



budget

BRIEFING 2009

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Budget 2009 Briefing

The Minister for Finance, Brian Lenihan, has designed his first budget against a backdrop of an extraordinary economic decline and a deepening international crisis. According to forecasts from the Central Bank, Irish GDP for 2008 will fall by 0.8 per cent with a further contraction in 2009. To tackle the budget deficit, the Minister has announced a wide range of spending cuts and taxation measures. Details of the taxation measures are set out below.

Personal Taxation

Income Levy

As speculated in the Press the Minister for Finance has introduced a 1% income levy on income up to €100,100 (€1,925 per week) with a rate of 2% on income in excess of this amount, with effect from 1 January 2009. The levy will be applied to gross income before taking a deduction for pension contributions or capital allowances. Certain social welfare income is excluded from the levy.

Employee PRSI Ceiling

The abolition of the PRSI ceiling for employees which was expected has not occurred but the PRSI ceiling has been increased by €1,300 to €52,000.

Mortgage Interest Relief

First time buyers will benefit from an increase in the rate of tax relief on mortgage interest. The rate is being increased from 20% to 25% for years 1 and 2. For years 3, 4 and 5 mortgage interest relief will be available at 22.5% for first time buyers. The rate will reduce to 20% for years 6 and 7. First time buyers' relief will end after year 7.

In addition to new first time buyers the increased relief will also be available to first time buyers who purchased a house since 1 January 2005.

The rate of tax relief on mortgage interest will be reduced for non-first time buyers from 20% to 15% with effect from 1 January 2009.

Medical Expenses

Tax relief on medical expenses will be reduced from the marginal rate of tax of 41% to the standard rate of 20% from 1 January 2009 with the exception of nursing home expenses which will be relieved at the standard rate from 1 January 2010.

Expenditure on dental and medical expenses incurred prior to 31 December 2008 will still qualify for relief at the marginal rate of tax.

Pension Contributions

While the earnings limit for tax relief on pension contributions has been increasing in line with inflation since 1 January 2007, the Minister has sought to increase tax revenue by reducing the earnings limit for 2009 to €150,000. This is a significant reduction from the earnings limit of €275,239 which is available for pension contributions made in respect of 2008.

In addition to this reduction in tax relief for pension contributions, the standard fund threshold on the capital value of pensions which has been increased in line with inflation since the threshold was set at €5 million in Finance Act 2006 is now being capped for 2009 at the 2008 figure of €5.4 million.

Deposit Interest Retention Tax and Withholding Tax on Other Savings

The rate of DIRT applied to deposit accounts will be increased from the standard rate of tax to 23%. A further rate increase of 3% will be applied to payments made from life assurance policies and investment funds. A 26% tax will now apply to such payments. These increases will take effect from 1 January 2009.

Car Parking Levy

To support a sustainable environment the Government has introduced an annual levy of €200 on employees who are provided with car parking facilities by their employer. This levy only applies to car parking facilities located in the main urban areas.

Business Taxation

Corporation Tax Payments

The preliminary corporation tax payment date has again been brought forward for “large” companies, i.e. companies with a corporation tax liability exceeding €200,000. Preliminary corporation tax, amounting to 90% of the current year corporation tax liability is currently due in one instalment one month before the end of the accounting period.

Going forward, large companies will now pay preliminary tax in two instalments. The first instalment will become payable in the sixth month of the accounting period and will need to represent at least 50% of the prior year corporation tax liability or 45% of the current year corporation tax liability. The second instalment will be payable one month before the end of the accounting period. This second instalment must bring the total preliminary tax paid to 90% of the total current year corporation tax liability.

To illustrate by way of example, a large company which prepares its accounts on a calendar year basis will now have an obligation to pay preliminary tax in two instalments on 21st June and 21st November each year.

This new payment regime will apply to accounting periods commencing on or after Budget Day, 14th October 2008.

Three Year Corporation Tax Exemption for Start-Up Companies

Any new start-up companies that commence trading in 2009 will be exempt from tax, including capital gains in each of the first three years provided that their tax liability in the relevant corporation tax year does not exceed €40,000. This measure is subject to examination to ensure that it will comply with EU State Aid rules.

