Salary Deducted PRSAs vs. Company Pensions

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Budget 2011 and Finance Act 2011 changes have been highlighted in blue

Contract Type	Salary Deducted PRSA	Company Pension Scheme (one-member DC arrangement)
Policy Owner	The client owns the policy.	Must be set up under trust for the benefit of the employee. The trustee owns the policy.
Retirement Age	Benefits can be taken between age 60 and 75. An employee who leaves **current** employment can take benefits from age 50.	Normal retirement age can be set between 60 and 70. An employee who leaves **the relevant** employment can take benefits from age 50.
Employer Contributions	The employer does not need to contribute. Any employer payments that bring the total contributions over the limits below will incur a BIK liability for the employee. The employee must pay PRSI and the Universal Social Charge on any employer contribution to a PRSA.	The employer must make a "meaningful contribution". For a one man scheme this would be 10% of the total contribution excluding any AVCs. There is no BIK liability for the employee on employer contributions to a company pension scheme. The employer can contribute as much as is needed to provide the maximum benefits allowed by Revenue at retirement.
Employee Contributions	The employee and employer can contribute up to the limits below and claim tax relief, subject to a salary cap of €115,000. **Age** — **% of salary** Under 30 — 15% 30 – 39 — 20% 40 – 49 — 25% 50 – 54 — 30% 55 – 59 — 35% 60 and over — 40%	The employee can contribute up to the limits below and claim tax relief, subject to a salary cap of €115,000. **Age** — **% of salary** Under 30 — 15% 30 – 39 — 20% 40 – 49 — 25% 50 – 54 — 30% 55 – 59 — 35% 60 and over — 40%
Employee Tax Relief	Tax relief given at source where employer operates a net pay arrangement.	Tax relief given at source where employer operates a net pay arrangement.
Employer Tax Relief	The company gets corporation tax relief on contributions paid into the PRSA. If the employee pays and this contribution is deducted from salary, the company can also avail of Employer PRSI relief on 50% of the employee contribution.	The company gets corporation tax relief on contributions paid into the Company Pension. If the employee pays and this contribution is deducted from salary, the company can also avail of Employer PRSI relief on 50% of the employee contribution.
Retirement Benefits	Depends of the size of the fund when the employee retires. Lump Sum Option: 25% of the value of the PRSA fund Balance of Fund Options: ▪ Purchase an annuity ▪ Leave in the PRSA ▪ Invested in an ARF* ▪ Take as taxable lump sum** * This option is subject to meeting either the guaranteed income requirement of €18,000pa or the AMRF / annuity purchase price requirement of €119,800. ** This option is subject to meeting either the guaranteed income requirement of €18,000pa or the AMRF / annuity purchase price requirement of	The benefits provided will depend on the size of the fund with the employee retires **Option 1:** Lump Sum Option: Based on member's salary and service, to a maximum of 150% of final salary based on having 20 years service at Normal Retirement Age. Reduced lump sum available for shorter service. Balance of Fund Option ▪ Purchase an annuity ▪ AVCs can be invested in an ARF or taken as taxable cash* **Option 2 (For DC schemes):** Lump Sum Option: 25% of the value of the pension fund

