

Budget 2018 Update from ARF Ireland – Main points

- Standard rate income tax band increased by €750 for 2018, giving a tax saving in 2018 of €150 for higher rate taxpayers.
- Earned income tax credit for the self-employed and proprietary directors increased by €200 to €1,150 for 2018.
- The lower USC bands and tax rates will be reduced in 2018. The maximum saving for higher earners is €178 pa.
- DIRT rate reduced to 37% in 2018 but no change announced in the exit tax rate of 41%.
- All State Pensions to increase by €5 pw from the end of March 2018. This will make the maximum State Pension €12,695 pa, or just €5 pa under the €12,700 pa specified income limit for the ARF option.
- Stamp Duty on the purchase of commercial (i.e. non-residential) property is increased from 2% to 6% with effect from midnight 10th October 2017.
- Mortgage interest tax relief for those who bought their homes between 2004 and 2012 is being phased out between 2018 and 2020. The relief will finish for these borrowers at the end of 2020.
- No change in CAT thresholds.
- New tax efficient share option scheme (called KEEP) will be introduced in 2018 for employees of unquoted SMEs.
- No changes announced in private pension tax reliefs or taxation of benefits.
- It is possible that other taxation and pension changes not announced in the Budget could be introduced in the Finance Bill, either at publication on 19th October 2017, or at the Committee Stage, scheduled for 7th to 9th November 2017.

Standard rate income tax band increased

The standard rate income tax band will be increased in 2018 by €750:

	Band 2017	Band 2018
Single / Widowed without dependent children	€33,800	€34,550
One Parent Family	€37,800	€38,550
Married / Civil Partners, one earner	€42,800	€43,550
Married / Civil Partners, two earners	€42,800 + increase max €24,800*	€43,550 + increase max €24,800*

* The increase is the lower of €24,800 and the amount of income of the spouse / civil partner with the lower income. The increase is not transferable between spouses / civil partners.

For higher rate taxpayers, the €750 increase in the standard rate band amount to an effective tax saving of $20\% \times €750 = €150$ pa.

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

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.

In Budget 2016, a tax credit at standard was introduced for the self-employed and working proprietary directors and their working spouses/civil partners on their earned income, up to a current maximum credit of €950 per person. This maximum tax credit is being increased by €200 to €1,150 per person for 2018.

Lower USC rates

The lower USC rates and bands have been reduced for 2018 as follows:

2017		2018	
Income band	USC rate	Income band	USC rate
Up to €12,012	0.5%	Up to €12,012	0.5%
Next €6,760	2.5%	Next €7,360	2.0%
Next €51,272	5.0%	Next €50,672	4.75%
Balance	8.0%	Balance	8.00%

The change in USC bands and rates leads to the following change in USC liability as between 2018 and 2017 at different levels of gross income:

Gross Income	USC 2017	USC 2018	Gain
€30,000	€790	€712	€78
€40,000	€1,290	€1,187	€103
€50,000	€1,790	€1,662	€128
€60,000	€2,290	€2,137	€153
€70,000	€2,790	€2,612	€178
€80,000	€3,589	€3,411	€178
€90,000	€4,389	€4,211	€178
€100,000	€5,189	€5,011	€178

- The self-employed with non-PAYE earned income in excess of €100,000 pay additional (to the 8% rate above) USC of 3.0% on such income in excess of €100,000; this continues for 2018.
- The 2.5% maximum rate applying in 2017 to the over 70s (and under 70s holding a medical card) with income (excluding Social Welfare pensions) of less than €60,000 will be reduced to 2.0% in 2018.

DIRT rate reduced to 37% for 2018

Last year's Budget provided for a phased reduction in the DIRT rate from 41% in 2016 to 33% by 2020:

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

In 2018 the DIRT rate will therefore fall to 37%.

