Contributions to private pension funds: rules and changes from 2018 (3/10/18)

This article offers a summary of the rules and tax treatment for contributions to private pension funds (PPF) paid by employers for employees and by employees on their own.to private pension funds: rules and changes from 2018.

General information

Members of a pension plan can take part in it either directly or through their employers. Contributions to PPF can be paid as follows:

1. out of the employer's funds for the employee;
2. as a deduction by the employer from net salary at the employee's written request; or
3. by the individual independently out of their own funds.

Contributions to PPF out of the employer's funds

PIT treatment

Any contributions the employer pays to PPF for an employee forms part of their employment income attracting salary tax. At the same time, under section 8(5) of the PIT Act and under paragraph 26 of Cabinet Regulation No. 899, *Application of provisions of the PIT Act*, the employer should treat it as non-taxable income to the extent the sum of this income and any life insurance premiums paid by the employer does not exceed 10% of gross employment revenue.

Any excess should be added to the person's total gross employment income.

Notifying the tax authorities

Contributions to PPF out of the employer's funds should be reported in the "Statement of Amounts Paid to the Individual" as follows:

- line 5, *Revenue*, should be increased by total contributions to PPF out of the employer's funds;
- line 6, *Non-taxable income,* should include an amount contributed to PPF out of the employer's funds that does not exceed 10% of gross employment revenue.

Please note that it is a mistake to enter these employer contributions on line 11, *Contributions to private pension funds.*

Employer's contributions to PPF deducted from net salary at employee's request

Contributions to PPF and endowment insurance premiums the employer has paid as a deduction from the person's employment income (i.e. net salary) at the employee's request under the employment contract or a collective agreement are the employee's allowable expenses to be reported on line 11, *Contributions to private pension funds.*

The individual's own contributions to PPF

A person who independently contributes to PPF should report their contributions for the tax year on the annual income tax return, line 09, *Allowable expenses: contributions to private pension funds.* Please note that the sum of contributions to PPF and endowment insurance premiums that is claimed as allowable expenses must not exceed 10% of the person's taxable income for the year reported on the income tax return, line 03, *Taxable income: total*. A cap of €4,000 also applies.

Line 09 of the income tax return should show the sum of the employer's contributions to PPF out of net salary and the person's own contributions to PPF because these are allowable expenses under the PIT Act.

Example

		EUR	EUR
(1)	Gross revenue (for the year)	40,000	40,000
(2)	Contributions to PPF out of employer's funds	3,000	2,000
(3)	Employer's contributions to PPF out of net salary	1,000	1,000
(4)	Person's own contributions to PPF	200	5,000
Statement			
[5]	Revenue = (1) + (2)	43,000	42,000
[6]	Non-taxable income = (2) ≤ 10% x (1)	3,000	2,000
[11]	Contributions to PPF = (2) ≤ 10% x (1)	1,000	1,000
Statement			
[5]	Revenue = (1) + (2)	43,000	42,000
[6]	Non-taxable income = (2) ≤ 10% x (1)	3,000	2,000
[11]	Contributions to PPF = (2) ≤ 10% x (1)	1,000	1,000

Conclusions

The employer's contributions out of net salary and the person's own contributions to PPF are allowable expenses to be reported on line 09 of the income tax return. The amount appearing on this line includes the two types of contributions plus endowment insurance premiums. The line total must not exceed 10% of the person's gross annual salary nor €4,000.

So, if the employer's contributions to PPF out of net salary have already reached the €4,000 limit, the person will be unable to claim their own contributions as allowable expenses, and these cannot be carried forward to subsequent tax years either. Likewise, the person will be unable to claim their own contributions as allowable expenses if the employer has made the mistake of entering contributions to PPF out of the employer's funds on line 11, *Contributions to private pension funds*, instead of line 6, *Non-taxable income*, of the Statement, and so the limit has been reached already.

The amount of PIT that can be recovered on allowable expenses, including contributions to PPF, from 1 January 2018 is capped at 20% (down from 23%) regardless of the rate of PIT applied to the person's income.