

# **LAMA Spring Seminar 2014**

## **Retirement Gratuities**

Four Seasons Hotel, Monaghan

Saturday, 1<sup>st</sup> February 2014

Speaker: Mr Pádraig Agnew

O'Doherty Agnew & Co. Ltd  
19 North Road,  
Monaghan

# Presentation Overview

- Introduction
- LAMA Retirement Scheme
- Taxation of Retirement Gratuities
- Examples of Payments & Taxation of Same
- Summary
- Questions?

# LAMA Retirement Scheme

- The lump-sum payment comprises 2 elements:
  1. A gratuity payment for service from 4<sup>th</sup> May 2000
  2. An ex-gratia payment for service prior to 4<sup>th</sup> May 2000
- 4<sup>th</sup> May 2000 = The date the Local Government Act 2001 was published as a Bill

# LAMA Retirement Scheme

## 1. Gratuity Payment

- The local elected representative must have at least 2 years service
- Gratuity –  $\frac{1}{5}$ <sup>th</sup> of Representational Payment (RP) at time of Retirement per Year of Service post 4<sup>th</sup> May 2000
- RP - €16,724 per Annum
- $\frac{1}{5}$  of RP = €3,344.80
- Gratuity paid once a retired member reaches age 50

# LAMA Retirement Scheme

## 2. Ex-Gratia Payment

- An ex-gratia payment of €714.23 per Year of Service prior to 4<sup>th</sup> May 2000
- €714.23 for the first 20 years
- €476.15 per year thereafter

# LAMA Retirement Scheme

## Other Points

- Maximum service allowable is 40 years in total for both pre-4<sup>th</sup> May 2000 and post 4<sup>th</sup>-May 2000 service
- In calculating lump-sum payments, the total service by an elected member may include a fraction of a year

# Taxation of Retirement Lump-Sum Payments

- On retirement, the higher of the following 3 calculations will be exempt from tax:
  1. Basic Exemption
  2. Increased Exemption
  3. Standard Capital Superannuation Benefit (SCSB)

# Taxation of Retirement Lump-sum Payments

## 1. Basic Exemption

- The basic exemption is **€10,160** plus **€765 for each complete year of service**



# Taxation of Retirement Lump-sum Payments

## 2. Increased Exemption

- The basic exemption is increased by a further €10,000
- So, it's €10,160 + €765 per each full year of service + €10,000

# Taxation of Retirement Lump-sum Payments

## 2. Increased Exemption

- May only be claimed if you have not made any claims in respect of a lump-sum received in the previous 10 years
- Must obtain prior approval from Revenue
- €10,000 is reduced by any tax-free pension lump-sum received/receivable (not applicable here)

# Taxation of Retirement Lump-sum Payments

## 3. Standard Capital Superannuation Benefit

- Formula for calculating SCSB:

$(A \times B)/15 - C$  where

A = average annual remuneration for the last 36 months service to date of termination (taken this to be annual RP of €16,724)

B = no. of complete years service

# Taxation of Retirement Lump-sum Payments

## 3. Standard Capital Superannuation Benefit

- C = value of any tax-free lump-sum received/receivable under an approved pension scheme (not applicable here)
- SCSB Relief capped at €200,000

# Lump-sum Payment - Example 1 – 5 years

- Assume all County/City Councillors retiring in 2014
- Councillor with 5 years service
- Gratuity – Post 4<sup>th</sup> May 2000
- $€3,344.80 \times 5 = €16,724$  = Amount of Retirement Lump-sum

# Taxation of Lump-sum – Example 1 – 5 years

- Basic Exemption:  $€13,985 = €10,160 + (€765 \times 5 \text{ years})$
- Increased Exemption = Increase Basic by  $€10,000 = €23,985$
- $SCSB = (€16,724 \times 5) / 15 = €5,575$
- Increased Exemption is higher
- Lump-sum of  $€16,724$  is totally exempt from tax

