

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
[Tax and Duty Manual \(TDM\) Part 05-05-19](#).

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1 Introduction

This Appendix, with effect from 24 February 2023, outlines the appropriate method to be used to calculate the present value of a pension lump sum for the purposes of both the Standard Capital Superannuation Benefit (SCSB) and the increased basic exemption calculation.

It should be read in conjunction with Section 3.5 of [TDM Part 05-05-19](#) (Payments on Termination of an Office or Employment or Removal from an Office or Employment).

2 Examples

Example 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 scenario includes:

- Defined Benefit schemes with attaching AVC arrangements;
- 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 $3/80^{\text{ths}}$ of salary per year of service, or
- (ii) a lump sum of more than $3/80^{\text{ths}}$ 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.

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

This scenario 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 SCSB will be based on the 3/80th method. However, the taxpayer can choose the **lower** of 3/80th of salary per year of service or 25% of pension fund option¹. (A lower "present value" will give a higher tax-free amount from the SCSB calculation.)

Example 2B - For taxpayers with an ARF option and an uplifted scale - uplifted scale v 25% of pension fund

This scenario 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 SCSB will be based on the uplifted scale. However, the taxpayer can choose the **lower** of the uplifted scale or 25% of pension fund option. (As above, a lower "present value" will give a higher tax-free amount from the SCSB calculation.)

Notes:

- (i) 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.
- (ii) The date at which the value of the fund for SCSB purposes is determined is the date of leaving service.
- (iii) "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).

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

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.

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:

- (i) There is no indication in the pension scheme member's records that s/he has retained lump sum benefits.
- (ii) There is information on the member's record about retained lump sum benefits, but not enough to place a value on them.
- (iii) There is sufficient information on the member's record to determine the allowance to be made for retained lump sum benefits.

In situations (i) and (ii) above, the uplifted scale (assuming this 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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