




Budget 2020 - LIA Update



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Budget 2020 Update – The Main Points

- No change in income tax and USC rates and bands for 2020. However, two tax credits are increased:
 - Earned income tax credit for the self-employed and proprietary directors increased by €150 to €1,500 for 2020.
 - The Home Carer tax credit increases by €100 to €1,600 for 2020.
- DIRT reduces to 33% in 2020 but no change announced in the exit tax rate of 41% or in the 1% insurance premium levy.
- No State Pension increases for 2020 but two allowances are increased from March 2020:
 - The Living Alone allowance by €5 pw to €14 pw
 - The Qualified Child by €3 pw for under 12s and by €2 pw for the over 12s to €36 pw and €40 pw respectively.
- CAT Class A Threshold increased by €15,000 to €335,000 from 9th October 2019.
- No changes announced in private pension tax reliefs or taxation of benefits.
- Employer's Class A PRSI rate increases to 11.05% in 2020 (for those with earnings over €386 pw).
- The annual limit for tax relief on investing in Employment and Investment Incentive (EII) is increased from €150,000 to €250,000 from 8th October 2019 and to €500,000 for those who invest for at least 10 years.
- The Help to Buy tax rebate scheme extended to end of 2021.
- Stamp Duty rate on purchase of commercial property increased to 7.5% from 8th October 2019.
- Dividend Withholding Tax (DWT) increases from 20% to 25% from 1st January 2021.
- Other taxation and pension changes not announced in the Budget could be introduced later in the Finance Bill 2019.

No change in income tax and USC bands & rates

There will be no change in 2020 in current income tax and USC bands and rates.

Increase in the earned income tax credit for the self-employed and proprietary directors for 2020

The self-employed and proprietary directors (and their spouse/civil partner working in the business) are **not** entitled to the €1,650 PAYE tax credit, available to all other taxpayers.

However, in 2016, a tax credit (called the earned income tax credit) was introduced for the self-employed and working proprietary directors and their working spouses/civil partners. The maximum 2019 earned income tax credit is €1,350 per person but this will be increased to €1,500 in 2020, leading to a tax saving of €150 for those entitled to the full credit.

Increase in the Home Carer tax credit for 2020

The Home Carer tax credit increases by €100 to €1,600 in 2020.

DIRT rate reduces to 33% for 2020

The DIRT rate is being reduced on a phased basis from 41% in 2016 to 33% by 2020:

DIRT Rates

2016	2017	2018	2019	2020
41%	39%	37%	35%	33%

In 2020 the DIRT rate will therefore fall to 33%.

No change in exit tax rate

The Budget speech made no mention of a reduction in the exit tax rate from its current 41%.

No change in 1% insurance premium levy

The Budget speech made no mention of a reduction in the exit tax rate from its current 41%.

No State Pension increases

There will no increase in 2020 in the current personal rate of Social Welfare benefits including the State Pension Contributory. However, the Christmas Bonus on the State Pension will again be paid at 100% of the weekly rate in early December 2019.

Currently any recipient of the State Pension Contributory getting more than €238.80 pw meets the ARF option €12,700 specified income requirement and hence is not required to meet the €63,500 AMRF/annuity purchase requirement or to maintain an existing AMRF.

However, two allowances are increased from March 2020:

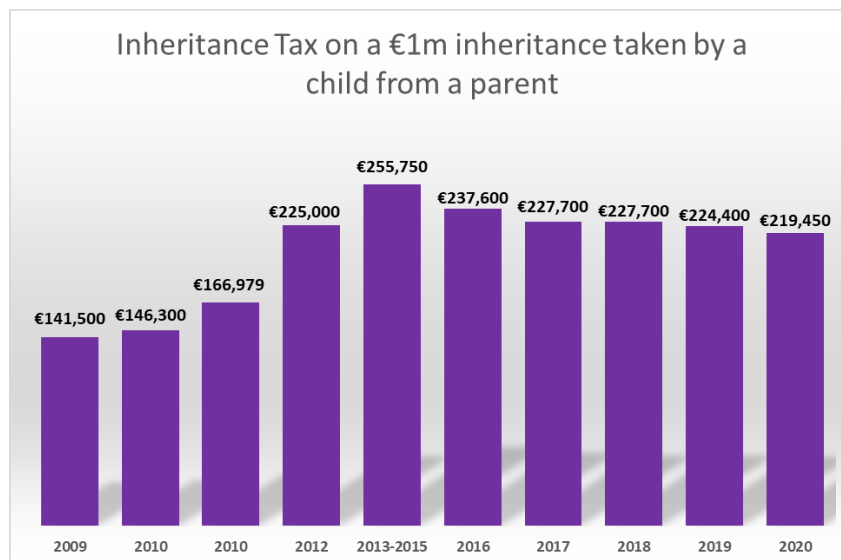
- The Living Alone allowance increases by €5 pw to €14 pw
- The Qualified Child increases by €3 pw for under 12s and by €2 pw for the over 12s, to €36 pw and €40 pw respectively.

