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BUDGET 2011



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2 Introduction

The Minister for Finance Mr Brian Lenihan introduced the 2011 budget to the Dail on 7 December 2010.

Following on from the recently published National Recovery Plan 2011 to 2014, the Minister stated that this budget represented the first instalment of that plan. He outlined the provisions of spending reductions and tax increases to achieve the much publicised €6 billion package of adjustments agreed between the Government, The European Union, and the International Monetary Fund.

The Minister's stated objective is to stabilise the public finances by widening the tax base and reducing Government expenditure with a view to generating sustainable growth and sustainable employment.

The major changes in taxation, include

- the introduction of a Universal Social Charge
- a reduction in Tax credits and standard rate band
- a reduction in residential stamp duty
- abolishing of the employee PRSI contribution ceiling
- DIRT to be increased by 2%
- Abolishing certain tax reliefs

The following summary, which contains detail of the main changes, is not intended as an exhaustive guide to all tax changes to be implemented. Details of all the proposed taxation changes will only become apparent when the Finance Bill is published and subsequently enacted in February/March 2011.



3 Income Tax

The following is an analysis of the revised tax credits, rate bands, tax rates, PRSI and Health Contribution changes.

A new Universal Social Charge (USC) will replace the Health Contribution and Income Levy, so that going forward a person's effective tax rate will be made up of Income Tax, PRSI and USC.

3.1 Tax Credits:

	2011 €	2010 €
Single person	1,650	1,830
Married couple	3,300	3,660
Single parent – additional	1,650	1,830
Incapacitated child	3,300	3,660
Widowed person	540	600
Dependent relative	70	80
Blind person	1,650	1,830
Home carers credit	810	900
Age credit – single	245	325
Age credit – married	490	650
Employee credit	1,650	1,830
Trade Union Subscription	0	70

3.2 Tax Bands and Rates:

	2011 €	2010 €
Single persons tax band	32,800	36,400
Additional band for single parents	4,000	4,000
Married couples' band:		
One income	41,800	45,400
Two incomes	65,600	72,800
Tax rate applicable to above bands	20%	20%
Tax rate applicable to balance of income	41%	41%

3.3 PRSI:

	2011 €	2010 €
Employees		
Upper ceiling after which no PRSI is payable	No Ceiling	75,036
Rates		
PRSI	4%	4%
Self Employed		
Upper ceiling after which no PRSI is payable	No Ceiling	No Ceiling
Rates		
PRSI	4%	3%
Employers		
Lower rate	8.5%	8.5%
Higher rate	10.75%	10.75%
Upper limit	No Limit	No Limit

3.4 Universal Social Charge (USC):

The USC replaces the Income Levy and the Health Contribution which are abolished with effect from 1 January 2011.

Universal Social Charge	2011 €	2010 €
Total income below €4,004 per annum	0%	N/A
Income up to €10,036 per annum	2%	N/A
Income between €10,037 and €16,016 per annum	4%	N/A
Income over €16,016	7%	N/A

By way of comparison a person earning €60,000 currently pays health contribution of 4% and Income levy of 2% (6% in total). The USC rate for the same income level will be 7%.

3.5 Tax on Savings



The rate of DIRT and exit tax on life assurance policies and investment funds, are each being increased by 2%.

The rate will now be 27% for payments made annually or more frequently and 30% for payments made less frequently than annually.



4 Curtailment of Reliefs

4.1 *Income Tax: Restriction of Tax Reliefs*

(Effective from 1 January 2011 unless otherwise indicated)

- Charge to USC and PRSI on Employee share schemes and share options.
- Restriction of tax free amount of an ex-gratia termination payment to €200,000.
- Cap of €200,000 on tax free pension lump sums.
- Cap of €40,000 on earnings qualifying for Artist Exemption.
- Reduction of annual earnings contribution limit for pensions to €115,000 (from €150,000).

