



BUDGET 2012

Taxation Measures

O'Hanlon Tax Limited

6 City Gate, Lower Bridge St., Dublin 8 T: 01 6040280 F: 01 6040281 E: info@ohanlontax.ie W: www.ohanlontax.ie

Capital Taxes

Minister for Finance, Mr Michael Noonan TD, published Budget 2012 on 06 December 2011. For the first time the Government presented a budget in two halves, with the provisions to reduce expenditure being published first (on 05 December 2011), followed by the taxation provisions. OHT's analysis of Budget 2012 Part 1 is available [here](#).

The new €100 household charge announced on 05 December 2011 was included in the Budget speech, as the Minister noted that this is a temporary measure to be replaced by a valuation based property tax in due course.

The Minister took the opportunity to reaffirm, once again, the Government's commitment to the 12.5% corporation tax rate as one of the

cornerstones for Ireland's economic recovery. The existing exemption from corporation tax for new start-up companies has been extended for a further 3 years.

The anticipated review of reliefs on capital taxes has not materialised but CGT retirement relief was revised in order to encourage the transfers of farms before farmers reach the pension age of 66 years.

The Minister included a number of provisions to facilitate farmers, including the introduction of tax reliefs to encourage the formation of farming partnerships.

This is the first of 4 austerity budgets which aim to meet, if not exceed, the Government's commitment to the EU/IMF to reduce Ireland's deficit to 3% by 2015, with a view to re-establishing economic stability.

Budget 2012 is ambitiously geared to achieving revenue targets without increasing direct taxes.

It aims to simultaneously stimulate spending, increase exports, grow local business and attract inward investment.

Income Taxes

The Minister indicated that the measures to be introduced had to provide an additional €1.6billion in taxes and charges to keep Ireland on target for recovery. He followed through on his commitment not to raise income taxes by focusing mainly on indirect taxes such as VAT, Capital Taxes and Excise Duties.

The new Government has made a strong start. We have restored political stability and have successfully renegotiated many of the conditions in the EU/IMF Programme.

We have restored Ireland's reputation abroad..."

Michael Noonan

Business Taxes

There was no increase in the rates of income tax, and no adjustments to the standard rate band or personal tax credits, and the Minister announced that his Budget will have little or no impact on take home pay. A number of the changes introduced may have a peripheral impact on income received. The rate of DIRT was increased, and PRSI is to be applied to unearned income, which will increase the total tax paid by some employees.

Indirect Taxes

Other Measures

The stamp duty on non residential property has been substantially reformed by replacing the banded rates system (top rate of 6%) with a flat 2% rate. Consanguinity relief is being abolished from 2015 non residential properties, which mirrors the abolition of this relief on residential property.

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Universal Social Charge

There is no change to income tax rates, bands or credits, but the level at which Universal Social Charge (USC) applies has increased from €4,004 to €10,036 in 2012, so anyone earning under €10,036 will not pay USC. Those with income in excess of this level will pay USC on all income (including the first €10,036).

Capital Taxes

Legacy Property Reliefs

Budget 2011 included a “guillotine” for property reliefs (i.e. S. 23-type reliefs & capital allowances under tax based schemes).

Budget 2012 provided that reliefs claimed by “small scale investors” (with gross income of less than €100,000) are not to be restricted. Individuals who have gross income of over €100,000 will be subject to a surcharge of 5%, which is essentially a higher rate of USC. In this context “gross income” is the same as “adjusted income” for the purposes of the high earners’ restriction (i.e. taxable income plus income sheltered from tax by specified reliefs).

Taxpayers claiming owner occupier reliefs under tax based schemes are not affected by the new surcharge.

It appears that the surcharge applies to the full property relief available under the terms of the scheme, rather than to the amount of relief actually used in a tax year. The Revenue’s Guidance Note states that the surcharge applies *“only to that element of income sheltered by property-related specified reliefs”* but goes on to indicate that if a relief is available in a tax year, but not used because of the high earners’ restriction, then it will not be subject to the surcharge when used, as the surcharge will already have been levied.

Traditionally tax relief under a property-related tax scheme could be clawed back in the “tax life”, but if the claw back was not triggered the reliefs could be carried forward indefinitely. The Budget limited capital allowances arising to passive investors as follows:-

- If the tax life ends before 01 January 2015 taxpayers cannot carry any unused allowances forward beyond the end of 2014.
- If the tax life ends after 01 January 2015 accelerated capital allowances will cease at the end of the tax life.

PRSI

In 2011 employers were entitled to 50% relief from PRSI for pension payments made on

behalf of employees. From 2012 this relief is abolished, but the relief from income tax on employers’ pension payments remains.

