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Relate

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Contents

Budget 2013

Budget 2013 was announced on 5 December 2012. Some of the measures announced, for example, the increase in duties on alcohol and the new rates for capital taxes, came into effect on 6 December 2012. Most changes come into effect in 2013 but some measures are scheduled to come into effect in 2014.

This issue covers the main changes announced in Budget 2013 in the areas of social welfare, health, education and taxation. The main Budget statements and background documents are published on the website **budget.gov.ie**.

Social welfare

In 2013, it is planned to spend €390 million less on social welfare than was spent in 2012. The total social welfare budget for 2013 will be over €20 billion. That is about 37% of all Government spending.

The *Social Welfare Act 2012* gives legislative effect to most of the proposed immediate changes in social welfare. It also provides for some changes that were not announced in the Budget. Some changes do not require legislation because they involve administrative schemes, for example, the changes to the Household Benefits Package.

It is intended that a Social Welfare and Pensions Bill in Spring 2013 will introduce other changes, including changes to the rules on the distribution of assets when underfunded defined benefit pension schemes are being wound up.

There is no change in the rates of the main social welfare weekly payments. Child Benefit is reduced from January 2013.

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Child-related payments

Child Benefit

In January 2013, Child Benefit will be reduced to €130 per month for the first three children in a family and to €140 for the fourth and subsequent child. The extra monthly payments for twins and other multiple births remain in place. Child Benefit costs about €2 billion annually.

Back to School Clothing and Footwear Allowance

The amount of the Back to School Clothing and Footwear Allowance is being reduced by €50. This means the payment will be reduced from €250 to €200 for children aged 12-17 (or aged 18-22 and in full-time education) and from €150 to €100 for children aged between 4 and 11 years.

School Meals Programme

An extra €2 million is being allocated to the school meals programme. This programme funds two separate schemes. The urban school meals scheme, which is a statutory scheme, is operated by local authorities and part-funded by the Department of Social Protection (DSP). There is also a non-statutory school meals local projects scheme. The DSP provides funding directly to participating schools and to local and community groups who run their own school meals projects. The total spending on the programme in 2012 was €35 million.

The allocation to the programme has not changed over recent years. New schools have been added to the scheme only when another school opts out. When deciding which schools to support, priority is given to DEIS schools (Delivering Equality of Opportunity in Schools). Over 40 DEIS schools have been added to the programme over the past four years.

In the school year 2011/12, 332 schools with over 49,000 children took part in the urban scheme and 1,014 schools with almost 140,000 children took part in the local projects scheme.

One-Parent Family Payment

There were no changes to the One-Parent Family Payment (OFP) announced in Budget 2013. However, some changes that had already been announced will come into effect in 2013. The Social Welfare Act 2012 delays the effective date of these changes from January 2013 to June 2013. It also provides for the changes to age limits due to come into effect in January 2014 and the end of December 2014 to come into effect in July 2014 and July 2015 respectively. The aim of these postponements is to allow more time for the creation of childcare places.

The age up to which the OFP is paid depends on when the claim was made. For claims made on or after 3 May 2012, the age limit for the youngest child will be 10 from July 2013, instead of from January 2013 as originally announced.

Further reductions in the age limit will be implemented in subsequent years. This means that the age limits will be as follows:

For claims made on or after 3 May 2012
- July 2013: the age limit will be 10
- July 2014: the age limit will be 7

For claims made between 27 April 2011 and 3 May 2012
- July 2013: the age limit will be 12
- July 2014: the age limit will be 10
- July 2015: the age limit will be 7

For claims made before 27 April 2011
- July 2013: the age limit will be 17
- July 2014: the age limit will be 16
- July 2015: the age limit will be 7

Means test

It had already been announced that the earnings disregard for the OFP is being reduced to €110 from 1 January 2013 (from €130 in 2012). Earnings above this limit are assessed at 50% up to €425 a week. All earnings above €425 are assessed. Further reductions will be made in each of the following three years. The rules governing OFP are described in *Relate*, April 2012 and June 2012.

