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# *flash* Alert

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**Ireland – Budget 2016 Offers Some Relief for Low/Middle Incomes**

by Michael Rooney, KPMG, Dublin (KPMG in Ireland is a KPMG International member firm)

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EUR 1 = USD 1.133
EUR 1 = GBP 0.733
EUR 1 = JPY 135.40
EUR 1 = RUB 70.75

On 13 October 2015, Ireland's Minister for Finance introduced the government's 2016 Budget (the Budget).[1] The Budget includes a cut in Universal Social Charge (USC) rates for low to middle incomes, a reduced capital gains tax rate for entrepreneurs, and a move to equalize the tax credit treatment of the self-employed with that of the employed. The Finance Bill, which will include more detail on the Budget measures, is expected to be published on 22 October 2015.

## Why This Matters

The Budget measures will generally create little change in terms of international assignment costs, tax equalizations, and budgeting in respect of inbound or outbound assignees subject to Irish taxation. However, in light of the changes to the USC, assignees earning between €12,012 and €70,044 should see a small windfall in their pay with their maximum rate of tax dropping to 49.5 percent – the first time that rate has been under 50 percent since the supplementary Budget of 2009. Individuals earning above €70,044 will also benefit from the USC reduction in respect of their income up to €70,044. Where appropriate, adjustments by payroll administrators to PAYE withholdings will need to be made when the changes are enacted from 1 January 2016.

For a more complete analysis of the 2016 Budget, go to the following Web page for the KPMG International member firm in Ireland:

http://www.kpmg.ie/budget2016/

Below we highlight the measures affecting individuals and their multinational employers.

## Personal Tax Changes

***Personal Tax: Tax Bands and Reliefs***

The personal tax tables below set out the tax rates and bands and the principal reliefs available to taxpayers for 2016. The tax rates and thresholds are unchanged from 2015.

***2016 Personal Tax Bands***

| 2016 | At 20% (€), first | At 40% (€) |
|---|---|---|
| Single person/widowed without dependent children | 33,800 | Balance |
| Married couple (one income)* | 42,800 | Balance |
| Married couple (two incomes)*/** | 67,600 | Balance |
| One parent / Widowed parent qualifying for One Parent Family Tax Credit | 37,800 | Balance |

* Applies to civil partnership/surviving civil partner also.

** €42,800 with a maximum increase of €24,800 maximum.

***2016 Personal Credits and Reliefs***

| | € |
|---|---|
| ***Employee Tax Credit*** | 1,650 |
| | |
| ***Personal Tax Credits*** | |
| - single | 1,650 |
| - married (applies also to civil partnership/surviving civil partner also) | 3,300 |
| | |
| ***Additional Credit for Certain Widowed Persons*** | 1,650 |
| | |
| ***Single Person Child Carer Credit*** | 1,650 |
| ***Home Carer Credit*** | 1,000 |

A 'home carer tax credit' of €810 is currently available to families where one spouse/partner is the main carer of a child or dependent relative as long as that person's total income is less than €5,080, with tapering relief available for those with income of up to €6,700.

For 2016, the credit available is to be increased to €1,000 and the income threshold is to be increased to €7,200. It is assumed that tapering relief will continue to be available and that this will apply for income up to €9,200.

## Universal Social Charge (USC) and Pay-Related Social Insurance (PRSI)

***USC***

The USC was initially introduced as a temporary measure to aid the revival of the Irish economy following the crash in 2008/2009. The levy has risen in recent years, but Budget 2016 finally brings a reduction in the applicable rates and a pledge of possible elimination if the current government is re-elected.

The USC changes have been targeted at those earning between €12,012 and €70,044, which the government views as low to middle incomes. The impact of the changes should result in a benefit equivalent to an additional week's net pay for an individual earning €70,000.

Given the rates of personal income tax, the maximum rate of tax for all those earning under €70,044 has effectively been reduced to 49.5 percent, the first time that this rate has been under 50 percent since the supplementary Budget of April 2009. This has been achieved by reducing (i) the two lower USC rates by 0.5 percent each and (ii) the 7-percent rate by 1.5 percent.

The change in rates also means that the top rate of USC is limited to 3 percent for (i) those with medical cards and (ii) those aged 70 years and over with income of €60,000 or lower.

The USC entry threshold is to be increased to €13,000, a move that will remove 42,500 additional workers from the scope of the charge. The USC was originally introduced in order to broaden the tax base, but successive Budgets have narrowed its application by eliminating a relatively modest charge on a large number of people – a person with income of €12,999 in 2015 has a USC liability of €215.

All of the above changes will come into effect from 1 January 2016.

The marginal tax rate for those earning above €70,044 has not been changed and continues to be 52 percent for employees and 55 percent for the self-employed. However, individuals earning above €70,044 also benefit from the USC reduction in respect of their income up to €70,044.

