



Press Release

If I invest in an ARF, would I have to pay tax on annual withdrawals?

I'm due to retire next year at the age of 60. I'm currently in a company pension scheme and my pension fund is expected to be worth €600,000 when I retire. I'm considering taking €150,000 of this in a tax-free lump sum and investing the rest in an Approved Retirement Fund (ARF). When I come to withdraw money from the ARF, will I have to pay tax on it or is it tax free?

Answer: Mark Reilly, Pension Proposition Lead, Royal London Ireland

When you invest a sum of money in an ARF on retirement, once you are aged 60 or over for a full tax year, you'll have to drawdown at least 4pc from it each year. In your case, assuming you invest €450,000 of your pension fund into an ARF, this could work out at around €18,000 a year. Withdrawals from an ARF are treated as income and taxed under the Pay As You Earn (PAYE) system. The amount of tax you must pay on your annual ARF drawdowns will depend on a number of things, including what other sources of income you have and whether or not you are jointly assessed for income tax purposes with your spouse, if applicable.

Under current Irish Revenue rules, a maximum of €200,000 can be taken as a tax-free pension lump sum over your lifetime. You'll have to pay tax on any amount drawn down over the €200,000 limit. There is a flat rate charge of 20pc on any amount that falls between €200,000 and €500,000. Whether you can take all of the €150,000 as a tax-free amount will depend on whether you have previously taken any other lump sum amounts that now move you above the €200,000 lifetime limit.

We recommend that you talk to a Financial Broker for independent financial and tax advice before making any decision around your pension fund.

ENDS

Notes to the Editor:

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