Single Person Child Carer Credit

[replacing the One Parent Family Tax Credit]

Extract from Budget Speech

"***There is no specific tax credit for children in the Irish tax code; rather credits are applicable in respect of children in different circumstances. There is however, a one parent tax credit which may be drawn in full by both parents. From next year, I am replacing the "One-Parent Family Tax Credit" with a new "Single Person Child Carer Tax Credit" of equal value. This new tax credit will be available only to the principal carer of the child. This is in line with the payment mechanism for child benefit. This policy change was recommended by the Commission on Taxation in 2009."***

Further Information

The **Single Person Child Carer Tax Credit** will be to the same value - €1,650 – as the existing credit **One Parent Family Tax Credit ("OPFTC")** and will also carry the same entitlement to an extended, standard rate band of €36,800 (the normal standard rate band for a single individual is €32,800).

This credit will come into effect from 1 January, 2014, subject to enactment of the relevant provision in the Finance Bill (No.2) 2013.

The OPFTC was introduced in the late 1970s, replacing the housekeeper tax free allowance, which was then available to certain one parent families. Its objective was to support labour market participation of single and widowed parents, who needed extra help with childcare arrangements, if returning to or needing to stay in employment.

The **Single Person Child Carer Tax Credit** will only be available to the principal carer of the child and is intended as an activation measure and in-work benefit.

A maximum of **one credit will be available per single carer/claimant**, regardless of how many children are being cared for by that person – this is the same as applies under the OPFTC.

What was the position prior to Budget 2014?

The OPFTC and extended rate band had been available to anyone looking after a child, even if for only one night a year and even if there was no familial relationship with the child. This went far beyond the rationale for the credit and is unsustainable in the current budgetary circumstances.

Did the Commission on Taxation recommend this change?

Yes. Restricting it to the primary carer was recommended by the Commission on Taxation, in 2009.

How will this work in practical terms?

The "default" position will be that the person in receipt of child benefit will be the person assigned the credit, by the Revenue Commissioners. However, it is open to that person to advise the Revenue Commissioners that he/she is not the principal carer, such that the credit can be claimed by the appropriate individual. Nevertheless, the position is that only one person will be able to attain the credit.

For the purposes of the credit, a "child" is:

- someone under 18 years of age; or

- if over 18, in full-time education and living with the principal carer; or
- a permanently incapacitated individual, living with the principal carer.

Commission on Taxation Conclusion
***http://www.commissionontaxation.ie/downloads/Part%208.pdf* page 251**

We acknowledge that this tax relief plays a role in supporting and incentivising the labour market participation of single and widowed parents. We therefore recommend that the tax credit should continue. However, we also note that the annual cost of this relief is considerable. We recommend that Government should seek to minimise or eliminate the inefficiency (or deadweight element) associated with this relief in relation to the allocation of the full credit (and the additional standard band which applies as a result) to both parents. Such a move would help restore greater balance between the cost of the tax credit and the benefit derived from it. Accordingly, we recommend that the credit be allocated to the principal carer only in accordance with the current arrangements for child benefit.

Recommendation 8.9
The one-parent family tax credit should continue and the credit should be allocated to the principal carer only and in a similar way to the current arrangements for child benefit.

Worked Example showing separated couple with one child & cohabitating/married couple with one child

Single Person Child Carer Credit Examples (PAYE Earners) – post Budget 2014

(i) Separated Couple with one child, both earning €40,000 and only one carer now eligible for the SPCCC and extended rate band.

Partner A – Primary Carer	Partner B – Non Primary Carer
Income €40,000	Income €40,000
Standard Rate (20% X 36,800) = €7,360	Standard Rate (20% X 32,800) = €6,560
Higher Rate (41% X 3,200) = €1,312	Higher Rate (41% X 7,200) = €2,952
Total Income Tax Liability = €8,672	Total Income Tax Liability = €9,512
Less Tax Credits[1] of €4,950	Less Tax Credits[2] of €3,300
Total Tax Payable = €3,722	Total Tax Payable = €6,212.

Total Income = €80,000. Total Income Tax Payable = €9,934.

(ii) Cohabitating/Married Couple with one child, both earning €40,000, no eligibility for the SPCCC and extended rate band. Same figures for both partners.

Income €40,000 (for both married/cohabiting partners)
Standard Rate (20% X 32,800) = €6,560
Higher Rate (41% X 7,200) = €2,952
Total Income Tax Liability = €9,512
Less Tax Credits[4] of €3,300
Total Tax Payable = €6,212.
Total Income = €80,000. Total Income Tax Payable = €12,424.

[1] Personal Credit 1,650, Single Person Child Carer Credit 1,650 and PAYE Credit €1,650
[2] Personal Credit 1,650 and PAYE Credit €1,650