

# *Thinking for the future*

## Budget 2012

*PwC Ireland*



*What's New*



*Meet Our Partners*



*Tax Rates*



*Calculate Your Tax*



*Locations*



*About Us*

*Budget 2012* ▶

# *Introduction*

Feargal O'Rourke  
PwC Tax Leader

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# ***Agenda***

## **Introduction**

Feargal O'Rourke, PwC Tax Leader

## **Economic outlook- the year ahead**

Austin Hughes, Chief Economist, KBC Ireland

## **Business Taxation**

Jean Delaney, PwC Tax Partner

## **Personal Taxation**

Tim O'Rahilly, PwC Tax Partner

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# ***Overview***

- Budget 1 of 4 or 5 of 8?
- A generally Pro Business Budget
- Property sector must be delighted
- Election promises mostly kept!
- Good news for hard pressed individual tax payers
- But are the numbers too optimistic?

# Budget 2012

	2012	Full Year
VAT increase	€560m	€670m
Household charge	€160m	€160m
CGT / CAT rate increase	€132m	€159m
Tobacco / Carbon Tax	€121m	€150m

Do they add up?

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# ***Economic outlook- the year ahead***

Austin Hughes

Chief Economist, KBC Ireland

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## ***Does the Budget Still Matter?***

- Overshadowed by events elsewhere
    - 5 days to save the Euro, again – Lehmans<sup>17</sup>
    - All fiscal unions are not the same
    - Is there a sanity clause in Frankfurt?
  - An ‘open for business’ message
  - Another very large adjustment
- **Still a key influence on Irish economic prospects**

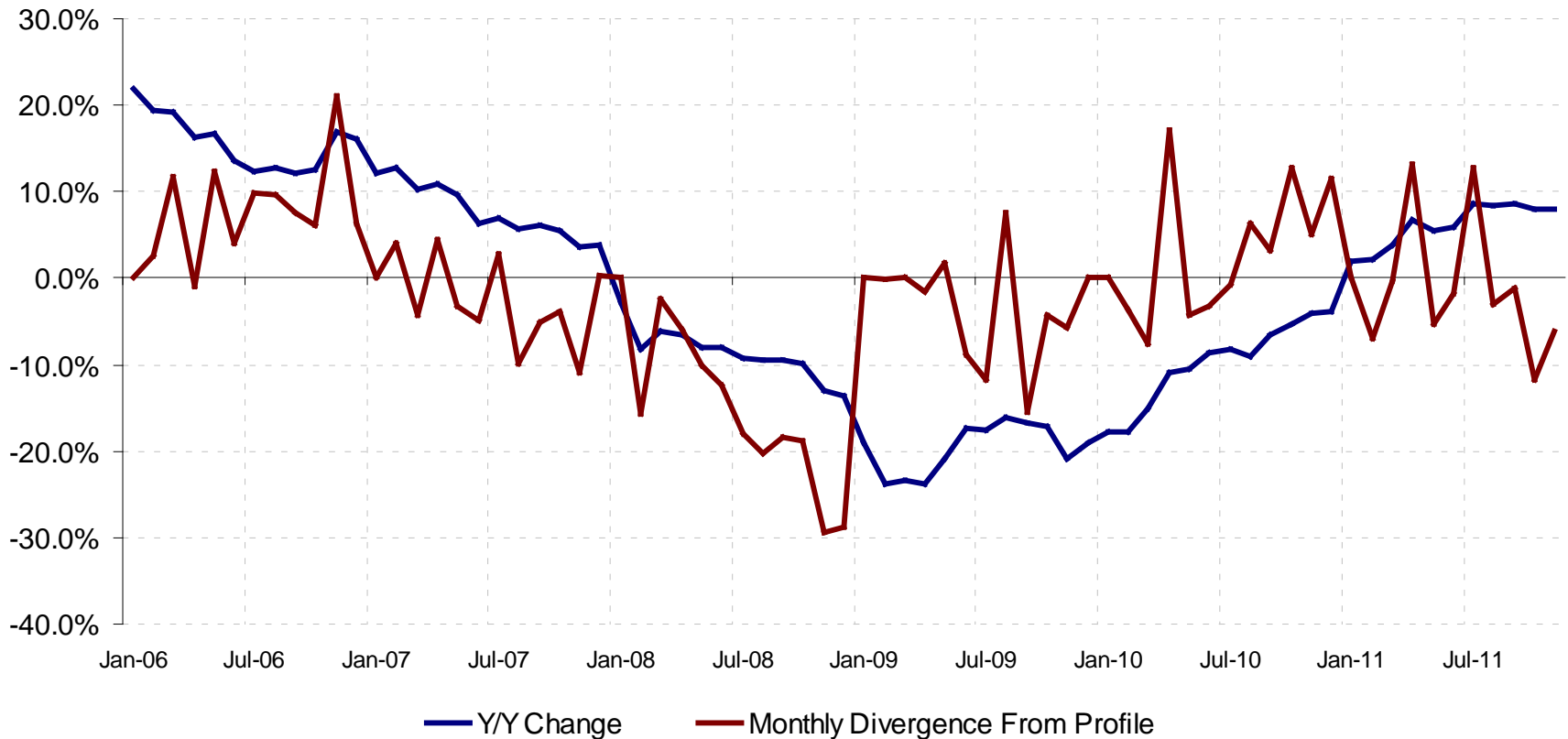
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# ***Irish Economy Not Yet At ‘Escape Velocity’***

