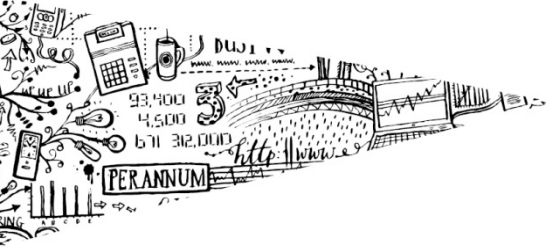


Tax alert Ireland

Issue 17/11



PRSAs - employer contributions exempt from PRSI

Contacts

If you require further information, please call your regular contact in Ernst & Young or contact any of the following:

Limerick

John Heffernan (*Partner*)
E: john.heffernan@ie.ey.com
T: +353 61 319988
F: +353 61 319865

Dublin

Jim Ryan (*Partner*)
E: jim.ryan@ie.ey.com
T: +353 1 2212434
F: +353 1 4750569

Catriona Coady (*Senior Manager*)

E: catriona.coady@ie.ey.com
T: + 353 1 2212432
F: +353 1 4750599

Cork

Frank O'Neill (*Partner*)
E: frank.oneill@ie.ey.com
T: +353 21 4805700
F: +353 21 4272465

Waterford

Paul Dillon (*Senior Manager*)
E: paul.dillon@ie.ey.com
T: +353 51 872094
F: +353 51 872392

New York (Irish Tax Desk)

Paul Fleming (*Director*)
E: paul.fleming@ey.com
T: +1 212 7738744
F: +1 212 7736672

Employer contributions to a Personal Retirement Savings Account (PRSA) are a benefit in kind for an employee for income tax purposes, but an employee may then claim income tax relief on the employer contribution as if he/she had paid the contribution himself/herself.

The Department of Social Protection has now confirmed that **employer** contributions to a PRSA will not be liable to employee PRSI. However, there is no change to the position for the Universal Social Charge (USC) i.e. there is no relief from the USC due on employer contributions. In addition the employers PRSI position remains unchanged i.e. there is a liability to employers PRSI equal to one-half of the employer PRSI rate on the employees contribution to the PRSA.

What does this change mean?

The tax relief limits that apply to employee contributions (earnings cap and age-related percentages) apply to the combined employee and employer contribution to the PRSA.

For example:

- ▶ an employee who is 45 years of age with annual earnings of €50,000, makes a monthly contribution to a PRSA of €200
- ▶ the employer makes a contribution of €250 per month to the employee's PRSA
- ▶ the combined annual contribution is €5,400; €2,400 (€200 x 12) by employee + €3,000 (€250 x 12) by employer
- ▶ the employee can claim income tax relief on €5,400 and now PRSI relief on the employer contribution of €3,000
- ▶ the employee must pay USC of 7% on the employer contribution to the PRSA
- ▶ the employer does not pay employer PRSI on the employer contribution to the PRSA
- ▶ the employer pays employer PRSI on the employee contribution to the PRSA. In this example, this means employer PRSI is due on €2,400 at 5.375% (10.75%/2) = €129.

The effect of the employer contribution in the above example means that the employee has claimed full income tax and PRSI relief on the employer contribution to negate the tax and PRSI liability on the benefit in kind.

This change will effectively reduce the rate of tax on such contributions from 11% to 7%.

Implications of this change

- ▶ An obstacle is removed to the provision of PRSAs which would have been inherently inefficient had the employer contributions to the PRSA remained liable to employee PRSI.
- ▶ Refunds of PRSI paid since 1 January 2011 may be due and the Department of Social Protection will issue a notification on this change shortly
- ▶ The relief from employee PRSI on the employer contribution is a welcome change. However, the imposition of employer PRSI on employee PRSA contributions will create complexities and will need to be carefully monitored to ensure that it is accounted for correctly.

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

About Ernst & Young's Tax Services

Ernst & Young's 170 tax professionals in Ireland provide you with deep technical knowledge, both global and local, combined with practical, commercial and industry experience. Our practice provides one of the most comprehensive networks in Ireland, comprising of some of the country's most respected tax advisors. Our talented people, consistent methodologies and unwavering commitment to quality service help you to build the strong compliance and reporting foundations and sustainable tax strategies that help your business achieve its ambitions. Its how Ernst & Young makes a difference.

For more information, please visit www.ey.com/ie

Ernst & Young refers to the global organisation of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

The Irish firm Ernst & Young is a Member Practice of Ernst & Young Global. It is authorised by the Institute of Chartered Accountants in Ireland to carry on investment business in the Republic of Ireland.

Ernst & Young,
Ernst & Young Building,
Harcourt Centre, Harcourt Street,
Dublin 2, Ireland.

© Ernst & Young 2011. Published in Ireland. All rights reserved.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.