

Relate

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The journal of developments in social services, policy and legislation in Ireland

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Budget 2012

This issue covers the main changes announced in Budget 2012 in the areas of social welfare, health services, education and taxation.

The different elements of Budget 2012 were announced on 5 and 6 December 2011. Changes have been made to the budgetary process, mainly to provide for multi-annual budgeting and for reviews of all expenditure. The details of changes in social welfare, health services, education and taxation are still announced in the budget statements to the Dáil. In Budget 2012, there are cuts in all areas of Government expenditure.

Here we look briefly at the budgetary process – in particular at the documents which are publicly available and which contain very detailed information about Government activities. We then summarise the various detailed changes which have been announced in the public services and in taxation.

The budgetary process

The main Budget statements and background documents are published on budget.gov.ie. Some of the more detailed background documents are available on the website of the Department of Public Expenditure and Reform: per.gov.ie.

The following are the main documents in the budgetary process:

- *Infrastructure and Capital Investment 2012–16: Medium-Term Exchequer Framework* (published in November 2011) sets out the capital expenditure plans for the coming years. The submissions made by the various government departments on capital spending are also published.
- *The Medium-Term Fiscal Statement* gives background information on the context for the Budget and outlines the Government's budgetary strategy for the medium term. In future years, this will be updated in the annual *Stability Programme Update* in April of each year.

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- The *Comprehensive Expenditure Report 2012–2014* sets out the multi-annual allocations to each department. The *Comprehensive Review of Expenditure* is an examination of all Government spending. The documents compiled by each department for this review include detailed information on all aspects of their activities.

Public service reform

A plan for *Public Service Reform* was published in November 2011. The plan includes arrangements for reducing public service numbers and providing for various public service bodies to share services such as payroll, Human Resources and banking. Some of the proposed decentralisation plans have been cancelled or are being reviewed. Proposed reforms include plans to rationalise some of the state agencies.

Customer service

Among the plans for improving access to, and interaction with, government services for citizens are:

- Introduction of the Public Services Card. This is being done on a phased basis. The registration process is being piloted in a number of local offices in the Department of Social Protection. It is expected to take a number of years before the cards are fully introduced.
- New electronic services such as electronic voter registration, passport applications for adults, applications for driving licences and applications for welfare benefits. A new eGovernment strategy is due to be published in January 2012.

- More online publication of information on the performance of services
- New authority for awarding third-level grants – this will be introduced on a phased basis starting in the 2012–13 academic year.
- Strengthening the Freedom of Information legislation in 2012.
- Introducing a pilot scheme for a basic payment account in 2012 (see Relate, December 2011).

State agencies

The public service reform plan provides for:

- Amalgamation of a number of state agencies
- Integration of some agencies back into their parent departments
- Review of a number of other state agencies

It also provides that any new agencies will be covered by a sunset clause. This means that the remit of the agency will come to an end on a set date unless a positive decision is made to continue it. There will be an annual review of the business case for the continuation of all significant State bodies.

All State bodies and agencies must have a service level agreement with the relevant government department.

Many of the changes in state agencies will require primary legislation.

Social welfare

The overall reduction in social welfare expenditure for 2012 is €475 million. The total social welfare budget for 2012 will be €20.5 billion. That is about 40% of all government spending.

The Social Welfare Act 2011 provides for the main immediate changes in social welfare. Some changes are being introduced by Statutory Instrument. Some changes do not require legislation because they involve administrative schemes, for example, changes to Community Employment. Other changes will be provided for in a Bill which will be introduced early in 2012.

There is no change in the rates of the main social welfare weekly payments. There are changes in:

- Child-related payments
- The duration of some payments
- The qualifying conditions for some payments

Child-related payments

Child Benefit

The Child Benefit rate for the first 2 children – €140 a month – remains the same. The higher rates which were paid in respect of the third and subsequent children in a family will be phased out over 2 years and the same rate will then be paid for all children. This means that, in 2012, the rate for the third child will be €148 a month (down from €167) and the rate for the fourth and subsequent children will be €160 (down from €177). Each rate will be reduced to €140 a month from 2013.

Multiple birth grant

The multiple birth grant (€635) which is payable at birth and again when the children are aged 4 and 12 is abolished. This applies from 1 January 2012.

The extra monthly payments for multiple births remain in place. Twins get one and a half times the usual monthly rates and triplets or more get twice the monthly rate. There are approximately 31,000 children getting the twin rate and just over 1,000 getting the triplet or more rate. Multiple births constitute less than 3% of the total number of children for whom Child Benefit is payable.

