. Clients will have until 1 July 2015 to make their PFT application.

The PFT granted will be the value of pension benefits on 1 January 2014, to a maximum of €2.3 million (i.e. if benefits exceeded the old standard fund threshold of €2.3m, then the PFT will be limited to this figure). Clients who have a PFT from a previous application in December 2005 or December 2010 or who have received a PFT after making a paper application since 1 January 2014 do not need to make another PFT application.

Accessing the Online System

The online PFT application can be accessed in two ways,

- through the Revenue On-Line Service (ROS), or
- PAYE anytime

Clients not already registered on ROS or PAYE anytime will be required to register for one of these services before they can submit their PFT application.

- Register for ROS
- Register for PAYE anytime

Submitting an Application

It is important that the person submitting the PFT application has all the necessary information to hand. A PFT application can only be made once so it is essential that clients ensure the correct information and details are input before the request is submitted. Before making a submission the client should obtain a statement from the administrator of each pension arrangement certifying their benefits as at 1 January 2014.

For Defined Contribution arrangements, the statement should include:

- The type of arrangement e.g. occupational pension scheme, PRB, PRSA, Retirement Annuity Contract, AVC etc.
- The fund value on 1 January 2014 for each arrangement
- Name of each scheme
- Contact details for administrator
- Member or Scheme Reference number.

In the case of a Defined Benefit arrangement, the statement should include:

- The fact that it is a Defined Benefit Arrangement
- The capital value of the pension rights as on 1 January 2014 (a copy of the calculation should be enclosed)
- Name of each scheme
- Contact details for administrator
- Member or Scheme Reference number.

When submitting a case the online system has a number of drop-down menus and information icons which will explain what is needed. Buy Out Bonds / PRBs should be included under the Occupational Pension Scheme field.

How to Correct an Error

If there was wrong information given or information excluded from an online PFT submission the client should contact the Financial Services (Pensions) section in Revenue by email at lcdretirebens@revenue.ie or by post to:

Financial Services (Pensions)
Revenue Commissioners
Large Cases Division
Ballaugh House
73-79 Lower Mount Street
Dublin 2

Generating a PFT Certificate

A PFT Certificate will generate once the client inputs all the relevant information, satisfies the criteria and submits the notification. Once generated the PFT Certificate can be printed. The client should keep their PFT certificate and supporting statements from the pension administrators as Revenue may audit their PFT notification in the future. A false notification or declaration to Revenue may result in prosecution.

A copy of the certificate will have to be provided to each pension administrator when taking retirement benefits. Without a copy of the PFT certificate the administrator will have to apply the standard fund threshold of €2m.

More Information

Revenue's Guidance Note Standard Fund Threshold & Personal Fund Threshold provides more information about making an online PFT application and can be found on www.revenue.ie

Retirement (Tax Free) Lump Sum option

The retirement lump sum option, and how much of this is tax free lump sum, will not change for a fund over a PFT or SFT. The first €200,000 of the available lump sum will be tax free, with the next €300,000 subject to income tax at 20%.

For lump sums based on the 25% of fund option, clients may consider taking a lump sum of €500,000 (€440,000 net of tax), as any lump sum taken over this amount would be subject to income tax at their marginal rate, along with USC and potentially PRSI.

For clients with DB scheme benefits the gross lump sum calculation will be as set out in the scheme rules. The trustees may look to deduct tax arising from the excess over the PFT/SFT from the retirement lump sum. However, depending on the commutation factor applied by the DB scheme, it is likely to be more tax efficient for the client to reduce his gross pension.

Treatment of excess over SFT / PFT

Where at the point of retirement a client's fund is over his PFT, or the €2m SFT, then the excess is subject to tax at 41% within the pension fund. This tax is normally deducted from the pension fund. The legislation also allows that this tax could be paid by a payment from the individual or his ARF to the pension administrator which may be of use in some circumstances relating to DB benefits. This tax paid within the fund is in addition to any tax due under normal pension retirement rules. However, there are also some offsets and alternatives available.