Jobseekers' payments

Jobseeker's Benefit

The duration of entitlement to Jobseeker's Benefit (JB) will be reduced from 3 April 2013. This means that, if you become unemployed on or after that date, your maximum entitlement to JB will be for nine months if you have at least 260 PRSI contributions paid. At present, the maximum is one year. If you have fewer than 260 contributions paid, your maximum entitlement will be reduced from nine months to six months.

If you are getting JB on 3 April 2013 and have been getting it for six months or more (or three months or more if you have fewer than 260 paid contributions), you will not be affected by this change and may continue to receive JB until your year's (or nine months') entitlement ends.

Sunday working

It had already been announced that Sunday working would be taken into account in assessing entitlement to jobseekers' payments – Jobseeker's Benefit and Jobseeker's Allowance - from January 2013. The *Social Welfare Act 2012* provides for this. This means that working on Sunday will be taken into account when assessing the number of days for which you are unemployed in any week.

It is expected that this will come into effect early in 2013. When it does, you must have suffered a substantial loss of employment (defined as at least one day of insurable employment) in any period of seven consecutive days (instead of six at present) to qualify for a jobseeker's payment. A person must be fully unemployed for at least 4 days in any period of 7 consecutive days.

If you are working on Sundays only, you could be getting full JB at present. This will not be the case when this provision is in effect – you will be considered unemployed for 6 days and you will be paid 4/5 of the normal JB for that week. Your income from Sunday working is already taken into account in the means test for Jobseeker's Allowance (JA) but this change will mean that the number of days for which you are entitled to get JA will change.

Income from fishing and farming

The assessment of income from farming and fishing for the purposes of Farm Assist, Jobseeker's Allowance and Disability Allowance will be changed from April 2013. The disregards for children will be abolished (they are currently €127 for the first two children and €190.50 for subsequent children). At present 85% of income is assessed as means – this will increase to 100%.

State pensions

The Act makes some changes to the rules on the State pensions. The rules on these pensions are outlined in detail in *Relate*, May 2012.

The pro-rata pension for people with intermittent insurance is abolished by this Act. It is no longer relevant as the new arrangements for reduced rates of pension provide the same level of pension.

Since April 2012, 520 paid contributions are required to qualify for a State Pension (Contributory). This Act provides that this number of paid contributions is also required for reduced-rate pensions for people who reach the age of 66 on or after 1 January 2013.

The reduced rates of pension introduced in 2012 also apply to the State Pension (Transition). This Act provides that the rates payable with this pension in respect of qualified adults and qualified children are also reduced in the same way as the personal rate. Existing recipients are not affected by this. This pension is being abolished from 1 January 2014.

Labour market activation

There will be an increase in places on a number of labour market activation programmes. These new places will cost €11 million.

JobBridge

JobBridge is an internship scheme that provides work for between six and nine months. Unemployed people and recipients of Disability Allowance and OFP are eligible to participate. There will be an extra 2,500 places available – this will bring the total available to 8,500. Website: **jobbridge.ie**.

Tús

There will be 2,500 extra places bringing the total to 7,500. Tús is open only to recipients of Jobseeker's Allowance.

Community Employment

There are more than 1,000 Community Employment (CE) schemes operating at present with over 23,300 participants. An extra 2,000 CE places will be available from 2013. CE places are open to a range of people including unemployed people and recipients of Disability Allowance and One-Parent Family Payment.

Local authority social employment scheme

There will be 3,000 places in a new local authority social employment scheme. It is not yet clear exactly how this scheme will operate but it is expected to be along the lines of the CE scheme.

Back to Education Allowance

There will be several changes to the Back to Education Allowance (BTEA):

- The €300 Cost of Education Allowance, the annual grant that accompanies the Back to Education Allowance, will be abolished from 2013 for all recipients.
- The weekly rate of BTEA will be the same as the social welfare payment being received before going back to education. This applies to new recipients. At present, people on reduced rates of social welfare payment because of their means get the Back to Education Allowance at the full rate.
- There will be a standard maximum rate of €160 a week payable to young people who were previously on age-related reduced-rate Jobseeker's Allowance. This applies to new recipients of the Back to Education Allowance. The age-related rates of JA are €100 for people aged 18-22 and €144 for people aged 23 and 24. Existing participants on BTEA have been receiving the equivalent of full-rate JA – €188 a week.

