Tax Breaks –
Pension Season

MAKE USE OF YOUR TAX BREAKS!

This time of the year, as the tax deadline approaches, is commonly called "pensions season". As many people calculate and prepare to pay their balance of taxes due from 2016, they typically seek ways to mitigate these payments by gathering details of "allowable" expenditure made in the 2016 calendar year, such as medical expenses, etc.

They also have an opportunity to make lump sum contributions to their pensions which will reduce their tax liability quite significantly. Every €10,000 invested in a pension before the deadline has the effect of reducing a tax liability by €4,000 (for marginal rate taxpayers).

Many of these same people will also be paying their preliminary tax for 2017 at this time. As this figure is usually 100% of the 2016 liability, any pension contribution has the effect of reducing your preliminary tax liability in addition to the 2016 amount. In other words, a €10,000 contribution will reduce your combined tax liability by €8,000. Please remember, however, that if you do not make a pension contribution next year, your tax liability will be adjusted upwards as you will have effectively underpaid your preliminary tax.

Of course, there are limits to the amounts which may be invested in a pension and these limits are age and salary related. For example, someone in their 40's may contribute up to 25% of their annual earned income, subject to an annual salary cap of €115,000.

The important dates to note are the tax deadline of 31st October and the ROS deadline (for those submitting online tax returns) of 16th November.

In order to reduce your 2016 liability, your pension contribution must be invested in your pension by the relevant date. There is no flexibility in these dates.

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We recommend that you talk to one of our pensions advisors well in advance of the deadline to ensure that you make educated investment decisions.