

BUDGET REPORT 2007



Main Features

- Marginal tax rate reduced from 42% to 41%
- Personal tax credits and rate bands increased
- Mortgage interest relief increased by 100% for first time buyers
- Increase in levies from 2% to 2.5% on income in excess of €100,100
- Increase in VAT registration thresholds
- VAT deductibility for conference accommodation costs
- Retirement relief threshold from capital gains tax increased by €250,000
- Significant reliefs for smaller companies in relation to payment dates for corporation tax
- BES and Seed Capital reliefs extended to 2013 with increase in limits for personal investment
- Enhanced relief for investment in research and development by companies
- Stamp duty exemption for sporting bodies

Introduction

Overall this was a positive Budget with the Minister spreading his largesse widely. Indications that the top rate of income tax would be reduced by 1% to 41%, and that social welfare and pensions would be increased generously were proved to be correct. The increase in Health Levy from 2% to 2.5% will only effect those who earn more than €100,100 p.a.

The Budget contains no significant changes on stamp duty, rather the Minister is targeting relief at first time owners by doubling the mortgage relief to €8,000 p.a. for single persons and to €16,000 p.a. for married or widowed persons.

The announcements that the BES and Seed Capital Reliefs will be extended for a further seven years are to be welcomed. Other pro-business measures include the deductibility of conference related accommodation expenses for VAT purposes – this will aid the Hotel Conference Sector – and the announcement that the base year for incremental R&D expenditure will be left at 2003 for a further three years to 2009. Business owners including farmers aged 55 years or over will welcome the increase in the tax-free threshold for CGT purposes on retirement to €750,000 from €500,000.

Sporting Bodies will be pleased with the proposed exemption from stamp duty on the purchase of land for sporting use.

Finally, the proposed measures at reducing and simplifying tax administration will be viewed positively by both individuals and businesses alike, particularly the proposals in relation to preliminary tax for new-start up companies and companies with a corporation tax liability of less than €150,000.

CORPORATION TAX

While there is no change in the standard corporation tax rate of 12.5%, a number of changes have been made in this area, including an extension and improvement of some significant tax reliefs.

Payment Date

Companies are required to make an "advance" payment of corporation tax approximately one month before their year-end. Where their previous year's liability exceeded €50,000 they were required to estimate the actual tax likely to arise in the current year and pay 90% of this amount by that date. In a welcome move, the Minister has indicated that all companies with a tax liability of less than €150,000 in the previous year can now calculate the advance payment as 100% of the prior year's liability.

In addition, new start up companies will also be exempt from making any such advance payment of tax in their first year of business where their tax liability does not exceed €150,000 adjusted on a pro-rata basis for accounting periods of less than 12 months.

BES and Seed Capital Relief

These reliefs have been extended for a further 7 years until 2013. In addition, the maximum investment that a company may raise through these tax based reliefs has increased from €1million to €2million, although the maximum that can be raised in any twelve month period is €1.5 million. The maximum investment by any one investor in a year has been increased from €31,750 to €150,000 in the case of BES relief and to €100,000 where an investment is made under the seed capital relief scheme.

R&D Tax Credit

A tax credit of 20% has been available to companies for the last number of years in relation to qualifying research and development expenditure. To qualify for tax relief the company had to incur additional expenditure over and above what it had incurred three years previously. This meant that, as companies increased their R&D spend over time, the relief available would have decreased. However, the Minister has now proposed that for the next three years qualifying expenditure will be based on the incremental costs incurred in any one year compared to 2003, thus ensuring that companies are not penalised by increasing R&D spend in the intervening years.

In addition, companies will in future be allowed to subcontract up to 10% of their R&D activity to independent third parties.

Investment in Renewable Energy

The existing relief whereby companies can claim a tax deduction for investing in shares in companies setting up renewable energy projects has, subject to EU approval, been extended for a further 5 years.

Capital Allowances

The ceiling above which capital allowances on motor cars cannot be claimed has increased to €24,000.

STAMP DUTY

Sports Bodies

A stamp duty exemption has been introduced for sports bodies. This applies to bodies which are already entitled to relief from income tax and capital gains tax under Section

235 of the Taxes Consolidation Act 1997. The exemption will relate to purchases of land for the purposes of promoting games or sports. The details of this exemption will be included in Finance Bill 2007.

Stamp Duty on Mortgage Deeds

The stamp duty charge in relation to mortgages is being abolished on mortgage deeds executed on or after 7 December 2006.

INCOME TAX

The total cost of Income Tax changes in this year's budget is €1.262 billion. The largest element of this expenditure is accounted for by an increase in the Personal Tax credit, Employee Tax Credit and Standard Rate Band, together with a reduction in the Higher Tax rate.

