The future of the Standard Fund Threshold

The Minister for Finance Jack Chambers published the report of the independent examination of the Standard Fund Threshold (SFT) on the 18th September 2024. The targeted review of the Standard Fund Threshold (SFT) regime was led by an independent expert, Dr. Donal de Buitléir.

Government Announcement in relation to recommendations made

In addition, the Minister has announced the decisions taken by the Government in relation to the De Buitléir report, which will see a number of changes to the Standard Fund Threshold regime over time. Certain aspects of the existing regime will be retained, and some other recommendations of the report will be examined further.

The Minister has confirmed the following:

Changes to the Standard Fund Threshold

A Multi-year plan will be put in place to implement the recommendations of the report which include phased increases in the SFT of €200,000 per year beginning in 2026 until 2029. See table below.

Year	SFT
2024	€2,000,000
2025	€2,000,000
2026	€2,200,000
2027	€2,400,000
2028	€2,600,000
2029	€2,800,000

Once those changes take place (from 2030 onwards) the Standard Fund Threshold will be index linked to increases in the average earnings as per Central Statistics Office (CSO) data. The report suggests the potential removal of the use of the credit on taxation on pension lump sums being utilised against Chargeable Excess Tax (CET) Bills. This has been recognised as creating a "real standard fund threshold" of €2,150,000 for Defined Contribution Pension Savers. The government have not specifically committed to change the use of that credit so where that credit is an option for individuals to utilise (assumes pension lump sum of at least €500,000 Gross is Paid) the effective maximum fund before Chargeable Excess Tax applies would be as follows:

Year	SFT	SFT (effective)
2024	€2,000,000	€2,150,000
2025	€2,000,000	€2,150,000
2026	€2,200,000	€2,350,000
2027	€2,400,000	€2,550,000
2028	€2,600,000	€2,750,000
2029	€2,800,000	€2,950,000

Chargeable Excess Tax CET

The rate of CET is to remain unchanged at 40% with a specific review of the rate to take place by 2030.

It should be noted that the report suggests lowering CET to 10% whilst also removing some of the measures used to mitigate Chargeable Excess Tax Bills such as utilising the tax paid on pension lump sums as a credit against CET (See above examples) and the Encashment Option available to clients with a mixture of Public Sector and Private Sector benefits that are valued in excess of the Standard Fund Threshold. We have looked at those recommendations in further detail below.

Impact on Pension Lump Sums

There will be no changes to the taxation of pension lump sums. The lifetime limit for tax free lump sums will remain at €200,000 with the next €300,000 of any pension lump sum taxable at 20%. The threshold for the higher rate of taxation to apply to a pension lump sum will be limited to €500,000 rather than a proportion of the SFT and this change will be introduced in Budget 2025.

Impact on Defined Benefit Schemes

The report recommends revised valuation factors for Defined Benefit pensions. The Minister has requested an evaluation of the age-related valuation factors proposed in the report to be be undertaken. No immediate changes will take place in that regard.

Work on additional recommendations

An inter-agency group will be formed to oversee the implementation of the remaining recommendations. Below full recommendations from the report that have yet to be agreed will be reviewed by this inter-agency group.

Recommendations in the Report on SFT

Level of the SFT

1. Increase the SFT to €2.8 million.
2. Provide for future index linking of the SFT in line with increases in the average earnings as per CSO data.
3. Break the legislative link between the level of the SFT and the taxation of pension lump sums. The amount of lump sums taxed at 20%, should be a fixed monetary amount and should not automatically increase in line with increases in the SFT.

Rate of CET

The rate of CET should be set at a rate which results in an effective rate of tax not lower than the maximum rate of income tax and other levies. In present circumstances a rate of CET of 10% would be sufficient to achieve this.

If the rate of CET is reduced, the ability to offset the standard rate tax deducted on pension lump sums between €200,000 and €500,000 should be discontinued.

Reducing the rate of CET to 10% impacts on the rational for the Encashment Option available to clients with a mixture of Public Sector and Private Sector benefits that are valued in excess of the Standard Fund Threshold. Therefore if CET is reduced to 10%, it is recommended that this encashment option be removed from the SFT regime.

If the encashment is retained as an option, the opportunity for a one time encashment option should be extended to all individuals including those who are not members of a public sector pension scheme, where the total of their pension entitlements is expected to exceed the SFT. The amount that can be encashed should be limited to the difference between the total capital value of all public and private sector pension benefits at retirement and the SFT.

Valuation factors for Defined Benefit schemes

The valuation factors used to value pension entitlements in Defined Benefit Schemes from 2014 onwards should be updated. The new valuations recommended for future crystallisations of defined benefit pensions are:

Age Valuation Factors

Age	Cap Factor
50	25
55	23
60	21
65	19
70	16

The proposed valuation factors set out in the report should be independently validated (Government have committed to review these).

Subject to government agreement, these new factors would apply to future crystallisations of defined benefit pensions accrued after 1 January 2014, replacing the current age related valuation factors. These new factors should also be reviewed over regular intervals to ensure they remain appropriate. The single factor of 20 should continue to apply for pension rights accrued up to 1 January 2014.

Other changes recommended

Allow the payment of the CET by the taxpayer to Revenue to be spread over 20 years for all types of pension arrangements. This is currently possible in Public Sector and Defined Benefit Schemes but not in Defined Contribution Arrangements.

Adjust the application of the SFT regime to ensure individuals are not unduly constrained in making provision for their own pension when a Pension Adjustment Order (PAO) is in place.

It is recommended that the age related limits for pension contributions are removed along with €115,000 relevant earnings limit for pension contributions. The suggestion is to replace this with a maximum fixed monetary amount for tax relievable pension contributions for all individuals, however the exact figure for this new limit has not been confirmed.

For further information please contact your Broker Consultant or Zurich Technical Services on 01 209 2020.

Link to the full report.
Link to the Ministers speech.

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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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