Money Manager.

The power to manage your money.

an post

For your world

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Preface

At An Post, we want you to take the power back when it comes to managing your money. That's why we've teamed up with Personal Finance Expert, John Lowe who has written a comprehensive finance guide, covering the A to Z of personal finance.

The guide concentrates on everything from how to manage your mortgage, how to get rid of your debts, how to build up savings, how to save tax and how to protect your family finances.

In advance of reading the book written by John, we hope you find the An Post Money section a helpful addition. Whether you want to know more about how you're spending, better manage what you put away, how to pay when abroad, to getting your credit card under control, or do that dream energy upgrade on your house, we're here to help.

An Post Money Manager eBook

While this entire eBook is packed full of great money managing tips, this chapter will tell you a little about how An Post's range of services can help you manage your money. We want you to take the power back when it comes to managing your money. So whether that's the power to know more about how you're spending, better manage what you put away, get your credit card under control or do that dream upgrade on your house, An Post can help you.

To find out more about how we can help you better manage your money, visit **www.anpost.com/moneymanager**

An Post Current Account

An Post Current Account and the An Post Money app can really help you to manage your everyday banking needs.

Enjoy all the features you'd expect from a personal current account with low fees including: your own IBAN, a debit Mastercard® and the An Post Money app. You can choose how you'd like to bank, whether it's via the app, online or at any post office. Paying bills is easy via direct debits, scheduled payments or credit transfers. And you can open joint current accounts too. For more information: **www.anpost.com/Money/Current-Account**

Create Jars for your savings goals

Whether you're saving for your dream holiday or putting money aside for that new gadget you've always wanted, reach your goal by putting money aside with Jars. This allows you to set targets and deadlines. You can also manage your bills by paying them right out of a jar. It's so easy to do with 10 different jars which allows you to stay in control of your money.

Turn on Round-Up to reach your goals faster!

You can save faster with Round-Up! We'll round up debit card payment amounts to the next whole number and put the di erence in a Jar. So, a payment of €1.90 puts €0.10 in your Jar. If you turn on Round-Up multiplier, that amount is multiplied, helping you reach your savings goals even quicker.

Convenience when you need it

We know how important convenience is in your day-to-day life, that's why with the An Post Money Current Account you can pay using Apple Pay, Google Pay or Fitbit Pay instantly and securely. No wallet? – no problem!

Check out the bonkers.ie podcast below which discusses the launch of our An Post Money app and all the exciting features it offers that will help you better manage your finances! **www.bonkers.ie/podcasts/2021/09/29/new-launches/1098/**

An Post Money Manager

With our Money Manager tool on the An Post Money app, you now have even more control of your money. You can:

- **Track your spending**
  Money Manager splits your spending into different categories, letting you see where your money is going and how your expenses are changing over time.
- **Budget Smarter**
  Create budgets for each expense category. Set aside money for regular bills and savings. Make sure you spend less and save more.
- **Get useful insights**
  See status alerts for your budgets. Receive insights on your weekly and monthly spending, so you can manage your money better. Ended the month under budget? Move the money into a Jar to save for a special purchase. For more information: **www.anpost.com/Money/Current-Account/MoneyManager**

You can get a Current Account from An Post at your local Post Office or sign up from your phone on the An Post Money app.

Terms & Conditions apply. The An Post Money Current Account Debit Mastercard is issued by An Post. Mastercard is a registered trademark, and the circles design is a trademark of Mastercard International Incorporated. A monthly maintenance fee applies.

An Post is authorised by the Minister for Finance to provide payment services and is regulated by the Central Bank of Ireland in the provision of such services. Apple Pay and App Store are trademarks of Apple Inc, registered in the United States and other countries. Google Play and Google Pay are trademarks of Google LLC. Fitbit Pay is a registered trademark of Fitbit, Inc. and/or its affiliates in the United States and other countries.

An Post Money Mate Account

Teaching children about money can be a tricky task, but it's important for kids to gain confidence in managing their money from a young age.

Whether it's helping your kids get into the habit of saving, showing them the value of money, teaching them budgeting skills or if you just want them to have a safer alternative to carrying cash, An Post Money Mate provides the tools they need to help equip them for the future.

It can help in so many ways. Children can manage their money through the An Post Money app. They can get paid directly by you into their account for completing household chores, save for something special in savings jars and keep track of their account balance and savings, all while you, the parent stays in control.

You can open an An Post Money Mate account for your child on the An Post Money app. For more information: **www.anpost.com/Money/Current-Account/Money-Mate**

An Post Money Mate can be opened for a child aged 7 - 15 years and 6 months. It cannot be opened for a child older than 15 years and 6 months. Customers over 16 can open an An Post Money Current Account.

It costs €2/month per child if you have the An Post Money Current Account. Otherwise, it is €4/month per child. Transaction fees apply.

The An Post Money Mate Debit Mastercard is issued by An Post. Mastercard is a registered trademark, and the circles design is a trademark of Mastercard International Incorporated.

An Post is authorised by the Minister for Finance to provide payment services and is regulated by the Central Bank of Ireland in the provision of such services.

App Store is a trademark of Apple Inc, registered in the U.S. and other countries. Google Play is a trademark of Google LLC.

Everyday Banking

At An Post, we're committed to building sustainable communities across the country. That means making sure everyone has easy access to everyday banking services no matter where they live.

Our Everyday Banking services allow AIB and Bank of Ireland customers to safely lodge and withdraw money and Ulster Bank customers can lodge money at any of our 900 post offices nationwide, six days a week.

The following personal banking services are available from any Post Office:

	AIB	Bank of Ireland	Ulster Bank
Cash Lodgements	Yes	Yes	Yes
Cash Withdrawals	Yes	Yes	No
Credit Card & Bill Payment	Yes	No	Yes
Cheque Lodgements	Yes*	Yes	Yes*

**In selected post offices.*

Limits apply. Allied Irish Banks PLC is regulated by the Central Bank of Ireland. Bank of Ireland is regulated by the Central Bank of Ireland. Ulster Bank Ireland DAC is regulated by the Central Bank of Ireland.

Foreign Currency

We know that planning a holiday can be stressful, between making your travel arrangements, developing an itinerary and packing your bags. At An Post we can help reduce some of that stress by offering you foreign currency in cash or on a card letting you focus on going on that trip.

Foreign Currency Cash

Whether it's tipping at a restaurant or bar or getting that taxi from the airport, it's always a good idea to carry some cash when you're abroad. With An Post there's no need to pre-order or pre-pay, get commission free US, Canadian and Australian Dollars, Sterling or Polish Zloty at your local post office. Make your travel preparation easier, it's one less thing to think about when you reach your destination.

An Post Money Currency Card

You can purchase and top up 16 currencies on a single Mastercard® currency card and use it at millions of shops, restaurants and ATMs worldwide. Plus, enjoy 0% commission when you top up any foreign currency.

Stay in control abroad, you can log into our app to manage your card, view your spending and top up/exchange your currencies with ease. With no point of sale charges overseas it also eliminates the fear of overspending, and leaves more time for you to relax and enjoy your holiday.

If you run into any problems, we also provide a 24-hour global assistance so you can get in touch at any time, and we'll even get emergency cash to you up to the value on your card if your card is lost or stolen, giving you peace of mind when you need it the most.

An Post Money Currency Card is issued by PPS EU SA pursuant to license by Mastercard® International. PPS EU SA is authorised by the National Bank of Belgium and is regulated by the Central Bank of Ireland for conduct of business rules. Mastercard is a registered trademark, and the circles design is a trademark of Mastercard International Incorporated.

Green Hub

An Post wants to make sustainable living easy for everyone. At the Green Hub from An Post you can explore how to improve your home's energy efficieny, to save on bills and help the environment with a home energy upgrade. Making it cosier and cheaper to run.

Enjoy a warmer home, without the hassle.
Our home energy upgrade service is a one stop shop, in partnership with SSE Airtricity. We'll manage your home upgrade project, arrange grants and give you Ireland's lowest green loan rate.

We'll manage the work - your home upgrade project will be managed for you, from initial assessment to final sign off in partnership with SSE Airtricity.

We'll arrange grants - pay for up to 50%* of the work using SEAI home energy grants and SSE Airtricity will provide you with an additional discount for your carbon credit savings, both discounted upfront.

We'll provide the loan - borrow from €5,000 to €75,000 over 10 years with an An Post Money Green Loan.

Buy a new electric car or plug in hybrid.
An electric or plug in hybrid car can help you to pollute less, reduce motoring costs and drive the latest technology. Electric and plug in hybrid cars are cheaper to buy, fuel and maintain. With An Post's competitive loan rate** for new electric cars and SEAI electric vehicle grants, we'll help make it affordable to drive electric. Apply online for your An Post Money Electric Car Loan.

Visit **www.anpost.com/green-hub** for more details on how An Post can help you go green!

Warning: If you do not meet the repayments on your credit agreement, your account will go into arrears. This may affect your credit rating, which may limit your ability to access credit in the future.

** Source: Sustainable Energy Authority of Ireland*

***Lending criteria, terms and conditions apply.*

Avantcard DAC trading as Avant Money is regulated by the Central Bank of Ireland. An Post acts as a credit intermediary on behalf of Avantcard DAC. An Post trading as An Post Money is authorised as a credit intermediary by the CCPC.

The Green Hub

A one-stop shop for home energy upgrades

Book your free home survey
at **anpost.com/greenhub**
or at your local Post Office

an post

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*National Home Energy Upgrade Scheme provides grants of up to 50% of the cost of a typical deep retrofit to a B2 BER standard. Better Energy Homes Scheme provides grants equivalent to 80% of the typical cost, for attic and cavity wall insulation. The grants are administered by the SEAI.

Personal Loans

Whether you're looking to buy a car, improve your home, or you're planning your dream holiday, we have a loan that can be built around you.

Our competitive fixed rates let you budget with confidence, with equal repayment amounts every month, allowing you to stay in control.

There are no hidden fees, no set-up or early repayment charges and no penalties if you choose to repay your loan earlier than planned. An Post Money Loans let you borrow on your terms.

Whatever your loan purpose, you can borrow what you need from €5,000 - €75,000.

We provide help when you need it with an award winning contact centre based in Ireland, offering you peace of mind and security.

Visit **www.anpost.com/loans** for more details on our great loan offerings.

Warning: If you do not meet the repayments on your credit agreement, your account will go into arrears. This may affect your credit rating, which may limit your ability to access credit in the future.

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Credit Cards

If you find that sometimes you're stretching things a little until you get paid, you may find a credit card can help. When used responsibly, credit cards can be valuable budgeting tools. The An Post Money credit card can help you untangle your finances and put you in control. We have two great cards to choose from, to better suit your needs.

Flex Credit Card

With our lowest ever interest rate, you can pay off your purchases at a low interest rate, leaving you with more money to spend on things that matter. Flex offers instalment plan options - for transactions over €250 you can pay over 12 months at an even lower interest rate (limited merchants). This means you'll be able to repay your item in bite-sized chunks, which helps make what you've bought much more manageable!

You can transfer from your credit card to your personal bank account whenever you need it, wherever you are, with flexible money transfers, offering convenience and ease**.

With interest-free credit, you can get up to 56 days interest free if you pay your bill on time and in full each month!

Classic Credit Card

All you need to do is transfer your existing credit card balance and pay no interest for 12 months!

**You can transfer from your credit card to your personal bank account whenever you need it, wherever you are, with flexible money transfers, offering convenience and ease.

With interest-free credit, you can get up to 56 days interest free if you pay your bill on time and in full each month!

At An Post Money, our credit cards offer peace of mind with online security services as well as card control where you can manage your credit card account online and really stay on top of your finances. You can also add up to 3 free additional cardholders for ease! For more details see: **www.anpost.com/Money/Credit-Card**

Warning: If you do not meet the repayments on your credit agreement your account will go into arrears. This may affect your credit rating which may limit your ability to access credit in the future.

***The interest rate on money transfers is the same as the purchase rate on your card and you can transfer from €100 up to 95% of your credit limit.*

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Paying Bills

Keeping track of all your household and other bills can be a challenge so why not use our range of bill-paying services to make things easier? They're quick and convenient - and there are no fees or charges. You can choose from one of three different ways of paying your bills with An Post:

1. Pay at your local post office
2. Pay at one of our selected PostPoint retail outlets
3. Pay online, anytime, at mybills.ie

You can pay all of the most important bills - including phone, electricity, and gas - and many others. See **www.anpost.com/Government-Services/Billpay** for the full list of bills you can pay.

Bill pay is a great way to help you better manage your money:

- It's free - there's no handling charge
- Part-pay bills so that you pay a little each week or when it suits
- A detailed receipt lets you keep track of your payments
- We accept a wide range of bills for payment
- It's fast as your payment goes through to your provider overnight
- No monthly direct debits taking money from your account all at once
- You have full control, with the choice of paying part of a bill or making the full payment whenever you choose

Household Budget

If you're struggling to manage your day-to-day costs, finances and a qualifying social welfare recipient, An Post's free Household Budget service can help.

If you receive certain social welfare payments, you can put a regular amount towards your household bills using Household Budget. The money is deducted directly from your payment. We operate the scheme on behalf of the Department of Social Protection.

You can put up to 25% of your fl t weekly social welfare payment towards your bills. For rent, the amount will be the same as your weekly rent, as long as the total, including other bills, does not go over 25% of your weekly social welfare payment.

€5 is the minimum weekly payment for any energy or phone bill. If your level of social welfare payment is not enough to meet all your deductions in a particular week, we will make deductions up to a maximum of 25% of the weekly fl t rate payment, based on local authority payments receiving priority. You can also add new payments, change existing deductions or cancel deductions.

For more information visit **www.anpost.com/householdbudget**, contact our customer helpline at 1800 70 71 72.

Is This Book for You?

This book is for everyone living in Ireland who wants to better manage and structure their personal finances.

- You will find this book relevant regardless of your financial position, age or gender.
- This guide concentrates on 'how to' information: how to manage your mortgage, how to get rid of your debts, how to build up savings, how to save tax and how to protect your family.
- If there is a particular subject you want to learn about, then check the detailed contents page or the index.
- The book is written in plain English and contains plenty of:
  - case histories;
  - real-life examples;
  - checklists; and
  - action-orientated advice.

Getting the most out of this book

This book will be relevant to you if:

- you have money questions and don't know whom to turn to for honest, accurate, unbiased answers;
- you want the latest financial information;
- you want to reduce your tax bill;
- you worry about money;
- you have, or plan to get, a mortgage
- you have credit cards, store cards, hire-purchase agreements, an overdraft, personal loans, a mortgage or any other borrowings;
- you have money on deposit or save money on a regular basis;
- you want to build up your capital worth and guarantee yourself a comfortable (and possibly an early) retirement;
- you have capital and don't know how to invest it;
- you have dependants and you are worried about their well-being;
- you have (or think you should have) any sort of life or critical illness cover/income protection;
- you worry about the quality of financial advice you are receiving; or
- you are separating, or thinking of it.

Consumer Protection

You should only ever deal with an **authorised adviser** for insurance, investment and pension advice and credit services, including mortgage and debt advice.

An individual or firm that is authorised will not only have had to pass stringent tests to qualify, but their performance will be strictly monitored on an ongoing basis by the Central Bank of Ireland.

You should be aware that there are a number of professional bodies covering the financial services industry. My own belief is that you should only deal with members of these bodies. These are:

- Brokers Ireland
- Life Insurance Association
- Institute of Banking in Ireland

Your financial adviser should ideally be a Qualified Financial Adviser (QFA) as well as having substantial financial experience. Individual membership of other professional bodies, such as the Institute of Bankers in Ireland, is also desirable.

Finally, if you are looking for advice on buying company shares, then you should deal with intermediaries who are members of (or affil ated members of) the Irish stock exchange or an authorised agent.

It all comes down to belief patterns

I am far too practical a person to be taken in by 'psycho-babble'. However, I do believe that if you want to be financially better off than you are at the moment, then you simply must come to grips with your own belief patterns as they relate to money. Here are some things people have said to me about money:

'I would always shop around for a better deal on most things – but not on financial products.'

'I hate talking about money. I find it embarrassing.'

'Money seems to slip through my fingers.'

'I worry about money all the time but I don't do anything about it, because I am not sure what to do.'

'Money is boring. We have enough. Why think about it?'

In my experience, almost everyone has deeply held beliefs in relation to money – usually negative beliefs. Most can be attributed to one or more of the following factors:

Formative experiences: For instance, in the case of someone whose family suffered financial hardship when they were growing up. Naturally, this would influe ce their attitude to money.

Parental influence: Some parents talk about money, while others don't – either way, children can end up being worried about there not being enough. By the same token, some parents are spendthrift, while others are positively tight-fisted – again influe cing their children's beliefs.

Lack of education: though there have been recent moves to change the national curriculum, 'personal finance' is still not really taught properly in our schools.

The mystification of money: Financial institutions seem to conspire to make money as mysterious a subject as possible.

Lack of trust in personal finance professionals: Bank managers are viewed as 'fair-weather friends' and the institutions they work for as impersonal and greedy. Insurance and pensions salespeople are hardly revered in society. People are suspicious of the experts they rely on to give them advice.

Society's attitude to money: there are some societies where money is discussed openly. In Ireland, however, it is considered rude to talk about money and crass to spend too much time managing it.

The link between belief and behaviour

There is no doubt in my mind that there is a direct link between (a) what you believe about money, (b) your behaviour in relation to money and (c) how much money you end up having. The fact is that **if you view money in a negative way, you are reducing your chances of a financially stable life**. You aren't giving yourself a proper chance.

What's more, if you think that sorting out your personal finances will take more time and effort than *not* sorting them out, think again. Not paying attention to money is likely to result in you:

- wasting a vast amount of energy worrying;
- wasting a vast amount of cash;
- putting yourself and your dependants at risk;
- reducing your standard of living;
- increasing the number of years you have to work; and
- suffering a shortfall in your pension fund when you reach retirement age.

If you start to *think* more positively about money, I guarantee that you will begin to *behave* more positively about money. And if you behave more positively about money, I guarantee that you will find yourself able to build up much greater wealth.

What are your financial dreams?

- To own your own home without a mortgage?
- To have enough money to retire early?
- To be wealthy enough to pay for all the things you want – such as an education for your children or a second home – without going into debt?

Whatever your dreams, unless you are very, very lucky, the only way to make them come true is to make a proper plan. Such a plan – **a financial plan** – will help ensure that you get from where you are to where you want to be. Creating one is a lot simpler and quicker than you may imagine, as I explain in the first section of this book. Furthermore, I guarantee that the process of writing a plan will – in itself – make you substantially better off. Why? Read on and you'll find out.

Wealth Check

The section on financial planning explains:

- what a financial plan is;
- why you need a financial plan;
- the stages involved in writing a financial plan;
- practical tips on writing your own plan; and
- where to get professional financial planning help you can trust.

It also includes sample financial plans, and more besides. Everything, in fact, you need to make financial planning easy.

Part 1

How to become Financially Fit in 2023

1
All it takes is a Little Planning

How your Financial Plan will make you better off

Many people are under the impression that financial planning is a complex process requiring great expertise. In fact, creating a financial plan is a remarkably straightforward activity. It involves three easy steps:

1. Decide what your financial or money objectives are, and prioritise them.
2. Assess what resources you have available to you now, and consider what resources you may have in the future.
3. Work out what actions you need to take to make your financial objectives come true.

This short chapter explains the 'ins and outs' of writing a first-class financial plan. The next chapter explains, in greater detail, how to write your own.

Why you need a Financial Plan

Your financial plan should have the same qualities as a road map. That is to say, it should help you to reach your destination; to make your journey as fast as possible; and to prevent you wasting time or energy.

Wealth Check

A little planning brings big rewards

Having a financial plan will bring both material and emotional rewards. From a material perspective a financial plan will make it possible for you to meet your financial objectives. These might include some or all of the following:

- wiping out all your personal debts;
- paying off your mortgage years earlier;
- never having to borrow again;
- having enough money to afford the things that are important to you, such as an education for your children or a second home;
- having enough money to retire early;

- knowing that you and your dependants are protected against financial hardships; and
- being wealthy enough never to have to worry about the future –whatever it may bring.

And the emotional benefits? You'll feel a tangible peace of mind once you have your financial affairs in order. In addition, a well-considered financial plan guarantees that you will never need to waste energy worrying about money again.

Some people's circumstances, of course, may be such that they will not manage to achieve any or all of these objectives. For these people, financial planning is crucial to getting the maximum advantage from limited resources even with insolvency.

Supposing you don't plan?

Suppose you don't bother with a financial plan at all? Leaving something as important as your financial future to chance is risky. True, we live in a country with a relatively generous State benefit system. But would you really want to rely on it? You probably wouldn't starve, but you wouldn't have an easy time of it.

Incidentally, many people assume that the worst thing anyone can do is ignore financial planning completely. In fact, in my experience the people who are worst off are those who *compartmentalise* their money decisions. Let me give you just three examples:

1. When you want to buy a home, you look for a mortgage.
2. When you begin to think about retirement, you start a pension.
3. When you have a young family, you take out life insurance.

This compartmentalised approach to money is both wasteful and risky, because you may:

- end up spending more than you have to on borrowing money;
- by default, pay more tax than you need to;
- end up with inferior and expensive financial products;
- risk your capital, your income, and the standard of living of you and your dependants;
- miss opportunities; and
- make yourself unhappy worrying about your financial security.

A symptom of this approach is responding to ad hoc situations in a knee-jerk manner – for example, subscribing for newly issued shares on a whim, or paying for education fees when you hadn't expected to do so.

Instant savings and more

One key benefit of creating a financial plan is that it will involve a review of your existing financial products. Such a review is bound to result in all sorts of savings as you identify products that are either over-priced or unnecessary. Let me give you just one real-life example:

> One of my 'clients', Tony, an ex-banker, told me that he'd spent more time choosing his last car than choosing his mortgage. As a result he was, without realising it, paying 1% above the home loan market rate. He'd also allowed himself to be sold a very expensive life insurance plan. I calculated that, over the 25-year term of Tony's €210,000 mortgage, these two products alone would cost him a staggering additional €38,000 in unnecessary payments.

Frankly, because people pay less attention to their finances than to other areas of their lives, they tend to get 'ripped off'. With a financial plan in place, you'll know that you aren't:

- accepting lower rates of return on your savings;
- paying more tax than you have to;
- paying more to borrow than you have to;
- taking out insurance policies that you don't need, or that don't provide you with the protection that you want, and that may well be over-priced;
- making poor investment decisions;
- failing to plan properly for your retirement; or
- putting your money at risk.

What does a Financial Plan look like?

Your financial plan may be no more than a single piece of paper on which you've jotted down some notes. You might think of it in the same way that you think of a career plan, or any other sort of life plan. It is to guide you, save you time, and ensure that none of your effort is wasted. Or, if you are comfortable using spreadsheet software, you could also do it electronically. Whatever way you choose to complete a financial plan, remember it is essential for giving you a map of your financial road to the future.

How long should a Financial Plan last for?

Obviously, there is no set period for a financial plan. My general advice is to write it so that it covers the **current** and **next phase** of your life. For instance, if you've just left university and you're starting your first job,

then you might write a financial plan designed to take you through to when you own your home. Bear in mind that financial plans need to be *flexible*. You may change your ideas about what you want, or circumstances may intervene and require a change of direction.

A financial plan that only covers a specific, short-term requirement (for instance, saving for your retirement) isn't going to bring you lasting financial success.

If you think you need help

You will find everything you need to write your own financial plan in this book. However, you may decide you'd like some professional help. There are any number of people who would like to help you with your personal finances, from bank managers to life insurance salespeople, from credit brokers to pension specialists.

The golden rule is: the fewer options the 'experts' can offer you, the less you should trust them.

Let me give you one pertinent example: If you go to your bank and express an interest in taking out a pension, whoever you speak to is duty-bound to offer you something from the bank's own range of products, even if he or she knows that you would get a better deal elsewhere. If, on the other hand, you go to an independent financial adviser, he or she should recommend the best and most competitively priced product for your needs.

- There is nothing in the least bit complicated about writing a financial plan. It is simply a matter of working out what your money ambitions are, how far you have got to date, and what action you need to take to get to where you want to go.
- Unless you are very, very lucky, the only way you are going to make your financial dreams come true is by planning.
- Your plan may be a single piece of paper with a few notes.
- The process of writing a plan is likely to bring big savings, as you identify financial products you have already bought that are either (a) over-priced or (b) not really necessary.
- Everything you need to write a financial plan is in this book. But if you want help, use an experienced, independent and authorised financial adviser, and be prepared to pay for that advice.

2
Writing a Financial Plan

If you've put off writing a financial plan because you thought it would be time-consuming and tedious, then this chapter will reassure you. Not only is it possible to produce a detailed financial plan in a matter of hours, but as you get involved in the process you may find it considerably more interesting than you imagined.

Wealth Check

First things first

Many people begin the financial planning process because they want to resolve a particular financial question. But you shouldn't look at financial needs in isolation. Every financial decision you make should be part of an overall plan. Thus, a particular product – such as a mortgage, loan, insurance policy or investment – should not just be judged on its own particular merits, but also in terms of how it moves you closer to your financial objectives. For this reason, no financial plan can be created until you have set and prioritised your **financial objectives**.

How do you decide what your financial objectives should be?

My advice is to start by **dreaming**. Consider what you'd like to be doing in, say, five years' time, ten years' time and twenty years' time. Consider what work (if any) you'll be doing, where you'll be living, and how you'll be spending your leisure time. What will your family situation be? Once you have a clear picture of the future life you'd like to have, start expressing it in financial terms.

Your financial objectives might include:

- owning your own home, outright, without a mortgage;
- making sure you have sufficient income to retire (possibly early) and live in comfort;
- ensuring that you and your dependants will not suffer financial hardship regardless of any misfortunes that may befall you;
- having sufficient wealth to pay for things that you consider important, whether it's charitable donations, an education for your children, or some other item such as a second home or a caravan; and
- having sufficient wealth to allow you to spend your time as you wish – for instance, having the money to start your own business

Prioritising your financial objectives

Having produced a list of financial objectives, your next task should be to put them in order of priority.

What you consider important will be determined to a great extent by your personal circumstances. For instance, if you're in third-level education, you'll have a very different view of money to someone five years away from retirement. Someone with a lot of debts will have different concerns to someone with a lump sum to invest.

Nevertheless, regardless of your age, existing wealth, health, number of dependants, or any other factor, I would recommend that you keep the following principles in mind when deciding what your financial priorities should be:

1. For most people, their greatest asset is their **income**. Unless you are fortunate enough to receive a windfall, it is almost certainly your income which you will use to achieve your financial objectives. Under these circumstances, you don't want to risk it and you don't want to waste it. There are all sorts of relatively inexpensive insurance policies designed to protect your income. And by making sure that you don't waste a single cent (especially when buying financial services) you can ensure that it's used to optimum purpose.
2. **Personal debt** – by which I mean everything from store cards to mortgages – will be the biggest drain on your income. If you've borrowed money (and, obviously, there are many circumstances under which this makes excellent sense) then you should make it a priority to repay your loans as quickly as possible. This is easily achievable, as I explain in Part 3.
3. It is vital to have a safety net or **emergency fund** to deal with all the little trials, tribulations and extra expenses that life throws our way. In Part 6, I suggest how much this fund should be, and the best way to build it up.
4. If you've got a good, secure income, it doesn't actually matter what other assets you own. Emotionally, it's nice to have the security of owning your own home. Financially, it certainly makes sense. But, actually, the best investment that most people can make is in a really decent **pension plan**. With a good pension plan you can leave work early and – if you live to 100 or more – never have to worry about money again. One of the best things about modern pension plans is that they are both flexible and diverse.

5 It is not inconceivable that we will live to a very old age, and in some cases suffer a reduction in our mental ability to handle money matters. Before this may arise it is worth considering setting up an **enduring power of attorney**. This is a document providing for the management of a person's affairs in the event of their becoming mentally incapacitated. The appointed person (the 'attorney') may be allowed to take a wide range of actions on your behalf in relation to property, business and social affairs. He or she may make payments from specified accounts, make appropriate provision for your needs and make appropriate gifts to the donor's relations or friends. You can appoint anyone you wish to be your attorney, such as a spouse, family member, friend or colleague. See Chapter 36 for further information.

6 Know thyself! There is no point in setting financial objectives that you're going to find impossible to attain. Your financial objectives may involve modest changes to your behaviour, but they shouldn't require a complete change in your personality!

Ten universal needs

Ultimately, financial planning is about tailoring a solution to meet your precise requirements. There are, however, a number of 'universal' needs that most of us face. To my mind they are:

1. Having an emergency fund to cover unexpected expenses.
2. Paying off any expensive personal loans and credit card debt.
3. Short-term saving for cars, holidays and so forth.
4. Income protection, in case you are unable to work for any reason.
5. Life assurance (for you and, if relevant, your partner).
6. Starting a pension plan (in my opinion it is never too early).
7. Buying a home with the help of a mortgage.
8. Saving for major purchases.
9. Planning for education fees (if you have children), whether for private school or university.
10. Building up your personal investments.

To this, I suppose I might add long-term care planning if you're worried that your pension and/or the State may not provide for you sufficiently in retirement.

Setting realistic aims

If you had unlimited funds, you could achieve all your financial ambitions without difficulty and you wouldn't need a financial plan. As it is, for most of us life is more complicated. Since we can't have everything we want instantly, we need to set realistic targets and work towards them in easy stages. To make sure we have realistic targets we must test them. Let me give you an example

> David is 40 and self-employed. His objective is to be financially independent by the age of 55. At that point he wants to be able to live comfortably without working. His current income is €40,000 a year and he feels that he'll be able to manage on much less, say €25,000 a year, once he retires. To achieve this, he'll need capital resources of between €500,000 and €600,000. At this point in time he has a pension fund worth €100,000 which, if it grows in real terms (i.e. after the effects of inflation) by 5% a year, will be worth some €208,000 in 15 years. He also has €25,000 of stocks and shares, which he expects to grow at a slightly faster rate, say 7% a year, which would mean an extra €74,000 in 15 years.

> In other words, David has a shortfall of between €212,000 and €312,000. To fill this shortfall, he would have to save at least €600 a month (assuming a growth rate of at least 7%) until he reaches 55. However, €600 a month, or more, is a lot of cash to find, so he may have to adjust his expectations. Perhaps he could live on less? Or postpone his retirement an extra five years? Or earn additional money?

Note: this example is just to give you a feel for what I'm talking about. Inflation would need to be taken into account when deciding what to do. I have ignored current pension returns and low growth rates. Everything is cyclical.

Once you settle on your overall objectives, you'll have to decide what is most important to you. For instance, would you rather pay off your mortgage ten years early, or take an annual holiday overseas? Is being able to retire early more important than putting your children through private school?

You must also weigh up other priorities. I always recommend that those with dependants take out income protection insurance before they take out life cover. Why? Anyone under retirement age is 20 times more likely to be unable to work for a prolonged period due to sickness than they are to die. Another recommendation I often make is that people with high personal debt pay it off or consolidate it before they start saving money. This is because it costs more to borrow than you can hope to earn from most forms of low-risk investment.

The two key points here are:

1. Keep your financial expectations realistic.
2. Test them to make sure.

How far have you got?

If the first stage of a financial plan involves deciding what you want, then the second stage is working out where you've got to so far. You need to produce an honest and realistic assessment of:

- what resources you have;
- what demands there are on your resources; and
- what action you are already taking to meet your targets.

Once you have this information you'll know what surplus is available to you, or whether you have a shortfall that needs to be made up.

If you visit my website – **www.moneydoctor.ie** – you'll find several aids to help you reach your goals. Email info@moneydoctors.ie for a Word document budget plan. Or you can use the questionnaire that follows.

Your monthly income and outgoings

I usually suggest that people start with their income and – if relevant – their spouse/partner's income. The best way to calculate it is as follows:

Monthly income – gross	**You**	**Spouse/partner**
	€	€
Salary or wages	______	______
Profits from business	______	______
Investment income	______	______
State benefit	______	______
Pensions	______	______
Other earnings	______	______
Anything else	______	______
Subtotal A	______	______
Less tax (PRSI and income tax)	______	______
Subtotal B	______	______

The resulting figure (Subtotal B) is your disposable income. You now need to consider how you spend it.

Monthly outgoings	**You**	**Spouse/partner**
	€	**€**
Rent/mortgage	______	______
Utilities (gas, electricity, telephone, etc.)	______	______
Food	______	______
Household items	______	______
Drink	______	______
Car(s)	______	______
Home insurance	______	______
Life insurance	______	______
Other insurance Clothes	______	______
Child-related expenses	______	______
Credit cards	______	______
	______	______

Other loan repayments	________	________
Spending money	________	________
Pension contribution	________	________
Regular saving plans	________	________
Anything else	________	________
Subtotal C	________	________

By subtracting your monthly outgoings (Subtotal C) from your disposable income (Subtotal B), you will arrive at your available surplus. Don't despair if this is a 'minus' figure. That's why you are reading this book – and, together, we are going to do something about it!

Your Assets

Working out what assets you have involves the same process as working out what your surplus income is. You need to tot up the value of everything you own and subtract any debts or other liabilities you may have.

Start with a list of the assets themselves:

Assets	**You**	**Spouse/partner**
	€	**€**
Home	________	________
Personal belongings	________	________
Furniture and contents of home	________	________
Car(s)	________	________
Other property	________	________
Other valuables	________	________
Cash	________	________
Savings	________	________
Shares	________	________
Other investments	________	________
Subtotal D	________	________

With regard to any investments you have – savings plans or a pension, for instance – you may want to work out what they will be worth at whatever point in the future you intend to cash them in. This can be a complex business. A pension fund, for instance, may grow by more or less than the predicted amount. Therefore, it could be well worth your while to get professional assistance with your calculations.

Your Liabilities

Liabilities	You €	Spouse/partner €
Mortgage	______________	______________
Credit card debts	______________	______________
Personal loans	______________	______________
Hire-purchase	______________	______________
Overdraft	______________	______________
Other loans	______________	______________
Tax	______________	______________
Other liabilities	______________	______________
Subtotal E	______________	______________

By subtracting your total liabilities (subtotal E) from the value of your assets (Subtotal D) you will arrive at what financial experts call your 'net worth'. While it is not good if this is a 'minus' figure, once again you shouldn't despair. The whole purpose of a money plan is to strengthen your finances.

The importance of making assumptions

All financial planning requires 'assumptions'. Some of these assumptions will be personal to you, such as how much income you expect to earn in the future or how many children you anticipate supporting. Other assumptions will be related to factors only partly within your control, such as the return you can expect to receive from a particular investment. You'll also need to allow for financial factors beyond your control, such as the state of the economy.

The longer the period you're planning for, the less accurate your assumptions will be. It's very hard to predict exactly what you'll be earning in, say, five or ten years, let alone what you'll be earning in twenty years.

In order to improve the quality of their assumptions, many people use historic figures for guidance. Here are some statistics that you may find helpful:

Inflation for the 12-month period to July 2022 was 9.6%.

Interest rates: Interest rates vary enormously, especially when you are borrowing. For instance, in 2022, when a typical mortgage cost 2.8% per year, you could pay up to 21%+ on a typical store card. Over the last ten years, the average mortgage rate has been about 3.6% a year.

Investments: Not only do the returns on different types of investment vary dramatically, so do the returns within each investment type. So, while investing in the stock market could bring a better average return than investing in property, one individual investor might do substantially better or worse than another. In general, it is best to spread your money between different types of investment, and to assume an average return of between 4% and 7% a year in real terms. For instance, over the last 30 years, the average annual return in the stock market was 10.72%.

Wealth Check

How much capital will you need?

One of the hardest calculations to make is how much capital you will need to provide a sufficient income for your needs. Many factors affect this, such as inflation, tax and investment performance.
On the whole, my advice is to assume a 2.5% return after inflation and tax. This means that for every €1,000 of annual income you require, you'll need €40,000 of capital. Put another way, if you want an annual income of €20,000 a year you'll need at least €800,000 worth of capital.

Wealth Check

An important reminder

Do you have a will? If you do, when did you last update it? Are you taking full advantage of all the tax allowances and exemptions to make sure that your beneficiaries don't have to pay unnecessary inheritance tax?

If you are over 18 (or if you are younger, but married) you should draw up a will, because if you don't, your money will be distributed in accordance with the succession Act of 1965. This means that your estate could end up not going to your chosen beneficiary or beneficiaries and could even end up filling the government's coffers.

You should also consider:

- giving an enduring power of attorney to someone you trust should you become physically incapacitated; and
- creating a living will, explaining anything you would like done should you become so unwell as to be unable to communicate.

Where do you need to take action?

Answer the questions below with a 'yes', 'no' or 'maybe'. Every question you answer with a 'no' or 'maybe' suggests an area where you need to take action.

- Do you spend less than you earn each month?
- Are you satisfied with your standard of living?
- Do you pay your credit card and charge card bills in full, on time, every month?
- Have you taken out sufficient life cover to ensure that your family's lifestyle won't be adversely affected if you die?
- Are you happy with where you live? Can you afford it?
- If you had to manage without an income, would you be able to support yourself for at least three months using money you have saved?
- Do you have a clear sense of financial goals? Have you spent any time thinking about how you're going to achieve them?
- Do you have a pension? Will it be sufficient to support you in reasonable comfort?
- Do you have a will?
- Do you have other investments designed to bring you long-term capital growth?

- If you are not sure where to begin, begin at the beginning. Work out what you want from your money – what your priorities are.
- Although everyone's circumstances are different, we all have the same basic needs – to secure our future regardless of what happens. This is done through a combination of saving, investment and insurance.
- Take a little time to work out where you are financially – it may be the most profitable half-hour you ever spend.
- Don't be shy about asking for help. If you know you want to sort out your finances, but find it difficult, call in expert help.

3
Money is a Family Affair

How a family can work together to achieve long-term financial security

Anyone who has been in a settled relationship will know that money and love can be a potent combination – both good and bad. If you and your partner share the same attitude to money, you'll be able to build a secure future for yourselves faster, more efficiently and more enjoyably than if you are in conflict.

However, it would be ridiculous not to acknowledge that many relationships are blighted by arguments about money, and that reaching a compromise isn't always easy. In this chapter we look at how couples – and families – can work together to reach their financial goals. We also look at the importance of educating children about money.

Problem? What problem?

All relationship money problems tend to boil down to one or more of the following issues:

- how the money is earned and who is earning it;
- how the money is spent and who is spending it;
- how the money is being managed and who is managing it;
- how the money is being saved (if it is being saved at all) and who is doing the saving;
- how the money is being invested (if it is being invested at all) and who is handling the investment decisions; and
- what debts you have – both individually and jointly – and why they were incurred.

Of all the subjects that couples argue about – from the choice of holiday destination to who should do the washing up – money arguments are the hardest to resolve. This is because our money beliefs tend to be (a) firmly held, (b) unconscious and (c) non-negotiable.

Couples who want to build a financially secure future need to keep an open mind regarding each other's viewpoint. One of you may be a saver and the other a spender, but that doesn't mean compromise isn't possible.

Are you and your partner financially compatible?

When a couple disagrees about money, it is almost always because they each hold different money beliefs. Which of the following categories best describes you and your partner?

Worry warts: People who worry so much that they never really enjoy money – even when they have plenty.

Big spenders: People who spend money whether or not they have it. They don't mind going into debt to fund their lifestyle.

Careful savers: People who are committed to saving. Sometimes they can be obsessive about it to the point of miserliness, however.

Optimistic dreamers: People who believe that through some miracle – perhaps an unexpected legacy or a lottery win – all their financial worries will be solved overnight.

Outright fools: People – sorry to be harsh – whose spending and borrowing is reckless.

Clever planners: People who plan for a secure financial future but still manage to enjoy a good lifestyle now.

Where a couple consists of two 'clever planners' you tend to get minimum friction. Otherwise, sooner or later, disagreements are bound to arise.

In an ideal world, one would discuss money with a future partner before making any sort of commitment, as this would allow you to check that you are financially compatible. However, we don't live in an ideal world, and most couples will find themselves tackling financial issues after they have been together for some time. Looking on the bright side, maybe this is preferable. After all, you now know and understand each other better.

Opening a dialogue

The first and most important step for anyone in a relationship is to **open a dialogue** with their partner. If you don't communicate you won't know what they are thinking, and they won't know what you are thinking. My advice is to have a gentle discussion in which you discuss some or all of the following topics:

- Your individual values in relation to money. What do each of you think is important?
- Any assumptions either of you may have. For example, one of you may assume that finances should always be joint; the other may have fixed ideas about keeping them separate.
- Your dreams and desires and your partner's dreams and desires. How do you each envisage the future?
- Your fears and your partner's fears. What are you each most worried about?

each of you will have ingrained attitudes, and you need to recognise what these are before any sort of agreement can be reached.

Anything to declare?

There are several tricky areas when it comes to discussing personal finance with your partner. One subject that never fails to cause problems is 'secret debts' and 'secret savings'. By this I mean:

- One or both partners have borrowed money without telling the other one.
- One or both partners have tucked money away without telling the other one.

Other 'secrets' that couples keep from each other include:

- How much one or the other really earns.
- Money that one or the other has given away or promised (this often arises where one or the other has been married before).

If you are harbouring a money secret from your partner, my advice is to come clean. The longer you leave it, the worse it will be when it is discovered. Also, it is much harder (and sometimes impossible) to analyse your joint financial position if one of you is holding out.

Wealth Check

The gentle art of confession

You have a money secret that you need to tell your partner. How can you do it without risking a break-up? Here are some tips:

- Pick your moment. No one likes to receive bad news just when they have to go to work or do something else. Better to raise the topic when you are alone and there is time to talk about it.
- If appropriate, don't forget to say 'sorry'.
- A medical doctor once told me that he always prepares family members for news about the death of a loved one a day or two before it is likely to happen with the words 'I am afraid you should expect the worst' – this gives them time to get used to the idea. If you start by saying you have a confession to make and that it may shock or anger them, the conversation is likely to be less acrimonious.
- Don't fool yourself that – say – borrowing or spending money without telling your partner won't upset them. But, equally, remember that it is only money. The important thing is that there should be honesty in your relationship.

Building a joint approach to money

Disagreements about personal finance can be very divisive – I have seen figures suggesting that half of all couples that break up do so because of disagreements about money. So when I say that you need to agree a joint financial strategy with your partner, I don't say it lightly. This is an approach that I have found works well:

- **Look for common ground:** It is likely, for instance, that you both want the same thing – to be free of debt and have plenty of spare cash.
- **Communicate freely and honestly:** Assess where you are and how each of you have contributed to the current state of affairs. Be honest. Discuss each of your strengths and weaknesses – the things you are doing right, and the things you are doing wrong.
- **Compromise:** Don't allow past behaviour and events to poison your chance of success. Put grievances behind you. Start afresh and, in doing so, accept that you will both have to agree to do things differently in the future.

Sharing out the chores

There are certain basic money chores that have to be done. One of the most useful things any couple can do in relation to personal finances is to agree who is going to take on which responsibilities. I recommend that all major decisions be made jointly, and that each partner keep the other informed about what they are doing. The tasks that need to be divided up include:

- paying household bills;
- filing and organising financial paperwork;
- doing the household shopping;
- checking the bank accounts and reconciling the balances;
- looking after spending money and accessing cash;
- shopping for larger purchases;
- saving money and arranging any loans;
- investment decisions;
- keeping an eye on investments; and
- dealing with financial institutions – banks, insurance companies and so forth.

In many relationships, one or other partner will take over management of the financial affairs. Even where this works without a hitch, I feel it is not entirely a good idea. Supposing one of you should die unexpectedly – how would the other cope? Also, what happens if you go your separate ways at some point? I can't overstress how important it is to share information and decisions.

Wealth Check

How to make yourself financially compatible

Here are some valuable tips on handling joint finances – whether with your partner or with someone else, such as a flat ate or friend.

- Maintain your independence. A joint account is perfect for joint responsibilities, but it is a good idea to keep an account for yourself so that you have money available to spend as you want. Decide which areas are joint expenditure and which you are each going to handle alone.
- If one half of a partnership takes over all the money management, it can lead to big trouble. The person 'in charge' may end up resenting the fact that he or she is doing all the work, and he or she may also become controlling. The person not involved is leaving himself or herself vulnerable, adopting an essentially childlike position. Both of you should take decisions together – even if one of you does the day-to-day accounting.
- Be honest about how you each feel. If one of you wants to save and the other wants to spend, admit it and work out a strategy that allows each of you to do as you please. Compromise!
- Plan for a future that isn't completely dependent on staying together. I realise that this may seem pessimistic, but I frequently find myself counselling people who unexpectedly find themselves having to deal with money for the first time.

The importance of involving and educating your children

How did your parents' approach to money influe ce you? Now, consider how your attitude will influe ce your own children. Regardless of your level of wealth, everything you say or do in relation to money will have an effect:

- If you don't discuss money in front of them, they won't learn anything about it.
- Whatever emotions you display – such as fear, worry or indifference – will colour their own relationship with money.
- If you are mean with money or overly generous; if you never waste a penny, or if you spend like there's no tomorrow; your children will be watching and learning.

Given that they are unlikely to learn much about money from any other quarter, and given the way debt is spreading through society like some super-virus, it is clearly important that you educate your children about personal finance. You need to teach them the key principles, including how to:

- save for a specific purpose;
- stick to a budget;
- choose competitive products;
- shop around; and
- spend money wisely.

My upbringing was fairly typical for Ireland in the 1970s. There were six of us squeezed into a three-bedroomed house. My father was the only income earner and, although we never went without, money was always tight. I am reminded of the comedian Les Dawson's visit to the butcher with his mother: she asked for 'a few bones for the dog', to which Les said, 'But we don't have a dog, Mum!'

of course, we didn't have the luxuries that today's generation have come to expect. In Ireland today, our children really do not appreciate the hardship their parents went through and, in some respects, this is a pity, because parents' values are so much different to their children's. However, the last recession has refocused the core values of parents and their children.

Clearly, what you *don't* want to do is worry your children about money. Still, I believe there is a lot to be said for showing them where your income comes from, and what you then do with it.

When your children realise how well you manage money they can't fail to be proud of you. Naturally, they will grow up not just wanting to be debt-free and rich enough to retire young, but actually understanding how this can be achieved. What better legacy could you leave?

If your financial circumstances radically change, it is far better to keep your children in the loop and ask them to help with economising. This way, the shock of change will be far less pronounced.

- If you are in a relationship, it is vital that you discuss your financial objectives together, sort out your differences and formulate a joint plan.
- Honesty is vital! You have to work together, not against each other.
- Two heads are better than one. If you are working together you'll reach your objectives sooner – and it will be more fun, too.
- It is important to educate your children about finance. Don't let them leave home without good money habits and a genuine understanding of how money works.

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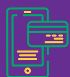
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4
Getting Help

Should you adopt a DIY approach to your financial planning, or should you get professional help? If you do seek help, who can you trust to give the best advice?

Are you the sort of person who relishes the challenge of managing their own finances? Or are you the sort of person who would feel happier passing the whole task on to someone else?

How far should you go?

You want to make the most of your money. In practical terms this means:

- keeping the cost of your borrowing (including your mortgage) to a bare minimum, and making sure that you have the most suitable mortgage for your needs;
- earning the highest possible return from your savings and investments, without taking undue risk or paying unnecessary fees or commission;
- obtaining the best possible pension plan;
- taking out only the most appropriate insurance, at the lowest possible price;
- not paying a cent more in tax than you have to;
- not paying a cent more for any other financial services or products than you have to; and
- not being caught by any unscrupulous operators.

With the help of this book (and by visiting **www.moneydoctors.ie**), you will certainly be able to achieve all of the above by yourself. However, does the DIY approach make sense for you? The following questions may help you to decide:

Have you got the right temperament? Financial planning can be stressful and time-consuming. If you hate figure work, don't like making decisions and worry about taking risks, then maybe you would be better off seeking professional assistance.

Have you got the time? Are you willing to give up a few hours a month to make sure you are optimising your finances? Do you see this as being quite good fun? If not, then maybe the DIY approach isn't best for you.

Can you access the information you need? Financial planning requires access to information. If you can't gain access to the internet, and if you aren't near a good library, then it is possible you should let someone else do the legwork for you.

Where to get help

How to find someone you can trust

Whenever I do a radio phone-in, the question I get asked most is: 'Who can I turn to for help with my money problems?'

Consumers, understandably, want independent and expert advice. The trouble is that most people offering advice work for financial institutions, which have their own products to promote. Bluntly, if you talk to a life assurance salesperson about your retirement planning, you know she or he isn't going to recommend anything except the life assurance products her or his own company sells.

The best place to get advice is from someone who isn't under any pressure to *sell* anything, but is in a position to do what is best for you.

This book is designed to give you all the information you need to organise your finances, save you tax and find the most appropriate products for your needs. However, if you want to discuss your situation with someone, face to face, make sure you talk to a professional who is experienced in all financial areas. In other words, contact an independent financial adviser and be prepared to pay for their advice.

What can you expect from your independent professional financial adviser?

A key advantage to appointing an authorised adviser (someone who is independent, professional, qualified and stringently regulated) for insurances and investments is that they owe their allegiance to you and not to any financial institution or investment house. *Your needs* will be paramount. Therefore, you can expect them to provide you with the following services:

Strategic planning: They will look at your complete financial position, agree your financial objectives with you, and advise you on how to reach your money targets. They should also assess your existing position, and review any financial products you have in place to make sure they meet your requirements.

Competitive analysis: Having decided what products you need, your adviser should search the market for the best product offering the best value for money.

Negotiation services: When an insurance company quotes a rate, it isn't necessarily fixed in stone. In fact, it is possible to negotiate discounts on a huge range of financial products. Your adviser will know what else is available in the market and should negotiate to get you the best possible deal.

Background information: Your adviser should provide you with background information on any products or companies they recommend.

Administration: Your adviser should deal with all the paperwork on your behalf and assist with the filling out of any forms.

Regular reviews: Your adviser should monitor your needs without being asked. They should constantly be thinking about your situation and making sure that whatever they have recommended is performing in the desired manner.

Your adviser should be able to look after all your financial needs, including:

- mortgages;
- re-finance;
- commercial loans;
- personal loans;
- asset finance and leasing;
- life cover;
- income protection and other insurance;
- health cover;
- all savings and investments;
- pensions; and
- property and other general insurance.

Where more specialised advice is needed (say, in the selection of shares to build a portfolio, or specific tax planning), your adviser should be able to recommend other impartial professionals.

Saving tax

A first-class financial adviser will be able to advise you on tax-saving products. **For specialist tax advice, however, you should always go to an accountant or quali ied tax consultant.** If the size of your tax bill doesn't warrant appointing an accountant, however, your financial adviser should be able to assist you. Tax is a big part of financial planning. After all, what's the point of making a better return on your investments only to lose it through poor tax advice? *Always* check that your adviser is taking your tax position into account and is properly qualified to assist you.

A very short history lesson

Prior to November 2001, there were over 9,000 'insurance brokers' offering financial advice. At that point, the Central Bank took over regulation and forced them to register. Six thousand dropped out immediately, mainly because the scale of their operations meant they did not have the time or resources to provide the level of product research required.

Of the two authorisations available, there are currently around 400 authorised advisers, who must give 'best advice' irrespective of agencies held. The balance of about 2,500 are **multi-agency intermediaries** (originally called RAIPIs, then 'restricted intermediaries'). They can only give advice on the insurance and investment appointments held.

Then, in 2003, in order to ensure that consumers receive reliable and independent advice, the government set up the Irish Financial Services Regulatory Authority (IFsRA, then changed to the 'Financial Regulator'), an independent agency that took over the regulatory role previously filled by the Central Bank. Regulation is now entrusted again to the Central Bank of Ireland.

When considering any professional adviser, you should check:

- that they are regulated by the Central Bank of Ireland; and
- what services they are authorised to provide, and at what cost.

Financial advisers must now give you a **Terms of Business** booklet, outlining their terms of business, fees chargeable, appointments with product providers, Central Bank of Ireland authorisation and notification of the Investors' Compensation Act.

Wealth Warning

Some things are best not delegated

There is an enormous amount to be said for getting a really good professional adviser to sort out everything for you. You'll save money. You'll save time. And you will end up with the best possible products for your needs. But no matter how good your adviser, you should always take time to:

- understand what he or she is proposing, and why;
- learn about the products you are committing to; and
- check up on the financial institutions that will be supplying those products.

- It is possible to handle all your financial decisions without reference to anyone else. However, it requires time and commitment.
- If you do decide to use a professional adviser, make sure that they are fully authorised and don't be shy about asking them questions.
- Remember, it is important to have clear financial objectives.

PART 2

Your Financial Rights

Are you entitled to claim any government benefits? How does the law protect you as an employee? What do you do if you buy something and are unhappy with the way you have been treated?

This section of the book will answer all of your questions with regard to your financial rights. In Chapter 5 you'll discover how the social welfare system works and how to assess what you may be entitled to. In Chapter 6 you'll learn about your rights as an employee. And in Chapter 7 you'll find out what your rights are as a consumer. I've also included useful sources of additional information and important contact information.

5
Your Right to Social Welfare

How the system works and how to make sure you receive your entitlements

The Irish state provides its citizens with one of the most advanced, generous and comprehensive social welfare systems in the world. It isn't, however, what you would call a simple system, being made up of a bewildering array of:

- assistance payments;
- benefits;
- supplements;
- allowances;
- grants; and
- pensions.

Many of the financial benefits available are 'contributory', meaning that you are only entitled to them if you have made **PRSI** (Pay-Related social Insurance) contributions in the past. Others are available to everyone, including people who have moved here from abroad.

As one would expect, the state only provides social welfare when certain conditions are met. Sometimes these conditions are very straightforward. For instance, with very few exceptions, a special grant of €8,000 since Budget 2021 is paid to widows or widowers with dependent children following the death of their spouse. In other instances, you have to meet stringent requirements, often related to the size and number of your PRSI contributions. A good example of this is the invalidity pension, which is payable if you have been 'incapable of work for at least twelve months and are likely to be incapable of work for a further twelve months, or you are permanently incapable'. To qualify for this benefit you must also have paid PRSI at Class A, E or H for at least 260 weeks, and you must have had at least 48 weeks' PRSI paid or credited in the last tax year!

I am afraid the system is made even more confusing by frequent changes to the nature, values, names and conditions attached to the various benefits available.

So, how can you discover exactly what you are entitled to?
This chapter will outline, in broad terms, the various forms of social welfare that are available, along with the more important conditions that must be met in order to claim them. Using this, you should be able to ascertain what benefits you might be entitled to.

Your next step should be to contact your local Intreo Office or Citizens Information Centre for further assistance. You'll find both listed in your local phone book.

Another approach is to write directly to:

The Information Service,
Department of Employment Affairs and Social Protection Áras
Mhic Dhiarmada, Store Street, Dublin 1
Tel: (01) 704 3000

or

Retirement/Old Age Contributory & Non-Contributory Pensions
College Road, Sligo, County Sligo
Tel: (071) 915 7100/LoCall: 1890 50 00 00

or, if you have access to the internet, you can go to www.welfare.ie.

The difference between contributory and non-contributory payments

The terms 'contributory' and 'non-contributory' are bandied about a good deal in relation to social welfare benefit. The terms are slightly misleading, because they imply that you have to have contributed personally to be eligible for certain payments, and this contribution is generally assumed to be PRSI payments. However, a completely different system operated prior to 1974; another system was in place until 1953; and both may entitle you to contributory benefit.

The word 'contributory' is confusing in another respect, too. You may well be eligible to receive a contributory benefit if you are married to someone who has made contributions, or if you are the child or dependant of someone who has made contributions.