See page 6 for similar changes to VTOS/Youthreach and FÁS training programmes.

Carers

The Respite Care Grant, which is payable in June each year is being reduced from €1,700 to €1,375 for each person receiving care. This grant is payable to recipients of Carer's Allowance, Carer's Benefit, Domiciliary Care Allowance.

It is also payable to people who do not get a regular carer's payment but who are providing full-time care and attention to an older person or a person with a disability who needs care.

Exceptional Needs Payments

It is planned to make savings in the Exceptional Needs Payment scheme but there are no details about what that may involve.

Redundancy rebates

Until 2012, employers who made workers redundant could claim a rebate of 60% of the cost of the statutory redundancy payments that they made. In 2012, this was reduced to 15% of the cost. The rebate is being abolished altogether for redundancies that occur on or after 1 January 2013. This change has no effect on employees' rights to redundancy payments.

Household Benefits Package

The value of the Electricity/Gas Allowance and the Telephone Allowance is being reduced.

The value of the Electricity/Gas Allowance will be €35 a month. The allowance may be granted as a credit on your bill or paid as a cash allowance.

The Telephone Allowance will be €9.50 a month, down from €22.58, and will be available as a credit on your bill or a cash payment.

Recovery of overpayments

The means by which the Department of Social Protection (DSP) may recover any overpayments made to you are described in *Relate*, December 2010. The Social Welfare Act 2012 provides for changes to the rules on recovery of overpayments. Until now, in general, if the DSP was recovering such overpayments from your current payment, you would be left with at least the relevant level of Supplementary Welfare Allowance (SWA) for your family circumstances. The Act provides that the DSP may deduct up to 15% of the personal rate of your current payment in order to recover an overpayment. So, for example, if you are on Jobseeker's Allowance, the DSP can now recover up to €20.20 each week (15% of €188). Before this change, the maximum that could be recovered was €2 a week (the difference between the personal rates of JA and SWA). The Act also provides that you do not have a right to access SWA to make up for this.

Household Budget facility

The Household Budget facility is an arrangement between the Department of Social Protection and An Post whereby a social welfare recipient can agree to have money deducted from their social welfare payment and used to pay bills such as utility bills. In general, this arrangement is voluntary and the social welfare recipient can withdraw from any particular payment arrangement at any time. It is possible at present to enter into such a voluntary arrangement to pay for local authority rent – any such arrangement may continue after the change provided for in the *Social Welfare Act 2012* comes into effect.

The *Social Welfare Act 2012* makes specific provision for the deduction of money for the payment of rent to a housing body – a local authority or a voluntary housing body providing social housing. New housing body tenants will be required to sign up to this facility before being offered accommodation and will be able to withdraw from the arrangement only with the consent of the housing body concerned. The consent of the housing body may not be "unreasonably withheld".

The maximum that may be deducted from the weekly social welfare payment for all payments under this arrangement will be 25% of the social welfare payment. If one of the deductions is for rent under the new arrangements, the rent will be paid first and the other payments will be made only to the extent that the total deduction is not more than 25%.

A starting date for this new provision has not yet been announced.

PRSI

Several changes to PRSI are being introduced from January 2013. The rates payable by employees, employers and the self-employed are unchanged.

Self-employed PRSI

The minimum amount of PRSI payable by self-employed people is increased from €253 to €500 per year. Self-employed people who have income of €5,000 or more are liable for PRSI at 4% on all their income, including income from rents and other unearned income.

Self-employed people who are liable to pay PRSI, but are not liable for tax, pay a flat rate of PRSI. This is being increased from €157 a year to €310 from 1 January 2013.

Voluntary contributions

The flat-rate voluntary contribution payable by formerly self-employed people is increased from €253 to €500 per year.

People who were formerly employed and paying full Class A PRSI can opt to be voluntary contributors and pay 6.6% of their income subject to a minimum payment. That minimum payment is being increased from €317 to €500 a year.

Former contributors who used to pay a modified rate and who opt to pay voluntary contributions pay 2.6% of their income subject to a minimum payment. Again, the minimum payment is being increased from €126 to €250 per year.

