CIRCULAR LETTER PEN 08/03

Changes in the Tax Relief on superannuation contributions payable at retirement

To: President, Dublin Institute of Technology
Director, Each Institute of Technology

1. This Circular Letter replaces and supersedes Circular Letter PEN 08/02. Institutes are advised that the provision for tax relief on superannuation contributions payable at retirement has been amended as a result of the enactment of the Finance Act 2003. The amendment provides that, with some exceptions, superannuation contributions paid at retirement will be relieved of tax only by reference to the 30% limit in the year of payment and in the preceding year and not, as was the case, over a period of 10 years.

2.1 The information in paragraph 2.2 below is provided in order to give Institutes an indication of the effect of the change in the system of tax relief and does not purport to be a formal interpretation of tax law.

2.2 Subject to this, the effect of the change, in most cases, is to reduce the maximum contribution that will qualify for full tax relief from about 70% of retiring salary to about 46% of retiring salary. Furthermore, the 46% (approximately) maximum will apply only where the employee retires at the end of the calendar year – the corresponding maximum where the employee retires at the end of the academic year is about 35% of retiring salary. Lower thresholds will apply where the employee retires earlier in the year, such that in the case of an employee retiring at the beginning of January, the threshold would be about 23.5% - since a negligible amount of salary would be proper to the year of payment, all relief in such circumstances would be effectively based on salary in the calendar year preceding the year of payment. (In the case of the current year (2003), the lowest threshold would be about 25% of retiring salary, since employees who retired before 6 February 2003, the effective date of the Finance Act 2003, would not be affected by the new provisions.)

3. The change in the system of tax relief does not apply to contributions to the Spouses' and Children's Scheme nor to repayments by employees of superannuation contributions which were previously refunded to them nor to repayments of marriage gratuities. Tax relief in these cases will be spread over a period of up to 10 years prior to retirement as heretofore.

4. The change is likely to affect, in particular, the operation of the scheme for the purchase of Notional Service by lump sum at retirement. Institutes should now review the files of employees who are due to retire and who have indicated that they wish to purchase Notional Service by lump sum at retirement. Such staff should be advised to contact the Revenue Commissioners in order to determine the exact amount of tax relief available before they commit to such a purchase.

5. The files of all employees who have already retired since 6 February 2003, when the Finance Act came into operation, and who purchased notional service by lump sum at retirement should also be reviewed. Any such employee who did not receive full tax relief on his notional service contribution (because of the change introduced under the Finance Act 2003) and who would wish to purchase only so much notional service as would have qualified for full tax relief, should notify the Institute accordingly. All such cases should be brought to the notice of this Department. The employees in question should be reminded, however, that any reduction in notional service would lead to a reduction in overall pensionable service and a consequent reduction in pension and retirement gratuity.

6. In giving employees, for tax relief purposes, a statement of contributions paid at retirement, it will be important to distinguish between contributions on which relief may be spread over a period of 10 years, (ie spouses' and children's contributions and the other categories listed in paragraph 3 above), and contributions to which the new provisions apply, such as main scheme notional service contributions. Note that relief on the portion of the notional service contribution which relates to the spouses' and children's scheme may be spread over a period of up to 10 years, as heretofore.

A revised statement of contributions paid at retirement should be issued in the case of any employee who has already retired (since 6 Feb 2003) and who has not been supplied with a statement which takes full account of the distinctions set out above.

7. Enquiries by Institutes regarding the provisions of this Circular should be addressed to the Department at the address given below.

PENSIONS SECTION (IOT)
DEPARTMENT OF EDUCATION & SCIENCE
CORNAMADDY, ATHLONE
CO. WESTMEATH

Enquiries by phone should be made to 0902-74621 or 01-8734700: extensions 3657/3658.