The example below will help to show how benefits from a pension over the SFT/PFT will work in practise.

Example – Pension fund value of €2.5 million and PFT of €2.3 million at retirement

		Income Tax	PRSI	USC
Fund Value	€2,500,000			
Personal Fund Threshold	€2,300,000			
Gross Retirement Lump Sum	€500,000 (25% of €2m)			
Tax Free Amount	€200,000			
Balance	€300,000	at 20% = €60,000		
Net Retirement Lump Sum	€440,000			
Excess over PFT	€200,000			
Gross Tax on excess over PFT		at 41% = €82,000		
Less tax deducted from Lump Sum		- €60,000		
Net Tax on excess over PFT		€22,000		
Fund value less tax on excess	€2,478,000			
Fund value available after lump sum	€1,978,000			
If invested in an AMRF / ARF		Will apply at client's marginal rate	Will apply up to age 66.	Will apply at client's rate.
If used to purchase an annuity		Will apply at client's marginal rate	n/a	Will apply at client's rate.
If taken as an immediate lump sum		Will apply at client's marginal rate	Will apply up to age 66.	Will apply at client's rate.

Breakdown of benefits taken

Net lump sum received by client:	€440,000
ARF/AMRF:	€1,978,000
Tax at point of retirement:	€82,000
Total:	€2,500,000

Taking retirement benefits now or later

Irish Life has raised with the Revenue Commissioners the importance of having the standard fund threshold indexed each year. This is necessary to maintain the real value of the maximum pension benefits. The legislation does allow that the SFT and each individual PFT can increase each year in line with an earnings factor. However, this increase is at the discretion of the Minister, and there hasn't been such an increase since 2008.

Clients that have the option to take benefits immediately need to consider if they wish to take retirement benefits now or if they wait. Clients who take benefits immediately will be aware of their current value, their PFT limit and if there is any excess. Clients who wait to take benefits will not know for certain if they will have any excess over their PFT, as this will depend on future pension fund growth and any future indexation of the PFT limits. In some cases clients may not have the option of taking benefits now, particularly those who have not yet reached retirement age.

Alternative withdrawal options

There are some options that clients with an excess over their PFT or SFT might consider. These options involve the immediate payment of income tax and the amount withdrawn is then excluded from the client's retirement calculation.

30% AVC withdrawal option

Available to: Clients who have paid into an AVC or PRSA AVC. Option can only be taken once and is open until 26 March 2016.
Tax treatment: Up to 30% of the current value of the AVC or PRSA AVC can be taken as a lump sum subject to the immediate payment of marginal rate income tax. PRSI and USC do not apply.

Dual Private / Public Sector Pension Scheme Encashment Option

Available to: Clients who have both private sector and public sector pensions, and the combined value exceeds their SFT or last PFT. Option can only be taken once, on or after age 60 and before retiring from the public sector scheme. Revenue must be notified in advance, at least 3 months before the date of retirement from the public sector benefits.
Tax treatment: Value of the private sector pensions in excess of SFT, or PFT if applicable, can be taken as a lump sum subject to the immediate payment of income tax at marginal rate plus PRSI at 4% and USC at 4%.

Age-related valuation factors for DB pension benefit accrued after 1 January 2014

The valuation factor for DB benefits accrued after 1 January 2014 were changed from the current factor of 20 to an age related factor which depends on clients' age when taking benefits from the DB scheme. These factors are set out below and range from 37 for benefits taken at age 50 and 22 where benefits are taken at age 70.

The introduction of these new factors adds another layer of complication when calculating the capital value of DB benefits at the point of retirement. Benefits are now 'split' between those accrued up to 1 January 2014 which will continue to be valued using the factor of 20 and those accrued after that date which will be valued using the new age related factors.

Age	Factor
50(and below)	37
51	36
52	36
53	35
54	34
55	33
56	33
57	32
58	31
59	30
60	30

Age	Factor
61	29
62	28
63	27
64	27
65	26
66	25
67	24
68	24
69	23
70 (and above)	22