Mazars Budget Report 2011

In introducing his Budget for 2011, Minister for Finance, Brian Lenihan, predicted that the economy will return to a growth rate of 2.75% of GDP in the years 2011 to 2014. He also indicated that the live register of unemployment had fallen for 3 months in a row and redundancies were 30% lower than the last quarter of 2009. The economy appears to have regained some of the competitiveness that was lost in the boom times and this is evidenced by the growth in exports by 7% in the first half of 2010.

The taxation measures announced in the 4 year National Recovery Plan on 24th November 2010 have been replicated, with some additional items, in the Budget. Significant decreases in the personal and PAYE tax credits will impact on most people and bring some of those who are least able to pay back into the tax net. A new Universal Social Charge will replace the Income and Health levies. The PRSI ceiling for employee contributions will be removed while the rate of PRSI for the self-employed is going up by 33%.

The well leaked cap on pension tax free lump sums has been introduced and all lump sum payments over €200,000 will be taxed at graduated tax rates. The limit on earnings for pension contributions has been reduced to €115,000.

Social Welfare payments in general, with the exception of the old age pension, are being reduced by 4% on average, while child benefit is being cut by €10 per month per child with an additional reduction of €10 for a third child.

In terms of job creation additional funding is being provided under the Skills Development and Internship Programme, the Work Placement Programme; and a new Community Work Placement scheme. It is expected that 15,000 additional jobs/places will be made available under these schemes. The construction sector will welcome the new tax incentive in relation to energy efficiency in homes and also the significant reduction in Stamp Duty on all residential property.

On the business side the continued commitment to the 12.5% rate of Corporation Tax is important in terms of the signal to the international business community. The proposed new Employment and Investment Incentive, to replace the BES scheme, should be welcomed but it is light on detail at the moment; it is hoped that it will have a much broader investment reach than BES. The curtailment of interest relief on monies borrowed to invest in trading companies is somewhat surprising in the current environment when investment in business is required more than ever.

The difference between exchequer receipts and expenditure is €19bn in 2010 while the adjustment to the finances of the State in 2011 is €6bn. Unfortunately, the total economic and financial position for 2011 is not available through the normal route of the book of estimates as the figures in today's documentation reflect income and expenditure on a pre-budget basis and also it does not take into account the measures outlined in the National Recovery Plan. We expected a tough Budget and we certainly got it.

Income Tax

Below is a summary of the Income Tax measures proposed in the 2011 Budget.

Please refer to Annex 1 for action points that should be considered at this time.

Tax Bands and Tax Credits

Income Tax bands and tax credits have been reduced by 10% - See table for more details.

Universal Social Charge

The Health Levy and Income Levy are being abolished and replaced by a new Universal Social Charge (USC) governed by one set of rules on a broad base in 2011, at the following rates and thresholds:

0% < €4,004
2% from €0 to €10,036
4% from €10,036 to €16,016
7% > €16,016

Termination Payments

The tax-free element of ex-gratia termination payments is being restricted to €200,000 so that payments above this amount will be subject to tax at the marginal rate. This change will apply with effect from 1 January 2011.

Artists Exempt Income

A ceiling of €40,000 is being introduced on the tax exempt earnings of artists.

Abolition of Tax Reliefs (from 1 January 2011 unless otherwise stated)

- Rent relief to be phased out over 8 years
- Patent royalty exemption, effective from 24 November 2010
- Tax relief on loans to acquire an interest in certain companies
- Abolition of tax relief for trade union subscriptions
- Termination of accelerated capital allowances for farm buildings and structures for use in the control of pollution
- Tax exemption from benefit in kind for employer provided childcare
- Abolition of tax relief on subscriptions to professional bodies
- Capital expenditure on new machinery and plant for use in mining
- Approved Share Options Scheme, effective from 24 November 2010
- Tax relief for new shares purchased by employees
- Exemption from tax in respect of grants or payments to the National Co-Operative Farm Relief Services Limited

The following are also being introduced:-

- Charge to PRSI and USC on Approved Profit Sharing Schemes, Approved Save-As-You-Earn Schemes, Unapproved Share Options and Share Awards

PRSI Changes

- The employee PRSI ceiling of €75,036 is being abolished
- Class S (Self-Employed) PRSI rate increased from 3% to 4%
- Modified PRSI rates (certain public servants) increased to 4% on incomes in excess of €75,036
- Introduction of a 4% PRSI charge for certain Office Holders.

