



Budget 2010
Restoring,
restructuring,
recovering

This publication contains a summary of the main features of Budget 2010.

There were few surprises in the 2010 Budget speech with most of its key features widely leaked in the last few weeks. The Minister has been true to his word and resisted further tax gathering measures in his budget, apart from the Carbon Tax, which was itself signaled in the Commission on Taxation report. The main focus of the budget has been on cutting public expenditure and stabilising the budget deficit and this is to be welcomed. The Minister has achieved savings of €4bn as targeted with, as expected, a large slice coming from public service pay and social welfare cuts.

Some radical changes to the tax system have been signaled for 2011. In a move to broaden the tax base the Minister has indicated that the current income tax system of PRSI, income levies and income tax is to be completely replaced by a new tax system. This system will be twofold, a social contribution applied at a low rate and payable by everyone to be accompanied by a progressive income tax regime geared towards collecting tax on the basis of ability to pay. In addition, property tax and water charges, based on usage, will be collected by local authorities. These latter taxes will provide a tax base which is not dependent on economic performance and should provide a more stable source of Revenue to the local authorities.

The Minister indicated forcibly at the outset of his budget speech that the limits of taxation have already been reached under the existing regime and it is to be hoped that the effective tax rates under the new tax system will consequently not exceed those under the current regime. This remains to be seen.

Some stimulus measures were also announced which should slow down the current leakage of tax revenues through cross-border shopping. Significant reductions in the price of alcohol have been announced with a clear indication from the Minister that if they are not passed on to the consumer they will be promptly removed by him. The higher VAT rate has also been reduced to 21% from 21.5% which should help to further narrow the border differential with the UK VAT rate due to climb back to 17.5% on 1 January.

For the struggling car sector there is a car scrappage scheme which provides €1,500 reduction in VRT for 10 year old cars. Although the measure is welcome we are sure the car industry would have liked something more generous as it is likely that the stimulation of car sales would produce net benefits to the exchequer.

There were some welcome signals that the Minister intends to attract international financial fund business to Ireland through incentives and to enhance Ireland's attractiveness for the location of high end research and development jobs. The details of what is to be done have yet to be announced and no doubt these will follow in the Finance Bill.

Overall, the budget achieves the aim of the Government which was to stabilise the budget deficit through essential expenditure cuts. It was probably too much to expect that Government would set out its strategy for recovery and begin the measures necessary to implement it, in equal detail, at the same time but this still needs to be done as soon as possible. Hopefully, this will be addressed when the Finance Bill is published so that businesses will have a clearer picture of what is coming down the track for them.

The main focus of the budget has been on cutting public expenditure and stabilising the budget deficit and this is to be welcomed.



Executive Summary

Income Tax

After the tax increases in the last two budgets the Minister has acknowledged that “we will not create jobs by increasing the penalty on work and investment”. As expected there were no changes to the income tax rates, income levies or the income tax credits.

The main changes relate to the taxation of “high earners” and non-resident Irish domiciliaries. In 2010, the entry level for the restriction of the use of reliefs for “high earners” is to be reduced to €125,000 from €250,000 and there is to be a reduction in the cap for marginal relief to €400,000 from €500,000. This will increase the effective rate of income tax for those benefiting from those reliefs from 20% to 30%. For those with relieved income greater than this new threshold their effective rate including all additional charges and levies will increase from 34% to 44%.

The Minister also acknowledged the difficulties faced by individuals and families in meeting their mortgage repayments. In light of these difficulties mortgage interest relief has been extended to 2017 for those whose relief was to expire in 2010 or after; the retention of current rates and levels of relief for those taking out qualifying loans before 1 July 2011 and the extension of the relief, albeit at reduced levels and duration, for those who take out qualifying loans between 1 July 2011 and 31 December 2012. The Minister also stated that Mortgage interest relief will be abolished entirely by the end of 2017.

Corporation Tax

There have been no adverse changes for companies in the budget. The Minister is very much focused on stimulating the economy and generating employment and this is reflected in the provisions introduced for companies. The Minister has strongly reiterated the Government’s commitment to Ireland’s 12.5% corporate tax rate and acknowledged the importance of the corporate tax rate in attracting new business and jobs.

