Private Client

November 2024 update

13th November 2024


Succession planning
Inheritance planning
Personal tax compliance and planning
Financial planning

Private client

Oliver O’Connor

Current environment

Economy

Where have we come from?

What are we seeing now?

Individuals

“Taking stock”

Low risk investments offering yield

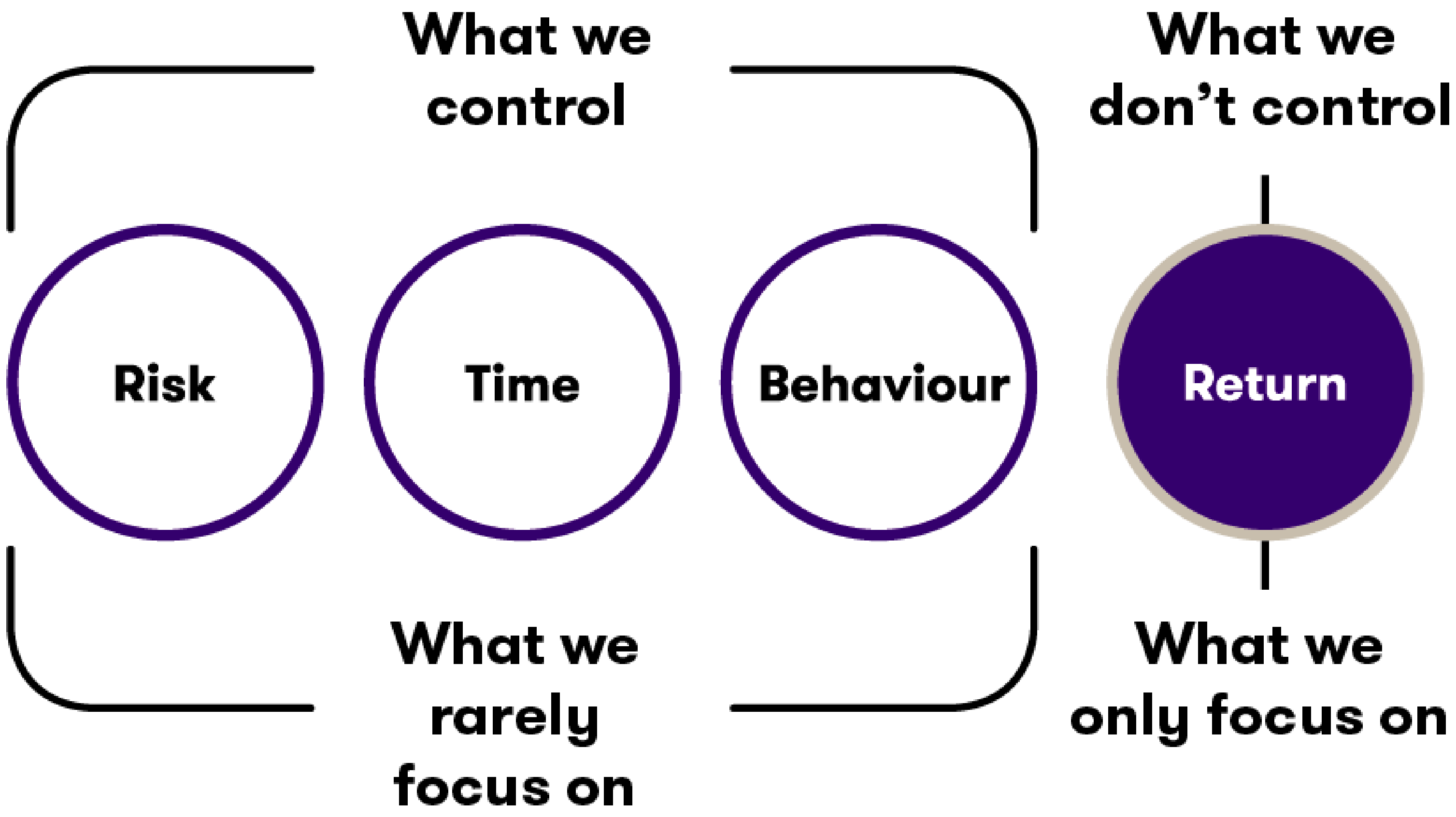
Are bonds back?