Research & Development Tax Credit

A 20% corporation tax credit was introduced in Finance Act 2004 in respect of research and development expenditure incurred by a company. The corporation tax credit is calculated based on the incremental research and development expenditure incurred in excess of a certain threshold. For accounting periods commencing on or after 1 January 2004, the threshold amount is set at the amount of qualifying research and development expenditure incurred in a corresponding accounting period ending in 2003.

This credit is now being increased to 25% and will apply to accounting periods commencing on or after 1 January 2009. The Minister is also considering further enhancements in this area.

Intellectual Property

The Minister has asked the Commission on Taxation to investigate options that are available in the context of Intellectual Property with a view to ensuring that the Irish tax regime fully reflects the changes which have taken place in this area.

Corporation Tax Rates

There has been no change to the standard rate of corporation tax (12.5%) or the higher rate of corporation tax (25%).

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 extend to four additional categories of equipment such as data server related systems, efficient electricity/heating provision equipment and control systems, efficient electrical and control equipment and alternative fuel vehicles.

Seveso-listed industrial facilities

A new ring-fenced tax incentive scheme is proposed to facilitate the removal and relocation of Seveso-listed industrial facilities which are currently restricting the permissible land use of nearby developments. Further details will be provided in the Finance Bill. This tax incentive scheme will also require clearance from the EU from a State Aid perspective.

Newly constructed commercial buildings

Where a purchaser buys a newly constructed commercial building after one year of its first use, capital allowances are available on the purchase of the building on a more restrictive basis. As an additional incentive to encourage the purchase of commercial properties, the one year time limit has been extended to two years.

Filing of Tax Returns

In order to encourage the take-up of Revenue's electronic filing and payment system, the Minister is proposing the provision of a general extension to existing deadlines where returns and payments are made via the online systems. Details of this proposal are to be announced.

Capital Gains Tax

The rate of capital gains tax is being increased from 20% to 22% in respect of disposals taking place on or after 15 October 2008.

With effect from 2009 capital gains tax on disposals in the period from January to November will be payable in mid December. Tax on disposals in December will be payable on the following 31 October.

Stamp Duty

Commercial Property

The top rate of stamp duty on commercial property is being reduced from 9% to 6% on instruments executed on or after 15 October. The 6% rate will apply where the consideration exceeds €80,000. Rates for consideration below €80,000 remain unchanged.

Residential Property

There is no change to the rates of stamp duty applying to residential property.

Financial Cards

The stamp duty on ATM cards and Debit cards is being reduced to €2.50 per card and to €5 per combined card. This reduction will take effect for the year ended 31 December 2008.

Bills of Exchange including Cheques

Stamp duty will be increased from 30 cent to 50 cent on Bills of Exchange drawn on, or after, 15 October 2008. For cheques the increase will apply to cheques supplied by banks to customers on, or after, 15 October 2008.

Value Added Tax

The standard rate of VAT is being increased to 21.5% with effect from 1 December 2008.

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

Farming Taxation

The Minister has extended the tax relief on various schemes available to farmers, in particular Farm Consolidation Stamp Duty Relief, Farmers Stock Relief and Farm Pollution Control Relief for a further two years.

The stamp duty relief for Young Trained Farmers has been extended for four years and the relief will apply in respect of instruments executed no later than 31 December 2012.

The extension dates are summarised below:

	Extended To:
Farm Consolidation Stamp Duty Relief	30 June 2011
Farmers' Stock Relief	31 December 2010
Farm Pollution Control Relief	31 December 2010
Young Trained Farmers' Stamp Duty Relief	31 December 2012

There has been no change to the farmers' VAT flat rate addition of 5.2%.

Other Measures

Preferential Loans to Employees

Where an employer makes a loan to an employee, the employee pays income tax on the difference between the specified rate and the interest, if any, charged by the employer.

The specified rate in respect of non-home loans will increase from 13% to 15% with effect from 1 January 2009. The specified rate in respect of home loans remains unchanged at 5.5%.

Heritage Items

Tax relief on donations of heritage items to approved State institutions and to the Irish Heritage Trust is being reduced to 80% of the market value of the donated item.

