BUDGET 2023 UPDATE

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The 2023 Budget details were announced in the Dail by the Minister for Finance on 27th September 2022. We look at the main changes potentially impacting on clients.

The key points from the Budget 2023 speech::

- The standard rate income tax band for a single person for 2023 will be increased by €3,200 to €40,000, with corresponding increases for married couples, and the main tax credits by €75.
- A new €500 tax credit is being introduced from 2022 for those paying rent for their principal private residence who are not receiving any other State housing support.
- The Help to Buy scheme for first time buyers extended to end of 2024 at current rates and terms.
- A Vacant Home Tax is being introduced at 3 times the Local Property Tax.
- The 2% USC band will be increased in 2023 from €9,283 to €10,908 with the 4.5% band reduced from €48,749 to €47,124.
- No change in pension tax relief, the €115k NRE limit, or the €2m Standard Fund Threshold limit
- No change in the insurance levies
- No change in DIRT or life assurance exit tax rates
- No change in CGT or CAT rates. The CAT Thresholds remains as before.
- No change in PRSI rates, apart from a minor change related to the increase in the minimum wage.
- State Pension & Social Welfare rates for 2023:
    - An increase of €12 pw in the maximum personal rate
    - An increase of €2pw for the qualified child increase.
    - There will be a double weekly payment of social welfare benefits in October in addition to the normal Christmas double payment in early December 2021.

However, it is possible that other taxation changes not announced in the Budget and not outlined above could be introduced in the Finance Bill 2022 when it is published around the end of October.

Increase in income tax bands

There is no change in income tax rates for 2023, but the standard rate bands have been increased:

Income Tax rates and bands

	2022	2023
Standard rate	20%	**20%**
Higher rate	40%	**40%**
Single person standard rate band	€36,800	**€40,000**
Married couple, one income standard rate band	€45,800	**€49,000**
Married couple, two incomes standard rate band	€45,800 plus increase for other spouse of lower of their income and €27,800	**€49,000 plus increase for other spouse of lower of their income and €31,000**

Increase in income tax credits

Some income tax credits have been increased for 2023:

Income Tax credits

	2022	2023
Personal	€1,700	**€1,775**
Married	€3,400	**€3,550**
Employee tax credit	€1,700	**€1,775**
Earned income tax credit	€1.700	**€1.775**

New €500 pa tax credit for renters

Those paying rent on their principal private residence and receiving no other State housing support will be able to claim an annual €500 income tax credit, backdated to apply from 2022 onwards.

Employer tax free vouchers doubled to €1,000 pa

The annual €500 limit on tax free vouchers which an employer can provide for an employee is being doubled to €1,000 and backdated to apply from 2022 onwards. Two separate vouchers can be provided but the sum of the two vouchers does not exceed €1,000 in a year.

USC rates and bands

The 2.0% USC band will be increased in 2023 by €1,625 to allow for an increase in the minimum wage rate, with a corresponding decrease in the 4.5% band:

USC Rates and bands

	2022		2023
First €12,012	0.5%	First €12,012	**0.5%**
Next €9,283	2.0%	**Next €10,908**	**2.0%**
Next €48,749	4.5%	**Next €47,124**	**4.5%**
Balance	8.0%	Balance	**8.0%**

- USC does not apply to State Pensions
- Exemption from USC applies where total income (excluding the State Pension) in 2023 is less than €13,000.
- The self-employed additional 3% USC surcharge on non-PAYE incomes over €100,000 continues to apply for 2023.
- A 2% USC rate for those over 70 and medical card holders for total income (excluding the State Pension) in excess of €12,012 and under €60,000 continues to apply for 2023.

PRSI rates & bands

While the Pensions Commission has recommended significant increases over time in personal and employer PRSI rates, no change in PRSI rates and bands has been announced for 2023, apart from a minor change related to the increase in the minimum wage.

Pensions

Most providers stopped issuing new one member pension schemes in July 2022, in response to the Pensions Authority view that such schemes could not be compliance with IORPS II.

The Tax Strategy Group 2022 Papers, prepared as part of Budget 2023 preparations, outlined proposed changes in a number of different areas:

- Abolish the differential treatment of the PRSAs for funding purposes, in particular that employers could make BIK free contributions to an employee's PRSA like they can to occupational pension schemes.
- Changes to facilitate the transposition of PEPPs. PEPPs will be a portable EU wide personal pension plan
- Tax treatment of lump sums from foreign pensions when resident in Ireland

- Permit transfers from Retirement Annuity Contracts (RACs) to Occupational Pension Schemes.

