

How does pension tax relief help?

1. Tax relief on contributions

For a pension plan of €100 at a tax rate of 41%, the real cost to you may be only €59.

€100



Tax relief €41

You pay €59

For a pension plan of €100 at a tax rate of 20%, the real cost to you may be only €80.

€100



Tax relief €20

You pay €80

Please note that pension income in retirement is subject to income tax on withdrawal and any PRSI and Universal Social Charge at that time.

There are limits to the amount of tax relief available to you based on your age at the date of making the contribution. The table below outlines these limits.



These limits include any employee/AVC contributions you might be making to company pensions and they also include the total employee and employer contributions to PRSAs and Personal Pensions so any employer contributions over these limits will result in a Benefit in Kind liability for the employee. Tax relief is not available on earnings which are more than €115,000 (January 2011).

Note: Tax relief is not guaranteed and rates used are current as at January 2011. To claim tax relief, you can apply to your Inspector of Taxes to adjust your tax credits. Contributions deducted from salary will receive immediate tax relief.

2. Tax relief on investment return

Your contributions are invested in pension funds, which are exempt from Irish Tax. This means pension funds benefit from being able to reinvest the non-taxed returns to generate higher future returns.

3. Tax free lump sum at retirement

Under PRSA rules, at your retirement date, you are entitled to take 25%* of your accumulated pension fund tax free, subject to a total limit of €200,000. The remainder of the fund can be used to either purchase an annuity, stay invested in your PRSA or invest in an ARF. The income paid from an annuity and money drawn down from the PRSA or ARF will be subject to income tax and any PRSI and Universal Social Charge that applies at that time. A minimum of 5% of the ARF is assumed to be drawn down each year for income tax purposes.

* For PRSA AVCs the tax free lump sum will depend on the tax free lump sum you receive from the main scheme.