1. Personal Tax Credits

With effect from 1 January 2007, the following changes will be introduced:

- Personal tax credits will increase by €130 for single persons and €260 for married couples, to €1,760 and €3,520 respectively.
- The employee credit will be increased from €1,490 to €1,760.
- Incapacitated child credit will be increased by €1,500 to €3,000.
- Blind person credit will be increased from €1,500 to €1,760 for single individuals and to €3,520 for married couples, where both spouses are blind.
- The widowed person's credit will increase from €500 to €550.
- There are also additional credits being provided for widowed parents.
- The age credit will be increased from €250 to €275 for single individuals and from €500 to €550 for married couples.

2. Tax Bands and Rates

The standard rate band has increased by €2,000 to €34,000 for single individuals and to €43,000 for married couples with one income. The band for married couples with two incomes has increased by €4,000 to €68,000.

The existing Standard Tax rate of 20% has not been amended. However, the Higher Tax rate will be reduced from 42% to 41%.

3. Income Exemptions

The income exemption for low earners aged 65 and over has increased from €17,000 to €19,000 for single individuals and from €34,000 to €38,000 for married couples.

4. PRSI and Levies

The employee PRSI contribution ceiling will be raised from €46,600 to €48,800 and the employee weekly threshold will be increased from €300 to €339.

The exemption limit for the payment of levies has increased from €440 per week to €480 per week. The levies rate will be increased by 0.5% to 2.5% for earners whose income is in excess of €1,925 per week (€100,100 per annum).

5. Rent paid by Certain Tenants to Connected Parties

From 1 January 2007, it is proposed to close all use of the Rent-a-Room scheme where the rent received is from connected persons who in turn are claiming rent relief.

6. Childminding relief

Relief from income tax was introduced last year for income earned in the provision of certain childminding services. The relief now available has increased to a maximum amount of €15,000 per annum. Where income exceeds €15,000 per annum, the full amount is chargeable to tax.

7. Mortgage Interest Relief

The current annual ceiling on the amount of interest that can be allowed on a mortgage is being doubled for first-time buyers from €4,000/€8,000 single/married to €8,000/€16,000 single/married. The increased relief will be available to all first-time buyers who are in the first seven years of their mortgage.

The ceiling for non-first-time buyers is also being increased, from €2,540/€5,080 single/married to €3,000/€6,000 single/married.

8. Preferential Loans

The specified rate in respect of home loans will be increased from 3.5% to 4.5% and in respect of other loans from 11% to 12%.

9. Deposit Interest Retention Tax

Previously, an individual had to claim a refund of DIRT deducted by the financial institution, where they were exempt from income tax and over 65 or permanently incapacitated. Now, the individual may notify the institution of their status and receive interest without deduction of DIRT.

10. Tax Clearance Certificates

In relation to the award of a public sector contract or grant, the threshold requiring a tax clearance certificate is being increased from €6,500 to €10,000.

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 2007 for a further two years subject to European Commission approval.

Leased Land Exemption

Certain tax exemptions apply for income derived from certain leases of farmland. From 1 January 2007, a new exemption of €20,000 per annum will be introduced for leases of 10 years or more duration. This measure is subject to approval from the European Commission under State aid rules.

Stamp Duty Relief for Farm Consolidation

Stamp duty relief for exchanges of farmland between two farmers for the purposes of consolidating each farmer's holdings was extended for a further two years to 30 June 2009. The relief will also be extended to qualifying exchanges of land where only one farmer is consolidating his/her holding. These changes are subject to approval from the European Commission.

Stamp Duty Relief for Young Trained Farmers

Stamp duty relief is available for farmers acquiring land, who are aged under 35 and have specific agricultural training. Amendments are now being made to the education criteria and refunds procedure in this relief.

Capital Gains Tax Retirement Relief – Disposal of Leased Land

An exemption from CGT applies in the case of individuals aged 55 and over who dispose of qualifying business or farming assets. In order for a farming asset to qualify under the relief it must have been owned and used for farming purposes for at least ten years prior to disposal. The relief is

now being extended where the land had been leased prior to disposal if:-

- the land in question has been leased for no longer than 5 years prior to disposal
- the land has been owned and used by the farmer for ten years prior to the initial letting of the land and
- the land must be disposed of to the person who was leasing the land

CAPITAL ACQUISITIONS TAX

CAT agricultural relief provides relief from CAT on 90% of the value of a gift or inheritance. The Minister has amended the rules for qualifying for the relief. For the purpose of the 80% test a person can now include the borrowings on an off-farm principal private residence against the property's value.