Increase in Class A CAT Threshold

There is a small €15,000 increase in the Class A (children inheriting from parents) CAT Threshold with effect from 9th October 2019, from €320,000 to €335,000:

Threshold Class	Applies to	Threshold from 9 th October 2019
A	Children inheriting from parent	€335,000
B	Inheriting from other blood relatives	€32,500
C	Inheriting from strangers	€16,250

The CAT rate stays at 33%. The Inheritance Tax payable on a €1m inheritance by a child varying by the year of inheritance is:



The CAT payable on a gift or inheritance of the following amount received by a child from a parent from 9th October 2019 is as follows, assuming the full €335,000 threshold limit applies:

Inheritance	Inheritance Tax
€300,000	€0
€400,000	€21,450
€500,000	€54,450
€600,000	€87,450
€700,000	€120,450
€800,000	€153,450
€900,000	€186,450
€1,000,000	€219,450

No private pension tax relief changes

The Budget speech and related documents made no reference to any changes in private pension tax reliefs or taxation of benefits.

Increase in employer's Class A PRSI rate

The employer's PRSI Class A rate will increase from its current 10.95% in 2019 to 11.05%, for employees earning more than €386 pw. For lower earners, the employer's PRSI Class A rate will increase from 8.7% in 2019 to 8.8% in 2020.

	2019	2020
Employer PRSI Class A rate	10.95% for those earning more than €386 pw	11.05% for those earning more than €386 pw
Employer PRSI Class A rate	8.7% for those earning less than €386 pw	8.8% for those earning less than €386 pw

Increase in the Employment and Investment Incentive Scheme (EII) annual tax relief limit

The EII currently provides full income relief payable in two instalments subject to meeting certain conditions, for investment in qualifying small and medium sized trading companies or in funds which invest in such companies.

The current 2019 annual limit on tax relief on investment in EII companies or funds is €150,000. This is increased to €250,000 from 8th October 2019. The annual limit increases to €500,000 for those investors prepared to invest in EII for ten years or more.

Help to Buy scheme extended for another two years

The Help to Buy scheme gives a refund of income tax paid (but not USC or PRSI) over the previous four years to first time buyers of 5% of the purchase price/value of the new home up to €500,000, subject to a maximum rebate of €20,000 per property.

The rebate is also limited to the amount of income tax actually paid over the previous four years.

The rebate only applies where the mortgage is at least 70% of the home value.

The scheme was due to end at the end of 2019 but this is now being extended for another two years to the end of 2021.

Increase in Stamp Duty on purchase of commercial property

The current 6% Stamp Duty rate payable on investment in non-residential property will increase to 7.5% with effect from 8th October 2019.

Dividend Withholding Tax to increase to 25% in 2020

The current 20% DWT rate applied to dividends paid by Irish resident companies, with exemption for pension and ARF investors, will be increased to 25% from 1st January 2020.

Revenue plan to move to an individualised DWT rate, based on each investor's own tax rates etc., with effect from 1st January 2021. This would mean, for example, that a higher rate taxpayer would have a 40% DWT rate applied but a standard rate payer would have a 20% rate applied. It is anticipated that pension funds and ARFs will continue to be exempted from DWT.

The change in DWT won't change the ultimate tax liability for the private investor or proprietary director, as DWT is offset as a tax credit against the tax liability on the gross dividend.

Finance Bill 2019

The Finance Bill implementing the Budget 2020 will be published within the next 10 days or so.

It is possible that other taxation and pension changes not announced in the Budget could be introduced in the Bill, either at publication of the Bill or as it goes through the Committee Stage.

Income Tax

Tax Rates

	Tax Rate
Standard rate band	20%
Higher rate band	40%

Standard Rate Band

	Bands 2020
Single / Widowed without dependent children	€35,300
One Parent Family	€39,300
Married / Civil Partners, one earner	€44,300
Married / Civil Partners, two earners	€44,300 + increase max €26,300*

* The increase is the lower of €26,300 and the amount of income of the spouse / civil partner with the lower income. The increase is not transferable between spouses / civil partners.

