



What does it mean for you?

Budget 2012

*PwC bring insights
on Budget 2012*

December 2011

Highlights

- 12.5% corporation tax rate remains cornerstone of economic policy
- Introduction of Special Assignee Relief Programme
- Enhancement of R&D tax credit regime targeted at SME's
- Removal of Employer PRSI relief on pension contributions
- Increase in standard rate of VAT from 21% to 23%
- No change in income tax rates, bands, or credits
- No increase in employee PRSI or USC
- Increase in CGT, CAT and DIRT rates to 30%
- Stamp duty on non-residential property reduced to 2%

The 12.5% tax rate is a cornerstone of our economic policy

Introduction

The measures announced in the Budget by the Minister for Finance had been signalled well in advance, and there were few surprises.

The significant revenue generating measures are focused on the indirect tax side, mainly VAT and also Capital taxes, although the estimated tax take from the latter included in the documentation appears optimistic at a time when many taxpayers are nursing heavy losses.

Business will welcome the reinforced commitment to the 12.5% corporation tax rate, albeit with a sense of déjà vu, and the SME sector in particular will welcome the enhancement to the R&D tax credit regime, while the FDI community will welcome the enhancement of the Special Assignee Relief Programme (SARP). The fly in the ointment for business will be the abolition of employer PRSI relief on employee pension contributions, but overall a pro-business Budget.

Individuals will be glad that income rates, bands and credits have remained unchanged, and there is some good news for the lower paid, although the quid pro quo of a higher VAT rate will hit the pocket.

The Budget speech did not contain the anticipated broadening of the PRSI base, but did signal that this was on the cards for 2013.

Business taxation

Corporation tax

In his Budget speech, the Minister once again pledged the Government's unflinching commitment to the maintenance of Ireland's well established 12.5% corporation tax rate.

The 12.5% rate is favourably complimented by a number of enhancements to the R&D tax credit regime contained in the Budget, as well as the continuing attraction of Ireland's current holding company regime and network of tax treaties.

R&D tax credits

The Minister has introduced positive amendments to enhance the R&D tax credit regime, with a particular focus on the indigenous small medium enterprise (SME) sector. While it is widely accepted that the R&D regime has stimulated activity in the FDI space, the Government has recognised that if innovation is to be really placed at the heart of enterprise policy then the R&D regime must be adapted to help support a new generation of Irish companies who will help create employment.

The following enhancements have been made to the scheme:

Volume basis

The R&D credit currently applies to incremental expenditure with reference to a fixed base period of 2003. As set out in the Programme for Government, the first €100,000 of qualifying R&D expenditure will now benefit from the 25% R&D tax credit on a volume basis. The tax credit will continue to apply to incremental R&D expenditure in excess of €100,000.

Enhancement of Special Assignment Relief Programme

Outsourcing limits

At present sub-contracted R&D costs are eligible where they do not exceed 10% of total costs (or 5% in the case of sub-contracting to third level institutions). This limit can disproportionately affect smaller companies who may have greater need to outsource R&D work than larger multinationals due to internal restraints on resources and expertise. The outsourcing limits for sub-contracted R&D costs are being increased to the greater of 10% (or 5% as appropriate) or €100,000.

Use of the credit to reward R&D employees

Companies in receipt of the R&D credit will have the option to use a portion of the credit to reward key employees who have been involved in the development of R&D. The credit will be a tax-free payment in the hands of the employee (although they will be taxed as normal on their other income).

Special Assignment Relief Programme (SARP)

The Minister has announced that the SARP programme will be enhanced with the aim of attracting key talent to Ireland to create more jobs and facilitate the development and expansion of business here. This will be warmly welcomed by businesses here trying to secure increased investment for projects in Ireland. Further details are to follow in the Finance Bill.

Foreign earnings deduction

A new Foreign Earnings Deduction is to be introduced to aid companies seeking to expand into emerging markets. The deduction will apply for individuals who spend 60 days a year or more developing markets for Ireland in the BRIC (Brazil, Russia, India and China) countries and South Africa. Further details are to follow in the Finance Bill.

Start-up companies

To support the Government's commitment to the promotion of job creation and indigenous enterprise, the Budget proposes to extend the exemption for start-up companies from corporation tax and capital gains tax. The proposal is to extend it to new companies which start a new trade in 2012, 2013 and 2014.

Cessation of employer PRSI relief regarding employee pension contributions

The Minister has abolished all employer PRSI relief regarding employee contribution to pension schemes with effect from 1 January 2012. Previously the relief was at 50% of the employer PRSI i.e. a relief of 5.375% on eligible contributions. This is estimated to be an added cost to business of €90m in a full year.

