

Navigating the new PRSA landscape



Frequently Asked Questions

<p>1. What are the new funding rules for an Employer paying into a Personal Retirement Savings Account (PRSA)?</p>	<p>The Revenue update to Pensions Manual on 15th March (Chapter 24.3) states that “There is no limit on employer contributions to an employee’s PRSA. However, the overall standard fund threshold for an individual of €2m applies.”</p>														
<p>2. What are the limits for employee contributions to a PRSA?</p>	<p>Employer contributions paid after 1 January 2023 no longer count towards the employee’s scope to make PRSA contributions themselves.</p> <p>The maximum an employee can pay into a PRSA each year and receive tax relief is a percentage of their salary, capped at €115,000, and based on their age at 31 December in the relevant year.</p> <table border="1" data-bbox="395 1131 699 1415"> <thead> <tr> <th>Age</th> <th>% of earnings</th> </tr> </thead> <tbody> <tr> <td>Under 30</td> <td>15%</td> </tr> <tr> <td>30 – 39</td> <td>20%</td> </tr> <tr> <td>40 – 49</td> <td>25%</td> </tr> <tr> <td>50 – 54</td> <td>30%</td> </tr> <tr> <td>55 – 59</td> <td>35%</td> </tr> <tr> <td>60+</td> <td>40%</td> </tr> </tbody> </table> <p>Source: Revenue.ie – Age-related earnings percentage limits.</p> <p>Note that if an employee is making a contribution before 31 October 2023 (or before mid-November for those qualifying for the ROS online deadline extension) and is backdating this against their 2022 earnings, then any employer PRSA contribution made in 2022 counts toward the employee’s own limits.</p>	Age	% of earnings	Under 30	15%	30 – 39	20%	40 – 49	25%	50 – 54	30%	55 – 59	35%	60+	40%
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<p>3. Can an employer contribute to both an occupational pension scheme and a PRSA for an employee at the same time?</p>	<p>Yes.</p> <p>Employer contributions into the PRSA are not subject to any funding limits.</p> <p>Employer contributions to the occupational pension scheme are still subject to the existing funding rules. Contributions must either be allowable as Ordinary Annual or Special Contributions. Care should be taken as the funding of the PRSA will lead to the creation of a new pension benefit which must be taken into account in funding calculations and therefore will impact the ability to fund in the occupational pension scheme.</p>														
<p>4. Can an employee contribute to both an occupational pension and a PRSA at the same time?</p>	<p>Employee’s that are paying into an occupational pension scheme can only further pension that income using a PRSA Additional Voluntary Contribution (AVC).</p> <p>While contributions to a PRSA (Non AVC) are not necessarily prohibited, it would not make sense to arrange this as the individual would not qualify for tax relief on contributions to a PRSA (Non AVC).</p>														



