



Budget 2011 Overview

Income Tax

The following will all reduce by 10%:

- Tax Credits
- Standard rate bands
- Age Exemption Limits

UNIVERSAL SOCIAL CHARGE (USC)

Health Levy and Income Levy to be abolished and replaced by a new Universal Social Charge on a revenue-neutral basis, in 2011, at the following rates and thresholds:

- 0% < €4,004
- 2% €0 to €0,036
- 4% €10,037 to €16,016
- 7% > €16,016

OTHER INCOME TAX

Reform of RCT (Relevant Contracts Tax)

- Replacement of the current RCT rate of 35% with a two-rate withholding system on a revenue neutral basis:
 - ~ 20% rate for subcontractors registered for tax with an established compliance record;
 - ~ 35% rate for subcontractors not registered for tax;
- Abolition of the monthly repayment system and replacement with an offset system;
- Strengthening of the reporting system for RCT Principals in order to enhance compliance and reduce the opportunities for fraud.

Public Service Pension-related Deduction

From 1 January 2011, the pension-related deduction which is charged to earnings in the public service will be subject to employee PRSI and the Universal Social Charge to be introduced on 1 January 2011. The PRSI change will be legislated for in the Social Welfare Bill.

Employment and Investment Incentive

Reform of the existing Business Expansion Scheme with an increase in the amount that companies can raise under the Scheme.

Relief for Energy Efficiency Measures

Introduction of new scheme to encourage individuals to make their homes more energy efficient - relief to be given to a maximum expenditure of €10,000 at the standard rate of income tax. Credit will be given in the following tax year.

ABOLITION OF RELIEFS

(from 1 January 2011 unless otherwise stated)

Rent Relief to be phased out over 8 years; the same timeline as previously announced for Mortgage Interest Relief.

Patent Royalty Exemption, effective from the launch of the National Recovery Plan on 24 November 2010.

Tax relief on Loans to Acquire an Interest in Certain Companies.

Abolition of tax relief for Trade Union Subscriptions.

Termination of the scheme of accelerated capital allowances for farmers who incur capital expenditure on farm buildings and structures for use in the control of pollution.

Tax exemption from BIK for Employer Provided Childcare.

Abolition of tax relief on subscriptions to professional bodies.

Capital expenditure on new machinery and plant for use in mining.

Approved Share Options Scheme, effective from the launch of the National Recovery Plan on 24 November 2010.

Tax relief for new shares purchased by employees.

Exemption from Tax in respect of grants or payments to the National Co-Operative Farm Relief Services Limited.

PHASED ABOLITION OF PROPERTY-BASED 'LEGACY' RELIEFS

This measure will restrict the various property-based tax relief schemes in the following manner:

Section 23-type Relief

- From 1 January 2011, this will be restricted to income from the Section 23 property itself (currently such income can be set against all rental income).

- At end of 10 year holding period, any unused relief will be lost. If property is sold within this period, the new owner will not get Section 23 relief and the seller continues to be subject to a clawback of relief already given.

- For Section 23 properties yet to be sold, for which the relief has yet to be claimed, the 10-year qualifying period will start on 30 June 2011 regardless of the date of the first qualifying lease. Therefore, in such cases no Section 23 relief will be available after 30 June 2021.

- Residential owner-occupier relief is unaffected by these changes.

Guillotine from 2014

Termination of all unclaimed and unused capital allowances, arising after or carried forward from 2014 as well as unused Section 23 relief carried forward from 2014.

INCOME TAX: RESTRICTION OF RELIEFS

(Income Tax USC/PRSI) (from 1 January 2011 unless otherwise stated)

Charge to PRSI and levies on certain employee share incentive schemes.

Charge to the Health Levy (USC) on Share Awards.

Restriction of the tax-free element of ex-gratia termination payments to €200,000 so that payments above this amount will be subject to tax at marginal rate. This change will apply with effect from 1 January 2011.

Ceiling of €40,000 on the tax exempt earnings of artists.

PRSI CHANGES

Abolition of the PRSI ceiling of €75,036

Class S (Self-Employed) PRSI rate increased from 3% to 4%

Modified PRSI rates (certain public servants) increased to 4% on incomes in excess of €75,036

Introduction of a 4% PRSI charge for certain Office Holders

FARMER TAXATION

Stock Relief

The existing general 25% stock relief for farmers and the special incentive stock relief of 100% for certain young trained farmers are being extended from 1 January 2011 for a further two years subject to clearance with the European Commission under State Aid rules.

EXCISES

Amending the Air Travel Tax to a single rate of €3

A single revised rate of Air Travel Tax of €3 will come into effect on 1 March 2011, on a temporary basis.

