

relate

information for all

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Guide to Budget 2006

Introduction

The Budget for the year 2006 was announced in December 2005. As usual, it included proposals for changes in social welfare, health and income tax. It also included some details on a new childcare strategy. Other changes were announced when the Book of Estimates was published in November. The Budget process was described in the January 2004 issue of Relate. Here we describe the main changes announced in the Budget and the Book of Estimates. The Social Welfare Act 2005 gives the statutory backing for the increases in social welfare payments. A further Social Welfare Bill will be needed to give a legislative basis for the other social welfare changes. A Finance Bill will be introduced to give statutory backing to the income tax changes – the Bill usually introduces other changes not announced in the Budget.

Social Welfare

Increases in Weekly Payments

All social welfare weekly personal rates of payment are being increased from the first week of January 2006. The increases are

- ◆ €14 for the personal rate of Old Age (Contributory) Pension, Retirement Pension, Widow's/Widower's (Contributory) Pension for those over 66 and Invalidity Pension for those aged over 65
- ◆ €16 a week for the maximum personal rate of the Old Age (Non-Contributory) Pension and related payments (blind pension and lone parent payments to people over 66)
- ◆ €17 for all other social welfare payments

The over 80 allowance is increased to €10 a week.

Qualified Adult Allowance

The maximum qualified adult allowance (QAA) is being increased by between €9.30 and €12.10.



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The upper ceiling for tapered qualified adult allowances is increased from €220 a week to €240 a week from January 2006 and will be further increased to €250 a week later in 2006. Other changes will also be introduced later in 2006. These include increasing the limit for qualifying for the full QAA from €88.88 to €100 a week and reducing the number of tapered QAA bands.

Child Dependant Allowances

Child Dependant Allowances (CDA) are not being increased – they have not been for eleven years.

Child Benefit

Child Benefit will be increased from April 2006. The monthly rate for the first and second child will be €150 and the rate for third and subsequent children will be €185.

A new early childcare supplement will be introduced – see Childcare below.

Back to School Clothing and Footwear Allowance

From June 2006 the Back to School Clothing and Footwear Allowance is being increased by €40 per child. The new rates will be €120 (for children aged 2-11 years) and €190 (aged 12-22).

In order to qualify for this allowance, you must be getting a social welfare payment with a child dependant allowance for the child in question and your income must be below certain limits. You may also qualify if you are on one of the back to work or education schemes. The allowance will also be made available to people getting Orphan's Allowance and Orphan's Pension from June 2006.

Family Income Supplement

Family Income Supplement (FIS) income thresholds will be increased by between €19 a week (for a one-child family) and €282 a week (for a family with eight or more children) from January 2006. The threshold for a one-child family is now €465 a week and for a two-child family, it is €510 a week.

Social Welfare Means Test

A number of changes are being introduced to the social welfare means test. Some of these affect all the means tests and some are relevant only to particular payments.

All means tests – disregard for PRSA

Contributions to Personal Retirement Savings Accounts (PRSAs) will be disregarded in the means

test for all non-contributory payments. This will come into effect in April 2006.

Spouse's income from insurable employment

The social welfare means test involves a joint assessment of the income of spouses. In the case of Unemployment Assistance, Pre-Retirement Allowance, Farm Assist and Disability Allowance, a spouse's earnings from insurable employment are assessed less tax, PRSI and some other deductions. An amount is then disregarded. In the case of a spouse who works three days a week or less, the amount disregarded is €38.09. The disregard is €88.88 if the spouse works four days a week or more. These disregards will be increased to €50 and €100. This change will come into effect in May and September 2006 depending on the particular payment.

These disregards apply only to earnings from insurable employment, they do not apply to income from other sources.

Old Age (Non-Contributory) Pension

The means test for the Old Age (Non-Contributory) Pension will be changed to allow you to earn up to €100 from employment without affecting your entitlement. Income from other sources, for example from self-employment or from investments, will still be taken into account.

At present, you may qualify for the maximum pension if you have weekly means as assessed by the Department of Social and Family Affairs of less than €7.60 a week. This is being increased to €20 a week. These changes will come into effect in September 2006.

Benefit and privilege

The value of benefit and privilege is assessed in the means test for Unemployment Assistance (UA) and weekly Supplementary Welfare Allowance (SWA) in the case of people living with their parents. The upper age limit for this arrangement is being reduced from 26 to 25. This will come into effect in February 2006 for UA and in May 2006 for SWA.