**“The forthcoming 2012 budget will make progress along that path by targeting a deficit of no more than 8.6% of GDP, striking a balance between debt reduction imperatives and limiting the drag on growth and job creation.”**

***Troika Statement Oct 2011***

# *A Fragile Economy Limits the Scope For Revenue Raising*



A shift in revenue raising is underway

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# ***VAT; Making A Virtue Out of Necessity***

- Taxes on consumption rather than production are a key message
- A helpful boost to money GDP
- An absence of alternatives

## ***Some Helpful Tweaks***

- An offset to housing market fears.
- Some supports for commercial property.
- Some assistance for exporters.

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## ***And Now For the Hard Part***

- A holding operation with some important signals
  - another €8.6 bio adjustment to come by 2015
  - Can current commitments remain in place?
- Progress being made, a long way still to go. Some hopeful signs in dark days.

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# ***Business taxation***

Jean Delaney  
PwC Tax Partner

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## ***Back to the 1990's***

1998 Oscar nominations for best picture...

***Shakespeare in  
Love***

***Life is beautiful***

***Saving Private  
Ryan***

***Elizabeth***

***The Thin Red Line***



# ***Agenda***

***VAT***

***Corporation  
Tax***

***Employee  
Reliefs***

# ***VAT***

The last time we  
were here was...



***23%***

# **VAT**

- Start date is 1 January 2012
- 24 days to
  - Decide your pricing
  - Adjust your systems/documentation
  - Review contracts
  - Consider prepayment opportunities

**23%**

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## ***VAT – cross border trade***

***VAT rates***

***Exchange  
rates***

***Retail  
prices***

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## ***Corporation tax***

Once more with  
feeling...

***12.5%***

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*Just in case you had forgotten.....*

**August**

The  
Franco/German  
Revolution

**Sept.**

Didier  
Reynders

**March**

CCCTB  
Begins again

**Feb**

Franco-German  
“Pact for  
Competitiveness”

**March**

European  
Council  
conclusions

**24/25 March 2011  
Euro Plus Pact**

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## ***EU themes***

***Harmonisation***

***Cooperation***

***Transparency***

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# ***Corporation tax***

## ***Financial services***

take a bow and wait  
for good news in the  
Finance Bill

## ***R&D tax credits***

*“..first €100,000 of R&D expenditure of all companies will be allowed on a volume basis...”*

### **Outsourcing changed**

2011 **10%/5%** of qualifying R&D expenditure

2012 **>10%/5%** or €100,000

# NAMA is our friend

- Property news contains interesting nuggets for business
- Stamp duty reduction from 6% to 2% applies to all non-residential property
  - Business premises
  - Goodwill
  - Debtors

