Budget pointers from 'across the water'

Are there some pointers in George Osborne’s Budget last week that our own Minister for Finance Michael Noonan, should consider as he prepares his own pre-election ‘give-away’ Budget for October?

With UK unemployment 5.75% and still falling, its economy growing by growth at 2.5%, inflation below the target 2% and debt to GDP fallen to (circa) 80%, the British Chancellor was in an enviable position of being able to hand over some tax and savings breaks.

With just five weeks to go before the general election (and Labour and the Scottish Nationalists in coalition mode) it was inevitable that most taxpayers and savers would be rewarded. And how!

The personal income tax allowance (on which no tax is paid) rises to £10,600 (€14,749) this year, to £10,800 (€15,027) in 2015/16 and to £11,000 (€15,305) in 2016/17, taking another four million people out of the tax net.

The 40% tax rate rather than 45% (there are three bands in the UK: 20%, 40% and 45%) will apply to incomes up to £42,700 this year (instead of £41,860) and up to £43,300 in 2017/18. This will reduce the tax bill for 27 million people.

The Irish tax system works on a different, tax credit method of calculation with Irish workers paying far lower, flat social insurance contributions of 4% on all income compared to UK earnings related rates that go up to 12.5% in the UK. up to 12.5% PRSI in the UK.

However, the combined tax/PAYE annual tax credit for a single person here is just €3,300 compared to the €14,749 equivalent in the UK.

An Irish worker earning €50,000 a year (or £35,936) will get to keep just €31,694 of his earnings after all tax, USC and PRSI is deducted. His UK counterpart earning the equivalent of €50,000 (£35,936) will get to keep the equivalent of €38,097 (£27,523) once his tax and PRSI is deducted.

Determined to boost savings and investment – the only sustainable method of wealth creation for any state (or individual) – the UK Chancellor also announced that from April 2016, lower rate (20%) taxpayers would no longer pay any DIRT tax on interest of £1,000 earned on deposit savings. Higher rate taxpayers can earn up to £500 interest, tax-free. From April 2016, the DIRT will be eliminated for anyone who has savings and pays the standard, lower tax rate.

Here, a 40% DIRT rate applies on all interest earned from savings unless you are over 65 and your total income is less than €18,000 (€36k for a couple.)

Meanwhile, the amount that UK residents can save every year in their ISA's – individual savings accounts, on which all interest or investment growth can be taken tax-free (subject to terms and conditions) has been raised from £15,000 to £15,240.

There are no tax-free returns available from any savings plans in Ireland (except the annual growth in pensions). Osborne also introduced a new ISA scheme, every similar to our old SSIA scheme, for first time property buyers which will attract a generous (and no doubt controversial) government top up on total savings of up to £15,000.

Finally, the UK Budget further liberalised their private pension regime: it had already been flagged that from April 6th, anyone aged 55 or over with membership of an occupational defined contribution pension or a self-employed version, could have full access to their money, whether they were still working or not.

They could take 25% of it tax-free and pay their highest tax on the encashed balance, or they could re-invest the balance or leave it with the occupational fund. (See MoneyTimes, February 11 edition for how this affects Irish holders of UK pensions.)

Last week the Chancellor announced that retired DC members, who up to now had been forced to buy an annuity – a pension for life – with their pension fund (something that was abolished here a few years ago) could now sell their annuitized pension for a cash equivalent. The lump sum would be in lieu of the annual income they would otherwise receive for the remainder of their life.

There is considerably speculation about the kinds of conversion payments retirees will get for their annuities: the cash equivalent may not be sufficient to give up the guaranteed pension payment.

But there will certainly be some retirees who will prefer the lump-sum, with which they may use to pay off expensive debt, mortgages or even use to buy an asset that they believe will pay more than the pension – such as a buy-to-let property.

Will Michael Noonan consider any of these reforms? Will he have any money with which to do so? We'll have to wait and see.

But savings and pension reforms – like eliminating DIRT tax and giving people more access to their life savings would go some way to pumping real money – not credit and debt – into the Irish economy, and no one can argue with that.

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