

# Budget 2012

## Moving in the right direction

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# Introduction



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The Budget follows three other major announcements in recent weeks – The Medium Term Fiscal Statement, The Medium Term Exchequer Investment Framework and The Public Service Reform Announcements. Thus the Budget becomes the final part of the strategy for 2012 as the Government endeavours to meet the need to reduce the Budget deficit in 2012 to 8.6%.

The Budget achieves a reasonable balance between incentivisation and revenue raising measures. However, the revenue target for indirect taxes in the context of the impact of a 23% VAT rate will be challenging to achieve as consumer confidence remains fragile.

The focus on kick starting the property sector should pay dividends in the near term whilst the capital tax and 'savings' taxation increases are appropriately measured.

The reaffirmation of our commitment to the 12.5% rate coupled with the proposed improvement of our tax regime for expatriates underlines Ireland as being very much open for business in an FDI context.

The enhancement of our R&D tax credit regime, and a new foreign earnings deduction for employees of export orientated companies should help the indigenous sector.

The willingness of the minister to engage in further consultation in relation to pensions is a good illustration of the current modus operandi of this Government; an openness to new ideas and a willingness to engage with relevant stakeholders.

Clearly, more needs to be done. Further enhancements to our tax regime can assist our FDI positioning and underpin a recovery in the domestic economy. However, a good platform is now in place which can be added to in the Finance Bill.

In particular, Ireland is now very well positioned to attract high talent and capital intensive investments. The IMD World Competitiveness Yearbook 2011 now ranks us No. 1 globally as regards the availability of skilled labour. We have an opportunity to convert what is currently a liability (in the form of welfare payments) into an asset (job creation) in the near term.

I hope you find our commentary and analysis helpful to you and your business.

If you have any queries on any aspect of the Budget commentary or analysis please feel free to contact any of the authors or your usual Deloitte contact.

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## At a glance

### Income Tax, PRSI and USC

- Tax rates and credits remain unchanged for 2012
- Lower income threshold for USC raised from €4,004 to €10,036
- Mortgage interest improved for first time buyers in the years 2004 to 2008 and current relief extended to 2012 for all new buyers in 2012
- Introduction of a Special Assignee Relief Programme
- Introduction of a Foreign Earnings Deduction for temporary assignments to BRICS countries
- DIRT rate increased from 27% to 30%
- Property Relief surcharge of 5% where investors gross income exceeds €100,000

### Corporation Tax

- No change in rates
- Start up company relief to be extended by a further three years
- R&D credit regime being improved – particularly for small businesses

### Farmer Taxation

- Enhanced stock relief of 50% (or 100% for certain young trained farmers) until 2015
- Improved CGT regime to encourage intra-family transfers for individuals aged 55 to 66 years
- VAT refunds to be available to flat-rate farmers on the construction of windfarms

### Capital Gains tax

- Rate increased to 30%
- No capital gains tax payable for first 7 years of ownership on assets acquired up to end of 2013 and held for more than 7 years

### Capital Acquisitions Tax

- Rate increased to 30%
- Class A threshold (generally applicable to children) reduced to €250,000

### Value Added Tax

- Rate increased to 23% from 1 January, 2012
- Rate of tax on district heating reduced from 23% to 13.5%
- 9% rate to apply to admission to Open Farms

### Stamp Duties

- Rate of charge reduced to 2% for all commercial property transactions

### Other taxes and duties

- New €100 household charge with exemptions for low income families
- Motor taxes increased
- Cigarettes increased by 25c per packet of 20



# Executive Summary



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After the messaging delivered by the Government over the last few weeks, we feared the worst had yet to come. However, today's budget statement was somewhat of a surprise, incentivising business and enterprise whilst balancing this with reasonable revenue raising measures.

## Business/Enterprise

The maintaining of the present corporate tax rate is a positive message to the international and domestic community alike that Ireland is open for business.

The introduction of the Special Assignee Relief Programme, the Foreign Earnings Deduction, the package of measures designed to support the continued success of the financial services industry in Ireland, the enhancement of the R&D credit regime and the extension of the corporation tax exemption for start up companies are all aimed at incentivising job creation and encouraging enterprise both in terms of domestic business and businesses expanding into new markets. Such measures are essential to build confidence in the economy and to drive growth.

## Individuals

In a move to provide certainty and thus improve consumer confidence, the Minister confirmed that there would be no increase in income tax. Thus the income tax rates, bands and credits remain the same for 2012 as they are in 2011 – at a level which is equivalent to those in 2006. The exemption level for the Universal Social Charge has been increased to take approximately 330,000 low income and part time workers out of the tax net.

Much of this year's taxation measures are in the indirect tax area. This was indicated in the State of the Nation address on Sunday, and while Mr Kenny said that the Irish people were not responsible for the economic crisis, all the people of Ireland will be impacted by the tax changes announced today. This is inevitable where expenditure taxes are used to raise additional revenue.

The standard rate of VAT is being increased by 2% to 23% with effect from 1 January, 2012. This rate applies to a large basket of items which are essentials for many households, including the lower paid in our society. When you consider the increase in the price of petrol/diesel and heating oil, increases in motor tax – all non discretionary expenditure for many people and the increase in Deposit Interest Retention Tax by 3%, it is easy to see that everyone is impacted by these changes.

## Property

Several welcome measures were introduced to boost the property market, including a reduction in the stamp duty rate for commercial property to 2%, a capital gains tax incentive for property purchased between now and 2013 and increased mortgage interest relief for home buyers in 2012.