# *Employee incentives*

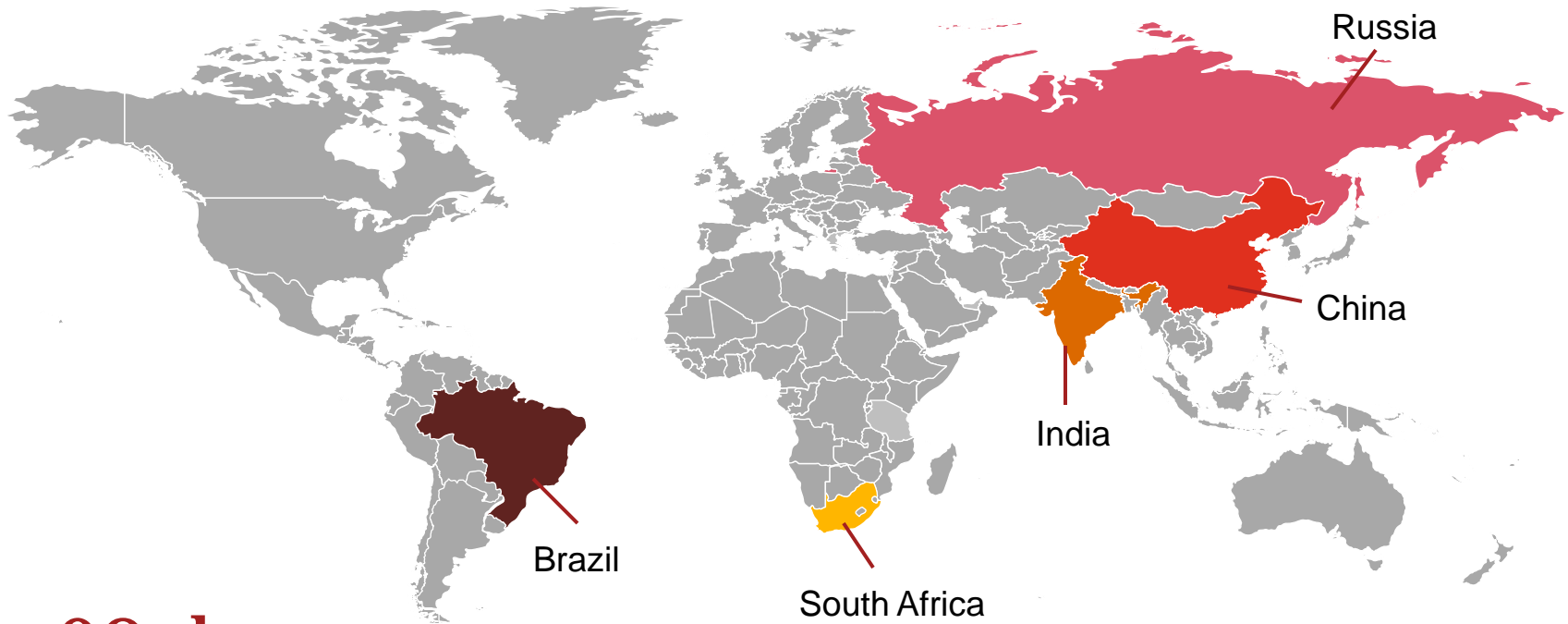


- Encourage exports and innovation
- Needs motivated people
- Encouragement will come in three forms
  - Foreign Earnings Deduction
  - Special Assignee Relief Programme
  - R&D tax credit bonus

## ***Foreign Earnings Deduction***

- Abolished at end of 2003
- Rebate for trips totalling 90 days, each of which lasted 11 days at least
- UK excluded

# ***Foreign Earnings Deduction***



- **60 days**
- **Start date ?**

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## ***Special Assignee Relief Programme***

***Not to be confused with  
Special Assignment Relief  
Programme !!!????***

***SARP now***

***Taxed on €100k + 50% of  
excess over €100k***

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## ***SARP now***

- Non-domiciled
- Non-Irish contract
- Coming to work in Ireland for the first time
- Remuneration over €100,000
- Complex
- Rebate only
- Relief for Income tax only – not PRSI and USC
- Irish expats and other returnees not covered
- Irish contracts excluded

## ***What the competition does***



***NL***

30% of remuneration taxed for up to 10 years



***CH***

Tax deductions for removal costs, accommodation, school fees for up to 5 years



***Malta***

15% tax rate for highly qualified expats with income over €75,000.