Relief for Energy Efficiency Measures

Introduction of a new scheme to encourage individuals to make their homes more energy efficient – tax relief to be given up to a maximum expenditure of €10,000 at the standard rate of Income Tax. A credit to be given in the following tax year.

Farmer Taxation – Stock Relief

The existing general 25% stock relief for farmers and the special incentive stock relief of 100% for certain young trained farmers are being extended from 1 January 2011 for a further two years subject to clearance with the European Commission under State Aid rules.

Public Service Pension-related Deduction

From 1 January 2011, the pension-related deduction which is charged to earnings in the public service will be subject to employee PRSI and the USC to be introduced on 1 January 2011.

Pensions

There have been changes in relation to pensions in the following areas:-

- PRSI and USC on employee contributions to occupational pension schemes
- Employers PRSI on pension contributions
- Restriction on the annual earnings limit to determine allowable contributions
- Reduction in the maximum allowable pension fund on retirement for tax purposes
- Increase in the annual imputed distribution for the purposes of Approved Retirement Funds
- Cap on tax-free retirement lump sums that an individual can draw down

Please refer to **Annex 2** for further details on these measures

Property Capital Allowances

The purchase of properties with associated tax reliefs has been curtailed in previous budgets. However, legacy capital allowances are being carried forward. Measures are introduced to restrict the use of these capital allowances, in particular:-

- Restrictions on the capital allowances carried forward will start in 2011 and impact progressively over the coming years
- With effect from 2011, Section 23 relief will be restricted to income from Section 23 property
- A "guillotine" provision will ensure that all unused capital allowances and Section 23 reliefs are lost after 2014.

Please refer to **Annex 3** for further information on these measures

CGT

There has been no change to either the CGT rate or any curtailment of the existing CGT exemptions/reliefs. This however may be announced in next years Finance Bill.

CAT

There has been no change to the rate of CAT (gift tax and inheritance tax). For gifts or inheritances taken on or after 8 December 2010 the tax free thresholds have been reduced to:

- Relationship to donor/testator- child or minor child of deceased parent-€332,084

- Relationship to donor/testator- lineal ancestor, brother, sister, child of brother or sister-€33,208

- Relationship to donor/testator- any other person-€16,604

Corporation Tax

As part of the government's continuing commitment to economic growth and employment creation, the standard Corporation Tax rate of 12.5% has been maintained.

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 has been extended by an additional 3 years to end in 2014.

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

In Budgets 2009 and 2010, we saw a Corporation Tax (including chargeable gains) exemption for trading companies commencing in 2009 and 2010. 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 2011 has extended this relief to companies starting to trade in 2011. However, this scheme is being amended to link the value of the relief available to the amount of employer's PRSI paid by a company in an accounting period subject to a maximum of €5,000 per employee. If the amount of the qualifying employers' PRSI is lower than the reduction in Corporation Tax liability otherwise applicable, relief will be based on the lower amount.

Confirmation of existing tax credit calculation of foreign tax

Schedule 24 Taxes Consolidation Act 1997 sets out the mechanics for determining the amount of the credit for foreign tax paid that can be set against Irish liabilities. Confirmation of the current treatment of relevant trading charges on income for the purpose of computing relief for foreign tax is

contained in the Budget and is effective for Corporation Tax returns and claims for double tax relief made on or after 7 December 2010.

Business Expansion Scheme (BES) revamped

The BES scheme is to be revamped and renamed the Employment and Investment Scheme and will take effect once approval from the European Commission is granted. The limit that can be raised by companies will be increased from €2 million to €10 million and the amount that can be raised in any 12 month period will be increased from €1.5 million to €2.5 million. The existing certification requirements of the BES scheme will be simplified.

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Relevant Contracts Tax (RCT)

The minister proposed significant reform of the RCT regime. A new withholding rate of 20% will apply to subcontractors registered for tax with an established compliance record while the existing 35% rate is retained for subcontractors not registered for tax. Changes are being proposed to the reporting system with a view to reducing fraud.

Stamp Duty

A number of reliefs and exemptions in respect of Stamp Duty on residential properties have been abolished including first time buyer relief and consanguinity relief in respect of residential property.

In addition, Stamp Duty of 1% will apply on residential properties sales valued up to €1 million, with a rate of 2% applying to amounts over €1 million regardless of whether the property is old or new. This applies to property transfers on or after 8 December 2010.

