



Additional Voluntary Contributions

January 2023

Additional Voluntary Contributions (AVCs) are extra savings that you can make towards your pension. We outline below the benefits of doing so, including the tax relief applicable.

What are the benefits of making AVCs?

- There is a possibility that you may retire early before age 65 for health/personal reasons. Paying AVCs into your pension fund will help you to accumulate a larger fund if you wish to retire early.
- If you are expecting your pension benefits to be low at normal retirement age, AVCs can be a great, tax-efficient way to increase your overall retirement income.
- Any investment growth on your AVC is tax free.
- AVCs are treated the same as normal pension contributions for tax purposes, so you qualify for income tax relief at your highest rate of tax. For examples, consider the table below.
- You can start, vary, or stop your AVCs at any time. You can also decide to make regular and/or lump sum payments.

How do I make AVCs?

There are 2 ways to make AVCs into your pension fund:

1. Regular AVCs through payroll – this is where you pay a regular AVC into your pension with your normal employer and employee contributions.

The AVC is deducted from your salary and you receive the tax relief instantly at source through

payroll. You can start, vary or stop your regular AVCs by logging onto your pension website at www.aonfocus.ie

2. Lump Sum AVC outside payroll – this is where you pay a once-off lump sum AVC into your pension in respect of the previous calendar year. You have until 31st October to do this (or, if you are ceasing employment, before your date of exit if earlier). For example, if you wish to pay an AVC in respect of 2022 earnings, you have until 31st October 2023 to do so. This link will help you calculate the lump sum AVC you can make and how to make the payment:

www.myfutureme.ie/employers/avc-look-back

As this would be paid outside of payroll (from your bank account), you will have to submit a tax return to the Revenue Commissioners and they will pay the tax relief to you.

Please note the payment and the return to Revenue must both be made before 31st October to qualify for the tax relief. (ROS users have a later date – please check this later date with the Revenue Commissioners as it changes each year).

What is my AVC Limit?

There are annual limits based on age for pension contributions as outlined below. These limits apply to your regular employee contributions and AVCs, but do not include any employer contributions made on your behalf. Revenue also apply an earnings cap totalling a maximum of €115,000 on which AVCs can be made and income tax relief claimed. The rates below assume annual maximum earnings of €115,000:

Age	% Limit	€ Limit
Under 30	15%	€17,250
30 to 39	20%	€23,000
40 to 49	25%	€28,750
50 to 54	30%	€34,500
55 to 59	35%	€40,250
60 +	40%	€46,000

What is the Income Tax Relief?

The rates of 20% and 40% are the current tax rates and are subject to change. If you are a PAYE person, these are the rates that apply to you.

So, if you pay tax at 40%, every €100 you pay into your pension will only cost you €60 after the 40% tax relief is applied. Similarly, if you pay tax at 20%, every €100 you pay into your pension will only cost you €80 after the 20% tax relief is applied.

Example 1 – Tom, age 35, earns a basic salary of €50,000 p.a. and is a member of his employer's occupational pension scheme. He is currently paying 5% of his basic salary into his pension, and his employer is paying 5% also. Tom wishes to increase his regular pension contributions to the maximum level possible.

Tom's limit from the table earlier is 20% of his annual earnings. He is already paying 5% so he has scope for a maximum AVC of 15%. The employer contribution of 5% does not count towards the 20% annual limit.

Tom's income tax relief would be as follows:

	Before AVC	After AVC
Employee Contribution 5% per month	€208	€208
Employer Contribution 5% per month	€208	€208
AVC	€0	€625
Total Invested in Pension	€416	€1,041
Tax Relief	€83	€333
Net Cost to Tom	€125	€500

Example 2 – Susan, age 41, earns a basic salary of €50,000 p.a. and is a member of her employer's occupational pension scheme. She is currently paying 5% of her basic salary into her pension, and her employer is paying 5% also. She can see on her final payslip for 2022 that her total pension contributions for the year were €2,500 and her employers total contributions were €2,500 also. Her gross annual earnings on her final payslip for 2022 were €62,000 as she received a bonus. She now wishes to maximise her 2022 pension contributions by paying a lump sum into her pension fund before 31st October 2023.

Susan can pay 25% of €62,000 into her pension as a lump sum, **less** her pension contributions already paid in 2022, which amounts to an additional AVC contribution of €13,000. When she notifies Revenue of this AVC in her tax return, assuming that her tax affairs are in order, they will pay tax relief of 40% into her bank account – equating to €5,200. So, an additional €13,000 will have been paid into her pension, but it will only have cost her €7,800 to do this.

Questions / Contact Information

Please email your MyFutureMe Team who will be glad to assist with any queries at myfutureme@aon.ie

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