



## BUDGET 2011

### **PERSONAL TAX**

#### **Personal Tax Credits And Bands**

All of the personal tax credits were reduced by the Minister in his budget speech by circa 10%. The personal tax bands were also reduced, effectively increasing the amount of income taxable at the marginal rate for most taxpayers.

#### **Universal social charge**

The introduction of the new universal social charge sees the abolition of the income levy and the health levy. PRSI will be included at a future date. The legislation governing the new charge will be broadly in line with the income levy legislation. Social welfare payments will be exempt from the universal social charge.

#### **PRSI**

The PRSI ceiling for employees has been removed and PRSI rate for the self-employed, higher earning public servants and certain office holders has increased to 4%. Share schemes and employee pension contributions are no longer exempt from PRSI.

### **ABOLITION OF RELIEFS**

#### **Patent Royalty Exemption**

With effect from 24 November 2010, the tax exemption for patent royalties or dividends paid out of patent royalties has been removed.

#### **Tax Relief ON Loans To Acquire An Interest In Certain Companies**

The relief currently available for the interest on loans taken out to acquire an interest in certain companies will be phased out :

- 2011 – 75% relief; • 2013 – 25% relief; and
- 2012 – 50% relief; • 2014 and subsequent tax years – no relief.

This relief has been abolished with effect from 7 December 2010 for new loans.

#### **Approved Share Option Schemes And Relief For New Shares Purchased By Employees**

The income tax and income levy exemption applicable to approved share option schemes was abolished under the National Recovery Plan. This has been given a legislative basis in today's budget, effective from 24 November 2010. The budget has withdrawn the tax relief for new shares purchased by employees in their employer company.

#### **Other Reliefs**

The following reliefs are to be abolished with effect from 1 January 2011, unless otherwise stated:

- rent relief: to be phased out over same timeframe as mortgage interest relief;
- trade union subscriptions;
- for farmers who incur capital expenditure on farm buildings and structures for use in control of pollution;
- tax exemption from BIK on employer provided childcare;
- tax relief on subscriptions paid to professional bodies;
- capital expenditure on new machinery and plant for use in mining; and
- exemption from Tax in respect of grants or payments to the National Co-Operative Farm Relief Services Ltd

#### **Termination Payments**

A lifetime limit of €200,000 will apply to ex-gratia payments made in connection with the termination of an office or employment from 1 January 2011. The tax free exemptions currently available in respect of termination payments

can still be availed of where the tax free amount is less than €200,000. The lifetime limit for termination payments is a separate limit to that provided for pension lump sums.

### **Relief For Energy Efficient Measures**

A new scheme is proposed to encourage individuals to make their homes more energy efficient. Relief will be given up to a maximum expenditure of €10,000 at the standard rate of income tax. Tax relief will be given in the tax year after the year in which the investment is made.

### **Tax ON Savings - Dirt Rates And Exit Taxes**

The DIRT rate on ordinary deposit accounts will be increased from 25% to 27%, and for long term deposits from 28% to 30% .

The exit tax rate on life assurance policies and investment funds, will increase by 2% to 27% for annual or more frequent payments, and to 30% for less frequent payments (one year +). These new rates apply to payments, including deemed payments, made on or after 1 January 2011.

### **Farmers - Stock Relief**

The existing 25% stock relief available to farmers and the incentive stock relief of 100% for young trained farmers is extended for a further two years from 1 January 2011. This measure is subject to European Commission clearance under the State Aid rules.

## **BUSINESS TAX**

The Budget speech contained few tax measures aimed directly at companies.

The key points were:

- the 12.5% corporation tax rate on trading income remains unchanged. Ireland's right to maintain this rate, notwithstanding the need to introduce painful measures elsewhere, has been accepted by senior figures in Europe. In our view, this certainty is critical and will help indigenous Irish business as well as cementing our leading role as a destination for Foreign Direct Investment (FDI).
- the exemption from corporation tax and capital gains tax for certain trading start-up companies introduced in 2009 will be extended to new start-ups in 2011. The exemption applies for three years and is subject to certain anti-avoidance provisions. In a restrictive move aimed at encouraging employment, the relief will be linked to employers' PRSI, subject to a maximum of €5,000 per employee. The relief will be the lower of the qualifying employers' PRSI or the reduction in the corporation tax liability otherwise applicable.
- the BES scheme will be renamed the Employment and Investment Incentive. The new scheme will target job creation and will allow companies to raise up to €10m (compared with existing €2m limit). The amount that can be raised in any 12 month period will be increased from €1.5m to €2.5m. The scheme's certification requirements will also be simplified, which should make it more accessible to companies generally. The new scheme will be subject to EU approval; the existing scheme will continue until the new scheme commences. The new scheme will expire on 31 December 2013.
- the scheme of accelerated capital allowance for energy efficient equipment is being extended for a further 3 years to 2014. This scheme provides for 100% year one allowances for certain energy efficient equipment.
- as noted in the pensions section, the existing employer PRSI exemption for contributions to occupational pension schemes will be reduced by 50% from 1 January 2011. Thus going forward, employer PRSI of 10.75% will apply to half of the pension contribution made by the employer.
- the existing employer job PRSI Incentive Scheme, introduced in 2010, has been extended to 2011. This provides relief from employer PRSI for employees who were on the Live Register for 6months, subject to certain conditions.

## **CAPITAL TAX**

### **Capital Gains Tax**

No change was announced in the rate of capital gains tax which remains at 25%.

### **Capital Acquisitions Tax**

No change was announced in the rate of capital acquisitions tax which remains at 25%.

The Minister announced a reduction in the group tax free thresholds of 20%. The new thresholds apply to gifts and inheritances taken on or after 8 December 2010.

