

Budget 2021 Update – The Main Points

- No change in income tax rates and bands for 2021. However, two tax credits are increased:
 - Earned income tax credit for the self-employed and proprietary directors increased by €150 to €1,650 for 2021.
 - The Dependent relative tax credit increases by €145 to €245 for 2021.
- The 2% USC band will be increased in 2021 from €8,472 to €8,675.
- No change announced in the DIRT rate of 33%, exit tax rate of 41% or in the 1% life assurance premium levy.
- No State Pension increases for 2021 but:
 - The Living Alone allowance increases by €5 pw to €19 pw
 - The Christmas Bonus of 100% of the weekly rate of State Pension will be paid in early December 2020.
- The State Pension Age will remain at 66 for those reaching 66 in 2021.
- No change in CAT rates or Threshold amounts.
- No change in CGT rate.
- No changes in private pension tax reliefs, limits or taxation of benefits.
- No change in PRSI rates, employer or employee.
- Help to Buy Scheme extended to end of 2021.
- Other taxation and pension changes not announced in the Budget could be introduced later in the Finance Bill 2020.

No change in income tax bands & rates

There will be no change in 2021 in current income tax and bands and rates.

Small increase in 2.0% USC band

The current €8,472 band of income taxed at 2.0% USC will be increased in 2021 to €8,675:

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%

Increase in the earned income tax credit for the self-employed and proprietary directors for 2021

The self-employed and proprietary directors (and their spouse/civil partner working in the business) are **not** entitled to the €1,650 employee tax credit.

However, in 2016, a tax credit (called the earned income tax credit) was introduced for the self-employed and working proprietary directors, who cannot claim the employee tax credit.

The current earned income tax credit is €1,500 but this will be increased to €1,650 in 2021, the same as the employee tax credit.

Increase in the Dependent Relative tax credit for 2021

The Dependant Relative tax credit is provided to those who maintain a relative at their own expense. The tax credit of €70 is being increased in 2021 to €245.

No change in DIRT, exit tax, Capital Gains Tax or Capital Acquisitions Tax rates or bands

The Budget speech did not make any change to the DIRT, exit tax, capital gains tax or capital acquisitions tax rates or bands.

No change in the 1% levy on life assurance policy premiums

The Budget speech did not make any change to the current 1% levy on life assurance policy premiums.

State Pension Age to remain at 66 in 2021

The Minister announced that the State Pension Age will not increase to 67 in 2021, as originally planned, but will remain at 66 pending examination of the issue by a Commission on Welfare and Taxation. Therefore, those reaching age 66 in 2021 will get the State Pension at 66, subject to the usual qualification conditions.

No State Pension increases

There will no increase in 2021 in the current rate of the State Pension Contributory. However, the Christmas Bonus will again be paid at 100% of the weekly rate in early December 2020.

Currently any recipient of the State Pension Contributory getting more than €238.80 pw meets the ARF option €12,700 specified income requirement and hence is not required to meet the €63,500 AMRF/annuity purchase requirement or to maintain an existing AMRF.

However, two allowances will be increased in 2021:

- The State Pension Living Alone allowance increases by €5 pw to €19 pw
- The Qualified Child addition to certain Social Welfare benefits increases by €2 pw for under 12s and by €5 pw for the over 12s, to €38 pw and €45 pw respectively.

No private pension tax relief changes

The Budget speech and related documents made no reference to any changes in private pension tax reliefs, the €2m Standard Fund Threshold, the €200,000 limit on tax free lump sums, the €115,000 NRE limit, or the taxation of benefits.

No change in PRSI rates

There are no announced changes to PRSI rates for 2021. However, there is a very small increase in the earnings for Class A at which the employer contribution jumps from 4.0% to 11.05%. It will increase from €394 pw to €398 pw in 2021.

Enhanced Help to Buy Scheme extended

The enhanced Help to Buy Scheme introduced in July 2020 is being extended to the end of 2021, i.e. maximum tax refund to first time buyers of new properties of €30,000 or 10% of purchase price if lower.

Finance Bill 2020

The Finance Bill implementing the Budget 2021 will be published within the next 10 days or so.

It is possible that other taxation and pension changes not announced in the Budget could be introduced in the Bill, either at publication of the Bill or as it goes through the Committee Stage.

Income Tax

Tax Rates

	Tax Rate
Standard rate band	20%
Higher rate band	40%

Standard Rate Band

	Bands 2021
Single / Widowed without dependent children	€35,300
One Parent Family	€39,300
Married / Civil Partners, one earner	€44,300
Married / Civil Partners, two earners	€44,300 + increase max €26,300*

* The increase is the lower of €26,300 and the amount of income of the spouse / civil partner with the lower income. The increase is not transferable between spouses / civil partners.