Back to School Clothing and Footwear Allowance

The amount of the Back to School Clothing and Footwear Allowance is being reduced from €305 to €250 for children aged 12 years or more and from €200 to €150 for children aged between 4 and 11 years. The age of eligibility has been raised from 2 to 4 years of age so children aged 2 and 3 will no longer receive the allowance.

One-Parent Family Payment

A number of specific changes are being made to the One-Parent Family Payment (OFP).

Age of child

The age up to which OFP may be payable for new claimants is being reduced to 7 on a phased basis, as follows:

- 2012: up to age 12
- 2013: up to age 10
- 2014: up to age 7

Means test

The means test for OFP is being amended. At present, the first €146.50 a week of earnings is disregarded. This will be reduced to €60 a week over a period of 5 years – bringing it into line with the disregard for Jobseeker's Allowance. In 2012, the disregard will be €130 a week for both new and existing claimants. In subsequent years, the disregard will be as follows:

- 2013: €110
- 2014: €90
- 2015: €75
- 2016: €60

Half of the earnings above these figures are also disregarded.

Transitional payment

At present, OFP ceases to be payable when income is greater than €425 a week. However, a transitional payment is made for six months after this limit is reached. This transitional payment is being abolished for new claimants from 5 January 2012.

Other changes

Lone parents are also affected by other changes, particularly in relation to concurrent payments – see page 4.

Qualified Child Increases

Qualified Child Increases (QCIs) are payable with virtually all weekly social welfare payments. The current rate of QCI is the same for all payments – €29.80 a week for each child. A half-rate is payable with some payments if the spouse, civil partner or cohabitant of the claimant has a certain level of income. If you are getting Jobseeker's Benefit, Illness Benefit or Injury Benefit that half-rate payment ceases if your spouse or partner has an income of over €400 a week.

From July 2012, the half-rate payment will also cease in the case of new recipients of Invalidity Pension, Carer's Benefit, State Pension (Contributory or Transition) and Incapacity Supplement. Existing recipients will retain their half-rate payment. Legislation to provide for this has not yet been passed.

Disability Allowance/Domiciliary Care Allowance

It was announced in the Budget that changes would be made to the disability payments of those aged 16–24 but these proposed changes are not being implemented at present.

Pensions

State Pension (Contributory)

At present, if you qualify for the State Pension (Contributory) you get the full rate if you have a yearly average of at least 48 contributions. If you have a yearly average of between 20 and 48 contributions, you get a reduced rate. The difference between the full and reduced rates is small – the full personal rate is €230.30 while the reduced rate is €225.80. From September 2012, a number of new rate bands will be introduced which will mean that the payment is more proportional to the contributions. The legislation necessary to give effect to this has not yet been passed.

Another significant change in the rules governing the State Pension (Contributory) will come into effect in April 2012 but this was decided and legislated for in 1997. It means that, in general, if you reach age 66 on or after 6 April 2012 you must have at least 520 Pay-Related Social Insurance (PRSI) contributions paid in order to qualify for the State Pension. If you reach 66 before that date, you must have at least 260 contributions paid. There are some exceptions to the general rule and there are, of course, other conditions attached to getting the State Pension (Contributory).

The Social Welfare Act 2011 includes a provision to ensure that people who are receiving a State Pension (Contributory) before 6 April 2012 are not affected by the increase in the number of paid contributions. This was always understood to be the case and this provision is included to ensure that there is no doubt.

Widow's, Widower's or Surviving Civil Partner's (contributory) pension

At present, you may qualify for this pension if you have at least 156 PRSI contributions paid (and meet the other conditions). From 27 December 2013, the number of contributions required will increase to 260. There is no proposed change in the yearly average requirement which is easier to meet than the average for the State Pension (Contributory).

Late claims

In general, you are expected to apply for social welfare benefits when you become eligible or, in the case of benefits such as the State Pension (Contributory), some months before you become eligible. If you make a late application, you may be able to have your claim backdated to some extent but generally not for more than 12 months. From April 2012, backdating will be limited to 6 months for State Pension (Contributory and Transition), Widow's, Widower's, or Surviving Civil Partner's (Contributory) Pension and Guardian's Payment (Contributory).

Further backdating will be allowed only if:

- The failure to claim resulted from incorrect information being supplied by the Department of Social Protection or
- The delay was due to your incapacity

Jobseekers' payments

The social welfare week is treated as a 6-day week at present. This means, for example, that if you are working 3 days a week and unemployed on the other days, you may qualify for 3 days of Jobseeker's Benefit. It is proposed to regard the social welfare week as a 5-day week from July 2012.

