

# Income tax

## Main personal credits and allowances

### Planning tip!

The due date for the filing of 2008 tax returns is 31 October 2009. If you are self-assessed you may avail of Revenue's extended pay and file ROS deadline.

### Planning tip!

You may claim relief for medical expenses either in the year in which the payments were made or in the year in which the expenses were incurred. If medical expenses were incurred in 2008 but paid in 2009, tax relief at the marginal rate of 41% can still apply to these expenses.

Tax credits	2009 €	2008 €
Single person with no dependent child	1,830	1,830
Married	3,660	3,660
Widowed person with no dependent child	2,430	2,430
Widowed person bereaved in year of assessment	3,660	3,660
Single parent with dependent child	3,660	3,660
Widowed parent with dependent child - first year after bereavement <sup>a</sup>	5,830	5,830
Incapacitated child	3,660	3,660
Married couple - home carer <sup>b</sup>	900	900
Blind person's tax credit: Single/married, one spouse blind	1,830	1,830
Married (both blind)	3,660	3,660
Dependent relative	80	80
Age tax credit - Single/widowed	325	325
- Married	650	650
Employee tax credit	1,830	1,830
Medical insurance	at source	at source
Dental insurance	standard rate	standard rate
Certain fees paid to private colleges	standard rate	standard rate
- maximum relief	5,000	5,000
Local authority service charges <sup>c</sup>	80	80
Medical expenses (no excess)	standard rate <sup>d</sup>	marginal rate

<sup>a</sup> Reducing credit available for subsequent years

<sup>b</sup> Where carer's income exceeds €5,080, the tax credit is reduced by one half of the amount of the excess

<sup>c</sup> An upper limit of €400 per annum (previous year amount) applies

<sup>d</sup> Nursing home expenses will continue to be tax relieved at the marginal tax rate

Allowances at marginal rate	2009 €	2008 €
Business expansion scheme (BES) - maximum relief per annum	150,000	150,000
Qualifying film relief - maximum relief per annum	50,000	25,400
Employee share subscription - maximum lifetime deduction	6,350	6,350
<b>Pension contributions</b>		
<b>Retirement annuity contracts</b> - maximum % of net relevant earnings <sup>a,b</sup>	15%-40%	15%-40%
<b>Occupational pensions</b> - maximum % of income <sup>a,b</sup>	15%-40%	15%-40%
<b>Permanent health benefit schemes</b> - maximum % of statutory income	10%	10%

a The applicable percentage rate is based on age; see page 29 "Pension schemes" for details

b Earnings cap for 2009 is €150,000 and for 2008 is €275,239

## Exemption limits

Persons aged 65 and over	2009 €	2008 €
Single/widowed <sup>a</sup>	20,000	20,000
Married	40,000	40,000

a There is an increase of €575 for each of the first two qualifying children and €830 for each subsequent child

## Rates

	2009 €		2008 €	
	20%	41%	20%	41%
Single and widowed person: no dependent children	36,400	balance	35,400	balance
Single and widowed person: dependent children	40,400	balance	39,400	balance
Married couple: one income	45,400	balance	44,400	balance
Married couple: two incomes	72,800	balance	70,800	balance

# Income tax

## Tax residence

An individual is regarded as tax resident for a particular tax year if present in Ireland for 183 days or more in that year, or 280 days or more in that and the preceding year combined, including at least 30 days in each year. With effect from the 2009 tax year, an individual will be regarded as present in the State for a day if present for any part of a day. Previously, days were counted if the individual was present in Ireland at midnight. There are also specific tax rules in relation to split year and ordinary residence which may be of relevance to individuals arriving in or departing from Ireland.

## Remittance basis of taxation (RBT)

RBT provides favourable taxation treatment in respect of individuals resident in Ireland who are either not Irish domiciled or who are Irish citizens not ordinarily resident in Ireland. RBT is applicable in relation to foreign personal income and qualifying foreign source employment income relating to non-Irish employment duties. PAYE applies to earnings from a foreign employment exercised in Ireland, subject to certain exclusions. In addition, capital gains arising on the disposal of non-Irish assets by non-Irish domiciled individuals are liable to Irish CGT only to the extent that the gain is remitted to Ireland. The following table summarises the position:

	Non-Irish domiciled	Irish citizen non-ordinarily resident
	Income/gains taxable in Ireland	
Irish source income	yes	yes
Foreign employment – Irish workdays	yes	yes
Foreign employment – non-Irish workdays	only if remitted	only if remitted
Foreign personal income (eg rental income) <sup>a</sup>	only if remitted	only if remitted
Irish capital gains	yes	yes
Foreign capital gains <sup>b</sup>	only if remitted	yes

**a** includes UK income as and from 1 January 2008 only

**b** includes UK capital gains as and from 20 November 2008 only

## Special assignment relief programme

A new assignment relief programme has been introduced which came into effect from the 2009 tax year. The relief will be available to certain employees who are assigned from abroad to work in Ireland for a period of at least three years.

