

Contributions by Employees

Chapter 3

This document should be read in conjunction with Chapter 1, Part 30 of the Taxes Consolidation Act 1997 (TCA)

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Table of Contents

3.1 Employee contributions: relief from income tax	3
3.2 Employee contributions: no relief from PRSI or USC	4
3.3 Net pay arrangement	4
3.4 Relief for special contributions	5
3.5 Repayment of scheme benefits.....	6
3.6 Periods of temporary absence	6
3.7 Limits on contributions	7
3.8 Salary sacrifice.....	7
3.9 Contributions after normal retirement age	7
3.10 Approval of pension schemes not dependent on employee contributions	7

3.1 Employee contributions: relief from income tax

Contributions to an exempt approved scheme (as defined in section 774 Taxes Consolidation Act 1997 (TCA)) are allowable as an expense in assessing a scheme member's liability to income tax under Schedule E. As with other pension products, tax relief for contributions to an exempt approved scheme is subject to two main limitations.

The first, set out in section 774(7)(c) TCA for exempt approved schemes and 776(2)(c) TCA for statutory schemes, is an age-related percentage limit of an individual's earnings from the office or employment for the year for which the contributions are paid. The maximum pension contribution for which an individual may claim tax relief cannot exceed the relevant age-related percentage of the individual's earnings in any year of assessment.

The age-related percentage limits are:

Under 30 years	15%
30-39 years	20%
40-49 years	25%
50-54 years	30%
55-59 years	35%
60 years 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 an exempt approved scheme, the maximum amount of tax relievable contributions is the relevant age-related percentage of the lower of:

- the individual's earnings in respect of the office or employment, and
- the earnings limit.

For example, if an individual has net relevant earnings of €100,000, because that is lower than the earnings limit of €115,000, the maximum contribution they can make that will qualify for tax relief is 40% of their earnings of €100,000, which equals €40,000.

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

However, if an individual aged 60 has net relevant earnings of €200,000, because their salary is higher than the earnings limit of €115,000, the maximum contribution they can make that will qualify for tax relief is 40% of €115,000, which equals €46,000.

Where an individual has two or more sources of income (for example, earnings from employment and profits from self-employment) and is making pension contributions to an occupational pension scheme and to a retirement Annuity Contract (RAC), a Personal Retirement Savings Account (PRSA) and/or a Pan-European Pension Product (PEPP) the single aggregate earnings limit of €115,000 applies in determining the amount of tax relievable contributions.²

Contributions are usually allowable in the year of assessment in which they are paid (but see **paragraph 3.4** for the tax treatment of “special” contributions).

3.2 Employee contributions: no relief from PRSI or USC

There is no relief from Pay Related Social Insurance (PRSI) or the Universal Social Charge (USC) for contributions made to occupational pension schemes.

3.3 Net pay arrangement

Tax relief for “ordinary annual contributions”, including regular additional voluntary contributions, is granted by operation of the “net pay arrangement”. Tax relief is provided through payroll deductions, which may reduce the amount of income tax a member will pay. The amount of income tax relief a member receives depends on their gross pay, the rate of tax paid, the amount contributed by the member to the scheme, their personal tax credits and the limits on tax relieved contributions explained in paragraph 3.1 above.

The net pay arrangement can only be operated by an employer following application to Pensions Branch, High Wealth and Financial Services Division, for scheme approval. Employers should advise Revenue when operation of the arrangement commences.

Scheme members may also get relief through the net pay arrangement for additional voluntary contributions to the scheme.

Example

Sam is aged 42 in 2023 and is a member of an occupational pension scheme which is an exempt approved scheme. They earn €50,000 per year. The maximum percentage relief available for individuals aged between 40 and 49 years is 25% of net relevant earnings. The maximum annual contribution available to Sam for tax relief purposes is €12,500 (€50,000 x 25%).

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.

Sam's contribution to the scheme in 2023 through net pay arrangement is 5% of their basic salary, which is €2,500 (5% x €50,000).

Sam has not exceeded their maximum allowable contributions for tax relief purposes. Therefore, they could contribute up to a further €10,000 (maximum relief of €12,500 minus ordinary contributions of €2,500) in Additional Voluntary Contributions (AVCs) and receive this additional tax relief against their remuneration through payroll in 2023.

3.4 Relief for special contributions

Relief for special contributions (or for a contribution not made under the net pay arrangement as in **paragraph 3.3**) is given by way of adjustment to the employee's tax credit certificate. If aggregate contributions exceed the annual relief limit, relief will be given on a spread forward basis (section 774(7) (d) and (e) TCA for exempt approved schemes and section 776(2)(d) and (e) TCA for statutory schemes).

If a contribution is paid after the end of the year, but 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 (section 774(8) TCA for exempt approved schemes and section 776(3) TCA for statutory schemes). 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.

Taxpayers who file and pay online via the Revenue Online Service (ROS) or myAccount may avail of the extended return filing and payment date to make an election and pay a contribution.

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 the Pensions Manual).

Tax relief on pension contributions is not transferable between spouses or civil partners.

