

# At a Financial Planning Crossroads?

*In light of recent changes in legislation and cutbacks in public service pay, David Robb and Conor Crowley, Directors of Acumen & Trust, look at some practical financial issues.*

## Earnings Cap & Dual Income

Consultants should be aware that with effect from 2009, where an individual has earnings from both public and private sources, the single aggregate earnings limit of €150,000 per annum (previously €275,236) applies in assessing the level of pension contributions which can be made. Revenue has confirmed that consultants must first utilise the earnings threshold against their public income. Effectively, this means that only those without public income can contribute to personal pensions/PRSAs (Personal Retirement Savings Account) tax efficiently.

So, Additional Voluntary Contributions (AVCs) and, if applicable, PRSA AVCs of Added Years, will be the sole pension vehicles that can be utilised going forward for consultants with public income.

Tax Year	Earnings	Earnings Cap	Maximum Contribution 30%	Tax Relief
2008	€400,000	€275,236	€82,571	€33,854
2009	€250,000	€150,000	€45,000	€18,450

**Impact of Earnings Cap: Example based on a 50 year-old individual; loss of tax relief is €15,404.**

## Loss of Tax Relief on Personal Pension Contributions

The introduction of dual income and the reduced earnings cap will result in little or no scope to secure tax relief on contributions made to personal pensions, as clarified by Revenue in September 2009 Tax Briefing 74.

Payments to personal pensions should be reviewed and may need to be stopped where no tax relief will be available against 2009 income. The spotlight now shifts to whether one should switch their personal pension contributions to AVCs or PRSA AVCs, or buy Added Years in respect of the relevant Public Service Scheme. The case for making these pension contributions is less compelling, notwithstanding the fact that full tax relief is available.

The reason for this is linked to the benefits received on retirement. Where an individual is paying top rate tax in



retirement, then any income from AVCs will also be taxed at the top rate in retirement. With the introduction of the Income Levy, there is, conceivably, a situation where the tax/levies paid in retirement are greater than the tax reliefs obtained when making contributions!

Under personal pension/PRSA legislation the rules on retirement are different and the 25 per cent tax free cash sum receivable is likely to reduce the effective tax rate to a maximum of 30 per cent plus PRSI/levies in retirement – an altogether different proposition.

## National Pensions Framework

The National Pensions Framework, published on March 3rd 2010, has outlined the Government's intentions in relation to future retirement funding and tax relief. According to this document: "Employer and State will each contribute two per cent of salary, with matching employee contributions of four per cent. Tax relief at a rate of 33 per cent to apply; these changes come into effect in 2014."

It is proposed that the State Pension Retirement Age will increase to age 66 in 2014, 67 in 2021 and 68 in 2028.

## Tax Shelters Post Finance Bill

Tax shelters such as BES investments, Film Scheme investments and Capital Allowance schemes are subject to significant restrictions in the amount that can be tax relieved, following the 2010 Finance Bill. The impact of these restrictions is to ensure that the taxpayer still pays a tax rate of 30 per cent even after these investments have been made, thereby diluting their benefit. Pension contributions remain unaffected by these provisions.

## Pension Backed Mortgages

In certain cases, property purchases have been funded by way of bank borrowings on an 'interest only' basis, with the tax free

cash on retirement being used to repay the capital sum. All is not lost, as the lump sum from the Superannuation Scheme may fill the gap.

### Funding a Pension for a Spouse

A spouse employed in the private practice creates a number of tax planning opportunities. It is possible to fund a pension for the spouse through an employer-sponsored pension plan. Employer contributions to such a scheme are not subject to the earnings cap of €150,000. Therefore, there is considerable scope to fund these contributions, as the following example illustrates.

For an individual aged 50 on a salary of €35,000, an annual pension contribution of €70,000 (within Revenue limits) can be made. Based on a retirement age of 60 and applying standard actuarial assumptions, this would provide a projected fund of €978,000 over the 10 year period.

### Service Companies

There has been much discussion on whether doctors/dentists can set up service companies to run their practices and a number of factors need to be considered:

- Cost of set-up and additional administration and compliance costs.
- The amount and type of overheads required to run the practice.
- The treatment of withholding taxes on income.
- Professional Indemnity Cover (it is imperative that there is no gap in cover if operating through a company).

Specific advice on the merits of incorporation should always be sought from an accountant or tax adviser.

### Future Investment Strategy for Personal Pension Assets

In the likelihood that no further personal pension contributions will be made, it would be advisable to look beyond the providers of the pensions to ascertain where the assets are invested. 'A look under the bonnet', as it were.

### Public Hospital Pension Benefits

The reduction in consultants' earnings and the pension levy will also have financial implications for pension benefits and lump sums, which need to be considered. Hospital consultants with less than full service can either buy Added Years or increase their AVCs into the IHCA Group AVC Plan. There is a further option to contribute to a PRSA AVC on a stand-alone basis.

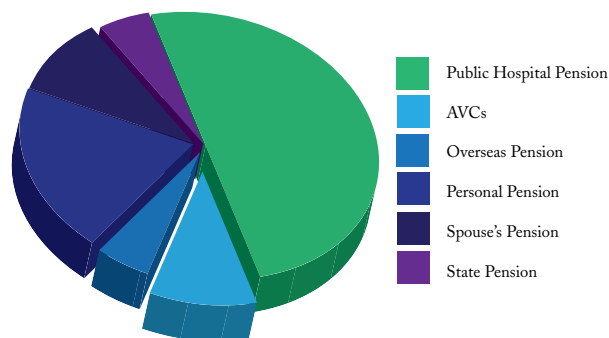


PICTURED: David Robb and Conor Crowley, Directors of Acumen & Trust

### Retirement Income

There may be several sources of pension income in retirement. The key is to devise a tax efficient plan around the funding of and drawdown of these pensions.

#### Typical sources of pension income in retirement



*There are quite a number of financial issues to be addressed, many of which overlap. As independent and authorised advisers, Acumen & Trust work with many consultants and their accountants/tax consultants in providing simple solutions in an ever increasing complex area. David Robb or Conor Crowley may be contacted by calling (01) 293 6500 or by emailing solutions@acumen.ie.*