Taxation of retirement lump sums

Chapter 27

This document should be read in conjunction with section 790AA of the Taxes Consolidation Act 1997 (TCA)

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Revenue
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1. Introduction

Section 790AA Taxes Consolidation Act 1997 (TCA) provides for the taxation of the excess portion of retirement lump sums – that is, the portion over the tax free lifetime limit of €200,000 - paid on or after 7 December 2005 under various pension arrangements.

Section 790AA was included in the TCA by section 14(1)(f) Finance Act 2006. The regime under the 2006 measure (the "original regime") which applied to retirement lump sums paid from 7 December 2005 to 31 December 2010, provided that the amount by which such a lump sum exceeded 25% of the prevailing standard fund threshold (SFT) was to be treated as emoluments in the hands of the individual in the year of assessment in which it was paid and was subject to tax, under Schedule E, at the individual's marginal rate of tax in that year.

Section 19(5)(b) Finance Act 2011 replaced section 790AA in respect of retirement lump sums paid on or after 1 January 2011. This provides a revised regime (the "current regime") for the taxation of the portion of retirement lump sums above a tax-free amount of €200,000 paid under various pension arrangements.

The topics covered in this chapter are:

- Overview of the current regime
- Definitions
- Meaning of excess lump sum
- Excess lump sum between €200,000 and 25% of the SFT
- Submission of return and payment of tax
- Further administrative provisions
- Excess lump sum in excess of 25% of the SFT
- Lump sums paid under PRSA arrangements
- Lump sums paid under PEPP arrangements
- Lump sums paid under qualifying overseas pension plans
- Lump sums not subject to tax under the new regime
- Credit for lump sum tax against chargeable excess tax
- Pension Adjustment Orders
- Lump sums from foreign pension arrangements
- Appendix 1 – worked examples
- Appendix 2 – the original regime

In this Chapter, a reference to a lump sum should be regarded as a reference to a retirement lump sum.

2. The current regime - overview

As and from 1 January 2011, the maximum tax-free amount of a retirement lump sums is €200,000. This tax-free amount is a lifetime limit and encompasses all retirement lump sums paid to an individual on or after 7 December 2005.

Where a retirement lump sum or lump sums is/are paid to an individual on or after 1 January 2011 the amount in excess of this tax-free limit (the “excess lump sum”) is, subject to the exceptions in paragraph 11, taxed in two stages (see paragraphs 5 and 8).

For the purposes of this regime:

- A lump sum means a retirement lump sum that is paid to an individual under the rules of a relevant pension arrangement. The lump sum can be made by way of commutation of part of a pension or part of an annuity or otherwise. Where an individual exercises an ARF option, the reference to the “commutation of part of a pension or of part of an annuity” is to be taken as a reference to the commutation of part of the pension or, as the case may be, part of the annuity which would, but for the exercise of that option be payable to the individual.
- Where two retirement lump sums are paid on the same day, the one that is paid earlier will be treated as having been paid before the later one for the purpose of applying the limit. Also, an individual who is paid more than one retirement lump sum at the same time on the same day must decide the order in which the lump sums are to be treated as having been paid for the purposes of this regime.

3. Definitions

The following definitions apply for the purposes of the current regime.

The ‘tax-free amount’ is €200,000. All retirement lump sums taken on or after 7 December 2005 must be taken into account in determining the tax-free amount appropriate to a retirement lump sum taken on or after 1 January 2011. For example, if an individual has already taken retirement lump sums of €200,000 or more since 7 December 2005, any further retirement lump sums paid to the individual will be taxable.

An ‘excess lump sum’ is the taxable portion of a retirement lump sum, that is, the amount by which such a lump sum exceeds the tax-free amount of €200,000 and is calculated by reference to all retirement lump sums received on or after 7 December 2005.

An excess lump sum is subject to tax in two stages. The portion between the tax-free amount of €200,000 and an amount equivalent to 25% of the SFT[1] when the lump sum is paid (the SFT cut-off point) is chargeable to tax under Case IV of Schedule D at the standard rate of income tax in force when the retirement lump sum is paid, currently 20%. This is called the "standard chargeable amount" (further details below).

The balance, if any, of an excess lump sum, if any (the portion over the SFT cut-off point) is treated as profits or gains arising from an office or employment and is charged to tax under Schedule E at the individual's marginal rate.

