

Imputed Distributions from Approved Retirement Funds and Vested Personal Retirement Savings Accounts

Pensions Manual - Chapter 28

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Table of Contents

28.1	Introduction	3
28.2	Vested PRSAs.....	3
28.3	Value of Assets	4
28.4	Specified Amount	4
28.5	Appointment of a nominee	6
28.6	Provision of certificate(s) to nominee	7
28.7	Nominee receives some or no certificates	8
28.8	Nominee not appointed	8
28.9	PAYE Exclusion Orders in respect of ARFs and PRSAs	8

A more recent version of this manual is available.

28.1 Introduction

Section 790D Taxes Consolidation Act 1997 (TCA), which applies for the year 2012 onwards, provides for a scheme of imputed distributions for both Approved Retirement Funds (ARFs) and vested Personal Retirement Savings Accounts (PRSAs) on a composite basis.

Prior to 2012, the imputed distribution regime applied only to ARFs created on or after 6 April 2000 (the date the existing gross roll-up regime for ARFs was introduced. Please refer to Pensions Manual Chapter 23 for further details).

With effect from 1 January 2012, this regime was extended to certain PRSAs vested on or after 7 November 2002 (the date PRSAs were introduced) and applies to a year of assessment where the ARF and/or vested PRSA holder is aged 60 years or over for that entire year.

28.2 Vested PRSAs

A vested PRSA is defined in section 790D(1) as a PRSA -

- (a) from which assets of the PRSA have been made available to the PRSA owner or any other person - in general this will be in the form of benefits taken from age 60 (for example a retirement lump sum or taxed distribution) on or after 7 November 2002 (the date of introduction of PRSAs);
- (b) which is a PRSA AVC, at the time benefits are taken from the main occupational pension scheme (i.e. at the point of retirement); or
- (c) in respect of which the owner reaches the age of 75 years, where, up to and including the date of his or her 75th birthday, the PRSA assets have not been made available to or paid to the owner or any other person, other than in circumstances where part of the assets were transferred to another PRSA in the owner's name.

In certain instances, the making available of PRSA assets does not constitute the vesting of the PRSA, such as:

- (i) an amount transferred to an ARF or an Approved Minimum Retirement Fund (AMRF),
- (ii) an amount made available to a personal representative of the PRSA holder, or
- (iii) the transfer, before a tax-free lump sum is taken, from one PRSA to another PRSA or pension scheme of the owner.

Where assets are in a PRSA AVC, vesting is deemed to take place at the time benefits are taken from the main occupational pension scheme (i.e. at the point of retirement) as that is when AVC benefits are required to be taken.

A PRSA held by an individual who was 75 years of age before 25 December 2016 (the date on which Finance Act 2016 was passed) from which benefits had not been taken on or before the individual attained that age is deemed to become a vested PRSA on 25 December 2016.

28.3 Value of Assets

The value of an asset (other than cash) in a relevant fund is the market value of the asset in question within the meaning of section 548 TCA. A 'relevant fund' means the assets in all the ARFs and vested PRSAs beneficially owned by an individual on 30 November in a tax year.

28.4 Specified Amount

The imputed distribution for a tax year is referred to in section 790D TCA as the "specified amount" and is computed using a formula:

$$\frac{(A \times B) - C}{100}$$

(where the amount so computed is greater than zero) and where:

A is the value of the assets in a relevant fund on 30 November for the year 2012 onwards, excluding the value of assets retained by a PRSA administrator as would be required to be transferred into an AMRF in accordance with an option to transfer PRSA assets to an ARF.

B is¹–

- where the relevant value is not greater than €2m,
 - a. 4, where the individual is not aged 70 years or over for the whole of the relevant tax year, or
 - b. 5, where the individual is aged 70 years or over for the whole of the relevant tax year.
- 6, where the relevant value is greater than €2m.

C is the amount or value of any relevant distributions made in the tax year.

¹ These rates were introduced in Finance Act 2014 and are effective from 1 January 2015. Prior to that date, where the relevant value was not greater than €2m, "B" was 5 irrespective of the age of the individual. Where the relevant value is greater than €2m, there is no change.

The reference to “the value of the assets retained by the PRSA administrator as would be required to be transferred to an AMRF” in the meaning of “A” excludes from the asset base the assets that a PRSA administrator is obliged to retain in the PRSA because the owner has not satisfied the specified income requirement or has not established an AMRF of the required amount. As the assets in the AMRF are specifically excluded from the specified amount calculation, this ensures that the retained PRSA assets are also excluded from the calculation.

The formula has the following effect:

Fund below €2m in value; Individual aged under 70 or turning 70 in the year

Where the value of a relevant fund on the specified date is €2m or less, and the individual involved is not aged 70 years or over for the whole of the relevant tax year, the specified amount (the amount of the deemed distribution) is 4% of the value of the ARF or vested PRSA, less the value of any “relevant distribution” (that is, actual distributions from the ARF, any associated AMRF and PRSA assets made available to the PRSA owner after deducting excluded distributions in that year from the relevant fund)

Fund below €2m in value; Individual aged over 70

Where the value of a relevant fund on the specified date is €2m or less, and the individual is aged 70 years or over for the whole of the relevant tax year, the specified amount (the amount of the deemed distribution) is 5% of the value of the ARF or vested PRSA, less the value of any “relevant distribution”.

Fund over €2m in value, irrespective of the age of the individual

Where the value of the assets is greater than €2m, the specified amount is equivalent to 6% of the full value (i.e. not just on that part of the fund that exceeds €2m) less the value of any “relevant distribution”.

