

INTRODUCTION

Welcome to our 2011 Budget Summary Newsletter which summarises the key tax measures outlined by the Minister for Finance on the 7th December. The content of the Budget covered expenditure cuts and taxation measures which are outlined below in detail. For further information please contact our offices at 021 4509380 or 051 850728.

INCOME TAX

INCOME TAX CREDITS

	2010 €	2011 €
Personal Tax Credits:		
One Parent Family (Additional)	1,830	1,650
Single Person	1,830	1,650
Married Couple	3,660	3,300
Widowed person bereaved in year of assessment	3,660	3,300
Widowed Parent		
- first year after bereavement	4,000	3,600
- second year after bereavement	3,500	3,150
- third year after bereavement	3,000	2,700
- fourth year after bereavement	2,500	2,250
- fifth year after bereavement	2,000	1,800
Additional Credit for certain Widowed Persons	600	540
Incapacitated Child Credit	3,660	3,300
Blind Person	1,830	1,650
Both Spouses Blind	3,660	3,300
Age Credit:		
Single/Widowed	325	245
Married	650	490
PAYE Credit	1,830	1,650
Home Carers Credit	900	810
Dependent Relative Tax Credit	80	70

STANDARD RATE BANDS

Tax Year	Rate	Single / Widowed	Married Couples One Income	Married Couples Two Incomes*	One Parent Family
2010	20%	36,400	45,400	72,800	40,400
	41%	Balance	Balance	Balance	Balance
2011	20%	32,800	41,800	65,600	36,800
	41%	Balance	Balance	Balance	Balance

*With a maximum transferability between spouses of €45,400 in 2010 and €41,800 in 2011.

AGE EXEMPTION

Income Tax Exemption Limits for over 65	2010 €	2011 €
Single	20,000	18,000
Married	40,000	36,000

UNIVERSAL SOCIAL CHARGE

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:

Universal Social Charge	Proposed 2011 %
< €4,004	0%
€0 - €10,036	2%
€10,037 - €16,016	4%
> €16,016	7%

For comparative purposes we have provided the 2010 Health & Income Levy rates overleaf.

HEALTH LEVY

HEALTH LEVY	2010
Lower Rate (entry threshold €26,000 p.a. / €500 p.w.)	4.0%
Higher Rate	5.0%
Higher Rate Threshold	€75,036

INCOME LEVY

INCOME LEVY	2010
Exemption Threshold (under 65)	15,028
Middle Rate Threshold	75,036
Higher Rate Threshold	174,980
Lower Rate	2%
Middle Rate	4%
Higher Rate	6%

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

BUSINESS EXPANSION SCHEME (BES)

The Minister has indicated that it is necessary that schemes like the BES are targeted and evaluated against jobs created or retained. Accordingly, the BES is to be revamped and renamed as the *Employment and Investment Incentive*. This incentive will come into operation once the necessary approval from the European Commission has been received. In the meantime, the existing scheme will continue to operate.

Under the new incentive, the limit that can be raised by companies will be increased from €2 million to €10 million and the amount that can be raised in any twelve-month period will be increased from €1.5 million to €2.5 million. In addition, the certification requirements will be simplified. The new incentive will expire on 31 December 2013.

RELIEF FOR ENERGY EFFICIENCY MEASURES

Introduction of new scheme to encourage individuals to make their homes more energy efficient – relief to be given up 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 CERTAIN TAX CREDITS AND RELIEFS

- Rent Credit is to be phased out over the next 8 years in line with the phase out of Mortgage Interest Relief
- Tax Relief for Trade Union Subscriptions is to be abolished from 1 January
- Tax Relief on Loans to acquire an interest in certain companies is to be abolished from 1 January 2011
- Tax Relief for subscriptions to professional bodies will be abolished from 1st January
- Abolition of the tax exemption from BIK for Employer Provided Childcare

- Abolition of Tax relief for new shares purchased by employees
- The exemption from Income Tax for patent royalty income has been abolished from the date of the launch of the National Recovery Plan on 24 November 2010