International financial services

The Minister acknowledged the success of the International Financial Services industry in Ireland over the last 20 years. However he also recognised that financial services are highly mobile and that Ireland has to compete strongly in this sector to retain and grow the industry here. This is consistent with one of the key messages included in a paper launched recently by the Taoiseach entitled Strategy for the International Financial Services Industry in Ireland

2011 - 2016. In light of this, the Minister announced that a package of measures will be introduced in the Finance Bill to support the international funds and insurance industries, the corporate treasury sector and the aircraft leasing industry. We will need to await the publication of the Finance Bill to see the detail but the introduction of the Foreign Earnings Deduction will be welcomed by the aircraft leasing industry, while for the corporate treasury sector there is a strong expectation that short term interest payments to group companies resident in non-treaty countries will be tax deductible in certain circumstances. The new SARP programme which was announced had also been strongly lobbied for by the International Financial Services sector.

Redundancy rebate

The Redundancy and Insolvency Scheme is being amended to reduce the employer rebate on statutory redundancy payments from 60% to 15%.

Relevant Contracts Tax (RCT)

By way of reminder, the new RCT on-line system already announced, will take effect from 1 January 2012. A new 20% rate will be introduced. Criteria for the appropriate RCT rate is summarised as follows:

- 0% rate - subcontractors fully tax compliant (among other conditions);
- 20% rate - subcontractors registered for tax and significantly tax compliant; and
- 35% rate - subcontractors not registered for tax or poor tax compliance.

The scope of RCT will be the same – only operational matters will change. Some key dates of relevance include:

- 5 December 2011: System went live for principal contractors, allowing principals to access the system on ROS and commence notifying contracts.
- 1 January 2012: Principals may begin notifying of payments on ROS in order to obtain the rate authorisation(s).
- 1 January 2012 – 31 March 2012: Under transitional arrangements, RCT rates will be frozen at the rate notified by Revenue.

On-line applications for the 0% rate have replaced C2 applications and can continue to be made to Revenue during the transitional period. However, the 0% rate, if approved, will apply from 1 April 2012.

No income tax increases

Taxation of individuals

No income tax increases!

As was widely flagged in the days preceding the Budget, there are no changes to income tax rates, bands or tax credits. This should be a welcome relief for individuals.

Universal Social Charge

From 1 January 2012, individuals with total income lower than €10,036 (previously €4,004) will be exempt from the Universal Social Charge. The following rates will apply from this date:

Persons under the age of 70 Annual Income	Rate
Total income under €10,036	0%
First €10,036	2%
€10,037 - €16,016	4%
Over €16,016	7%
Over €100,000 (self assessed income only)	10%

Employers will be required to collect the Universal Social Charge on a cumulative basis from 1 January 2012.

Employee PRSI on investment income

From 2013 employees paying tax through the PAYE system will now also be required to pay PRSI on rental and investment income.

Employee PRSI on share-based remuneration

While not mentioned in the Budget speech, following on from changes during 2011, employee PRSI will apply to all share-based remuneration from 1 January 2012. The exemption from employer PRSI on all such remuneration remains in place.

Domicile levy

The requirement for a person to be a citizen of Ireland in order to be liable to the domicile levy is to be removed. Currently, the levy applies where a person is both Irish domiciled and a citizen of Ireland. The Minister has flagged that he will continue to monitor the tax treatment of “tax exiles” and a set of proposed amendments to the current regime will be published in 2012 with a view to implementing further changes in 2013.

Mortgage Interest Relief

Purchasers of properties between 2004 and 2008:

Mortgage interest relief will be increased to 30% for first time buyers who took out their first mortgage between 2004 and 2008. The rate of tax relief on the interest paid on such loans will, for the tax years 2012 to 2017, be 30%.

Purchasers of properties in 2012:

First time buyers who purchase a home in 2012 will be entitled to claim mortgage interest relief at a rate of 25%, while non-first time buyers will be entitled to claim relief at a rate of 15%. This is increased from the rates proposed by the previous Government. Mortgage interest relief will be phased out by 2018.

Household charge

The household charge of €100 per household will be effective from 1 January 2012. This charge will be replaced by a charge on property values from 2014 onwards.

Absenteeism

Previously, the first 36 days of Illness Benefit and Occupational Injury Benefit paid to employees was tax free, resulting in the possibility of greater take-home pay for absentees. This exemption is to be removed, presumably to encourage employers to become more active in dealing with the problem of absenteeism, as has been the subject of much discussion in recent weeks.

DIRT

The main deposit interest retention tax (DIRT) rate has been increased from 27% to 30% and the higher DIRT rate of 30% has also been increased to 33%. These increases will apply from 1 January 2012.

Pensions

The Minister has made a number of changes in the pensions area.

Approved Retirement Funds (ARF's)

The annual imputed distribution from ARF's has been increased from 5% to 6% for ARF's or multiple ARF's exceeding €2m. The annual imputed distribution is the amount of an ARF which must be subject to tax annually. This applies for the year to 31 December 2012 onwards.