The special rate of voluntary contribution for people who had intermittent insurance is now abolished as there are no people in this category anymore.

The rules about paying voluntary contributions are described in *Relate*, September 2010.

PRSI-free allowance

The employee PRSI-free allowance of €127 a week (€26 a week in the case of modified-rate PRSI) is abolished from 2013. If you earn €352 or less a week, you do not pay any PRSI but your employer does and you are covered for the benefits. If you earn more than €352 a week, you will pay an extra €5.08 a week in PRSI from January 2013.

Partly employed/partly self-employed

If you are employed and paying full-rate PRSI (mainly Class A but also Classes E and H) and you also have income from self-employment, you pay PRSI on both sources of income. However, if you are employed and paying modified-rate PRSI – this generally applies to civil and public servants who were employed before 1995 – you did not pay any PRSI on your self-employed income. This is changed from January 2013. You will be obliged to pay PRSI on all such income from then.

Other income

It was announced in Budget 2012 that PRSI would apply to unearned income such as the rental and investment income of employees from 2013. It has now been decided that this will come into effect in 2014. People who are self-employed already pay PRSI on such income.

Employer Job (PRSI) Incentive Scheme

This scheme whereby employers do not have to pay PRSI in respect of certain new employees will be abolished when the Plus One Initiative comes into effect.

This is an initiative being promoted by the Department of Jobs, Enterprise and Innovation to encourage employers to hire long-term unemployed people. It is not yet clear when it will come into effect.

Children

Some of the money being saved by the reduction in Child Benefit is being allocated to the Department of Children and Youth Affairs (DCYA) for childcare and child poverty initiatives.

Childcare

It is intended to provide over 6,000 after-school childcare places for primary school children. These places will be for children of low-income families whose parents are taking up employment or training/educational opportunities.

A pilot scheme will start in early 2013. The cost of this initiative is €14 million and it will be jointly operated by the DCYA and the Department of Social Protection.

Poverty

A further €2.5 million is being allocated to the DCYA for its Area-Based Child Poverty Initiative. This will be used in areas such as child development, educational disadvantage, health, well-being and parenting.

Youth detention

A new youth detention facility is to be developed at Oberstown. When completed, it will mean that 17-year-old boys will no longer be detained in St Patrick’s Institution.

Health services

The allocation for the health services in 2013 is about €13.6 billion. Savings of €781 million are required but it is not yet known where exactly most of these will take effect. The HSE National Service Plan 2013 is expected to be agreed in early 2013 and it will set out the proposed spending in each area of activity.

Medical cards for people aged 70 and over

The income limits for medical cards for people aged 70 and over are being reduced. People who lose medical cards as a result will get a GP Visit Card. There is no date announced for the change.

The change will mean that single people aged 70 and over will be entitled to a full medical card if they have an income of €600 a week or less; this threshold is reduced from €700.

Those with an income of between €600 and €700 will get a GP Visit Card. Married couples will qualify if they have an income of up to €1,200 a week – this is being reduced from €1,400; those with an income between €1,200 and €1,400 will get a GP Visit Card.

This will mean that about 92% of people aged 70 and over will have medical cards, another 5% will have GP Visit Cards and the remaining 3% will not be entitled to free primary care services.

Medical cards for people aged under 70

There will be a reduction in the number of medical card holders aged under 70. It is intended to "tighten the rules relating to a person's income and spending that is taken into account" when carrying out the means test. The details of this are not yet known and it is also not known when exactly it will come into effect. The reduction is aimed at saving €20 million. Approximately 1.7 million people have medical cards at present – this is about half a million more than in 2008.

Free GP services

In Budget 2012, it was announced that people who are entitled to free drugs under the Long Term Illness Scheme would become entitled to free GP services from March 2012. This has not happened but an allocation is made to cover this in 2013.

There are approximately 56,000 people in this category. It was also announced last year that people in the High Tech Drugs Scheme would qualify for free GP services in 2013. It remains Government policy to extend free GP services to everyone over a number of years but the timetable for implementing this is unclear.

Free drugs

The 50c prescription charge for medical card holders is being increased to €1.50 per prescription, with a monthly ceiling of €19.50 (increased from €10).

