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Irish Life

Budget 2013

This document provides commentary and summary of the main changes announced in the Budget Wednesday 5th December 2012.

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- Life Advisory Services' Overview on page 2
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Hobson's Choices all round
by Pat O'Sullivan, Head of Investment Strategy

The Minister for Finance faced many difficult decisions in Budget 2013, but one significant positive for the pension's industry is the decision not to standardise the rate of relief for pension contributions. Equally important is the fact that we have greater clarity around the government's pension policy which means individuals can plan for their pension arrangements with greater certainty.

Pension changes will bring certainty
We welcome the commitment by the Government in the Budget to continue to provide incentives for middle income workers to save for their retirement. In particular, we welcome the Minister's commitment to maintain tax relief at the marginal rate. This is in the best interests of the Irish economy in the long-term.

We accept the logic of capping pension benefits at €60,000 p.a. in these difficult times. We believe that this is a more equitable approach than the proposed alternative of ending tax relief for pension contributions at the marginal rate. This is something that Irish Life and others in the industry have lobbied hard for over the past year.

In that respect, we look forward to working with the government on how best to implement the new limits over the next year, which are due to be in place by 2014. It's important that the new cap is introduced in a manner which is equitable between defined benefit and defined contribution, and between the public and private sector schemes. It is estimated that the government will make savings in the region of €250m per annum due to this change.

Property tax et al
Other notable and well flagged measures include the introduction of a property tax, the removal of the weekly PRSI allowance and the increase in motor tax rates and the usual excise increases in the old reliables, with the exception of petrol and diesel. The property tax is expected to generate €500m in additional revenue on a full year basis, while the removal of the PRSI allowance will add €289m to the government's coffers. The changes in excise duties is expected to yield somewhere in the region of €370m for the government.

If there is one positive in all this, it is that the Minister expects that each of the next two Budgets will 'only' require €500 million of additional revenue raising measures. So in one sense we can tentatively hope that the worst is behind us.

Ireland's progressive tax system
The Minister, in his speech, made reference to the fact that Ireland has now one of the most progressive tax systems in the OECD. That is, the more you earn, the more you pay in tax. The ESRI has estimated the impact of the budget changes since 2008 to Budget 2012 on the various levels of income earners in the economy as follows:

- losses for the lowest income earners range from 4% to 6%,
- losses for middle income earners range from 7.5% to 9.5% and
- losses for the highest income earners range from 11% to 12%

Tough, but not austere, budgets to look forward to
Overall, while Budget 2013 may be the last of the hair-shirt austere budgets - particular in terms of further taxation increase - the outlook remains challenging and we can expect a number of tough budgets still to come.

Budget 2013 – Advisory Services

LIFE, SAVINGS & INVESTMENTS OVERVIEW

We have included below the changes to capital taxes which will be of interest from a life, savings and investments perspective.

The main changes are to

- Capital Acquisitions Tax,
- Exit Tax and
- DIRT

Capital Acquisitions Tax

With yet another increase in the CAT rate, and further reductions in the tax free thresholds, this will see many of your clients faced with mounting inheritance or gift tax bills on the transfer of assets.

This may present an opportunity for you to help them utilise the reliefs available using life assurance to provide for these tax bills in a tax efficient and cost effective manner. An example of this might be the Life Long Cover (Section 72) plan available from Irish Life.

The current capital acquisitions tax rate of 30% is being increased to 33%.

The current group tax free thresholds are each being reduced by 10%.

The revised thresholds will be

Group 1 -	€225,000
Group 2 -	€30,150
Group 3 -	€15,075

These changes apply in respect of gifts or inheritances received after 5 December 2012.

Capital Gains Tax

The current rate of 30% is being increased to 33%. This increase applies in respect of disposals made after 5 December 2012.

Tax on Savings

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, are being increased by 3 percentage points and will now be 33% for payments made annually or more frequently and 36% for payments made less frequently than annually.

The increased rates will apply to payments, including deemed payments, made on or after 1 January 2013.

The Minister also announced that with effect from 2014 PRSI will be payable on income generated from wealth such as rental income, investment income, dividends and interest on deposits and savings.
We await full details of this new charge.

BIK on preferential loans

For the 2013 year of assessment an increase has been announced in the specified interest rate used in calculating the taxable benefit in relation to preferential loans, other than home loans from 12.5% to 13.5%. For the same period, the specified rate used to calculate the taxable benefit in relation to home loans is decreased from 5.0% to 4.0%.

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PRSI

It is intended that Minister Burton will bring forward legislation to change PRSI contributions as follows;

- Remove the weekly PRSI allowance of €127 from full rate and modified rate PRSI contributors.
- Increase in the minimum annual PRSI contribution for self-employed earners from €253 to €500.

PENSIONS OVERVIEW

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Irish Life has over the last few years promoted the importance of pension planning to enable people to make provision for their retirement and their old age. The government have confirmed this view and clearly stated that it is in everyone's best interest that as many people as possible continue to invest in pension schemes. This Budget gives clarity for the vast majority of clients who can continue to fund their pension plans.

