



TAX FOCUS

DECEMBER 2011



Inside this issue:

Budget 2012

Property Incentive Schemes

R&D Tax Credit

Pension changes

Stamp Duty reform

VAT changes



Budget 2012

It has been known for some time that Budget 2012 had to achieve a €3.8 billion reduction in our budget deficit through expenditure cutbacks and tax measures. €1.6 billion of this adjustment comes through tax measures. Budget 2012 introduced tax measures that aim to raise €1 billion of this adjustment with the other €0.6 billion being raised through the USC which was introduced in 2011.

In Budget 2012 there are no changes to the personal income tax rates or income tax bands or credits. That said the measures introduced to raise additional tax revenues, whilst they are focusing primarily on VAT and capital taxes, will affect most individuals. For example with the standard rate of VAT going from 21% to 23% and with DIRT increasing from 27% to 30%, all individuals will be effected by this budget.

Measures introduced in Budget 2012 are aimed at stimulating growth in the Irish Economy and encouraging further inward investment into Ireland. These measures are welcomed and in particular the measures aimed at the SME's.

Many people will remember from Budget 2011 the measures being introduced to abolish the property incentive schemes. These measures have been reviewed and are seen as unworkable by the current government. As a result new measures have been introduced which will raise additional taxes from those claiming the property reliefs however they are focused

on high income investors so that they should not impact on the smaller investor.

TAXATION MEASURES

INCOME TAX

Personal Taxation

There are no changes in income tax rates (20% & 41%). Personal tax credits and standard rate bands are also unchanged.

Universal Social Charge (USC)

The lower exemption threshold is increased from €4,004 to €10,036. In 2012 USC will apply on a cumulative basis as opposed to the week one basis in 2011.

PRSI Changes

The current relief of 50% for employers PRSI on employee contributions to occupational pension schemes and other pension arrangements is being removed from 1 January 2012.

A broadening of the PRSI base is to occur to cover rental, investment and other forms of income from 2013.

Reliefs and Exemptions

The 36 day tax exemption for illness benefit is removed.

Mortgage Interest Relief is increased to 30% for First-Time Buyers who bought homes between 2004 and 2008.

Current rates of Mortgage Interest Relief will be extended to First-Time Buyers and Non-First-time Buyers in 2012. No relief will be available for purchasers after 2012 and mortgage interest relief will be fully abolished from 2018.

Domicile Levy

The "citizenship" condition for payment of the levy is being

removed. This will broaden the base for the levy and make it more difficult to avoid.

Property Incentive Schemes

Budget 2011 announced the end of all property incentive schemes subject to an Economic Impact Assessment. The measures proposed at that time would inflict severe hardship on investors. As a result the 2011 proposed measures are not being implemented and new measures have been introduced.

Section 23-type Reliefs and Accelerated Capital Allowances

A surcharge will be introduced effective from 1 January 2012 on individuals with gross incomes over €100,000. The surcharge will apply at a rate of 5% on the amount of income sheltered by property reliefs in a given year.

This surcharge (essentially a higher rate of USC) will apply to all investors regardless of whether they invested in Section 23 or accelerated capital allowance schemes with this level of gross income

Residential owner-occupier relief is unaffected by these changes.

Accelerated Capital Allowances

Investors in accelerated capital allowance schemes will no longer be able to use any capital allowances beyond the tax life of the particular scheme where that tax life ends after 1 January 2015.

Where the tax life of a scheme has ended before 1 January 2015 no carry forward of allowances into 2015 will be allowed.



Household Charge

A household charge of €100 is being introduced in 2012. The charge is an interim measure pending the design and implementation of a full property tax which will apply in 2014.

BUSINESS MATTERS

Corporation Tax

The Minister reiterated that the 12.5% Corporation Tax rate will not change.

3 Year Tax Relief for Start-up Companies

The scheme which provides relief from corporation tax on the trading income and certain gains of new start-up companies in the first 3 years of trading is being extended to include start-up companies which commence a new trade in 2012, 2013 or 2014.

