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Irish Life

Budget 2014

This document provides commentary and summary of the main changes announced in the Budget Tuesday 15th October 2013.

- Commentary below by Pat O'Sullivan
- Pension Advisory Services' Overview on pages 2 & 3
- Life Advisory Services' Overview on pages 4 & 5
- Tax and Social Welfare Rate Summary on page 6

Be a spender, not a saver
by Pat O'Sullivan, Head of Investment Strategy

An underlying theme to this Budget and previous Budgets is to get Ireland consuming and spending again, particularly at the expense of long-term saving. With a continuation of the pension levy, the increase in both exit tax and DIRT, along with the on-going life assurance levy there can be no doubt that the Minister wants the registers ringing loudly.

In fairness, given the prevailing high level of savings in the Irish economy and the stuttering nature of retail sales it is not surprising that the Minister wants to get personal consumption growing more strongly, especially as it accounts for over 50% of the economy. To this end, the main measures that act as a disincentive to long-term savings include:

- Increase in the exit tax and DIRT to 41%
- The increase of the pension levy to 0.75% for the year 2014. The levy will be reduced to 0.15% for 2015.
- The reduction in the 'Standard Fund Threshold' to €2 million from €2.3 million
- These new measures along with the existing 1% life assurance levy

At the same time the various rates of VAT have been left unchanged, with the retention of the 9 per cent rate of VAT for the hotel and tourism sector in particular all aimed at encouraging us to spend with greater gusto.

These policies to encourage people to spend more and save less is understandable in the short-term. However, the longer-term consequences for an economy whose population is growing in size and ultimately getting older will have to be taken on board once the economy gets on a more stable footing.

To quote from the Department of Public Expenditure and Reform's own Expenditure Strategy document, 'in the longer term it is forecast that the demographic profile will increasingly get older. European Commission forecasts to 2060 project a decrease in the working age population of 7% from the 2010 base period, and an increase in the elderly population of 10% over the same period. This presents a significant challenge to the Exchequer in respect of its revenue base. As the proportion of the elderly increases and the working-age population shrinks, the revenue base of the State reduces just as demand for public services and pension income increases.'

It should be remembered that Irish state benefits are not designed to provide an adequate replacement income in retirement. Instead the Irish system relies on individuals to ensure that they have saved enough throughout their working lives in order to have enough to fund a reasonable standard of living in retirement. Consequently, the erosion of incentives for long-term saving will ultimately have to be curtailed, if not reversed, at some stage in the future to ensure adequate pension coverage and savings in retirement.

Fiscal numbers improving and increased investor confidence – but at some cost

In terms of the fiscal numbers, the forecast deficit for 2013 is 7.3%, for 2014 4.8% and for 2015 2.9%. These numbers will result in Ireland being able to exit the bailout agreement and in that sense the previous Budgets have been a success. One of the more obvious signs of success is that fact that Irish government 10 year bond yields are now around 3.7%, which is only 1.8 percentage points more than German bonds, down from a high of 11.4 points in July 2011.

However, the achievement of these fiscal and interest rate successes have come at a considerable cost. Over €30 billion (or nearly 20% of GDP) has been extracted from the economy in terms of expenditure cuts and tax increases since the crisis began in 2008. And the bad news is that there is more to come in 2014 and 2015.

Budget 2014 – Advisory Services

PENSIONS OVERVIEW

In Budget 2013, the government stated that it is in everyone's best interest that as many people as possible continue to invest in pension schemes. This is a philosophy that we believe in strongly and Irish Life has campaigned hard on the importance of pension planning to enable people to make provision for their retirement and their old age.

