

## Tuesday 6 December 2011

### Personal Tax

- USC exemption threshold increased
- Mortgage interest relief increased and extended
- New 5% property relief surcharge
- Claw-back of accelerated capital allowances from 2015
- DIRT rates increased
- Domicile levy amended
- PRSI on rental and investment income from 2013

### Pensions

- Annual imputed distribution on ARFs increased
- Income tax on ARF transfers on death to children increased to 30%
- Employer PRSI relief on employee contributions removed

### Business Tax

- No change in the 12.5% corporation tax rate
- Corporation tax exemption for "start-ups" extended
- R&D tax credit regime improved and amended
- Special Assignee Relief Programme announced
- New foreign earnings deduction for certain assignments

### Capital Taxes/ Stamp Duty

- CAT rate increased to 30%
- Parent to child CAT exempt threshold reduced
- CGT rate increased to 30%
- New seven year CGT exemption regime announced
- Stamp duty on non-residential property reduced to 2%
- Annual €100 household levy introduced

### VAT

- Standard rate increased to 23%

### Carbon Tax

- Increased by €5 to €20 per tonne - increase not applicable to solid fuels

### VRT

- No changes proposed until 1 January 2013

### Excise Duty

- Increase of 25 cent on pack of 20 cigarettes

## PERSONAL TAXATION

<b>Personal Tax Credits, Bands and Rates</b>		
	<b>2012</b>	<b>2011</b>
	<b>€</b>	<b>€</b>
<b>PERSONAL TAX CREDITS</b>		
Single	1,650	1,650
Married	3,300	3,300
PAYE	1,650	1,650
<b>AGE EXEMPTION LIMITS (aged 65 and over)</b>		
Single	18,000	18,000
Married	36,000	36,000
<b>20% STANDARD RATE TAX BANDS</b>		
Single	32,800	32,800
Married one income	41,800	41,800
Married two incomes	65,600	65,600

41% higher tax rate remains.

### PRSI Rates

PRSI	2012		2011	
	Employee	Self Employed	Employee	Self Employed
	4%	4%	4%	4%

### Universal Social Charge (USC)

The exemption threshold for the USC has been increased from €4,004 to €10,036. The remaining rates and thresholds are unchanged. It will now be collected on a cumulative basis.

Income	Universal Social Charge
From €0 - €10,036	2%
From €10,037 - €16,016	4%
Over €16,016	7%

A 10% rate applies to self-employed income over €100,000.

### Property-Based Reliefs

Significant changes are proposed to the abolition and restrictions of property-based reliefs originally announced in Budget 2011. With effect from 1 January 2012, a surcharge will be introduced on individuals with gross income over €100,000 in respect of all property-based reliefs (i.e. Section 23-type relief and accelerated capital allowances). The surcharge will apply at a rate of 5% on the amount of income sheltered by property-based reliefs in the particular year.

All unclaimed and unused accelerated capital allowances will no longer be available for use beyond the tax life of the building where that tax life ends after 1 January 2015. Where the tax life of a building ceases prior to 1 January 2015 no carry forward of allowances will be permitted after 1 January 2015.

### DIRT & Exit Taxes

30% on annual deposit interest and 33% for certain other investment products.

### Mortgage Interest Relief

It is proposed to increase mortgage interest relief to 30% for first time buyers of properties between 2004 and 2008.

Mortgage interest relief will no longer be available for house purchases after the end of 2012. For 2012, first time buyers will obtain interest relief at 25% whereas, non first time buyers will obtain interest relief at 15%.

### Domicile Levy

The condition to be a citizen of Ireland to be liable to Irish domicile levy of €200,000 is being removed.

## PENSIONS

The annual rate of imputed income distribution which applies to the value of assets in an Approved Retirement Fund at 31 December each year to be increased from 5% to 6% at 31 December 2012 and future years, only in cases where the aggregate value of the assets held in the ARF are in excess of €2 million.

A similar regime will now also apply to "vested" PRSAs.

The transfer of ARF assets on the death of an ARF owner to a child of the owner aged over 21 is subject to tax at a rate of 20%. This tax rate will be increased to 30%.

The current 50% employer PRSI exemption for employee contributions to pension schemes is being abolished.

## BUSINESS TAXATION

### **Corporation Tax Rate**

No change to the 12.5% corporation tax rate.

### **Extension of 3 year Tax Exemption for Start-up Companies**

The current scheme is extended to new companies commencing a new trade in 2012, 2013 and 2014.

### **Changes to R&D tax credit**

The first €100,000 of qualifying R&D expenditure will qualify for the 25% R&D tax credit on a volume basis. Credit will continue to apply to incremental expenditure in excess of €100,000 compared to such expenditure in the base year 2003.

Relief for outsourced R&D work increased to the greater of 5%/10% or €100,000.