A 'standard chargeable amount' is the difference between 25% of the SFT (currently €2m; 25% of which is €500,000) and the tax-free amount of €200,000. This gives a current standard chargeable amount of €300,000. This is the portion of a lump sum(s) that is taxed under Case IV at the standard rate of income tax, currently 20%. For lump sums paid from 1 January 2011 to 31 December 2013, the standard chargeable amount was €375,000, the difference between 25% of the then SFT of €2.3m (€575,000) and €200,000.

As stated in paragraph 2, a lump sum to which this chapter applies is a retirement lump sum paid to an individual under the rules of a relevant pension arrangement including, for example, a lump sum paid under any of the following arrangements:

- Revenue approved occupational pension schemes (including AVC arrangements),
- Revenue approved retirement annuity contracts (RACs),
- Personal Retirement Savings Accounts (PRSAs),
- Pan-European Personal Pension Products (PEPPs),
- Qualifying overseas pension plans (within the meaning of Chapter 2B, Part 30 TCA),
- Public service pension schemes as defined in the Public Service Superannuation (Miscellaneous Provisions) Act 2004, and
- Statutory schemes – that is schemes established by or under any enactment (which includes all statutory schemes that fall outside of the definition of public service pension schemes mentioned above).

Lump sums from foreign pension arrangements are dealt with in paragraph 15 and TDM Part 07-01-09A – Lump sums from a foreign pension: Section 200A TCA 1997.

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[1] The SFT is the generally applicable maximum tax-relieved pension fund for an individual. It was set at €2 million for 2014 and that amount continues to apply. The SFT for 2010 (from 7 December 2010) to 2013 was €2.3 million (see Tax and Duty Manual (TDM) Chapter 25).

4. Excess lump sum

As noted in paragraph 3, an excess lump sum is the taxable portion of a retirement lump sum, that is, the amount by which such a lump sum exceeds the tax-free amount of €200,000 and is calculated by reference to all retirement lump sums received on or after 7 December 2005.

Where a lump sum is the first lump sum to be paid to an individual on or after 7 December 2005 (the date the taxation of retirement lump sums was introduced), the excess lump sum is the amount by which the retirement lump sum exceeds the tax-free amount of €200,000.

For example, if a retirement lump sum of €500,000 was paid in January 2012 (being the first such lump sum), then the excess lump sum is €500,000 minus €200,000 (the tax-free amount), which equals €300,000.

However, where an individual was paid a retirement lump sum on or after 7 December 2005, which was less than the tax-free amount, then the excess lump sum is the amount by which the earlier lump sum and the current lump sum added together exceeds the tax-free amount.

Example 1

An individual received the following lump sum payments:

- €50,000 in January 2019;
- €100,000 in June 2022;
- and the “current lump sum” of €150,000 in January 2023.

The excess lump sum is €100,000, calculated as follows -

- the total of the earlier lump sums (€50,000 + €100,000) = €150,000
  - plus the current lump sum (€150,000 + €150,000) = €300,000
  - minus the tax-free amount (€300,000 - €200,000) = €100,000

Where an earlier lump sum is equal to or greater than the tax-free amount then the excess lump sum is the amount of the current lump sum.

Example 2

An individual received the following lump sum payments:

- €180,000 in January 2019,
- €100,000 in June 2022,
- and the “current lump sum” of €200,000 in January 2023.

The total of the earlier lump sums, which is €280,000 (€180,000 + €100,000) exceeds the tax-free amount of €200,000, so the entire current lump sum is subject to tax, as was the amount by which the total of the first two lump sums exceeded the tax free amount - €80,000 in this example (€280,000 minus €200,000).

As stated in paragraph 2, the excess lump sum is subject to tax in two stages:

- The portion between the tax-free amount and 25% of the SFT when the payment is made is taxed at the standard rate of 20%; and
- the portion above 25% of the SFT is taxed at the individual's marginal rate of income tax.

5. Excess lump sum between €200,000 and 25% of the SFT ("standard chargeable amount")

As noted in paragraph 3, the "standard chargeable amount" (the portion of the excess lump sum between the tax-free amount of €200,000 and 25% of the applicable SFT (currently €500,000) is taxed under Case IV of Schedule D at the standard rate of income tax in force when the lump sum is paid (currently 20%).

