

Pensions & How Income Tax Works

2023



How to Calculate Income Tax Liability

Standard Rate Bands

Single / Widowed No Children With dependent children	€40,000 €44,000
Married , one income	€49,000
Married , two incomes	€49,000 + increase
Increase is the lower of €31,000 and the income of lower earning spouse	

Steps

- 1 Add up all income
- 2 Deduct charges & reliefs
- 3 Work out tax liability
- 4 Deduct tax credits

Tax Credits

Single	€1,775
Married	€3,550
Single Person Child Carer	€1,650
PAYE	€1,775
Earned Income (Self Employed)	€1,775 max
Single Age Allowance (age 65 or over)	€245
Married Age Allowance (age 65 or over)	€490

Other tax credits may apply depending on individual circumstances

Step 1: Add Up All Income

Example without Pension Payment

Salary	€50,000
Bonus	€10,000
Benefit-In-Kind (BIK)	<u>€6,000</u>
Gross Income	€66,000

Example with Pension Payment

Salary	€50,000
Bonus	€10,000
Benefit-In-Kind (BIK)	<u>€6,000</u>
Gross Income	€66,000

Step 2: Deduct Charges & Relief

Example without Pension Payment

Gross Income	€66,000
No Deductions	<u>€ 0</u>
Net Income	€66,000

Example with Pension Payment

Gross Income	€66,000
Pension Payment	<u>- €22,000</u>
Net Income	€44,000

Step 3: Work Out Tax Liability

Example without Pension Payment

Taxable Income is €66,000		
Standard Rate Band (Married)		
€49,000 x 20%	=	€9,800
Balance at Higher Rate		
€17,000 x 40%	=	<u>€6,800</u>
Sum of Standard & Higher		€16,600

Example with Pension Payment

Taxable Income is €44,000		
Standard Rate Band (Married)		
€44,000 x 20%	=	€8,800
Balance at Higher Rate		
€0 x 40%	=	<u>€ 0</u>
Sum of Standard & Higher		€8,800

Step 4: Deduct Tax Credits

Example without Pension Payment

Sum of Standard & Higher Rate	€16,600
Less Married Tax Credit	- €3,550
Less PAYE Tax Credit	<u>- €1,775</u>
Tax Due	€11,275
Gross Income	€66,000
Less Tax Due	<u>- €11,275</u>
Net Income	€54,725

Example with Pension Payment

Sum of Standard & Higher Rate	€8,800
Less Married Tax Credit	- €3,550
Less PAYE Tax Credit	<u>- €1,775</u>
Tax Due	€3,475
Gross Income	€66,000
Less Tax Due	<u>- €3,475</u>
Net Income	€62,525

Summary

Example without Pension Payment

Gross Income	€66,000
Pension Payment	€0
Income Tax Paid	€11,275
Net Income	€54,860

Example with Pension Payment

Gross Income	€66,000
Pension Payment	€22,000
Income Tax Paid	€3,475
Net Income	€62,525
Net Income after Pension Payment	€40,525

- The figures above do not include deductions for USC or PRSI
- Pension income in retirement is subject to income tax, USC & PRSI

How to Calculate Marginal Tax Rate

By making a pension payment income tax was

reduced from **€11,275**

to **€3,475**

which equals a saving of **€7,800**

- The €7,800 savings is the tax relief granted on the pension payment of €22,000
- The pension payment reduced the clients taxable income so part of the relief was granted at 40% and part at 20%
- Marginal rate is $(€7,800 / €22,000) \times 100 = 35.45\%$

Calculation Breakdown

Gross Income	€66,000
Standard Rate Band (married)	€49,000
Net Income	€62,525
Pension Payment	€22,000
• €17,000 over standard rate cut off with relief given at 40%	€6,800
• €5,000 within standard rate cut off with relief given at 20%	+
	€1,000
Total Saving of	€7,800

Important Information

While individuals may avail of income tax relief on their pension payments

- Tax relief is restricted to the limits shown across
- They will not have access to their pension until they retire
- Their pension may be subject to investment risk and they could lose some or all of their money
- Pension income in retirement is subject to income tax, USC & PRSI

Age	% of Net Relevant Earnings*
Under 30	15%
30 – 39	20%
40 – 49	25%
50 – 54	30%
55 – 59	35%
60+	40%

* An earnings cap of €115,000 applies contributions to PRSAs, personal pensions and employee / AVC payments to company pension schemes

