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Structuring Retirement Solutions for Multi-Income Clients

Advising clients on retirement when they earn income from more than one source can be complex. There are age-related limits on how much an individual can contribute to a pension, with additional restrictions based on the types of incomes they receive. We have looked at this in greater detail below.

Revenue rules set an earnings limit of €115,000 for the purposes of income tax relief for a client that is making contributions to a pension arrangement. Therefore, if a client has one source of income from employment or self-employment that exceeds €115,000, they can only receive tax relief on pension contributions made on the first €115,000 of that income – this is the maximum limit.

That income is also subject to an age-related percentage limit.

Age Range	Percentage
Up to 30 years	15%
30 – 39	20%
40 - 49	25%
50 – 54	30%
55 - 59	35%
60 years and over	40%

Example – Self Employed client with Net Relevant Earnings of €150,000 in their 40's.

Maximum allowable contribution is €115,000 x 25% = €28,750



Clients with more than one Income

The earnings limit is subject to further restrictions where an individual has multiple incomes. Some common scenarios may include:

1. The client is a General Practitioner (GP) and has General Medical Services (GMS) income linked to the GMS Pension Scheme and income from private practice which is a separate self-employment.
2. The client is a public servant such as a HSE consultant and has earnings linked to the public sector scheme but also private practice income from a self-employment.
3. The client is an employee with their employment linked to an occupational pension scheme and a secondary income from a second employment or a self-employment.

Revenue rules require that, where a client has both income from employment linked to a pension scheme (as above) and additional earnings from self-employment or another employment, and all earnings exceed €115,000, the income from the employment linked to the occupational pension scheme must be looked at first.

This means a restriction may apply in terms of the ability to pension the second income from the self-employment or second employment. In practice this means that

- If the income from the employment linked to the pension scheme is equal to or exceeds €115,000, there is no scope to pension the second income that year.
- If both incomes combined are greater than €115,000, then the income from the employment linked to the occupational pension scheme must be looked at first meaning a restriction will apply in terms of the ability to pension the second income from the self-employment or second employment.

1

Example 1 – GP

Mary is a GP aged 56.

She received GMS remuneration after allowable deductions of €100,000 (€75,000 is capitation income) and she has additional net relevant earnings of €80,000 from her GP private practice.

She is a member of the GMS pension scheme and is contractually required to pay contributions equalling 5% of her GMS capitation income, which is €75,000, which equals

5% x €75,000 = €3,750

Mary wants to pension her income in full but is unsure which income can be pensioned and which product she should use.

Pensioning the GMS Income

As she is already a member of a pension scheme the income linked to that scheme must be allowed for first when determining whether any other incomes can be pensioned.

Maximum Allowable contribution for GMS Earnings is

€100,000 X 35% = €35,000

This is then reduced by the existing contribution to the GMS scheme.

€35,000 - €3,750 = €31,250

Mary can therefore make an AVC to either the GMS Scheme or a Personal Retirement Savings Account (PRSA) Additional Voluntary Contribution (AVC) contract with a provider of her choice of up to €31,250.

Pensioning the Private Practice Income

As the GMS Income is already linked to an occupational pension scheme then that €100,000 Income must first be deducted from the overall €115,000 limit to determine the scope to pension any other incomes.

So, although Mary's private practice income is €80,000, only the first €15,000 of that income can be pensioned.

Maximum allowable contribution for private pension earnings is

€15,000 X 35% = €5,250

Mary can contribute to a Personal Pension or PRSA (Non AVC) of up to €5,250 and get tax relief.

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Example 2 – HSE Consultant

John is a HSE Consultant aged 49.

John received income from the HSE of €150,000 and has additional net relevant earnings of €100,000 from working as a consultant with private patients.

John is a member of the public sector pension scheme and is paying a contribution to that pension scheme of 6.5% of his income from the public sector which is

6.5% x €150,000 = €9,750

John wants to pension his income in full but is unsure which income can be pensioned and which product he should use.

Pensioning the Public Sector Income

As John is already a member of a pension scheme, the income linked to that scheme must be allowed for first when determining whether any other incomes can be pensioned.

Maximum allowable contribution for public sector earnings is

€115,000 X 25% = €28,750

This is then reduced by the existing contribution to the GMS scheme.

€28,750 - €9,750 = €19,000

John cannot make AVCs to the public sector scheme as the scheme does not allow that for its members. His options are to make an AVC of up to €19,000 to a PRSA AVC contract with a provider of his choice or an AVC only Occupational Pension Scheme where his Trade Union has arranged one for its members.

Pensioning the Private Practice Income

Although John has significant earnings from treating private patients (€100,000), the fact that he has €150,000 earnings from an employment which is already linked to a pension scheme means the income from the employment must be pensioned first and as that income is over the €115,000, it means there is no further scope to pension the second income from his private practice.

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Example 3 – Private Sector worker with second employment

Paul is 54 and works for a pharmaceutical company, earning €80,000 a year. His employment is linked to an occupational pension scheme, under which both he and his employer each contribute 8% of his salary (a total contribution of 16%).

It is important to note that as the combined incomes are €110,000 (€80,000 + €30,000) which is less than €115,000, both incomes may be pensioned in full. A common misconception in these cases is that the client must first pension the income linked to the occupational scheme first by making an AVC. However, as both incomes are less than €115,000 the dual income rules do not apply that restriction.

The scope for additional contributions would be as follows

Pharmaceutical Income:

€80,000 X 30% = €24,000

LESS €6,400* = €17,600

Scope for a contribution is €17,600. This could be made to a PRSA AVC or as an AVC to the occupational pension scheme (where scheme rules allow).

*8% of €80,000 = €6,400 (Employee contributions). Employer contributions can be ignored.

Net Relevant Earnings from Self Employment:

€30,000 x 30% = €9,000

Scope for a contribution is €9,000. This could be made to a PRSA (Non AVC) or a Personal Pension.

Important to note that as all earnings are under €115,000, either income can be pensioned (i.e client may choose to pension self-employed income, income from the employment or both).

Warning: The value of your investment may go down as well as up.
Warning: This product may be affected by changes in currency exchange rates.
Warning: If you invest in this product you may lose some or all of the money you invest.

Need Further Information?

If you have further questions on any aspect of this briefing, please contact the **TechTalk Team**

01 209 2020

techsupport@zurich.com

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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