

BUDGET REPORT

2009

Main Features

- Introduction of income levy
- Increase in VAT rate
- Increase in the rate of Capital Gains Tax
- Mortgage increase relief increased for first time buyers
- Air Travel Tax
- Increase in DIRT
- Preliminary tax payment changes
- Increase in Research and Development credit
- Decrease in pension contribution limits

Introduction

'We find ourselves in one of the most difficult and uncertain times in living memory' (Brian Lenihan)

For those among us that feared that the Minister for Finance would deliver a tough budget we were not appeased by his opening statements nor the provisions that followed.

This budget contained increases in Capital Gains Tax and VAT and the introduction of a belt tightening income levy of 1% on gross income up to €100,100 and 2% on income in excess of this amount. These measures are estimated to generate additional tax revenues of €1,567 million. However, these provisions go hand in hand with a number of other stinging tax measures e.g. an increase in DIRT, a decrease in tax relief for health expense and pension contribution limits.

The Minister has shown his creative flair with the introduction of new taxes/levies to the Irish tax system such as the Air Travel Tax, the new 'charges' on non-principal private residences and employer provided car parking facilities. We must wait and see what impact the increased VAT rate will have on consumer spending and inflation.

The budget does provide some parties with relieving provisions. The extension of stamp duty relief for young farmers and farm consolidations and the extension for farmer's stock relief will be welcomed by the farming community. The reduction in the top rate of stamp duty on commercial property from 9% to 6% and the Corporation Tax exemption for new company start-ups will be a boost for businesses starting up or expanding in this challenging business environment.

From an international perspective, the government commitment to retaining the 12.5% rate of Corporation Tax sends out a clear message. The Minister is anxious that Ireland is competitive in the global economy and the increase in the research and development credit to 25% and the desire to facilitate the siting of intellectual property in Ireland is welcomed.

Corporation Tax

The standard Corporation Tax rate of 12.5% has remained unchanged. Other changes in this area are as follows:

Tax credit scheme for Research and Development Expenditure

The credit for incremental expenditure on qualifying research and development expenditure is being increased from 20% to 25% and will apply to accounting periods commencing on or after 1 January 2009.

Preliminary tax changes

For large companies with a Corporation Tax liability of more than €200,000 in their previous accounting period, two instalments of preliminary tax will be required for accounting periods commencing on or after 14 October 2008. The first instalment, amounting to either 50% of the liability for the prior year or 45% of the final liability for the current year, is payable in the sixth month of the accounting period. The second instalment will continue to be payable in the eleventh month of a 12 month accounting period and the amount payable is required to bring the total preliminary tax paid to 90% of the Corporation Tax liability for the current accounting period.

Exemption from Corporation Tax including capital gains for the first 3 years for certain new start up companies

New start-up companies commencing to trade in 2009 will be exempt from Corporation Tax including capital gains in each of the first 3 years of trading to the extent that their tax liability in the year does not exceed €40,000.

Capital Allowances on energy efficient equipment

The categories of expenditure for which there are 100% first year allowances available for certain energy efficient equipment have been extended from three to seven. The new categories are:

- Data server related systems and large energy saving office equipment associated with Information and Communications Technology;
- Efficient heating/electricity provision and control systems;
- Efficient electrical and control equipment associated with process & heating and air-conditioning systems;
- Alternative fuel vehicles.

Capital Allowances for newly constructed commercial buildings

Where newly constructed commercial buildings are used before sale, the one year time limit currently in place for disposal prior to restrictive measures being introduced for the purchaser is being extended to two years.

Sevesco-listed industrial facilities

A new ring fenced tax incentive scheme to facilitate the removal and relocation of Sevesco listed industrial facilities in certain areas will be introduced. This is subject to clearance by the EU commission.



Income Tax

Tax Bands

The standard rate tax band will be increased by €1,000 to €36,400 for a single person and to €45,400 for married couples with one income. The band for married couples with two incomes will be increased by €2,000 to €72,800.

Income Levy

A new income levy is being introduced that will apply at the rate of 1% to gross income up to €100,100 per annum. A rate of 2% will apply to income in excess of that amount. The levy will be paid on gross income, before deductions for capital allowances or contributions to pensions. The levy will not apply to social welfare payments including contributory and non-contributory social welfare pensions.

PRSI and Levy

The employee PRSI contribution ceiling will be raised from €50,700 to €52,000 with effect from 1 January 2009.

Mortgage Interest Relief

The current rate of mortgage interest relief is being increased from 1 January 2009 for first-time buyers from 20% to 25% in year 1 and year 2 and to 22.5% in years 3, 4 and 5. The additional relief will be available to new first-time buyers and first-time buyers who have bought a house in the last 4 years.

The rate of mortgage interest relief for non-first time buyers is being reduced from 20% to 15% from 1 January 2009.

Health Expenses Relief

Health expenses relief will be granted at the standard rate (20%) only from 1 January 2009, with the exception of nursing home expenses which will be standard rated from 1 January 2010.

Levy on employee car parking facilities

A flat rate levy of €200 per annum will be charged on employees whose employer provides them with car parking facilities. The levy will be confined to employer provided car parking facilities situated in the main urban centres.

Cycle to work scheme

From 1 January 2009, the provisions of bicycles and associated safety equipment by employers to employees who agree to use the bicycles to cycle to work will be treated as a tax exempt benefit-in-kind. The exemption may only apply once in any 5 year period in respect of any employee. There will be a limit on the value of such purchases of €1,000 for each employee.

