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Revenue Guidance – Employer Contributions to a PRSA

Revenue have provided confirmation that a BIK (Benefit in Kind) for employees arising from an employer PRSA (Personal Retirement Savings Account) contribution is not calculated and applied in the weekly/monthly payroll period in which the employer contribution is paid. Instead, the potential for a BIK is calculated in the last payroll period for the employment in that year. For most employees that will be in December's payroll except in cases where the employee leaves service before that date. As a result a BIK tax liability will only arise for the employee if the employer PRSA contribution is greater than 100% of the employee's earnings in the entire calendar year for that employment.

The Background

The funding rules for PRSAs changed with effect from the 1st of January 2025, introducing an "employer limit" on employer contributions to an employee's PRSA. The "employer limit" is the maximum amount an employer can contribute, without the contribution being considered a BIK for the employee and is also the maximum contribution for that employee for which an employer can claim a deduction for tax purposes.

Although these new rules seemed quite straightforward, questions arose early this year as to how to apply the 100% of Salary limit where an employer contribution of 100% of expected annual salary was made early in the calendar year (E.g. in March) when the employee had not yet received their full year's earnings from the employment. This was particularly relevant for employers with a non-calendar year accounting period (i.e. April 2024 – March 2025) but who wanted to maximise the employer contribution for that employee prior to the end of their accounting period. Revenue have now updated the Pensions Manual Chapter on PRSAs to include additional guidance on this issue including some examples we have shown below.

Guidance in relation to BIK for Employees

Revenue have advised that a BIK does not arise immediately in cases where an employer contribution early in the calendar year exceeds the employee's earning in that year to date but instead the employer must make this determination at the end of the year of assessment (31st December) or earlier where an employee is leaving service and they are processing their last payroll for the employment.

Therefore, in most cases within the December payroll, the employer would compare the employer contributions to the PRSA in the calendar year (January to December) to the total salary for the employee in same year (January – December) and only where those employer contributions were greater than the employee's total salary over the same period then a BIK would arise. This would allow an employer contribution earlier in the year to proceed which was in excess of Employee Salary year to date at that time, with the knowledge that this will not trigger a BIK for the employee assuming they earn sufficient salary from the employer by December of that same year. **This is illustrated in Example 4.**

While this clarification is welcome, employers and employees should still be aware that should an employment end suddenly and therefore salary cease mid-year due to an employee leaving service unexpectedly, a BIK tax liability could occur (i.e. where the employee's salary at that point were less than the Employer PRSA Contributions made to that point). **This is illustrated in Example 5**. This example also shows the impact this will have on the employer's ability to claim tax relief.

Example 6 illustrates how the BIK would be applied in cases where employer contributions in the calendar year are in excess of the employee's total salary in same period. It also shows the impact this will have on the employer's ability to claim tax relief.

Guidance in relation to Tax Relief for Employers

Revenue have clarified that an employer is entitled to a deduction for a PRSA contribution in an accounting period which ends mid-year (E.g. ending in June 2025) where the contribution does not exceed the employee's earnings for the year of assessment (E.g. 2025).

This is possible to compare as the employee's total salary for the calendar year of 2025 will be known by the time the employer files their tax return for their accounting period ending in June 2025 which would be due to be filed by March 2026. **This is illustrated in Example 7.**

Example 8 illustrates how to apply these limits in the same manner but allow for the employer to obtain tax relief across two separate company accounting periods.

Examples 9 and 10 show examples of how to determine both the amount an employer can obtain for tax relief and the BIK for an employee where the employer pays contributions across two separate company accounting periods. These examples include useful tables as a guide for employers and their accountants.

In relation to employee salary for these limits

Revenue have advised that salary includes all forms of taxable remuneration received by an employee, including salary, bonuses, and other benefits.

However, where a BIK arises due to excess contributions over the employer limit:

i. the BIK does not itself form part of "emoluments" for the purpose of establishing the employer limits, and

ii. the BIK is not deductible from the employer's income for tax purposes.

Where an employee's salary is lower than the previous year for reasons such as unpaid leave (for example, maternity leave or sick leave) the employer limit can be based on the previous year's salary.