Another point to bear in mind is that you may have been in regular employment but earning so little that you were not liable to make any PRSI payments. If you are a public servant, your entitlements will be linked to when you joined. If you are self-employed, a completely different set of regulations applies.

My advice, therefore, is never to assume that you won't be entitled to a particular form of social welfare until you have fully investigated each and every one of the conditions attached to it. Don't ever assume that because something is 'contributory' or 'non-contributory' it won't apply to you.

The different types of Social Welfare

At the start of this chapter, I listed the categories of social welfare payments. But what do these various terms mean?

On the whole, social welfare **benefits** tend to be available only to those who have made PRSI contributions. Furthermore, though there are a few exceptions, social welfare benefits are not affected by your level of wealth.

Social welfare **assistance**, on the other hand, is given only to those who satisfy a 'means test'.

A good example of the difference is jobseeker's benefit, which has PRSI conditions attached to it but for which there is no means test, and the non-contributory old age pension, which is classified as social assistance and is subject to means testing.

So, what is means testing?

In order that financial assistance only goes to those who are most needy, the government checks each claimant's financial circumstances first.
this check is called a 'means test'.

Your means are considered to be:

- any cash income you have;
- the value of your assets (your home is excluded up to a certain value, but if you own a farm it is included); and
- your savings and investments.

In some cases, your residential situation will be relevant. For instance, if you are unemployed but live at home with your parents and you are under the age of 24, this could reduce your entitlement.

When you apply for a means-tested form of social assistance, a 'means test officer' will consider your case. The criteria used to assess your entitlement will, of course, vary according to the form of social assistance you are applying to receive. You should expect, however, to be asked about your entire financial situation. This could include:

- your income;
- your spouse's income;
- your partner's income (if co-habiting);
- farm income (if relevant);

- any savings, investments or other assets you may own, such as property;
- your general circumstances, such as where you live, whom you live with, who is dependent on you, and so forth;
- any debts you may have;
- your weekly outgoings, including rent; and
- any other benefits you may be receiving.

Naturally, any information you provide will be treated in the strictest confidence.

There will, of course, be other conditions as well. For instance, you have to be genuinely unemployed to claim jobseeker's allowance. But your means will be the deciding point. Note that even if you're not eligible for the maximum amount of assistance, you could still be entitled to a reduced amount.

What are you entitled to? Social Welfare payments in detail

Below is a summary of all the main social welfare payments. You'll also find an explanation of what they could be worth to you, together with some of the more notable conditions.

Remember, the Department of Social Protection is there to help you. You shouldn't hesitate to ask their advice about what you are entitled to.

Social welfare pensions

The state makes available two different types of social welfare pension:

Contributory pension: so-called because your entitlement is linked to the amount and class of PRSI you have paid during your working life.

Non-contributory pension: Means-tested and available to those who haven't made any contributions during their working lives.

Contributory pensions are paid to those who have reached the age of 66 and are not means-tested. The qualifying age for state contributory pensions was to be raised to age 67 for 2021 but was scrapped in the 2020 October Budget and will be reinstated within 5 years while the qualifying age will still go to age 68 in 2028, although it is now unclear if these changes will happen.

The maximum standard amount for a contributory pension is €253.30 per week, but the actual sum you receive will be determined by the number and value of contributions you made during your working life – and your age. Additional sums are payable if you have dependent children and live alone. You get an extra €10 p.w. at age 80.

The maximum standard amount payable as an old age non-contributory pension is currently €253.30 per week, or €263.30 per week for those aged over 80. Again, you may be able to claim more if you have dependent children or live alone. This payment is means tested.

Regardless of whether you have made contributions or not, additional amounts may be available if you are blind, or if you live on certain offshore islands.

Pensions for widows and widowers

If you are – or become – a widow or widower, then you will also have pension entitlements. These are:

The contributory widow(er)'s pension: As its name implies, this is available to widows or widowers where sufficient PRSI contributions have been made, and is worth up to €213.50 per week for those under 66, €253.30 for those aged 66 to 80, and €263.30 for those aged over 80.

The non-contributory widow(er)'s pension: this is means-tested and could be worth as much as €208 a week.

In both instances if you have a dependent child, live alone and/or are resident on certain offshore islands, you may be entitled to receive an additional sum.

Free travel

You may be entitled to free travel if you are permanently living in the state and:

- you are aged 66 or over; or
- you are getting disability allowance, blind person's pension, carer's allowance or an invalidity pension from the Department of Social Protection.

Household Benefits Package

This is a package of allowances to help with the cost of running a household. The package is available to everyone aged over 70, and to people under 70 in certain circumstances. There are two allowances in the Household Benefits Package:

- the electricity or natural gas allowance;
  and
- the free TV licence allowance.

Wealth Check

You don't have to be retired to claim free electricity and other benefits

The Household Benefits Package is also available to those entitled to other payments, such as an invalidity pension or a carer's allowance (see below). Under these circumstances your age will not be relevant to your eligibility.

Supplementary welfare allowance

This provides a basic weekly allowance as a right to eligible people who have little or no income. If you have a low income, you may also qualify for a weekly supplement under the scheme to meet certain special needs. In addition, payments can be made in cases of urgent or exceptional needs.

There are four types of payments: **basic** payments, **supplements**, **exceptional needs** payments and **urgent needs** payments. To find out more, contact the Department of Social Welfare's community welfare service at your local office.

One-parent family payment

This is a payment for men and women under 66 who are bringing up children without the support of a partner. To qualify for this payment, you must meet certain conditions and you must satisfy a means test.

You can earn up to €165 per week and qualify for the one-parent family payment. The age limit for an eligible child is 7 years, and you must have at least one child below the relevant age limit.

Guardian's payment (contributory

This allowance is payable where both parents have died, or one parent has died and the other has abandoned the child. Being a contributory allowance, one or other of the parents must have made sufficient PRSI contributions. The payment is made up to the age of 18, or 22 if the child is in full-time education. It can be as much as €191 a week.

Guardian's payment (non-contributory

If a child does not qualify for the contributory guardian's benefit, he or she may instead be eligible for the **non-contributory guardian's payment**. This pension is means-tested. It can be as much as €191 a week.

Invalidity pension

This is a contributory pension, so it is only available to those who meet the PRSI payment qualifications. It is payable instead of a disability benefit if you've been incapable of work for at least 12 months and are likely to be incapable of work for a further 12 months, or if you're permanently incapable of work.

As with many other pensions, the amount you receive will increase if you have dependent children, live alone, or live on certain offshore islands. If you are eligible for an invalidity pension you may also be able to claim an additional sum if you support someone else. It can be as much as €213.50 a week up to age 66 for a single individual.

Medical cards

Medical cards entitle you to a range of free medical care. Eligibility is means-tested, but there are a number of exceptions, including for some people aged 70 or over, and anyone drawing a state pension from another EU country.

Different income limits exist for those aged under 70 and those aged over 70 and vary depending on the number of children or dependants and whether they are aged over 16 and in full-time education. Although your circumstances may not entitle you to a medical card, you could still be eligible for a doctor visit card, which would allow you to receive free care from your GP. There are special, separately means-tested cards for over-70s. In addition, from August 2015, all over-70s who do not qualify for a medical card are entitled to free GP visits. Since June 2015, all children under the age of 6 are entitled to free GP visits, and it is proposed to extend this to all children under 12 in the near future. If this section is relevant to you, you should seek assistance from the Department of Social Protection.

Treatment benefits

The state provides a range of contributory **treatment benefits** covering dental care, eye testing, glasses, contact lenses and hearing aids. In some instances, the benefits are entirely free and in others you must pay a part of the cost. There may also be upper limits on the amounts which can be claimed.

Maternity benefit

A contributory **maternity benefit** is payable to women in current employment or self-employment who have been paying PRSI. It is only payable where the mother has been making contributions – the father's contributions have no bearing on eligibility. The standard rate is €250 per

week, which is taxable but not subject to PRSI or USC and is paid for 26 weeks. A new two-week paternity benefit was introduced from September 2016 with the same eligibility conditions and rate as maternity benefit.

Adoptive benefit

If you adopt a child you may still be eligible for a payment equivalent in value to the maternity benefit. This is a contributory benefit. It can be as much as €250 a week for a continuous period of 24 weeks from the date of placement of your child and it is taxable.

Asylum seekers

If you are applying for refugee status, you can obtain rent-free accommodation at a regional centre. Each adult is entitled to a personal allowance of €38.80 per week and €29.80 for each child. More information can be obtained from:

Reception and Integration Agency
PO Box 11487
Dublin 2
Tel: (01) 418 3200

Wealth Warning

A tightening-up of the rules: Habitual Resident's Test

Since 2004, the government has introduced a new **Habitual Resident's Test**, meaning that in order to receive a whole range of payments you must be able to prove that you are 'habitually resident in Ireland'. However, the rules do allow you to be resident of the Uk, Channel Islands or the Isle of Man. Payments affected by this rule include unemployment assistance, old age contributory pension, one-parent family payment and supplementary welfare allowance.

Child benefit

Child benefit is not means-tested, nor do you have to make any contribution in order to receive it. It is paid each month, and the amount you receive depends on the number of qualifying children living with you and their ages. In some instances the payment may be made until the children reach the age of 18. The current rate is €140 per month for each child under 16 years old. It also pays to have multiple births – one and a half times the usual rate is payable for twins (each), and double for triplets or greater (each).

Early Childhood Care and Education scheme (ECCE

This scheme provides two years of early childhood care and education for children of pre-school age. Children are eligible for the scheme when they are aged over two years and eight months, and not older than five a d a half years. The State pays a capitation fee to participating playschools and daycare centres.

Jobseeker's benefit

Jobseeker's benefit is only paid to those who satisfy the PRSI conditions. The amount you receive will be linked to your age and the amount of PRSI paid. It can be as much as €208 a week.

The duration of jobseeker's benefit was reduced in April 2013. For people with 260 contributions, the benefit period was reduced from 12 to nine months; for those with fewer than 260 contributions, it was reduced from nine to six months.

Jobseeker's allowance

This was previously known as unemployment assistance, and is a means-tested payment available to those who are unemployed and have not made sufficient PRSI contributions or have used up their entitlement to jobseeker's benefit.

It can be as much as €208 per week for those aged over 25 and over, with proportionate increases for qualified adult or child dependants.

Back-to-work enterprise allowance

This scheme encourages people getting certain social welfare payments to become self-employed. If you take part in this scheme, you can keep a percentage of your social welfare payment for up to two years. In addition to your weekly payment, you may also get help with setting up your business under a scheme called the Enterprise Support Grant.

If you live in an area covered by a Local Development Company (LDC), you should apply to the Enterprise Officer in your local office; otherwise, you should apply to the Case Officer in your social welfare office.

Carer's benefit

If you leave work in order to look after someone in need of full-time care and attention, then you may well be eligible for the contributory carer's benefit Additionally, you may be entitled to an **annual carer support grant**, which would be paid to you in June each year. This grant is available to all carers providing full-time care, subject to certain conditions. The carer support grant

is currently worth €1,850 per person cared for. The carer's benefit can be as much as €337.50 a week if you are caring for more than one person.

Disability and injury benefits

A range of disability and injury benefits – all contributory – is available to those unable to work due to a disability or injury. If you are disabled or suffer an injury you may also be eligible, without means testing, for a range of other benefits including **medical care**, and a **constant attendant's allowance**. If you are a public servant and have to give up work due to ill health, you will be eligible for an **early retirement pension**. These benefits have a maximum personal rate of €208 a week.

Widowed parent's grant

A special grant of €8,000 is available to widows or widowers with dependent children following the death of their spouse. This is not means-tested and only minimal conditions are attached to it.

Working family payment

Formerly known as family income supplement, the purpose of this scheme is to help families on low incomes. To be eligible, at least one member of the family must be working at least part-time, and the family income must be below a certain level. Although the working family payment is based on the family's weekly income, once it has been set it doesn't normally fluctuate. However, if your circumstances change (for instance, if you have another child), you can apply to have it increased. The supplement is based on 60% of the difference between your net family income and the income limit that applies to your family circumstances (see Department of Social Protection leaflet **FISI**).

Drugs payment scheme

Even if you are not eligible for a medical card, you could well be eligible to receive support under the drugs payment scheme. Once you are registered, no individual or family is expected to pay more than €100 a month for prescription drugs included on the list of 'essential medicines'. To register, you should get the relevant form from your pharmacy or local health office.

The nursing homes support scheme

The nursing homes support scheme, also known as 'fair deal', provides financial support to people who need long-term nursing home care.

The scheme is operated by the Health Service Executive (HSE), and replaced the Nursing Home Subvention on 27 October 2009.

Under this scheme, you make a contribution towards the cost of your care and the State pays the balance. The scheme covers approved private nursing homes, as well as voluntary and public nursing homes. Anyone who is ordinarily resident in the state and is assessed as needing long-term nursing home care can apply for the scheme.

Disabled persons

A host of grants and allowances exist for disabled and incapacitated persons. These include the blind welfare allowance, blind person's pension, carer's allowance, disability allowance, motorised transport grant, domiciliary care allowance and many more. Various tax credits and allowances are also available to disabled people.

Free travel

Free travel on public transport is available to everyone aged 66 or over. It is also available to anyone receiving an invalidity pension, a disability allowance, a blind person's pension or a carer's allowance. Note that if you are entitled to free travel, and you're married or cohabiting with someone, they may travel with you, also free of charge.

If you have been turned down for a benefit, or considered ineligible, you can contact:

Social Welfare Appeals Office
D'olier House, D'olier street,
Dublin 2 Tel: (01) 673 2800
Lo Call: 1890 747434

Wealth Check

What you're entitled to elsewhere in the EU

As Ireland is part of the European Union, you are entitled to a wide range of benefits in other EU member states. However, since EU member states each have their own social welfare system, claiming entitlements in other countries can be fraught with problems. Keep in mind too that contributions made in one member state do not necessarily qualify you for benefits in another. For instance, if you have been working overseas and return home to Ireland, you will not automatically be eligible for unemployment benefit.

However, if you have been registered as unemployed for four weeks in Ireland, you are then entitled to move to another EU country to look for work and still receive the benefit for up to three months.

If you are thinking of living or working in another EU member state, then you should ask at your local social welfare office for their leaflet describing the benefits available to you.

Incidentally, not only are you legally entitled to look for work in any EU member state without a work permit, but you can also take advantage of each member state's national placement service. To do this, contact your local Intreo employment services office. Details of your application will be sent overseas through the seDoC system free of charge.

Wealth Check

Social welfare benefits are not necessarily tax-free

Social welfare benefits are not automatically tax-free. Whether they are taxable will largely depend on the income level of the recipient. Although tax will not be deducted by the Department of Social Protection on any payments made to you, the Revenue Commissioners will often take the tax directly from some other source of income that may be payable to the recipient. However, on the plus side, some of the 'taxable benefits' you may be entitled to will also qualify you for the PAYE tax credit. These are:

- state pension (contributory);
- contributory survivor's pension; and
- guardian's payment.

A number of other benefits may also be liable to income tax. These are:

- invalidity pension;
- one-parent family payment;
- carer's allowance;
- jobseeker's benefit;
- jobseeker's allowance;
- blind person's pension;
- non-contributory widow(er)'s pension;
- non-contributory guardian's pension; and
- social assistance allowance for deserted or prisoners' wives.

The Revenue Commissioners do, however, make some useful concessions:

- If you are receiving a disability benefit, the first six days will not be subject to tax.

- If you are receiving social welfare payments, child-dependent additions are not taxed (except for invalidity pensions).
- If you are a 'short-term worker' (that it is to say, you work in a trade where short-term employment is the norm), then any jobseeker's allowance you receive will not be taxed.

Wealth Check

Don't forget to apply for a European Health Insurance Card

If you're travelling or staying temporarily in another EU member state (excluding the UK), then you should apply for a European Health Insurance Card. This will ensure that you are eligible for free health care if you become ill or have an accident when overseas. You can do this through your HSE local centre.

- You may be entitled to all sorts of social welfare payments that you weren't aware of.
- Check through all the allowances, benefits and grants summarised in this chapter to see which might apply to you.
- Contact your local Department of Social Protection to find out more and to make a claim. Remember, they are there to help you.

6

Your Employment Rights

When people think of 'employee rights', they usually think of legal rights relating to things like discrimination and redundancy. But if you are an employee you have financial rights, too. For instance, you have the right to be paid a **minimum wage** and the right to **holiday pay**. This chapter explains these rights in plain English.

You may be more protected than you imagine

In the last few years the Irish government has enacted a considerable amount of new legislation to protect employees. One reason for this was that many employers were seeking to get around the existing employment legislation by putting their workers on 'contract'. Seasonal and part-time workers were also at a disadvantage. Since 2003, however, workers on fixed-term contracts must be treated just as well as full-time employees. Furthermore, an employee cannot be expected to work on a fixed-term contract for more than four years.

Minimum wage

Since 1 April 2000, all but a tiny minority of workers over the age of 18 are entitled to be paid a minimum amount of money per hour, known as the **national minimum wage**. In July 2011, the national minimum wage was set at €8.65 per hour. In Budget 2020 it was increased to €10.10 per hour rising to €10.50 from 1st January 2022. However, you should note that:

- If you're in a new job you are only entitled to 80% of the minimum wage for your first year, and 90% in your second year.
- There are various age categories – if you're under 18, the hourly rate is €7.35; aged 18 it is €8.40; and aged 19 it is €9.45.

Annual leave entitlement

You are entitled to a minimum of four weeks' annual leave, plus public holidays, of which there are nine per year.

Holiday pay

If you are in paid employment, then you are legally entitled to paid holidays. The holiday year usually runs from 1 April to 31 March. However, your employer is entitled to use an alternative 12-month period. Broadly speaking, if you're working full time, you should be entitled to a minimum of four working weeks over the year. Of course, if you switch jobs, this may reduce your entitlement.

Your working week

Under the Organisation of Working Time Act, employees cannot be expected to work more than 48 hours a week. However, there are innumerable exceptions to this. For instance, the Act does not apply to junior hospital doctors, transport employees, fis ermen, family members working on a farm or in a private house, or the Gardaí.

There are also rules regarding rest periods. You're legally entitled to an 11-hour rest period every 24 hours; one period of 24 hours' rest per week preceded by a daily rest period – in other words a total of 35 hours in a single block; and rest breaks of 15 minutes where up to four-and-a-half hours have been worked, or 30 minutes where up to six hours have been worked. Slightly different arrangements apply to night workers.

On-call workers

If you are expected to be on call for work, then you should be paid for it. The rule is that you are entitled to receive pay for at least a quarter of your on-call hours even if you don't end up working. The maximum amount your employer has to pay you for is 15 on-call hours a week.

Dismissal rights

Your employer can only dismiss you if he or she can prove that you aren't capable, competent or qualified to do the work you were employed to do. Alternatively, your employer must show that your conduct was in some way unacceptable; or that by continuing to employ you, he or she would contravene another statutory requirement. The only other reason an employer may dismiss you is if he or she is making you redundant (see **page 43**). This said, unfair dismissal normally only applies to those who have been employed for at least a year's continuous service with the same employer. Furthermore, there are many exclusions, including those who are aged 65 and over.

If you feel that you've been unfairly dismissed then you must make your complaint within six months.

Note that once you've completed at least 13 weeks with the same employer, you are entitled to pre-set periods of notice of dismissal. These range from one week's notice if you've been working for between 13 weeks and two years; to eight weeks' notice if you've been working for over 15 years.

Time off work

There are various other reasons why you can legitimately claim time off work. For instance, you can take:

- **Emergency time** off in order to deal with family emergencies resulting from an accident or illness. You are entitled to up to fiv days over a period of 36 months, and such leave is paid.
- Up to 26 weeks' **maternity leave** if you become pregnant, during which time you can claim maternity benefit. Your employer is not obliged to give you any additional income over and above this maternity benefit. When the maternity benefit period ends, you're entitled to take up to a further 16 weeks of unpaid leave.
- Time off if you are an **expectant mother**, **parent** or **carer** with a special need. For instance, expectant mothers can take time off without loss of pay to go to medical examinations.

What to do if you are unhappy with your employer

If you feel that your employment rights are being abused, you can obtain further information from:

Workplace Relations Commission
O'Brien Road, Carlow
LoCall: 1890 80 80 90
Tel: (059) 917 8990

Redundancy

If you have worked for the same employer for at least two years – even if it is part-time – and you are made redundant, then you may well be eligible for a **redundancy payment**. Various conditions apply. For instance, you must be aged 16 or over (since 8th May 2007, there is no upper age limit of 66), and you must normally have worked at least eight hours a week. Also, 'redundancy' only covers the situation where you've been dismissed because – essentially – your employer no longer needs your services. This could be for a variety of reasons, including a change in location, or a decision by the employer to carry on the business with fewer employees.

The amount you receive will be based on the number of years you've worked. You should receive two weeks' pay for every year of service to a maximum of €600 a week, topped up with one additional week's pay. If you receive a large lump-sum redundancy payment then you may be liable to pay tax on it. For further information about this, turn to **Chapter 31**.

- Know your financial rights as an employee and don't let your employer bully or cajole you into accepting anything less.
- Remember, there are lots of circumstances in which your employer must pay you. And lots of circumstances in which your employer must let you have time off.

7
Your Rights as a Financial Consumer

Do you suspect your bank of over-charging you? Have you felt that an insurance salesperson has sold you a product you don't need? Are you worried about personal financial information being used for marketing purposes?

If you have any concerns about the way you've been treated by a financial institution, this chapter is for you. In it you'll learn how the law protects you, and what you can do if there's something you are unhappy about.

Your basic rights

As the customer of a financial institution you have a wide range of rights. You don't need to suffer poor service, over-charging, mis-selling or fraud. If you're unhappy, there are dedicated, independent organisations that will assist you. Furthermore, if you have lost money, you may be entitled to compensation.

How to complain

If you are unhappy and wish to complain, then, in the first instance, you should write to the financial institution concerned and offer them an opportunity to redress the situation. If you are not satisfied with the response you receive, follow the course of action outlined in the relevant section below.

If you're unhappy with your bank, building society, credit union, pension scheme or insurance company

If you're unhappy with your bank, building society or credit union, you can appeal to the Financial Services and Pensions Ombudsman. This body also covers insurance complaints and is authorised to make awards of up to a limit of €500,000.

All banks in Ireland now offer a wide range of financial services, including insurance and pensions, so this body will cover all of these areas should you have a complaint to make.

A finding of the Financial Services and Pensions Ombudsman is legally binding on both parties, subject only to appeal by either party to the High Court. A party has 21 calendar days from the date of the finding in which to appeal.

Financial Services & Pensions Ombudsman's Bureau
Third Floor
Lincoln House
Lincoln Place, Dublin 2
Tel: (01) 5677000
Email: info@FSPO.ie

If you're unhappy with your financial advisers

In order to make sure that consumers receive reliable and independent advice, the government set up the **Financial Regulator**, now operating within the Central Bank of Ireland. Before you even consider dealing with any professional adviser, you should check that they are regulated by the Central Bank of Ireland and what services they are authorised to provide. They must give you a **Terms of Business** letter, which outlines their terms of business, fees chargeable, appointments with product providers, Central Bank of Ireland authorisation, and notification of the Investors' Compensation Act. You'll find more information about choosing a professional adviser in **Chapter 4**.

There are three different bodies to which your adviser may belong:

- Brokers Ireland (BI)
- Institute of Banking in Ireland (IoB)
- Life Insurance Association (LIA)

If you have been turned down for a loan or credit card for no apparent reason

If you have been turned down for a loan or credit card, it is probably because of your **credit rating**. Almost all the lenders in Ireland rely on credit bureaux to provide them with information about their potential customers. If the information that any particular credit bureau holds is incorrect, it can result in you being turned down for credit. The bureau which operates in Ireland is legally obliged to advise you of the information it holds about you. Their details are:

The Central Credit Register (CCR)
First Floor, Block E, Adelphi Plaza
George's Street Upper
Dún Laoghaire, County Dublin
Tel: (01) 224 5500
Lo-call: 1890 100 050
www.centralcreditregister.ie

If you're worried about Big Brother

Many of us, with a certain amount of justification, worry that large organisations – such as banks and insurance companies – hold incorrect and unnecessary information about us on their files. Under the Data Protection Act you have the right of access to any personal file relating to yourself held by any company or organisation. To discover what data a company or organisation holds about you, you simply have to write to them saying that you're making your request under the Data Protection Act. If you encounter any resistance, then you should contact the Data Protection Commissioner at:

The Data Protection Commissioner 21
Fitzwilliam Square South, Dublin 2
Tel: 017650100 or 1800437737

If you discover that an organisation has incorrect information about you, you are entitled to have it corrected.

Wealth Check

The Deposit Guarantee scheme

With the level of uncertainty about the future of some of our financial institutions, it should be reassuring to know the details of this scheme. This has been in place since 1995 and guarantees individual deposits of up to €100,000 held in any bank, building society or credit union regulated by the Central Bank of Ireland. This consists of a number of Irish and non-Irish deposit-taking institutions operating in the Irish market.

You are covered for up to €1 million for 6 months if you come into a sudden windfall (lotto, inheritance, etc), but after 6 months, it is back to the €100,000 threshold.

- If you are unhappy with the service you have received from a financial institution you should, in the first instance, offer them the opportunity to put things right. The best way to do this is to put your complaint in writing.
- If you aren't satisfied with the response you receive, take it further. Complain to the relevant ombudsman.
- Legal action is always an option – but remember, it will cost you money, whereas there is no charge involved in asking an ombudsman.

Part 3

Banking, Borrowing and Getting Out of Debt

This section deals with three extremely important topics. Firstly, it offers a comprehensive guide to modern banking services in Ireland, together with tips on getting the most from your bank at the lowest possible cost. Secondly, it explains how you can pay off all your debts – including credit cards, loans, overdrafts and even your mortgage – quickly and easily. Thirdly, it looks at the different ways in which you can borrow money and suggests the most inexpensive ways to do so.

8
Banking

How to enjoy the best banking in Ireland

What do you demand from your bank – first-class service? Free banking? Total security? A range of competitively priced financial products? With a little careful planning, as I will explain in this chapter, you can enjoy the best banking in Ireland.

Understanding the banking system

The first step to enjoying better banking is to understand how the banks themselves operate.

To begin with, despite the charges they impose, banks don't make their profits from providing day-to-day banking services. This is because it is incredibly expensive to run a branch network, handling millions of transactions, dealing with vast quantities of cash and providing customers with all the other services we (rightly) demand.

So, how *do* banks make their profits? The answer is by selling their customers a wide range of other financial services – everything from mortgages and loans/overdrafts to credit cards, and from insurance to investment products.

Every time you use your bank, whether you are withdrawing cash from a machine, paying a bill, or ordering a statement, you present your bank with another opportunity to sell you something. Much in the same way as supermarkets use 'loss leaders' (popular products sold at below cost price in order to attract customers), banks offer banking services – especially current accounts – as a way of attracting and keeping customers.

> **In fact, *operated properly*, a current account is one of the greatest financial bargains of all time.**

Why have I put the words 'operated properly' in italics? Because in order to recoup some of their expenses, banks stipulate that you must follow the terms and conditions relating to your account. If you don't, they hit you with all sorts of extra charges.

Wealth Check

Loyalty doesn't pay

Don't imagine for a moment that by being loyal to a bank you'll get a better service. The era of 'relationship banking' is long gone. For instance, the decision whether to lend you money is no longer made at branch level but by a centralised team. Of course, no bank wants to lose its customers, but the threat to take your business elsewhere is no longer as powerful as it once was.

Making the banking system work for you

How, then, can you get the most from your bank? Here are four straightforward and easy-to-follow rules:

- Only buy the services and products you need from your bank. Don't allow them to persuade you to buy something you don't really require.
- Make sure the services and products you buy are competitively priced. Buying a financial product from your bank may be more convenient – but it could cost you a lot of money.
- Don't hesitate to shop around or move your business. Banks rely on customer inertia. In other words, they know that many people can't be bothered to ring around for a better price, let alone move their account elsewhere for a better deal.
- Avoid breaking the terms and conditions attached to any product you purchase from your bank, as the consequences will undoubtedly be expensive.

You may imagine from what I am saying that I am 'anti-bank'. Far from it – I think today's modern banks offer customers fantastic choice, and – if you buy wisely – you can pay little or nothing for your day-to-day banking.

At the heart of all banking lies the **current account**. This basic bank account should provide you with the following facilities:

- A safe and secure place to deposit cheques or cash.
- Somewhere convenient to keep your money in the short to medium term, until you need to spend it.
- Access to your cash via branches and cash machines.
- A simple and easy way to pay your bills.
- A comprehensive record of your day-to-day financial transactions.

In order to provide all of this, the typical current account will offer you some or all of the following services:

- An **automated teller machine** (ATM) **card** or visa debit card, which allows you to get cash 24 hours a day and to arrange direct payments in shops, online and even overseas.
- A **direct debit facility**, so that you can pay your bills automatically.
- A **standing order facility**, allowing you to make regular payments.
- **Regular statements**.

Your current account should also give you access to a digital banking facility and – if you use the internet – online banking. Both of these should allow you to access your account and arrange transactions without having to go into a branch.

Basic banking services explained

there are some banking terms that regularly cause customer confusion. I know, because I used to be a banker. Below, I explain them in plain English.

Standing order

A **standing order** is exactly that – a regular ('standing') instruction ('order') to your bank to make the same payment to the same person or organisation on an agreed date. For instance, you might order your bank to pay €200 a month to me because you appreciate this book so much. Or, for that matter, you might instruct them to pay me a much larger amount every other month or every quarter, six months or year. You can instruct them to do this until further notice or until a date you specify.

Direct debit

A Direct Debit is an instruction from you to your bank. It authorises the Originator (e.g. Electric Ireland) you want to pay to collect varying amounts from your account – but only if you've been given advance notice of the amounts and dates of collection.

Visa debit card

A **Visa debit card** works exactly like a cheque book, but using plastic instead of paper. When you pay someone with a Visa debit card, they apply to your bank for the money, which is then transferred to their account.

You should only make a payment by debit card if you have sufficient funds in your account, or if your overdraft facility is large enough to meet the payment. From 1 January 2016, the current annual €2.50/€5 stamp duty on ATM cards was replaced with a new 12 cent ATM withdrawal fee

capped at €2.50/€5 per annum. All debit cards also double as ATM cards. Thanks to debit cards, you no longer need to bring cash when shopping or wait for a cheque to clear before collecting goods.

What price banking?

So, what can you expect to pay for your current account banking? There isn't an easy answer. All banks have different pricing structures – what one bank offers for free, another will charge for.

In 2004, the Irish Financial Services Regulatory Authority (now known as the Central Bank of Ireland) surveyed bank customers and found that on average they were being charged between €50 and €137 for current account transactions. The level of charges was linked to the customer's choice of bank and level of usage. Today these charges are greater.

A direct comparison of current account charges isn't possible, because all five banks offer different products and make different charges, plus they change endlessly. Check out the Competition and Consumer Protection Commission website (www.CCPC.ie) for a snapshot comparison of different accounts. If you want to save money on your current account fees, the best way is to follow the money-saving tips below.

Cutting the cost of your current account

There are a number of ways to dramatically reduce the cost of your current account banking. These include:

- With competition hotting up, most banks now offer free banking, subject to various conditions. Shop around for the best package to suit your individual circumstances.
- Don't use a bank overdraft facility. Banks will charge you for setting it up. They'll charge you interest on it, and if you exceed the overdraft, there will be a surcharge on top of this interest! Also, they'll use it as an excuse to charge you for other facilities.
- Don't, whatever you do, go overdrawn without formal agreement. An unauthorised overdraft will result in you being charged an extremely high rate of interest plus huge additional fees. Even going overdrawn for a couple of days could result in you paying €20 or more for the privilege.
- Don't allow your cheques or payments to 'bounce', referred to as being 'returned unpaid'. All banks impose heavy charges if your cheque or direct debit is returned unpaid. This happens, of course, if you haven't sufficient money in your account or you don't have a large enough overdraft limit. 'Refer to drawer' or 'payment stopped'

is stamped on the cheque. With the former, your credibility is shot, and there is a question mark on your ability to honour a debt.

- Don't bank a cheque that might not clear. A cheque which is lodged to your account, but not honoured, could cost you as much as €17.14 including unpaid charges and referral fees per transaction.
- Consider using An Post Money (their **BillPay** service or online service at www.mybills.ie are excellent, with over 120 bills payable through any of the approximately 900 post offices throughout Ireland, six days a week and completely free of charge). They also operate their Current Account (with debit cards and so on) and offer credit cards (0% interest on balance transfers for 12 months) and loans (€5,000 to €75,000 up to 5–7 years for home improvement loans, at competitive rates especially their Green Hub range).
- Consider using a credit card to pay all your bills. If you settle your credit card statement in full every month, this won't cost you anything. See the section on credit cards below for more information about this.
- Using Internet and telephone banking enables you to make payments and transfers between accounts online or over the telephone with a secure password, and eliminates cheque costs and other bank charges.

Wealth Check

The advantage of a joint account

If I am advising someone who is married or co-habiting, and/or has dependants, I often recommend that they open a joint account and keep a bit of emergency cash in it. Why? When someone dies, it often takes months before his or her affairs can be wound up. During this time, all bank accounts and other assets will be frozen. This frequently leaves the bereaved worrying about money. If you have a joint account, however, no such problem arises. Joint accounts are useful in other circumstances too, as everyone named on the account has the right to operate it, subject to the signing authority given.

Note: Joint accounts do not automatically escape inheritance tax.

Other types of bank account

In addition to offering current accounts, all banks offer a range of **deposit** and **saving accounts**. The usual rule with these is that the longer you leave your money, and the more money you deposit, the better the rate of interest you will receive.

In the current climate of low interest rates, many bank deposit accounts offer an extremely poor return.

To give you an idea, if you deposit €1,000 with your average high street bank for one year, you will earn about €1 in interest before tax. Unless you are not liable to income tax, you will have to pay Deposit Interest Retention Tax (DIRT) on this at 33%, meaning you will be left with a rather modest 67 cents for your trouble.

I examine the whole question of what to do with your savings in Part 6. In the meantime, I would suggest that you should not leave your short-term savings in a current account, where it's unlikely to earn any interest at all, and instead you should shop around and put any spare money where it gets the best rate.

Other bank services to consider

As already mentioned, all five banks offer a wide range of other services, from credit cards to personal loans, and from pensions to mortgages. If you have your current account with a particular bank, there is a great temptation to use them for these other services also. I would advise you to resist this temptation. Let me give you two examples of why it's such a bad idea.

At the time of writing I checked the market for the best and worst mortgage rates.

- The best 90% mortgage for a first-time buyer could be a fixed rate of 1.90% (fixed for 4 years). (New Central Bank guidelines limit lending to 90% loan-to-value.)
- The worst 90% mortgage for a first-time buyer on a standard variable rate (no interest-only facility) is 4.50%.

I also checked credit card interest rates:

- the best credit card interest rate (after the 'loss leader' rates) is 13.8%.
- The worst rate is a store card in the range of 22.9%.

As you can see, it definitely pays to shop around.

Wealth Check

Switching is easy!

All five banks have adopted a code of practice to make it easier to move from one bank to another. Under this code, it should take you less than ten days to get a new account up and running, and all your standing orders and direct debits should be transferred from your old account within one week after that. If you have any trouble changing your bank, you should contact the Financial Services & Pensions ombudsman's Bureau.

State Savings: Accounts from the National Treasury Management Agency (NTMA)

State savings products from the NTMA are sold in all post office. An Post have about 900 branches and, of course, they're open 6 days per week.

- It is possible to enjoy free or very low-cost banking if you take advantage of the system.
- Unauthorised overdrafts are very expensive and should be avoided if at all possible.
- Bank loyalty doesn't pay. Always shop around for the best deal.
- If you settle up each month in full, a credit card can be a very inexpensive way to manage much of your banking.
- There are alternatives to the banks.

Powerful ways to manage your money.

Sign up for a Current Account at your local post office or on the An Post Money app.

anpost.com/currentaccount

an post
money

Terms & Conditions apply. The An Post Money Current Account Debit Mastercard is issued by An Post. Mastercard is a registered trademark, and the circles design is a trademark of Mastercard International Incorporated. An Post is authorised by the Minister for Finance to provide payment services and is regulated by the Central Bank of Ireland in the provision of such services.

9
Getting Out of Debt

How to pay off all your loans – including your mortgage – quickly and easily

The greatest threat to your financial well-being is borrowing. I am not talking about reckless borrowing either, but ordinary borrowing in the form of personal loans, overdrafts and credit cards. This is because the cost of borrowing money is a huge drain on your most valuable asset – your income.

What's more, the cost of borrowing can't just be measured in terms of the interest you are paying. You must also factor in the opportunity cost – the money you would otherwise be making if you were investing your income instead of spending it on servicing your debts. Let me give you one simple example:

> €10,000 repaid over seven years at an interest rate of 10% will require monthly repayments of €166. Total interest cost €3,945.
>
> Invest €166 a month into, say, the stock market for the same period and, assuming the same sort of growth we have seen over the last ten years bar the last few, you'll have a lump sum of almost €20,000 in seven years.

Which is why, in this chapter, I explain the benefits of being debt-free, together with two proven methods to make paying off all your loans fast and painless. For those who are beyond the point of being able to get out of debt, see **Chapter 35**: MARP, personal insolvency and bankruptcy.

You may not even realise you have a problem

Most people borrow money but fail to think of themselves as being in debt. The fact is:

- You don't have to be in any sort of financial difficulty to be in debt.
- When you add up the cost of servicing your debt – including your mortgage – it may come to more than you imagine.
- Debt is the single greatest threat to your financial freedom and security. It is sucking away your most valuable asset: your income.
- The first benefit of being debt-free is that your money becomes your own to spend or invest as you prefer.
- Not having any debt will make you less vulnerable. You won't need so much insurance, for instance.

Sizing up the problem

Over the last 20 to 30 years, consumer debt has increased at a frightening pace. Why should this be? Some borrowing is unavoidable – for instance, loans taken out when ill or unemployed. Some can be attributed to factors such as changing social values, lack of education at school, our consumer society and 'impulse' spending. However, I believe the main reason for the borrowing boom is that debt has become a hugely profitable business. Bluntly, lenders use clever marketing tricks to 'push' debt onto innocent consumers. They do this because the returns are irresistible. Look at how much money they can make:

- If you leave money on deposit at a bank you'll typically earn much less than 0.1% (10 cents for every €100) a year by way of interest.
- that bank, however, can lend your money to someone else at anything up to 24% (€24 for every €100) a year.

Under the circumstances, is it any wonder that financial institutions are falling over themselves to lend money? Or that they devote themselves to coming up with new ways to sell loans to their customers?

Debt comes in many disguises

The trouble with the word 'debt' is that it has all sorts of negative connotations. Many people believe that providing they are never behind on their repayments they are not in debt. This isn't true. A debt is when you owe someone money. It could be:

- an unpaid balance on a credit card;
- an overdraft;
- a personal loan;
- a car loan or loan for some other specific purchase;
- a mortgage on your home;
- a secured loan;
- a hire-purchase agreement;
- an unpaid balance on a store charge card;
- a business loan; or
- a loan made by a friend or family member.

It is important to remember that just because you are never in arrears and have an excellent credit rating, it doesn't mean you are debt-free.

Wealth Check

It is compound interest that makes debt so expensive

When you are earning it, it has the power to make you very rich. When you are paying it, it has the power to make you very poor. Albert Einstein described it as 'the greatest mathematical discovery of all time'. It is the reason why banks, credit unions, credit card companies and other financial institutions make so much profit from lending money. And it is the reason why ordinary investors can make themselves rich simply by doing nothing. It is a fiendishly simple concept called compound interest.

Perhaps the easiest way to understand compound interest is to look at two hypothetical examples:

Imagine that you borrow €1,000 at a rate of 10% a year. At the end of one year – assuming you have made no repayments – you will owe €100 in interest (10% of €1,000) or a total of €1,100. If you wait another year then you will owe an additional €110 in interest (10% of €1,100) or a total of €1,210. In other words, you are paying interest on the interest.

Now imagine that you have €1,000 to invest and you deposit it in a savings account, which pays interest at a rate of 10% per year. At the end of one year you will be entitled to €100 interest. If you withdraw this interest but leave your capital, at the end of the second year you will be entitled to another €100 interest. Supposing, however, that you don't withdraw the interest but leave it to 'compound'. At the end of your first year your €1,000 is worth €1,100. At the end of your second year you will have earned €110 interest, meaning that your original €1,000 is worth €1,210. Put another way, your interest is earning you more interest.

When you borrow money, compound interest is working against you. Supposing, for instance, you borrow €5,000 on a credit card at an interest rate of 15% – which isn't high by today's standards. The credit card company allows you to make a minimum payment of 1.5% each month. After two years you will still owe approximately €4,700, having made repayments of €1,750, of which €1,450 has been swallowed up in interest.

Compound interest can be your greatest enemy or your greatest ally. When you are in debt, it works against you. But when you have money to invest, you can make compound interest really work for you.

'Compounding is man's greatest invention as it allows the reliable systematic accumulation of wealth.' Albert einstein

Beware the minimum payment trap

You make your lender happy when you:

- borrow as much as possible;
- pay it back over as long a period as possible;
- borrow at the highest possible interest rate; and
- make the minimum monthly payment.

You should be particularly wary of the **minimum payment trap** – where the lender allows you to pay back very little of the debt each month. This is particularly prevalent in the credit card and store card sector. If you opt for the minimum monthly repayment, your repayment will be made up almost completely of interest, so that the debt itself hardly gets reduced. Another thing to watch for is 'revolving credit', where the lender keeps upping your credit limit or offering you new loans. It can take up to 20 years to repay some credit card debt if you make only the minimum payment each month!

Debt threatens your future freedom

I wouldn't go so far as to say that all debt is bad. There are plenty of instances where borrowing money makes financial sense – in order to buy your own home, for example, or to pay for education. However, **when you borrow money to finance your lifestyle, you are getting into dangerous territory**. Living beyond your means threatens your future financial freedom. Let me give you an example:

> Cathal is the manager of a supermarket and earns a good income. However, it isn't enough to cover all the things he and his family like to enjoy, so he borrows frequently. In a typical year, he might borrow to pay for Christmas presents, for a holiday and just to cover other shortfalls in his monthly expenditure, such as clothes or eating out. He views this as 'short-term' debt, but the reality is that every year between the ages of 35 and 55 he borrows an average of €4,000 more than he earns. Because this is short-term, unsecured debt, he pays an average of 12% a year in interest. His monthly debt repayments (excluding his mortgage) are €360.
>
> Cathal's twin brother, Ray, is also a supermarket manager and earns exactly the same income. However, he lives within his means. He doesn't eat out as often, go on holiday as frequently or drive such a nice car. He saves the €360 his brother spends each month on servicing his debts and instead he invests the money. He manages a return of 6% a year on average between the ages of 35 and 55, and so he builds up a tax-free lump sum of €160,000.

the fact is, your most valuable asset is your income, and there is only so much that each of us will ever earn during our lifetimes. By spending a large portion of it on servicing debt you are, essentially, giving it away to your lenders. Surely your need is greater than theirs?

Seven excellent reasons to become debt-free

Here are seven reasons why you should pay off all your debts – including, perhaps, your mortgage.

1. It will make you less vulnerable. If you are in debt and for some reason your income is reduced or stops altogether (suppose, for instance, you fall seriously ill and don't have permanent health insurance), then not being able to repay your loans could have serious consequences.
2. It will make your family less vulnerable. I don't want to depress you, but when you die your debts won't die with you – your estate will have to pay them all.
3. You won't have to worry about inflation. If you owe money and interest rates rise (as recently as 1981 interest rates were as high as 20%), you could easily find yourself struggling to make your monthly payments.
4. You won't have the stress that comes with debt. The fact is, owing money is stressful.
5. You'll enjoy a genuine sense of satisfaction. There is a real peace of mind that comes with not owing money and with owning your home outright.
6. It will open up new choices. Suddenly all the money you are spending on servicing your debts will be available for you to spend or save as you prefer.
7. It will ensure you have a comfortable retirement. In fact, it may allow you to retire early. Why should you have to wait until you are 60 or 65 to give up work?

Wealth Check

How lenders will try to trick you

With so much profit at stake, lenders put a lot of effort into persuading consumers to borrow. There is a catch to every offer! Let me give you one example:

Josephine goes to buy a new bed in the local store sale. It is marked down from €1,300 to €1,100 and, as she goes to pay, the shop assistant persuades her to take out a store card as it will give her an extra 10% saving. So instead of €1,100 she pays just €990. However, Josephine doesn't pay off her store card at the end of the month, but instead takes 36 months to do so. The result? Because she is being charged 15% interest, the bed ends up costing her €1,548. Not so much of a saving after all!

There are a couple of other things to watch out for. Firstly, **loan consolidation**. When used properly – as I will explain in this chapter – loan consolidation can be an excellent way to speed yourself out of debt. However, unscrupulous lenders often lure borrowers into taking out expensive consolidation loans – even encouraging them to borrow extra for a holiday or other luxury item. Secondly, if **transferring credit card debt** to save money, very often a low-interest or zero-interest period is followed by a much higher rate. Check the conditions carefully and don't be taken in by lenders.

The first step to getting out of debt

There is one thing you must do before you set out to eradicate all your debt: stop borrowing. After all, you can't get yourself out of a hole if you keep digging. Take a once-and-for-all decision:

- not just to pay off your debts, but to stay out of debt;
- not to borrow any more money unless it is absolutely unavoidable (or there is a very reasonable chance that you can invest the money you borrow to make more than the loan is going to cost you to repay);
- not to live beyond your means; and
- to avoid 'bargains'. In my book, a genuine bargain is something you need to buy and you manage to get at a lower price than you expected to pay for it. Something that you don't need but you buy because it seems to be cheap is definitely not a bargain.

There are various actions you can take to make this easier on yourself. You can:

- Cut up all your credit cards and store cards.
- Cancel your overdraft limit. But remember, most banks will allow a 'shadow' overdraft on your account. This means that, informally, they may allow your account to overdraw by, say, €500 before you are contacted. This is costly and may eventually have to be formalised, so you are back in the overdraft trap again. Keep track of all transactions on your account.
- Use a charge card where the balance has to be paid in full at the end of each month, or take the prepaid card option.
- Avoid buying any unnecessary items.
- Avoid taking out any new loans, including hire-purchase agreements and overdrafts.
- Avoid increasing the size of any existing loans.
- Pay with cash whenever possible – nothing reduces one's tendency to spend money as much as paying with cash.

American money expert Alvin Hall (you may have seen him on television) suggests that anyone who has trouble curbing his or her expenditure should keep what he calls a **money diary**. The idea is that you carry a small notebook with you wherever you go and write down details of every single penny you spend. You should include everything – from your daily newspaper to your mortgage repayments. After a couple of weeks, you'll have a precise picture of where your money is going and this, in turn, will help you avoid spending money on things you don't really want or need. If you are prone to impulse spending, or if you always spend more than your income, I can see the good sense in this approach.

Taking stock of your situation

Once you have stopped making the situation any worse, you need to take stock of your situation. In particular, you should gather together full details of your debts. The information you require about each of your debts is:

- to whom you owe the money;
- how big the debt is;
- how long you have to pay it back (the term), if relevant;
- what the rate of interest is and whether it is fixed or variable;
- whether you will be penalised for paying back the debt early (and if so what the penalties are);
- what the minimum monthly payment is (if this is relevant); and whether the interest is calculated daily, monthly or annually.

It is important not to overlook any debts, so here is a quick checklist to remind you. Don't forget to include any money that your spouse or partner may owe, too!

- mortgages
- secured loans
- credit cards
- store cards
- overdrafts
- personal loans
- car loans
- hire- or lease-purchase
- catalogue company loans
- family or friends who may have lent you money
- student loans

Most of the information you need should be supplied to you each month by your lenders. If it isn't, you should telephone or write to them asking for full details.

Wealth Check

The 'savings' conundrum

I often encounter 'clients' who have debts but are saving money at the same time. If the return on your savings is merely the deposit interest rate from a bank, it may make very good sense to reduce your debt instead. The interest you are charged on your debt is very likely far higher than the interest you earn on your savings.

In most cases, it makes sense to stop saving money, and to use existing savings to pay off some or all of your debts. Why? Because usually what you earn from your savings will be substantially less than what you are paying out to borrow.

- €100 in a savings account may earn you as little as 1c in interest after tax per year.
- €100 owed on, say, a credit card may cost you as much as €24 or even more per year.

So if you have savings of €1,000, and use it to pay off €1,000 of credit card debt, you could save yourself as much as €240 a year – more if you have borrowed on a store card.

note, however, that it does not make sense to cash in your savings if, for example, you have an endowment policy that you may need to leave to mature. You would be well advised to take professional advice on this, since some are worth more than others.

Overall, however, it does not make financial sense to be investing a small amount of money each month if, at the same time, you are spending a small fortune on servicing a debt.

The art of debt elimination

You've taken the decision not to incur any extra debt. You've got a real grip on the size and nature of your problem. What next? You have two options:

- the **consolidation** approach.
- the **sniper** approach.

Option 1: The consolidation approach

The idea behind 'consolidation' is to reduce the cost of your debt dramatically. Instead of having lots of different loans, all at different rates, you have a single loan at one, much lower rate. This works particularly well if you own your own home. What you do is:

1. Add up all the money you currently spend on making debt repayments.
2. Consolidate all your debts into a single, much cheaper loan.
3. Keep on making the same monthly payments.

This is best explained with an example. Below, I have listed all the debts that Brian and Sheila have, along with the interest rate they are paying on each one:

Type of debt	Monthly cost	Interest rate (%)
Mortgage	€900	5.5
Home improvement loan	€16	10
Credit card 1	€45	16
Credit card 2	€30	16
Store card	€71	17
Car loan	€225	10

The total amount Brian and Sheila spend on their debts is €1,287 a month. Since they own their own home, they may be able to consolidate all their debts in with their mortgage. At the moment their mortgage is for €128,000 and has 19 years to run. Although consolidating their loans increases their mortgage to €152,000, by continuing to pay €1,300 a

month they can shorten the length of their mortgage to just 14 years. At the same time they will save themselves €27,000 in interest!

Debt consolidation like this is a once-in-a-lifetime course of action. Please remember, it only works to your advantage if you carry on making the same monthly payments – otherwise you are merely spreading the cost of your short-term debt over the longer term. I believe one should never borrow money for a longer period than the life of the asset you are buying.

Currently it is virtually impossible to obtain such a consolidation loan with any of the lenders in Ireland. I would strongly advise using professional help.

Option 2: The sniper approach

If you don't own your own home – or if you don't have sufficient capital tied up in your property to consolidate your debts in with your mortgage – you can take what I call the 'sniper' approach. This involves 'picking off' your debts one at a time, starting with the most expensive. What you do is:

- Find some extra money. Just because you don't have a mortgage doesn't mean that you can't consolidate your debt. Move your borrowing to where it is costing you the least.
- Use the money you are saving each month to pay off your most expensive debt – in other words, the one with the highest rate of interest.

Do you sometimes pay more than the minimum amount required each month? If you do, make sure you pay it to whichever of your debts is costing you the most. Incidentally, you may find that one or more of your existing lenders will be open to negotiation.

For example, imagine that Neil has the following debts:

Type of debt	Monthly/minimum cost	Interest rate (%)
Credit card €4,000	€60	16
Store card €5,000	€75	17
Car loan €8,000	€258	10

Every month he usually pays about €100 more off one or other of the debts – on a purely random basis. Also, he is able to find €100 from other sources (see below) to help speed himself out of debt. In other words, Neil has €200 extra to apply to getting himself out of debt. What he needs to do is pay off his most expensive debt first – his store card. By paying an extra €200 a month he can do this within 20 months. This frees up the store card minimum payment of €75 to help pay off his next most expensive debt – which is his credit card.

Wealth Check

Putting your money to the best possible use

The secret to getting rid of your debts is in putting your money to the best possible use. Your objective is to get your loans onto the lowest possible rate of interest, and then to use this saving to speed up the process of paying off your debt.

Of course, if you can find some extra money each month, then you can get out of debt even faster. One way to find extra money is to look at how you spend your income and see if you can make some basic savings without necessarily cutting back. For example:

- Many people pay more than they have to for their banking. Review your arrangements. Could you be earning extra interest? Saving interest? Avoiding unnecessary costs?
- Don't pay for anything you neither need nor use. For instance, membership fees, internet charges and magazines.
- Double-check you aren't overpaying your tax. Are your tax credits correct?
- Review all of your insurance costs. This is a fiercely competitive market, and you may be able to save a substantial amount.

In general, it isn't what you earn but how you spend it that will make the difference to your finances. You could be on an enormous salary, but if you are up to your neck in debt (as many high-income earners are) it is useless to you.

- If you only take action on one aspect of your finances, make it your priority to get yourself out of debt.
- The first step is to stop borrowing and to get a realistic assessment of what you owe and how much it is costing you.
- Consider consolidating your debt in with your mortgage, if you can.
- Remember, if you save money or have any spare cash, you should put it towards paying off your debts, providing you still maintain a Rainy Day Fund or emergency Fund.
- Pay your most expensive debts off first

10 Borrowing

How to borrow sensibly and inexpensively

There are times when it makes sense to borrow. And there are times when borrowing is unavoidable. Either way, you want to make sure that you don't pay a cent more than you have to. If there is one area of personal finance where consumers get ripped off regularly, it is when they borrow.

Look at the difference!

Nothing better illustrates how consumers can overpay for a loan than a quick comparison of rates:

Secured loan from one of the specialist lenders	3%+
Personal loan (unsecured) from any high street bank	10%+
Credit card from any of the main providers	17%+
Store card from any of the major retail outlets	20%+

As a consumer, it is not impossible that you might simultaneously be paying 3% and 20% to borrow money – which is ridiculous.

Wealth Check

How to compare loan rates

So that consumers can compare interest rates, the government insists that the cost of loans is expressed in terms of an **annual percentage rate** (APR).

Confusingly, there is more than one way to calculate the APR – but broadly speaking, it is an accurate way to assess how much a loan is going to cost you, including all the hidden costs such as up-front fees.

Clearly, the lower the APR, the cheaper the loan, the better it is for you.

Remember, financial institutions make enormous profits from lending money. You should never, ever be shy about shopping around or asking for a lower rate.

So, what is 'sensible borrowing'?

There are times when it makes excellent sense to borrow. For instance, if you want to:

- buy, build or improve your home;
- finance a property investment;
- pay for education;
- pay for a car or other necessary item; or
- start a business.

There are also times when it is impossible not to borrow money – if you are temporarily unable to earn an income, for instance, for some reason beyond your control.

There is no intrinsic harm, either, in genuine short-term borrowing for some luxury item. What is really dangerous, however, is short-term borrowing that becomes long-term borrowing without you meaning it to do so. This is not only very expensive, but makes you more vulnerable to financial problems. I can't emphasise enough how bad it is for your financial well-being to borrow money to pay for living expenses. In particular, you should definitely avoid long-term credit card and store card debt.

If you have succumbed to the temptation of credit card or store card debt, and you want to pay it off, read **Chapter 9** on getting out of debt.

Never borrow for longer than you have to

Making sure that you pay the lowest rate of interest is one way to keep the cost of borrowing down. Paying your debts back quickly is another. Compound interest (see **Chapter 9**) really works against you when borrowing money. The difference between paying back €1,000 at 15% APR over one year and, say, three years is a staggering €300 in interest!

