

## FOCUS UPDATE - BUDGET DECEMBER 2011



Minister for Finance, Michael Noonan, delivered his first budget on 6<sup>th</sup> December 2011.

In relation to Pensions, the Minister noted the "sizeable contribution" of about 750EUR million made by the pensions sector after last year's tax relief changes and the introduction of the pension levy in June 2011.

No changes to the existing marginal rate tax relief on pension contributions are proposed "at this time". The Minister has committed that the Department of Finance and the Revenue Commissioners will work with various stakeholders in the pensions sector in the next year to develop workable solutions to reform the incentive regime for supplementary pension provision. This will include consultation as to whether pension funds might invest more in Ireland.

The main pension-related changes in the Budget were as follows (further details to be published in the Finance Bill, which may be subject to change):

### **Approved Retirement Funds (ARFs)**

The annual imputed distribution which applies to the value of the ARF each year is increased from 5% to 6% in respect of ARFs (or aggregate value if individual owns more than one ARF) with values greater than 2EUR million. The increase will apply on asset values at 31 December 2012 and future years.

The rate of tax on the transfer, on the death of the owner of an ARF, to a child of the owner over aged 21 will be increased from 20% to 30%.

## **Personal Retirement Savings Accounts (PRSAS)**

The imputed distribution provisions which apply to ARFs will also apply on the same basis to "vested" PRSAs, i.e. where a lump sum has been paid from the PRSA and the assets are retained in the PRSA, rather than being transferred to an ARF. This includes the increase to 6% for vested PRSAs (or aggregate value if individual owns more than one PRSA and any one of them is vested) with values greater than 2EUR million. The increase will apply on asset values at 31 December 2012 and future years.

## **Employer PRSI**

The current 50% employer PRSI relief on employee pension contributions to occupational pension schemes and other pension arrangements is being removed with effect from 1 January 2012.

## **Commercial Property**

The incentives aimed at stimulating the commercial property sector, including the confirmation that there will be no legal change that impacts on the current regime regarding upward-only rent reviews, should be of benefit to pension funds which hold commercial property assets.

## **Capital Acquisitions Tax (CAT)**

Trustees of occupational pension schemes should note the following changes when administering death benefits.

The current Group A threshold (payments to son or daughter) is being reduced from 332,084EUR to 250,000EUR in respect of gifts or inheritances made after 6 December 2011.

The current rate of 25% is increased to 30% in respect of gifts or inheritances made after 6 December 2011.

## **Tax on Savings**

The rate of Deposit Interest Retention Tax (DIRT) on deposit products and the rates of exit tax on life assurance policies and investment funds will increase by 3 % with effect from 1 January 2012.

## **State Pension**

The rate of State Pension remains unchanged.

From September 2012, new claimants will have new payment rates if the yearly average number of PRSI contributions is less than 48 contributions. From July 2013, the minimum number of contributions required to qualify for a Widow/er's Contributory Pension will increase significantly from 156 to 520 contributions.

In overall terms, the Budget could have been worse for the pensions sector. The retention, at least for the moment, of marginal rate tax relief and the current level of Standard Fund Threshold (SFT) are welcome measures. Given the changes in ARFs, PRSAs and CAT, individuals may wish to review their inheritance planning and savings options at this time.