

## Practical upper limit to pension funding

The current Standard Fund Threshold (SFT) or maximum you can save into your pension tax efficiently is €2,000,000. This is a lifetime limit and includes all pension benefits from all sources taken since 7 December 2005.

- Funding beyond this is ineffective for tax relief purposes as anything above is taxed at the higher Income tax rate (40%).
- This chargeable excess tax (CET) is deducted by the pension provider and paid to Revenue when benefits are crystallised.
- If you exceed the SFT you are effectively taxed twice on the excess, effectively up to approx. 70%.
- Annuity income and withdrawals from AMRF/ARF are subject to PAYE.
- There is no allowance given for the 40% income tax already deducted on the amounts over the SFT.

If you paid income tax on your retirement lump sum, the standard rate tax deducted from the retirement lump sum can be used to offset the tax due on any excess over the SFT. So the real SFT is higher than €2,000,000.

Example of tax consequence of exceeding SFT

Company pension plan	2,150,000
Gross retirement lump sum	500,000
Maximum tax free retirement lump sum	200,000
Standard rate tax deducted on lump sum i.e. €300,000 x 20%	60,000
Standard fund threshold	2,000,000
Excess over €2,000,000 SFT	150,000
Gross tax on chargeable excess tax (CET) @ higher rate of income tax	€60,000
Less tax deducted from lump sum	-€60,000

The effect is the chargeable excess tax is neutralised by the tax charge on the lump sum.

Those who had funds greater than €2,000,000 on 1 January 2014, €2,300,000 on 7 December 2010 or €5,000,000 on 7 December 2005 were grandfathered by the Revenue once they applied within time limits specified at the time. They could avail of a Personal Fund Threshold (PFT). A PFT secured previously will result in a reduced CET bill.

### Conclusion

Awareness of the funding considerations particularly where client has a mix of DB & DC benefits is key.

*The above note highlights a pension issue which is important to some retirement savers and is intended to generate awareness of the issue. No action should be taken on the basis of this note without seeking personal independent financial advice. Trident Consulting cannot accept responsibility for the accuracy of this material not for any course of action taken on the basis of this note for non-clients.*