PMQ

Purcell McQuillan

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Budget

BRIEFING

2012

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Budget 2012 Briefing

Minister Noonan announced his first Budget on the 90th anniversary of the signing of the Anglo Irish Treaty on 6 December 1921. Overall his Budget creates a number of positive incentives on what was forecasted to be a very tough Budget. In our opinion, it is a fair Budget with no increase in income tax rates, a rollback on the property incentive restrictions, a reduction of 4% on stamp duty on commercial property, a new capital gains tax ("CGT") exemption for property purchased before the end of 2013, extra mortgage interest relief for residential property purchased during 2012 and no introduction of a wealth tax. However, the increase in CGT and gift/inheritance tax to 30% may delay the passing of assets to the next generation.

The Budget is seeking to raise €1.65 billion in additional taxes. This is an increase of 4.8% over the €34.1 billion projected for 2011. The majority of this is made up of the pension levy of 0.6% introduced in July and the increase in VAT from 21% to 23%. The analysis of the taxes to be raised under the various tax heads is as follows:

Tax	**€ M**
VAT	560
Excise Duties	177
Household Charge	160
CGT	81
CAT	51
PRSI-Pensions	57
DIRT	35
Pension Levy	589
Miscellaneous	61
Other incentives	(121)
Total	**1,650**

The details of the Budget are summarised below.

Personal Taxation

Income Tax

As promised in the recent Programme for Government, the Minister for Finance has not increased income tax, and the standard rate band and tax credits remain the same as in 2011. The Minister has, however, increased the exemption threshold at which the Universal Social Charge applies from €4,004 to €10,036 to ease the burden for low income earners.

Employees with other income such as rental income, dividend income and deposit interest will see an increase in taxes from 1 January 2013, given the imposition of PRSI on this investment income. Proprietary directors and the self-employed already pay PRSI on investment income.

Tax on Savings

From 1 January 2012, the rate of DIRT on deposit interest payments is to be increased from 27% to 30% where payments are made annually or more frequently. Where deposit interest payments are received less frequently, the rate increases to 33%. The rates of exit tax that apply to certain life policies and investment funds is also being increased by 3% to 30%. The exit tax rate will increase to 33% where the payments are made less frequently than annually. The higher rate applicable to income or gains on personal portfolio investments will also increase by 3% from 1 January 2012.

Domicile Levy and Non-Residents

The condition that the domicile levy will only apply to Irish citizens is being removed to ensure that the levy cannot be avoided by individuals renouncing their Irish citizenship. The Minister said he will publish a set of proposed amendments to the current regime applying to non-residents in early 2012 for public consultation with a view to making amendments from 2013.

Mortgage Interest Relief

Mortgage interest relief has been increased to 30% for first time buyers who bought their properties at the height of the property boom between 2004 and 2008.

The rate for first time buyers who purchase in 2012 will be 25% and non-first time buyers will obtain relief at 15%. For those who purchase after 2012 mortgage interest relief will no longer be available and it will be completely abolished from 2018.

Pensions

Despite commitments made by the Government in the EU/IMF Programme to reduce tax relief on pension contributions, the Minister for Finance has announced that he is not changing the current rate of tax relief on pension contributions. However, he did say the existing pension regime needs to be reformed to make the system more sustainable and equitable.

The annual imputed distribution which applies to the value of assets in an ARF has been increased from 5% to 6% in respect of ARFs with asset values in excess of €2 million. The 6% rate will apply to the value of the ARF at 31 December 2012 and for future years.

This annual imputed distribution will also now apply to "vested" PRSAs where the assets are retained in the PRSA rather than being transferred to an ARF. In addition, the increased rate of 6% will apply to such PRSAs with assets in excess of €2 million.

The transfer, on death, of assets in an ARF to the child of the ARF holder, where the child is over the age of 21, is currently liable to income tax at 20%. It is proposed to increase this liability to 30%. More details on this will be available in the Finance Bill.

The PRSI relief of 50% from employer PRSI for employee contributions to occupational pension schemes is being removed with effect from 1 January 2012.

Property Tax Shelters

Following an economic impact assessment, the Minister decided not to proceed with changes proposed in last year's Budget. This report is yet to be finalised and is due to be published with the Finance Bill. It concludes that small investors in particular would be vulnerable to insolvency if the proposals were implemented.

The Minister has however decided to impose a 5% surcharge on individuals with income over €100,000 who claim accelerated capital allowances on property tax shelters from 1 January 2012. Presumably, this will be a 5% surcharge on the quantum of reliefs claimed in the year. Effectively at worst for those affected by the High Earners Restriction these allowances will reduce the overall tax rate to 49%, a saving of 6%. Investors in accelerated capital allowances schemes will no longer be able to use the capital allowances beyond the tax life of the property where the tax life ends after 1 January 2015. If the tax life ends before that date the capital allowances cannot be carried forward after 2014.

There were no further restrictions announced to the High Earners Restriction regime although those affected will suffer the new 5% surcharge. The Minister said he will keep the High Earners Restriction under review in 2012.

