BUDGET 2026 – ECONOMIC & FISCAL ASPECTS

The economic and fiscal background against which Budget 2026 was framed was more challenging than in recent years. The global economic and geo-political backdrop is very uncertain. The tariff policies of the Trump Administration are still not fully clarified, but it seems likely that almost all exports from Ireland into the US will be subject to a 15% tariff. Given that pharmaceutical exports account for over 65% of Ireland's merchandise exports, it is vital for Ireland that the pharmaceutical sector is not subject to a higher tariff rate. The reality is that the policy approach of the US Administration is still very unpredictable.

Domestically the Irish economy is still doing well. Exports, the labour market, and public finances are performing strongly. The consumer side of the economy is under some pressure from the elevated cost of living. Although the inflation rate has come down to 2%, the average cost of living is almost 24% higher than five years ago and this is impacting consumer spending power. The SME sector is under pressure from high costs of doing business, particularly labour costs and insurance costs. Retail and hospitality are under most pressure.

In framing Budget 2026, the key issues facing the two ministers were:

- Official warnings about the inappropriate stance of fiscal policy from bodies such as the ESRI, Central Bank of Ireland, and IFAC (Irish Fiscal Advisory Council). Those bodies believe that the overall package is too large and risks over-heating the economy; and that public expenditure is too strong, particularly given the vulnerability of corporation tax receipts at some stage in the future.
- The threat posed to Ireland's economic prosperity by US trade and corporate tax policies.
- The ongoing cost-of-living pressures.
- The pledge made on the 9% VAT rate for the food element of the hospitality sector.
- The climate agenda and Ireland's environmental goals. Ireland will be subject to significant financial fines if the environmental targets are not achieved.
- The ongoing housing crisis.
- The provision of support for the SME sector in general, but especially retail and hospitality.

Ahead of the budget the Minister for Finance made it clear that there would be no changes to personal taxation, as the objective of the budget is to prioritise jobs and investment in the future of the economy. The budget was framed as an enterprise budget, and not one designed to help workers.

As outlined in the Summer Economic Statement (SES), the budget package is worth €9.4 billion. However, the taxation element was reduced to €1.3 billion from €1.5 billion in the SES, and the expenditure package was increased to €8.1 billion from €7.9 billion. The main headline from Budget 2026 is the fact that Government expenditure is budgeted to increase by €8.1 billion, which comprises 6.7% growth in current expenditure and 11.7% growth in capital expenditure.

There was a lot of complex taxation and expenditure measures in the budget, and significantly more detail will be provided in the Finance Bill.

The overall package will support economic activity in 2026, but not in the manner of recent budgets, given the ending of cost-of-living packages, and the failure to reduce the income tax burden.

Pensions

- The **auto-enrolment pension scheme** is due to commence on 1st January 2026 – the 'My Future Fund' pension scheme. This scheme will mean that around 750,000 workers will automatically be enrolled into a private pension scheme, in addition to their state pension. People who do not have a pension scheme; are aged between 23 and 60; and who earn more than €20,000 will be automatically enrolled. People outside of this range will not be automatically enrolled but will be able to opt in. Under the scheme, employees will contribute 1.5% of their gross salary during the first three years of paying in. This will rise to 3% from the third year on, 4.5% from year six on, topping out at 6% from year 10 on. The state will contribute €1 for every €3 contributed by the participant, and for every €3 that an employee contributes, the employer will have to contribute €3.
- In relation to the **Tax Treatment of Pensions**, Finance Bill 2025 will provide for additional amendments to the tax treatment for the Auto Enrolment (AE) Retirement Savings Scheme. These amendments will address the tax treatment of AE retirement savings on the death of the participant. Further amendments are also required to exempt AE provider schemes from investment undertaking tax and to provide an exemption from USC for employer contributions to AE.

Investment Changes

In relation to the **Taxation of Investments**, Finance Bill 2025 will reduce the rates of taxation that apply to investments in Irish domiciled funds and life assurance policies, other than those applying to companies, personal portfolio investment undertakings and personal portfolio life assurance policies. It will also reduce the rates that apply to equivalent offshore funds and certain foreign life assurance policies. The amendments are as follows:

- The rate of Investment Undertaking Tax (IUT), which applies to Irish domiciled Irish Collective Asset Management Vehicles (ICAVs,) Authorised Investment Companies and Unit Trusts, is being reduced from 41% to 38%.
- The rate of Life Assurance Exit Tax (LAET), which applies to policies contracted since 2001 with Irish domiciled life assurance companies, is being reduced from 41% to 38%.
- The rate of tax that applies to investments in offshore funds located in the EU or EEA, or in a member state of the OECD with which Ireland has a double taxation agreement, and which are considered equivalent to Irish domiciled funds, is being reduced from 41% to 38%. The rate change will apply to Exchange Traded Funds (ETFs) that are subject to tax under this regime, including Irish domiciled ETFs.
- The rate of tax which applies to life assurance policies commenced after 2001 by a life assurance company, agency or branch operating in an EU, EEA or an OECD member state with which Ireland has a double taxation treaty is being reduced from 41% to 38%.

