

Tax Relief for Pension Contributions: Application of Earnings Limit

Chapter 26

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Table of Contents

26.1 Introduction	3
26.2 Tax relief for pension contributions	3
26.3 Contributions to a single pension product	5
26.4 Contributions to more than one pension product	5
26.5 Contributions to the General Medical Services (GMS) plan.....	7

26.1 Introduction

Section 790A Taxes Consolidation Act 1997 (TCA) provides that an aggregate earnings limit applies for the purposes of giving income tax relief to an individual on contributions made to certain pension products¹. This limit is currently €115,000.

This chapter illustrates the operation of the earnings limit where an individual has both earnings from employment and income from self-employment and makes contributions to both an occupational pension scheme/statutory scheme and a personal pension plan². It also illustrates the operation of the earnings limit for doctors with GMS³ income and income from private practice where they make contributions to both the GMS Superannuation Plan/Additional Voluntary Contributions (AVCs) and to personal pension plans. The topics covered in this chapter are:

- Tax relief for pension contributions
- Contributions to a single pension product
- Contributions to more than one pension product
- Application of the earnings limits in the case of doctors with GMS and private practice income.

26.2 Tax relief for pension contributions

Tax relief for pension contributions by an individual is subject to two main limits.

The first is an age-related percentage limit of an individual's remuneration/net relevant earnings (section 774(7)(c) TCA for occupational pension schemes with similar provisions in section 787 for RACs, section 787E for PRSAs and section 787Z for Pan-European Pension Products (PEPPs)). The maximum pension contribution in respect of which an individual may claim tax relief may not exceed the relevant age-related percentage of the individual's remuneration/net relevant earnings in any year.

¹ Occupational and statutory pension schemes, Retirement Annuity Contracts, PRSAs and qualifying overseas pension plans

² The reference to "personal pension plan" in this chapter can apply to a Retirement Annuity Contract (RAC) and/or a Personal Retirement Savings Account (PRSA) and/or a Pan European Personal Pension Product (PEPP).

³ Now called Primary Care Re-imbusement Service (For ease of reference GMS is used in this chapter. For further information please refer to Appendix IV.)

The age-related percentage limits are:

Age	Limits
Up to 30 years	15% of remuneration/net relevant earnings
30 – 39 years	20%
40 – 49 years	25%
50 – 54 years	30%
55 – 59 years	35%
60 years and over	40%

In addition, section 790A TCA places an overall upper limit on the amount of remuneration/net relevant earnings that may be taken into account for tax relief purposes. The earnings limit is €115,000 since 2011⁴. This limit applies whether an individual is contributing to a single pension product or to more than one pension product.

In addition, section 790A provides that, for the purposes of giving tax relief to an individual on contributions made to a retirement benefits scheme and to a personal pension plan, etc., the aggregate of the individual's remuneration, within the meaning of Chapter 1, and net relevant earnings within the meaning of Chapter 2 (RACs), Chapter 2A (PRSAs) and Chapter 2D (PEPPs) of Part 30 TCA shall not exceed the earnings limit. Therefore, where an individual has both remuneration from employment and net relevant earnings in respect of self-employment, the aggregate of the remuneration and net relevant earnings that can be "pensioned" for tax relief purposes cannot exceed the earnings limit.

Section 790A requires pensionable remuneration to be considered first in determining the overall amount of tax relievable contributions that can be made in any year as between occupational pensions (including AVCs) and personal pension plans.

If the pensionable remuneration from an office or employment in a year is equal to or exceeds the limit, there is no scope for further tax relief on contributions to a personal pension plan for that year.

⁴ The earnings limit was €254,000 in 2006, €262,382 in 2007, €275,239 in 2008 and €150,000 in 2009 and 2010. However, for 2010 the limit was deemed to be €115,000 for the purposes of determining how much of a pension contribution paid by an individual in 2011 could be treated as paid in 2010, where the individual elected under existing rules to have it so treated.

26.3 Contributions to a single pension product

Where an individual is contributing to a single pension product, the maximum tax relievible pension contribution is the relevant age-related percentage of the lower of:

- the individual's remuneration/net relevant earnings and
- the earnings limit.