A description of how the means test operates was given in Relate, January 2003. If benefit and privilege is assessed and you are considered to qualify for some UA, you get a minimum payment of €40.

Payments for Carers

Carer's Allowance

Carer's Allowance is increased by 17% and a further

increase is being granted to carers over the age of 66. The maximum weekly allowance is now €180 for carers under 66 and €200 for carers over 66 from January 2006.

The income disregards in the means test for the Carer's Allowance are increased from €270 (single) and €540 (married) to €290 and €580 from April 2006.

Respite Care Grant

The Respite Care Grant will be increased from €1,000 to €1,200 from June 2006.

Carer's Benefit

At present Carer's Benefit is payable for 15 months. From May 2006, it will be payable for up to 24 months.

Carers and other work

People getting Carer's Allowance, Carer's Benefit and the Respite Care Grant may work for up to 10 hours a week outside the home while retaining their entitlement. This is being increased to 15 hours a week from June 2006.

Back to Work Incentives

A number of changes are being made to encourage people on various benefits to get back to work.

Back to Work Allowance (BTWA)

At present, you must be on the Live Register for five years in order to qualify for the Back to Work Allowance (or three years if you are self-employed). These qualifying periods are both being reduced to two years from March 2006.

Time spent receiving weekly Supplementary Welfare Allowance or in the Direct Provision arrangements for asylum seekers will be taken into account to meet the two-year requirement. (In order to qualify for BTWA asylum seekers must no longer be asylum seekers, they must have been granted refugee status or leave to remain and therefore be entitled to work.) This will come into effect in March 2006.

Back to Education Allowance

From September 2006 time spent receiving weekly Supplementary Welfare Allowance or in the Direct Provision arrangements for asylum seekers will also be taken into account to meet the qualifying period for the Back to Education Allowance (12 months).

Disability Allowance and Blind Pension

People who are receiving Disability Allowance or Blind Pension may engage in rehabilitative work and earn up to €120 a week from this without affecting their entitlement. Until now once their earnings went above €120 a week, they lost all their allowance or pension. This is being changed to allow a tapered withdrawal of the allowance or pension. So, they will be able to earn €120 and get the full allowance or pension and they will be able to earn up to €350 a week and get some of the allowance/pension. This will be introduced in June 2006.

One-Parent Family Payment (OFP)

At present you may be entitled to the OFP if you have an income of less than €293 a week. You may qualify for a half-rate payment for six months after your income goes above this level. This level is being increased to €375.

Other Changes

Invalidity Pension

People who are on Invalidity Pension at age 66 will be automatically entitled to the Old Age (Contributory) Pension (OACP) from September 2006. The personal rates for the OACP and the over 65 Invalidity Pension are the same. The qualified adult allowance for a spouse under 66 is less with the Invalidity Pension. So, this change will mean an improvement for those getting Invalidity Pension with an adult dependant aged under 66.

Free Travel

Initial funding of €200,000 has been allocated for an all-Ireland free travel scheme. It is not clear exactly what is involved here.

Maternity and Adoptive Benefit

The minimum rate of Maternity and Adoptive Benefit is being increased to €182.60 from January 2006. The maximum rate is being increased from 75% to 80% of reckonable earnings. The maximum reckonable earnings are €332 a week so the new maximum rate of benefit will be €265.60 a week.

Maternity leave is being increased from March 2006 – see under Childcare below.

Treatment Benefit

The contribution conditions for Treatment Benefit are being changed in order to improve the entitlement of people who are in part time or other atypical work.

The number of contributions you need in order to qualify for this benefit depends on your age. People aged over 21 need a minimum number of paid contributions and a minimum number of paid or credited contributions in the relevant tax year. The minimum requirement in the relevant tax year is 39 for those aged under 66 and 13 of these must be paid in a recent year. It is proposed to provide an alternative to this condition – you may qualify if you have 26 paid contributions in the relevant tax year and the previous tax year. The relevant tax year is 2004 for claims made in 2006. This will mean that people who are working half-time should be able to qualify. This change will come into effect in May 2006.

National Fuel Scheme

The National Fuel Scheme payment is being increased from €9 to €14 per week from the beginning of January 2006. People who live in local authority houses with communal heating systems will also be eligible for the allowance. Taxes on home heating oil were also cut on the night of the Budget.

