

TAX RELIEF FOR INVESTMENT IN A PENSION
and
APPROVED RETIREMENT FUND OPTIONS

This leaflet sets out, in general terms, how the Exchequer supports you in saving for a pension by means of a tax deduction under normal tax rules. The leaflet also explains the operation of Approved Retirement Funds (ARF) and related options. More detailed information is available in the Revenue Pensions Manual. The Manual may be accessed on www.revenue.ie by clicking [here](#).

Before making a commitment to make a contribution to a pension product, or before exercising an ARF option, you should consider the following points and seek independent advice where appropriate:

- Which pension arrangement is suited to my personal circumstances?
- What fees, charges and commissions are involved?
- How much should I contribute?
- What benefits will I get when I retire?
- If I qualify for an ARF option should I exercise it?

For general information on pensions contact the Pensions Board. Their website is <http://www.pensionsboard.ie/>.

TAX RELIEF FOR INVESTMENT IN A PENSION

1. What tax relief is available?

You are entitled, subject to certain limits, to have the amount that you contribute to a pension deducted from your gross income before that income becomes liable to tax. In effect, tax relief is given at your marginal rate of tax. In addition, relief in respect of PRSI and levies may also be available. If you are an employee with an occupational pension scheme, your pension contributions will normally be made and relief given through the payroll system. Similar relief can be claimed through your tax office for contributions to other pension arrangements (see paragraph 2 below).

The maximum pension contributions, in any one year, for which you are entitled to tax relief, is related to your age and is expressed as a percentage of your gross income. The maximum gross income figure for relief purposes is €62,382 in 2007 and €75,237 in 2008. The percentage relief limits are:

Aged under 30	15%
30 to 39	20%
40 to 49	25%
50 to 54	30%

55 to 59	35%
60 and over	40%

A contribution not allowed in one year because it exceeds the age or income related limit may be carried forward and relief allowed in subsequent years. If a contribution is paid after the end of the year, but before the following 31 October, relief may be allowed in the earlier year provided an election to do so is made by the individual on or before the 31 October. Taxpayers filing returns under ROS may avail of the extended filing date to make an election and pay a contribution.

2.Types of pension arrangements

Occupational Pension Schemes (also known as company pension plans)

These are set up by employers to provide benefits for their employees. The employee may be required to make a minimum contribution. In many cases there will be a facility for employees to make **additional voluntary contributions (AVCs)** to increase the level of benefits provided by the scheme, subject to the maximum benefits allowable based on salary and service with the employer.

Personal Retirement Savings Account (PRSA)

A PRSA is a long-term savings account designed to assist individuals to save for their retirement. Employees who are not members of a pension scheme, or individuals who are self-employed, may claim tax relief against earned income. A PRSA may also be used to make an AVC.

Retirement Annuity Contract (RAC)

This is a similar product to a PRSA and the tax relief rules are the same.

APPROVED RETIREMENT FUND (ARF) OPTIONS

ARF options are available when taking benefits on retirement from certain categories of pension saving products. These options are an alternative to annuity purchase. You should seek independent advice prior to exercising any of these options.

What is an Approved Retirement Fund (ARF)?

These are funds managed by a Qualifying Fund Manager (QFM – see below for definition) into which you can invest the proceeds of your pension fund when you retire. Income and gains of an ARF are exempt from tax within the fund. Any amounts withdrawn from an ARF are referred to as a distribution. A distribution is treated as income from an employment. It is subject to income tax and the QFM must operate the PAYE system on it.

An individual may have more than one ARF. Transfers may be made from one ARF to another ARF.

Certain transactions involving ARF funds are treated as distributions. This is an anti-avoidance measure to ensure that all funds are invested on an arms-length basis.

What is an Approved Minimum Retirement Fund (AMRF)?

