Finance Bill 2006 – Pensions

The Finance Bill gives legal effect to Budget measures introduced as follows:

- A **cap on retirement funds** has been introduced for individuals. This is set at €5m. In the event the value of such a fund is higher at 7 December 2005, then this will be taken as the maximum fund amount. Both of these fund limits will be index-linked from 2007. Any excess will be subject to a once-off tax charge of 42% on drawdown and will apply to the aggregate of all pension provision held by an individual.

- For **lump sum payments t**he maximum tax free lump for one retiring has been capped at €1.25m. Any balance of lump sum payable will be taxed at one's marginal rate of income tax with effect from 7 December 2005.

- With regards to **Approved Retirement Funds (ARFs)** effected since 6 April 2000**, t**he Minister has introduced a tax. With effect from 2007 the fund will be deemed to have distributed 1% of the fund's value, rising to 2% in 2008 and 3% from 2009 onwards and taxed at the marginal rate. Any actual distributions in the year will be deducted from, the imputed distribution.

- The **earnings cap** of €254,000 has been index-linked with effect from 2007.

In addition, the following measures have been introduced:

- A factor of 20 will be used to value pension benefits for tax purposes with certain discretionary adjustments in calculating the maximum retirement provision one may fund have.

- To incentivise the transfer of SSIA monies into pension funds, the Bill provides for the transfer of SSIA monies into a pension (RAC/PRSA/AVC) without being penalised by the exit tax of 23% (i.e. 20% + 3%). This only applies to those who have an income limit of €50,000, are taxable at 20% or exempt from tax. In addition, a €1 bonus will be paid by the Exchequer for every €3 transferred up to a maximum of €2,500.

- For those who retire with less than 10 years service, an improved accrual rate table will be introduced which will mean that the maximum permissible pension of 2/3rds can be accumulated at a faster rate than heretofore.

- The income tax threshold for tax reliefs for pension contributions has been increased for 55 years olds and over and 60 year olds and over to 35% and 40% respectively. These new limits will apply to all types of pension arrangements.

- For those who have holiday homes as an asset of their Small Self Administered Pension (SSAP) scheme, the value of such an asset will be deemed to be in breach of investment restrictions and as such will be treated as a taxable pension payment.

- Where a commercial property is an asset of an ARF and used by the ARF holder, the Bill closes a loophole whereby tax on deemed distributions can be avoided.