The ceiling on the aggregate value of the donations remains at €6 million for each scheme.

Cycle to Work Scheme

With effect from 1 January 2009 the provision of bicycles and associated safety equipment by employers to employees will be exempt from benefit-in-kind where the employees use the bicycles to travel to work. There is a limit of €1,000 on purchases per employee and the exemption only applies once in a particular five year period. It is possible to use a salary sacrifice arrangement to avail of the scheme. Such a salary sacrifice arrangement must be completed within a period of twelve months.

BIK CO₂ Emissions

The forthcoming Finance Bill will contain provisions to charge benefit-in-kind on company cars based on the level of CO₂ emissions.

Betting Duty

Betting duty is being increased from 1% to 2% with effect from 1 January 2009.

Air Travel Tax

An air travel tax will apply to all departures from Irish airports with effect from 30 March 2009. The general rate will be €10 per passenger with a lower rate of €2 per passenger for journeys less than 300 km.

Petrol

The mineral oil tax on petrol will be increased by 8 cent per litre (including VAT) with effect from midnight on 14 October 2008.

Charge on Non-Principal Private Residences

To fund local authorities a new charge of €200 per non-principal private residence will be introduced with effect from 2009. This charge will apply to private rented accommodation, holiday homes and other non-principal residences. It will not apply to unsold new dwellings.

Motor Tax rates

Motor tax is being increased with effect from 1 January 2009. The increases are 4% for cars with cubic capacity below 2.5 litres and CO₂ bands A to D and 5% for cars with cubic capacity above 2.5 litres and CO₂ bands E, F and G.

Motor tax for goods and other vehicles will increase by 4%.

Finance Act 2009

Legislative Timetable

The legislative timetable for the enactment of the Finance Bill has been brought forward. The Bill will incorporate the above measures and possibly additional provisions.

Finance Bill Publication	20 November
Second Stage	25/26 November
Committee Stage	9/10/11 December
Report Stage	16 December
Final Report Stage	18 December
Seanad	7 January 2009

Tax Bands / Income Levy / Tax Reliefs / PRSI Ceiling

Details of the introduction of the income levy and changes to the main tax bands, tax reliefs and PRSI are listed below. There will be no change to personal tax credits.

	Existing	Proposed	Increase
	€	€	€
Standard Rate Tax Bands⁽¹⁾			
Single/Widowed Persons	35,400	36,400	1,000
Married Couple One Income	44,400	45,400	1,000
Married Couple Two Income	70,800	72,800	2,000
One Parent/Widowed Parent	39,400	40,400	1,000

(1) The tax band of €72,800 available to married couples with two incomes in 2009 is transferable between spouses up to a maximum of €45,400 per spouse

	Existing	Proposed	Increase
	%	%	%
Income Levy⁽²⁾			
Income up to €100,100	0.0%	1.0%	1.0%
Income exceeds €100,100	0.0%	2.0%	2.0%

(2) The higher rate applies to income over €1,925 per week (€100,100 per year). Social welfare payments, including the contributory and non contributory pension are excluded from the income levy

	Existing	Proposed	Change
Mortgage Interest Relief⁽³⁾			
First Time Buyers (in year 1 and 2)	20%	25%	5%
First Time Buyers (in year 3, 4 and 5)	20%	22.5%	2.5%
First Time Buyers (in year 6 and 7)	20%	20%	0%
Non First Time Buyers	20%	15%	-5%

(3) The increased relief will only affect first time buyers who have purchased from 1 January 2005

	Existing Rate	Proposed Rate	Increase
Benefit-in-Kind on Preferential Loans⁽⁴⁾			
Loans (other than home loans)	13%	15%	2%

(4) The benefit-in-kind amount is the difference between the interest paid (if any) and the notional interest charged at the specified rates. The new rate is effective from 1 January 2009. The rate of 5.5% on home loans has not changed.

	Existing	Proposed	Increase
	€	€	€
Employee's PRSI			
PRSI Ceiling	50,700	52,000	1,300

The above is intended as a general guide to the measures announced in Budget 2009. 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.