The portion of the lump sum charged under Case IV is ring-fenced so that it does not form part of an individual's total income. This means that –

- No reliefs, deductions or tax credits may be set against the amount so charged or against the tax payable on that amount.
- The portion of the lump sum charged under Case IV should not be included as income on an individual's annual return of income.

It should not be included in any payroll notifications sent to Revenue. It should be included on Form 790AA (see paragraph 6).

The tax paid under Case IV is not available for repayment or for set-off against the individual's income tax liability. However, standard rate lump sum tax paid on or after 1 January 2011 may be credited against the tax payable on a chargeable excess occurring on or after that date (see paragraph 13).

Where all or part of the tax charged under Case IV on an excess lump sum is paid by the administrator and is not recovered from, or reimbursed by, the individual, then the amount of the tax paid by the administrator is treated as forming part of the excess lump sum and is taxed accordingly.

6. Submission of return and payment of tax

A pension administrator who deducts tax from the part of an excess lump sum (between €200,000 and 25% of the SFT i.e., €500,000) that is charged under Schedule D Case IV must make a return using Form 790AA. Tax is charged at the standard rate of income tax in force when the lump sum is paid (currently 20%). This form should be submitted to the Collector-General within three months of the end of the month in which the lump sum is paid to the individual in question. Where a return for this portion of tax is made using Form 790AA, that amount should not be included in any payroll submission sent to Revenue. The tax in question must be paid by the pension administrator to the Collector-General and is due at the same time as Form 790AA.

The second part of an excess lump sum (anything greater than 25% of the SFT, currently €500,000 (€2m x 25%)), is regarded as profits or gains arising from an office or employment (an emolument) and is chargeable to income tax and USC under Schedule E. A pension administrator, in their capacity as a payer of an emolument, is obliged to operate PAYE on the emolument, using the most up to date Revenue Payroll Notification (RPN) to calculate the tax deductions. Where an RPN is not received, the marginal rates of income tax and USC apply. The pension administrator must report this payroll information to Revenue on or before the making of the payment, as normal through PAYE. The payroll submission must include:

(i) The amount of pay,

(ii) The payment date, and

(iii) The details of the payments and taxes deducted

7. Further administrative provisions

The pension administrator and the individual to whom the retirement lump sum is paid are jointly and severally liable for the payment of the tax on the portion of the lump sum charged under Case IV.

Where an administrator (having relied on incomplete or incorrect information supplied by the individual) reasonably believed that an excess lump sum was less than it should be or that no excess lump sum arose, then they may apply in writing to the Revenue Commissioners to be discharged from any liability that arises. Where the administrator is so discharged, the liability falls on the individual in question (section 790AA (14) TCA).

The standard assessment, late payment and appeal provisions apply in relation to tax due on that part of an excess lump sum that is charged to tax under Case IV.

8. Balance of lump sum over “standard chargeable amount”

The balance, if any, of a retirement lump sum in excess of 25% of the SFT in force when the lump sum is paid is regarded as profits or gains arising from an office or employment and is taxed under Schedule E as emoluments to which the PAYE system applies. USC is payable as appropriate.

The pension administrator should deduct tax at the higher rate (currently 40%), from this portion of the lump sum, unless the administrator has received a revenue payroll notification (within the meaning of section 983), indicating the standard rate would be appropriate to some or all of the excess amount.

As this portion of a lump sum forms part of the individual’s total income, all relevant reliefs and deductions are available in the normal manner.

The amount of the lump sum charged under Schedule E should appear on the individual’s return of income and should be included in any payroll notifications sent to Revenue. It should **not** be included on Form 790AA.

9. Lump sums paid under a PRSA

The provisions of section 787G(2) TCA apply where income tax is deducted from an excess lump sum in respect of a lump sum paid by a PRSA administrator. Where a PRSA administrator makes PRSA assets available to a PRSA member, section 787G(2) TCA requires the administrator to deduct income tax computed on the amount or value of the assets. Where the assets are insufficient to discharge the tax as computed, the shortfall is an amount due to the administrator from the beneficial owner of the PRSA assets.

10. Lump sums paid under a PEPP

The provisions of section 787AA(2) TCA apply where income tax is deducted from an excess lump sum in respect of a lump sum paid by a PEPP provider. Where a PEPP provider makes PEPP assets available to a PEPP contributor, section 787AA(2) TCA requires the PEPP provider to deduct income tax computed on the amount or value of the assets. Where the assets are insufficient to discharge the tax as computed, the shortfall is an amount due to the PEPP provider from the beneficial owner of the PEPP assets. For more information on PEPPs please see Pensions Manual Chapter 31.

