

Budget 2010

As widely anticipated, the Budget focused mainly on cutting expenditure, but also included various taxation measures.

The tax highlights...

- No changes to income tax rates, income levy, or PRSI for 2010. Universal social contribution scheme to replace PRSI, the health levy, and income levy to be introduced in 2011
- No change to income tax bands, allowances or credits
- Increase in effective tax rate for high earners to 30% (plus PRSI and levies) for 2010
- Non-resident Irish nationals or Irish domiciled individuals with worldwide income in excess of €1m and Irish located capital in excess of €5m will be subject to an Irish domicile levy of €200k per annum
- Introduction of a carbon tax at the rate of €15 per tonne
- Reduction in rates of excise duty on beer and cider, wine and spirits. No change to rates of duty on tobacco products.
- Introduction of car scrappage scheme for cars of ten years and older
- Decrease in standard VAT rate from 21.5% to 21%
- Further enhancements to the R&D tax credit regime and Intellectual Property regime may be included in the Finance Bill
- Measures to bolster Ireland's competitiveness as a centre for international financial services to be introduced in the Finance Bill
- Reiteration of commitment to 12.5% corporation tax rate

Taxation of individuals

Domicile levy

Non-resident Irish nationals and domiciled individuals, whose worldwide income exceeds €1,000,000 and whose Irish located capital is greater than €5,000,000 will be required to pay an Irish domicile levy of €200,000 per annum regardless of where they are regarded as resident for tax purposes. The full impact of this levy will be detailed in the forthcoming Finance Bill.

Restriction of tax reliefs for high earners

Further restrictions on the use of tax reliefs and exemptions by high earners will be introduced for the tax year 2010. The restrictions will apply by increasing the effective rate of income tax on income sheltered by such reliefs to 30% (previously 20%). The entry level to which the restriction will apply is being reduced from €250,000 to €125,000. Tapering relief will apply on adjusted income between €125,000 and €400,000 with the full restriction applying thereafter.

It is also proposed that by 2011 “income tax will apply on a progressive basis to those with higher incomes reflecting their capacity to make a greater contribution”.

Pension lump sums on retirement

In accepting one of the recommendations from the Commission on Taxation Report, the Minister flagged that he will consider limiting tax free pension lump sums on retirement to €200,000. Furthermore, the tax treatment of sums above that level and the tax treatment of pensions, including plans for a consolidated 33% rate of tax relief, will require further consideration. More precise details on these pension related amendments are expected to be published shortly.

Universal social contribution

In what might be viewed as a positive development it is proposed to consolidate all current employee social insurance payments and levies into a universal social contribution by 2011. This contribution will replace the existing employee PRSI, health and income levy charges. The level at which the contribution will be applied remains to be seen. While the announcement does suggest that it will be applied at a low rate but on a wide base, it is difficult to see how the current tiered system would not be replicated to some extent.

Employee PRSI ceiling maintained

In a surprising development, the current €75,036 earnings ceiling on employee PRSI contributions remains unchanged. The expectation is that the ceiling will be abolished in the context of the universal social contribution.

Increased funding for the employer PRSI exemption scheme

As part of the jobs stimulus measures, additional funding for the employer PRSI exemption scheme has been announced. Although full details are not yet available, the press release issued by the Minister for Social and Family Affairs suggests that the scheme will allow for a one year exemption from employers’

PRSI for new employees recruited to take up new positions where the individual has been unemployed for a period of six months or more.

Mortgage interest relief

In a welcome development, individuals who find themselves in negative equity and whose entitlement to mortgage interest relief would otherwise cease in the tax year 2010 or after, can continue to claim relief until the tax year 2017.

Provision will also be made so that mortgage interest relief can also be claimed for a period of seven years by individuals who purchase a house over the next three years, subject to satisfying certain conditions.

It has also been signalled that it is intended to abolish mortgage interest relief entirely by the end of the 2017 tax year.

Opportunities for employers

There were no amendments to tax reliefs available on share based pay. Given the personal tax increases over the last series of budgets, employers are now likely to pay particular attention to Revenue approved share plan structures. In addition, all share plans appear to have remained outside the PRSI net, thereby offering savings opportunities for both employers and their staff.

Environmental taxation

Carbon tax

The much publicised and widely anticipated carbon tax has now been introduced. The tax will apply to the following categories of fuel which are supplied in Ireland:

- transport fuels; *petrol and auto-diesel*,
- non-transport fuels; *oil and gas* and
- solid fuels; *commercial peat and coal*

Implementation dates will vary. The tax will apply to petrol and auto-diesel with immediate effect. From 1 May 2010 it will be extended to oil and gas. The application to coal and commercial peat is subject to a commencement order, due to various administration issues which need to be considered.

