

Harmonics Financial

Welcome to our Budget 2017 Summary



Introduction

The Minister for Finance, Michael Noonan, and the Minister for Public Expenditure and Reform, Paschal Donohoe, have delivered Budget 2017, the first budget under the minority Government.

The measures announced include a reduction in the three lowest rates of the USC, increasing the Capital Acquisitions Tax thresholds, a rise in the State Pension (Contributory) and other weekly social welfare payments, and a reduction in DIRT.

Details of the changes that will be of most interest are outlined in the following pages.

1. PENSIONS

The only pension related change announced in the Budget was an increase in the State Pension. However, we will wait until the Finance Bill is published on 20 October to see what other changes, if any, happen.

Key Points on Pensions

- No change to the marginal rate income tax relief on pension contributions
- No change to the tax exemption that applies on pension investment income
- No change to retirement lump sum options or €200,000 tax free lump sum threshold
- No change to the AMRF limit of €63,500 or guaranteed income requirement of €12,700

Tax Relief on Pension Contributions

Income tax relief on personal contributions to a qualifying pension arrangement continues to be available at the marginal rate of tax.

There was no mention in the Budget of a change to the earnings cap of €115,000.

Maintaining the levels of tax relief is welcome as making adequate provision for retirement is a vitally important aspect of financial planning. Providing for retirement through a private pension arrangement remains the most tax efficient form of long term saving.

Standard Fund Threshold (SFT)

The SFT remains at €2 million for 2017.

Once again, the Minister did not address in his speech whether the SFT will be increased in line with inflation in the future. Section 787O of the Taxes Consolidation Act 1997 allows the Minister to apply an earnings adjustment factor to the SFT. While it is good news that the SFT has not been reduced, we would have concerns that the SFT will not keep pace with inflation if not regularly reviewed by the Minister.

We await details of the Finance Bill as this may be dealt with at that time.

Any capital value in excess of the SFT or Personal Fund Threshold (if applicable) on retirement is taxed at 40% and is then subject to tax at the individual's marginal rate, and any PRSI and USC applicable on drawdown.

Retirement Lump Sum

The Budget did not include any changes in relation to the tax treatment of the retirement lump sum.

The first €200,000 of any retirement lump sum remains tax free with any amount between €200,000 and €500,000 subject to income tax at 20%. Any lump sum amount

paid out in excess of €500,000 is taxed at the marginal rate and is also subject to PRSI and USC.

Retirement Lump Sums taken on or after 7 December 2005 count towards an individual's retirement lump sum limits.

State Pension (Contributory)

The maximum personal rate of the State Pension (Contributory) has increased by €5 per week to €238.30 per week (€12,391 per year). However, payment of the increase will commence in March 2017.

The earliest age at which the State Pension (Contributory) is payable is currently age 66.

In the context of the €12,700 guaranteed income requirement before being eligible for an ARF, this leaves a shortfall of €309 that a client would need in other pension income. It would cost approximately €8,800 to purchase an annuity of €309 at current annuity rates (based level single life pension for male age 66 at current annuity rate of 3.97%).

2. EXIT TAX

There was no mention in the Budget of a change to the current exit tax rate of 41% on life assurance policies effected after 1 January 2001 (known as gross roll-up policies) despite the fact that there was a change to DIRT. We await confirmation in the Finance Bill.

Just a reminder, the exit tax rate for corporate investors is currently 25%.

3. DIRT (DEPOSIT INTEREST RETENTION TAX)

The rate of DIRT will decrease by 2% each year for the next 4 years until it reaches 33% in 2020.

With effect from 1 January 2017 the rate will be 39%.

4. INCOME TAX, PRSI AND USC

Income Tax

As predicted there is no change to income tax rates or tax bands. The higher rate of income tax remains at 40% and the standard rate of income tax is unchanged at 20%.

There were some changes to tax credits including the Earned Income Credit for the self-employed and certain proprietary directors which increased from €550 to €950. This forms part of a 3 year move to bring into line the treatment between the PAYE sector and the self-employed. PAYE workers currently get a €1,650 PAYE credit each year.

These changes are effective from 1 January 2017.

PRSI

The rates of PRSI remain unchanged.

Universal Social Charge (USC)

The Government has announced a number of changes to the USC to take effect from 1 January 2017:

- A reduction in the three lowest existing USC rates
- An increase in the USC entry point for the third lowest rate from €18,669 to €18,773

Total income of €13,000 or less per annum is exempt from the USC.