Measures will be introduced in the Finance Bill to exploit opportunities arising in the international financial services sector, particularly in the centralisation of high value added activities. Whilst we need to await details in the Finance Bill we welcome this announcement by the Minister.

In the areas of R&D and Intellectual Property, the Minister has indicated that he will consider further recommendations for this area which are included in the report from the Innovation Taskforce, expected to issue later this month, for the upcoming Finance Bill which will be published in early 2010. We await the details in the Finance Bill however this provides the Government with an opportunity to enhance Ireland’s intellectual property regime to sustain and encourage the continued growth of Ireland’s smart economy for the future.

The three year corporate and capital tax exemption for new start up companies in 2009 has been extended to companies starting up in 2010.

The scheme of accelerated tax depreciation for energy efficient plant and equipment is being extended to items of plant typically used in the food, drink, retail and distribution sectors.

Indirect Taxes

The standard VAT rate of 21.5% is to be reduced to 21% from 1 January 2010. From midnight tonight excise duty on beer and cider will fall by 12 cent per pint, on spirits by 14 cent per half glass and wine by 60 cent per 75cl bottle. These measures will hopefully help the struggling retail sector that has been facing serious difficulties, especially in light of the cross border shopping and the currency differential.

Petrol and diesel will be hit from midnight tonight and home heating oil and gas will be hit from 1 May 2010. The cost of a litre of petrol and diesel will increase by nearly 3.5 and 4 cent respectively from midnight tonight. A tank of home heating oil will rise by €40. Coal and turf will also be hit but the date for this increase is still to be announced.

Income Tax

There were no surprises in that no increases in the income tax rates and the various income levies were announced, nor were there any reductions in the income tax credits. This is welcome as substantial tax increases had already been affected in 2009 with the introduction of the income levy and the doubling in the health contribution. As noted by the Minister “The progressivity of the recent changes is beyond doubt. But we have reached the limit. We will not create jobs by increasing the penalty on work and investment”

Apart from the changes affecting public servants, social welfare recipients and parents in receipt of child benefit, the only changes directly affecting individuals are those relevant to “high earners”, non resident Irish domiciliaries or nationals and mortgage interest relief claimants.

The Minister flagged the imposition of a €200,000 cap on the tax free pension lump sum and the possible introduction of a consolidated 33% rate of relief. However, the specifics of any changes await the publication of the Government’s National Pension Framework Report, due to be published shortly.

Further measures promised for 2011 include the transformation of the system of taxation for individuals by the introduction of two separate charges to replace the several charges currently applicable to the income of individuals.

High Earners

In 2010, the entry level for the restriction of the use of reliefs for “high earners” is to be reduced to €125,000 from €250,000 and there is to be a reduction in the cap for marginal relief to €400,000 from €500,000. There is also an increase in the restriction from 50% of the applicable reliefs to 75%. This will increase the effective rate of income tax for those benefiting from those reliefs from 20% to 30%. For those with relieved income greater than this new threshold, their effective rate, including all additional charges and levies will increase from 34% to 44%.

Non Resident Domiciliaries and Nationals

Under the same heading in his speech of “High Earners Must Pay Their Fair Share” the Minister heralded the introduction of measures to impose an Irish domicile levy of €200,000 per annum which will apply to all Irish nationals and domiciled individuals whose income exceeds €1 million and whose Irish located capital is greater than €5 million. This levy will apply regardless of where they are tax resident. It is not clear whether this measure will be anything more than an incentive for individuals affected to reduce their holdings of

Irish assets in order to avoid the charge. It remains to be seen how the forthcoming Finance Bill will deal with this aspect.

Mortgage Interest Relief

The Minister has proposed three measures designed to support families finding themselves in negative equity and to encourage those who want to buy a house over the next three years, as follows:

- An extension until 2017 of relief for those who expected the relief to expire in 2010 or after,
- The retention of the current rates and levels of relief for those who take out qualifying loans before 1 July 2011, and
- The extension of the relief, albeit at reduced levels and duration, for those who take out qualifying loans between 1 July 2011 and 31 December 2012

Mortgage interest relief will cease to be available for 2018 and later years.

Relief from Income Levy

Where a farmer incurs capital expenditure to comply with the EU directive to reduce the use of nitrates, that expenditure will be deductible from income for the purposes of computing income levies.