## *Employee incentives*

*“...option to use some portion of the R&D credit to reward key employees who have been involved in the development of R&D ”*

# *Personal taxation*

Tim O'Rahilly  
PwC Tax Partner

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# ***Agenda***

**Property**

**Pensions**

**Capital Taxes**

**Miscellaneous Items**

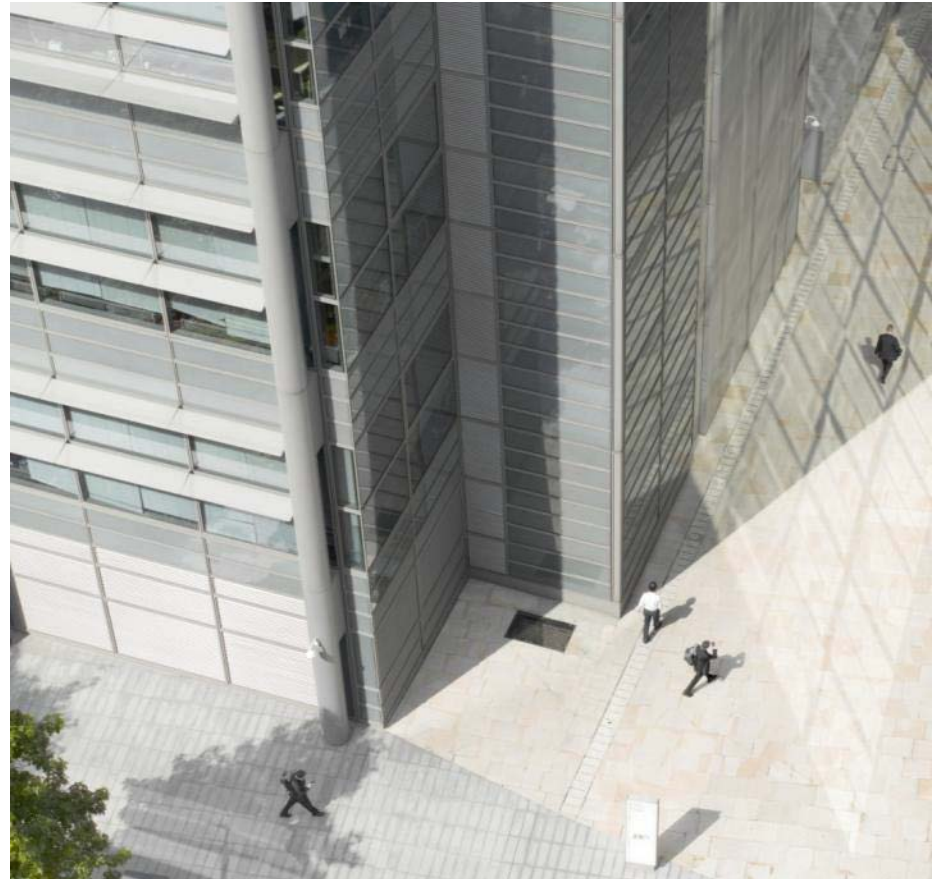


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# *Property*

**New incentives have  
been introduced**

**Targeting of legacy  
property schemes**



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# ***Property***

## **Incentives introduced**

- Stamp Duty on commercial property reduced to 2%
- CGT exemption for property purchases on or after 6/12/2011 if held for 7 years
- NAMA involved in rent levels
  
- Targeted measures to make Irish real estate attractive to both domestic and international investors
- Now compares favourably with other jurisdictions

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# ***Property***

## **Legacy reliefs**

- Proposals introduced in Finance 2011 will now not be implemented

But

- Introduction of a new 5% surcharge and
- Restriction on carry forward of certain capital allowances

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# ***Property***

## **5% Surcharge**

Applies to income sheltered by tax allowances if individual has gross income in excess of €100 k

Applies to both Section 23 + Capital Allowance Schemes.

Example:	Gross income	300,000
	Salary	220,000
	Profit rent	80,000
	Property relief	<u>80,000</u>

New surcharge 80,000 @ 5% = €4,000

# ***Property***

## **Restriction on carry forward of Accelerated Capital Allowances (Hotels, Hospitals etc.)**

<b>Scheme(s) which end on or after 1/1/2015</b>	Last year of claim will be last year of scheme
<b>Other schemes</b>	Last year of claim will be 2014

- Does not apply to Section 23 allowances
- Need to restructure property portfolios ?