Prior to exercising any of the options described, an individual must satisfy the AMRF requirements: namely, having taken any tax free lump sum entitlements, the balance of the retirement fund, or €3,500 if less, must be transferred to an AMRF or used to purchase an annuity. There are two exceptions to this rule:

1. If the individual is aged over 75.
2. If the individual has a guaranteed pension, or annuity, in his or her own right of at least €12,700 per annum payable for life.

The initial capital invested in an AMRF cannot be withdrawn but any income or gains may be. Income and gains of an AMRF are exempt from tax within the fund, but all withdrawals from an AMRF are taxable. When an individual reaches age 75, or dies, the AMRF becomes an ARF.

Who is a Qualifying Fund Manager?

An ARF or AMRF must be managed by a Qualifying Fund Manager (QFM). A QFM is defined in legislation as one of the following:

- Bank
- Building Society
- Trustee Savings Bank
- Post Office Savings Bank
- Credit Union
- Collective Investment Undertaking (e.g., a unit trust)
- Life Assurance Company
- Stockbroker
- Certain authorised Investment Intermediaries

The QFM is responsible for the discharge of all obligations in relation to tax.

Who can avail of the options?

The options are available at retirement only and do not apply to death in service benefits. The options are available to:

- All holders of a Retirement Annuity Contract (RAC)
- Members of Retirement Annuity Trust Schemes
- Holders of a Personal Retirement Savings Account (PRSA)

- Proprietary Directors
- Individuals entitled to rights arising from additional voluntary contributions paid to a scheme.

RETIREMENT OPTIONS

Once you have satisfied the eligibility conditions and the AMRF requirements, as detailed above, you may avail of any of the following options. Holders of an AVC should contact their pension scheme administrator as any tax free lump sum benefit must be linked to lump sum benefits from their pension scheme.

Option 1: Take a tax free lump sum and invest the balance in an ARF.

Up to 25% of the value of your pension fund may be taken as a tax free lump sum and the balance transferred to an ARF.

Option 2: Withdraw all in cash

Up to 25% of the value of your pension fund may be taken as a tax free lump sum and the balance paid to you as taxable cash.

Option 3: Take a tax free lump sum and invest the balance in an annuity

Up to 25% of the value of your pension fund at retirement may be taken as a tax free lump sum and the balance used to purchase an annuity payable to yourself. The annuity payments received are taxable.

What happens to the funds if I die?

Any payment from the ARF is a distribution and is taxable as such. The amount of the distribution is treated as income of the ARF owner for the year of assessment in which that individual dies. There are some exceptions:

A transfer to an ARF in the name of the deceased's spouse is not a distribution.

A transfer to a child of the individual under 21 is not a distribution.

A transfer to a child of the individual over 21 is a distribution but the tax liability is at standard rate of income tax (as of 2008, 20%) and the amount charged is not treated as income for any other purpose of the Income Tax Acts.

When the surviving spouse dies, any payment out of the ARF in that spouse's name, other than to a child of the deceased aged under 21, will be taxed at standard rate.

The position regarding Income Tax and Capital Acquisitions Tax (CAT) is summarized below. The usual CAT thresholds apply (please click [here](#) for details of those thresholds).

<i>Who inherits the ARF?</i>	Death of Holder		Death of Spouse	
	<i>Will the person inheriting the ARF be liable to ...</i>		<i>Will the person inheriting the ARF be liable to ...</i>	
	<i>Income Tax?</i>	<i>CAT?</i>	<i>Income Tax?</i>	<i>CAT?</i>
Spouse	No	No	N/a	N/a
Child under 21	No	Yes	No	Yes
Child over 21	Yes	No	Yes	No
Others	Yes	Yes	Yes	Yes

Imputed Distributions

The various options were introduced to provide alternatives to annuity purchase and to facilitate a more flexible income stream in retirement. Each ARF is valued at 31 December each year and there is a tax charge based on an “imputed distribution”. The amount of the imputed distribution is 2% of the value of the assets in 2008 and 3% for 2009 and subsequent years. Actual distributions made during the year are deducted from the imputed distribution figure in calculating any tax due.