During the summer of 2011, the Government conducted an analysis on the impact of the abolishment/amendment of certain property reliefs as proposed in Budget 2011. Following representations from interested parties, the Government recognised that such changes would be more far reaching than anticipated and would impact on "ordinary people". While a property relief surcharge will instead be introduced for higher earners and accelerated capital allowance schemes are restricted, these changes will have a more limited application than the changes proposed last year.

## Capital taxation

Broadening the tax base in Ireland has been a recommendation of the Commission on Taxation for some time and became part of the deal reached with the Troika as part of the financial support package for Ireland. Thus the Government is bringing in a flat rate €100 charge per private residence/apartment which arises on 1 January each year. There will be some exemptions to this blanket charge.

The Government remains committed to a property tax based on values, which will be introduced in 2014.

The rates of capital gains tax and capital acquisitions tax have been increased from 25% to 30% and will apply to gains or gifts/inheritances made on or after 7 December 2011. This change had been expected although it had been anticipated that the rate would be higher.

With reducing property values, the Minister has only seen it appropriate to reduce the parent/child tax free thresholds for gifts and inheritances to €250,000 which brings it back to 1999 levels.

It is welcomed that the gift/inheritance tax reliefs available on the transfers of businesses and farms have not been reduced and that retirement relief from CGT will be extended to encourage early transfer. Overall, whilst increasing the tax cost of wealth transfer to the next generation, the approach has to be viewed as reasonable and measured.



## Indirect Taxes



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The well flagged increase of 2% in the standard rate of VAT has been formally announced. The Government's approach in increasing indirect tax rather than income tax cannot be faulted. While there is little doubt that consumers will be hard hit by this increase, at least psychologically they can be comforted that they are no worse off from a 'take home pay' perspective. This may also add to slightly higher consumer confidence as there is the perception, that, at least you have choice in regards to what you buy.

On the down side however, this VAT increase will hit much more than luxury goods and services to which the standard rate of VAT is perceived to apply. In fact, approximately 49% of all goods and services supplied in the market are liable to the standard rate of VAT. Many basic essentials such as clothing, soap and washing powder are liable to VAT at the standard rate, as are modern essentials such as telephones, texting and internet access. This will ensure that an increase in the standard rate of VAT will not go unnoticed in Ireland.

When you consider that the Government is counting on an increase in the VAT take off €620m in a full year, you begin to see the scope of its impact on people's spend. A further measure of its impact is that this alone will in fact increase the Consumer Price Index by 0.72% when passed on in full to the consumer. With many businesses still not in a position to absorb wage increases, this will place households under increasing pressure and may further depress consumer demand.

### Effect on business

On the positive side VAT is generally not a cost which sticks with most businesses. While there can be issues around transition to the new rate, which can produce costs for businesses, they can generally be managed in a way that the increased rate can be passed on to its customer without it producing a cost to the business itself. Ironically, however, there are notable exceptions in this case such as banks and financial institutions. While there will be little public sympathy for these institutions bearing extra costs, there is, nevertheless a downside for the borrowers from these institutions. These new costs, most likely under pressure from a regulator focussed on ensuring fiscal strength in the banks will have

to be recouped by the banks from the bank's customers with the indirect result that consumers will bear these costs.

The other types of business which can be adversely affected are those supplying to consumers or customers which cannot recover VAT and who cannot recoup the VAT increase by upping their prices due to market conditions. For these businesses the increase in VAT will put further pressure on an already tight margin.

### How are exports affected?

The one bright star in the economy, at present, is the level of exports from the country. In a depressed local market many Irish businesses have looked abroad for customers and done so successfully. If the Euro debt crisis could be decisively resolved, and with it the persistent uncertainty in the Irish banking system, there could be a huge bounce in confidence and optimism for the Irish economy in the new year.

The good news is that apart from other service businesses exporting to private consumers and other service companies which cannot recover all of their input tax - such as those supplying financial services - there will be minimal impact on exports arising from the VAT rate change. For these two specific categories of business, the rate change will go straight onto the price of services or reduce the businesses margin by €20 per €1,000 in sales or costs respectively.

### How do we compare after the change?

There are also some positives to be taken from the fact that, despite the increase in VAT rate, Ireland is not far off the average standard VAT rate of 20.6% across the EU. While its rate, after the change, will be the fourth highest in the EU, it shares that rate with Poland, Finland and Greece. Sweden, Denmark and Hungary have the highest rate of VAT at 25% followed by Romania with 24%.

### What's missing?

A somewhat surprising feature of the Budget was that in taking measures to stimulate the construction sector, the Government has not done so in a similar way to their approach with the

tourism sector. Anecdotal evidence would suggest that the temporary reduction in the VAT rate to 9% for tourism, combined with keen competition in an over-supplied market, has actually paid off with a significant surge in inbound tourism. EU Law allows Ireland to take similar action in relation to construction services.

A similar, or even greater, reduction in the rate of VAT on construction services, in a similarly afflicted market - might act to stimulate activity in the home improvement market and provide some much needed jobs in a labour intensive sector which is still very much on its knees. Obviously, there are political risks associated with any move which might be seen to alleviate the problems of those to whom the recent collapse in the economy has been primarily attributed. However, there are many unemployed construction workers who had nothing whatsoever to do with the economic collapse and are depending on the Government to create necessary conditions to get them back to work so as to again contribute to the economy.

