Personal Retirement Savings Accounts

Pensions Manual - Chapter 24

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Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

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Introduction

24.1
A Personal Retirement Savings Account (PRSA) is a long-term savings account designed to assist people to save for their retirement. PRSA products are approved jointly by Revenue and the Pensions Authority. Anyone may contribute to a PRSA but there is not an automatic entitlement to tax relief. The topics covered in this Chapter are:

- Tax relief
- PRSI and Universal Social Charge
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Tax Relief

24.2
Tax relief is allowed against "relevant earnings", which means earnings from a trade, profession, office or employment. However, an individual who is a member of an approved scheme or a statutory scheme (other than a scheme which is limited to the following benefits – death in service gratuity, pension to surviving spouse, civil partner, children or dependants) may, in relation to his or her income from the office or employment, only claim relief in respect of additional voluntary contributions (AVCs) to a PRSA.

As with other pension products, tax relief for contributions paid in respect of PRSAs is subject to two main limitations.

The first, set out in sections 787E Taxes Consolidation Act 1997 (TCA) for PRSAs, 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. 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%
55-60	35%
60 or over	40%

A 30% limit applies below the age of 50 years to certain categories of professional sportspersons.[1]

Secondly, section 790A TCA places an overall upper limit on the amount of earnings that may be taken into account for tax relief purposes. The earnings limit is set at €115,000 for 2011 and subsequent years. This limit applies whether an individual is contributing to one or more than one pension product.

Where an individual is contributing solely to one or more PRSAs the maximum amount of tax relievable contributions is the relevant age-related percentage of the lower of:

- the individual's net relevant earnings 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 a PRSA the single aggregate earnings limit of €115,000 applies in determining the amount of tax relievable contributions.[2]

[1] Athletes, badminton players, boxers, cricketers, cyclists, footballers, golfers, jockeys, motor racing drivers, rugby players, squash players, swimmers and tennis players – section 787(8A)-(8C) and schedule 23A TCA.

[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.

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

2003 to 2006:	€254,000
2007:	€262,382
2008:	€275,239
2009 and 2010:	€150,000[3]

Where contributions are paid to a PRSA for AVC purposes, an individual must take account of any relief already granted under the net pay arrangement in respect of her/his main scheme contributions when calculating relief due.

Contributions made by an employer are aggregated with employee contributions for the purposes of calculating the maximum tax relieved contribution. **Paragraph 24.6** outlines the position where PRSA contributions are made at the same time as contributions to other pension arrangements.

An individual who is not in pensionable employment is entitled to relief on contributions up to €1,525 even if the contribution exceeds the relevant age percentage limit. This does not apply in the case of contributions to a PRSA for AVC purposes.

Where full relief cannot be given for a year of assessment for contributions paid in that year, the unrelieved amount may be carried forward to the next or succeeding years and treated as a qualifying contribution paid in subsequent years.

If a contribution is paid after the end of the year, but on or before 31 October of the following year, relief may be claimed for the previous year provided an election to do so is made by the individual on or before 31 October of the following year. Taxpayers who file and pay online via ROS or myAccount may avail of the extended return filing and payment date[4] to make an election and pay a contribution. As the payment of a qualifying contribution is a pre-condition to the availability of relief, an election cannot be made in advance of such a payment.

[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 contribution paid by an individual in the year of assessment 2011, is to be treated as paid in the year of assessment 2010. Please refer to Chapter 3.2 for worked examples.

[4] Wednesday 14 November 2018 for 2017 Returns.

The date for making an election in respect of contributions paid in the year of retirement may be extended to 31 December of that year in certain circumstances (see **Appendix III** of this Manual).

Full details of PRSA contributions should be included on the annual Return of Income. Employees contributing to an AVC PRSA may be given tax relief via the net pay arrangement, as is the case for AVCs to the main scheme.

Tax relief for PRSA contributions is not transferable between spouses or civil partners.

The method of calculating the respective amounts of net relevant earnings for the purposes of relief for retirement annuities under section 787 TCA and of total income for chargeable annual payments to "descendants" under section 792(2) TCA, as described in **Chapter 21.3**, may also be applied to PRSAs in the same circumstances.

PRSI & Universal Social Charge

24.3

There is no relief from PRSI or the Universal Social Charge (USC) for contributions made to PRSAs.

