

# **Pensions Training**

## **Taxation**

- Income Tax Rates, Credits and Limits
- Pension Contributions and Income Tax Calculation
- Income Tax Exemption Limits
- PRSI
- Universal Social Charge (USC)
- Social Welfare

# **1. Income Tax Rates, Credits & Limits**

## ■ Schedule D

- Case I : Income from a self employed *trade*
- Case II : Income from a self employed *profession*
- Case V : Income from Irish *rental property*

## ■ Schedule E

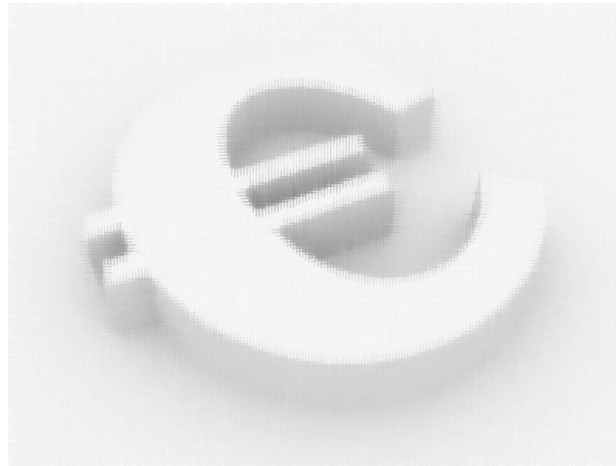
- Income from an employment
- Pensions and annuities in payment

## ■ Schedule F

- Dividends from an Irish company



- Remuneration from employment assessed to income tax under Schedule E (PAYE)
- Remuneration could include
  - Salary
  - Bonuses
  - Directors Fees
  - Commission
  - BIK
- Value of shares provided or purchased under Approved Profit Sharing Schemes



## ■ Company car

- Up to 30% x OMV (Original Market Value)
- Reductions depending on mileage/emissions

## ■ Preferential Loans

- (4% - rate paid) for house loans
- (Less than 13.5% - rate paid) for other loans

## ■ Employer contribution to employee's PRSA

- However employee can then claim tax relief on contribution as if he/she had paid the contribution themselves.
- Universal Social Charge Issue if employer contributes

- Pension contributions cannot be set against the Universal Social Charge so relief cannot be claimed
- So any employer contribution to a PRSA is BIK and the employee has to pay the USC on the employer contribution amount
- This is different to Income Tax as it is possible to set pension contributions against Income Tax
- Employer PRSA contributions are not subject to PRSI

<b>Salary</b>	<b>€40,000</b>
Employer PRSA Contribution	€ 1,000
Employee PRSA Contribution	€ 2,000
<b><u>Employee Taxation</u></b>	
Gross Taxable Salary (€40,000 plus €1,000)	€41,000
Less Total PRSA Contribution	<u>€ 3,000</u>
Net Taxable Salary (for income tax)	€38,000

- Employee pays Income Tax based on net salary of €38,000.
- PRSI is based on a salary of €40,000
- But Universal Social Charge is based on a gross taxable salary of €41,000





## Standard Tax Rate – 20% Higher Tax Rate – 41%

At what income level to you change over?

Single/widowed	€32,800
Married couple, one income	€41,800
Married couple, two incomes	€41,800 + lower of €23,800 and income of lower earning spouse
One parent family	€36,800

## Personal Credits

- |                                     |        |
|-------------------------------------|--------|
| ■ Single                            | €1,650 |
| ■ Married                           | €3,300 |
| ■ One Parent Family                 | €1,650 |
| ■ PAYE                              | €1,650 |
| ■ Age Allowance<br>(age 65 or over) | € 245  |
- Other credits may apply depending on individual circumstances

- 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



## 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>

## **2. Pension Contributions & Income Tax Calculation**



- 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>



- 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%**

## ■ Most Schedule E income subject to tax at source under PAYE system

- Salaries and wages
- Pensions and annuities in payment

## ■ PAYE :

- Income taxable @ standard rate
- Balance taxable @ higher rate
- Less tax credits allowed for that period





