



# BUDGET 2014

## Changes to the Standard Fund Threshold Regime (SFT)





## Standard Fund Threshold Regime (SFT) Changes

- Budget 2014 introduces changes to the maximum allowable pension fund at retirement for tax purposes (the Standard Fund Threshold – SFT)
- The measure will further restrict the capacity of higher earners to fund large pensions through tax-subsidised sources.
- The SFT is being reduced from €2.3m to €2m from 1<sup>st</sup> January 2014.



- The single valuation factor of 20 used to place a capital value on Defined Benefit (DB) pension entitlements at retirement for the purpose of the SFT is being replaced from 1/1/14 with a range of higher factors varying with the age at which the pension is drawn down.
- Where part of a DB pension has been accrued at 1/1/14 and part after that date, transitional arrangements apply to allow at retirement for the part accrued up to 1/1/14 to be valued at a factor of 20 and for the remaining pension to be valued at the higher age-related factor.



- The higher factors will range from 37 for DB pension entitlements drawn down at age 50 or under to a factor of 22 for those drawn down at age 70 or over.
- This change improves the equity of the SFT regime as between Defined Benefit (DB) and Defined Contribution (DC) pension arrangements and as between those who draw down DB pensions at an early age and those who retire at older ages.



- Pension savings and entitlements valued between €2m and €2.3m on 1/1/14 can be protected at that value by applying to Revenue for a higher threshold (a Personal Fund Threshold – PFT).
- Where the SFT or PFT is exceeded, the excess is subject to an effective income tax rate of 65% (excluding any USC or PRSI) thus clawing back any tax subsidy which helped fund the excess.
- Individuals in DC pension arrangements with pension savings valued at less than €2m can save for a lifetime pension fund of €2m without triggering an excess chargeable to higher taxation.



- The change to higher valuation factors varying with age means that in future DB pensions at lower values will be impacted by the reduced SFT as compared with the current regime with consequent tax implications if the SFT is exceeded.
- Example after the transition from the current to the revised regime:
  - a DB pension of over €60,000 per annum accrued in future under the new regime and taken at age 60 with a separate retirement lump sum will be impacted by the SFT ( $€61k * \text{factor of } 30 + \text{lump sum of } €183k > €2m$ )
  - whereas under the current regime a pension of up to €100,000 with a separate lump sum could be accrued before the current SFT of €2.3m would be exceeded.



- The level to which DB pension entitlements can be accrued under the revised SFT regime before being impacted by the threshold will vary with the age at which the benefits are taken but the revised arrangements after the transition phase will generally not impact on individuals whose gross DB pension is of the order of €54,000 per annum or less.
- It would be expected that those higher-earning individuals affected by the changes to the SFT regime will (provided their pension scheme allows them to do so) cease contributing to pension savings or accruing additional pension entitlements in order to avoid exceeding the revised €2m SFT or a PFT, as appropriate.



- Further details of the background to the SFT regime, how it works and of the changes now being introduced are included in **Annex B to the Summary of Budget Measures**.
- Full details of the changes will be included in the Finance Bill which will be published before the end of October.