The new relief applies to assignees who earn more than €100,000 a year and, where qualifying criteria are satisfied, they are eligible for tax relief on up to 50% of their employment earnings above that amount.

The relief is only be available to non-Irish domiciled individuals who take up residence in Ireland and they must:

- be an employee of a company incorporated and resident in a country outside the European Economic Area and with which Ireland has a tax treaty
- prior to arrival in Ireland have been employed by an associated company of the Irish entity to which they are assigned and continue to be paid by the overseas employer
- previously have been tax resident and exercised the greater part of their employment in a relevant overseas jurisdiction.

The overseas employer must operate Irish PAYE (and PRSI where appropriate) on the employment income. The relief will operate by way of a repayment after the tax year end of taxes otherwise payable.

### Cross border workers

Income tax relief is available to individuals who are resident in Ireland but who work outside Ireland. The relief operates in such a way as to effectively exclude the income arising from a qualifying employment from Irish tax. In order to qualify for the relief, the individual must hold an employment outside Ireland for a continuous period of at least 13 weeks in a country with which Ireland has a tax treaty. Income from the qualifying employment, the duties of which must be performed wholly outside Ireland, must be fully taxed in that country and the foreign tax paid. The individual must also be present in Ireland for at least one day a week during the period of the qualifying employment. The relief does not apply where the earnings arise from an employment with a State or semi-State body.

### Relief for mortgage interest payments

Mortgage interest tax relief is available in relation to loans used for the purchase, repair, development or improvement of a qualifying residence.

Tax relief at source is available in respect of qualifying loans for residences situated in Ireland. In the case of first time buyers, the rate at which tax relief will apply is based on a sliding scale as outlined in the table below. With effect from 1 May 2009 tax relief is now only available for the first seven tax years of any qualifying loan.

In the period 1 January 2009 to 30 April 2009 the rate of tax at which mortgage interest relief was available for non-first time buyers was limited to 15%. This reduced rate of relief will also apply to any new qualifying loan taken out by a non-first time buyer, though relief will be limited to the first seven tax years of any such loan.

#### Rates at which tax relief is available

	2009	2008
First time buyer - Years 1 & 2	25%	20%
First time buyer - Years 3, 4, & 5	22.5%	20%
First time buyer - Years 6 & 7	20%	20%
Years 8 +	0% (15% to 30 April 2009)	20%
Non-first time buyer - Years 1 to 7 of a new loan	15%	20%

The ceilings for mortgage interest payments for the relevant periods of 2009 are as follows:

	First time buyers	Others <sup>a</sup> 1 Jan to 30 Apr	Others <sup>b</sup> 1 May to 31 Dec	Others <sup>c</sup>
Single	€ 10,000	€ 1,000	€ 2,000	€ 3,000
Married/widowed	€ 20,000	€ 2,000	€ 4,000	€ 6,000

**a** Non-first time buyers who no longer qualify for mortgage interest relief after 1 May 2009

**b** Non-first time buyers who take out a new qualifying loan after 1 May 2009

**c** Non-first time buyers who took out a qualifying loan within the last 7 years and continue to qualify for the relief in 2009

#### Planning tip!

If you are buying your first home, try to time the purchase to maximise your entitlement to first time buyer's mortgage interest relief.

# Income tax

Where the interest paid for the relevant period in 2009 does not exceed the appropriate ceiling, the maximum credit is based on 100% of the interest paid.

First time buyers (for 2009) includes all those who first claimed mortgage interest relief on or after 1 January 2003. The increased ceiling and rates for first time buyers apply for a period of seven tax years, commencing with the year in which mortgage interest relief is first available.

## Rent relief for private accommodation

Rent paid in a tax year for private residential accommodation qualifies for tax relief in that year, subject to certain limits. Relief is given by way of a tax credit at the standard rate of income tax on the actual rent paid. The maximum credit available is as follows:

	55 or over €	Others €
Single	800	400
Married/widowed	1,600	800

## Rent a room scheme

Income from the letting, as residential accommodation, of a room in a person's principal private residence is exempt from tax where the gross annual rental income is not greater than €10,000. The relief will not apply, however, where the letting is between connected parties and rent relief is being claimed. Qualifying room rentals will not affect entitlement to mortgage interest relief nor will they result in a claw back of stamp duty relief. Principal private residence relief for capital gains tax is also unaffected.