The following USC rates will apply if total income is in excess of €13,000:

Rate	Threshold
0.50%	€0 - €12,012
2.50%	€12,013 - €18,772
5.00%	€18,773 - €70,044
8.00%	Balance

The USC rate on self-employed income in excess of €100,000 is 11%.

Medical card holders and individuals aged 70 years and over whose aggregate income does not exceed

€60,000 will now pay a maximum USC rate of 2.5%.

5. CORPORATION TAX

There is no change to the Corporation Tax rate of 12.5% for trading income and 25% for non-trading income.

6. CAPITAL ACQUISITIONS TAX (CAT)

The CAT rate remains at 33%. However, as anticipated, the CAT thresholds have increased with effect from 12 October 2016 as follows:

2016 CAT Thresholds	
Group A: €310,000	Applies where the beneficiary is a child (including adopted child, step-child and certain foster children) or minor child of a deceased child of the disposer. Parents also fall within this threshold where they take an inheritance of an absolute interest from a child.
Group B: €32,500	Applies where the beneficiary is a brother, sister, niece, nephew or lineal ancestor or lineal descendant of the disposer.
Group C: €16,250	Applies in all other cases.

7. CAPITAL GAINS TAX (CGT)

The rate of CGT remains unchanged at 33%.

The CGT rate is being further reduced to 10% for entrepreneurs on the disposal in whole or part of a business.

8. OTHER ITEMS OF INTEREST

Compliance Measures

Minister Noonan announced plans to tackle offshore tax evasion and increase resources available to Revenue to tackle non-compliance. The upcoming Finance Bill will place restrictions on offshore tax defaulters using the voluntary disclosure regime from May 2017. A strict liability criminal offence will also be introduced to facilitate the prosecution of serious cases of offshore tax evasion. In addition to this Revenue will have additional staff working on audit and investigation activities with the aim of a direct increase in tax and duty from compliance investigations.

Help to Buy for First Time House Buyers

An income tax rebate incentive is being introduced to assist first time buyers of new homes to help fund their deposit requirement. It will consist of a rebate of income tax paid over the previous four years up to 5% of the purchase price of up to €400,000. Where new homes are valued between €400,000 and €600,000 the maximum relief (i.e. €20,000) will continue to be available. This will apply to new build only and not to second hand house purchases. Applicants must take out a mortgage of at least 80% of the purchase price. This scheme will run until the end of 2019.

Invalidity Pension

The Invalidity Pension is being extended to self-employed PRSI contributors from December 2017.

Interest Relief – Rented Residential Property

An increase to 80% was announced to the amount of the deduction allowable for qualifying interest payments on monies borrowed to purchase, improve or repair residential rental property. This increase will apply to both new and existing mortgages.

Rent a Room Scheme

The income ceiling for the rent-to-room scheme is to be increased by €2,000, meaning applicants can take in €14,000 a year tax free.

Home Carer's

The home carers' credit is to increase by €100 to bring it up to €1,100

Prescription Charges

The Government is reducing the €25 cap on prescription charges for over-70s to €20 from March 1st.

Mortgage Interest Relief

The Mortgage Interest Relief scheme will be extended beyond 2017.

Home Renovation Incentive Scheme

Where a tax credit for house repair or renovations is given will be extended until 2018.

Sugar Tax

In April 2018, a tax on all sugar-sweetened drinks will be introduced – in line with when it is due to be implemented in the UK. A public consultation will begin today.

Excise Duty

A pack of 20 cigarettes will be **50c** more expensive. That makes most brands now €11. That is the only tax increase in today's budget.

There is no change in excise duty on alcohol or petrol.

The relief from VRT tax on electric vehicles to be extended for another five years.

Farming and Fishing

A new low-cost flexible loan fund worth €150 million will be established.

There will be an increase in farmers VAT flat-rate addition. It will jump from 5.2% to 5.4%.

The farm restructuring relief scheme will be extended to end-2019.

A new income averaging 'step out' for farmers, will commence immediately. This means farmers pay tax on an average of five years' income to balance it out. If they have a bad year, they'll be able to opt to pay tax on that year alone now to lower their tax bill.

Bog owners and rights holders will be exempt from Capital Gains Tax under the raised bog restoration scheme.

There will be a new fisherman tax credit of €1,270 per year (if you spend at least 80 days of the 365 at sea).

Childcare

Early years funding will rise 35% from €345 to €465 million in 2017.

