[07.01.18] Tax Exemption and Marginal Relief

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Relevant legislation and other references

Section 188 Taxes Consolidation Act 1997.

Leaflet IT8

Who can claim Exemption?

A person aged 65 and over is exempt from income tax where his or her total income is less than the relevant exemption limit. For married couples or civil partners, who must be entitled to the joint personal tax credit, (section 461(a) TCA 1997) the relevant exemption limit is applicable to their total joint income.

The relevant exemption limits are:-

Year of assessment	Single/Widowed/Surviving Civil Partner	Married/Civil Partner
2016	€18,000	€36,000
2015	€18,000	€36,000
2014	€18,000	€36,000
2013	€18,000	€36,000

If a claimant is married or in a civil partnership, it is the age of the older spouse or civil partner that is relevant; e.g. if the claimant is 67 and his or her spouse or civil partner is 63, the claimant is entitled to the married person's/civil partner's exemption limits.

Where the claimant has dependent children the exemption limits are increased by €575 for each of the first two children and by €830 for each subsequent child.

For the purposes of the increased exemption a dependent child is a child of the claimant who is:-

- Born in the year of assessment;
- Under 18 years of age;
- Over 18 years and in receipt of full-time instruction or training full-time as an apprentice where the training is for at least two years
- Incapacitated either physically or mentally, having become so before reaching 21 years of age or after reaching the age of 21 but while still in receipt of full-time instruction or while training full-time for a trade or profession for a minimum of 2 years, or
- A child who is in the custody of the claimant and maintained by the claimant at the claimant's own expense for the whole or the greater part of the year. Where the child is born during the tax year, the claim is by reference to the whole or the greater part of the year from date of birth to the end of that tax year.

How is Exemption granted?

If the claimant's total income is less than the relevant exemption limit set out in the chart above, the claimant will not pay any tax. A tax credit certificate will issue to his or her employer or the payer of his or her pension showing the exemption figure so that tax will not be deducted from his or her salary or pension.

If the claimant has been granted exemption, there will be no additional relief due on any further claims he or she might have e.g. health expenses, etc.

How is Total Income calculated?

Total income for exemption purposes is gross income (i.e. before any income tax is deducted) from all sources less certain deductions, such as expenses, covenanted amounts, etc. A claimant's income from all sources must be included when claiming income tax exemption; i.e. salary, pension, rental income, deposit interest, dividend income, etc.

If married or in a civil partnership and jointly taxed, his or her spouse's or civil partner's income is also included. Gross figures (i.e. before deduction of DIRT, Dividend Withholding Tax, etc.) must be included for deposit interest and dividend income. If the total income is equal to or less than the exemption limit the claimant will be exempt from income tax.

Example:

A couple (both over 65) have income of €35,000 in 2016. They will be exempt from tax for 2016 because their gross income of €35,000 is less than the exemption limit of €36,000.

The exemption only applies to income tax. Universal Social Charge and PRSI continue to be payable. However, a claimant will be exempt from PRSI contributions if he or she is over 66 years.

Universal Social Charge is not payable in respect of State Pension (Contributory and non-Contributory).

If total income is slightly above the Exemption Limit, does a claimant get any relief?

Yes. If total income is over the exemption limit that applies to the claimant, he or she may still qualify for Marginal Relief.

Marginal Relief will only be given where it is more beneficial to the claimant than his or her entitlement to tax credits. If a claimant has been given marginal relief and subsequently wishes to claim any additional tax credits or reliefs, e.g. Health Expenses, Revenue will recalculate his or her liability to identify which is more beneficial to the taxpayer - tax credits or Marginal Relief.

The Marginal Relief tax rate is 40%.

The following example shows how Marginal Relief works.

Example

A married man or a civil partner in a civil partnership, aged 68 years, with 2 dependent children has income of €38,000 in 2016..

He is entitled to a total tax credit of €5,440 which is made up of the following.

Personal Credit	€3,300
Age Credit	€490,
PAYE Credit	€1,650.
Total credits	€5,440

The exemption limit that applies to him is €37,150 (i.e. €36,000 + €575 + €575 for 2 dependent children).

Taxed under Normal System (20%)
Total Income: €38,000
Tax @ 20% - €7,600: Less tax credits - €5,440
Tax liability: € 2,160

Taxed under Marginal Relief (40%)
Total Income: €38,000
Less: Exemption - €37,150: Excess - €850
Tax liability: €340.
Marginal relief €2,160 - €340 = €1,820

In this example, Marginal Relief is more favourable as the tax due is less than that which arises using the tax credits.

Does the exemption apply to Deposit Interest Retention Tax (DIRT)?

A claimant can apply directly to his or her Financial Institution to have the interest paid without deduction of DIRT where he or she satisfies the following conditions,

- The claimant or his or her spouse/civil partner are aged 65 or over during the tax year, **or** are permanently incapacitated by physical or mental infirmity from maintaining him or herself,
  and

- The claimant or his or her spouse's/civil partner's total income for the year will be below the relevant annual exemption limit.

Please see the following leaflets for further information in relation to DIRT exemptions:

Form DE1 DIRT- free Deposit Accounts for those aged 65 or over

Form DE2 DIRT DIRT-free Deposit Accounts for Permanently Incapacitated individuals and Special Trusts for Permanently Incapacitated Individuals

which are available on www.revenue.ie, at any local enquiry office or by telephoning the Forms and Leaflets LoCall Service on 1890 30 67 06.

Can an exempt individual claim a Refund of Income Tax Deducted?

If a claimant is entitled to exemption from income tax but has actually paid tax or received income from which tax was deducted [e.g. salary, pension, deposit interest (where the conditions outlined in the above paragraph are satisfied), Irish dividends, income under a covenant, etc.] he or she will be entitled to a refund in most cases. All claims must be made within a 4-year time limit i.e. claims for the year of assessment 2010 may be submitted up to 31/12/2014.

How can an individual claim Exemption or Marginal Relief?

If a claimant was granted exemption in a tax year there is no need to reapply. Exemption will be automatically granted for subsequent years, if due.

- For PAYE customers, the quickest and easiest way to claim marginal relief is online using PAYE Services in myaccount. Customers who are unable to use Revenue's online service should submit a return of income for the tax year in question to their local Revenue office.