Rent and Mortgage Interest Supplement

In general, people in full-time employment do not qualify for the rent/mortgage interest supplement. Part-time workers may qualify and may have earnings of up to €60 a week disregarded in the means test. It is now proposed that the supplement will be gradually withdrawn if a part-time worker has earnings between €60 and €90 a week.

Any childcare allowances paid to participants in approved training courses will be disregarded in the assessment of entitlement to rent/mortgage interest supplement from January 2006.

Health Services

Increased funding for the health services was announced in both the Book of Estimates and the Budget. This extra funding is going to a range of services including hospital and primary care services. Specific extra funding was announced for people with disabilities and for older people.

People with Disabilities

An extra €100 million is being provided for disability and mental health services. This will allow for increases in the numbers of residential, respite and day places and home supports for people with intellectual, physical or sensory disabilities, as well as more community-based mental health facilities.

Secondary benefits

Secondary benefits include rent supplement, medical card and Back to School Clothing and Footwear Allowance. In general, people on back to work schemes including Community Employment are entitled to retain secondary benefits. This arrangement is being extended to participants in the Rural Social Scheme.

In some cases, there is an overall earnings limit above which you may not retain entitlement to secondary benefits. Any childcare allowances paid to participants in approved training courses will be disregarded in the assessment of entitlement to secondary benefits from January 2006.

Additional Funding

Extra funding was allocated to the following: Comhairle received €1.4 million for the establishment of a personal advocacy service for people with disabilities and a further €500,000 for continued development of CICs.

Money Advice and Budgeting Services – additional funding of €1.5 million

The Family Support Agency – additional funding of €3 million.

Northside Community Law Centre – once-off additional funding of €120,000.

National Pensions Awareness Campaign – €500,000 funding

Combat Poverty Agency – €100,000 additional funding.

Entitlements Awareness Campaign – €500,000 for a new communications initiative to improve take-up of entitlements.

In last year's Budget, multi-annual funding for services for people with disabilities for the period 2006-2009 was announced – see Relate, January 2005.

Services for Older People

€150 million has been allocated for improved services for older people. Almost three quarters of this will go to services in the community. The following areas will get extra funding:

Home care packages

These will be based on the pilot home care arrangements which have been put in place over the past few years. They will be geared to the needs of the older person involved and could include the services of nurses, home care attendants, home helps, physiotherapists and occupational therapists. Priority will be given to people living at home and those in acute hospitals who are at risk of admission to long-term care. The packages may also be available to people already in long-stay care who want to go home and to those who are at home and already receiving some services but who need extra services in order to continue living at home. Home care packages will be designed by the Health Services Executive (HSE) and delivered either by them or by voluntary groups or private providers on behalf of the HSE.

There are about 1,100 such packages being provided at present. It is expected that a further 2,000 will be provided by the end of 2006.

Home helps

Extra funding is being provided with the aim of providing a further 1.75 million home help hours in 2006.

Day/respice care centres

The increased funding aims to provide an extra 1,325 places a week in day/respice care centres and for longer opening hours for the centres.

Nursing home subventions

There will be changes in the means test for the nursing home subvention scheme and the arrangements for enhanced subvention will be clarified and uniformly applied throughout the country. There is no specific date for when these changes will come into effect but this is likely to be in 2006.

The changes in the means test relate to how your house and other assets affect your entitlement to a subvention. It should be noted that there is no obligation on the HSE to take either your house or your other assets into account. Your house may not be taken into account if it is occupied by your spouse or another dependant.

At present, you may be refused a subvention if you own a house worth €95,000. This is being increased to €500,000 in Dublin and €300,000 in the rest of the country.

You may be refused a subvention if you have assets (excluding your house) of over €25,359; this is being increased to €36,000. If you are applying for a subvention the first €11,000 of assets (increased from €7,618) will not be taken into account in the means test.

The level of subvention is not being increased but the enhanced subvention arrangements are being rationalised. There are considerable differences in these arrangements between the former health board areas.

Other services

Extra funding is also being provided for meals on wheels services, specialised palliative care services in hospices and in the community, health services to residents in sheltered housing and the implementation of the recommendations of the Report of the Working Party on Elder Abuse.

Charges for Hospital Services

Charges for in-patient services and for attendance at accident and emergency departments of public hospitals are increased from 1 January 2006. The charge for in-patient services in a public bed will be €60 a night (up from €55) with a maximum of €600 a year. The accident and emergency charge will be €60. None of these charges is payable by medical card holders and certain other groups, and the accident and emergency charge is not payable by people who are referred by their GP.

