



Budget 2011 - A Summary

Introduction

Minister Brian Lenihan, T.D. in today's Budget has outlined the Government's planned budgetary adjustments for 2011 and given some further detail on some of the measures announced in the National Recovery Plan.

According to Minister Lenihan "it is the Government's strong view that the economy can continue to grow while we make the budgetary adjustments outlined in the National Recovery Plan."

In achieving this economic growth it must be "built on solid foundations: that are sustainable socially, economically and environmentally."

Key points for the Life & Pensions Industry

- The annual earnings limit is being reduced from €150,000 (2010) to €115,000 for 2011. The annual earnings limit for the year of assessment 2010 will also be deemed to be €115,000 for the purpose of determining how much of a pension contribution paid by an individual in the year of assessment 2011 will be treated as paid in 2010, where the individual elects under existing rules to have it so treated.
- The Standard Fund Threshold (SFT) is being reduced as on and from Budget Day (7 December 2010) from €5.4 million to €2.3 million. Individuals with pension rights in excess of this lower SFT on Budget Day will be able to protect the capital value of those rights by claiming a Personal Fund Threshold (PFT) which must be applied for to the Revenue Commissioners within 6 months of Budget Day.
- The overall lifetime limit on the amount of tax-free retirement lump sums that an individual can draw down from pension arrangements is being reduced to €200,000. The excess of this amount will be taxed at the standard income tax rate (currently 20%) up to an amount equal to 25% of the new SFT (up to €575,000). The excess of retirement lump payments over that amount will be taxed at the taxpayer's marginal rate of income tax.

- Tax-free retirement lump sums taken on or after 7 December 2005 will count towards "using up" the new tax free amount so if an individual has already taken tax free retirement lump sums of €200,000 or more since 7 December 2005, any further retirement lump sums paid to the individual on or after 1 January 2011 will be taxable. These earlier lump sums will also count towards determining how much of a lump sum paid on or after Budget day is to be charged at the standard or marginal tax rate. These changes take effect from 1 January 2011.
- From 1 January 2011, employee contributions to occupational pension schemes and other pension arrangements will be subject to employee PRSI and the new Universal Social Charge. The PRSI change will be legislated for in the Social Welfare Bill.



- The current employer PRSI exemption for employee contributions to occupational pension schemes and other pension arrangements will be reduced by 50% from 1 January 2011. The change will be legislated for in the Social Welfare Bill.
- The annual imputed distribution which applies to the value of assets in Approved Retirement Funds (ARFs) at 31 December each year is being increased from 3% to 5% in respect of asset values at 31 December 2010 and future years.
- All members of Defined Contribution pension arrangements will have access to flexible options on retirement in respect of the main benefits arising from those schemes, subject to certain conditions. The flexible options will be provided for in the Finance Bill.
- Exit Tax Rates - the rate of exit tax that applies on life assurance policies and investment funds are being increased by 2 percentage points - will increase from 28% to 30%. The increased rate will apply to all payments including deemed payments made on or after 1 January 2011.
- DIRT - The rate of DIRT is being increased from 25% to 27% and from 28% to 30% for other longer term deposit accounts. The increased rates will apply to all payments including deemed payments made on or after 1 January 2011. DIRT only applies to interest payments on financial institution (i.e. bank) deposits.
- Reduction in the value of tax bands and credits by 10%.
- Fundamental reform of Stamp Duty on homes to stimulate the property market:
 - A flat 1% rate for all transactions of residential property valued up to €1 million with 2% applying to amounts above €1 million.
 - Abolishing all existing reliefs and exemptions for Stamp Duty on residential property.
- The current group tax free thresholds for Capital Acquisitions Tax (CAT) are being reduced by 20%. This reduction applies in respect of gifts or inheritances taken from midnight on 7 December 2010.
- The mineral oil tax will be increased by 4 cent per litre on petrol and 2 cent per litre on auto-diesel (both inclusive of VAT) with effect from midnight on 7 December 2010.
- Vehicle Registration Tax (VRT): Extension of the Car Scrappage Scheme
- Extension of VRT relief for Hybrid Vehicles and Flexible Fuel Vehicles
- Increase in the VRT flat-rate for Commercial (Category C) vehicles
- Various reliefs to be abolished and other reliefs to be restricted from 1 January 2011, for example:
 - Rent Relief to be phased out over 8 years; the same timeline as previously announced for Mortgage Interest Relief.
 - Termination of the scheme of accelerated capital allowances for farmers who incur capital expenditure on farm buildings and structures for use in the control of pollution.

Other Key Points

- Health Levy and Income Levy to be abolished and replaced by a new Universal Social Charge on a revenue-neutral basis, in 2011.
- Corporation tax to remain at 12.5%
- No reductions in the State Pension (Contributory) and State Pension (Non-Contributory).
- Working-age rates down 4%, but still 117% above levels in 1997 and slightly ahead of rates in 2007.
- Public service pensions above €12,000 cut by an average of 4%.
- Maximum salary rate of €250,000 in the public sector, including State Agencies.
- Reduction in Child Benefits.
- Removal of employee PRSI contribution ceiling.
- Increasing the PRSI rate for the self-employed, higher earning public servants and office holders.
- Additional payment of €40 to households that receive the fuel allowance payment.
- Farmer taxation - Stock Relief : The existing general 25% stock relief for farmers and the special incentive stock relief of 100% for certain young trained farmers are being extended from 1 January 2011 for a further two years subject to clearance with the European Commission under State Aid rules.