### VAT Changes

#### *Change in the Standard rate of VAT*

The standard VAT rate will increase from 21% to 23% with effect from 1 January 2012.

#### VAT rate on district heating

The VAT rate on district heating will be reduced from 21% to 13.5% in the Finance Bill. This will bring district heating into line with the supply of heating fuels which is currently taxed at 13.5% and will help to encourage the uptake of district heating.

#### Farmers to get VAT refunds on purchase of wind turbines

Although farmers are generally not required to register for VAT, they are entitled to recover VAT on certain items of capital expenditure. The Minister has indicated that the VAT Refund Order will be extended to provide that unregistered farmers can reclaim VAT paid on wind turbines purchased after 1 January 2012. This is to be welcomed as another positive step in making Ireland a leader in sustainable energy production.

#### VAT rate on open farms reduced to 9%

In extending the tourist agenda the 9% VAT rate will apply to admission to open farms. This rate

was designed to boost the tourism sector and it seems only right that open farms should benefit in the same way as other similar entertainment attractions

### Excise Duties

#### *Mineral oil tax*

There has been a significant increase in the rate of mineral tax that applies to petrol and motor diesel. The rate has risen from €15 per tonne of carbon dioxide emitted to €20 per tonne. In practical terms this will result in an increase of 1.4 cents per litre of petrol and 1.6 cents per litre of Diesel which will apply from 7 December 2011 – these increases are VAT inclusive but do not take into account the increase in the VAT rate that will apply from 1 January 2012.

#### *Tobacco products tax*

With effect from 7 December 2011 duty on cigarettes will increase by 25 cents a packet (including VAT) with a pro rata increase across other tobacco products. Again, the price will likely rise further when the VAT rate is increased in January of 2012.

### Vehicle registration tax

Driven by falling receipts from VRT and motor tax, the Government has pledged to review the bands and rates currently used to calculate VRT. Since 2007, VRT receipts have fallen from €1.4 billion to €365 million. Whilst the primary reason for this has been the fall in quantity and price of new car sales and the switch to cheaper cars, the restructuring of the way in which VRT was calculated has exacerbated the underlying economic factors. The method of calculating VRT was previously restructured to be calculated on the basis of carbon emissions, however the improvement in emissions of vehicles combined with the switch to more fuel efficient vehicles has compounded the fall in VRT revenues.

The Government has undertaken to enter into a public consultation period with a view to adjusting bands with effect from 1 January 2013. Submissions to the consultation should be submitted by 1 March 2012.

### Motor tax

There has been a similar, albeit not as stark, fall in revenue from motor tax with the switch to lower



## Indirect Taxes contd.

taxed fuel efficient cars being cited as a major cause of this fall. Cars registered after 1 July 2008 pay motor tax based on cc emissions, with cars registered before 1 July 2008 paying motor tax based on the cc capacity. From 1 January 2012 motor tax rates across all categories both for pre and post 1 July registered cars will increase significantly. The increased rates are included in the table below.

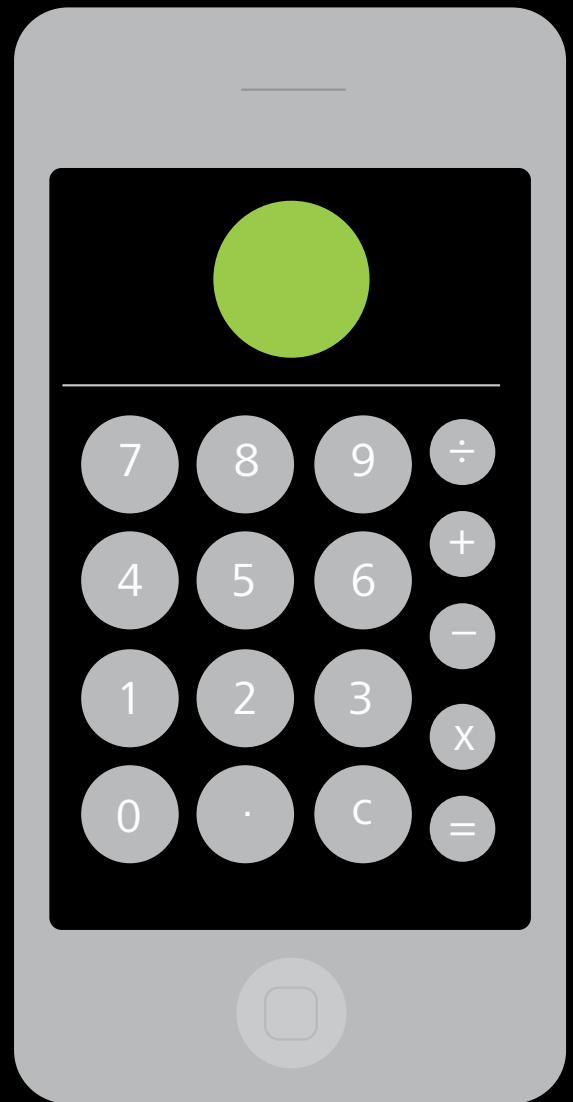
CO2 bands	Current rates	Proposed rates	Increase in rate
A	€104	€160	€56
B	€156	€225	€69
C	€302	€330	€28
CO2 bands	Current rates	Proposed rates	
D	€447	€481	€34
E	€630	€677	€47
F	€1,050	€1129	€79
G	€2,100	€2258	€158
cc rates	Current rates	Proposed rates	
not over 1,000	€172	€185	€13
1,001 to 1,100	€259	€278	€19
1,101 to 1,200	€296	€307	€11
1,201 to 1,300	€310	€333	€23
1,301 to 1,400	€333	€358	€25
1,401 to 1,500	€357	€384	€27
1,501 to 1,600	€445	€478	€33
1,601 to 1,700	€471	€506	€35
1,701 to 1,800	€551	€592	€41
1,801 to 1,900	€582	€626	€44
1,901 to 2,000	€614	€660	€46
2,001 to 2,100	€784	€843	€59
2,101 to 2,200	€823	€885	€62
2,201 to 2,300	€860	€925	€65
2,301 to 2,400	€895	€962	€67
2,401 to 2,500	€935	€1,005	€70
2,501 to 2,600	€1,120	€1,204	€84
2,601 to 2,700	€1,164	€1,251	€87
2,701 to 2,800	€1,204	€1,294	€90
2,801 to 2,900	€1,248	€1,342	€94
2,901 to 3,000	€1,293	€1,390	€97
3,001 or more	€1,566	€1,683	€117
Electrical	€146	€157	€11