Other Measures

- **Excise Duty** will be increased by 4 cent per litre on petrol and 2 cent per litre on auto-diesel from midnight on the 7 December 2010.
- It is proposed that **Betting Duty** of 1% will now apply on bets made on-line and over the phone from Ireland as it does on bets placed in betting shops in Ireland.
- The rate of **DIRT** on ordinary deposit accounts will increase by 2% to 27% and on longer-term deposits accounts by 2% to 30%.
- The rate of retention tax that applies to **Life Assurance policies and investment funds** will increase by 2% to 27% on payments made annually (or more frequently) and to 30% for payments made less frequently than annually, including deemed payments. The increased rates will apply to payments (including deemed payments) made on or after 1 January 2011.
- **Air Travel Tax** shall be reduced to €3 per departure from 1 March 2011.
- The **car scrappage scheme** and **VRT relief** for certain hybrid and flexible fuel vehicles have been extended.

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

Annex 1 - Actions to be considered in advance of 1 January 2011

- **From 2011, PRSI and the Universal Social Charge will apply to Approved Profit Sharing Schemes and Approved Save As You Earn Schemes. Also, PRSI and the Universal Social Charge will apply to unapproved share option schemes and share awards.**

Individuals who can benefit from any of the aforementioned schemes should consider the possibility of having the benefits made to them in advance of 31 December 2010 (e.g. exercising share options or receiving free shares). One obviously needs to be cognisant of the commercial issues that arise in terms of the timing of any option exercise or receipt of shares.

- **The artists exemption will be curtailed from 2011 so that only €40,000 of previously exempt income will qualify for the exemption.**

Individuals affected by this change may wish to explore the possibility of getting an advance payment made to them before 31 December 2010 so that the artists exemption relief may continue to apply to the income (subject, of course, to the current high earners restriction).

- **From 2011 ex-gratia termination payments and pension lump sums in excess of €200,000 will be taxable.**

For any individuals who are in the process of exiting from their employment or accessing monies from their pension fund, they should consider whether a termination payment should be made or they should draw down their tax-free pension lump sums before 31 December 2010 in order to protect against Budget changes which take affect from 1 January 2011.

- **A new "Business Investment Targeting Employment Scheme (BITES)" will be introduced in 2011 to replace the current Business Expansion Scheme (BES). BES relief is available to investors by allowing them to claim relief of up to €150,000 per annum as a deduction from their total income.**

Individuals who wish to claim tax relief under the current BES rules should ensure that the BES investment is made before 31 December 2010.

- **From 2011, the income cap for the purposes of making tax allowable pension contributions lump sums will be reduced to €115,000.**

If an individual makes a pension contribution in 2011 and claims tax relief on their 2010 tax return then the income cap for the purposes of making tax allowable pension contributions lump sums will be €115,000. If however the pension contribution is made in 2010 for 2010 then the income cap will be €150,000. Therefore (cash flow permitting) individual's may want to consider making their 2010 pension contribution before 31 December 2010 rather then in 2011 to benefit from the higher income cap.

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Annex 2 - Pensions

Employee PRSI on pension contributions

From 1 January 2011, employee contributions to occupational pension schemes and other pension arrangements will be subject to employee PRSI and the Universal Social Charge.

Employer PRSI on pension contributions

The current employer PRSI exemption for employee contributions to occupational pension schemes and other pension arrangements will be reduced by 50% from 1 January 2011.

Contribution limit

The annual earnings limit which (along with age-related percentage limits) determines the maximum tax-relievable contributions for pension purposes is being reduced from €150,000 (2010) to €115,000 for 2011.

The annual earnings limit for the year of assessment 2010 will also be deemed to be €115,000 for the purpose of determining how much of a pension contribution paid by an individual in the 2011 tax year will be treated as paid in 2010, where the individual elects under existing rules to have it so treated.

Maximum allowable pension funds

The maximum allowable pension fund on retirement for tax purposes (known as the Standard Fund Threshold (SFT)) is to be set at €2.3 million with effect from 7 December 2010.

A higher threshold may apply if, on 7 December 2010, the capital value of an individual's pension rights drawn down on or after 7 December 2005 (i.e. crystallised pension rights) and any uncrystallised pension rights when added together are greater than €2.3 million and lower than €5,418,085, which is the current value of the SFT.

Approved Retirement Funds

The annual imputed distribution which applies to the value of assets in an Approved Retirement Fund (ARF) at 31 December each year is being increased from 3% to 5% in respect of asset values at 31 December 2010 and future years.

