

GMS Superannuation Plan – Retirement Annuity Relief

Pensions Manual - Appendix IV

This Manual should be read in conjunction with section 773 Taxes Consolidation Act 1997.

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Table of Contents

1	Introduction	3
2	Tax treatment	3
3	Tax relief for pension contributions – application of earnings limit	6

1 Introduction

Under section 773 Taxes Consolidation Act 1997 (TCA) the superannuation arrangements for doctors under the General Medical Services (GMS) Superannuation Plan are approved by Revenue for the purposes of Chapter 1 of Part 30 TCA as if the plan was a retirement benefits scheme for employees. Tax relief for contributions made by doctors to the GMS Superannuation Plan is given under those provisions.

Contributions to the Plan are set at 15% of capitation fee income, of which the GP pays 5% and the Health Service Executive (HSE) pays 10%. The HSE contribution does not form part of the GP's income.

2 Tax treatment

Section 773(3) TCA deems GMS income to be “remuneration from an office or employment” and specifically excludes that income from being taken into account in the calculation of net relevant earnings (NRE) for the purposes of any claim to relief in respect of premiums paid towards a personal pension plan.

All GMS income received under the GMS Scheme contract (for example, capitation fees, practice support fees, fees towards documents, etc.) is treated as income from a pensionable office or employment for superannuation purposes, but not for general taxation purposes. Accordingly, in determining NRE for any practice income arising outside the GMS contract, no part of GMS income paid under the contract may be taken into account.

Where a doctor with GMS income creates a personal pension plan for her/his private practice income, the overall practice expenses must be apportioned between the GMS and private practice incomes to arrive at the amount of NRE.

The original method used to calculate allowable deductions for NRE purposes did not differentiate between GMS capitation and non-capitation income. However, as contributions under the GMS Superannuation Plan are made only in respect of capitation income, the original method (Example 1 below) impacts on the calculation of NRE in cases where GMS income includes a relatively high proportion of non-capitation income. Accordingly, an alternative method (Example 2 below) of calculating NRE in respect of the private practice income of members of the GMS Superannuation Plan was agreed for the year of assessment 1996/97 onwards.

Example: Doctor in GMS Superannuation Scheme aged 29 years

Annual Earnings	€
GMS Receipts	75,254
[comprising capitation income 49,960; non-capitation 25,294]	
Private Practice Fees	<u>39,227</u>
Total	114,481
Less: Expenses	<u>(42,391)</u>
Net profit	72,090
Capital Allowances	<u>(2,413)</u>
Profit net of Capital Allowances	69,677

Example 1 – Original Method

Under the original method, the expenses of €42,391 and capital allowances of €2,413 are apportioned between private practice fees of €39,227 and GMS income of €75,254 (which comprises capitation and non-capitation income) by applying the formula $A \times B / C$, where:

A is private practice fees (€39,227)

B is profit net of capital allowances of (€69,677)

C is gross receipts (€114,481)

Applying the formula gives NRE of €23,875 (i.e. $39,227 \times 69,677 / 114,481$).

Since the individual is aged 29, their age-related percentage limit on contributions is 15%. The maximum relief allowable in respect of premiums paid towards a personal pension is therefore 15% of the NRE of €23,875, which equals €3,851.

Example 2 – Alternative Method

The alternative approach is to first set the expenses of €42,391 against the non-capitation element of the GMS income of €25,294, with the balance of €17,097 being apportioned between capitation income and private practice fees.

Non-Capitation	25,294
Less Expenses	<u>(42,391)</u>
Balance of Expenses	(17,097)
Add Capital Allowances	<u>(2,413)</u>
“Adjusted Expenses”	(19,510)

As in the first example, the capitation income was €49,960 and private practice fees were €39,227.

The amount of adjusted expenses attributable to private practice fees is $A \times (D / A + E)$ where

A = Private practice fees (as before)

D = Adjusted expenses (as above) and

E = Capitation Income (49,960)

That formula gives us adjusted expenses attributable to private practice fees in this case of:

$$39,227 \times (19,510 / 39,227 + 49,960) = \text{€}8,581$$

The net relevant earnings are therefore the private practice fees minus the adjusted expenses attributable to those fees:

$$39,227 - 8,581 = \text{€}30,646.$$

As in the first calculation, the individual is aged 29, so their age-related percentage limit on contributions is 15%. This means the maximum relief allowable in respect of premiums paid towards a personal pension is €4,597 (i.e. €30,646 x 15%), as compared to €3,581 in Example 1.

Alternative method - other formula

The same result can be arrived at without calculating “adjusted expenses” by using the formula $B \times A / (E + A)$, where:

A is private practice fees (39,227), as before

B is adjusted profit after capital allowances (69,677), as before

E is capitation fees (49,960) as before

The NRE are €30,646 ($69,677 \times 39,227 / (39,227 + 49,960)^*$) and the maximum relief allowable in respect of premiums paid towards a personal pension is €4,597 ($€30,646 \times 15\%$).

*[$39,227 + 49,960 = 89,187$]

3 Tax relief for pension contributions – application of earnings limit

[Chapter 26](#) of the Pensions Manual outlines the operation of the aggregate earnings limit in section 790A TCA to doctors with GMS and private practice income.