Other Measures

Personal income tax bands and credits were left unchanged. Given wage growth, this is equivalent to an increase in stealth taxes.

The Rent Tax Credit (RTC) is being extended by a further three years, to 31 December 2028. The value for 2026 and subsequent years will be a maximum of €1,000 per single individual and €2,000 per jointly assessed couple.

The Mortgage Interest Tax Relief is being extended, on a tapered basis, for two further years, to 31 December 2026. Homeowners with an outstanding mortgage balance between €80,000 and €500,000 as of 31 December 2022 will be eligible. The current level of relief will be maintained for the increase in interest paid in the tax year 2025 over 2022, with a maximum tax credit of €1,250 per property available. This relief can be claimed by taxpayers from 2026. A reduced level of relief will be available for the increase in interest paid in the tax year 2026 over 2022, with a maximum tax credit of €625 per property applicable. This relief can be claimed by taxpayers from 2027.

Business & Taxation Measures

The **reduced VAT rate of 9% on gas and electricity** bills is due to expire on 1 November 2025. A financial resolution will be introduced on Budget night to extend the measure until 31 December 2030.

The PRSI Class A rate increased by 0.1% on 1 October 2025, as previously signalled. It will increase by another 0.1% on 1 October 2026.

The **Carbon Tax** will increase by €7.50 per tonne of carbon dioxide to €71. This will apply to auto fuels immediately, and to all other fuels on 1 May 2026. The Programme for Government 2020 committed to increase the carbon tax on fossil fuels from €26 per tonne of carbon dioxide to €100 per tonne by 2030. The Finance Act 2020 legislated for annual increases to the carbon tax of €7.50 per tonne up until 2029, and €6.50 in 2030.

The **2% USC band** will be increased by €1,318 to €28,700 to ensure that minimum wage earners do not fall into the higher rate of tax. The USC concession for medical card holders is being extended by a further 2 years to 31 December 2027. Reduced rates of USC apply to individuals who have a full medical card and whose income is €60,000 or less per annum. The reduced rates of USC are 0.5% on the first €12,012 and 2% on the balance.

The **VAT rate for** businesses in food and catering and hairdressing services is being reduced from 13.5% to 9%. This will commence from 1 July 2026.

In relation to the **Research and Development (R&D) Tax Credit** there will be an increase in the rate of the credit from 30% to 35%; an increase in the first-year payment threshold from €75,000 to €87,500, to support smaller R&D projects; an administrative simplification measure to allow 100% of an R&D employee's emoluments as qualifying costs where at least 95% of their time is spent on qualifying R&D activities. An R&D Compass will be published in the coming weeks to set out the future direction of travel for developments in R&D and innovation supports.

The participation exemption for **foreign-sourced dividends** is a double tax relief measure, which operates by exempting qualifying foreign dividend income received from Irish Corporation Tax in the hands of the recipient. There are a few changes to the exemption, which will be provided for in Finance Bill 2025. These include: broadening the geographic scope beyond dividends paid from subsidiaries in the EU / EEA and double tax treaty partners to include qualifying dividends received from jurisdictions that apply a non-refundable dividend withholding tax; reducing the period for which companies must have been resident in a jurisdiction within the geographic scope of the relief before paying a dividend from five years to three years; clarifying that the acquisition of a shareholding is not considered to be an acquisition of business assets for the purposes of the participation exemption.

Budget 2026 will provide for amendments to both the **Section 481 Film Tax Credit and the Digital Games Tax Credit**. Section 481 is being enhanced to provide for a new 40% rate for productions with a minimum of €1 million of eligible expenditure on relevant Visual Effects work. This rate will apply on eligible expenditure of up to a maximum of €10 million per production. The Digital Games Tax Credit is being extended by six years to 31 December 2031. In addition, the credit is being enhanced to allow for claims in respect of Post-Release Content work, subject to certain conditions.