<p>5. If an employer contributes to a PRSA, is the employee in pensionable employment?</p>	<p>Yes.</p> <p>Updated Guidance from Revenue on this matter is in Chapter 24.3 of the Pensions Manual and states that</p> <p>“Where an employer is contributing to a PRSA on behalf of an employee or director, the PRSA is deemed to be an ‘arrangement’ within the definition of a “sponsored superannuation scheme”. An employee or director in that position is therefore deemed to be in “pensionable employment”.</p> <p>Impact: Tax relief when using a personal pension or personal pension term assurance is no longer available to employees with a PRSA which their employer is funding.</p>
<p>6. Is salary sacrifice allowed when an employer funds a PRSA for an employee?</p>	<p>No.</p> <p>Our understanding would be that where an employee accepts a reduction in remuneration to which they are contractually entitled to from their employer to allow for an employer contribution into either an occupational pension scheme or a PRSA, then the Revenue would deem this to be salary sacrifice.</p> <p>Revenue guidance is that:</p> <p>“Any arrangement under which an employee waives an entitlement to remuneration or accepts a reduction in remuneration, in return for a corresponding payment by the employer into a pension scheme, is considered to be an application of the income earned by the employee rather than an expense incurred by the employer. Such arrangements are subject to the provisions of section 118B TCA 1997.”</p> <p>If salary sacrifice did occur the employer contribution would be considered income received by the employee and taxed accordingly.</p>
<p>7. Must a salary be paid to an employee to allow an employer to claim a PRSA contribution as an expense and receive corporation tax relief?</p>	<p>In our opinion, Yes.</p> <p>The Finance Act changes in January 2023 mean that an employer can contribute to an employee’s PRSA without benefit-in-kind (BIK) implications for the employee. Section 787J of the Taxes Consolidation Act 1997 which is the section that deals with an employer’s ability to claim tax relief is clear that relief is only available in respect of contributions for an employee and our understanding is that salary (Schedule E remuneration) is regarded by Revenue as a fundamental factor in determining whether someone is an employee in this context.</p>
<p>8. Does proof of the Income from the employment need to be submitted when an employer contributes to a PRSA?</p>	<p>Proof of the Employment Income in the form of a Payslip or Employment Detail Summary (EDS) is not a requirement under the PRSA product.</p>
<p>9. Can an employer contribute for a former employee and claim a PRSA contribution as an expense and receive corporation tax relief?</p>	<p>Section 787J of the Taxes Consolidation Act 1997 which is the section that deals with an employer’s ability to claim tax relief is clear that relief is only available in respect of contributions for an employee and our understanding is that salary (Schedule E remuneration) is regarded by Revenue as a fundamental factor in determining whether someone is an employee in this context.</p> <p>Therefore, where salary has ended and the client is no longer employed by the employer, it would most likely cause the employer an issue in claiming tax relief.</p> <p>The PRSA product does not strictly prohibit the contribution being made in this manner however tax relief could be an issue for the employer in question.</p>
<p>10. Does the employer have to be organised as a corporate entity or can a sole trader or partnership that employs someone contribute to a PRSA for that employee’s benefit?</p>	<p>An employer that is a sole trader or two or more self-employed people in a partnership could contribute to a PRSA on behalf of someone that they employ.</p> <p>The employee needs to be registered as an employee of that sole trader or partnership and paid a salary taxed under the PAYE System (Schedule E).</p> <p>Assuming the sole trader or partners pay tax under Schedule D (Case I or II), then they would not be eligible to benefit from an employer contribution as they are not employees.</p> <p>They could use a PRSA or Personal Pension to pension their self-employed income personally subject to the age-related limits.</p>

<p>11. Can an investment company make contributions to a PRSA for an employee (including 20% directors) of the company?</p>	<p>Yes.</p> <p>Previously Investment Companies could make contributions to occupational pension schemes for arm's length employees but were prohibited from doing so for 20% directors who were employed by the company. Revenue's guidance in respect of occupational pension schemes is that</p> <p>"A 20% director of a company that is treated for tax purposes as an investment company cannot be accepted into membership of an approved scheme in relation to that employment"</p> <p>No such restriction has been made in respect of PRSAs, so our understanding is that an investment company could contribute to a PRSA for the benefit of a 20% director that is employed by that company.</p>
<p>12. Can an employer that employs people in Ireland but is resident overseas pay into a PRSA for Irish resident employees?</p>	<p>Yes, provided the employee is habitually and tax resident in the Republic of Ireland (paying tax under the PAYE System here) and the non-resident employer has registered as an employer in this state.</p>
<p>13. Do pension lump sums from employer sponsored PRSAs have to be included in redundancy calculations (Increased Exemption & Standard Capital Superannuation Benefit (SCSB))?</p>	<p>Current Revenue guidance is that only pension lump sums from occupational pension schemes are included in redundancy calculations (Increased Exemption & SCSB).</p> <p>Lump Sums under a PRSA have historically been excluded from such calculations. There has been no guidance to change that approach however the reclassification of a PRSA as a "sponsored superannuation scheme" does create ambiguity here.</p> <p>This is something the Revenue may wish to consider.</p>
<p>14. Do 20% directors have to sever all links with their company in order to access PRSA benefits early (prior to age 60)?</p>	<p>A 20% director with a PRSA can access benefits at age 60 without any requirement to leave service and earlier between 50 – 60 where the employment linked to the PRSA has ended and individual is no longer economically active.</p> <p>There is no requirement to dispose of shareholdings with the company when accessing PRSA Benefits. This restriction does continue to apply to occupational pension schemes.</p>
<p>15. What happens at retirement if a member has both an occupational pension scheme and PRSA linked to same employment?</p>	<p>Our understanding would be that benefits from the occupational pension scheme and PRSA (Non AVC) do not have to be matured at the same time.</p> <p>The PRSA can provide a 25% retirement lump sum regardless of the option chosen at retirement for lump sum under the occupational pension scheme.</p> <p>The occupational pension scheme could provide a 25% retirement lump sum or lump sum based on a salary and service calculation but important to understand that the lump sum under the PRSA (whether deferred or drawn down) will be factored into the maximum allowable salary and service lump sum calculation. The maximum possible salary and service lump sum of "1.5 X Final Remuneration" would be reduced by the value of the PRSA Lump Sum.</p> <p>PRSA AVC's differ in that they must be matured in conjunction with the relevant occupational pension scheme and the retirement options chosen in that scheme will directly impact how the PRSA AVC's can be paid.</p>
<p>16. What happens on death if a client is an active member of both an occupational pension scheme and PRSA linked to same employment?</p>	<p>PRSA fund would be paid in full to the estate.</p> <p>Occupational Pension Funds subject to Revenue limits for Death in Service Lump Sums</p> <ul style="list-style-type: none"> • A refund of employee contributions and AVC's can be paid. • In addition, a lump sum of up to "4 X Final Remuneration" can also be paid but this must be reduced to allow for lump sums paid from other arrangements from current and previous employments including the PRSA. • Any residual fund remaining must be used to purchase an Approved Retirement Fund (ARF) or an Annuity for a beneficiary.