PRSI is to be charged on unearned income (such as rent, investment income etc.) in 2013. Previously, unearned income was not chargeable to PRSI where an individual was also in receipt of a PAYE salary or pension and paying employee PRSI (class A1).

Mortgage Interest Relief

Budget 2012 provides that Mortgage Interest Relief will no longer be available to those who purchase a property after the end of 2012. However relief will apply for those who have already bought their homes, and for first time buyers who took out their mortgage between 2004 and 2008 the rate of mortgage interest relief has been increased to 30%.

Revenue have indicated that the existing ceilings for interest relief still apply. For those who drew down their first mortgage within the last 7 years (in 2005 or later) the ceilings are €20,000 for married couples and €10,000 for single persons.

For those who drew down their first mortgage more than 7 years ago (in 2004 and earlier years) lower ceilings apply, with a cap of €6,000 for single persons and €3,000 for married couples.

For those who buy a home in 2012:

- First time buyers can claim mortgage interest relief at a rate of 25%
- Non-first time buyers will benefit from relief at 15 %

The Minister indicated that mortgage interest relief will be abolished in full from 2018.

DIRT & Exit Tax

The rate of Deposit Interest Retention Tax (DIRT) is to increase from 27% to 30% (or 33% for long term savings) from 01 January 2012.

The exit tax on investment funds and similar products has also been increased by 3%.

BRICS Foreign Earnings Deduction

A foreign earnings deduction will apply where an individual spends at least 60 days a year developing markets for Ireland in the “BRICS” countries (i.e. in Brazil, Russia, India, China and South Africa).

Income Tax

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Research and Development

The Minister announced that the first €100,000 of expenditure on R & D will benefit from a 25% tax credit on a volume basis. Any additional expenditure over €100,000 will continue to benefit from the existing R & D credit scheme based on the 2003 base year for expenditure.

Capital Taxes

In relation to subcontracted R & D the existing eligibility of such costs, if they do not exceed 10% of total costs (5% if subcontracted to a third level institution), will be revised so that the limit will be the greater of 5% or 10%, as above, or €100,000.

Both these measures are targeted towards the SME sector.

Income Taxes

Companies will also have the option to pay a portion of the credit as bonuses to employees involved in the R & D work and such payments will be tax free for the employees.

The Minister did state however that this measure will be closely monitored for possible abuses.

Farming Partnerships

A number of changes were announced in the agri-food sector. The Minister announced that farming partnerships are to be encouraged by introducing enhanced 50% stock relief for registered farming partnerships and 100% stock relief for all young trained farmers who enter into registered farming partnerships.

Retirement Relief for Farms

Currently retirement relief applies to exempt

“Much of Ireland’s growth at present can be attributed to the attractiveness of Ireland for inward investment. The Corporate Tax Rate of 12.5 per cent and our place in Europe are central to this.”

Michael Noonan



the transfer of businesses to a child or “favourite nephew”, once the transferor is over 55 and meets the relevant conditions. All others transfers are eligible for full relief if the consideration received is €750,000 or lower, although marginal relief may apply above this level.

The Minister is modifying retirement relief to encourage early transfer of farms from one generation to the next.

The current exemption for intra-family transfers has been retained where the farmer is aged between 55 and 66 years, but the relief is to be capped at €3m if the transfer occurs after the farmer reaches the age of 66 years (to encourage early transfers).

Retirement relief on non-family transfers will be capped at €500,000 once the farmer is 66 years old, but the current relief cap of €750,000 will remain in place if the farmer is between the age of 55 and 66 years.

Transitional relief will apply so that the existing relief will remain available if the transferor is currently aged 66 years, or will reach that age before 31 December 2013.

The eligibility of flat rate farmers to reclaim VAT is to be extended to include the expenditure incurred on the purchase of wind turbines from 01 January 2012. Again this is intended to encourage investment in renewable energy.

Business Taxes

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Value Added Tax

As announced by the Minister for Finance, on 22 November 2011 to the Dublin Chamber of Commerce, the standard rate of VAT is to be increased by 2% to 23% from 01 January 2012.

The lower rates of VAT, including the 9% rate introduced by the Jobs Initiative, have not been changed with the VAT rate which applies to admissions to open farms being amended to this 9% rate.

In addition to this, the VAT rate applicable to district heating is to be reduced from 21% to 13.5% following consultation with the EU Commission.

Export Refund Scheme

A refund of VRT will be made when a car is permanently exported to another Member State from Ireland.

This is aimed at creating a balance between the volume of cars being imported into Ireland from other Member States and the exporting of used cars out of Ireland.

Banking Sector

The Minister re-stated the SME lending targets set for the two Irish pillar banks (Bank of Ireland and AIB/EBS) of €3 billion each in 2011, €3.5 billion each in 2012 and €4 billion each in 2013.

