

Welcome to our **Budget 2018** Summary



The Minister for Finance and Public Expenditure and Reform, Paschal Donohoe, has delivered Budget 2018. While many of the changes announced in yesterday's budget had been flagged in advance there were still plenty of talking points.

As expected the Minister made a number of changes to the Universal Social Charge as well as an increase in the standard rate income tax bands effective from January 2018.

The Minister also increased all weekly social welfare payments, including an increase in the State Pension of €5 per week with effect from the last week in March 2018.

The Minister however made no reference to the widening gap between the rate of DIRT, which reduces to 37% from January 2018, and the rate of exit tax on life assurance policies which remains at 41%. This is despite calls from the insurance industry for the rates to be aligned.

It had also been mooted that Capital Acquisitions Tax thresholds could be increased in Budget 2018 but these remain at previous levels.

Details of the changes that will be of most interest are outlined overleaf.

1. PENSIONS

The only pension change announced by Minister Donohoe in his Budget speech is the increase in social welfare payments including the state pension by €5 per week, with the full rate contributory pension going to €243.30 per week from the end of March 2018.

Key Points on Pensions

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

The Finance Bill will follow next week, Thursday 19th October and we will be monitoring this in case there are any technical changes, and if there are then we will of course let you know.

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 2018.

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 state pension will rise by €5 per week. Once this increase happens in March next year, this will bring the full rate state pension (contributory) to €12,651. The state pension continues to form an important part of retirement income planning for many clients, though the concerns about long-term sustainability remain.

In the context of the €12,700 guaranteed income requirement before being eligible for an ARF, when this increase commences, it leaves a small pension income shortfall. Some clients will have other pension income that will bridge this gap, and some might have the option to purchase a pension to do so. If people are not currently in receipt of the specified pension income, they will have to invest €63,500 in an AMRF or to purchase an annuity, before being eligible for an ARF. In the longer term it may make sense if the income requirement and the full rate state pension were set at matching amounts to provide consistency and certainty.

2. EXIT TAX

Despite active representations made by the insurance industry to equalise the rate of exit tax on life assurance policies with the rate of DIRT, there was no mention in the Budget of a change to the current exit tax rate of 41% (which applies to any gains) on policies effected on or after 1 January 2001 (known as gross roll-up policies).

This is very disappointing but we await confirmation of whether or not there will be any change in the upcoming Finance Bill.

Just a reminder, the exit tax rate for an investment in a life assurance policy by an Irish company is currently 25%.

3. DIRT (DEPOSIT INTEREST RETENTION TAX)

Following on from last year's budget, the rate of DIRT will decrease by 2% to 37% with effect from 1 January 2018.

It is planned that the DIRT rate will decrease by 2% each year for the next 3 years until it reaches 33% in 2020.

4. INCOME TAX, PRSI AND USC

Income Tax

As expected, there has been an increase to income tax bands. The single person standard rate band will increase from €33,800 to €34,550, and from €42,800 to €43,550 for married "one earner" couples.

There was no change to income tax rates. The higher rate of income tax remains at 40% with the standard rate of income tax unchanged at 20%.

However, there were further changes to the Earned Income Credit for the self-employed and certain proprietary directors which increased from €950 to €1,150. This forms part of a 3 year move to bring into line the treatment between the self-employed and the PAYE sector. The PAYE tax credit is currently €1,650 and remains unchanged.

These changes are effective from 1 January 2018.

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 1st January 2018:

- 2.5% USC rate reduced to 2%
- 5% USC rate reduced to 4.75%
- A €600 increase to the ceiling for the 2% USC rate raising it from €18,772 to €19,372

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
2.00%	€12,013 - €19,372
4.75%	€19,373 - €70,044
8.00%	Balance

The USC rate on self-employed income in excess, of €100,000 remains at 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% (reduced from 2.5%).

These further reductions in the USC are the first steps towards the process of merging the USC and PRSI.

A working group will be set up over the coming year to plan the amalgamation of the USC and PRSI over the medium term.

Income Tax/USC Savings Examples

Below is an example of what those changes mean to people's net take home pay:

Status	Income	Monthly Income Increased By
Single	€40,000	€21
Single	€80,000	€27
Married – 1 Income	€45,000	€22
Married – 1 Income	€100,000	€27
Married – 2 Incomes	€75,000	€27
Married – 2 Incomes	€150,000	€27

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%. Contrary to speculation, there was no change to the CAT threshold amounts for any of the groups. CAT thresholds remain as follows:

2018 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 disponent. 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 disponent.
Group C: €16,250	Applies in all other cases.

7. CAPITAL GAINS TAX (CGT)

The rate of CGT remains unchanged at 33%.