Companies will have the option to use a portion of the credit to remunerate key employees involved in the development of R&D.

### **Renewable energy generation**

The scheme of tax relief for corporate investment in certain renewable energy projects is being extended for 3 more years to the end of 2014.

### **Measures to promote international trade**

Multinational and indigenous companies can avail of a "Special Assignee Relief Programme" aimed at attracting key people to work in Ireland.

A foreign earnings deduction will apply to individuals spending 60 days a year developing markets for Ireland in Brazil, Russia, India, China or South Africa.

Measures to be introduced to support the international funds industry, the corporate treasury sector, the international insurance industry and the aircraft leasing industry.

### **Redundancy rebates**

Rebates for employers on payments of statutory redundancy reduced from 60% to 15% with effect from 1 January 2012.

### **Rent reductions for NAMA properties**

Tenants in commercial properties, in respect of which NAMA has acquired the underlying loan, may be able to avail of rent reductions if it can be shown that the rents are in excess of current market levels and threaten the viability of the tenant's business. This will apply only to business leases entered into before 28 February 2010.

## VAT AND CAPITAL TAXES

### **VAT**

From 1 January 2012 the standard rate of VAT will increase from 21% to 23%.

Unregistered farmers will be entitled to a refund of VAT on the purchase of wind turbines from 1 January 2012.

### **Stamp Duty**

The existing rates of stamp duty on non-residential property will be replaced by a flat rate of 2% for instruments signed after 6 December 2011.

### **Household charge**

A household charge of €100 will apply to most residential properties from 1 January 2012. This will be replaced by a property tax in 2014.

### **Capital Acquisitions Tax**

From 7 December 2011 the rate of capital acquisitions tax will increase from 25% to 30%.

The exemption threshold between parent and child (Group A) is reduced from €332,084 to €250,000 from 7 December 2011.

### **Capital Gains Tax**

From 7 December 2011 the rate of capital gains tax will increase from 25% to 30%.

A new relief is being introduced whereby any gains accruing during the first seven years on properties acquired between midnight 6 December 2011 and 31 December 2013 will be exempt from capital gains tax, provided those properties are held for seven years or more.

Retirement relief on farm transfers will be amended. The unlimited relief on intra-family transfers will continue to apply up to age 66. Thereafter, the relief will only apply up to €3 million. Where farm assets are transferred outside the family the existing threshold of €750,000 will be reduced to €500,000 if the farmer is aged 66 or more. Transitional relief will apply to certain individuals.

## VAT AND CAPITAL TAXES (CONTINUED)

### **Excise Duty, Carbon Tax and VRT**

From midnight 6 December 2011 the rates of excise duty on tobacco, petrol and diesel will increase.

Carbon tax on fossil fuels will also increase by €5 per tonne from midnight 6 December 2011.

From 1 January 2012 the rates of motor tax will increase.

The manner in which VRT and motor tax is charged is being reviewed with a view to implementing a new system from 1 January 2013.

A betting intermediaries' duty will be introduced to cover betting exchanges. Betting duty will also be extended to include remote betting.

## ECONOMIC OVERVIEW

Predictably, Mr Noonan's Budget indicates substantial indirect and capital tax increases in 2012. The Budget changes are targeted to increase tax revenues in 2012 by €1,650 million.

Separately, on Monday the government announced public expenditure (current and capital) reductions in 2012 of €1,548 million (€2,150 million in a full year). More generally, the Exchequer balance (on a like for like basis) is expected to fall by €2,706 million in 2012.

The Budget measures still severely constrain the capacity of the Irish economy to grow. With GDP growth in 2011 expected at 1%, even this modest increase may not be improved on in 2012, when the Minister is suggesting GDP growth might rise to 1.3%.

On the positive side, there is clear evidence the Exchequer is starting to regain control of the Budget deficit. The deficit is expected to be reduced to 8.6% in 2012.

It is useful to reflect on the history of the deficit to GDP ratio over the last four years:

	%
<b>2008</b>	<b>7.1</b>
<b>2009</b>	<b>14.3</b>
<b>2010</b>	<b>12.2</b>
<b>2011</b>	<b>10.1</b>
<b>2012 (Budgeted)</b>	<b>8.6</b>

With a target of 3% in 2015, the government is on the way towards appropriate budgetary control. In the longer term, this trend should allow the economy to regain momentum within three years. In the interim, the Irish economy has to endure some further pain.



*10 minutes from the M50 motorway*

Berkeley House, Ballybin Road, Ashbourne, County Meath.

Suite 14, The Cubes Offices, Beacon South Quarter, Sandyford, Dublin 18

Lo-Call - 1850 812 500

Tel: 01 - 849 8800 Fax: 01 - 849 8801 Email: [info@dbass.ie](mailto:info@dbass.ie) Web: [www.dbass.ie](http://www.dbass.ie)



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