In relation to the **Capital Gains Tax Revised Entrepreneur Relief** which provides for a reduced rate of Capital Gains Tax of 10% on gains of up to €1 million, over a lifetime, arising from the disposal of qualifying business assets. This lifetime limit on which relief can be claimed is being increased to €1.5 million from 1 January 2026.

The **Special Assignee Relief Programme (SARP)** is being extended for five years, to 31 December 2030. The scheme is being amended so that from 1 January 2026, to qualify for the relief, an annualised salary of €125,000 or above will be required. New entrants to the scheme from 2026 onwards may then benefit from an Income Tax exemption on 30% of relevant annual employment income between €125,000 and €1 million. Existing claimants who continue to avail of SARP in 2026 or further years will not be impacted by this change. Amendments will be introduced to make some of the administrative requirements more practical. Further details will be set out in Finance Bill 2025.

A new exemption from the **1% Stamp Duty on acquisitions of shares** in Irish registered companies is being introduced. It will apply to the shares of companies admitted for trading on a regulated market, a multi-lateral trading facility, or an equivalent third country market, and which has a market capitalisation of below € 1 billion. A sunset clause will apply, expiring on 31 December 2030. Due to the introduction of the new exemption, the existing Stamp Duty exemption for shares in Irish registered companies traded on the Euronext Growth Market (formerly the Enterprise Securities Market) will be removed.

Finance Bill 2025 will provide for an extension of the **Key Employee Engagement Programme** (KEEP) to 31 December 2028. This extension is subject to approval from the European Commission and will be commenced by Ministerial Order on receipt of such approval.

The **Foreign Earnings Deduction (FED)** is being extended for five years, to 31 December 2030. The scheme is being amended so that from 1 January 2026 the maximum amount of relevant employment income that may qualify for Income Tax relief will increase from € 35,000 to € 50,000. In addition, the relief will be extended to apply in respect of qualifying time spent working in two additional countries: the Philippines and Türkiye.

The **bank levy** is being retained.

The **VRT relief** for electric vehicles, which was due to end on 31 December 2025, is being extended by one year to 31 December 2026. In relation to **Benefit-in-Kind (BIK)**, the temporary universal reduction to the Original Market Value (OMV) of cars in categories A-D and to all vans, which reduces the amount of BIK payable, is being extended on a tapered basis for three further years of assessment, to end on 31 December 2028. The relief will remain at € 10,000 for the 2026 year of assessment, reducing thereafter to € 5,000 for 2027 and € 2,500 for 2028. Additionally, the lower limit in the highest mileage band is being permanently reduced from 52,001km to 48,001km from 1 January 2026. In relation to BIK **Rate for Electric Vehicles** the tables used to calculate BIK liability on employer-provided cars are being amended to incorporate a new category for vehicles with zero emissions. The new A1 category introduces reduced BIK rates for electric vehicles, with rates of 6% to 15%, depending on business mileage.

The **Accelerated Capital Allowances Scheme for Energy Efficient Equipment** is designed to improve energy efficiency among companies and unincorporated businesses. It provides for an accelerated deduction of 100% of the asset cost in year one where the business chooses highly energy-efficient options when investing in business assets. The scheme is being extended to 31 December 2030.

The exemption of up to € 400 from Income Tax for certain profits arising from the **micro-generation of electricity** is being extended for a further three years to 31 December 2028. The relief applies to a qualifying individual who generates energy from renewable, sustainable or alternative energy sources for their own consumption, and who sells surplus electricity to the grid.

Social Welfare in 2026

A social protection package worth € 27bn has been announced in Budget 2026, one of the biggest spends across Government departments.

- There will be a € 10 increase across the weekly social protection payments, including the State pension.
- Christmas bonus for long-term social welfare recipients to be paid at a rate of 100% of the normal weekly payment.
- Weekly rates of child support payment to increase by € 8 for children under 12 and € 16 for children over 12, to € 58 and € 78, respectively.
- Weekly fuel allowance rate to increase by € 5 to € 38, with eligibility extended to all households receiving the working family payment.
- Working family payment to increase by € 60 for all families.
- Income disregard for the carer's allowance will increase to € 1,000 for a single person and € 2,000 for a couple.
- Domiciliary care allowance will also go up € 20 to € 380 per month.
- Back-to-school clothing and footwear payment extended to two- and three-year-olds.