## Alimony/maintenance payments

Income tax at the standard rate (20%) must be deducted at source from payments made under legally enforceable maintenance agreements entered into before 8 June 1983. For payments under agreements entered into on or after 8 June 1983, income tax is not deducted at source and the payer deducts the payments in computing total income for the tax year. In both cases the payments are assessed for income tax purposes as the recipient's income. Payments for the benefit of a child are made without deduction of tax at source and do not reduce the total income of the payer for income tax purposes. Separated/divorced spouses are treated for tax purposes as single persons. Where separated/divorced spouses are both resident in Ireland and a legally enforceable maintenance agreement is in place, they may elect to be assessed to tax jointly under the separate assessment procedure.

## Donations

Donations made to approved bodies, whether by individuals or companies, may qualify for tax relief. Qualifying donations may consist of donations of publicly quoted securities. Where income tax relief is given for such donations, no other relief will be available. In order to qualify for the relief, a minimum donation of €250 in any year to any one approved body must be made. The list of approved bodies is very wide and includes all educational establishments and charities which have been tax exempt for a minimum period of three years. For individuals making donations to approved bodies with which they are connected, tax relief for total donations in a tax year is capped at 10% of total income. Where individuals who are subject only to PAYE, make a donation to an approved body, the tax relief is claimed by the body.

## Deeds of covenant

Covenants to permanently incapacitated adults are fully tax deductible. Covenants to a permanently incapacitated minor child are fully tax deductible if paid by a person other than the parent. Covenants to individuals aged 65 years or over who are not incapacitated are also relieved, subject to an overall limit of 5% of the covenantor's total income.

## Restriction of certain tax reliefs for high earners

Certain tax breaks available to high income earners are restricted. A tapering restriction applies to individuals with income in excess of €250,000 (before claiming the specified tax reliefs). The amount of reliefs which persons can use to reduce their tax bill in any one year is limited to the greater of €250,000 and 50% of (defined) adjusted income. Any relief not obtained in a particular tax year is carried forward. In the case of married couples, each spouse is treated separately when calculating this relief. As such, each spouse can benefit from the threshold of €250,000.

## Self assessment - payment and returns

In general, self assessment applies to all individuals with non-PAYE income and to all directors controlling 15% or more of the share capital of certain companies (even if their entire income is subject to PAYE). The self assessment system places the onus on the individual to file a return, calculate the tax liability, and pay the tax due. To avoid a surcharge (at 5% or 10% of the tax liability, subject to certain maximum amounts) returns of income for the 2008 tax year must be filed on or before 31 October 2009.

To avoid interest charges at 0.0273% per day or part of a day (reduced to 0.0219% per day from 1 July 2009), the preliminary income tax due for the 2009 tax year must be paid by 31 October 2009. The tax paid must represent at least 90% of the individual's final liability for 2009, or 100% of the ultimate liability for the tax year 2008 (before any BES relief and relief for investment in films). In addition, the amount of preliminary tax payable for 2009 must be calculated as if the income levy was payable for 2008.

Alternatively, for the 2009 tax year, a taxpayer can elect to make a preliminary income tax payment equal to 105% of the ultimate liability for 2007 (ie the pre-preceding year), except where that liability was nil. The tax is payable in equal monthly instalments by way of direct debit. The final instalment is payable in December 2009. Where the taxpayer is paying by direct debit for the first time, payment can be made by way of three equal instalments (minimum of 8 instalments otherwise). Any balance of tax due for 2009 must be paid by 31 October 2010 (2008 balance of tax being due by 31 October 2009).

## Employment of a carer

A tax allowance for the cost of employing a person to care for an incapacitated family member may be claimed at the claimant's marginal tax rate. The table below sets out the ceiling on the amounts that can be claimed:

	2009 €	2008 €
Amount of ceiling	50,000	50,000

## Childminding relief

No tax is payable on the earnings of an individual from taking care of up to three children in the individual's own home, provided the amount is less than €15,000 a year. If such earnings exceed €15,000 in 2009, the total amount will be taxable. Certain conditions apply.

### Planning tip!

Your 2008 tax return is due by 31 October 2009. If your total income for 2009 is less than that in 2008, consider basing your preliminary tax payment on the estimated 2009 liability.

### Contact us:

**Mark Carter**  
Partner  
Ph: 353 1 792 6548  
mark.p.carter@ie.pwc.com

**Ken O'Brien**  
Director  
Ph: 353 1 792 6818  
ken.obrien@ie.pwc.com