

# Podcast series

## EPPs and spousal employment

### Podcast transcript

**Not all employers operate as limited companies and it's a misconception that an employer sponsored scheme or occupational pension scheme can only be set up by a company or some sort of corporate entity, but that's not necessarily the case.**

I'm Stephanie Garrigan from Standard Life's business services team and today I'm joined by Sinead McEvoy, manager of the technical solutions team to talk through spousal employment, how it works and why some of your clients should consider employing their spouse.

**This podcast is intended for Financial Adviser use only and does not constitute advice.**

**Stephanie: So Sinead tell me more.**

**Sinead:** Thanks Steph. Yes an executive pension plan can be established by any employer for their employees. Whether an employer is a corporate entity or self employed person doesn't matter. And I'm going to tell you how self employed employers can establish a pension scheme on behalf of their employees and focus on spousal employment which is often overlooked

Take a solicitors practice for example. The solicitor himself is assessed for tax as a self employed individual. However his employees are all assessed for tax under PAYE as would any normal employee. In this case the solicitor can establish a scheme for his employees even though there is no company party to the arrangement.

So that's the theory and an example of the practice. If you then pick up that ball and run with it you discover that there is nothing to stop a self-employed person employing and paying their spouse under the PAYE system.

**Stephanie: That's interesting and if the spouse is only working on a part time basis, does that have any implications?**

**Sinead:** No, whether it's part time or full time doesn't matter. The key is that there is a PAYE salary and actual service.

However it's important to point out that it must be a bona fide, real employment and the spouse demonstrably has to be working, and it all has to stand up to revenue scrutiny.

Remember a spouse doesn't have to be earning a huge salary or long service to accrue a sizeable fund. For example, an employee with 10 years' service at retirement age and a final salary of €25,000 can accrue a pension fund of circa €800,000.

Because spousal employment allows some valuable tax planning opportunities through pension funding, remember wherever a schedule E income exists so too does the ability to pension that income.

And there's reasons why spousal employment is even more attractive now than it was in the past isn't there Sinead?

Yes there is, it's not a new opportunity. It has become more attractive since the earnings limits for individual contributions eligible for tax relief reduced to €115,000, it had been €150,000 in 2010 and €275,000 before that.

So self-employed individuals with large incomes were able contribute a larger pension contribution as the earning cap was higher. They could make a pension contribution up to age related factors based on a max income of €275,000 in 2008. Since this has been reduced to €115,000 over the years, their scope to make pension contributions has been reduced substantially.

Another reason it is even more attractive is that on retirement, a lump sum of up to €200,000 is tax free. Therefore it makes sense if an individual is going the ARF option to build up a fund of €800,000 individually rather than €1,600,000 through one spouse as both parties can then avail of 200,000 tax free each.

Lastly, for the bigger clients with funds near or getting close to this threshold they can divert substantial amounts of their own income in to a pension for their spouse.

**Stephanie: Thanks Sinead. There's a lot in that, and it's clear that proper financial and tax advice is needed.**

**Hopefully it's given you some more insight on the benefits of spousal employment. If you need finer detail, contact the Technical Solutions team. They're available to guide and assist and the best way to get started is to drop them an email at [technicalolutions@standardlife.ie](mailto:technicalolutions@standardlife.ie).**

**All that's left to say is thank you for listening; this podcast was recorded on the 30th of May 2019. All information is correct at time of recording. Standard Life International dac is regulated by the Central Bank of Ireland.**

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