

Mazars Budget Report

2010

Brian Lenihan, Minister for Finance, believes that the worst is over and that this Budget is the last big push of this crisis. He says that the Department of Finance is now expecting a return to positive growth within six to nine months. We sincerely hope he is right!

We could accept this crushing Budget a little more readily if we believe the Minister. This is a savage Budget but it was expected, with the principal action taking place on the expenditure side represented by €4 billion in public expenditure cuts. Public servants face reductions in their pay of between 5% and 20%. Social welfare payments including job-seekers allowance and supplementary welfare allowance are being reduced with a justification advanced of a 6.5% overall cost of living decline. The State pension, though, will remain untouched.

In measures to widen the tax base, the Minister accepts the need for a property tax and a system of water metering for homes, both recommended by the Commission on Taxation. These items are work in progress. A Carbon Tax, though, is being introduced from today, set at €15 per tonne. This will apply to petrol and diesel from tonight and to home heating, oil and gas from next May. The restrictions for high earners availing of tax incentive schemes will also be tightened.

In the context of very limited resources, the €36 million allocated to Employers Job Incentive Scheme giving PRSI exemption is to be welcomed. Other small but positive measures are the reversal of the 0.5% increase in the standard rate of VAT last year (back to 21% from 1 January 2010), reduction in the duty of alcohol and the car scrappage scheme.

The continued commitment to the 12.5% Corporate Tax rate and proposals to enhance the attractiveness of Ireland for the funds industry are also welcomed.

The Minister signalled the introduction in 2011 of a reformed tax system combining a new universal social contribution (replacing employee PRSI, Health Levy and the Income Levy) and an Income Tax at progressive rates. This rate, though, must not be out of line if Ireland is to be an attractive location for international business.

In an attack at wealthy individuals who are Irish domiciled but not resident, an annual Irish domicile levy of €200,000 will be introduced next year. The Finance Bill will contain the detail along with measures aimed at tackling the shadow economy, smuggling and tax avoidance schemes.



Corporation Tax

The government emphasised its commitment to maintain the standard Corporation Tax rate of 12.5%. Changes in the Corporation Tax area are as follows:

Capital Allowances for Energy Efficient Equipment

Accelerated capital allowances of 100% of the capital expenditure incurred on certain energy efficient equipment have been extended to include refrigeration and cooling systems, electro-mechanical systems and catering and hospitality equipment.

Research and Development and Intellectual Property Incentives

Over the last two years the Finance Acts have enhanced the incentives for R&D and intellectual property. An Innovation Taskforce has been set up to enhance the research and development and intellectual property regime currently in place. Details of any initiatives or changes are to be revealed in the Finance Bill.

It is hoped that the much needed radical amendments to this legislation including removal of the base year approach and the ability to offset refund payments of the tax credits against PAYE liabilities of the company will be introduced.

Exemption from Corporation Tax including Capital Gains for the first 3 years for certain new start up companies

Last year, we saw the introduction of a Corporation Tax (including chargeable gains) exemption for trading companies commencing in 2009. This applies for

the first 3 years of trading where the Corporation Tax liability does not exceed €40,000.

Marginal relief may also apply. Budget 2010 has extended this relief to companies starting to trade in 2010.

International Financial Services

Further incentives in the Financial Services Sectors are proposed, including renewed emphasis on funds with a view to positioning Ireland as the European hub for the international funds industry following recent European legislation changes. The Finance Bill will set out the proposals to strengthen Ireland's competitive edge in this area.

Income Tax

Reform of Taxation/Social Security Systems

The Minister announced plans to replace the current PRSI, Health Contribution and Income Levy systems with a new, universal social contribution and introduce both a Site Valuation Tax and Water charges.

He also proposes to alter the structure of the current Income Tax system to make it more progressive, shifting the tax incidence to those on higher incomes who are better able to pay. Minister Lenihan stated

that his objective is to introduce these changes in 2011.

High Earners

The high earner's restriction has been modified to increase the Income Tax payable by individuals currently benefiting from tax reliefs and shelters.

