

# **Income Tax Example**

## **With & Without Pension Contribution**

\*Examples assume pension contribution is within clients tax relief limits

- Step 1 : Add all income
- Step 2 : deduct charges & reliefs to arrive at taxable income e.g.
  - PHI premium
  - Pension contributions
- Step 3 : Work out tax liability
- Step 4 : Deduct tax credits





**No Pension  
Contribution**

## Step 1: Add all income

■ Salary	€40,000
■ Bonus	€ 8,000
■ BIK	<u>€ 2,500</u>
■ Gross Income	€50,500

## Step 2: Deduct charges and reliefs

■ Gross Income	€50,500
■ PHI Contribution	<u>€ 500</u>
■ Taxable Income	€50,000

## Step 3: Work out tax liability

- Taxable Income is €50,000

### **Standard Rate Band (Married)**

- $€41,800 \times 20\% = € 8,360$
- Higher Rate
- $€50,000 - €41,800 = € 8,200$
- $€8,200 \times 41\% = \underline{€ 3,362}$
- Sum of Standard & Higher  $€11,722$

## Step 4: Deduct tax credits

■ Sum of Standard & Higher	€11,722
■ Less Married Personal Credit	€ 3,300
■ Less PAYE Credit	<u>€ 1,650</u>
■ Tax Due	€ 6,772
■ Gross Income	€50,500
■ Less Tax Due	<u>€ 6,772</u>
■ <b>Net Income</b>	<b>€43,728</b>



# Adding in a Pension Contribution

\*Pension Contributions do not qualify for USC or PRSI relief\*



- Customers can get relief up to certain limits:

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

- Earnings cap of €115,000

- The same client as previous example except this time he makes a pension contribution of €10,000

## Step 1: - Add all income

■ Salary	€40,000
■ Bonus	€ 8,000
■ BIK	<u>€ 2,500</u>
■ Gross Income	€50,500

## Step 2: Deduct charges and reliefs

■ Gross Income	€50,500
■ PHI Contribution	€ 500
■ Pension Contribution	<u>€10,000</u>
■ Taxable Income	€40,000

## Step 3: Work out tax liability

■ Taxable Income is €40,000

### **Standard Rate Band (Married)**

■ €40,000 X 20% = €8,000

### **Higher Rate**

■ €0 X 41% = € 0

■ Sum of Standard & Higher €8,000

## Step 4: Deduct tax credits

Sum of Standard & Higher	€8,000
Less Married Personal Credit	€3,300
Less PAYE Credit	<u>€1,650</u>
Tax Due	€3,050
Gross Income	€50,500
Less Tax Due	<u>€ 3,050</u>
<b>Net Income</b>	<b>€47,450</b>

# Summary Without or With contribution

- Without Pension Contribution

• Gross Income	€50,500
• Pension Contb	€0
• Income Tax Paid	€6,772
• Net of Income Tax	€43,728

- With Pension Contribution

• Gross Income	€50,500
• Pension Contb	€10,000
• Income Tax Paid	€3,050
• Net of Income Tax	€47,450
• Less Pension	€37,450

Figures above do not include deductions for USC & PRSI payable  
Pension retirement benefits are subject to tax as income



- Tax reduced from €6,772  
to €3,050
- Saving of €3,722
- The €3,722 savings is the relief granted on the pension contribution of €10,000
- The pension contribution reduced the client's taxable income so part of the relief was granted at 41% and part at 20%
- Giving the client a **marginal tax rate of 37.22%**

- Pension Contribution was **€10,000**
- Taxable Income would have been **€50,000** but for pension contribution.
- Standard Rate Cut-off Point (Married) **€41,800**
- **€8,200** above cut-off at **41%** **€3,362**
- **€1,800** below cut-off at **20%** **€ 360**
- Total **€3,722**
- **€3,722 / €10,000 X 100 = 37.22%**



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