BUDGET 2012

Continuing the government's austerity program the Minister for Finance, Mr Michael Noonan T.D. delivered part 2 of Budget 2012 on the 6th December 2011. In an unprecedented move the budget was held over two days, with Minister Howlin announcing the changes in social welfare and government spending the previous day.

Many of the proposed changes had already been flagged in the media but the Ministers speeches still contained a number of surprises. The following is a brief summary of those changes.

Income Tax

As forecasted there were no changes to the 2011 Income Tax rates, bands or tax credits. The marginal rate of taxation (including PRSI and USC) payable by a PAYE employee will now stand at 53%, while the rate for the self employed and proprietary directors (liable to PRSI class S) will be 55%.

Illness Benefit – Currently the first 36 days of benefit is exempt from tax. This exemption is to be abolished.

Mortgage Interest Relief - To help those who took out their first mortgage at the peak of the property prices and purchased their home between 2004 and 2008, the rate of relief is being increased to 30%.

To encourage first time buyers to purchase their first home in 2012, the rate of relief is being increased to 25% rather than 15% for the first year.

DIRT – The rate is to increase from 27% to 30%.

High Earners Restriction - No change to the high earners restriction on relief however this is to be reviewed in next year's Budget.

Property Incentives – The restriction on the use of property incentive schemes has been significantly altered from what was originally muted in last years Budget.

A 5% surcharge, essentially an additional USC charge, will apply to all Section 23-type Reliefs and Accelerated Capital Allowances schemes where the individual's annual gross income is greater than €100,000. The surcharge will be applied to the amount of income sheltered in that year. For those with less than €100,000 annual income there will be no restriction.

Investors in accelerated capital allowances 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 1st January 2015. Where the tax life has ended prior to this date, no unused capital allowances can be carried forward to 2015.

Domicile Levy – The "citizenship" condition for payment of the levy is being removed.

Pensions – The deemed distribution rate in respect of ARF asset values is being increased from 5% to 6%.

The tax relief on pension contributions will remain at the marginal rate of tax. But the Minister confirmed that the area is under review.

Universal Social Charge

The low level threshold from which income is exempt is to be increased from €4,004 to €10,036. The collection of the USC is to move to a cumulative system to avoid large underpayments at the year end.

PRSI

The 50% relief from employers PRSI on employee pensions is to be removed.

PRSI will also be chargeable on PAYE employees who are in receipt of non PAYE income, e.g. Rental Income, Dividends etc. As the mechanism for collecting this additional charge requires more time the changes will not come into force until 2013.

Corporate Taxes

The Minister confirmed the Government's commitment to maintaining Ireland's 12.5% rate of corporation tax on trading income. From a business perspective the Budget contained a number of initiatives to prompt business and job creation.

Job Incentives - A Special Assignee Relief Programme is to be introduced which will allow multinational and indigenous companies to attract key people to Ireland so as to encourage job creation and expansion of businesses in Ireland.

A Foreign Earning Deduction scheme is to be introduced to those who spend at least 60 days per year outside the State promoting Irish business exports to BRICS countries (Brazil, Russia, India, China and South Africa).

Start-Up Companies exemption – The 3 year exemption for start-up companies from corporation tax on trading income is to be extended for new trades commencing in 2012, 2013 or 2014.

R&D tax credit – The research and development tax credit is being amended so that the first €100,000 of qualifying expenditure will be allowable on a volume basis.

In addition the current outsourcing rules for R&D tax credits are to be amended. The limits will now be the greater of 5%/10% of the outsourced expenditure or €100,000.

Finally, some of the tax credit will be available to be utilised to reward key employees.

Capital Allowances and Tax Incentive Schemes - Renewable energy generation the qualifying period for the scheme of tax relief for corporate investment in renewable energy projects is being extended to 31 December 2014.

Redundancy Rebate – Prior to the Budget it was highlighted that this scheme was under review particularly, following some high profile cases, a business shuts down operations in Ireland, claims a rebate under the scheme and subsequently relocates its operations

in another jurisdiction. However, the proposed changes have wider implications. For redundancies after the 31st December 2011, the rebate which the employer can reclaim from the State is being reduced from 60% to 15%.

INDIRECT TAXES

Value Added Tax
The standard rate of VAT is to be increased from 21% to 23% from the 1st January 2012. The reduced rates of 13.5% and 9% will remain unchanged.

Capital Gains Tax
The rate of tax is to increase from the 6th December 2011 to 30%.

To stimulate the commercial property market, a new incentive relief is being introduced for the first seven years of ownership. If a commercial property is purchased between the 7th December 2011 and the end of 2013, then any gains accruing in the first seven years will be exempt from Capital Gains Tax.

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Capital Acquisitions Tax
The rate of tax is to increase from the 6th December 2011 to 30%. In addition, the Group A tax-free threshold (gifts/inheritance from parents to children) is to be reduced to €250,000.

Stamp Duty
The rate of duty applicable to commercial property is to be reduced from 6% to 2% from 6th December 2011.

Consanguinity relief on the transfer of non-residential properties is to be retained for intra-family transfers to the end of 2014 and will be abolished after 1st January 2015.

Excise Duties/Motor Tax
Excise duty on a packet of 20 cigarettes is being increased by 25 cent.

The carbon tax will increase by €5 to €20 per tonne on fossil fuels. The increase on home heating fuels will not come into effect until 1st May 2012.

The rate of motor tax for vehicles registered prior to 2008 will be increased by 7.5%. Motor vehicles registered after 2008 and subject to the new CO2 Bands will generally also see a similar increase. However vehicles in the A and B categories will see increases of 54% and 44% respectively. These changes will come into effect from 1st January 2012.

If you require any further information on any of the issues contained in Budget 2012 please contact a either Niall Grant or Nicola Foster

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