BUDGET 2021 UPDATE

Brokers Ireland
87 Merrion Square, Dublin 2, D02 DR40.
t: 01 661 3067
e: info@brokersireland.ie
www.brokersireland.ie

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The 2021 Budget details were announced in the Dail by the Minister for Finance on 13th October 2020. We look at the main changes potentially impacting on clients.

The key points from the Budget 2021 speech:

- No change in income tax rates or bands.
- Two income tax credits have been increased:
    - The earned income tax credit provided to the self employed and proprietary directors increases by €150 in 2021 to €1,650.
    - The dependent relative tax credit of €70 increases by €175 in 2021 to €245.
- Employees working at home may be able to claim some expenses for income tax purposes.
- No change in pension tax relief, the €115k NRE limit, or the €2m Standard Fund Threshold limit
- No change in the 1% life assurance premium levy
- No change in DIRT or life assurance exit tax rates
- No change in CGT or CAT rates. The CAT Thresholds remains as before.
- No change in PRSI rates
- State Pension
    - The State Pension Age remains at 66 for those reaching that age in 2021.
    - No increase in the State Pension, but the living alone allowance is increased by €5pw to €19 pw.
    - The Christmas bonus will be paid in early December 2020 at 100% of the weekly amount.
- The child supplement to certain Social Welfare benefits, such as Jobseekers and Illness, will be increased in 2021 by €5pw for children over 12 and by €2pw for a child under 12.
- The enhanced Help to Buy Scheme will be extended to end of 2021, providing a tax refund of up to €30,000 in certain circumstances.

However it is possible that taxation changes not announced in the Budget could be introduced in the Finance Bill 2020 when it is published in about 10 days.

No change in income tax bands or rates

There is no change in income tax and USC rates and bands for 2021:

Income Tax rates and bands

	2020	2021
Standard rate	20%	20%
Higher rate	40%	40%
Single person standard rate band	€35,300	€35,300
Married couple, one income standard rate band	€44,300	€44,300
Married couple, two incomes standard rate band	€70,600, transferable between spouses to a maximum of €44,300	€70,600, transferable between spouses to a maximum of €44,300

USC rates and bands

The 2.0% USC band will be increased in 2021 by €203:

USC Rates and bands

	2020		2021
First €12,012	0.5%	First €12,012	0.5%
Next €8,472	2.0%	Next **€8,675**	2.0%
Next €50,170	4.5%	Next €50,170	4.5%
Balance	8.0%	Balance	8.0%

The self-employed 3% USC surcharge on non-PAYE incomes over €100,000 continues to apply for 2021.

The reduced 2% USC rate for medical card holders with income under €60,000 continues to apply for 2021.

Increase in earned income and dependant relative tax credits

- The earned income tax credit provided to the self-employed and proprietary directors who can not qualify for the employee tax credit, will be increased by €150 in 2021 to €1,650, i.e. the same level as the employee tax credit. This will mean an income tax saving of €150 in 2021 for most self employed and proprietary directors.

- The dependent relative tax credit will be increased in 2021 by €175 to €245.

Income tax credits

	2020	2020
Earned income credit	€1,500	**€1,650**
Dependent relative tax credit	€70	**€245**

Working from home expenses

The Minister confirmed the position of employees working from home and expenses:

- where the employer makes payments towards the expenses of working from home, up to €3.20 may be paid to employees without a Benefit-In-Kind arising;
- where the employer does not make a contribution, the worker may be able to claim tax relief on certain utility expenses such as a portion of heat and light and broadband. Details will be set out in Revenue guidance on the topic; and
- claims may also be made for any other vouched expenses incurred "wholly, exclusively and necessarily" in the performance of the duties of their employment.

PRSI rates & bands

In recent years the self employed have become entitled to the Social Welfare Jobseekers Benefit and Invalidity Pension. However the Class S PRSI rate has remained unchanged at 4.0%. There have been calls to increase the self employed Class S PRSI rate from 4.0% to the same as the employer Class A rate of 11.05%.

The Programme for Government stated:

'Consideration will be given to increasing all classes of PRSI over time to replenish the Social Insurance Fund to help pay for measures and changes to be agreed'.

However the Budget speech made no reference to PRSI increases and hence it seems the Class S PRSI rate of 4.0%, and other PRSI rates, remains unchanged for 2021.

However there is a minor increase in the employee earnings limit for Class A PRSI at which the full 11.05% employer PRSI rate applies, from €395 to €398 pw.

Dividend withholding Tax

Dividend Withholding Tax (DWT) was levied in 2019 and earlier years at standard rate, 20%, on dividends paid by Irish resident companies with exemption for pension and ARF investors.

The DWT rate was increased in last year's Budget to 25% with effect from 1st January 2020.

The plan is to move to a 'personalized' DWT rate in 2021, i.e. based on the circumstances of the individual investor. However the Budget speech did not mention the DWT rate and so we have to wait for the Finance Bill 2020 to see if the new personalized DWT rate system will come into play on 1st January 2021.

However, the change in DWT rate doesn't change the ultimate tax liability for an individual, as DWT is allowed as a tax credit against the income tax liability on the gross dividend.

No change in exit tax

The DIRT rate has been being reduced in stages from 41% in 2016 to its current 33% which applied since 1st January 2020. The DIRT rate is therefore now the same as the current Capital Gains Tax and Capital Acquisitions Tax rate, i.e. 33%.