Benefits on Retirement

24.4

On the first occasion that benefits are taken from a PRSA, up to 25% of the fund may be taken as a tax-free retirement lump sum[5]. The balance of the fund may be:

- used to –
    1. purchase an annuity, or
    2. exercise one of the options detailed in **Chapter 23** ; or
- retained in the PRSA (a PRSA from which retirement benefits have commenced is referred to as a vested PRSA).

Benefits may be taken when the individual reaches age 60[6]. There is a facility to take benefits in stages, but a retirement lump sum may only be taken on the first occasion that benefits are taken.

[5] See **Chapter 27** for details of the extent to which retirement lump sums may be taken tax free

[6] Benefits may be taken at any age, if an individual is permanently incapable through infirmity of carrying on his/her occupation (see **Chapter 9**). In addition, retirement from age 50 may be allowed in the case of employed contributors and of individuals whose occupation is one from which people customarily retire before age 60.

On each occasion that a benefit is taken, the PRSA administrator must ensure that the amount retained in the PRSA is at least the amount that would be required to be transferred to an Approved Minimum Retirement Fund (AMRF) if one of the options detailed in Chapter 23 was being exercised at the time the benefit was taken (see **paragraph 24.7**). Benefits from a PRSA must be taken on or before age 75. Please refer to **paragraph 24.13** for the treatment which applies where PRSA benefits do not commence on or before age 75.

An individual who retains the balance of a PRSA (after payment of the tax-free retirement lump sum) in the PRSA, rather than use it to purchase an annuity or transfer it into an Approved Retirement Fund (ARF) or AMRF, may then draw down from that balance as and when he/she chooses. Subject to certain exceptions (see below), amounts drawn down from a vested PRSA are treated as emoluments and are subject to tax under Schedule E at the individual's marginal rate. Imputed withdrawals under section 790D TCA (see **paragraph 24.9** and Chapter 28) are subject to tax in the same manner as actual withdrawals.

In addition, withdrawals from a PRSA are deemed to occur when assets in a PRSA–

- cease to be PRSA assets,
- cease to be beneficially owned by the PRSA owner, or
- are used in connection with any transaction that would, if they were assets of an ARF, be regarded as giving rise to a distribution from the ARF (see **paragraph 23.8**).

Amounts withdrawn from a PRSA in the following circumstances are not treated as taxable emoluments of the individual under section 787G TCA:

- a tax-free retirement lump sum, paid when PRSA assets are first made available to the individual, which does not exceed 25% of the fund or, in the case of an AVC PRSA, the amount that may be paid by way of lump sum under section 772(3)(f) TCA;
- the transfer of PRSA assets to an ARF or AMRF;
- the transfer of PRSA assets to the individual's personal representative in accordance with section 787K(1)(c)(iii) TCA;
- where a tax free lump sum has not been paid from a PRSA, the transfer of assets to another PRSA in the individual's name or to an approved scheme or to a statutory scheme of which he or she is a member;

- an amount made available by a PRSA administrator to meet a tax charge arising on a chargeable excess arising in connection with the related PRSA (see Chapter 25);
- an amount made available from a vested PRSA (within the meaning of section 790D(1) TCA) for the purpose of
    - the reimbursement, in whole or in part, of a PRSA administrator for tax paid by that administrator on a chargeable excess relating to the PRSA owner, or
    - the payment by a PRSA administrator of a non-member spouse or civil partner's appropriate share of the tax charged on a chargeable excess, or part of it (for which the administrator is made jointly liable with the non-member) in circumstances where a benefit crystallisation event giving rise to tax occurs in respect of retirements benefits which are the subject of a pension adjustment order.

Chapter 25 covers the "limit of tax relieved pension funds" as payment of benefits in excess of the Standard Fund Threshold or an individual's Personal Fund Threshold will trigger a tax charge.

Chapter 7.4 outlines the circumstances in which the practice relating to the commutation of trivial pensions may be extended to holders of PRSAs.

Death Benefits

24.5

Where an individual dies before benefits are taken, the fund passes to the estate of the deceased. There is no Income Tax charge but the normal Inheritance Tax rules apply.

If death occurs after the draw down of benefits has commenced, or is deemed to have commenced (see paragraph 24.13), the taxation treatment of the fund is similar to that which applies to an ARF (see **Chapter 23.11)**.

Interaction with other pension arrangements

24.6

As noted in paragraph 24.2, the tax relief limits apply to the aggregate of all personal contributions made by an individual to a PRSA, Retirement Annuity Contract (RAC) or an occupational pension scheme. **Chapter 26** provides detailed information and examples on how the age-related and earnings limits are applied to contributions to one or more pension products.

