

E-News Budget Special



This newsletter is a special edition and covers the proposed changes to the Irish tax system following the Government's Supplemental Budget of the 7th April 2009.

Given that the details of the changes announced in the Minister's speech will only be available in the Finance Bill, we have set out a brief summary of the measures which we trust will be useful.

INCOME TAX PROPOSED CHANGES (Effective from 1st May 2009)

Income Levy

The Minister announced that the scope for income tax changes occurring mid way through the income tax year is limited and in order to raise the necessary revenues, he proposed doubling the income levy and reducing the entry points for each rate as follows:

	Existing	Proposed
Income Levy	€	€
Exemption Threshold (under 65)	18,304	15,028
Middle Rate Threshold	100,100	75,036
Higher Rate Threshold	250,120	174,980
Lower Rate	1%	2%
Middle Rate	2%	4%
Higher Rate	3%	6%

Health Levy

The health levy rates have increased to 4% and 5%. The 5% rate applies to income in excess of €75,036 as set out in the table:

	Existing	Proposed
Health levy	%	%
Lower Rate (entry threshold €26,000 per annum/ €500 per week)	2.0%	4.0%
Higher Rate	2.5%	5.0%
Higher Rate Threshold	€100,100	€75,036

PRSI Ceiling

The PRSI ceiling for employees has increased to €75,036 as follows:

	Existing	Proposed
PRSI @ 4%	€	€
PRSI Ceiling	52,000	75,036

Mortgage Interest Relief

Mortgage Interest relief will only be available now for the first seven tax years from the date on which a mortgage is taken out. This means that any taxpayer who has received mortgage interest relief for more than 7 tax periods will no longer be eligible for such relief from 1 May 2009.

Example

John, who is married, took out a mortgage for the purchase of his family home in 2001 for €350,000. On 1 September 2009 the balance remaining is €150,000 at which stage John re-mortgages for €250,000 repaying the existing balance and funding an extension costing €100,000. John gets tax relief on the interest paid on the original mortgage for the tax periods from 2001 until 30 April 2009 at which stage the relief will cease as a result of the changes announced in this Budget as it has been claimed for 7 tax periods. He will however get tax relief on the interest paid on the new 'top-up' element of €100,000 for the 7 years, 2009 – 2015 inclusive.

Restriction in Interest Relief on Rented Residential Property

The amount of interest charged on residential mortgages that can be claimed against tax has been reduced from 100% to 75%. This measure will apply to both new and existing mortgages. Commercial properties are not affected.

For the tax year 2009, the interest deduction will be restricted on a pro-rata basis from 1st May 2009.

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

The rates of Deposit Interest Retention Tax is being increased to 25% from midnight on 7th April 2009. The exemptions from DIRT that currently apply continue to apply post 7th April 2009.

A new levy on life assurance premiums of 1% is being introduced for premiums received by an insurer on or after 1st June 2

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renewals and offers of insurance from midnight on 7th April 2009 where premiums are received by the insurer on or after the 1st June 2009.

CAPITAL GAINS TAX

Change in Rate of Tax

The rate of capital gains tax is being increased from 22% to 25% in respect of disposals made from midnight on 7 April 2009. This new rate applies to disposals of land provided it is held as an investment asset.

CAPITAL ACQUISITIONS TAX

Change in Rate of Tax

The rate of gift/inheritance tax is being increased from 22% to 25% in respect of gifts or inheritances made from midnight on 7 April 2009.

Reduction in Threshold

The gift/inheritance tax thresholds are to be reduced by 20%, effective from midnight on 7 April 2009.

	Threshold to 7 April 09	Threshold from 8 April 09
Group A: Parent to child	€542,544	€434,000
Group B: Between related persons	€54,254	€43,400
Group C: Between non-related persons	€27,127	€21,700

CAPITAL ALLOWANCES

Intellectual Property

There will be a new tax relief on capital expenditure incurred on the acquisition of Intellectual Property. The details will be contained in the Finance Bill.

Private Hospitals & Nursing Homes

Capital allowances to investors in and operators of Nursing Homes and Hospitals will cease to apply. Transitional arrangements will be put in place for projects that are at an advanced stage of development. The Finance Bill will contain further details on this measure.

DEVELOPMENT LAND

Income and losses from dealing in residential development land.

Rate

The special 20% income tax rate which applied to trading profits from dealing in or developing residential development land is being abolished. The income will be charged at the person's relevant marginal rates of income tax i.e. in some cases up to 41% or the 25% rate of corporation tax in the case of companies. This change will apply as regards Income Tax for the year of assessment 2009 and subsequent years and as regards Corporation Tax for accounting periods ending on or after 1 January 2009 (with accounting periods straddling that date being deemed for this purpose to be separate accounting periods).

Losses

Where trading losses have been incurred from dealing in or developing residential development land in circumstances where, if trading profits had been made, they would have been eligible to be taxed at 20%, and a claim to use those losses has not been made to and received by

the Revenue Commissioners before 7 April 2009, the losses from today will generally only be relievable (on a value basis) up to a maximum of 20%.

STAMP DUTY

A Stamp Duty "trade-in" scheme has been announced, under which no stamp duty is payable by a person who accepts a traded-in property in exchange or part exchange for a new house/apartment. Stamp Duty will apply when the person subsequently sells on the 'swapped'/traded-in house. Full details will appear in the Finance Bill.

EXCISES

Tobacco Excise

The Excise Duty on a packet of 20 cigarettes is being increased by 25 cents (including VAT) with a pro-rata increase on other tobacco products, with effect from midnight on 7 April 2009.

Increase in Mineral Oil Tax on Auto-Diesel

The mineral oil tax on auto-diesel will increase by 5 cent per litre (including VAT) with effect from 7 April 2009.

VAT

Introduction of VAT Margin Scheme for second-hand cars

A new scheme has been introduced for car dealers whereby they will be taxed on their margin in respect of cars acquired and resold after 1 July 2009.

Second-hand cars acquired before 1 July 2009 and resold after that date will be taxed on the resale price. However, where such a second-hand car is resold before 31 December 2009 the payment of the VAT due on the resale price of the car may be spread in equal amounts over the following three VAT periods. It will not be possible to write off the VAT input credit dealers have already received when the second-hand cars were purchased. Further details to be provided in the Finance Bill.

Other Key Measures

- Early Childcare Supplement (ECS) to be halved with effect from 1st May 2009 and abolished at the end of 2009.
- ECS will be replaced by Early Childhood and Education Scheme for all children between 3.25 years and 4.5 years. A capitation grant will be payable to service providers who provide free pre-school services.
- An Enterprise Stabilisation Fund is being set up by the Government to support indigenous industry. The fund with a budget of €100m over 2 years will be administered by Enterprise Ireland. The companies targeted will be small and medium sized firms engaged in exporting.
- The Government have also announced plans to set up a semi-State entity under the direction and management of the NTMA to purchase certain loans from a number of financial institutions. It is anticipated that between €80-€90 billion in assets will be transferred to this new agency.
- In relation to future budgets the Minister has mentioned that the following areas are to be reviewed (Child Benefit, Property Tax and the pension lump sums).