- If relief is claimed through PAYE there are two changes on Notification of Tax Credits and Standard Rate Cut-Off Point
  1. Additional Credit of pension contribution by Standard Rate (i.e. Contribution X 20%)
  2. Increase in Standard Rate Cut-Off Point by full amount of pension contribution
- This ensures that relief is given at higher rate only as appropriate

### **3. Income Tax Exemption limits**

- For clients aged 65 or over

- Single / Widowed **€18,000**

- Married (either over 65) **€36,000**

- If total income is under these limits then total income is exempt from Income Tax



- If total income is over these limits then income tax is the lesser of
- Tax at **40%** of excess over exemption limit, or
- Income tax calculated as normal (i.e. completely ignoring exemption limit)
- Married person over 65, total income **€38,000**

	<u>Normal</u>	<u>Exemption</u>
■ Standard Rate	<b>€7,600</b>	N/A
■ Less Tax Credits	<b>€3,790</b>	N/A
■ 40% Rate	<u>N/A</u>	<u><b>€800</b></u>
■ Tax	<b>€3,810</b>	<b>€800</b>

- No exemption limits for under 65. However, tax credits may eliminate tax liability

	<u>Tax Credit</u>	<u>Earnings Limit</u>
Single	€ 1,650	€ 8,250
Single + PAYE	€3,300	€16,500
Married	€3,300	€16,500
Married + 1 PAYE	€4,950	€24,750
Married + 2 PAYE	€6,600	€33,000

## 4. PRSI

## Employee - A1

All income     4%

Exempt if earnings less than **€352pw (€18,304 pa)**

## Self Employed - S1

All income     4%

- Annuity or ARF income: PRSI class M
- Earnings for employees are subject to PRSI class J
- PRSI Class J and M are exempt from PRSI
- ARF income: PRSI class S if under 66



- From January 2011 employee pension contributions will no longer get relief against PRSI and the Universal Social Charge
- Self employed never received PRSI relief - now have same rules for employees and self employed

## **5. Universal Social Charge**

Weekly Threshold	Yearly Threshold	Rate
<b>€193</b>	<b>€10,036</b>	<b>2%</b>
<b>€193 to €308</b>	<b>€10,036 to €16,016</b>	<b>4%</b>
Greater than <b>€308</b>	Greater than <b>€16,016</b>	<b>7%</b>

- USC applies to gross income, before deductions for capital allowances or pension contributions
- Additional 3% surcharge applies to self employed income above €100,000

Weekly Threshold	Yearly Threshold	Rate
€193	€10,036	2%
Greater than €193	Greater than €10,036	4%

- Reduced rates for those age 70 and over, and those with a full Medical Card regardless of age unless they have earnings greater than €60,000

- Where an individual's income for a year does not exceed €10,036 per annum
- Social welfare payments, including contributory and non-contributory social welfare pensions.

## **6. Social Welfare**

## **PRSI Class A Employees**

- Job Seekers
- Illness
- Invalidity Pension
- State Contributory Pension
- Widow(er)'s Contributory Pension

## **Class S Self Employed and Company Directors**

- State Contributory Pension
- Widow(er)'s Contributory Pension

## State Pension (Contributory)

- Made to people age 66 or over who satisfy certain social insurance contribution conditions. (Previously Old Age Contributory Pension)

## State Pension (Transition)

- Made to people reaching age 65, who are retired and who satisfy certain social insurance conditions. (Previously Retirement Pension)
- Not means tested or affected by other income such as an occupational pension
- State Pension (Transition) abolished in 2014



## State Pension Age to increase to:

- 66 in 2014
- 67 in 2021
- 68 in 2028



- In order to qualify for a State Pension (Contributory) you must be aged 66 and have enough Class A, E, F, G, H, N or S social insurance contributions.