Carbon tax will apply at a price of €15 per tonne resulting in the following price increases (prices VAT inclusive):

petrol (per litre)	€0.042
auto diesel (per litre)	€0.049
kerosene (per 1000 litres)	€43.14
marked gas oil (per 1000 litres)	€46.87
LPG (per 1000 litres)	€27.97
natural gas (per 13,750kwh)	€47.86
light fuel oil (per 1000 litres)	€52.15
peat briquettes (per bale)	€0.39
coal (per 40kg)	€1.79

Participants of the EU emissions trading scheme (ETS) will be exempt from the tax. The Budget does not, however, provide any guidance to businesses who supply fuel to companies who operate a mixture of ETS approved installations and other operations. There has been mention of the carbon tax being charged in full with a refund mechanism for supplies to exempt installations.

From an administrative perspective, while excise duties on mineral oils are payable on a daily basis, payment of the carbon tax will be due by the 15th day of the month following the month of supply. The Budget states that this system will apply to supplies of transport fuels. It is unclear if a different regime will apply to other fuels in due course.

Interestingly, there is no mention of the much advocated visibility requirement which was recommended as a tool to induce behavioural change and encourage consumers to switch to renewable energy sources.

A vouched fuel allowance scheme is to be developed to offset the increases for low income families. It is intended that the yield from the carbon tax will be used to boost energy efficiency, to support rural transport and to alleviate fuel poverty. The carbon tax will also allow the Government to maintain or reduce payroll taxes.

It is hoped that the introduction of this tax will encourage innovation by incentivising companies to bring low carbon products and services to the market.

Biofuels and certain blended biofuels will be exempt from the carbon tax.

Energy efficient equipment

The scheme of accelerated capital allowances for energy efficient equipment is being enhanced to include additional categories of qualifying equipment, including:

- Refrigeration and cooling systems
- Electro-mechanical systems, and
- Catering and hospitality equipment

Water charges

Preparations are underway to introduce a system of water metering for homes. When introduced, water charges will be based on consumption, above a free allocation.

Cash grants for business under pressure

Employment Subsidy Scheme (open from now until 23 December 2009).

[For details click here](#)

Business taxation

Corporation tax

The Minister has commented that the 12.5% corporation tax rate is an effective - and internationally recognised brand of Ireland Inc, and a powerful expression of Ireland Inc's pro-business culture. In a clear signal, the Minister has again confirmed that the 12.5% rate will not change, and is here to stay.

Start-up companies

A welcome measure was introduced in Budget 2009 in respect of new start-up companies which commenced trading in 2009. Such companies are exempt from corporation tax and capital gains tax in each of the first three years to the extent that their tax liability for the year does not exceed €40,000. This measure is being extended to companies which commence trading in 2010.

R&D tax credits & Intellectual property regime

The Minister commented that he was looking forward to receiving the report of the Innovation Taskforce and considering its recommendations in the context of the 2010 Finance Bill.

International financial services

The Minister noted the significant opportunities which exist in the international financial services sector for centralising high value added activities in Ireland. The Minister referred to important changes to be introduced in the Finance Bill which will strengthen Ireland's competitive advantage in this area. We believe that the Minister may be referring to positive legislative changes that would enhance Ireland's attractiveness as a holding company location.

In addition, the Finance Bill will contain specific measures aimed at improving Ireland's attractiveness as a European hub for the international funds industry. This is a very welcome development in light of the adoption of the UCITS (Undertakings for Collective Investments in Transferable Securities) IV Directive on 22 June 2009 and the expected adoption of the AIFM (Alternative Investment Fund Managers) Directive in 2011. These measures in the Finance Bill are likely to facilitate Ireland positioning itself as the jurisdiction of choice within the EU for the location of investment management companies and investment funds.

VAT

The Minister has reduced the standard rate of VAT from 21.5% to 21% with effect from 1 January 2010. Businesses will need to ensure that invoices and credit notes issued post 1 January 2010 show the VAT rate appropriate to the supply.

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Excise duties

Alcohol

With effect from 10 December 2009, the following changes have been made to excise duty on alcohol:

- the excise duty on beer and cider will decrease by 12 cent per pint (including VAT);
- the excise duty on spirits will decrease by 14 cent per half glass (including VAT);
- the excise duty on wine will decrease by 60 cent per 75cl bottle (including VAT).

Tobacco

There will be no increase in excise duties on tobacco.

Vehicle registration tax (VRT)

The Budget introduces a car scrappage scheme which will run from 1 January 2010 to 31 December 2010 and provides for VRT relief of up to €1,500. Certain cars of ten years or older may be scrapped under the scheme where a new car (or other category A vehicle) is purchased with CO2 emissions of 140g/km or less.

The VRT exemption for electric vehicles and the VRT relief for hybrid electric vehicles are being extended for two years to 31 December 2012.

Other measures

- A property tax is expected to be introduced in the future
- The introduction of a National Solidarity Bond has been announced
- For new entrants to the public sector the Minister announced the introduction of a new pensions regime, with final pensions being based on career average earnings and not final salary. The minimum retirement date will move to 66 years. For all public servants the rate of increase of pensions in payment will no longer be necessarily based on public sector wage increases but may be linked to CPI movements going forward.

For further information visit pwc.com/ie/budget

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