

9th April 2009

A WINDOW OF OPPORTUNITY FOR RETIREMENT PLANNING?



Tuesday's budget heralded the most significant increases in personal taxation in many years and by all accounts is an indication of things to come in future budgets over the next 3 to 5 years.

Interestingly, and despite resurgence in rumours that tax relief on pension contributions was to be capped and that lump sums drawn from pension schemes at retirement would be subject to some form of exit tax, pension legislation remained untouched. Company directors must once more have breathed a collective sigh of relief.

However, Minister Lenihan did intimate that pension legislation remained under review and that this whole area would be dealt with by the Commission on Taxation which is expected to make public its findings in October of this year.

Yann Harrison, Chartered Accountant with Russell Brennan Keane says "The persistence of rumours prompted some activity in company director driven pension and retirement planning over the last number of weeks and, in the context of the age old adage of there being "no smoke without fire", the next six months to October may simply represent a temporary reprieve for pensions rather than a permanent deferment of any action that may be taken".

In this regard, time is of the essence and early planning is to be recommended, particularly in relation to:

- The maximisation of contributions to company director pension schemes in the current pre-contribution cap environment, and
- Consideration with regard to taking retirement, early or otherwise, with a view to maximising the tax free cash lump sum in advance of the possible imposition of an exit tax

Any moves by Government in either regard would serve to net substantial funds to the exchequer and would most likely impact on high earners only. To this end, action is unlikely to illicit much public outcry or sympathy for that matter for those affected. However, changes implemented could deal a significant blow to director's pension and lump sum entitlements.

"While any amendment to pension legislation is still a matter of conjecture, consider the possible impact on the cash lump sum available to directors at retirement of two courses of action open to the government and in respect of which rumours were rife in the past number of weeks.

- Reduction of your tax free cash entitlement at retirement

Presently, the majority of company directors may withdraw 25% of their accumulated pension funds tax free on retiring. The table below shows just how dramatic the impact a 5% reduction of this entitlement would be for a company director should the government move to restrict this in any future budget” advises Yann.

Current Position				Future Position?			
Accumulated Pension Funds at Retirement				Accumulated Pension Funds at Retirement			
<u>5,000,000</u>				<u>5,000,000</u>			
Tax Free Entitlement	Lump Sum	at 25% of Accumulated Funds		Tax Free Entitlement	Lump Sum	at 20% of Accumulated Funds	
<u>1,250,000</u>				<u>1,000,000</u>			

- Imposition of an exit tax on cash entitlement at retirement

Assuming the right to withdraw 25% of their accumulated pension funds on retiring remains intact subsequent to the next budget, Yann speculates the government may seek to impose some form of exit tax on those funds. Again the impact of an imposed exit tax is likely to be just as startling.

Generally where Directors take early retirement from age **50**, they must sever all links with their business including the disposal of their shareholdings.

This requirement effectively ruled out early retirement as an option for most Directors with retirement being postponed until after **55** years of age to ensure that valuable relief from Capital Gains Tax in the disposal of their shareholding could be availed of under Retirement Relief provisions.

Minister Lenihan provided a clear signal that “unnecessary relief’s” identified when the Commission on Taxation reports will be abolished. “Whether or not this spells the end of Retirement Relief remains to be seen. What may be of particular interest to company directors under and perhaps approaching 55 years of age is the fact that they still have a limited but real opportunity to retire from their business and access their tax free pension entitlements. Furthermore, with appropriate planning, this may not necessitate the disposal of their shares and the crystallization of a liability to Capital Gains Tax. Directors would be best advised to use the next six months wisely, review their options and devise plans accordingly” advises Yann.

For the self-employed, the budget saw no change to those measures effected by Minister Lenihan last October. The annual earnings limit for determining the maximum pension contributions in respect of which tax relief will be enjoyed remains €150,000 and is dependent on the age.

Taking as an example an individual aged between 50 and 54 years, the maximum pension contribution for which this individual may obtain tax relief from 1 January 2009 will be €45,000 (€150,000 x 30%).

Yann concludes “At this stage it is uncertain to what extent pension legislation may be impacted upon in the future. For the time being at least, pensions remain one of the easiest tax breaks to take advantage of, helping you to minimise tax liabilities and provide for an income in retirement simultaneously”.

“Effective pension planning is done in a timely manner and not as a reaction to the multitude of rumours abounding in advance of government budgets. To this end review and explore your retirement options early and find and implement the best solution for you while there is still time” said Yann. For a confidential discussion with Yann on your personal options call 01 6440100 or email yharrison@rbk.ie

ENDS

About RBK

Russell Brennan Keane is one of Irelands leading business advisory and accountancy firms. With 50 years experience providing professional advisory services to a range of clients in the mid to large corporate market in Ireland, from offices in Dublin, Athlone and Roscommon.

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