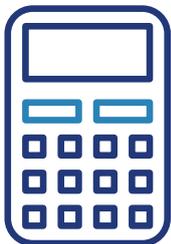


Maximum funding for pensions

Occupational pension schemes are one of the most tax efficient ways of providing pension benefits for Schedule E company directors and employees. This is because employer contributions can be written off against corporation tax as a business expense and are not treated as a benefit-in-kind for an employee.

There are Revenue limits on the maximum pension that a scheme member can have, which means there's a maximum fund that can be accumulated to reach this target pension. The Revenue maximum pension that a member can fund for, or receive at retirement age, is two-thirds of their final salary (assuming they have 10 years of salaried service at retirement). Maximum funding is simply calculating the maximum contributions that can be paid to allow a member fund for that maximum pension.



Methodology

The maximum allowable pension fund can be calculated using an uplifted/enhanced scale and the N/60th scale (basic scale) – whichever is the greater. Our maximum funding illustration will give you the maximum allowable pension at retirement and maximum fund permitted using both scales.

The illustrations in this document are based on a married female, aged 50, with a salary of €60,000 pa and €120,000 retained pension benefits, who'll have 26 years service at normal retirement age 66.

	Uplifted scale	Strict 60 ^{ths}
Maximum pension at Normal Retirement Age	€40,000	€26,000
Maximum retirement fund permitted	€884,000	€652,600

The key difference between the two calculations is the treatment of retained benefits.

A member can always fund for 1/60th of salary for each year of service, regardless of their retained benefits from other arrangements. When funding on the uplifted/enhanced scale, retained benefits must be taken into account.



Contribution types

There are two types of allowable contributions that can be paid to a scheme – Ordinary Annual Contributions and Special Contributions:

- An Ordinary Annual Contribution is the maximum contribution a company can make to fund ongoing service and can get tax relief in the company tax year it is paid. It can be paid into a scheme on a regular basis (for example, monthly, quarterly, half-yearly or yearly), or by way of a single contribution top up

Option 1: Future ordinary contributions	Uplifted scale	Strict 60 th s
Maximum ordinary contributions (per annum)	€55,250	€40,788

- A Special Contribution is used to provide benefits on behalf of unfunded past service with an employer, and is normally paid as a single contribution top up

Maximum Special Contribution and Ordinary Annual Contribution

Option 2: Special contribution for past service		
Maximum single contribution at the date of illustration	€266,154	€251,000
and		
Additional ordinary contribution (per annum) commencing this year	€38,615	€25,100

In Option 2, if the employer pays the maximum Special Contribution allowable, the Ordinary Annual Contribution reduces going forward. The company will not be able to claim tax relief on the full Special Contribution in this company tax year, and some of the tax relief will have to be spread forward to future tax years (maximum 5 years).

Maximum employer contribution for maximum tax relief in year contribution is paid

Revenue will allow tax relief for a Special Contribution in the company tax year it is paid, if it is **less than or equal to** the Ordinary Annual Contribution for that year:

Option 3: Matching ordinary and special contributions		
Maximum total contribution payable this year	€110,500	€81,575
and		
Additional contribution (per annum) payable from year 2 onwards	€51,567	€38,068

In Option 3, an Ordinary Annual Contribution of €55,250 plus a matching Special Contribution of €55,250 (total €110,500) can be paid, and full tax relief can be claimed in the company tax year.

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Technical Solutions team

We're available for all your queries on extracting cash from companies and turning it into personal wealth through company pension contributions. If you have a maximum funding query, or would like a maximum funding illustration, email technicalsolutions@standardlife.ie

We'll need your client's details:

- Date of birth
- Marital status
- Gender
- Salary
- Normal Retirement Age
- Date that salaried service commenced
- Value of pension benefits in relation to current employment
- Value of pension benefits in relation to previous employments

It is not possible to backdate employer contributions to a pension scheme – the contributions must be physically paid before the end of the company tax year.

Our maximum funding illustrations are based on standard methodology and capitalisation factors set out in Chapter 5 of the Revenue's pensions manual. When an individual is within 3 years of normal retirement age, the capitalisation factors can be replaced with current annuity rates.

Laws, tax rules and Revenue practice may change in the future. The information here is based on our understanding in June 2020.

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