### Betting Duty

Currently, betting duty only applies to bets placed in betting shops and does not apply to bets placed by Irish punters on the phone or online. In January 2011, the Finance Bill proposed that bookmakers would pay betting duty at 1% on bets made by way of the internet, telephone or other electronic means (remote bets), and that there would be a new excise duty of 15% to the commissions, relating to remote bets, made by betting intermediaries, including betting exchanges, from parties in Ireland. Additionally, it was proposed that bookmakers who take remote bets would be licensed and subject to an excise duty of €5,000 on the grant of the license. The fee for licence renewal to be based on the bookmaker's turnover. A similar regime should apply to betting intermediaries that provide facilities which allow people to make remote bets.

There were also consequent changes to the VAT legislation to provide that the services of the remote bookmakers and intermediaries referred to above would be exempt from VAT.

The Minister has now stated that the Betting (Amendment) Bill is being drafted with the final draft due in 2012. The intention is that the new regime will commence from the second quarter of 2012 and should bring in an additional tax yield of €10m in 2012 and €20m within a full year.



**Budget 2012**

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# Income Tax



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Over the last few consecutive Budgets, we have seen the marginal rate of income tax rise to 55% for those individuals with non-employment income in excess of €100,000. It is welcomed in a Budget that promised to raise €1.6bn through tax increases and additional charges, that the rates of income tax have not been changed. This, combined with no reduction in tax bands or personal tax credits ensures that in times when efforts to encourage employment are paramount, that such efforts are adequately supported.

## Legacy Property Incentives

Finance Act 2011 saw a number of significant reforms to legacy property incentives being proposed. Due to significant lobbying by a number of groups, it was proposed that such reforms would be subject to an Economic Impact Assessment. The Minister announced in today's Budget that such an impact assessment has been undertaken, and in a welcomed conclusion, determined that such proposals were unworkable and would impact significantly on investors who are currently vulnerable to insolvency.

However, whilst the all encompassing changes to such reliefs introduced in Finance Act 2011 will not be implemented, certain reforms have been introduced for certain "high income investors" only so as not to impact on smaller scale investors.

- A property relief surcharge of 5% will be charged on investors with gross income over €100,000. It will apply to the amount of income sheltered by such property reliefs in a tax year.
- Section 23 relief will not be restricted or terminated for investors with gross income of less than €100,000.
- Under current rules, individuals with a pool of unclaimed accelerated capital allowances arising from a particular investment could carry these allowances forward against future rental income indefinitely until fully utilised.
- Where the tax life ends on or after 1 January 2015, going forward accelerated capital allowances may only be claimed within the tax life of the particular property. Where the tax life has ended before 1 January 2015, no unused accelerated capital allowances can be carried forward into 2015.

We await the Finance Bill for full details on the above.

## High Earners Restriction

Various changes to the High Earners Restriction regime have seen the introduction of a minimum effective income tax rate of 30% for certain "high earners" claiming particular reliefs since its introduction in 2007.

In today's Budget speech, the Minister acknowledged the fact that the restriction combined with PRSI and USC ensured that in reality such individuals had a marginal income tax rate of 44%. However, no further immediate amendments have been introduced to the restriction, but he alluded to a possible revisit to the matter in Budget 2013 depending on the outcome of a Revenue report.

## Deposit Interest Retention Tax (DIRT)

There is no doubt that the retention of deposits in Irish financial institutions is increasing with the amount of Euro on deposit at an all time high. In moves specifically targeting savings, the rate of DIRT has increased progressively over the last number of years from 20% to the current rate of 27%. Today's Budget has seen a further increase in the rate of DIRT to 30% from 2012. It will remain to be seen if such changes will have any significant impact on the retention of cash deposits in Ireland.

In line with previous years, the rate of tax on income and gains on various life assurance policies, foreign life policies and offshore funds has increased by a further 3%.

## Domicile Levy

A Domicile Levy was introduced by Finance Act 2010 and ensured that certain individuals who are domiciled in and a citizen of Ireland, with worldwide income below €1 million, Irish property with a market value of more than €5 million, and an Irish tax liability of less than €200,000, were subject to an additional domicile levy of €200,000.