11. Lump sums paid under qualifying overseas pension plans

An individual who receives a lump sum from a qualifying overseas pension plan (QOPP)[2] must pay tax on the excess lump sum under Case IV of Schedule D at the rate, or rates, of income tax which would apply if the lump sum was received from a pension plan other than a QOPP.

12. Lump sums not subject to tax under this regime

Lump sums payable in the following circumstances are not subject to tax under this regime:

- a lump sum paid to the widow, widower, surviving civil partner, children, dependants, personal representatives, or children of the civil partner of a deceased individual (section 790A(18)(a) TCA);
- a lump sum payable following a full commutation of pension where the scheme provides for full commutation in the case of serious ill-health (see TDM Chapter 7 for further details);

[2] This is a scheme for tax relief on contributions made by migrant workers to pre-existing overseas pension plans (i.e. employees or self-employed individuals coming to or returning to Ireland with a pre-existing pension plan concluded with a pension provider in another EU Member State or the United Kingdom which they want to retain).

- the balance of a lump sum paid at normal preserved pension age to an individual under the Incentivised Scheme of Early Retirement (Department of Finance Circular 12/09) (section 790A(18)(b) TCA). (See TDM Chapter 3 for further details.)

13. Credit for lump sum tax against chargeable excess tax

Section 787RA TCA, which applies to benefit crystallisation events (BCEs) occurring on or after 1 January 2011, provides that where:

- tax at the standard rate - under section 790AA (3)(a)(i) or (3)(b)(i)(I) TCA (see paragraph 27) - is deducted from a retirement lump sum paid to an individual under a pension arrangement on or after that date and
- tax also arises on a chargeable excess (see TDM Chapter 25) in relation to that individual,

the pension scheme administrator is required to reduce the tax on the chargeable excess by the tax deducted from the retirement lump sum under section 790AA (3)(a)(i) or (3)(b)(i)(I) and pay the net amount of chargeable excess tax, if any, to the Collector-General.

Only tax paid on that part of a lump sum up to 25% of the SFT in force when the lump sum is paid (and not previously offset against tax on an earlier chargeable excess) can be offset against chargeable excess tax.

Lump sum tax deducted from the portion of a lump sum over 25% of the SFT (the portion which is charged to tax under Schedule E at the individual's marginal rate) may not be offset against chargeable excess tax.

Section 787RA TCA provides that:

- lump sum tax includes tax paid since 1 January 2011 on an earlier retirement lump sum from another pension scheme administered by either the same administrator or by another administrator (to the extent in all cases that the lump sum tax has not been previously offset against chargeable excess tax),
- an administrator (A) can only offset earlier lump sum tax paid by another administrator (B) where A receives a certificate, as required in section 787RA TCA, from B, and
- unused lump sum tax (that is, where the amount of the lump sum tax available to be offset exceeds the chargeable excess tax) can be carried forward and used against chargeable excess tax arising on future BCEs occurring in relation to the individual.

14. Pension adjustment orders

Where section 790AA TCA applies to a retirement lump sum which is the subject of a pension adjustment order (PAO) the portion of the lump sum which is paid to each party in accordance with the terms of the PAO is treated as a separate lump sum for the purposes of the section.

This means, for example, that for the part of a retirement lump sum paid to each party under the terms of the PAO, the tax-free limit of €200,000 applies individually and the extent to which a party is charged to income tax under Case IV of Schedule D or Schedule E is based on the amount of the lump sum paid to the individual.

15. Lump sums from foreign pension arrangements

While section 790AA provides for the taxation of pension lump sums, this is confined to pension lump sum payments from "relevant pension arrangements" as defined in this section, which generally covers domestic Irish pension arrangements. Finance Act 2022 inserted a new section 200A TCA to provide for the tax treatment of pension lump sum payments arising from foreign pension arrangements that were not provided for under section 790AA. This new section provides for these lump sum payments and applies to individuals that are resident in Ireland who draw down a lump sum payment after that date from an overseas pension plan to which they contributed prior to taking up residence in the State.