Excluded distributions

As noted above, the value of excluded distributions is deducted in computing the value of relevant distributions. “Excluded distributions” are distributions that do not attract a tax liability in themselves; for example, the transfer of assets from one ARF to another beneficially owned by the same individual, or a tax-free lump sum taken from a PRSA on vesting. Excluded distributions are:

- imputed distributions themselves;
- transfers between ARFs of the owner and transfer from the owner's AMRF to a replacement AMRF;
- transactions by an ARF or PRSA that are regarded as distributions or the making available of PRSA assets;
- taking a tax-free lump sum from a PRSA, transfers from a PRSA to an ARF or AMRF or to the deceased owner's estate and pre-vesting transfers to another PRSA or pension scheme of the owner; and
- use of ARF or PRSA assets to discharge an excess fund tax liability or to pay the chargeable excess tax share of a former spouse or civil partner of a member of a retirement scheme, the benefits from which are the subject of a pension adjustment order. (See Pensions Manual Chapter 25, "Limit on Tax Relieved Pension Funds", for more details)

Depending on the nature of the relevant fund, the specified amount is regarded either as a distribution of that amount from an ARF or as the making available of PRSA assets of that amount to a PRSA contributor and separate taxing provisions apply as appropriate to ARF distributions (section 784A(3) and (7)(b) TCA) and to the making available of PRSA assets (section 787G(1) and (2) TCA).

For example, the specified amount of a relevant fund which consists solely of one or more ARFs or one or more vested PRSAs is regarded as a distribution from an ARF or the making available of PRSA assets respectively. Where there is a mixture of ARFs and vested PRSAs, the taxing regime depends on whether the QFM and the PRSA administrator are the same person, in which case the specified amount is regarded as a distribution from an ARF.

Where the QFM and the PRSA administrator are not the same person and the individual appoints a nominee (see paragraph 28.5), the taxing regime depends on whether the nominee is a QFM, a PRSA administrator, or both, in which case the specified amount will be considered to be a distribution from an ARF, a PRSA and an ARF, respectively.

The specified amount is regarded as having been distributed or made available not later than the second month of the year of assessment following the year of assessment for which the specified amount is determined.

28.5 Appointment of a nominee

An individual may appoint a nominee where his or her relevant fund comprises ARFs and/or PRSAs that are not all managed or administered by the same QFM or PRSA administrator.

The appointment of a nominee is optional where the relevant fund has a value of €2m or less. If no nominee is appointed, each QFM and PRSA administrator must operate in isolation and apply the 5% notional distribution to the relevant ARF(s) or PRSA(s) they manage/administer. Please refer to paragraph 28.8 where an individual opts not to appoint a nominee.

The appointment of a nominee is compulsory where the relevant fund has a value greater than €2m. This is because in such cases the QFM or PRSA administrator will not have sufficient information to operate in isolation; unless the ARF/PRSA that they manage is itself greater than €2m the QFM or PRSA administrator won't know whether to apply the 4%, 5% or 6% rate.

An individual who appoints a nominee must advise the other QFMs and/or PRSA administrators of that fact and provide them with the name and contact details of the nominee.

Where the appointment of a nominee is compulsory the individual must advise the other manager/managers that the appointment of the nominee is a compulsory appointment and that the reason for the appointment is that the aggregate value of the assets in the ARFs/PRSAs is greater than €2m and therefore attracts the 6% rate of tax.

28.6 Provision of certificate(s) to nominee

Where a nominee is appointed for any year, the other manager(s)/administrator(s) must provide the nominee with a certificate for that year stating the aggregate value of the assets in, and relevant distributions from, the ARFs/PRSAs they manage within 14 days of the specified date (that is, by 14 December of a tax year).

In the case of a PRSA fund, the certificates should exclude any amount retained by the PRSA administrator for AMRF purposes (see paragraph 28.4), as these do not form part of the asset base for the specified amount.

The nominee must retain these certificates for six years for production to Revenue, if required.

A nominee who receives a certificate or certificates from the other manager(s) must determine the specified amount (see paragraph 28.4) as if the value of the assets and the relevant distributions stated in each certificate so received were the value of assets in, and relevant distributions from, an ARF or a vested PRSA managed or administered by the nominee. This applies even if the nominee only gets some but not all the required certificates (see paragraph 28.7).

28.7 Nominee receives some or no certificates

Where the relevant fund value is €2m or less and the nominee receives no certificates from the other fund manager(s), the nominee and the other manager(s) must determine in isolation the specified amount in respect of the ARFs/PRSAs that they manage, that is, as if the individual's relevant fund comprised solely of the ARFs/PRSAs that each manages.

Where the relevant fund value is €2m or less and the nominee has received certificates from some but not all of the other fund manager(s), the managers that failed to provide certificates must determine in isolation the specified amount as described in the preceding paragraph. As the nominee will have received at least one or more certificates from the compliant manager(s) the nominee must calculate the specified amount in accordance with section 790D (8) TCA in respect of the nominee and the other managers that provided certificates (see paragraph 28.6).

These provisions also apply where the relevant fund value is greater than €2m except that any specified amount calculated in isolation is to be based on 6% of the value of the fund.

28.8 Nominee not appointed

Where an individual whose relevant fund comprises ARFs and/or PRSAs that are not managed or administered by the same QFM and/or PRSA administrator, opts not to appoint a nominee because the value of the assets in the relevant fund does not exceed €2m, each QFM and/or PRSA administrator must determine in isolation the specified amount in respect of the ARFs/PRSAs that they each manage as if the individual's relevant fund comprised solely of those ARFs/PRSAs that each manage.

28.9 PAYE Exclusion Orders in respect of ARFs and PRSAs

Revenue does not issue PAYE Exclusion Orders in respect of distributions or withdrawals from ARFs and PRSAs (whether actual or imputed). Please refer to Pensions Manual Chapters 23.15 and 24.10, respectively.