# Lump-sum Payment - Example 2 – 15 years

- Councillor with 15 years service
- Gratuity – Post 4<sup>th</sup> May 2000 -  
 $€3,344.80 \times 14 \text{ years} = €46,827.20$   
plus
- Ex-gratia – Pre 4<sup>th</sup> May 2000 –  
 $€714.23 \times 1 \text{ year} = €714.23$
- $€47,541.43$  = Amount of Retirement Lump-sum

# Taxation of Lump-sum – Example 2 – 15 years

- Basic Exemption:  $€21,635 = €10,160 + (€765 \times 15 \text{ years})$
- Increased Exemption = Increase Basic by  $€10,000 = €31,635$
- $SCSB = (€16,724 \times 15)/15 = €16,724$
- Increased Exemption is higher
- $€31,635$  of lump-sum is exempt from tax
- Balance of  $€15,906.43$  is liable to PAYE & USC



# Lump-sum Payment - Example 3 – 25 years

- Councillor with 25 years service
- Gratuity – Post 4<sup>th</sup> May 2000 -  
 $€3,344.80 \times 14 \text{ years} = €46,827.20$   
plus
- Ex-gratia – Pre 4<sup>th</sup> May 2000 –  
 $€714.23 \times 11 = €7,856.53$
- $€54,683.73$  = Amount of Retirement Lump-sum

# Taxation of Lump-sum – Example 3 – 25 years

- Basic Exemption:  $€29,285 = €10,160 + (€765 \times 25 \text{ years})$
- Increased Exemption = Increase Basic by  $€10,000 = €39,285$
- $SCSB = (€16,724 \times 25)/15 = €27,873$
- Increased Exemption is higher
- $€39,285$  of lump-sum is exempt from tax
- Balance of  $€15,398.73$  is liable to PAYE & USC

# Lump-sum Payment - Example 4 – 40 years

- Councillor with 40 years service
- Gratuity – Post 4<sup>th</sup> May 2000 - €3,344.80 x 14 years = €46,827.20 plus
- Ex-gratia – Pre 4<sup>th</sup> May 2000 – €714.23 x 20 = €14,284.60
- Ex-gratia – Pre 4<sup>th</sup> May 2000 – €476.15 x 6 = €2,856.90
- €63,968.70 = Amount of Retirement Lump-sum

# Taxation of Lump-sum – Example 4 – 40 years

- Basic Exemption:  $€40,760 = €10,160 + (€765 \times 40 \text{ years})$
- Increased Exemption = Increase Basic by  $€10,000 = €50,760$
- $SCSB = (€16,724 \times 40) / 15 = €44,597.33$
- Increased Exemption is higher
- $€50,760$  of lump-sum is exempt from tax
- Balance of  $€13,208.70$  is liable to PAYE & USC

# Top-Slicing Relief

- Top-Slicing Relief abolished in Budget 2014 for retirement payments made on or after 1<sup>st</sup> January 2014
- Ensured lump-sum was not taxed at a rate higher than your average rate of tax for last 3 years

# LAMA Retirement Gratuities Summary

- Determine amount of Retirement Gratuity – based on years service & rates pre & post 4<sup>th</sup> May 2000
- Work through 3 Tax Exemption Calculations – Basic, Increased & SCSB
- Highest one is exempt from tax with balance liable to tax
- Increased Exemption:
  - Must obtain prior approval from Revenue
  - Cannot claim if already used within last 10 years

# Disclaimer

- This presentation is for information purposes only
- Each Councillor should consult with their Local Authority to obtain an accurate calculation of his/her entitlements
- Each Councillor should seek independent tax advice in relation to his/her retirement lump-sum
- Responsibility will not be accepted for any liability incurred or loss suffered as a result of this presentation

# Presenter Details

Mr Pádraig Agnew, ACA, AITI.

O'Doherty Agnew & Co. Ltd

Chartered Accountants & AITI Registered Tax Advisers (CTA)

19 North Road

Monaghan

Tel: 047 82000

Fax: 047 71166

Email: [padraig@odaltd.ie](mailto:padraig@odaltd.ie)

Website: [www.odaltd.ie](http://www.odaltd.ie)



# Questions?

- Thank You for your time & attention
- Questions?