

September 2016



# Tech Talk

## Insights from the Technical Services Team



In this Issue:

**Pension Tax Relief**

We are fast approaching the 'Pay and File' deadline. For those wishing to make a pension contribution to reduce their 2015 tax liability, they must make the contribution and elect for relief to be backdated before **Monday the 31 October 2016 (please note this is a Public Holiday)**. For those using the Revenue Online Service (ROS), the extended deadline is **Thursday 10 November 2016**.



1. For sole traders making a pension contribution for the first time or who may not have made a contribution during 2015 (in relation to 2014 tax year) may not only be in a position to reduce their final liability for last year but also reduce their preliminary tax year for 2016 tax year. This provides a 'one off' double tax saving.

By continuing to pay a pension contribution they are also ensuring that their preliminary tax liability for future years is also reduced.

2. For those under joint assessment, it's important to ensure that their tax credits and cut-off point are distributed between each individual correctly, so that they are receiving tax relief at marginal rate tax where available.
3. We regularly see cases where individuals make last minute PRSA AVC/AVC contributions in order to maximise their lump sum entitlement under Revenue Maximum rules. In these circumstances it may be possible to spread the contributions between the previous tax year and current year provided the contribution and filing is made on time, in order to maximise the higher rate of income tax relief at 40%.

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

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

Notes:

1. Net Relevant Earnings (NRE) are capped at €115,000 for the purpose of calculating allowable contribution amounts in the 2015 and 2016 tax years.
2. Age is attained age on the last day of the relevant tax year.



**David Byrne**  
Technical services consultant

# The Details

## Potential issues with back dating tax relief

The “Pay and File” deadline is not the only date(s) that needs to be considered for some individuals. There are a number of situations where clients may have additional restrictions if they are paying pension contributions and/or backdating tax relief to a previous tax year. For example, if their employment status has changed (or is about to change) – such as a new job, joining a scheme or retirement, this change may restrict their ability to contribute to a pension and have the tax relief backdated.

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

## Tax relief and product options

- If a client is a member of an **occupational pension scheme** they are deemed to be in “**pensionable employment**” and may only make additional contributions through a PRSA AVC or AVC to offset tax against their pensionable earnings.

- If a client is in **self employed** or in **non-pensionable employment** they may only make additional contributions through a personal pension or PRSA to offset tax against their “relevant” or “non-pensionable” earnings.

Firstly, the client’s eligibility for a particular product type can be established based on the individual’s current status of having either “pensionable earnings” or “non-pensionable” / “relevant” earnings.

Having established the correct product type (based on current status), then if any tax relief is to be back-dated to the previous tax year, it is necessary for the client to have the same source of “pensionable earnings” or “non-pensionable” / “relevant” earnings in the previous tax year.

If the client’s employment has changed then it may not be possible to backdate to previous tax year. It is important for the client to seek individual tax advice based on their own particular circumstances.



# Caution required

There are many different reasons why individuals may change employment and therefore their corresponding pension status. Furthermore this does not just affect change of status in two different years – the same can apply for changes within the same tax year – so proceed with caution!

In some cases it may be a decision made by the client, but there are also situations where it may be out of the client's control. Depending on their situation and their desire to make further pensions contributions, they may need to act fast to ensure that they get the contributions into the applicable pension product on time.

There are a number of common situations where this might occur. Below are some examples:

## Scenario 1

A client is a member of employer's Occupational Pension Scheme and retiring shortly and wants to make further contribution to pension scheme through PRSA AVC / AVC for both current and previous years earnings

In this situation client must make a contribution to a PRSA AVC / AVC before they retire, as once they cease to be a member of an occupational pension they are no longer eligible to make contributions to a PRSA AVC / AVC, to offset against pensionable earnings.

The same situation applies when changing employment/leaving service.

## Scenario 2

A client is a member of employer's Occupational Pension Scheme, but they have just been notified that the scheme is going to be wound up and a PRSA set up in its place.

This is a similar situation to Scenario 1, the client will need to make a contribution to a PRSA AVC / AVC before they cease to be a member of scheme (pensionable employment) in order to secure tax relief on contributions against their pensionable earnings.

## Scenario 3

A client is currently self employed, but is looking to change his business from a sole trader to a limited company. In doing so becoming an employee and drawing a salary from company. The client is now eligible to set up an Executive Pension.

In order to maximise contributions, the client will need to make contribution to a personal pension or PRSA to offset against relevant earnings before changing status, as once in a pensionable employment the client is no longer eligible to make an additional contribution to a personal pension / PRSA to offset tax against relevant/non-pensionable earnings.

## Dual Income

In September 2009, Revenue issued an e-brief (issue 74) clarifying the issue of dual income in relation to earnings limit for tax relief on personal contributions and how it operates in relation to individuals with both self-employed income and earnings from employment.

In this situation where an individual is a member of an Occupational Pension Scheme and also has self-employed income, they are deemed to have "used up" the salary in relation to the pensionable employment first. So unless client's pensionable earnings are below €115,000, they would have no scope to make a personal contribution against their non-pensionable income.

## In conclusion

For those looking to backdate pension contributions for the previous tax year, it is important to look at options before circumstances change. For those wishing to maximise relief in full, they may also have to make any contributions for current tax year up to date of change of circumstances beforehand.

## Further Information

If you would like to discuss any of the issues raised in this article or if you need to discuss any particular case you may have, contact the TechTalk Team on 01 209 2020

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### Important Note:

Please note that we are not able to provide tax advice and clients should seek professional independent tax advice based on their own particular circumstances



**Zurich Life Assurance plc**

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

Telephone: 01 283 1301 Fax: 01 283 1578 Website: [www.zurichlife.ie](http://www.zurichlife.ie)

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