Budget 2015

Life & Pensions Update

Welcome to our Budget 2015 Summary

Introduction

The Minister for Finance, Michael Noonan, and the Minister for Public Expenditure and Reform, Brendan Howlin, have delivered Budget 2015. This Budget signifies a turning point in Ireland's economic health and an end to the austerity Budgets of the past seven years. New measures which are primarily aimed at reducing the tax burden on low to middle income earners will come into effect in 2015.

The Minister confirmed that the controversial pension levy of 0.75% in 2014 and 0.15% in 2015 will cease at the end of 2015. Marginal rate tax relief is still available on pension contributions.

Details of the changes that will be of most interest to our clients are outlined below.

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1. Pensions

The pension changes outlined in the Budget and current relevant rules are as follows:

Pension Fund Levy

The Pension Fund Levy will continue in 2015 at the rate of 0.15% as confirmed in last year's Budget. Minister Noonan has confirmed the levy will cease after 2015.

This is encouraging for all those who hold private pensions and should ensure greater certainty in retirement funding.

Standard Fund Threshold (SFT)

The Minister did not mention in his Budget speech a change to the SFT of €2 million.

Those individuals with pension rights in excess of the SFT of €2 million as at 1 January 2014 have until 2 July 2015 to protect the capital value of those rights by applying for a Personal Fund Threshold (PFT) up to a maximum of €2.3 million. Individuals who already have a PFT will retain that PFT and do not need to take any action.

Retirement Lump Sum

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

The first €200,000 of any 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.

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 from 1 January 2015).

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

Maintaining the levels of tax relief 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.

State Pension (Contributory)

The maximum personal rate of the State Pension (Contributory) remains at €230.30 per week. This is unchanged 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 was no mention in the Budget of a change to the current rate of DIRT on savings of 41%.

4. Income Tax, PRSI and USC

Income Tax

The Government has announced a 1% reduction to the higher rate of income tax. The rate will decrease from 41% to 40% with effect from 1 January 2015.

The standard rate of income tax will remain unchanged at 20%.

The standard rate cut off point for a single person (the entry point for the higher rate of tax) will increase by €1,000 from €32,800 to €33,800.

Tax Credits

There were no changes to tax credits.

Tax Rates and Bands

The following changes were confirmed in the Budget:

Personal Circumstances	2014	2015
Single/Widowed (no dependants)	€32,800 @ 20% Balance @ 41%	€33,800 @ 20% Balance @ 40%
One Parent/Widowed Parent	€36,800 @ 20% Balance @ 41%	€37,800 @ 20% Balance @ 40%
Married Couple - one spouse with Income	€41,800 @ 20% Balance @ 41%	€42,800 @ 20% Balance @ 40%
Married Couple - both spouses with Income	€41,800 @ 20% (with increase of €23,800 max) Balance @ 41%	€42,800 @ 20% (with increase of €24,800 max) Balance @ 40%

PRSI

The rate of PRSI remains unchanged.

Universal Social Charge (USC)

The Government has announced a number of changes to the USC to take effect from 1 January 2015:

- A reduction in two of the existing rates
- An increase in the USC entry point
- A new rate of 8% for income in excess of €70,044

Total income of €12,012 or less per annum is exempt from the USC.
The following USC rates will apply if total income is in excess of €12,012:

Rate	Threshold
1.5%	€0 to €12,012
3.5%	€12,013 to €17,576
7%	€17,577 to €70,044
8%	€70,044 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 has increased from 10% to 11%.

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% or to the existing CAT thresholds which are as follows:

CAT Thresholds	
Group A: €225,000	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 disponer. 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 disponer.
Group C: €15,075	Applies in all other cases.

7. Capital Gains Tax (CGT)

The rate of CGT remains unchanged at 33%.

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.

If you have any questions regarding Budget 2015, please contact us.