

Public Servants –

How to calculate the scope for an AVC against the previous years income

A review must take place to determine the scope for the AVC which can be made in terms of obtaining Tax Relief. When determining the scope for that Additional Voluntary Contribution, a number of factors come under consideration.

Gross Earnings

Gross Earnings for a prior year could be confirmed by reviewing the payslip for the last payroll period in the relevant year (See the cumulative table of earnings) or obtaining an Employment Detail Summary from the Revenue Website.

There is also an overall upper limit on the amount of earnings that may be taken into account for the purposes of giving tax relief. The earnings cap is currently set at €115,000.

Age Related Limits

There is also an age-related percentage limit of an individual's relevant earnings. The maximum amount of pension contributions which an individual may claim tax relief may not exceed the relevant age-related percentage of the individual's earnings in any year of assessment.

The age-related percentage limits are:

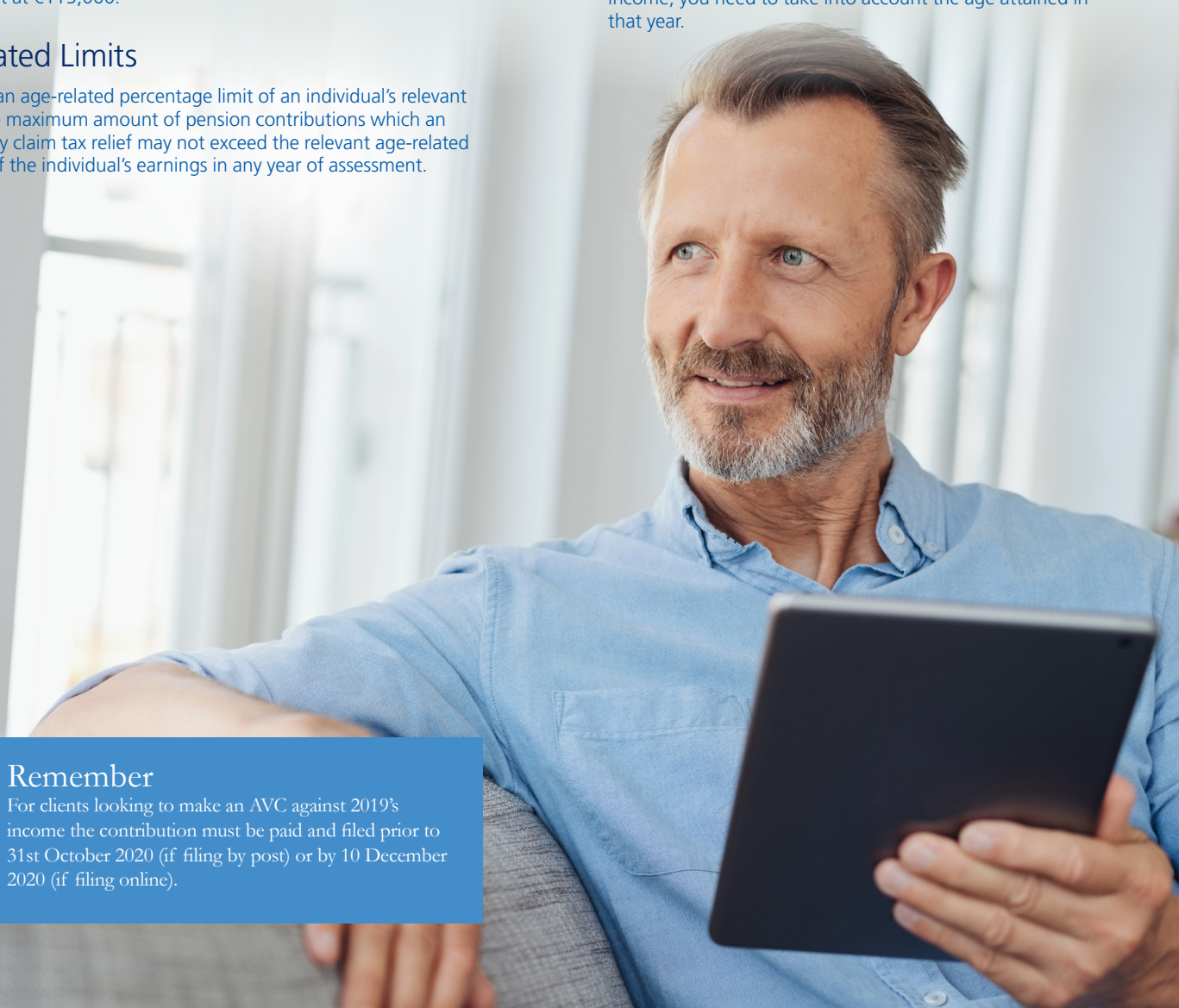
| Age Range | Percentage |
|------------|------------|
| Under 30 | 15 % |
| 30 – 39 | 20 % |
| 40 – 49 | 25 % |
| 50 – 54 | 30 % |
| 55 – 59 | 35 % |
| 60 or over | 40 % |