The conditions for the application of the Domicile Levy have been amended to ensure that it will no longer be a condition that an individual is a citizen of Ireland for the levy to apply. This is to counteract a perceived loop hole whereby an individual could renounce his or her Irish citizenship and thus avoid the domicile levy charge.

## Pensions

The Minister has recognized that significant taxes have already been raised on pension funds through measures introduced in the last budget and the subsequent pension levy. He has now elected to take the necessary time to form a considered view of what further contribution pension funds can make, including greater investment in Ireland,

rather than further reducing tax reliefs as originally laid out. He has stated that he wants the pension system to be both sustainable and more equitable over the long run and will engage with various stakeholders to this end during 2012.

That said there were two important strands of change that will see pensions, based on the Government's projections, contributing an extra €57m in 2012 and €95m in subsequent years.

These are:

1. Removal of the remaining 50% relief on PRSI that employers benefit from where employees make pension contributions; and
2. Increasing the imputed income distribution on individuals with ARF holdings greater than €2m from 5% to 6%, introducing imputed income distribution liabilities on vested PRSAs consistent with ARFs, and taxing ARF proceeds paid on death to a child over age 21 at 30% in place of 20%.

The vast bulk of the additional revenue payable to the Government will fall as additional cost on employers.

Applying consistent treatment between ARFs and PRSAs seems broadly appropriate. The higher 6% rate of imputed income on larger ARFs (e.g. ARFs >€2million) may see some individuals taking a once off additional withdrawal from their ARF to bring it below €2m, and therefore back into the 5% imputed income level. That of course will depend on the size of the ARF and the extent to which the ARF is considered as a wealth transfer mechanism for the children of the beneficiary.

### PRSI/USC

The social insurance system has seen significant changes over the most recent years through the introduction of the Universal Social Charge (USC) to replace the combined health contribution and income levy regimes in addition to the increase of the rate of PRSI from 3% to 4%.

Today's Budget sees a welcome measure for those individuals on the minimum wage, and part time workers with the entry level being increased from €4,004 to €10,036 in 2012, and should contribute somewhat to easing the financial burden on such individuals.

Heretofore, employees with other sources of income such as rental income and investment income were exempt from PRSI on this income, whereas self employed individuals were subject to

PRSI on such sources of income. This Budget has addressed this apparent discrepancy in that it is proposed that from 2013 employees will now be subject to PRSI on non-PAYE income.

### Farming

The farming sector received significant focus in today's Budget in a number of welcomed measures:

- Retirement Relief (a relief from capital gains tax) is to be modified for individuals transferring farms and businesses to the next generation, to incentivise such transfers to take place before the individual reaches the age of 66. The details of the modifications to the relief will be introduced in the Finance Bill.
- For farmers operating through a farming partnership, the rate of stock relief is to be enhanced to 50% for all registered partnerships, and to 100% for certain young trained farmers forming such partnerships.
- The top rate of stamp duty on farm lands (and also to commercial and industrial buildings) has been reduced from 6% to 2%.

### Mortgage Interest Relief

In a move surely to be welcomed by individuals who purchased their homes between 2004 and 2008, the rate of mortgage interest relief will be increased to 30% for first time buyers who purchased their homes in that period.

For individuals who purchase a home in 2012, enhanced rates of mortgage interest relief will be applied as follows:

- First time buyers: 25%
- Non first time buyers: 15%

As confirmed in previous Budgets, mortgage interest relief will no longer be available for individuals who purchase a home after 2012, and will be completely abolished from 2018.

### Mobility

Two specific measures targeting the taxation of internationally mobile individuals were announced in the budget. These announcements seek to encourage the movement of people in relation to two of the key areas which will affect Ireland's road to recovery - the encouragement of a skilled workforce to come to Ireland and to assist the export sector which has performed well over recent times.

A Special Assignment Relief programme was announced by the Minister although specific details of the relief are expected in the Finance Bill. Such a programme will be welcomed following



## Income Tax contd.

the various changes in taxation of foreign income introduced in prior budgets which have negatively impacted not only foreign employees working in Ireland but also in certain situations Irish domiciles returning home.

While some specific reliefs for foreign employments were introduced in 2009 and subsequently extended in 2010, these had only a limited benefit, proved complicated to operate and did not compare competitively with regimes elsewhere in Europe. Irish domiciles were also excluded from these reliefs.

Following the specific announcement of this new relief programme it is hoped that, when details are published, the programme will provide a significant incentive to encourage a skilled workforce to come to Ireland without introducing overly complicated conditions.

To assist in the export sector the Minister announced a new Foreign Earnings Deduction for employees working temporarily (more than 60 days a year) overseas in certain developing countries including Brazil, Russia, India, China and South Africa. Again, specific details are expected in the Finance Bill however it should be noted that a Foreign Earnings Deduction relief programme has existed previously in Ireland before being removed from the end of 2003. This may give an insight into the intentions of the Minister. Under the previous regime a proportion of employment income relating to workdays spent overseas could be excluded from taxation and the tax paid on this portion of income via the PAYE system could then be reclaimed by filing an appropriate tax return.

### Reward

An innovative announcement relating to R&D tax credits may have beneficial impact on certain key employees with confirmation that R&D credits may be used to reward employees in the form of a bonus. Exact details are eagerly awaited although this again points to the move to encourage a skilled workforce to locate/stay in Ireland.