In Budget 2014 the good news is that the tax incentives supporting pension planning remain, but it is disappointing that the government has only stood by 2 of the 3 commitments given last year in this area:

Budget 2014 Pension Announcements

- √ Marginal rate income tax relief retained on pension contributions
- √ Standard Fund Threshold to reduce to €2,000,000 from 1 January 2014. This gives effect to last year's announcement that tax relief is available on pension contributions to subsidise income up to €60,000 per year in retirement.
- × The Pensions Levy will be increased to 0.75% in 2014 and then reducing to 0.15% in 2015

For the vast majority of people, their pension objective will not change based on the announcements made today. It has been estimated that less than 30,000 taxpayers will be affected by the reduction in the SFT.

Standard Fund Threshold

Minister Noonan had previously flagged in Budget 2013 that the government would restrict the subsidisation by taxpayers on pensions that provide an income of more than €60,000 per annum in retirement. Today he has announced that this will be achieved by reducing the Standard Fund Threshold (SFT) from its current level of €2.3 million to €2 million from 1st January 2014.

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Individuals who have pension benefits in excess of €2 million on 1st January 2014 will have an opportunity to apply for a Personal Fund Threshold (PFT) up to a maximum of €2.3 million. The value of any pension benefits already taken since 7th December 2005 will also be included.

For those with defined benefit pensions the capitalisation factor of 20 will be used for the purposes of calculating the individual's PFT at 1st January 2014.

Those who already have a PFT don't need to do anything as their existing PFT will continue to apply. More detail on the PFT application process will be contained in the Finance Bill which is due before the end of October.

The minister also announced that the current valuation factor of 20 will be replaced with a range of factors depending on age for defined benefit entitlements accrued from 1 January 2014 onwards. These proposed new factors vary from 37 for those aged 50 at the point of retirement to 22 for those aged 70.

This means that the capitalisation factor used in determining the value of defined benefit entitlements for the purpose of an individual's SFT (or PFT where applicable) will continue to be 20 for those benefits accrued before 1st January 2014. Whereas pension benefits accrued from 1st January 2014 onwards will be valued using the new age related capitalisation factors. Defined contribution benefits will continue to be based on the current value of the assets on the date of retirement.

Impact of new SFT

The existing SFT of €2.3m remains unchanged until 1 January 2014. Those who wish to build up their pension funds to that amount may do so, although the company pension Revenue maximum contribution limits also apply.

Retirement benefits can then be taken as follows:

	Prior to 31 December 2013	From 1 January 2014 (with Personal Fund Threshold)
Total Fund	€2,300,000	€2,300,000
Tax Free Lump Sum	€200,000	€200,000
Balance of Lump Sum, after tax at 20% (based on 25% of SFT)	€300,000	€240,000
Lump Sum tax at 20%	€75,000	€60,000
Total Lump Sum Received	€500,0000	€440,000
Balance to ARF/AMRF	€1,725,000	€1,800,000

The above assumes that the amount of the retirement lump sum that can be taken at the 20% tax band reduces from amounts up to €575,000 (i.e. 25% of €2.3m) to €500,000 (i.e. 25% of €2m). While not announced, this reduction in the retirement lump sum 20% tax rate band follows from what is described in the Budget documents.

It remains to be seen at what rate the SFT and PFT are increased in the future. Legislation does allow that these can be increased by the Minister in line with earnings, however there hasn't been such an increase since 2008.

Pension Levy

Last December the minister announced that the Pension Levy of 0.6% pa would cease in 2014. While perhaps technically true, what was announced is very disappointing. The pension levy in effect increases to 0.75% in 2014 and will be 0.15% in 2015. The Budget documentation states that the levy will apply within the existing framework for 2014 and 2015, but given the governments u-turn on this issue, it cannot be taken as a certainty that 2015 will be its final year. Irish Life have always recognised that pensions would play a part in the overall government budget adjustments, but significant funds of €1.5 billion have already been taken by the Pension Levy particularly impacting older members who have made an effort to save for their old age. Irish Life will push that the government honours its commitment that this is a temporary levy to support a particular jobs incentive, and that it should cease so that people can save for their pension with certainty and confidence.

