

May 2011

Reduction to the Standard Fund Threshold (SFT)

Finance Act 2011 reduced the maximum allowable pension fund on retirement (known as the Standard Fund Threshold) to €2.3 million with effect from 7th December 2010. Those who have pension rights with capital exceeding €2.3 million can protect the higher capital value by submitting a claim for a Personal Fund Threshold by the 7th June 2011.

The maximum allowable pension fund on retirement for tax purposes is known as the Standard Fund Threshold (SFT).

Finance Act 2011 reduced the Standard Fund Threshold from €5.4m to €2.3m with effect from the 7th December 2010.

This means that if the capital value of any pension rights to which you become entitled exceeds €2.3m you could be liable to an upfront income tax charge at 41% of the excess when you do any of the following:

- commence drawing an annuity from your pension, or
- take a retirement lump-sum, or
- place the proceeds of the fund in an Approved Retirement Fund (ARF) or an Approved Minimum Retirement Fund (AMRF).

This upfront charge will be paid to the Revenue Commissioners by your pension scheme administrator and is in addition to any income tax liability that arises on the annuity/ lump-sum payment.

Example 1: John works in the private sector. The value of John's pension fund on 7th December 2010 is €3m. He takes a retirement lump-sum and commences to draw an annuity from the pension in June 2011. The capital value of the lump-sum and annuity is €3m.

John could be liable to an up-front income tax charge of 41% of the difference between €3m and €2.3m – an income tax charge of €287,000 (41% of €700,000).

Example 2: Jane works in the public sector. Her pensionable salary is €228,466. She retires in December 2012, takes a retirement lump-sum of €342,699 and commences to draw her pension of €114,233. The capital value of the lump-sum and pension is €2,627,359.

Jane could be liable to an up-front income tax charge of 41% of the difference between €2,627,359 and €2.3m – an income tax charge of €134,217 (41% of €327,359).

However, anyone whose pension fund had a capital value of greater than €2.3m on 7th December 2010 can apply to the Revenue Commissioners before **7th June 2011** for a Personal Fund Threshold (PFT).

Once certified by the Revenue Commissioners, your PFT will be set at the aggregate of

- the capital value of the pension benefits to which you became entitled to between 7th December 2005 and 6th December 2010 ("crystallised pension rights"), and
- the capital value of your pension fund(s) on 7th December 2010 ("un-crystallised pension rights")

In no case however, can your PFT exceed €5.4million.

What to do now

You should contact us now and we will arrange to have your pensions reviewed and arrange to contact your pension scheme administrator(s) to establish what the capital value of your un-crystallised pension rights was on 7th December 2010.

If the value of your "crystallised" and "uncrystallised" pension rights was over €2.3million on that date, please contact us at your very earliest convenience. We will apply for

your PFT on your behalf before the **7th June 2011** deadline.

If you have not applied for a PFT before **7th June 2011**, your maximum allowable pension fund will be set at €2.3million and you will have a significantly greater income tax liability (up to circa 70%) when you become entitled to receive any benefits from your pension in the future.

If you require any further information or assistance in relation to the above, please contact us.

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