4.2 *Abolition of Tax Reliefs*

(Effective from 1 January 2011 unless otherwise indicated)

- Patent Royalty Exemption, with effect from 24 November 2010.
- Approved Share Option Schemes, with effect from 24 November 2010.
- Rent Relief, to be phased out over 8 years.
- Relief for interest on loans used to invest in certain companies.
- Tax Relief for Trade Union Subscriptions.
- Tax exemption for BIK for Employer provided childcare.
- Tax relief for subscriptions to professional bodies.
- Relief for New shares purchased by employees.
- Capital Expenditure on new plant and machinery for use in mining.
- Accelerated capital allowances for certain farm expenditure.
- Tax exemption on grants/payments to the National Co-Op Farm Relief Services Limited.



5 Abolition of Property Based Tax Reliefs

5.1 Section 23 Type Relief

- From 1 January 2011 Section 23 type relief will be restricted to income from the Section 23 property itself (currently such relief can be offset against all Irish rental income).
- Any unused relief after the 10 year holding period will be lost.
- If the Section 23 type property is sold within the 10 year holding period a claw-back continues to arise for the seller however the purchaser no longer gets relief.
- Relief on Section 23 properties unsold will expire on 30 June 2021 regardless of the date of the first qualifying lease.
- The restrictions do not apply to owner occupiers.

5.2 Capital Allowances for Passive Investors

- Hotels, Nursing Homes, Qualifying Hospitals, Etc.

- With effect from 7 December 2010, any unused capital allowances carried forward beyond the respective 7 year or 10 year writing down period will be lost.
- From 2011 onwards the allowances will be restricted to income from the property which gave rise to them. No setting sideways of allowances against other income will be available.
- Schemes with a period over 10 years which has not ended will be truncated to 7 years from when the allowances are first made. The allowances on affected schemes will be reduced by 20% and then claimed evenly over the remainder of the new 7 year writing down period.

5.3 Guillotine after 2014

- All unclaimed and unused capital allowances and Section 23 type allowances for investors will expire after 2014.



6 Incentives

6.1 *BES/Employment and Investment Incentive*

The existing Business Expansion Scheme (BES) which provides relief for investments in certain companies is to be revamped and renamed as the Employment and Investment Incentive.

Under the new incentive, the limits on funds which companies can raise will be increased as follows:

- The maximum investment in a company/group will increase from €2 million to €10 million
- The amount that can be raised in any twelve-month period will be increased from €1.5 million to €2.5 million.

Under the existing BES scheme, some qualifying trades require certification from development agencies to qualify. These certification requirements will be simplified under the new scheme.

This new incentive will come into operation once the necessary approval from the European Commission has been received. In the meantime, the existing BES scheme will continue to operate. The new incentive will expire on 31 December 2013.

6.2 *Energy Efficient Homes*

A new tax incentive will be introduced in relation to improving energy efficiency in homes. Standard rated tax relief will be available on expenditure up to €10,000 on a list of approved works.

6.3 *Capital Allowances on Energy Efficient Equipment*

The scheme of accelerated capital allowances for expenditure by companies on certain energy-efficient equipment is being extended for a further 3 years to end of 2014.



7 Pensions

The following were the main changes introduced for pension funds

- Earnings Limit- for pension purposes the maximum contribution limits are being reduced to €115,000 (2011) from €150,000 (2010). The existing age related percentage limits still apply.
- Maximum Pension Funds - The Standard Fund Threshold (SFT) is to be set at €2.3 million with effect from 7th December 2011. A higher threshold may apply to existing pension funds with a value on 7th December greater than €2.3 million and lower than the previous SFT of €5.4 million.
- Approved Retirement Funds (ARF) - The annual imputed distribution which applies to the value of assets in an ARF at 31 December each year is being increased to 5% from 3%. This means that the pensioner must either withdraw at least 5% of the fund each year or pay tax at marginal rates on at least 5% of the fund
- Retirement Lump Sums – previously pensioners could withdraw the greater of 25% of the pension fund or 1.5 times final salary as a tax free lump sum. This limit is now a lifetime €200,000. Any excess over this limit up to €575,000 (25% of SFT above) is taxable at standard rate. Any amount over €575,000 will be subject to marginal rates of tax.
- PRSI relief in respect of pension contributions is abolished for employee contributions and restricted to 50% for employer contributions, with effect from 1 January 2011.



8 Corporation Tax

12.5% Rate

No changes were announced to the current rate of Corporation Tax

Three Year Exemption for Start-Up Companies

The existing scheme is being modified so that the value of the relief will be linked to the amount of employers' PRSI paid by a company in an accounting period subject to a maximum of €5,000 per employee.