### Employer Taxes

More significant however was the announcement from the previous day from Minister Howlin that an Employers Statutory Redundancy Rebate from the Government is to be reduced not to 30% as expected but to 15%. This reduction in rebate is expected to affect a redundancy which takes place with effect from 1 January 2012. No transitional details have been announced which may ease the situation where a redundancy has already been initiated, budgeted for but which may not itself be complete before the turn of the year.



## Capital Taxes

### Stamp Duty

In a surprise move Minister Noonan has reduced the stamp duty rate applicable to commercial property to a flat 2% rate on the transfer of freehold and leasehold commercial property, including farm land and industrial buildings. The reduction will be effective from 7 December 2011 and is a welcome announcement and one which, combined with the capital gains tax holiday announced today, will hopefully entice investors back into the commercial property market.

This reduction will apply to all other forms of commercial property as well such as stock, goodwill and debtors which may otherwise be liable to stamp duty when transferred. This will benefit those seeking to transfer business assets after 7 December and should be viewed in conjunction with the proposals to amend the provisions for retirement relief from capital gains which may also apply to the transfer of business assets.

Transitional measures have been put in place to ensure that a taxpayer is not at a disadvantage as a result of the new single commercial property rate. This situation would have arisen where the value of the property being transferred is less than €20,000, i.e. under the old rates the stamp duty rate would have been 0% for values less than €10,000 or 1% for values less than €20,000. The transitional arrangements will apply where an instrument is executed on or after 07 December 2011 and before 1 July 2012 solely in pursuance of a binding contract which had been entered into prior to 07 December 2011.

Finally, it was announced that consanguinity relief (i.e. transfers between close family relatives) from stamp duty on the transfer of non residential property will be abolished on 31 December 2014. This is reflective of the fact that the revised rate of stamp duty on commercial property will be 2% from 7 December 2011.

### Capital acquisitions tax

As was widely anticipated, the Minister has increased the rate of tax on gifts and inheritances from 25% to 30% with effect from 7 December 2011. While this is a significant increase it is still one of the lowest rates of gift/inheritance tax in Western Europe.

In addition, the Group A lifetime tax free threshold applicable to gifts and inheritances from parent to child has been reduced by a quarter to €250,000 while the remaining thresholds have not been altered. This new threshold comes



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on the back of significant reductions in the tax free amounts over the last number of years and the new Group A threshold is in line with the applicable threshold for 1999.

Contrary to recent speculation there were no changes to various CAT reliefs such as business and agricultural reliefs introduced. Hopefully no change to these reliefs will be contained in Finance Bill 2012.

Finally, the Minister has announced that the transfer of an Approved Retirement Fund on death to a child over the age of 21 will now be liable to tax at 30% in line with the revised CAT rate of 30%.

### Capital gains tax

As expected, from 7 December 2011 the rate of capital gains tax will rise by 5% from 25% to 30%. In an effort to stimulate the property market, the Minister announced a capital gains tax holiday for capital gains arising on the disposal of property acquired between 7 December 2011 and 31 December 2013 which is held for seven years prior to disposal. Further detail on this incentive was not forthcoming today however we welcome the statement and look forward to the publication of greater detail on the properties included in the incentive.

The Minister also announced the modification of retirement relief from CGT to encourage a timely transfer of farms and businesses. In respect of intra-family transfers, full retirement relief from CGT is maintained for those aged 55 to 66. However the relief will be limited to proceeds of €3million for those over the age of 66 who transfer farm and business assets.

Similarly, for those aged 55 to 66 transferring assets outside the family, CGT relief remains unchanged, i.e. relief is available on proceeds up to €750,000. The relief limit is reduced to €500,000 for those over the age of 66.

Transitional measures will operate for a period of two years, whereby the unlimited relief in respect of intra-family transfers and the €750,000 limit in respect of transfers outside the family will be maintained for individuals currently aged 66 or who reach that age before 31 December 2011.

### Household charge

The Local Government (Household Charge) Bill 2011 gives legal effect to the new €100 household charge/property charge payable by owners of residential property which will take effect from January 2012. This may very well be a precursor to a valuation based property tax in the future. On a positive note, widening the tax base as it applies to capital assets is preferential to changes to rates of income tax.

The household charge will be due as and from 1 January 2012 and must be discharged by 31 March 2012 unless the property owners discharge the charge over four installments throughout the calendar year.

Where a property is rented for a period of less than 20 years, it is the landlord who will be viewed as the owner and therefore liable to the charge. In the case of properties rented for a period in excess of 20 years it will be the tenant who is liable for the payment of the charge.

Certain properties will be exempt from the charge including the following:-

- Property owned by public authorities and charities
- Property held in a discretionary trust,
- A property where the owner has moved out by reason of long term mental or physical infirmity, and
- Mobile homes and house boats

In addition, certain property owners will be exempt from the charge - firstly those who are either in receipt of the mortgage interest supplement from the Department of Social Protection or, for the years 2012 and 2013, those whose property is located in an "unfinished housing estate". A list of the "unfinished housing estates" shall be made available by the Minister for the Environment, Community and Local Government once he is satisfied that each of the developments is substantially incomplete.

For the moment therefore, it seems that the value of the property and the level of associated debt on the property is to be disregarded for the purposes of the charge. Also, the collection method to be used for the charge is yet to be decided. We hope that the method used for this charge will not be similar to that for the NPPR charge which is done solely online and has proven to be a burden for certain tax payers who are not used to filing tax returns online.