Budget 2013 Pension Announcements

- Marginal rate income tax relief retained on pension contributions
- The current Pensions Levy will not be renewed after 2014
- Limited early withdrawals allowed from AVCs – up to 30% of value subject to marginal rate tax
- Tax relief available on pension contributions to subsidise income up to €60,000 per year in retirement

€2.3 million Standard Fund Threshold

The maximum pension fund allowed for tax purposes is currently €2.3 million. This will continue for anyone retiring in 2013.

The minister indicated that from 2014 arrangements will be put in place to cap subsidies if the pension delivers an income of more than €60,000. The minister did not confirm what the new standard fund threshold would be, but consultation is to continue between the pensions sector and the relevant government departments, and Irish Life will continue to play a leading role.

In the meantime it will be difficult to advise some clients with large pension funds with certainty. We feel a conversion factor of 20, as currently used for defined benefit pension schemes, is not appropriate. Based on a factor of 20 a pension income of €60,000 would require a pension fund of €1.2 million. Based on a factor of 30 a pension income of €60,000 would require a pension fund of €1.8 million.

When the government previously reduced the standard fund threshold to €5 million in December 2005 and then to €2.3 million in December 2010, people with funds in excess of the new threshold could apply for a Personal Fund Threshold to ringfence their existing pension funds. It would seem probable that something similar would be available in 2014 for clients whose funds exceed the new limits at that time. However, it is important to be aware that where a client's existing pension fund was ringfenced, any growth on the pension fund was not. Growth above a Personal Fund Threshold is subject to tax at 41% within the fund at retirement and also marginal rate tax on withdrawal. While this may not be significant for a client close to retirement, the further a client is from retirement the more significant this becomes.

Any client who has an existing pension fund that would produce an income of more than €60,000 per annum needs to consider if they should continue pension funding. Based on the factors mentioned above, clients with funds between €1.2 million and €1.8 million will need to carefully monitor their position until this becomes clearer.

What we can say is that the majority of pension clients today are not funding for a pension income of €60,000 and these clients can continue to fund their pension plans in the knowledge that the government recognises the importance of supporting their pension planning.

Early Access to Additional Voluntary Contributions

After much discussion the Minister announced that individuals will be allowed a once-off opportunity to make withdrawals from their AVCs prior to retirement. This will be limited to a maximum withdrawal of 30% of the value of the individual's AVC fund. This option will be made available from the passing of the Finance Act in February / March 2013 for a three year period.

While early access will be welcomed by many people, clients should consider their options carefully before deciding to avail of it. The fact is, for many clients, especially those who are still working and those close to retirement, it may not be tax efficient to take early withdrawals from their AVC fund.

Early withdrawals from AVCs will be subject to tax at the client's marginal rate, which when added to their salary if they are still working will in many cases ensure income tax is paid at the higher rate. In comparison with a lower income in retirement that same client may only pay income tax at standard rate or in some cases have no income tax liability.

Therefore in such cases those clients would pay more tax under the early access option than they would if they wait and take their full benefits in retirement.

Early withdrawal of AVCs will also have an impact on pension funds meaning clients will have lower pension funds at retirement which will result in lower pension incomes.

Another consideration for those close to retirement is if they receive a lump sum of 25% of the value of their pension at retirement, by taking early withdrawals from their AVCs they will be reducing their tax free lump sum entitlement.

This will be an area that clients are going to need advice in order to determine their best course of action.

Pension Levy

Finance (No.2) Act 2011 introduced a pension levy to apply for 4 years. The minister has restated today that this will not be extended beyond 2014. Two payments of the pension levy remain due. The key points of the pension levy are

- Levy of 0.6% on the market value of assets under management.
- The legislation that is already in place specifically refers to the year 2014. As such the Levy will apply for two further years.
- The remaining pension levy due will be calculated as at 30th June 2013 and 30th June 2014.
- Applies to company pensions, buy out bonds, personal pensions and PRSAs
- The Levy does not apply to ARF/AMRF plans or to vested PRSAs

Universal Social Charge for those over age 70

Currently those aged 70 and over, and full medical card holders, pay a rate of USC reduced by 3% on income over €10,036 (for example, 4% instead of the standard 7%). From 1 January 2013 those over 70 earning €60,000 and above will pay the standard USC on all their income.

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 requirement of €119,800 in an AMRF or used to purchase an annuity, or a guaranteed pension income for life of €18,000.

Redundancy Payments

From 1 January 2013 those receiving ex gratia redundancy payments over €200,000 will no longer be able to avail of top slicing relief. Instead tax will be due at the individual's marginal rate.

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	2013	2012
DIRT	33%	30%
Life Assurance Policies	36%	33%
Wrapper Products	56%	53%

Social Welfare Benefits

For more information see www.welfare.ie

Social Welfare Benefits	Weekly 2013	Weekly 2012
State Pension (Contributory + Transition)		
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 (under 65)	€193.50	€193.50
Personal (under 66)+ 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	€144.00	€144.00
Personal + Adult dependant	€268.80	€268.80
Over 25 years of age		
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)	2013	2012
First and second child	€130.00	€140.00
Third child	€130.00	€148.00
Fourth and subsequent child	€140.00	€160.00