

Budget 2021

Life & Pensions Update

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Welcome to our Budget **2021** Summary

Introduction

The Minister for Finance, Paschal Donohoe and Minister for Public Expenditure and Reform Michael McGrath delivered Budget 2021 today amid a background of extraordinary circumstances. The budget package of €17.75 billion is the largest budget package in the history of the State.

With Covid-19 and Brexit causing continued uncertainty, we are relieved that this was not a purely recessionary budget.

In addition to combatting the twin threats of Covid-19 and a no deal Brexit, sectoral priorities were health, housing and climate change.

As expected, there were no significant pension related changes announced in the Budget except the confirmation that the State Pension (Contributory) qualifying age will remain at 66 for the time being. In previous years, changes to pensions have come after the Budget in the subsequent Finance and/or Social Welfare and Pensions Bills.

The Government will publish a medium-term plan in the Spring outlining how we will balance the budget, when there is hopefully more certainty.

Some details of the changes that we believe will be of most interest to your clients are outlined in the document.

1. Pensions and Social Welfare

As set out in the programme for Government in June 2020, it has been confirmed that the scheduled increase in the State Pension qualifying age from 66 to 67 due on 1 January 2021 has been deferred. This means that someone reaching 66 during 2021 will be entitled to the State Pension, subject to meeting the qualifying conditions.

A Retirement Commission will be established and this Commission will report back on the issue in due course.

There is no change to the single rate of State Pension (Contributory) this year. It will remain at €248.30 per week.

Instead, the Government has chosen to increase a number of the additional Social Welfare benefits with the focus being on those who are most vulnerable. The following payments are most relevant:

Social Welfare Christmas Bonus

Minister McGrath has confirmed that the Christmas bonus will be paid in full again this year to eligible Social Welfare recipients and to most people in receipt of the Pandemic Unemployment Payment (PUP). The bonus will represent 100% of the weekly Social Welfare payment rate in question.

Ordinarily, a person must be on a welfare support for 15 months to qualify for the Christmas bonus but this will be reduced to 4 months (during 2020) for those in receipt of the Pandemic Unemployment Payment (PUP). You must be in receipt of the payment at the first week of December to qualify.

Additional Social Welfare Payments

The Fuel Allowance will increase by €3.50 from €24.50 to €28.00 per week.

This is a means tested payment which, for those who are eligible, runs from October to April each year for 28 weeks. It can also be paid in 2 lump sums. Last year this payment became eligible to be counted towards specified income for the purposes of investing in an ARF.

The Living Alone Allowance, which has always counted towards specified income, will increase by €5 from €14 to €19 per week.

This is paid in addition to an individual's weekly Social Welfare payment. To qualify for this increase you must live completely alone, however, there are some exceptions.

These changes will take effect from January 2021.

Important

Financial Advisors should engage with their existing AMRF or Vested PRSA clients as these changes, together with confirmation that the Christmas Bonus will be paid, may impact on their level of specified income. Under the rules relating to ARFs, an AMRF will automatically become an ARF once the minimum specified income threshold of €12,700 per annum is reached.

2. DIRT and Exit Tax

There are no changes to rate of DIRT and Exit Tax.

DIRT will remain at 33%

Exit Tax will remain at the current rate of 41% for personally owned life assurance policies effected on or after 1 January 2001 (known as gross roll-up policies)

Exit Tax on any gains in a life assurance policy owned by an Irish company remains at 25%.

3. Income Tax, USC and PRSI

Income Tax

There is no change to Income Tax rates or bands.

Earned Income Credits

The Earned Income Credit for the self-employed and certain proprietary directors has increased by €150 from €1,500 to €1,650. This brings it in line with the PAYE tax credit which is currently €1,650.

Universal Social Charge (USC)

The ceiling of the second USC rate band will be increased by €203 from €20,484 to €20,687.

This increase is to ensure that a full-time adult worker who benefits from the increase in the hourly minimum wage rate from €10.10 to €10.20 will remain outside the top rates of USC.

The USC rate of 2% for medical card holders and individuals aged 70 years and over whose aggregate income does not exceed €60,000, was due to run out at the end of the year. This has been extended for another year.

Rate	Threshold
0.5%	€0 to €12,012
2%	€12,012 to €20,687
4.50%	€20,687 to €70,044
8%	Balance

The USC rate on self-employed income in excess of €100,000 remains at 11%.

PRSI

The weekly threshold for the higher rate of employer's PRSI will rise from €394 to €398. This is to ensure there is no incentive to reduce working hours for a full-time minimum wage worker.

4. Corporation Tax

There is no change to the Corporation Tax rates of 12.5% for trading income and 25% for non-trading income.

5. Capital Acquisitions Tax (CAT)

There is no change to the CAT rate of 33% or changes to CAT thresholds.

CAT Thresholds	
Group A: €335,000	Applies where the beneficiary is a child (including adopted child, stepchild and certain foster children) or minor child of a deceased child of the disposer. 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 sibling, niece, nephew or lineal ancestor or lineal descendant of the disposer.
Group C: €16,250	Applies in all other cases.

There is no change to the small gift exemption which remains at €3,000 per annum.

6. Capital Gains Tax (CGT)

There is no change to the CGT rate of 33%.

There is a change to the CGT Entrepreneurial Relief meaning that anyone who has owned at least 5% of shares for any 3 consecutive years will qualify for this relief.

7. Dividend Withholding Tax (DWT)

In May 2020, Revenue announced a delay to the roll-out of a new real time reporting system for DWT which was due to be introduced in January 2021. There was no reference to this in the Budget but we expect this to be put on hold until after March 2021, after the transfer of the Irish Equities market to a new settlement system.

8. Employment Wage Subsidy Scheme (EWSS)

The EWSS was due to end on 31 March 2021. It was announced that there will be a similar type scheme to be set up thereafter to continue until the end of 2021. Unlike its predecessor, the Temporary Wage Subsidy Scheme (TWSS), the EWSS re-establishes the normal requirement to operate PAYE on all payments. This includes the regular deduction and remittance of Income Tax, USC and employee PRSI. Therefore employee pension deductions can be made from payments under the EWSS.

9. Working from Home Support

In circumstances where the employer does not make a contribution, the worker will now be able make a tax deduction for the cost of broadband in addition to utility expenses such as light and heat. Other vouched expenses incurred “wholly, exclusively and necessarily” in carrying out their work duties may also be claimed. Further information will be available from the Revenue Commissioners.

Pay and File Deadline for ROS Customers

While not related to today's Budget, did you know that the pay and file deadline for ROS customers has been extended to Thursday 10 December 2020? This applies where the individual both files their Income Tax return and pays their tax online i.e. they must do both to qualify. This date is relevant in the context of your clients who use ROS and elect to backdate tax relief on a pension contribution to 2019.

Legislation, including the publication of the Finance and Social Welfare Bills, is expected in the near future. These may contain further changes not specifically announced in the Budget.