Existing Pension Thresholds

- No changes to the €200,000 tax free retirement lump sum limit
- No change to the earnings cap of €115,000 for tax relief purposes on contributions to PRSAs, Personal Pensions, and employee/AVC contributions to occupational pension schemes
- No change to ARF and vested-PRSA minimum drawdown requirement, or the requirement to set aside €63,500 in an AMRF or used to purchase an annuity, or a guaranteed pension income for life of €12,700.

National Pensions Reserve Fund

It was announced that the National Pensions Reserve Fund is to become the Ireland Strategic Investment Fund, with an aim to invest on a commercial basis in projects in Ireland that support economic activity and employment. Up to now the aim of the NPRF was to support the cost of social welfare and public service pension liabilities from 2025 onwards. It will be interesting to see if this remains an aim of the new Ireland Strategic Investment Fund or not. The value of the NPRF discretionary portfolio at end-June 2013 was €6.4 billion.

Medical Card Thresholds age 70 and over

The income threshold at which those aged 70 and over will be entitled to a Medical Card has been reduced to weekly gross income of €900 (€46,800 pa) for a couple and €500 (€26,000 pa) for a single person. The previous limits were €1,400 per week for a couple and €700 for a single person.

LIFE, SAVINGS & INVESTMENTS OVERVIEW

While significant changes have been made to the taxation treatment of savings, no changes have been announced to Capital Acquisitions Tax rates, thresholds or reliefs. There have been some minor changes to Retirement Relief from CGT but only for the transfer of farmland.

We have included any changes announced which may be of interest, however, we await the Finance Bill to see if any additional changes are made to other areas relevant to our industry.

TAX ON SAVINGS

Deposit Interest Retention Tax and Exit Taxes on Life Assurance Policies and Investment Funds

The rate of retention tax that applies to deposit interest, together with the rates of exit tax that apply to life assurance policies and investment funds, is being increased and will now be at a rate of 41% regardless of whether payments are made annually or more frequently. The increased rates will apply to payments, including the tax paid on every 8th anniversary of the plan, made on or after 1 January 2014.

No change was announced to the tax rate of Life Assurance Policies where the policy holder is a corporate entity or where the investment is a Personal Portfolio Investment Undertaking or 'wrapper' type contract. We await the Finance Bill to see if any changes to these rates are announced.

There was no detail provided in today's Budget of the proposed PRSI charge on income generated from wealth such as rental income, investment income, dividends and interest on deposits and savings, first mentioned in Budget 2012. Again we await the Finance Bill for full details of any possible changes.

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Review of Farmers Taxation

A review of farmer taxation has been announced for 2014. This may result in changes to CAT Agricultural Relief or other reliefs available to this sector. Where any are relevant to our industry, we will update you as soon as the changes are announced.

CAPITAL GAINS TAX - CGT Retirement Relief

An extension to Retirement Relief from CGT has been announced. The change relates to the disposals of leased land where, among other conditions, the land is leased over the long-term and the subsequent disposal is to a person other than a child of the individual disposing of the farmland.

Property purchase incentive

Finance Act 2012 introduced a CGT incentive for property purchased in the period up to 7 December 2013. Properties purchased in this extended period and which are held for a minimum of 7 years will not attract CGT on any gains if disposed of at that point. Proportionate relief will apply where disposals are made after 7 years. This purchase period for the purpose of this relief is now being extended to 31 December 2014.

STAMP DUTY

A very limited relief, designed to encourage more investors in SME's, proposes an exemption from stamp duty for transfers of shares listed on the Enterprise Securities Market section of the Irish Stock Exchange

The ESM is the ISE's equity market for growth companies, for more information see the Irish Stock Exchange website. It has been specifically designed to meet the funding needs of companies at earlier stages in their development. This section is subject to a commencement order.

