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 (“TCA”) 1997 was inserted by Finance Act 2015 and applies for the tax year 2016 and subsequent years.

Section 472AB provides for the Earned Income Tax Credit (“EIC”). This tax credit is 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. Broadly, this means that the maximum credit available is limited to the specified amount.

The specified amounts for years of assessment 2021 to 2025 are set out in the table below:

Year	Specified Amount
2025	€2,000
2024	€1,875
2023	€1,775
2022	€1,700
2021	€1,650

2 Earned Income

For the purposes of the EIC, qualifying earned income is earned income (as defined in section 3 TCA 1997), other than earned income that qualifies for relief under section 472 TCA 1997, that is for the purposes of the Employee 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 or 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 EIC?

No - as the earnings are relieved by way of the Employee Tax Credit, the EIC 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 EIC?

Yes - as her earnings are not relieved by way of the Employee Tax Credit, the EIC 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 EIC?

Yes - as her earnings are not relieved by way of the Employee Tax Credit, the EIC is available.

Example 4

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 EIC?

Yes - as Henry is not eligible for the Employee Tax Credit because his employer is his spouse, he is entitled to the EIC.

3 Interaction with the Employee (PAYE) Tax Credit

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

(i) Employee Tax Credit, and

(ii) Earned Income Tax Credit,

the combined value of both tax credits cannot exceed €2,000 for the 2025 year of assessment and subsequent years.

For previous years of assessment, the combined value of both tax credits can not exceed the following amounts:

Year	Amount
2024	€1,875
2023	€1,775
2022	€1,700
2021	€1,650

Example 5

Jane has a pension of €6,000 and Schedule D Case I income of €40,000 for 2025. What credits is she entitled to?

1. Employee Tax Credit

   €6,000 x 20% = €1,200

2. Earned Income Tax Credit

   €40,000 x 20% = €8,000

   Note – maximum EIC is €2,000

However, the aggregate of the Employee Tax Credit and the EIC cannot exceed €2,000. Therefore, the amount of the EIC that Jane is entitled to for 2025 is restricted to €800 (€2,000 - €1,200).

Example 6

Beth has a pension of €5,000 and Schedule D Case II income of €2,000 for 2025. What tax credits is she entitled to?

1. Employee 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 €2,000 (being the maximum permitted for 2025), there is no restriction on the EIC. Thus, Beth will be entitled to an Employee Tax Credit of €1,000 and an EIC of €400 for 2025.

4 Cases taxed under Joint Assessment

The EIC is based on an individual's income. Where joint assessment applies, a separate tax credit may be due in respect of each spouse's or civil partners individual income.

Example 7

An assessable spouse has Schedule D Case I income of €50,000 in 2025. Her non-assessable spouse has Schedule D Case II income of €2,500 for the same period.

The assessable spouse is entitled to two EICs, calculated as follows:

1. EIC for own income

   €50,000 x 20% = €10,000

   Maximum EIC available is €2,000

2. EIC for spouse's income

   €2,500 x 20% = €500

Therefore, the aggregate EIC available under joint assessment for 2024 is €2,500 (€2,000 + €500).

Example 8

An assessable spouse, who is a proprietary director, has a salary of €60,000 in 2025 His non-assessable spouse has a salary of €40,000 for the same period from the same company. Neither are entitled to the Employee Tax Credit.

The assessable spouse is due two EICs, calculated as follows:

1. EIC for own income

   €60,000 x 20% = €12,000

   Maximum EIC available is €2,000

2. EIC for spouse's income

   €40,000 x 20% = €8,000

   Maximum EIC available is €2,000

Therefore, the aggregate EIC available under joint assessment for 2024 is €4,000 (€2,000 + €2,000).