As with an Irish pension arrangement, the new section provides that a lump sum from a foreign pension arrangement is on similar footing in that the first €200,000 of such lump sums (in an individual's lifetime) may be treated as exempt. Any portion of pension lump sums in excess of €200,000 is subject to income tax in two stages: the portion between €200,000 and €500,000 is taxed at the standard rate (currently 20%); while the balance in excess of €500,000 is taxable at the higher rate of tax (currently 40%) and is also chargeable to USC. The new section 200A TCA takes effect from 1 January 2023. For further details are available in TDM Part 07-01-09A – Lump sums from a foreign pension: Section 200A TCA 1997.

Appendix 1 – worked examples

The following examples illustrate how the current regime for the taxation of retirement lump sums works in practice. The SFT has been set at €2 million since 1 January 2014.

Example 1

Sam retired on 10 January 2023 and is paid a retirement lump sum of €180,000. This is the first such lump sum they have received. Sam's retirement lump sum is exempt from tax as it is less than the tax-free limit of €200,000. The lump sum of €180,000 is counted towards their lifetime tax-free limit.

Example 2

Sam is paid a further retirement lump sum of €150,000 on 30 June 2023. As the tax-free limit applies to the aggregate of all retirement lump sums received on or after 7 December 2005, both lump sums are added together to determine how much of the second lump sum is subject to tax. The aggregate of the lump sums received since 7 December 2005 is €330,000 (€180,000 + €150,000). This exceeds their lifetime tax-free limit of €200,000 by €130,000. It is within the "standard chargeable amount" (between €200,000 and €500,000). The "excess lump sum" of €130,000 is therefore subject to tax under Case IV of Schedule D at the standard rate of income tax in force in 2023 i.e. 20%. The tax due is €130,000 @ 20% = €26,000.

Example 3

Sam is paid a further retirement lump sum of €450,000 on 30 September 2023.

As illustrated in Example 2, their lifetime tax-free limit of €200,000 has already been fully "used up" and they have also "used up" €130,000 of the "standard chargeable amount" (which is €300,000, the difference between the tax-free limit of €200,000 and €500,000). The lump sum paid on 30 September 2023 is subject to tax as follows:

- €170,000 under Case IV of Schedule D at the standard rate in force in 2021; tax due @ 20% = €34,000. (€170,000 is the balance of the "standard chargeable amount available after the second lump sum: €300,000 – €130,000 = €170,000)
- the remaining €280,000 under Schedule E at their marginal rate of tax in 2023; if their marginal rate was the higher rate of income tax in 2023, the tax due @40% is €112,000 (€280,000 is the balance of the lump sum after deducting the amount taxable at 20% under Case IV).
- The total tax due on the lump sum is €34,000 + €112,000 = €146,000**.**

Example 4

Alex retired on 31 January 2023 and is paid a retirement lump sum of €800,000. This is the first such lump sum they have received. They are chargeable to tax as follows:

- the first €200,000 is exempt,
- the next €300,000 is taxed under Case IV of Schedule D at the standard rate in force in 2023 (20% - tax due on this portion of the lump sum = €60,000), and
- the balance, i.e. €300,000, is taxed under Schedule E at their marginal rate in 2023 – assuming their marginal rate was the higher rate of 40%, the tax due on this portion of the lump sum is €120,000.
- Total tax due on the lump sum: €60,000 + €120,000 = €180,000.

If Alex receives any future retirement lump sum, it will be subject to tax under Schedule E at their marginal rate in the year it is paid.

Example 5

Jamie retired on 10 January 2023 and is paid a retirement lump sum of €120,000. They had previously received a lump sum on 30 June 2019 of €150,000. Even though the earlier lump sum was not taxable, it counts towards their €200,000 lifetime tax-free limit. This means that the "unused" balance of the tax-free limit is €50,000 (€200,000 – €150,000) and this amount is offset against the lump sum paid on 10 January 2023. Therefore, €70,000 of the later lump sum is taxable under Case IV of Schedule D at the standard rate in force for 2023 of 20% (tax due @ 20% = €14,000).

Example 6

Nicky retired on 10 January 2023 and is paid a retirement lump sum of €100,000. They had previously received a lump sum on 30 June 2018 of €300,000. As Nicky's earlier lump sum already exceeds the tax-free limit, the 2023 lump sum is taxable in full under Case IV of Schedule D at the standard rate for 2023 of 20% (tax due = €20,000).

