Standard Life

Six things to consider for your clients' pension contributions

For financial advisers only

With the pay and file deadline fast approaching, people who want to make a pension contribution to reduce their 2018 liability must do so before 31 October 2019. For people using Revenue Online Service (ROS) the extended date is 12 November 2019.

Tip: If you're using ROS, you must elect to backdate the income tax relief against the 2018 tax year.

Here are six points to be aware of if you have clients making pension contributions for their 2018 earnings:

1. Maximum contributions for tax relief purposes

The maximum contributions to a Personal Pension Plan, PRSA or employee/AVC contributions to an occupational pension scheme that you can get tax relief on in any one year relates to your age and is expressed as a percentage of your earnings.

The maximum gross income figure for relief purposes is €115,000. The percentage relief limits are:

Age	Tax relief as a % of earnings
Under 30 years	15%
30-39 years	20%
40-49 years	25%
50-54 years	30%
55-59 years	35%
60 years plus	40%

Earnings mean income from a non-pensionable employment or from a self-employed trade or profession.

Both self-employed individuals and employees have the opportunity to pay a pension contribution and backdate it against their 2018 tax bill. The tax relief limits for the 2018 tax year will apply.

2. Matching clients to products

From a pensions' perspective the Revenue Commissioners recognise two broad types of tax payer:

- Those assessed for tax under Schedule E - all PAYE employees
- Those assessed for tax under Schedule D, Case I or II - all self-employed individuals whose profits arise from carrying out a trade (for example a plumber) or profession (for example a dentist or solicitor)

It is the person's tax status that dictates the type of pension that they can contribute to:

- PAYE employees can contribute to their company scheme if they are a member of the scheme
- If an individual is a member of an occupational pension scheme for retirement benefits they are considered to be in **pensionable** employment and additional contributions, over and above what they are required to contribute as a member of the scheme, must be made via an AVC or a PRSA AVC
- If an employer does not have an occupational pension scheme or has a scheme but it only provides death in service benefits, then employees are deemed to be in **non-pensionable employment** and can only make contributions to a Personal Pension Plan or a PRSA
- If an individual is self-employed and has relevant earnings then contributions must be made via a Personal Pension Plan or a PRSA

3. Change of status

If a person changes their employment between tax years, this may affect their ability to make a pension contribution and backdate the tax relief to the previous year.

Once an individual has left an employment where they were a member of an occupational pension scheme, they cannot make any further contributions, including AVCs, in relation to that employment. The contribution must have been made before they left service in respect of earnings from that employment.

4. Two sources of income – dual income earners

Where a client has two sources of earnings, one relating to pensionable employment (where they are a member of a contributory company pension scheme) and one relating to self-employed earnings, then the pensionable employment earnings must be used up first in relation to the €115,000 earnings limit for tax relief. An example of this would be a GP with General Medical Service (GMS) income as well as private practice income.

What this means is that pensionable remuneration must be considered first in determining the overall amount of tax relievable contributions that can be made in any year between occupational pensions (including AVCs) and personal pension plans.

If the pensionable remuneration in a year equals or exceeds the €115,000 limit, there is no scope to get tax relief on contributions to a personal pension plan for that year in respect of other non-pensionable remuneration.

So, unless an individual's pensionable remuneration is below €115,000 then there's no scope to make a pension contribution in respect of that person's non-pensionable or self-employed earnings.

5. Late returns

Revenue will not allow tax relief to be backdated against 2018 earnings if

- the client has not elected to claim the tax relief for that tax year or
- their tax return has not been filed on time

It doesn't matter that the pension contribution was paid before the relevant deadlines.

However, Revenue will allow a concession for PAYE employees in the year they are retiring, who would not normally be self-assessed, to make a pension contribution and elect to backdate it to the previous tax year. For those retiring in 2019 the contribution must be paid before 31 October 2019 but the election to backdate does not have to be made until 31 December 2019.

6. Forms to be completed

- **PAYE Employees** need to complete **Income Tax Form 12** making a return of income. This can also be done online through the PAYE Anytime using **eForm 12**
- PAYE Employees not filing online should send the paper form to their **local Revenue Office**
- Self Employed and Proprietary Directors need to complete **Income Tax Form 11** or the shorter version Form 11S

  Further information can be found at
  www.revenue.ie/en/self-assessment-and-self-employment/documents/guide-pay-file.pdf
- There is no need to send a pension certificate to Revenue at this time but it should be retained in case it is requested in the future

The information contained in this document is based on Standard Life's understanding of Revenue Rules and pension legislation as at September 2019.

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