“The progressivity of the recent changes is beyond doubt. But we have reached the limit. We will not create jobs by increasing the penalty on work and investment.”

- Brian Lenihan, Minister for Finance

Corporation Tax

There has been no adverse implications for corporates from the budget. Clearly the Minister is conscious that further focus is required in the innovation and knowledge based economy to maintain our competitiveness in the international markets. New start-ups are also a focus in the absence of further liquidity in the banking sector and with a view to creating a culture of enterprise. There is a focus on the green agenda in line with international requirements and on up-scaling the energy efficiency of those industries under competitive pressure in home markets and abroad.

Corporation Tax rate

We welcome the Minister's affirmation of Ireland's commitment to the 12.5% corporation tax rate, stating that this rate is here to stay. This should provide certainty to new and existing companies of their future Irish corporate tax costs.

Innovation, Intellectual Property and R&D

In line with national policy of pursuing a knowledge based smart economy the Minister has again focused on this sector, noting that key investment priorities for 2010 will include science, technology and innovation.

Circa €1.75bn of grant aid has been provided over the years 2006-2009 with the budget for 2009 being circa €643m. Over these years, there have also been significant improvements to Ireland's R&D tax credit and intellectual property regimes. The Minister has indicated that he will consider further recommendations for this area which are included in the report from the Innovation Taskforce, expected to issue later this month, for the upcoming Finance Bill which will be published in early 2010.

While the business commitment to R&D has increased from €700m in 1998 to €1.7b in 2008, it is accepted that the multinationals spend on R&D in Ireland is growing faster than indigenous R&D spend.

Given that the UK Government has announced positive measures in the area of taxation of intellectual property in their pre-Budget report, it is hoped that the Minister will further enhance Ireland's intellectual property regime in the Finance Bill to sustain and encourage the continued growth of Ireland's smart economy, particularly in the areas of technology, pharmaceuticals and energy, which have attracted substantial multinational investment and contributed to the broadening of the R&D base and the spin off effects for the indigenous operations.

New Start Ups

The three year corporate and capital tax exemption for new start up companies in 2009 has now been extended for companies starting up in 2010 in recognition that the economic conditions continue to be difficult and that liquidity remains scarce, thereby assisting them in conserving their cash.

The tax exemption applies to companies where the corporation tax does not exceed €40,000 per year and marginal relief applies where corporation tax payable is between €40,000 and €60,000.

Capital Allowances and Accelerated Tax Depreciation

The scheme of accelerated tax depreciation for energy efficient plant and equipment is being extended to items of plant typically used in the food, drink, retail and distribution sectors such as electro-mechanical systems, refrigeration and cooling systems and catering and hospitality systems with a view to improving energy efficiency in sectors that are currently under competitive pressure, both in Ireland and in their export markets.

The scheme provides for 100% accelerated tax depreciation or capital allowances versus the normal rate of 12.5% in the year the expenditure is incurred.

It is also positive that the areas of focus for investment projects in 2010 listed by the Minister included energy efficient projects. This should create employment in the green economy and have positive domestic and international spin off benefits.

International Financial Services

The Minister today announced that measures will be introduced in the forthcoming Finance Bill to exploit opportunities arising in the international financial services sector, particularly in the centralisation of high value added activities, further to restructuring arising from the global financial crisis. We welcome this announcement along with the Minister's statement that measures will also be introduced to strengthen Ireland's competitive edge in the international funds area, further to recent European legislative changes.

Indirect Taxes

The Minister has announced a number of changes to indirect taxes. The much heralded carbon tax has been introduced which will immediately increase the price of petrol and diesel, followed by a rise in home heating fuel and gas from May next year. He has also reversed last year's increase in the VAT rate so the 21.5% rate will revert to 21% from 1 January 2010. He has announced a substantial reduction in alcohol excise duties, mainly aimed at stemming the flow of shoppers to the North.

Naturally any measures to increase consumer spending have to be welcomed by hard pressed retailers but the jury is very much out as to whether he has gone far enough. The carbon tax will negate some of the benefit to retailers as it will increase transport costs. However the building, motor and forestry sectors should get some boost from investments in the form of grant aid for retrofitting homes, a car scrappage scheme and forestry incentives.

