



# TAX FOCUS

DECEMBER 2009



2010



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## Budget 2010

In presenting the Budget 2010 the Minister for Finance Mr. Brian Lenihan T.D. outlined that the measures taken over the past 18 months were working and that we were now on the road to economic recovery. He outlined that the next phase of the Governments plan involved:

- Stabilising the deficit in a fair way,
- Safeguarding those worst hit by the recession and
- Stimulating crucial sectors of our economy to sustain and create jobs.

Whilst stating that the worst is over the Minister did note that this Budget is the last big push of this crisis and that further corrections would be needed in the coming years.

The Minister acknowledged that the tax measures in the last two Budgets have placed the heaviest burden on those best able to pay and that this could not continue. The supplementary Budget in April 2009, which was predominately aimed at the individual tax payer, should realise an additional €3.6 billion of tax revenues in a full year.

The Minister also noted that a key focus of this Budget is to regain our international competitiveness. With the level of tax increases over the last twelve months the Minister noted that we will not create jobs by increasing the penalty on work and investment.

Whilst the level of tax measures announced in the current Budget was significantly less than previous Budgets, the Minister did make reference to further tax measures some of which we will see in the Finance Bill when published early in the New Year, others we will not see until 2011 at the earliest.

The Minister noted that it was necessary to make the current income tax system fair and more broadly based. It is his objective to introduce in 2011 a new system of taxation that would have just two charges on income being:

- A new universal social contribution which will replace PRSI, Levies and Income levy.

- Income tax that would apply on a progressive basis to those with higher incomes reflecting their capacity to make a greater contribution.

In addition to the overhaul of the income tax system other tax measures being considered include:

- The introduction of a property tax.
- The introduction of water metering and charges based on consumption.
- The taxation of pension lump sums above €200,000 and the tax treatment of pensions.

In preparing this Budget the Minister acknowledged that in order to stabilise the public finances increasing taxation or borrowings were not options and that it is essential to cut public expenditure. As a result this Budget included cutbacks of over €4 billion in public expenditure. The Minister noted that with public sector pay and Social Welfare accounting for one third of public expenditure, reductions in these two areas were unavoidable.

## TAXATION MEASURES

### INCOME TAX CHANGES

#### Personal Taxation

There were no changes announced to the current rates of Income Tax, PRSI or levies. In addition tax bands and tax credits remained unchanged.

## Restriction on High Income Individuals

Since 2007 the use of specified tax reliefs by certain high-income individuals was restricted. These specified tax reliefs include, inter alia, various property based capital allowance schemes, BES relief, film relief, patent royalty income, artist income and donations.

The new measures introduced amend the entry level threshold so the restriction now applies at adjusted income levels of €125,000 (previously €250,000) with a full restriction applying at €400,000. The new measures will apply for 2010 and subsequent tax years and ensures an effective income tax rate of 30% (before PRSI and levies). With the reduced threshold the number of individuals subject to the restriction will increase.

#### Irish Domicile levy

To ensure every wealthy Irish domiciliary makes a contribution to the State, Irish nationals and domiciled individuals will be required to pay €200,000 a year, where their worldwide income exceeds €1 million and their Irish located capital exceeds €5 million. The levy will apply regardless of where they are tax resident.

#### Mortgage Interest Relief

Qualifying loans taken out before 1 July 2011 will continue to get mortgage interest relief at current levels for 7 years. Transitional measures will be provided for qualifying loans taken out between 1 July 2011 and the end of 2013.

In addition existing homeowners whose entitlement to the relief would expire in 2010 or after, can now continue to avail of the relief up to the end of 2017.

It is the Ministers intention to abolish mortgage interest relief by the end of 2017.



**Relief from Income Levy for certain farm expenditure**

The Budget provides for relief from the Income Levy on certain expenditure incurred by farmers to comply with the requirements of the EU Nitrates Directive 91/676/EEC. As the income levy is charged on income before capital allowances, this measure will allow farmers to get relief from the income levy for qualifying capital expenditure.

**BUSINESS MATTERS**

**Corporation Tax**

The Minister reiterated that the 12.5% Corporation Tax rate will not change and is here to stay.

