

Our Ref: 16/4323/MF

28 March 2017

Mr. Michael McNamara  
Ebilou  
Loughlinstown  
Celbridge  
Co. Kildare

*Recd 29/03/17*

Dear Mr. McNamara,

The Minister for Finance has asked me to respond to your correspondence on behalf of the ESB Retired Staff Association regarding Occupational Pensions and the Universal Social Charge (USC).

The USC was introduced in Budget 2011 to replace the Income Levy and Health Levy. It was a necessary measure to widen the tax base, remove poverty traps and maintain revenue to reduce the budget deficit.

The USC, like the Income Levy before it, does not apply to social welfare payments, such as the contributory and non-contributory State pensions, or payments of a similar nature. However occupational pensions, including occupational pensions of retired ESB staff, are liable to the USC if the payment is greater than the exemption threshold, which for 2017 is €13,000.

As you may be aware, the USC was reviewed by my Department in the lead up to Budget 2012 and the resulting report is available at [www.finance.gov.ie](http://www.finance.gov.ie). The issue of USC applying to occupational pensions of retired public servants who entered the public service before April 1995 was examined as part of that review. Such individuals are (or were) liable to modified rate PRSI, which does not generate an entitlement to the State Pension.

It was decided following the review not to exempt the occupational pensions of these individuals from the USC charge as it would be very costly and difficult to achieve, and it would involve all income earners with the equivalent income benefiting from the exemption. In addition, it would also undermine the principle of the USC being applied to income across a broad base with few exceptions.

However, as a result of the review of the USC, in Budget 2012 the entry point to the Universal Social Charge was increased from €4,004 to €10,036 per annum. Budgets 2015 and 2016 provided for further increases in the exemption threshold to €12,012 and €13,000 per annum respectively. As a result of these measures it is estimated that over 740,000 income earners will not be liable to USC in 2017.

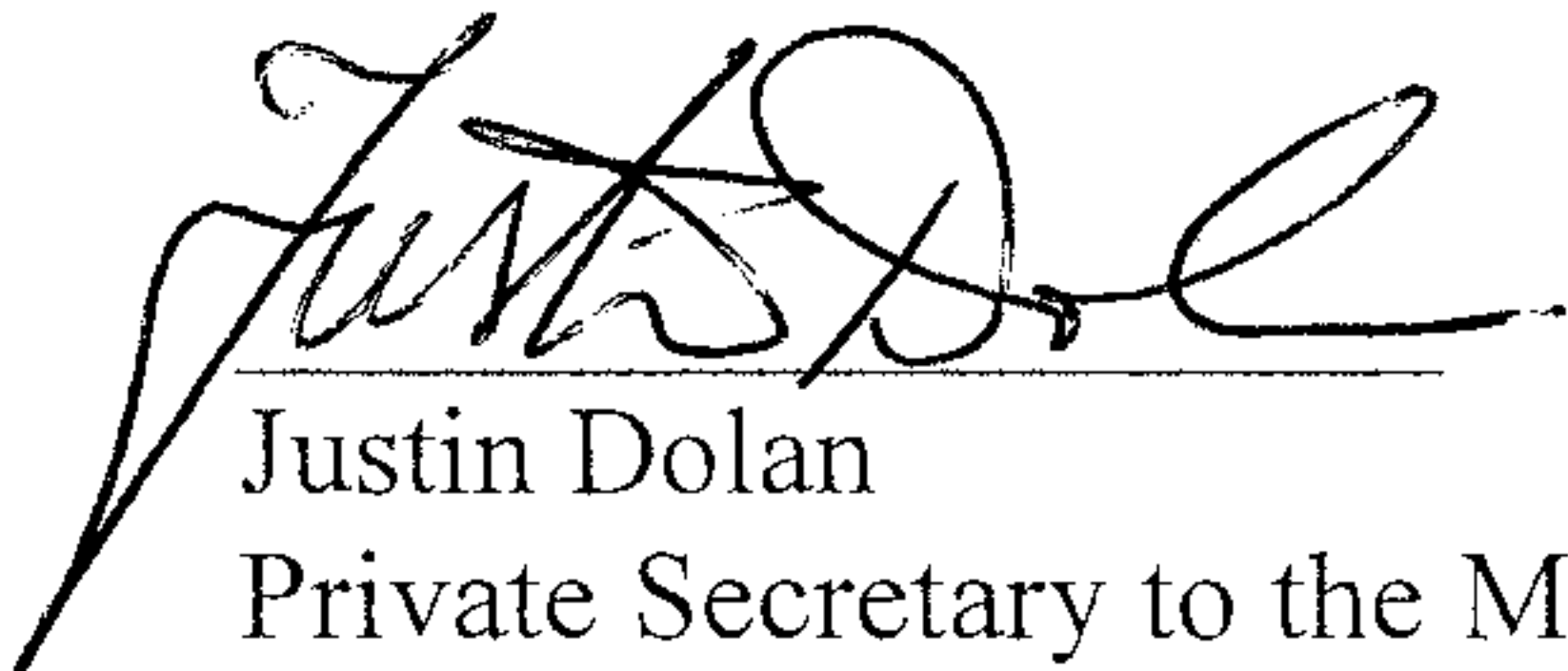
The exemption threshold equalises the position for single individuals whose sole source of income is the State Contributory Pension with Public Service pensioners whose pension is at an equivalent level. The Minister would also note that Budget 2017 has, for the third year in

succession, introduced reductions in the income tax burden for all those within the scope of USC, including pensioners.

The Minister would also point out that in the Programme for Partnership Government there is a commitment to ask the Oireachtas to continue to phase out the USC as part of a wider medium-term income tax reform plan that keeps the tax base broad, reduces excessive tax rates for middle income earners, and limits the benefit for high earners. Reductions will be introduced on a fair basis with an emphasis on low and middle income earners.

I trust that the above clarifies the position.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Justin Dolan', written over a horizontal line.

Justin Dolan  
Private Secretary to the Minister for Finance