

Budget 2018

Life & Pensions Update

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Welcome to our Budget 2018 Summary



Introduction


The Minister for Finance and Public Expenditure and Reform, Paschal Donohoe, has delivered Budget 2018. While many of the changes announced in today'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 to pension, protection and investment clients are outlined overleaf.

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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 (expected to be published on Thursday 19 October 2017) to see what other changes, if any, happen.

State Pension (Contributory)

The maximum personal rate of the State Pension (Contributory) has increased by €5 per week to €243.30 per week. Payment of the increase will take effect from the last week of March 2018.

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

Specified Income Requirement

The current specified income requirement is €12,700 per annum, which is the amount needed before an individual can invest in an Approved Retirement Fund (ARF). With the announcement of the weekly increase to the State Pension (Contributory), the maximum rate of the State Pension will become €12,652 per annum from the end of March 2018. We would therefore hope that the Department of Finance will consider making the necessary change in the Finance Bill to bring the specified income requirement for investing in an ARF in line with the State Pension amount considering the amounts are now so close in value.

2. 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.

3. 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%.

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

Current 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 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
0.5%	€0 to €12,012
2%	€12,013 to €19,372
4.75%	€19,373 to €70,044
8%	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.

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:

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

7. Capital Gains Tax (CGT)

The rate of CGT remains unchanged at 33%.

8. Stamp Duty

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

Legislation including the Finance and Social Welfare Bills are expected to be published in the near future and we wait to see if they contain further changes not specifically announced in the Budget.

This publication is intended only as a general guide and not as a detailed analysis. In the interests of brevity and clarity, detailed information may have been omitted which may be directly relevant to an individual's or an organisation's circumstances. The information is provided "as is" without warranties of any kind, express or implied, including accuracy, timeliness and completeness. It should not be used as a substitute for appropriate professional advice.