

# Ireland – Employment Tax and Workforce Issues

## Supplementary Budget Changes Announced

### Human Resource Services contacts

#### Mark Carter

Partner  
Tel: +353 (0)1 792 6548  
mark.p.carter@ie.pwc.com

#### Gearóid Deegan

Partner  
Tel: +353 (0)1 792 6468  
gearoid.deegan@ie.pwc.com

#### Mary O'Hara

Partner  
Tel: +353 (0)1 792 6215  
mary.ohara@ie.pwc.com

Please also feel free to liaise with your usual PwC contact on these issues.



On April 7, 2009 the Irish Minister for Finance delivered a Supplementary Budget, just six months after his last Budget, reflecting the continuing economic downturn and falling Exchequer revenues. In the context of the tax increases which were announced the Minister commented that 'Everyone will have to pay, but those who earn most will pay the most'. The measures announced reflect this sentiment. Key features of the Budget of interest to employers and employees are discussed in this alert.

### Tax Rate Changes

In the short term the income tax rates remain unchanged, the standard rate being 20% and the higher rate is 41%. However, the rate of deposit interest retention tax (DIRT) is being increased by 2% to 25%. The capital gains tax (CGT) and capital acquisitions tax (CAT) rates have both been increased by 3% to 25%. The CAT thresholds have all been reduced by 20%. All these changes have effect from midnight 7 April 2009.

The special 20% rate applied to the trading profits from dealing in or developing residential development land is being abolished. The income will be charged at the person's relevant marginal rates of income tax. This change will apply for 2009 and following tax years.

In a positive development, the Minister did confirm that the 12.5% corporation tax rate would be retained as a key aspect of Ireland's inward investment strategy.

### Income Levy Doubled

In the Budget last December the Minister announced a new income levy which has applied since 1 January. However, the rates at which the income levy will apply going forward have been doubled and the relevant

thresholds have been reduced. The exemption threshold for the income levy has also been reduced from €18,304 to €15,028.

The revised rates and associated thresholds are shown below and the new rates will apply from 1 May 2009 which will undoubtedly create payroll challenges for employers.

- Income up to €75,036 (previously €100,100) the levy applies at 2%, previously at 1%.
- Income over €75,036 and up to €174,980 the levy applies at 4%, previously at 2%.
- Income over €174,980 (previously €250,120) the levy applies at a rate of 6%, previously 3%.

### Health Contribution Levy Doubled

The Health Contribution Levy has also been doubled and the new 4% rate will apply on income up to €75,036. The higher rate levy of 5% (previously 2.5%) will apply to income over €75,036. These changes also take effect from 1 May 2009.

### Pay Related Social Insurance (PRSI)

There had been speculation for some time that the employee ceiling for full rate PRSI payers would be abolished. However, the last Budget introduced an increase in the annual ceiling from €50,700 to €52,000, with the contribution rate unchanged at 4% for employees (excluding the levies) and 10.75% for employers. However, the Minister has now stretched the employee PRSI ceiling up to €75,036. This increased PRSI cost for employees will take effect from 1 May 2009.

[pwc.com/ie/budget2009/](http://pwc.com/ie/budget2009/)

© 2009 PricewaterhouseCoopers. All rights reserved.  
"PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. PricewaterhouseCoopers, One Spencer Dock, North Wall Quay, Dublin 1 is authorised by the Institute of Chartered Accountants in Ireland to carry on investment business.

HRSB – 09 06



Despite calls from the international business community, in particular for the reintroduction of the employer contribution ceiling to aid Ireland's competitive position, no such change was announced.

#### **Pension Contributions**

Speculation had mounted that some further restriction in reliefs might be introduced in relation to personal pension contributions, but the current earnings limit of €150,000 has been retained. The relief will continue to be granted at the individual's marginal tax rate. In addition the allowable age based contributions, ranging from 15% of remuneration for the under 30s to 40% for those over 60 years of age, will continue to apply.

#### **Mortgage Interest Relief**

Currently mortgage interest relief on an individual's private residence attracts tax relief at source subject to certain limitations. Since January 2009, the rate at which tax relief is available after year seven of a mortgage has been reduced to 15%. From 1 May 2009 interest relief will now be discontinued for any mortgage which has been in existence for over seven years.

Interest relief is also being restricted by 25% for investors in relation to residential rental properties.

#### **Salary Sacrifice Arrangements**

There has been no further tightening of the rules introduced last year in relation to salary sacrifice arrangements. However, employers need to continue to exercise care in relation to the impact which the 2008 provisions can have on Flexible Benefit Plans, remuneration restructuring and bonus arrangements.

#### **Favourable Expatriate Tax Regime**

The new assignment relief program introduced last year is aimed at attracting key talent from overseas and applies to certain qualifying individuals who come to Ireland to work for a period of at least three years. The relief, which applies from 2009, takes the form of a repayment of taxes collected through PAYE, provided certain conditions are met.

A key feature and limitation of the relief is that assignees must be employed by a company that is incorporated, and is resident in, a country or jurisdiction that is not a party to the EEA Agreement but with which Ireland has a Double Tax Treaty.

The relief largely therefore applies to expatriate employees coming to work in Ireland from developed countries outside the European Economic Area (i.e. outside the EU, Iceland, Liechtenstein and Norway).

There is also favourable tax relief available in relation to certain housing and subsistence costs but these will largely depend on the nature of the assignment.

Employers should ensure that they minimise the overall assignment costs by availing of the various reliefs and incentives which are available. It is essential that these opportunities are considered well in advance so that arrangements can be structured correctly.

#### **Tax Residency Rules**

Despite speculation to the contrary no further changes have been proposed in relation to Ireland's tax residence rules. Under current rules an individual is regarded as tax resident in Ireland if present in the State for 183 days or more in that year, or 280 days or more in that year and the preceding year combined.

Presence in the State is no longer determined by reference to the 'midnight' test. Since 1 January individuals are regarded as present in the State for a day if present at any time during that day.

There are no de minimis limits and limited provisions to address individuals 'in transit'. Accordingly, there is an increased need for employers and assignees to put procedures in place to track any days of presence in Ireland. It should still be possible to spend up to 139 days per annum in Ireland without triggering tax residence, provided the aggregate limit of 280 days over two years is not breached.

#### **Share Incentive Arrangements**

Employee share incentives continue to offer employers a cost effective way of remunerating employees. Under current rules employee share awards do not attract any Irish social security costs, either for the employee or the employer, and there are no withholding tax requirements.

There is also a range of Revenue approved plans which offer favourable tax treatment for broad based employee share plans. Benefits under such plans are not liable to income tax and, under current rules, they would not be liable to the new increased income levy. As such they have the potential to offer employees a very tax effective incentive in a cost effective way for employers. Share schemes can also be structured to deliver performance based reward and can offer cash strapped employers an alternative mechanism to deliver benefits to employees who are instrumental in delivering sustainable business results in the future.