Exit tax

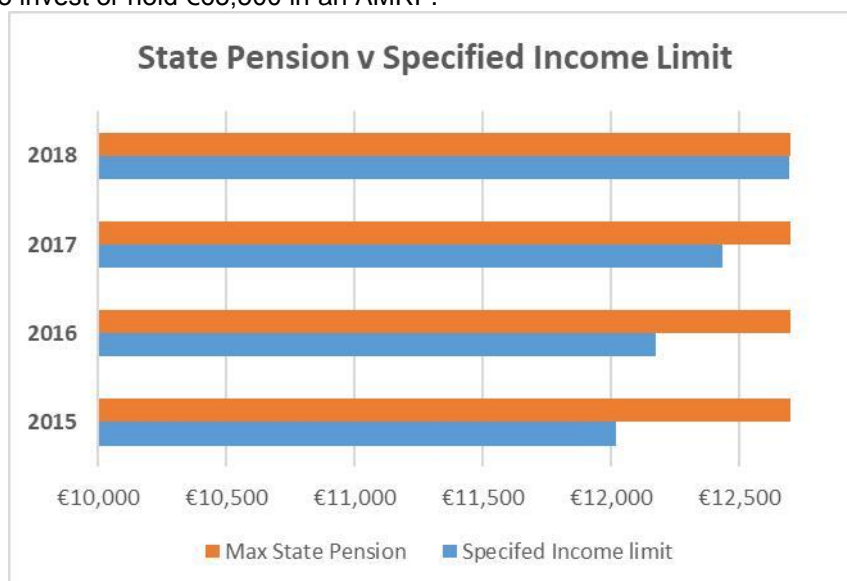
The Budget speech made no mention of a reduction in the exit tax rate from its current 41%.

State Pension increases by €5 pw from end March 2018

There is a general €5 pw increase to all Social Welfare pensions, including the State Pensions (Contributory and Non Contributory) from the end of March 2018:

Benefit	Current maximum pension	Maximum weekly rate of benefit from March 2018
State Pension (Contributory)		
Personal Rate (<i>Under 80</i>)	€238.30	€243.30
Person + qualified adult (<i>Over 66</i>)	€451.80	€461.30
Person + qualified adult (<i>Under 66</i>)	€397.10	€405.40

The new maximum State Pension (Contributory) from March 2018 will be €243.30 pw, or some €12,695 pa on an annualised basis, just €5 pa short of the €12,700 specified income test for the ARF option, to avoid having to invest or hold €63,500 in an AMRF.



A further increase in the State Pension in 2018 will bring it over the €12,700 pa specified income limit, hence in effect removing the AMRF requirement from those getting the maximum rate of State Pension. However, the specified income limit could yet be increased in this year's Finance Bill (to be published on 19th October 2017) or in next year's Budget. It remains to be seen.

The main Social Welfare benefit rates for 2018 are set out in the Tax & Social Insurance Rates Table at the end of this update.

Stamp Duty on commercial property increased

The Stamp Duty rate on the purchase of commercial (i.e. non-residential) property is being increased from 2% to 6% with effect from midnight 10th October 2017.

Mortgage interest relief continues to be phased out

Those who bought their home between 2004 and 2012 will continue to get mortgage interest tax relief at standard rate on 75% of their allowable interest (subject to a monetary limit) in 2018.

However, the relief will be reduced to 50% of allowable interest in 2018, 25% in 2020, and ending from 2021 onwards.

The monetary limits applying to qualifying interest are also being reduced over the period to 2020, as follows:

Mortgage Interest Relief Ceilings 2017 - 2020

	2017 Ceilings (Current)	2018 Ceilings	2019 Ceilings	2020 Ceilings
Single Person	3,000	2,250	1,500	750
Married Couple	6,000	4,500	3,000	1,500
FTB Single Person	10,000	7,500	5,000	2,500
FTB Married Couple	20,000	15,000	10,000	5,000

Note: FTB refers to a first-time buyer in the first 7 years of a qualifying mortgage