Sunday is not considered as part of the working week at present so it is possible to work on Sundays and still get the full weekly rate of Jobseeker's Benefit (see *Relate*, November 2011 for more details). This will change from January 2013. From then, Sunday working will be fully taken into account when assessing entitlement to Jobseeker's Benefit and Jobseeker's Allowance.

These changes have not yet been provided for in legislation.

Concurrent payments

As a general principle, it is intended that social welfare recipients will get one payment in the future with no special arrangements or top-ups for particular groups. A number of concurrent payments are being abolished from January 2012. The following changes will apply:

New participants on Community Employment schemes will not be able to claim another social welfare payment at the same time; the group most affected by this will be lone parents.

People who are receiving a Widow's, Widower's or Surviving Civil Partner's Pension or One-Parent Family Payment will no longer qualify for half-rate payments of Jobseeker's Benefit, Illness Benefit and Incapacity Supplement; existing recipients will continue to receive these half-rate payments until their entitlement expires.

People who are on a Community Employment scheme and are also receiving a Widow/Widower/Surviving Civil Partner's Pension or a One-Parent Family Payment will no longer qualify for two Qualified Child Increases. This is not limited to new applicants but applies to everyone in this situation.

Carers

The existing arrangements for half-rate Carer's Allowance and for increased payments to carers who are caring for more than one person are not changed even though the general principle of abolishing concurrent payments has been set out.

New applicants for Carer's Allowance, who are not living with the person for whom they are providing care, will not be entitled to the Household Benefits Package – this will take effect from 1 April 2012 onwards. Note that the person receiving care is still entitled to the package.

Means test

There will be a number of changes to the social welfare means test from January 2012. The changes which affect the OFP are outlined above. Here are the other main changes and they will apply to both new and existing claimants:

- Income from employment as a home help funded by the Health Service Executive (HSE) will be assessed in the means tests for all social assistance payments. The earned income disregards will apply in the normal way.
- Income from Carer's Allowance and Carer's Benefit will be included for the purposes of calculating entitlement to Family Income Supplement in the same way as other payments are assessed.
- The assessment of income from farming for the purposes of Farm Assist will be changed. The disregards for the first 2 children are reduced from €254 to €127 and for each subsequent child from €381 to €190.50. Also, 85% of income will be assessed as means instead of 70%.

Labour market activation

Community Employment

There are more than 1,100 Community Employment (CE) schemes operating at present. There are 23,300 participants and the schemes have an overall budget of €360 million. All of the schemes are expected to be reviewed in 2012 by the Department of Social Protection.

The training and materials grant paid to the employer is being reduced from €1,500 to €500 for each participant on Community Employment (CE). From January 2012, new participants on Community Employment schemes will not be able to claim another social welfare payment at the same time.

Back to Education Allowance

The Cost of Education Allowance, the annual grant which accompanies the Back to Education Allowance, is being reduced from €500 to €300 in 2012.

Redundancy rebates

Until now, employers who made workers redundant could claim a rebate of 60% of the cost of the statutory redundancy payments that they made. In 2010, €373 million was paid in rebates to employers. In the Social Welfare Act 2011, the employer rebate of statutory redundancy payments is reduced to 15%. The reduced rebate applies to rebates on payments made to employees on or after 1 January 2012.

This change has no effect on employees' rights to redundancy payments.

Other changes

Fuel Allowance

The Fuel Allowance season will be reduced from 32 weeks to

26 weeks for all recipients. The allowance will be payable from mid-October to the week ending Friday 6 April 2012. Legislation is not required to bring this into effect as it is an administrative scheme.

Disablement Benefit

Disablement Benefit is part of the Occupational Injuries Scheme. You may qualify for it if you suffer a loss of physical or mental faculty as a result of an occupational accident or disease. It may be payable as a lump sum or as a pension depending on the degree of disability. You do not get any benefit if the degree of disability is assessed at 1%. From 1 January 2012, new applicants will not qualify for any benefit if the degree of disability is less than 15%.

There were just over 13,700 recipients of this benefit in 2010; just over 2,200 had a degree of disability of less than 20%.

Rent Supplement and Mortgage Interest Supplement

The minimum amount which you must pay towards your rent or mortgage interest is being increased – by €6 a week for a single person (to €30) and €11 a week for a couple (to €35). New rent limits will also be introduced in 2012.

Payment of Mortgage Interest Supplement will be deferred for 12 months if you and your lender are engaging with the Mortgage Arrears Resolution Process (MARP) (see *Relate*, December 2011).

