Budget 2013

Financial Advisor Update

Welcome to our Budget 2013 Summary

1. Pensions

The Government has reaffirmed its commitment to encouraging lower and middle income earners provide for their retirement through investment in private pensions.

Tax Relief on Pension Contributions

There has been no change to the tax relief on pension contributions for 2013. Tax relief on personal contributions to a pension arrangement will continue to be available at an individual's marginal rate of tax.

With effect from 1 January 2014 tax relief on pension contributions will only be given in relation to providing a retirement income of up to €60,000 per annum. The precise details as to how this will operate will be finalised during 2013.

Pension Levy

The 0.6% p.a. temporary Pension Levy will not be renewed after 2014, it will cease as planned.

Standard Fund Threshold

The Standard Fund Threshold remains at €2,300,000 for 2013.

It is noted that changes will be put in place in 2014 to the Standard Fund Threshold to give effect to the likely cap on pension income of €60,000 p.a. Consultation on the specific changes required to the existing regime will take place with the Pensions Industry and the Departments of Public Expenditure and Reform and Social Protection.

Pre-retirement access to AVC funds

The Finance Bill when enacted will make provision for individuals to take a once off withdrawal of up to 30% of the value of their AVCs. Withdrawals will be subject to income tax at the individual's marginal rate (since marginal rate relief was provided when the AVCs were initially made). The AVC withdrawal option will be available for a 3 year period from the passing of the Finance Bill.

State Pension (Contributory)

The personal rate of the State Pension (Contributory) remains at €230.30 per week. Therefore the ARF/taxable cash options on retirement remain dependent on having a minimum guaranteed lifetime income of €18,000 p.a. or using €119,800 to invest in an AMRF or to purchase an annuity (or a combination of both).

2. Exit Tax

At present the exit tax rate on life assurance policies effected on or after 1 January 2001 (which are also called gross roll-up policies) amounts to 33% and applies to any gains on the policy. This rate is to increase to 36% for payments, including deemed payments, made on or after 1 January 2013.

The exit tax rate for life assurance policies taken out by companies remains at 25%.

3. DIRT (Deposit Interest Retention Tax)

The rate of DIRT is also increasing by 3 percentage points.

This means that for accounts where interest is credited at least annually DIRT is increasing from 30% to 33% and for accounts where interest is credited less frequently than annually the rate is increasing from 33% to 36%.

These rates are effective from 1 January 2013.

4. Income Tax, PRSI & USC

Income Tax

As expected income tax rates, standard rate bands and tax credits all remain the same.

Top slicing relief will be removed with effect from 1 January 2013 for individuals who receive termination or severance payments where the non-statutory payment amount is €200,000 or over. Currently the individual's average tax rate for the previous three years applies to such lump sums rather than the individual's marginal rate of tax however this will change from 1 January 2013.

PRSI

The Minister stated there was a need to broaden the income base for PRSI and the following changes are being made:

The minimum annual PRSI contribution payable for the self employed (Class S) with annual income over €5,000 will increase from €253 to €500.

The weekly PRSI-free allowance has been removed for employees.

Where modified PRSI rate payers have income from a trade or profession, such income and any unearned income they have will be subject to PRSI with effect from 1 January 2013.

For all others, unearned income will be subject to PRSI with effect from 1 January 2014. Unearned income includes rental income, investment income, dividends and interest from deposits and savings.

Universal Social Charge (USC)

Reduced rates of USC currently apply for individuals who are aged 70 and over or who have a full medical card. With effect from 1 January 2013 these reduced rates will no longer apply if the individual has an income of €60,000 per annum or over, they will now pay USC at the standard rates. These changes apply for both self employed and PAYE income.

5. Corporation Tax

There was no change to the rates of corporation tax.

6. Capital Acquisitions Tax (CAT)

With effect from midnight on 5 December 2012 the capital acquisitions tax rate will increase from 30% to 33% and the tax free thresholds which are available in respect of gifts or inheritances will be reduced by 10% as shown below:

Group	Relationship to Disponer	Group Threshold 2012 €	Group Threshold 2013 €
A	Son/daughter	250,000	225,000
B	Brother, Sister, Child of a brother or sister, lineal ancestor or descendant	33,500	30,150
C	Other	16,750	15,075

7. Capital Gains Tax (CGT)

CGT is to increase from 30% to 33% for all disposals made from midnight on 5 December 2012.

8. Local Property Tax (LPT)

As expected, the Local Property Tax (LPT) is being introduced with effect from 1 July 2013. Some of the main points of this tax are as follows:

- It will be the responsibility of the property owner to pay the tax and Revenue is responsible for collecting the tax
- The tax will be payable on the basis of the market value of the property as assessed by the property owner
- Revenue will publish a valuation guide to assist property owners
- The initial valuation will be valid up to and including 2016
- The rate is 0.18% of market value for properties valued up to €1 million
- For properties valued at over €1 million the rate will be 0.18% on the first €1 million and 0.25% on the balance
- From 2015, local authorities will be able to vary the above rates

9. Other Points

Child benefit will be cut by €10 a month from 1 January 2013.

Maternity benefit will be taxable with effect from 1 July 2013 (but will not be liable for USC).

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.

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