Irish Life

FAQ:
EMPLOYER TAX RELIEF ON REGULAR & SINGLE PAYMENTS

Content:

Regular Payments:

Q1. What do Revenue consider a regular payment (or ordinary contribution)?

A1. A regular payment is one which is paid for at least three consecutive years. The timing of the payments for each of the three years as monthly, annual, ad hoc or a mix of these, does not matter for tax relief purposes. All payments must be within overall Revenue maximum limits.

Q2. What is the maximum regular payment that can be paid to a company pension?

A2. The maximum regular payment allowed is based on a number of factors including the employee's salary, service with the company and existing pension benefits. You can use Irish Life's Revenue maximum funding tools on www.bline.ie to calculate the maximum regular and single payments allowed.

Q3. What tax relief is available on employer regular payments?

A3. Employer regular payments are allowed as a deduction for tax purposes. The employer can avail of corporation tax relief in the year of payment. No tax deduction can be given for a contribution that is due but not actually paid.

Q4. What happens if the employer tops up the regular contribution, will they get tax relief on the top up amount in the year of payment as well?

A4. If the employer will continue to pay the increased regular payment into future years, they can claim tax relief on the total regular payment (original amount + top up amount) in the year of payment.

Q5. How does the employer / accountant put through the employer regular payment in their year-end accounts?

A5. As part of their company accounts the employer regular payment should be included in the expenses section as a pension contribution. Where the employer is also claiming relief on a single payment they need to calculate how much of the single payment can be included and then add that to the regular payment being claimed. See **Q11** for how to calculate the spreading of tax relief on a single payment.

Single Payments:

Q5. What do Revenue consider a single payment (or special contribution)?

A5. A single payment or special contribution is a payment which is not a regular payment, e.g. it will not continue to be paid in future years. All payments must be within overall Revenue maximum limits.

Q6. What is the maximum single payment that can be paid to a company pension?

A6. The maximum regular payment allowed is based on a number of factors including the employee's salary, service with the company and existing pension benefits. You can use Irish Life's Revenue maximum funding tools on www.bline.ie to calculate the maximum regular and single payments allowed.

Q7. What tax relief is available on employer single payments?

A7. Employers' can avail of corporation tax relief on single payments made into pension schemes for their employees. However, depending on the size of the single payment and their regular payments they may be required to spread the tax relief over a number of years, to a maximum of five years.

Q8. Can an employer make a pension payment and backdate it to a previous tax year?

A8. No. There is no option to backdate an employer pension payment to previous tax years. Employers can only claim relief on payments made in that year, and in certain cases relief on single payments is spread over future years, see **Q7**.

Q9. If an employer is paying a single payment for one employee do I just need to compare it to the regular payment for that employee to see how many years the tax relief on the single payment has to be spread over?

A9. No. The calculation is based on the **total** employer single payment and the **total** employer regular payment for **all** employees, in that company year, see **Q11** for the calculation.

Q10. How does the employer / accountant put through the employer single payment in their year-end accounts?

A10. First they need to calculate how many years the tax relief on the single payment has to be spread over, see **Q11**.

Once done the amount of the single payment that can be claimed in the current year is added to the total employer regular payments for that year and included in the expenses section of the company accounts as a pension contribution.

Q11. How do I calculate the number of years the tax relief has to be spread over?

A11. To calculate this you need to know

(1) the total employer regular payment for all directors and employees and
(2) the total employer single payment for all directors and employees

Calculation:

$$\frac{\text{Total employer single payment}}{\text{Total employer regular payment}} = \text{number of years relief is to be spread forward}$$

Notes:

- If total regular payment is less than €6,350 a year then divide single payment by €6,350
- Relief is spread forward to a maximum of five years.
- If the employer is carrying forward relief from a past single payment this is added to the current year single payment
- If number of years is greater than one but less than two, round up to two years.
- Where number of years is greater than two, round to the nearest whole number to a maximum of five
- Fractions of a half or less are rounded down
- Fractions greater than a half are rounded up.

Example:

Total employer single payment:	€300,000
Total employer regular payment:	€35,000
No. of years relief spread over:	300,000 / 35,000 = 8.57 years
Maximum of five years:	€300,000 / 5 = **€60,000**

The employer can get tax relief on the single payment by including €60,000 in the company accounts each year over the next five years.

TAX RELIEF EXAMPLES:

Example 1: Employer making single payment and regular payments.

John Murphy is a director and employee of Company ABC Ltd. The company pays a regular contribution of €2,000 a month to a pension scheme for John. Before the end of the year they want to pay an additional single payment of €50,000 to John's pension scheme.

The company also makes regular pension payments of €1,000 a month for each of their four other employees.

	Regular Payment		Single Payment
John Murphy	€2,000 x 12 =	€24,000	€50,000
Four employees	(€1,000 x 12) x 4 =	€48,000	€0
Total		**€72,000**	**€50,000**

As the total employer single payment of €50,000 is less than the total employer regular payment Company ABC can claim tax relief on the full €50,000 single payment in the year it's paid.

Example 2: Employer making single payment and starting regular payments.

Company DEF Ltd are setting up a company pension scheme for one of their employees in October. The employer payment will be €2,000 a month. They are not currently paying into pensions for other employees.

As the pension scheme is being set up in October there will only be three monthly payments made in the first year so to make up the difference the employer is also making a single payment of €18,000, giving a total employer payment of €24,000.

As Company DEF is paying the same total amount in the first year as in future years the single payment of €18,000 can be treated as a regular payment for tax purposes and tax relief claimed in the year of payment.

	Year 1	Year 2	Year 3
Employer Regular Payment	€6,000	€24,000	€24,000
Employer Single Payment	€18,000	€0	€0
Total	**€24,000**	**€24,000**	**€24,000**

Example 3: Employer making single payment with no regular payments.

Company LMN Ltd make a single payment of €70,000 to a pension scheme for one of their employees.

The company is not making regular employer payments for their employees so the tax relief on the single payment must be spread over five years. The employer can therefore claim relief against a payment of €14,000 every year for five years.

Calculation:

- Normally to calculate the number of years the single payment is divided by the regular payment. But with no regular employer payment the minimum divisor of €6,350 must be used.

- €70,000 / €6,350 = 11.02

- The maximum number of years tax relief is spread over is five years.

- €70,000 / 5 = €14,000

Please note: the granting of tax relief in each case is subject to both the employer having sufficient trading profits in the relevant year and Revenue approval. If employers have queries on the granting of tax relief in own particular circumstances then then should take tax advice where necessary.