R&D Tax Credit

A number of changes are being made to the R&D tax credit scheme which will benefit SME's as follows:

- The first €100,000 of qualifying R&D expenditure will benefit from the 25% R&D tax credit on a volume basis. The tax credit will continue to apply to incremental R&D expenditure in excess of €100,000 as compared with such expenditure in the base year 2003.
- The outsourcing limits for sub-contracted R&D costs are being increased so as not to disadvantage SME's.
- Companies in receipt of the R&D credit will have the option to use a portion of the credit to reward key employees who have been involved in the development of R&D. It is envisaged that there would be no additional cost to the Exchequer as the bonus comes from the R&D credit already received by the company and the employee still pays the full tax liability on their other income.

Pensions

Approved Retirement Funds

The annual imputed distribution which applies to the value of assets in an Approved Retirement Fund (ARF) at 31 December each year is being increased from 5% to 6% in respect of ARFs with asset values in excess of €2 million (or, where an individual owns more than one ARF, where the aggregate value of the assets in those ARFs exceeds €2 million). The increase will apply in respect of asset values in affected ARFs at 31 December 2012 and future years. The deemed distribution rate of 6% is being extended to vested PRSAs also.

The transfer of ARF assets on the death of an ARF owner to a child of the owner aged over 21 is subject to a final liability tax equal to the standard rate of income tax in force at the time of the making of such a distribution (currently 20%). It is proposed to apply a higher final liability tax rate of 30% to such transfers and the details of this will be published in the Finance Bill.

Renewable energy generation

The qualifying period for the scheme of tax relief for corporate investment in certain renewable energy projects is being extended from 31 December 2011 to 31 December 2014.

To qualify for the relief the energy project must be approved by the Minister for Communications, Energy and Natural Resources and be in one of the following categories of technology:

- Solar
- Wind
- Hydro (including ocean, wave or tidal energy)
- Biomass

Tax on savings

DIRT on deposit interest, and exit taxes that apply to life assurance policies and investment funds, has been increased by 3%. This means that a rate of 30% will apply to payments made annually such as deposit interest and 33% on income and gains on various life assurance policies and offshore funds. The increased rates will apply to payments, including deemed payments, made on or after 1 January 2012.

Reliefs and Exemptions

Introduction of a Special Assignee Relief Programme to allow multinational and indigenous companies attract key people to Ireland.

Introduction of a Foreign Earnings Deduction for temporary assignments to BRICS countries, (Brazil, Russia, India, China and South Africa) where the individuals are developing markets for Irish Enterprises.

Redundancy Rebate

The employers statutory redundancy rebate will be reduced from 60% to 15%. The change is expected to apply to redundancies on or after 1 January 2012.

CAPITAL TAXES

Capital Acquisitions Tax

The current rate of 25% is being increased to 30%. This increase applies in respect of gifts or inheritances taken after 6 December 2011.

The current Group A tax-free threshold (i.e. a transfer from parents to children) is being reduced from €332,084 to €250,000. The other thresholds are unchanged. This reduction applies in respect of gifts or inheritances taken after 6 December 2011.

Capital Gains Tax

The current rate of 25% is being increased to 30%. This increase applies in respect of disposals made after 6 December 2011.

A new incentive relief from CGT is being introduced for properties bought between Budget night and the end of 2013. Where such property is held for more than seven years the gains accrued in that period will not be subject to CGT. This measure comes into effect after 6 December 2011.

Retirement relief has been changed to encourage timely transfers of businesses and farms. The proposals seek to encourage the transfer of businesses and farms before the individual reaches the age of 66. At that stage the limits for the relief will be reduced.

Stamp Duty

Abolition of multiple Stamp Duty rates for non-residential properties, replaced with a single rate of 2% in respect of instruments executed after 6 December 2011.

Consanguinity relief (i.e. transfer between close family members) on transfers of non-residential properties to be abolished after 1 January 2015.

FARMER TAXATION

Stock Relief for Registered Farm Partnerships

An enhanced 50% stock relief (100% for certain young trained farmers) for registered farm partnerships is being introduced and will run until 31 December 2015 subject to clearance with the European Commission under State Aid rules.