Revenue's examples on the application of BIK

Click here for the full list of revenue examples (1 – 10)

Example 3: Employer contribution within employer limit

Ger earns €50,000 in 2025. Their employer contributes €50,000 to Ger's PRSA in 2025. Since the employer contribution does not exceed 100% of Ger's emoluments for 2025, itis not considered a BIK, and the employer can deduct the full amount in computing its taxable profits.

Example 4: Employer contribution above emoluments in year to date

As above, Ger's emoluments in 2025 are €50,000. If Ger's employer contributes €30,000 to Ger's PRSA on 30 June, Ger will have earned €25,000 (€50,000 x 6/12) at this time, meaning the contribution will exceed Ger's emoluments in the year to date by €5,000.

However, this will not give rise to a BIK charge at this point. Ger's employer should review the position at the end of the year of assessment to check whether the PRSA contributions are within or exceed the employer limit. Assuming the total contributions by the employer to Ger's PRSA do not exceed €50w,000 at the end of December 2025, no BIK arises, and the employer has an entitlement to deduct €30,000 as part of its Corporation Tax (CT) computation.

Example 5: Employee leaves during year – contributions exceed employer limit

If, as in examples 3 and 4 above, Ger's annual salary is €50,000 but they left their employment on 30 June 2025, their salary from that employer, and therefore their employer limit from that employment for 2025, is €25,000 (€50,000 x 6/12).

The employer has made a PRSA contribution of €30,000 in the period 1 Jan 2025 – 30 Jun 2025. Since this is greater than the emoluments from the employer, it gives rise to a BIK charge on Ger of €5,000 (employer contribution of €30,000 minus employer limit of €25,000), which should be returned with Ger's final payroll.

Ger's employer can only take a deduction of €25,000 for the PRSA contribution; the balance of €5,000 over the employer limit is not deductible.

Example 6: Employer contribution exceeding employer limit

Alex earns €40,000 in 2025 and their employer contributes €55,000 to their PRSA on 1 March 2025. No further PRSA contributions are made in 2025. At 31 December 2025, the excess of €15,000 over the employer limit is a taxable BIK for Alex.

Alex has a liability to income tax, USC (Universal Social Charge) and PRSI (Pay Related Social Insurance) on the excess of €15,000 over the employer limit, and this must be included in the final employer payroll tax return of 2025. Alex's employer can only deduct €40,000 of the PRSA contribution from its taxable profits; the balance of €15,000 over the employer limit is not deductible for Corporation Tax purposes.

Example 7: Company with accounting period ending mid-year – employer contribution within one accounting period

Pat earns a salary of €60,000 in both 2024 and 2025. Their employer, "ABC" has an accounting year of 1 July 2024 to 30 June 2025. ABC makes no PRSA contributions for Pat in 2024. On 12 February 2025, ABC contributes €50,000 to Pat's PRSA.

The maximum contribution ABC can make to Pat's PRSA in 2025 before that contribution becomes a taxable BIK is 100% of Pat's emoluments from ABC in the 2025 year of assessment. This means that ABC may make employer contributions to Pat's PRSA up to €60,000 within the calendar year (1 January to 31 December 2025).

To calculate whether contributions have exceeded the employer limit, the employer contribution to the PRSA and the emoluments for the year are compared at 31 December 2025. ABC makes no further contributions to Pat's PRSA in 2025. As its contribution of €50,000 is less than €60,000, no BIK charge arises for Pat at the end of 2025.

ABC is entitled to a deduction for the PRSA contribution of €50,000 in accounting year end 30 June 2025, because the contribution does not exceed Pat's emoluments for year of assessment 2025. (Pat's emoluments for 2025 will be known by the time ABC's CT1 for year end 30 June 2025 is due to be filed, in March 2026.)

Example 8: accounting period ending mid-year – employer PRSA contribution within employer limit across two accounting periods

If, as in example 7, Pat's emoluments (and therefore his "employer limit") for 2025 are €60,000, but ABC made a PRSA contribution for Pat of €30,000 in February 2025, and another contribution of €20,000 in October 2025, no BIK charge arises for Pat, because the total employer contributions to his PRSA in 2025 are below the "employer limit" for that year of assessment.

The contributions are also fully deductible for CT for ABC, but in this example ABC takes a deduction in accounting period 1 July 2024-30 June 2025 for the contribution of €30,000 in February 2025, and a deduction in accounting period 1 July 2025-30 June 2026 for the contribution of €20,000 in October 2025. (Pat's emoluments for 2025 will be known by the filing dates for the two CT1 returns, in March 2026 and March 2027 respectively.)