Capital Taxes

Capital Acquisitions Tax ("CAT")

The rate of CAT has been increased to 30% for gifts or inheritances, in respect of a gift or inheritance taken on or after 7 December 2011.

The Group A tax free threshold for gifts or inheritances from a parent to a child is being reduced from €332,084 to €250,000 in respect of gifts or inheritances taken on or after 7 December 2011.

Capital Gains Tax ("CGT")

The rate of CGT has been increased from 25% to 30% from 7 December 2011. The National Recovery Plan had indicated that in 2012 the single CGT rate would be changed to a system of differing rates for different levels of gains but this did not happen in the Budget speech.

From 7 December 2011 until the end of 2013 if a property is bought and held for more than 7 years, then any gains accruing in that period will not be liable to CGT. It is not clear if the exemption is confined to Irish property.

CGT Retirement Relief for business and farming assets is maintained for transfers within a family by individuals aged 55 to 66 years. For transfers within a family where the individual is aged over 66 years there will be an upper limit of €3 million placed on the value of the assets being disposed. This is subject to a two year transitional arrangement for those currently aged 66 or who will be 66 before 31 December 2013, where the new limit will not be applied.

For transfers of assets outside the family, the current upper limit of €750,000 is maintained for those aged 55 to 66 years. However, the limit is reduced to €500,000 for individuals aged over 66 years. This is subject to a two year transitional arrangement for those currently aged 66 or who will be 66 before 31 December 2013, whereby they can avail of the higher limit.

Business Taxation

Corporation Tax Rate

The Minister once again confirmed Ireland's commitment to the 12.5% rate of corporation tax.

R&D Tax Credit

The research and development tax credit is to be amended to improve the benefit to SMEs. The first €100,000 in research and development expenditure will be allowed on a volume (not incremental) basis. The tax credit will continue to apply to incremental research and development expenditure in excess of €100,000 as compared with the base year 2003.

The outsourcing rules for research and development purposes are also to be amended to allow the greater of the existing percentage arrangement or €100,000. A portion of the research and development tax credit can now be utilised to reward key employees tax efficiently.

3 year Tax Relief for Start Up Companies

The corporation tax relief for new start-up companies is to be extended for another three years to cover companies that commence trading in 2012, 2013 and 2014. The scheme provides relief from corporation tax on trading income and certain gains in the first three years of trading. The scheme was modified in last year's budget so that the value of the relief is linked to the amount of employers' PRSI paid by a company in an accounting period subject to a maximum of €5,000 per employee.

Foreign Earnings Deduction

A Foreign Earnings Deduction is to be re-introduced where an employee spends a minimum of 60 days developing export markets in Brazil, Russia, India, China and South Africa – the so called BRICS countries. A Foreign Earnings Deduction was previously allowed against employment income. It had the effect of removing the employment income attributable to qualifying days spent outside of Ireland from Irish income tax subject to a maximum of €31,750 for the 2000/2001 and subsequent tax years. The relief was terminated on 31 December 2003.

Special Assignee Relief Programme

The Minister has announced the introduction of a Special Assignee Relief Programme to allow multinationals and indigenous companies attract key people to Ireland. It is hoped that the relief will encourage the expansion of businesses and the creation of jobs in Ireland.

New BES Scheme

The Finance Bill will also include a small number of amendments to the Employment and Investment Incentive and Seed Capital Scheme. The Minister announced on the 25 November 2011 that state aid approval has been received from the European Commission and that the scheme would commence with immediate effect.

Financial Services Incentives

A package of measures will be introduced in the Finance Bill to support the continued success of the international funds industry, the corporate treasury sector, the international insurance industry and the aircraft leasing industry.

Farming

There were a number of very positive incentives introduced for farmers. They will receive a double income tax deduction for increased costs from changes in carbon tax.

There was no curtailment in the VAT Refund Order for flat rate farmers and it has been extended to include wind turbines.

Subject to EU approval, an enhanced rate of 50% (100% for young trained farmers) of stock relief for registered farm partnerships will be introduced and will run to the end of 2015.

Value Added Tax ("VAT")

The Minister confirmed that the standard rate of VAT will increase from 21% to 23% from 1 January 2012.

Stamp Duty

We welcome the very positive change in relation to stamp duty on commercial property which has been reduced to 2% with effect from midnight. This was 6% on property over €80,000 and will mean that Ireland has a very competitive stamp duty rate. The UK rate is 4% on property over £500,000. This combined with the new exemption from capital gains tax mentioned above should encourage international investors to purchase Irish commercial and residential property. The reduced stamp duty rate for transfers between family members will be 1% but will be abolished at the end of 2014.

Please feel free to give us a call to discuss any of the changes that may impact on you.

The above is intended as a general guide to the measures announced in Budget 2012. It is possible that the measures described above may be modified and may be subject to change in the Finance Bill. No action should be taken on the basis of the above without obtaining professional taxation advice.

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