**New Start-up Companies**

The Budget extends the existing scheme providing a three year exemption from tax on trading income and gains of new start-up companies to include new start-up companies that commence trading in 2010. The exemption applies where the total amount of corporation tax payable for the accounting period from the qualifying trade does not exceed €40,000. Marginal relief will apply between €40,000 and €60,000.

The relief will apply to a qualifying trade commenced in 2009 and 2010 by a new company but will not apply where:

- an existing trade is acquired
- the company carries on an excepted trade (e.g. dealing in development land) and
- the trade is that of a service company under the close company provisions.

**Research & Development**

In Budget 2009 the tax credit for qualifying R&D expenditure was increased to 25% for accounting periods commencing on or after 1 January 2009 and provisions were also introduced allowing for the refund of excess tax credits.

Whilst there were no new measures announced the Minister noted that on receipt of the report of the Innovation Taskforce he will

explore its recommendations in the context of the Finance Bill. It is possible that he will consider the recommendation from the Commission on Taxation that the R&D tax credit would be allowed as a credit against the employers PRSI cost.

**Financial Services Sector**

The Minister stated that he will bring forward changes in the Finance Bill which will strengthen Ireland's competitive edge in the international financial services sector with a view to making Ireland a European hub for the international funds industry.

**Accelerated Capital Allowances**

The scheme of accelerated capital allowances for energy efficient equipment is being extended to include refrigeration and cooling systems, electro-mechanical systems, and catering and hospitality equipment. This measure should help companies in food and drink, retailing and distribution sectors.

**Employment**

The Government outlined its priority to protect jobs and provide opportunities for those who wish to return to work. This includes funding for training courses and €36 million of funding for an Employers Job Incentive Scheme giving a one year employers PRSI exemption to encourage employers to take employees off the dole.

The Government are already providing support to employers through the temporary employment subsidy scheme. This scheme was originally aimed at export companies; however it has been relaunched to provide employment subsidies to companies to maintain their work forces. Companies must meet set criteria in order to qualify and must apply by 2 p.m. on 23 December 2009.

**Revenue Powers**

New Revenue powers to increase the effectiveness of Revenue in tackling smuggling and dealing with tax avoidance schemes will be introduced.

**CAPITAL TAXES**

No measures were announced in relation to capital gains tax, capital acquisitions tax or stamp duty.

**VAT**

The standard rate of VAT will be reduced from 21.5% to 21% with effect from 1 January 2010. This is a welcome move particularly as the UK rate is due to increase from 15% to 17.5% on 1 January next.

From 1 January 2010 the margin scheme for second-hand goods will apply to the supply by taxable dealers of second-hand cars. This will replace the special scheme that currently applies. There are transitional measures in relation to input credit for the period 1 January 2010 to 30 June 2010. From 1 July 2010 there will be no input credit available and the scheme will operate as normal.

No changes were made to the other VAT rates.

**Excises**

Excise Duty on alcohol products is being reduced as follows:

- Beer and Cider per pint - 12 cent
- Spirits per half glass - 14 cent
- Wine per 75 cl bottle - 60 cent

All of the above are VAT inclusive and will take effect from midnight on 9 December 2009. Where the reduction is not passed on to consumers the Minister has stated that he will reverse the reduction.

There is no change to the excise duty on tobacco.

**Vehicle Registration Tax (VRT)**

There is an extension of the VRT exemption for series production electric vehicles and the VRT relief of up to €2,500 for series production plug-in hybrid electric vehicles. Both are being extended for two years until 31 December 2012.

**Car Scrappage Scheme**

A Scrappage Scheme will run from 1 January 2010 to 31 December 2010. VRT relief of up to €1,500 will be available per new car purchased under the scheme.

The VRT relief will apply where a new Category A car is purchased of emission Bands A or B (i.e. with CO2 emissions of 140g/km or less) and a car of 10 years or older is scrapped.

The car being scrapped must

- have been registered in the State in the name of the purchaser of the new car for at least 18 months previous to the date of scrappage,
- be scrapped after 9 December 2009,
- be scrapped within 60 days of the date of the new car being registered, or have been scrapped within the previous 60 days of the date of the new car being registered, provided the date of scrappage is after 9 December 2009,
- satisfy NCT certificate of roadworthiness conditions,
- have been insured for use on the road for at least 12 months in the 18 months prior to the issue of the Certificate of Destruction.