Build up a good financial/credit rating history

It is vital to be aware that defaulting on loans or credit cards is registered with the CentralCreditRegister.ie, and will greatly affect your ability to borrow at attractive interest rates in the future. Never let unauthorised arrears build up on any loan. If your circumstances change during the term of a loan, inform the lender and come to an agreed and realistic repayment schedule. (See **Chapter 14**, 'If I have trouble making my mortgage repayments, what should I do?') Even negotiating an extension to an interest-only repayment will be recorded on these registers.

Why rates differ so widely

Financial institutions set their charges according to the level of risk involved and prevailing market conditions.

As far as they are concerned, loans fall into two categories:

Secured loans, where, if a borrower fails to make the repayments, there is a physical asset – such as a house or even an insurance policy – that can be 'seized' and sold to meet the outstanding debt. Because of this, secured loans should cost considerably less.

Unsecured loans, where, if a borrower fails to make the repayments, the lender has no security and thus risks never getting paid (though this is rare). Such loans cost considerably more.

The first rule of cheaper borrowing

The first rule is, therefore, to take out a secured rather than an unsecured loan. This isn't always practicable – but where it is, you'll save a substantial amount of money.

Secured loans

secured loans include:

- a mortgage on your property;
- a secured loan (which is like a second or extra mortgage) on your property; and
- asset-backed finance (used, for instance, for major purchases such as cars).

Unsecured loans

Unsecured loans include:

- bank overdrafts;
- credit union loans;
- personal or term loans, including car loans;
- credit cards;
- store cards;
- hire-purchase; and
- loans from money lenders.

Wealth Check

Interest rates have not always been so low

We have enjoyed relatively low and stable interest rates in recent years. Things were very different in the not-so-distant past. Indeed, in the early 1990s, mortgage rates went up to 15% at one point, and some people were paying over 30% a year on their credit card debt.

We saw in 2008 that interest rates rose by nearly 2%. Therefore, don't borrow so much that a change in interest rates (or a change in your personal circumstances) would leave you in crisis.

Rates plummeted to 1% ECB rate during 2009 and remained there for 18 months, and while they increased up to 1.5% in 2011, they have continued to fall since early 2013, falling to 0% ECB rate from March 2016 to July 2022 when they rose to 0.5% and by a further 0.75% in August 2022.

Choosing the best loan for your needs

With the possible exception of borrowing to fund a major holiday or a special event such as a wedding, you should try to make sure that the useful life of whatever you're using your loan for will be longer than the time it takes you to repay it. Remember, the rate of interest being charged is only part of the equation. The other part is the length of time it will take you to repay the loan. For instance, you might think it was sensible to take out some extra money on your mortgage to buy a car, since mortgages are, undoubtedly, the least expensive way to borrow. If, however, your mortgage still has 15 years to run then you'll be paying for your car over all that time. Under these circumstances, you should opt for an alternative method, or else ensure that you overpay your mortgage in order to clear that part of the debt sooner.

Best loan guide

Here are the ten most common ways of borrowing money, listed in order of value – with the least expensive first and the most expensive last.

1. **Loans from family, friends and employers:** often family members, friends and employers will make interest-free or low-interest loans. My advice is always to regularise such loans with a written agreement, so that there is no room for misunderstanding or bad feeling at a later date. Also, such loans may give rise to tax liability.
2. **Mortgages and secured loans:** since the demise of tracker mortgages, interest rates have increased, but they are still low in relative terms. However, because of funding difficult es, most

lenders will no longer consider equity releases or top-up mortgages to finance other non-property purchases. If you are fortunate enough to have a sympathetic lender and have sufficient equity in your property, this can still be an inexpensive way to finance a major purchase. However, if you buy, say, a car and add it to your mortgage, you should increase your monthly repayments so that that part of your debt is paid off sooner. Otherwise, you could be paying for your car over the whole term of your mortgage. Ensure that any extra payments made are reducing the capital (loan), rather than merely crediting your repayment account.

Lifetime and residential reversion loans or mortgages: If you are aged over 60 (lifeloans offered by SpryFinance.ie where there are no repayments but the borrowing with interest doubles every c. 14 years) or 55 (offered by Homeplus - Plus.ie - residential reversions where you sell a percentage of your home) and wish to release some of the equity tied up in your home, you could consider one of these two mortgages. Email me for details.

These are loans secured on your home like a standard mortgage. The maximum amount you can draw is based on your age and ranges from 15-40%+. You do not need to show any income. With Spry Finance there are no monthly repayments to be made so interest rolls up on the loan – current rates are c.5% fixed for life. With Homeplus (Plus.ie) there is a small monthly rent payable and the loan is repayable when you pass away or move into long term care. You can use the funds raised for whatever purpose you wish; be it home improvements, paying off an existing long term mortgage, other debts or for making your day-to-day life in retirement more comfortable.

3. **Asset finance and leasing:** I am a big believer in asset finance and leasing when available. Although not as cheap as a mortgage, this can be an economical way to fund major purchases, and it has the benefit of being very tax-efficient if you are self-employed or running a business. You should ask an authorised financial adviser with access to all providers to find you the best possible rate. Leasing is also very quick – you can receive your cheque within 48 hours of an application.

4. **Overdrafts:** If you have a bank current account, you can ask your manager for an overdraft facility. Once approved, you will be able to spend money up to this amount. There won't be a set repayment period, but there may well be an annual charge. Authorised overdrafts are usually fairly competitive (though you shouldn't be afraid to negotiate). Exceeding your overdraft limit, however, can

lead to heavy charges and the embarrassment of bounced cheques – unauthorised overdrafts should be strictly avoided. Bear in mind, too, that most banks expect your current account to be in credit for 30 days a year and will charge you extra if it isn't.

5. **Personal or term loans:** The cost of personal or term loans can vary enormously. Essentially, when you borrow the money, you agree to a set repayment period or 'term'. The rate of interest charged is normally variable and you should always pay close attention to your statements to check that it hasn't risen out of line with market rates. Where a rate is fixed in advance – giving you the security of knowing what your repayments will be – it is likely to be higher. Where a loan is provided by a dealer or retailer, check the conditions closely. Sometimes you may be offered a low or zero rate for an agreed period, which will then rise dramatically in cost after the set term. Also, the cost of providing this credit will be built into the price of whatever you are buying.

6. **Credit cards:** Used properly, a credit card will give you as much as 45 days of interest-free credit. On a certain day every month, your bill will be calculated for the previous 30 days and sent to you for payment by the end of the following month. If your cut-off date is, say, the 17th of the month, all charges from 17 December to 17 January would have to be paid for by the end of February.
   If you can't pay the full amount, you are given the option of paying a reduced amount. This could be less than 3% of the total outstanding. The catch is that you will be charged an extremely high rate of interest – possibly 20% a year – on the balance. Credit cards are an extremely expensive way to borrow, and credit card companies are very aggressive in their marketing methods. If you are going to use a credit card then don't fall into the trap of making the minimum payment each month. A relatively small balance could take you years to clear.
   Note: if your income is high enough, your bank may offer you a 'gold' credit card with a built-in overdraft facility at a preferential rate. Your credit card balance will be settled each month using the overdraft. This can be a cost-effective way to borrow, and is worth investigating.

7. **Store cards:** I am afraid I am not at all enthusiastic about store cards. They work in the same way as credit cards except, of course, you can only use them in the store (or chain of stores) that issues the card. Their single advantage is that having the card may entitle

you to an extra discount on first purchase and again during any sales. Their huge disadvantage is that the rate of interest charged on outstanding balances almost always makes normal credit cards look cheap by comparison. My strong advice – unless you are extremely disciplined with money – is not to use store cards.

8. **Hire-purchase:** Hire-purchase allows you to buy specific goods over an agreed period of time. In other words, it is a bit like a personal or term loan. The difference is that the rates charged for hire-purchase are normally somewhat higher, and you might be better off looking at alternatives such as a personal loan or a lease. Remember, too, that with hire-purchase you don't own whatever you are buying until you have made your last payment. This is not the case with, for example, a personal loan. However, if you have paid over half the term in the HP agreement, you can then return the goods (e.g. a car) and the loan is scrapped at that point.

9. **Money lenders:** Whether licensed or unlicensed, money lenders are just about always the most expensive possible way to borrow. The rates they charge are outrageous. If they are trading illegally, there is the added risk of violence or intimidation if you don't pay what they say you owe them. You should avoid them like the plague! Incidentally, the definition of a money lender – and licensed at that – is an entity or person that charges you a minimum of 23% interest a year – but most charge up to 200%! A list of licensed money lenders is available from the Central Bank web site.

   (see **Chapter 14**: 'If I have trouble making my mortgage repayments, what should I do?' for details of who to contact to avoid money lenders if you are in dire circumstances.)

- Think carefully before you borrow money. Is it sensible to take out a loan for whatever you are planning to buy? Don't borrow money to pay for 'lifestyle' items. No loan should ever last for longer than the thing you are spending the money on!
- Shop around for the most competitive rate. There is a huge difference, and you can save yourself literally thousands of euros by making sure you get the cheapest possible loan.
- Read any credit agreement very carefully and seek clarification of any sections you don't fully understand.
- Don't allow short-term borrowing to become long-term by mistake.
- Don't be blindly loyal to any particular lender. Go where the best rate is.
- If in doubt, seek expert help – **www.moneydoctors.ie**

Part 4

A Complete Guide to Insurance

Life insurance … home insurance … pet insurance … medical insurance … product warranty insurance … travel insurance … income protection insurance … there is no shortage of insurance policies to choose from. In principle, so much choice is a wonderful thing. It allows you to protect yourself, your family and your possessions from a whole range of risks – at one end catastrophic, at the other mildly irritating.

In practice, of course, so much choice can be confusing and can easily lead to you:

- *not taking out cover you should really have;*
- *taking out cover that you don't actually need;*
- *taking out the wrong amount of cover (too much or, more worryingly, too little); and/or*
- *paying more than you have to.*

The problem is often compounded by the fact that many people receive poor or heavily biased advice.

This section of the book has a single purpose: to make sure that you have the appropriate cover for your needs and that you aren't paying more for it than is necessary. It is divided into two chapters. In the first, we will consider cover for people; and in the second, cover for things.

11
Protecting Yourself and Your Family

How to buy the medical, income and life insurance you actually need – at the lowest possible price

First-class medical protection, critical illness cover and life insurance are available at relatively low prices, providing you know how to buy it.

In this chapter you'll discover how to:

- make sure you aren't sold cover you don't need;
- decide what cover it is sensible for you to take out;
- find out who you can trust to advise you; and
- make sure you get your cover at the lowest possible price.

American filmmaker Woody Allen quipped that his 'idea of hell is to be stuck in a lift with a life insurance salesman'. Mr Allen is by no means alone in his distrust both of life insurance and of the people who sell it. Why should this be? It is partly because no one likes to think about anything bad happening to them, and partly because – in order to draw attention to a very real need – life insurance salespeople are forced to bring up uncomfortable subjects with their prospective clients.

However, although it is not something you may rush to tackle, making certain that you have adequate life – and health – insurance will bring you *genuine* peace of mind.

You know you should...

It isn't pleasant to dwell on being ill, having an accident or – worst of all – dying. Nevertheless, you owe it to yourself, and those you care for, to spend a little time making sure you are protected should the worst happen. This means being:

- *protected* by permanent health insurance (PHI) if you are too unwell to earn an income;
- *protected* by private medical insurance if you should need medical attention; and
- *protected* by life cover if you, or your partner, should die.

For a relatively small amount of money you can take out a range of insurance policies designed to:

- provide for you, or your dependants, if you, or your partner, should die;
- give you a lump sum or a regular income if you find you have a serious illness, are incapacitated or cannot work; and
- meet all your private medical bills in the event of an accident or illness.

There are, of course, plenty of facts and figures available proving just how likely it is for someone of any age to fall ill or die. Sadly, such statistics are borne out by everyone's personal experience. We all know of instances where families have had to face poor medical care and/or financial hardship as the result of a tragedy. We all know, too, that spending the small sum required to purchase appropriate cover probably makes sound sense.

Spend time, not money

In reality, none of the insurance dealt with in this chapter is expensive when you consider the protection it offers. The secret is to identify exactly what cover you *really* need and not to get sold an inappropriate or overpriced policy. It is also important to review your needs on a regular basis. What you require today and what you'll require in even two or three years' time could differ dramatically.

The best way to start is by considering what risks you face and deciding what action you should take. Here are three questions that everyone should ask themselves, regardless of their age, gender, health or financial circumstances.

Question 1: What would your financial position be if you were unable to work – due to an accident or illness – for more than a short period of time?

Obviously, your employer and the state will both be obliged to help you out. However, if you have a mortgage, other debts and/or a family to support, your legal entitlements are unlikely to meet anything like your normal monthly outgoings. If you do have a family then your spouse will have to balance work, caring for you and, possibly, caring for children. Is this feasible or – more to the point – desirable? How long will your savings last you under these circumstances? Do you have other assets you could sell?

Unless you have substantial savings and/or low outgoings, **income protection cover** (sometimes known as permanent health insurance) and/ or **critical illness insurance** could both make sound sense.

Question 2: Do you have anyone dependent on you or either financial support or care? Are you dependent on someone else financially? Do you have children, or other family members, who would have to be cared for if you were to die?

If you are single and don't have any dependants, then the purpose of **life insurance** could be to settle your debts and/or leave a bequest. If, on the other hand, there is someone depending on you – either for money or for care – then life cover has to be a priority.

If you are supporting anyone (or if your financial contribution is necessary to the running of your household), you need to take out cover so that you don't leave those you love facing a financial crisis.

If you are caring for anyone – children, perhaps, or an ageing relative – then you should take out cover so that there is plenty of money for someone else to take over this role.

Question 3: Does it matter to you how quickly you receive non-urgent medical treatment? If you needed medical care would you rather choose who looks after you, where you are treated and under what circumstances? How important is a private room in hospital to you?

We are fortunate enough to enjoy free basic health care in Ireland. However, if you are self-employed or if you have responsibilities that make it important for you to be able to choose the time and place of any medical treatment, then you should consider **private medical insurance**.

Income protection cover

If you are of working age, the chances of you being off work for a prolonged period of time due to illness or an accident are substantially greater than the chances of you dying.

For this reason, **income protection cover** is valuable. As its name suggests, it is designed to replace your income if a disability or serious illness prevents you from working. If you are in a company pension scheme – or if you have arranged your own pension – you should check to see what cover you have already, since it is sometimes included.

If you want to reduce costs, you can alternatively opt for a policy that doesn't pay out until you have been off work for 26 weeks. Income protection is the only type of insurance, outside of pension-related life cover, that allows for tax relief on the premium paid at your marginal rate.

As with anything, you should shop around for all your insurance cover. Costs vary dramatically. Remember, too, that an authorised adviser, regulated by the Central Bank of Ireland, can explain all the policies to you and can steer you to the best for your needs.

Wealth Check

Don't be sold something you don't need

Make sure there is a need for insurance cover before you purchase. For further advice on this crucial area see **Chapter 4**.

Critical or serious illness insurance

Horrible as it is to think about, imagine being diagnosed with a serious illness. I am talking about something like cancer, heart disease or multiple sclerosis. Naturally, under these circumstances, you might need special care and/or want to make life changes. This is where **critical** or **serious illness insurance** comes in. (the name of this insurance cover is changing to **specified illness cover**.) Providing you survive for two weeks after your diagnosis, you will receive a lump sum of tax-free money to spend however you wish. Clearly, such a sum would help you to seek specialist treatment, pay off your debts or in other ways ensure that you didn't have any financial problems.

This cover provides you with a lump sum – not an income.

Life cover

There are several different types of life cover – but they are all designed to do one thing. For a relatively low monthly payment, they provide a lump sum if the insured person dies. The lump sum is tax-free and may go into the insured's estate or may be directly payable to a nominated person (such as his or her spouse). Some of the uses to which this lump sum might be put include:

- paying off a mortgage;
- paying off other debts;
- investments to provide a replacement income; or
- investments to provide money for childcare or the care of someone else, such as an ageing relative.

In the case of more expensive life cover, the policy can have a cash-in value after a period of time has elapsed. The cost of life cover will be determined by your age, gender and lifestyle. If you are a non-smoker and don't drink heavily, you will save quite a bit of money.

There are two main types of life cover: term insurance and whole of life assurance.

Term insurance

As its name implies, term insurance is available for a pre-agreed period of time – usually a minimum of ten years. It is mandatory when you take out interest-only home loans.

It is particularly useful for people with a temporary need. For instance, if you have young children, you and your spouse might take out a 20-year plan giving you protection until your family has grown up and left home. By the same token, you might take out a policy that would pay off the exact amount of your mortgage.

Term insurance is the least expensive form of life cover. You can opt for:

Level term: the amount of cover remains the same (level) for the agreed period. For instance, you might take out €50,000 of cover for ten years. The cost remains fixed for the same period, too.

Decreasing term: The amount of cover drops (decreases) every year. For instance, you might take out €50,000 of cover that drops to €48,000 in the second year, €45,000 in the third year and so forth. Such policies are almost always taken out in conjunction with mortgages in order to pay off the outstanding debt should the insured die. Note this sort of cover can't be extended or increased in value once you have taken it out.

Convertible term: Although the cover is for a set period of time, a convertible policy will allow you to extend your insurance for a further period regardless of your health. This is a very useful feature because it means that if you suffer some health problem you won't be denied life cover because of it. In fact, if you extend the policy, the insurance company will charge you the same premium as if you were perfectly healthy. Convertible term cover is normally not much more expensive than level term cover, and is therefore usually the better option.

Whole of life assurance

There are two benefits to taking out a whole of life assurance plan. Firstly, providing you carry on making your monthly payments, the plan is guaranteed to pay out. In other words, you are covered for the whole of your life. Secondly, there can be an investment element to the cover. So if you decide to cancel the plan you'll receive back a lump sum.

There are various features you can opt for with whole of life cover. You can vary the balance between actual life cover and the investment element, for instance. Also you can decide to end the cover at a particular

point – when you retire, for instance. Some whole of life policies are designed to meet inheritance tax liabilities (**Section 72** – the proceeds of the policy are tax free when used to pay capital acquisitions tax (CAT) liability on inheritances). However, whole of life cover is more expensive than term cover and, in most cases, the premiums are reviewed upwards at regular intervals.

Private medical insurance

This type of insurance is designed to meet some or all of your medical bills if you opt to go for private treatment.

Only three companies provide this cover in Ireland. Between them they offer a wide range of plans with an array of options, conditions and limits.

The basic decisions you have to make are:

- Do you want a choice of consultant?
- Do you want a choice of hospital?
- Do you want private or just semi-private hospital accommodation?
- Do you want outpatient cover?

Discounts can be available if you join through a group – your employer, for instance, or a credit union.

As with all insurance, it is well worth getting expert help in deciding which option is best for your needs.

Which types of cover should you choose?

Is it better to take out income protection or critical illness insurance? Should you opt for term life or whole of life cover? If term cover – which sort? If whole of life – what investment element should you include? Do you need private medical insurance, or is it a luxury you can do without?

Although these are personal decisions that only you can make, a professional authorised adviser will be able to guide you. You could also go to the Health Insurance Authority website, www.hia.ie, which has comparisons of the three insurers.

Keep the following points in mind when making your decision:

- If you have a limited budget, I would opt, first and foremost, for either income protection or specified illness cover. Depending on your circumstances, you might take out both.
- If you are on a tight budget, then take out decreasing term insurance to cover your mortgage.

- If you have joint financial responsibilities – for instance, if you are married – and you have limited resources, it is more important to cover the main income earner.
- Covering a husband and wife together on the same policy often doesn't cost that much more than covering just one person.
- If you are self-employed, private medical cover is not really a luxury but more of a necessity, and the premiums are tax deductible for everyone.

Wealth Check

Six things every life assurance company must tell you

the sale of life assurance is strictly regulated and your life assurance company must provide you with six important pieces of information before you sign on the dotted line. These are:

- the **cost**: Not just the monthly premium, but also whether the cost will ever be subject to review. If the cost is fixed, this is referred to as level premiums. There are reasons why the cost could be increased. For instance, it could be because the benefit will be going up at some point in the future.
- A description of the main **purpose** of the product: For instance, whether it's a savings or protection policy.
- Full details of all the **charges** and any **commission** that is going to be made to a broker or salesperson.
- If there is an investment element to the policy, you should be given examples of the **expected return**, together with details of any future **tax liability**. Any guarantees should also be explained.
- You should be told what will happen **if you cancel** (or 'surrender') the policy early. What will this do to the projected value?
- **Background information** about the insurer and anyone else involved, such as the broker or intermediary.

Note: by law, you must also be given a 'cooling-off' period. This is time in which you can change your mind about the policy you have purchased and cancel it, without cost or penalty.

Wealth Warning

You must be truthful

When you complete an application for life cover – in fact, for any sort of insurance – the onus is upon you to advise the insurer of any facts that may affect the risk they are taking on. You'll be asked to sign a declaration to the effect that you haven't withheld any relevant information. If you lie, or if you fail to reveal something that may be important, your policy may end up being invalid. Clearly, it would be a complete waste of your money if, when you came to claim, the insurer were not legally bound to pay up. In the case of life cover, you must provide information about your medical history and also about any risks (such as dangerous sports) that might have some bearing on your life expectancy.

How much life cover do you need?

One of the most difficult questions regarding life cover is deciding just how much you need. If you want to replace your income, you will require roughly between 10 and 15 times your annual after-tax earnings.

So, if you take home €1,000 a month, you should aim to have a minimum of €120,000 cover, which is €1,000 (your salary) x 12 (number of months in the year) x 10 (minimum advisable level of cover).

Remember, it is possible to keep the cost of life cover down by going for a 'term' policy. Bear in mind too that it's better to have some cover than no cover at all, especially when you have dependants.

Life cover tax tip

If you're worried that you may have to pay inheritance tax (see **Chapter 27** for further information about this), one solution is to set up your life assurance policy (**Section 72**) so that it is not counted as part of your estate when you die. This is done by 'writing the policy under trust' – which is as simple as completing a form that your insurer or agent will provide. If you do this, not only will the proceeds from your life cover escape inheritance tax, but the money will also be paid to your chosen beneficiaries relatively quickly – usually in a matter of weeks. It doesn't cost anything to put your life assurance under trust, and you can change the beneficiary (or beneficiaries) at any time.

Keeping the cost down

There are two ways to keep the cost of your insurance down to an absolute minimum:

1. Always get independent professional assistance from someone who is authorised to look at *every option* for you. This is one purchase where shopping around and expert knowledge can save you serious money.
2. Refine your needs. By taking out the right sort of cover, and the right level of cover, you won't be wasting money. Quitting smoking can be beneficial both in terms of your health and your finances. If you are free of the habit for over 12 months, it could mean up to a 50% reduction in your monthly life cover premiums.

- Don't stick your head in the sand, believing that 'it won't happen to me'. Protecting yourself and your family should be one of your key financial priorities.
- Choose an independent, professional authorised adviser who you feel comfortable with to advise you.
- Don't get sold cover you don't need.
- Review your needs regularly – every two or three years – to make sure you have adequate protection.

12
Protecting Your Possessions

Insider tips on how to keep the cost of your general insurance to a bare minimum

With the cost of general insurance only going one way, it is important to make sure you are getting value for your money. In this chapter you'll discover:

- details of all the different types of cover you should consider;
- how to ensure that you aren't paying more than you have to; and
- other buying tips.

The importance of proper cover

The temptation, when insurance premiums rise, is to reduce the amount of cover you have or – where cover isn't obligatory – to cancel the policy completely.

There are two reasons why it is important to make sure that you have adequate 'general' insurance.

Firstly, if you have borrowed money in order to pay for something, you should always ensure that there is sufficient insurance to repay the debt in case disaster strikes. To quote just one real case history:

> Frank borrowed €15,000 to buy a car, and only took out the cheapest motor insurance he could buy – third party, fire and theft. The car was involved in an accident and completely destroyed. Because Frank didn't have comprehensive insurance, he is now saddled with paying off the original car loan plus paying for a replacement car.

Secondly, if you under-insure, you risk receiving less of a pay-out when you come to claim. This is particularly true when it comes to home insurance. Again, let me quote a real case history:

> John and Moira didn't have a mortgage on their house. Although they had buildings and contents protection, they hadn't bothered to check the amount of cover for many years. Unfortunately, an electrical fault resulted in the house being burned down (thankfully, no one was hurt). When they came to claim, because they were under-insured, the insurance company would only pay three-quarters of the cost of rebuilding.

Shopping around for insurance is no one's idea of fun. But the cost of not taking out adequate insurance can be huge. If you invest just a small amount of time reading this chapter and acting on it, you will keep the cost to a bare minimum.

The different types of 'general' insurance

So, what is 'general' insurance anyway? This catch-all expression encompasses the following areas:

- Home and other forms of property insurance
- Motor insurance
- Public liability
- Insurance for other possessions, such as boats, caravans and mobile telephones
- Pet insurance
- travel insurance
- Credit insurance
- Professional indemnity insurance
- other risk insurance (e.g. Golfsure – for that round of drinks after a hole in one!)

Don't just rely on brokers

General insurance is the one area where I would suggest that you shouldn't turn to brokers to get you the best deal. In many areas there are now 'direct' operations that can undercut brokers substantially. To find details of these direct operations look in your *Golden Pages* and keep an eye out for companies advertising in the national press. Remember too that insurance companies tend to rely on customer inertia when it comes to renewal. Having won your custom, they may push the cost of cover up in the second year, hoping you won't be bothered to check elsewhere. Telephoning around and filling in extra paperwork is a nuisance, but think of it this way: if it takes you, say, three hours' work to save €200 then you are effectively paying yourself nearly €70 an hour after tax.

Home insurance

Home insurance is divided into **buildings cover** and **contents cover**.

Buildings cover

Buildings cover is obligatory if you have a mortgage, and you may find that your lender automatically provides this protection (or at the very least a quotation) for you. The insurance is to protect the structure of your home (the building itself, outbuildings, fixtures and fittings and so forth) against fire, storm damage, floor subsidence and other similar occurances. Most policies also include **public liability** cover, so that if something happens to someone on your property (for instance, if they have an accident), you are protected.

It is vital to have sufficient buildings cover protection for your home. The cost is linked entirely to the rebuilding cost. Where your home is located, how old it is, its size and the materials from which it is constructed will all influence the premium. If you would like help deciding how much cover to take out, the society of Chartered surveyors Ireland (www.scsi.ie) produces an annual guide. Not all buildings policies cover you for the same things, so you should check the small print. One way of keeping the cost down is to make sure you have smoke alarms fitted; another is to join your local neighbourhood watch scheme.

Contents cover

Contents cover is even less standard than buildings cover. The sort of protection you'll receive can vary enormously, so bear this in mind when comparing prices. For instance, are you being offered **new for old** cover, which means that if you claim you'll receive the cost of replacement with no reduction on account of the age of your possessions? Also, how much of any loss will you be expected to pay for yourself (known as an **excess**)? And to what extent are valuables – such as jewellery or cash – actually covered? You'll find that there are all sorts of 'extras' that may or may not be included – from employer's liability to theft of bicycles and from liability to third parties to personal liability. Tedious as it is, the only way to know what you are actually getting is to read the small print. Happily, there are a number of ways to keep the cost of your contents cover down:

- Fit an approved alarm system.
- Fit approved locks to doors and windows.
- join your local neighbourhood watch scheme.

Note that discounts are sometimes offered to people who are at home most of the day – for instance, if you are retired.

Motor insurance

With such high insurance premiums, you may be tempted to try to reduce the cost by any means possible. For instance, city-based car owners usually pay higher premiums than their rural counterparts, and some are tempted to pretend that their car actually 'lives' in the country. Remember, if you ever come to claim, many insurance companies now send out an investigator to make independent inquiries – a false statement could result in you being taken to court for fraud.

Motor insurance is more expensive if you:

- don't have a full licence;
- have a history of motor offences;
- are under 25 years old;
- have made claims in the past; or
- have a criminal record.

You can't make yourself any older than you actually are, but if you don't have a full licence it is well worth putting in the effort to pass the test. Remember, don't rush to put in a minor claim, as it may result in higher premiums. Also, remember that fines may not be the only cost of speeding. Insurance companies check your driving penalty points. In Ireland, it's 12 and you are off the road.

Insider tips on buying other general insurance

In my opinion, many types of general insurance do not offer value for money. I am particularly suspicious of:

Extended warranties: These cover you against faults developing in electrical and mechanical goods. Often the retailer makes more money from these insurance policies (by way of commission) than on the sale of the actual product. As legislation offers you 12 months' protection anyway (and as, in general, such goods are much better made nowadays), I am suspicious of such policies.

Mobile telephone insurance: This protects you against loss of or damage to your phone. This is often expensive in relation to the actual cost of replacing your telephone. Furthermore, many people end up buying this cover without meaning to because they don't pay proper attention when completing the contract.

Credit card insurance: There are two types of cover offered by credit card companies. The first protects you against fraud, and the second against you being unable to make your repayments due to an accident, illness or redundancy. Both types of cover are expensive and in most cases I would advise against them.

Pet insurance: This protects you against having to pay vet bills if your pet is ill or involved in an accident. Again, I would strongly suggest examining the value for money offered by such policies.

Travel insurance is often sold by travel agents at highly inflated prices since they earn good rates of commission on every policy sold. Travel insurance is important – but there are many different sources of cover. If you are a regular traveller, you may like to consider an annual policy. Also, if you have certain credit cards, an amount of cover may already be included in your annual fee.

- Check the small print! All insurance policies are not equal.
- It may not be much fun shopping around, but it helps to think of the saving in terms of effort and reward. Three hours spent saving €200 is worth virtually €70 an hour after tax to you.
- Don't get sucked into buying cover you don't really need.
- Don't be tempted to under-insure – it could leave you exposed.

You deserve a loan built around you.

Whether you're dreaming of a new car, planning a holiday or looking to extend your home, get a loan designed with you in mind.

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Part 5

A Complete Guide to Property Purchase

I don't think it would be an overstatement to say that property – and, in particular, owning it – has been something of a national obsession. It is easy to understand why: home ownership offers security and the potential to make a capital gain. In the ten years up to 2006, residential property prices grew at an average rate of 12% per annum. Sadly the downturn took hold, but there are still opportunities in the property market, especially for those with money, as property prices have been rebounding since 2012.

Only the fortunate few can now afford to buy a home outright. For the rest of us, saving up until we had the full cost of the apartment or house we wanted to buy would be impractical. The fact is that it would probably take decades, and we would need to live somewhere else in the meantime. The solution is to take out a mortgage or home loan. Such loans are 'secured' against the value of the property being purchased and – because this means the lender faces much less risk – they are normally the least expensive type of borrowing you can undertake.

From a financial perspective, mortgages are the most important consideration when buying a property, which is why the longest chapter in this section is devoted to them. They are not, however, the only thing you need to think about if you own – or are thinking of owning – a property. There is also the question of whether it is better to rent or buy, and issues regarding investing in property, property-related costs, tax and a host of other related topics, all covered extensively in what follows.

13 Mortgages

the number of active lenders in the mortgage market has decreased in the last ten years, and so has the range of products options, but there is talk of new players potentially entering market in the near future. This chapter explains:

- how to make sure you've got the mortgage that suits you best;
- how to make sure you are paying the lowest possible price; and
- who to trust for mortgage advice.

We will also look at how mortgages work, re-mortgaging, tax relief and just about every other property-related question you can think of.

Taking advantage of the mortgage revolution

Please put any preconceptions you have about buying a home or arranging a mortgage to one side. The truth is:

- Your home is *not* necessarily your most important investment.
- Your home is definitely *not* your most expensive purchase.
- You *don't* have to take 25 to 35 years to pay back your mortgage.

Also, and this is crucial to keeping the cost of buying your home or investment property to a bare minimum:

- the interest rate your mortgage lender charges you makes a huge difference to the cost of buying your home.
- The type of mortgage you have also makes a huge difference to the cost of buying your home.

Recent changes in the mortgage market have meant that for the foreseeable future it does not mean that you will be tied to the lender from whom originally approved your mortgage. It is no harm to know what the competition is doing so you can be sure you are obtaining a competitive rate.

Not necessarily your most important investment. Definitely not your most expensive purchase.

Received wisdom has it that the most important investment most of us will probably ever make is in our home. There is no doubt that owning your home is a significant part of being financially secure:

- The cost is not dissimilar to renting a home – making it a good financial decision.
- You aren't at the mercy of unscrupulous, unpleasant, greedy or inefficient landlords.
- With luck, you'll see the value of your property rise in the longer term – giving you a tax-free gain.

Nevertheless, although it makes sense to buy your own home, you shouldn't be fooled into thinking that it is the 'be all and end all' of investments. It is arguable, in fact, that building up your other investments – especially a pension plan – is more important. Furthermore, the stock market has, traditionally, always produced a better return than property. I'm not trying to put you off buying your own home – far from it – but don't forget it is only one part of establishing your personal wealth.

It is also worth remembering that your home won't automatically be your most expensive purchase. Depending on interest rates, that honour could easily go to your mortgage. If you buy a house for €300,000, taking out a traditional, repayment mortgage for €240,000 (80% of the purchase price) and paying it back over 25 years at an average rate of 3%, the total cost of your mortgage (including interest) will be €341,342.15. That's €41,342.15 more than the actual cost of your home, a total of €101,342.15 in interest over the period. This is why it is crucial that you choose the least expensive mortgage option available to you. Every cent counts.

Interest: All the difference in the world

the rate of interest you are charged on your mortgage makes a huge difference to the total cost of your home, as the following table indicates:

Cost of €100,000 25-year repayment mortgage: interest payable

Annual interest rate (%)	Cost per month	Total interest over term (€)
3	474.21	42,263
3.25	487.32	46,195
3.5	500.62	50,187
3.75	514.13	54,239
4	527.84	58,350
4.25	541.74	65,251
4.5	555.83	66,750
4.75	570.12	71,034

The difference between paying, say, 1.95% and 3.70% (which doesn't sound like much) is an increase in repayments by €89.99 per month, and actually equates to €26,996.82 of interest over the 25-year term. Think how much extra you would have to earn after tax to end up with €26,996.82 in your pocket. Paying more mortgage interest than you have to can seriously damage your wealth. Shopping around makes excellent sense.

Two mortgage options: Repayment versus interest-only

Although there is a whole range of mortgages to choose from, they all fall into two categories:

- repayment (annuity) mortgages; and
- interest-only mortgages.

Repayment (or annuity) mortgages

In this type of mortgage, your monthly repayments are divided into two parts. The first is the interest you owe on the total amount borrowed. The second is repayment of part of the capital you have borrowed. The big advantage of this mortgage is that you are guaranteed to have paid off your whole loan at the end of the term. However, in the early years almost all of your monthly repayments will be in interest. Let me give you an example:

> Sheila takes out a €300,000 mortgage over 25 years at an interest rate of 3.7%. Her monthly payments are €1,542.39. At the end of the first year, she will have paid a total of €18,508 but will still owe over €296,200 to her lender. In year ten she will have paid €185,086 but will still owe €212,000. Put another way, in the first ten years, roughly 60% of what she pays to her lender will be interest, and only 40% will be capital.

Wealth Check

Save extra interest

When choosing a repayment mortgage, make sure the interest is calculated daily or at least monthly ('monthly rest'). Why? Because over the term of your mortgage this will save you a tidy sum of money. The main thing to avoid is something called the 'annual rest system', which will cost you the most. Some lenders may still have customers on their books who are on this system, and it can add about 0.35% to your interest rate. If you are in this position, go back to your lender and ask them to change you to a monthly calculation.

Interest-only mortgages

The other sort of mortgage is an interest-only mortgage, in which you pay only the interest for an agreed period. With an **investment mortgage**, you pay interest only on the amount borrowed *and* at the same time you set up a savings plan, which – it is hoped – will pay off the capital at the end of the term. Your monthly repayments will, therefore, consist of interest on the loan and a contribution to a savings plan. This is ideal for certain types of loans, e.g. commercial loans where the interest remains constant and the tax relief can be maximised (because the capital is not being repaid, you are receiving the maximum possible tax relief on the interest over the entire term).

In the case of both a home and an investment property there are certain circumstances where you might not bother with the savings element, as I'll explain in a moment.

Around 30 years ago, interest-only home loans got a bad name because many borrowers were advised to take out **endowment policies** (see below for an explanation) to repay the capital at the end of the term. Unfortunately, some of these policies failed to produce a sufficient return to do so. In other words, borrowers found that after 25 years, they still owed money to their lenders.

Despite past problems with endowment mortgages, interest-only home loans can make sound financial sense. For instance, if you are self-employed, the tax benefits of a pension-linked, interest-only mortgage can be very substantial, in particular when taken out for commercial property.

Here is a quick summary of the three main types of interest-only mortgage options available:

Endowment mortgages: these are investments offered by life insurance companies, and there are various types available. The money you pay to the life insurance company is partly used to provide you with **life cover** (so that if you die the mortgage itself can be repaid) and partly invested in the **stock market**. If the money is invested well, then obviously your original loan will be repaid and you might even be left with a tax-free sum. However, if the performance of the endowment policy is not good, then you could be left with insuffic ent cash to repay your original loan. There is no tax relief on endowment policy premiums. In fact, this type of mortgage has not been available for many years.

Pension-linked mortgages: In this arrangement, the life insurance company (after taking out money to pay for life cover) invests your cash into a **pension fund**. This has very definite tax benefits for anyone who is self-employed or on an extremely high income. Ordinarily, the pension fund is designed to mature on your retirement age at double the original amount being borrowed. Twenty-five per cent of this pension fund is available at maturity for encashment, tax-free, and even though you will have to pay tax on the rest of the fund, you should have sufficient money to pay off the rest of the mortgage.

New rules on self-direct trusts or **SSAPs** (small self-administered pension schemes) now allow pension funds to borrow on properties. Indeed, there are all sorts of other tax benefits available to those who buy property as part of their pension fund. Some of this is covered elsewhere in the chapters on retirement planning and tax. However, as it is such a complicated area you will need to take specialist advice (consultation@moneydoctors.ie) if you wish to take advantage of the rules.

Interest-only mortgages: Some time ago, it was possible to borrow money to purchase property at very competitive rates of interest without any obligation to repay the capital before the end of the term. For instance, if you took out a 20-year interest-only mortgage, all you have to pay each month is the agreed rate of interest. The capital sum isn't due until the 20 years have passed. This could suit you for all sorts of reasons: Perhaps you are expecting to receive a lump sum – such as an inheritance – before the 20 years are up. Maybe you intend to resell the property during this period. Possibly you have other investments that could be cashed in to repay the loan. Possibly you will win the Lotto! Do note that you will have to have level-term life cover covering the entire amount borrowed for the full term of an interest-only mortgage, so that the loan can be repaid in the event of your death. Interest-only mortgages are now only really available on residential investment properties (RIPs)

Fixed or variable rate?

As if you didn't have enough choice already, another decision you must make when mortgage shopping is whether to opt for a fixed or variable rate. A **fixed rate** means that the amount of interest you pay is pre-set for an agreed period of time. This offers you the benefit of certainty. Even if interest rates rise, your repayments stay the same. On the other hand, if

interest rates fall you won't benefit. You incur a penalty should you wish to pay off or partly pay off your mortgage while on a fixed rate of interest. Generally, this sum is set at between three to six months' interest on the amount being repaid.

A **variable rate**, on the other hand, moves with the market. This is fine while interest rates are low, but if they begin to rise, you could be adversely affected. There is generally no penalty if you wish to pay off all or part of the loan before the end of a variable-rate mortgage term.

Tracker mortgages *were* the real deal, and today are costing Ireland's lenders a fortune to maintain. The interest rate tracks the ECB rate (currently 0.00%), and the lender agreed a margin (or profit) that had to be maintained for the entire term of the mortgage; only if the ECB rate moves does your tracker rate move. Today, some lucky mortgagers are paying 0.5% over the ECB rate (total 0.5%), as they negotiated their loan based on only having to borrow less than 50% of the value of their home.

Unless you are self-employed, on a high-income or have some other source of funds coming to you in the future, I would normally recommend that you take out a repayment or annuity mortgage when buying your main home. This said, there are some interesting variations now available, allowing you to combine an interest-only mortgage with a repayment mortgage, in particular pension-based mortgages.

Why you should try to make mortgage overpayments

something I have become very keen on in recent years is the idea of overpaying your mortgage each month. This can't be done with all mortgages (for instance, you can't do it if you are on a fixed rate), but where it is possible and your income allows, it brings real benefit. With interest rates low at the moment and likely to stay low for the next few years, it may also be important to remember that if your return/yield is far greater than the cost of the money (the mortgage rate), then investing your surplus monies elsewhere may be more beneficial. Consider these two examples, though, where overpayment can be beneficial:

Mary takes out a repayment mortgage for €250,000 with a term of 25 years at 4.5%. Her minimum monthly repayment is €1389.58. However, she decides that she can afford to pay an extra €250 a month. As a result, her mortgage will be paid off six years earlier and she will save €44,511 in interest.

John also takes out a repayment mortgage for €320,000 with a term of 30 years at 3.5%. His minimum monthly repayment is €1436.94. He 'overpays' by €400 a month and as a result his mortgage will be paid off 10 years earlier and he will save €71,890 in interest!

With the range of mortgage choices available, many borrowers worry about whether they are making the right decision for their needs. This is where a really good independent financial adviser offering a full choice of lenders can help. He or she will be able to guide you to the least expensive, most appropriate mortgage for your needs. Email consultation@moneydoctor.ie.

How the right professional adviser will save you money

It goes without saying that you should shop around for the best possible mortgage deal, as so much of your hard-earned cash is at stake. Two things to watch out for:

- You may not always be comparing like with like. There is a great deal of difference between a ten-year fixed-rate mortgage and a current account repayment mortgage. Each will cost a different amount, and each is designed to meet a different need.
- You may not be offered a full range of options. A bank or building society, for instance, might only have three or four types of mortgage to offer you. Many mortgage advisers deal with less than five lenders.

There are 9 mortgage lenders in Ireland at this point in time. To get the best possible deal you should always deal with an adviser who is authorised by the Central Bank of Ireland to act on behalf of the majority of these lenders.

Please remember, too, that even if you are a customer with a particular financial institution, your authorised financial adviser may still be able to negotiate a better deal on your behalf with that institution. This is because a professional will know what the best deal available actually is, while the lender will know that the adviser has other options should the lender fall short of the client's requirement.

- Don't be complacent. Even a small difference in the rate you pay can make a huge difference to the cost of your mortgage. No lender deserves your loyalty. Go to where the best deal is.
- Don't trust any adviser who isn't authorised to act for all the financial institutions offering home loans in Ireland, or at the very least use an adviser who can tell you where the best deals can be obtained, irrespective of the agencies held. There are nine lenders, and anyone who can't tell you about all of them isn't going to get you the best deal.
- Do not panic if your home is worth less than your mortgage. As long as your income can meet the monthly mortgage repayment, the loss will only crystallise upon sale of the home. Always obtain professional advice for strategies.
- Remember, authorised financial advisers should be independent. In most cases, you will pay a fee for their services, but their job is to find you the best package for your needs.

14
Property Questions

This chapter contains answers to all of the most common property and mortgage questions, including:

- Should I buy or rent my home?
- How much can I borrow on my income?
- What is APR?
- Is it worth switching my mortgage to get a lower rate?
- Help! I'm self-employed. How do I get a mortgage?
- What will it cost for me to buy my home?
- Does it make sense to buy a second property as an investment?
- What are the benefits of owning a home in a designated area?
- What's the story with local authority loans?
- What other state housing grants might be available to me?
- Is it worth repaying my mortgage early?
- What types of home insurance will I need?
- If I have trouble making my mortgage repayments what should I do?

Should I buy or rent?

Ireland is one of the few countries in Europe where buying one's home is the norm. Broadly speaking, at present the cost of buying a home is the same as – or in many cases less than – renting the same property. This is linked to supply and demand, of course, and varies from region to region as well as from property to property. We were in a low-interest environment until 2006, and this favoured house purchase, as did the availability of mortgage interest tax relief. Interest rates rose between 2006 and 2008, and while they are now back to historically low levels, consumers are now more reluctant to borrow. The relatively meagre tax relief for first-time buyers has not been available since December 2012, and the existing relief will finish in January 2024.

If a future government were to introduce greater tenants' rights the situation might change, but at the moment, if you can raise the necessary deposit, buying makes better long-term sense than renting. After all, when you give up a rental property, you receive nothing back. Whereas when you have paid off your mortgage you will own your home and may have seen a nice, tax-free capital gain as well.

House prices in Ireland rose at an unprecedented rate in the ten years to 2007, and most informed opinion at that time was that as long as we continued in a low-interest environment and our economy remained healthy, a sharp fall in house prices seemed unlikely. However, things changed dramatically in 2008, culminating in the 'bottom of the market' in 2012 – those buying in that year made a good investment. Prices since then have nearly come back to those 2007 days, with 2020 being a little stagnant due to CoVID-19. In 2021 house prices rose consistently, mainly due to a shortage of supply.

How much can I borrow?

You should always put down as much of a deposit as possible when buying your home if you are a first-time buyer. You will need a minimum of 10% of the purchase price (that is to say €30,000 if you are buying a €300,000 property), but it is preferable to have more. Why? Because it makes you less vulnerable to moves in interest rates and property values.

Your ability to repay a mortgage will be based on your net disposable income (NDI) (gross income less tax, USC, PRSI and any existing loan repayments), and will be stress-tested to allow for future rises in interest rates. The maximum percentage of your NDI that can be set aside for financial commitments, including a home loan, depends on your income and can be as much as 35%.

You will also have to demonstrate that on your existing expenditure pattern you have the ability to meet the stress-tested repayments (usually an extra 2% over the existing rate) on the proposed new mortgage. This proof can come from a combination of existing mortgage repayments or rent, a regular savings plan and repayments of other existing loans, which will be fully paid before the mortgage is drawn down.

What is APR?

The cost of your loan is expressed as an **annual percentage rate** (APR). This is different from a straight interest rate in that it takes into account not just the interest rate but also the timing of any interest payments, capital repayments and other charges, arrangement fees and so forth. The APR must, by law, reflect the actual rate of interest charged over the full period of the loan.

Is it worth switching my mortgage to get a lower rate?

If the loan to value of your mortgage is less than 60% there are two things to consider, apart from proof of ability to repay:

- How much can you save by switching lender?
- What is switching lender going to cost you?

The first question is relatively easy to answer. The second question will depend on a variety of factors, including:

- whether you are on a fixed interest rate – in which case there may be a penalty for switching
- how much it is going to cost you by way of legal and other costs.

If you can save 0.25% a year interest or more, it could well be worth the switch. If in doubt, consult an authorised mortgage intermediary or accountant and ask them to do the figures for you.

Help! I'm self-employed

Most financial institutions are pleased to lend to someone who is self-employed – though if you have less than two years' sets of accounts it may be harder. This is another instance where a professional authorised mortgage intermediary will help. He or she will know which lenders are keen for your business and willing to offer you the lowest rates. Remember that it is the net profit after expenses but before tax) that lenders use for borrowing eligibility.

Note: It is no longer possible to get a mortgage in Ireland without a statement from your accountant to the effect that your tax affairs are completely up to date.

What will it cost for me to buy my home?

There are various expenses involved in buying a home:

Valuation fees: No lender will let you have a mortgage without a proper valuation. The price of this will vary but is likely to be in the region of €150. You may like to ask an architect or some other type of professional property adviser to survey the building for you to check its condition and the likely cost of any repairs needed. The fee for this will be linked to the amount of work required and could run to several hundred euros or more for a large house.

Legal fees: This is primarily the cost of employing a solicitor to look after the whole transaction for you. The normal cost is around 1% of the total price plus VAT at 21% and outlay. So for a €200,000 house you will have to find in the region of €2,420. Your lender may also charge you the costs of their legal fees if it is a commercial transaction. Negotiation over legal fees is always possible, and you should ask for a reduction, especially if you are a first-time buyer.

Land registry fees: On a €200,000 property this would be up to €750. The fee is to cover registering the property in your name.

Stamp duty: This is based on the purchase price of the property. The following rates of stamp duty apply to all residential properties, since 8 December 2010:

Property value	Rate
Up to €1,000,000	1%
Balance	2%

Stamp duty on commercial and non-residential property is charged at 7.5%.

Search fees: This is to check that the property has planning permission, isn't located on the site of a proposed development and so forth. Usually around €150.

Arrangement fees: Some lenders charge application and arrangement fees, but generally only on non-home loans. These are in the region of €100 to €300.

To give you a typical example, for a first-time buyer purchasing a house for €300,000 with a 90% mortgage (€270,000) the total fees will be around €6,000.

The Finance Act 2012

The Finance Act 2012 included the following changes to the rules on mortgage interest relief:

- First-time buyers in 2012 received mortgage interest relief at a rate of 25% for the first 2 tax years, reducing after that, with certain first-time buyer ceilings.
- Non-first-time buyers in 2012 received mortgage interest relief at a rate of 15% from 2012 until 2017, 22.5% for the next 3 years and 20% for a further 2 years.
- A special rate of 30% for the tax years 2012 to 2017 was introduced for first-time buyers who bought their sole residence for the first time in the years 2004 to 2008 or paid their first mortgage interest payment during this period.
- The maximum relief is €10,000 per person per annum.

With effect from 1 May 2009, mortgage interest relief may be claimed for a maximum of seven years, both for first-time and non-first-time buyers.

- Mortgages taken out on or after 1 January 2013 do not qualify for mortgage interest relief.
- Budget 2018 extended the relief on a tapering basis for 3 years to December 2020.

Does it make sense to buy a second property as an investment?

Buying property and renting it out became an increasingly popular investment in the 2000s. There were various reasons for this, including:

- tax incentives – you can claim 100% of any loan interest you pay on borrowings to acquire and/or improve the property, against any rental income you receive. Plus, if you buy certain types of property or property in particular areas you will receive additional tax breaks.
- potential increases in property values.
- possible high yields compared to other investments.
- the low cost of borrowing money.

In general, the only investors who don't make money from renting out property are those who have over-estimated the return they'll receive, haven't allowed for all the likely costs and lack the patience to wait out any market downturns. The secrets to success are undoubtedly:

- Allow for periods without tenants (known as 'voids').
- Make sure you have calculated all the costs including loan repayments, redecoration, maintenance and repair.
- Don't view it as a short-term investment.

What other state housing grants might be available to me?

there are various other grants available from the state, including:

Improvement grants: A range of loans could be available from your local authority towards improving or extending your home, subject to a number of conditions.

Disabled persons grant: This is given to cover the cost of adapting a private home for the needs of someone who is disabled.

Thatching grant: this is available towards the cost of renewing or repairing thatched roofs on houses. Thatchers are a dying breed, but it is important to reward and help those who are maintaining our heritage.

Home energy savings grants: A range of grants is available to improve home insulation, install renewable energy systems and upgrade existing heating systems to become more energy-efficient. Details can be found at www.seai.ie.

Is it worth repaying my mortgage early?

Should you overpay your mortgage each month? Should you use all your available cash to reduce your mortgage? Should you use a lump sum of

cash to reduce or pay off your mortgage? The answer is probably yes if the following apply to you:

- You don't have other, more expensive, debts. If you do, these should be paid off first
- It won't leave you without some savings tucked away against a rainy day.
- There aren't other investment opportunities that might be worth more to you in cash terms.

If you were thinking of paying off some or all of your mortgage, I would strongly advise consulting an authorised adviser or mortgage intermediary first. He or she will be able to work out the figures for you.

What home insurance will I need?

this is covered in greater detail in **Chapter 12** on insurance. In summary, homeowners should take out the following cover:

Buildings insurance: This is compulsory if you have a mortgage. Basically, it means that if damage is done to the fabric of your home (by a fire or a flood, for instance), money is available to repair or rebuild as necessary.

Contents insurance: This protects you against loss of or damage to your home contents.

Mortgage repayment insurance (payment protection insurance): this cover is optional, but means that if you are ill or made redundant, your mortgage repayments will be paid for you. Payments usually last for up to a year.

If I have trouble making my mortgage repayments, what should I do?

Contact your lender immediately. The worst thing you can do is to keep them in the dark about any financial problems you may be encountering. If you need help with your finances you could contact a qualified, experienced financial adviser. You could contact the following:

- Your local St Vincent de Paul Society – they run a special advice scheme.
- The Department of Social Protection also runs a free advice scheme called the Money and Budgeting Advice Service (MABS). You can obtain details from your local social welfare office or public library.
- The Insolvency Service of Ireland (www.isi.gov.ie), set up in 2012, have different structures to deal with unsecured and secured debts.

There is a solution, no matter how bleak the situation may seem.

Part 6

Savings and Investment Success

My favourite quote about wealth is from Ernest Hemingway. In response to F. Scott Fitzgerald's comment that the rich are different, he replied: 'Yes, they have more money.'

And getting yourself into a position where you have 'more money' is what this section of the book is all about, for, as the entertainer Sophie Tucker observed, 'I've been rich, and I've been poor; rich is better.' Now, I hasten to add, I am not suggesting you get rich for the sake of it. My interest is in making sure you have sufficient money to be free – free from the worry of not having enough, and free to choose how you spend your time.

There are some widely held misconceptions about how to get rich. Some people think the only way they will manage it is by owning their own business; others feel the Lotto offers them their best chance; a third group seem to imagine it will happen all by itself.

In my experience, the only way to get rich is to take it slowly and steadily. Set aside part of your income every month and invest it wisely and you will be amazed at how, over the years, it grows.

Many people feel that there is not much difference between savings and investment, but to my mind there is a clear distinction:

- *Saving is all about short-term goals. This is the money you tuck away on a regular basis to pay for your holidays, or in case of emergency. Because this is money that needs to be available to you, it can't be tied up where you can't get your hands on it.*
- *Investment, on the other hand, is all about medium- to long-term goals. You invest to ensure yourself a more prosperous and secure future. You may invest a lump sum, or a little on a regular basis, but the important thing is (barring an unforeseen crisis) you should be able to leave your money to work for you undisturbed for a reasonable period of time.*

This section is divided into two chapters. In the first, you'll discover the best possible way to save your money with a view to building your own emergency fund. In the second, you'll learn how to invest your money in such a way as to build your wealth. Between the two you'll have all the tools you need to make your money grow, and grow, and grow…

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Saving for a Rainy Day

The quickest, most efficient way to build up an emergency fund

One of your key financial objectives should be to have some easily accessible cash savings to pay for larger expenses or simply in case of a 'rainy day'. In this chapter you will discover:

- why it is so important to have cash savings;
- how much savings you should build up; and
- the best way to make your savings grow.

Good, old-fashioned savings

We are lucky enough to live in a country where the state provides a safety net for widow(er)s, for the seriously ill or disabled, for pensioners and for anyone in dire financial straits. However, the amount on offer is relatively meagre – it won't cover many of the regular minor financial crises ordinary people face. For instance, the state isn't going to help you with an unexpected bill for repairs to your home or car. Nor will they pay all your regular bills if you find yourself without an income for any reason. The fact is you should have a bit of cash tucked away – good, old-fashioned savings – just in case you ever need it. You should probably also have some extra cash to hand so that you can take advantage of an unexpected investment opportunity, for capital expenditure or just in case you see something you want to buy.

Saving up money to create a safety net requires a degree of commitment. It is in our nature, after all, to spend rather than to save. But if you can motivate yourself to tuck a little bit away each month I promise you'll never regret it!

Saving made simple

It is one thing to think 'I must build up my savings', but often quite another thing to actually do so. Saving can only be achieved by conscious effort. Ideally, you should open your savings account somewhere convenient and arrange to make regular payments into it. For instance, you might set up a standing order to transfer a regular amount each month from your bank current account to a deposit account. Some employers offer 'payroll deduction' schemes, where the money goes straight from your

salary to a savings account. Alternatively, if you are entitled to receive a child allowance from the state, you could consider saving all of this on an automatic basis. The important thing is that a savings plan should be regular, and sacrosanct.

