

# Revenue clarify operation of tax relief on pension contributions

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In recent months Revenue has clarified their view on the operation of tax relief on pension contributions for individuals such as practitioners and consultants who have two sources of income:

- › one pensionable (e.g. HSE/GSE Scheme); and
- › one non pensionable (e.g. private income).

These briefings have caused some confusion in relation to how much they can contribute and through what type of pension vehicle. Gareth McCluskey of Davy outlines the new rules, the impact and the rationale for continued pension building.

Tax relief is available on personal pension contributions within the limits set by the Irish Revenue Commissioners ('Revenue'). The following table outlines the maximum

percentage of remuneration/ Net Relevant Earnings ('NRE') on which tax relief may be claimed based on an individual's age. However, effective from January 2009, the upper limit on NRE was reduced to €150,000 (from €275,239 in 2008)\*.

Age**	Percentage of NRE
Under 30	15%
30-39	20%
40-49	25%
50-54	30%
55-59	35%
Over 60	40%

Source: Davy

NOTE: these limits include any personal contributions that are payable to any pension arrangement i.e. including the HSE/GSE Scheme.

Up until September 2009, market practice was that tax relief was available against private practice pension contributions made (up to the limits set out above) instead of HSE earnings.

This is no longer the case.

For earnings in respect of 2009 onwards, NRE will be determined by reference to HSE earnings in the first instance and to the extent that this income is less than the €150,000 cap, any surplus NRE can be determined by reference to private practice income.

The impact is that contributions must first be made in respect of HSE earnings and can be supplemented in respect of private practice earnings if there is scope to do so.

Contributions in respect of HSE earnings must be made to either The Superannuation Plan or a stand alone AVC Personal Retirement Savings Account (PRSA). To the extent that there is scope to make contributions in respect of private sector income, these can continue to be made to existing personal pension arrangements.

Despite these changes, tax relief on contributions and tax-free returns means investment through a

pension continues to be one of the most effective ways of saving and accumulating assets over the long-term. The PRSA is therefore a very useful tool to supplement the HSE/GSE pension during the contributory years.

An AVC PRSA is a contract between an individual and PRSA provider in the form of an investment account which is aligned with the HSE/GSE Scheme and offers individuals the ability to manage their personal contributions on a stand alone basis. Contributions made to this contract will increase the benefits available on retirement (subject always to the Revenue maximum benefits payable by reference to the HSE/GSE Scheme).

There are two types of PRSAs, standard and non-standard, with the key differences being:

- › the investment options available
- › the investment flexibility and control
- › fees and charges

Davy can provide a non-standard PRSA which allows individuals to have:

- › investment flexibility and control - you can adjust your investment strategy to respond to changes in personal circumstances or underlying investment markets
- › access to a wide range of assets including private equity and hedged funds in addition to equities, property, bonds and cash
- › the ability to work with dedicated investment specialists to manage their pension and tailor their investment strategy to their particular circumstances
- › a high level of transparency of fees and charges

With any investment there are risks associated with products such as the non-standard PRSA,

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for example, investment risk, access to funds, level of contributions and maintaining contributions and currency risk.

As a leading provider of non-standard PRSAs, Davy is working with many individuals to review their pension arrangements and how their funds are invested. Given the difficult economic and financial environment, it has become a priority that pension funds are structured and managed in the most appropriate manner given the individuals particular circumstances, financial objectives and risk appetite. This process takes time and with the deadline for 2009 pension contributions fast approaching (31st October 2010 for paper return or 16th November 2010 for those making their return online), it is at the forefront of everyone's mind.

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\* Source: Part 30 of the Taxes Consolidation Act (TCA) 1997 as amended \*\* Based on that attained in the relevant tax year.

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