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# ***Pensions***

## **Measures introduced**

### Contributions

- Employer PRSI relief abolished for employee pension contributions
- Cost to businesses €90m

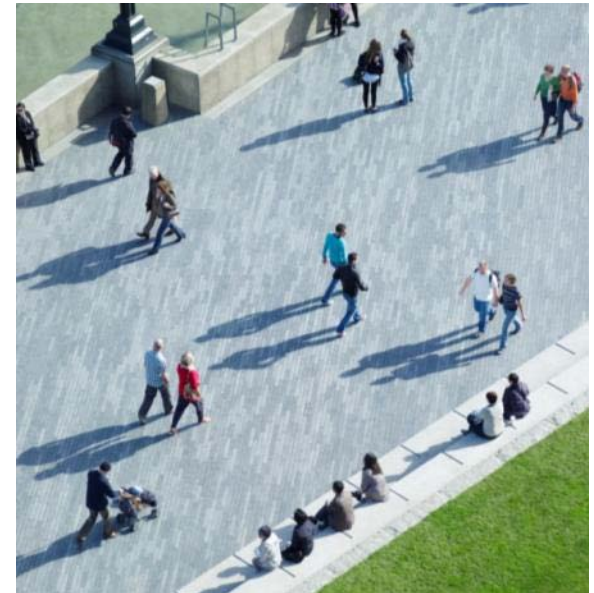
### Approved Retirement Funds (ARFs)

- Deemed distribution increased from 5% to 6% for €2m + funds
- 5% rate remains for other funds
- Transfer to children over 21 now taxable at 30%

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# ***Pensions***

- Minister announced consultation process to take place during 2012
- Still at play
  - Level of tax relief on pension contributions
  - Standard Fund Threshold
- Level of uncertainty unwelcome



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# ***Capital Taxes (CGT and CAT)***

- Rate increased from 25% to 30%
- CAT parent/child threshold reduced from €332,084 to €250,000

## **Proposal to amend CGT retirement relief**



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## ***Capital Taxes - CGT Retirement Relief***

- Individual aged over 55 can typically transfer a family farm or business free of CGT
- Recipient could have a CAT liability as low as 3% of the value received
- Proposed amendments
  - Farms and (farming ??) business
  - To encourage persons aged 55 – 66 to make transfers
  - Reduced level of relief for person aged over 66
    - €3m cap for intra family transfers
    - €500k exemption for other transfers (reduced from €750k)
  - Transitional arrangements

# Capital Taxes

## CGT Retirement Relief

	Individual aged 55 - 66	Individual aged over 66
Business value	€10m	€10m
CGT payable on retirement	Nil	€2.1m

Will this apply to the transfer of all family business??

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## ***Miscellaneous items***

### **Universal social charge (USC)**

- Lower exemption threshold increased from €4,004 to €10,036 with effect from 1 January 2012

### **Household Charge**

- €100 flat rate charge for all householders with effect from 2012
- Implementation of a full property tax from 2014 based on property values

### **PRSI**

- PRSI will be applied to rental profits and investment income with effect from 2013 for all individuals
- Currently, individuals in receipt of employment or pension income (reckonable earnings) are exempt from PRSI on investment income including deposit interest

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## ***Miscellaneous items***

### **Deposit Interest Retention Tax**

- DIRT increased from 27% to 30% with effect from 1 January 2012
- DIRT increased to 33% for payments made less frequently than annually

### **Domicile Levy**

- Irish citizenship is no longer a condition for payment of the levy
- Further changes to the levy to be expected in 2013

### **Mortgage Interest Relief**

- Increased relief for certain first time buyers

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# ***Agenda***

**Property**

**Pensions**

**Capital Taxes**

**Miscellaneous Items**



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***In conclusion. . .***

Feargal O'Rourke  
PwC Tax Leader

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# ***Budget 2013 and Beyond***

- Relief for Pension Contributions
- VRT and Motor Tax
- PRSI on Unearned Income

**Budget 2013**

- A “Full’ Property Tax

**Budget 2014**

- No VAT Increases

- Personal Tax?

# *For more.....*

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- Download our free mobile app



- Visit our 'pop up' specialist tax clinics after this seminar
- Contact your usual PwC tax expert

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# *Thank you for coming*

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