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Irish Life

Finance Bill 2012 Update

Pension Advisory Services – Irish Life

The Finance Bill was published Wednesday 8th February and includes a number of measures that affect pensions. A number of these had already been signalled by the minister in December's Budget.

Key Points

- Imputed distribution on vested PRSAs, no change to PRSAs pre-retirement
- Increased 6% imputed distribution applies to total value of ARFs and vested PRSAs over €2m
- Increased 30% income tax rate for ARFs and vested PRSAs on death to children over 21
- Alternative arrangements for how tax is collected on pension benefits over €2.3m SFT for public sector workers

IMPUTED DISTRIBUTION ON VESTED-PRSAs

The Finance Bill confirms the Budget announcement that Vested-PRSAs (i.e. a PRSA where benefits have commenced) will be subject to a minimum distribution of 5% each year from 2012, similar to ARFs. As with ARFs, this will apply from the year the individual turns 61.

Where an individual with a Vested-PRSA does not meet the guaranteed pension income requirement (currently €18,000) or the AMRF requirement (currently €119,800) then the 5% distribution requirement applies to the value of the vested-PRSA above the AMRF requirement of €119,800.

The Budget included a proposal that where an individual has a mixture of PRSAs and Vested-PRSAs, then the 5% minimum distribution would apply both to the PRSAs and Vested-PRSAs. This proposal has been dropped, and the legislation as drafted applies to ARFs and Vested PRSAs.

ARFs AND VESTED-PRSAs IN EXCESS OF €2 MILLION

As announced in the Budget, where an individual has ARFs and / or vested-PRSAs with a combined value in excess of €2 million the minimum distribution increases from 5% to 6%. The increased 6% rate will apply to the entire aggregate value, not just the portion over €2 million.

In such cases where an individual has a number of ARFs and / or vested PRSAs valued over €2 million in total which are not all managed by the same qualifying fund manager / PRSA administrator, it will be compulsory to appoint a nominee manager (QFM) for the purposes of ensuring that 6% distribution and the appropriate tax liability is paid on the full value of the individual's ARFs and vested PRSAs.

A new section 790D is being inserted into the Taxes Consolidation Act that will deal with imputed distributions for both ARFs and vested PRSAs together. As a technical change, the valuation date for the calculation of the minimum distribution has been changed from 31 December to 30 November, however this will not change how the minimum distribution operates in practise. As with the previous minimum distribution regime for ARFs, actual distributions made during the year may be taken into account to work out the net minimum distribution required at the end of the year, if any.

ARFs AND VESTED- PRSAs: TAXATION ON DEATH

As announced in the Budget, the rate of tax applying on the death of an ARF holder where the value is paid out to a child aged 21 or over has been increased to 30%. This is an increase from standard rate income tax, currently 20%. This change will apply from the date of passing of the Finance Act 2012.

Certain reporting requirements have also been introduced that will require the ARF Qualifying Fund Manager to make returns to the Collector-General in respect of tax deducted at this 30% rate. This will cover details of the payment along with the name, address and PPS number of the individual who received the payment.

Summary of Tax Implications for ARFs and Vested-PRSAs on Death

Taxation on death of original ARF / Vested PRSA holder

ARF/AMRF/Vested PRSA inherited by	Income Tax	Capital Acquisitions Tax
Surviving spouse or registered civil partner	No income tax due on the transfer to an ARF in the spouse's/registered civil partner's name. Subsequent withdrawals by the spouse/registered civil partner are subject to income tax and any other taxes due at that time.	No
Child (under 21)	No income tax due	Yes. Normal CAT thresholds apply
Child (21 or older)	Yes – Due at 30%	No
Other (Including transfer directly to spouse without going to ARF for surviving spouse)	Yes – Due at the marginal income tax rate of the deceased along with any other taxes due at that time.	Yes. Normal CAT thresholds apply. No CAT due between spouses.

Taxation on death of second ARF holder

ARF/AMRF/Vested PRSA inherited by	Income Tax	Capital Acquisitions Tax
Children (under 21)	No	Yes. Normal CAT thresholds apply
Child (21 or older)	Yes – Due at 30%	No
Other	Yes – Due at 30%	Yes. Normal CAT thresholds apply

STANDARD FUND THRESHOLD

There has been no change to the Standard Fund Threshold which remains at €2.3m. There have been a few technical changes on how the tax due on the chargeable excess, (the portion of the fund exceed the SFT or PFT) can be paid.

Offsetting tax due on Retirement Lump Sums

Where an individual has pension benefits exceeding the SFT, (or PFT if applicable) then they can use any standard rate tax paid on their retirement lump sum to offset the tax due on the chargeable excess. If the amount of standard rate tax paid on the lump sum exceeds the tax due on the chargeable excess then the individual can carry the unused amount forward and offset it against tax due on any future chargeable excess amounts. This concession applies only where the tax on the retirement lump sum was charged at standard rate, it does not apply to the tax changed on lump sums exceeding €575,000.

There has been no change to the taxation of retirement lump sums over €200,000.

Public Sector Schemes

The Government has introduced a number of alternative arrangements to enable public sector workers whose total pension benefits exceed €2.3m pay the tax due on the excess. Previously this tax was deducted from their retirement lump sums, but this caused a number of problems especially where the lump sum entitlement was less than the tax due.

These arrangements include

a) Restricting the amount of tax that can be deducted from the retirement lump sum to 50% of the value of the lump sum. A higher amount can be taken if agreed between the individual and the administrator.

b) The individual's annual pension entitlement can be reduced over an agreed period to a maximum of 10 years

c) A payment by the individual from their own resources within 3 months of when the tax liability occurred

d) A combination of all of the above

Public Sector Encashment Option

This is a once off option available to public sector workers who have both public and private sector pension schemes where their benefit under the public sector scheme exceeds the SFT. This option must be exercised on the same day in relation to all private sector schemes held by the individual, with the agreement of the private sector scheme. The individual must also inform the Revenue Commissioners at least 3 months before they take benefits from their public sector pension scheme.

Where an individual avails of this option they an encash their personal pensions, PRSAs or private sector company pension plan subject to income tax at 41% and the Universal Social Charge. Once encashed these plans will no longer count towards using up the SFT or the individual's PFT. By availing of this option no retirement lump sum will be available from the private sector schemes.

Affected individuals who have already taken retirement benefits from their private sector pensions can also avail of this option where they have yet to take benefits from their public sector scheme and where those benefits will exceed the SFT. In this instance the deemed encashment amount will be the total amount of any retirement lump sum, amount transferred to an AMRF, ARF and any amount left in a vested PRSA. This deemed encashment amount will be subject to income tax at 41% and the Universal Social Charge. Once this option has been availed of their AMRF, ARF and vested PRSA will cease.

OTHER ITEMS OF INTEREST

30% Contribution Limit for Certain Sportspersons

Professional cricket players have been added to the list of sportspersons whose income is wholly or mainly from these sports and may contribute to a personal pension and receive relief based on 30% of their net relevant earnings (subject to the earnings cap) regardless of age. When this legislation was originally introduced cricket was an amateur sport in Ireland.

Life Assurance Exemption for Pension Funds

Company Pension schemes, Trust RACs, ARFs and AMRFs are being exempted from Life Assurance Exit Tax where they invest in a life assurance investment or savings policy.

The information contained in this document is based on Irish Life's understanding of legislation as at February 2012 which may change in the future.