budget BRIEFING 2010

PMQ Purcell McQuillan TAX PARTNERS

Purcell McQuillan Tax Partners
Budget 2010 Briefing

The Minister for Finance, Brian Lenihan, has delivered his third budget against the backdrop of the economic downturn. On the positive side, the Minister forecasts a return to growth in the next six to nine months. To tackle the budget deficit, the Minister has announced a wide range of spending cuts and taxation measures. As was widely predicted by the media, the Minister focussed on spending cuts rather than taxation measures.

The Minister did not change personal income tax rates although he has increased the tax payable by individuals claiming specified reliefs over €125,000. Although not making any changes to tax incentives, the Minister said he would review this area in the Finance Bill. A carbon tax was introduced and two new taxes have been signalled; a property tax and water charges. The Minister announced that plans will be introduced to improve the effectiveness of the Revenue Commissioners in tackling the black economy and tax avoidance. Details of the specific taxation measures are set out below.

Personal Taxation

High Earners

Finance Act 2006 introduced the High Earners Restriction whereby there was a restriction on the use of certain specified tax reliefs. The restriction applies so that the maximum amount of specified reliefs which an individual may claim in a tax year is 50% of the individual's "adjusted income". The individual's "adjusted income" is calculated by taking his/her taxable income and adding back the specified reliefs which he/she claims for that year. Currently the restriction does not apply if the individual's adjusted income is less than €250,000. Tapering relief applies for incomes between €250,000 and €500,000. The result was that every individual pays tax at an effective rate of 20%.

The Minister has significantly reduced the level at which the High Earners restriction will apply to €125,000. Tapering relief will now apply for incomes between €125,000 and €400,000. He has also indicated that the effective tax rate that will apply will be 30% plus PRSI and levies. These changes will apply for the 2010 tax year. Further details of this measure will be included in the Finance Bill.

Irish Domiciliaries

All Irish nationals and domiciled individuals whose worldwide income exceeds €1million and whose Irish located capital is greater than €5 million will be required to pay an Irish domicile levy of €200,000 per annum regardless of where they are tax resident. Further details of this measure will be included in the Finance Bill.

Tax Credits / Tax Bands / Income Levy / PRSI Ceiling

There has been no change to tax credits, tax bands, the income levy or the employee PRSI ceiling.

The Minister indicated that the income tax system will be reformed to take effect in 2011.
The Minister expects:

- A universal social contribution will be paid by all workers at a low rate (which will replace the current PRSI/health levy/income levy), and
- Income tax that will apply on a progressive basis as earnings increase.

Mortgage Interest Relief

The Minister indicated that mortgage interest relief will be abolished entirely by the end of 2017. However, in the meantime, if a homeowner is currently in negative equity and their relief is due to expire in 2010, they will now continue to receive the relief up to the end of 2017. He has also indicated that where loans are taken out before 1 July 2011, the home owner will continue to receive relief at current levels for seven years. Transitional arrangements will be applied to loans taken out in the subsequent 18 months at a reduced level and duration. Further details of this measure will be included in the Finance Bill.

Pensions

The Minister stated that he accepted the Commission on Taxation's recommendation that pension lump sums below €200,000 should not be taxed. The tax treatment of sums above €200,000 and a 33% rate of tax relief on pension contributions are being considered by the Government's National Pensions Framework which will shortly be published by the Minister for Social and Family Affairs.

Business Taxation

Corporation Tax Rates

The Minister stated that the corporation tax rate of 12.5% will not change and is here to stay.

Three Year Corporation Tax Exemption for Start-Up Companies

In Budget 2009, the Minister introduced a measure whereby any new start-up company that commenced trading in 2009 would be exempt from tax, including capital gains in each of the first three years provided that its tax liability in the relevant corporation tax year did not exceed €40,000. This measure is subject to a Commencement Order which has not yet issued.

The Minister indicated today that the exemption would also apply to new start-up companies in 2010.

Employer PRSI Measures

A PRSI exemption will be provided to employers with a view to encouraging employers to take employees off the social welfare. Further details of this measure are to be announced by the Minister for Family and Social Affairs.

Capital Allowances

Energy Efficient Equipment

In the Budget and Finance Act 2008, an accelerated capital allowances regime was introduced to encourage the use by companies of certain energy efficient equipment. Under this regime, a company could claim capital allowances of 100% of the expenditure incurred in the year the equipment is purchased. The Minister has now broadened the scope of this regime, to include refrigeration and cooling systems, electro-mechanical systems, catering and hospitality equipment.

Value Added Tax

The standard rate of VAT is being reduced to 21% with effect from 1 January 2010.

There is no change to the lower 13.5% rate or to the zero rate.

Other Measures

Carbon Tax

The Minister introduced a carbon tax equivalent to €15 per tonne. The tax applies to petrol and diesel from midnight 9 December 2009. The tax will also apply to home heating oils and gas with effect from May 2010. The application of the tax to coal and commercial peat will be subject to a Commencement Order.

Based on studies carried out by the ESRI, the overall direct impact on households will be between €2 and €3 per week.

Accounting and payment of the carbon tax in respect of transport fuels will be required to be made by the 15th day of the following month.

Further details of this measure will be included in the Finance Bill.

Scrappage Scheme

A scrappage scheme has been introduced which will run from 1 January 2010 to 31 December 2010 whereby VRT relief of up to €1,500 will be available. The relief will be available where a car with CO2 emissions of 140g/km or less is purchased and the car being scrapped is ten years old or more.

Further details will be posted on the Revenue Commissioners website in the coming days.

Energy Efficiency of Cars

The VRT exemption for electric vehicles and the VRT reliefs of up to €2,500 for plug-in hybrid electric vehicles are being extended by two years until 31 December 2012. The Minister also indicated that support will be provided to offset the initial battery costs for such cars.

Excise Duty

The Minister has announced the following reductions in excise on alcohol products as follows:

- 12 cent reduction on a pint of beer and cider.
- 14 cent reduction on a half glass of spirits.
- 60 cent reduction on a bottle of wine.

These changes, which are VAT inclusive, are effective from midnight 09 December 2009.

No changes are being made to the rate of excise on tobacco products.

The above is intended as a general guide to the measures announced in Budget 2010. All changes announced are subject to being enacted in the forthcoming Finance Bill. It is possible that the measures described above may be modified prior to enactment. No action should be taken on the basis of the above without obtaining professional taxation advice.

PMQ Purcell McQuillan TAX PARTNERS

Purcell McQuillan Tax Partners Limited, 17 Clyde Road, Dublin 4
T: (01) 668 2700 F: (01) 668 2750 E: pmq@pmqtax.com W: www.pmqtax.com