Drugs Payment Scheme

The monthly threshold for the Drugs Payment Scheme is increased from €132 to €144.

Nursing home support scheme

At present, assets are taken into account in the means test for the nursing home support scheme (see *Relate*, July 2012). Assets above €36,000 in the case of a single person and above €72,000 in the case of a married couple are assessed at 5% a year. This is being increased to 7.5% a year. In the case of your principal private residence (and farms and businesses in certain specific circumstances) this assessment is limited to three years. So, the maximum value of your house that can be taken into account is being increased from 15% to 22.5%. This requires legislation and it is not clear when that will be enacted.

This change will apply to both new and existing residents in nursing homes. If you are already three years in a nursing home, you will not be affected by the change in relation to your home. If you are less than three years there, the new arrangements in respect of your home will apply for the remaining part of the three years. The arrangement for other assets will apply while you continue to receive State support under the scheme.

It is also intended to abolish the entitlement to State support to be backdated to 27 October 2009 for people who were in nursing homes before the scheme started. Again, this requires legislation.

The review of the scheme is expected to be completed in 2013.

Education

The total allocation for current spending by the Department of Education and Skills is €8.5 billion. As announced in Budget 2012, there will be a reduction in the capitation and related grants for primary and post-primary schools in 2013.

Secondary schools

There will be an increase in the pupil/teacher ratio in fee-paying secondary schools in September 2013. This means that the State will pay the salary of one teacher for each 23 students in these schools, an increase of two points from 1 to 21. It pays the salaries of one teacher for every 19 students in non-fee-paying schools.

PLCs

The pupil/teacher ratio in Post Leaving Certificate (PLC) courses will be increased from 17:1 at present to 19:1.

Payments to trainees

The payments made to participants on VTOS, Youthreach and FÁS further education and training courses will be changed broadly in line with the changes in the Back to Education Allowance (see page 3). This means that they will receive the same amount as they did while getting a jobseeker's payment and will not have that payment increased to €188 a week as happens at present. The rate for people aged 18-25 will be €160 a week.

Training places

There will be more places available in the back-to-work incentive schemes operated by the Department of Education and Skills. These include:

- The Labour Market Education and Training Fund will have an extra €20 million to provide 6,500 places for people who are long-term unemployed

- Springboard will have a further allocation of €23 million – this is for unemployed people who enter part-time higher education

Higher education

As already announced, the student contribution in higher education is being increased by €250 in each of the years 2013, 2014 and 2015. It will be €3,000 in 2015.

The income limits for entitlement to student grants will be reduced by 3%. This means that the limit for the maximum grant will reduce from €41,110 to €39,875 from September 2013 for a family with fewer than four dependent children.

It has already been announced that a capital assets test will be introduced into the means test for student grants from 2013.

Further information is available at: **education.ie**.

Taxation

Some of the taxation changes were brought into effect by financial resolutions on the night of the Budget. The Local Property Tax Bill is described on page 8. The Finance Bill that will give effect to other changes is expected to be published in February 2013. It is likely to include other changes not announced in the Budget. Full details of some of the changes will not be clear until the Bill is published.

Income tax

The income tax credits, rates and bands are unchanged for 2013.

Maternity Benefit

Maternity Benefit, which has not been taxable in the past, will be fully taxable from 1 July 2013.

Taxation of lump sum payments

Top Slicing Relief is being abolished in respect of lump sum payments of €200,000 or more where such payments are made on or after 1 January 2013. This applies to lump sum payment for loss of employment and not pension lump sums. A lump sum statutory redundancy payment is tax-free. After that, an amount of the payment is tax-free – this is related to the number of years worked. The remaining amount will now be taxable at the marginal rate instead of the average rate paid over the previous three years.

Revenue Job Assist

This scheme will be abolished when the Plus One Initiative comes into effect. Existing beneficiaries will continue to be able to claim.

Tax relief on pension contributions

Tax relief on contributions to occupational and personal pension schemes and to PRSAs will remain unchanged for 2013.

From 1 January 2014, the tax relief arrangements will be such as to subsidise pension schemes that provide income up to a maximum of €60,000 a year. How exactly this will be implemented is not yet clear.