Vehicle Registration Tax (VRT)

The following package of measures will be introduced:

- Extension of the Car Scrappage Scheme
- Extension of VRT relief for Hybrid Vehicles and Flexible Fuel Vehicles
- Increase in the VRT flat-rate for Commercial (Category C) vehicles

Car scrappage scheme is being extended for the period 1 January to 30 June 2011. VRT relief of up to €1,250 will be provided where a car of 10 years or older is scrapped in accordance with certain criteria and a new car of emissions bands A or B is purchased.

The VRT relief for series production hybrid and flexible fuel vehicles, due to expire on 21 December 2010, is being extended for two years until 31 December 2012, with the rate of relief provided being up to €1,500.

The current VRT flat-rate of €50 for Commercial vehicles is being increased to €200, to take effect from 1 May 2011.

PENSIONS

Employee PRSI on pension contributions

From 1 January 2011, employee contributions to occupational pension schemes and other pension arrangements will be subject to employee PRSI and the Universal Social Charge. The PRSI change will be legislated for in the Social Welfare Bill.

Employer PRSI on pension contributions

The current employer PRSI exemption for employee contributions to occupational pension schemes and other pension arrangements will be reduced by 50% from 1 January 2011. The change will be legislated for in the Social Welfare Bill.

Contribution Limit

The annual earnings limit which determines the maximum tax-relievable contributions for pension purposes is being reduced from €150,000 (2010) to €115,000 for 2011. The annual earnings limit for the year of assessment 2010 will also be deemed to be €115,000 for the purpose of determining how much of a pension contribution paid by an individual in the year of assessment 2011 will be treated as paid in 2010, where the individual elects under existing rules to have it so treated.

Maximum allowable pension funds

The maximum allowable pension fund on retirement for tax purposes is to be set at €2.3 million with effect from 7 December 2010. A higher threshold will apply in certain circumstances.

Approved Retirement Funds

The annual imputed distribution which applies to the value of assets in an ARF at 31 December each year is being increased from 3% to 5% in respect of asset values at 31 December 2010 and future years.

Retirement Lump Sums

The overall life-time limit on the amount of tax-free retirement lump sums that an individual can draw down from pension arrangements is being reduced to €200,000. The excess of this amount will be taxed at standard income tax rate up to an amount equal to 25% of the new Standard Fund Threshold (up to €575,000). The excess of retirement lump sum payments over that amount will be taxed at the taxpayer's marginal rate of income tax.

Extension of flexible options on retirement

All members of Defined Contribution pension arrangements will have access to flexible options on retirement in respect of the main benefits arising from those schemes, subject to certain conditions.

CORPORATION TAX

3 Year Tax Exemption for Start-Up Companies

This scheme is being extended to include start-up companies which commence a new trade in 2011. The scheme is being modified so that the value of the relief will be linked to the amount of employers' PRSI paid by a company in an accounting period subject to a maximum of €5,000 per employee. If the amount of qualifying employers' PRSI is lower than the reduction in corporation tax liability otherwise applicable, relief will be based on the lower amount.

CAPITAL ALLOWANCES

Energy-Efficient equipment

The scheme of accelerated capital allowances for expenditure by companies on certain energy efficient equipment is being extended for a further 3 years.

TAX ON SAVINGS

Deposit Interest Retention Tax and Exit Taxes on Life Assurance Policies and Investment Funds

The rate of retention tax that applies to deposit interest, together with the rates of exit tax that apply to life assurance policies and investment funds, are being increased by 2 percentage points in each case and will now be 27% for payments made annually or more frequently and 30% for payments made less frequently than annually. The increased rates will apply to payments, including deemed payments, made on or after 1 January 2011.

STAMP DUTY

Transfers of residential property

Reduction in rate for transfers of residential property to 1% on properties valued up to €1m, in respect of instruments executed on or after 8 December 2010.

CAPITAL ACQUISITIONS TAX

The current group tax free thresholds are being reduced by 20%. This reduction applies in respect of gifts or inheritances taken from midnight on 7 December 2010.

SOCIAL WELFARE

People of working-age

The maximum personal rate of payment for all weekly schemes (other than all personal rates for those aged 66 and over, Invalidity Pension and State Pension Transition recipients aged 65) will be reduced by €8 per week from the first week in January 2011 and proportionate decreases will apply in respect of people on reduced social insurance rates of payment.

Associated maximum Qualified Adult Allowance will generally decrease by €5.30 per week from the first week in January 2011 and proportionate decreases will apply in respect of people on reduced social insurance rates of payment.

There will be a decrease of €8 per week in the maximum and minimum rate of Maternity and Adoptive Benefits.

There will be a reduction of €6 per week in the rate of Jobseeker's Allowance and Supplementary Welfare Allowance for those aged 22-24.

There will be a reduction of €10 in the personal weekly rate of Supplementary Welfare Allowance.

Children

Child Benefit will be reduced by €10 per month from January 2011 on both the lower and higher rate with an additional €10 per month decrease for the third child.

If you would like any further information on any of the above, please call us on 059 9137040 or email info@laloroshea.ie

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