### **Stamp Duty**

The Minister announced a reduction in the stamp duty rate for transfers of residential property to 1% on properties valued up to €1 million. A charge of 2% stamp duty will apply to the value over €1million. The new rates apply from 8 December 2010.

A number of reliefs and exemptions have been abolished also with effect from 8 December as follows:

- first time buyer relief;
- exemption for new houses under 125 sq m in size;
- relief on new houses over 125 sq m in size;
- consanguinity relief (relief for transfers between certain relatives) on residential property transfers;
- exemption for residential property transfers valued under €127,000; and
- relief for transfer of a site to a child.

## **PROPERTY TAX SCHEMES**

### **S23/ S50 Relief On Residential Property**

Reliefs on S23 (residential schemes) and S50 (student accom. schemes) have been restricted. Any claims for relief are ring fenced (limited) to the rental income from that particular property. Any unutilised relief carried forward will no longer be available after the end of the tax life (normally 10 years from when it is first let). For new properties which have not been first let under a qualifying lease on or before 30 June 2011, the tax life will begin on 30 June 2011.

Purchasers of second hand S23/S50 property will not be entitled to any reliefs even though the vendor may suffer a claw back of reliefs claimed. Owner occupiers are not affected by these changes.

### **Capital Allowances On Commercial Property (Certain Area Based Schemes, Hotels, Nursing Homes Etc)**

The property incentives on almost all qualifying commercial properties have been severely restricted for investors.

The allowances will be ringfenced so that they will only be available against income from that property. Similarly any carried forward capital allowances will be ring fenced to rent from that property. Carried forward capital allowances will no longer be available once the tax life of the property has expired – generally 7 or 10 years after the year it was first used. In addition to the above changes, further restrictions are imposed for certain area based schemes such as urban and rural renewal schemes i.e.

- no allowances will be available either to claim or carry forward 7 years after the tax year in which the first claim for capital allowances was made.
- from 7 December 2010 a further restriction of 20% of the remaining allowances will be apply, leaving only 80% available to claim.

The Minister has proposed in the budget speech that all allowances unused and not claimed by 31 December 2014 will be terminated.

## **INDIRECT TAXES**

### **Excises**

Mineral oil tax will increase from midnight on 7 December 2010 as follows:

- 4 cent per litre on petrol (VAT inclusive); and
- 2 cent per litre on auto-diesel (VAT inclusive).

### **Vehicle Registration Tax**

The car scrappage scheme has been extended for the period 1 January 2011 to 30 June 2011. The maximum VRT relief has been reduced from €1,500 to €1,250 where a car of 10 years or older is scrapped and a new car (with CO<sub>2</sub> emissions of 140g/kg or less) is purchased. The existing scheme which provides for VRT relief on the purchase of hybrid and flexible fuel cars is being extended to 31 December 2012, with maximum relief up to €1,500. VRT relief will apply to hybrid plug-in electric vehicles, first registered between 1 January 2011 and 31 December 2012, with maximum relief up to €2,500. The flat rate of VRT of €50 applying to commercial vehicles (VRT Category C) will increase to €200 with effect from 1 May 2011.

### **Air Travel Tax**

A single revised rate of €3 (previously €10 or €2 depending on the distance travelled) will be introduced with effect from 1 March 2011 on a temporary basis.

### **Relevant Contracts Tax**

The rate of RCT applied to payments to certain subcontractors with an established compliance record is being reduced to 20%. The rate for non registered subcontractors remains at 35%.

We understand that it will still be possible to make payments to subcontractors without deducting the tax where a relevant payments card is in place.

### **Betting Duty**

Measures will be introduced to apply a 1% betting duty to offshore and internet betting by Irish punters, in the same way as it applies to betting in conventional betting shops. Betting exchanges will also be subject to the tax.

## **PENSIONS**

### **Employee & Employer Prsi/Usc ON Pension Contributions**

Employee contributions to occupational pension schemes will be subject to employee PRSI and the Universal Social Charge ("USC") with effect from 1 January 2011.

The current employer PRSI exemption for employee pension contributions to occupational pension schemes and other pension arrangements will be reduced by 50% from 1 January 2011.

### **Reduction in Annual Earnings Limit**

There will be a reduction in the annual earnings limit from €150,000 in 2010 to €115,000 in 2011 (subject to the usual age related percentage limits). For taxpayers that would usually make a pension contribution when submitting their tax return after the end of the tax year, it should be noted that the new reduced limit of €115,000 will apply to contributions made in 2011 for the 2010 tax year, even though the limit for the 2010 tax year is the higher sum of €150,000. Thus it would appear to offer an incentive to make any 2010 contribution before 31 December 2010.

### **Pension Funds**

With effect from 7 December 2010, the Standard Fund Threshold (SFT) or the maximum allowable pension fund on retirement for tax purposes has been set at €2.3m. This figure was previously €5.4m.

Higher thresholds may apply depending on valuations as at 7 December 2005 and uncrystallised pension rights as at 7 December 2010.

### **Approved Retirement Funds (ARFs)**

The annual imputed distribution for ARFs is being increased from 3% to 5%. This rate will apply to values at 31 December 2010 and future years. Distributions will be fully chargeable to income tax.

### **Retirement Lump Sums**

With effect from 1 January 2011, the life time limit on the tax free lump sum that can be drawn down by an individual on retirement from a pension will be €200,000. Any sums paid over this amount up to €575,000 (25% of the new SFT) will be taxable at the standard rate of income tax. The balance will be taxable at the taxpayer's marginal rate. Where a retirement lump sum has been drawn down on or after 7 December 2005, this amount must be taken into account in calculating how much of a lump sum paid on or after 7 December 2010 will be taxed at the standard and marginal rates respectively.