CAPITAL GAINS TAX

Retirement relief, which grants an exemption from capital gains tax on the disposal of business/farming assets has been extended to cover disposals where the consideration is less than €750,000, an increase of €250,000 on the previous limit.

VAT**Registration Thresholds Increase**

Registration limits to be increased from €27,500 to €35,000 for services and from €55,000 to €70,000 for goods.

VAT returns filing frequency – changes for small business

Under new measures announced by the Minister today, small businesses will have the option of filing VAT returns on a half-yearly basis if their annual liability is less than €3,000, and once every four months where the annual VAT liability is between €3,001 - €14,400.

Cash basis of accounting – Increase in threshold to €1 million

Threshold below which a business may opt to account for VAT on a cash basis to be increased from €635,000 to €1,000,000.

VAT rate changes – Miscellaneous

VAT rate on child car seats to be reduced from 21% to 13.5%.

The flat-rate farmer subsidy of 4.8% to be increased to 5.2%.

VAT Deduction for accommodation costs of attendees at conferences in Ireland.

The Minister announced that after successful lobbying by interests in the Irish Tourism sector, he will be introducing amending legislation in the forthcoming Finance Bill to allow a deduction for conference related accommodation expenses.

VAT on Property Review

The Minister announced that although the review of VAT on Property which has been carried out by the Revenue Commissioners recommends significant changes to the system, this will not happen before the 2008 Finance Act and then not before a wide ranging consultation process with all interested parties.

INCOME TAX RATES & BANDS

SINGLE PERSON				
Bands	2007		2006	
Standard	20%	€34,000	20%	€32,000
Top	41%	Balance	42%	Balance

MARRIED COUPLE (DUAL INCOME)				
Bands	2007		2006	
Standard	20%	€68,000*	20%	€64,000
Top	41%	Balance	42%	Balance

*Maximum amount allowed where one individual is working is €43,000 in 2007

PRSI AND LEVIES

PRSI Limits for Employees and Employers

EMPLOYEE	2007	2006
PRSI	First €127 per week 0% Balance to €48,800 4% (exempt <€339 per week)	First €127 per week 0% Balance to €46,600 4% (exempt <€300 per week)
Health Contribution	<€480 per week 0% >€480 per week 2%**	<€440 per week 0% >€440 per week 2%
EMPLOYER	2007	2006
PRSI	<€356 per week 7.8% >€356 per week 10.05% No ceiling	<€356 per week 7.8% >€356 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 ** Rate increased to 2.5% for earners whose income exceeds €1,925 per week		

PRSI Limits for Self-Employed including Proprietary Director

	2007	2006
PRSI	3% of earnings with no ceiling	3% of earnings with no ceiling
Health Contribution	<€24,960 p.a. 0% >€24,960 p.a. 2%**	<€22,880 p.a. 0% >€22,880 p.a. 2%

** Rate increased to 2.5% for earners whose income exceeds €1,925 per week

PRSI/LEVIES

The main changes to PRSI and levies are as follows:-

- The ceiling for employee's PRSI has been increased from €46,600 to €48,800 with effect from 1 January 2007.
- Health Contribution Threshold increased from €440 to €480 per week.
- Rate increase by 0.5% to 2.5% for earners whose income is in excess of €1,925 per week (€100,100 per annum).

TAX CREDITS FOR 2007

	2007	2006		2007	2006
Personal	€	€	Age Allowance	€	€
Single	1,760	1,630	Single/Widowed	275	250
Married	3,520	3,260	Married	550	500
Widowed	2,310	2,130	Mortgage Interest	*First Time Buyer	
One Parent Family Credit – (including widowed)	1,760	1,630	Single	Max 8,000	Max 4,000
PAYE			Married	Max 16,000	Max 8,000
Single	1,760	1,490	Non-First Time Buyers		
Married (both spouses working)	3,520	2,980	2007 2006		
Child			Single	Max 3,000	Max 2,540
Incapacitated child	3,000	1,500	Married	Max 6,000	Max 5,080
Widowed Parent Allowance			Widowed	Max 6,000	Max 5,080
Year 1	3,750	3,100	<i>* A first time buyer is a person who borrowed money for the first time, in order to acquire/improve their residence. The increased relief lasts for seven years.</i>		
Year 2	3,250	2,600	AGE EXEMPTION LIMITS		
Year 3	2,750	2,100	OVER 65 YEARS OF AGE		
Year 4	2,250	1,600	2007 2006		
Year 5	1,750	1,100	Single	19,000	17,000
Dependent Relative	80	80	Married	38,000	34,000
Blind Person			UNDER 65 YEARS OF AGE		
Single	1,760	1,500	Single	5,210	5,210
Married (both blind)	3,520	3,000	Married	10,420	10,420
Home Carers	770	770			

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.