

FINANCE BILL 2024 & BUDGET 2025 UPDATE

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Budget 2025 details were announced in the Dail by the Minister for Finance on 2nd October 2024 and Finance Bill 2024 was published on 10th October 2024. We look at the main changes potentially impacting on clients.

Main changes

- **Income Tax 2025:**

- The standard rate income tax bands will be increased by €2,000;
- Tax credits will be increased, e.g. the single person tax credit will be increased to €2,000 in 2025 and the married tax credit to €4,000.
- The employee/earned income tax credit will be increased to €2,000.
- The Rent tax credit will be increased to a maximum of €1,000 per individual and €2,000 per jointly assessed couple. This increase will also apply retrospectively for 2024.
- The small benefit voucher exemption which can be provided by an employer for an employee in 2025 will be increased to €1,500 in up to five different vouchers.
- The mortgage interest tax credit is extended to 2025 calculated on the increase in interest paid in 2024 over interest paid in 2022.

- **USC in 2025:**

- The 4% rate will be reduced to 3% with a small €1,622 increase in the 2% band.

- **Capital Acquisitions Tax:**

- The Thresholds are increased with effect from 2nd October 2024; the Group A Parent to Child Threshold increases to €400,000 from that date from €335,000 which applied before.

- **Pensions:**

- The BIK exemption for employer PRSA contributions will be restricted to a maximum of 100% pa of the employee's remuneration in the tax year in which the employer contribution is paid; any employer contribution above 100% remuneration annual limit will be a BIK for the employee in that year.
- No change in tax relief on personal or employer pension contributions or in the €115,000 Net Relevant Earnings limit,
- The current €2m Standard Fund Threshold will increase in stages from 2026 to reach €2.8m by 2029, and thereafter will be increased in line with growth in average earnings.
- A transfer from an unvested PRSA to a vested PRSA will be treated as a benefit crystallisation event for the Threshold limit, equal to the value transferred. Up to now, such transfers were not generally considered to eat into the Threshold limit.
- Auto Enrolment Scheme benefits will be of a similar format to the PRSA but without a drawdown option, i.e. 25% lump sum and balance as taxable lump sum. However, on death before the AE fund is taken, the full fund will be subject to PAYE before payment to the deceased's personal reps.

- **Savings & investments:**

- No change in DIRT, CGT, or life assurance exit tax rates.

- **Social Welfare benefit increases:**

- An increase of €12 pw in the maximum personal rate of most benefits; a higher €15 pw increase in Maternity, Paternity, Adoptive and Parent's benefit. Increases to apply from 1st January 2025.

The maximum personal rate of State Pension Contributory in 2025 will be €289.30 pw.

- A double weekly payment of most benefits in October 2024 in addition to the normal Christmas double payment in early December 2024.

- **Property:**

- The Help to Buy scheme has been extended to 31 December 2029
- The Vacant Home Tax is increased to 7 x the Local Property Tax (from previous 3 x LPT).
- From 2nd October 2024 a new 6% Stamp Duty rate on residential property will apply to the excess of the purchase price over €1.5m.

The existing Stamp Duty rates of 1% for the first €1,000,000 of the purchase price and 2% of the balance will continue to apply to binding contracts in place prior to 2 October 2024 where the instrument is executed before 1 January 2025.

- **Motor Insurance**

- The Motor Insurers Insolvency Compensation Fund levy will be abolished on motor policy renewals from 1 January 2025

Changes to the Standard Fund Threshold system

The Standard Fund Threshold (SFT), currently €2m, will be increased as follows from 2026:

2025	€2,000,000
2026	€2,200,000
2027	€2,400,000
2028	€2,600,000
2029	€2,800,000

Note that **the SFT will remain at €2m for 2025.**

For 2030, the SFT will be increased if the growth in average earnings between Q1 2025 and Q1 2029 is more than 40%.

For 2031 onwards, the SFT will be increased annually in line with the growth in average earnings in the preceding year.

Personal Fund Thresholds (PFTs) will also be increased at the same time and at the same rate of increase as the Standard Fund Threshold. E.g. a 2014 PFT of €2,300,000 would increase as follows, as the SFT increases:

	SFT	PFT
2025	€2,000,000	€2,300,000
2026	€2,200,000	€2,530,000
2027	€2,400,000	€2,760,000
2028	€2,600,000	€2,990,000
2029	€2,800,000	€3,220,000

In calculating the Threshold available at any time, the value of any prior benefits taken is increased in line with the same rate as the SFT has increased since those benefits were taken, and this increased amount is then deducted from the SFT.