Where an individual transfers an ARF on death to an adult child the assets are currently liable to standard rate Income Tax at 20%. The Minister has indicated his intention to raise this tax rate to 30% in line with the changes to other capital taxes.

Personal Retirement Savings Accounts (PRSA's)

Vested PRSA's (PRSA's from which retirement benefits have commenced to be taken) are now treated the same as ARF's for the purpose of the annual imputed distribution and the increase to 6% referred to above.

Measures unchanged for the present

On a positive note there was:

- no further reduction in the tax relief applying to pension contributions despite the proposals in last year's budget speech,
- no changes to the Standard Fund Threshold or pension cap despite strong signals to the contrary, and
- no change to the taxation of pension lump sums.

Rate of CGT increased to 30%

Possible future changes

However the Minister stated that incentives for supplementary pension provision will have to be reformed.

We would see these reforms as possibly including:

- further reductions in the Standard Fund Threshold,
- reductions in tax relief on pension contributions, and
- possible retention of the pensions levy.

It is unfortunate that we have continued uncertainty in the regime which will apply to taxation of pension savings in the medium term. Pension savings are a long term commitment and individuals need to have certainty as to the taxation regime which will apply to these commitments.

Capital taxes

Capital gains tax

The rate of CGT was increased from 25% to 30% with effect from 7 December 2011.

A new incentive for property purchased between 7 December 2011 and the end of 2013 was introduced. If a property is bought during this period and held for at least 7 years, the gain attributable to that 7 year holding period will be relieved from CGT.

The Minister mentioned in the context of agri-businesses (including farms) that he will be modifying CGT retirement relief (which allows for the CGT free disposal of farms and businesses to close family members) so that it better incentivises the timely transfer of such farms and businesses before the current owners reach the age of 66. Full details of this measure will be in the Finance Bill. It is possible that this may be extended to other businesses and not just farming and agri-businesses.

CGT retirement relief also applies to business transfers to non-family members but it is subject to a cap of €750,000. The Minister has indicated that this cap will be reduced to €500,000 for individuals over 66.

Capital acquisitions tax

The rate of CAT (also known as gift and inheritance tax) was increased from 25% to 30% with effect from 7 December 2011.

The Minister also reduced the parent-to-child tax-free threshold for CAT purposes from €332,084 to €250,000 and similar reductions to other thresholds may be introduced in the Finance Bill.

While there is no mention of changes to business relief and agricultural relief (which allows for a reduction in the market value of business and agricultural assets of up to 90% for CAT purposes), it is possible that something similar to the CGT retirement relief proposals mentioned above may be introduced in the Finance Bill.

Stamp duty on commercial property reduced to 2%

Stamp duty

Commercial property

In an effort to stimulate the commercial property market, the rate of stamp duty on non-residential property has been significantly reduced from a top rate of 6% (on transfers exceeding €80k) to a flat rate of 2%.

This new 2% rate will not only apply to transfers of commercial & industrial land and buildings, but also to farmland and transfers of business assets such as goodwill, debtors, contracts, etc. The new rate will also apply to premiums paid on leases of commercial buildings.

The 2% rate will apply to instruments (e.g. deed of conveyance / lease for immovable property, asset purchase agreement for business assets) executed on or after 7 December 2011.

Relief for transfers within families

The special 50% stamp duty reduction for transfers within families, which was removed for transfers of residential property in Budget 2011, is to be totally abolished from 1 January 2015.

Property and Investment

Property based tax incentives

The Minister announced that he has decided not to proceed with the proposals put forward by the previous Government in last year's Budget dealing with the phasing out of legacy property tax reliefs. The Minister's decision has been informed by the findings of an Economic Impact Assessment which he announced will be published with the Finance Bill.

However, some changes were announced including the introduction of a 5% surcharge targeted at property investors whose gross income exceeds €100,000. The surcharge will apply on the amount of income sheltered by property reliefs in a given year and will be introduced with effect from 1 January 2012. In addition, investors in accelerated capital allowances schemes (e.g. hotels) will no longer be able to use any capital allowances beyond the tax life of the particular scheme where that tax life ends after 1 January 2015. Where the tax life of a scheme ends before 1 January 2015 then no carry forward of allowances into 2015 will be allowed. The 2015 cut-off date does not appear to impact Section 23 type investments.

Employment and Investment Incentive (EII) and Seed Capital Scheme (SCS)

The European Commission recently granted approval for the introduction of the EII and SCS with effect from 25 November 2011. During negotiations with the European Commission the Government undertook to introduce a small number of amendments to the legislative provisions governing the new schemes. These amendments are largely technical in nature and are expected to be passed into legislation by Financial Resolution today. The Financial Resolution also includes a provision to allow a "qualifying company" avail of the old BES scheme provided the fundraising is completed before 31 December 2011.

