DAVY

Your Guide to Tax Efficiency in Retirement

When completing your 2021 tax return

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At Davy, our clients often ask us how their tax position will change once they retire. While there's no such thing as 'one size fits all' when it comes to tax-related issues, it's important to understand the basics of your personal tax position and how this might change as you get older.

One goal of a financial plan is to protect the income and savings that you have spent a lifetime acquiring.

This guide summarises some important rates, allowances, reliefs and deadlines to be aware of as you move towards or through retirement and should be useful when completing your 2021 tax return.

1 Tax liabilities

Part of managing your financial plan in a tax-efficient way is to first understand your tax liabilities for each of the investment structures available:

Tax Charges as Applicable	Personal Deposit Interest	Pension ARF/Vested PRSA	Pension Annuity	Certain Funds (e.g. gross roll up funds)	Personal Investments (e.g. property)	Consultancy Income
DIRT 33%*	✓					
Income tax		✓	✓		✓	✓
USC		✓	✓		✓	✓
PRSI 4% **	✓	✓			✓	✓
Capital gains tax					✓	
Fund exit tax				✓		

* DIRT may be refundable or exempted at source for individuals over 65 in certain circumstances which will be income dependent.

** Liable to 4% PRSI (under age 66) if paying income tax through self-assessment system.

For further information on the USC, please refer to section 7 of this guide.

Please note that your overall tax position will depend on your own personal circumstances, the type of assets you own and the income you earn. Rates are correct as of December 2021.

2 Useful tips for managing your tax bill

Standard Rate Tax Band: A certain amount of income can be taxed at the 20% rate each year (the higher rate of income tax is 40%). Have you considered structuring your investments to maximise the standard rate tax band?

Age Tax Credit: Once either you or your spouse/civil partner reach the age of 65, you are entitled to an age credit in addition to your personal tax credits.

USC: Reduced USC rates apply to holders of full medical cards and to individuals who are over 70 with an aggregate income of €60,000 or less.

DIRT Exemption: DIRT-free deposit accounts for individuals aged over 65. Exemption limits apply.

PRSI: No PRSI applies once you reach the age of 66.

3 Some exemptions / reliefs

- **Nursing Home Fees:** Income tax relief is available on fees paid for nursing homes. This tax relief applies at the highest rate of income tax that you pay.

- **Employed Person Taking Care of an Incapacitated Individual:** You can claim tax relief on the cost of employing a carer for either yourself or for another family member.

- **Home Renovation Incentive:** The incentive provides for tax relief by way of an income tax credit at 13.5% of qualifying expenditure on repair, renovation or improvement works carried out in the main home or rental property by qualifying contractors. The scheme ended on 31st December 2018 unless a planning permission was in place by 31st December 2018 and the work was carried out between 1st January 2019 and 31st March 2019. You would claim 50% of the credit in 2019 and 50% of credit in 2020.

- **Covenants:** A covenant is an agreement by an individual to pay an agreed amount to another individual without receiving any benefit in return. Tax relief can be claimed on covenants in favour of adults age 65 or over and in favour of permanently incapacitated minors/adults.

- **Qualifying Medical Expenses:** Standard rate of 20% tax relief applies to qualifying medical expenses.

- **Rent-a-Room Relief:** Where a room is rented in a person's private home and the gross annual income is less than €14,000 per annum. From 1st January 2019. The relief does not apply to certain short-term lettings

- **Tax Deduction for Pre-Letting Expenses:** Where a residential property has been vacant for at least 12 months, you can claim a tax deduction for expenditure incurred in the 12 months prior to letting the property. The deduction is capped at €5,000 per property and can be clawed back where the property is sold/no longer used as a residential property within four years.

- **EII Scheme:** This is a tax-relief incentive scheme which is one of the few sources of total income tax relief (which includes, for example, rental income). This can be offset against your personal income tax at your marginal tax rate.

- **Irish Government Bonds:** Irish government bonds are exempt from capital gains tax in the hands of individuals. For this asset class, income, rather than capital gains, tends to be the main source of investment return in most periods. Income is taxed at your marginal rate.

- **Ensure Your Pension is Taxed Correctly:** Ask your local Revenue office to allocate any unused tax credits or register for My Account on www.revenue.ie to allocate your own.

4 Main personal credits and reliefs for 2021

Tax Credits	€
Single	1,650
Married / civil partners (jointly assessed)	3,300
Widowed person / surviving civil partner in year of bereavement	3,300
Additional Tax Credits	
Single person child carer credit	1,650
PAYE	up to 1,650
Blind person	1,650
Earned income	up to 1,650
Widowed Parent Tax Credit	
In years following bereavement, widowed parent / surviving civil partner tax credit (certain conditions apply)	
Year 1	3,600
Year 2	3,150
Year 3	2,700
Year 4	2,250
Year 5	1,800
Home Carer's Credit	1,600
Incapacitated Child	3,300
Dependent Relative	245
Age Credit – Over Age 65	
Single	245
Married / civil partners (jointly assessed)	490
Medical Expenses (qualifying)	20% Credit

5 Income tax rates for 2021

Bands of Taxable Income	
Single/Widowed/Surviving Civil Partner (without dependent children)	**€35,300 @ 20%** Balance @ 40%
Single/Widowed/Surviving Civil Partner (with dependent children)	**€39,300 @ 20%** Balance @ 40%
Married Couple / Civil Partners (one income)	**€44,300 @ 20%** Balance @ 40%
Married Couple / Civil Partners (two incomes)	***€70,600 @ 20%** Balance @ 40%

*The maximum the higher income earning spouse can earn at the lower rate is €44,300 which leaves a balance of €26,300 for the other spouse. If the other spouse earns less than €26,300 there is a loss of some of the lower rate band.