2024 – Building on a strong end to 2023

	Year to date	2023	5 Year total return
FTSE 100	12.62%	9.97%	36.29%
CAC 40	0.18%	20.10%	42.97%
DAX	14.71%	20.31%	45.26%
EuroStoxx 50	9.56%	23.21%	51.52%
S&P 500	31.37%	22.23%	115.84%
Nasdaq 100	30.54%	50.18%	174.28%

***All figures are in local currencies.**
***Figures quoted are to 11 November 2024.**
***Past performance is not an indicator of future performance.**
***For illustrative purposes only and should not be taken as investment advice.**
***Source: Cantor Fitzgerald**

Focus on what you can control



Finance Bill 2024

Liam Naughton

Standard Fund Threshold

The Standard Fund Threshold (SFT) is the total tax efficient pension fund you are entitled to crystallise in your lifetime, with tax payable at 40% on any excess. The SFT is currently set at €2,000,000 however no additional tax is currently payable on funds crystallised up to €2,150,000. The theory behind this is detailed below, assuming crystallisation of €2,150,000 today.

1. Calculate excess

Total pension fund crystallised of €2,150,000.

The total excess above the SFT is €150,000 which is subject to tax at 40%.

Total excess tax payable of €60,000.

2. Choose retirement option

You are entitled to a lump sum from your pension fund at retirement, which is currently taxed as follows:

1. First €200,000 is tax free
2. Next €300,000 is taxed at 20%
3. Balance fully taxable at higher rate

Assuming a lump sum of €500,000 is taken from the total fund, €300,000 would be taxed at 20%, totaling €60,000.

3. Offset tax paid

Any tax paid on a retirement lump sum can be offset against chargeable excess tax over the SFT.

A lump sum of €500,000 would be subject to €60,000 in tax, which is equal to €150,000 subject to excess tax at 40%.

Therefore no additional tax is payable if total pension funds are between €2,000,000 and €2,150,000.

History of the Standard Fund Threshold

Introduced on 7 December 2005:

Tax year	Amount
2005	€5,000,000
2007	€5,165,000
2008	€5,418,085
2011	€2,300,000
2014	€2,000,000

Consultation on the Standard Fund Threshold

Issued by the Department of Finance in December 2023, the key observations were as follows:

- Maintaining SFT at the current level has brought more people into the Chargeable Excess Tax (CET) system.
- Potential exposure to CET has impacted on recruitment and retention in the public and private sector.
- SFT level should take consideration of economic factors
    - Increases in CPI and wage inflation since 2013.
- Simplification of the current system (wishful thinking).

Phased increases to Standard Fund Threshold

Section 13 of Finance Bill 2024.

Year	Amount
2026	€2,200,000
2027	€2,400,000
2028	€2,600,000
2029	€2,800,000
2030	Indexation?

***From 2030 the SFT will be the higher of €2.8m or an amount adjusted in line with the Earnings, Hours and Employment Costs Survey. The adjusted amount is based on the difference in the quarterly estimate for average weekly earnings between Q1 2025 and Q3 2029.**

***In 2031 and subsequent years the SFT will be the higher of the previous year's SFT, or an amount adjusted in line with the Earnings, Hours and Employment Costs Survey. The adjusted amount is based on the difference in the quarterly estimate for average weekly earnings between Q3 of the previous year, and Q3 of the year before the previous year.**

