Example

John is self-employed, aged 45 years, and his Net Relevant Earnings for 2018 were €80,000. He has paid €18,000 Preliminary Tax in 2018 and his total tax bill for 2018 is €25,000. This leaves him owing €7,000 for 2018. He does not currently pay pension contributions. The two scenarios below show just how a lump sum pension contribution can save John lots of money!

2018 Net Relevant Earnings €80,000 and €18,000 Preliminary Tax paid in October 2018

Scenario 1
No Pension Contribution

Balance of tax due from 2018 is **€7,000** (i.e. €25,000 less €18,000)

Preliminary Tax due for 2019 is **€25,000** (i.e. 100% of 2018's Final Liability)

Total payment to Revenue is €32,000

or

Scenario 2
After Pension Contribution

Before 31 October 2019, John makes a **€20,000 Pension Contribution** and backdates the tax relief to 2018.

Actual Tax Bill for 2018 reduced to **€17,000** i.e. the total Tax Bill for 2018 of €25,000 less tax relief of €8,000 (40% on the pension contribution of €20,000)

However, €18,000 Preliminary Tax was paid already in October 2018. Therefore, a refund of **€1,000** is due from the Revenue.

Preliminary Tax due for 2019 is **€17,000** (i.e. 100% of 2018's final liability).

Total payment to Revenue is €16,000

Note: This double tax saving in the first year of retirement funding will eventually even out to one year's tax saving for each year's contribution.

Make the most of the tax-efficiency of pension contributions now – you may never get such good value again!

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