Budget 2017 Summary

• **2% reduction in DIRT rate to 39% from 1st January 2017; no reduction announced in exit tax rate**

- The DIRT rate is to be reduced from 41% to 39% in 2017, with further 2% reductions in each of the following years to 33% by 2020

2016	2017	2018	2019	2020
41%	39%	37%	35%	33%

No reference in Budget Speech or associated documentation to corresponding reduction in exit tax on life assurance policies. We need to wait for the Finance Bill to see if the DIRT reduction is to be applied equally to Exit Tax on Life Assurance Policies and Investment Funds.

Unfortunately the Minister did not remove the 1% Insurance Levy.

• **0.5% reduction in lower USC rates will deliver additional net income of up to €353 pa**

o A 0.5% reduction in the lower USC rates will deliver a tax saving of up to €350 pa for those earning more than €70,044 pa. Smaller tax savings will apply to those on lower earnings.

Sole traders and partners in a partnership with income in excess of €100,000 pay additional (to the 8% rate above) USC of 3.0% on such income in excess of €100,000; this continues for 2017. The current maximum 3.0% USC rate applying to the over 70's, and to those under 70 who hold a medical card, with total income less than €60,000 is reduced to 2.5% for 2017.

• **Increase in CAT Class A Threshold from €280k to €310k, and smaller increases for Class B and C Thresholds**

The current Class A Threshold limit (which applies to inheritances taken by child from a parent) of €280,000 is increased to €310,000; The Class B and C Thresholds of €30,150 and €15,075 are also being increased by about 8% to €32,500 and €16,250 respectively.

While the increase in the Class A Threshold is welcome, Inheritance Tax liabilities are still substantially higher than back in 2009, due to a combination of an increase in the tax rate and reduction in the Thresholds. Consider the Inheritance Tax liability on an inheritance of €500,000 by a child from a parent, assuming the full Class A Threshold is available to the child:

	CAT Rate	**Class A Threshold**	**Inheritance Tax**
2008	20%	€521,208	**Nil**
8/4/09 to 31/12/09	25%	€434,000	**€16,500**
1/1/10 to 7/12/10	25%	€414,799	**€21,300**
8/12/10 to 6/12/11	25%	€332,084	**€41,979**
7/12/11 to 5/12/12	30%	€250,000	**€75,000**
6/12/12 to 13/12/15	33%	€225,000	**€90,750**
14/12/15 to 10/10/16	33%	€280,000	**€72,600**
11th October 2016	33%	€310,000	**€62,700**

• **Increase in the earned income tax credit for the self-employed & proprietary directors**
o The current €550 maximum earned income tax credit provided to working proprietary directors and the self-employed (including their spouses/civil partners if working in the business) will be increased to €950 for 2017.
Proprietary directors, and their working spouses/civil partners, have traditionally been discriminated against because although they paid their income tax under PAYE like everyone else, they could not claim the PAYE tax credit of €1,650 available to all others paying income tax under PAYE.
In Budget 2016, a tax credit at standard was introduced for 2016 for the self-employed and working proprietary directors and their working spouses/civil partners on their earned income, to a maximum credit of €550.
This maximum tax credit is being increased by €400 to **€950 for 2017**.
In the case of a family company the tax credit will be available to each employee who is not entitled to the normal PAYE tax credit, so that a husband and wife both working in the business and drawing

Schedule E income from it, will *each* be entitled a tax credit of 20% of their earned income, to the maximum €950 tax credit in 2017.
Where an individual has two sources of income, one entitled to the PAYE tax credit and another entitled to the earning income tax credit, the combination of the two tax credits cannot exceed €1,650.
The increased tax credit may encourage more spouses/family members to work in family businesses, thereby increasing retirement funding potential.

• **Help to Buy Income tax refund scheme for first time buyers**

o A rebate of any income tax paid (but not USC or PRSI) over the previous 4 years for first time buyers buying a **new** (but not second hand) principal private residence or equivalent self-build, on or after 19th July 2016 of 5% of the purchase price/value of the new home up to €600,000.

o The maximum rebate is €20,000 per property (not per joint owner); no rebate applies if the new home is valued at more than €600,000. The rebate is also limited to the amount of income tax actually paid over the previous four years.

o The rebate only applies where the mortgage is at least 80% of the home value.

o A joint purchase between a first time buyer and non-first time buyer will not qualify for the tax rebate.

o Incentive scheduled to run to end of 2019.

• **Other property incentives**

o Buy to let mortgage interest offset against rental income from rented residential property to be increased from its current 75% to 80% in 2017, for both new and existing buy to let mortgages. It is planned to increase the % by 5% in each of the following years to reach 100% by 2021.

o Mortgage Interest Tax relief for those who took out mortgages between 2004 and 2008 was due to be phased out by the end of 2017. The Minister has confirmed that he will bring forward an extension of mortgage interest tax relief on such mortgages in Budget 2018.

o The limit on the Rent a Room income tax relief is being increased from €12,000 pa to €14,000 pa from 2017.

• **Reduced CGT rate of 10% to apply to the sale of businesses**

o A reduced CGT rate of 10% (was 20% in 2016) is to apply from the 1st of January 2017 onwards on the sale in whole or in part of a business up to an overall lifetime limit of €1 million in chargeable gains.

• **No change in pension tax relief limits**

o No change announced in private pension tax reliefs.

• **Increase in the State Pension of €5 per week from 1st March 2017**

o Brings the maximum State Pension (Contributory) to €238.30 pw or €12,391 pa, just below the €12,700 specified income test requirement to avoid having to invest €63,500 in an AMRF or annuity when using the ARF option.