VAT rate

The standard VAT rate of 21.5% is to be reduced to 21% from 1 January 2010.

Excise Duty

From midnight tonight excise duty on beer and cider will fall by 12 cent per pint, on spirits by 14 cent per half glass and wine by 60 cent per 75cl bottle.

Carbon Tax

A carbon tax is being introduced on fossil fuels. Petrol and diesel will be hit from midnight tonight and home heating oil and gas will hit from 1 May 2010. This will add nearly 3.5 cent per litre to the cost of petrol and nearly 4 cent per litre on diesel. A tank of home heating oil will rise by €40. Coal and turf will also be hit but the date for this increase is still to be announced.

Motor Industry

Car Scrappage Scheme

A car scrappage scheme will be introduced from 1 January 2010 but will only apply for one year. New cars which replace cars which are at least 10 years old will be eligible for a €1,500 VRT reduction

Extension of VRT exemption

There are also extensions by two years of the VRT exemption for electric vehicles and the less generous relief scheme for plug-in hybrid electric vehicles.

Secondhand Cars

Some modifications are being made to the VAT treatment of second hand cars. This change eliminates the VAT disadvantage which arose if the car is sold at a loss



Personal tax tables

| Rate bands | Budget 2010 | Supplementary Budget 2009 | Budget 2009 |
|---|-------------|---------------------------|-------------|
| Standard tax rate | 20 % | 20 % | 20 % |
| Single/Widowed | €36,400 | €36,400 | €36,400 |
| Married | €45,400 | €45,400 | €45,400 |
| Married (two incomes) | €72,800 | €72,800 | €72,800 |
| One Parent | €40,400 | €40,400 | €40,400 |
| Higher tax rate | 41 % | 41 % | 41 % |
| In all Cases | Balance | Balance | Balance |
| Income levy | | | |
| Income €1 to €75,036 | 2% | 2% | |
| Income €75,037 to €174,980 | 4% | 4% | |
| Balance of Income | 6% | 6% | |
| Income €1 to €100,100 | | | 1% |
| Income €100,101 to €250,120 | | | 2% |
| Balance of Income | | | 3% |
| Income tax credits | Budget 2010 | Supplementary Budget 2009 | Budget 2009 |
| Personal credit | € | € | € |
| Single | 1,830 | 1,830 | 1,830 |
| Married | 3,660 | 3,660 | 3,660 |
| Widowed | 1,830 | 1,830 | 1,830 |
| PAYE credit | 1,830 | 1,830 | 1,830 |
| Widowed without dependent child | 600 | 600 | 600 |
| Widowed with dependent child | | | |
| 1st Year following bereavement | 4,000 | 4,000 | 4,000 |
| 2nd year following bereavement | 3,500 | 3,500 | 3,500 |
| 3rd year following bereavement | 3,000 | 3,000 | 3,000 |
| 4th year following bereavement | 2,500 | 2,500 | 2,500 |
| 5th year following bereavement | 2,000 | 2,000 | 2,000 |
| One parent family | 1,830 | 1,830 | 1,830 |
| Dependent relative | 80 | 80 | 80 |
| Incapacitated child | 3,660 | 3,660 | 3,660 |
| Blind person | | | |
| Single | 1,830 | 1,830 | 1,830 |
| Married couple, both blind | 3,660 | 3,660 | 3,660 |
| Age credit | | | |
| Single/Widowed | 325 | 325 | 325 |
| Married | 650 | 650 | 650 |
| Carers credit | 900 | 900 | 900 |
| Income tax allowances | Budget 2010 | Supplementary Budget 2009 | Budget 2009 |
| | € | € | € |
| Employed carer re Incapacitated individual (allowed at marginal rate) | 50,000 | 50,000 | 50,000 |
| Exemption limits | Budget 2010 | Supplementary Budget 2009 | Budget 2009 |
| | € | € | € |
| Age exemption limits (65 years and over) | | | |
| Single/Widowed | 20,000 | 20,000 | 20,000 |
| Married | 40,000 | 40,000 | 40,000 |

