# Tax Exemption and Marginal Relief

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This document should be read in conjunction with section 188 of the Taxes Consolidation Act 1997

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Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

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## 1. Who can claim the 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 would be otherwise entitled to the joint personal tax credit specified in section 461(a) TCA 1997, the income tax exemption is available where their total joint income is less than the relevant exemption limit.

The relevant exemption limits are set out in the table below:

| Year of assessment | Single/Widowed/ Surviving Civil Partner | Married/ Civil Partner |
|---|---|---|
| **2017** | €18,000 | €36,000 |
| **2016** | €18,000 | €36,000 |
| **2015** | €18,000 | €36,000 |
| **2014** | €18,000 | €36,000 |

If a claimant is married or in a civil partnership, it is the age of the elder spouse or civil partner that is relevant i.e. 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 limit is increased by €575 per child for the first 2 children and €830 for each child thereafter.

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,
    - after reaching the age of 21 but while still in receipt of full-time instruction,

    - 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.

## 2. How is the Exemption granted?

If the claimant's total income is less than the relevant exemption limit set out in Chapter 1, 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 the exemption, no additional relief is available on any further claims he or she might have e.g. health expenses, etc.

### 2.1 How is Total Income calculated?

Total income for the purposes of the exemption 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 the 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.

### 2.2 Example

A married couple has joint income of €35,000 in 2016. The husband is 67 and the wife is 62. They will be exempt from tax for 2016 because the elder spouse is over 65 and their total 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 also be exempt from PRSI contributions if he or she is over 66 years.

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

# 3. Relief where income is above the Exemption Limit (Marginal Relief)

If total income is over the exemption limit that applies to the claimant, Marginal Relief may still be available where a claimant (or his/her spouse or civil partner) is 65 or over and their total income is less than twice the exemption limit.

Marginal Relief will only be given where it is more beneficial to the claimant than his or her entitlement to tax credits.

Marginal relief restricts the maximum amount of tax payable to 40% of the amount by which the claimant's income exceeds the specified amount.

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 following example shows how Marginal Relief works.

## 3.1 Example

A married man is 68 years old. He has 2 dependent children and 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**

| | |
|---|---|
| Total Income | €38,000 |
| Tax @ 20% | €7,600 |
| Less Tax Credits | €5,440 |
| Tax Liability | €2,160 |

**Taxed under Marginal Relief**

| | |
|---|---|
| Total Income | €38,000 |
| Less Exemption | €37,150 |
| Excess<br>(Amount over Exemption Limit) | €850 |
| Tax Due under Marginal Relief | €340 |
| Marginal Relief Granted<br>(€2,160 - €340) | €1,820 |

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

# 4. 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 the claimant or his or her spouse/civil partner:

- is aged 65 or over during the tax year, **and**
- the claimant or his or her spouse's/civil partner's combined total income for the year is below the relevant annual exemption limit.

Please see the form DE1 for further information in relation to DIRT exemptions for those aged 65 or over which is available on www.revenue.ie, at any local enquiry office or by telephoning the Forms and Leaflets LoCall Service on 1890 30 67 06.

## 5. Can an exempt individual claim a refund of Income Tax deducted?

If a claimant is entitled to the exemption from income tax but has:

- actually paid income tax in the year, or
- received income from which tax was deducted [e.g. salary, pension, deposit interest (where the conditions outlined in the previous section are satisfied), Irish dividends, income under a covenant, etc.],

he or she will be entitled to a refund in most cases.

All refund claims must be made within a 4-year time limit i.e. claims for the year of assessment 2014 may be submitted up to 31 December 2018.

## 6. How can an individual claim the Exemption/Marginal Relief?

Revenue will automatically apply the Exemption whenever a claimant's total income is less than the relevant exemption limit set out in section 1. The exemption will be automatically granted for subsequent years, if due.

Similarly, there is no need to claim marginal relief as Revenue will automatically grant this relief where the relief is more beneficial to the claimant than his or her entitlement to tax credits.

If a customer believes that exemption or marginal relief was due and neither was applied, they may contact Revenue using myEnquiries via myAccount to request a review.