# Corporation Tax



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## Introduction

On a positive note, the Minister has once again reiterated the Government's commitment to maintaining the 12.5% corporation tax rate. In the context of the global economic downturn, and with recent corporate tax increases in countries such as France, it is very positive that the Irish Government continues to reiterate its commitment to maintaining the 12.5% corporate tax rate.

The low corporate tax rate is the cornerstone of Ireland's industrial policy and the Minister has once again provided reassurance to both indigenous companies and multinationals operating in Ireland in relation to the future rate of corporation tax.

Clearly the Minister is conscious that further focus is required in the area of job creation and also in the knowledge based economy to maintain our competitiveness in the international markets. In this regard he has announced some targeted measures specifically designed to create jobs. Firstly, the Minister announced a new Foreign Earnings Deduction for exporting companies and the expansion of the existing R&D tax credit regime.

Secondly, in an effort to encourage entrepreneurship and to create new employment, the three year tax exemption for start-up companies was extended for companies that commence a new trade in 2012, 2013 and 2014.

## Corporation tax rate

We welcome the Minister's reaffirmation of Ireland's commitment to the 12.5% corporation tax rate. This should provide certainty to new and existing companies in relation to the future rate of corporation tax.

## New start-ups

The three year corporate and capital tax exemption for new start-up companies in 2010 has now been extended for another 3 years for companies starting up in 2012, 2013 and 2014. This change is aimed at encouraging employment creation, rewarding new companies that create jobs. Although this extension is welcomed, there is little evidence to suggest this incentive is having a significant impact on the creation of new jobs.

## Foreign Earnings Deduction

A new Foreign Earnings Deduction will apply to companies where an employee spends a minimum of 60 days developing export markets in Brazil, Russia, India, China and South Africa. This is a positive initiative to further support Ireland's export drive by aiding companies seeking to expand into emerging markets, although as of yet it is not clear how this new incentive will operate. We look forward to the release of further detail regarding this new incentive.

## Innovation, intellectual property and R&D

Over the last number of years, there have been significant improvements to Ireland's R&D tax credit and intellectual property regimes. The Budget contained a number of specific tax incentives which broaden the existing R&D tax credit regime which should continue to give Ireland's smart economy a competitive tax advantage in the international arena. The new changes should also provide a boost to small and medium sized indigenous companies engaged in research and development activities.

Firstly, the R&D tax credit is being amended whereby the first €100,000 in research and development 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.

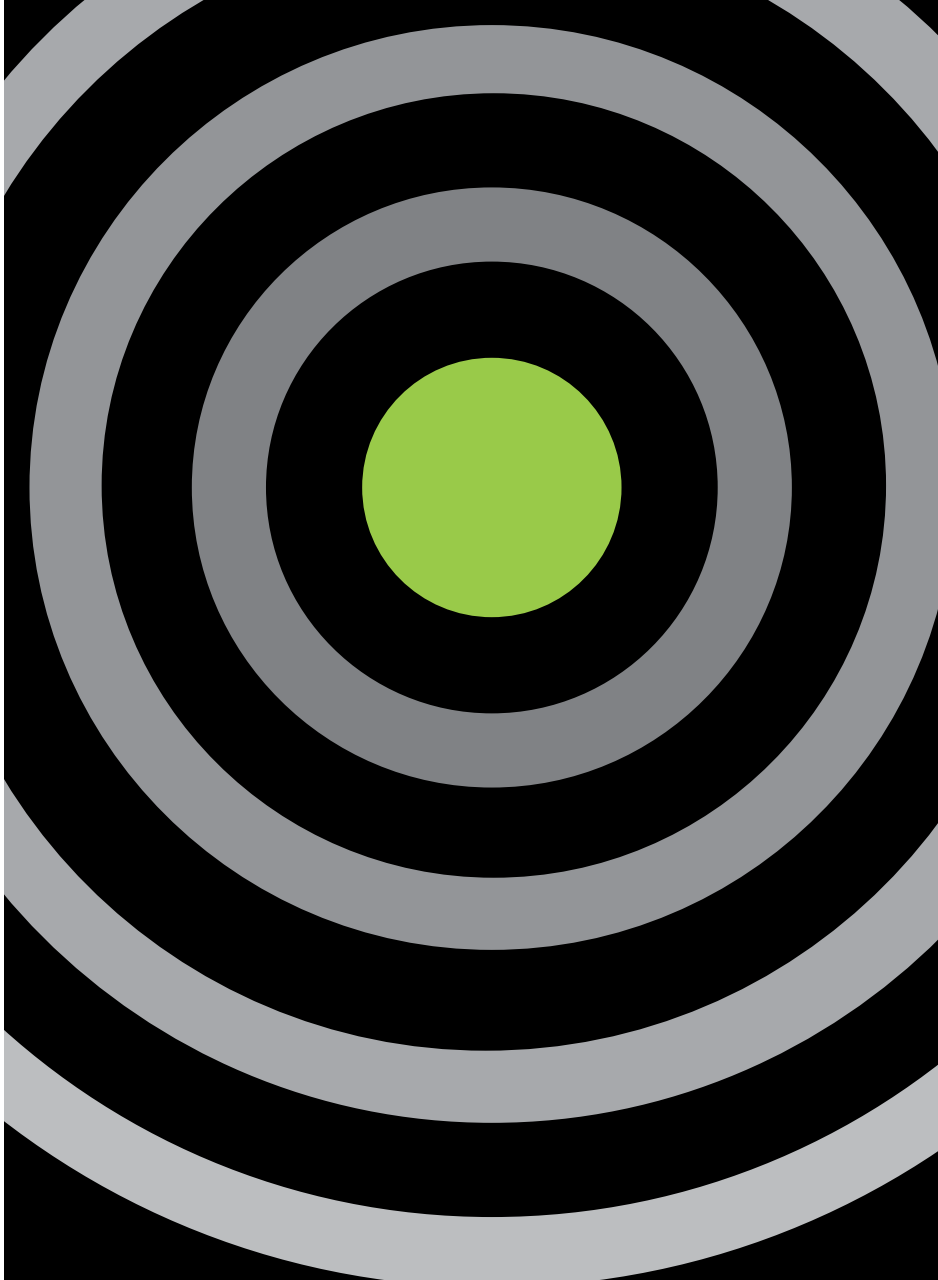
In addition to this, the current outsourcing rules for R&D tax credits are to be amended. At present, sub-contracted R&D costs are eligible where they do not exceed 10% of total costs (or 5% in the case of sub-contracting to third level institutions). This limit can disproportionately affect smaller companies which 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 10% (or 5% as appropriate) or €100k.