How much is enough?

Just how much savings you should aim to accumulate will be determined by your personal circumstances.

- A single person in his or her twenties without any responsibilities and with low overheads probably only needs to have enough cash to cover, say, three months' worth of expenditure.
- A couple with children, a mortgage and a car to run should probably aim to build up as much as six months' expenditure.

If you aren't already lucky enough to have a lump sum available to form your safety net, the best way to build it up is to establish a pattern of regular saving each week or each month. Remember, something is better than nothing – even if it is a relatively small amount, it will soon add up.

Your savings strategy

If you have, say, six months' worth of expenditure saved up and you don't need instant access to all of it, my advice is to keep about a third where it is readily available and the rest where you can access it by giving notice. This strategy will allow you to earn extra interest.

Incidentally, if you are in a permanent relationship, then ideally you should both have access to the emergency fund. In the event of some problem affecting one of you, the other may need to use this money.

Emergency fund: Three basic requirements

An emergency fund should meet three basic requirements:

- It should provide you with total security. Your savings must not be at risk.
- It must earn as much interest as possible under the circumstances.
- It must provide you with the level of access you need.

The options available that meet these requirements are limited pretty much to those listed below.

Deposit accounts

If you leave money on deposit with a bank, building society or credit union they will pay you interest. How much interest you earn will vary according to:

- how much money you have on deposit;
- the length of notice you have to give before you can make a withdrawal (notice accounts/fixed-rate accounts); and
- your commitment to saving regularly (check out regular-saver accounts).

Rates can vary substantially, and they change all the time. Shop around and don't be afraid to move your money to where it can earn more for you. Remember, currently the Deposit Guarantee Scheme guarantees €100,000 of your savings.

Available from An Post and the Prize Bond Company, these offer a good range of savings products, all of which give competitive returns and some of which are tax-free.

If you want to build up an emergency fund the two most appropriate accounts to consider are the instalment savings scheme or the deposit account. The state savings Instalment savings scheme requires you to make regular monthly payments for at least one year of between €25 and €1,000. In exchange, you will enjoy tax-free growth. The Post Office Savings Bank deposit account is very similar to a bank deposit account. The interest rate isn't high, but it is competitive, and you have instant access. Once you've built up your emergency fund, you may like to consider transferring your money into either a state savings Bond or State Savings Certificate. Both are designed for medium to long-term growth (at least three years), but you can get your money quickly if you need to. Keep in mind that the interest earned on Savings bonds and Certificates is tax-free. The National Solidarity Bond (either a four- or ten-year investment) also enjoys tax-free returns, with the ten-year bond returning a gross 10% per annum after 10 years (AER 0.96%), tax free. All State Savings products are available in post offices or online (www.statesavings.ie).

Savings and tax

On deposit accounts, deposit interest retention tax (DIRT) is levied from January 2020 at source on your interest earned at a standard rate of 33%. However, if you are not liable for income tax and you or your spouse are over 65 years of age or you are permanently incapacitated, then you are entitled to claim back any DIRt deducted from your interest. You can make a back claim for DIRT tax for up to four years. To claim a refund of DIRT already paid, you should submit Form 54 to your local Revenue office. You can then complete Form DE1 and give it to your deposit taker to ensure that your interest will be paid without deduction of tax in the future.

Wealth Check

How to reclaim DIRT

Nothing could be easier than reclaiming DIRT. All you do is complete a short form available from any larger post office, bank, building society or tax office. You'll need to attach evidence of the DIRT that you have paid. This is done by asking the financial institution (or institutions) concerned to provide you with a special certificate. The DE1 leaflet is available at www.revenue.ie/leaflet/de1.pdf for those who wish to claim exemption from paying DIRT.

- Saving on a regular basis may not always be easy, but it will bring you real peace of mind.
- You should have an emergency fund in place sufficient to cover all your bills for between three and six months.
- As with everything: shop around. You could earn a considerably greater return by moving your money to where the best rates are.
- Watch out for regular-saver accounts – you save from €100 to €1,000 per month up to 12 months at very attractive rates. E-mail me for details of these deposit takers and their interest rates and terms.

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Investment Strategies You Can Count On

How to make your money grow and grow and grow

Every investor faces the same conflict: how to balance risk and reward. Should you accept a lower return in exchange for peace of mind? Or should you attempt to make your money grow more quickly and face the possibility of losses? In fact, the best solution to the dilemma is: neither. As this chapter will demonstrate, the optimum way to build up your wealth is to:

- Set clear objectives. Know where you are going and what you want to achieve.
- Diversify. Invest your money in more than one area to combine growth and security.
- Be consistent. Don't chop and change; stick to your strategy.
- Stay on top of it. Keep an eye on performance all the time.
- Avoid unnecessary expenses and charges.

In addition to outlining a proven method of making your money grow, the chapter summarises all the major investment vehicles you should consider, providing you with 'insider' tips in relation to:

- pooled investments;
- stocks and shares;
- property; and
- tax-efficient investment.

Basic investment planning

As discussed in earlier chapters, your primary investment priorities should be to:

- build up an emergency fund;
- start a pension plan; and
- buy your own home.

What you should do next will depend on your circumstances. Whether you have a lump sum to invest or simply plan to save on a regular basis, your options will basically revolve around the following questions:

- How much money is involved?
- How long can you tie your money up for?
- What type of return are you looking for?
- What risks are you willing to accept?
- To what extent is tax an issue?

Let's look at each of these in turn.

How much money is involved?

If you are saving regularly, you have a choice between investing in a specially designed longer-term plan or building up 'blocks' of capital and investing each one somewhere different.

If you have a lump sum – or as you build up 'blocks' of capital – then the choice of investments available to you opens up. For instance, with some capital available, property investment becomes an option, as does buying publicly quoted shares.

You must have a clear idea in your mind about how much you plan to invest and in what form. If you are saving on a regular basis, consider how long this will be for. Bear in mind that regular savings products have advantages and disadvantages. On the one hand, they tie you in and there can be strict penalties for early encashment or withdrawal. On the other, they force you to be disciplined and they take away the tricky decision of how to invest your money. You should also think about the cost of such plans.

How long can you tie your money up for?

Is there a date you need your money back? In other words, are you investing for something specific or just to build your overall wealth?

Investments have varying degrees of accessibility or **liquidity**. An investment that allows you to get at your money immediately is considered 'highly liquid'. Cash held in a deposit account or publicly quoted shares, for instance, are both liquid. Property and pension plans are not.

How long you stay with any particular investment will partly be determined by the investment vehicle itself (a ten-year savings plan is – unless you break the terms – a ten-year savings plan) and partly by events (there may be a good reason to sell your investment).

What type of return are you looking for?

Returns vary enormously. The graph below shows how, up to 2004, €1,000 would have grown over almost 20 years had you invested it in different ways. Since 2004, this graph has practically reversed, with bonds as the

main winner, while in the last 11 years up to last March 2020, we have enjoyed the second-longest and strongest bull market (up 200% since March 2009). This illustrates how diversification is a sound philosophy.

How much risk are you willing to accept?

In general, the higher the return, the greater the risk. The highest possible returns are to be made from investments such as **commodities** and **spread betting** – but in both cases you can actually lose substantially more than your original investment. The lowest returns are to be made from investments such as bank deposit accounts and An Post savings plans – where your money can be considered 100% secure.

In formulating your overall investment strategy, you need to consider your approach to risk. Are you willing to accept some risk in order to boost your return? How much? Email consultation@moneydoctors.ie for a risk questionnaire.

To what extent is tax an issue?

If you are a higher-rate taxpayer, or expect to be, then you need to consider to what extent tax saving is an issue for you. Bear in mind that there are a number of highly tax-effective investment options available – though all carry above-average risk. Remember, too, that capital gains are taxed at a much lower level than income – which may make this a more attractive option for you (see **Chapter 26**).

A proven investment strategy

The saying 'don't put all your eggs in one basket' is extremely sound advice when it comes to building wealth. In fact, it forms the basis of the only investment strategy I believe can be relied upon: **diversification**. If your investment strategy is too safe, then you won't enjoy decent growth. If your investment strategy is too daring, then you risk losing everything you have been working towards. The solution? Diversify your investments so that your money is spread across a range of areas. This leaves you two simple decisions:

- In which areas should you invest your money?
- How much should you invest in each area?

As already mentioned, you should start by diversifying into the three most important areas of investment – your emergency fund, your pension and buying your own home. Having done this, I would suggest putting your money into the following five areas:

- Pooled investments
- A 'basket' of directly held stocks and shares
- Investment property
- Higher risk and tax-efficient investments
- Alternative investments such as art, antiques, gold and other precious metals

Within each area there is much scope for choice, allowing you to vary the amount you invest, the length of your investment, the degree of risk and so forth. You must decide for yourself what mix of investments best suits your needs.

The information on the next pages will give you a feel for the various opportunities available. Your next step will depend largely on how active a role you want to play. One option is to investigate each area thoroughly yourself. Another option is to allow an authorised adviser to handle it all for you. My own suggestion would be to go for a combination of the two. Educate yourself, keep yourself informed, but let an expert guide and support you.

When long-term means long-term

one of the biggest mistakes investors make is that they forget their own financial objectives. If you are investing for long-term capital growth – a good, solid gain over, say, 20 years – then if you change your strategy halfway through you must resign yourself to a poor return and even losses. This is true regardless of the investment vehicle you are using.

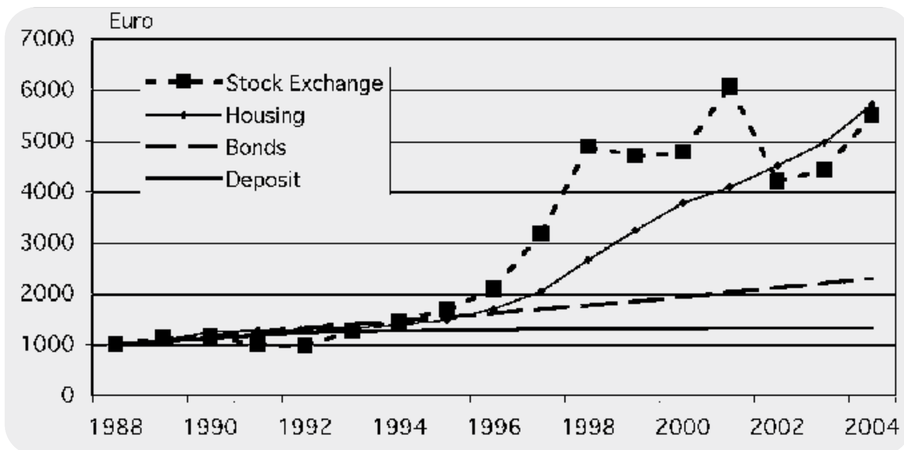
If a change of strategy is unavoidable, try to give yourself as long as possible to enact it.

There are various areas where investors seem particularly prone to chopping and changing. Long-term savings plans, such as endowments, is one. The stock market is another. Leaving aside some sort of personal financial crisis, the usual reason is despondency over a perceived lack of growth or falling values. If you have chosen your investments well, you shouldn't be worrying about a few lean years or an unexpected dip in values. If you are concerned that you have made a bad investment decision in the first place, take professional advice before acting. **The biggest losses come when an investor panics**.

Pooled investments

A pooled investment – sometimes known as an investment fund – is a way for individual investors to diversify without necessarily needing much money. Your money is pooled with the money of all the other participants

and then invested. Each pooled investment fund has different, specified objectives. For instance, one might invest in the largest Irish companies, another in UK companies, a third in US gilts and a fourth in European property. In each case the fund managers will indicate the type of risk involved. They will also provide you – on a regular basis – with written reports or statements detailing how your money is performing.



Since it would be impossible for all but the richest of private investors to mimic what these pooled investments do, they are an excellent way to spread your risk. A typical fund will be invested in a minimum of 50 companies and will be managed by a professionally qualified expert.

Fund managers make their money from a combination of commission and fees:

- There is often an entry fee of up to 5% of the amount you are investing.
- There will definitely be an annual management fee – usually 1% of the amount invested, though the more successful ones charge 2%+.
- If you want to sell your share in a pooled investment, you may also be charged a fee.

It is sometimes suggested in the media that fund managers are rewarded too highly. My view is that if a fund is meeting its objectives, then it is only fair that the fund managers recoup their costs and earn a fee for their expertise. I wish journalists would put more effort into reporting performance figures and less into complaining about whether a manager is charging 0.85% a year or 0.93%!

A couple of other points before we look at all the options in a little bit more detail:

- the funds described below are all medium- to long-term investment vehicles. In other words, you should be thinking about leaving your money in them for an absolute minimum of five years – and more like ten years or even longer.
- Although past performance – as it always says in the small print – can be no guide to future performance, it is still useful to know. One thing to check is who is making the actual investment decisions and how long they have been doing it for. If the individual manager of a fund has changed recently then the past performance may not be so relevant.

I include several different types of investment in this category:

- tracker bonds.
- Unit trusts and other managed funds.
- With-profits funds.
- stock market 'baskets' (or guaranteed stock market active funds).

All of these are what I would describe as 'tailor-made investment vehicles'. That is to say, they have been specifically designed to meet the needs of ordinary, private investors. This is in direct contrast to, say, un-tailored opportunities – such as a publicly quoted share or an investment property – which aren't aimed at any specific group of investors.

Tracker bonds

These funds guarantee to return your initial investment plus a return based on a specific stock market index or indices. For example, it might give you all your money back after five years plus 80% of any rise in the FTSE 100.

Unit trusts

Your money is used to purchase 'units' in an investment fund. The price of the units will depend on the underlying value of the investments. For instance, if the unit trust specialises in European technology shares, then the value of the shares it holds will determine the price of the units. You can sell your units at any time, but you should be wary of buying and selling too quickly as charges and fees can eat up your profit

Unit-linked funds

As above, but with the added element of a tiny bit of life insurance so that they can be set up and run by life insurance companies.

Managed funds

Again these are, in essence, unit trusts. A managed fund makes a wide spread of investments, which theoretically reduces risk – though you should not assume that this is the case. Most are categorised (esMA is the European Securities Marketing Authority who categorise every stock, share and company in the world into 7 categories – the higher the number, the higher the risk). Fund #1 (cautious) includes government bonds and cash funds, while Funds #5–#7 (aggressive) includes tech and energy stocks, emerging markets, BRIC countries, etc. The key is index funds do not have the safety net of cash/bonds to swap into in the event of an economic global disaster.

Specialised funds

These funds concentrate on very specific market opportunities – such as oil shares or companies listed in an emerging market. This is obviously riskier, but if the underlying investment performs well, then you will make above-average returns.

Indexed funds

An indexed fund aims to match the overall market performance. For instance, you might have a fund that plans to achieve the same return as the UK's leading 100 shares (FTSE 100) or Europe's top index, Eurostoxx 50.

With-profit funds

These funds are run by insurance companies and guarantee a minimum return *plus* extra bonuses according to how the fund has performed over the longer term. These bonuses might be added annually (annual bonus) or when the fund is closed after the agreed period of time (terminal bonus). The terms, conditions, objectives and charges for these funds vary enormously.

Stock market 'baskets'

Investors or their advisers choose a number of stocks, which can range from blue chip shares (such as the big corporates and retail groups) to downright risky stocks. Depending on how risk-averse you are, a percentage of your 'basket' will be conservative solid choices, while a smaller percentage will be a little bit of a gamble. **Diversification** is again the buzz word – the greater the spread or choice of stocks, the softer the fall if there is to be a fall.

Specialised stock market strategies

Futures, options, hedge funds, exchange-traded funds, derivatives, contracts for differences (CFDs) and the like constitute the specialised investment sectors of the stock market. Good solid advice is essential if you wish to participate in this area.

Alternative investments

There is a large number of alternative investment options, all of which come with varying amounts of risk. Some, such as gold or other precious metals, are easy to buy and sell. Others, such as art, may have a limited market, making them difficult to find a buyer for when you want to dispose of them. Alternative investments include:

- paintings and other art
- antique furniture and other objects
- debentures at Wimbledon
- rock'n'roll memorabilia
- gold and other precious metals
- diamonds and other precious gems
- wine
- jewellery
- collectibles such as rare stamps, coins, classic cars or watches.

In general, alternative investment is 'direct' – this is to say, you purchase the actual items. Specialist knowledge is vital if this is to be a genuine investment. You should not consider alternative investments until you have a reasonably high net worth and a portfolio of more conventional investments, since the risks can be high.

Wealth Check

Think carefully before you buy an annuity

If you have a lump sum to invest and you are aged at least 65, one option is to purchase an annuity. The key advantage of an annuity is that it guarantees you an income for the rest of your life. The key disadvantage is that, once purchased, you cannot get your lump sum back. Furthermore, when you die the income stops and nothing will normally be returned to your estate.

Annuities are purchased from life assurance companies, and the return is linked to your age. The younger you are, the lower the return you can expect to receive. It's possible to take out a 'joint-

survivor annuity' if you're married. With these, when either you or your spouse dies, the income continues at a reduced rate until the death of the other. Joint-survivor annuities produce a lower return, or income, than single-life annuities.

At the moment, annuity rates, like interest rates, are relatively low. If you were a male, aged 65, and you wanted to generate a guaranteed income of €1,000 a month, you would need to invest €400,000. However, if you were aged 75, you would only need to invest €270,000.

Annuity rates differ from insurance company to insurance company, and from day to day. It is possible to arrange for your annuity rate to be linked to inflation, and some companies will also guarantee you a minimum return if you die within five years of purchasing the annuity. Finally, you should be aware that the income from an annuity is subject to income tax.

If you've got a limited amount of capital and you're worried about supporting yourself through your retirement years, an annuity could well be the perfect solution. However, I would advise getting professional help to make sure that you purchase the best-value annuity for your needs.

A low-risk, medium-term investment option

For a low-risk, medium-term investment option, consider **guaranteed bonds**. These offer above-average returns in exchange for you locking your money in for an agreed period. Some offer limited penalty-free withdrawals or provide a regular income for the term of the bond.

Investing in stocks and shares

Direct investment in the stock market is not for everyone. The risk associated with buying individual shares is obviously much greater than when buying into a diversified portfolio of shares – which is essentially what you are doing with a pooled or investment fund. Yes, if the share price goes up, you can make a small fortune. But if the price falls or the market crashes, your shares will be worth a fraction of what you paid for them.

For an investor with limited funds, buying shares is probably not a sensible option. However, once you have started to build your capital wealth, you should definitely consider adding individual share holdings to your portfolio of investments:

- over the longer term, the stock market has shown a greater return to investors than any of the alternatives, including property.

- Irish investors are not limited to the Irish stock market – you may buy shares anywhere in the world.
- The charges for buying and selling shares have dropped dramatically, making it feasible to buy and sell in much smaller quantities.
- there are excellent sources of advice on which shares to buy and sell.
- shares have widely varying degrees of risk.
- One of the big advantages of share ownership is that you literally own part of the company itself and its assets.
- Share ownership should bring you a regular income in the form of dividends plus capital appreciation (if the company is doing well).

Private investors have a choice of doing their own research and making their own decisions or seeking professional help from a stockbroker. Either way, if you are tempted to start buying and selling, you should arm yourself with as much information as possible. Remember, it is ultimately your decision what happens to your portfolio. You should always keep a close watch on what is happening to any company whose shares you have bought, the sector it operates in and the market as a whole. I would particularly recommend the internet for information purposes.

How to read the financial pages

If you do decide to buy stocks and shares, you can keep track of their performance by reading the stock market pages in your daily newspaper. Next to the name of your company you'll find the following information:

High: This is the highest price your particular company share has reached in the past 12 months.

Low: This is the lowest price your share has reached in the past 12 months.

Share price: This is the average price paid for your share at close of business on the previous day.

Rise or fall: This is usually represented by a (+) or (-) symbol, and it lets you know how much your share increased or fell by in the previous day's trading.

Dividend yield: The dividend yield is the relationship of a share's annual dividend to its price. The figure will be before tax. For instance, if the dividend yield was 5.8%, and if you'd purchased €100 worth of shares at the current price, you would receive an annual income of €5.80 before tax.

P/E: this stands for **price/earnings ratio**, and is one of the methods used to value a share. The price/earnings ratio is calculated by

dividing the company's share price by the after-tax earnings due to each share over the company's most recent financial year. A high price/earnings ratio means that the market is confident in the company's future. But, by the same token, it could mean that the shares are over-priced. A low price/earnings ratio implies a lack of market confidence in the shares, but perhaps the potential for an investor to pick up a bargain.

Dividend payments

When you own shares in a company you are entitled to a portion of the profits – pre-supposing that there are profits to be shared. This portion is called a dividend, and it is paid twice a year. The first payment is called an 'interim dividend' and the second is a 'final dividend'. Several weeks before the dividend is due to be paid, the company directors will announce how much it is to be. A few weeks after this, they will 'close the register of shares'. Although you can still buy and sell the shares, if you do so while the register is closed, you won't be entitled to the forthcoming dividend. During this period, the company shares will be marked 'XD' – 'ex-dividend' – in the newspapers.

Shares and tax

Irish shares are liable to two different types of tax. First, you'll have to pay **income tax** on any profits (in other words, 'dividends') you receive. In fact, when you receive a dividend from an Irish company, they will already have withheld tax at the standard rate of 20%. If the amount of tax withheld exceeds your liability for that particular year you can claim a refund. However, if you are in fact a higher-rate taxpayer, you'll have to pay the difference between the standard rate and the higher rate when completing your annual tax returns. Second, when you sell your shares, if you've made a gain, you'll be liable for **capital gains tax** at 33%.

Choosing a stockbroker

the only way to buy and sell shares is through a registered stockbroker. You will pay either a flat fee or a commission, depending on whether the stockbroker is also advising you and/or the size of the transaction.

If you don't need advice when buying or selling, then you require an **execution only** service. In this instance, your main concern should be to keep costs to a bare minimum. Online services tend to be the cheapest, but it is well worth checking with your bank and the leading stockbrokers just to make sure.

Stockbrokers will be happy to provide you with an advisory service. You'll pay a higher level of commission for this (up to an average of 1.25%), but, of course, you'll benefit from your stockbroker's knowledge of the market.

There is no official minimum value regarding the volume of shares you can purchase. However, there is a minimum level of charges, usually around €25, so it probably doesn't make much sense to buy less than €1,000 worth of shares at a time.

If you want a list of Irish stockbrokers, then contact:

the Irish stock exchange
28 Anglesea street, Dublin 2
Tel: (01) 617 4200

Wealth Check

Why not start an investment club?

If you'd like to dabble in the stock market but only have a relatively small amount of money to invest, why not start an investment club? This is when a group of friends or work colleagues pool their resources and make buying and selling decisions together. My experience of investment clubs is that they regularly out-perform the stock market, because those involved take a real and detailed interest in every investment decision. However, you need time and patience.

Bonds

A bond is a long-term, fixed-interest investment. Bonds are issued by public companies and by governments as a way of raising money. They are, in effect, loans by you to a company or a government. Government bonds are usually referred to as **gilt-edged** securities or, for short, 'gilts' (see below). Bonds have a face value and term – expressed as a **maturity date**.

For instance, if you had purchased a 15-year €100 bond in a Dutch health insurer in 2002 for a face value of €99.10 – the discount is 90c – at a yield of 6.375% (the coupon), you would receive an annual income of €6.38 until the bond reaches its maturity date in 2017 if it is not 'called in' beforehand. On maturity, you are guaranteed to receive €100.

What if you want to cash in your bond sooner? There is a thriving market for second-hand bonds. For instance, the example I mentioned above is currently worth €122.37 with a yield of 3.925%. The second-hand value of a bond will be linked to its underlying security, its rate of interest, and the length of time until it matures.

Gilts

These are government stock, used over the years, rather like an IOU, to raise money to fund spending. They offer investors a fixed rate of interest for a set period of time in exchange for the use of their savings. The interest is paid without DIRT being deducted – making them very tax-efficient for some non-taxpayers. As interest rates in general fall, government stock tends to rise in value. Gilts are a totally secure and relatively inexpensive way to invest.

Property

It is easy to understand why so many private investors are attracted to residential and even commercial property:

- Property values have risen and fallen dramatically over the last 30 years.
- It is possible to fund up to 70% of the purchase price with relatively inexpensive loans.
- Rental income from property can cover all the expenses – interest, maintenance, tax and so forth.
- Your investment is in bricks and mortar – something solid – that you can actually see.
- If you make a gain when you sell the property, you will pay substantially less tax – because it is not 'income' but a capital gain, and is thus taxed at a lower level, currently 33%.

Property prices have fl ctuated dramatically over the last 20+ years. If you had borrowed €180,000 to buy a €200,000 property some 20 years ago, you would have seen your €20,000 deposit turn into €341,200 profit by 2007! Not so much in the last 13 years!

Clearly, property prices rise and fall, so you would be unwise to assume that this is a one-way bet. If the market does fall, you may find it hard to sell a property and take out your money – as we witnessed from 2008 on. However, in the last three years, Irish property prices rose by up to 25% in certain areas. Also, the supply of property to rent has risen so much that in some areas it is now harder to find and keep tenants.

On the other hand, as the old saying goes, 'they aren't making any more of it', and as planning restrictions become tighter, there is every reason to believe that property will continue to be a highly attractive investment in the future. The golden rule, in my opinion, is to pick a location and type of property that is always easy to rent, near public transport and requiring little maintenance.

Wealth Check

Tax treatment of rental income

Your rental income is treated the same way as income earned by self-employment. You are allowed all your expenses, including:

- wear and tear on furniture, currently an eighth of the cost for each of the following eight years;
- any charges made by a management company or letting agent;
- maintenance, repairs, insurance, ground rent, rates, RTB and so forth; and
- the cost of any other goods or services you supply to your tenants (such as cleaning).

With regard to relief on interest payable on loans borrowed to purchase, improve or repair a rented property this is allowable (only 80% of the interest) except – roughly – from the period 23 April 1998 to 1 January 2002. If you bought rental property during this period, you should seek professional advice or contact the Revenue Commissioners to clarify your position. Do note that not all your property expenses will be allowable for tax relief in the year in which they are incurred. For instance, the cost of 'wear and tear' will be spread over several years. For more information about tax treatment of property see **Chapter 24**.

Tax-efficient investment options

Financial experts often comment that 'you should never let the tax-saving tail wag the investment dog'. In other words, you shouldn't invest in anything simply to enjoy the tax savings, but should always consider the underlying value of the opportunity.

When it comes to **property investment**, there were a number of tax incentives designed to make certain types of property more attractive. Most of these have been phased out now.

In Budget 2012, a new **Employment and Investment Incentive** scheme (EII) was introduced to replace the BES Scheme. This is still in operation, but updated in the 2020 Budget.

- Don't put all your eggs in one basket. Divide your savings and investments into different parts, so that if one area doesn't perform as hoped your overall financial objectives can still be met.
- Remember, the stock market has outperformed all other investments over the long term. You can take advantage of this by investing in a pooled fund such as a unit trust, or by investing directly in a broad selection/portfolio of shares.
- You must keep reviewing your investment decisions, even if you get a professional to help and advise you.
- Investment is for the long term – anything from five years upwards. Most managed funds have penalties that decrease over the first 5 years. Don't allow short-term rises and falls to distract you from your long-term strategy.

Part 7

Planning for a Richer Retirement

Until 20 or 30 years ago, the word 'retirement' was associated with a certain age. Women, if they worked, retired at 60, and men at 65. Life expectancy was shorter and money was scarcer.

Today, retirement has taken on a whole different meaning. With a bit of careful planning, it is now common for people to give up work and 'retire' from their late 40s onwards. There is also a strong trend towards second and even third careers.

So when we talk of retiring, yes, we mean giving up paid work, but we also mean having enough money to do what we want.

Thankfully, successive governments have encouraged the trends I am describing, and have rewarded those who save for their retirement with very, very, very tasty tax breaks. There are also some relatively new pension structures that offer incredible flexibility.

In this section, you will learn how to ensure that when you retire (whenever that may be), you have sufficient wealth to lead a comfortable life. Specifically, you will discover how to:

- *decide what sort of pension you will need;*
- *assess your current pension prospects;*
- *understand the various options open to you;*
- *arrange a pension that will ensure a comfortable retirement;*
- *retire early; and*
- *find someone you can trust to steer you through the pensions minefield.*

I must emphasise that no one should be complacent about retirement planning. Even if you have a pension, you must review it on a regular basis. You could be a long time retired, anything from 20 to 40 years, so you need to get it right.

17
Retirement Basics

In this chapter we will look at why pension planning is so important, and learn about what I call 'retirement basics' – such as understanding what your existing entitlement (if any) is – together with general planning advice.

Why you should make pension planning your number one priority

The only people who don't have to worry about retirement planning are those lucky enough to belong to a really first-class pension scheme (one with generous, cast-iron benefits) and those who are so rich that money will never be a problem.

For the rest of us, pension planning should be a top priority – more of a priority, in fact, than almost any other financial decision we take. Frankly, it doesn't matter if you haven't bought your own home or invested a single penny of your money, provided you have a good pension plan. This is because, thanks to longer life expectancy, many people will spend anything from 20 to 40 years in retirement.

Typically, as we get older and progress in our careers, we earn more money. However, on retirement, we are no longer earning an income, and must rely either on our savings or on state benefit. Our earnings are usually at their highest just before we retire. And unless we have made proper provision, they will be at their lowest just after we retire. This can result in a massive drop in lifestyle at the point of retirement.

This is where the concept of **income equalisation** comes in – that is, reducing your disposable income when you are earning good money to help increase your income when you are not earning. We reduce our disposable income now by putting money into a pension scheme that can be used to increase our retirement income. It is still likely that when we retire, our income will fall, but with this type of planning the transition will be far less of a shock to the system.

Wealth Check

Is your company or government pension going to let you down?

Are you in a company or government pension scheme – outside the state pension that you are entitled to at age 66? You should check on a regular basis, certainly every other year, that it is actually going to meet your needs on retirement. A growing number of pension schemes are producing disappointing returns, and you should not be complacent. Very few company schemes provide enough money to ensure a comfortable old-age income. Get expert help too, because whereas companies are obliged to give you details of your benefits (and losses), you might not necessarily understand them. You can't rely on whoever is operating the scheme to provide you with the information you need.

It is never too early or too late to begin

It is not impossible that your retirement may turn out to be a longer period than your working life, and so it isn't surprising that pension experts stress the importance of starting to plan early.

Nevertheless, if the number of men and women in their 40s, 50s and even their 60s consulting me on pension planning is anything to go by, a huge percentage of the population don't start thinking about their retirement until it isn't that far away.

Obviously, the later you leave it, the more of your income you will have to devote to building up a decent pension fund and the less well off you can expect to be when you stop working. It is never too late to begin, but this doesn't mean you should go to the wire. Every single day counts.

Start by taking stock

The first step towards a comfortable retirement is to take stock of where you are now in pension terms:

- Are you part of one or more company or occupational pension schemes already?
- Are you entitled to a state pension by virtue of your employment?
- Are you entitled to a non-contributory old age pension?
- Do you need more than a third of the average industrial wage to live on? Because that is roughly what the state pension will give you!
- Have you started a pension plan in the past?

If you answer 'yes' to any of these questions, you need to find out what your existing pension is going to be worth to you.

You also need to consider what other assets you have. Will your home be paid for by the time you retire? Have you any other savings or investments? By the same token, are there any other debts that you will need to discharge before retirement?

Where do you go for the answers to these questions?

The easiest thing to do is to get a qualified professional to do the work for you – in other words, either an accountant (if they specialise in this area) or an independent, regulated financial adviser. The alternative is to approach all the relevant parties yourself. That is to say:

- your current employer and any past employers;
- the managers of any pension scheme you may have started in the past;
- the Department of Social Protection (check your telephone directory for the relevant department or **Chapter 5** of this book); and
- the Financial services and Pensions ombudsman.

If you are unhappy with any aspect of the way a non-government pension scheme has been administered, then you should contact:

Financial services and Pensions ombudsman
36 Upper Mount Street, Dublin 2
www.fspo.ie

> If you are self-employed or you are not in an employer-sponsored pension scheme then, unless you take action, you'll have to rely on the state. You can guess how well off that will leave you.

How much will you need when you retire?

The whole concept of retirement has been turned on its head in recent years. As a population we are:

- giving up work sooner – often in our late 40s or 50s;
- living longer and healthier lives; and
- leading more active lives in retirement.

We also expect a much higher standard of living. As a result we need more money in retirement than our predecessors did. Here are some things you will need to consider:

- Will you need a lump sum on retirement to pay off debts or to invest for a regular income?
- Will you still have unavoidable expenses (such as children's education) to pay for? Perhaps your mortgage will continue until you are 70 or 75?
- How much of an income will you need? Could you manage on half of what you earn now? Could you manage on a quarter?
- What changes would you have to make in your lifestyle if the only money you had coming in after retirement was the state pension?
- Do you have anyone else to provide for? Your spouse, for instance? What will happen if you die before they do?

Our civil servants receive an index-linked income of up to half of their final pay, a tax-free sum of up to one and a half years' salary, and a half-pension for their spouses after they die. Only a very tiny percentage of private-sector schemes offer this type of benefit.

If you work in the private sector and want to receive this sort of benefit from the age of 65, you would have to put about 15% of your income into a pension fund from the age of 20.

The good news

There are three excellent reasons why you shouldn't despair, regardless of whether you have any sort of pension in place already:

- the government realises that it is vital to encourage you to save for your retirement so they will give you *huge* tax incentives to do so. For every €1 invested in a pension, you will receive 20c or 40c back depending on your tax margin. Plus, all growth in the fund is tax-free, and 25% of the fund can be taken as a tax-free lump sum (or €200,000, whichever is the lesser).
- Good planning at any age can optimise your retirement income.
- By taking action now, you can alter your position dramatically. Only people who continue to ignore the risks they are running face the possibility (one might say certainty) of an impoverished retirement.

What to do if you work in the private sector

If you work for someone else, you will be in one of two situations – either:

- you are in a company or occupational scheme; or
- you aren't in any scheme at all.

If you are in a company or occupational pension scheme, then you will need to ascertain how good the scheme is, the sort of pension you can expect, what other benefits you may be entitled to and whether it is possible to increase your pension by making **additional voluntary contributions** (AVCs). If, on taking expert advice, the existing pension scheme doesn't appear to be that good, then concentrate on those AVCs.

Don't forget any schemes you may have been in during your previous employment.

All employers are now obliged to operate a scheme under recent legislation – **personal retirement savings accounts** or PRsAs – or at least to have a direct debit provision from your salary to such an investment. If you aren't in your employer's scheme, you should consider joining.

If you have no pension arrangements at all, and you don't want to do something through your employer, then you need to start a scheme of your own. Your own pension scheme might be a personal pension plan or a PRSA. I'll be looking at these options in greater detail in the next chapter.

What to do if you work for yourself

If you work for yourself, you are going to have to provide your own pension. The big advantage of this is that you can design a pension plan that matches your needs perfectly:

- It will be flexible, allowing you to invest on a regular basis or with lump sums.
- You'll have the choice of investing your money in an established fund or starting your own if you are a company owner, proprietary director (i.e. have at least a 5% shareholding in your company) or a senior company employee (e.g. a **small self-administered pension scheme** – ssAP) or self-directed trusts.
- If you own your own company you could even consider setting up a company scheme.

- You are probably, to quote a line from the television programme *Blackadder*, 'perfectly happy to wear cotton without understanding how the weaving process works'. By the same token, you shouldn't feel that you need to understand pensions legislation in its entirety to make your retirement plans!
- Action is imperative. If you have a really good pension plan, allowing you to retire early, you don't need any other investments (not even a house).
- the sooner you act, the better it will be, but it is never too late to start. Extra tax benefits may apply the older you are. It's certainly never too late to enquire: consultation@moneydoctors.ie.

18
Pensions Made Easy

This chapter contains detailed instructions on retirement planning – all the information, advice and tips you need to make your own decisions about what you need and want.

A quick guide to pension schemes

My youngest daughter's favourite expression is 'too much information'. This may be your reaction when faced with trying to understand the pension system. Little wonder, when you consider how complicated the various options are. Opening a book on the subject at random (a book aimed at ordinary consumers, by the way), my eyes fell on the following sentence:

> Where a 5% Director chooses the New Retirement Options, they must first ensure that the total fund accumulated would not result in a situation where the maximum benefits would be excluded had they gone down the traditional annuity purchase route.

My own view is that you should inform yourself, in the same way that you would inform yourself before making any major purchase. However, unless you find the topic fascinating, don't waste your time grappling with the minutiae. Instead, let an independent and authorised expert advise you. Here, then, is my quick guide to pension schemes.

Categories of pension schemes

A pension scheme, or retirement plan, is a way of saving money specifically for your retirement. What differentiates it from an ordinary savings plan is that you will receive substantial help from Revenue but, in exchange, access to your savings will be restricted. How restricted? Well, it will vary, but typically you won't be able to touch any of the money you have saved until you reach a minimum age (and this will vary according to the scheme and even the sort of job you have), and even then you won't be able to get your hands on all of it as a tax-free lump sum.

There are three basic employment categories and the pension options can be defined as follows:

- employee schemes
- self-employed schemes
- directors' schemes

Employee schemes

- **Occupational pension schemes:** Money invested in these schemes is locked away until you actually retire. At this point, there will be restrictions on how you take the benefit. For instance, you'll only be allowed a limited amount as a tax-free lump sum, and the rest has to be taken as an income.
- **Defined benefit:** this is the Rolls Royce of schemes, and extremely valuable. It can be either a contributory or non-contributory scheme – invariably, the employer will make contributions to the scheme. With this type of pension, the employer guarantees you a certain percentage of your final salary, as a pension for life, for every year you have been working for them. Depending on the particular scheme, this can be up to 66% of the annual average of your last three years' income. You can also elect to take part of your benefits as a tax-free lump sum of up to one and a half times your salary. The beauty of defined-benefit schemes is that, irrespective of fund performance, you are guaranteed to receive the promised pension. It is the trustees of the scheme who have to worry about how they are going to fund what could be a very expensive company cost. More and more employers are opting out of the defined-benefit pension because of cost, a trend exacerbated by the poor pension fund performances of the late 1990s and first part of this century. Defined-benefit schemes undoubtedly provide the best pension benefit. However, you should note that benefits are based on how long you have been working for that company. If you have a relatively short number of years' service, you can still top up your pension benefits by making some additional voluntary contributions (AVCs). Remember that over 80% of defined benefit schemes in Ireland were insolvent, so ensure that *your* company will be able to meet its future commitments.
- **Defined contributions:** Your pension is based on the growth of your monthly contributions (again the employer will usually also make contributions to your pension) up to maturity on retirement age. Unfortunately, there is no guarantee of how much you will receive on retirement, as values may fall as well as rise. Your fund is purely down to how fund managers perform and how much you have invested. It is vital therefore that you be fully briefed and communicated with on a regular basis so that you can take corrective action if necessary. That corrective action may be an AVC.

- **Additional voluntary contributions (AVCs).** Depending on your own existing pension contributions and your age, you could put up to 40% of your annual income into an AVC. You can offset the entire 40% against your income tax liability, making this procedure a very tax-efficient one. Furthermore, most employers will deduct your AVCs directly from your wages. There is also greater flexibility about how and when you take the benefit, and you won't have to pay for setting up a scheme of your own. If your employer's pension scheme has a good investment performance or guaranteed benefit , then putting more money into it via an AVC can make excellent financial sense. Check with an authorised adviser for specific details, as there are many regulations and you want to ensure you're making the right decision.

If no occupational pension scheme is available to you through your employer, you have the same options as someone who is self-employed (see below). The one exception is that your employer is required, by law, to provide you with a payroll deduction facility to a nominated PRSA provider.

Self-employed schemes

Personal Retirement Savings Accounts (PRSAs)/personal pensions – with the 2002 introduction of PRSAs, pensions became more accessible and less expensive to start. PRSAs have maximum charges of 5% of each premium paid plus 1% a year of the accumulated fund. The affordable pension is here to stay. Benefits include:

- It's low-cost.
- There is generous tax relief at your marginal rate. Depending on your age, this can be on contributions of up to 40% of your income.
- It's easy to understand – you decide how much you want to invest, and where you want the money invested.
- It's portable – you can bring the pension with you from employment to employment.
- It's flexible – you can adjust your annual contributions depending on your circumstances, and there is flexibility in how you use the fund on retirement.
- When you retire, you can have up to 25% of the fund as a tax-free lump sum (useful for paying off a mortgage), up to a maximum of €200,000.
- It's suitable for people who work for themselves, have no company scheme or change their employment frequently.

In theory, a PRSA is a simplified version of a personal pension plan. In practice, the rules governing PRSAs are just as complicated. You should seek independent advice.

Directors' schemes

If you are a director, you can avail of a **director's executive pension** (if you have 5% or more shareholding in your company). In fact, the advantages offered by company schemes are so good that if you are self-employed (a sole trader), it may be worth your while to form a limited company in order to take advantage of them. If you do own your own company, then setting up a company pension scheme will probably be the best route for you. The limits for which Revenue will give tax relief on pension contributions are significantly higher for a company investing in a company pension scheme than for an individual investing in a corresponding PRSA or personal pension.

Company schemes can be arranged to benefit as many employees as you want, or just you, or selected members of your staff, as you prefer. This route is particularly good for anyone who has left it late in life to plan for his or her retirement.

- As there is no benefit in kind on contributions to a company pension scheme, your company will be able to put substantial tax-free money into your pension.
- There is greater flexibility with regard to your retirement date.
- You have more control over where your contributions are invested.
- You can take a portion of your fund tax-free – so there are tax breaks on the way in and the way out!

Small self-administered pension schemes (SSAPs) or self-directed trusts

Under most pension arrangements, it is left up to fund managers to determine what the pension funds actually invest in. If you want more direct control on the actual assets that make up your pension fund you can set up an SSAP. Here you appoint a **pensioner trustee** to run your pension, but you dictate what it invests in. For example, if you want to invest in shares you can pick the individual shares as opposed to just a managed fund.

Recent legislative changes have also brought in for the first time a provision that allows pension funds to borrow for property acquisition. This means that you can borrow within your pension fund to buy an investment property (at arm's length – not your own company's office, your holiday hot spot or your granny's flat), and both the rental income contributions

and your own monthly contributions will be paid into your pension fund tax-free; at the same time, your fund (i.e. your property) should be appreciating as you are making those contributions. There are the added benefits that no capital gains tax liability is incurred and your estate keeps the asset (i.e. your property) after you die.

I predict that for company executives, SSAPs/self-directed trusts will grow considerably over the coming years as a result of the introduction of that one provision, allowing pension funds to borrow or gear perhaps up to four times the fund value to buy investment property.

SSAPs are not just confined to property either. Shares, investments and even complex financial instruments (e.g. hedge funds) can be incorporated into SSAPs.

Big tax relief – the Revenue Commissioners are on your side

I have made repeated mention of the huge tax incentives offered to those who invest in a pension. These include:

- There is tax relief at your marginal rate of tax. So if you are paying tax at 40% when you put €100 into your pension fund, it will only cost you €60. Put another way, pension funds almost double the value of your savings before the money has been invested in anything. Even at 20% taxable, the fund would have to drop by 20% before you would lose out.
- Investments grow tax-free. If you put money into your own company scheme, it is a legitimate business expense for tax purposes, and profits within the pension fund are tax-free (e.g. dividends and interest).
- Put another way, if a gross premium of €5,000 were paid for 20 years, the value of the premiums would be €100,000 at the end of the period. Thanks to the tax element, the net cost **from after-tax income** (if the tax remains at 40%) is €60,000. To achieve the same return on investing, the net income would need an annual compound return of 6%! This is the value of the government's contribution and it is given **for free**.
- While it is in a pension fund, no income tax or capital gains tax is payable on your investment.
- All pension schemes allow you to take out a certain portion of your fund tax-free when you retire.
- PRSI is not payable once you are 66.

There are limits on the amount you can invest into a pension fund and still get the tax relief. Check with your authorised adviser for details or go to consultation@moneydoctors.ie.

What happens to your pension contributions?

If you are part of an occupational pension scheme, your money will be invested by the scheme's managers. If it is a big scheme, they may invest it directly themselves. Most companies, however, use the services of professional fund managers, who invest in everything from stocks and shares to property and commodities. Performance will be determined by how well the scheme is managed, and if you are in a 'defined contribution' scheme, you need to pay close attention to this. For employer-sponsored schemes (e.g. occupational pension schemes) trustees play an important role, as they look after the investment decisions on advice from fund managers.

If you set up your own personal pension plan or your own company sets up a company scheme, then you have much more control over how your contributions are invested. Most opt for equity funds – where your money is pooled and invested in stocks and shares. Such funds will have varying returns and different levels of risk. As you near retirement, you will be less likely to place your fund in a higher-risk investment than you would in your early 30s.

Wealth Check

Don't buy a pension from someone who can't offer you choice

All the financial institutions involved in the retirement market, and I'm speaking chiefly about life insurance companies and banks, employ salespeople whose job it is to promote their own company's pension products.

One such example is that of a young solicitor who was persuaded to take out a bank assurance pension plan at a premium of more than €500 per month, based on her expectation of a certain income on retirement. After a couple of months she cancelled the policy, because she hadn't been asked one of the most important questions: 'Can you afford to pay this amount each month into a pension scheme?'

While it is important to aim for a similar level of income to retire on, it is equally important to be able to afford it and have a life in the meantime.

Ideally, you should not choose a pension from someone who only represents one company. You should always deal with someone independent who is authorised to tell you about every single option available to you. Pension fund performance and management fees vary enormously. Buying without comparing the whole market could cost you a great deal of money.

What is it going to cost?

Almost without exception, the pension industry gets paid on **commission**. This commission comes out of your monthly payments. The amount will vary according to the type of pension scheme you join or set up. Many schemes (though not all) will involve an initial, one-off fee, followed by an **annual management charge**. To give you an example, for a standard PRSA the maximum annual management charge is 1% of the accumulated fund, whilst the initial set-up fee is capped at 5% of the premiums. When you take out a pension, your authorised adviser will explain, in full, what charges you are paying.

Having a pension is one thing, but having a pension that is going to provide you with the income you think you will need is another. One example of this was a shop-owner who sought advice on investing a lump sum. One suggestion was to look at investing this in a pension. However, he indicated that he was alright here, as he had already put a pension in place. It transpired that this 45-year-old shop owner was currently earning €50,000 a year and had just taken out a pension plan for €400 a month. He was shocked to learn that if he kept contributions at this level, and took the state contributory pension into account, he could expect to have a total after-tax retirement income of around €750 a month (in today's terms) at age 65 – a fraction of what he currently earned.

You get what you pay for. One way of looking at it is to look at what level of income you think you need and finding out how much it would cost to provide this. You may not be able to afford the cost now, but at least you will know what to expect.

Below is a table showing the approximate costs of funding a total after-tax income of €1,250 per month and €2,500 per month in today's terms should you retire at 65. These figures assume that you will be entitled to the state contributory pension. These figures are meant as a guide only,

and make a number of assumptions. You should discuss your own particular circumstances with a financial adviser or get in touch at consultation@moneydoctors.ie.

	Aged 25	Aged 30	Aged 35	Aged 40	Aged 45	Aged 50	Aged 55
€1,250pm	€191pm	€255pm	€347pm	€482pm	€673pm	€1,001pm	€1,681pm
€2,500pm	€341pm	€457pm	€623pm	€864pm	€1,207pm	€1,790pm	€3,019pm

(The above figures are before tax relief and assume that contributions are increased by 5% a year, inflation is 5% a year and the state pension increases by 5% a year. It also assumes that the funds the pension is invested in increase by 6% a year and that tax rates on retirement are similar to today.)

What benefits should you be looking for?

How do you judge a pension scheme? Here are some tips:

- If it is a defined benefit scheme, you should judge it primarily on what percentage of your salary you'll receive once you retire. Remember, these are the only schemes where the benefit is guaranteed based on service and salary. (Public sector employees receive one eightieth for every year of service, so 40 years will return half their annual salary. Should they bolster this?)
- Depending on the pension plan you have, you will be given a certain portion, by way of a tax-free lump sum, of the fund's value. Establish how much.
- Death-in-service benefit: Essentially, this is life cover giving your beneficiaries a lump sum and/or income should you die before retirement age.
- Death-in-retirement benefit: This gives your beneficiaries a lump sum and/or an income if you die after you have retired. Generally covers the first 5 years.
- The minimum retirement age for occupational pension schemes is 60, but if you own your company you can take a well-earned rest at age 50.
- How much will your pension income increase each year after you have started claiming it? Will it increase in line with the cost of living? More than the cost of living?
- Are there any special benefits offered to your spouse or other dependants?

What happens when you retire?

This will depend on your employment status and scheme.

- For **defined-benefit** schemes, you will receive a tax-free lump sum and a guaranteed annual income, usually index-linked and based on your service.
- For **defined-contribution** schemes, the accumulated fund on retirement is used to buy an annuity income based on how much is in the fund after taking out an allowable portion as a tax-free lump sum.

An annuity is a guaranteed fixed income for life (mostly guaranteed for the first five years on retirement, after which the insurance company keeps the fund). The Finance Act 1999 introduced a new alternative: Approved Retirement Funds (ARFs), which allow pension-holders to retain greater control, choice of investments and flexibility – plus, importantly, the ability to pass on any residual balance in the fund to their estate on their death.

The Finance Act 2006 introduced a new requirement to draw income from ARFs called 'imputed distribution':

- 1% in 2007
- 2% in 2008
- 3% in 2009
- 5% in 2010
- 6% in 2012, where the total value of ARF(s) exceeds €2 million
- From 2015, the rate for those aged 61 to 70 is 4% (6% for funds greater than €2 million) and the rate for those aged 71 and over is 5% (6% for funds greater than €2 million).

The Finance Act 2011 saw the extension of the ARF option to members of defined contribution plans (AVCs and PRSAs), so they are not now confined to buying an annuity on retirement.

- The tax benefits of having a pension are enormous. For a taxpayer on the higher rate of tax, putting €100 into a pension currently costs only €60. This is a bargain by anyone's standards.
- If your pension incorporates life cover you may receive extra tax relief.
- The pension end-game is important. Make sure that whatever contributions you make to a pension plan are sufficient to meet your monthly needs when you retire.

- Please, please take independent professional advice. I am repeating myself, I know. But only someone who is authorised to advise you on every pension available is going to guarantee you the most appropriate pension for your needs. Email consultation@moneydoctors.ie.

From 2024 an auto enrolment pension scheme will be in place. Under the plan all workers aged 23 to 60, who do not already have a pension in place, will be automatically enrolled in a private pension scheme through a new agency – The Central Processing Authority.

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Part 8

Why Pay More Tax Than You Have To?

Would you like to slash your 2022 tax bill quickly and easily, without having to plough through a lot of incomprehensible jargon? Then this section is for you. Because in plain English – using plenty of examples and case histories – I am going to explain how, as a taxpayer, you can:

- *make certain that you don't pay a single cent more tax this year than you have to;*
- *reclaim any tax you may have overpaid in previous years; and*
- *plan your finances so that future tax bills are kept to a bare minimum.*

19
Tax Basics

Getting to grips with the tax system

there are really only two things you need to know about Irish tax to start beating the system. Firstly, most people are hit hardest by just three taxes, so it is these that you want to concentrate on reducing or – better still – avoiding completely. They are:

- income tax;
- capital gains tax (CGT); and
- capital acquisition tax (CAT).

(Of course, there are many other taxes, such as stamp duty and deposit interest retention tax (DIRt), and, believe me, I am not going to ignore them. But the first three will probably offer you the biggest scope for juicy savings.)

secondly, the beauty of the Irish tax system is that it consists almost entirely of exceptions. There are, literally, hundreds of different reasons why you might not have to pay a particular tax. So, cutting your tax bill is simply a matter of either:

- studying these reasons to see which ones apply (or could be made to apply) to your own circumstances; or
- looking at your circumstances and seeing how they might be altered to give you a tax advantage.

Let me give you a quick example. In theory, if you are single, the first €36,800 of your 2022 income should be taxed at 20%, and anything over this sum should be taxed at 40%. In practice, there is a minimum income (income exemption limit) you have to receive before you pay any tax at all (this could be as high as €36,000 depending on your age and circumstances), and once your income exceeds this level there are all sorts of allowances, credits and other ways to reduce the amount you actually have to part with.

How old you are, where you live, your marital status, the source of your income, any borrowings you may have, your health, the health of your family...all of these factors and many, many others can be used to slash your tax bill.

It is not inconceivable that you could have an income of as high as €75,000 and not actually have to pay a single cent in tax – except for USC!

Keeping it legal

the difference between legal tax saving – which is called **tax avoidance** – and illegal tax saving – which is called **tax evasion** – was once described as being 'the thickness of a prison wall'. It is perfectly legal to use our tax laws in any way you can to reduce the amount of tax you pay. Naturally, all the tax-saving suggestions in this book are 100% legal.

Get to know your tax liabilities, and the Revenue Commissioners in the process

the following are the taxes that affect individuals:

Income tax

This, as its name implies, is a tax on annual income. How much you have to pay is linked to:

- how much you earn;
- your personal circumstances; and
- what tax credits and allowances you are entitled to.

If you are an employee, you pay your income tax monthly. If you are self-employed, you pay it annually. Either way, there are dozens of income tax-saving tactics available.

Capital gains tax (CGT)

If you buy something at one price and either sell it later for a higher price or give it away when it is worth more than you paid for it, then you will have made a capital gain. This gain may be taxed – depending on all sorts of factors, including:

- how big the gain is;
- what sort of gain it is;
- the rate of inflation; and
- allowable expenses.

CGT is paid annually. As with income tax, there are plenty of ways to reduce your liability. See **Chapter 26**.

Capital acquisition tax (CAT

This is a tax on gifts and on inheritances. The person receiving the gift or inheritance pays it. Whether tax has to be paid will depend on a variety of factors, including:

- the amount of money or the value of the property involved;
- the relationship between the parties involved; and
- the nature of the gift or inheritance.

Once again, it is paid annually and, once again, there are any number of ways to avoid and/or reduce your liability. See **Chapter 27**.

Stamp duty

If you are buying a property you will be liable for stamp duty, which is a one-off tax. You'll also have to pay stamp duty – at a considerably lower level – on your mortgage deed. For individuals, it is very hard to legally reduce or avoid this form of taxation. See **p.121** for current rates.

Pay Related Social Insurance (PRSI)

Whether you are employed or self-employed, you must pay PRSI at 4% on your gross income. However, those earning less than €38 per week will have no liability to make a PRSI contribution. There is little scope for legally avoiding PRSI. However, PRSI is no longer payable once you reach the age of 66.

Value Added Tax (VAT)

This is a tax on your spending. It is charged at different rates, from 0% to 23%, depending on what you are buying. Businesses and the self-employed have some opportunities for avoiding or reducing their VAT liability – individuals are limited in their options.

Do you have to fill in a tax return?

One question I frequently get asked – especially by those in retirement, in regular employment or receiving welfare payments – is whether or not they are legally obliged to complete an annual tax return. Let us consider who must fill out that dreaded form whether they want to or not. Into this category falls:

- anybody who works for themselves, whether full- or part-time;
- anyone with a second income, even if it's from casual work like cleaning or babysitting;
- all company directors;
- anyone in receipt of income that hasn't already been taxed – for instance, a private pension or dividends from an overseas investment;
- anyone who has made a capital gain;
- anyone with rental income from a property;
- anyone who has received or made a gift; and
- anyone who has received money of any sort that may be liable to tax here in Ireland.