OTHER INCOME TAX

Medical Insurance Relief

From 16 October 2013, Tax Relief for Medical Insurance premiums will be restricted to the first €1,000 per adult insured and the first €500 per child insured.

For example, a family of two adults and four children will receive tax relief on premiums of up to €4,000 per annum. Only the portion of any premium that exceeds the new thresholds will not qualify for tax relief.

Home Renovation Incentive (HRI)

A scheme of tax relief for home renovation work is being introduced for a period of two years.

Tax relief of 13.5% will be available for qualifying expenditure on home renovation and improvement work. The relief will be granted by way of a tax credit split over two years following the year in which the works are carried out. The minimum expenditure must be €5,000 and relief will be provided up to a maximum of €30,000. The relief will be linked to the Principal Private Residence of an individual and the contractor must be tax compliant.

Income Tax, PRSI and other Information

Standard Rate Bands	No Change
Single / Widowed	
No dependant children	€32,800
With dependant children	€36,800
Married – one income	€41,800
Married – two incomes	€65,600
Max transferable between spouses	*(€41,800)*

Income Tax Credits	No Change
Personal	
Single	€1,650
Married	€3,300
PAYE / Employer Credit	€1,650
Incapacitated child	€3,300
Blind Person – single	€1,650
– married (both blind)	€3,300

Income Exemption Limits	No Change
Single / Widowed (aged 65+)	€18,000
Married (aged 65+)	€36,000

PRSI Rates	A1	S1
Employee		
All Income (earnings less than €352pw exempt)	**4%**	**4%**
Employer		
All income	10.75%	Nil

Universal Social Charge	Employee	Self Employed
Income up to €10,036	2%	2%
Between €10,036 and €16,016	4%	4%
Between €16,016 and €100,000	7%	7%
Income in excess of €100,000	7%	10%
Full Medical Card Holders & Over 70s	**Employee**	**Self Employed**
Income up to €10,036	2%	2%
Income in excess of €10,036	4%	4%

However those with earnings greater than €60,000 will pay the standard USC.

Savings and Investment Tax	2014	2013
DIRT	41%	33%
Life Assurance - Personal Policies	41%	36%
- Corporate Owned	25%*	25%
Wrapper Products	56%*	56%

*No change as yet announced

Social Welfare Benefits

For more information see http://www.welfare.ie

Social Welfare Benefits	Weekly 2014	2013
State Pension (Contributory)		
Personal Rate	€230.30	€230.30
Personal + Adult dependant (over 66)	€436.60	€436.60
Widow / Widowers Contributory Pension (under 66)	€193.50	€193.50
State Pension (Non-Contributory)		
Personal Rate	€219.00	€219.00
Personal + Adult dependant (under 66)	€363.70	€363.70
Widow/ Widowers Non Contributory Pension	€188.00	€188.00
Invalidity Pension		
Personal Rate (65 and under)	€193.50	€193.50
Personal + Adult dependant	€331.60	€331.60
Jobseekers / Illness Benefit		
Personal Rate	€188.00	€188.00
Personal + Adult dependant	€312.80	€312.80
Jobseeker's Allowance		
18 to 21 years of age		
Personal Rate	€100.00	€100.00
Personal + Adult dependant	€200.00	€200.00
22 to 24 years of age		
Personal Rate	**€100.00**	€144.00
Personal + Adult dependant	**€200.00**	€268.80
25 years of age		
Personal Rate	**€144.00**	€188.00
Personal + Adult dependant	**€268.80**	€312.80
26 years of age and over		
Personal Rate	€188.00	€188.00
Personal + Adult dependant	€312.80	€312.80
Disability Allowance		
Personal Rate	€188.00	€188.00
Personal + Adult dependant	€312.80	€312.80
Increase for each dependant child	€29.80	€29.80

Child Benefit (Children's Allowance)	2014	2013
First and second child	€130.00	€130.00
Third child	€130.00	€130.00
Fourth and subsequent child	**€130.00**	€140.00