PHASED ABOLITION OF PROPERTY-BASED 'LEGACY' RELIEFS

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

Section 23 Relief

- From 1 January 2011, this will be restricted to income from the Section 23 property itself (currently such income can be set against rental income)
- At the end of the 10 year holding period, any unused relief will be lost. If the 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 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

Capital Allowances for passive investors

- With effect from Budget day, any unused capital allowances carried forward beyond the 7 year period within which the allowances are made will be lost as follows: 7-year period – 7 year schemes; 10-year period – 10 year schemes
- From 2011 onwards, capital allowances will be restricted to offset against income from the property which gave rise to them, whether rental or trading income, with no setting sideways against any other form of income
- Schemes with a period over 10 years which has not ended will be truncated to 7 years from when the allowances are first made
- Capital allowances limited by truncation will be reduced by 20% and may be made evenly in the year of assessment 2011 and all subsequent years of assessment up to and including the 7th year after the allowance was first made

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

The following restrictions have also been introduced effective from 1 January 2011 unless otherwise stated:

- 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 the marginal rate
- Ceiling of €40,000 on the tax exempt earnings of artists
- Charge to the Health and Income Levy (USC) on Approved Profit Sharing Schemes
- Charge to the Health and Income Levy (USC) on Approved Save-As-You-Earn Schemes
- Charge to the Health Levy (USC) on Unapproved Share Options
- Charge to the Health Levy (USC) on Share Awards
- Introduction of a charge to PRSI on Approved Profit Sharing Schemes
- Introduction of a charge to PRSI on Approved Save-As-You-Earn Schemes
- Introduction of a charge to PRSI on Unapproved Share Options
- Introduction of a charge to PRSI on Share Awards

PRSI

- 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 2 years subject to clearance with the European Commission under State Aid rules.

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 also be legislated for in the Social Welfare Bill.

Contribution limit

The annual earnings limit which (along with age-related percentage limits) 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 (known as the Standard Fund Threshold (SFT), is to be set at €2.3 million with effect from 7 December 2010. A higher threshold may apply if, on 7 December 2010, the capital value of an individual's pension rights drawn down on or after 7 December 2005 (i.e. crystallised pension rights) when added to any uncrystallised pension rights the individual may have, as valued on 7 December 2010, are greater than €2.3 million and lower than €5,418,085 which is the current value of the SFT.

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 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 the standard income tax rate (currently 20%) 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.

Tax-free retirement lump sums taken on or after 7 December 2005 will count towards "using up" the new tax free amount so that if an individual has already taken tax free retirement lump sums of €200,000 or more since 7 December 2005, any further retirement lump sums paid to the individual on or after 1 January 2011 will be taxable. These earlier lump sums will also count towards determining how much of a lump sum paid on or after Budget day is to be charged at the standard or marginal tax rate. These changes take effect from 1 January 2011.

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. The flexible options will be provided for in the Finance Bill. Pending the passing of the Finance Bill, the option introduced in December 2008 to allow the deferral of annuity purchase on retirement for defined contribution scheme members is to be extended by the Revenue Commissioners.

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 employer's PRSI paid by a company in an accounting period subject to a maximum of €5,000 per employee. If the amount of qualifying employer's PRSI is lower than the reduction in corporation tax liability 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 to end 2014

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% 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

There has been a major overhaul of stamp duty for transfers of residential property. With effect from 8 December 2010 transfers of residential property valued at up to €1m will be subject to stamp duty at a rate of 1%, with a 2% rate applying to amounts over €1m. A number of reliefs and exemptions have been abolished with effect from 8th December 2010 including the following:

- First Time Buyer Relief
- Exemption for new houses under 125sqm in size
- Relief on new houses over 125sqm in size
- Consanguinity Relief for residential property transfers
- Exemption for residential property transfer valued under €127,000
- Site to child relief

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.

Group Threshold	Relationship to Disponer	Group Threshold to 7 December 2010	Group Threshold from midnight 7 December
A	Son/Daughter	€414,799	€331,839
B	Parent*/Brother/Sister/Niece/Nephew/Grandchild	€41,481	€33,185
C	Relationship other than Group A or B	€20,740	€16,592

*In certain circumstances a parent taking an inheritance from a child can qualify for Group A threshold.