



TAX FOCUS

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Budget 2011

Presenting the Budget 2011 the Minister for Finance Mr. Brian Lenihan implemented many of the taxation measures which were outlined in the National Recovery Plan which had been published on 24th November last.

The Budgetary adjustment outlined in the National Recovery Plan requires Ireland to make a €15 billion adjustment over the next four years. The Four Year Plan proposes to achieve this adjustment through a reduction in expenditure of €10 billion and additional taxes of €5 billion. The current budget has introduced measures which are aimed at achieving 40% of the budget adjustment i.e. €6 billion in 2011.

Whilst there are welcoming statements in relation to the retention of the 12.5% rate of Corporation Tax and the overhaul of Stamp Duty on residential property the burden of the additional tax falls on individuals. Whilst there are a number of measures aimed at the high income earners the Minister has also reduced the standard tax credits and tax bands so that more people are now brought into the income tax net. This is part of the process of broadening the tax base that the Minister has indicated on previous occasions and based on the measures included in the Four Year Plan further changes to the taxation system will be implemented over the next 4 years. These will further increase the burden of taxation for individuals.

Whilst the current Government is committed to this Four Year Plan the opposition parties have outlined their proposals which differ significantly in many areas.

It is therefore open to question as to what measures we will see in future years being adopted to correct the balance of the deficit. One thing is certain and that is

there will be additional tax measures introduced.

TAXATION MEASURES

INCOME TAX CHANGES

Personal Taxation

There are no changes in income tax rates (20% & 41%)

Personal tax credits and standard rate bands are to be reduced by approximately 10%. Employee and personal tax credits are both reduced by €180 to €1,650 per individual. The age tax credit will be reduced by €80 for a single person and by €160 for a married couple. There are also reductions to the widowed persons, home carers, dependent relative, incapacitated child and blind persons tax credits.

The standard rate bands will be reduced by €3,600 for a single / widowed person and for one parent family / widowed parents for 2011.

The standard rate band for a married couple with one income will be reduced by €3,600 and by €7,200 in the case of a married couple with two incomes for 2011.

The Age Exemption Limits are reduced by €2,000 for a single person and by €4,000 for a married couple.

Age credits and exemption limits will be abolished over 4 years.

Universal Social Charge (USC)

The Health Levy and Income Levy is to be abolished and replaced by a new Universal Social Charge in 2011.

The USC will apply similar to the Income Levy with no special exemptions other than the charge for "genuine" capital allowances.

For those under 70 the first €10,036 will be subject to 2% USC, the next €5,980 will be subject to 4% USC and the balance of income subject to 7% USC.

For those over 70 the first €10,036 will be subject to 2% USC with the

balance of income subject to 4% USC.

USC will not apply to income less than €4,004.

Whilst the Income Levy did not apply to medical card holders the new USC will apply.

PRSI Changes

The employee PRSI ceiling to be abolished.

Self-employed PRSI rate to be increased from 3% to 4%.

The modified PRSI rates (applicable to certain public servants) has been increased to 4% on incomes in excess of €75,036.

Employee pension contributions will be subject to employee PRSI and USC. Previously no PRSI or Health Levy applied. In addition 50% of employee pension contributions will be subject to employers PRSI.

Public Service pension related deductions will be subject to employee PRSI and the USC.

All changes to apply from 1 January 2011.

Tax Incentives and Reliefs

The following tax reliefs have been abolished with effect from 1 January 2011 (unless otherwise stated):

- Rent relief to be phased out over 8 years; the same timeline as previously announced for Mortgage Interest Relief.
- Patent Royalty Exemption (effective from the launch of the National Recovery Plan on 24 November 2010).
- Tax relief on loans to acquire an interest in certain companies for individuals.
- Abolition of tax relief for Trade Union subscriptions.



- Termination of the scheme of accelerated capital allowances for farmers who incur capital expenditure on farm buildings and structures for use in the control of pollution.
- Tax exemption from BIK for Employer Provided Childcare.
- Abolition of tax relief on subscriptions to professional bodies.
- Capital expenditure on new machinery and plant for use in mining.
- Exemption from tax in respect of grants or payments to the National Co-Operative Farm Relief Services Limited.