Benefit-in-Kind (BIK) for company cars

The Finance Bill will contain provisions to change the basis of the BIK charge on company cars to relate it to the car's level of CO2 emissions.

Increase in DIRT

The rates of retention tax that applies to deposit interest, together with the rates that apply to life assurance policies and investment funds will be increased to 23% and 26% respectively. These rates will apply to payments made on or after 1 January 2009.

Residential properties

A new charge of €200 will be payable by the owners of private rented accommodation, holiday homes and other non-principal private residences. This charge will not apply to new dwellings which are not sold yet. The measure will be subject to the introduction of new legislation by the Minister for the Environment, Heritage and Local Government.

Pension Contribution Limit

The annual earnings limit for determining the maximum tax relievable contributions for pension purposes will be €150,000 for 2009 as compared with the 2008 limit of €275,239.

Indexation of maximum allowable pension funds

The adjustment, in line with an earnings index, of the maximum allowable thresholds for pension funds on retirement (the Standard and Personal Fund Thresholds) will not be made for 2009.

Medical Card for over 70s

There will no longer be an automatic entitlement to a medical card for the over 70s. A cash grant will be paid to people over 70 who don't qualify for a medical card or a GP Visit Card under normal criteria.

Child benefit

As regards existing and future qualifying children for Child Benefit aged 18, a half rate payment will be made from January 2009. The entitlement for Child Benefit will cease from 1 January 2010 once the child has attained the age of 18 years.

VAT

Increase in VAT rate

The standard rate of VAT will increase from 21% to 21.5% with effect from the 1 December 2008. This increase will apply to all goods and services which are currently subject to VAT at the 21% rate.

Capital Gains Tax

Change in rate of tax

The rate of Capital Gains Tax is being increased from 20% to 22% in respect of disposals after midnight on 14 October 2008.

The Minister for Finance has advised that the rate of Capital Gains Tax will continue to be reviewed by the Government on an ongoing basis.

Change in payment dates

The payment date in respect of disposals in the period from January to November is being amended to mid-December. Capital Gains Tax arising on disposals in December will be due the following 31 October (i.e. the existing Income Tax pay and file deadline).

Stamp Duty

Stamp Duty on Commercial Property

The top rate of Stamp Duty on non-residential property is being reduced from 9% to 6% in respect of instruments executed on or after 15 October 2008 as an incentive for commercial development and investment. The revised rates for non-residential property are as follows:

Aggregate Consideration	Rate of Duty
< €10,000	Exempt
€10,001 - €20,000	1%
€20,001 - €30,000	2%
€30,001 - €40,000	3%
€40,001 - €70,000	4%
€70,001 - €80,000	5%
Over €80,000	6%

The stamp duty rates on residential property have not been changed.

Young Trained Farmers

The stamp duty relief for Young Trained Farmers will be extended for a further four years to 31 December 2012. This relief was due to terminate on 31 December 2008.

Farm Consolidation

The stamp duty relief available to a farmer consolidating his / her holding is being extended to 30 June 2011. The relief was due to terminate on 30 June 2009.

Miscellaneous measures

The stamp duty rate applicable to ATM and debit cards has been halved from €5 to €2.50, and from €10 to €5 in relation to combined ATM/debit cards.

The stamp duty rate on Bills of Exchange (including cheques) has been increased from 30c to 50c in respect of Bills of Exchange drawn on or after 15 October 2008. In the case of cheques, this increase will apply in respect of cheques supplied by financial institutions to customers on or after 15 October 2008. This increase is being introduced to encourage the use of electronic payment methods.



Excise Duty

The Minister has substantially increased the rate of excise duty on tobacco and certain alcohol products. Excise duties on a packet of 20 cigarettes and on a standard bottle of wine will increase by €0.50. Mineral oil tax on petrol will increase by 8 per cent per litre.

The Minister has however introduced a reduced rate of excise duty on low alcoholic beer and cider, at 50% the rate that applies to the standard beer and cider.

The excise changes are all VAT inclusive and take effect from midnight on 14 of October 2008.

Excise licenses

The Minister announced a €500 increase in a range of alcohol-related licensing fees, including off-licenses but excluding pub licenses. These increases will apply from the appropriate annual renewal dates in 2009.

Betting

The betting duty rate will increase from 1% to 2% with effect from 1 January 2009.

Air Travel Tax

The Minister announced a new Air Travel Tax that will apply to certain departures from Irish airports. The general rate will be €10 per passenger with a lower rate of €2 for shorter air journeys. These provisions will come into effect on the 30 March 2009. This tax will not apply to children under two, disabled and transit passengers and on aircraft with less than 20 passenger seats.

Tax on Motor Vehicles

The Motor Tax rates will increase with references to the Co2 band. Motor Tax for vehicles classed in bands E, F and G will increase by 5%. Motor Tax on all other vehicles will increase 4% with the exception of electric vehicles.

Trade plate licenses will also increase by 4%.

The new rates will apply for tax discs and licenses that relate to periods beginning on or after the 1 of January.



Mazars Tax Tip

At a time when we are witnessing many changes in the tax, financial and business environments, now is a good time to consider undertaking a review of your tax affairs with the help of your tax advisor.

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