Section 774(7)(b) and (ba) TCA, for exempt approved schemes, and section 776(2)(b) and (ba) TCA, for statutory schemes, allow Revenue to allocate tax relief for employee contributions to earlier years in certain circumstances:

- a contribution to scheme that requires benefits for widows, widowers, surviving civil partners, children or dependants to be paid for by deduction from the employee's lump sum benefit (section 774(7)(ba)(i) and section 776(2)(ba)(i) TCA);
- a repayment by the employee to the scheme of contributions which were previously refunded to the employee (section 774(7)(ba)(ii) and section 776(2)(ba)(ii) TCA);
- where the employee opted prior to 6 February 2003 to purchase additional years of service (section 774(7)(b)(ii) and section 776(2)(b)(ii) TCA);

- arrears of spouses' and children's contributions paid by retirees under the Incentivised Scheme of Early Retirement (Department of Finance Circular 12/09) from the 90% balance of their retirement lump sum payable at their preserved pension age may be allocated to earlier years for tax relief purposes (section 776(2)(ba)(i) TCA); and
- contributions which are not ordinary annual contributions, and which are paid or borne in the period 1 July 2008 to 31 December 2018, in respect of a tax year or part of a tax year falling within the period 14 July 2003 to 20 June 2008, by individuals who were employed by the National University of Ireland, Galway under a contract governed by the Protection of Employees (Fixed-Term Work) Act 2003 at any time during the period 14 July 2003 to 30 June 2008; with the exception of contributions which are treated as ordinary annual contributions in accordance with section 776(2)(b)(i) or (ii)(II) TCA, or following an election under section 776(3) TCA, and therefore are, to the extent that they have not otherwise been relieved from tax for any year, treated as having been paid in the year, or years, in respect of which they are paid (section 776(2)(bb) TCA).

Section 774(7A) TCA and section 776(2A)(a) TCA provide that, notwithstanding the four year time limit on making repayment claims in section 865(4) TCA, a contribution which is set against prior years by virtue of section 774(7)(b)(ii) TCA, for exempt approved schemes, or section 776(2)(b)(ii), for statutory schemes, can give rise to a repayment of tax where the individual has made valid claim for repayment (within the meaning of section 865(1)(b) TCA)

In applying the time limits in respect of repayment claims in section 865(4) TCA, non-ordinary contributions, which were made before 1 January 2015 by the fixed-term NUIG employees referred to above, are treated as having been made in 2014 (section 776(2A)(b) TCA).

A claim for tax relief must be made within four years of the end of the year of assessment in which a contribution is made or is treated as having been made.

3.5 Repayment of scheme benefits

An employee may be re-admitted to a scheme and required to repay a benefit, including a refund of contributions, previously made. Normally relief is due only on the interest element of the amount repayable to the scheme's administrator. Relief will be given by either of the methods described in **paragraphs 3.3** (the net pay arrangement) or **3.4** (relief for special contributions) depending on how the interest is repaid, either by single payment or deduction from salary.

3.6 Periods of temporary absence

During a period of temporary absence, a member's contributions may be either suspended or continued.

In certain situations, a non-Irish resident employee may be permitted to remain in an Irish occupational pension scheme while working overseas (see paragraphs 17.7 and 17.8 of [Chapter 17](#)).

An employee who is seconded or transferred by their employer to work overseas and who returns to live and work in Ireland for the same employer may claim tax relief in respect of contributions they make to the employer's pension scheme in respect of the year in which they return and any subsequent years in the normal manner.

Where an employee is not assessable to tax in Ireland in respect of their salary for the period of overseas employment, tax relief is not due under the TCA for contributions they made to the scheme in respect of that period. Unrelieved pension contributions cannot be carried forward to the year in which an employee returns to Ireland so they cannot be claimed in that year or in any subsequent year.

3.7 Limits on contributions

Employee contributions must be restricted, if necessary, to ensure that the member's aggregate benefits are within approvable limits and that the employer makes a meaningful contribution to the scheme (see [Chapter 4.1](#)). A funding review and maximum benefits test must take place before any Additional Voluntary Contribution (AVC - see definition in [Chapter 23.2](#)) is paid. The trustees of a pension scheme are responsible for ensuring that employees do not make "excessive" contributions. The purpose of any AVC should be made clear to the employee. Please see [Chapter 5.7](#) for the standard methodology for funding and benefit calculations.

3.8 Salary sacrifice

Any arrangement under which an employee waives an entitlement to remuneration or accepts a reduction in remuneration, in return for a corresponding payment by the employer into a pension scheme, is considered to be an application of the income earned by the employee rather than an expense incurred by the employer. Such arrangements are subject to section 118B TCA, which deals with salary sacrifice arrangements.

3.9 Contributions after normal retirement age

A member of a pension scheme who remains in service after normal retirement age (usually between 60 and 70 years) may start or continue paying contributions to fund any shortfall of maximum benefits (See [Chapter 8.8](#)).

3.10 Approval of pension schemes not dependent on employee contributions

Neither section 772 nor section 774 TCA contains a requirement that members of an occupational pension scheme must contribute to the scheme, in order for the scheme to obtain approval for tax purposes.