The following tax reliefs have been restricted with effect from 1 January 2011:

- Tax free element of ex-gratia payments restricted to €200,000
- Limit of €40,000 on tax exempt earnings of artists.

Employee Incentive Schemes

Income tax exemption for approved share option schemes was abolished with effect from 24 November 2010.

Tax relief for new shares purchased by employees to be abolished from 1 January 2011.

PRSI and USC will from 1 January 2011 apply to.

- Approved profit sharing schemes.
- Approved save-as-you-earn schemes.
- Unapproved share option schemes.
- Share awards.

Phased Abolition of Property Based "Legacy" Reliefs

Section 23-type Reliefs

Section 23-type Reliefs have been amended as follows:

- From 1 January 2011, the relief is restricted to income from the Section 23 property itself (currently such income can be set against all Irish rental income).

- At end of 10 year holding period, any unused relief will be lost. If property is sold within this period, the new owner will not get Section 23 relief and the seller continues to be subject to a clawback of relief already given.
- For Section 23 properties yet to be sold, for which the relief has yet to be claimed, the 10-year qualifying period will start on 30 June 2011 regardless of the date of the first qualifying lease.
- Residential owner-occupier relief is unaffected by these changes.

Capital Allowances – Property Incentives

(These restrictions apply solely to passive participants)

- Unused capital allowances cannot be carried beyond the 7 or 10 year period over which the allowances are claimed.
- From 2011 onwards, capital allowances may be offset against income from the property to which the allowances relate and are not available for offset against any other form of income.
- Schemes with allowances over 10 years which has not ended will be reduced to 7 years from when allowances are first made.
- Capital allowances will be reduced by 20% and may be made evenly in the year of assessment 2011 and all subsequent years of assessment up to and including the 7th year after the allowance was first made.

All unclaimed and unused capital allowances, arising after or carried forward from 2014 as well as unused Section 23 relief carried forward from 2014 will be terminated.

An impact assessment is to be undertaken into the effects of the phased abolition of the property based measures and the termination provision.

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 2011. The relief can now be linked to the amount of employer's PRSI paid by the company subject to a cap of €5,000 per employee.

Employment and Investment Incentive

The existing Business Expansion Scheme is to be reformed with an increase in the amount that companies can raise under the Scheme from €2 million to €10 million and the amount to be raised in a 12 month period from €1.5m to €2.5m. The new incentive will focus on employment creation and will expire at the end of 2013. It is subject to approval from the European Commission.

Energy Efficiency Measures

A new scheme is being introduced to encourage individuals to make their homes more energy efficient. Relief is to be given up to a maximum expenditure of €10,000 at the standard rate of income tax. Credit will be given in the following tax year.

The accelerated Capital Allowance Scheme for Energy efficient equipment is being extended for a further three years.

Tax on Savings

The Budget increased the Deposit Interest Retention Tax rate on ordinary deposit accounts by 2% to 27% and on longer-term deposit accounts by 2% to 30%. The increased rates will apply from 1 January 2011.

Pensions

The annual earnings limit is being reduced from €150,000 in 2010 to €115,000 for 2011. Where an individual pays a pension contribution in 2011 and elects to treat the contribution as being paid in 2010, the annual earnings limit for the year of assessment 2010 will also be deemed to be €115,000 (i.e. not €150,000, the normal limit for 2010).

The maximum allowable pension fund on retirement for tax purposes is to be set at €2.3 million from 7 December 2010. A higher threshold may apply but only where the capital value of pension rights drawn down after 7 December 2005 plus the value of uncrystallised pension rights is between €2.3 million and circa €5.4 million.

The annual imputed distribution which applies on Approved Retirement Fund (ARF) is being increased from 3% to 5% in respect of asset values at 31 December 2010 and future years.

The overall life-time limit on the amount of tax-free retirement lump sums that an individual can draw down from pension arrangements is being reduced to €200,000. The excess of this amount will be taxed at the standard income tax rate (currently 20%) up to an amount equal to 25% of the new Standard Fund Threshold (up to €575,000). Any excess over that amount will be taxed at the marginal rate of income tax (currently 41%).

Tax free retirement lump sums taken since 7 December 2005 will use up the €200,000 limit so any further retirement lump sums may exceed the limit.

Details of flexible options for defined contribution pension arrangements will be included in the Finance Bill.