Withdrawals from AVCs

In general, when you contribute to a pension scheme, you may not withdraw any of your investment in the scheme until you become eligible for the pension. It has now been decided to allow people to withdraw up to 30% of their investment in Additional Voluntary Contributions (AVCs). You will not be able to withdraw money from the basic pension scheme. AVCs are additional amounts usually paid by employees to top up their basic pension or to provide for years when they did not contribute.

If you do withdraw from your AVCs, you will have to pay tax at your marginal tax rate. This facility will be available for three years. It has been suggested for some time that people should be able to access their pension investments in order to help with meeting mortgage payments. You do not have to use any withdrawn amounts for this purpose.

Donations to charities

From 2013, donations to charities will attract tax relief at a single rate of 31%. Up to now, qualifying donations have attracted relief at the taxpayer's marginal rate.

Universal Social Charge

The Universal Social Charge (USC) rates are changed only for people aged 70 or over who have income of €60,000 a year or more and for medical card holders aged under 70 who have an income of €60,000 a year or more. Income from social welfare payments is not included in the income that is assessable for USC. This means that, for example, anyone over 70 who has an income of less than €60,000 together with a State Pension is not affected by the change.

The Citizens Information Board provides independent information, advice and advocacy on public and social services through citizensinformation.ie, the Citizens Information Phone Service and the network of Citizens Information Services. It is responsible for the Money Advice and Budgeting Service and provides advocacy services for people with disabilities.

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If your income is less than €10,036, you do not pay any USC. If your income is above this, you pay USC on all your assessable income.

The standard rates of USC are not changed. They are:

- Income up to €10,036 2%
- Over €10,036 and up to €16,016 4%
- Over €16,016 7%
- Self-employed income over €100,000 10%

In 2012, the 4% rate applied to all income above €10,036 in the case of people aged 70 or over and people with full medical cards (not GP Visit Cards). From 2013, this will remain the case only for those over 70 who have an assessable income of €60,000 or less and for those aged under 70 who have a full medical card and an assessable income of €60,000 or less.

In practice, there can be very few medical card holders aged under 70 who have an assessable income of more than €60,000.

Other taxes

Capital Acquisitions Tax

The rate of Capital Acquisitions Tax (CAT) is being increased from 30% to 33%. The new rate applies to gifts or inheritances taken after 5 December 2012.

You may receive gifts and inheritances up to a certain threshold without being liable for any CAT. Gifts and inheritances from spouses and civil partners are completely free of CAT. The threshold for gifts to children (the Group A threshold) is reduced from €250,000 to €225,000 for gifts and inheritances received after 5 December 2012. The thresholds for the other groups are also reduced:

- Group B: from €33,500 to €30,150
- Group C: from €16,750 to €15,075

Capital Gains Tax

The rate of Capital Gains Tax (CGT) is increased from 30% to 33% in respect of transactions after 5 December 2012.

Deposit Interest Retention Tax

The DIRT rate is also being increased from 30% to 33%. It will apply to payments made on or after 1 January 2013.

Local Property Tax

The Finance (Local Property Tax) Bill 2012 provides for the new Local Property Tax (LPT) that will be introduced in July 2013. We will cover this tax in detail in a later issue of *Relate*. The following is a summary of its main provisions. The Local Property Tax will apply to residential property. It will be collected by the Revenue Commissioners and will be self-assessed. In 2013, you will pay LPT in respect of half the year.

The rate of the tax is 0.18% on the market value up to €1 million and 0.25% of the market value above €1 million. For properties valued at less than €1 million, the tax will be based on the mid-point of €50,000 value bands. So, if your house is valued at anything between €200,001 and €250,000, your tax is based on a value of €225,000 and you will be liable to pay €202 in 2013 and €405 in subsequent years.

You may defer payment in respect of your only or main residence if your income is below a certain limit. The limits are €15,000 for a single person and €25,000 for a couple. The payment then becomes payable when the property is sold or transferred to another person.

The Household Charge (€100) will be abolished from 1 January 2013. However, the Non-Principal Private Residence Charge (€200) will be payable in 2013 and will cease in 2014.

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