While none of these measures was mentioned in the Budget Speech and accompanying documents, it is possible that some of these measures may appear in Finance Bill 2023 which is due to be published in the second half of October.

No change in pension tax relief

Pension tax relief was not mentioned in the Minister's Budget Speech, so no change was announced in the level of relief, the €115,000 NRE limit, the €200,000 tax free lump sum limit, or the €2m Standard Fund Threshold limit.

No change in life assurance exit tax

The DIRT rate has been reduced in stages from 41% in 2016 to its current 33% which has applied since 1st January 2020. The DIRT rate is now the same as the current Capital Gains Tax and Capital Acquisitions Tax rate, i.e. 33%.

However, the exit tax rate applied to life assurance savings and investment policies remains at 41%. This exit tax rate is sometimes referred to as LAET (Life Assurance Exit Tax). The estimated tax revenue from LAET in 2021 was €129m and €20m from DIRT. The exit tax and DIRT tax revenues have declined in recent years:

***Table 21** Annual Tax Yield from DIRT/LAET €m*

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
DIRT	581	499	435	300	170	118	96	64	37	20
LAET	43.4	58.7	130	247	228	184	165	128	124	129

Source: Revenue Commissioners

The Tax Strategy Group discussed the different LAET and DIRT rates in September 2021 and estimated that reducing the LAET rate from 41% to 33%, the same as the CGT rate, would cost €24m in a year.

The Tax Strategy Group again looked at the issue of the LAET tax rate again in 2022 as part of preparations for Budget 2023, but concluded again that if you allowed for the tax free returns rolling up for 8 years, the exit tax rate of 41% is favourable with the DIRT rate of 33%:

"It is the case that there is currently a difference in the tax treatment for different products. In the 2020 TSG paper on DIRT and LAET, the impact of this difference was modelled for DIRT and LAET, which indicated that despite the higher headline rate for LAET, with certain reasonable assumptions regarding different rates of return the result at the end of an 8 year period was a lower tax payment for the life assurance product, due to compounding interest over the 8 years before the tax was imposed. Difference in the tax treatment for products with different characteristics does not necessarily mean that a higher tax liability for the products with a higher headline rate.

Notwithstanding this point, an argument can be made for considering this issue, not just at an individual product level, but as a more fundamental review of the neutrality of the tax system for individual savings and investors. Consideration could be given as to whether the differential rates are having a distorting effect on behavior. However, this is clearly not a discussion that can happen in isolation and would need to be considered in the context of the wider tax system."

However in his Budget speech the Minister for Finance announced that he will establish: *' a working group to consider the taxation of funds, life assurance policies and other investment products.'*

No change in life and general insurance levies

The Tax Strategy Group made no comment or recommendation with regard to insurance levies in their 2022 papers prepared for Budget 2023 and the Minister did not mention the levies in his Budget 2023 speech. It therefore seems the 1% life premium levy and the 3% general insurance premium levy will continue in 2023.

Increase in State Pension and Social Welfare benefit rates

A €12 pw increase in the maximum rate of State Pension and other Social Welfare benefits were announced for 2022, with proportionate increases for qualified adults and those on reduced rates of payment:

State Pension and Social Welfare rates

Benefit	Maximum weekly rate 2022	Maximum weekly rate 2023
State Pension Contributory – under 80	€253.30	**€265.30**
State Pension (Non contributory) – under 80[1]	€242.00	**€254.00**
Invalidity Pension	€213.50	**€225.50**
Widows/Widowers Contributory – under 66	€213.50	**€225.50**
Jobseekers / Illness	€208.00	**€220.00**
Increase for a qualified child – under 12	€40.00	**€42.00**
Increase for a qualified child – Age 12+	€48.00	**€50.00**

There will be a double weekly payment of the State Pension in October and again in December.

Help to Buy Scheme extended to end of 2024

The Help to Buy Scheme for first time buyers of new properties was enhanced in July 2020 to increase the maximum tax refund to €30,000. This enhanced scheme was due to expire at the end of 2022 but has now been extended to end of 2024.

Vacant Homes Tax

A tax at 3 times the Local Property Tax is being introduced in 2023 on home which are occupied for less than 30 days in a year.

There will be a number of exemptions from this new tax to ensure property owners are not unfairly charged for temporary vacancy arising from genuine reasons.

This will include properties recently sold or currently listed for sale or rent; properties vacant due to the occupier's illness or long-term care; and properties vacant as a result of significant refurbishment work.

[1] Means tested

Further changes could happen in the Finance Bill 2022

The Finance Bill 2022 which will implement the Budget 2023 changes and other measures will be published within the second half of October. It's possible that other taxation changes not announced in the Budget could be introduced in the Bill at that stage.

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