

AskPaul BUDGET 2019 – Summary Document



Summary and Key Changes

As widely reported the government took the position that there was little scope for wide-ranging spending or tax decreases in Budget 2019.

Understandably, there was a focus on housing. Some welcome reductions for middle-income earners were announced with slight cuts to Universal Social Charge (USC) and a slight increase in the standard income tax band. Overall the measures introduced were quite modest and there were also a number of surprising omissions.

We have set out our thoughts on the impact of the measures relating to investments, business, succession planning and pensions which we think are relevant to our clients. We have to wait for the Finance Bill (to be published on 18th October) for further details.

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Income Tax Changes

The following are the key changes regarding income tax:

- Minister Donohoe increased the entry point to the higher rate of income tax for all earners by €750, raising it from €34,550 to €35,300 in the case of a single worker
- The third rate of the Universal Social Charge (USC) was reduced from 4.75% to 4.5%. This band is for earnings between €19,874* – €70,044

*increased by €500.

- The minimum wage is increasing from €9.55 per hour to €9.80. An increase of €0.25. For someone who works 20 hours a week this is an increase of €5.00 per week.
- There was an increase in the earned income credit for self-employed people. The self-employed earned income credit will increase by €200 a year, from €1,150 to €1,350.

ASKPAUL VIEW: Very underwhelming. Disappointing to see a lack of incentives to social welfare recipients to return to work.

Social Welfare

There were a few increased for recipients of Social Welfare.

- ALL WEEKLY SOCIAL welfare payments are set to increase by €5, Finance and Public Expenditure Minister Paschal Donohoe has announced.
The increase will come into effect next March and will impact people in receipt of payments such as the Jobseeker's Allowance, Disability Allowance, Carer's Allowance and the State Pension.
- The Christmas bonus will also be restored to a double payment for the first time in a decade.
Social welfare recipients used to receive a Christmas bonus of a full week's extra payment in December, but the bonus was axed in 2009 following the economic crash.
The Christmas bonus was restored in 2014 and increased to 85% of a welfare recipient's weekly payment in 2018
- The finance minister announced that a new parental leave scheme will be introduced in November.
The scheme allows for two extra weeks' leave to every parent of a child in their first year.
The minister said that it is planned to increase this to seven extra weeks over time.
- A new set of measures outlined today aim to improve living standards, the minister said.
In addition to these measures, the Fuel Allowance scheme will be extended by one week while the annual home carer credit is being increased by €300, from €1,200 to €1,500.
There will be a €2.20 per week rise of the qualified child allowance for under 12s and a €5.20 increase for over 12's.
- There will also be a €25 increase in the back-to-school allowance.

ASKPAUL VIEW: Again, nothing earth shattering here. The reliefs on income tax actually result in smaller overall benefits to those earning that it does to those in receipt of social welfare.

Succession Planning Changes

There have been some minor changes in relation to succession planning changes:

- The CAT Threshold which applies to benefits taken by children from parent has been increased by €10,000 to €320,000 with effect from 10th October 2018. There is no change in the other Thresholds or in the CAT rate of 33%. The Maximum Inheritance Tax saving from the increase is €3,333.

ASKPAUL VIEW: Good to see a movement in the right direction. However perhaps a missed opportunity and no where near close to where the figures used to be. e.g in 2005, the children's threshold was set at €542,544.

Pension Changes

- The maximum rate of State Pension Contributory will increase by €5pw from €243.30 pw to €248.30 pw from March 2019, or €12,912 pa.
- The Christmas Bonus for the State Pension will increase to 100% in December 2018, from its previous 85% level. In June 2018 the Revenue confirmed that the State Pension Christmas Bonus could, once received, be counted as income for the purposes of the €12,700 specified income test to avoid having to invest €63,500 of retirement funds in an AMRF or annuity or to unlock an AMRF already held.
- Because no change was announced in the AMRF amount or specified income test of €12,700, the Budget changes in relation to the State Pension will impact on retirees with retirement benefits as follows:

Already in receipt of the State Pension (Contributory) at the maximum rate of €243.30 pw and holding an AMRF

Their AMRF will automatically convert to an ARF when they get their 100% State Pension Christmas bonus in early December 2018.

Holding an AMRF but under the State Pension Age.

No immediate change. Their AMRF will automatically convert to an ARF when they start to receive the State Pension (including the Christmas bonus) of at least €239.60 pw.

A new retiree under the State Pension Age

No immediate change. They must still invest €63,500 in an AMRF or annuity at the point of taking their DC benefits, if not then in receipt of pension income of at least €12,700 pa. However, their AMRF will automatically convert to an ARF when they start to receive the State Pension (including the Christmas bonus) of at least €239.60 pw.

ASKPAUL VIEW: Continually increasing the State pension is not the solution to achieving sufficient replacement income in retirement. However, maintaining tax reliefs at their current rate is a relief. The government have committed to increasing private pension through an auto-enrolment scheme with effect from 2021. The additional of the Christmas Bonus and the AMRF requirement staying at €12,700, means more pension holders will now have access to pension money which was previously inaccessible.

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Investment Taxation Changes

The following are the key changes regarding investment and savings tax:

- With regards to Savings and Investment, although there was no specific mention in today's budget, the phased reduction in DIRT, introduced in 2016, will reduce to 33% by 2020 in 2% p.a. increments. At that stage it will be in line with the current rate of Capital Gains Tax.
- This means that the rate of DIRT will reduce by 2% to 35% for 2019.
- The rate of Exit Tax on Life Assurance Policies and Investment Funds was unchanged and remains at 41%.
- The Insurance Levy on Protection policies and investment/savings policies was not reduced or removed and remains unchanged at 1%.
- Incentive for Buy to Let Investors in the form of 100% mortgage interest relief on loans used to purchase rental properties.

ASKPAUL VIEW: I would have like to have seen more harmonization between Capital Gains, Exit Tax and DIRT. Currently investors are being punished for receiving higher returns.

Other Items of Interest

There have been a range of other minor changes which may be of interest to some:

- €25 euro increase in the weekly income threshold for GP visit cards.
- Prescription charge for over 70's reduced by €0.50c.
- Monthly maximum patients pay for prescriptions under drug payment scheme reduced by €10 to €124.
- No increase in carbon tax.
- 1% surcharge on VRT on all new or imported diesel vehicles.
- Extending the VRT relief for hybrid vehicles until the end of 2019.

ASKPAUL VIEW: Visit AskPaul.ie and my facebook page where you can ask me anything you want re budget 2019.

This article is based on our understanding of Budget 2019 as presented by the Minister for Finance, which will be implemented in the forthcoming Finance Act. This article is general in nature and it is not intended to constitute tax, financial or legal advice. It does not take account of your financial situation or investment objectives. Prior to making any decisions which have tax, legal or other financial implications, you should seek independent professional advice.