The devil is in the detail

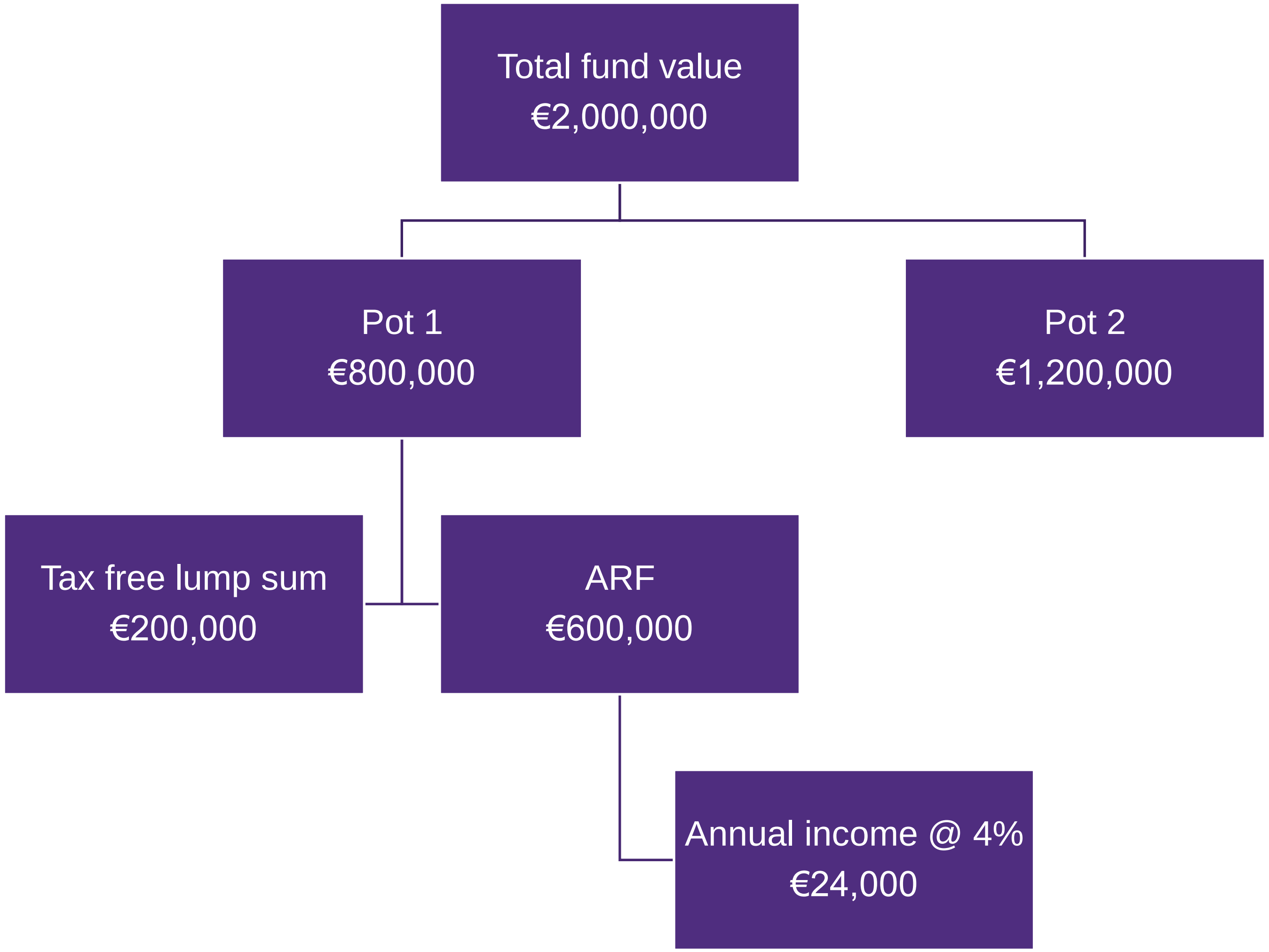
- Tax efficient lump sums now linked to maximum of €500,000 and will no longer be linked to percentage of SFT
  - First €200,000 tax free, next €300,000 taxed at 20%
  - Lump sum entitlements from each pension structure subject to the rules of that structure i.e. 25% of fund value or salary and service basis

- Personal Fund Thresholds obtained in 2014 to increase in line with future changes to SFT
  - PFT of €2,300,000 would increase to €3,220,000 by 2029

- Provision in legislation to revalue Benefit Crystallisation Events since 2014 in line with the future increases in SFT
  - Taxes Consolidation Act, 1997, Part 30, Chapter 2C, Schedule 23B, 4 & 5
  - May not be additional scope for those who have already crystallised €2m of pension benefits.

- Is it worth deferring drawdown until the SFT increases?
  - Yes, if you have sufficient income from other sources to meet your lifestyle needs
  - No, if you need income to meet your lifestyle needs. Efficient planning may allow you to limit the damage.

Limit the damage before 2029



€800,000 crystallised today would be revalued in line with increases to the SFT when the next crystallisation event occurs.

Balance of funds retired in 2029	
Original BCE	€800,000
Increase in SFT	40% (€2m to €2.8m)
Revalued BCE	€1,120,000 (800k * 140%)
Standard Fund Threshold (2029)	€2,800,000
Remaining scope	€1,680,000
Total "threshold" available	**€2,480,000**

An industry of confusion – 2024 version!

Retail Master Trust

~~Executive Pension Plan~~

Occupational Pension Scheme

Guaranteed With Profit

Buy Out Bond

Personal Retirement Bond

Vested PRSA

Annuity

Personal Pension

Approved Retirement Fund?