Measures to incentivise timely farm transfers

Full retirement relief from CGT for intra-family transfers will be maintained for individuals aged 55 to 66. An upper limit of €3m on retirement relief for business and farming assets disposed of within the family is introduced where the individual transferring the assets is aged over 66 years. This will incentivise earlier transfer of farms.

(The current unlimited amount applies for a transitional period of two years for individuals currently aged 66 or who reach that age before 31 December 2013.)

The current upper limit of €750,000 for assets transferred outside the family for individuals aged between 55 and 66 years will be maintained. The upper limit for retirement relief for business and farming assets transferred outside the family is reduced from €750,000 to €500,000 for individuals aged over 66 years.

(The current upper limit of €750,000 applies for a transitional period of two years for individuals currently aged 66 or who reach that age before 31 December 2013.)



VAT Refund/Income Tax Deduction

The existing VAT refund order, for un-registered farmers will be extended to allow these farmers to claim a refund on wind turbines purchased from 1 January 2012.

Farmers will be allowed double income tax deduction for increased costs arising from changes to carbon taxes.

INDIRECT TAXES

VAT

Increase in standard VAT rate from 21 per cent to 23 per cent

The standard rate of VAT will be increased from 21% to 23% with effect from 1 January 2012. This increase will apply to all goods and services which are currently subject to VAT at 21%.

VAT rate on district heating reduced from 21% to 13.5%

The VAT rate applicable to district heating will be reduced from 21% to 13.5% in the Finance Bill.

Admissions to open farms to apply at the 9% reduced rate

Following changes at EU level, admissions to open farms will become liable to VAT from 1 January 2012. Consistent with the recent VAT reduction in respect of the tourist industry, the rate of VAT on admissions to open farms will apply at the reduced rate of 9%.

[The 9% rate was introduced to stimulate the tourism and related sectors. It is proposed that the rate will revert to 13.5% on 1 January 2014]

Excises

Tobacco Products Tax

Excise Duty on a packet of 20 cigarettes is being increased by 25 cents (including VAT) with a pro-rata increase on other tobacco products, with effect from midnight on 6 December 2011.

Carbon Tax

The carbon tax will be increased by €5 to €20 per tonne on fossil fuels. The increase will apply to petrol and auto-diesel with effect from midnight, 6 December 2011; and from 1 May 2012 for other fuels.

Betting Duty

The Betting (Amendment) Bill will facilitate the extension of the betting duty of 1% to remote betting and the introduction of a betting intermediaries' duty (Gross Profits Tax of 15%) to cover betting exchanges.

It is intended that the new taxation regime will commence from the second quarter of 2012.

Vehicle Registration Tax (VRT) and Motor Tax

It is planned to review the current CO2 bands and rates structures in line with technological advances in motor vehicles. A public consultation will be undertaken in this regard with a view to adjusting the bands with effect from a target date of 1 January 2013.

The Government are also to look at putting in place an export refund scheme to allow for a refund of VRT for vehicles permanently exported to another member state.

Motor Tax

Motor Tax rates across all categories will increase with effect from 1 January 2012.

EXPENDITURE CUTBACKS

- A saving of €400m in public service pay bill next year with almost 6,000 staff to leave.
- No change to most weekly social welfare payments, but eligibility criteria changing for some.
- Child benefit for first and second child unchanged but cuts to rates for third and subsequent children.
- Changes to the eligibility for the one-parent family payments.
- An increase of €250 in college registration fee to €2,250.
- Primary school transport charge will be doubled to €100.
- Back to school clothing and footwear allowance abolished for under fours. Current rates to be reduced for others.
- Student grants to fall by 3% and scaling back of grants for new post graduate students.
- Threshold for the drugs rebate scheme to increase to €132 from €120.
- Charges for private beds in public hospitals to rise leading to possible health insurance increases.

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

Galway Office: Galway Financial Services Centre, Moneenageisha Road, Galway.
Tel: 091-782020, Fax: 091-782050, w: www.dhkn.ie, Email: info@dhkn.ie

Dublin Office: Taney Hall, Eglinton Terrace, Dundrum, Dublin 14