Retirement lump sums

The overall life-time limit on the amount of tax-free retirement lump sums that an individual can draw down from pension arrangements is being reduced to €200,000. The excess of this amount will be taxed at the standard Income Tax rate (20%) up to an amount equal to 25% of the new Standard Fund Threshold (up to €575,000). The excess of retirement lump sum payments over that amount will be taxed at the taxpayer's marginal rate of Income Tax.

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

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Annex 3 - Property Based Capital Allowances

The various property-based tax relief schemes are being restricted in the following manner:

Section 23 Type Relief

- From 1 January 2011, this will be restricted to income from the Section 23 property itself (currently such income can be set against all rental income).

- At end of 10 year holding period, any unused relief will be lost. If property is sold within this period, the new owner cannot claim Section 23 relief and the seller continues to be subject to a clawback of relief already given.

For Section 23 properties yet to be sold, for which the relief has yet to be claimed, the 10-year qualifying period will start on 30 June 2011 regardless of the date of the first qualifying lease. Therefore, in such cases no Section 23 relief will be available after 30 June 2021.

- Residential owner-occupier relief is unaffected by these changes.

Capital Allowances

- With effect from Budget day, any unused capital allowances carried forward beyond the 7 year period within which the allowances are made will be lost as follows: 7-year period – 7-year schemes; 10-year period – 10 year schemes.

- From 2011 onwards, capital allowances will be restricted to offset against income from the property which gave rise to them, whether rental or trading income, with no setting sideways against any other form of income.
- Schemes with a period over 10 years which has not ended will be truncated to 7 years from when allowances are first made.

- Capital allowances limited by truncation will be reduced by 20% and may be made evenly in the 2011 tax year and all subsequent years of assessment up to and including the 7th year after the allowance was first made.

Guillotine from 2014

Termination of all unclaimed and unused capital allowances, arising after or carried forward from 2014 as well as unused Section 23 relief carried forward from 2014.

An impact assessment will be undertaken into the effects of the phased abolition of the property-base measures and the 'guillotine' provision.

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Mazars Summary of Tax Changes - Budget 2011

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Income Tax Rates and Bands

Single Person				
Bands	2010		2011	
Standard	20%	€36,400	20%	€32,800
Top	41%	Balance	41%	Balance

One parent / Widowed Parent				
Bands	2010		2011	
Standard	20%	€40,400	20%	€36,800
Top	41%	Balance	41%	Balance

Married Couple (dual income)				
Bands	2010		2011	
Standard	20%	€72,800*	20%	€65,600*
Top	41%	Balance	41%	Balance

*Maximum amount allowed where one individual is working is €41,800

Universal Social Charge		
First	€10,036	2%
Next	€5,980	4%
Remainder		7%*
Total Income below €4,004 is exempt from USC		

*4% for people aged 70 or over

PRSI

PRSI Limits for Employees		
	2010	2011
PRSI	First €127 per week 0% Balance to €75,036 4% (exempt <€352 per week)	First €127 per week 0% Balance 4% (exempt <€352 per week)

PRSI Limits for Employers		
	2010	2011
PRSI	<€365 per week 7.8% >€365 per week 10.05% No ceiling	< €365 per week 7.8% > €365 per week 10.05% No ceiling
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		
	2010	2011
PRSI	3% of earnings with no ceiling	4% of earnings with no ceiling

Tax Credits

	2010	2011
Personal	€	€
Single	1,830	1,650
Married	3,660	3,300
Widowed	2,430	2,190
One Parent Family Credit (including widowed)	1,830	1,650
PAYE	1,830	1,650
Child		
Incapacitated child (max)	3,660	3,300
Widowed Parent		
Year 1-5	4,000 - 2,000	3,600 - 1,800
Dependent Relative (max)	80	70
Blind Person		
Single	1,830	1,650
Married (both blind)	3,660	3,300
Home Carers (max)	900	810
Age Credit		
Single/Widowed	325	245
Married	650	490
Age Exemption Limits - over 65 years of age		
Single/Widowed	20,000	18,000
Married	40,000	36,000
Rent Allowance		
Single - Under 55	2,000	1,600
Single - Over 55	4,000	3,200
Married - Under 55	4,000	3,200
Married - Over 55	8,000	6,400

Mortgage Interest				
1st 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	15%

* 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 €3,000 for a single person and €6,000 for a married couple or widowed persons

These notes are based on the Budget speech and Financial Resolutions and not on 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.