Group PRSA

Personal Retirement Savings Account

Fusion Scheme

~~Approved Minimum Retirement Fund~~

Non-standard PRSA

Pension Transfer Plan

Self-Administered Pension

Employer contributions to PRSAs

Following significant rule changes in 2022 and 2023, advisors and clients were becoming more comfortable with the IORP II Directive, and funding PRSAs through employer contributions. While a change to employer PRSA funding was expected, it would have been more simplistic to align the funding of PRSAs with that of occupational schemes. However, the road to simplification has taken another detour.

Pre-Finance Act 2023

Treated as a BIK over personal contribution limits in each tax year.

2023 - 2024

[1]BIK removed from employer contributions. Not subject to occupational scheme rules.

Finance Bill 2024 (2025 and beyond)

[2]BIK applies to contributions over 100% of remuneration.

[1] Care still to be given in respect of bona fide employment, contributions being commensurate with the individual’s duties, and contributions being for the benefit of the trade.

[2] From 2025, employer contributions over 100% of salary treated as BIK and not tax deductible for the employer.

Employer funding limits – 2024

Occupational Pension Scheme	
Age attained in year	48
Gender	Female
Marital status	Married
Normal retirement age	65
Years of service	10
Existing pension funds	€250,000
Current salary	€120,000

* No earnings limit applies to employer contributions.
* Personal contributions still subject to earnings and age related limits.
* Tax relief on employer contributions may be spread over two to five years.

Max ordinary annual contribution: €107,176 p.a.
Max special contribution: €581,358 (relief spread)

PRSA	
% of net relevant earnings	Age bracket
40%	60 and over
35%	55-59
30%	50-54
25%	40-49
20%	30-39
15%	Under 30

* Earnings limit of €115,000 p.a. applies to personal contributions only.
* Age related limits apply to personal contributions only.
* Employer contributions not subject to BIK at any level.

Maximum employer contribution payable: Unlimited
*Standard Fund Threshold rules apply on crystallisation

Employer funding limits – 2025

Occupational Pension Scheme	
Age attained in year	54
Gender	Female
Marital status	Married
Normal retirement age	65
Years of service	10
Existing pension funds	€250,000
Current salary	€120,000

* No earnings limit applies to employer contributions.
* Personal contributions still subject to earnings and age related limits.
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15%	Under 30

* Earnings limit of €115,000 p.a. applies to personal contributions only.
* Age related limits apply to personal contributions only.
* Employer contributions in excess of remuneration will be taxed as a BIK.

Maximum employer contribution payable: €120,000

All is not lost

Revenue max funding variables

Relevant details	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Age attained in year	48	48	48	48
Gender	Female	Female	Female	Female
Marital status	Married	Married	Married	Married
Normal retirement age	65	65	60	60
Years of service	10	10	10	10
Existing pension funds	€250,000	€250,000	€250,000	€250,000
Current salary	€120,000	€175,000	€120,000	€175,000
Max annual contribution	**€107,176**	**€163,039**	**€179,167**	**€270,833**
Max special contribution	**€581,358**	**€962,397**	**€931,818**	**€1,473,485**

Occupational scheme vs PRSA

Advantages of each structure

Occupational scheme	PRSA
Significantly greater funding scope for long term employees based on salary and service.	Potentially greater scope to fund where salary is high and service is short.
Large lump sums payable in order to back fund for accrued service, particularly where salary has increased.	May offer additional scope to fund outside of an occupational scheme which has been max funded.
Lump sum based on salary and service available – up to 1.5 times final remuneration (clear out smaller funds).	Potential to access funds while still in employment (between ages 60 and 75).
Held under trust which can be beneficial in some cases.	Phased access of funds over time (typically between ages 60 and 75).
	Full fund value payable to your Estate on death.

Company pension funding

Accumulate through the most suitable structure

Utilise occupational schemes and PRSAs to their maximum potential on a case by case basis.

Drawdown from the most efficient structure

Move from scheme to PRSA in order to maximise tax planning in retirement

Shifting landscape

Always plan based on current rules but expect change.

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“My Future Fund” - Auto-enrolment retirement savings system

Debbie Fry – Employee Benefits Consultancy

November 2024

Why introduce it?

