

The Minister for Finance, Mr. Michael Noonan, delivered his Budget speech for 2012 6 December 2011. We are pleased to present our annual budget summary which we hope you will find informative.

### **INCOME TAX**

- There will be no change to income tax rates, no reduction in credits and no narrowing of tax bands.

### **UNIVERSAL SOCIAL CHARGE (USC)**

- Increase of lower exemption threshold from €4,004 to €10,036
- Move USC to a cumulative system

### **PAY RELATED SOCIAL INSURANCE (PRSI)**

- Broadening of the base for PRSI to cover rental, investment and other forms of income from 2013

### **RELIEFS AND EXEMPTIONS**

#### **Mortgage Interest Relief**

- Mortgage Interest Relief is increased to 30% for First Time Buyers who purchased their property between 2004 – 2008
- Current rates of mortgage interest relief will continue to be available to First Time Buyers and Non First Time Buyers in 2012

#### **Special Assignee Relief Programme**

- Introduction of a Special Assignee Relief Programme
- Foreign Earnings Deduction Introduction of a Foreign Earnings Deduction for temporary assignments to Brazil, Russia, India, China and South Africa

#### **Illness Benefit**

- Removal of the 36 day income tax exemption for illness benefit

### **MEASURES RELATING TO PROPERTY BASED 'LEGACY' RELIEFS**

These measures will apply to the various property-based tax relief schemes in the following manner:

#### **Section 23-type Reliefs and Accelerated Capital Allowances**

- A surcharge will be introduced effective from 1 January 2012 on individuals with gross incomes over €100,000. The surcharge will apply at a rate of 5% on the amount of income sheltered by property reliefs in a given year. This surcharge

(essentially a higher rate of USC) will apply to all investors regardless of whether they invested in Section 23 or accelerated capital allowance schemes with this level of gross income. Residential owner-occupier relief is unaffected by these changes.

#### Accelerated Capital Allowances

- Investors in accelerated capital allowance schemes will no longer be able to use any capital allowances beyond the tax life of the particular scheme where that tax life ends after 1 January 2015. Where the tax life of a scheme has ended before 1 January 2015 no carry forward of allowances into 2015 will be allowed.

#### STAMP DUTY

##### Transfers of non-residential property

- Abolition of multiple Stamp Duty rates for non-residential properties, replaced with a single rate of 2% in respect of instruments executed after 6 December 2011.
- Consanguinity relief on transfers of non-residential properties to be retained for intra-family transfers to end-2014. Abolished after 1 January 2015.

#### HOUSEHOLD CHARGE

- A household charge of €100 is being introduced in 2012. The charge is an interim measure pending design and implementation of a full property tax, which will apply in 2014.

#### CAPITAL ACQUISITIONS TAX

- The current rate of 25% is being increased to 30%. This increase applies in respect of gifts or inheritances taken after 6 December 2011.
- The current Group A tax-free threshold is being reduced from €332,084 to €250,000. This reduction applies in respect of gifts or inheritances taken after 6 December 2011.

#### CAPITAL GAINS TAX

- The current rate of 25% is being increased to 30%. This increase applies in respect of disposals made after 6 December 2011.
- A new incentive relief from CGT is being introduced for the first seven years of ownership for properties bought between Budget night and the end of 2013, where the property is held for more than seven years. Where such property is held for more than seven years the gains accrued in that period will not attract CGT.

#### CAPITAL ALLOWANCES AND TAX INCENTIVE SCHEMES

##### Renewable energy generation

The qualifying period for the scheme of tax relief for corporate investment in certain renewable energy projects is being extended to 31 December 2014. To qualify for the relief the energy project must be approved by the Minister for Communications, Energy and Natural Resources and be in one of the following categories of technology:

- Solar
- Wind
- Hydro (including ocean, wave or tidal energy)
- Biomass

## **EMPLOYERS REDUNDANCY REBATE**

An employer's entitlement to a rebate of statutory redundancy costs is to be reduced from 60% to 15%.

## **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 3 percentage points in each case and will now be 30% for payments made annually or more frequently and 33% for payments made less frequently than annually. The increased rates will apply to payments, including deemed payments, made on or after 1 January 2012.

## **DOMICILE LEVY**

- The "citizenship" condition for payment of the levy is being removed. A set of proposed amendments to the current regime applying to non-residents will be published in early 2012 and put out to public consultation to inform preparation for further changes in 2013.

## **VAT**

- The standard rate of VAT will be increased from 21 to 23 per cent with effect from 1 January 2012.
- The VAT rate applicable to district heating will be reduced from 21% to 13.5% in the Finance Bill.
- Admissions to open farms will be liable to VAT from 1 January 2012 at the rate of 9%.