## You need to:

- Have paid social insurance contributions before a certain age
- Have a certain number of social insurance contributions paid and
- Have a certain average number over the years since you first started to pay
- Should apply 3 months before reaching relevant age

You must have entered social insurance before a certain age. For people currently under 66, they must have started to pay social insurance before the age of 56.

- You will need to have 260 paid contributions (effectively 5 years contributions)
- If you reach pension age on or after April 6 2012, you will need to have 520 paid contributions (10 years paid contributions)

# Average number contributions per year Irish Life

- The normal average rule states that you must have a yearly average of at least 10 appropriate contributions paid or credited from the year you first entered insurance or from 1953, whichever is later.
- The alternative average only applies to people who reach pension age on or after 6 April 1992. It requires that you have an average of 48 Class A, E, F, G, H, N or S contributions for each contribution year from April 1979 to the April before your 66th birthday. This average would entitle you to the maximum pension.  
There is no provision for a reduced pension when this alternative average is used.

- Payment from September 2012:

- PRSI Contributions      Rate per week

**48 or over                      €230.30**

**40 - 47                        €225.80**

**30 - 39                        €207.00**

**20 - 29                        €196.00**

**15 - 19                        €150.00**

**10 - 14                        €92.00**

- Increases apply for a Qualified Adult

- Married couple may each be able to claim in own right

- Proposal to simplify rules, but not until 2020
- Once you have made PRSI contributions for 10 years (that is, 520 PRSI contributions) you will qualify for 10/30ths of the state pension
- Each further year of PRSI contributions will entitle you to a further 1/30th
- After 30 years (1,560 PRSI contributions) you qualify for full 30/30ths of state pension benefit

- A person may continue working after age 66 and also get this pension. On reaching age 66 an employee is liable for PRSI at class J only.
- Self-employed people who pay Class S PRSI contributions can also continue to work and qualify for this payment provided that their social insurance liabilities are in order.



- Means-tested payment for people aged 66 or over who do not qualify for State Pension (Contributory) based on their social insurance record.
- Previously known as Old Age Non-Contributory Pension

- From 1st January 2009 those aged 70 and over will be entitled to a Medical Card if their weekly gross income is below €500 (€26,000 pa) for a single person and €900 (€46,800 pa) for a couple.
- Gross income is any income received, e.g. any employment earnings, rent, social welfare, occupational or private pension

- Savings or similar investments of €36,000 (single) and €72,000 (couple) are disregarded. The remainder of savings/investments will be assessed on the income calculated at a notional interest rate based on prevailing interest rates.
- For example, if you are single and you have €50,000 earning 3% interest, the income is counted as 3% of €14,000 (€50,000 less €36,000), €420.00 a year or €8.05 a week.
- The family home and any other property will not be taken into account unless it is generating rental income

- Thresholds depend upon circumstances (e.g. different thresholds for those living alone or with family)
- Sample threshold up to age 65, living alone
- Medical Card - €184 pw (€9,568)
- GP Visit Card - €276 pw (€14,352)
- Contact HSE for further information

- Free Travel (people aged 66 or over)
- National Fuel Scheme (unable to provide for own heating needs)
- Basic Supplementary Welfare Allowance (those with insufficient means)
- Rent Supplement
- Mortgage Interest Supplement (closed 1 Jan 2014 to new entrants)
- Exceptional Needs Payments (once-off expense)
- Urgent Needs Payments (flood, fire)
- Dietary Supplement (prescribed special diet) – closed 1 Feb 2014 to new entrants
- Household Benefits Package (Electricity or Gas allowance, and free Television Licence - over 70's)

- Pension Contributions and Income Tax Calculation
- PRSI
- Social Welfare

The information and tax rates contained in this presentation are based on Irish Life's understanding of legislation and Revenue practice as at April 2014 and may change in the future. While great care has been taken to ensure the accuracy of the information contained in these slides, Irish Life cannot accept responsibility for its interpretation nor does it provide legal or tax advice.

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