Housing

In relation to VAT on New Apartments, from 8 October 2025, the VAT rate applied to the construction of new apartments will be reduced from 13.5% to 9%. The measure is due to last until 31 December 2030.

A Corporation Tax exemption is being introduced in respect of profits associated with Cost Rental income. Properties designated as Cost Rental accommodation by the Minister for Housing, Local Government and Heritage are subject to strict criteria.

An enhanced Corporation Tax deduction is being introduced for qualifying apartment construction costs. The measure will allow an increase of 125% in the qualifying costs, up to a maximum additional deduction of €50,000 per apartment unit.

The Living City Initiative supports the enhancement of older housing and commercial stock in the designated Special Regeneration Areas in Cork, Dublin, Galway, Kilkenny, Limerick and Waterford. The scheme is being expanded and extended.

The Residential Development Stamp Duty Refund Scheme provides for a partial repayment of the Stamp Duty paid on the acquisition of land where the land is subsequently developed for residential purposes subject to a few conditions. This scheme, which is due to close to new commencements on 31 December 2025, is being extended to 31 December 2030. A few amendments to the scheme to bring it more into line with current planning and development practices, and to further enhance its support of the delivery of new housing in a timely and efficient manner are also being made.

The Income Tax relief for retrofitting by landlords, which provides a deduction for landlords against rental income for certain retrofitting expenses on rented residential properties, is being extended for a further three years to 31 December 2028. The relief will also now be allowed to be claimed in respect of the year in which the expenditure occurred and the number of properties for which landlords can claim the relief in respect of is being increased from two to three.

A new Derelict Property Tax (DPT) has been announced. This new tax will be collected by the Revenue Commissioners and will replace the existing Derelict Sites Levy.

A further opportunity is being provided for Residential Zoned Land Tax (RZLT) landowners to make a submission requesting a change in zoning of land appearing on the revised map for 2026, and, in certain circumstances, being exempted from RZLT for 2026 on foot of such submissions. In addition, an exemption is being provided from RZLT during An Coimisiún Pleanála proceedings brought by a third party in relation to a grant of planning permission in respect of a relevant site.

Consequential amendments required on foot of the Planning and Development Act of 2024 and technical legislative amendments to ensure that the RZLT legislation operates as intended are also being included in Finance Bill 2025.

Income tax standard rate bands and tax credits left unchanged

Income tax standard rate bands and main tax credits

	2025	2026
Single person standard rate band	€44,000	**€44,000**
Married couple, one income standard rate band	€53,000	**€53,000**
Married couple, two incomes standard rate band	€53,000 plus max of €35,000	**€53,000 plus max of €35,000**
Personal tax credit	€2,000	**€2,000**
Employee tax credit	€2,000	**€2,000**
Earned income tax credit	€2,000	**€2,000**

Increase in USC bands

The ceiling on the 2% rate of USC is being increased by €1,318 from €27,382 to €28,700. This will ensure a full-time worker on the minimum wage who benefits from the increase in the hourly minimum wage will remain outside of the highest rate of USC.

USC Rates and bands

	2025		2026
€0 - €12,012	0.5%	**€0 - €12,012**	**0.5%**
€12,013-€27,382	2.0%	**€12,013-€28,700**	**2.0%**
€27,383- €70,044	3.0%	**€28,701-€70,044**	**3.0%**
Balance	8.0%	**Balance**	**8.0%**
			Self-Employed income over €100,000 3% Surcharge

No change in DIRT, Capital Gains Tax or Capital Acquisition Tax rates.

Capital Acquisition bands left unchanged.

PRSI rates

All PRSI rates will be increased by 0.1% from 1 October 2025 and 1 October 2026.

Finance Bill 2025

The Finance Bill 2025 implementing Budget 2026 will be published towards the end of October.

It is possible that other taxation and pension changes not announced in the Budget could be introduced in the Bill, either at publication of the Bill or as it goes through the Dail and Senate.