Income Tax Exemption Limits

	Limit
Single (65 and over)	€18,000
Married / Civil Partners (at least one aged 65 or over)	€36,000
Additional allowance per Child	€575
Additional allowance per Child (3 rd and more)	€830

Tax Credits

	Tax Credit
Single Person	€1,650
Married / Civil Partners	€3,300
Widowed / Surviving Partners (no dependent children)	€2,190
One Parent Family (additional credit)	€1,650
Home Carer tax credit	€1,600
PAYE Employee tax credit	€1,650 (max)
Earned Income tax credit	€1,500 (max)
Incapacitated Child	€3,300 (max)
Dependant Relative	€70
Age Credit – (65 and over)	€245
Age Credit – Married / Civil Partners (65 and over)	€490
Blind person	€1,650

Universal Social Charge (USC)

Total income subject to USC	USC Rate
The first €12,012	0.5%
Next €7,862	2.0%
Next €50,170	4.5%
Balance	8%*

However:

- Individuals whose total income subject to USC for the year is less than €13,000 are exempt from USC.
- The following pay a reduced rate of 2.0% on all income subject to USC over €12,012:
 - Individuals over age 70 whose total income subject to USC for the year is €60,000 or less.
 - Individuals under age 70 who hold a full medical card (i.e. not a GP only card) and whose total income subject to USC for the year is €60,000 or less.

*A 3% additional USC rate (i.e. on top of the 8% rate) applies to non-PAYE income in excess of €100,000.

PRSI Contribution Rates

PRSI	A1	S1	B1
Employee	4.0%	4.0%	0.9%*
Employer (earnings more than €386 pw)	11.05%	Nil	2.01%

* B1 employee rate increases to 4% for income > €1,443 per week.

Social Insurance Benefits

Benefit	Maximum weekly rate of benefit from March 2020
State Pension (Contributory) Personal Rate (Under 80)	€248.30
Widow's / Widower's / Surviving Civil Partner's Contributory Pension (Under 66)	€208.50
Invalidity Pension Personal Rate (Under 66)	€208.50
Illness / Jobseekers Benefit Personal Rate	€203.00
Increases for each Child Dependant, max State Pension / Invalidity Pension Illness / Jobseeker's Benefit Widow's / Widower's / Surviving Civil Partner's Pension	Under 12: €36 pw 12 and over: €40 pw

Pensions

Income Tax Relief on Personal Contributions

Age attained during year	% of Net Relevant Earnings (max €115,000)
Less than 30	15%
30 – 39	20%
40 – 49	25%
50 – 54	30%*
55 – 59	35%
60 and over	40%

* The 30% limit above also applies to certain professional sportspeople (e.g. professional golfers) under 50 in relation to their income from their sports occupation.

Taxation of Pension Lump Sums

Total lump sums received since 7 th December 2005	Tax
Up to €200,000	Tax free
Next €300,000	Standard rate income tax
Balance	Marginal rate income tax and USC

Chargeable Excess Tax

Total retirement benefits taken since 7 th December 2005	Tax
Less than Threshold*	Nil
Excess over Threshold (€2m)	40%**

* Threshold is the Standard Fund Threshold (€2m) or Personal Fund Threshold, if greater.

**Tax reduced by a credit for any standard rate tax deducted from pension lump sums taken since 1st January 2011 and not previously offset against a chargeable excess tax charge.

Redundancy Payments

Tax Free Limits

	Band
Statutory	2 weeks for each year of service (including parts of a year) plus 1 week; maximum reckonable weekly pay of €600
Ex gratia	
Basic	€10,160 + €765 for each complete year of service
Increased	Basic + a maximum of €10,000; provided no entitlement to a pension lump sum and no ex gratia termination payment within last 10 years
Standard Capital Superannuation Benefit (SCSB)	N / 15 x Average Annual Remuneration over last 36 months less present value of tax-free pension lump sum, where: <ul style="list-style-type: none"> • N = number of complete years of service • Present value of tax-free pension lump sum is nil, if individual signs an irrevocable waiver to receive such a sum
Lifetime limit of €200,000 on all tax-free ex gratia termination payments.	

Capital Acquisitions Tax

Tax Rate

Total Gifts & Inheritances received since 05/12/1991	Tax Rate
Threshold	Nil
Balance	33%

Exit Tax Rate

	Rate
Life assurance policies effected on or after 1 st January 2001	41%

Thresholds – with effect from 9th October 2019

Relationship to donor / testator	Threshold
Child or minor child of deceased child or parent (absolute inheritance on death)	€335,000
Brother, sister, child of brother or sister, or another lineal ancestor or descendant	€32,500
Others	€16,250

DIRT Rates

2016	2017	2018	2019	2020
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Inheritance Tax – child inheriting from parent from 9th October 2019

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€500,000	€54,450
€600,000	€87,450
€700,000	€120,450
€800,000	€153,450
€900,000	€186,450
€1,000,000	€219,450

* assuming full Class A Threshold of €335,000 is available.