Health services

There are general reductions in allocations to the various parts of the health services.

There are also plans for additional expenditure. The budget for the health services is €13.6 billion in 2012. The following are the main changes:

Mental health

An additional €35 million is allocated to fund the development of community mental health teams and services as outlined in *A Vision for Change* (see *Relate*, October 2011).

Free GP services

People who are entitled to free drugs under the Long Term Illness Scheme will become entitled to free GP services from March 2012. There are approximately 56,000 people in this category. Legislation is required to bring this into effect. To all and, eventually, free GP care to all.

Drugs Payment Scheme

The monthly threshold for the Drugs Payment Scheme is increased from €120 to €132.

Private patients in public hospitals

The charges for private patients in public hospitals will be increased by about 4% but the full details are not yet known. It is planned that private patients will pay the full economic cost of public hospital stays in future.

Nursing Homes Support Scheme

An additional €55 million has been allocated for this scheme (generally known as the Fair Deal) in 2012.

Children

Apart from the changes in child income support outlined above, there are also some changes in other children's services:

- The Community Childcare Subvention rate is to be reduced by 5%. This subvention is granted, at various rates, to disadvantaged and low-income parents – see dcya.ie.
- FÁS and VEC trainees will make a €25 weekly contribution to the Childcare Education and Training Support which they receive.
- Funding to Children's Services Committees, Family Resource Centres and the Family Mediation Service will be reduced by 5%.
- The weekly allowances paid to 16–17 year olds on Youthreach, Community Training Centres and FÁS courses will be reduced to €40.

Education

There are cuts in virtually all areas of education. There will be no reductions in the overall numbers of special needs assistants (SNAs) or resource teachers. The following are the main changes:

Grants to schools

There will be a 2% reduction in the capitation and related grants for primary and post-primary schools in 2012 and again in 2013 and a further 1% reduction in each of 2014 and 2015.

The extra grants payable to Delivering Equality of Opportunity in Schools initiative (DEIS) will not be reduced.

Changes to the book grant scheme will be announced in early 2012. These will be designed to encourage book rental schemes in schools.

Primary schools

The minimum number of pupils required for the allocation of teaching posts will increase for small primary schools (those with between 1 and 4 teachers). This will be phased in, starting in 2012.

The charge for primary school transport will increase from €50 to €100 for each eligible child. The family maximum at primary level will increase to €220 from €110. The concessionary charge will be reduced from €200 to €100. The overall family maximum charge of €650 is not changed.

Post-primary

Guidance teachers will be included in the assessment of pupil/teacher ratios in post-primary schools. The ratio remains at 19:1.

There will be an increase in the pupil/teacher ratio for fee-paying post-primary schools from 20:1 to 21:1 (for teachers paid for by

the Department of Education and Skills). In 2012, the Department of Education and Skills will conduct an analysis of funding for fee-paying schools to inform policy decisions in future years. The Department says that it will facilitate discussions with any fee-paying school that plans to become a non-fee-paying school.

Third-level

There will be a 2% reduction in funding for third-level education in 2012 and again in 2013 and a further 1% reduction in both 2014 and 2015.

The student contribution will increase by €250 to €2,250 from 2012. Just over 40% of third-level students are exempt from the student contribution.

Third-level student grants are being reduced by 3% from January 2012 – this applies to all students. A new system for the payment of these grants is being introduced starting in the academic year 2012/13. It is intended to introduce a capital assets test into the means test for all grants from 2013. New postgraduate students will no longer qualify for maintenance grants but they may continue to qualify for fee grants. The allocation to the Fund for Students with Disabilities is reduced by 20%.

The 5 scholarship schemes for higher education will be replaced by a single bursary-type, merit-based scheme, with awards of €2,000 per student.

Further information is available at: education.ie.

Taxation

Income tax

The income tax credits, rates and bands are unchanged for 2012. Changes in other areas of taxation were provided for by a series of financial resolutions passed by the Dáil on 6 December 2011. They will be given permanent effect by the Finance Bill, which has not yet been published. The following are the main changes which apply to individuals:

Taxation of Illness Benefit

From 1 January 2012 Illness Benefit will be fully taxable. Until now, the first 6 weeks of Illness Benefit was not taxable.

Mortgage interest relief

The rules on mortgage interest tax relief are now very complex as different maximum interest levels and different rates of relief apply depending on whether or not you are a first-time buyer and in what year you bought your home. It had already been announced that all mortgage interest tax relief would be abolished from the end of 2017 and this has been confirmed in Budget 2012.

