Earned Income Tax Credit

Part 15-01-44

This document should be read in conjunction with section 472AB of the Taxes Consolidation Act 1997

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1. Earned Income Tax Credit

Section 472AB of the Taxes Consolidation Act 1997 was inserted by Finance Act 2015 and applies for the tax year 2016 and subsequent years.

It provides for a tax credit, computed by reference to the standard rate of income tax, in respect of an individual's earned income.

The credit is equal to the lower of 20% of an individual's qualified earned income and a specified amount. The specified amounts for years of assessment 2016 to 2020 are set out in the table below:

Year	Amount
2020	€1,500
2019	€1,350
2018	€1,150
2017	€950
2016	€550

2 Earned Income

For the purposes of this credit, qualifying earned income is earned income (as defined in section 3 of the Taxes Consolidation Act 1997), other than earned income that qualifies for relief under section 472 of the Taxes Consolidation Act 1997 (i.e. for the Employee (PAYE) Tax Credit).

Examples of earned income include:

- trading and professional income (Schedule D Case I and II), and
- emoluments of a proprietary director and his/her spouse or civil partner.

The credit is not available against passive or investment income, such as:

- rental income, or
- deposit interest income.

Example 1

Joe is a non-proprietary director and earns €50,000 per annum. This is his sole source of income. Is he entitled to the Earned Income Tax Credit?

No - as the earnings are relieved by way of the Employee (PAYE) Tax Credit, the Earned Income Tax Credit is not available.

Example 2

Liz is a proprietary director and earns €50,000 per annum. This is her sole source of income. Is she entitled to the Earned Income Tax Credit?

Yes - as the earnings are not relieved by way of the Employee (PAYE) Tax Credit, the Earned Income Tax Credit is available.

Example 3

Mary is a sole trader and earns €50,000 per annum. This is her sole source of income. Is she entitled to the Earned Income Tax Credit?

Yes - as the earnings are not relieved by way of the Employee (PAYE) Tax Credit, the Earned Income Tax Credit is available.

Mary is married to Henry and employs him to work for her in her business. Henry earns €20,000 per annum and this is his sole source of income. Is he entitled to the Earned Income Tax Credit?

Yes – as Henry is not eligible for the Employee (PAYE) Tax Credit because his employer is his spouse, he is entitled to the Earned Income Tax Credit.

3 Interaction with the Employee (PAYE) Tax Credit

Where an individual has earned income from various sources and is entitled to both:

(i) Employee (PAYE) Tax Credit, and

(ii) Earned Income Tax Credit,

the combined value of both Tax Credits cannot exceed €1,650.

Example 4

Jane has a PAYE pension of €6,000 and Schedule D Case I income of €40,000 for 2020. What credits is she entitled to?

1. Employee (PAYE) Tax Credit

   €6,000 x 20% = €1,200

2. Earned Income Tax Credit

   €40,000 x 20% = €8,000

   Maximum Earned Income Tax Credit = €1,500

However, the aggregate of the Employee Tax Credit and Earned Income Tax Credit cannot exceed €1,650. Therefore, the amount of the Earned Income Tax Credit that Jane is entitled to is restricted to (€1,650 - €1,200) = €450

Example 5

Beth has a PAYE pension of €5,000 and Schedule D Case II income of €2,000 for 2020. What credits is she entitled to?

1. Employee (PAYE) Tax Credit

   €5,000 x 20% = €1,000

2. Earned Income Tax Credit

   €2,000 x 20% = €400

As the aggregate of the two tax credits is less than €1,650, there is no restriction on the Earned Income Tax Credit.

4 Cases taxed under Joint Assessment

The Earned Income Tax Credit is based on an individual's income. Where joint assessment applies, a separate tax credit may be due in respect of each spouse's individual income.

Example 6

An assessable spouse has Schedule D Case I income of €50,000 in 2020. Her non-assessable spouse has Schedule D Case II income of €2,500 for the same period.

The assessable spouse is due two Earned Income Tax Credits, calculated as follows:

1. Earned Income Tax Credit for own Income

   €50,000 x 20% = €10,000

   Maximum Earned Income Tax Credit Available = €1,500

2. Earned Income Tax Credit for Spouse's income

   €2,500 x 20% = €500.

The aggregate Earned Income Credit available under joint assessment for 2020 is €2,000 (€1,500 + €500).

Example 7

An assessable spouse, who is a proprietary director, has a salary of €60,000 in 2020. His non-assessable spouse has a salary of €40,000 for the same period from the same company. Neither are entitled to the Employee (PAYE) Tax Credit.

The assessable spouse is due two Earned Income Tax Credits, calculated as follows:

1. Earned Income Tax Credit for own Income

   €60,000 x 20% = €12,000

   Maximum Earned Income Tax Credit Available = €1,500
2. Earned Income Tax Credit for Spouse's income

   €40,000 x 20% = €8,000

   Maximum Earned Income Tax Credit Available = €1,500

The aggregate Earned Income Credit available under joint assessment for 2020 is €3,000 (€1,500 + €1,500).