**Carbon Tax**

A carbon tax at the rate of €15 per tonne of carbon is being introduced on fossil fuel as follows:

Petrol and Auto-diesel from 10 December 2009.

Kerosene, Marked Gas Oil, Fuel Oil, Liquid Petroleum Gas (LPG) and Natural Gas from 1 May 2010.

Coal and Commercial Peat subject to a Commencement Order .



An Exemption from the carbon tax will apply only to participants in the EU Emissions Trading Scheme (ETS) in respect of fuels so covered. On that basis, electricity is not subject to the carbon tax.

Measures are being put in place aimed at improving energy efficiency in low-income households, particularly those dependent on solid fuels.

Further details on the carbon tax will be contained in the Finance Bill and consultation with relevant sectors will commence immediately.

**Other Measures**

- Public Service pay will be reduced by between 5% and 15%.
- Introduction of a new single pension scheme for all new entrants to the Public Sector, where pensions are based on average career earnings as opposed to the current position where it is based on final salary.
- Most Social Welfare payments to be reduced by circa 4.1% from January 2010. Greater decreases in Job Seekers Allowance and Supplementary Welfare Allowance are provided.
- No change to Old Age Pensions.
- Child Benefit will not be taxed or means tested at this stage but the rate will be reduced by €16 per month.
- Increase in the monthly threshold for the Drugs Payment Scheme from €100 to €120.
- Introduction of a 50 cent prescription charge per item under the medical card or long term illness scheme with a monthly ceiling of €10 per family.

- Introduction of a National Solitary Bond aimed at small investors which it is expected will be open for investment early in the New Year.
- The establishment of a credit review system that will examine the policies and practices of the banks for all SME sectors and provide SME's with an independent external review where they are refused credit.

**Conclusion**

Whilst there were few tax measures announced in this Budget we must now wait until the publication of the Finance Bill early in the New Year to see the details of these measures and indeed the additional tax measures that will be introduced.

Whilst the main focus of this budget was on reducing the public sector's spending it is acknowledged that whilst this is certainly a step in the right direction there is still a lot more to be done.

So as the Minister states *"Our plan is working. We have turned the corner"* ...do not have a clear picture of what is around this corner?

**2009 Update**

**Parking levy**

In Budget 2009 the Minister proposed a flat rate levy of €200 per annum chargeable on employees where their employer provides them with car parking facilities. The levy will be confined to car parking facilities situated in the main urban centres of Cork, Dublin, Galway, Limerick and Waterford.

The proposal has still not come into effect. However the Minister has recently stated that implementation of the levy is almost complete and details of its introduction will be announced shortly.

**80% Windfall tax**

The National Asset Management Agency Act 2009 introduces a new 80% tax on windfall rezoning profits or gains.

This new tax will apply to profits or gains to the extent that there are attributable to the rezoning of land. These taxes will apply to profits or gains where there is a change in zoning of development land.

The new tax will only apply where the rezoning was made on or after 30<sup>th</sup> October 2009 and the tax will apply to the profit or gain attributable to that rezoning decision.

Losses attributable to rezoning will be ringfenced and they can only be offset against other rezoning gains.

**Capital Gains Tax**

For any capital gains arising on the disposal of assets between 1 January 2009 and 30 November 2009 the Capital Gains Tax must be paid to the Revenue Commissioners by 15 December 2009.

For any capital gains arising on the disposal of assets in December 2009 the Capital Gains Tax must be paid to the Revenue Commissioners by 31 January 2010.

**R&D Tax Credit**

Any claim for R&D tax credits for the year ended 31 December 2008 must be made by 31 December 2009.

**Personal Tax Credits**

Individuals who wish to claim tax relief for BES, Film relief, certain interest reliefs, etc must have incurred the expenditure by the year end.

**4 Year Limit on Income Tax repayment claims.**

As there is a 4 year limit in which claims for repayment of Income Tax can be made all claims in respect of the year ended 31 December 2005 must be filed before 31 December next.

For further information on any of the above matters, please contact Robert Lohan (rlohan@dhkn.ie) or at 091-782020

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