The fact that you may be paying PAYE does not exclude you from having to complete a tax return. Indeed, even if you're on PAYE, it may be to your advantage to complete a tax return as it could reduce your tax bill for the year.

So who doesn't have to complete a tax return? If you fall into any of the following categories, you are off the hook:

- You have a relatively low income;
- You have absolutely no income; or
- You pay your tax through the PAYE system, and haven't received any other money that might be liable to tax.

Wealth Check

Take advantage of the taxperson

Many people forget that the Revenue Commissioners are there to serve you. They publish a wide range of brochures designed to assist taxpayers, and you'll also find an enormous amount of information online at their website (www.revenue.ie). Your local tax office will be delighted to answer questions for you – you can find details of their information helpline in the 'Useful Addresses' section (Appendix 8). The Revenue Commissioners also have a highly efficient online service called, oddly enough, the Revenue on-line service or ROS. This internet facility allows you to file your tax returns, make payments, and access your personal revenue data any time, night or day. Registering is a simple process, and the software is easy to use and compatible with every type of computer. When completing a tax return you will also find that it saves you a vast amount of time since you won't have to wade through all the relevant sections looking for the questions you need to answer. However, it is not yet available to everyone.

20 Income Tax Basics

The first steps towards reducing your income tax bill

'Income tax', claimed Will Rogers, 'has made more liars out of the American people than golf.' Being a patriotic soul, I like to think that we Irish people are above such deceit. Not that we mightn't be tempted when it comes to income tax – if only because the thing is so wretchedly confusing.

The Revenue Commissioners (who appear to be allergic to plain English) hardly help by defining income tax as being the tax:

> payable on your taxable income, i.e. your total assessable income tax for a tax year, less deductions for any non-standard rate allowances (not tax credits) to which you may be entitled.

Then, as if this wasn't sufficiently obscure, they divide 'income' into several different categories which they call, unhelpfully, 'schedules'. The schedules are then divided into 'cases'. And so it goes on.

Unfortunately, if you are going to make a serious attempt to reduce your income tax bill, you really need to understand how the Revenue Commissioners are actually taxing you. Therefore, the first part of this chapter is devoted to a basic, jargon-free guide to income tax. However, once the terms of engagement, as it were, have been explained, we will get straight down to all the different ways in which you might cut – or even avoid altogether – your income tax liability.

What sort of income do you have?

In order to differentiate between the different types of income people receive, the Revenue Commissioners classify income under a number of different headings or 'schedules'. Since accountants and other financial professionals refer to these schedules all the time, it's quite useful to know what they are:

Schedule C relates to organisations like banks that have deducted income tax from certain payments. You almost certainly won't have to worry about this.

Schedule D is divided into five separate classes referred to as 'cases'.

- Case I relates to profits from a trade.
- Case II relates to profits from a profession.
- Case III refers to interest not taxed at source, and all foreign income.
- Case IV refers to taxed interest income not falling under any case schedule.
- Case V refers to rental income from properties in Ireland.

Schedule E basically covers all the money earned from regular employment, technically defined as 'income from offices or employments, together with pensions, benefits in kind, and certain lump sum payments arising from an office or employment'.

Schedule F covers dividends and other distributions from Irish-resident companies.

Whenever you deal with the Revenue Commissioners in relation to income tax, you'll find that they make reference to the above schedules and cases. It is always worth checking that they have your income correctly classified – if they don't, you may be paying too much tax.

A quick explanation of income tax rates

For many years, income tax has been levied at different rates according to the amount of income involved. There are currently two different rates in Ireland – **20%** and **40%**. Which rate of tax you'll pay will depend on your circumstances and income. For instance, for 2022 if you are a single person the first €36,800 of your income will be taxed at 20% and the balance at 40%. It is worth remembering that these tax rates can change from year to year.

The table below shows the tax bands and rates for 2022. As you will see, taxpayers are divided into four different groups below:

- single people and widow(er)s;
- one-parent families;
- married couples where only one spouse is working; and
- married couples – where both spouses are working.

Rates of income tax

Single/widowed without dependent children	€36,800 @ 20% Balance @ 40%
Single/widowed qualifying for single person child-care credit	€40,800 @ 20% Balance @ 40%
Married couple (one spouse with income)	€45,800 @ 20% Balance @ 40%
Married couple (both spouses with income)	€45,800 @ 20% (with increase of €26,300 max.) Balance @ 40%

Universal Social Charge (USC)

An income levy was introduced in the budget of October 2008 and increased in the supplementary budget of April 2009. In the budget of December 2010, this was abolished and replaced with one part of the Universal Social Charge (see page 327). If your income is less than €13,000, you pay no USC. Once your income is over this limit, you pay USC on *all* of your income.

USC rates (2022)

On the first €12,012	0.5%
on the next €9,283	2%
on the next €49,560	4.5%
On the balance (over €70,044)	8%
Self-employed income over €100,000	11%

Some good news for anyone on a low income

If your income falls below a certain level, you are completely exempt from income tax. The chart below sets out the maximum amount of income you can receive this year – according to your circumstances – without paying a single cent in tax. It's worth noting that if you earn income over the amounts set out below, you will be eligible for something called 'marginal relief', which is explained below.

Low income exemption limits for 2022	
Single/widowed, 65 or over	€18,000
Married, 65 or over	€36,000
Additions to exemptions limit for dependent children (€)	
1st and 2nd child (per child)	€575
Each subsequent child	€830
Marginal relief tax rate	40% of the amount by which the total income exceeds the exemption limit.

Taking advantage of marginal relief

Supposing you are on a relatively low income, earning just slightly more than the amount necessary to avoid tax completely? As it would be unfair to tax you too heavily, you are entitled to marginal relief. Any individual or married couple whose total income from all sources is slightly over the exemption limit may qualify for marginal relief but it will only be granted if it is more beneficial to the claimant than their tax credits. It restricts the tax payable to 40% of the difference between your income and the appropriate exemption limit. The exemption limits vary depending on age, marital status and the number of qualifying dependent children. As this is quite complicated, let me explain it with an example:

Marginal relief advantageous			
Over 65 married with two children			
	€		€
Total income	36,000	Total income	36,000
Tax @ 20%	7,200	Less: Exemption	36,000
Less: Tax credits	5,440	Excess	nil
Tax due	1,760	Tax @ 40%	nil

Personal credits and tax allowances

Although you are liable to pay income tax at the rates outlined, you are entitled to claim all sorts of personal tax credits and allowances, which help to reduce this bill substantially. You'll find a complete guide to all the income tax credits and allowances in the next chapter.

PRSI – Another form of income tax

the initials PRSI stand for **pay-related social insurance**. Because it is calculated as a percentage of your income it is effectively a form of income tax.

The purpose of PRSI is to raise money to provide all sorts of social welfare benefits – these range from invalidity pensions to redundancy pay to maternity benefit. Your ability to claim social welfare benefits is linked to your having paid PRSI.

- How much PRSI you have to pay will depend on your job. There are three key categories: private sector employees, public sector employees, and the self-employed.
- Your entitlement to benefits is normally based on your contributions made two years before the year in which you claim! In other words, what you paid in 2016 will determine what you can claim in 2018.
- The level of PRSI you have to pay is calculated as a percentage of your gross income.
- You can volunteer to pay PRSI, or pay it at a higher level, if this is to your advantage.

It's worth noting that the employee and employer normally share PRSI contribution costs. Most employees, of course, pay their PRSI through the PAYE tax system.

A summary of the benefits to which you are entitled under PRSI is to be found in Chapter 5. To claim a **social insurance benefit** it is necessary to have made a minimum number of PRSI contributions. Confusingly, the word 'contribution' means not just the PRSI you've paid, but also your PRSI credits. PRSI credits are awarded to someone who would normally have been making a contribution, but for various reasons did not do so. For instance, you receive PRSI credits during any weeks when you receive a disability benefit or unemployment benefit. You also receive credits when you first start working.

If there were an Olympic category for 'most complicated tax in the world', PRSI would probably win the gold medal. If you need help with your PRSI, I suggest talking either to an accountant or contacting the Department of Social Protection or the Revenue Commissioners.

21
All About Income Tax Credits

How tax 'credits' and 'allowances' can help you save money

Depending on your circumstances, you can probably reduce your income tax bill by claiming certain tax credits and allowances. So what is the difference between 'credits' and 'allowances':

- A tax credit is money off your actual tax bill. So, if you have a tax bill of €1,000 and tax credits of €800, you only pay €200 in tax.
- A tax allowance reduces the amount of income on which tax is payable. How much it will be worth to you will depend on the rate of tax you pay. For instance, if you pay income tax at 20%, a €1,000 tax allowance will save you €200 of tax.

The old system of tax allowances has largely been replaced by tax credits.

Every year, you are sent an annual **tax certificate**, referred to, somewhat long-windedly, as the 'notification of determination of Tax Credits and standard rate cut-off point'. This sets out full details of all your tax credits, together with the income level at which you will start to pay the higher rate of tax.

How tax credits work in practice

Before going into detail about all the different personal tax credits that exist, let's look at how they work in practice.

In 2022, John O'Brien, a single taxpayer on PAYE, pays tax at 20% on the first €36,800 of income and 40% on anything above this sum. His tax credits amount to €3,300. Here is how his tax credits reduce his tax liability on his income of €40,000.

Income €40,000		
Tax on the first €36,800 @ 20 %		€7,360
Tax on the remaining €3,200 @ 40%		€1,280
total tax before tax credits		€8,640
Deduct tax credits		
Single tax credit	€1,700	
PAYE tax credit	€1,700	€3,400
Tax payable		€5,240

Check your tax credits every year

Do remember to check that you're claiming all your tax credits every year. You can also go back to the Revenue Commissioners and claim tax credits that you failed to take advantage of over the previous four tax years.

A complete guide to personal tax credits and allowances for 2022

Over the next few pages you'll find brief details of all the different tax credits and allowances for which you may be eligible.

Single person's credit

You can claim this if you're single, if you're married but decide to opt for single/separate assessment or if you're separated and you and your former partner have not opted for joint assessment. It is worth €1,700 for 2022.

Married persons' credit

This is double the single credit, and it's granted to married couples who have opted to be assessed together. It can also be claimed by separated couples where one partner is maintaining the other and is not entitled to claim tax relief on the maintenance being paid. For more details on tax relief for separated and divorced couples see **chapters 32** and **33**. The married persons' credit is worth €3,400.

One-parent family credit

If you have a dependent child and you are unmarried, widowed, separated, divorced or deserted (that is, your spouse has left but you are neither separated nor divorced), then you can claim the one-parent family tax credit of €1,700. This is in addition to your normal personal tax credit.

Widowed parent credit

A special credit is granted to widowed parents for the first five years following the year of bereavement. For the year 2022 the credit is: €3,600 in the first year; €3,150 in the second year; €2,700 in the third year; €2,250 in the fourth year; and €1,800 in the fifth year.

Special age credits

If you are over 65, or if your spouse is over 65, you receive an extra credit. If you are single or widowed this is worth €245, or for a married couple €490.

Home carer's credit

If you care for someone who's elderly (defined as being over 65) or incapacitated, you may be eligible to claim an additional credit of up to €1,600. The home carer credit is only available to married couples where one spouse cares for one or more dependent people. You can't claim if you are looking after your own spouse. The maximum income of the home carer to claim maximum relief is €7,200. A reduced tax credit applies where the income is between €7,200 and €10,200.

A new childminding relief was introduced in 2006. Where an individual minds up to three children (other than their own children) in the minder's own home, no tax will be payable on the childminding earnings received provided the amount is less than €15,000 per annum. If the childminding income exceeds this amount, the total amount will be taxable, as normal, under self-assessment. An individual will be obliged to include their childminding income in their annual tax return.

Incapacitated child credit

If you are looking after an incapacitated child, you're entitled to claim a tax credit of €3,300. Note that the child must be under the age of 18 or, if over the age of 18, must have been incapacitated before reaching 21 years of age or while still receiving full-time education.

Dependent relative credit

If you can prove that you maintain, at your own expense, a relative who cannot live independently (or a widowed mother, whether incapacitated or not), you can claim a tax credit of €245 per year provided the relative's income does not exceed €16,156 per year.

Incapacitated person's allowance

An allowance of up to €75,000 is available to any taxpayer who is incapacitated and has to employ someone to look after them. The same allowance is available to any taxpayer who is employing someone to look after an incapacitated spouse. In fact, the allowance is available where a family employs a carer to look after a totally incapacitated person. Clearly, to take advantage of this allowance you need to have an income, and because it's an allowance (as opposed to a tax credit), the value of the benefit will be determined by your marginal – or top – rate of tax.

Blind person's credit

If you are blind, you can claim a tax credit of €1,650. If both you and your spouse are blind then you may both claim, bringing the total credit up to €3,300. An additional allowance of €825 is available to any blind person who uses a guide dog. This allowance can be claimed on your tax return under the heading of Health Expenses and at the standard rate of 20%.

PAYE credit

If you pay tax by the PAYE system you're entitled to a PAYE credit of €1,700. If you're married, and both you and your spouse are on PAYE, then there is a doubled credit. However, you should bear in mind that you cannot claim the PAYE credit if you are the director of a company and control, either directly or indirectly, 15% or more of the shares. You can't claim it, either, if you employ your spouse (either as an individual or as a partner in a firm).

Medical insurance

If you take out medical insurance, the premium you pay will already have been discounted by the standard rate of tax (currently 20%). The insurance company will receive this tax relief directly from the government so there is no need for you to make a separate claim. It is worth noting that you can enjoy this tax relief even if you don't pay tax!

Permanent health insurance

If you are worried about a drop in your income as a result of an accident or illness, and you take out permanent health insurance to protect you against this eventuality, your contributions will be tax deductible. However, the amount of relief you can claim must not be more than 10% of your total income for the year of assessment. Any benefit you claim under a permanent health insurance policy will be liable to income tax.

Medical expenses relief

If you have to spend money on medical care, or non-routine dental treatment, then you can claim tax relief at the standard tax rate.

- You can claim for yourself, your spouse or any other person for who you claim tax allowances.
- The allowance can be shared among a number of people. If, for example, several children are paying for their parent to receive treatment, each can claim.

- When it comes to medical expenses, most things are eligible for tax relief – from a visit to a doctor to hearing aids, and from physiotherapy to the cost of gluten-free food for cœliacs. There are a few exceptions, including routine dental treatment, having your eyes tested and the purchase of spectacles and contact lenses.
- Note that all expenses in relation to maternity care are fully allowable.
- For nursing home expenses, relief is available at your marginal rate of tax.

Third-level college fees

You may be able to claim tax relief on tuition fees for approved:

- Undergraduate courses;
- Postgraduate courses;
- Information Technology (IT) courses; and
- Foreign language courses.

You can claim tax relief as long as you have actually paid the fees, either on your own behalf or on behalf of another person in private or publicly funded third-level colleges.

For the 2012 tax year and thereafter you can claim the Student Contribution as part of the tuition fees tax relief. The maximum annual relief for tuition fees including the Student Contribution is €7,000 per person per course.

If you are claiming for a full-time student, there is no tax relief on the first €3,000 of all tuition fees for the 2021/22 academic year. If the claim refers to a part-time student, there is no tax relief on the first €1,500 of tuition fees for the 2021/22 academic year.

If you are claiming for more than one student, you will get full tax relief on the student Contribution for the second or subsequent students. Tax relief is given at the standard rate and there is no limit on the number of individuals for whom you can claim.

Loan interest relief

If you're paying interest on a loan, you may be able to claim tax relief. Various types of loan are eligible, including:

- mortgages in relation to your main home (virtually gone now);
- bridging loans;
- loans taken out for business purposes;
- loans borrowed to pay death duties; and
- borrowings used to acquire shares in your own business.

Mortgage interest relief is now granted 'at source' – your lender will claim it on your behalf and reduce your monthly payments accordingly. You should be aware that mortgage interest relief is available on money borrowed for the purchase, repair, development or improvement of your sole or main residence situated in Ireland.

You can also claim the relief if you borrow money to 'purchase a residence for a former or separated spouse or a dependent relative where the accommodation is being provided by you rent-free'. The amount of relief you can claim will be determined by your personal circumstances. Only first-time mortgage holders can claim tax relief, for the first seven years of the mortgage, up to a limit of €20,000 for married couples or widow(er)s or €10,000 for a single person. Tax relief at source no longer applies for those who purchased their homes after 1 January 2013.

Relief on deeds of covenant

If you make a legal commitment – known as a deed of covenant – to pay money for a period of time to someone who is aged 65 or over, or permanently incapacitated (providing the latter isn't to a son or daughter under 18) you will be able to claim tax relief. A deed must be capable of exceeding a period of six years to qualify for tax relief.

Pension contributions

If you're making payments into an approved personal pension scheme (here the word 'approved' refers to Revenue Commissioners' approval!), income tax relief will be available to you at your marginal (top) rate of tax. The amount of relief is restricted to a percentage of your income. Unused allowances in any one year can be carried forward to the next. The percentage of your income that you're allowed to put, tax-free, into a pension scheme increases as you get older. For 2021 it works as follows:

- If you're under the age of 30 you can put up to 15% of your income into your pension scheme tax-free.
- If you're aged between 30 and 39 you can put 20% in.
- If you're aged between 40 and 49 you can put 25% in.
- If you're aged between 50 and 54 you can put 30% in.
- If you're aged between 55 and 59 you can put 35% in
- If you're aged 60 and over you can put 40% in.

However, there is a cap of €115,000 on the income taken into account.

Investment relief

the **Employment Investment Incentive Scheme (EIIS)** is a tax relief incentive scheme that provides tax relief for investment in certain corporate trades. The scheme has replaced the Business Expansion Scheme (BES). Email me for details of this year's options.

Seafarer's allowance

If you are a seafarer and you're away on a voyage for at least 161 days in a tax year, then you are eligible for a special allowance of €6,350. Note, however, that this allowance can only be offset against seafaring employment.

22
PAYE

How to make the PAYE tax system work in your favour

Even if you're in salaried employment and your income tax is deducted automatically using the Pay As You earn (PAYE) system, there are still plenty of things you can do to keep your tax bill to a bare minimum. In addition to explaining how PAYE operates, this chapter examines some of the tax-saving opportunities open to those who pay tax by this method.

The ins and outs of PAYE

It is easy to understand why the Revenue Commissioners like the PAYE system. It allows them to collect tax as it falls due, rather than once a year. But it has two advantages for the taxpayer as well. Firstly, your employer and the Revenue Commissioners handle all the administration involved with your tax bill. If you were self-employed, this could cost you thousands of euros a year. And secondly, you don't have to worry about being faced with a tax bill every year.

PAYE is operated by employers in conjunction with the Revenue Commissioners. The system is simplicity itself:

- Your employer provides your details to the Revenue Commissioners.
- Before the beginning of each tax year (usually in December), the Revenue Commissioners issue a 'Notification of Determination of Tax Credits and standard Rate Cut-off Point'. This sets out any tax credits due to you, details your rate or rates of tax, and incorporates your **standard rate cut-off point** – something I'll explain in a moment.
- Using the information supplied by the Revenue Commissioners, your employer calculates how much tax to deduct from your salary.

So what is the standard rate cut-off point? Basically, it's the amount of money you can earn at the standard rate – currently 20%. This is determined by your personal circumstances – whether you are married, single or widowed. You may also have allowances that are allowed at the higher rate of tax, such as a contribution to an approved pension scheme. Where this is the case, your standard rate cut-off point will be higher.

the formula for working out PAYE is:

- The standard rate of tax (currently 20%) is applied to your gross pay up to the standard rate cut-off point for the period in question.
- Any income over and above that amount in the pay period is taxed at the higher rate (currently 40%).
- the sum of these two amounts is called the **gross tax payable**.
- Any tax credits you're entitled to are then deducted from the gross tax payable, to arrive at the **net tax payable**.

Wealth Check

It is in your interest to keep the taxperson up to date

If the Revenue Commissioners don't have all your personal information, they may make a mistake regarding the various tax credits and allowances to which you are entitled. You can use the information in the previous chapter to compile a list of credits and allowances that you believe you can claim, and you should then complete a Form 12A: 'Application for a Certificate of Tax Credits and Standard Rate Cut-off Point' and send it to your tax office. This form is available on request or can be downloaded from www.revenue.ie. When you receive your 'Notification of Determination of Tax Credits and standard Rate Cut-off Point', double-check that it lists all the tax reliefs you wish to claim.

Emergency tax

If your employer doesn't have the information needed to calculate the correct amount of tax to deduct (a 'Notification of Determination of Tax Credits and Standard Rate Cut-off Point'), you will automatically be put onto PAYE **emergency tax**. As emergency tax only incorporates minimal tax credits, you will be paying too much tax! You should contact your local tax office to resolve the situation.

Getting your tax back! PAYE refunds

there are various circumstances under which you may be entitled to a PAYE tax refund. For instance:

- If you become unemployed: In this situation you should write to your Inspector of Taxes and ask for a **Form P50**. You should complete and return this, along with Parts 2 and 3 of your **Form P45** (the form your last employer should have given to you prior to you leaving).
- If the Revenue Commissioners have made an error and overtaxed you due to some factor of which they were unaware.

After the end of the tax year (31 December), your employer used to give you a **Form P60**, which sets out the amount you earned in that year together with any tax that has been deducted. This form is now called Employment Detail Summary. It contains details of total pay and total deductions and is available through the 'Review Your tax' link in PAYE services – Revenue.ie. Check this form to make sure that all the allowances, deductions and credits to which you are entitled have been claimed. If you believe there is an error, you should advise your employer and your local Inspector of Taxes to request a refund.

Wealth Check

Double-check you are claiming everything

Below is a list of all the tax credits and allowances you may be entitled to (full details are to be found in the previous chapter). Why not take a moment or two to check through it now, to make doubly sure that you aren't paying a cent more tax than you have to?

Tax credit 2022	(€)
Single person	1,700
Married person	3,400
Widowed person (w/o dependent children)	2,240
Widowed person (qualifying for one-parent family tax credit)	1,700
Widowed person (in year of bereavement)	3,400
One-parent family (widowed person)	1,700
One-parent family (other person)	1,700
Age tax credit (65 years plus & single/widowed)	245
Age tax credit (65 years plus & married)	490
Home carer's credit (max.)	1,600
Incapacitated child (max.)	3,300
Dependent relative (max.)	70
Employee's tax credit	1,700

Making sure your expenses are tax-free

one of the areas in which the Revenue Commissioners are extremely strict is that of expenses paid to employees. They don't want employers to disguise a benefit (effectively extra salary) as a legitimate expense. The Revenue Commissioners' guidance rules say that any expense 'must have been wholly, exclusively and necessarily incurred for the purpose of performing the duties of your employment'. (Interestingly, if you're self-employed, the 'necessarily' criterion doesn't apply.)

So what is, and isn't, allowable? If you have to buy special equipment or clothing, for instance, it is unlikely that the Revenue will argue with your claim. By the same token, they are unlikely to take issue if you use a company-owned computer at home or claim part of your telephone bill if it is used for work calls. In general, what you can legitimately claim will very much depend on the nature of your employment. For instance, if you work in a publishing company, any books you buy will almost certainly be allowable, as might trips to the theatre or cinema. If you're an engineer, this is unlikely to be the case!

If the Revenue Commissioners believe that you are making a claim for something that is not wholly, exclusively and necessarily incurred for the purpose of performing the duties of your employment, they will tax it! This tax is called **benefit in kind**. Cars supplied by your employer are subject to benefit in kind (see **Chapter 25**). Your employer will be required to value the benefit and to stop tax and PRSI at source through the PAYE system. So, for example, if your employer were to send you away on a one-week holiday to recuperate from overwork, you would pay tax on the cost of that holiday as if you had been paid it as extra salary.

23
Income Tax for the Self-employed

Wealth Check

Could you take advantage of the seed capital scheme?

If you're thinking of starting your own business – and you've never been in business before – then you may be able to take advantage of something called the seed capital scheme. To be eligible you have to have been employed on a PAYE basis, and you have to have capital of your own (or be able to borrow capital elsewhere) to invest in the new venture. Under these circumstances the government will give you an income tax rebate of up to €100,000 (relating to the PAYE paid in the six years preceding cessation of your employment) to help you get your new business off the ground. Because the seed capital scheme is essentially returning or rebating tax you've paid in the past, it doesn't stop you from taking advantage of other government incentives such as grants and employment incentives. Furthermore, you can claim this rebate pretty much regardless of the sort of business you are establishing.

How to reduce your income tax bill if you work for yourself

If you are self-employed – or thinking of becoming self-employed – this chapter is essential reading. You will find out:

- how the tax system operates in relation to your earnings;
- ways to reduce your share of the tax burden; and
- how to avoid the unwanted attention of Revenue, while making some worthwhile tax savings.

Let's start by explaining the basic ground rules, and what is meant by the self-assessment system and preliminary tax.

Self-assessment system

If you are a director in your family company, or if you're in salaried employment (in other words on PAYE) but have income from other sources, you'll have to pay tax under the self-assessment system. Self-assessment means that you have to complete your own tax return, decide how much tax you owe, and pay it to the Revenue Commissioners at the specified time. You can, of course, get a professional accountant to do all of this for you.

The latest date by which you can complete your income tax return (**Form 11**) for the Revenue Commissioner is 31 October following the year of assessment. In other words, your 2022 tax return must be submitted no later than 31 October 2023, or mid-November 2023 if using the Revenue online service (ROS).

Preliminary tax

When you submit your income tax return you must also pay something called preliminary tax. Preliminary tax is the amount of income tax you think you're going to owe for the year in which you pay it. In other words, on 31 October 2022 your preliminary tax will be the amount of tax you think you'll owe for 2022. The amount you'll actually have to pay is the lower of either 90% of your final liability for 2022 or 100% of your liability for 2021. Let me give you an example:

> Supposing you had a good year last year, but are having a bad year this year. Last year you had to pay €10,000 tax, but this year you only expect a liability of €1,000 tax. Your preliminary tax bill would, therefore, be 90% of this year's liability – or €900.
>
> Since your preliminary tax is only an estimate of the tax you owe, you will naturally either have to pay the difference or ask for a refund. This is done at the same time. Supposing, for instance, you've paid €1,000 preliminary tax on 31 October 2021. Your final tax bill for the year, however, turned out to be €1,500. The €500 extra will fall due no later than 31 October 2022.

In other words, on or before 31 October every year you submit a return and pay preliminary tax plus the balance of the previous year's income tax. If you're owed money by the Revenue Commissioners from the previous year, you can deduct it from the amount you're paying. This is known as **Pay and File**.

The mystery factor!

As if this isn't complicated enough, there is an added factor that makes it all the more confusing: you can choose the dates of your financial year. The tax year, of course, runs just like the calendar year, from 1 January to 31 December. However, the Revenue Commissioners allow you to pick your own accounting period. So while your 2022 tax return could refer to the period 1 January 2021 to 31 December 2021, it could alternatively refer to any 12 month period.

A quick aside about accounting dates

It may seem like a tiny detail to you – considering the enormity of being self-employed and running your own business – but your accounting date can have important implications. For instance, if you run a seasonal business, you're unlikely to want your accounting period to end during a busy period. Also, while you can choose an accounting period that gives you the longest possible time to pay your tax, if you aren't good at putting money away to meet your tax liabilities all you're doing is postponing your problem and making it worse.

As hardly anyone starts a new business on 1 january, what many self-employed people do is submit their first set of accounts for a period of less than 12 months. For instance, if you started your business on 1 july you might submit your first set of accounts to cover the period 1 July to 31 December. Your second tax return would then run from 1 january the following year.

You are entitled to change your accounting period any time you want. However, this can trigger an additional tax charge, so you need to think carefully before you do so.

Make your payments on time … or else

the Revenue Commissioners do not take kindly to income tax returns being submitted late. They take a similar line if you fail to pay any tax you owe on the date it is due. If you don't submit your tax return by 31 October, the Revenue Commissioners will add a surcharge to your tax bill:

- A surcharge of 5% of any tax due can be imposed if you are up to two months late.
- If you are more than two months late, the surcharge can rise to 10% of the tax due.
- In addition to the surcharge, you will be charged interest at the rate of roughly 1% per month on any outstanding tax.

If you are going to have trouble making a tax payment, let the Revenue Commissioners know in good time. Remember, it is almost certainly cheaper to borrow the money from a bank than to suffer heavy late payment surcharges and interest.

Revenue Online Service (ROS)

ROS, the Revenue Online Service, has been available to self-employed taxpayers for some time. Once registered, ROS enables you to view your current position with Revenue for various taxes and USC, to file tax returns, fill out forms and make payments for these taxes online in a variety of ways.

The service is highly efficient and avoids the pitfalls of postal delays for returns sent close to the due date.

Furthermore, self-employed taxpayers filing their annual return (**Form 11)** through ROS are given an extra approximately two weeks after the 31 October deadline to pay and file. To qualify for the extension you must:

- File your return through ROS.
- Pay preliminary tax for the current year.
- Pay income tax balance due for previous year.
- Pay capital gains tax on gains arising from 1 January to 30 September in the current year.

To register for ROS go to www.ros.ie.

Wealth Check

Don't get on the wrong side of the Revenue

If you are self-employed or a company director, the last thing you want is an investigation or audit by the Revenue Commissioners. You'll be pleased to discover, therefore, that it is possible to dramatically reduce your chances of being bothered by Revenue. All you have to do is follow a few very basic rules:

- If your return is late, this increases the Revenue's interest in you. By the same token, make sure you pay the tax you owe on time.
- Given that the Revenue Commissioners deal with every business in the country, they have a good idea about the sort of profits that you ought to be making. If you consistently appear to be making less than the industry average, they may decide to take a closer look.

- A low salary or low drawings may make them suspicious as well. They'll be wondering if you're earning cash and not declaring it.
- Incomplete returns. If your tax return has not been completed correctly, you are simply asking for trouble.
- Discrepancies. The Revenue Commissioners are not idiots, and if there is a discrepancy between, say, your VAT return and your annual tax return, eyebrows will be raised and questions will be asked.
- Erratic turnover figures. If your company or business seems to do well one year, and not the next, your inspector may decide to look a little closer.
- Ownership by an offshore entity. If the Revenue Commissioners notice that your shareholders are located in a tax haven – or if they see that you are doing a lot of business with a tax haven – this is bound to set off alarm bells.

The basic rules are: Stay on top of your paperwork, and pay your tax on time. Then you are much, much less likely to suffer the bother and expense of a Revenue investigation.

Do you need to register for VAT?

You only have to register for value added tax (VAT) if your sales are in excess of:

- €37,500 per year if you provide services; or
- €75,000 per year if you provide goods.

Once you're registered for VAT you must charge it on all your invoices but – looking on the bright side – you can reclaim any VAT you pay out on business expenses (other than those for entertainment or motoring). Once registered, you will need to keep proper VAT records and complete a return every two months.

Don't forget your PRSI and USC

If you are self-employed you have to pay PRSI contributions of 4% of your gross income. For more information about PRSI see **Chapter 5**. USC rates are outlined in **Chapter 20**.

And another thing

If you are self-employed and operating your business from home, remember that this is now also a business premises, and you should advise your insurance company of this. In most cases, this is unlikely to affect your insurance premium – but it is important that you are covered if equipment is stolen or damaged, or if a business visitor has an accident while on your premises.

Incidentally, if you do use your home as a business premises, you can claim some of the running costs as expenses against your annual tax bill. Bear in mind, however, that if you pay yourself 'rent', this may have capital gains tax implications when you come to sell your home. This is because although there is no capital gains tax on a principal residence, there could well be a liability on a business premises.

Self-employment comes in many forms

The term 'self-employed' refers specifically to people who are:

- in business as a 'sole trader'; or
- in a partnership with one or more other people.

Many people who work for themselves actually do so as a 'contractor', working on a regular basis for someone else. You should be aware that if you work for an employer for more than eight hours a week you are entitled to a contract of employment. Such a contract would give you all sorts of benefit, such as the right to holidays, the right not to be dismissed unfairly, minimum notice and so forth. On the other hand, as a contractor, you aren't protected under employment legislation, and you must – of course – make your own tax arrangements.

Many self-employed people find it is worth their while to form a limited company and to trade in this way. The advantages of running a limited company include:

- limited financial risk;
- the ability to make more generous pension contributions to your retirement fund; and
- possible tax benefit.

However, don't rush into forming a company without taking legal and accounting advice.

Working out your profit

When you are self-employed you pay income tax on what the Revenue Commissioners refer to as **taxable profits**. Your taxable profits are your gross income (the total amount you make) less any expenses which are allowed for income tax purposes. So, if you earn a total of €20,000 a year and have expenses of €5,000, your taxable profits will be €15,000 a year.

Expenses

So, what expenses are allowable against your profits? In some ways it is actually easier to consider what expenses the Revenue Commissioners will definitely *not* allow:

- any money you spend which is not '**wholly and exclusively**' for the purpose of your business. For example, if you buy a suit for work, the Revenue Commissioners would say that it isn't 'wholly and exclusively' for business purposes. If you're considering any sort of major expenditure as part of your business, and you're not sure if it will be allowable, it's well worth checking with either the Revenue Commissioners or your accountant first
- **entertainment**. With the exception of entertaining your staff, the provision of accommodation, meals or drink for your customers is not allowable. Indeed, if you take a client out to dinner not only will the expense be disallowed but you may also incur benefit in kind tax yourself.
- any sort of **personal expenses.**
- money spent on **improving your business premises**. This said, money spent renewing or repairing your business premises is allowable.

So what *can* you claim? Let me give you an example. Imagine that you are a chef who has opened his or her own restaurant. Here are some of the expenses that you could legitimately claim against your profits

- rent
- wages paid to employees
- interest paid on business loans
- other property expenses, including electricity, gas, water, rubbish disposal, insurance, etc.
- furniture
- equipment for the kitchen
- linen, tableware, glasses and related items
- travel, stationery, telecommunications, postage and advertising

- cookery books
- trips overseas to source produce – not only for your restaurant but, perhaps, because you plan to go into the import and wholesale business
- ingredients
- uniforms for yourself and staff
- wine
- other beverages

You might also argue that you needed to eat in your competitors' restaurants for research purposes. The real point is: if you can show you had to spend the money to run your business, then it is almost certainly an allowable expense.

A word about capital expenditure

Many businesses require special plant, machinery or equipment. Buying such items is referred to as capital expenditure. Such expenditure is allowed as a business expense, but not all at once. Since December 2002, 12.5% of the cost is allowed as an expense each year. So if you spend, say, €1,000 on a photocopier, you can claim €125 a year as a cost against your income for the following eight years. This is one of the reasons why many people who are self-employed opt to lease rather than purchase certain items.

Other tax-saving possibilities

There are a number of ways in which someone who is self-employed can reap a tax advantage. These include:

- claiming for business expenses that would be disallowed for someone who was an employee;
- taking advantage of the special rules regarding pension plans; and
- using the self-assessment system to delay the payment of tax.

24
Tax and Property

Property investor? How to ensure you keep your tax bill to a minimum

From a tax perspective, property is just about the most complicated investment you can make, which is why I have devoted this short chapter to the subject. The complications include:

- If you make a profit on the rent, you have to pay income tax on it.
- If you make a profit when you sell the property, you have to pay capital gains tax on it.
- There are all sorts of expenses you can claim against your profits – it is important to make sure you claim all of them.

The benefits of investing in property are huge, especially if you have been a property investor since the early 1980s or you are starting afresh in 2022.

The tax advantages of property investment

There are several generous tax advantages to property investment, including:

- In the current climate of relatively low capital gains tax, should you sell the property at a profit you will only have to pay tax at a rate of 33%.
- You can currently earn up to €14,000 a year in rent tax-free from the letting of a room in your own principal private residence.
- All the normal personal allowances are available to you, if you haven't already used them against other income.
- The Revenue Commissioners will allow you to set a surprisingly wide range of expenses against your rental income, thus helping to keep your income tax bill to a minimum.

A word of warning

It is worth bearing in mind that rental income is treated in the same way as self-employed income. As a result, it may have the effect of pushing you into the higher tax bracket (in other words, 40% tax plus 4% PRSI and USC). Many people wrongly believe that they will reduce their tax liability by holding property through a limited company. This is not the case, because:

- the rate of **corporation tax** on rental income is 25%.
- Undistributed investment and rental income in a **close company** is liable to a further tax charge of 20%. (A 'close' company is one that is controlled by five or fewer shareholders or is controlled by any number of shareholders who are directors.)
- The effective corporation tax rate can be as high as 40%.

Tax incentives

There have been two property tax incentives you could have availed of recently:

- Capital allowances in relation to **industrial buildings**. The term 'industrial buildings' includes not just factories but nursing homes, crèche facilities, and even – in certain cases – holiday cottages.
- Tax incentives to **designated areas**. These designated areas are in rundown parts of Cork, Dublin, Galway, Limerick and Waterford. The idea was to encourage urban renewal. The best known of these tax incentives was the 'Section 23' relief in respect of expenditure on the construction, conversion or refurbishment of residential property in certain inner-city areas.

'Generous' expenses

Below is a list of the expenses that can normally be deducted from your rental income for tax purposes:

- any rates you have to pay on the property
- any rent (such as ground rent) that you have to pay on the property
- interest paid on money borrowed to acquire or improve the premises.
- the cost of anything you supply to your tenant that isn't covered by their rent. For instance, if you pay for the electric light in the hallways, or for the lawns to be mown, it is an allowable expense.
- any maintenance, repairs, insurance or management/RTB fees
- a capital allowance of 12.5% a year on the value of any fixtures, fittings or furniture you have purchased specifically for the property. In plain English, this means that if you buy furniture for the flat you can write it off over an eight-year period.

Note that where your costs exceed the income from your rental property, the loss you incur may only be offset against future rental income. In other words, you can't use a loss from property investment to reduce, say, the tax you pay on your monthly salary.

25
Tax, Benefit in Kind and the Company Car

How working motorists can drive down their tax bill

There was a time, in the distant past, when being provided with a company car was a genuine perk. Not only were there major tax advantages, but you did not have to purchase, maintain or run a vehicle oneself. However, as the table below shows, it may not in fact be to your advantage any more to have a company car.

Benefit in Kind (BIK)

An employee is taxed on expense allowances (s 117 – taxes Consolidation Act 1997), benefit in kind (s 118), share options (s 128) and preferential loans (s 122) obtained from the employer. A loan is regarded as preferential if the interest rate is less than 4% in the case of a mortgage loan, or 13.5% in the case of any other loan.

BIK treatment does not apply to:

- an annual or monthly bus or train pass (s 118(5A));
- a bicycle and associated safety equipment (costing up to €1,250, €1,500 for electric bikes) for travel to work;
- a qualifying shopping voucher worth not more than €500 (s 112B); or
- shares worth up to €12,700 received through an approved profit sharing scheme (s 510). This is increased to €38,100 for shares held in an employee share ownership trust for a minimum of 10 years.
- All electric cars up to a value of €50,000 (over this threshold normal BIK rules apply)

Company cars

The employee is taxed on 'notional pay' based on the cash equivalent of the benefit of use of a company car (s 121). This is calculated at 30% of the original market value (OMV) of the car, up to 24,000km. For business mileage exceeding 24,000km, the rates are:

- 24,000–32,000km – 24%
- 32,000–40,000km – 18%
- 40,000–48,000km – 12%
- 48,000km and upwards – 6%

A new set of rates, due to come into effect by ministerial order, are calculated as a percentage of the car's OMV, inclusive of duty and VAT, depending on your annual business travel and the car's Co2 emissions category:

Category A: 0g/km up to and including 120g/km
Category B: More than 120g/km up to and including 140g/km
Category C: More than 140g/km up to and including 155g/km
Category D: More than 155g/km up to and including 170g/km
Category E: More than 170g/km up to and including 190g/km
Category F: More than 190g/km up to and including 225g/km
Category G: More than 225g/km

Where the annual business travel is:

- 0–24,000km, the BIK is:
  - (i) 40% for categories F and G;
  - (ii) 35% for categories D and E; and
  - (iii) 30% for categories A, B and C.
- 24,001–32,000km, the BIK is:
  - (i) 32% for categories F and G;
  - (ii) 28% for categories D and E; and
  - (iii) 24% for categories A, B and C.
- 32,001–40,000km, the BIK is:
  - (i) 24% for categories F and G;
  - (ii) 21% for categories D and E; and
  - (iii) 18% for categories A, B and C.
- 40,001–48,000 km, the BIK is:
  - (i) 16% for categories F and G;
  - (ii) 14% for categories D and E; and
  - (iii) 12% for categories A, B and C.
- 48,001km or more, the BIK is:
  - (i) 8% for categories F and G;
  - (ii) 7% for categories D and E; and
  - (iii) 6% for categories A, B and C.

The BIK figure can be further reduced by the amount required to be made good, and actually made good, directly to the employer in respect of the car's running costs.

Civil service travel and subsistence rates

Compensation paid to an employee for the use of his private car is not taxed provided it complies with the following civil service travel rates:

Where the annual business travel is:

- up to 6,437km, the rate per km is:
  - (i) 39.12c where the engine size is up to 1200cc;
  - (ii) 46.25c where the engine size is 1201 to 1500cc;
  - (iii) 59.07c where the engine size is 1501 to 2000cc; and
  - (iv) 70.89c where the engine size is over 2000cc.
- over 6,438km, the rate per km is:
  - (i) 21.22c where the engine size is up to 1200cc;
  - (ii) 23.62c where the engine size is 1201 to 1500cc;
  - (iii) 28.46c where the engine size is over 1501cc; and
  - (iv) 34.15c where the engine size is over 2000cc.

A lunch or overnight allowance paid to an employee is not taxed provided it complies with the following civil service subsistence rates:

- €14.01 in respect of an absence of 5 to 10 hours;
- €33.61 in respect of an absence of 10 hours or more; and
- €125.00 (normal rate), €112.50 (reduced rate for extended stays), and €62.50 (detention rate).

As of 1 July 2015, class of allowances for Civil Service subsistence rates has been discontinued, meaning all employees, regardless of grade, are subject to the same rates.

Motor and travelling expenses

If you make a journey in your own car for business purposes, the money paid to you by your employer will not be taxable as a benefit in kind providing it does not exceed the **civil service mileage rate**. If you are going to claim motoring expenses from your employer, you should keep a track of the journeys you make and the mileage actually incurred. Sadly, you cannot claim for journeys between your home and work.

The amount you can claim under the civil service mileage rate rules varies according to whether or not you use your car in the normal course of your duties, or only occasionally. The current rates are set out in the table below:

Civil service kilometre rates from 1 April 2017

Engine size		0–1200cc	1200–1500cc	1500cc and over
Band	*Km Range*	*Cents per km*	*Cents per km*	*Cents per km*
1	0 to 1,500	37.95	39.86	44.79
2	1,501 to 5,500	70.00	73.21	83.53
3	5,501 to 25,000	27.55	29.03	32.21
4	Over 25,000	21.36	22.23	25.85

A chance to claim more

Some trade unions and professional bodies have negotiated special, higher, flat- ate motoring allowances for their members. For instance, teachers, nurses, journalists and building workers may all claim their special flat rate allowance tax-free – without the Revenue Commissioners questioning it. It's worth checking with your own trade union or professional body to see if such an arrangement is in place.

Other tax-free and tax-efficient perks

Below is a list of tax-free or tax-efficient benefits that it's possible for an employee to receive.

Daily and overnight allowances

If you're working away from home your employer can pay you a daily and/or an overnight allowance to cover the cost of any expenses you may incur, such as lunch, an evening meal, accommodation, and so forth. The amount you can receive tax free depends on your salary level. The more you earn, the more you can receive tax-free. However, the longer you stay away the less you can receive. The Civil service subsistence allowances were last reviewed in 2018, and the current rates are set out in the chart below.

Civil service domestic subsistence rates

Overnight allowances			Day allowances	
Normal rate	Reduced rate	Detention rate	10 hours or more	5–10 hours
€147.00	€132.30	€73.50	€36.97	€15.41

Free or inexpensive accommodation

If your job necessitates it, your employer can offer you rent-free or subsidised accommodation without any tax being incurred. Naturally, your residence has to be in part of your employer's business premises and there has to be a clear work-related reason for your needing to live there.

Staff entertainment

Your employer is allowed to entertain you at a reasonable cost without you incurring any benefit in kind.

Communal transport to your place of work

If, for instance, your employer provides a company bus or shared taxi to bring you to or from your place of employment, this is tax-free.

Presents!

Your employer can give you **non-cash personal gifts** providing it isn't for some reason connected with your work. This is called the small-gift exemption and cannot exceed **€1,000** in value.

Meals

Meals, whether free or subsidised, are entirely tax-free if they're provided in a staff canteen. However, the facility has to be open to all the employees.

Lump sum payments

Lump sum payments for special reasons – such as redundancy, on account of an injury or disability, or relating to your pension scheme – may be totally exempt from tax depending on the amount and circumstances. Details relating to redundancy payments may be found in **Chapter 31**.

Educational fees

Any scholarship income or bursaries paid by your employer will be completely free of tax provided that the course is relevant to your employment.

Injury or disability payments

Payment made on account of an injury or disability will also usually be 100% tax-free.

Work tools

Equipment, tools, working clothes or anything else required to fulfil your employment will not be taxed.

Pension scheme payments

If your employer contributes to an approved or statutory pension scheme, those contributions are also tax-free. For more details on this, see **Chapter 18**.

Health insurance

If your employer pays the cost of permanent health insurance for you, this is tax-free.

Season tickets

Bus, train and Luas passes are tax-free. The only condition is that they are monthly or annual transport passes, so these don't have to be used exclusively for work purposes.

Childcare

Crèche and childcare facilities, provided by your employer on a free or subsidised basis, will not be taxed provided that they are not privately owned.

Relocation expenses

All your home relocation expenses will be tax-free provided you are being forced to move as a requirement of your job.

Sports and recreational facilities

Sports and recreational facilities, so long as they are located on an employer's own premises, can be enjoyed tax-free by workers. This includes a company gym or health spa.

Mobile telephones

Your company-provided mobile telephone is tax-free provided it can be justified on the basis of business use. This rule also applies to the provision of computers, and even broadband access at home.

Car parking

A free car-parking space will not be taxed either – potentially a very valuable benefit indeed if you happen to work in a city centre.

Exam payments

A cash award given to you in recognition of obtaining a qualification of relevance to your job will also be treated as tax-free provided it is roughly equivalent to the expenses incurred in studying for the exam.

Membership fees

If you need to join any professional body by reason of your employment, your subscription will be tax-free.

Health screening

If your employer insists on you having a medical check-up, it will be tax-free.

Long-service presents

If you work for your company for at least 20 years, they can buy you a present costing no more than €50 for each year of service, and it will be completely tax-free, a potentially €1,000 tax-free gift.

Has your employer offered you an opportunity to buy shares?

An increasing number of employees are being offered an opportunity to buy shares, directly or indirectly, in their employer's company. The tax treatment of different types of share schemes varies. Some offer an opportunity to save tax and others don't. You should also note that some employee share schemes won't cost you anything to participate in, whereas others will require you to make an investment. As this is a complicated area, I would always suggest taking professional advice before participating. However, to give you a general idea of how the different types of scheme work, I have outlined the seven (!) main options below, together with a few guidance notes.

Approved profit-share scheme: This is probably the most advantageous scheme from an employee's point of view, as it allows you to receive shares tax-free up to an annual limit of €12,700 provided certain conditions are met. Basically, provided you hold the shares granted to you for at least three years, they will be entirely tax-free.

Employee share ownership trusts (ESOTs): Employee share ownership trusts were created to run alongside company profit-sharing schemes and they work pretty much in the same way so far as the employee is concerned. One additional benefit, however, is that after ten years, a one-off additional payment of €38,100 can be made.

Stock options: A stock option allows you the opportunity to purchase shares in your employer's company at a pre-set price, normally within a certain timeframe. The benefit arises if the price at which you can buy the shares is less than their market value. This does, of course, constitute a gain from your point of view, and such a gain would be taxable. Stock options are rarely tax efficient.

Share subscription schemes: If you purchase new shares in your employer's company and hold them for at least three years, then you will achieve a tax benefit. However, there is an upper limit on the amount of tax you can save and you will, of course, incur a risk, since the value of the shares you buy may fall during the period you hold them.

Save as you earn (SAYE) scheme: This allows you to purchase shares in your employer's company over a period of time, with the cost of those shares being deducted from your salary as it's paid. There is the potential for some tax savings here, though they are not enormous.

Share incentive schemes: Share incentive schemes and employee share purchase plans offer you an opportunity to buy shares in your employer's company, but do not normally attract much of a tax benefit

The free gift of shares: If your employer gives shares to you, without charge, you will be liable to tax on the benefit of receiving them but you should escape PRSI.

All the schemes outlined above have stringent conditions attached to them by the Revenue Commissioners, and I cannot over-emphasise the need to take professional advice.

Revenue Online Service (ROS)

Revenue have extended the Revenue online service (ROS) to be available to PAYE taxpayers. Once you have registered you can avail of a full suite of services, including viewing information on your Revenue record and submitting tax credit claims and incomes information. You can also carry out a range of transactions without the need to fully register for the service. To access the site and register go to www.ros.ie.

Wealth Check

You should find out if you are eligible for any refund of tax already paid, such as dental and medical expenses, etc., even going back as far as four years. This is particularly relevant to PAYE workers, who sometimes overlook their entitlements. There are two main companies in Ireland offering tax refunds on a 'no refund – no fee' basis:

- www.taxback.com is an award-winning company that specialises in this area. To start the ball rolling, text Moneydoctors to 53135 (normal SMS rates apply) and they will be in touch with you to assess your situation within 48 hours.
- www.redoaktaxrefunds.ie also specialise in tax refunds.

Better in your pocket than theirs!

Nowadays, however, company cars are liable for PAYE, USC and PRSI. The amount of tax you have to pay is linked to the value of the car and the amount of mileage you do. For instance, if you do less than 24,000km a year, you will be taxed as if you had received a cash amount equivalent to 30% of the 'original market value' of the car supplied. This calculation does not change even if the car you drive is secondhand. Keep in mind, though,

that if you do a very high annual business mileage, the amount of tax drops substantially. For instance, if you do more than 48,000km a year, you only have to pay the cash equivalent of 6% of the 'original market value'. Let's look at a real-life example:

> Your company provides you with a car worth €30,000 and your business travel is less than 24,000km a year. You will be taxed as if you had received 30% of €30,000 – in other words, €9,000 of extra salary a year. Assuming that you're paid monthly, you will be taxed on an extra €750 per month – one-twelfth of the €9,000 benefit you are considered to have received.

The cost of this can be brought down if you contribute towards the cost of the car and also pay for your own private fuel.

How to slash the cost of your benefit in kind

It is possible to reduce your benefit in kind charge to a flat 20% providing the following conditions are met:

- You spend 70% or more of your time away from your place of work.
- Your annual business travel is between 9,600km and 24,000km.
- Your average working week is more than 20 hours.

To have any hope of reducing your benefit in kind tax bill, you must maintain a logbook detailing all your business trips, and make it available, if required, to your Inspector of Taxes.

Another clever way to cut your benefit in kind

If, for some reason, the car is not available to you for a period, the amount of tax will be reduced. For instance, supposing you gave the car back to your employer for one month a year, you would reduce your tax liability by one-twelfth.

Should you have a company car at all?

For many people, the benefit in kind tax is so high that it makes better sense to use their personal car for business and take a mileage allowance instead of a company car. If you only receive the civil service kilometre rates (see table above), any money paid to you by your employer will be completely free of tax.

If you're entitled to a company car, and forgo it, you may also find yourself better off. As the tables below show, this will be particularly true if you do a relatively low business mileage each year.

Cost of car	Kilometric thresholds	BIK %	BIK
€20,000	24,135 or less	30	€6,000
€20,000	24,136 to 32,180	24	€4,800
€20,000	32,181 to 40,225	18	€3,600
€20,000	40,226 to 48,270	12	€2,400
€20,000	48,271 and over	6	€1,200

Car costing €20,000 and over 1500 cc

Kilometres per year	40,000	30,000	20,000	10,000	5,000
Depreciation	€6,500	€5,500	€4,000	€3,000	€3,000
Petrol	€8,000	€6,000	€4,000	€2,000	€1,000
Insurance	€1,000	€1,000	€1,000	€1,000	€1,000
Road tax	€350	€350	€350	€350	€350
Service/repairs	€2,000	€1,200	€750	€300	€300
Total running costs	€17,850	€14,050	€10,100	€6,650	€5,650
Mileage claims at civil service rates*	€13,384	€10,508	€7,662	€4,816	€2,953
Net running costs	€4,496	€3,542	€2,438	€1,834	€2,697
Benefit in kind	€1,200	€2,400	€4,800	€6,000	€6,000

**First 6,437km at 59.07 cent per km and balance at 28.46 cent per km.*

Note: USC is payable on the benefit in kind.

100% tax-free motoring!

There is one way to enjoy a company car with absolutely no tax liability whatsoever. Any car included in a **car pool** will be tax-free provided all of the following conditions are met:

- the car is available for use (and is actually used) by more than one employee, and isn't ordinarily used by any one such employee to the exclusion of the others.
- Private use by any employee is incidental to business use.
- The car is not normally kept overnight at, or in the vicinity of, any of the employees' homes.

Finally, if you work for your own company or are self-employed, the cost of purchasing a 'business' car will be reduced by capital allowances. As with other capital expenditure, you're allowed to write off the cost for tax purposes over a period of eight years. So if you purchased the car for €10,000, you can set an allowance of €1,250 per year against your tax bill. If it was an electric, your allowance is now available in full in the first year.

26
Capital Gains Tax

Don't pay a penny more capital gains tax than you have to

Just because capital gains tax – at a flat rate of 33% – is much cheaper than it used to be (at its peak it was 40%) it doesn't follow that you want to pay any more of it than you have to.

Capital gains tax planning is not easy, even though the rules relating to it have been much simplifie . However, there are still some useful allowances and exemptions that do make it possible to reduce, delay and, in some instances, completely avoid this tax. As you'll discover in this chapter.

How the tax works

If you buy something for one price and then sell it at a higher price or, for that matter, give it away when it is worth more than you paid for it, then the Revenue Commissioners consider that you have made a 'capital gain' and may, therefore, be liable for tax.

Wealth Check

Indexation relief

If you owned whatever you have sold prior to 31 December 2002, there is good news – before 1 January 2003, something called indexation relief was applied to all possible gains, which has the effect of reducing tax liability. Indexation relief was, essentially, an allowance designed to take account of inflation, so that only gains above the rate of inflation were liable for tax. You can still apply indexation relief to assets held prior to 31 December 2002.

Basic capital gains tax planning

Below is a list of the main ways in which capital gains tax can be reduced or avoided:

- It may seem a bit dramatic, but if you **move abroad** prior to making a disposal of assets (in other words selling them), you will not be liable for any Irish capital gains tax. The only exception to this is if you're selling Irish property or mineral/exploration rights. Obviously, you would want to be selling a fairly major asset to make it worth becoming non-resident. For further information about becoming non-resident see **Chapter 29**.