Example 7

Taylor retired on 1 July 2023 and is paid a retirement lump sum of €400,000. They had previously received a retirement lump sum of €450,000 on 1 January 2020. The earlier lump sum used up the €200,000 lifetime tax free limit, and €250,000 of the €300,000 that is taxable under Case IV of Schedule D at the standard rate. Therefore:

- €50,000 of the later lump sum is taxed under Case IV at the standard rate for 2023 (20% - tax due = €10,000), and
- the remaining €350,000 of the later lump sum is taxed under Schedule E at their marginal rate in 2023 (assuming the higher rate of 40%, tax due = €140,000).
- Total tax due on the lump sum = €10,000 + €140,000 = €150,000

Example 8

Ger retired on 12 April 2023 and is paid a retirement lump sum of €100,000. They had previously received a retirement lump sum of €520,000 on 30 June 2017.

- The earlier lump sum used up Ger's lifetime tax-free limit of €200,000 and also used up the €300,000 which was subject to tax under Case IV of Schedule D at the standard rate in force in 2017. (The remaining €20,000 was subject to tax under Schedule E at Ger's marginal rate in that year.)
- The later lump sum of €100,000 is therefore fully taxed under Schedule E at Ger's marginal rate. Assuming the marginal rate was 40%, the tax due is €40,000.

Appendix 2 – The original regime

Main features

The main features of the original regime, which operated in respect of retirement lump sums paid in the period 7 December 2005 (the specified date for the purposes of the original scheme) to 31 December 2010, may be summarised as follows:

The maximum amount of retirement lump sums that could be made tax-free under the various pension funds[3] was capped at 25% of the SFT (the lump sum limit[4]).

The lump sum limit applied to a single lump sum or, where more than one lump sum was paid to an individual over time, to the aggregate of those lump sums.

The full amount of the retirement lump sum in excess of the lump sum limit (the excess lump sum) was regarded as emoluments of the individual chargeable to tax under Schedule E[5]. Therefore, the entire excess lump sum was -

- chargeable at the individual's marginal rate in the year of assessment in which the lump sum was paid,
- included on forms P30, P35, P45, P60, etc. for the relevant year of assessment, and

The provisions of section 787G(2) TCA applied to the original regime in the same manner as they apply to the current regime (see paragraph 9).

The original regime did not apply to lump sums payable in the following circumstances –

- A death in service lump sum paid by an occupational or statutory pension scheme to the personal representatives (for example, widow, widower, dependants) of a deceased individual.
- A lump sum paid following a full commutation of pension where the scheme provides for full commutation in the case of serious ill health (see TDM Chapter 7 for further details).

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[3] Referred to in section 790AA as a "relevant pension arrangement".

[4] The lump sum limit for the years of assessment 2005 and 2006 was €1,250,000 and due to indexation provisions was increased to €1,291,250 for 2007 and €1,354,521 for the years 2008 to 2010.

[5] An excess lump sum from a qualifying overseas pension plan was chargeable to tax under Schedule D Case IV rather than Schedule E.

Excess lump sum

The excess lump sum for the purpose of the original regime was the amount by which a lump sum exceeded the lump sum limit. The calculation process for lump sums paid in the period 7 December 2005 to 31 December 2010 is similar to the calculation required under the current regime (although the current regime employs a tax free amount rather than a lump sum limit).

Where a lump sum was paid in any of the years of assessment 2007 to 2010 and an earlier lump sum had been paid prior to 2007 (but on or after 7 December 2005), the original regime employs the following formula to adjust the earlier lump sum in line with the increase in the lump sum limit (see footnote 4) –

$$A \times \frac{B}{C}$$

where –

A = the amount of the earlier lump sum.

B = the lump sum limit for the year in which the later lump sum was paid, and

C = the lump sum limit for the year in which the earlier lump sum was paid.

Example

Sidney received a retirement lump sum of €500,000 in 2006 when the lump sum limit was €1,250,000.

They received a further lump sum of €1,000,000 in 2007 when the lump sum limit was €1,291,250. The amount of the earlier lump sum is adjusted using the above formula -

$$€500,000 \times \frac{€1,291,250}{€1,250,000} = €516,500$$

By the time the second lump sum (€1,000,000) was paid they had already used up €516,500 of their lump sum limit (i.e. the indexed amount of the earlier lump sum) leaving an amount of €225,250 (€1,000,000 + €516,500 less €1,219,250) subject to tax at their marginal rate.