Example 1

An individual aged 50 with earnings of €200,000 in 2023 and making contributions to an occupational pension scheme may claim tax relief on the lower of the actual contributions paid and 30% of the earnings limit of €115,000 (€34,500).

If the individual is making contributions of 25% of salary (in this case, €50,000) tax relief would be limited to contributions of €34,500 (the lower of €50,000 - the actual contribution made - and €34,500 - 30% of €115,000). If the individual is making contributions of 17% of salary (€34,000) they could claim tax relief on the full amount, as this is lower than 30% of €115,000.

Example 2

An individual aged 40 with self-employed income (net relevant earnings) of €100,000 in 2023 and paying premiums to a personal pension plan may claim tax relief on the lower of:

- the actual premiums/contributions paid and
- 25% of €100,000 (= €25,000)

If the individual is paying premiums/contributions of €30,000, the amount on which tax relief could be claimed would be limited to €25,000. If the premiums/contributions paid were €25,000 or less, relief could be claimed on the full amount.

26.4 Contributions to more than one pension product

Where an individual has two 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 personal pension plan, a single aggregate earnings limit of €115,000 applies in determining the amount of tax relievible contributions.

The following examples illustrate the operation of the earnings limit in such situations.

Example 3

Morgan has earnings from employment of €100,000 in 2023. He also has self-employed income of €100,000. He is aged 28 and is required to make a contribution of 10% of salary (that is, €10,000) to an occupational pension scheme established by his employer.

As Morgan is aged under 30 years, the maximum allowable tax relievable contribution he can make in respect of his employment earnings is 15% of his salary, which is €15,000.

What is Morgan's scope for making further tax relievable pension contributions?

For his employment income, he could check with the scheme administrator or pension advisor to see if he has scope to secure extra benefits through additional voluntary contributions (AVCs). If such scope exists, he could make tax relievable AVCs of up to an additional 5% of his employment earnings (up to €5,000).

The pension contributions Morgan is making in respect of his employment earnings of €100,000 counts towards the aggregate earnings limit of €115,000, which leaves a balance of €15,000 of the limit.

Morgan's capacity to make tax relievable contributions to a personal pension plan in respect of his self-employed earnings is restricted to a maximum of 15% of €15,000 (i.e. €2,250).

This is the position irrespective of whether Morgan decides to make an AVC.

Example 4

Sidney, aged 51, has earnings from an employment of €180,000 in 2022. He also has self-employed income of €100,000.

Sidney makes the following pension contributions:

- 10% of salary (€18,000) which he is required to make to an occupational pension scheme established by their employer, and
- 15% of self-employed earnings (€15,000) to a PRSA.

Because Sidney is aged between 50 and 55 years in 2022, the maximum pension contributions to the occupational pension scheme on which he is entitled to claim tax relief for 2022 is the lower of:

- His actual contributions (€18,000) and
- 30% of the earnings limit of €115,000 (€34,500).

As Sidney's contributions are €18,000 he can claim relief on that amount.

However, no tax relief is due in 2022 for Sidney's contributions to the PRSA as he has used up his aggregate earnings limit in contributing to his occupational pension scheme.

As in Example 3, if Sidney has scope to make AVCs, he could increase the amount of tax relievable contributions on their earnings from employment by up to €16,500:

Maximum tax relievable contribution permissible (€115,000 x 30%)	€34,500
Less contribution made to the occupational pension scheme	<u>(€18,000)</u>
Maximum potential additional tax relievable contributions	€16,500

26.5 Contributions to the General Medical Services (GMS) plan

Under section 773 TCA the superannuation arrangements for doctors under the GMS⁵ Scheme are approved by Revenue, for the purposes of Chapter 1 of Part 30 TCA, as if the GMS Plan were a retirement benefits scheme for employees. Tax relief for contributions made by doctors to the plan is therefore given under the provisions of Chapter 1.

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 for the purposes of any claim to relief in respect of premiums paid towards a personal pension plan.

Since 2001, AVCs may be made up to the relevant age-related percentage of a doctor’s net GMS remuneration,⁶ subject to the earnings limit, less the sum paid by way of the 5% contribution to the main GMS plan.

