

Finance Bill 2012

Taxation of individuals



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New incentives announced for organisations with internationally mobile employees

The Irish Finance Bill published on 8 February 2012 introduces a number of employment focussed initiatives, most notably some very welcome news for internationally mobile employees and employer organisations seeking to attract key talent.

Key Features

Inbound Assignees:

- A new regime facilitating tax deductions of up to €127,500 for new assignees to Ireland from 2012.
- A €5,000 per child tax deduction for assignees in respect of annual school fees.
- Tax free flights home once per annum.

Outbound Assignees

- Tax relief for Irish employees spending significant time developing business opportunities in Brazil, Russia, India, China & South Africa.

R&D Tax Credit for Key Employees

- Key employees directly involved in R&D can reduce their effective income tax rate to 23% where the employer chooses to transfer R&D credits from the company to the employee.

Share Schemes

- A range of administrative measures including a new 'sell to cover' facility for employers in instances where the tax withholding requirements cannot be met through deductions from cash based earnings.

Mortgage Interest Relief

- Enhanced relief for those who acquired their homes from 2004 to 2008 inclusive.

Inbound Assignees

A cornerstone of the new government incentives towards employment creation is an enhanced Special Assignee Relief Programme (SARP). This essentially removes many of the restrictions which limited the attractiveness of the old regime and it is likely to be warmly welcomed, particularly by multi-nationals considering further investment in Ireland. The positive aspects of the new SARP regime include:

- Irish domiciled individuals can now qualify for the relief unlike the pre 2012 scheme;
- the income threshold for relief to apply has been reduced to €75,000 from €100,000;

- qualifying individuals may now be engaged on Irish employment contracts rather than just overseas contracts, meaning Irish companies can now make better use of the incentive also;
- the relief may be claimed up front via a payroll deduction, rather than after the end of the tax year;
- school fees of up to €5,000 per child will be tax free subject to certain conditions; and
- the application of the relief is likely to be more straightforward than its predecessor.

How does the relief apply?

The relief will apply to individuals:

- asked by existing employer organisations to come to Ireland from 1 January 2012 onwards;
- with base salaries of €75,000 or more;
- who will exercise predominantly all their employment duties in Ireland for a minimum of 12 months;
- who were non Irish resident for the 5 years immediately preceding the tax year of arrival in Ireland; and
- who were employed on a full time basis by an associated employer outside Ireland for the entire 12 months immediately before arrival in Ireland.

It would appear an individual is not prevented from qualifying for the relief if he/she has worked in Ireland prior to the 12 months immediately before arrival in Ireland, provided he/she did not previously trigger Irish tax residence.

A qualifying individual will be entitled to a tax deduction amounting to 30% of employment income liable to Irish tax (net of qualifying pension contributions) in excess of €75,000. The maximum income upon which relief may be claimed is €500,000. In essence, the maximum permitted tax deduction will be €127,500 (i.e. €425,000 x 30%).

Some limitations

- As currently drafted, the Bill suggests the “old SARP” will cease without any announcements to date of any grandfathering provisions. Whilst this initially suggests an individual who has historically availed of “old SARP” in 2011 might not qualify under the old or new regime in 2012, we would expect this will need to be reconsidered prior to the Bill being enacted.
- The relief is geared towards individuals exercising their employment duties wholly in Ireland – the qualifying conditions allow for overseas duties of up to 30 days to be treated as incidental. However, if the individual has in excess of 30 overseas workdays, the relief is likely to be impacted.

- The relief will not apply to organisational “new hires”.
- Further, in arriving at the relevant income threshold of €75,000, only basic salary may be included (bonus, benefits in kind, share awards etc are excluded in determining eligibility).

Outbound Assignees

A new tax relief aimed at employees working in Brazil, Russia, India, China & South Africa (“BRICS”) has been announced. This should encourage Irish based employers to continue efforts in maximising business opportunities in those countries. The relief will be calculated on the ratio of qualifying days spent in these countries to total days in the tax year. This ratio will be applied to income earned from the employment in a tax year, including share based benefits but excluding termination payments, company cars and preferential loans.

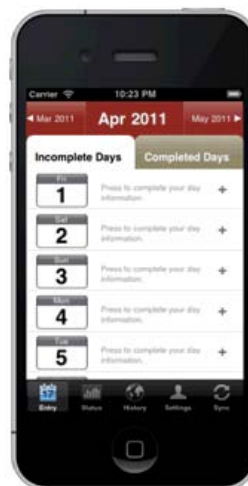
The maximum deduction available is limited to €35,000 and conditions include:

- 60 days minimum p.a. to be spent in the BRICS; and
- all trips must be for at least 10 full days to be counted towards the 60 day threshold.

Tracking Employee Mobility

Both of the main international mobility announcements above highlight the need for employees and employers to accurately track overseas workdays, so as to ensure tax risk is minimised and tax incentives maximised. This may lead to increased administration and record keeping for all concerned. The use of tracking software in mobile applications, such as PwCs specialist technology “MyTravel”, are likely to become even more critical towards helping employers limit the administrative burden associated with tracking international movement of staff.

Facilitate your mobile employees with ease of tracking



R&D Tax Credit for Key Employees

Ireland has a long standing R&D credit scheme available for companies and contingent on R&D activity. Companies will now be permitted to transfer part of this relief to ‘key employees’ who have spent at least 75% of their time in an accounting year on the relevant activity. Directors will not qualify.

The maximum relief is capped to ensure the key employee will pay a minimum of 23% income tax in any tax year. However, unutilised relief can be carried forward indefinitely so long as the individual remains an employee of the company. This relief has the potential to be a very attractive means of incentivising key employees in R&D companies.

Share Schemes

A number of administrative changes have been announced involving share schemes including:

- employers will now be entitled to sell shares to meet tax withholding obligations in instances where the other income of the employee is insufficient to meet the tax or USC charges arising on share awards;
- relief from USC will apply to Revenue Approved Profit Sharing Schemes shares which are sold prior to the normal 3 year holding period where USC has been paid on appropriation; and
- a USC exemption for shares held in a Revenue Approved Employee Share Ownership Trust prior to 1 January 2011.

Mortgage Interest Relief

The Bill confirms mortgage interest relief will remain in place until 2017 but only for loans taken out from 2004 to 2012 inclusive. Enhanced relief has been announced for first time buyers in the period 2004-2008 (including those who bought their first home in that period but subsequently moved to a second home at any stage thereafter). For a single person in the 2012 tax year, the value of the relief can be summarised as follows:

Date of Purchase	First Time Buyers Max value of relief	Non-First Time Buyers Max value of relief
2004-05	€900 (€3,000 @ 30%)	€450 (€3,000 @15%)
2006-08	€3,000 (€10,000 @ 30%)	€450 (€3,000 @15%)
2009-10	€2,250 (€10,000 @ 22.5%)	€450 (€3,000 @15%)
2011-12	€2,500 (€10,000 @ 25%)	€450 (€3,000 @15%)

If you have any questions about the issues discussed in this bulletin, or about how PwC might assist your organisation in relation to employment taxes and international mobility services, please feel free to get in touch with Gearóid Deegan or your usual PwC contact.

Further information is also available at

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www.pwc.com/ie

This booklet is intended to provide a general guide only to the subject matter and is necessarily in a condensed form. It should not be regarded as a basis for ascertaining the liability to tax in specific circumstances. Professional advice should always be taken before acting on any information in the booklet.

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