EARNED INCOME TAX CREDIT

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INTRODUCTION

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

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

The credit is equal to the lower of 20% of an individual's qualified earned income and a specified amount. The specified amounts for years of assessment 2016 to 2018 are set out in the table below:

Year	Amount
2016	€550
2017	€950
2018	€1,150

EARNED INCOME

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

Examples of earned income include:

- trading income (Case I and II), and
- pay earned by proprietary directors
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The credit is not available against passive or investment income, such as:

- rental income, or
- deposit interest income

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

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

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

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

INTERACTION WITH EMPLOYEE (PAYE) TAX CREDIT

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

(i) Employee (PAYE) Tax Credit, and
(ii) Earned Income Tax Credit,

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

Example
Jane has a PAYE pension of €6,000 and Case I income of €40,000 for 2018.
What credits is she entitled to?

1. Employee (PAYE) Tax Credit €6,000 x 20% = €1,200*

2. Earned Income Tax Credit €40,000 x 20% = €8,000 Maximum Earned Income Tax Credit = €1,150 However, the aggregate tax credits cannot exceed €1,650, therefore the amount of the Earned Income Tax Credit is (€1,650 - €1,200*) = €450

Example
Beth has a PAYE pension of €5,000 and Case I income of €2,000 for 2018. What credits is she entitled to?

1. Employee (PAYE) Tax Credit €5,000 x 20% = €1,000

2. Earned Income Tax Credit €2,000 x 20% = €400 As the aggregate of the tax credits is €1,400, there is no restriction on the Earned Income Tax Credit.

CASES TAXED UNDER JOINT ASSESSMENT

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

Example

An assessable spouse has Case I income of €50,000 in 2018. Her non-assessable spouse has Case II income of €2,500 for the same period.

The assessable spouse is due 2 Earned Income Tax Credits, calculated as follows:

1. Own Income
   €50,000 x 20% = €10,000
   Maximum Earned Income Tax Credit Available = €1,150
2. Spouse's income
   €2,500 x 20% = €500.

The aggregate earned income credits available under joint assessment for 2018 are (€1,150 + €500) €1,650.

Example

An assessable spouse has a Director's salary of €60,000 in 2018. His non-assessable spouse has a salary of €40,000 for the same period from the same company. Neither are entitled to the Employee (PAYE) Tax Credit.

The assessable spouse is due 2 Earned Income Tax Credits, calculated as follows:

1. Own Income
   €60,000 x 20% = €12,000
   Maximum Earned Income Tax Credit Available = €1,150
2. Spouse's income
   €40,000 x 20% = €8,000
   Maximum Earned Income Tax Credit Available = €1,150

The aggregate earned income credits available under joint assessment for 2018 are (€1,150 + €1,150) €2,300.