

CHAPTER 3

CONTRIBUTIONS BY EMPLOYEES

Revised September 2015

General

3.1

It makes no difference to the approval of a scheme whether or not its members are required to contribute.

Tax relief, PRSI & USC

3.2

Contributions to an *exempt approved scheme* are allowable as an expense in assessing the member's liability to tax under Schedule E. As with other pension products, tax relief for contributions to an exempt approved scheme is subject to two main controls.

The first control is an age-related percentage limit of an individual's earnings in respect of the office or employment for the year for which the contributions are paid. This provides that the maximum amount of pension contributions in respect of which an individual may claim tax relief may not exceed the relevant age-related percentage of the individual's earnings in any year of assessment.

The age-related percentage limits are:

Under 30	15%
30-39	20%
40-49	25%
50-54	30%*
55-59	35%
60 or over	40%

*The 30% limit applies, irrespective of the lower actual age, to certain categories of professional sportspersons.¹

The second control places an overall upper limit on the amount of earnings that may be taken into account for the purposes of giving tax relief. The earnings limit is set at €115,000 for 2011 and subsequent years. This limit applies whether an individual is contributing to a single pension product or to more than one pension product.

¹ Athletes, badminton players, boxers, cricketers, cyclists, footballers, golfers, jockeys, motor racing drivers, rugby players, squash players, swimmers and tennis players.

Where an individual is contributing solely to an exempt approved scheme the maximum amount of tax relievible contributions is the relevant age-related percentage of the lower of:

- the individual's earnings in respect of the office or employment, and
- the earnings limit.

Where an individual has two, or more, sources of income (e.g. earnings from employment and profits from self-employment and is making pension contributions to an occupational pension scheme and to an RAC/PRSA) a single aggregate earnings limit of €115,000 applies for 2011 and subsequent years in determining the amount of tax relievible contributions.²

For years of assessment prior to 2011, the earnings limits were as follows:

2003 - 2006:	€254,000
2007:	€262,382
2008:	€275,239
2009 & 2010:	€150,000 ³

Contributions are allowable in the year of assessment in which they are paid (but see **paragraph 3.4**).

There is no relief from PRSI or the Universal Social Charge (USC) in respect of contributions made to occupational pension schemes.

3.3

² Please refer to **Chapter 26** for detailed information and examples on how the age-related and earnings limits are applied in respect of contributions to one or more pension products.

³ For the year of assessment 2010, the earnings limit is deemed to be €115,000 for the purpose of determining how much of a qualifying contribution paid by an individual in the year of assessment 2011 is to be treated as paid in the year of assessment 2010. For example:

A who is 27 had net relevant earnings of €160,000 for 2010. He paid pension contributions of €20,000 in 2010 and €2,000 in 2011 and wanted to claim relief in respect of both for 2010.

Full relief was due for the contributions paid in 2010 as they were less than the maximum allowable tax relievible amount of €22,500 for payments made in that year (i.e. 15% of €150,000). However as regards the €2,000 paid in 2011, the maximum tax relievible amount allowable for 2010 for the purposes of determining how much relief could be claimed for the amount paid in 2011 was €17,250 (i.e. 15% of €115,000).

As the amount of the contributions actually paid in 2010 already exceeded €17,250, no additional relief could be claimed for 2010 in respect of the amount paid in 2011. The relief due for 2010 was €20,000.

Tax relief for ordinary annual contributions, including regular additional voluntary contributions, is granted by operation of the net pay arrangement, which can only be operated following application to Large Cases Division Financial Services (Pensions) for scheme approval. Employers should advise their local Revenue Office when operation of the arrangement commences.

There is no relief from PRSI or the USC in respect of contributions made to occupational pension schemes.

3.4

Relief for special contributions (or for a contribution not made under the net pay arrangement as in **paragraph 3.3**) is given by way of adjustment to the employee's tax credit certificate. If aggregate contributions exceed the annual relief limit, relief will be given on a spread forward basis.

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. As the payment of a qualifying contribution is a pre-condition to the availability of relief, an election made in advance of such a payment is not effective.

Taxpayers who are entitled to avail of the extended return filing and payment date under ROS may also avail of the extended date to make an election and pay a contribution.

The date for making elections for contributions paid in the year of retirement may be extended in certain circumstances (see **Appendix III** of this Manual). Tax relief is non transferable between spouses or civil partners.

Sections 774 and 776 Taxes Consolidation Act (TCA) 1997 provides that relief may be allocated to earlier years in certain circumstances. The circumstances are:

- (a) A scheme that requires benefits for widows, widowers, surviving civil partners, children or dependants to be paid for by deduction from the employee's lump sum benefit.
- (b) A repayment by the employee to the scheme of contributions which were previously refunded to the employee.
- (c) Where the employee opted prior to 6 February 2003 to purchase additional years service.

Section 776 also provides that-

- arrears of Spouses' & Children's contributions paid by retirees under the Incentivised Scheme of Early Retirement (Department of Finance Circular 12/09) from the 90% balance of their retirement lump sum payable at their

preserved pension age may be allocated to earlier years for tax relief purposes, and

- contributions, which are not ordinary annual contributions, and which are paid or borne in the period 1 July 2008 to 31 December 2018 by individuals who were employed by the National University of Ireland, Galway (NUIG) under a contract governed by the Protection of Employees (Fixed-Term Work) Act 2003 at any time during the period beginning on 14 July 2003 and ending on 30 June 2008, in respect of a tax year, or part of a tax year, falling within the second mentioned period, other than contributions which are treated as ordinary annual contributions—
 1. in accordance with section 776(2)(b)(i) or (ii)(II), or
 2. following an election under section 776(3),

are, to the extent that they have not otherwise been relieved from tax for any year, treated as having been paid in the year, or years, in respect of which they are paid.

In applying the time limits in respect of repayment claims (section 865(4)), non-ordinary contributions, which were made before 1 January 2015 by the fixed-term NUIG employees referred to above, are treated as having been made in 2014.

A claim for tax relief must be made within 4 years of the end of the year of assessment in which a contribution is made, or is treated as having been made.

3.5

An employee may be re-admitted to a scheme and required to repay a benefit, including a refund of contributions, previously made. Normally, relief is due only on the interest element of the amount repayable to the scheme's *administrator*. Relief will be given by either of the methods described in **paragraphs 3.3 or 3.4**, depending on how the interest is repaid, either by single payment or deduction from salary.

3.6

During a period of temporary absence a member's contributions may be either suspended or continued.

Limit on Contributions

3.7

Employee contributions must be restricted, if necessary, to ensure that the member's aggregate benefits are within approvable limits and that the employer makes a meaningful contribution to the scheme (see **Chapter 4.1**). A funding review and maximum benefits test must take place before any AVC (see definition in **Chapter 23.2**) is paid. It is the responsibility of the scheme trustees to ensure that excessive employee contributions are not made. The purpose of any AVC should be made clear to the employee. Please see **Chapter 5.7** for the standard methodology for funding and benefit calculations.

Salary Sacrifice

3.8

Any arrangement under which an employee waives an entitlement to remuneration or accepts a reduction in remuneration, in return for a corresponding payment by the employer into a pension scheme, is considered to be an application of the income earned by the employee rather than an expense incurred by the employer. Such arrangements are subject to the provisions of section 118B TCA 1997.

Contributions after Normal Retirement Age

3.9

A member who remains in *service* after *normal retirement age* may start or continue paying contributions to fund any shortfall of maximum benefits (See **Chapter 8.8**).