An individual who is a member of a pension scheme may only get tax relief in respect of a PRSA which is linked to that scheme. A PRSA which is used as an AVC is treated in exactly the same manner as any other AVC. The total pension and PRSA contributions must be limited to the amount required to provide maximum benefits, as set out in Chapter 6.

Vested PRSAs, AMRFs and "ring-fenced" amounts

24.7

As stated in **paragraph 24.4**, a PRSA owner may, on retirement, exercise any of the options detailed in Chapter 23 (the ARF options) or retain the balance of the PRSA fund in the PRSA.

For ARF options exercised between 6 February 2011 and 26 March 2013:

- the specified income requirement was increased from €12,700 per annum to an amount equal to 1.5 times the maximum annual prevailing rate of State Pension (Contributory) (rounded up or down to the nearest €100) which brought it to €18,000, and
- the amount required to be transferred to an AMRF, as provided for in section 784C TCA, was increased from €63,500 to an amount equal to ten times the maximum annual prevailing rate of State Pension (Contributory) (rounded up or down to the nearest €100) which brought it to €119,800.

Section 17(2) Finance Act 2013 reinstated the lower amounts of €12,700 and €63,500 for ARF options exercised on or after 27 March 2013 (the date of passing of Finance Act 2013). It was indicated that these lower amounts would remain in place for three years, whereupon the higher amounts implemented on 6 February 2011 would be reapplied by legislation. However, the higher amounts have not been re-instated, so the lower amounts of €12,700 and €63,500 continue to apply.

Section 17(6) Finance Act 2013, in turn, introduced measures to ensure that individuals, including PRSA owners, who exercised an ARF option under section 787H TCA or who vested PRSAs during the period 6 February 2011 to 26 March 2013, and were subject to the higher specified income and AMRF limits which applied during that period, are not disadvantaged.

First, where an individual had guaranteed annual pension income of at least €12,700 on or after 27 March 2013 (the date of passing of Finance Act 2013) any AMRF immediately becomes an ARF and any ring-fenced amounts[7] retained in vested PRSAs[8] immediately become non-ring-fenced[9] amounts.

Secondly, where an individual did not have guaranteed annual pension income of €12,700 on 27 March 2013 but had originally transferred more than €63,500 to an AMRF, or had retained ring-fenced amounts in vested PRSAs of more than €63,500, the excess above €63,500 immediately becomes an ARF, or as the case may be, a non-ring-fenced amount or amounts.

Transfers

24.8

Transfers may be made from one PRSA to another PRSA and from a PRSA to an occupational pension scheme.

Transfers may be made from an RAC to a PRSA. However, transfers from a PRSA to an RAC are prohibited.

In certain circumstances, a transfer may be made from an occupational pension scheme to a PRSA provided:

1. The individual has been a member of the scheme for 15 years or less.
2. The scheme is being wound up or the individual is changing employment.

The value of AVC contributions may be transferred to a PRSA at any time.

Where an individual is entitled to a refund of contributions from an occupational scheme, the refund is taxed at the standard rate. However, the refund may be transferred to a PRSA without this tax charge.

Transfers to or from a "buy-out bond" are prohibited.

Only bona fide transfers are acceptable. The use of certain transfer arrangements relating to PRSAs in order to circumvent Revenue rules on the tax treatment of

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[7] A ring-fenced amount, "in relation to a vested PRSA, means an amount retained within the vested PRSA by the PRSA administrator equivalent to the amount which the PRSA administrator would, if an option had been exercised in accordance with section 787H(1) of the Principal Act [the TCA], have had to transfer to an approved minimum retirement fund in accordance with section 784C and by virtue of section 787H(3) of that Act" (section 17(6) Finance Act 2013)

[8] A vested PRSA "means a Personal Retirement Savings Account in respect of which assets have first been made available to, or paid to, the contributor by the PRSA administrator on or after 6 February 2011, and the term "vesting of a PRSA" shall be construed accordingly" (Ibid).