## **EXCISES**

Tobacco Products Tax

- Excise Duty on a packet of 20 cigarettes is being increased by 25 cents (including VAT) with effect from midnight on 6 December 2011.

Carbon Tax

- The carbon tax will be increased by €5 to €20 per tonne on fossil fuels. The increase will apply to petrol and auto-diesel with effect from midnight, 6 December 2011; and from 1 May 2012 to Kerosene, Marked Gas Oil, Liquid Petroleum Gas (LPG), Fuel Oil and Natural Gas.

Betting Duty

- Betting duty of 1% will be extended to remote betting and a Betting Intermediary Duty will be introduced to cover betting exchanges. It is intended that these changes will come into effect in the second quarter of 2012.
- Vehicle Registration Tax (VRT) and Motor Tax – Public Consultation
- The Minister has announced a consultation process to commence in early 2012 to review options for the improvement of VRT and motor tax revenues in future years.

Motor Tax

- Motor Tax rates across all categories will increase with effect from 1 January 2012.

## **CORPORATION TAX**

### 3 Year Tax Relief for Start-up Companies

- The scheme which provides relief from corporation tax on the trading income and certain gains of new start-up companies in the first 3 years of trading is being extended to include start-up companies which commence a new trade in 2012, 2013 or 2014.

### R&D tax credit

- The first €100,000 of qualifying R&D expenditure will benefit from the 25% R&D tax credit on a volume basis. The tax credit will continue to apply to incremental R&D expenditure in excess of €100,000 as compared with such expenditure in the base year 2003.
- At present sub-contracted R&D costs are eligible where they do not exceed 10% of total in-house R&D costs or 5% in the case of sub-contracting to third level institutions. The outsourcing limits for sub-contracted R&D costs are being increased to the greater of 5 or 10% as appropriate or €100k.
- Companies in receipt of the R&D credit will have the option to use a portion of the credit to reward key employees who have been involved in the development of R&D.

## **PENSIONS**

### Tax Deduction for Pension Contributions

- A tax deduction will remain available at the marginal rate of income tax for pension contributions for the moment.

### Approved Retirement Funds

- The annual imputed distribution which applies to the value of assets in an Approved Retirement Fund (ARF) at 31 December each year is being increased from 5% to 6% in respect of ARFs with asset values in excess of €2 million (or, where an individual owns more than one ARF, where the aggregate value of the assets in those ARFs exceeds €2 million). The increase will apply in respect of asset values in affected ARFs at 31 December 2012 and future years.
- The transfer of ARF assets on the death of an ARF owner to a child of the owner aged over 21 is subject to a final liability tax equal to the standard rate of income tax in force at the time of the making of such a distribution (currently 20%). It is proposed to apply a higher final liability tax rate of 30% to such transfers.

### Personal Retirement Savings Accounts (PRSAs)

- "Vested" PRSAs are PRSAs from which retirement benefits have commenced to be taken, usually in the form of the "tax-free" retirement lump sum. The annual imputed distribution provisions which apply to ARFs will also apply on the same basis to "vested" PRSAs, where the assets are retained in the PRSA rather than being transferred to an ARF.

### Employer PRSI on pension contributions

- The current relief of 50% of employer PRSI for employee contributions to occupational pension schemes and other pension arrangements is being removed from 1 January 2012.

## **FARMER TAXATION**

### Stock Relief for Registered Farm Partnerships

- An enhanced 50% stock relief (100% for certain young trained farmers) for registered farm partnerships is being introduced and will run until 31 December 2015 subject to clearance with the European Commission under State Aid rules.

### Measures to incentivise timely farm transfers

- Full retirement relief from CGT for intra-family transfers will be maintained for individuals aged 55 to 66. An upper limit of €3m on retirement relief for business and farming assets disposed of within the family is introduced where the individual transferring the assets is aged over 66 years. This is intended to incentivise the earlier transfer of farms. (The current unlimited amount applies for a transitional period of two years for individuals currently aged 66 or who reach that age before 31 December 2013.)
- The current upper limit of €750,000 for assets transferred outside the family for individuals aged between 55 and 66 years will be maintained. The upper limit for retirement relief for business and farming assets transferred outside the family is reduced from €750,000 to €500,000 for individuals aged over 66 years. (The current upper limit of €750,000 applies for a transitional period of two years for individuals currently aged 66 or who reach that age before 31 December 2013.) Full details of these measures will be set out in the Finance Bill.

### VAT refund for un-registered farmers on the purchase of wind turbines

- The existing VAT refund order, which provides for the refund of VAT paid by un-registered farmers on the construction of farm buildings, fencing, drainage and reclamation of farm land, will be amended to provide that such farmers may claim a refund on wind turbines purchased from 1 January 2012.

**For more information on any of the above issues, please call us on  
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