The maximum interest that attracts tax relief remains unchanged but there are changes in the rate of tax relief for first-time buyers in the period 2004–2008 and for everyone who buys in 2012. The maximum interest which attracts tax relief is:

	First-time buyers	Others
Single person	€10,000	€3,000
Married couple/civil partners/ widowed people	€20,000	€6,000

Bought in 2004-2008

Special arrangements for mortgage interest tax relief are being introduced for people who were first-time buyers in the period 2004–2008. This means that they will get mortgage interest relief at the rate of 30% in each of the years 2012–2017.

Buying in 2012

People who buy a home for the first time in 2012 will qualify for mortgage tax relief at 25% instead of the 15% that had previously been announced. This rate will also apply in 2013. The rate will be 22.5% in 2014, 2015 and 2016 and 20% in 2017.

Non-first-time buyers in 2012 will qualify for tax relief at 15% rather than the 10% which was previously announced. This rate will continue until 2017.

Buying in 2013

There will be no mortgage interest relief for property bought in 2013 or subsequent years.

The full details about mortgage interest relief are available at: finance.gov.ie/documents/publications/guidelines/MIRinfonote.pdf

Income from ARFs and similar products

If you do not take an income from an Approved Retirement Fund (ARF) or a similar product, you are assumed to have received a proportion of it each year and that is taxed in the normal way. The assumed proportion is 5%. From 2012, the assumed proportion will be 6% in the case of ARFs which are valued at €2 million or more or where an individual has combined ARFs valued at €2 million or more.

The rules which apply to the assumed income from ARFs will also apply to Personal Retirement Savings Accounts (PRSAs) which are vested. This refers to PRSAs from which some benefit has been taken but where the rest of the assets are retained within the PRSA.

From January 2012, children over the age of 21 who inherit an ARF will be liable for tax at 30% (increased from 20%) on the proceeds.

(See *Relate*, October 2011 for further information on the taxation of income from ARFs.)

Universal Social Charge (USC)

The exemption limit for the Universal Social Charge (USC) is being increased from €4,004 to €10,036 from 2012. The rates of the tax are unchanged. This means that about 330,000 more people will be exempted from the charge.

Other taxes

DIRT

Deposit Interest Retention Tax (DIRT) is being increased from 27% to 30% on deposit interest that is paid annually or more frequently and from 30% to 33% for interest which is paid less frequently. The increases apply to payments made on or after 1 January 2012.

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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Capital Acquisitions Tax

The rate of Capital Acquisitions Tax (CAT) is being increased from 25% to 30%. The new rate applies to gifts or inheritances after 6 December 2011.

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 €332,084 to €250,000 for gifts and inheritances received on or after 7 December 2011. The threshold for the other groups remains unchanged:

- Group B: €33,208
- Group C: €16,604

Capital Gains Tax

The rate of Capital Gains Tax (CGT) is also being increased from 25% to 30%. The new rate applies to disposals made after 6 December 2011.

If you buy property between 7 December 2011 and the end of 2013 and keep it for at least 7 years you will not be liable for CGT on any gains you make in relation to it.

Some changes will be made in the rules for the application of CGT to the transfer of farms and businesses in order to encourage early transfers. No CGT is charged on a family transfer from a person aged between 55 and 66 and that will continue. This exemption will have an upper limit of €3 million in asset value where the transfer is being made by a person aged 66 or over. This will apply in the case of individuals who reach 66 after 31 December 2013.

In the case of non-family transfers, there is an exemption from CGT up to a limit of €750,000. This will continue for transfers from people aged 55 to 66 and will be reduced to €500,000 for people aged over 66 in the same way as the family transfer.

Value Added Tax

The standard rate of Value Added Tax (VAT) will increase from 21% to 23% from 1 January 2012.

The Local Government (Household Charge) Act 2011

Household charge

The flat-rate charge of €100 is being introduced from January 2012. This new charge is separate from, and is in addition to the Non-Principal Private Residence (NPPR) or second home charge of €200 a year (see *Relate*, September 2009).

Full details of the household charge will be given in the February 2012 edition of *Relate*.

NPPR (second home) charge

The Act also makes some changes to the legislation governing the Non-Principal Private Residence (NPPR) or second home charge. The main changes are:

- Properties that are in the Rental Accommodation Scheme are no longer exempt from the charge.
- The rules in relation to the death of a property owner will be the same as for the household charge.
- There will be a handling fee of €10 if you decide to pay the charge over the counter in a local authority office. When the charge was first introduced in 2009, 85% of owners paid online. This fell to 59% in 2010 and the new handling fee is designed to encourage people to use the online facility.

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