- The first €1,270 made as a capital gain in each tax year is tax-free.
- You do not have to pay capital gains tax from the **sale of your principal residence**, including up to one acre of land. However, if you sell your home for development, then you will be taxed on the profit attributed to the 'development value'.
- If you've bought a home for a **dependent relative** (this includes a relative who is unable to look after themselves, a widowed mother, and so forth), any gain you make on the sale of the property would be free of tax.
- If you give **a house site** to a child who then builds his or her private residence on it, providing that site is not worth more than €500,000, no tax is due.
- There is no capital gains tax on bonuses from **post off ce** or **state savings schemes**, or from the disposal of **government stocks**.
- You don't have to pay tax if you sell an asset with a '**predictable life**' of less than 50 years – for instance, if you sold a car or a horse at a profit
- If you **hand your business** (including a farm) to a member of your family on retirement, there is no capital gains tax liability either. This is called 'retirement relief'.
- You can dispose of a '**moveable, tangible asset**' worth €2,540 or less without paying capital gains tax.
- Capital gains tax is not applicable to any **winnings** from gambling, the lottery, or competitions.
- Any benefits from **life assurance** policies or **deferred annuities** are tax-free.
- If you transfer something to your **spouse** there is no capital gains tax charge.

Incidentally, retirement relief not only applies when you pass an asset to a member of your family. Providing you're aged over 55, and have owned the farm or business for more than five years, if you sell that farm or business for a sum that is less than €750,000 you won't have to pay capital gains tax. (This €750,000 is a lifetime limit, which from 1 January 2014 was reduced to €500,000 for people aged 66 years or over.) If you sell the asset for more than €750,000 you will pay a reduced level of capital gains tax.

In Budget 2012, a new incentive relief from CGT was introduced for the first 7 years of ownership for properties, whether residential or non-residential, bought between budget night and the end of 2013, where the property is held for more than seven years. In order to free up stockpiled land banks of undeveloped property, the holding period was reduced from 7 to 4 years in Budget 2018.

One more useful way to reduce your bill

If you incur expenses relating to the item you are selling, or if you have improved it in some way, you may be able to claim them against your tax bill.

For instance, supposing you purchased an investment property and added an extra bedroom to the attic. The cost of doing this could be deducted from the sale price, thus reducing your tax liability.

27
Capital Acquisition Tax

Don't allow your gifts and inheritances to be taxed unnecessarily

Capital acquisition tax (CAT) is a tax on gifts and inheritances – and the purpose of this chapter is to ensure that your gifts and inheritances aren't taxed unnecessarily!

There are two key ways to lessen your exposure to capital acquisition tax (which operates at a flat rate of 33% on benefits taken on or after 6 December 2012 after reaching CAT thresholds):

- Make sure that the value of what you're leaving or giving falls below the tax-free threshold.
- Make sure that what you're leaving or giving is excluded completely from the tax. As there is a long list of excluded benefit, this is not as hard as it may seem.

Take full advantage of the tax-free thresholds

There are all sorts of gifts and inheritances that the government feel it would be unfair to tax. Or, to be more accurate, they feel it would be unfair to tax them unless the amount involved is fairly substantial. We are talking here about gifts and inheritance made to members of your immediate family and other people who are close to you. The allowances that apply are referred to as **tax-free thresholds**. The tax-free threshold system is not straightforward, but I'll do my best to summarise it.

Essentially, there are three different groups. The first is your **closest relatives**, the second is your slightly **more distant relatives**, and the third is **everyone else**. The thresholds are personal to the recipient, not to the donor (known legally as the **disponer**). For instance, for the current year the total amount a child can receive tax-free as gifts and/or inheritances is €335,000 from a parent. So providing the amount a child inherits from either of his or her parents is beneath this figure, he or she will pay no tax on it. Where it gets complicated is in the case of, say, nieces and nephews, who may receive bequests from a number of uncles and aunts. Aggregates apply so if you receive your full threshold from one uncle, the next aunt or uncle inheritance received will attract CAT tax at 33%. Below are the current thresholds:

Group A – Children: €335,000 where the recipient is a child, or a minor grandchild of the benefactor if the parent is dead. In some cases, this threshold can also apply to a parent, niece or nephew who has worked in a family business for a period of time. This threshold also applies to a parent receiving an inheritance from a child. Foster children may also receive this amount providing they were maintained by and resided with the foster parent for a successive period of five years while under the age of 18.

Group B – Close relatives: €32,500 where the recipient is a brother, sister, niece, nephew, grandchild or linear ancestor/descendant of the benefactor, or where the gift is made by the child to the parent.

Group C – Everyone else: €16,250 is the threshold in all other cases.

In other words, as an individual you can receive €335,000 from a parent, as well as €32,500 from uncles and aunts and an additional €16,250 from friends or other more distant relatives, without incurring any tax.

These rates apply from 9 October 2019.

Five completely tax-free categories

Five categories of gift or inheritance are excluded completely for purposes of capital acquisition tax. They are:

- Any gift or inheritance made **between spouses.**
- Any inheritance received from a **deceased child** that was originally given to that child by one or other of their parents.
- Up to **€3,000 worth of gifts or cash** in any single calendar year (so both parents can gift to their children).
- Irish government stock when given to a **non-Irish-domiciled beneficiary**. There are conditions attached to this – the main one being that the person receiving it must hold it for at least six years after receiving it. The legal definition of 'non-Irish domiciled' is complicated, but essentially it means someone who wasn't born in Ireland and who hasn't married someone born in Ireland.
- Your **family home**. Again, there are certain conditions. It should be your principal private residence (or the recipient's principal private residence); the recipient should have been living in the home for the three years prior to the transfer; and the recipient should not have an interest in any other residential property. Furthermore, the recipient mustn't sell the home for at least six years.

As you can see from the list above, with a bit of careful planning it is possible to take the main family home and other assets out of one's estate for inheritance tax purposes.

Two useful ways to avoid Capital Acquisition Tax

Because the government knows it would be unfair to include **farms** and **business assets** in the capital acquisitions tax net, both can be given away or bequeathed with only minimal tax liability.

The rules are written so that someone who wishes to reduce or avoid capital acquisition tax can, with a little foresight, transfer their assets into either a business or a farm and see them escape tax. As you can imagine, the rules governing these two tax loopholes are complex, so I will only summarise them below. It would be unwise, to say the least, to attempt to take advantage of these tax breaks without consulting a professional accountant and/or solicitor.

Farms

With regard to farms, 'agricultural assets are valued at only 10% of their true market value when calculating a liability for capital acquisitions tax'. Farm assets, in this instance, include not just land but buildings, woodland, livestock, bloodstock and machinery. The recipient of the farm must be a 'farmer', meaning that at least 80% of his or her assets are farm assets. They must also hold on to the assets for at least ten years to avoid any claw-back of tax.

A farm may, of course, also be considered a family business, and the Revenue Commissioners very generously allow them to be taxed as such for capital acquisition tax purposes, if it means a lower tax bill in the hands of the recipient.

Businesses

For business assets, once again, the primary condition is that the recipient must hold them for at least ten years after the transfer. The business itself must be Irish. Most businesses and business assets qualify, including property, unquoted shares, buildings, land and even machinery. However, businesses whose 'sole or main business is dealing in land, shares, or securities' are not covered by this loophole. The transfer of a business by way of gift or inheritance is not entirely tax-free under these circumstances, but the assets will be assessed at just 10% of their market value.

The person giving away or bequeathing either farm or business assets need not have owned them for very long. In the case of a gift it should be five years, but in the case of death it need be only two years.

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Love, Marriage and Lower Taxes

Extra tax benefits for those who are married

Billy Connolly, one of my favourite comedians, famously said: 'Marriage is a wonderful invention, but, then again, so is a bicycle repair kit.' However, unlike a bicycle repair kit, marriage has some very tasty tax benefit attaching to it. And in this chapter I will explain how you can take advantage of them.

Marriage brings greater flexibility

The first big benefit of being married is that you get to choose how you are taxed. The options open to you are:

Joint assessment: this means that you will be taxed as one unit. Some tax concessions not used by one spouse can be transferred to the other.

Separate assessment: This is very like joint assessment, except that all the available allowances are split evenly between you and your spouse.

Single assessment: This is where you and your spouse decide to be treated as if you were two single people for tax purposes.

Why this flexibility of benefit? Basically, you can choose to be taxed in the way that will produce the greatest possible tax advantage given your personal circumstances.

Under joint assessment and separate assessment, some unused allowances can be passed between husband and wife. This is particularly beneficial in the case of a two-income couple where one spouse earns more than another. Under normal circumstances, the Revenue Commissioners will assume that you wish to be taxed under joint assessment, and will calculate your tax liability accordingly. However, it is worth checking that you are taking full advantage of all the allowances and tax credits open to you, as the Revenue Commissioners may not be fully aware of your financial situation.

The only circumstances under which most married people might wish to be taxed under the single assessment system is where they are separated.

Other tax concessions made to married couples

A number of other generous tax concessions are made to married couples, including:

- Assets may be transferred between husband and wife without being subject to capital gains tax.
- Capital losses made by one spouse may be used by the other spouse to reduce a capital gains tax bill.
- Gifts or inheritances given by one spouse to the other are free of capital acquisition tax.
- Any money received by yourself or your spouse from a life assurance policy (providing you or your spouse were the original beneficial owners) will be completely tax-free.
- Married couples do not have to pay stamp duty when they transfer assets from one to another.

Even better news if you're married and self-employed

If you are self-employed or run your own business, by employing your spouse, you may be able to save up to €5,000 a year in tax. To make this saving, the total amount of income you and your spouse earn each year must be at least €73,600. It doesn't, by the way, all have to come from your own business. Your spouse can earn up to €25,000 and you can still gain a tax benefit

The reason why the tax saving can be made is the fact that a two-income family can take advantage of a €73,600 standard rate band as opposed to the €45,800 band available to a single-income family.

The best way to illustrate this is with a real example:

One income			**Two incomes**		
Income		€75,000	Income		€75,000
€45,800 @ 20%		€9,160	€73,600 @ 20%		€14,720
€29,200 @ 40%		€11,680	€1,400 @ 40%		€560
total tax before		€20,840	total tax before		€15,280
tax credits			tax credits		
Married person		€3,400	Married person		€3,400
PAYE	€1,700	€5,100	PAYE	€1,700	€5,100
Tax payable		€15,740	Tax payable		€10,180
Tax saving = €5,560					

Wealth Check

Turn your children into a tax advantage

If you're self-employed and you have children, you may be able to avoid tax on up to €16,500 per child a year. This is because your children are entitled – like anybody else – to avail of tax credits. Of course, the child must actually be doing the work for which they are paid – and it may be necessary for you to register as an employer for PAYE and PRSI purposes – but given the tax saving this has to be worth it! However, the child may have to pay PRSI and USC of €789, and you as the employer will be liable for the employer's PRSI contribution.

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Tax for the Ex-pat

Tax planning tips if you're living and working abroad

What happens to your tax position if you decide to live abroad? Much depends, of course, on where you go, what you do, and how long you're away. If, for instance, you move to a country with much lower rates of tax than we have here in Ireland, you could make a substantial saving. Since there are over 130 tax jurisdictions in the world, it's obviously beyond the scope of this book to look at all the possibilities. However, in this chapter I can, at least, explain how your Irish tax situation will be affected by a move overseas.

It's all about residency and domicile

each country across the world has its own rules about whom it taxes and under what circumstances. In some countries it's all about whether you **reside** there for legal purposes. This may have absolutely nothing to do with the amount of time you actually spend in the country. For instance, you can be tax-resident in Malta (thus taking advantage of a very liberal tax regime) but not set foot on the island from one end of the year to the other. Other countries have more complicated rules that are not only linked to your residence but also to your **domicile**, a rather complicated legal concept. Put simply, it is considered to be *the country that you call your natural home*. When you're born, you usually have the same domicile as your father. If you marry, or move abroad for a long time, your domicile may change.

Here in Ireland, your tax liability is determined by *both* your residence status and your domicile. Just to make things more complex, we have two types of residence: You may be **ordinarily resident** or simply **resident**.

You will be viewed as being resident here for tax purposes in the current tax year if:

- You spend 183 days or more in the state.
- The combined number of days you spend here in the current tax year and the the last tax year exceeds 280. In this case you are regarded as resident for year two.

Incidentally, the term 'day' really means whether you were in the state at any time during that day.

Once you've been in Ireland for three consecutive tax years, you are considered to have become ordinarily resident. You stop being ordinarily resident in Ireland once you've left the country for three consecutive tax years.

What happens when you move abroad?

Assuming that you are resident, ordinarily resident and domiciled in Ireland, what happens when you decide to move abroad on a permanent, or at least long-term, basis?

the year you leave Ireland, you will still be considered resident. However, the year after your departure, you will not be considered resident. Since this could lead to an unfair situation, in which you're taxed in two countries simultaneously, the law says that:

> As soon as you depart Ireland you may apply to be granted **emigrant status**, which means that your earnings outside Ireland after that date will be ignored for Irish tax purposes.

If you move to a country that has a **double taxation agreement** with Ireland, then you won't be expected to pay tax on the same money twice.

A money-back offer: tax rebates

If you leave a job in Ireland and move overseas to work, you may well be entitled to a tax rebate. In fact, you can claim a rebate going back up to four years. The reason you get this rebate is that under the PAYE system your various tax credits and allowances are spread out over an entire year. Under these circumstances, if you leave your job and move abroad halfway through the year, you'll only ever see the benefit of half your tax allowances and credits. You won't, however, be given this rebate automatically, though you may apply for it before you've even left the country.

What is your tax status?

So, what is your tax status? There are four possibilities:

- If you are resident and domiciled in Ireland, you will pay Irish tax including income tax on your Irish income and on your worldwide income.
- If you are resident in Ireland but not domiciled here, and if you haven't lived here for at least three years (in other words you are not ordinarily resident in Ireland), you will pay Irish income tax on your Irish and UK income, and on any foreign income paid to you

in Ireland. In other words, foreign income (unless it comes from the UK) that you don't deposit in an Irish bank or spend in Ireland escapes Irish tax.

- If you are ordinarily resident in Ireland, but not resident here for a particular tax year, then your tax status changes dramatically. In theory you're liable to Irish income tax on your whole worldwide income. However, employment or income that you earn wholly abroad (plus an extra €3,810) will be ignored for tax purposes. Furthermore, you may be able to take advantage of double taxation agreements to further reduce your tax bill.
- If you are not resident, or ordinarily resident – in other words, if you haven't lived in Ireland for at least three years – your only liability to Irish tax is on Irish income.

Budget 2010 introduced a **domicile levy**. From 1 January 2010, certain individuals who are Irish citizens and Irish domiciled in a tax year pay a levy of €200,000. Specifically the levy applies where the individual has:

- Irish-located property greater than €5 million;
- worldwide income in excess of €1 million; and
- an Irish income tax liability less than €200,000.

The Finance Bill clarified that Irish property is defined as all property located in Ireland but does not include shares in a trading company or a holding company that derive the greater part of their value from subsidiary trading companies.

The individual's Irish income tax liability for the year will be allowed as a credit in arriving at the amount of the domicile levy for that year. The levy will apply irrespective of where they live or where they are tax resident.

Your personal tax credits and reliefs

What happens to your personal tax credits and allowances if you cease to be resident in Ireland? The answer will be determined by the source of your income, and your resident status.

Get professional help!

In the excitement of moving abroad, many people omit to take professional advice on their tax position, and end up with an unexpected tax bill or – just as bad – a missed opportunity to claim back tax they've already paid. My advice to anybody moving abroad is get professional tax help sooner rather than later.

30
Special Tax Advice for Farmers

We city folk have an idyllic view of farming life – sun-drenched field , wholesome food, a healthy lifestyle and happy people. There is all that, but there is an everyday issue the farming community face that we all face – tax. Tax is and has always been a thorny issue regarding farmers. Some city folk may think that farmers don't pay enough, and farmers might say that they deserve special status because of the importance of their role in Irish heritage – not to mention the produce they yield from Irish soil. Being married to a farmer's daughter, I tend to agree with the latter!

If you are a farmer, you need to consider a number of areas:

- Income tax
- Capital acquisitions tax
- Capital gains tax
- VAT
- Stock relief
- Compulsory disposal of livestock
- Capital allowances
- Stamp duty
- Farm consolidation relief
- Leasing of farm land

Let's look at these all in detail now.

Income Tax

A farmer needs to prepare accounts every year, showing all income earned during the year (from cattle sales, subsidies, etc.) and all related expenses. The net profit made during the year is subject to income tax.

Tax return

A farmer is obliged to submit an income tax return (**Form 11**) each year. For example, the income tax return for 2022 must be submitted before 31 October 2023. If it is submitted online via the Revenue Online Service (ROS), it doesn't have to be submitted until mid-November 2023.

Payment of tax

A farmer, like any other self-employed person, has to make a preliminary tax payment for a given year or on 31 October of that year. The amount to be paid is generally based on the farmer's tax liability for the prior year.

Capital Acquisitions Tax

A gift or inheritance of land, buildings and other agricultural property (e.g. machinery and livestock) may be reduced by 90% of its market value for capital acquisitions tax when received by a qualifying farmer as long as:

- the farmer is domiciled in Ireland; and
- 80% of the property's market value consists of agricultural property.

This relief is lost if the assets are disposed of within six-years, without being replaced within one year of sale, or within a period of six years in the case of a sale or compulsory acquisition made on or after 25 March 2002. Make any claims for agricultural relief on **Form IT41**.

Gifts or inheritances of agricultural property qualify for **business relief**, where the relevant criteria are met, in circumstances where it fails to qualify for agricultural relief. This similarly reduces the market value of the gift/inheritance by 90%. Again, business relief will be clawed back if the assets are disposed of within six years, without being replaced.

Before you receive a gift of farm assets, make sure that 80% of your personal assets are agricultural assets after you have received the gift.

Capital Gains Tax

Retirement relief means that a **disponer** (the person giving the legacy, generally the mother or father) can hand over land to a child without capital gains tax liability for that child. However, the conditions are:

- The disponer must be over 55 years of age.
- she or he must have used the business assets for at least ten years prior to handing it over to the disponer's child.

You should note these points:

- Periods of ownership of a deceased spouse may also be included.
- 'Child' includes anyone who has worked substantially on a full-time basis for five years before the handover.
- Where proceeds do not exceed €750,000, relief on the disposal can be given to an unconnected person. There is marginal relief exceeding this amount.

Land that has been let for up to five years prior to a compulsory purchase order being made will qualify for retirement relief if it was used for farming for ten years prior to the letting.

Note that a farmer who participates in the EU 'Early retirement from farming scheme' by leasing the land qualifies for the relief. Therefore, while it is called 'retirement relief', you don't actually have to retire to qualify for this relief!

VAT

- A flat rate of 5.6% applies to supplies of agricultural goods or services.
- If you engage in any other services and your turnover exceeds €37,500 in a calendar year, normal VAT rates will apply – this includes the farming itself.
- Keep in mind that if you are a flat rate (5.6%) farmer, you can also reclaim this VAT on any expenditure incurred in the construction or improvement of farm buildings, farm structures, fencing, drainage and land reclamation.

Stock relief

Stock relief is a basic relief for first-time farmers (who meet certain criteria) whereby they can reduce their taxable trading profit by 100% of the increase in their farming stock at the end of their trading year over their farming stock at the beginning of that year. This relief has been extended to the end of 2021, as has the existing 25% general stock relief for farmers.

Compulsory disposal of livestock

There is a special relief for farmers (individuals and companies) in respect of profits resulting from the disposal of livestock due to statutory disease-eradication measures.

You can have tax on profits spread over four consecutive annual instalments *after* the year in which the profits arise or spread equally over the four years including the year in which the profits arise.

This relief extends to all animals and poultry.

Capital allowances

When a farmer spends money on capital expenditure, such as tractors, farm machinery, farm buildings and so on, they are *not* allowed to deduct all the cost against their profits in the one year. Instead, they have to spread the cost over a number of years in the form of capital allowances.

Below are the main types of capital allowances that a farmer can claim:

- **Plant and machinery:** If a farmer buys machinery, such as tractors, trailers, etc., for the farm, they can claim capital allowances over eight years at a rate of 12.5%.
- **Farm buildings:** If a farmer spends money on farm buildings, such as fences, roadways, drains, yards, land reclamation, etc., they can claim capital allowances over seven years (15% for the first 6 years and 10% for the seventh year).

Stamp Duty

Essentially a tax on buying or transferring property or land, the duty payable is cut to half for related bequests (e.g. giving your son your farm), but to young, trained farmers this duty is nil. There are clawbacks when, within five years of receiving a stamp duty relief, the proceeds of that disposal of the property are not reinvested within one year in other land. Consanguinity relief on agricultural land is extended to 2023 in Budget 2021.

Farm consolidation relief

This is another type of stamp duty relief for exchanging farm land between two farmers to consolidate each other's holding. There are a number of conditions attached to this relief and you should consult your accountant for more advice on it. This was extended by 2 years to 31st December 2021 in the Budget 2021.

Leasing of farm land

If you are over 40 and you lease your farm land, you are eligible for income tax exemption subject to certain thresholds – bear in mind the lease income of the husband and wife are treated separately for the purpose of the relief, whether jointly assessed or not.

In January 2007, a new exemption of €20,000 per annum was introduced for leases of 10 years or more duration. This measure was subjected to clearance with the European Commission under state-aid rules.

Part 9

When the Last Thing You Want To Think About is Money

This section of the book offers advice and information relating to five highly sensitive subjects:

- *redundancy*
- *separation*
- *divorce*
- *the death of a loved one*
- *personal insolvency and bankruptcy*

In each of these situations, of course, the last thing you'll want to think about is money. And yet, unfortunately, each of these difficult experiences has important financial implications.

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Redundancy

Whether you have opted for redundancy because of the financial benefit it offers you, or whether it was thrust upon you, it is vital that you know your rights in order to come out of it in as strong a financial position as possible. In this chapter I will explain your rights and offer general advice on making the most – from a money perspective – of the situation.

Background briefing on 'redundancy'

The term 'redundancy' applies to a very specific situation, so the first thing you must do is find out whether or not you are covered by the relevant legislation. Essentially, in order to be eligible for a redundancy payment, you must:

- be aged 16 or over;
- have been working for at least eight hours a week for your employer; and
- have at least 104 weeks (in other words, two years) of continuous service for the same employer since the age of 16.

Redundancy can only exist when an employee is dismissed because:

- the employer is no longer undertaking the business activity which necessitated employing you;
- the employer is moving the location of the business; or
- the employer has decided to carry on business with fewer employees, or to carry out work in some different manner.

Voluntary redundancy – also known as 'voluntary parting' – is where an employer wants to reduce numbers of staff and asks for volunteers for redundancy. If you do volunteer, you will automatically be entitled to a **statutory lump sum payment**. Note that employers must give you at least two weeks' notice before making you redundant, and notice must be given using **Form RP1** at that time.

How much are you entitled to?

The law is very precise about the amount of money an employer must pay you if you are to be made redundant. It is calculated as follows:

- You should receive two weeks' pay for each year of employment continuous since the age of 16.
- You should also receive an equivalent of one week's normal pay.

However, there *is* an upper limit. No matter what your salary, one week's pay will never be more than €600.

What happens if the employer doesn't pay up?

There are situations where employers don't – or can't – make the lump sum redundancy payment. For instance, the employer may be ineffic ent, insolvent, or even dead. Under these circumstances, it may be possible to receive a payment from the government. To pursue this, contact:

Workplace Relations Commission
O'Brien Road, Carlow
Lo-call: 1890 80 80 90

What's the tax situation?

Depending on your circumstances, and the amount of money being paid, your redundancy lump sum may or may not be liable to tax. It will be totally exempt from tax if the payment was made:

- under the Redundancy Payments Acts of 1987–91;
- as a result of injury or disability; or
- from an approved pension scheme.

Even if your lump sum isn't entirely tax-free, you may be able to claim an extra tax-free amount. How much you can claim will be the highest of the three different exemptions outlined below. Where you are receiving a larger sum, it is likely to become taxable. Under these circumstances, you can either treat it as income in the year in which you receive it, and have it taxed as such, or else you can take advantage of something called **top slicing relief**, which works by calculating your average rate of tax for the five years prior to the tax year in which you received a lump sum.

It is often also possible to reduce your tax bill on a redundancy lump sum by using it to make an additional voluntary contribution to a pension scheme (see **Chapter 18**).

Claiming tax relief on a redundancy payment

You can claim tax relief under one of these three exemptions:

Basic exemption: You can receive up to €10,160 as a lump sum, together with an additional €765 for each complete year of service, without paying a cent of tax. (This does not include statutory redundancy, which is tax-free.)

Increased exemption: the tax-free sum you are entitled to receive may be increased by €10,000 to a maximum of €20,160 (plus the additional €765 for each complete year of service) if you haven't made a claim for an increased exemption amount in the previous ten years, nor received a tax-free lump sum under an approved pension scheme.

Standard capital superannuation benefit (SCSB): this is a way for those with a long service record to receive a higher tax-free sum. The SCSB formula involves taking your average salary over the past three years, multiplying it by the number of years of service, dividing it by 15, and deducting any tax-free lump sum paid, or due, from a pension scheme.

Let me give you an example:

Peter, aged 65, has given 44 years' service to his company. His average salary over the last three years was €47,500. If you multiply this by 44 (the number of years service), you would get a total of €2,090,000. Then divide it by 15, giving you a total of €139,333.33 tax-free.

If you have been working for an employer for a sufficiently long period of time to entitle you to a redundancy payment, there is no doubt in my mind that it's worth seeking professional help to ensure that you not only optimise that payment, but that you pay the least possible amount of tax on the benefit. There may also be an opportunity to claim top slicing relief on any taxed element of a redundancy payment.

32 Separation

The financial consequences of separation

Sadly, no book dealing with personal finances is complete without chapters covering separation and divorce. First of all, it's worth pointing out that from a legal perspective the breakdown of a marriage actually has three separate stages:

1. When a couple make the decision to **live apart**.
2. When a couple seek a **legal separation**.
3. When a couple seek a **judicial separation**.

In this chapter I will explain the consequences and issues surrounding a separation, and in the next chapter I will explain what happens as a result of a divorce.

The implications of living apart

Living separately from your husband or wife does not in any way alter the legal status of your marriage. For example, you don't automatically lose your Succession Act entitlements (see below) if you are separated from your spouse. However, do note that if a spouse is found guilty of **desertion** or **bad conduct**, they might well be deemed by a court to have forfeited these rights.

What happens when you live apart?

The financial effects of living apart can be summarised as follows:

- In the case of a **temporary** or **short-term** separation, there will be no alteration in the income tax situation and you can still elect for joint, separate or single assessment.
- If the separation is considered to be **permanent**, the husband and wife will be assessed for income tax under the single assessment system. This only really changes if there are legally enforceable maintenance payments being made. In some circumstances, these will be tax deductible to the payer, and taxable in the hands of the recipient; in other circumstances, they will be ignored for income tax purposes.
- With regard to **capital gains tax**, a temporary separation will make no change in either spouse's tax status. In the event of a permanent separation, any transfer of assets that are connected with the separation itself will remain capital gains tax-free. However, other transfers will become taxable and unused capital gains tax losses will no longer be permitted.

- Couples who live apart continue to be exempt from **capital acquisitions tax** on the transfer of assets between each other.
- **Life assurance proceeds** continue to be tax-free, providing the beneficiary was originally named in the policy as such.

Couples who are separated continue to enjoy exemption from stamp duty when transferring property between each other.

Legal separation

A legal separation (often referred to as a 'Deed of Separation') is a voluntary agreement made between a married couple who have decided to live apart on a permanent basis. It does not change the legal status of a marriage. Its purpose is really to resolve the key financial and, where relevant, child-custody arrangements. Under normal circumstances, a legal separation makes provision regarding two key financial matters:

- any maintenance payments to be made by one spouse for the benefit of the other spouse and/or their children; and
- any desired change regarding rights under the succession Act 1965.

With regard to succession Act rights, these only change if altered legally by the Deed of Separation. However, on becoming legally separated, many people alter their wills to account for the new circumstances.

From an income tax perspective, a legal separation is no different from a married couple simply deciding to live apart. Thus, if the separation is likely to be permanent, and legally enforceable maintenance payments have been agreed, most couples decide to opt for separate assessment. In this case, maintenance payments are ignored for income tax purposes.

While the income tax situation may be relatively straightforward in the first year of separation, in subsequent years it may become slightly trickier. A number of different factors now come into play, including:

- voluntary maintenance payments, whether made to a spouse or for the benefit of a child;
- legally enforceable maintenance payments, whether made to a spouse and/or child;
- interest relief on mortgage repayments; and
- single-parent credits.

PRSI and **USC** may be payable on maintenance payments, depending on whether the separated couple have opted for single or separate assessment.

In most circumstances, there is a **tax benefit** to legally enforceable maintenance payments. This is because they are tax deductible for the spouse paying them, but will not necessarily be large enough for the recipient to have to pay tax on them.

Liability to capital gains tax, capital acquisition tax and stamp duty do not alter if you become legally separated as opposed to simply living apart.

What is a judicial separation?

If a couple cannot agree to a legal separation, one of them may apply to the courts for a judicial separation. In this case, instead of a voluntary arrangement regarding the marital assets, maintenance and so on, the court will make a number of **Ancillary Orders**, which are legally enforceable.

From a financial perspective, there is little difference between a legal separation and a judicial separation. There is one area, however, where a judicial separation is more like a divorce, and this is with regard to **pension benefits** (e.g. Pension Adjustment Orders). Under the Family Law Act of 1995, if a judicial separation takes place, a spouse's pension benefits will be treated in one of three different ways:

- **Earmarking** may occur. This means that when a pension becomes payable, a share of it is earmarked for the other spouse.
- **Pension-splitting** results in the pension benefits being split on a pre-set formula between the two spouses.
- **Offsetting,** whereby the spouse with pension rights may be entitled to keep them in exchange for something else. For instance, the spouse with pension rights might give up all entitlement to a family home.

A decree of judicial separation does *not* affect the legal status of a marriage – it merely means that a husband and wife no longer have to live together. The key difference between a judicial separation and a divorce is that a judicial separation will not allow either party to re-marry.

Sadly, many separating couples take legal but not financial advice. I strongly recommend a thorough review of your finances both before and after separation.

You should consider every aspect of your finances – life cover, income protection, critical illness cover, borrowings, savings, investments and (especially) pension plans.

Given that after a separation both parties are likely to be managing on a lower income, it is also important to work out a new monthly budget.

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Divorce

The financial consequences of divorce

Although a great deal has been written about the legal, emotional, religious, moral and logistical aspects of divorce, there are very few sources of reference relating to the *financial* consequences of ending a marriage.

The financial consequences will, of course, vary considerably depending on a variety of factors, including:

- each partner's age;
- the income of each partner;
- whether or not there are any children;
- whether or not there is a family home;
- other joint and individually held assets;
- the pension entitlements of each partner;
- the health of each partner;
- whether or not any life assurance is in place for one or other partner; and
- whether or not they both live in Ireland.

Decisions over whether or not the family home should be sold, or concerning maintenance payments, are legal rather than financial and, therefore, outside the scope of this book.

If you are divorced, whatever settlement was reached – whether voluntary or decided by the courts – you now need to review your financial planning.

In this chapter, I will look at the key issues facing a newly divorced person, and I will make a number of specific suggestions relating to your personal finances.

The importance of budgeting

There is no doubt that divorce is expensive. Leaving aside the legal costs, both husband and wife are likely to find themselves now having to fund two homes where, previously, they only had to pay for one. By the same token, other assets are likely to be depleted:

- extra life cover may become necessary.
- All sorts of living expenses will increase.
- You may be required to start or increase retirement savings.

In addition, the emotional strain of divorce is often such that people become somewhat reckless about their spending and borrowing habits. If you do find yourself in this unfortunate position, my advice is that – at the earliest possible moment – you sit down and work out a **new budget**.

If you would like assistance with this, I would refer you to my website (www.moneydoctors.ie), or email me for a free monthly budget spread sheet.

How your situation will have changed

Once you are legally divorced, your financial position in relation to succession, tax, pensions, insurance and social welfare will all have changed:

- Your **succession rights** will automatically be lost. However, if you have made specific bequests in your will to your former spouse, they will stand unless you change your will or make a new one.
- In terms of **income tax** your position is broadly the same as if you were simply legally separated (see Chapter 32). If there are legally enforceable maintenance payments, you can usually opt to be taxed either under the single assessment or separate assessment systems. Under the single assessment system, maintenance payments are tax deductible for the person paying them, and taxable for the person receiving them. If you decide to be taxed under the separate assessment system, then maintenance payments will be ignored for income tax purposes.
- Any transfer of assets made because of the divorce will be capital gains tax-free. However, after that point, transfers will no longer be exempt from capital gains tax.
- Any transfer of assets or gifts made as a result of the divorce settlement are exempt from capital acquisition tax. As with capital gains tax, once you are divorced, the spousal exemption for capital acquisitions tax no longer applies.

Making proper pension provision

Pension rights can be a very important part of the financial arrangements resulting from a divorce. Indeed, for many married couples, their pension rights can be as valuable, if not more valuable, than the family home. For this reason, I strongly advise you to take expert advice when you separate.

In fact, the law recognises the vital importance and value of pension rights – as a result, spouses are *not allowed* to arrange a **pension adjustment order** between themselves. Only a court of law has the right to decide what happens to pension rights after a couple separates or divorces.

Deciding on the value of the pension is not easy. It will depend on the beneficiary's salary, type of pension scheme, level of contributions, prescribed benefit, years of service and scheme performance.

A court will not necessarily make any decision regarding pensions if it believes that the rest of the agreed settlement is fair to both parties. However, there are three things concerning pension benefits that divorcing couples should be aware of:

- A court can make orders about the pension benefits of either spouse.
- Normally any decisions about pensions will be made at the time of the divorce, but if this doesn't happen, either spouse can go back to court for a **pension adjustment order** at any time during the lifetime of the pension scheme member.
- A court can order that part of a pension is paid either to a spouse or to a dependent child.

If you are getting divorced, do not rely solely on the services of a solicitor – call in one or more financial professionals to help with financial planning, tax planning and pension planning.

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Coping With Bereavement

What to do about the money side of things when someone close dies

When somebody close to you dies, tax and other financial matters are obviously the last thing on your mind. If there are dependants involved, however, it may be necessary to tackle such matters with a degree of urgency. Even if dependants aren't involved, there is a legal obligation on the personal representative to carry out certain responsibilities within a reasonable period of time.

Making and executing a will, especially after purchasing a property, is probably the most important legal task a person should perform. Despite that fact, very few people during their lifetime actually execute a will. Many of us have a psychological or emotional difficulty addressing thoughts of a will, or meeting a solicitor or other persons to instruct the drafting of a will and then executing it. This aversion is understandable – there is little as stressful or as morbid as planning for one's own death. However, as anybody who has been touched by bereavement knows, creating a will during one's lifetime will in fact minimise the grief and distress felt by surviving relatives.

A will also guarantees that the affairs of a deceased person will be dispensed with and distributed far more urgently than someone who dies either without having made a will (intestate) or with an invalid will. A will thereby minimises stress for surviving loved ones.

A short list of definitions

Below are plain English definitions of the various legal terms used when sorting out the affairs of someone who has died.

Deceased: The 'deceased' is the person who has died.

Administrator: Where the deceased hasn't appointed a personal representative (in his or her will), the person looking after the financial situation is known as the administrator.

Beneficiary: A beneficiary is someone who inherits either part or the whole of the deceased's estate.

Estate: The estate is all of the assets that the deceased person owned. This includes bank accounts, property, jewellery, stocks and shares, furniture and so on.

Personal representative: This is the person ultimately responsible for sorting out and finalising the deceased's affairs.

Executor: If the deceased has written a will, he or she will have appointed an executor to ensure that his or her wishes are carried out. Many people appoint several executors, and it is normal for the personal representative to be one of them.

Intestate: If the deceased did not write a will, they are said to have died 'intestate'. 'Intestacy' is the situation where no will exists. What happens to the assets where there is no will is set out in the 1965 succession Act.

Probate: The entire legal administration of a dead person's possessions or 'estate'. if you are an Irish citizen and die having possessions worth over €25,000 which are not passing to a co-owner, you MUST go through this legal process on death to establish who the rightful owners of your possessions are and for your beneficiaries to pay taxes on amounts over the allowed tax-free thresholds to Revenue.

Succession Act: This piece of legislation sets down the requirements for a valid will. Under Irish law, a spouse and children are legally entitled to a certain share in the property of a deceased parent or spouse – whether a will has been made or not. As it currently stands, if there are children then the spouse's share, by legal right, is at least one third of the estate. Where there are no children, the spouse is entitled to at least one half of the estate.

Trustee: If there is some reason why some or all of the deceased's assets cannot be distributed immediately to the beneficiaries, then the will may provide for certain assets or property to be held 'in trust'. This situation might arise, for example, if the deceased was leaving something to someone who was under the age of 18. The person whose responsibility it is to look after such property or assets is called the trustee. Many people appoint more than one trustee in their will.

Will: this is the legal document in which the deceased set out his or her wishes regarding his or her assets.

When there is a will

If there is a valid will, the following rules apply:

- on the death of a **married person with no children**, their surviving spouse is entitled to one-half of the deceased's estate.
- on the death of a **married person with children**, their surviving spouse is entitled to a one-third of the deceased's estate.
- The spouse is legally entitled to the appropriate share regardless of the actual terms of the will. The fact that the parties may have lived apart for many years does not of itself affect their entitlements under the Act.

When there is no will or no valid will

If there is no valid will, the following rules apply:

- on the death of a **married person with no children**, the surviving spouse is entitled to the entirety of the deceased's estate.
- on the death of a **married person with children**, their surviving spouse is entitled to two-thirds of the deceased's estate and their children are entitled to the remaining one-third.
- If a **single person** or **widowed person** passes away without having made a valid will, their next of kin inherits their estate.

The right of the spouse to inherit

A spouse, i.e. somebody who is legally married to another person, is entitled to share in the estate of that person on their death regardless of any will.

If a person has made a will and passes away, regardless of what is mentioned in that will (e.g. entire estate left to a third party), the spouse is entitled to one-half of the deceased's estate if there are no children.

If a person has died having made a will with a spouse and children, the spouse is entitled to one-third of the deceased's estate.

The spouse is also entitled to a portion of the family home, namely the place where the husband and wife normally resided prior to the death.

However, note that the right to a portion of the family home does not exceed the legal right share (i.e. one half if there are no children; one third if there are children). For example:

Mr and Mrs Murphy are legally married. Mr Murphy makes a will. They have no children and live in a house that is registered in Mr Murphy's sole name.

Mr Murphy dies, and when his will is read it appears that he has left everything to charity.

The value of Mr Murphy's estate is €2 million. Regardless of Mr Murphy's will, his spouse is entitled to:

- the family home; *and*
- one half of Mr Murphy's estate (including the family home).

If in this example, Mr and Mrs Murphy had children, Mrs Murphy would be entitled to only one third of the value of the estate (including the family home).

Status of children under a will

If a party dies leaving children and no surviving spouse, these children will be deemed to be the next of kin of the deceased and entitled to share in the estate of the deceased.

However, they are only entitled to share in the estate of the deceased because they are the next of kin of the deceased for legal purposes.

It is a common misconception that an individual has an obligation to their children to leave a portion of their estate to them. Unlike a wife or husband (spouse), children over the age of 18 have no right to share in the estate of their parents and rank as beneficiaries of the estate of a parent purely in their position as next of kin.

A child over the age of 18 of a deceased person who has been disinherited in a will may challenge this will in the courts only on the grounds that the parent failed during their lifetime to make proper provision for the child.

A child has a right to challenge the will of a parent, but this does not mean that a parent has an obligation under law to leave anything to a child in their will. Irish children beware!

In other words, a party may make a will wherein they endeavour to disinherit their spouse and children, but the spouse has an automatic right to share in the estate regardless of what is in the will. The children do not have such automatic right. However, if a party dies without making a will, the children may share in the estate of the deceased person by virtue of the fact that they are the next of kin.

Non-marital children

the status of children born to an individual outside marriage is exactly the same as children born inside marriage.

> For example, a couple may have never married but have three children. If one of them does not make a will and passes away, the partner will not be entitled to any share in the estate of the deceased, but rather the children as next of kin will be entitled to a share. If, however, the deceased has made a will leaving everything to the surviving partner, and the children are over the age of 18, the children have no automatic right to share in the estate of the parent who has passed away.

The matter becomes even more complicated in the following example:

> A married couple have three children. One party to the marriage has a fourth child outside of the marriage with another party. This parent passes away without making a will: all four children as next of kin are entitled to a proportionate share in the estate of the deceased parent.

Non-marital relationships

Non-marital partners have no right to share in the estate of a deceased partner. For example:

> A man and woman may have lived together all their lives as husband and wife (often referred to as a common-law husband or wife) and the male partner passes away without having made a will. The surviving partner has no right to share in the estate of the deceased, and the estate will be inherited by the next of kin of the deceased person, e.g. parents, siblings or perhaps even children.

The role of the personal representative

When someone dies, it usually becomes clear fairly quickly whether they have left a will. If they have, this will list one or more executors, one of whom will be appointed as the personal representative of the deceased.

If a personal representative has not been appointed in the will, or no valid will is in existence, the courts will appoint an administrator to act as a personal representative (usually the next of kin).

The personal representative should, within a reasonable period of time, collect the deceased's assets, pay any debts and distribute the remaining assets to the beneficiaries.

Obtaining the grant of representation

The Grant of Representation (i.e., Grant of Probate or Letters of Administration) is an Order from the High Court allowing the party to whom the grant is issued to deal with the affairs of a deceased person. It is effectively an authority from the Court for this person to step into the shoes of the deceased person and carry out the wishes of the deceased person if there is a will or, alternatively, deal with the estate as per the law of the land if there is no will.

A Grant of Representation allows the personal representative to execute documents for the sale, lease or remortgage of property, for the transfer of property to other members of the family who may inherit under the will or the law, to close bank accounts, transfer money and discharge debts.

In order to obtain the Grant, clearance must be sought from the Revenue Commissioners.

The importance of notifying the Tax Office

Prior to obtaining the Grant of Representation from the Probate Office, the Personal Representative must settle the deceased's **tax affairs**. Before financial institutions can release money, the personal representative must apply to the Capital Taxes Office of the Revenue Commissioners for something called a **Letter of Clearance** – effectively stating that all taxes have been paid to date, or are in the process of being paid. Without this document, banks, building societies, credit unions, insurance companies and other financial institutions are prohibited by law from releasing any monies, other than those held in the joint names of the deceased and his or her surviving spouse.

The application to the Revenue Commissioners will also contain details of the beneficiaries to the estate of the deceased person.

The Probate Office will not release a Grant until such time as the **Tax Clearance Certificate** or **Letter of Clearance** from the Revenue Commissioners has been delivered, not just addressing the tax affairs of the deceased but also the tax affairs of the beneficiaries to the estate.

What the personal representative could be liable for

If the personal representative makes payments or passes assets to the beneficiaries of the estate without paying any outstanding tax liabilities, he or she will be liable to pay the tax out of his or her own pocket. By the same token if, as personal representative, you fail to claim a tax rebate due to the deceased, then the beneficiaries will be entitled to come after you for this money.

If the deceased was an employee, there may be a PAYE tax rebate due. This can be arranged by asking the deceased's employer to send a **Form P45** to the tax office. If, on the other hand, the deceased was self-employed, you will need to file an outstanding income tax return and business accounts to the deceased's tax office. You may also need to deal with outstanding VAT and PRSI matters.

Before the Probate Office can process the application for the Grant of Representation, they will require a certified **Revenue Affidavit** from the Capital Taxes Office. It is the responsibility of the personal representative to provide the Revenue Commissioners with a Revenue Affidavit. The Revenue Affidavit requires the personal representative to supply:

- full details of the deceased's assets and liabilities;
- information about assets passing outside of the will; and
- details of the beneficiaries and the value of the benefits taken.

The benefit of joint ownership

Regardless of the law in relationship to intestacy or the will drafted by an individual, the **Rule of Joint Ownership** is extremely important. Joint Ownership effectively takes precedence over either the law or the will.

Under law, two parties or more can own property in two ways. They can own it as **Tenants in Common** or by **Joint Tenancy**. When two parties or more are said to own property as Tenants in Common, they are said to own shares in that property. For example:

> Mr Murphy and Mr Smith buy a house as **Tenants in Common**. They own a half share each. On the death of either person, their share is passed on to that person's devisees or heirs, either by will or by intestate succession.

If, in our example above, Mr Murphy and Mr Smith buy a property and own the same as **Joint Tenants**, they do not own shares in the property, but rather they own the property jointly. If Mr Smith were to die, Mr Murphy would be the surviving/remaining owner of the property, and would be deemed to automatically inherit the property.

> If, for example, Mr Murphy, Mr Smith and Mr Jones were to purchase a property as **Joint Tenants** and Mr Smith were to pass away, Mr Murphy and Mr Jones would be the surviving joint owners. If Mr Jones were then to pass away Mr Murphy would be the remaining owner of the property.

Joint Ownership is important in relation to family financial planning. If a husband and wife have bank accounts in joint names, they do not own shares in this bank account but rather they own the bank account jointly. If the husband or wife pass away, the surviving spouse is said to be the surviving or remaining owner of the property, i.e. the bank account.

The same concept applies to all property, including the family home. If a family home is held in joint names, neither the husband nor wife own a share of the property, but rather they own the property jointly. If one party passes away the other is deemed to be the surviving owner of the property.

Regardless of any will made, if property is held jointly it cannot be severed.

How is it that assets can pass outside of the will or intestacy?

This is best explained by an example. The deceased may have taken out a life insurance policy or pension scheme in which the beneficiaries have been named. Under these circumstances, the insurance or pension company would pay the beneficiaries directly without any reference to a will or estate.

- Sorting out the financial dealings of someone who has passed on is an emotional business. Help whoever will be looking after your affairs by making a proper will and keeping a file somewhere containing all your financial documents.
- Many parties believe that there is no necessity to make a will as they are happy to allow their spouse or their next of kin inherit as per the Succession Act rules. However, a will should *always* be made – this means that the estate is distributed more quickly, and also distributed in accordance with your wishes. There may be relatives or others you may want to acknowledge. Remember it really is a simple process – you will need two independent witnesses (who cannot gain from the will) and a nominated person to execute your wishes (executor/executrix), then date the will and sign it.
- It is extremely important if you are involved in a non-marital relationship that you ensure you have proper wills drafted to ensure inheritance for your surviving partner and your or their children.

- It is also important to take professional and perhaps legal advice in relation to the drafting and execution of a will, especially where there are complications. Many homemade wills can be ineffective and can often lead to further confusion after death. Remember: the bulk of wealth in Ireland is in property – a solicitor will be required to effect the transfer of ownership.
- Another reason to make a will – you can specify who your personal representative is, the person charged with the responsibility of dealing with your affairs after your death. This way, you will avoid any application to the courts to appoint somebody who is inappropriate for that purpose.
- Many people apply to the Revenue Commissioners and the Probate Office to be appointed as the personal representative of the deceased themselves. Both the Revenue Commissioners and the Probate Office are extremely co-operative when dealing with members of the public. Again, depending on the complexity of the estate, legal accounting and financial advice should be sought prior to contact with these offices.
- Ensure that all family and marital property is held jointly, including the family home – it is better for all concerned.
- If involved in a non-marital relationship, both partners should ensure that all property is held jointly, so that the death of one partner will ensure the other partner inherits.

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MARP, Personal Insolvency and Bankruptcy

In September 2013, the Insolvency Service of Ireland came into being, along with Personal Insolvency Arrangements (PIAs) and Personal Insolvency Practitioners (PIPs). While the flow of resolved debts since then has not been as plentiful as expected from the banks and the PIPs points of view, at least the mechanism is now in place. Dignity and hope can be restored to lives brought crashing down to Earth, primarily from the property collapse.

Until recent years, declaring bankruptcy in Ireland was not only regarded as a slight on your character, but you were also banned for 12 years from running a business or borrowing, at least in your own name. In the Uk, there are 50,000 bankruptcies every year, while in the US, it is over one million annually!

Very simply, when you do not have sufficient income to service a debt, and you have no assets to sell to repay that debt, the creditor can bring you to court and have a 'judgment' served against you. This effectively means:

- It stays there against your credit record on Irish Credit Bureau (www.icb.ie – for €6 you can order the credit report on yourself).
- If you repay what is owed, a 'satisfaction' is registered.
- But the judgment is recorded and remains there on your credit history for life.
- Borrowing again from a financial institution or creditor with a judgment against you is extremely unlikely.
- The final procedure, when you are unable or unwilling to repay, is bankruptcy.

In the UK the Insolvency Act 1986 brought into effect a real workable alternative to bankruptcy proceedings, known as the Individual Voluntary Arrangement (IVA). This process, which has limited court involvement, ensures a cheaper, more expeditious distribution of the debtor's assets to his creditors than under bankruptcy. It also provides greater flexibility to both debtor and creditor alike, and offers a possibility of reviving a previously unsuccessful business. It offers the debtor an opportunity

to come to some arrangement with his creditors and to continue in business, which is not possible under bankruptcy. The arrangement must be implemented by a supervisor, who is usually a licensed insolvency practitioner, accountant or solicitor, and who is usually empowered to realise the debtor's assets and distribute the proceeds amongst the creditors in the priority set down by law.

Bankruptcy is defined as 'a law for the benefit and relief of creditors and their debtors in cases where the latter are unable or unwilling to pay their debts'. The procedure is instigated either by the debtor himself filing for bankruptcy or by an aggrieved creditor petitioning the courts.

Recent Irish legislative changes saw a reduction of the period for automatic discharge from bankruptcy from 12 years to 3 years, and then to the current 1 year, through the Personal Insolvency Bill published in June 2012. However, as then Minister for Justice Alan Shatter stated on the launch, 'This Bill does not relieve solvent debtors of their responsibility to meet their contractual obligations.'

The reform of Ireland's bankruptcy laws was a condition of the EU/IMF bailout agreement, and the 1 year discharge period is in line with recommendations made by the Law Reform Commission (LRC) in 2010.

The last 10 savage years have changed all government thinking on debt. First of all, the lenders and the Central Bank recognised the need to help borrowers, especially with their home loans. As Taoiseach Enda Kenny said, 'It's not your fault.' House prices dropped by up to 70% while unemployment rose to 14.8%. Even if properties could be sold, householders were staring at massive deficits they were unable to repay, plus they still had to live somewhere.

The first steps in the process

The first initiative was the **Mortgage Arrears Resolution Process** (MARP), a system for helping mortgage holders with their arrears, introduced in December 2010. This was updated on 1 July 2013, giving lenders greater power in dealing with struggling borrowers. Changes included the abolition of the limit of three successful unsolicited communications per month – it is now limitless 'within reason' – and also, more alarmingly, the ability of the lender to remove customers' valuable tracker rates and apply standard variable rates.

The Central Bank's Code of Conduct on Mortgage Arrears (CCMA) sets out the framework that lenders **must** use when dealing with borrowers in mortgage arrears or in pre-arrears. It requires lenders to handle all such

cases sympathetically and positively, with the objective at all times being to help people meet their mortgage obligations.

Under the CCMA, lenders must operate a Mortgage Arrears Resolution Process when dealing with customers in arrears or pre-arrears.

The 5 steps of the MARP are:

1. Communication
2. Financial information
3. Assessment
4. Resolution
5. Appeals

The process requires lenders to wait 8 months before taking legal action on arrears. However, this requirement does not apply if a borrower is not cooperating with the lender.

Regardless of how long it takes your lender to assess your case, and provided that you are cooperating, you must be given 3 months' notice before they can commence legal proceedings where either:

- your lender does not offer you an alternative repayment arrangement; or
- you do not accept an alternative repayment arrangement offered to you.

This gives you time to consider other options, such as voluntary surrender, voluntary sale or a Personal Insolvency Arrangement.

If you are classified as not cooperating, your lender may commence legal proceedings immediately. Before you can be classified as not cooperating, your lender must first write to you and warn you that this might happen, and tell you what steps you need to take to avoid this.

1. Communication

A mortgage arrears problem arises as soon as you fail to make a mortgage repayment, or only make a partial mortgage repayment, on the date it is due.

If the arrears remain outstanding 31 days from this date, the lender must inform you in writing of the status of the mortgage account. This letter must include full details of the payment(s) missed and the total amount now in arrears. It must also explain that your arrears are now being dealt with under the MARP; the importance of cooperating with the lender; the consequences of non-cooperation; and the impact of missed repayments/repossession on your credit rating. You should also receive an information booklet on MARP and contact details for MABS.

For as long as you are in arrears, the lender must give you a written update on the status of your account every 3 months.

If no alternative payment scheme is arranged and your arrears continue to a third consecutive month, you should be warned of the possibility of legal action that could lead to repossession, and the likely costs involved.

2. Financial information

Lenders must provide a standard financial statement (SFS) to obtain financial information from a borrower in arrears or in pre-arrears, so that they can assess your financial position and identify the best course of action. The Central Bank has developed a standard format for this and, since 1 July 2011, all lenders must use this SFS, together with a guide to its completion. When providing the financial statement, the lender must ensure that you understand the MARP process. They must tell you about the availability of independent advice (from MABS, for example) to help in completing the SFS.

The lender must pass the completed SFS to its Arrears Support Unit (ASU) for assessment.

You may be required to provide supporting documentation to verify the information in the SFS.

3. Assessment

The lender's ASU must assess the completed SFS and examine your case on its individual merits. The ASU must base its assessment of your case on your full circumstances. These include your personal circumstances; overall indebtedness; information provided in the standard financial statement; current repayment capacity; and previous payment history.

4. Resolution

The lender must explore all options for alternative repayment arrangements. These options must include:

- an interest-only arrangement for a specified period;
- an arrangement to pay interest and part of the normal capital element for a specified period;
- deferring payment of all or part of the usual repayment for a period;
- extending the term of the mortgage;
- changing the type of the mortgage, except in the case of tracker mortgages;
- capitalising the arrears and interest; and
- any voluntary scheme to which the lender has signed up, e.g. a Deferred Interest scheme.

Lenders must not require a borrower to change from an existing tracker mortgage to another mortgage type as part of an alternative arrangement offered to the borrower in arrears or pre-arrears, unless none of the options that would allow the borrower to retain the tracker interest rate are sustainable for the borrower's individual circumstances.

If this is the case, the lender may offer the borrower an alternative repayment arrangement that requires the borrower to change from an existing tracker mortgage to another mortgage type, provided that:

- an alternative repayment arrangement is affordable for the borrower; and
- it is a long-term sustainable solution, consistent with the Central Bank of Ireland policy on sustainability.

When the lender offers an alternative repayment arrangement, they must give you a clear written explanation of the arrangement. As well as the basic details of the new repayment amount and the term of the arrangement, the lender must explain its impact on the mortgage term, the balance outstanding and the existing arrears, if any.

The lender must give details of: how interest will be applied to your mortgage loan account as a result of the arrangement; how the arrangement will be reported to the Irish Credit Bureau and the impact of this on your credit rating; and your right to appeal the lender's decision, including how to submit an appeal.

The lender must also advise you to take appropriate independent legal and/or financial advice. The lender must monitor the arrangement on an ongoing basis and formally review its appropriateness for you at least every 6 months. This review must include checking with you whether your circumstances have changed since the start of the arrangement or since the last review.

If an alternative arrangement is not agreed

It may not be possible for you and your lender to agree on an alternative repayment. If the lender is not willing to offer you an alternative repayment arrangement, they must give the reasons in writing. If they do offer an arrangement, you may choose not to accept it. In both of these cases, the lender must inform you in writing about other options, including voluntary surrender, trading down or voluntary sale, and the implications for you of each option. They must also inform you of your right to make an appeal to their Appeals Board about the ASU's decision, the lender's treatment of your case under the MARP, and their compliance with the requirements of the CCMA.

