Standard Life

Pension sales ideas

October 2011

For Financial Advisers only

As we get closer to Decembers budget the level of speculation as to what might happen in the world of pension increases. We have set out a summary of some of the changes being mooted and complimented them with some sales opportunities.

1 Opportunity

If tax relief is reduced

The National Recovery Plan envisaged tax relief being reduced to 20% by reducing it by 7% per annum for 2012, 2013 and 2014.

A lot of the speculation on this issue concerns the inability of employers to adopt a hybrid rate of relief within their payroll function and some believe that the Department of Finance may go straight to the 20% rate (sometime between 2012 and 2014).

Such a threat presents two opportunities

- Potentially 2011 may be the last tax year when relief where relief is available at 41% and therefore all 41% taxpayers should be maximising their pension contributions this year
- As employer contributions are unaffected, it may be appropriate to consider incorporating clients who are currently operating under Schedule D. (Please refer to our Incorporate? document (IVSE))

So what are the opportunities?

1. Any client who is a member of a Defined Benefit pension scheme should be contributing whatever is necessary each year to build an AVC fund to a minimum value that equals their tax free cash entitlement – money goes in tax free, it grows tax free and it comes out tax free.
2. Any client who is employed can also backdate contributions into the 2010 tax year and claim full income tax **and** PRSI relief.

2 Opportunity

If Standard Fund Threshold is reduced

On several occasions the idea of capping pensions in payment at €60,000 has been mentioned. This could potentially equate to a reduced SFT of €1,200,000.

This would affect considerably more people than the purported 1,200 affected by the €2.3m threshold and the potential revenue it could generate would be significant -

- Firstly, reliefs would be curtailed and the Exchequer would save the cost of granting tax relief (either corporate or personal).
- Secondly, such a low threshold would result in considerably more tax being paid by your client (chargeable excesses) thus reducing the Government's deficit.

As such we feel that the SFT is firmly on the radar for further reductions. However, while the threshold remains at its current level we should be encouraging clients to exploit it by accelerating and maximising contributions where possible.

So what are the opportunities?

1. Any client who drew down their benefits before 2005 can ignore the pension benefits secured for the purpose of the threshold – and they can fund again up to the €2.3m limit (SFT). This can be of use for your clients where their benefits drawn were less than the maximum permitted by Revenue in respect of their salary and service as the company can bridge the gap through new contributions (even though they may no longer be involved with the company).
2. If you identify a client who should have sought a Personal Fund Threshold but didn't, it might not be too late to apply for one now. Although the closing date for applications was 7 June 2011, the Tax acts give discretionary powers in S787P for the Revenue to issue PFTs at any stage.
3. Any cash rich company can still contribute to provide a pension fund of up to €2.3m on behalf of an employee.
4. Family businesses which employ both spouses can 'double up' on the threshold by contributing to provide a pension fund of €2.3m each.

3 Opportunity

If CAT thresholds or rates are changed

There is an anomaly in the tax treatment of ARFs on death – one which shouldn't be overlooked in the advice process.

The anomaly concerns the tendency for ARF death benefits to be paid directly to the deceased's spouse, whereas it can make more tax sense to pay the benefits directly to children.

Consider an ARF investor – married with two children. They die leaving €300,000 in the ARF. This is the taxation position.

Beneficiary	Gross inheritance	Tax they are liable for		Approximate amount they will receive net
		Income tax	CAT	
Spouse	€300,000	Yes*	No	€155,000
Child over 21	€300,000	Yes	No	€240,000
Child under 21	€300,000	No	Yes	€300,000
Anyone else	€300,000	Yes	Yes	€127,000

*There is no tax on the transfer from one ARF to another but any subsequent withdrawals are subject to income tax in the normal way.

If the CAT rates are increased in the Budget, this will have an impact on the tax treatment of ARF benefits. Either way, it may make sense to review the Estate planning provisions for all of your ARF clients now.

So what are the opportunities?

If the Estate of the ARF holder includes non-pension assets, the Will could be structured so as to leave the non-pension assets to the spouse and potentially the pension assets more tax efficiently to the children.

4 Opportunity

If the imputed distribution is increased or extended to PRSAs

Despite all of the arguments that demonstrate the threat to the capital value of an ARF by imputed distributions, there have been murmurings that it may be increased further. Furthermore there has been a long standing expectation that the drawdown requirements will be extended to PRSAs.

In either event, the opportunity for us all is to develop more creative ways of satisfying the imputed distribution requirements.

So what are the opportunities?

1. **Property acquisition** – Some investors are seeing value in the property market where rental yields can meet and exceed imputed distribution requirements. The longer term expectation is that the property may yield capital growth.
2. **Bonds** – Some investors are exploiting the considerable return differentials between deposit rates and Irish government bond yields. Government bonds are currently returning more than deposits and can cater for the imputed distribution without the ARF holder having to assume any higher degree of risk than if the investment was placed on deposit.
3. **Maximising the amount in the AMRF** – As imputed distributions don't extend to the AMRF, you may wish to explore ways where you can increase existing €63,500 AMRFs to ones which require €119,800 thus removing an additional €56,300 from the imputed distribution.

5 Opportunity

If the pension lump sum limit is reduced

The current pension lump sum is calculated by reference to the SFT i.e. the maximum tax efficient pension lump sum is 25% of €2.3m, or €575,000. Of this figure, the first €200,000 is tax free, the next €375,000 is taxed at 20% and the excess above €575,000 is treated as income and taxed under the PAYE system.

If the SFT is under threat, then there is a corresponding threat to the pension lump sum.

The opportunity for you is to ensure that any clients who have the ability to drawdown their lump sums do so in advance of the budget.

So what are the opportunities?

1. **Self employed individuals over the age of 60** – they can access their pension pots without affecting their main source of income
2. **Buy Out Bond holders (Personal Retirement Bond holders) aged 50 or older** – they don't have to wait until normal retirement age under the original scheme. They can draw the lump sum at any age from 50 without affecting their current employment.
3. **Proprietary directors aged 60 or older** – the rules requiring proprietary directors to dispose of their shares etc only apply where there is an 'early retirement'. As you can set NRAs from as early as age 60, you can avoid early retirements by simply changing the normal retirement age to their current age.

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Laws and tax rules may change in the future. The information here is based on our understanding of the situation in October 2011.

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