The Minister indicated that the banks must also make mortgage credit available to allow people to avail of the mortgage interest relief incentives announced in the Budget.

Carbon Tax

In 2010 a carbon tax of €15 per tonne was

introduced on transport fuels (such as petrol and auto-diesel), non-transport fuels (such as oil and gas) and solid fuels (such as commercial peat and coal).

In Budget 2012 the Minister is proposing to increase carbon tax to €20 per tonne.

The increase applies to petrol and auto-diesel from midnight on Budget Day (06 December 2011), but to avoid increasing home heating costs over the winter the increase on other fuels (i.e. oil and gas) was deferred until May 2012.

The Minister indicated that he was not going to apply Carbon Tax to solid fuels such as peat or coal.

A Carbon Tax Relief has been introduced for farmers, in the form of a double income tax deduction for increased costs arising from the change in carbon tax.

Excise

The Minister increased the excise duty on cigarettes by 25 cents on a pack of 20, with effect from midnight on 06 December 2011.

Betting Duty

The Minister confirmed that the existing Betting Duty of 1% is to be extended to cover remote betting and that legislation is in the pipeline to impose a betting intermediaries' tax of 15% on gross profits.

These proposals need EU sanction but it was indicated that these measures should be in place by the second quarter of 2012.

“The task of this Government is to regain control over Ireland’s fiscal and economic policies, to grow the economy again and to get people back to work. Those that have lost their jobs and young people who cannot get jobs have suffered most.”

Michael Noonan

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“[T]he EU/IMF Programme commits us to move to standard rate relief on pension contributions, I do not propose to do this or make changes to the existing marginal rate relief at this time.”

Capital Taxes

Michael Noonan

Pensions

Income Taxes

Currently an annual imputed distribution applies to pension funds held in an Approved Retirement Fund (ARF). The rate of this annual imputed distribution is being increased from 5% to 6% in respect of ARFs with assets values in excess of €2m. Where an individual holds more than one ARF, it is the total values of all ARFs held that will determine whether the higher rate of 6% applies.

Business Taxes

It has been proposed that this annual imputed distribution will be extended to “vested” Personal Retirement Savings Accounts (PRSAs), where the assets are retained in the PRSA rather than being transferred to an ARF on retirement. The increased rate of 6% will also apply to these vested PRSAs, where assets valued in excess of €2m are held in a PRSA, or across a number of PRSAs.

Indirect Taxes

Currently where an ARF is transferred to a child (over 21 years old), following the death of the pension holder, then the capital is taxed at the standard rate of income tax (currently 20%) and no Capital Acquisitions Tax applies. The rate of income tax applicable to such a transfer has been increased to 30%. This is in line with the proposed increased rate of CAT.

Other Measures

Household Charge

The Household Charge of €100 per dwelling was announced on 05 December 2011. This will be a short term measure and is expected to be replaced by a full property tax, based on the value of property, in 2014.

The charge arises on residential properties, so if commercial rates apply to a property it will not be subject to the charge. Properties are charged based on the number of units in a

property, i.e. a rental property with 4 separate units within the property is subject to a charge of €400. A non principal private residence is subject to both the household charge and the non principal private residence (NPPR) charge (of €200 introduced in 2009). Properties occupied as a principal private residence are only subject to the new €100 charge.

The liability date is 01 January in 2012 and subsequent years, with the tax due for payment within 3 months. Interest of 1% per month, and late payment penalties will apply. An installment payment option is available. The penalties for late payment are 10% if paid within 6 months, 20% if paid within a year and 30% if the payment is made more than 12 months after the due date.

There will be exemptions from this charge for residential properties that are part of the trading stock of a business if they have not been sold and are not generating income.

In addition social housing (including voluntary and cooperative housing units) and residential properties owned by the Government, HSE or charities will not be subject to the charge.

In addition if a person is forced to leave home because of a long-term mental or physical infirmity (e.g. if a person has to move into a nursing home) the dwelling house which is left vacant will not be subject to the charge.

The Minister has also announced relief measures consisting of a waiver of the charge for those in receipt of mortgage interest supplement on the liability date (01 January 2012 in 2012) and those in certain unfinished housing estates specified by the Minister.

More information is available on www.householdcharge.ie.

Motor Tax

The Minister announced an increase in the rate of motor tax which will take effect from 01 January 2012. The new rates for cars registered in 2008 and onwards will be as follows:

CO2 band	Current Rate	Proposed Rate
A	€104	€160
B	€156	€225
C	€302	€330
D	€447	€481
E	€630	€677
F	€1,050	€1,129
G	€2,100	€2,258

Cars registered pre 2008 and taxed based on engine size are also subject to an increase of 7.5% on current rates from 01 January 2012.