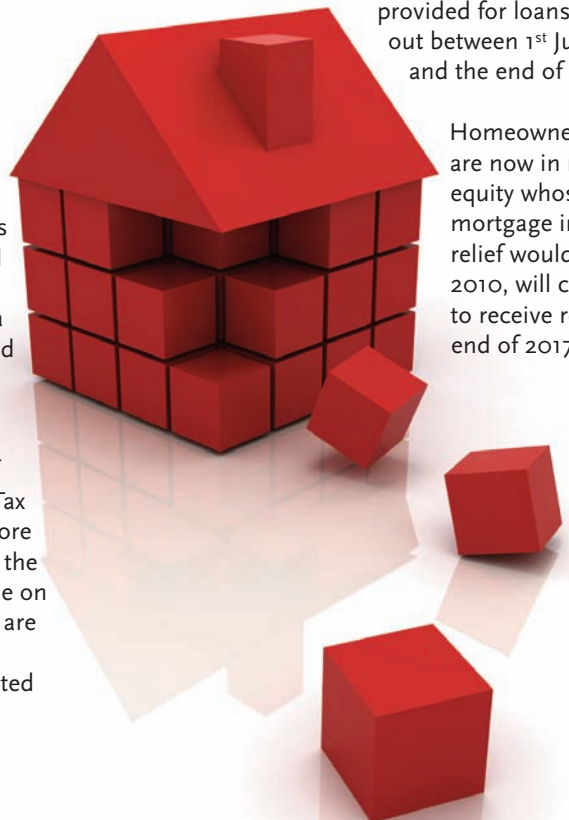
The effective rate will be increased from 20% to 30% (in addition to PRSI and levies) and will apply to individuals with an adjusted income level of €125,000 or greater per annum, with the full restriction applying at €400,000 per annum. The revised high earner's restriction will apply for the 2010 tax year.

Mortgage Interest Relief

Mortgage Interest Relief to be abolished entirely by the end of 2017. Qualifying loans taken out before 1st July 2011 will continue to get relief for 7 years.

Transitional measures will be provided for loans taken out between 1st July 2011 and the end of 2013.

Homeowners who are now in negative equity whose mortgage interest relief would expire in 2010, will continue to receive relief up to end of 2017.



Non –Residents

A domicile levy of €200,000 will be imposed on all non tax resident Irish nationals and domiciliaries whose worldwide income exceeds €1 million and whose Irish-located capital is greater than €5 million.

This levy applies regardless of the individual's country of residence.

Farmers

Relief for Income Levy for certain farm expenditure incurred by farmers to comply with the requirements of the EU Nitrates Directive 91/676/EEC.

There were no changes to either the Capital Gains Tax or Capital Acquisition Tax.

VAT

Reduction in the VAT rate

With effect from the 1st January 2010, the standard rate of VAT will revert to the pre-December 2008 rate of 21%.

Excises

Alcohol Excise

The Excise Duty on alcohol will be reduced by 60 cent (including VAT) on 75cl bottles of wine, 14 cent (including VAT) on a half glass of spirits and 12 cent (including VAT) on pints of beer and cider, with effect from midnight on 9th December 2009.

VRT

The VRT exemption in relation to Electric Vehicles and Plug-in Hybrid Electric Vehicles is extended from the 3^{1st} December 2010 until the 31st December 2012.

Car Scrappage scheme

A VRT relief of up to €1,500 will be available from 1 January 2010 to 31 December 2010, where cars that are 10 years or older are scrapped and a new car with low CO2 emission (i.e. emissions of 140g/km or less) is purchased. Certain restrictions will apply.

Carbon Tax

A new Carbon Tax

As expected a new Carbon Tax is being introduced on fossil fuels. The tax will apply to petrol (4.2 cent per litre) and on auto-diesel (4.9 cent per litre) with effect from midnight 9th December 2009. Further increases on Kerosene, Marked Gas Oil, LPG, Fuel Oil and Natural Gas will take effect from the 1st May 2010.

Employers PRSI

€36 million will be allocated to the Employers Job Incentive scheme giving PRSI exemptions to encourage employers to take employees off the dole.



