Opportunities and Pitfalls - Advising clients on backdating a pension contribution to a prior year

We are fast approaching the Revenue "Pay and File" tax deadline. For those wishing to make a pension contribution to help reduce their tax liability in 2023, they must make the pension contribution to the Life Office AND elect for tax relief to be backdated to 2023 before 31st October 2024.

For those customers who are registered to use the Revenue On-line Service (ROS), the extended deadline for on-line tax returns is Thursday, 14th November 2024.

- This includes customers registered on ROS who make contributions to Personal Pensions, Personal Retirement Savings Accounts and AVCs where tax relief can be claimed in respect of the previous tax year.
- The extended deadline for making Personal Pensions, Personal Retirement Savings Account (PRSA) or AVC payments also applies to Pay As You Earn (PAYE) customers provided the claim is made on-line (on the on-line Form 12) and any liabilities arising are paid on-line (through the "Payments" option in myAccount on Revenue website).

Tax Relief Limits:

The following table sets out the maximum allowable tax relief limits for pension contributions based on increasing age bands:

Notes:

1. Age is age attained on the last day of the relevant tax year
2. Net Relevant Earnings (NRE) are capped at €115,000 for the purpose of calculating allowable contribution amounts.

Age (Note 1)	% of Net Relevant Earnings (Note 2)
Up to age 29	15%
30 – 39	20%
40 – 49	25%
50 – 54	30%
55 – 59	35%
60 years of age and over	40%

Source: www.revenue.ie

Opportunities

Pension Season is a good time to assess a clients retirement plan generally and take steps to ensure an adequate income is in place at retirement, but it also offers additional opportunities to benefit from the tax reliefs associated with pensions. We have highlighted some of these benefits below:

Maximise Tax Reliefs for the given year.

Clients will have an opportunity up to 31st October 2024 (or extended deadline above where applicable) to backdate a pension contribution to be offset against income from 2023 and maximise their age-related limit for that year. Once that deadline passes that will no longer be possible.

PAYE Clients - Income Tax Rebates

PAYE clients with no other income will generally speaking not be required to pay additional tax at this time of year but when they backdate a pension contribution to be offset against income from 2023, they will often receive a rebate of some of the Income Tax they paid in 2023 when their overall income tax bill is recalculated to allow for the pension contribution they have now made. This illustrates to clients the benefit of the tax reliefs in a real tangible form.

Self-Assessment clients – reduce tax bills

Clients with Incomes on which they owe tax under the Self-Assessment system will be preparing to pay Income Tax to the Revenue at this time of year. Paying a pension contribution now and offsetting against relevant earnings from 2023 can help reduce these tax bills lessening the tax burden due to the Income tax relief being claimed.

Pitfalls - Potential issues with backdating tax relief

The "Pay and File" deadline is not the only issue that needs to be considered when advising clients around pensions and tax planning at this time of year. There are a number of issues which crop up every year and cause issues for clients looking to claim tax relief on a pension contribution. We have looked at some of these below.

Relevant earnings

In order to make a pension contribution and receive tax relief, clients must have "relevant" earnings in the prior year which they can pension. Relevant earnings are earned income from an employment or self-employment. Although clients may have income which is assessable to income tax, not all income types are classified as relevant earnings. See below a list of Income types and confirmation as to whether they would be seen as relevant earnings or not:

Source	How is it Taxed?	Does it stop when you retire?	Relevant Earnings
Earned it (Self Employed)	Schedule D (Case I or II)	Yes	Yes
Earned it (PAYE Employee)	Schedule E	Yes	Yes
Rental Income	Schedule D Case V	No	No
Inheritance/Gift received	Capital Acquisition Tax (CAT)	No	No
Dividend's Received	Schedule D IV	No	No
Deposit Interest received	Schedule D III	No	No

Source: www.revenue.ie

Changing Circumstances

Issues can arise where clients wish to pension their income from a prior year but their circumstances in relation to that employment have changed. We have looked at some examples of scenario's that often arise at this time of year.

- Where a client was a PAYE employee in 2023 and member of an occupational pension scheme for that employment but has since left the employment then our experience has been that Revenue will not grant further tax relief on that income. So even if an AVC was made, relief would likely be denied where clients attempt to backdate that to 2023.
- Where a client was a PAYE employee in 2023 but not a member of an occupational pension scheme for that employment (i.e in "non-pensionable" employment) but has since joined the occupational pension scheme for the employment then their status changes from an employee in "non-pensionable employment" to an employee in "pensionable employment". This is important as it changes the type of pension plan they can use to pension their Income from the employment. In our experience this can cause issues with pensioning the income from the period of employment which was non-pensionable as technically speaking this should be pensioned using a Personal Pension or PRSA (Non AVC) but as the client is now a member of an occupational pension scheme, they would no longer be eligible to take out a Personal Pension. Clients in this situation who already took out a Personal Pension when they were in non-pensionable employment could use that existing arrangement to backdate a contribution against 2023's Income which was seen as being from a "non-pensionable employment". The key is that they took out the Personal Pension whilst eligible to do so.
- If the client was self employed in 2023 and had a Personal Pension already in place at that time then even if they are no longer self employed in 2024 they could still make a contribution into the existing arrangement and claim tax relief against the 2023 self employed income.

It is strongly advisable to make pension contributions before employment status changes, as it may be too late if this is done after the event.

Clients with Multiple Incomes

If you have multiple incomes, Revenue applies additional Dual Income rules. These rules require that where one of your incomes is already linked to an occupational pension scheme then that income must be deducted from the overall limit of €115,000 Earnings first and additional incomes can only be pensioned in so far as there is additional scope under that overall limit – i.e. where a Doctors has General Medical Service (GMS) Income of €100,000 and additional Private Practice Income of €100,000, the GMS income (linked to GMS scheme) is looked at first and they could only pension the first €15,000 (€115,000 - €100,000) of any additional private practice Income.

Product Choice

What type of pension plan should be utilised?

It's important that clients and their advisors choose the correct product type to pension the income in question.

- If you are an employee that is a member of your employer's occupational pension scheme, you can make Additional Voluntary Contributions (AVCs) to your occupational pension scheme (subject to scheme rules allowing same), to a Group (AVC) arrangement or to a PRSA AVC plan.
- If you are an employee that is included in a PRSA to which your employer is contributing, you can make employee contributions to that PRSA plan or another PRSA (Non AVC) plan of your choice.
- If you are an employee that is not included in an occupational pension scheme or PRSA to which your employer is contributing then you are seen as being in "non-pensionable" employment and you can make contributions to a Personal Pension plan or a PRSA (Non AVC) plan.
- If you are self-employed then you can make contributions to a Personal Pension plan or a PRSA (Non AVC) plan.

Important note

Please note that this Techtalk does not constitute tax advice. Where possible we would suggest that clients consider getting their own professional tax advice based on their own individual circumstances and if necessary contact the Revenue directly.

If you have further questions on any aspect of this briefing, please contact your Broker Consultant or the TechTalk Team on 01 209 2020 or techsupport@zurich.com

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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 September 2024 and may change in the future.

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