6 Income exemption limits for 2021

Aged 65 and over

Exemption limits are income limits below which no income tax is payable. For married couples/civil partners, the €36,000 limit applies where either spouse/civil partner is 65. If you expect that your income for the year will be less than these limits, you should contact Revenue and they will issue a revised determination of tax credits to you.

Single / Widowed
€18,000

Married Couples / Civil Partners
€36,000

Where you exceed these limits, marginal relief may reduce your income tax liability. The point at which marginal relief ceases to be of benefit varies with your family circumstances and the tax credits to which you are entitled. You should seek help from your accountant or tax adviser to calculate this amount.

7 USC rates

2021

	Aged 70 no Medical Card	Aged 70	Aged 70 with Medical Card
Up to €12,012	0.5%	0.5%	0.5%
The next €8,675	2%	2%	2%
The next €49,357	4.5%	2% if less than €60,000 4.5% if > €60,000	2% if less than €60,000 4.5% if > €60,000
The balance	8%	8%	8%
Income > €100,000*	11%	11%	11%

2021

Individuals aged 70 or more with income under €60,000 will pay a maximum of 2% USC. Individuals who are aged over 70 with income > €60,000 will pay the same rates of USC as individuals aged less than 70.

* Applies to non-PAYE only.

Source: www.revenue.ie

8 Capital gains tax (CGT)

CGT is charged at 33%

Did you know that the first €1,270 of an individual's annual gains is exempt?

Don't forget that losses can be offset against gains and carried forward to future years.

Properties purchased in the three-year period to 31st December 2014 may be entitled to a partial exemption from capital gains tax on a future sale/transfer.

9 Pensions (2021)

State pension

State pension (contributory)	€248.30 per week [€12,912 p.a.]
Personal + adult dependant (age 66 and over)	€470.80 per week [€24,482 p.a.]
Personal + adult dependant (under age 66)	€413.70 per week [€21,512 p.a.]

Please note that rates above are based on having made the maximum PRSI contributions. The state pension is chargeable to income tax.

Private pension fund taxation

Any withdrawal is subject to PAYE and USC*.

* PRSI is applicable for individuals up to age 66.

ARF/Vested PRSA

Private pensions benefit from tax-free growth on income and gains. In order to encourage individuals to access their pensions, Revenue treat an individual as taking an annual minimum distribution from their pension fund. The "imputed distribution" amounts are as follows;

Age 61 - 70	4%
Age 71 and over	5%
Pension fund value > €2 million	6%

Many individuals take an annual withdrawal of the minimum distribution amount to avoid a double tax charge applying.
Any withdrawals from your ARF/Vested PRSA is subject to PAYE and USC*
*PRSI is applicable for individuals up to age 66.

Annuity

Pension annuities are subject to PAYE and USC.

10 Annual personal taxes: Deadlines to remember

Payment dates for CGT

Period of disposal:	Date of payment:
1st January - 30th November	15th December
1st December - 31st December	31st January

Personal income tax returns:

31st October after tax year
Mid-November after tax year if submitting online

Tax returns must be submitted by both residents and non-residents with income in Ireland, unless they are on PAYE and have no other source of income.

31st October is the deadline for preliminary payment of tax for the current tax year. If you use ROS (Revenue Online Service) to file both your income tax return and make your income tax payment you will have until mid-November to pay.

In addition, 31st October (or mid November if you use ROS) is the deadline for the payment of any balance of tax from the previous year and the preliminary payment of tax for the current year.

Contact us

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Tax information is correct as of December 2021 and could change in the future.

Glossary of terms

DIRT:	Deposit Interest Retention Tax
PRSI:	Pay Related Social Insurance
ARF:	Approved Retirement Fund
AMRF:	Approved Minimum Retirement Fund
USC:	Universal Social Charge
EII:	Employment and Investment Incentive

Warning: This information is based on Davy's understanding of current tax legislation in Ireland and is subject to change without notice. It is intended as a guide only and not as a substitute for professional advice. You should consult your tax adviser for the rules that apply in your individual circumstances. The information provided in this tax guide is for Irish resident, Irish ordinarily resident and Irish domiciled individuals only and is based on our understanding of Irish tax legislation and the known current Revenue interpretation thereof. This may vary according to individual circumstances and is subject to change without notice. The information provided does not constitute legal or tax advice, and you should consult your own professional advisers as to the implications of your subscribing for, purchasing, holding, switching or disposing of shares under the laws of any jurisdiction in which you may be subject to tax. You should consult your tax adviser for the rules that apply in your own individual circumstances. Davy is not responsible for the interpretation of this information and any submissions made by you or a third party on your behalf thereon. This tax information analysis must not be copied, reproduced, distributed or passed to others at any time without the prior written consent of Davy.

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