Tax and Social Insurance Rates 2026

Income Tax

Tax Rates

	Tax Rate
Standard rate band	20%
Higher rate band	40%

Standard Rate Band

	Bands 2026
Single / Widowed or surviving civil partner	**€44,000**
Married / Civil Partners, one earner	**€53,000**
Married / Civil Partners, two earners	**€53,000** + increase max **€35,000***

* *The increase is the lower of €35,000 and the amount of income of the spouse / civil partner with the lower income. The increase is not transferable between spouses / civil partners.*

Income Tax Exemption Limits

	Limit 2026
Single *(65 and over)*	€18,000
Married / Civil Partners *(at least one aged 65 or over)*	€36,000
Additional allowance per Child	€575
Additional allowance per Child (3rd and more)	€830

Main income tax credits

	Tax Credit 2026
Single Person	**€2,000**
Married / Civil Partners	**€4,000**
Employee tax credit	**€2,000** (max)
Earned Income tax credit	**€2,000** (max)

Universal Social Charge (USC)

Total income subject to USC	USC Rate 2026
The first €12,012	0.5%
Next €16,687	2.0%
Next €41,343	3.0%
Balance	8%*

However:

- *Individuals whose total income subject to USC for the year is less than €13,000 are exempt from USC.*
- *The USC concession for medical card holders is being extended for a further 2 years to 31st December 2027, Reduced rates of USC apply to individuals who have a full medical card and whose income is €60,000 or less per annum. The reduced rates of USC are 0.5% on the first €12,012 and 2% on the balance.*

**A 3% additional USC rate (i.e. on top of the 8% rate) applies to non-PAYE income of the self-employed in excess of €100,000.*

PRSI Contribution Rates from 1st October 2025

PRSI	A1	S1	B1
Employee	4.2%	4.2%	1.10%*
Employer (earning more than €527 pw)	11.25%	Nil	2.21%

* *B1 employee rate increases to 4.2% for income > €1,443 per week.*

Social Insurance Benefits 2026

Benefit	Maximum weekly rate of benefit
State Pension (Contributory) Max personal Rate (*Under 80*)	**€299.30**
Widow's / Widower's / Surviving Civil Partner's Contributory Pension *(Under 66)* Max personal rate	**€259.50**
Invalidity Pension Max personal Rate *(Under 66)*	**€259.50**
Illness / Jobseekers Benefit Personal Rate	**€254.00**

Pensions

Income Tax Relief on Personal Contributions

Age attained during year	% of Net Relevant Earnings (max €115,000)
Less than 30	15%
30 – 39	20%
40 – 49	25%
50 – 54	30%*
55 – 59	35%
60 and over	40%

* *The 30% limit above also applies to certain professional sportspeople (e.g. professional golfers) under 50 in relation to their income from their sports occupation.*

Taxation of Pension Lump Sums

Total lump sums received since 7th December 2005	Tax
Up to €200,000	Tax free
Next €300,000	Standard rate income tax
Balance	Marginal rate income tax and USC

Chargeable Excess Tax

Total retirement benefits taken since 7th December 2005	Tax
Less than Threshold*	Nil
Excess over Threshold (€2m)	40%**

* *Threshold is the Standard Fund Threshold (€2m) or Personal Fund Threshold, if greater.*

** *Tax reduced by a credit for any standard rate tax deducted from pension lump sums taken since 1st January 2011 and not previously offset against a chargeable excess tax charge.*

Redundancy Payments

Tax Free Limits

	Band
Statutory	2 weeks for each year of service (including parts of a year) plus 1 week; maximum reckonable weekly pay of €600
Ex gratia	
Basic	€10,160 + €765 for each complete year of service
Increased	Basic + a maximum of €10,000; provided no entitlement to a pension lump sum and no ex gratia termination payment within last 10 years
Standard Capital Superannuation Benefit (SCSB)	N / 15 x Average Annual Remuneration over last 36 months less present value of tax-free pension lump sum, where: • N = number of complete years of service • Present value of tax-free pension lump sum is nil, if individual signs an irrevocable waiver to receive such a sum
Lifetime limit of €200,000 on all tax-free ex gratia termination payments.	

Capital Acquisitions Tax

Tax Rate

Total Gifts & Inheritances received since 05/12/1991	Tax Rate
Threshold	Nil
Balance	33%

Thresholds

Relationship to donor / testator	Threshold
Cat. A: Child or minor child of deceased child or parent (absolute inheritance on death)	€400,000
Cat. B: Brother, sister, child of brother or sister, or another lineal ancestor or descendant	€40,000
Cat. C: Others	€20,000

Inheritance Tax

Inheritance	Inheritance Tax*
€300,000	€0
€400,000	€0
€500,000	€33,000
€600,000	€66,000
€700,000	€99,000
€800,000	€132,000
€900,000	€165,000
€1,000,000	€198,000

** assuming full Class A Threshold of €400,000 is available.*

Exit Tax Rate

	Rate
Life assurance policies effected on or after 1st January 2001	38%

DIRT Rates

2021	2022	2023	2024	2025
33%	33%	33%	33%	33%