***PRSI***

Two changes to PRSI were announced by the minister in his Budget speech.

The first is an increase in the threshold weekly earnings at which the 10.75-percent top rate of employer's PRSI applies. From 1 January 2016, the 10.75-percent rate will only apply to those with weekly earnings in excess of €376 (previously €356) i.e., annualized income of €19,552.

In addition, partial relief of up to €12 per week from employee's PRSI is to be introduced for those with weekly earnings between €352 and €424. No employee PRSI is due on weekly earnings of €352 or less.

PRSI Contribution, USC will be applied at the following rates:

| | Rate | Income |
|---|---|---|
| Employer | 10.75% | No limit |
| | 8.50% | If income is up to €376 per week or less |
| Employee** | | |
| • PRSI | 4% | No limit* |
| • Universal Social Charge | 1% | Up to €12,012** |
| | 3% | €12,013 to €18,668 |
| | 5.5% | €18,669 to €70,044*** |
| | 8% | Over €70,044 |
| Additional rate for Self-employed | 11% | Over €100,000 |

* Employees earning €352 or less per week are exempt from PRSI. In any week, in which an employee is subject to full rate PRSI, all earnings are subject to PRSI. Unearned income for employees in excess of €3,174 p.a. is subject to PRSI. New sliding scale PRSI credit of maximum €12 per week where weekly income between €352 and €424.
** Individuals with total income up to €13,036 are not subject to the Universal Social Charge.
*** Reduced rate (3%) applies for persons over 70 and/or with a full medical card, where the individual's income does not exceed €60,000.

***KPMG Note***

There are some concerns that the policy of denying tax relief on incomes over €70,000 per year will mean that higher-income individuals will continue to bear marginal income taxation at rates which are very high by international standards.  This could impact on business decisions that could hamper Ireland's competitiveness.

### Pension Benefits

Tax relief for pensions remains at the marginal income tax rate.

The Defined Benefit pension valuation factor is an age-related factor that will vary with the individual's age at the point at which the pension rights are drawn.

Except where a Personal Fund Threshold applies, the Standard Fund Threshold is €2,000,000.

### Reduction of Tax Burden on Self-Employed

In advance of the Budget, the government had indicated a strong desire to bring the tax burden on self-employed individuals closer to the level applicable to employees.  The current disparity between the taxation of these two groups is comprised of two parts, the first being the availability of a tax credit of €1,650 to employees only, and the second being an additional USC surcharge of 3 percent that applies to self-employment income in excess of €100,000.

The minister made a small change in this Budget, by introducing an 'earned income credit' of €550 for the self-employed from 1 January 2016.  This credit will be available to all those with trading or professional income who are ineligible for the employee tax credit on their earnings.

***KPMG Note***

It would appear that the minister has chosen to address the difference in tax credits in priority to the USC differential in order to focus the tax reductions on small business owners, where the benefit of the credit should represent a higher proportion of their net income.  However, the earned income credit is only one-third of the tax credit that has been allowed to employees for many years.

The 'Tax and Entrepreneurship Review' published with the Budget documents has sought to justify the continuation of this differential by suggesting that there are aspects of how the self-employed are taxed which can be beneficial to them, including timing benefits and the availability of deductions for expenses.

The validity of these justifications is certainly arguable, but regardless of the merits, the 'Tax and Entrepreneurship Review' gives insight into current government thinking on this issue.  Whether we will see a further narrowing of the gap is uncertain, but the minister has committed to introduce further change should the government be elected for a further term in office.

### Capital Gains Tax (CGT)

The rate of CGT has been set at 33 percent (no change), with an annual exemption amount of €1,270.

The minister announced a new Entrepreneur Relief (from 1 January 2016) with the CGT rate set at 20 percent. This relief will be available on the disposal of a business up to €1,000,000 of gains earned by qualifying entrepreneurs.

## Other

***Home Renovation Incentive Scheme*** – An income tax credit spread over two years is available to home-owners who carry-out home renovations/improvements on their principal private residences from 25 October 2013 to 31 December 2016 (extended by one year). The credit is calculated at a rate of 13.5 percent on all qualifying expenditures over €4,405 (excluding VAT). The maximum credit is €4,050. (With effect from 15 October 2014, this scheme is extended to landlords of rental properties who are liable to income tax.)

***Home Loan Interest Relief*** – Home loan interest relief is granted at source on principal private residences. However, loans taken out after 1 January 2013, do not qualify for mortgage interest relief. The relief will be abolished from 2018. The rate of mortgage interest relief is set out on page 18 of "Taxing Times: Budget 2016 & Current Developments" (see: http://www.kpmg.ie/budget2016/documents/taxing-times-budget-2016.pdf).

*Footnote*:

1 For the Budget Speech and related documents, see: http://www.budget.gov.ie/Budgets/2016/2016.aspx

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The information contained in this newsletter was submitted by the KPMG International member firm in Ireland.



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