Income Tax Exemption Limits

	Limit
Single (65 and over)	€18,000
Married / Civil Partners (at least one aged 65 or over)	€36,000
Additional allowance per Child	€575
Additional allowance per Child (3 rd and more)	€830

Tax Credits

	Tax Credit
Single Person	€1,650
Married / Civil Partners	€3,300
Widowed / Surviving Partners (no dependent children)	€2,190
One Parent Family (additional credit)	€1,650
Home Carer tax credit	€1,600
Employee tax credit	€1,650 (max)
Earned Income tax credit	€1,650 (max)
Incapacitated Child	€3,300 (max)
Dependant Relative	€245
Age Credit – (65 and over)	€245
Age Credit – Married / Civil Partners (65 and over)	€490
Blind person	€1,650

Universal Social Charge (USC)

Total income subject to USC	USC Rate
The first €12,012	0.5%
Next €8,675	2.0%
Next €50,170	4.5%
Balance	8%*

However:

- Individuals whose total income subject to USC for the year is less than €13,000 are exempt from USC.
- The following pay a reduced rate of **2.0%** on all income subject to USC over €12,012:
 - Individuals over age 70 whose total income subject to USC for the year is €60,000 or less.
 - Individuals under age 70 who hold a full medical card (i.e. not a GP only card) and whose total income subject to USC for the year is €60,000 or less.

*A 3% additional USC rate (i.e. on top of the 8% rate) applies to non-PAYE income in excess of €100,000.

PRSI Contribution Rates

PRSI	A1	S1	B1
Employee	4.0%	4.0%	0.9%*
Employer (earning more than €398 pw)	11.05%	Nil	2.01%

* B1 employee rate increases to 4% for income > €1,443 per week.

Social Insurance Benefits

Benefit	Maximum weekly rate of benefit
State Pension (Contributory) Personal Rate (Under 80)	€248.30
Widow's / Widower's / Surviving Civil Partner's Contributory Pension (Under 66)	€208.50
Invalidity Pension Personal Rate (Under 66)	€208.50
Illness / Jobseekers Benefit Personal Rate	€203.00
Increases for each Child Dependant, max State Pension / Invalidity Pension Illness / Jobseeker's Benefit Widow's / Widower's / Surviving Civil Partner's Pension	Under 12: €38 pw 12 and over: €45 pw

Pensions

Income Tax Relief on Personal Contributions

Age attained during year	% of Net Relevant Earnings (max €115,000)
Less than 30	15%
30 – 39	20%
40 – 49	25%
50 – 54	30%*
55 – 59	35%
60 and over	40%

* The 30% limit above also applies to certain professional sportspeople (e.g. professional golfers) under 50 in relation to their income from their sports occupation.

Taxation of Pension Lump Sums

Total lump sums received since 7 th December 2005	Tax
Up to €200,000	Tax free
Next €300,000	Standard rate income tax
Balance	Marginal rate income tax and USC

Chargeable Excess Tax

Total retirement benefits taken since 7 th December 2005	Tax
Less than Threshold*	Nil
Excess over Threshold (€2m)	40%**

* Threshold is the Standard Fund Threshold (€2m) or Personal Fund Threshold, if greater.

**Tax reduced by a credit for any standard rate tax deducted from pension lump sums taken since 1st January 2011 and not previously offset against a chargeable excess tax charge.

Redundancy Payments

Tax Free Limits

	Band
Statutory	2 weeks for each year of service (including parts of a year) plus 1 week; maximum reckonable weekly pay of €600
Ex gratia	
Basic	€10,160 + €765 for each complete year of service
Increased	Basic + a maximum of €10,000; provided no entitlement to a pension lump sum and no ex gratia termination payment within last 10 years
Standard Capital Superannuation Benefit (SCSB)	N / 15 x Average Annual Remuneration over last 36 months less present value of tax-free pension lump sum, where: <ul style="list-style-type: none"> • N = number of complete years of service • Present value of tax-free pension lump sum is nil, if individual signs an irrevocable waiver to receive such a sum
Lifetime limit of €200,000 on all tax-free ex gratia termination payments.	

Capital Acquisitions Tax

Tax Rate

Total Gifts & Inheritances received since 05/12/1991	Tax Rate
Threshold	Nil
Balance	33%

Exit Tax Rate

	Rate
Life assurance policies effected on or after 1 st January 2001	41%

Thresholds – with effect from 9th October 2019

Relationship to donor / testator	Threshold
Child or minor child of deceased child or parent (absolute inheritance on death)	€335,000
Brother, sister, child of brother or sister, or another lineal ancestor or descendant	€32,500
Others	€16,250

DIRT Rates

2017	2018	2019	2020	2021
39%	37%	35%	33%	33%

Inheritance Tax – child inheriting from parent from 9th October 2019

Inheritance	Inheritance Tax*
€300,000	€0
€400,000	€21,450
€500,000	€54,450
€600,000	€87,450
€700,000	€120,450
€800,000	€153,450
€900,000	€186,450
€1,000,000	€219,450

* assuming full Class A Threshold of €335,000 is available.