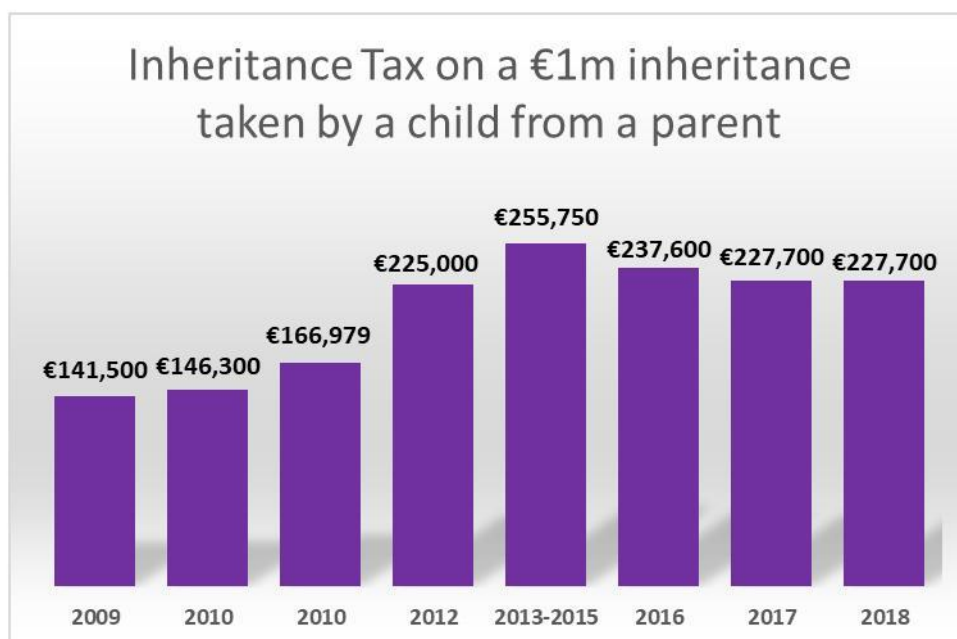
No change in CAT thresholds

Despite expectations that the CAT thresholds would be increased, in fact no change was announced in Budget 2018, so therefore the current thresholds will apply unchanged for 2018:

Threshold Class	Applies to	Threshold
A	Children inheriting from parent	€310,000
B	Inheriting from other blood relatives	€32,500
C	Inheriting from strangers	€16,250

The CAT rate stays the same at 33%.

The Inheritance Tax payable on a €1m inheritance by a child has reduced in recent years as follows:



The CAT payable on a gift or inheritance of the following amount received by a child from a parent is as follows:

Inheritance	Inheritance Tax
€300,000	€0
€400,000	€29,700
€500,000	€62,700
€600,000	€95,700
€700,000	€128,700
€800,000	€161,700
€900,000	€194,700
€1,000,000	€227,700

New tax efficient share option scheme for employees of unquoted SMEs

A share-based remuneration tax incentive scheme, called KEEP, is being introduced to facilitate the use of tax efficient share-based remuneration by unquoted SME companies to attract key employees.

Gains arising to employees on the exercise of share options obtained under the KEEP scheme will be liable to Capital Gains Tax on disposal of the shares, in place of the current liability to income tax, USC and PRSI on exercise.

This incentive applies to qualifying share options granted between 1st January 2018 and 31st December 2023.

No private pension changes

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

Finance Bill 2017

The Finance Bill implementing Budget 2018 will be published on 19th October 2017.

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 which is scheduled for 7th – 9th November 2017.

Tax and Social Insurance Rates 2018

Income Tax

Tax Rates

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

Standard Rate Band

	Bands 2018
Single / Widowed without dependent children	€34,550
One Parent Family	€38,550
Married / Civil Partners, one earner	€43,550
Married / Civil Partners, two earners	€43,550 + increase max €24,800*

* The increase is the lower of €24,800 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	€1,200
PAYE Employee tax credit	€1,650 (max)
Earned Income tax credit	€1,150 (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%
The next €7,360	2.0%
The next €50,672	4.75%
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	10.75%	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 2018
State Pension (Contributory)	
Personal Rate (Under 80)	€243.30
Person + qualified adult (Over 66)	€461.30
Person + qualified adult (Under 66)	€405.40
Widow's / Widower's / Surviving Civil Partner's Contributory Pension (Under 66)	€203.50
Invalidity Pension	
Personal Rate (Under 66)	€203.50
Person + qualified adult (Under 66)	€348.80
Illness / Jobseekers Benefit	
Personal Rate	€198.00
Person + qualified dependant	€334.40
Increases for each Child Dependant, max	
State Pension / Invalidity Pension	€29.80
Illness / Jobseeker's Benefit	€29.80
Widow's / Widower's / Surviving Civil Partner's Pension	€29.80

Tax and Social Insurance Rates 2018

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

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.	

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.



ARF Budget 2018

IRELAND Tax and Social Insurance Rates 2018

Capital Acquisitions Tax

Tax Rate

Total Gifts & Inheritances received since 5/12/1991	Tax Rate
Threshold	Nil
Balance	33%

Thresholds – with effect from 12th October 2016

Relationship to donor / testator	Threshold
Child or minor child of deceased child or parent (absolute inheritance on death)	€310,000
Brother, sister, child of brother or sister, or other lineal ancestor or descendant	€32,500
Others	€16,250

Exit Tax Rate

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

DIRT Rates

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

Inheritance Tax – child inheriting from parent from 12th October 2016

Inheritance	Inheritance Tax*
€300,000	€0
€400,000	€29,700
€500,000	€62,700
€600,000	€95,700
€700,000	€128,700
€800,000	€161,700
€900,000	€194,700
€1,000,000	€227,700

* assuming full Class A Threshold of €310,000 is available.