Personal tax tables

Budget 2010

| PRSI and levies | Rate | Ceiling | |
|---|-------|-------------|------|
| Employer | % | € | |
| PRSI | 7.80 | 18,512 | |
| PRSI | 10.05 | No limit | * |
| Training Fund Levy | 0.70 | No limit | ** |
| Employee | 4.00 | 75,036 | *** |
| Self employed and proprietary directors | 3.00 | No limit | |
| Health levy - Lower Rate | 4.00 | 75,036 | **** |
| - Higher Rate | 5.00 | over 75,036 | |

Supplementary Budget 2009

| PRSI and levies | Rate | Ceiling | |
|---|-------|----------|------|
| Employer | % | € | |
| PRSI | 7.80 | 18,512 | |
| PRSI | 10.05 | No limit | * |
| Training Fund Levy | 0.70 | No limit | ** |
| Employee | 4.00 | 75,036 | *** |
| Self employed and proprietary directors | 3.00 | No limit | |
| Health levy - Lower Rate | 4.00 | 75,036 | **** |
| - Higher Rate | 5.00 | Balance | |

Budget 2009

| PRSI and levies | Rate | Ceiling | |
|---|-------|----------|------|
| Employer | % | € | |
| PRSI | 7.80 | 18,512 | |
| PRSI | 10.05 | No limit | * |
| Training Fund Levy | 0.70 | No limit | ** |
| Employee | 4.00 | 52,000 | *** |
| Self employed and proprietary directors | 3.00 | No limit | |
| Health levy - Lower Rate | 2.00 | 100,100 | **** |
| - Higher Rate | 2.50 | Balance | |

* applied to all income where earnings are in excess of €18,512

** applied irrespective of earnings

*** first €127 per week not liable to PRSI and not payable where income does not exceed €18,304 (2008 - €18,304)

**** not payable where income does not exceed €26,000 (2008 - €26,000)

Contacts

For more details on the above please contact:

Padraig Cronin
Head of Tax & Legal Services
T: 353 1 417 2417
E: pacronin@deloitte.ie

John O'Flynn
Tax Partner, Cork
T: +353 21 490 7010
E: jooflynn@deloitte.ie

Paul Reck
Tax Partner, Dublin
T: +353 1 417 2470
E: preck@deloitte.ie

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its Member Firms.

These materials and the information contained herein are provided by Deloitte & Touche and are intended to provide general information on a particular subject or subjects and are not an exhaustive treatment of such subject(s). Accordingly, the information in these materials is not intended to constitute accounting, tax, legal, investment, consulting or other professional advice or services. The information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser. These materials and the information contained therein are provided as is, and Deloitte & Touche makes no express or implied representations or warranties regarding these materials or the information contained therein. Without limiting the foregoing, Deloitte & Touche does not warrant that the materials or information contained therein will be error-free or will meet any particular criteria of performance or quality. Deloitte & Touche expressly disclaims all implied warranties, including, without limitation, warranties of merchantability, title, fitness for a particular purpose, non-infringement, compatibility, security and accuracy.

Your use of these materials and information contained therein is at your own risk, and you assume full responsibility and risk of loss resulting from the use thereof. Deloitte & Touche will not be liable for any special, indirect, incidental, consequential or punitive damages or any other damages whatsoever, whether in an action of contract, statute, tort (including, without limitation, negligence) or otherwise, relating to the use of these materials or the information contained therein.

If any of the foregoing is not fully enforceable for any reason, the remainder shall nonetheless continue to apply.

© 2009 Deloitte & Touche. All rights reserved
Member of Deloitte Touche Tohmatsu

Deloitte profile

Deloitte's 1,100 people in Dublin, Cork and Limerick provide audit, tax, consulting, and corporate finance services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 140 countries, Deloitte brings world class capabilities and deep local expertise to help clients succeed wherever they operate.

Deloitte's approximately 169,000 professionals are committed to becoming the standard of excellence. Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

Dublin
Deloitte & Touche
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
T: +353 1 417 2200
F: +353 1 417 2300

Cork
Deloitte & Touche
No.6 Lapp's Quay
Cork
T: +353 21 490 7000
F: +353 21 490 7001

Limerick
Deloitte & Touche
Deloitte & Touche House
Charlotte Quay
Limerick
T: +353 61 435500
F: +353 61 418310

www.deloitte.com/ie



For Seven Years Running