Since section 773 treats a doctor’s GMS income as “remuneration from an office or employment”, the operation of the aggregate earnings limit in section 790A TCA (see paragraph 26.2 above) also applies to doctors with GMS and private practice income in the same way. That is, the GMS income and GMS superannuation plan contributions must be considered first in determining the overall amount of tax relievable contributions that can be made by a doctor in any year as between occupational pensions (including AVCs) and personal pension plans.

⁵ See footnote 3 above.

⁶ “Net GMS remuneration” is defined as income derived from the GMS Scheme contract less any expenses set against that income for the purposes of assessing the doctor’s liability to tax. It was introduced in 2001 in the context of the extension of AVCs to the GMS Plan. It is determined by deducting net relevant earnings in respect of private practice income from the doctor’s overall net income (that is, gross income less expenses and capital allowances).

Therefore, pensionable GMS income (net GMS remuneration) makes up the first part of the aggregate earnings limit of €115,000 and net relevant earnings in respect of private practice income will be zero where the GMS pensionable income is €115,000 or more.

The following examples illustrate the operation of the aggregate earnings limit in such circumstances.

Example 5

Kim is a GP aged 56. She received net GMS remuneration in 2022 of €75,000, of which capitation income is €60,000, and she has net relevant earnings of €100,000 from her private practice.

She is contractually required to pay contributions equalling 5% of her GMS capitation income, which equals €3,000 ($€60,000 \times 5\%$).

Kim paid a further €4,500 in AVCs from her GMS earnings, so she has made pension contributions of €7,500 in respect of that income.

She has also paid premiums of €4,800 to a personal pension plan in respect of her private practice earnings.

Kim's pensionable remuneration (the GMS income) must be considered first. Kim's age-related percentage limit is 35% (for individuals aged 55 to 59 years). Since her net GMS remuneration is €75,000, her maximum tax relievable contributions for her GMS income is €26,250 ($€75,000 \times 35\%$).

Kim's current total contribution from her GMS remuneration is €7,500, leaving a balance of €18,750 ($€26,250$ minus $€7,500$) of tax relievable contributions from her income.

She therefore has scope to make a "last minute" AVC of up to €18,750 under the provisions of section 774(8) TCA, before the 2022 return filing date (31 October 2023, or later if filed through ROS) and elect to claim the relief on the contribution in 2022.

The net GMS remuneration of €75,000 counts towards the €115,000 earnings limit, so she can make tax relievable contributions in respect of a personal pension plan to 35% of €40,000 ($€115,000 - €75,000$), which equals €14,000. As noted, she has already made regular RAC premiums totalling €4,800 in 2022. On that basis, under section 787(7) TCA, they can make a further tax relievable contribution of up to €9,200 towards a personal pension plan before the return filing date and elect to claim the relief in respect of the contribution in 2022.

Example 6

Jean is a GP aged 43. She is in receipt of net GMS remuneration in 2023 of €160,000 of which capitation income is €130,000, and she has net relevant earnings of €100,000 from her private practice.

As a member of the GMS Superannuation Plan, Jean made a contribution of €6,500 (5% of the capitation income) to the plan in 2023. In addition, during 2023 Jean paid €6,000 to a PRSA in respect of her private practice income. Before completing her 2023 tax return, Jean wants to establish what relief she can claim on the contributions already made and whether she can make additional tax relieved contributions.

The potential maximum contributions in respect of which Jean can claim tax relief in 2023 is €28,750 - the earnings limit of €115,000 multiplied by the relevant age-related percentage limit of 25% for individuals aged 40 to 49 years.

As in Example 5, Jean's pensionable GMS income must be considered first. In this case, as her net GMS remuneration exceeds the earnings limit of €115,000, she has no scope to claim relief for her PRSA contributions in 2023.

Jean has already made a contribution of €6,500 to the GMS Plan. Assuming she has capacity to do so (having regard to overall benefit restrictions) Jean has scope to make a special "last minute" AVC of up to €22,250 under the provisions of section 774(8) TCA, before the 2023 return filing date and elect to claim the relief on the contribution in 2023 so as to maximise her relief.

Jean's PRSA contributions cannot be relieved in 2023 and must be carried forward for relief in future years. This is the position irrespective of whether Jean decides to make an AVC.