Contract Type	Salary Deducted PRSA	Company Pension Scheme (one-member DC arrangement)
Retirement Benefits	€119,800 or keeping a minimum of €119,800 in the PRSA.	Balance of Fund Options: ▪ Purchase an annuity ▪ Invest in an ARF* ▪ Take as taxable lump sum* *These options are subject to meeting either the guaranteed income requirement of €18,000pa or the AMRF / annuity purchase price requirement of €119,800.
Ill Health Early Retirement	Pension benefits can be taken at any age where the employee is permanently incapable of carrying out their own occupation.	Pension benefits can be taken at any age where the employee is permanently incapable of carrying out their own occupation.
Death Benefits	On death the value of the PRSA is paid to the deceased's estate. All death benefits are subject to inheritance tax, except where inherited by the deceased's legal spouse.	**Death in Service:** where the employee dies while still in service with the employer benefits are as follows; - lump sum 4 x salary (taking lump sums from previous employments into account) - the value of any employee and AVC contributions - a spouse's / dependant's pension not greater than the employee's entitlement had he retired on ill health grounds. **Preserved Benefit:** if the employee left service with the employer before he died and had a preserved benefit then the full value of the employee's fund is paid to his estate. All death benefits are subject to inheritance tax, except where inherited by the deceased's legal spouse.
Employer Responsibilities	Employers responsibilities include: ▪ Pass contributions to the PRSA provider within 21 days of the end of the month ▪ Notify the employee in writing each month of PRSA contributions deducted from salary. This is usually done through the employee's payslip. ▪ Notify the PRSA provider each month of contributions deducted from employees' wages and any employer contributions for the previous month. ▪ Account for all contributions in P35 returns. Where the employer has 'excluded employee' that it does not operate a company pension scheme for, or has certain member restrictions, further responsibilities apply in terms of providing access to a PRSA salary deducted facility.	Employer responsibilities include: ▪ Pass on employee and AVC contributions deducted from salary to the scheme trustees within 21 days following the end of the month. ▪ Provide employees of written statement (usually as part of payslip) showing the amount of employer and employee contributions paid to the scheme in the previous month. Where the employer also acts as trustee they have responsibilities under Trust Law and The Pensions Act, 1990. A full list of trustee obligations is given in the Pensions Board Trustee Handbook.

Budget 2011 changes to PRSI and Universal Social Charge relief – impact on Employer PRSA contributions

PRSAs

The taxation treatment of an Employer contribution to a PRSA is that it is treated as Benefit-in-Kind for the Employee. This means the tax treatment of an employer contribution to a PRSA is:

- Employer PRSA contributions are subject to Income Tax, PRSI and the USC
- The individual employee can immediately receive relief on Income Tax within limits as if they had paid the contribution themselves. The net effect is that in most cases the employee will be in the same net position for Income Tax and if BIK did not apply.
- However, no relief is available in respect of PRSI and the USC

Company Pensions
Employer contributions to an exempt approved company pension arrangement are not liable to income tax as BIK for the employee.

As a result employer contributions to a company pension **do not** result in Income Tax, PRSI or USC liability for the employee.

Example – Employee PRSI and Universal Social Charge Payable

The example below highlights the different tax treatment of employer contributions to company pensions and PRSAs.

	No Pension Contribution	With Employer Company Pension Contribution	With Employer PRSA Contribution of €1,000
Salary	€40,000	€40,000	€40,000
Employer Contribution	**€0**	**€1,000**	**€1,000**
Employee Contribution	€0	€2,000	€2,000
Gross Taxable Earnings (for PRSI & USC)	€40,000	€40,000	€41,000
Net Taxable Earnings (for Income Tax)	€40,000	€38,000	€38,000
PRSI Payable	€1,336	€1,336	€1,376
Universal Social Charge Payable (2% to €10,036 4% to €16,016 7% above €16,016)	€2,119	€2,119	€2,189
PRSI and Universal Social Charge Increase		**No Change**	**€110**

Where the employer contributes €1,000 and the employee contributes €2,000 to a company pension arrangement. The income tax position will be the same. The employee pays income tax based on the Net Taxable Salary of €38,000.

PRSI and the USC are based on the salary of €40,000. There is no increase in the Gross Taxable Salary because the employer company pension contribution is not BIK for the employee.

In comparison looking at a PRSA, the employer's contribution is BIK for the employee and therefore increases their Gross Taxable Earnings. The income tax position will be the same as it is based on the Net Taxable Earnings. PRSI and USC however are charged against the increased Gross Taxable Earnings (employee's salary plus PRSA contribution).

Conclusion
PRSA contributions are still a tax efficient way for employers to remunerate employees, as income tax relief is still available to employees so long as the total contribution falls within the age related tax limits (15% to 40% depending on age). The consequence of removing PRSI and USC relief, is that it has made an employer pension contribution to a company pension more attractive than an employer pension contribution to a PRSA. Irish Life, along with the life assurance industry, are currently discussing this treatment with the Department of Finance, and have requested that the equal treatment of employer contributions to a company pension or PRSA be restored.

For more information, please contact your Irish Life Account Manager

The information contained in this document is based on Irish Life's understanding of the laws and practice as at February 2011, which may be subject to change.

Irish Life