

2010/2011 Financial Guideline 07

BUDGET 2011 – Payroll Changes

Pay Related Social Insurance (PRSI) and Universal Social Charge (USC)

The Government budget for the year 2011 made radical changes to the existing PRSI system. In particular, the budget introduces a new charge called the Universal Social Charge (USC)

Operation of a Universal Social Charge

The Universal Social Charge (USC) merges the existing Health Levy and Income Levy. It is a tax and does not confer a benefit to those paying the charge. The main elements of the new USC are as follows:

- Individuals who earn less than €4,004 will not pay the USC
- The 2% Universal Social Charge applies to all payments up to €10,036.00 p.a.
- The 4% Universal Social Charge is charged on all payments from €10,036.01 p.a. to €16,016.00 p.a. inclusive
- 7% is charged on all payments in excess of €16,016.00 p.a.

The lower exemption threshold of €4,004 means that annual income below this amount will not be subject to the USC, but once this amount is exceeded then the USC will be applied on the **entire income**. This method is similar to the mechanism currently used for the Income Levy and the Health Levy.

PRSI Rates

The PRSI-Free Allowance for employees in Class A with weekly earnings of more than €352 remains at €127 per week.

PRSI is now a fixed rate of 4% on all income.

As the Health Contribution has been abolished and replaced with a new Universal Social Charge this has eliminated subclasses, such as, A2, B2, C2, D2, H2, J2 and S2. Before 2011, subclass A2 etc. applied to medical card holders and to people getting a Social Welfare Widow's or Widower's Pension, a One-Parent Family Payment or a Deserted Wife's Benefit or Allowance. Therefore the above information will no longer be required for PRSI purposes.

Income Tax

The budget made a number of changes to the Income Tax Credits and Bands.

The following table shows the changes made to the individual's **Tax Credits**

Tax Credits

		2010	2011	Extra Annual Tax Payable
Single Person	Personal Credit	€1830	€1650	€180
	PAYE Credit	€1830	€1650	€180
	Total	€3660	€3300	€360
Married	Personal Credit	€3660	€3300	€360
	PAYE Credit	€1830	€1650	€180
	Total	€5490	€4950	€540

Exemption for persons aged 65 years and over

	Income Limit 2010	Income Limit 2011
Single	€20,000	€18,000
Married	€40,000	€36,000

The budget also made changes to the **Standard Tax Band** thus bringing people into the higher rate of tax sooner. The higher rate of tax will apply when a person exceeds the Standard Tax Band ceiling.

Income Tax Standard Bands

	2010	2011	Decrease	Additional annual Tax Payable
Single/Widowed	€36,400	€32,800	€ 3,600	€756
Married Couple one Income	€45,400	€41,800	€3,600	€756
Married Couple two Income	€72,800	€65,600	€7,200	€1512
One Parent/Widowed Parent	€40,400	€36,800	€3,600	€756
Single/Widowed	€36,400	€32,800	€ 3,600	€756
Married Couple one Income	€45,400	€41,800	€3,600	€756

Pension Contributions

From the 1st January, 2011 employee contributions to occupational pension schemes and other pension arrangements will no longer be exempt from employee PRSI. **PRSI will apply to the employee's gross income. The USC (Universal Social Charge) will also be payable on the employee's gross income.**

The **Employers PRSI exemption** on pension contributions will be reduced by 50% from the 1st January, 2011 i.e. employers will have to pay PRSI on the pension contribution of 5.375% (10.75 x 50%)

PRD (Public Service Pension-related Deduction)

From 1st January 2011, the pension-related deduction (PRD) which is charged to earnings in the public service will be subject to employee PRSI and the Universal Social Charge to be introduced on 1 January 2011.

Tax Relief is allowed on the Pension Related Deduction enabling the employee to get tax relief at the appropriate rates.

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