- Pressure on state pension - Indicatively 34% rely on State pension alone
- Estimated somewhere in region of 800k will be auto enrolled on start date
- Worked well in other jurisdictions – UK / Australia / New Zealand

Auto-enrolment retirement savings system

Government sponsored retirement savings system for employees to be automatically enrolled on meeting certain eligibility criteria

01

Full-time, casual, seasonal and part-time employees

02

Gross Earning over €20,000 per year

(capped at 80k for contributions)

03

Aged between 23 and 60

04

No current pension provision through employment payroll

Auto-enrolment retirement savings system

Key Features

- managed by National Automatic Enrolment Retirement Savings Authority « NAERSA »
- personal contributions will be matched by an employer and topped up by the State (1/3)
- ‘pot follows member’ basis
- opt-out, opt-in, suspend options – member led
- retirement in line with State Pension Age

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Auto-enrolment retirement savings system

- All communication will be digital by default and will be issued via NAERSA
- Tata Consultancy have secured contract for 15 years
- NAERSA will undertake a review of the scheme in 5 years' time with any takeaway changes will be enforced by beginning of years 7-9
- The AE savings system not need to adhere to IORP II that all occupational arrangements must adhere to however the Pension Authority will be required to prepare and issue a supervisory report annually on the scheme’s performance

How will it work?

- NAERSA will determine the eligibility of an employee by using Revenue payroll data
- NAERSA will examine payroll data to see if the employee has earned €20,000 or more in the previous 12 months. In determining if an employee has met the earnings threshold, a lookback period of up to 13 weeks will be used
- If an employee does not meet the age and income thresholds, they still have the option to opt into the scheme and same contribution rates apply. Once they in, even if earnings go below €20k, they remain in
- NAERSA will operate the online portal for employees, to manage employee opt-outs, opt-ins, suspension of contributions and re-enrolment. Opt out available after 6 months of enrolment (in months 7 or 8) or 6 months post a contribution change (in months 7 or 8)
- Range of penalties are provided for in the legislation to help prevent employers from encouraging employees to opt out or suspend and the WRC will be responsible for dealing with this.

How will it work?

- NAERSA will send the employer an Automatic Enrolment Payroll Notification (AEPN) through payroll software / employer portal informing the employer of the contribution amounts the employer and the employee need to pay as a percentage of gross earnings
- The employer will apply the AEPN and the contributions will need to be visible on the employee's payslip
- Several options of how the contribution amounts get paid over to NAERSA. Preferred option will likely be a variable direct debit, which can be set up through the auto-enrolment employer portal
- Contributions must be paid at the same time as the employee is paid, and contribution information must be provided to NAERSA
- Through the portal, you will be able to access information about contributions paid and owed, and set up direct debit arrangements

Contribution rates – applied against Gross earnings*

Case study example Annual salary:€50,000

Year 1-3	Year 4-6	Year 7-9	Year 10+
1.5%	3%	4.5%	6%

	Employee yearly contributions	Employer yearly contributions	State yearly top-up	Total contributions
Year 1-3	€750	€750	€250	€1,750
Year 4-6	€1,500	€1,500	€500	€3,500
Year 7-9	€2,250	€2,250	€750	€5,250
Year 10+	€3,000	€3,000	€1,000	€7,000

*earnings capped at €80k

Challenges

Implementation date of 30 Sept 2025

NAERSA resourcing / Communication strategy

investment options to be confirmed

Director remuneration - where single premiums are made, not monthly

Personal funding to age related bands

Managing eligibility periods, dual scheme options and the employer responsibilities

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Occupational, PRSA or AE – which is fit for purpose?

	PRSA	Occupational	Auto Enrolment
Funding options	ER contribution capped at total annual earnings, EE subject to age related revenue limits	ER contribution subject to Revenue maximum and EE subject to age related revenue limits	Fixed – no additional contribution facility
Retirement	From age 60 25% x fund value, balance annuity / ARF /taxable cash	From age 60 (50 if left service) Salary, & Service calculation and balance to annuity or 25% x fund value, balance annuity / ARF /taxable cash	Aligned to state pension age, currently states 25% x value as lump sum and balance as taxable lump sum (PAYE applies)
Death benefit	"4 times salary" rule + Value of Employee and AVC contributions payable to the estate (CAT applies)	Full value of PRSA payable to the estate, (CAT applies)	Fund taxable under PAYE

What can employer do now?

Review your existing scheme structures

- What scheme(s) do you currently offer?
- How competitive are they?

Take the time to consider your employee value proposition and how your pension offering aligns

- What does a good benefit offering look like?
- Do you want to amend any current structure to encourage uptake?

Review your employee demographic and budget for all scenarios

What portion of your employees will be eligible for “automatic” enrolment
What is your liability in each scenario available to employees?

Questions or require assistance

Please contact Debbie Fry at Debbie.fry@ie.gt.com

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