

Terms of Reference for the targeted examination of the Standard Fund Threshold regime

The Standard Fund Threshold (SFT) sets the maximum amount for a tax-relieved pension at retirement. Where a pension exceeds the SFT, the excess over the threshold (the “chargeable excess”) is subject to an upfront, ring-fenced income tax charge (known as “chargeable excess tax” or CET) at 40%. The SFT and CET apply to all types of pensions in both the private and public sector.

The SFT was €5 million when it was introduced in 2005 and has been set at €2 million since 2014. The Minister for Finance has instructed that a targeted and focused examination of the current calibration of the SFT be carried out.

This examination will be carried out by an independent expert appointed by the Minister for Finance, with support from the Department of Finance and input as necessary from relevant Government Departments and public bodies. A public consultation will be carried out as part of the examination.

The targeted examination will consider:

1. The recommendations of the Commission on Taxation that the SFT be benchmarked at “an appropriate and fair level of estimated retirement income.”
2. The relevance of the rationale for the SFT in the context of the current pension landscape and the factors that may impact the SFT’s role as a limit on tax-relieved pensions.
3. The impact of any change to the SFT on the overall tax expenditure associated with pension provision and its associated distribution, and the need for equity in treatment across taxpayer groups and between public and private sector workers.
4. The current calibration of the SFT including potential impacts on net pension at retirement and consequential impacts on recruitment and retention in the public and private sector.
5. The rate at which the SFT should be set having regard to economic factors including changes in the Consumer Price Index and wage inflation since 2014, the cost of the tax expenditure and its distribution, and the Department’s Guidelines for Tax Expenditure Evaluation.
6. The operation of the SFT regime including the inputs and valuation factors which form part of the methodology and the chargeable excess tax.
7. Options for payment of Chargeable Excess Tax when it arises.

8. Options for simplifying the SFT regime.

The results of the examination will be presented to the Minister for Finance by summer 2024 for his consideration.