If you breach an alternative arrangement

If you cease to adhere to the terms of an alternative repayment arrangement, the lender's Arrears Support Unit must formally review your case, including the standard financial statement, immediately.

5. Appeals

The lender's Appeals Board will consider any appeals that you submit and will independently review the ASU's decision, the lender's treatment of your case under the MARP and the lender's compliance with the requirements of the CCMA.

The lender must allow you a reasonable period to consider submitting an appeal. This must be at least 20 business days from the date you receive notification of the ASU's decision.

The Appeals Board will be made up of three of the lender's senior personnel who have not yet been involved in your case. At least one member of the Appeals Board must be independent of the management team and must not be involved in lending matters.

There must be a written procedure for handling appeals, to include points of contact, timescale, etc.

Repossession proceedings

The lender must not apply to the courts to commence legal action for repossession of your property until every reasonable effort has been made to agree an alternative arrangement. If you are cooperating with the lender, they must wait at least 8 months from the date your arrears were classified as a MARP case (31 days after the first missed repayment) before applying to the courts.

When a lender is calculating the 8-month period, it must exclude any period during which you are complying with the terms of an alternative repayment arrangement, appealing to the Appeals Board or complaining to the Financial services ombudsman under the CCMA. It must also exclude the period during which you can consider making an appeal.

For pre-arrears cases, the 8-month period must exclude the period between your first contact about the pre-arrears situation and the setting up of an alternative repayment arrangement.

The 8-month period does not apply if you do not cooperate with the lender; or if you perpetrate a fraud on the lender; or if there is a breach of contract by you other than the existence of arrears.

Regardless of how long it takes your lender to assess your case, and provided that you are co-operating, you must be given three months' notice before they can commence legal proceedings where your lender does not offer you an alternative repayment arrangement or you do not accept an alternative repayment arrangement offered to you.

The lender or its legal advisers must notify you in writing before it applies to the Courts to start any legal action on repossession.

Your property may be repossessed either by voluntary agreement or by court order. Even if court proceedings are started, the lender must still try to maintain contact with you to seek an agreement on repayments, and must put legal proceedings on hold if agreement is reached.

The lender must explain to you that, if the property is sold and the sale price does not cover the amount you owe, you are still liable for the rest of the amount you owe.

If your property is repossessed and sold, the lender must write to you promptly with the following information:

- the balance outstanding on your mortgage loan account
- Details and amounts of any costs arising from the disposal that have been added to the account
- Interest rate to be charged on the remaining balance

Having gone through the above process, and perhaps through no fault of your own, you may be one of the many who simply have not the wherewithal to maintain your commitments. The old saying 'you can't get blood from a stone' rings true for many who would be happy to divest themselves of assets if this would repay their debts. Unfortunately, these assets, even if sold, may not repay the debts.

Personal insolvency bill 2012

In January 2012, the government announced plans to launch the Personal Insolvency Bill later in the year. This would address the outdated bankruptcy laws and allow dignity back into debtors' lives by creating closure on debts they are unable to repay via a non-judicial process.

Under the proposals unveiled by Justice Minister Alan Shatter and published on 29 June 2012, the new Personal Insolvency Service was established to process three separate types of non-judicial arrangement. But how do they work in practice?

1. Debt Relief Notice (DRN)

This provides for the forgiveness of **unsecured debt** (such as an overdraft or credit card debt) **now under** €35,000 for debtors with little or no capacity to pay off debts – no assets, no income. The debtor applies to the Insolvency Service, who then examine the income and outgoings of the applicant and decide whether a DRN is appropriate. If granted, a 3-year moratorium period applies, during which creditors cannot pursue action against the debtor for the debts covered by the DRN. At the end of the moratorium period, the applicant is discharged from the debts. Applications for a DRN must be submitted on behalf of the debtor by an authorised Approved Intermediary (AI) body, e.g. the Money Advice and Budgeting Service (MABS).

This Approved Intermediary would:

- advise the debtor as to their options and the qualifying requirements;
- assist in the preparation of the necessary Prescribed or Standard Financial Statement (SFS), which must be verified by means of a statutory declaration – plus include any other required documentation; and
- transmit the debtor's application to the Insolvency Service to have a DRN approved if the qualifying criteria are met.

General conditions for application for a DRN:

- Debtors would have qualifying debts of €35,000 or less.
- Debtors would not be eligible where 25 percent or more of the qualifying debts were incurred in the 6 months preceding the application.
- Debts qualifying for inclusion in a DRN are most likely to be unsecured debts: e.g. credit card, personal loan, catalogue payments, etc.
- Debtors will have a net monthly disposable income of €60 or less after provision for 'reasonable' living expenses and payments in respect of excluded debts (if any).
- Debtors would hold assets (separately or jointly) to the value of €400 or less. There is a €6,000 exemption from the asset test for essential household appliances, tools and equipment required for employment or business and one motor vehicle up to the value of €5,000.
- Debtors must act in good faith and co-operate fully.
- Debts excluded from a DRN include taxes, court fines, family maintenance payments and service charges arrears.

After the Insolvency Service has received the application, and is satisfied with same, they issue a certificate to that effect to the court. The court then consider the application and, if satisfied, issue the DRN and notify the Insolvency service.

During the DRN period, creditors may not initiate or prosecute legal proceedings, seek to recover payment for a debt, recover goods or contact the debtor.

A DRN lasts 3 years from its date of issue. At the end of this period (and subject to no other action), the DRN terminates, the qualifying debts are discharged and the debtor is removed from the Register of Debt Relief notices.

Only one DRN per lifetime is permitted, and not within 5 years of completion of a Debt Settlement Arrangement (DSA) or Personal Insolvency Arrangement (PIA). There is a restriction on the debtor from applying for credit over €650 during the DRN supervision period without informing the creditor of his/her status.

The debtor must inform the authorised intermediary and the Insolvency Service of any material change in their financial circumstances. So as not to reduce the incentive to seek employment following approval of a DRN, there is provision for the debtor to repay a portion of the debts in circumstances where his or her financial situation improves. These circumstances include the receipt of gifts or windfalls over €500 (e.g. the Lotto) or where the debtor's income has increased by over €250 per month. The debtor will transmit funds to the Insolvency Service to be paid on an equal basis to the listed creditors.

If a debtor makes repayments totalling 50 per cent of the original debt, they will be deemed to have satisfied the debt in full. The DRN will then cease to have effect, the debtor will be removed from the Register and all of the debts will be discharged.

2. Debt Settlement Arrangement (DSA

This provision also covers **unsecured debt**, but is concerned with debts above €35,000. In this arrangement, the Insolvency Service design a plan by which the debtor pays a specified amount to creditors over a five-year period – with a possible agreed extension to 6 years – after which the debts are considered discharged. The creditors are required to approve the DSA.

The application for a DSA must be made through a personal insolvency practitioner (PIP) appointed by the debtor. The PIP must:

- advise the debtor as to their options in regard to insolvency processes.
- assist in the preparation of the necessary Prescribed or Standard Financial Statement (SFS), which must be verified by means of a statutory declaration, plus any other required documentation.

- Apply to the Insolvency Service for a **Protective Certificate** in respect of the preparation of a DSA if the qualifying criteria are met. A joint application is permitted where the particular circumstances warrant such an approach. The debtor must normally be resident in the State or have a close connection. Only one application for a DSA in a lifetime is permitted.

Certain debts are excluded from the DSA, including Court fines in respect of a criminal offence. In addition, certain other debts are also excluded, such as family maintenance payments, taxes, local authority charges and service charges, unless the relevant creditor agrees otherwise. In addition, any debt that would have a preferential status in bankruptcy will also have a preferential status in a DSA.

The Insolvency Service, if satisfied as to the application, issues a certificate to that effect and furnishes the certificate and supporting documentation to the court. The court considers the application and, subject to the creditors' right to appeal, if satisfied, issues the Protective Certificate and notifies the Insolvency Service. Once approval is granted, the Protective Certificate is registered in the Register of Protective Certificates and a 'stand-still' period of 70 days applies to permit the PIP to propose a DSA to the listed creditors. That period may, on application to the court, be extended, for no more than a further 40 days. The PIP informs the creditors of the issue of the Protective Certificate.

Following the issue of the Protective Certificate, the creditors may not initiate or prosecute legal proceedings, seek to recover payment for a debt, recover goods or contact the debtor. The rights of secured creditors are unaffected.

A DSA proposal does not require the debtor to dispose of or cease to occupy their principal private residence – their home – where this is involved. If the DSA proposal is accepted by 65% in value of the creditors present and voting, it is binding on all creditors. The PIP informs the Insolvency service who then transmit the agreement to the relevant court for approval. If satisfied and if no objection is received by it within 10 days, the court approves the DSA and notifies the Insolvency Service, which then registers it in the Register of Debt Settlement Agreements, whereupon it comes into effect. The PIP then administers the DSA for its duration.

The Insolvency service has no role in the negotiation and agreement of a DSA.

Unless otherwise agreed, the default position is that creditors are paid on an equal or proportionate basis. Conditions attach to the conduct of the debtor during the DSA. There is provision for an annual review of the financial circumstances of the debtor, and the agreement can if necessary

be altered or terminated. On the termination or failure of the DSA, a debtor could risk an application for adjudication in bankruptcy.

At the satisfactory conclusion of the DSA, all debts covered by it are discharged.

3. Personal Insolvency Arrangement (PIA)

This arrangement is designed to cover both secured and unsecured debt, and will be appropriate if the Insolvency Service conclude that a five year DSA would not be sufficient to make the debtor solvent. Under this provision, a portion of the unsecured debt is written off and the remainder repaid over a 6-year period, possibly extended to 7 years. The secured debt, a mortgage for example, is also written down and its repayment period extended, reducing the repayments further. The creditors are required to approve the PIA. Should the debtors' financial circumstances improve over the course of the PIA, they are obliged to notify the Insolvency service, now under interim Chief executive Chris Lehane.

The application for a PIA or a DSA must be made through a personal insolvency practitioner (PIP), appointed by the debtor.

- The PIP must advise the debtor as to their options in regard to insolvency processes. A debtor may only propose a PIA if he or she is cash flow **insolvent** (i.e. unable to pay his or her debts in full as they fall due), and there is no likelihood that within a period of 5 years the debtor will become solvent.
- The PIP must assist in the preparation of the necessary Prescribed or Standard Financial Statement (SFS), which must be verified by means of a statutory declaration, along with any other required documentation.
- The PIP may apply to the Insolvency Service for a **Protective Certi icate** in respect of the preparation of a PIA, if the qualifying criteria are met (which include cooperation with the secured creditor in respect of the debtor's principal private residence, under a mortgage arrears process approved or required by the Central Bank). A joint application or an interlocking PIA can be permitted where particular circumstances warrant it. The debtor must normally be resident in the state or have a close connection. Only one application for a PIA in a lifetime is permitted.

Certain debts are excluded from the PIA, including court fines, family maintenance payments, taxes, local authority charges and service charges, unless the relevant creditor agrees otherwise. In addition, any debt that would have a preferential status in bankruptcy will also have a preferential status in a PIA.

If the Insolvency Service is satisfied with the application, they issue a certificate to that effect and furnish the certificate and supporting documentation to the court. The court considers the application and, if satisfied and subject to the creditors' right to appeal, issues the Protective Certificate and notifies the Insolvency Service.

Once approval is granted, the Protective Certificate is registered in the Register of Protective Certificates and a 'stand-still' period of 70 days applies to permit the PIP to propose a PIA to the listed creditors. That period may, on application to the court, be extended, for no more than a further 40 days. The PIP will inform the creditors of the issue of the Protective Certificate.

Under the Protective Certificate, creditors may not initiate or prosecute legal proceedings, seek to recover payment for a debt, recover goods, enforce security or contact the debtor.

A PIA proposal does not require the debtor to dispose of or cease to occupy their principal private residence where this is involved. There are certain specific protections for secured creditors, including a 'claw back' in the event of a subsequent sale of a mortgaged property where the mortgage has been written down.

If the PIA proposal is accepted, it is binding on all creditors. A PIA must be supported by at least 65% (it was 75% originally) of all creditors voting at the creditors' meeting – based on the value of the total of both secured and unsecured debt owed to those voting creditors – and more than 50% of secured creditors voting (based on the lesser of value of the security underpinning the secured debt or the amount of that debt) and 50% of unsecured creditors (based on the amount of the debt).

The PIP informs the Insolvency service of the agreement, and the service then transmits the agreement to the relevant court for approval. If satisfied and if no objection is received by it within 10 days, the court approves the PIA and notifies the Insolvency Service. It is registered in the Register of Personal Insolvency Arrangements and it comes into effect. The PIP then administers the PIA for its duration.

Conditions attach to the conduct of the debtor during the PIA. There is provision for an annual review of the financial circumstances of the debtor, and the agreement can if necessary be altered or terminated. On the termination or failure of the PIA, a debtor could risk an application for adjudication in bankruptcy.

The Insolvency service has no role in the negotiation or agreement of a PIA.

At the satisfactory conclusion of the PIA, all unsecured debts covered by it are discharged. Secured debts are only discharged at the conclusion of the PIA, and only to the extent specified in the PIA. To the extent that they are not provided for in the PIA, all other debt obligations remain.

Bankruptcy

The Personal Insolvency Bill 2012 made a number of amendments to the law, introducing a more enlightened, less punitive and less costly approach to bankruptcy. These amendments continue the reform of bankruptcy law begun in the Civil Law (Miscellaneous Provisions) Act 2011. The main new provisions are as follows:

- A creditor bankruptcy summons:
  - The new minimum amount for a creditor or combined non-partner creditors petition for bankruptcy is €20,000. (The limits were €1,900 for a creditor and €1,300 for combined non-partner creditors.)
  - Fourteen days' notice must be provided to ensure that a bankruptcy summons is not brought prematurely by a creditor, so as to allow the debtor to consider other options such as a Debt Settlement Arrangement (DSA) or a Personal Insolvency Arrangement (PIA).
- Presenting a petition for bankruptcy: the creditor must show evidence of a debt of more than €20,000 (the limit was €1,900). Where a debtor presents a petition, they must:
  - swear an affi avit that they have made reasonable efforts to make use of alternatives to bankruptcy, such as a Debt Settlement Arrangement or Personal Insolvency Arrangement; and
  - present a statement of affairs, which must disclose that their debts exceed their assets by more than €20,000.
- Adjudication of a creditor's petition for bankruptcy: the court will be required to consider the assets and liabilities of the debtor and assess whether it may be appropriate to adjourn proceedings to allow the debtor to attempt to enter into a Debt Settlement Arrangement or Personal Insolvency Arrangement.
- Excepted articles: the maximum value of household furniture or tools or equipment required by a bankrupt for a trade or occupation is increased from €3,100 to €6,000.
- Avoidance of fraudulent preferences and certain transactions made before adjudication in bankruptcy: the period of 1 year has been extended to 3 years.
- Avoidance of certain settlements: the time periods in regard to certain voluntary settlements of property made before adjudication in bankruptcy is extended from 2 years to 3 years.
- Discharge from bankruptcy: the following new provisions apply:
  - The automatic discharge from bankruptcy after 1 year from the date of adjudication (reduced from 3 years).

- Bankruptcies existing for 1 year or more at the time of commencement of the Act will be automatically discharged after a further six months have elapsed, this further time to allow for any creditor objection.
- The bankrupt's unrealised property will remain vested in the Official Assignee in Bankruptcy after discharge from bankruptcy and the discharged bankrupt will be under a duty to co-operate with the Official Assignee in the realisation and distribution of such of his or her property as is vested in the Official Assignee.
- The Official Assignee or a creditor may apply to the court to object to the discharge of a person from bankruptcy. The grounds for such an objection are that the debtor has failed to co-operate with the Official Assignee or has hidden or failed to disclose income or assets. The court may suspend the discharge pending further investigation or extend the period before discharge of the bankrupt up to a maximum of 8 years from the date of adjudication.
- The court may order a bankrupt to make payments from his or her income or other assets to the Official Assignee for the benefit of his or her creditors. In making such an order, the court must have regard to the reasonable living expenses of the bankrupt and his or her family. The court may vary a bankruptcy payment order where there has been a material change in the circumstances of the discharged bankrupt. Such an order must be applied for before the discharge from bankruptcy and may operate for no more than 5 years.

There are no prohibitions in the Bankruptcy Act 1988 regarding restrictions on the nature of employment or profession of a person adjudicated bankrupt. Such prohibitions, where they exist, are contained in sectoral legislation – e.g. in the electoral acts regarding to membership of Dáil Éireann or in contracts of employment, e.g. in the legal profession.

With effect from 3 December 2013, the Official Assignee in Bankruptcy is now based within the Insolvency service of Ireland.

Limits on usage within the Personal Insolvency Act 2012

You can be involved in only one of the 3 mechanisms (DRN, DSA or PIA) or in the bankruptcy process at any one time. If you use one of these 4 processes, you will generally have to wait some years before applying to use another.

You may use each of the 3 mechanisms only once in your lifetime. (There is no such limit on bankruptcy, but it would be rare for anyone to go bankrupt twice.)

Running up debts
You must not deliberately stop paying (or underpay) your creditors while these procedures are being set up, and this may make your application ineligible.

Provision of information
You will have to complete a Prescribed Financial Statement, giving full and honest information about your financial circumstances. The required information is specified in the regulations. You will have to sign a statutory Declaration to this effect. You must act in good faith and co-operate fully with the process.

You will have to give your written consent to the accessing of certain personal data held by banks and other financial institutions so that your financial situation can be verified. Government departments and agencies will have the power to release certain information about you.

Public registers
If you use any of these 3 mechanisms, your name and details will be published on a register that is accessible to the public. The success or failure of the process will also be recorded.

Regulation of PIPs

PIPs are authorised and supervised by the Insolvency Service of Ireland (ISI). An individual may make an application to practice as a PIP if that individual:

- is a solicitor in respect of whom a practising certificate (within the meaning of the Solicitors Acts 1954 to 2011) is in force; or
- is a barrister at law called to the Bar of Ireland; or
- is a qualified accountant and a member of a prescribed accountancy body (within the meaning of section 4 of the Companies (Auditing and Accounting) Act 2003; or
- is a qualified financial advisor who holds a current qualification from the Life Insurance Association of Ireland (LIA), the Insurance Institute or the Institute of Bankers school of Professional Finance; or
- holds a qualification in law, business, finance or other appropriate similar qualification to the satisfaction of the Insolvency Service recognised to at least level 7 of the National Qualifications Framework by Quality and Qualifications Ireland (or equivalent).

they must also demonstrate to the satisfaction of the Insolvency Service that they have relevant knowledge and experience of, and have completed a course of study and passed an examination on, the law and practice generally as it applies in the State relating to the insolvency of individuals; and the Act.

Other stringent conditions are also imposed, such as a high level of professional indemnity insurance, operating systems capable of handling the book-keeping elements of the transactions, proven tax compliance, etc.

In May 2014, I was appointed a PIP by the Insolvency Service of Ireland. You can see my name and all the other PIP appointees through this link: http://www.isi.gov.ie/en/ISI/Pages/PIPs

Here's what to do

For a **Debt Relief Notice** (DRN), your application must be made through an Approved Intermediary (AI). You can choose an AI from the Register of Approved Intermediaries published by the ISI. Several Money Advice and Budgeting Services offices (MABS) have been authorised as AIs. MABS operates a screening process to check if you satisfy the eligibility criteria for a DRN.

Before contacting MABS to be screened, you will need to assemble all the relevant information about your debts, assets, income and circumstances. Go to www.mabs.ie for advice and help on how to do this.

For a **Debt Settlement Arrangement** (DSA) or a **Personal Insolvency Arrangement** (PIA), you must apply through a Personal Insolvency Practitioner (PIP). See the link above for PIPs.

Further information is available from the ISI's helpline: 0761 06 4200, and from its website: www.isi.gov.ie.

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Wills and Probate

Less than 30% of the Irish population have a Will in place…there is a reticence and reluctance in carrying out what is a really important function, especially if you have family and/or have assets in excess of €25,000. Writing a Will should be a simple exercise for the majority of people in Ireland.

99% of Irish citizens' estates (what they own) are NOT complex – generally one or two properties, a few bank accounts, some alternative assets such as your car, your watch, some art etc.. that's it. Also **the vast majority of citizens have uncomplicated relationships.** For those citizens, drafting your own Will could not be easier…

Did you know?

- 70% of our nation do not have a Will
- Dying *intestate* (no will) is a disaster for those left behind…Letters of Administration have to be obtained from the Probate Office … costs, delays…legal representation is generally appointed while not needed…hassle.
- 99% of those 70% are ordinary people with normal relationships and modest "estates" (what they possess/own.. *average net worth of an Irish citizen is €177,000 – source CBI* …once you have assets over €25,000 or have children you should make a Will) but half afraid of the mumbo jumbo, misconceptions, ignorance, legal jargon and costs associated with Wills not to mention Probate…
- *Probate* is a word misunderstood by most…*the entire legal administration of a dead person's possessions or 'estate'*… if you are an Irish citizen and you die having possessions worth over €25,000 which are not passing to a co-owner, you MUST go through a legal process known as *Probate* to establish who the rightful owners of your possessions are and pay taxes on amounts over the allowed tax-free thresholds to Revenue. It is a simple process for 99% of those 70%...fill in a form, make an appointment with the Personal Representative in the *Probate Office* (there are a number of them) and hey presto, the *Grant of Probate* is issued and your representative as executor/executrix can distribute the assets (what you own) according to the wishes in the Will. **You'll save your estate €000s in legal fees if you empower your representative (executor/executrix) to process the *Probate***

If you don't make a Will, apart from the mess left and hassle for your loved ones, your "estate" – what you own, your possessions – will be distributed according to the law on succession (the succession Act 1965) .. to your surviving family members…and NOT how you would like to distribute your assets as you would like to your special family and friends.

Many people are unaware of the consequences of NOT having a Will. Here are some fears.

- There is the belief that it is something you "should" do…but never do…
- Fear of tempting fate – write a Will and then suddenly die! People do not want to think about death…
- COSTS…"I can't afford a Will"…fear of the unknown…people making Wills are never told what the cost of probate will be for their beneficiaries…and the fact they would be ignorant of the fact that you need the ORIGINAL Will to process Probate (a very simple exercise that any executor/executrix could do)...generally solicitors hold them but never tell you why they are holding them…
- People are uncomfortable with telling strangers (solicitors, websites) their personal affairs…not wanting to discuss their personal business…
- May not be ready to make important life decisions...who gets what …or who should be left out…
- Ignorance…unaware of the consequences of dying "intestate"…also that you have to "execute" - ***sign*** - a Will in a solicitor's office (*of course you do NOT…* you can do it in a bathroom as long as you have two witnesses who witness just your signature)
- Avoiding family issues…the elephant in the room…dealing with issues of the past…
- Disagreements between partners about a Will
- Making a start…making that decision to do it! Many people are unsure WHERE to start…they think they need to go to a solicitor or a solicitor's office WHEN IN FACT YOU DO NOT NEED TO DO EITHER!
- The belief that only wealthy people need to make a Will…the average net worth of a person in Ireland is €177,000…but as I say, if you have over €25,000 in possessions you should make a Will…

There are only 6 basic types of Will.... where you are

1. SINGLE or LEGALLY SEPARATED/DIVORCED, with NO CHILDREN
2. SINGLE or LEGALLY SEPARATED/DIVORCED, with CHILDREN under 18
3. SINGLE or LEGALLY SEPARATED/DIVORCED, with ADULT CHILDREN
4. MARRIED or CIVIL UNION, with NO CHILDREN
5. MARRIED or CIVIL UNION, with CHILDREN under 18
6. MARRIED or CIVIL UNION, with ADULT CHILDREN

There are just a few important things to remember when you are completing your Will - here are my top 10...

1. **You have to nominate an executor/s or executrix/ces** who is appointed to look after the affairs/estate of you, the deceased person and make sure your wishes, as set out in your Will, are put into place. Therefore you have to tell them about the Will and its location....
2. **Ensure** any beneficiaries are fully named with their addresses/ eircodes even PPs #s.
3. **You sign and date the Will...** *if you have any medical issues you may need to obtain a certificate of competence from a doctor or specialist stating you have the capacity to sign a Will..."*being of sound mind"...
4. The two witnesses who witness your signature **must NOT benefit from your estate directly or indirectly**. Their full names, addresses, PPS numbers, eircodes and occupations must be recorded on the Will below your name. *The same witnesses do not have to see the contents of your Will just witness your signature*.
5. **You then keep the original Will** and put it up in a safe place – make a copy and give it to a trusted friend/family member. The original Will is the important document and if you want the executor/s/executrix/ces to complete the Probate, they will need the original Will so they must know where it is located. Also make provision in case of a house fire...(fire proof safe or filing cabinet etc).
6. **Make provision** in case any of your executor/s/executrix/ces or beneficiaries pre-decease you.
7. Be sure to **nominate a guardian if you have children under 18** in case anything happens to either parent or both and/or make provision if you have children with special needs.

8. **DNA assets should also be recorded.** You need permission to sample it, and permission to access any records relating to it. Many by now have Ancestry.ie or similar. This should be listed since this is definitely a valued piece of family inheritance. Remembering too that the person who has access to any DNA records must be, like an executor/s/executrix/ces, responsible enough to take on the info that may come with it.
9. **Enduring Power of Attorney.** A solicitor will be required at the time to effect same as it can only be obtained in the High Court. https://www.citizensinformation.ie/en/death/before_a_death/power_of_attorney.html
10. Click on this link to find out about **the 3 group thresholds (e.g. A - Parent to child €335,000 etc B & C) and all you need to know about inheritance** - https://www.citizensinformation.ie/en/money_and_tax/tax/capital_taxes/capital_acquisitions_tax.html

Only where your estate is complex will you need the services of a legal firm. Conveyancing property will also attract legal fees and still require a solicitor but like everything else, your executor/s/executrix/ces should shop around for the best deals.

If **Probate** is necessary, the deceased's assets will be "frozen" (cannot withdraw funds from their bank accounts unless a joint account repayable to either etc) and can only be accessed once a **Grant of Representation** from the **Probate Office** (*part of the High Court - the Principal Probate Registry is the Dublin Probate Office in Smithfield Dublin 7 tel +353 1 8886174/6728 plus there are other offices in Cork, Limerick Galway and a number of other District Probate Registries*) has been issued (or a **Grant of Administration** also from the Probate Office if there is no Will)...this is a *very simple process* that most executors/executrices can undertake to do themselves.

Therefore you can not only write up the Will yourself on YOUR own lap top or YOUR own handwriting, you can also instruct your executor/s/executrix/ces to apply for the Grant of Representation in the Probate Office themselves when you pass on – a really simply exercise that also is NOT complex - a really simple exercise that will save your estate 000s of euro on legal fees.

Probate steps

1. You the executor or executrix (you were nominated in the Will by the testator – the person who signed the Will) will need the original Will (ensure it is witnessed properly and signed by the testator)
2. You apply to the Probate Office (there are several around the country but the main one is in Dublin) now online because of CoVID for the application form to complete.. this is the link - **www.courts.ie/applying-probate-without-solicitor** (it has all the info on what you need to do)
3. Once you have sent in that form to the Probate Office, you will then make an appointment to "see" - probably by zoom - the *Personal Representative* in the Probate Office to go through your application form.. takes about 30 minutes
4. If all is approved, you then receive the Grant of Probate after which you distribute the assets in the estate (what the person who died owned) according to the instructions in the Will.

For Probate fees (based on the value of your estate, are not onerous *plus only payable when processing Probate*) click on this weblink

https://www.courts.ie/content/fees-payable-probate-office-and-district-probate-registries

Appendix 1
Learn to Speak the Language

A quick guide to important 'personal finance' terminology

One of the first things about finance that puts people off is the language. The moment an expert starts to bandy around terms like 'dividend', 'yield', 'compound interest' and 'net present value' it can all start to sound intimidating.

Like every other area of life, finance has a specialised language and its own jargon. Jargon is actually very useful – we need precise terms that are clearly defined so that there is no confusion about what is being said. On the other hand, if you don't understand what the jargon means, you are at a disadvantage. I believe many financial institutions use this deliberately to confuse customers. After all, customers who don't understand something are hardly in a position to ask awkward questions – or to compare value for money.

In this appendix we will look at four important terms used in personal finance. Never again will you be dependent on someone else to explain the following to you:

- Percentages
- The difference between capital and income
- Compound interest
- Gearing

Other useful terminology is explained in the 'Jargon Buster' section of www.moneydoctors.ie.

Percentages made easy

You are not alone

If you aren't entirely comfortable with percentages you are not alone. In a survey designed to test graduates on their knowledge of percentages, only 8% could calculate a percentage accurately, and only 19% actually understood what a percentage was. In other words, more than eight out of ten people with a third-level education were completely at sea when it came to one of the key mathematical concepts used in personal finance. Under these circumstances, is it any wonder that the majority of people struggle to sort out their money matters?

What is a percentage?

The word 'percentage' literally means 'parts per 100' – *cent* being the Latin word for a hundred. Because percentages always deal with parts per hundred, they allow you to compare things that would be difficult to compare otherwise. They are particularly useful when it comes to choosing a loan or deciding on the relative worth of investment opportunities.

How to work out percentages

You calculate a percentage by turning your numbers into a fraction, dividing it out and then multiplying by 100.

Imagine that you have three apple trees, and you want to know which one produces the highest proportion of good – as opposed to rotten – apples. When you harvest the apples from each tree, you keep a note of the total number of apples picked and the number of apples that have to be thrown away. Your note looks like this:

Tree	Apples on tree	Apples spoiled
A	750	150
B	550	88
C	670	101

From the above figures, it isn't easy to gauge which is your best tree. However, if you express the figures in percentage terms, it will immediately become obvious.

On Tree A, 150 out of the 750 were rotten. So your calculation would look like this:

$$\frac{150}{750} \times 100 = 20 \text{ per cent}$$

If you were using a calculator you would key it in like this:

150 ÷ 750 = 0.2 x 100 = 20

On Tree B, 88 apples out of the 550 were rotten, so the calculation would be:

$$\frac{88}{550} \times 100 = 16 \text{ per cent}$$

On Tree C, 101 apples out of the 670 were rotten, so the calculation would be:

$$\frac{101}{670} \times 100 = 15 \text{ per cent}$$

Converting the numbers to percentages allows us to make a fair comparison between the 'performance' of the apple trees. So, 20% of the apples on Tree A were rotten; 16% of the apples on Tree B were rotten; but just 15% of the apples on Tree C were rotten – making it the best-performing apple tree in the orchard!

It is hard enough comparing apple trees with apple trees – but even harder to compare apple trees with – say – orange trees. This is where percentages are so useful. By giving everything a base of 100, we can compare things that aren't alike in other ways.

Now, let's put percentages into context – you are told the **yield** in a property you wish to buy is 6% while the **Internal Rate of Return** (IRR is 11%. The first element, the yield, is the return or rental income in proportion to the cost of the property excluding stamp duty and costs.

> For example, an investment property costing €300,000 with a rental income of €18,000 per annum will give you an initial rental yield of 6% per annum (18,000 is 6% of 300,000). Capital growth on the property is also expected over the next few years. Taking the first five years of ownership together with the yield, the combination is called the **Internal Rate of Return** (IRR), and is generally in excess of the initial yield. If in five years' time the property is worth €450,000, the returns would be:
>
> Growth = 50% (five years)
>
> Annual rental yield = 6%
>
> IRR = 16% per annum (on an un-geared investment and before tax)

Wealth Check

Don't trust your calculator!

Don't always believe the answer the calculator gives you. Why not? Because the tiniest slip of your finger can give you a completely wrong answer without your being aware of it. Here are five things you can do to avoid calculator error:

1. Estimate your answer before you begin a calculation.
2. Do every calculation twice.
3. Know your calculator.
4. Don't be overawed by your calculator.
5. Hang on to common sense and what you know.

The vital difference between capital and income

All money is not equal

One of the most important financial concepts to understand is the difference between capital and income. **Capital** is something – it could be money, a property, shares or some other investment – that generates an **income** for whoever owns it. A good way to remember the difference is to think of a fruit tree. The tree itself is the 'capital'. The fruit it produces is the 'income'. You continue to own the tree (capital) and it continues to bear fruit (income) every year. Your wage or salary is the income which comes from the capital of your labour – hence, the expression 'human capital'. Money is not just money – it is either capital or income.

And then there is 'interest'

When you own capital and it produces an income you have a number of choices:

- You can hold on to the capital and spend the income.
- You can hold on to the capital, add the income to it, and generate even more income.
- You can dispose of some or all of the capital and thus reduce the income you receive.

Let's use the example of chickens and eggs! You have some hens (capital) which lay eggs (income). You can do one of three things:

- You can hold on to the chickens (capital) and eat the eggs (income).
- You can hold on to the chickens (capital) and leave the eggs to hatch into more chickens (more capital) that in turn will produce even more eggs (income) for you.
- You can eat your chickens (thus eating into your capital) and thus reduce the total amount of eggs (income) you receive.

There are lots of different names for the income produced by capital. In the case of property, for instance, it is called 'rental income'. In the case of a cash deposit in a bank it is called 'interest'.

The miracle of Compound Interest

A financial concept that can make or break you

When you are earning it, it has the power to make you very rich. When you are paying it, it has the power to make you very poor. Albert Einstein described it as 'the greatest mathematical discovery of all time'. It is the reason why banks, building societies, credit card companies and other financial institutions make so much profit from lending money. And it is the reason why ordinary investors can make themselves rich simply by doing nothing.

Perhaps the easiest way to understand compound interest is to look at a hypothetical example. Imagine that you have €1,000, and that you invest it in a savings account that pays interest at a rate of 10% per year. At the end of one year, you will get €100 interest. If you withdraw this interest but leave your capital, at the end of the second year you will be entitled to another €100 interest. Supposing, however, that you don't withdraw the interest, but instead leave it to 'compound'. At the end of your first year, your €1,000 has become €1,100. At the end of your second year, you will have earned €110 interest, meaning that your original €1,000 is now €1,210. Put another way, your interest is earning you more interest.

You will sometimes see the initials CAR in relation to interest. This is the compound annual rate. This is the amount of interest you will receive if you keep adding your interest to your capital in the way I have just described.

Let's look at a real example:

> According to research, the Irish stock market has produced an annual average return of 14% since 1989. At this rate, if you invested €1,000 today and every year for the next 10 years, it would be worth €24,497 in 10 years' time.

Still not impressed? How much do you think your money would grow by if, at the age of 25, you had started saving €100 a month (that's €25 a week) for just 10 years at the same return? €15,000? €18,000? You are not close. At the age of 35 your money would be worth €25,000. Better still, at age 65 your money would be worth €1.5 million!

No wonder lenders love you

When you borrow money, compound interest is working against you. Supposing, for instance, you borrow €5,000 on a credit card at an interest rate of 15% – which isn't high by today's standards. The credit card company allows you to make a minimum payment of 1.5% each month. After two years, you will still owe approximately €4,700, having made repayments of €1,750, of which €1,450 has been swallowed up in interest. Work out for yourself how long it will take you to pay off the full debt!

Compound interest is your greatest enemy and your greatest ally. When you are in debt, it works against you. But when you have money to invest, you can make compound interest really work for you.

Gearing

Allowing other people to make you rich

Using borrowed money to buy an asset is called gearing. If you can make it work in your favour, gearing can dramatically boost your profit . For instance:

> Supposing you buy a €200,000 apartment using a €40,000 deposit and a €160,000 mortgage. After one year the apartment is worth €240,000. It isn't just that you have made a €40,000 profit – you've actually doubled the €40,000 you originally invested. In other words, you've achieved a 100% gain in just 12 months.

Even if you deduct the mortgage interest you've had to pay for the year you've owned your apartment – you have still done very well. However, what goes up can also come down. In the UK between 1987 and 1989, house prices fell by around one-third. If this happened to someone selling an apartment they bought for €100,000 using an €80,000 mortgage, they would not only have seen their €20,000 deposit wiped out – they would owe an additional €13,333 (the difference between the mortgage of €80,000 and the €66,666 you would get for the apartment). When this happens it is called being in '**negative equity**'.

Gearing is the easiest and most effective way of increasing the potential profit from any investment. It is also the most effective way of increasing the potential loss, something every investor contemplating gearing would be well advised to remember.

There is a commonly held view that owning property is a one-way bet. But in the recent history of many European countries there have been periods when residential property prices fell. In fact, over the long term the Irish stock market has outperformed Irish property. Remember, it is vitally important to diversify your investments, thus spreading your risk.

Many people re-mortgage their homes in order to have a deposit with which to buy a second investment property. This can be very sensible. However, if you have an existing mortgage on your home it might make more sense to pay that off first and then to invest in another area – such as the stock market. It very much depends on your circumstances.

Without gearing, most of us would never be able to own our own homes. It also allows us to make other, highly lucrative investments. Nevertheless, you should think carefully before you embark on any investment that requires you to borrow money. You want to make sure that the investment is going to earn you more than the loan is going to cost you.

- It is well worth your while to practise calculating percentages, as these are the most common way of comparing both investment and lending products.
- If you are trying to remember the difference between capital and income, think of an apple tree. The tree is your capital and its annual crop of fruit is your income.
- Compound interest can make you rich, and it can make you poor too. In the case of an investment it is the process whereby the interest you earn from something is added to the capital to produce even more interest. In the case of a loan it is the process whereby the interest you owe is added to the capital you owe, making it harder to get out of debt.
- Gearing allows you to buy an asset with borrowed money. There is no better way to achieve dramatic investment returns but, remember, it can work the other way too.

Appendix 2
Tax Rates and Credits

	Budget	
Tax credits @ 20%	**2023**	**2022**
Personal tax credits	€	€
Single person	1,775	1,700
Married (assessed jointly)	3,500	3,400
Widowed person in year of bereavement	3,550	3,400
Widowed person – no children	2,240	2,240
Additional allowances for widowed persons in the years after bereavement		
Year 1	3,600	3,600
Year 2	3,150	3,150
Year 3	2,700	2,700
Year 4	2,250	2,250
Year 5	1,800	1,800
One-parent family	1,650	1,650
Home carer's credit (max.)	1,650	1,650
PAYE tax credit	1,775	1,700
Age tax credit		
(a) Single/widowed	245	245
(b) Married	490	490
Incapacitated child tax credit	3,300	3,300
Blind person's tax credit		
One spouse blind	1,650	1,650
Both spouses blind	3,300	3,300

Tax allowances @marginal rate		
Additional allowance for guide dog	825	825
Incapacitated person		
allowance for employing a carer (max.)	50,000	50,000

Exemption limits	2023	2022
(Abolished over 4 year period from 2011)	€	€
Single/widowed, 65 years of age or over	18,000	18,000
Married, 65 years of age or over	36,000	36,000
Additional for dependent children		
1st and 2nd child (each)	575	575
Each subsequent child	830	830
Marginal relief tax rate	40%	40%

Tax Rates and Tax Bands	2023	2022
Personal circumstances	€	€
Single/widowed without dependent children	€40,000 @ 20% Balance @ 40%	€36,800 @ 20% Balance @ 40%
Single/widowed qualifying for one-parent family tax credit	€44,000 @ 20% Balance @ 40%	€40,800 @ 20% Balance @ 40%
Married couple (one spouse with income)	€49,000 @ 20% Balance @ 40%	€45,800 @ 20% Balance @ 40%
Married couple (both spouses with income)	€49,000 @ 20% (with an increase of €31,000 max.) Balance @ 40%	€45,800 @ 20% (with an increase of €27,800 max.) Balance @ 40%

The tax band of €80,000 available to married couples with 2 incomes in 2023 is transferable between spouses up to a maximum of €49,000.

Universal Social Charge (USC)	2023	2022
On the first €12,01	0.5%	0.5%
On the next €9,283	2%	2%
On the next €49,560	4.5%	4.5%
On the balance	8%	8%

Incomes under €13,000 are exempt from USC.
For the self-employed only when income exceeds €100,000 the rate continues to attract an additional 3% to 11% – still only 8% for employees.

Appendix 3

Tax Computation Template 2021

	Example		Enter your figures	
Taxable income	€	€	€	€
Gross income		40,000		
Add: Benefit in Kind		1,000		
		41,000		
Deduct: Pension contributions		(2,000)		
Total taxable income	A	39,000		
Tax payable				
35,300 (44,300 married) @ 20% 39,000 - 35,300 = 3,700 @ 40% Tax before tax credits		7,060 1,480 8,540		
Deduct: Tax credits Personal credit (3,300 married)	1,650			
PAYE credit (each PAYE employee)	1,650	(3,300)		
Total tax after credits	B	5,240		
Income after tax	**A–B**	**33,760**		
Deduct: Universal Social Charge (see rates in Appendix 2)		(1,153)		
Deduct: PRSI 4% of gross income		(1,640)		
Net income after tax, USC and PRSI		**30,967**		

Appendix 4
Annual Budget Account*

Description	Monthly/quarterly	Total
Electricity		€
Home heating (oil/gas)		€
Telecoms (land/mobile/broadband)		€
TV licence/cable TV		€
Household insurance (contents)		€
Car insurance/tax/service/fuel		€
Food/drink/eating out/cinema/concerts		€
School fees/uniform and sportswear		€
Extracurricular school costs		€
Alarm/security		€
Repairs/cleaning/waste/garden		€
Health insurance/medical expenses (incl. dentistry)		€
Christmas and birthday expenses		€
Mini breaks/holidays		€
Clothes/footwear		€
Club subscriptions/donations		€
Other		€
Totals		€

**Does not include mortgage and loan repayments, life assurance or pension costs.*

When you have totalled your expenditure and divided by 12, that is the amount you have to provide monthly from your net income to meet that expenditure. All other costs (e.g. capital expenditure, new washing machine, TV, etc.) must be found outside of this budget (the Rainy Day Fund).

Student Monthly Budget

Category	**Totals**	
	Weekly	Monthly
Rent		€
Home heating (oil/gas)		€
Mobile		€
Books		€
Course materials		€
Printing/photocopying		€
Commuter expenses (Bus/Train/DARt/Luas)		€
Food		€
Household items/toiletries		€
Medical expenses/dentistry		€
Clothes		€
Gym/club subscriptions		€
Movies/theatre/concerts		€
Other (pubs, clubs & incidentals)		€
Loans		€
Total		€

When you have totalled your expenditure, multiply by 12 and that is the money you have to provide to pay for that expenditure. All other costs (e.g. holidays, buying hardware, etc.) must be found outside of this budget.

Appendix 5
Useful Addresses

Revenue Commissioners

Check www.revenue.ie for contact details for your local Revenue office numbers, addresses and email addresses.

You can also avail of the Revenue online service at: www.ros.ie or at:
Revenue Online Service Helpdesk
Revenue online service
2nd Floor, Trident House, Blackrock, County Dublin
Tel: (1890) 20 11 06 or
from outside the Republic of Ireland (+353 1) 7023021
Opening hours: Monday–Thursday, 8.30am–8.30pm;
Friday, 8.30am–6.00pm

Companies Registration Office

CRO Public Office
Gloucester Place Lower, Mountjoy, Dublin 1
D01 C8P4
Email: info@cro.ie
Tel: (01) 8045200 Lo-call: 0818452000
Fax: (01) 8045222
DX No. 145001

Competition and Consumer Protection Commission (CCPC)

Bloom House
Railway Street, Dublin 1
D01 C576
Tel: (01) 4025500
www.CCPC.ie

Institute of Chartered Accountants in Ireland

Chartered Accountants House
47–49 Pearse Street, Dublin 2
Tel: (01) 6377200
www.charteredaccountants.ie

Association of Chartered Certified Accountants

La Touche House
IFSC, Dublin 1, D01 R5P3
Tel: (01) 447 5678
www.accaglobal.com/ie/en.html

Institute of Certified Public Accountants in Ireland

17 Harcourt Street, Dublin 2
Tel: (01) 4251000
www.cpaireland.ie

Central Credit Register

First Floor, Block E
Adelphi Plaza, George's Street Upper, Dún Laoghaire, County Dublin
Tel: (01) 2245500
Lo-call: (1890) 100050
Email: myrequest@centralcreditregister.ie
www.centralcreditregister.ie

Law Society of Ireland

Blackhall Place, Dublin 7
Tel: (01) 6724800
Fax: (01) 6724801
www.lawsociety.ie

Money Advice Budgeting Services (MABS)

Cork MABS
12 Penrose Wharf, Penrose Quay, Cork
Tel: (021) 4552080
Fax: (021) 4552078
Email: cork@mabs.ie

There are numerous MABS offices in Dublin, so to find the one closest to you go to www.mabs.ie/contact_mabs/

Galway MABS
The Halls (3rd Floor)
Quay Street, Galway
Tel: (091) 569349
Fax: (091) 569478
Email: galway@mabs.ie

Limerick MABS
Unit 9, Tait Business Centre
Dominic Street, Limerick
Tel: (061) 310620
Freephone: (1800) 418088
Fax: (061) 404605
Email: limerick@mabs.ie

Waterford MABS
6b Wallace House, Maritana Gate
Canada Street, Waterford
Tel: (051) 857929
Fax: (051) 841264
Email: waterford@mabs.ie

St Vincent de Paul

SVP House
91–92 Sean McDermott Street, Dublin 1
Tel: (01) 8386990
Fax: (01) 8387355
www.svp.ie

The Samaritans

National Helpline: (1850) 609090
Dublin Branch: (01) 872 7700

Appendix 6
Important Tax Dates

Annual Tax Return

Form 12 is the short version for those whose main source of income is from an employment or pension (other than a company director for whom there is a separate Form 12) and is therefore taxed under PAYE.

Form 11 or **Form 11E** must be completed each year by self-employed persons or those with income not taxed at source. To download these forms, go directly to www.revenue.ie/forms

The initial instructions for Form 12 are: 'You are hereby required, under Section 879 Taxes Consolidation Act 1997, by the Inspector of Taxes named above to prepare and deliver, on or before 31 October 2023, a tax return on this prescribed form for the year 1 January 2022 to 31 December 2022.

You must make a return of income on Form 11 if in the year 2021 you:

- opened a foreign bank account
- acquired a material interest in offshore funds in a member state of the EU, EEA, or the OECD with which Ireland has a double taxation agreement and/or
- invested in a Foreign Life Policy issued from a member state of the EU, EEA, or the OECD with which Ireland has a double taxation agreement.

To assist you in completing this return, each section of the form has been colour-coded into the different categories of income, tax credits, allowances and reliefs.

All Revenue forms and information leaflets are available from the Revenue Forms and Leaflets Service at LoCall 1890 30 67 06 (ROI only) or from the Revenue's website www.revenue.ie or from any Revenue office.

Penalties

The law provides for penalties for failure to make a return, or the making of a false return, or helping to make a false return, or claiming tax credits, allowances or reliefs which are not due. These penalties include fines up to €126,970, up to double the tax in question, and/or imprisonment.

Important Tax Date Deadlines

October is an important month in the tax calendar as 31 October is the last day by which an individual taxpayer must Pay and File for the tax year ended on the previous 31 October.

The table below uses October as the example because of its importance and shows what day in October returns and payments become due. Some returns are required more than once a year (e.g. every month as in the case of PAYE/PRSI as indicated in Column 2.

Date	Frequency	Category	Description
14	Monthly	Income tax, PAYE/PRSI	Payment of PAYE/PRSI deductions to 30 September
14	When applicable	Dividend withholding tax	Due date for payment and filing of returns of withholding tax on dividends paid by companies in September 2022
14	Bi-monthly	VAT	Filing of VAT 3 return together with payment of any VAT due
14	Monthly	VAT	Filing of Intrastat return for September
21	Annually	Corporation tax	Company year-end 30 November 2022: first instalment due, minimum 72% of total liability for the year
21	Annually	Corporation tax	Company year-end 30 April 2023: second instalment due, bringing cumulative payment to 90% of total liability for the year
21	Annually	Corporation tax	Company year-end 31 January 2022: payment of balance of corporation tax and filing of corporation tax return and Form 46G
28	Annually	Company secretarial	Filing of annual returns dated 30 September 2023
31*	Annually	Corporation tax	Company year-end 30 April 2022: close companies with profits that are undistributed and may have to make a distribution by this stage to avoid surcharge
31*	Annually	Company secretarial	Company year-end 31 January 2022 final date for holding Annual General Meeting and latest possible annual return date for 2023

Date	Frequency	Category	Description
31*	Annually	Capital gains tax	Filing of return of capital gains tax for 2023. Payment of capital gains tax on disposals from 1 January 2023 to 30 September 2023 and 1 October to 31 December 2023
31*	Annually	Income tax and PAYE/ PRSI	Income tax and payment of preliminary PAYE/PRSI tax for 2021. Payment of income tax balance for 2021. Filing of 2021 tax return.
31*	Annually	Pensions	Payment of retirement annuity premiums, PRSA premiums and personal contributions to occupational pension schemes for tax year 2022– you must also elect to have these treated as paid in the tax year 2022
31*	Quarterly	VAT	Filing of VIES return for calendar quarter ending September.

Appendix 7
39 Ways to Save Cash

Are you having trouble making ends meet? Do you run out of money before payday? Are you extravagant with your money? Do your current financial circumstances require you to do a complete overhaul on your lifestyle and spending? What are the areas that will allow economies in your spending? Almost every item of expenditure should be queried –

1. *do you really need it and if so,*
2. *are there better or cheaper alternatives?*

Many of the following tips, covering financial and transport, are practical and easily implementable. Some you will know or have heard before but they will give you the impetus to focus on your own finances to start saving money *now* when it matters:

Financial

1. **PLAN A YEARLY HOUSEHOLD BUDGET** – add all your yearly household bills and divide by twelve. That figure is the amount you need to put away each month to meet those bills just to run the home. Any capital or "luxury" spending must be found outside of this annual budget. You could also adopt a monthly budget if preferred but you should in any event put at least two hours every month into planning your finances to ensure you are on track with your spending. Remember if your expenditure exceeds income, you have three choices – earn more, cut costs or prioritise. You should in any event query EVERY item of expenditure – ask yourself, do you need it and is there a better or cheaper alternative. Email me for a simple easy to use and understand free budget planner spread sheet.
2. **THINK SMART WITH YOUR SURPLUS CASH** – do not leave surplus money in your current account or low interest-bearing accounts. At least transfer it into your bank's best deposit account and when you need funds to meet commitments, transfer over a couple of days before due. Best demand account currently in Ireland is 0.01%, net 0.0067% after 33% DIRT tax! Some savers are preferring to invest in NTMA's Prize Bonds rather than leave in current or deposit accounts. You only have to wait the first 3 months and then give 7 days' notice to withdraw it all – but you could win!

3. **CHECK YOUR BANK CHARGES ON A REGULAR BASIS AND CUT DOWN YOUR BANKING BILLS** – there are too many cases of overcharging from all the banks to accept that *your* bank is not one of them! Sometimes, these charges can be waived at the discretion of the manager – if you don't ask, there'll be no waiving. Try and avoid exceeding your overdraft permission if you have an overdraft. The surcharges and fees are punitive. You should also operate online bank accounts – better deals, easier to operate and no waiting in queues plus saving on time and travel expense. Check out *An Post Money*'s *Currant Account*, *BillPay* or www.mybills.ie and for current account comparisons, log on to www.ccpc.ie/currentaccounts .
4. **CHECK YOUR MORTGAGE AND LOAN INTEREST RATES** – sometimes we go to great lengths at the initial stages of obtaining a mortgage or loan trying to ensure the most competitive interest rate at the time. Once taken out, there is a tendency to overlook the maintenance of that loan. You could very easily find out that your lender's original rate or current advertised interest rate bears no resemblance to your own. This is also a time to check if currently on a variable rate, you should go fixed and also if your lender is uncompetitive, to see whether you should switch to another lender. Best mortgage interest rate at the time of going to press is *ICS Mortgages & Avant Money*'s fixed rates of 1.95%.
5. **AVAIL OF YOUR ANNUAL CAPITAL GAINS TAX (CGT) EXEMPTIONS** – the first € 1270 of chargeable gains to an individual arising from the disposal of a capital asset (e.g. shares) is exempt. This is allowable for each tax year but is not transferable between spouses. The rate payable on CGT is 33% over the threshold. For Capital Acquisition Taxes (CAT), remember the threshold from parent to child (Group A of three groups) is currently €335,000 for each child. The tax rate for CAT is also 33% over the thresholds.
6. **CHECK YOUR LIFE AND HEALTH COVER** – you could be over insured. Do a review on all your insurances. Are you getting the best value? What happens if you or your spouse die or become permanently incapacitated? If you took out life cover (with home mortgages it is mandatory) you may have been a smoker at the time. Once you are smoke free for 12 months, you could save yourself over 50% of the annual premiums. Worth checking out.

7. **HEALTH INSURANCE COMPARISON** – the *Health Insurance Authority* does an excellent comparison of all three and updates it – check out www.hia.ie

8. **CHECK YOUR GENERAL INSURANCES** – your home buildings and contents – is your cover competitive? If you have commercial or residential investment property insurance, is that competitive? Do you require any special risk insurance that you "risked" being without to date – you may not be so "lucky" next year ! Public liability, professional indemnity, PC hacker – virus insurance, even insuring for that round of drink after *a hole in one* on the golf course etc.

9. **AVAIL OF ANY EXEMPTIONS ON INCOME TAX LIABILITY PLUS CLAIM ANY TAX RELIEFS AND ALLOWANCE ENTITLEMENTS UP TO THE LAST 4 YEARS** – This includes medical expenses, pension relief, etc) Text MONEYDOCTOR to 53131 and start the tax refund process (*normal SMS rates apply*). You may be unwittingly exempt from paying income tax (e.g. an Irish resident artist producing originals that has cultural and artistic merit, income from woodlands etc) while you should also ensure, if self-employed, and your partner is working in the business, that the full entitlement of income tax exemptions is taken up by the partner. In other words, pay her/him her/his dues tax free!

10. **PRIVATE COLLEGE FEES** – tax relief at the standard rate is available for approved courses undertaken by a taxpayer or dependents in approved private colleges. The courses must be full time undergraduate courses of at least two years duration. Also postgraduate courses of between 1 and 4 years duration in public colleges and approved private colleges now attract similar tax relief.

11. **HELP YOUR PARENTS OR BE HELPED BY YOUR CHILDREN** –Covenants are also still popular with tax relief available for the donor – you. To qualify for tax relief the payments must be capable of lasting for at least six years while the recipient has to have unused tax credits to make the covenant work. If a person is over 65, their son or daughter can pay them up to **5pc of their income** under a *deed of covenant* and the son or daughter will get tax relief on the amount paid. The covenant must be legally documented in order for the person making the payment to receive the tax benefit. Tax at the standard rate (20%) must be deducted and only the net amount paid over. For example, if a daughter gives her mother €1,000 a

year, she makes out a covenant and pays €800 to the parent. The mother then gets the other €200 by way of a tax rebate from revenue while the daughter also gets tax relief of €200. The net cost to the daughter is €600, while his mother gets the benefit of €1,000. The Revenue regards the €1,000 as the mother's. The daughter has already paid €400 in tax (40%) on the €1,000 and the tax is now being returned. Effectively €200 goes back to the daughter and €200 to the mother. The person making the covenant should get tax form R185 from his or her local tax office and submit.

12. **THINK PENSIONS** – if you are self-employed, a 5% equity holding director or perhaps in an occupational pension scheme (where pension holders can make further payments through an *Additional Voluntary Contribution*) you should review your pension requirements. Age thresholds still apply – e.g. at 50 years old, you can invest 30% of your net relevant earnings into a pension plan – while for every euro you invest in the fund, you will save tax at your marginal rate depending on the type of pension. Just remember if you were retiring now, ask yourself could you live off the € 253.30 per week from the State pension? Less than half the working population have provided outside of the State Pension while in 2019 there were 5 workers for every person retiring. In 2050, there will be just 2. The incentives are still there to start. Apart from the tax relief on premiums, all growth in the fund is tax free plus 25% of the fund can be taken on retirement by way of a tax free lump sum (now capped at €200,000 tax free but any excess is taxed at only 20%) Still worth it.