A new childcare scheme will be set up from September. The introduction of a new Single Affordable Childcare Scheme promises both means-tested subsidies, based on parental income, for children between six months and 15 years and universal subsidies for all children aged six months to three years. The subsidies will be paid for children and young people going to a Tusla-registered childcare provider.

The Early Childhood Care and Education Scheme and the pre-school scheme will be extended with a further €86 million provided for the full year costs.

The Access and Inclusion Model will also be rolled out with this €86 million to enable children with disabilities to take part in pre-school education.

Income Tax, PRSI & other Information

Income Tax Rate	No Change
Standard Rate	20%
Higher Rate	40%

Standard Rate Bands	No Change
Single/Widowed	
No dependent children	€33,800
With dependent children	€37,800
Married – one income	€42,800
Married – two incomes	€42,800 + increase
<i>Increase is the lower of €24,800 and income of lower earning spouse.</i>	

Income Tax Credits	2017
Personal	
Single	€1,650
Married	€3,300
PAYE Credit	€1,650
Earned Income Credit (Self Employed)	€950
One Parent Family	€1,650
Age Allowance (Single)	€245

Income Exemption Limits	No Change
Single/Widowed (aged 65+)	€18,000
Married (aged 65+)	€36,000

PRSI Rates	A1	S1
Employee		
All Income	4%	4%
(earnings less than €352pw exempt)		
Employer		
Income up to €19,552	8.5%	n/a
Income exceeding €19,552	10.75%	n/a

Universal Social Charge	Employee	Self Employed
<i>Rates from 1st January 2017</i>		
Income up to €12,012	0.5%	0.5%
From €12,013 - €18,772	2.5%	2.5%
From €18,773 - €70,044	5%	5%
From €70,045 - €100,000	8%	8%
In excess of €100,000	8%	11%
<i>Total income less than €13,000 is exempt from the USC</i>		
Full Medical Card Holders & Over 70s	Employee	Self Employed
Income up to €12,012	0.5%	0.5%
Income over €12,013	2.5%	2.5%
<i>However those with earnings greater than €60,000 will pay the normal USC rates</i>		

Savings & Investment Tax	2017
DIRT	39%
Life Assurance Exit Tax Personal plans	41%
Corporate owned	25%
Wrapper Products	60%

Social Welfare Benefits

Social Welfare Benefits	March 2017	2016
State Pension (Contributory)		
Personal Rate	€238.30	€233.30
Personal + Adult dependent (over 66)	€451.80	€442.30
Widow/Widowers (under 66)	€198.50	€193.50
State Pension (Non-Contributory)		
Personal Rate	€227.00	€222.00
Personal + Adult dependent (over 66)	€377.00	€368.70
Widow/Widowers (under 66)	€193.00	€188.00
Invalidity Pension		
Personal Rate (65 & under)	€198.50	€193.50
Personal + Adult dependent	€340.20	€331.60
Disability Allowance		
Personal Rate	€193.00	€188.00
Personal + Adult dependent	€321.10	€312.80
Jobseekers/Illness Benefit		
Personal Rate	€193.00	€188.00
Personal + Adult dependent	€321.10	€312.80
Jobseeker's Allowance		
<u>18 to 24 years of age</u>		
Personal Rate	€102.70	€100
Personal + Adult dependent	€205.40	€200
<u>25 years of age</u>		
Personal Rate	€147.80	€144.00
Personal + Adult dependent	€275.90	€268.80
<u>26 years of age and over</u>		
Personal Rate	€193.00	€188.00
Personal + Adult dependent	€321.10	€312.80
 Increase for each dependent child		
	€29.80	€29.80
<i>Where a person aged 18 to 24 has a dependent child the basic personal rate of €188 and not the reduced rate applies.</i>		

Child Benefit	2017	2016
Rate per child	€140.00	€140.00

Capital Acquisitions Tax from 12 October 2016	
Group A	€310,000 (child)
Group B	€32,500 (lineal ancestor/decedent, brother, sister or child of brother/sister)
Group C	€16,250 (others)
The thresholds apply to all gifts and inheritance received since 5 December 1991	
Tax Rate	33%
On all gifts/inheritance above thresholds	
Annual Gift Exemption	€3,000
The annual small gift exemption can be availed of regardless of the relationship between the disponent and the beneficiary. The exemption is limited to one gift per beneficiary from each disponent in a calendar year. It does not impact the CAT Thresholds noted above.	