Calculation of the Present Value of Pension Lump Sum for the Purposes of the Relevant Capital Sum Calculation

Pensions Manual - Appendix V

This Manual should be read in conjunction with sections 123 and 201 and Schedule 3 Taxes Consolidation Act 1997, and Tax and Duty Manual (TDM) Part 05-05-19.

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1 Introduction

The "relevant capital sum", defined in Schedule 3, Part 1, Paragraph 1(1), Taxes Consolidation Act 1997 (TCA), is the value of a tax-free lump sum from an occupational pension scheme and includes the present value of any future tax-free lump sum from such a scheme.

When calculating the tax-free amount of a termination payment, the "relevant capital sum" is deducted from both the Standard Capital Superannuation Benefit (SCSB), also defined in Schedule 3, Part 1, Paragraph 1(1) TCA and the increased basic exemption, defined in Schedule 3, Part 2, Paragraph 8 TCA. However, a person in receipt of a termination payment can opt to waive the right to a future tax-free lump sum from a pension, which will give them a higher tax-free amount from the termination payment.

This Appendix outlines the appropriate method to calculate the present value of a pension lump sum for the purposes of calculating both the Standard Capital Superannuation Benefit (SCSB) and the increased basic exemption.

It should be read in conjunction with Paragraphs 3.5 and 3.6 of TDM Part 05-05-19 (Payments on Termination of an Office or Employment or Removal from an Office or Employment).

2 Lump sum entitlements

Category 1 - Taxpayers with a defined benefit pension entitlement or taxpayers who are members of a pre-6 February 2011 defined contribution scheme which does not have an ARF option.

This includes:

- defined benefit schemes with attaching AVC arrangements; and
- individuals with mixed benefits; that is, employees with defined benefit and defined contribution schemes applying to different periods of service in the same employment, which may include different lump sum entitlements.

The calculation of the present value of a tax-free pension lump sum for SCSB purposes is based on the maximum cash sum the individual is entitled to under the rules of the scheme(s) (subject to the overall tax-free maximum of €200,000):

(i) a lump sum of 3/80^{ths} of salary per year of service, or

(ii) a lump sum of more than 3/80^{ths} of salary per year of service, based on the uplifted scale in Chapter 7.2 of the Pensions Manual.

So, if the uplifted scale is receivable, or may be received, by the individual, that should be used in the calculation.

Category 2 - Taxpayers with a 3/80ths option only (no uplifted scale available) and an ARF option.

This includes cases where the member's benefits in relation to the relevant employment are provided through a single defined contribution scheme (which allows the ARF option).

The calculation of present value of pension lump sum for calculation of the SCSB and increased basic exemption will be based on the 3/80ths method. However, the taxpayer can choose the **lower** of 3/80ths of salary per year of service or 25% of their pension fund[1]. (A lower "present value" means the tax-free amount from the SCSB calculation will be higher.)

Category 3 - Taxpayers with an ARF option and an uplifted scale - uplifted scale v 25% of pension fund

This includes cases where the member's benefits from the relevant employment are provided through a single defined contribution scheme (which allows the ARF option).

The calculation of present value of pension lump sum for calculation of the SCSB and increased basic exemption will be based on the uplifted scale. However, the taxpayer can choose the **lower** of the uplifted scale or 25% of their pension fund. (As above, a lower "present value" will give a higher tax-free amount from the SCSB calculation.)

The choice of using either the salary and service method (that is, 3/80ths or uplifted scale) or the 25% of fund method for the purposes of the SCSB calculations does not restrict the method of calculating the actual lump sum at retirement.

The date at which the value of the fund for SCSB purposes is determined is the date of leaving service.

"Final remuneration" is defined as the average for one year of the individual's taxable emoluments of the office or employment for the last three years of her/his service before the relevant date (or for the whole period of her/his service if less than three years).

3 Retained benefits

When using the uplifted scale, retained lump sum benefits from previous employments should be taken into account in calculating the maximum tax-free lump sum permitted within Revenue limits.

[1] A retirement lump sum of up to 25% of the DC scheme fund may be taken (tax-free to €200,000).

While every effort should be made to obtain the information necessary for inclusion in the calculation, Revenue recognises that complete information may not always be available. There may be cases where, for example:

- there is no indication in the pension scheme member's records that they have retained lump sum benefits; or
- there is information on the member's record about retained lump sum benefits, but not enough to place a value on them.

In such cases**,** the uplifted scale (assuming it is provided for under the rules of the scheme) should be used unless additional information can be obtained to enable the retirement lump sum benefits to be determined.

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