Reform of Relevant Contracts Tax (RCT)

The Minister announced the following changes:

- Replacement of the Replacement of the current RCT rate of 35% with a two-rate withholding system:
 - 20% rate for subcontractors registered for tax with an established compliance record;
 - 35% rate for subcontractors not registered for tax;
- Abolition of the monthly repayment system and replacement with an offset system.



FARMER TAXATION

Stock Relief

The existing general 25% stock relief for farmers and the special incentive stock relief of 100% for certain young trained farmers are being extended from 1 January 2011 for a further two years subject to approval from the European Commission.

CAPITAL TAXES

Capital Acquisitions Tax/Capital Gains Tax

The current group tax free thresholds are being reduced by 20% in respect of gifts or inheritances taken from midnight on 7 December 2010.

No measures were announced in relation to capital gains tax however the 4 year plan has indicated that:

- The level of reliefs and exemption will be reduced.
- In 2012 the current single CGT rate of 25% will be changed to a system of differing rates based on different levels of gains.

A similar system will be introduced for CAT.

Stamp Duty

There is a fundamental reform of Stamp Duty on residential property transactions with immediate effect. In respect of instruments executed on or after 8 December 2010 there will be a flat rate of 1% on all residential property transactions up to a value of €1 million with 2% applying to amounts above €1 million.

All existing reliefs and exemptions for Stamp Duty, (including first time buyers and transfer of site to a child), on residential property are being abolished in respect of instruments executed on or after 8 December 2010. A transitional provision will be put in place to ensure that anyone who has entered into a binding contract to purchase a residential property before 8 December 2010 and who executes the transfer before 1 July 2011 will not lose out.

INDIRECT TAXES

VAT

No measures were announced in relation to VAT. However, as provided for in the 4 year plan, it is intended to increase the standard rate of VAT from 21% to 22% in 2013 with a further increase to 23% in 2014.

Also the rebalancing of the VAT system and zero rated VAT items in the context of EU considerations is to be examined.

Excises

Excise duty will be increased by 4 cent per litre on petrol and 2 cent per litre on auto-diesel. These increases are VAT inclusive and took effect from midnight on 7 December 2010.

There is no change to the excise duty on tobacco or alcohol products.

A review will be undertaken of the excise duty payable for licences for on-trade and off-licence sales of alcohol products during 2011.

Air Travel Tax

A single revised rate of Air Travel Tax of €3 will come into effect on 1 March 2011, on a temporary basis. It will be reviewed at the end of 2011.

Vehicle Registration Tax (VRT)

There is an extension of the VRT relief for series production hybrid and flexible fuel vehicles for two years until 31 December 2012.

The current VRT flat-rate of €50 for commercial (Category C) vehicles is being increased to €200, with effect from 1 May 2011.

Car Scrappage Scheme

The Car Scrappage Scheme is being extended for a further six months to 30 June 2011. The VRT relief provided in this period will be up to a maximum of €1,250.

Betting Duty

The Government intends to include provisions in the Finance Bill and revise the Betting Act 1931 to ensure that all Bookmakers taking bets from Ireland will pay 1% betting duty on bets in the same way that betting shops currently do. This will apply to phone and online betting.

EXPENDITURE CUTBACKS

- Old Age Pension and invalidity pension are unchanged.
- All other weekly social welfare schemes to be reduced by €8 per week with proportionate decreases for those on reduced payments.
- €8 per week decrease in maximum and minimum rates for maternity and adoptive benefits.
- €6 per week reduction in job seekers allowance and supplementary welfare allowance for those aged 22 to 24.
- Rate of payment for job seekers allowance and supplementary welfare allowance for those aged 18-21 is unchanged.
- Child benefit to be reduced by €10 per month from January 2011 on both the lower and higher rate with an additional €10 per month reduction for the third child.
- School Transport charges to increase to €350 for post primary charge and another €50 fee at primary level subject to a maximum family charge of €650.
- Student service charge to be replaced with a flat higher education student contribution of €2,000.
- A new €200 charge for post leaving cert course.
- €8 reduction in all weekly training allowances with FAS.
- Salary of the Taoiseach to be reduced by over €14,000 and salary of the Ministers by over €10,000 per annum.

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