Mazars Tax Partners



Frank Greene

t 01-449 6415
e fgreene@mazars.ie



Noel Cunningham

t 01-449 6408
e ncunningham@mazars.ie



Gerry Vahey

t 01-449 6423
e gvahey@mazars.ie



Paul Mee

t 091-570 100
e pmee@mazars.ie

mazars.ie

Mazars Tax Tip

In addition to the reduction in the VAT rate, major changes will be introduced with effect from 1st January 2010 with regard to VAT compliance and reporting obligations for supplies of services cross border. Suppliers of such services will need to ensure they have adequate systems, controls and procedures in place to meet these new VAT reporting obligations.



MAZARS

Audit | Accounting | Tax | Advisory | Consulting

These notes are based on the budget speech and not on draft legislation, which will not be available until the Finance Bill is published.

Mazars accepts no responsibility for any action which any individual or business may take or not take based on their reading of this fact sheet. Professional advice should be taken before any action is taken.



Income Tax Rates and Bands

Single Person				
Bands	2009		2010	
Standard	20%	€36,400	20%	€36,400
Top	41%	Balance	41%	Balance

Married Couple (dual income)				
Bands	2009		2010	
Standard	20%	€72,800*	20%	€72,800*
Top	41%	Balance	41%	Balance

*Maximum amount allowed where one individual is working is €45,400

Income Levy					
2009			2010		
1st	€75,036	1.67%	1st	€75,036	2%
Next	€25,064	3%	Next	€99,944	4%
Next	€74,880	3.33%	Balance		6%
Next	€75,140	4.67%			
Balance		5%			

PRSI and Levies

PRSI Limits for Employees					
	2009		2010		
PRSI up to 30 Apr from 1 May	First €127 per week	0%	First €127 per week	0%	
	Balance to €52,000	4%	Balance to €75,036	4%	
	Balance to €75,036 (exempt <€352 per week)	4%	(exempt <€352 per week)		
Health Levy	First €1,443 per week	3.333%	First €1,443 per week	4%	
	Next €482 per week	4%			
	Balance (exempt <€500 per week)	4.167%	Balance (exempt <€500 per week)	5%	

PRSI Limits for Employers				
	2009		2010	
PRSI	<€365 per week	7.8%	< €365 per week	7.8%
	>€365 per week	10.05%	> €365 per week	10.05%
Employer Training Fund Levy*	No ceiling	0.7%	No ceiling	0.7%

*Only on Class A and H Employer

PRSI Limits for Self-Employed including Proprietary Director					
	2009		2010		
PRSI	3% of earnings with no ceiling		3% of earnings with no ceiling		
Health Levy	First	€75,036 3.333%	First	€75,036 p.a.	4%
	Next	€25,064 4%			
	Balance	4.167%	Balance		5%
	<€26,000 p.a. exempt		<€26,000 p.a exempt		

Tax Credits

	2009	2010
Personal	€	€
Single	1,830	1,830
Married	3,660	3,660
Widowed	2,430	2,430
One Parent Family Credit (including widowed)	1,830	1,830

PAYE	1,830	1,830
-------------	-------	-------

Child		
Incapacitated child (max)	3,660	3,660

Widowed Parent		
Year 1-5	€4,000 - €2,000	€4,000 - €2,000

Dependent Relative (max)	80	80
---------------------------------	----	----

Blind Person		
Single	1,830	1,830
Married (both blind)	3,660	3,660

Home Carers (max)	900	900
--------------------------	-----	-----

Age Credit		
Single/Widowed	325	325
Married	650	650

Age Exemption Limits - over 65 years of age		
Single/Widowed	20,000	20,000
Married	40,000	40,000

Mortgage Interest				
1 st time buyer*	Year 1 & 2	25%	Year 1 & 2	25%
	Year 3,4 & 5	22.5%	Year 3,4 & 5	22.5%
	Year 6 & 7	20%	Year 6 & 7	20%
Others**	Year 1 to 7	15%	Year 1 to 7	20%

* Claims allowable on interest up to a maximum of €10,000 for a single person and €20,000 for a married couple or widowed persons

** Claims allowable on interest up to a maximum of €1,000 for a single person and €2,000 for a married couple or widowed persons

These notes are based on the Budget speech and not on draft legislation, which will not be available until the Finance Bill is published. Our Budget Release is for general information purposes only and clients should contact our Taxation Department before acting on any matters arising herein.