Charges for private or semi-private accommodation in a public hospital are being increased by 10% from 1 January. It is the Government's policy to gradually eliminate the subsidy which private patients effectively receive by paying less than the economic costs of private and semi-private accommodation.

The new charges are as follows:

Hospital Category	Private	Semi-Private	Day-care
HSE Regional Hospitals, Voluntary & Joint Board Teaching Hospitals	€551	€432	€397
HSE County Hospitals; Voluntary Non-Teaching Hospitals	€460	€370	€329
HSE District Hospitals	€197	€168	€146

Childcare

The government has announced a five-year childcare strategy. This includes a new programme of investment in childcare places, a new early childcare supplement and improved maternity leave. The arrangements for tax exemption for certain childcare earnings are described under Income Tax below.

Childcare places

The Equal Opportunities Childcare Programme 2000 to 2006 involved funding of €500 million. This will have helped to create 41,000 new places by the end of 2007. It will be succeeded by a new National Childcare Investment Programme which will run from 2006-2010 and aims to help create an extra 50,000 childcare places. The 2006-2010 programme will have funding of €575 million over the next five years.

The aims of the new programme are:

- ◆ to increase the supply and improve the quality of early childhood care and education services, part-time and full day care, school age childcare and childminding.
- ◆ to support families and breaking the cycle of disadvantage
- ◆ to support a co-ordinated approach to the delivery of childcare

The programme involves capital grants of up to €100,000 to private providers. It also involves support to community providers of up to €1 million per facility subject to a maximum grant per place of €20,000. It will also provide current funding for staff and operating costs of those community childcare facilities which cannot meet the costs from fees and will support the development of City and County Childcare Committees.

Arrangements are being made for the introduction of an improved capital grant scheme to help childminding services and parent and toddler groups.

Extra training arrangements for childcare workers will also be put in place.

The programme will be managed by the Childcare Directorate of the Department of Justice, Equality and Law Reform (DJELR). It will be implemented by Pobal (this was formerly known as Area Development Management Ltd.).

Further information, including contact details for local City and County Childcare Committees is available from:

Pobal
Holbrook House
Holles Street
Dublin 2
Tel: (01) 240 0727
Fax: (01) 6610411
E-mail: enquiries@pobal.ie
www.pobal.ie

Childcare Directorate, DJELR: Lo-Call 1800 20 90 30

Maternity leave

Statutory maternity leave will increase by four weeks to 22 weeks from 1 March 2006 and by a further four weeks in 2007. Maternity Benefit is payable during this leave. Mothers will be entitled to take an additional four weeks unpaid leave (12 weeks unpaid leave in total) from 1 March 2006 and a further four weeks (16 unpaid weeks in total) from 2007.

Adoptive leave

Statutory adoptive leave will increase by four weeks to 20 weeks from 1 March 2006 and by a further four weeks in 2007. Adoptive Benefit is payable during this leave. The increases in additional unpaid adoptive leave are the same as additional unpaid maternity leave.

Early childcare supplement

The early childcare supplement is a payment of €1,000 a year to the parents of children under the age of six. This is a universal and non-taxed payment. It will be paid four times a year and will start in mid-2006 – three payments of €250 each will be made in 2006.

Full details are not yet available as to the precise arrangements for payment.

Income Tax

There are a number of changes in income tax for the year 2006. The standard rate band, age exemption limits and the personal and employee tax credits are all increased. There are changes in a number of other tax allowances and credits.

Standard Rate Band

The standard rate will remain at 20% and the top rate at 42%. The standard rate band is being increased by €2,600 for each income earner. For the tax year 2006, the 20% rate will be charged on:

- ◆ the first €32,000 of taxable income for a single person or a widowed person without dependent children
- ◆ the first €36,000 of taxable income for widowed people and other lone parents who qualify for the one-parent family tax credit
- ◆ the first €41,000 for a single income married couple
- ◆ the first €64,000 for a two income couple (provided each earns at least €23,000. If one earns less than this, the standard rate band for them is the amount earned by that person plus €41,000)

Exemption Limits

The exemption limits for people aged 65 and over are increased from €16,500 for a single person to €17,000, and from €33,000 for a married couple to €34,000. There are exemption limits for people aged under 65 but they are now largely irrelevant.

