



## INTRODUCTION

In providing you with an update of Budget 2012 we are also taking the opportunity to remind all of our clients and contacts that we have moved the location of both our Cork & Waterford offices recently. Our Cork office is now located at The Coach House, Dundanion, Blackrock, Cork and our Waterford office has recently located to Gladstone House, 50 The Quay, Waterford. We would be obliged if you could update your records as follows:

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## Budget 2012

The 2012 Budget was rolled out over two days. The focus of this Newsletter will be on part two which contains the taxation measures however we have also included a brief summary of the part one changes relating to the Government's spending plans.

### Part one - Spending Measures

On 5th December, Minister for Public Expenditure Brendan Howlin outlined the Government's spending plans in part one of Budget 2012. Below are the main points:

- Reduction in child benefit will save €45m. Payment for third child cut to €148 per month, with fourth and subsequent children down to €160 per month.
- A shorter fuel allowance season - moving from 32 to 26 weeks - saving €51m.
- Back to school allowance for two and three-year-olds is abolished saving €30m.
- Public service payroll savings - 10% in overtime and 5% in allowances.
- No reduction in weekly social welfare payments.
- Jobseekers' benefit will be based on a five-day week, instead of a six day week, saving €5.9m.
- Changes to the one-parent family payment will save €20.7m and the age limit of the youngest child for receipt of payment reduces to seven by 2014.
- Weekly carer's allowance and carer's benefit rates will not change.
- Third-level student registration fees will rise by €250, securing savings of €18.5m.
- Changes to fee and maintenance support for new postgraduate students, and reducing maintenance grants generally, will deliver savings of €12.6m.
- Cutting employer redundancy rebate from 60% to 15% will save €81m.

- The monthly threshold for the Drug Payment Scheme will jump from €120 to €132, saving €12m
- €50m will be saved by securing efficiencies of 2% in disability, mental health and children's services.
- A €20m allocation will be made for a new Labour Market Activation Fund which will be specifically targeted at the long-term unemployed, delivering upward of 6,500 places.

## Part two – Taxation Measures

### INCOME TAX

There will be no changes to the current income tax credits, standard rate cut off points, income tax rates or PRSI rates. So for most individuals there should be no change in net pay post Budget.

### UNIVERSAL SOCIAL CHARGE (USC)

The exemption threshold for the USC is to be increased from €4,004 to €10,036.

### RELIEFS AND EXEMPTIONS

#### Mortgage Interest Relief

Mortgage Interest Relief is increased to 30% for First-Time Buyers that purchased properties between 2004 and 2008. Current rates of Mortgage Interest Relief will be extended to First-Time Buyers (25%) and Non-First-time Buyers (15%) in 2012.

#### Foreign Earnings Deduction

A Foreign Earnings Deduction is to be introduced for temporary assignments (60 days) to BRICS countries – Brazil, Russia, India, China, South Africa and other countries.

### 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 is to be retained for intra-family transfers to the end of 2014. It will be abolished after 1 January 2015.

### 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 (from ten times to 7.5 times the Group B threshold). 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. This measure comes into effect after 6 December 2011.

### CAPITAL ALLOWANCES & 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 from 31 December 2011 to 31 December 2014. The purpose of the scheme is to encourage investment in renewable energy projects and to facilitate the growth of electricity generation capacity using these sources.

To qualify for the relief the energy project must be approved by the Minister and be in one of the following categories of technology: Solar, Wind, Hydro (including ocean, wave or tidal energy) and Biomass.

## 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.

## HOUSEHOLD CHARGE

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

## DOMICILE LEVY

The “citizenship” condition for payment of the domicile levy is being removed. This will broaden the base for the levy and make it more difficult to avoid. 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

Increase in standard VAT rate from 21% to 23%

The standard rate of VAT will be increased by 2 percentage points from 21% to 23% with effect from 1 January 2012. This increase will apply to all goods and services which are currently subject to VAT at 21%.

## EXCISES

### Carbon Tax

There will be an increase to petrol and auto-diesel with effect from midnight, 6 December 2011, as a result of carbon tax being increased by €5 to €20 per tonne on fossil fuels.

### Betting Duty

The Betting (Amendment) Bill, which is now at an advanced stage of drafting, will facilitate the extension of the betting duty of 1% to remote betting and the introduction of a betting intermediaries' duty (Gross Profits Tax of 15%) to cover betting exchanges.

### Vehicle Registration Tax (VRT) and Motor Tax - Public Consultation

It is planned to review the current CO2 bands and rates structures in line with technological advances in motor vehicles. A public consultation will be undertaken in this regard with a view to adjusting the bands with effect from a target date of 1 January 2013. Submissions are invited from interested parties by 1 March 2012.

## Motor Tax

Motor Tax rates across all categories will increase with effect from 1 January 2012. Details on the increase can be found at [www.finance.gov.ie](http://www.finance.gov.ie)

## CORPORATION TAX

### Employment & Investment Incentive (EII)

The Employment & Investment Incentive is in operation since 25 November 2011. This incentive assists in raising capital for firms operating in more sectors of the economy than was previously allowed under the Business Expansion Scheme.

### 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

A number of changes are being made to the R&D tax credit scheme as follows:

#### Volume basis:

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.

#### Outsourcing limits

At present sub-contracted R&D costs are eligible where they do not exceed 10% of total costs or 5% in the case of sub-contracting to third level institutions. This limit can disproportionately affect smaller companies who may have greater need to outsource R&D work than larger multinationals with greater internal resources. The outsourcing limits for sub-contracted R&D costs are being increased to the greater of 5 or 10% as appropriate or €100k.

#### Use of the credit to reward R&D employees

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

### 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 bringing it into line with the increased CAT rate.

#### **Personal Retirement Savings Accounts (PRSAs)**

Vested PRSAs i.e. usually those where a tax-free retirement lump sum has been drawn but the assets remain in the PRSA will now be subject to the same imputed distribution provisions which apply to ARFs. This will include an increased deemed distribution rate of 6% for vested PRSAs with assets in excess of €2 million at 31.12.2012. The same aggregation rules as ARFs will apply to Vested PRSAs.

### **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 will incentivise 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.)

#### **Extension of the existing VAT Refund Order for flat-rate farmers to include a refund 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. This change is part of a series of measures aimed at assisting and promoting the farming community.