13. **ARFs (Approved Retirement Funds) & AMRFs** – recent changes in the pension laws now allow YOU to decide what you want to do with your retirement fund when you have reached the age of retirement. Up to 1999, the *only* choice you had was to take out an *annuity* (a fixed rate deposit account where you receive a monthly interest cheque until you die – a guaranteed income where the rate *never* changes) with a Life Insurance Company. When you die however, the capital or fund stays with that Life Insurance Company and your estate loses out. For PRSA and AVC pension holders, that has all changed now and that fund can now eventually be passed on to your estate through an *Approved Retirement Fund (ARF)*, introduced in 1999. Three main conditions apply

- You must either have minimum €12,700 pension before investing your fund in an ARF *or* if you do not have a pension
- Put €63,500 of your fund into an Approved Minimum Retirement Fund (AMRF) til age 75 or you produce that minimum pension (the current State pension is €12,900 per annum) *and*
- You then must withdraw 4% annually over 60 years of age (5% at 71 years of age but 6% if over a €2 million fund) of the ARF each year – called *imputed distribution*. It is also hugely important to have growth in this fund otherwise you will run out of money. Contact your regulated authorised financial adviser or your preferred pension provider for further details.

14. **OPERATE A CHARGE CARD OR A PREPAID CARD AS OPPOSED TO A CREDIT CARD** – you are probably aware that credit card balances are normally charged between 9% and 24% depending on the credit card company. By switching to a charge card (e.g. American Express) you MUST pay off when you receive your statement or it is debited to your bank current account. Another option is *prepaid cards* (e.g. Revolut, N26) where you can only spend what you lodge into the card – better discipline! An Post Money's Smart account should not be overlooked either.

15. **THINK ABOUT OTHER FORMS OF INVESTMENT** – for instance, gold, rock 'n roll memorabilia, philately or *forestry investment*? Ireland is the least afforested country in the EU with forest cover of 9% as compared with the EU average of 31%. The Irish climate is the most ideal in the Northern Hemisphere for tree growing due to our mild wet climate and trees grow three times faster here than elsewhere in Europe. Timber products are also the second largest import into the EU after oil. The EU and the Irish government promote forestry through grants and premia payments. They are keen to reduce agricultural output of which there is a surplus in the EU and substitute it with timber producing forests for which there is a growing internal EU shortage.

16. **REVIEW YOUR INVESTMENTS MONTHLY** – products are launched every week and you should be wary of their performance on a regular basis. Rates change, some investments go out of favour – you have to be vigilant. If there is a better rate or greater potential, do not be afraid to move. Better in your pocket.

17. **CLAIM ALL YOUR TAX RELIEFS ON RESIDENTIAL INVESTMENT PROPERTIES** – these include
    - 100% of annual mortgage interest paid
    - Maintenance & repair costs
    - Services charges (including buildings/block insurance)
    - Property Management Charges
    - Residential tenancies Board (RtB) fees
    - 12.5% of furnishings costs for each of the first 8 years after purchase (receipts must be maintained)
18. **WORKING FROM HOME** – the pandemic has seen a huge number of workers switch from their offices to their homes. Normally the self-employed would be aware of the ability to reclaim partial costs by working from home e.g. electricity, heat and telecoms. This now applies to the new PAYE home-workers too. During the pandemic lockdowns, employers *could* pay up to €3.20 per day to defray employees' utility costs but in Budget 2022, it was announced tax relief up to 30% of vouched utility costs (electricity, heat and broadband) for all employees working from home.
19. **SAVE** – you should also have between 3 months and 6 months' net annual income in a *Rainy Day Fund* for three reasons
    - emergencies (your car breaks down)
    - Sudden loss of income (a partner loses their job)
    - Investment opportunities (deposit for that holiday home)
20. **RENT A ROOM RELIEF** – Renting a room in your home is tax free up to a limit of €14,000 per year – no expenses may be deducted and it is not available between connected parties. One bedroom apartments do not comply!
21. **EDUCATE YOURSELF** – there is no excuse now to better inform yourself on any financial issue under the sun. Seminars, webinars, the printed works, consultations and good old GOOGLE – when it comes to financial information, you are not alone.

Cars & Fuel

22. **REVIEW YOUR CAR** – does it need replacing? Could you upgrade the model for effic ency purposes (e.g. currently achieving 25 miles per gallon – 40 kilometres per 4.55 litres! – if you were to change, buy a car doing 35 miles per gallon, you would save 40% on fuel costs)

23. **CHANGE YOUR CAR TO DIESEL OR AN ELECTRIC MODEL** – apart from the environment support through reduced carbon emissions, you could save hundreds of euro by such a change. Budget 2019 introduced the abolition of Benefit In Kind (BIK) up to a maximum of €50,000 on all fully electric company cars. Budget 2022 announced reductions for 2023 and beyond. You would pay a constant 30% in BIK otherwise –annual savings not to be sniffed at!

24. **AVOID COMPANY CARS** – in about 80% of cases and outside of all electric cars, it does not pay to maintain a company car. Benefit in Kind (BIK) on company cars is prohibitive – 30% of the value of the car when first purchased e.g. Toyota Avensis – diesel version - at €25,520 means for as long as you have this company car you will pay BIK each and *every* year of €7,656 or €638 per month irrespective of the falling value through depreciation. *Better to take mileage expenses at €0.6348 per mile.*

25. **BUY A CLASSIC OR VINTAGE CAR** (over 20 years old and 30 years respectively) – apart from the style, it would be cheaper to buy (and if you deem this car a company vehicle, the tax payable will be based on the value of the car at the time of purchase!) plus they are cheaper to insure while there is minimal car tax payable.

26. **REDUCE YOUR DEPENDENCY ON CAR FUEL #1** – **POOL YOUR CAR.**and share it with others going the same way or working in the same company.

27. **REDUCE YOUR DEPENDENCY ON CAR FUEL #2** – **CHARGE YOUR WORK COLLEAGUES** a fuel sharing fee should they have no car and wish you to drive them to work each day.

28. **REDUCE YOUR DEPENDENCY ON CAR FUEL #3** – **KEEP YOUR CAR IN TOP TRIM** by regular car servicing, keeping the correct pressure in your tyres, driving under the speed limit, driving smoothly, and no unnecessary weights inside the car.

29. **CHECK YOUR TYRES FOR WEAR** – new tyres will be more efficient than the worn tyres that currently adorn your car. Over two years old, and under normal annual mileage, your car can be a death trap anyway. Review those tyres!

30. **REDUCE YOUR DEPENDENCY ON CARS #1** – if you are a two car family, review the need for the second car. Work out the practicalities. Would public transport – which is improving all the time – be more appropriate?

31. **REDUCE YOUR DEPENDENCY ON CARS #2** – would the purchase of a bicycle be practical? Apart from the obvious exercise angle, the humble bike costs nothing to run and there are even tax breaks for employers to provide same for their staff with the July Stimulus 2020 increasing the tax break for electric bikes up to €1500.

32. **THINK ELECTRIC CARs** – hybrid and electric cars are already with us, but the future car will be an all-electric models. In fact from 2030, you will not be able to buy a petrol or diesel car! Electric cars are already capable of reaching 180kph, with a range of c. 510+ kilometres without charging, they can only improve year on year.

33. **CAR LOANS ARE DETERRENTS** – if you are a person who changes your car every 3 years and just renew the existing (and expensive) car loan at that point, try saving over a 3 year period so that you do not need that car loan. *Personal Contract Plans* (PCPs) lure you into a never-ending loan…

34. **CAR LOANS** – shop around if you must take out a car loan. Ensure you read the small print. Avoid moneylenders like the plague.

35. **HOME OIL** – shop around through the various home heating companies looking for economies. Paying upfront for the year's oil requirements may reap dividends.

36. **HOME HEATING** – turn your thermostat down just 1% and you can save as much as 10% of the actual cost. Remember to switch off the heating when away – even for weekends, and especially at the onset of summer.

37. **BOILER** – if your boiler is more than ten years old, you could consider replacing it with a new condenser boiler – this has more efficient use of energy and should repay installation costs within two years.

38. **INSULATE YOUR HOUSE AND YOUR PIPES** – you will save hundreds of euro through saving your heat loss.

39. **AVAIL OF THE NEW ENERGY GRANTS FOR IMPROVING THE EFFICIENCY OF YOUR HOME –** there are a number available, check out www.seai.ie/grants *Retrofitting* is the new buzz word and a significant amount of funding has been put aside by the government for this as announced in the 2022 Budget.

Appendix 8
50 Top Tax Tips 2022

Tax avoidance is perfectly legal and whereas I am a great believer in the *responsible citizen approach and also in John F Kennedy's immortal words* *"ask not what your country can do for you - ask what you can do for your country"*

I also believe in the adage... *"Don't look a gift horse in the mouth"*

Therefore I attach hereunder 50 top tax tips for your benefit.

Income Tax

1. **Due dates for payment of income tax**
   the 'Pay and File' deadline is 31 October each year. By this date the taxpayer must:
   - Submit an Income Tax return for the year ended the previous 31 December
   - Pay any balance of Income tax and CGT due for the year covered by the return
   - Pay the Preliminary Income tax for the current year

   Capital Gains Tax (CGT) - For 2021 and subsequent years the tax year is divided into a revised set of two periods:
   - An 'initial period' from 1 January to 30 November
   - A 'later period' from 1 December to 31 December.

   For disposals in the initial period CGT payments are due by 15 December in the same tax year. CGT for disposals in the later period are due by 31 january in the following tax year.

2. **Pay tax on time to avoid interest, penalties and surcharges**
   - Interest on Overdue tax – is 0.0219% per day.
   - surcharge for late submission of income tax returns is calculated at the rate of 5% of the amount of tax subject to a maximum of €12,695 if the tax return is submitted within two months after

the due date or 10% of the amount of tax subject to a maximum of maximum €63,458 if the return is submitted more than two months after the due date.

3. **Utilise your pension contribution limits**
The maximum amount on which tax relief may be claimed in respect of qualifying premiums is as follows:

Age	% of NET Relevant Earnings
Up to 30 years	15%
30 but less than 40	20%
40 but less than 50	25%
50 but less than 55	30%
55 but less than 60	35%
60 years and over	40%

The maximum limit also applies to individuals who are engaged in specified occupations and professions – primarily sports professionals – irrespective of age. There is an earnings cap of €115k on net relevant earnings. Contributions may be made until an individual reaches 75 years of age.

"Net relevant earnings" are earnings from trades, professions and are non-pensionable employments, less certain payments and deductions. Earnings of a husband and wife is treated separately for purposes of determining relevant earnings and the relief is available in respect of each spouse with non-pensionable earnings. Where a qualifying premium is paid after the end of the tax year but before 31 October in the following year, it may be treated as paid in the previous year.

4. **If you are self- employed and your spouse helps with the business, pay him/her a salary.**
For the tax year 2023 the following tax bands apply at 20% with the balance of income taxed at 40%:

Single Person	€40,000
Married Couple – One Income	€49,000
Married Couple – Two Income	€80,000
One parent families	€44,000

5. **Employing family members -** For the tax year 2023 family members who work part time in your business and have no other income can be paid up to €335 per week without incurring PAYE or PRSI.

6. **Pay all business expenses by cheque/credit card thereby ensuring a record is kept and available for future inspection.**

7. **Have a petrol/diesel account with local garage to keep track of business expenditure. Better still ensure you get a loyalty card too.**

8. **Direct debit mandate to pay Revenue Commissioners -** set a direct debit mandate to pay your tax liability to Revenue Commissioners over a twelve-month period. This leaves it easier to manage cash flow.

9. **Tax based investments -** tax based investments are more advantageous to people on the higher rate of tax (40%).

10. **Claim an element of household expenses -** If you work from home claim an element of household expenses e.g light, heat and phone.

11. **Subsistence -** If you work away from your business you are entitled to subsistence rates per civil service rates.

    Domestic Subsistence rates from 1st July 2021

CLASS OF ALLOWANCES	A & B CLASS
Overnight Rates	
Normal Rate	€147
Reduced Rate	€132.50
Detention Rate	€73.50
Day Rates	
10 hours or more	€36.97
5 hours but less than 10 hours	€15.41

12. **Entertainment expenses -** Client entertainment is not tax deductible and should be categorised separately from other expenses such as advertising, promotion etc. Staff entertainment is fully tax deductible.

13. Medical Expenses - Medical Expenses – ask your family doctor/ chemist to issue an annual statement. There is no requirement for a relationship between the taxpayer and the person on whose behalf the relief is being claimed. For example an individual can pay for medical expenses for his/her friend and claim the tax relief. Also, tax relief can be claimed on the full amount of the health expenses. Medical expenses include the cost of maintaining a person in an approved nursing home. Tax relief is also available to an individual who employs someone to take care of a family member who is totally incapacitated by old age or infirmity.

14. Leasing/Hire-Purchase - When deciding whether to lease or hire-purchase try and anticipate profits over the lifetimes of the lease or hire-purchases so to maximize the write off of the costs of the asset.

15. Exemptions - Exemptions exist in relation to income of artists and income from patent royalties, stallion services, forests, personal injury compensation. Artists whom Revenue determine have produced works recognized as having cultural or artistic merit are entitled to exemption to income tax on this income. The artist exemption can be obtained in the following categories: a book or writing, a play, a musical composition, a painting or picture, a sculpture subject to a maximum of €50,000 and only income tax is exempt – PRSI and USC is still payable.

16. Rental Income

All rental income from properties in Ireland and abroad, must be reported on your annual tax return. Deductions can be made from the rental income for expenses relating to the rental income. If a property is rented for residential use, apart from holiday rentals, it must be registered with the Private Residential tenancies Board, otherwise a deduction cannot be claimed for the mortgage interest on the property.

17. Rent a Room relief

Renting a room in your principal private residence is tax free up to a limit of €14,000 per year – no expenses may be deducted. This is not available between connected parties. One bedroomed apartments do not comply!

18. Permanent health schemes are deductible - Premiums paid to permanent health insurance schemes are tax deductible. The amount on which relief is granted cannot exceed 10% of the individual's total income for the year of the assessment.

19. Third-level tuition fees

Tax relief at the standard rate is available for tuition fees paid for approved courses in approved third level colleges. From 2007 et seq, there is no requirement for the fees to be paid in respect of a relative. The maximum limit for qualifying fees is €7,000 per individual per course.

20. Relief for retirement of certain sports persons.

Main features of the relief are as follows:

(i) Resident in an EEA state or an EFTA state in the year of retirement.

(ii) Allows a deduction of 40% against gross earnings (before deducting expenses) for up to any 10 tax years back.

(iii) Earnings derived are directly from actual participation in the sport concerned (not sponsorship).

(iv) Given by way of repayment of tax and is claimed in the year in which the sportsperson ceases permanently to be engaged in that sport.

(v) Clawed back if recommences in that sport but relief still allowed in future.

(vi) Relief cannot create or augment a loss and cannot affect the calculation of "Net Relevant Earnings" for the purpose of ascertaining maximum pension contributions.

21. Exemption from Income tax for Low Earners.

For the tax year 2023 total exemption from income tax is available to individuals over 65 years of age whose total income does not exceed €18,000 (€36,000 in the case of a married couple jointly assessed).

22. Benefit-in-Kind exemptions

- Bus passes
- All electric cars up to €50,000 value (only pay for excess of this figure)
- Childcare services
- Canteen meals if provided for all staff generally

- Laptop/mobile phones/home high speed internet if the personal use is incidental.
- examination Awards

23. Covenants - tax relief is available for covenants made to the following:

- Persons over 18 years of age who are permanently incapacitated
- Permanently incapacitated minor children and adults if paid by person other than the parent
- Persons who are aged 65 years or over,

All the above covenants will be restricted to 5% of the covenantor's total income except for permanently incapacitated persons where unrestricted relief is available. A minor is a person under 18 years of age who is not married or in a civil partnership.

You cannot claim tax relief on covenant payments you make to your own incapacitated child.

A Deed of Covenant must last more than 6 years to qualify for tax relief.

24. Leasing & Capital Allowances on Motor Vehicles

There are new rules introduced since 1 July 2008 for leasing and capital allowances on motor vehicles. These rules limit the availability of allowances for leasing charges and capital allowances in relation to the car's carbon emissions. The level of emissions the vehicle produces will determine the restriction imposed.

25. Mileage expenses - It may be more beneficial to own your own car and charge your company a mileage rate as opposed to having a company car and paying benefit in kind (BIK). BIK is liable to PRSI and USC and is collected through the payroll.

Civil Service motoring and bicycle rate

Distance band	Engine capacity up to 1200cc	Engine capacity 1200cc-1500cc	Engine capacity 1501cc & over
1. Up to 1500km	37.95 cent	39.86 cent	44.79 cent
2. 1501-5500 km	70.00 cent	73.21 cent	83.53 cent
3. 5501-25000 km	27.55 cent	29.03 cent	32.21 cent
4. 25000km&over	21.36 cent	22.23 cent	1.85 cent

Bicycles Rate per km .... 8 cent

Capital Acquisitions Tax

26. **Thresholds for CAT liability -** Tax free thresholds applicable to gifts or inheritances arising after October 2020 (cumulative in the lifetime of the recipient) are:
    - Group 1 - €335,000 (e.g. Child of the person giving or bequeathing)
    - Group 2 - €32,500 (e.g. Lineal ancestor, brother, sister etc. of the of the person giving or bequeathing)
    - Group 3 - €16,250 (e.g. All others)
      CAT is payable at a rate of 33% above these limits

27. **Gifts -** In addition to the above thresholds a beneficiary is entitled to receive a gift from any one person of up to €3,000 annually tax-free. This can facilitate tax efficient payments to children/grandchildren without utilising the CAT thresholds applicable to a recipient's lifetime. The allowance only applies to gifts. This exemption is not transferable between spouses.

28. **Dwelling House Exemption –** if you inherit or are gifted a residential property, you may be entitled to avail of this exemption provided you meet specific criteria below – the relief can be a valuable tool.
    - the house was the only home of the person who died (unless you are a dependent relative)
    - you lived in the house as your only home for the three years before the date of the inheritance.
    - you do not own or have an interest in any other properties, including one that you may have inherited in the same inheritance.
    - you must live in the house for six years following the date of inheritance (this does not apply to those over 65 years of age)

29. **Business Property Relief -** Business Property Relief – this applies to business property acquired through a gift or inheritance and applies to chargeable business assets i.e. land, buildings, machinery, plant and certain shares. The relief available is 90% of taxable value of the gift or inheritance. The business property must be owned by the disponer for at least 5 years prior to transfer or at least 2 years for inheritance.

30. **Agricultural relief -** Agricultural relief is applicable where 'agricultural property' is passed to a qualifying individual. Relief is given by reducing the market value on which CAT is calculated by 90%.
    If you have received a gift of or inherited agricultural land seek professional advice to ascertain if the necessary criteria are met and relief is applicable. An individual must qualify as a 'farmer' to obtain the relief.

31. **Agricultural Relief – Farmer definition -** 'farmer' for the purposes of 'agricultural relief' means that 80% of your total assets for one day is agricultural property. A 90% relief on the market value of the agricultural property will be allowed for CAT purposes. Clawback will arise if assets sold farm sold within 6 years of ownership

32. **Will -** Make a Will. It will avoid tax complications when you die.

33. **Section 72 policy -** If you anticipate a large CAT liability on your death you may take out a Section 72 policy to help offset the beneficiaries' tax liability on your estate. This qualifying insurance policy will be used to pay tax arising on CAT except *inter vivos* discretionary trust.

34. **Family business -**Consult your business advisor regarding family business partition and transfer to the next generation.

35. **Favourite nephew/niece relief -** If you have no children, study conditions necessary for 'favourite nephew/niece relief'. Nephew/niece who has worked substantially on full time basis for period of five years up to date of gift/inheritance in business will receive a Group I threshold similar to a child of disponer.

36. **Double taxation treaties -** Double taxation treaties exist between Ireland and various countries including the U.K. & U.S. An inheritance from a person resident outside the state may have incurred tax which can give rise to a credit against any CAT liability attaching to the inheritance.
    Seek professional advice.

37. Valuing property for probate - When valuing property for probate, do not be tempted to value it at an artific ally low value. Remember this is the base cost for future disposals.

Capital Gains Tax/Gift Tax

38. Capital losses - If you have incurred losses on the sale of assets, you can carry forward the losses indefinitely and set them off against future gains, except gains on development land.

39. Selling farm land - If you own farm land and are considering selling it consult your professional advisor first. You may be able to avail of lower tax rates or defer the date when tax becomes payable if you are considering developing it or entering into some kind of agreement with a developer.

40. Gifting an asset - The gifting of an asset despite the fact that no consideration has been received can give rise to a CGt liability. **Gift tax** is also chargeable at 33% tax rate but €3,000 is the exemption threshold. Parents can for instance give €6,000 - €3,000 each - every year to each of their children tax free.

41. Transfer of a site to a child - A parent can transfer a site to their child to the value of €500,000 subject to certain conditions without incurring Capital Gains Tax or Stamp Duty if the child builds a house on the land and occupies the house as their principal private residence. The child must occupy the house for a period of three years otherwise the child will suffer a claw back of the relief granted to the parent.

42. Exempt chargeable gains - The first €1,270 of chargeable gains of an individual is exempt. This exemption is not transferable between spouses. Over this amount the tax rate is currently 33%. Investors soak up their allowances by selling shares that have made profit but only selling that amount to take up the €1,270 per person allowance – this is called a *bed & breakfast* arrangement.

General

43. **Expert advice -** If in any doubt on a tax matter always consult a qualified independent adviser. The cost will probably be less than the tax you will save
44. **Non-disclosure -** If you are worried in relation to non-disclosure of liabilities consult your professional adviser with a view to correcting the situation. It is much cheaper than having the Revenue come to you.
45. **Revenue Officials -** Be courteous to the Revenue Official; remember he/she is fulfilling a very important function.
46. **Revenue Audit -** Familiarise yourself with Revenue Audit procedures. Note the opportunity and benefits of making a voluntary disclosure. You should also have your accountant sit in with the Inspector of Taxes when the disclosure is being made.
47. **Expression of doubt -** If you are unsure of a matter included in your tax return, include an expression of doubt. You can avoid penalties this way.
48. **The internet -** Visit the Revenue site http://www.revenue.ie/ Many helpful and informative publications can be read and/or downloaded.
49. **Planning –** Plan in advance, you cannot plan retrospectively.
50. **Do not make unwise commercial decisions simply for the tax incentives.**

Appendix 9
Mortgages for First-time Buyers

We here in Ireland have always had a desire to own our homes. Unlike our neighbours on the European mainland, we have generally regarded renting as a short-term option. The boom of the Celtic Tiger years accelerated this trend, resulting in indiscriminate building, reckless lending, unsustainably high prices and the inevitable crash.

Back in January 2015, the Central Bank of Ireland introduced stringent new guidelines for mortgage lenders and revised them further in january 2017:

- For first-time buyers a maximum loan-to-value of 90% will apply.
- Home loans are subject to a limit of 3.5 times gross income.

These limits were imposed in order to prevent a new property bubble emerging in the future.

In addition to these limits, mortgage lenders have their own internal guidelines and tests to ensure that borrowers will continue to be able to afford their repayments into the future.

Ability to make the repayments, a key component in approving a loan, is based on a number of factors:

- The maximum percentage of net disposable income (monthly income after tax, PRSI and USC) deemed to be available to meet all loan repayments will range between 35% and 50%, depending on the level of income.
- The proposed mortgage repayments will be stress-tested at 2% above the current lending rate to ensure that repayments can still be afforded if rates rise.
- The potential buyer will have to show that his/her regular monthly savings and/or present rent paid are sufficient to cover the stressed repayments.

Saving for a deposit

The first thing you should do is complete a budget plan to establish how much you can save each month. You should also determine where you would like to buy your home and set yourself a price limit based on what you can afford.

In addition to the deposit you will need to factor in stamp duty (1% up to €1,000,000 purchase price) and legal fees (up to 1% plus VAT & outlay). Most banks offer regular monthly savings plans and you should ideally use one of these to start your savings habit, saving between €100 and €1,000 per month per person – you are normally limited one withdrawal per annum. As you will probably be unable to save the deposit in one year, you should review your budget annually and increase your monthly savings accordingly.

Help to buy scheme

In the 2017 budget, the government introduced a *Help to Buy Scheme*. First-time buyers of new homes with a maximum value of €500,000 can claim a refund of 5% of their tax paid over the previous four years subject to a ceiling of €20,000. A further condition is that the purchaser must be availing of a mortgage of at least 70% of the purchase price.

In the July 2020 Stimulus from the government, the Scheme was increased to € 30,000 or 10%...meaning if first time buyers saw a new property (or self-build) for € 300,000, the full 10% deposit was paid for by the Irish government i.e. the taxpayer … you .. me. To justify the 90% loan (in this case €270,000) an income of just over € 77,100 would be required. Only other expenses would be legal (between c. 0.5% and 1% plus VAT and outlay) stamp duty (1%) and a valuation (c. €150)

The good news is that as in last October 2020's Budget, Budget 2022 extended the scheme again to the end of 2022.

What to consider when buying

When buying a home, you must consider the possibility that this will be where you live for your lifetime. For this reason the location should be carefully evaluated. If you are young and single, an apartment in a town centre setting may be an attractive proposition because of location and the fact that you have no lawns to maintain. However, such a home would probably be most unsuitable for family life.

The factors to be considered should be:

- Convenience to work
- Availability of public transport
- Proximity to shops, schools, sports facilities and public parks
- The age of the house, its energy effic ency and state of repair
- Any zoning issues in the locality that could impact its future value

For a couple who intend to have children, a major consideration has to be the high cost of childcare and the possibility that they may have to live on one income for a number of years. In either of these scenarios, will they still be able to afford the mortgage repayments?

Which lender?

At the moment there are eight institutions offering mortgages, all with a range of plans, including the new kid on the block *Avant Money* and their ground-breaking 7 year fixed mortgage interest rate of 1.95% introduced in October 2020 – maximum loan to value is 60%. In 2021, this rate was matched by ICS Mortgages with their 3 and 5 year fixed rate – again for 60% loan to value. Some of these institutions offer incentives such as cash-back, discounted home insurance or a contribution towards solicitors' fees. These can be attractive but you should remember that they are once-offs; if their lending rates are not the best available, the advantage can be wiped out in the first few years by the higher interest being charged. For the best possible advice, it is essential that you consult an independent mortgage intermediary.

Which mortgage?

The decision to be made here is between a fixed interest rate mortgage and a standard variable rate option.

Fixed rate mortgages give you the certainty that your monthly repayments will not increase for the duration of the fixed period. On the other hand, you will not benefit from any overall drop in lending rates during this period, should they occur. Breaking a fixed interest rate can be costly too and usually prohibitively so.

Standard variable interest rates can be generally higher than the lowest fixed mortgage rates but at a time when rates are at an all-time low, there is only one way they can go – upwards – and repayments can rise suddenly and substantially.

I have always found it useful to use acronyms to memorise structures or systems. For first-time borrowers, that acronym is **TILE**.

T - Terms and rates

Up to five years ago, you could obtain a 40-year term for your home loan or up to age 75, whichever came first. That has now been reduced to 30 to 35 years while the age threshold has been reduced to age 68 for some lenders. What is important to keep in mind is that you should **not** be

repaying a mortgage after retirement. Over half the working population will only have the state pension to live on when they retire, which is currently €248.30 per week – if the government still has the ability to make these payments at your time of retirement. Bear in mind, for every person retired in 2019, there were 5 workers; by 2050, there will only be 2 workers for every person retiring.

Tracker rate mortgages were taken off the mortgage menu in november 2008, leaving only standard variable and fixed interest rates available. The current best standard variable rates at the time of going to press:

- Up to 50% – 2.45%
- 50% to 80% – 2.7%
- Over 80% – 2.7%

I - Income

All lending is based on the ability to repay, not on the asset. The method used to calculate the mortgage amount you are eligible to borrow is a combination of income multiples and net disposable income (NDI).

Once, 15 years ago, if you were earning over €60,000 with no dependents or debts, you could borrow **five times** your annual income. Accountants, solicitors and doctors attracted even higher multiples – even up to ten times their annual income. For couples, 4.5 times their combined incomes became the multiples norm. Compare this to the humble building society days when the rule was 2.5 times the main earner's annual income and half the second earner's annual income (to allow for the presumed female partner to stay at home if there was an abundance of children).

Today, under Central Bank regulations, it is 3.5 times your total income. Affordability is then factored in, which takes account of family circumstances, other borrowings and other commitments.

Job security is also of paramount importance. Contract, temporary or part-time work is in most cases a no-no while overtime and bonuses are taken into account by most mortgage lenders. For the self-employed, it is the **net** profit, not the gross that counts.

The lender will also check your credit history with the CentralCreditRegister.ie to ensure your financial past is clean. Both these credit agencies are made up of over 140 financial institutional members, including credit unions, who record every credit transaction and take note of every missed or late payment and financial judgements on their customers. One missed payment stays on the record for five years; with financial judgements, the record is there for

life. All lenders check with either credit agency when they receive current account, credit card or loan applications. For those who want to check their own credit history, you can email or call either credit agency – it is a free service – with your name, date of birth and address, and within 3 to 4 days you will receive your report.

L - Loan to value

At one point in the glory days, 110% mortgages were available. Today lenders are offering 90% loans (the Central Bank will allow 15% of a lender's mortgage book at this LTV but only for first-time buyers. For second-time buyers the maximum is 80% loan to value as per the Central bank guidelines. This means you have to come up with that balance and most lenders prefer that you save it to reinforce repayment capacity rather than inherit or win it! That's why a savings record is important - if you cannot save the mortgage repayment you are being asked to repay, it is difficult for the lender to believe you have the capacity to repay the mortgage.

E - Expenses

The main cost in buying a home for first-time buyers is the deposit – the difference between what you are borrowing from a lender and the purchase price. This will be 10% of the purchase price – so €350,000 purchase will require €35,000 savings – and the lender would prefer you to have saved this over a certain period. On top of the deposit, you will also need:

- Stamp duty (1% up to €1,000,000)
- Legals (generally 1% of purchase price + VAT)
- Valuation fees (for you and the lender) c.€150
- Basic furnishings and that lick of paint

Appendix 10
Budget 2023

Paschal Donohoe, Minister for Finance and *Michael McGrath, Minister for Public Expenditure & Reform* delivered the *Cost of Living* budget speech at 1pm on Tuesday 27th September 2022.

With the war in Ukraine raging, inflation soaring with interest rates the only tool western governments have to reduce same, all eyes in Ireland were on the coalition government to see what respite and supports would emanate from the brought forward Budget 2023, an €11.1 billion bonanza of which €4.1billion went to once off cost of living supports including tax band changes, electricity credits and social welfare increases.

Initial indications are that Budget 2023 has made a comprehensive range of interventions that should leave more money in the hands of consumers and businesses and offset at least some of the inflationary cost of living increases.

John Lowe of Money Doctors.ie reports;

Highlights at a glance:

- **€11.1 billion was the Budget package – the 'cost of living Budget'**.
- **Tax credits and bands** have been increased.
- Social welfare payments up €12 per week including State Pension and Fuel Allowance (the latter effective immediately). This includes maternity and paternity leave increased by 2 weeks to 7 weeks' leave in total from next August supported by the State.
- **3** domestic universal €200 electricity credits (totalling €600) over the next three billing cycles (November, January and March).
- Businesses to receive up to €10,000 a month (or 40% maximum of the increased energy costs) to assist with energy bills.
- **Free school books** for all national (primary) school-going children.
- **Christmas double bonus for all State pension recipients.**
  - 100% double bonus will be paid 6th December 2022 to those qualified.
- **Other one off payments** include double Child Benefit in November and all social welfare recipients a double week in October.
- The national minimum wage will increase by **€0.80** to **€11.30** per hour (January 2023).

Income & other taxes

Income tax

- **Standard rate of tax** extended from €36,800 to €40,000 – an increase of €3,200
- **Personal Tax Credit,** Employee Credit and Earned Income Credit all set to increase by €75, from €1,700 to €1,775
- **The Home Carer Tax Credit** will increase by €100 to €1,700

Universal Social Charge

- One change in the 2nd band (up €1,625)

2022		2023	
First €12,012	0.5%	First €12,012	0.5%
next €9,283	2.0%	next €10,908	2.0%
Next €49,560	4.5%	Next €47,124	4.5%
Balance	8.0%	Balance	8.0%

Corporation Tax

- Remains unchanged at 12.5% for companies with a turnover less than €750 million.
- 15% is the Corporation Tax rate for those companies with a turnover exceeding €750 million to take effect in April 2023.

Capital Gains Tax

- Remains at 33%

Capital Acquisition Tax (inheritance tax)

Remains the same

- The threshold for Group A category (parent to child) €335,000
- Categories B €32,500 & C €16,250
- Rate remains at 33% over the thresholds

EXIT investment rates

- No change in the Budget speech in the **exit tax** rate of 41% on investments.

The motor industry

- **Public transport reduction fare** remains until end of 2023 while the 50% price reduction on the Young Adult Leap Card remains until the end of 2023.
- **Motor Tax rates** will remain unchanged for all cars in the engine-sized regime and all but the most pollutant cars in the post-2008 regime.
- **Extension of BIK exemption for EVs**
    - The BIK exemption for battery electric vehicles still extended out to 2025 with a tapering effect on the vehicle value. This measure will take effect from 2023.
    - For BIK purposes, the original market value of an electric vehicle will be reduced to €35,000 for 2023; €20,000 for 2024; and €10,000 for 2025.
- **Petrol/diesel**
- An extension to the current temporary reduction in the **excise duty on fuel**; 21 cents on petrol and 16 cents on diesel, this reduction will now remain in place until 28 February 2023.

Social welfare benefits

- ALL **Social Welfare benefits** increased by €12 per week.
  Once-off payments:
- A **two week Christmas Bonus** will be paid to pensioners on 6th December.
- A €400 lump sum payment for **Fuel Allowance** recipients to be paid before Christmas.
- **Child Benefit** – double payment, €280, will be paid in November.
- **€200** for those on **Living Alone Allowance** before Christmas.
- **€500** will be paid in November to people who get:
    - The Carer's Support Grant
    - Disability Allowance
    - Invalidity Pension
    - Blind Pension
- **Payments to families**
  The weekly rate for a qualified child will increase by €2 from €40 to €42 for children under 12 years of age. It will increase by €2 from €48 to €50 for children aged 12 years and over (from January 2023).
- The *Working Family Payment* thresholds will increase by €40 across all family sizes.
- The **Universal Childcare Subsidy** will be increased from €0.50 per hour to €1.40 per hour from January 2023.

Healthcare

- **Free GP care** to extended to 420,000 people under a widening of the free GP care eligibility scheme from next April 2023. Income limits for this means-tested scheme will be increased allowing more people to be covered.
- **Free contraception f**or women aged 16–30 from next August 2023
- **In-patient hospital fees** will be removed for all patients.
- **IVF treatment** will be available through the public health system for the first time.

Housing, the homeless and other social housing benefit

- **Help to Buy** scheme retained for first-time buyers of new homes by way of a 10% income tax refund. Maximum payment is €30,000 and only eligible up to a purchase price of €500,000. The rebate will be of income tax paid over the previous four years and only purchases of new homes will qualify. The applicants must also take out a mortgage of 70% of the purchase price to qualify. This scheme is retained to 31st December 2024.
- **Rental tax relief** to tenants in their principal private residence of€500 per annum will benefit over 400,000 tenants.
- **Vacant Homes Tax** to be charged at three times a property's base Local Property Tax rate – this self-assessed measure will be introduced in 2023 and administered by Revenue. It will be applied to residential properties occupied for less than 30 days on a 12-month period. There will be exemptions for properties that were recently sold or are listed for rent; properties that are vacant due to the owner's illness or them being in long-term care; and properties that are vacant as a result of 'significant refurbishment work'.
- The amount a landlord can claim for **pre-letting expenses** will double to €10,000 and the amount of time the property must be vacant for has reduced from 12 months to 6 months.
- **Defective Concrete Products Levy** – a 10% levy will apply to concrete products.

Small & medium sized businesses

- **VAT (Valued Added Tax)**
    - 9% rate (hospitality and tourism sectors) is increased to 13.5%
    - The 9% VAT rate for gas and electricity is extended to 28th February 2023.
    - *Zero VAT rates will apply to:*
        - Newspapers
        - Defibrillators
        - Period products
        - Hormone replacement products
        - Nicotine replacement products

Indirect taxes, excise and other duties

- **Tobacco** – Excise duty on a 20-pack of cigarettes to increase by 50c, with pro rata increases for other tobacco products. The price of a pack of 20 cigarettes is now €15.50.
- **Alcohol** – no increases on beer spirits or wines.

Education

- A double monthly payment of SUSI maintenance grants (once off).
- The Student Contribution is reduced from €3000 to €2000. This applies from the 2022/23 academic year. It will be reduced by a further €500 next year.
- The income threshold for a 50% reduction in the Student Contribution will increase from €55,000 per year to €62,000 per year from next year.
- A double Student Grant payment will be paid in December. The Student Grant will increase by between 10% and 14% from September 2023.

Other items

- **Carbon tax** will increase by €7.50 per tonne to €48.50 from October 12th. This will increase petrol and diesel costs by 2c per litre. This will however be offset by a reduction in the NORA levy of 2c per litre – basically cancelling out any impact at the pump.

For farmers, farming and the agri-food sector

- Five **agricultural tax reliefs** will continue:
    - Young Trained Farmer Stamp Duty Relief
    - Farm Consolidation Stamp Duty Relief
    - Farm Restructuring Capital Gains Tax Relief
    - Young Trained Farmer Stock Relief
    - Registered Farm Partnership Stock Relief
- **General stock relief** will continue to the end of 2024.

Appendix 11
Transition Year '22/'23
How to make money

As a teenager, you have lots of needs and wants. For most of your life, you have been completely financially dependent on your parents/ guardians. In other words your parents/guardians have been the ones to give you money for you to go out and buy things. Now that you are getting older, there are more things you want to buy for yourself, such as new clothes, phone credit, take-aways, or going out with your friends etc. While you were younger you may have earned (or been given pocket money or an allowance. That may have been ok for you when the only thing you spent money on was getting some jellies in the local shop, but now the things you want to buy are far more expensive!

so now you need more money to be able to buy the things you want, without having to rely on your parents all the time. This is known as **financial independence**. In plain English, that means that you aren't relying on, or dependent on somebody else for your financial needs, that you can pay for your own way in life. As a young child, you are completely financially dependent on your parents. As a teenager, you still are somewhat financially dependent on your parents, but you are starting on your journey of financial independence. Your parents still pay for some of your needs, like the home you live in, the meals they serve you for dinner (even if it isn't as nice as the local chipper! but you now have the opportunity to start to earn your financial freedom! This brings us nicely to the question of, "*how can I make money?*".

How can I make money

As mentioned above, as a child you may have earned pocket money or an allowance for doing some small chores around the home. You may have also received money or vouchers as gifts, from the likes of Christmas or birthday presents. What is the difference between money and a voucher? Well, a **voucher** allows you to spend a certain amount of money in that particular store only. For example, if I get a €20 voucher for Foot Locker, then I can only use that voucher to buy something in Foot Locker.

Whereas, if I'm given cash, then I can use that money to spend on whatever I want, wherever I want. Sometimes vouchers aren't only just for one specific store. For example, you could buy a voucher for a shopping centre, like Dundrum Town Centre. This would allow me to spend the voucher in any of the shops in the shopping centre, but it would have to be in that shopping centre. There are also other types of vouchers that allow you to spend the money on the voucher in lots of different shops. An example of this would be *One4All*. these vouchers allow you to redeem (use) the voucher in hundreds of shops around the country. The final type of voucher is for a specific good or type of good but doesn't specify a store. This can be very similar to coupons. An example of this would be a book token you may have won as a prize in primary school. This would allow you to spend the amount of money on the book token on a book(s) in any bookstore that accepts them.

As you can see, there are lots of types of vouchers. Some vouchers, like ones for a specific store, limit your choice as to how you can spend your money to just that shop, whereas other vouchers like *One4All* still restrict where you can spend the money, but there is a far greater choice available to you. Overall though, cash gives you the most freedom as to how you can spend your money.

As a child, you were not able to get a job so you were limited to what sources of income you had. Why, you ask? Because you were too young and it is against the law to have one! Now that you are older, you are more mature and can take on more responsibility. There is a range of different ways that you could earn money as a teenager. Some examples could be:

- Babysitting
- Getting a part-time job
- Taking part in mini-company/student enterprise in Transition Year
- Give grinds to a Junior Cycle student in a subject you were good in
- Sell old items online, for example, you could sell your old clothes online on websites/apps such as Depop.
- Walk your neighbour's dog

There are pros and cons to each of the above. For example, babysitting could earn you a nice bit of money, but it may not happen regularly, and it might clash with a friend's party that you really want to go to. This is known as **opportunity cost**, when you have to make a choice, between (at least) two things. The option you didn't choose is the opportunity cost, and the money you spent on the option you chose is known as

the **financial cost**. In the above example, if you chose to babysit, the opportunity cost would be the party you are missing out on.

Part-time jobs: what are your rights?

Lots of teenagers work a part-time job or a summer job to earn some extra money to spend on things they would like. Having more money to spend is known in the economics and Finance world as *increased purchasing power* (quite simply means, you can spend more! Once you get your first job, you are introduced to a whole new world of *lingo/language* that you may be unfamiliar with. You also have new rights you didn't have before, but you also have responsibilities too! This section hopes to demystify some of the terms you may hear:

If you work part-time, have a summer job, or are already employed full-time, you must understand your rights regarding working hours and pay. It's fantastic to make money, but not if you're being treated unfairly, overworked, or underpaid. The law is there to help and protect you. There is a law there just for teenagers to make sure they aren't treated unfairly, called the *Protection of Young Persons Act 1996*.

What is the protection of young persons act 1996?

this Act was made to ensure that work done during school hours does not interfere with a student's education. Employees (workers under the age of 18 are normally covered by the Act. Employers (the individuals for whom you work should not hire young people under the age of 16 for regular full-time jobs.

When can I work if I'm under 16 years of age?

- If you are aged 14 or over you can do light work during the summer holidays only (does not include during school term time) for no more than seven hours a day or 35 hours a week, up to 40 hours a week if it's an approved work or an educational experience programme approved by the Minister for Education and Skills, the Minister for jobs or Intreo.
- You must have at least 21 days off during this time to relax before school starts again.
- If you are over 15 but under 16, you may do eight hours of light work a week during the school year. This should be as part of an approved work or educational experience.
- If you happen to be a rising teen star in film or advertising, you can get a special licence issued by the Government.

If you are under 16 and get a part-time job, here is a summary of some of the rights that you have. You...

- Are allowed to have a 30-minute break after four hours of working.
- Cannot be asked to work before 8 am or after 8 pm.
- should have two days off every seven days.
- Cannot be asked to work more than 35 hours a week, aside from during work experience, where they may work up to 40 hours a week.

When can I work if I'm over 16 years of age?

Some of the rights and responsibilities under the *Protection of Young Persons (Employment) Act 1996 (ROI)* for 16 and 17 year old workers include:

- A 30-minute break after working for four and a half hours.
- Cannot legally be asked to work before 6 am or after 10 pm.
- should have two days off every seven days. These days off should be consecutive, i.e. they should be two days off in a row.
- Cannot legally be asked to work more than eight hours a day or 40 hours a week.

Laws for all employers of people under 18

If you are under 18 and are working, the following some responsibilities that your employer (boss) must do as part of the law:

- Should display a poster detailing the rights of young people in the workplace.
- Must keep a register (a record) of each person employed: full name, date of birth, time work begins and finishes each day, wage rates and the total amount of wage paid to each person.

What are the rules if I have more than one part-time job?

If you are under 18 and working for more than one employer, your combined daily or weekly hours worked should not exceed the maximum number of hours allowed, listed above, which vary depending on your age.

How much should I be paid?

- As of January 1, 2022, the national minimum wage is €10.50
- An experienced adult is an employee who has an employment of any kind in any two years over the age of 18.
- An employee who is under 18 must be paid at least €7.35 per hour (70% of minimum wage)
- An employee who is in the first year of employment since the age of 18 is entitled to €8.40 per hour (80% of minimum wage)

- An employee who is in the second year of employment since the date of first employment over the age of 18 is entitled to €9.45 per hour (90% of minimum wage)

Managing my money

Regardless of how you have got your money, you need to know how to look after your money properly. As a child, you may have had a piggy bank that you put your spare coins in. Now that you are older, this realistically no longer meets your needs! You may have had a bank account that you set up with your parents/guardian. In this section, we are going to look at some of the different options that you have for storing your money safely and securely.

You have a few options as to where you could put your money. Here are some examples:

- Under your mattress (not advised!)
- In a piggy bank in your room
- In a bank account
- In a credit union account
- In an An Post account
- On a pre-paid debit card like Revolut, N 26 or others

In the next few sections, we will explore what each of the above means, and how you can use them to your best advantage.

Bank accounts

Commercial Banks (or banks for short) offers financial services to the general public and businesses. These services include offering bank accounts, different types of loans, savings schemes, foreign currency exchange etc. AIB, Bank of Ireland and Permanent TSB are all examples of (commercial) banks in Ireland.

One of the main services offered by banks is the ability to open a bank account with them. There are two main types of bank account that you can open, a current account, and a deposit account. A **Deposit Account** is mainly used for saving money. Customers can earn interest (money) on the money they have put into the account. Best demand rate at the moment is 0.01% (0.0067% after Deposit Interest Retention Tax - DIRT tax of 33%) If you set up an account as a child in a bank, the chances are it was probably a deposit account. Usually, you would aim to regularly put money into your deposit account (for example every month after you have been paid from your part-time job), and only withdraw (take out) money occasionally, when you are buying something you have been saving for.

We will learn more about saving and Borrowing later in this section. The downside of Deposit Accounts is that there is no debit card or overdraft facility available with them.

The other type of account that you can open in a bank account is a current account. **Current Accounts** are designed as a place for you to store your money as part of your day to day banking needs. The Competition & Consumer Protection Commission (a government body that protects consumers) have a good website where they compare all the current accounts available (https://www.ccpc.ie/consumers/money-tools/current-account-comparison/) Current accounts are used to store your money, receive money from another account (for example, your wages from your part-time job could be paid directly into your current account) and transfer money to another account.

A current account allows you to get a debit card. **Debit Cards** are plastic bank cards that look a lot like credit cards, but, there is an important difference. If you pay for something in a shop with a debit card, it takes the money directly out of your account, whereas with a **Credit Card**, you are borrowing money (more about credit cards later!). Debit Cards have become increasingly more popular in Ireland, especially since COVID-19 and allow you to pay for goods and services in shops/businesses by either using 'Chip and Pin' or by 'Contactless'.

Chip and Pin are very similar to what it sounds like. There is a little chip in every bank card. Insert the card (that has the chip inside it) into the card machine, and then enter your PIN (Personal Identification Number) for you to be able to withdraw money or make payments on the card. Contactless is a relatively recent development in the banking world. **Contactless** allows you to use your debit card to make payments without having to enter your pin code. There is usually a limit as to how much you can spend on contactless payments in one shop, for most banks in Ireland it is €50. If you are buying something more expensive than €50 using your debit card, then you will need to insert your debit card into the card machine at the store.

There have been many developments in technology in all aspects of our lives, banking and finance is no exception. Technology companies have developed ways to make it even easier for us to make payments and transfer money between our current accounts. Google has developed **Google Pay** for Android devices and Apple have developed **Apple Pay** for Apple devices, both offering similar services. With Google/Apple Pay you can have your debit card saved on your mobile phone. When you are

buying stuff in a shop, you can then use the card saved in your phone to pay for them, in a contactless way, without having to take out your wallet/card. If you are lucky enough to own a smartwatch, then you can also have your debit card saved there using the same technology. Using your watch can be a really fast, effective and impressive way of paying for goods, James Bond-style! Be warned though, using a debit card, either as chip and pin or contactless can make it very easy for you to spend lots of money and possibly overspend! Always remember to keep an eye on your spending and how much is in your account! There is nothing more embarrassing than trying to pay for something at the till with your debit card, and it comes up as declined because you don't have enough money in your account! Remember you cannot overdraw your debit card.

Don't be that person, it's cringey for you and everyone around you. Be alert as to how much money you have, plan what you are going to spend your money on and always save a little bit for the future, you'll never know when you need it! (more on this later in this section.

Another feature of a current account is that it allows the user to have an overdraft. **A bank overdraft** (or overdraft facility means that your bank is allowing you to spend more money than you have in your account. In other words, you are allowed to have a bank balance of less than zero (a minus number! This is something you won't experience until you are over 18, but there is more about this later in this section.

How to open a bank account

To open a bank account you will need a few things. Firstly you will need photographic proof of identity (like a passport or a student card. You will need proof of address.

For your parents/guardians, this would be a bill in their name at your address, but it's not very likely you have any bills in your name! Each bank is different, but most will accept a letter from your school confirming your address. You will also need to fill in an application form and give your PPS number. If you are under the age of 16, you will need to have a consent form signed by your parent/guardian.

An Post

An Post, yes the post office, also provides loads of financial services via *An Post Money* that you probably don't even realise (they don't just deliver your Amazon orders! They operate lots of different types of savings accounts and savings schemes plus offer loans (between €5,000 and €75,000 and credit cards. In parts of rural Ireland, they also double up as being the local bank branch. This means that you can do many of the

services you would usually do in your bank branch, like lodging money to your account (putting money in) or withdrawing money (taking money out) from your account! This service is not available in all post offices though. It is most common in rural post offices where there is no bank branch in that village.

Being credit wise

Save now to buy later or borrow now to pay more later?

When it comes to how you pay for things that you want, as much as possible it is wiser to save now to buy later than to borrow now and in the long-run pay more later. When you save, what little interest there is can work for you, however, when you borrow, interest can work against you. In the same way that compounding interest over a long period of time can significantly increase your savings, repaying interest on a loan over a long period of time can significantly increase your debt. It is important to note that banks make money by charging higher interest on loans that they pay on savings, therefore interest rates for loans tend to be higher than interest rates for savings and this can lead to borrowing being a very expensive way to buy something. Depending upon the interest rate and repayment terms, you could pay as much or more in interest than the original loan itself.

Therefore, it is well worth taking the time to save for items you want to buy, as it will work out much cheaper in the long run. Another good reason to develop a habit of saving before we spend is to reduce the likelihood of **'impulse-buying syndrome**'! This means buying things that we do not need on the "spur of the moment" maybe because of flas y advertisements or enticements such as large discounts for buying before a certain date. So, saving slows down the buying process and gives us time to think about important decisions when we are making large purchases e.g. a new phone or device, or even a car when you are old enough to!

Tips for saving

The good news is saving doesn't have to be painful. When it comes to saving, there are a few tips and tricks that can make the process smooth and worry-free. The first is to save little and often. To develop a good habit of saving, you don't need to save so much that you end up having nothing to spend (**disposable income**) every week.

So, try to save manageable small amounts regularly that don't impact too negatively on your weekly spending. You also need to resist the urge to dip into your savings, so you need to put them in a safe place that

is away from this temptation. That is why banks, credit unions or An Post are good options when it comes to saving. Once you have a savings account set up you could ask family and friends to make credit transfers as birthday and Christmas gifts or if you have a part-time job, you could also set up a direct debit for weekly contributions to your savings. This will not only help you to build up your savings steadily, but it will provide the basis of your credit rating history for possible loans that you may need in the future to buy things like a car or a house. Building savings into your normal routine nurtures a greater appreciation for the money that you spend on important and expensive items and helps you to build a sense of **fiscal (money) responsibility** early in life.

Advice for borrowing ...Matching sources and uses

However, there are occasions when we choose to buy something that we need but we do not have our own money to hand. In this case, we may consider borrowing. In some cases, you may be lucky enough to be able to borrow interest-free loans from parents, guardians or friends, and if that is the case, it is very important to get into the habit of paying back these loans in full and on time.

Borrowing from banks or credit unions can take different forms and it is very important to match the use of the money you are borrowing with the type of loan you are taking out. This is because different types of loans have different interest rates and the longer the duration of the loan, the more you are going to pay back in interest over the lifetime of the loan.

You may have heard your parents or guardians complain about paying back their **mortgage**. This is a long-term loan for a house that is usually paid back over 20 years or longer. Some people take out medium loans to buy a new car. A medium-term loan is usually for over one to 5 and is used to purchase items that have a lifespan of 2 to 5 years so that you have the loan paid before you need to replace the item. The car incidentally is the worst depreciating asset you will buy.

Some people use their credit cards to buy items. With a credit card, you can buy now and pay the full amount interest-free within the agreed billing period (usually one month.

Or you may pay off your credit card balance and the agreed interest and charges within an agreed time period (usually less than one year. So, a credit card is a short-term source of finance and should only be used for items that can be paid for within one year. Not paying the balance on your credit card within one year can lead to very high interest being charged and a bad credit rating. Paying the minimum each month (usually 2% of

the balance) means that it will take you 20 years to clear the balance! If you do find it difficult to repay, you could transfer the balance to another credit card provider who would give you a certain time to repay at 0% interest – current best deal is *An Post Money* where balance transfers are at 0% for 15 months.

If you have a current account, your bank may agree to let you keep spending money even when you have no money in your account. This is called a **Bank Overdraft**. You must agree to repay the amount with interest within an agreed period of time (the account has to be in credit for at least 30 days during the year). There will be a limit to the amount of the overdraft. How much of an overdraft you get, if any, usually depends on how well you have managed your current account in the past.

For example, the bank will check whether you pay your bills regularly and pay off your credit card debt every month. If you have a bad credit history, you may find it difficult to get an overdraft. The www.centralcreditregister.ie is a credit agency that tracks all loans, overdrafts and where the 140+ credit institutions subscribe and receive credit reports on YOUR finances. It is free to obtain your own report – sometimes it is good just to check your credit history is unblemished!

Risk and consequences of borrowing

If you are considering using any form of credit or loan it is important to consider both the risk and consequences of debt. If you are planning on a third level education in the next few years, you may be lured by banks to take out bank overdrafts and be persuaded to use credit cards to a high limit. In this case, the risk of running into debt that you cannot pay back is very high. Therefore, it is very important to be aware of the power of advertising and incentives offered by financial institutions. If for some reason, you do get into debt, the Money Advice and Budgeting Service (MABS) is a free, confidential and independent Irish money advice service that has been helping people to deal with problem debt for more than 25 years in Ireland. If you are struggling with debt and need help you can get impartial advice from MABS to help you manage your money and take control of debt.

They offer support online, over the phone and face to face. To avoid getting into debt, however, you can take responsibility at this early stage to build financial resilience by noting the concept of ***moral hazard***.

A moral hazard is a risk one party takes knowing it is protected by another party. The basic idea is that the protected party (e.g. TY student) has the incentive to take risks because someone else, i.e. (parent/guardian) will pay for the mistakes they make. This kind of attitude to

risks promotes irresponsible borrowing and needs to be avoided at all costs. Finally, never be tempted to take out a loan from an unlicensed moneylender, more commonly known as a loan shark. A loan shark is a person who loans money at extremely high-interest rates and often uses threats of violence to collect debts. The interest rates are generally well above an established legal rate, and often loan sharks are members of organized crime groups.

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