These two changes are greatly welcomed and will provide a targeted benefits to small and medium sized indigenous companies in particular. However, as the R&D tax credit continues to be calculated on an incremental basis (for expenditure over €100k) over a base year of 2003 for all

companies, companies which had a significant R&D spend in the base year of 2003 continue to be penalised as they may not be in a position to benefit from R&D tax credits.

Finally, 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 R&D. It is envisaged that there would be no additional cost to the Exchequer as the bonus comes from the R&D credit already received by the company and the employee still pays the full tax liability on their other income. It is not clear how this new incentive will operate and we look forward to the release of further information.

This could be a very beneficial way of providing a key employee with a portion of the company's R&D tax credit to shelter part of their employment tax and could prove to be an additional benefit to attract, retain and reward key individuals.



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# Personal Tax Tables

Rate bands	Budget 2012	2011
Standard tax rate	20 %	20 %
Single/Widowed	€32,800	€32,800
Married	€41,800	€41,800
Married (two incomes)	€65,600	€65,600
One Parent	€36,800	€36,800
Higher tax rate	41 %	41 %
In all Cases	Balance	Balance

Universal social charge for employees	Budget 2012	2011
Income < €4,004	N/A	0%
Income < €10,036	0%	N/A
Income €0 to €10,036	2%	2%
Income €10,037 to €16,016	4%	4%
Income > €16,016	7%*	7%*

\*70 years or over maximum rate is 4%

Universal social charge for self-employed	Budget 2012	2011
Income < €4,004	N/A	0%
Income < €10,036	0%	N/A
Income €0 to €10,036	2%	2%
Income €10,037 to €16,016	4%	4%
Income > €16,017 - €100,000	7%*	7%*
Income > €100,000	10%**	10%**

\*70 years or over maximum rate is 4% on income up to €100,000  
\*\* 70 years or over will pay at a rate of 7% on income greater than €100,000

Income tax allowances	Budget 2012	2011
€		
Employed carer re Incapacitated individual (allowed at marginal rate)	50,000	50,000

Exemption limits	Budget 2012	2011
€		
Age exemption limits (65 years and over)		
Single/Widowed	18,000	18,000
Married	36,000	36,000

Income tax credits	Budget 2012	2011
Personal credit €		
Single	1,650	1,650
Married	3,300	3,300
Widowed	1,650	1,650
PAYE credit	1,650	1,650
Widowed without dependent child	540	540
One parent family	1,650	1,650
Dependent relative	70	70
Incapacitated child	3,300	3,300
Carers credit	810	810
Age credit		
Single/Widowed	245	245
Married	490	490
Widowed with dependent child		
1st Year following bereavement	3,600	3,600
2nd year following bereavement	3,150	3,150
3rd year following bereavement	2,700	2,700
4th year following bereavement	2,250	2,250
5th year following bereavement	1,850	1,850
Blind person		
Single	1,650	1,650
Married couple, both blind	3,300	3,300

## Budget 2012 and 2011

PRSI and levies	Rate	Ceiling
Employer	%	
PRSI	3.55	18,512 <sup>1</sup>
PRSI	10.05	No limit <sup>2</sup>
Training fund levy	0.70	No limit <sup>3</sup>
Employee	4.00	No limit <sup>4</sup>
Self employed and proprietary directors	4.00	No limit

<sup>1</sup> applies from 2 July 2011 (previously 7.8%)

<sup>2</sup> applied to all income where earnings are in excess of €18,512

<sup>3</sup> applied irrespective of earnings

<sup>4</sup> first €127 per week not liable to PRSI and not payable where income does not exceed €18,304



## Other Tax Tables

Capital gains tax	Budget 2012	2011
Rate	30%	25%
Annual exemption	€1,270	€1,270

Capital acquisitions tax	Budget 2012	2011
Rate	30%	25%
Thresholds		
Group A	€250,000	€332,084
Group B	€33,208	€33,208
Group C	€16,604	€16,604

Value added tax	Budget 2012	2011
Standard rate	23%	21%
Lower rate	13.5%	13.5%
Super lower rate	9%	9%
Flat rate for farmers	5.2%	5.2%

### Stamp duty - residential property

1% on properties valued up to €1,000,000  
2% on balance of consideration in excess of €1,000,000

### Stamp duty - commercial property

2% on all commercial profits including transfers of farm land

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# Budget 2012

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