Example 9: accounting period ending mid-year: employer PRSA contributions in one accounting period in excess of employer limit for year of assessment

Using the same figures as Example 7, if ABC makes contributions to Pat's PRSA of €50,000 in February 2025 and €17,000 on 1 May 2025, this means the total employer contributions to Pat's PRSA in 2025 is €67,000, while his emoluments and therefore his "Employer limit" is €60,000.

Any employer contributions in excess of the employer limit within the calendar year 2025 will be a taxable BIK. At 31 December 2025, Pat has a taxable BIK of €7,000 (total employer PRSA contributions of €67,000 minus Pat's emoluments of €60,000). Income Tax, USC and PRSI is chargeable on the €7,000 excess and must be included in ABC's final employer payroll tax return of 2025.

ABC is entitled to a tax deduction for the actual PRSA contributions paid, up to a maximum of Pat's emoluments in the 2025 year of assessment (€60,000). The employer PRSA contributions made by ABC which exceed the employer limit for Pat for 2025 of €60,000, i.e., €7,000 cannot be deducted from its taxable profits for ABC's accounting period 1 July 2024 to 30 June 2025.

ABC makes another contribution of €45,000 to Pat's PRSA on 1 February 2026. The relevant employer limit for BIK and deductibility purposes is 100% of Pat's emoluments in 2026, which are the same as in 2025 (€60,000). No further contributions are made in 2026, meaning the employer limit has not been exceeded. Pat's full emoluments for 2026 will be known by the time ABC's CT1 for year end 30 June 2026 is due to be filed, in March 2027. A deduction can be claimed for the €45,000 contribution in the 1 July 2025 – 30 June 2026 accounting period.

The summary tables below outline the position for Example 9 for BIK in the years ofassessment and CT deductibility in the accounting years respectively.

BIK Position

Year	Contributions	Emoluments	Excess subject to BIK	PMOD (PAYE Modernisation) Filing for BIK charge
2025	€67,000	€60,000	€7,000	Final 2025 PMOD return
2026	€45,000	€60,000	€0	Not applicable because employer limit not exceeded

CT position

Accounting year	Contributions	CT Deduction	Not deductible	CT Filing
1 July 2024- 30 June 2025	€67,000	€60,000	€7,000	March 2026
1 July 2025- 30 June 2026	€45,000	€45,000	€0	March 2027

Example 10 – accounting period ending mid-year – PRSA contributions across two accounting periods in excess of employer limit for a year of assessment

Using the figures in example 9, if ABC made the second contribution of €17,000 to Pat's PRSA in November 2025 rather than in May 2025, the excess of €7,000 over Pat's employer limit for 2025 is still a taxable BIK for Pat and is also not deductible for CT purposes for ABC.

However, the allowable balance of the contribution is deductible in accounting period 1 July 2025 to 30 June 2026, rather than in accounting period 1 July 2024 to 30 June 2025. As in example 9, no BIK arises on the contribution of €45,000 made in February 2026, and that contribution is fully deductible for CT purposes, even though part of the contribution made in 2025 is not deductible. The summary tables below outline the position for Example 10 for BIK in the years of assessment and CT deductibility in the accounting years respectively.

BIK Position

Year	Contributions	Emoluments	Excess subject to BIK	PMOD Filing for BIK charge
2025	€67,000	€60,000	€7,000	Final 2025 PMOD return
2026	€45,000	€60,000	€0	Not applicable because employer limit not exceeded

CT position

Accounting year	Contributions	CT Deduction	Not deductible	CT Filing
1 July 2024- 30 June 2025	€50,000	€50,000	€0	March 2026
1 July 2025- 30 June 2026	€62,000*	€55,000**	€7,000***	March 2027

* €17,000 in Nov 2025 and €45,000 in Feb 2026.
** €10,000 of the Nov 25 contribution and €45,000 for Feb 26 contribution.
*** €7,000 of the Nov 25 contribution.

This updated guidance from Revenue is welcome and should provide clarity for employers and employee's as to the limits that apply to them when employer's use a PRSA to fund for that employees retirement.

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