Relief for Investment in Renewable Energy Projects

The tax relief provided to companies for investments in certain renewable energy projects has been extended to 31 December 2014. This is a welcome extension and its aim is to increase the volume of electricity produced in Ireland from these sources, being solar, wind, hydro (ocean, wave and tidal) and biomass.

Indirect Taxes

Rate of VAT increased to 23%

VAT

The Minister has increased the standard rate of VAT from 21% to 23%, effective from 1 January 2012. Ireland will become the 20th EU member state to increase the standard rate of VAT in the past 4 years.

Subject to consultation with the EU Commission, the rate of VAT on district heating is to be reduced from the standard rate to 13.5%. This measure will be contained in the Finance Bill.

The 9% reduced VAT rate, which was introduced on 1 July 2011 and remains in force until 31 December 2013 as part of the Jobs Initiative, applies to restaurants, accommodation, hairdressing and certain printed publications and recreational admission charges. With effect from 1 January 2012 this rate will apply to admissions to historic houses and gardens. The Minister, in his budget speech, confirmed that the 9% rate has been extended to admission charges to 'open farms', also with effect from 1 January 2012.

Carbon Tax

Carbon tax on fossil fuels will increase from €15 per tonne to €20 per tonne (a 33% rise). This increase will apply to petrol and auto-diesel with effect from 7 December 2011. This will result in approximately a 1.4c per litre increase in the cost of petrol and a 1.6c per litre increase in the cost of auto-diesel. The increase in the VAT rate from 21% to 23% will further increase the cost of these fuels from 1 January 2012.

The increase in carbon tax will apply to other fossil fuels with effect from 1 May 2012. This will result in the following price increases (VAT incl):

- Kerosene - €14.40 per 1000 litres
- Marked gas oil - €15.58 per 1000 litres
- LPG - €9.33 per 1000 litres
- Fuel oil - €17.52 per 1000 litres
- Natural gas - €14.46 for 13,750 kwh (annual avg household consumption)

The Minister stated that he is not going to apply carbon tax to solid fuels which would include coal, peat and briquettes.

Excise Duties

Motor Tax

The Motor Tax rates for all categories of vehicles will increase from 1 January 2012. For private vehicles where the tax is based on CO₂ emissions, there will be an increase in the annual charge from between €56-€158.

Dublin:

One Spencer Dock,
North Wall Quay, Dublin 1
Tel + 353 (0) 1 7926000
Fax + 353 (0) 1 792 6200

Cork:

1 South Mall, Cork
Tel + 353 (0) 21 427 6631
Fax + 353 (0) 21 427 6630

Galway:

Harris House
IDA Small Business Centre,
Tuam Rd, Galway
Tel + 353 (0) 91 764 620
Fax + 353 (0) 91 764 621

Kilkenny:

Leggetsrath Business Park,
Dublin Road, Kilkenny
Tel + 353 (0) 56 772 1998
Fax + 353 (0) 56 776 5962

Limerick:

Bank Place, Limerick
Tel + 353 (0) 61 212 300
Fax + 353 (0) 61 416 331

Waterford:

Ballycar House, Newtown,
Waterford
Tel + 353 (0) 51 874 858
Fax + 353 (0) 51 872 312

Wexford:

Cornmarket, Wexford
Tel + 353 (0) 53 52400
Fax + 353 (0) 53 52440

Landwell:

Correspondent law firm.
Tel + 353 (0) 1 792 6655
Fax + 353 (0) 1 792 6200
www.landwellglobal.com/ie

Vehicle Registration Tax and Motor Tax – Future Consultations

The Government intends to undertake a consultation process on possible adjustments to the current CO₂ bands and rates for Vehicle Registration Tax (VRT) and Motor Tax. The aim is to introduce new banding by 1 January 2013. All submissions in relation to this consultation process must be submitted to the Department of Finance by 1 March 2012.

A separate consultation process with the Motor Industry will also take place regarding the introduction of an “Export Refund Scheme” for VRT-paid vehicles which are permanently exported to another EU Member State.

Tobacco Products

With effect from 7 December 2011, the following changes have been made to excise duty on tobacco products:

- the excise duty on the price of a packet of 20 cigarettes will increase by 25 cents (VAT inclusive)
- there will be a corresponding pro-rata increase on all other categories of tobacco products.

There has been no increased announced on excise on alcohol.

Betting (Amendment) Bill

The final draft of the Betting (Amendment) Bill is expected from the Attorney General’s office early in the New Year. It is intended that this will come in to effect from the second quarter of 2012. This Bill allows for the implementation of betting duty on remote betting and a new betting “intermediary duty” for betting exchanges.

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