[9] A non-ring-fenced amount, "in relation to a vested PRSA, means the amount or value of assets in the vested PRSA that the PRSA administrator can make available to, or pay to, the PRSA contributor or to any other person" (Ibid).

retirement benefits – for example, by transferring payments to the UK and back to Ireland - are not permissible. A PRSA contributor who directs the PRSA provider to make a payment to, or transfer assets to, an arrangement for the provision of retirement benefits outside the State (an “overseas arrangement”) under the provisions of the Occupational Pensions Schemes and Personal Retirement Savings Accounts (Overseas Transfer Payments) Regulations 2003 (S.I. No. 716 of 2003) must, prior to any transfer, sign a declaration to the effect that the transfer conforms to the requirements of the regulations and Revenue pension rules, is for bona fide reasons and is not primarily for the purpose of circumventing pension tax legislation and Revenue rules.

Imputed distributions

24.9

For the year of assessment 2012 and subsequent years, section 790D TCA provides for imputed distributions for both ARFs and vested PRSAs on a composite basis. **Chapter 28** provides details of this regime. Vested PRSAs were not subject to imputed distributions for the year of assessment 2011 and prior years.

Non-residents and vested PRSAs

24.10

PAYE Exclusion Orders

Income and assets retained in a vested PRSA are beneficially owned by the PRSA owner. Withdrawals (including deemed withdrawals) from vested PRSAs are treated and taxed as emoluments under Schedule E regardless of the residence status of the individual.

As with payments from an ARF or an AMRF (see Chapter 23), withdrawals from vested PRSAs are not payments of pension and Revenue do not issue PAYE exclusion orders to PRSA owners in respect of such withdrawals where the PRSA owner is not resident in the State.

PAYE Exclusion Orders are also not issued where an individual takes the balance of his or her PRSA[10] as a taxable lump sum, having met the specified income requirements (see paragraph 24.7).

Interaction with Double Taxation Agreements

[10] This means the balance in the PRSA after any tax-free retirement lump sum and, in circumstances where the specified income requirement is not satisfied (see paragraph 24.7), any amount which has been retained in the PRSA, transferred into an AMRF or used to purchase an annuity.

The treatment of ARF distributions (see **Chapter 23.16**) also applies from 22 December 2017 to withdrawals from vested PRSAs.

Anti-avoidance

24.11

Section 787G (4A) TCA states:

> *Without prejudice to the generality of subsection (4), the circumstances in which a PRSA administrator shall, for the purposes of this Chapter, be treated as making the assets of a PRSA (including a vested PRSA within the meaning of section 790D(1)) available to an individual shall include the use of those assets in connection with any transaction which would, if the assets were assets of an approved retirement fund, be regarded under section 784A as giving rise to a distribution for the purposes of that section and the amount to be regarded as made available shall be calculated in accordance with that section*.

This means that linking a PRSA (including a vested PRSA) to certain transactions, including the type of arrangement which is the subject of section 784A(1B)(h) TCA, will trigger a tax charge. The transactions are the same as those which are deemed to be a distribution from an ARF which are detailed in **Chapter 23.9**.

Pension adjustment orders

24.12

In situations involving pension adjustment orders (PAOs), where a former spouse's or partner's share of chargeable excess tax arising on a benefit crystallisation event is to be recovered from a vested PRSA which is beneficially owned by that former spouse or partner, section 787Q(5A) TCA provides that the PRSA administrator is entitled to dispose of or appropriate such assets of the vested PRSA as are required to meet the amount of the tax due.

A disposal or appropriation of assets in a vested PRSA in these circumstances does not give rise to a charge to income tax under section 787G(1) TCA.

Chapter 25 provides additional information on PAOs and their interaction with the SFT regime.

Retirement benefits not taken on or before age 75

24.13

A PRSA from which retirement benefits have not commenced on or before the date of the owner's 75th birthday is treated as becoming a vested PRSA (within the meaning of section 790D TCA) on that date. Where the individual was 75 before 25 December 2016 (the date on which Finance Act 2016 was passed), the PRSA is deemed to vest on 25 December 2016. A consequence of a PRSA vesting in these circumstances is that the individual cannot access the PRSA assets in any form from the date of his or her 75th birthday. As a transitional measure, the owner of a PRSA which is deemed to vest on 25 December 2016 (i.e., where the owner was 75 before that date) may, on or before 31 March 2017, take retirement benefits from the PRSA in the form of an annuity, a retirement lump sum or under the ARF options.

The vesting of a PRSA in these circumstances is a "benefit crystallisation event for the purposes of Part 30, Chapter 2C, TCA (see **Chapter 25**). In addition, such vested PRSAs are subject to the imputed distribution regime (see **paragraph 24.9**) and the death-related provisions which apply to vested PRSAs (see **paragraph 24.5**).

Similar vesting provisions apply to RACs (see **Chapter 21**).