<p>17. What happens on death if a client has a deferred benefit under an occupational pension scheme or PRB and is actively funding a PRSA linked to same employment?</p>	<p>The PRSA fund would be paid in full to the estate.</p> <p>The Occupational Pension Scheme funds would be deemed preserved if the member has left service or the member has agreed with their employer and the scheme trustee to terminate pensionable service (cease active membership) of all occupational pension schemes in relation to the employment.</p> <p>Our opinion would be that membership of an employer sponsored PRSA (now considered a sponsored superannuation arrangement by the Revenue) would not impact that preserved benefit status as the Pensions Authority guidance notes on preservation of benefits only reference active membership of occupational pension schemes as being a factor in determining when benefits are preserved or not.</p> <p>This is something the Revenue and Pensions Authority may wish to consider and could provide further guidance on in the future.</p>
<p>18. Can I transfer my executive pension (one member scheme) to a PRSA?</p>	<p>Yes, but subject to the following criteria being satisfied:</p> <ul style="list-style-type: none"> • On leaving service members would have an automatic entitlement to a transfer value and could choose to transfer to a PRSA but under current rules would need to obtain a Certificate of Benefit Comparison where the Transfer Value exceeds €10,000. Exit penalties will apply (where applicable) • On scheme wind up for schemes set up on or after 22 April 2021 (forced to close due to IORP's II) members would have the option to transfer to a PRSA with trustee consent but should be aware that exit penalties will apply (where applicable). In this scenario they will not be required to obtain a Certificate of Benefit Comparison as the scheme is being wound up. • On scheme wind ups for pre 21 April 2021 schemes. Scheme rules will dictate what is required to trigger a wind up. The wind up of ZTSL One member schemes can be triggered by either member or employer instruction to the Trustee. Members would have the option to transfer to a PRSA with trustee consent but should be aware that exit penalties will apply (where applicable). In this scenario they will not be required to obtain a Certificate of Benefit Comparison as the scheme is being wound up.
<p>19. Can I transfer benefits under the Zurich Master Trust to a PRSA?</p>	<p>Yes, but subject to the following criteria being satisfied:</p> <ul style="list-style-type: none"> • On leaving service members would have an automatic entitlement to a transfer value and could choose to transfer to a PRSA but under current rules would need to obtain a Certificate of Benefit Comparison where the transfer value exceeds €10,000. • The Trustee of the Zurich Master Trust (Zurich Insurance Master Trustee DAC) has consented to allow transfers for members who have not left service but have an agreement in place with their employer to cease contributory service in the scheme. Members that choose to transfer to a PRSA would need to obtain a Certificate of Benefit Comparison where the transfer value exceeds €10,000. • Exit penalties do not apply to employer and employee contributions to the Master Trust but in the event that legacy benefits are transferred into the Master Trust with exit penalties attached, those penalties would apply on the portion of the relevant legacy fund if they were to be transferred. <p>It's not possible to wind up the employers section within the Master Trust so a Certificate of Benefit Comparison would be required in all scenario's. It is expected that the Certificate of Benefit Comparison requirement will be removed this year, but it remains a requirement until such legislation is finalised.</p>

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The information contained herein is based on Zurich Life's understanding of current Revenue practice as at April 2023 and may change in the future.

Intended for distribution within the Republic of Ireland.

GR: 7784 Print Ref: ZL PSA 7784 0423