An amendment will be made to the relief widely known as '7-year CGT relief', which will allow the owners of qualifying land or buildings to sell those assets between the fourth and seventh anniversaries of when they were purchased and still enjoy a full relief from CGT on any chargeable gains.

8. OTHER MEASURES

Stamp Duty

Stamp Duty on non-residential property increases from 2% to 6% from midnight on Tuesday 10th October 2017.

Mortgage Interest Relief

An extension of mortgage interest relief has been announced for those still eligible i.e. owner occupiers who took out qualifying mortgages between 2004 and 2012. 75% of the existing 2017 relief will be continued into 2018, 50% will be given into 2019 and 25% into 2020.

The relief will cease entirely from 2021.

Benefit in Kind

To further incentivise the take up of electric vehicles, a 0% rate of Benefit in Kind (BIK) will be introduced in 2018.

Sugar Tax

A tax on sugar sweetened beverages is to be introduced on 1st April 2018. The tax will apply to sugar sweetened drinks with a sugar content between 5 grams and 8 grams per 100ml at a rate of 20c per litre. A second rate will apply for drinks with a sugar content of 8 grams or above at 30c per litre.

Increase in the VAT rate on sunbeds from 13.5% to 23%

In line with the Government's National Cancer Strategy, the VAT rate on sunbed services is being increased from 13.5% to 23% from 1st January 2018, in order, to deter sunbed use.

Brexit

A loan scheme has been introduced to assist SMEs.

Rainy Day Fund

A rainy day fund will be established in the coming year, with at least €1.5 billion transferred to it from the Ireland Strategic Investment Fund.

Cigarettes

The excise duty on a packet of 20 cigarettes will increase by 50 cents.

Home Carer Credit

The home carer credit will rise by €100 to €1,200

Health

A reduction in prescription charges for all medical card holders under 70 from €2.50 to €2 per item.

The monthly cap drops from €25 to €20, with the threshold for the drugs payment scheme dropping from €144 to €134.

Housing

The level of stamp duty on commercial property transactions will rise from 2% to 6% from midnight 10th October 2017.

The vacant site levy will increase from 3% in the first year to 7% in second and subsequent years.

Income Tax, PRSI & other Information

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

Standard Rate Bands	2018
Single/Widowed	
No dependent children	€34,550
With dependent children	€38,550
Married – one income	€43,550
Married – two incomes	€43,550 + increase
<i>Increase is the lower of €25,550 and income of lower earning spouse.</i>	

Income Tax Credits	2018
Personal	
Single	€1,650
Married	€3,300
PAYE Credit	€1,650
Earned Income Credit (Self Employed)	€1,150
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	8.6%	n/a
Income exceeding €19,552	10.85%	n/a

Universal Social Charge	Employee	Self Employed
Rates from 1 st January 2018		
Income up to €12,012	0.5%	0.5%
From €12,012 - €19,372	2%	2%
From €19,372 - €70,044	4.75%	4.75%
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%	2%
<i>However those with earnings greater than €60,000 will pay the normal USC rates</i>		

Savings & Investment Tax	No Change
DIRT	39%
Life Assurance Exit Tax Personal plans	41%
Corporate owned	25%
Wrapper Products	60%

Social Welfare Benefits

Social Welfare Benefits	March 2018	2017
State Pension (Contributory)		
Personal Rate	€243.30	€238.30
Personal + Adult dependent (over 66)	€461.30	€451.80
Widow/Widowers (under 66)	€203.50	€198.50
State Pension (Non-Contributory)		
Personal Rate	€232.00	€227.00
Personal + Adult dependent (over 66)	€385.30	€377.00
Widow/Widowers (under 66)	€198.00	€193.00
Invalidity Pension		
Personal Rate (65 & under)	€203.50	€198.50
Personal + Adult dependent	€348.80	€340.20
Disability Allowance		
Personal Rate	€198.00	€193.00
Personal + Adult dependent	€329.40	€321.10
Jobseekers/Illness Benefit		
Personal Rate	€198.00	€193.00
Personal + Adult dependent	€329.40	€321.10
Jobseeker's Allowance		
<u>18 to 24 years of age</u>		
Personal Rate	€107.70	€102.70
Personal + Adult dependent	€215.40	€205.40
<u>25 years of age</u>		
Personal Rate	€152.80	€147.80
Personal + Adult dependent	€284.20	€275.90
<u>26 years of age and over</u>		
Personal Rate	€198.00	€193.00
Personal + Adult dependent	€329.40	€321.10
Increase for each dependent child	€31.80	€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	2018	2017
Rate per child	€140.00	€140.00

C	Capital Acquisitions Tax 2018 – No Change	
	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%
te	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 disponer and the beneficiary. The exemption is limited to one gift per beneficiary from each disponer in a calendar year. It does not impact the CAT Thresholds noted above.	