

Are you a Company Director or Business Owner?

If so, you need to consider this
pension funding opportunity.



At the beginning of January 2023, a small wording change to pensions legislation resulted in a significant opportunity for company directors and business owners to fund larger pension pots than before.

Since January 2023, an employer contribution to a Personal Retirement Savings Account (PRSA) for an employee, is no longer taxable as a Benefit-In-Kind (BIK) for that employee.

In essence, this change now allows an employer to contribute to a PRSA with no upper limit on employer contributions. In fact, the only limit is the lifetime Pension Fund limit which is currently €2,000,000.

This rule change will be of significant interest for business owners and directors, as it means that they can now move profits from their business into a PRSA for themselves, for employed family members, and for employees.



How is this different to before?

Prior to 1st January 2023, employer contributions into a PRSA were taxable as a Benefit in Kind (BIK) and could create an income tax liability for the employee if employer and employee contributions to the PRSA in the relevant year exceeded that employee's own personal age related limits.

For that reason, many company directors chose a different type of pension arrangement, an Executive Pension, to fund for their retirement as those arrangements offered much greater scope to make an employer contribution into the pension scheme on their behalf. Executive Pensions were (and still are) subject to 'funding checks' to ensure contributions are within the generous limits.

Employer and Employee contributions and PRSAs

Since January 2023, employer contributions to a PRSA no longer form part of the employees own age-related limits for pensioning their income. It is for this reason that PRSA's now offer an alternative to Executive Pensions for Company Directors planning for their retirement and offer some new opportunities for retirement planning. Employee contributions are still subject to the age-related contribution limits and the Earnings Cap, currently €115,000.

Let's briefly explore some of the new PRSA opportunities



1

Company Directors or Business Owners on modest salaries

Profile: Patrick is a 50-year-old male, married and on a €20,000 annual salary. He has a €300,000 pension fund and his retirement age is 60.

Current Pension arrangement

Patrick is currently invested in a Master Trust Executive Pension which is subject to funding limits. His Pension Advisor recently calculated Patrick's maximum funding limit, which allows him to fund for a total pension fund of €432,000. As he already has €300,000 saved, the maximum he can save into his pension from now until retirement is €13,200 per annum over 10 years.

The new PRSA opportunity

Under the new PRSA rules, Patrick's business can invest up to another €1,700,000 into a PRSA for him as the only PRSA limit which now applies is the lifetime limit of €2,000,000.

2

Family business with excess profits

Profile: John and Mary are Company Directors, and their son David is also employed in the business.

Current Pension arrangement

John and Mary have funded Executive Pensions to €1,000,000 each and their son David has a pension fund in place of €300,000.

The new PRSA opportunity

Under the new PRSA rules, both John and Mary can fund a PRSA by an additional €1,000,000 to bring their pension funds up to €2,000,000 each. As David is employed in the business there is also an opportunity for the business to fund a PRSA up to the maximum lifetime limit of €2,000,000 – so an additional €1,700,000 above his current €300,000.

3

An Investment Company

Profile: Alice holds a number of rental properties within a holding company. She draws a salary from the business.

Current Pension arrangement

As a 20% Director of an Investment Company, Alice is excluded from taking out an Executive Pension.

The new PRSA opportunity

No such restriction has been made in respect of PRSAs, so an investment company could contribute to a PRSA for the benefit of a 20% director that is employed by that company. It's important to note that Alice must be drawing a salary which is taxable under PAYE in order to access the PRSA route.

4

Company Directors who have already accessed an Executive Pension

Profile: Justin funded an Executive Pension and accessed it last year under the Normal Retirement rules. He still works in and owns his own business.

Current Pension arrangement

Justin funded an Executive Pension for €1,000,000 and took his benefits at maximum retirement age (70) last year.

The new PRSA opportunity

As Justin still works in the business, he can now invest up to another €1,000,000 in a PRSA policy.

5

Self Employed business owner with Spouse employed in the business

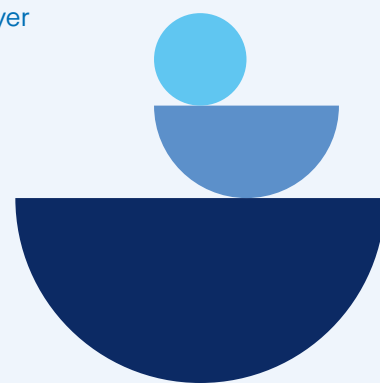
Profile: Gerry is a self-employed Accountant and can only save into a pension based on his personal income which will be limited by the age-related personal limits and the Earnings Cap. However, Gerry's spouse Emma is an employee in the Accountancy practice. As Gerry is her employer, he wants to provide a pension arrangement for her benefit.

Current Pension arrangement

Gerry as the employer set up an Executive pension for Emma. Both Gerry (as Emma's employer) and Emma (as employee) contribute. The employer's ability to fund is limited by Revenue's funding limits for Executive Pensions.

The new PRSA opportunity

As Emma is Gerry's employee, Gerry as the employer could fund a PRSA on her behalf with potentially no upper limit on the employer contribution possible for Emma (other than the Employers capacity to make such a contribution and the overall lifetime limit for the maximum pension pot (Standard Fund Threshold).



Maximising pension funding is always high on the list for company Directors and business owners just like you. At Zurich, we see significant volumes of PRSA contributions in the months of November and December as Small and medium-sized enterprises (SMEs) close out their accounts.



Above we've provided a brief outline of the five PRSA opportunities in the marketplace right now, but this is by no means an exhaustive list. Be sure to sit down with an advisor to discuss your personal situation and get advice on what option best suits you and your business.

**For more information on the options available,
speak to your Financial Broker or Advisor today.**

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Zurich Life Assurance plc

Zurich House, Frascati Road, Blackrock, Co. Dublin, A94 X9Y3, Ireland.

Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurich.ie

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

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