Details of Main Income Tax Changes (including PRSI changes and Universal Social Charge)

Tax Credits	Existing	Proposed	Decrease
Personal Credit – Single Persons	1,830	1,650	-180
Personal Credit – Married Persons	3,660	3,300	-360
Employee Credit	1,830	1,650	-180
Additional One- Parent Family Credit	1,830	1,650	-180
Home Carer credit	900	810	-90
Widowed person bereaved in year of assessment	3,660	3,300	-360

Standard Rate Tax Bands *	€	€	€
Single/Widowed Persons	36,400	32,800	-3,600
Married Couples One Income	45,400	41,800	-3,600
Married Couples Two Income	72,800	65,600	-7,200
One Parent/Widowed Parent	40,400	36,800	-3,600

* The tax band of €65,600 available to married couples with two incomes in 2011 is transferable between spouses up to a maximum of €41,800

Exemption Limits	Existing	Proposed	Decrease
65 years and over	€	€	€
Single	20,000	18,000	-2,000
Married	40,000	36,000	-4,000

Other credits	Existing	Proposed	Decrease
	€	€	€
Incapacitated child tax credit	3,660	3,300	-360
Dependent relative tax credit	80	70	-10
Blind person tax credit			
- single	1,830	1,650	-180
- married (both blind)	3,660	3,300	-360
Additional credit for certain widowed persons	600	540	-60
Widowed parent tax credit			
- year 1	4,000	3,600	-400
- year 2	3,500	3,150	-350
- year 3	3,000	2,700	-300
- year 4	2,500	2,250	-250
- year 5	2,000	1,800	-200
Age credit			
- single	325	245	-80
- married	650	490	-160

Universal Social (USC)*	Existing	Proposed	
	€	€	
Total income below €4,004pa	N/a	0%	
Income up to €10,036pa	N/a	2%	
Income between €10,037 and €16,016pa	N/a	4%	
Income over €16,016pa	N/a	7%	

* The USC replaces the Income Levy and the Health Contribution which are abolished with effect from 1 January 2011

PRSI	Existing	Proposed	
	€	€	€
Abolition of PRSI ceiling with effect from 1/1/11	75,036	N/a	N/a
Class S PRSI rate increased from 3% to 4%	3%	4%	+1%
Modified PRSI rate (certain public servants) increased on incomes in excess of €75,036	0%	4%	+4%
Office holders: Introduction of a 4% rate for persons who hold certain offices of State	N/a	4%	+4%

Changes in Maximum Weekly Rates of Social Insurance from January 2011

Personal and Qualified Adult Rates

State Pension (Contributory)		Present Rate (€)	New Rate (€)
(i)	Under 80		
	Personal Rate	230.30	230.30
	Person with qualified adult under 66	383.80	383.80
	Person with qualified adult 66 or over	436.60	436.60

(ii)	80 or over		
	Personal Rate	240.30	240.30
	Person with qualified adult under 66	393.80	393.80
	Person with qualified adult 66 or over	446.60	446.60

State Pension (Transition)		Present Rate (€)	New Rate (€)
	Personal Rate	230.30	230.30
	Person with qualified adult under 66	383.80	383.80
	Person with qualified adult 66 or over	436.60	436.60

Widow's /Widower's Contributory Pension		Present Rate (€)	New Rate (€)
	Under 66	201.50	193.50
	66 and under 80	230.30	230.30
	80 or over	240.30	240.30

Invalidity Pension		Present Rate (€)	New Rate (€)
(i)	Under 65		
	Personal Rate	201.50	193.50
	Person with qualified adult under 66	345.30	331.60
	Person with qualified adult 66 or over	407.80	399.80

(ii)	Age 65		
	80 or over	230.30	230.30
	Person with qualified adult under 66	374.10	368.40
	Person with qualified adult 66 or over	436.60	436.60

Carers Benefit		Present Rate (€)	New Rate (€)
	Personal Rate	213.00	205.00

State Pension (Non Contributory)		Present Rate (€)	New Rate (€)
(i)	Under 80		
	Personal Rate	219.00	219.00
	Person with qualified adult under 66	363.70	363.70

(ii)	80 or over		
	Personal Rate	229.00	229.00
	Person with qualified adult under 66	373.70	373.70

Personal and Qualified Adult Rates (continued)

Blind Persons Pension		Present Rate (€)	New Rate (€)
	Personal Rate	196.00	188.00
	Person with qualified adult under 66	326.10	312.80

Widow's /Widower's Non Contributory Pension		Present Rate (€)	New Rate (€)
	Personal Rate	196.00	188.00

One Parent Family Payment		Present Rate (€)	New Rate (€)
	Personal Rate with one qualified child	225.80	217.80

Carer's Allowance		Present Rate (€)	New Rate (€)
(i)	Under 66	212.00	204.00
(ii)	66 or over	239.00	239.00

Disability Allowance		Present Rate (€)	New Rate (€)
	Personal Rate	196.00	188.00
	Person with qualified adult	326.10	312.80

Child Benefit (per month)		Present Rate (€)	New Rate (€)
(i)	First and Second Children	150.00	140.00
(ii)	Third child	187.00	167.00
(iii)	Fourth and Subsequent Children	187.00	177.00

Source: Department of Finance website, 7 December 2010.

This summary has been produced based on the understanding of the laws and practice current in December 2010. While great care has been taken to ensure the accuracy of the information it contains, the company cannot accept responsibility for its interpretation, nor does it provide legal or tax advice.

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