The reduction in the corporation tax liability as a result of the scheme cannot exceed the amount of qualifying employers PRSI.

The scheme is being extended to include start-up companies which commence a new trade in 2011.



9 Stamp Duty

9.1 Residential Property

The Stamp Duty System for Residential Property has been reformed as follows:-

Property Value	Rate
The first €1,000,000	1%
Amounts over €1,000,000	2%

These new rates will apply in respect of instruments executed on or after 8 December.

A transitional provision will be put in place to ensure that anyone who has entered into a binding contract to purchase a residential property before 8 December 2010, and who executes the transfer of that property before 1 July 2011, will not lose out.

9.2 Abolition of Reliefs for Residential Property

The following reliefs and exemptions have been abolished in respect of instruments executed on or after 8 December 2010:

- First Time Buyer Relief
- Exemption for new houses under 125sq metres in size
- Relief on new houses over 125 sq metres in size
- Consanguinity relief for residential property transfers
- Exemption for residential property transfers valued under €127,000
- Site to Child relief



10 Capital Gains Tax

No changes were announced to Capital Gains Tax.



11 Capital Acquisitions Tax

The current group tax free thresholds are being reduced by 20%. This reduction applies in respect of gifts or inheritance taken from midnight on 7 December 2010.

	2011 €	2010 €
Child or minor child of a deceased child or parent where S116A FA 1997 applies	331,839	414,799
Lineal ancestor (other than a parent where S116A FA 1991 applies), lineal descendant (other than a child or a minor child of deceased child), brother, sister, child of brother or sister	33,185	41,481
Any other person	16,592	20,740



12 Relevant Contracts Tax (RCT)

- The current RCT rate of 35% will be replaced with a two rate withholding tax system.
 - 20% rate for subcontractors registered for tax with an established compliance record.
 - 35% rate for subcontractors not registered for tax
- Abolition of the monthly repayment system and replacement with an offset system
- Strengthening of the reporting system for RCT Principals in order to enhance compliance and reduce the opportunities for fraud.



13 Motor Vehicles

13.1 VRT

The following package of measures will be introduced:

- Extension of the Car Scrappage Scheme to 30 June 2011
- Extension of VRT relief for Hybrid Vehicles and Flexible Fuel Vehicles to the 31 December 2012
- Increase in the VRT flat-rate for Commercial (Category C) vehicles. The current rate of €50 is being increased to €200 to take effect from 1 May 2011.



14 Value Added Tax

There have been no changes to VAT in this budget

Under the four year National Recovery Plan, it is intended to increase the standard rate of VAT from 21% to 22% in 2013 with a further increase to 23% in 2014.



15 Excise Duties

15.1 Increase in Mineral Oil Tax on Petrol and Auto-diesel

The mineral oil tax will be increased by 4 cent per litre on petrol and 2 cent per litre on auto diesel (both inclusive of VAT) with effect from midnight on 7 December 2010.

15.2 Amending the Air Travel Tax to a single rate of €3

A revised rate of Air Travel Tax of €3 will come into effect on 1 March 2011, on a temporary basis.

15.3 Application of Betting Duty to Offshore Betting

Betting Duty has to date only been applied to bets placed in betting shops with bets placed by Irish punters in either online or over the phone with offshore entities falling outside the tax.

Legislation will be introduced in the Finance Bill to ensure that all bookmakers taking bets from Ireland will pay 1% betting duty on those bets in the same way that betting shops currently do.



16 Conclusion

As stated the next stage in the process is the publication of the Finance Bill, which will provide additional detail to the measures announced and will be subject to Dáil debate and amendment. This will be followed shortly thereafter by the introduction of the Finance Act, which brings into law the provisions of the Budget and the Finance Bill.

As always we at LHM Casey McGrath will be available to answer any query you might have in relation to the Budget or any other matter concerning your finances.

Whilst every effort has been made to ensure that the above information is correct and complete at time of going to print no responsibility for loss occasioned to any person acting or refraining from action as a result of any material contained or omitted from this document can be accepted by LHM Casey McGrath.

If you have any queries on the budget or any other matters please do not hesitate to contact any of our team.

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