

PENSIONS, THE SPECULATION, ISSUES & ACTIONS?



There has been much reporting of late in relation to proposed changes to pensions and in particular as to how tax free lump sum entitlements might be impacted. This has largely been due to the fact that certain recommendations of The Commission on Taxation report have come to light in advance of its formal publication.

On reaching retirement age, normally from 60 years of age but from age 50 in certain circumstances, individuals can access 25% of their pension fund tax free with the balance being used either to purchase a pension for life or invested in a post retirement investment product.

Based on what has been reported, the speculation is that a €200,000 tax free lump sum cap may be imposed. If this is true, it is likely to be of immediate concern only to individuals with pension funds in excess of €800,000. The question now is should I take my retirement benefits now?

According to Yann Harrison, Chartered Accountant and Pensions Specialist with Russell Brennan Keane “For those with pension funds below this level, the imposition of a tax free lump sum cap is likely to be negligible. Any decision to retire should, therefore, be made not as a reaction to speculation, but on the grounds that that is what best suits your particular circumstances. If pension monies have been invested in equity linked funds, retiring now could serve simply to crystallise the losses experienced by equity funds over the last 18 months or so. With markets currently enjoying somewhat of a rally, the advice might be to postpone taking retirement benefits, keep a watchful eye on your fund and re-evaluate your position and options at a later date”.

For those with funds in excess of €800,000, it is worth stating that the Commissions recommendations to Government will be just that – recommendations. Notwithstanding, it may be advisable for such individuals to explore their retirement options. They should do so before December as this probably represents the earliest opportunity for Government to effect changes. Failing to do so could prove costly.

For many, accessing retirement benefits now will not be an option due to age. But that does not mean that those individuals will not be impacted upon if the Government decides to adopt one of the Commissions other reported recommendations.

Any move to standardise the rate of tax relief on pension contributions is likely to significantly curtail a higher rate tax-payers ability to shelter earnings from income tax. Undoubtedly this will cause some to question the wisdom of contributing to a pension fund. “For the moment however, pension contributions remain one of the easiest tax breaks to take advantage of, enjoy tax free growth and most importantly serve to ensure some level of basic provision for income in retirement” says Yann.

“With pension fund unit values still relatively cheap, it might be worth considering making a top-up contribution to your pension before 31 October to either reduce your tax burden or to create or increase an income tax refund” concluded Yann. If you have any queries or would like to discuss your affairs in confidence, please contact Yann Harrison (email yharrison@rbk.ie) or Tel 01 6440100 or 090 6480600

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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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