



Welcome to our Budget 2016 Summary

Introduction

The Minister for Finance, Michael Noonan, and the Minister for Public Expenditure and Reform, Brendan Howlin, have delivered Budget 2016, their last before the upcoming General Election.

The measures announced include lowering some of the rates of USC, increasing the Group A Capital Acquisitions Tax threshold, increasing the State Pension (Contributory) and confirming that the Pension Fund Levy will cease after this year.

Details of the changes that will be of most interest to pension, protection and investment clients are outlined overleaf.

1. Pensions

It was not until the Finance Act last year that we saw pension changes introduced so we will wait until the Finance Bill is published in the coming weeks to see what further changes, if any, are on the horizon. For now, we have set out below the pension changes announced in the Budget and the relevant rules that apply.

Tax Relief on Pension Contributions

Income tax relief on personal contributions to a qualifying pension arrangement continues to be available at the marginal rate of tax (40% for higher rate taxpayers).

For those individuals electing to backdate personal contributions to tax year 2014, relief remains available at the 41% marginal tax rate (for higher rate taxpayers). The Income Tax Self-Assessment "Pay and File" deadline is 31 October 2015 for paper returns. This deadline is extended to 12 November 2015 for those who use the Revenue On-line Service (ROS) to both file and pay their taxes.

There was no mention in the Budget of a change to the earnings cap of €115,000.

Maintaining the levels of tax relief on pension contributions is welcome as making adequate provision for retirement is a vitally important aspect of financial planning. Making provision for retirement through a private pension arrangement remains the most tax efficient form of long term saving.

Pension Fund Levy

The Pension Fund Levy has now been abolished from the end of 2015 as confirmed in last year's budget.

This is encouraging for all those who are in private sector pensions and should restore some confidence that pension savings will no longer be targeted. The levy has come at a significant cost though as pension savings have taken a hit in excess of €2bn over the last 5 years.

Standard Fund Threshold (SFT)

The SFT remains at €2 million for 2016.

The Minister did not address in his speech whether the SFT will be increased in line with inflation in the future. Section 7870 of the Taxes Consolidation Act 1997 allows the Minister to apply an earnings adjustment factor to the SFT. While it is good news that the SFT has not been reduced, we would have concerns that the SFT will not keep pace with inflation if not regularly reviewed by the Minister. We await details of the Finance Bill as this may be dealt with at that time.

Any capital value in excess of the SFT or PFT (if applicable) on retirement is taxed at 40% and is then subject to tax at the individual's marginal rate, and any PRSI and USC applicable on drawdown.

Retirement Lump Sum

The Budget did not include any changes in relation to the tax treatment of the retirement lump sum.

The first €200,000 of a retirement lump sum remains tax free with any amount between €200,000 and €500,000 subject to income tax at 20%. Any lump sum amount paid out in excess of €500,000 is taxed at the marginal rate and is also subject to PRSI and USC. Retirement Lump Sums taken on or after 7 December 2005 count towards an individual's retirement lump sum limits.

State Pension (Contributory)

The maximum personal rate of the State Pension (Contributory) has increased by €3 per week to €233.30 per week effective from 1 January 2016. This is the first increase since 2009.

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

2. Exit Tax

There was no mention in the Budget of a change to the current exit tax rate of 41% on life assurance policies effected after 1 January 2001 (known as gross roll-up policies).

3. DIRT (Deposit Interest Retention Tax)

There has been no change to the rate of DIRT on savings. This remains at 41%.

4. Income Tax, PRSI and USC

Income Tax

Contrary to some media speculation, there has been no change to income tax rates or tax bands. The higher rate of income tax remains at 40% and the standard rate of income tax is unchanged at 20%.

There were no changes to tax credits other than:

- The introduction of a new Earned Income Credit of €550 for taxpayers earning self-employed trading or professional income and to business owners/managers who are not eligible for the PAYE credit, and
- An increase in the Home Carer's Allowance of €190, from €810 to €1,000.

These changes are effective from 1 January 2016.

PRSI

The 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 2016:

- A reduction in three of the existing rates
- An increase in the USC entry point and bands

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:

2016 Rate	2016 Threshold
1%	€0 to €12,012
3%	€12,013 to €18,668
5.5%	€18,669 to €70,044
8%	€70,045 to €100,000

The USC rate on PAYE income in excess of €100,000 is 8%.

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

In 2015 total income of €12,012 or less per annum was exempt from the USC and the USC rates that apply for 2015 for total income in excess of €12,012 are as follows:

2015 Rate	2015 Threshold
1.5%	€0 to €12,012
3.5%	€12,013 to €17,576
7%	€17,577 to €70,044
8%	€70,045 to €100,000

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)

There was no mention in the Budget of a change to the current CAT rate of 33%.

The CAT threshold for Group A has increased from €225,000 to €280,000 with effect from 14 October 2015. The table below shows the CAT thresholds that will apply from this date.

2016 CAT Thresholds	
Group A: €280,000	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 disposer. Parents also fall within this threshold where they take an inheritance of an absolute interest from a child.
Group B: €30,150	Applies where the beneficiary is a brother, sister, niece, nephew or lineal ancestor or lineal descendant of the disposer.
Group C: €15,075	Applies in all other cases.

7. Capital Gains Tax (CGT)

The rate of CGT remains unchanged at 33%.

A reduced CGT rate of 20% is being introduced for entrepreneurs on the disposal in whole or part of a business up to an overall limit of €1m in chargeable gains. This is effective from 1 January 2016.

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.

New Ireland's Pension Specialists

We have pension specialists available to you to help with any queries you may have.

Brian Macdonald	Tel: (01) 617 2760	Email: bmacdona@newireland.ie
Life & Pensions Technical Manager		
John Killeen	Tel: (01) 617 2348	Email: john.killeen@newireland.ie
Pensions Specialist		
George Nolan	Tel: (01) 617 2328	Email: lifeandpensions@newireland.ie
Pensions Specialist		
Life and Pensions Technical Team	Tel: (01) 617 2780	Email: lifeandpensions@newireland.ie
Life & Pensions Technical Department		

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