Tax Credits and Allowances

The main tax credits have been increased as follows:

Tax Credits	2005	2006
Personal Tax Credit	€1,580	€1,630
Married Tax Credit	€3,160	€3,260
Widowed Person without dependent child	€1,980	€2,130
Additional tax credit for one-parent family including widowed parent	€1,580	€1,630
Employee Tax Credit	€1,270	€1,490
Incapacitated Child	€1,000	€1,500
Blind Person		
Single	€1,000	€1,500
Married	€2,000	€3,000
Dependent Relative Credit	€60	€80
Age Credit		
Single/Widowed	€205	€250
Married	€410	€500

Widowed parents

There are extra credits for widowed parents in the year of the death and the subsequent four years. These are increased by €300 a year. The new credits are as follows:

year of death	€3,100
2nd year	€2,600
3rd year	€2,100
4th year	€1,600
5th year	€1,100

Employment of a carer

This allowance may be granted in cases where a person is employed to care for an incapacitated person or spouse or other family member. This allowance is increased from €30,000 to €50,000 and it is granted at the marginal rate of tax.

Trade union subscriptions

Tax relief for trade union contributions is available at the standard rate. This is being increased from €200 to €300 a year – the maximum tax credit is €60.

Rent tax allowance

If you pay rent in the private rented sector, you may claim tax relief at the standard rate on some of this. The amount on which you may claim is increased from €1,500 a year to €1,650 for single people aged under 55 and from €3,000 to €3,300 for single people aged 55 and over. Tax relief is available on double these amounts in the case of married couples and widowed people.

Other Tax Changes

A number of other tax changes were announced in the Budget. Full details of their operation will not be available until the Finance Bill is published in the Spring.

Childminding relief

In certain circumstances, income from childminding may be exempt from tax. Income of up to €10,000 a year may be exempt if you are minding up to three children (not your own children) in your own home. If you earn more than this, then all the income is taxable. You will be obliged to declare the income in

the normal way. You will also be obliged to notify the County Childcare Committee that you are providing this service.

Remittance basis of taxation

The rules about residence and domicile for tax purposes are quite complex. In general, if you are living in Ireland you are liable to pay Irish tax. However, there are a number of exceptions. People who are living here but are not ordinarily resident or domiciled here may be liable for Irish tax only to the extent of their income which is brought into the country – this is called the “remittance” basis of taxation. The main people affected are foreign nationals who come here to work for, say, two years with a multinational company and retain their ordinary residence in another country. They may be paid in their home country or, indeed, some other country and they pay Irish tax only on any money which they remit to Ireland. This will change from 1 January 2006. Income earned from employment in Ireland will then be liable for Irish tax. It seems that the remittance basis will continue for other sources of income.

Property tax changes

The following tax relief schemes are being phased out: the urban renewal, town renewal and rural renewal schemes, and the special reliefs for hotels, holiday cottages, student accommodation, multi-storey car parks, third-level educational buildings, sports injuries clinics, developments associated with park and ride facilities and the general rental refurbishment scheme. There are transitional arrangements but effectively these schemes will end totally in July 2008.

Other tax reliefs are being continued, including those for nursing homes, childcare facilities and private hospitals. There will be some changes in the conditions attached to relief for private hospitals, and the scheme will include the development of private psychiatric hospitals.

Cap on tax relief

From 2007, there will be an annual cap on the tax relief which any one person may claim. This cap will

apply to people with an income of over €250,000 a year. The calculations are complex but the basic idea is to try to ensure that everyone with an income over this amount pays a minimum tax of 20%. This cap will also apply to the tax relief for artists. Artists will continue to be exempt from tax on their artistic earnings up to €250,000 a year.

Pension contributions

Most contributions to pension schemes attract tax relief. The amount of the relief is limited to a percentage of your income – this percentage is age-related. There is an overall maximum earnings limit of €254,000. Any individual pension contributions on income above that limit are not granted tax relief. From 2007 onwards this limit is to be increased in line with earnings.

There will also be a cap on the overall value of pension funds which attract tax relief.

PRSI

The PRSI contribution ceiling for employees is being increased from €44,180 to €46,600 for the year 2006.

The threshold for PRSI payments is being increased from €287 a week to €300 a week. This means that you do not have to pay PRSI if your income is less than €300 a week. However, if your income goes above this limit, you pay PRSI on all income above €127.

Health Levy

The threshold for the 2% health levy is increased from €400 a week to €440. This means that you do not pay the levy if you earn less than €440 a week, but you pay it on all your income if you earn more than that.

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