However the exit tax rate applied to life assurance savings and investment policies remains at 41%. This exit tax rate is sometimes referred to as LAET (Life Assurance Exit Tax). The estimated tax revenue from LAET in 2019 is €128m and €64m from DIRT.

In our Budget Submission 2021 Brokers Ireland stated:

'The anomalous tax treatment of returns from unit linked investments subject to exit tax @ 41% is compounded in the case of life assurance policies, by the 1% premium levy.

We believe if the exit tax rate on life assurance policies is not to be reduced to the DIRT rate of 33%, then the DIRT rate should be increased to the exit tax rate of 41%, i.e. the DIRT rate which applied up to Budget 2017, in addition to abolishing the 1% insurance premium levy, in order to ensure consistency and equality in the taxation of investment returns as between life assurance policies and deposits.'

The Tax Strategy Group which advises the Minister for Finance discussed the different LAET and DIRT rates in July 2020 and concluded:

- *" ... even with different rates of tax there is potential benefit in investing in financial products subject to LAET and it is not just a case of comparing the 33% and 41% rates of tax*
- *The option to reduce rates of LAET to 33% would cost €22 million in a full year. It is not clear as to the benefit of reducing LAET in an environment where there is a need for consumer expenditure to increase.*
- *Consideration could be given to raising DIRT rate above 33% to 41% or indeed some rate in between or reintroducing the higher rate DIRT on tracker/hybrid type deposits to remove any distortionary impact on behaviour."*

As the Budget speech did not mention the exit tax or DIRT rates, it seems they will remain at current levels in 2021.

1% life assurance premium levy unchanged

In our Budget Submission 2021 Brokers Ireland argued for the abolition of the 1% life assurance premium levy on the following grounds:

- *" ... it distorts the domestic savings and investment market by not applying to deposits, offshore policies, or domestic and offshore collective investment funds.*
- *It increases the cost to individuals of protecting themselves and their families through life assurance and serious illness cover, as the levy increases their premiums by 1%."*

However the Budget speech did not mention the levy and hence it seems it continues at 1% for 2021.

State Pension Age stays at 66 for 2021

The Programme for Government stated :

"Pending the report of the Commission on Pensions and any subsequent Government decisions on its recommendations, the State Pension age will remain at 66 years and the increase to 67 years will be deferred. This will allow full consideration by Government of any permanent changes. The Commission will report by June 2021. The Government will take action having regard to the recommendations of the Commission within 6 months."

The Minister confirmed in the Budget Speech that the State Pension Age will stay at 66 for 2021, pending the report from the proposed Commission later in 2021.

No increase in State Pension rate

After several years of increasing the State Pension by €5pw, there is no increase this year in the personal rate of the State Pension.

However, the Living Alone allowance will be increased by €5 pw from €14 to €19 pw from March 2021.

The Christmas Bonus for the State Pension will be paid in December 2020 at 100%.

The Revenue confirmed in the past that the State Pension Christmas Bonus could, once received, can be counted as income for the purposes of the €12,700 specified income test to avoid having to invest €63,500 of retirement funds in an AMRF or annuity or to unlock an AMRF already held.

Because no change was announced in the AMRF amount or specified income test of €12,700, the current position in relation to the State Pension and the ARF option is as follows:

Those receiving more than €238.80 pw of State Pension Contributory, e.g. someone receiving the current maximum €248.30 pw rate of State Pension Contributory.	They are deemed to meet the €12,700 specified income requirement and hence are not required to meet the €63,500 AMRF/annuity requirement or hold an AMRF.
Those currently receiving less than €238.80 pw of State Pension Contributory	They are *not* deemed to meet the €12,700 specified income requirement, unless they have other pension or annuity income, and hence may be required to meet the €63,500 AMRF/annuity requirement and to hold an AMRF if they already have one.

Holding an AMRF but under the State Pension Age.	Their AMRF will automatically convert to an ARF when they first start to receive the State Pension Contributory of at least €238.80 pw.
A new retiree under the State Pension Age	They must still invest €63,500 in an AMRF or annuity at the point of taking their benefits, if not then in receipt of pension & annuity income of at least €12,700 pa. However, their AMRF will automatically convert to an ARF when they start to receive the State Pension (including the Christmas bonus) of at least €238.80 pw.

Increase in qualified child supplement for Social Welfare benefits

Certain Social Welfare benefit rates, such as Jobseekers and Illness, are increased where the recipient has a qualified child. The rates are being increased in 2021 as follows:

Social Welfare increase for Qualified Child

	2020	2021
Child under 12	€36 pw	€38 pw (+ €2 pw)
Child 12 and over	€40 pw	€45 pw (+ €5 pw)

Help to Buy Scheme extended to end of 2021

The Help to Buy Scheme for first time buyers of new properties was enhanced in July 2020 to increase the maximum tax refund to €30,000, or 10% of the purchase price of the property if lower, for the rest of 2020. This enhanced scheme has now been extended to the end of 2021.

No change in pension tax relief

Pension tax relief was not mentioned in the Minister's Budget Speech, so no change was announced in the level of relief, the €115,000 NRE limit, the €200,000 tax free lump sum limit, or the €2m Standard Fund Threshold limit.

Further changes could happen in the Finance Bill 2020

The Finance Bill 2020 which will implement the Budget 2021 changes will be published within the 10 days or so. It's possible that other taxation changes not announced in the Budget could be introduced in the Bill at that stage.

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