Example

Client A matures benefits of €500,000 in 2024 when the SFT was €2m. In 2028, when the SFT is €2.6m (increased by 30% since 2024) this client's available SFT is **NOT** [€2,600,000 less €500,000] = €2,100,000 as you might expect, but **IS**:

$$[€2,600,000 \text{ less } €500,000 \times 130\%] = €1,950,000$$

This means that **if a client has already matured €2m in benefits before 2026, they cannot benefit from the planned increases in the SFT** as the value of their previously matured benefits will always be equal to the SFT. E.g. take a client who matures €2m of benefits in 2024:

	SFT	Previously matured	SFT available for other benefits
2024	€2,000,000	€2,000,000	0
2025	€2,000,000	€2,000,000	0
2026	€2,200,000	€2,200,000	0
2027	€2,400,000	€2,400,000	0
2028	€2,600,000	€2,600,000	0
2029	€2,800,000	€2,800,000	0

Taxation of pension lump sums

There is a technical change in the manner in which pension lump sums in excess of €200,000 are taxed.

Currently the €300,000 band of pension lump sums taxed at 20% is calculated as 25% x Standard Fund Threshold less €200,000 tax free lump sums = €300,000 currently.

Finance Bill 2024 changes this to a fixed monetary €300,000 of pension lump sums taxed at 20%, so that as the Standard Fund Threshold increases from 2026 onwards, the €300,000 band of pension lump sums taxed at 20% will be fixed and will not increase.

So the €300,000 of pension lump sums taxed at 20% will be fixed at this amount.

The Auto Enrolment scheme is due to start on 30th September 2025 and will enrol those aged 20 to 60 who are earning more than €20,000 pa between all employments, and who are not building up retirement benefits in their employer's occupational pension scheme or a PRSA by employer or employee contributions.

The initial contribution rate will be 1.5% from the employer, 1.5% from the employee and 0.5% from the Government.

Finance Bill 2024 provides for the taxation of AE contributions and benefits as follows:

- Employer contributions will not be subject to a BIK charge for the employee. This is the same as employer contributions to a scheme or PRSA.
- There will be no tax relief on the employee contributions because the Government contribution of 1/3rd of the employee contribution is already the equivalent of 25% tax relief on the employee contribution. E.g. of the total €4 contributed by the employee and employer (€3 from the employee and €1 from the Government), the Government €1 is like tax relief at 25% on the total contribution of €4.

However, this means that the employee contribution of 1.5% of earnings initially, will be based on **gross** income but taken from **net** income. Therefore, the employee contribution of 1.5% of earnings will feel like more than 1.5%, as it will not qualify for tax relief as employee contributions to a scheme or PRSA would.

- The AE scheme will benefit from tax free returns, in the same way as schemes and PRSAs do.
- AE retirement benefits, which cannot be taken before the State Pension Age of 66 (except on disability or death), will be provided in the same manner as PRSA benefits, but initially at least without the ARF option:
 - 25% as a lump sum, tax free within the €200,000 tax free lump sum limit and next €300,000 taxed at 20%
 - The balance will be paid as a taxable lump sum subject to PAYE. The Minister for Social Protection has said: *"In the initial years, participants (in the AE scheme) reaching this age will receive a lump sum of their contributions and investment returns, minus administration and investment charges. As the system evolves, it is possible NAERSA will offer alternative pension drawdown offerings other than lump sums"*.
- On death before 66, the member's full fund will be subject to PAYE before payment to the deceased's estate. This is in contrast to death in service benefits paid under all other pension arrangements (e.g. employer schemes and PRSAs) where the full fund is paid to the deceased's estate without any tax deduction.

Income Tax Rates and bands

	2025	2024
Single/widowed or surviving civil partner, no qualifying child	€44,000 @ 20% Balance @ 40%	€42,000 @ 20% Balance @ 40%
Single/ widowed or surviving civil partner, qualifying for single person child carer credit	€48,000 @ 20% Balance @ 40%	€46,000 @ 20% Balance @ 40%
Married/ civil partnership, one income	€53,000 @ 20% Balance @ 40%	€51,000 @ 20% Balance @ 40%
Married/ civil partnership, both incomes	€53,000 @ 20% with increase of €35,000 max. Balance @ 40%	€51,000 @ 20% with increase of €33,000 max. Balance @ 40%

Income Tax Credits

	2025	2024
Single	€2,000	€1,875
Widowed person or surviving civil partner (without qualifying child)	€2,540	€2,415
Single person Child Carer Tax Credit	€1,900	€1,750
Married/civil partner	€4,000	€3,750
Employee tax credit	€2,000	€1,875
Earned income tax credit	€2,000	€1,875
Home carer tax credit	€1,950	€1,800

USC tax rates and bands

2025	Rate	2024	Rate
Up to €12,012	0.5%	Up to €12,012	0.5%
From €12,012 to €27,382	2%	From €12,012 to €25,760	2%
From €27,382 to €70,044	3%	From €25,760 to €70,044	4%
Above €70,044	8%	Above €70,044	8%

- 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.

Capital Acquisitions Tax Thresholds

Group Threshold	From 2nd October 2024	Up to 2nd October 2024
Group A	€400,000	€335,000
Group B	€40,000	€32,500
Group C	€20,000	€16,250