The age related percentage applicable is based on the age attained in the year of the income which is being pensioned. So if you are pensioning the previous years income, you need to take into account the age attained in that year.



Remember

For clients looking to make an AVC against 2019's income the contribution must be paid and filed prior to 31st October 2020 (if filing by post) or by 10 December 2020 (if filing online).



Existing Contributions

The level of contributions already being paid by the scheme member in the given year must be taken into account.

The standard contribution rate right across the public service is 6.5% of salary made up of 5% for the main pension scheme contribution and 1.5% in respect of a spouses and children's scheme contribution. However it is important to understand that some members may pay more or less than this as there are differing agreements regarding contributions depending on when they commenced work and the sector in which they are employed.

The actual level of contributions for a client should be confirmed by reviewing the last payslip for the relevant year which should have a cumulative table of same or by requesting from the employer or scheme administrator directly.

It is important to note that the deduction formally known as the Pension Related Deduction (PRD) and now referred to as the Additional Superannuation Contribution (ASC) does not form part of the above age related limits and can be ignored when determining the scope for an AVC.

Finally where there are contributions being paid towards the Purchase of Notional Service or pre-existing AVC arrangements in 2019, these should also be taken into account when determining the scope for an AVC.

Example

To illustrate the potential scope for an AVC, we have looked at an example below based on a public servant looking to make an AVC against 2019's income.

Client: John

Age: 52

Gross Earnings in 2019: €55,000

Existing Contributions in 2019

John joined the public sector scheme in 1997 and his main scheme and spouses and children's contributions are calculated as follows:

| | |
|------------------------------------------|--------------------------------------------------------------------------------------------|
| Main Scheme Contribution | 1.5% of Gross Pensionable Remuneration* Plus 3.5% of Net Pensionable Remuneration ** |
| Spouses & Children's Scheme Contribution | 1.5% of Gross Pensionable Remuneration* |

* Gross Pensionable Remuneration equates to full time pay plus any approved pensionable allowances. In this case we have assumed this to be €55,000

** NPR is Net Pensionable Remuneration and equates to Gross pensionable remuneration minus two times State Contributory Pension and in this case we have assumed this to be €29,088 (€55,000 – (€12,956 x 2))

John is not currently paying any contributions to purchase Notional Service and does not have any pre-existing AVC's in 2019.

Scope for AVC - John

| | |
|-----------------------------------------------------------|-------------------------|
| Gross Earnings | €55,000 |
| Apply Age Related % of earnings applicable in that year | €16,500 (€55,000 X 30%) |
| Less Main Scheme Contribution (1.5% of GPR + 3.5% of NPR) | -€1,843.08 |
| Less Spouses and Children's Contribution (1.5% of GPR) | -€825.00 |
| Less Contributions for Purchase of Notional Service | €0.00 |
| Less Existing Additional Voluntary Contributions | €0.00 |
| Remaining scope for AVC | €13,831.92 |

For those clients looking to make an AVC against 2019's income, the contribution must be paid and filed prior to 31st October 2020 if they are filing for relief by post or by 10th of December 2020 if they are filing online using Revenue's My Account.

Last Minute AVC's

Many public servants will look to make a last minute AVC just prior to retirement. It is key to understand in these cases that the AVC must also be paid before the employment is terminated, hence the reference to Last Minute AVC's.

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The information contained herein is based on Zurich Life's understanding of current Revenue practice as at October 2020 and may change in the future.

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