



## The Budget 2012

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Budget 2012 was announced on Tuesday 6<sup>th</sup> December 2011. This Budget dealt solely with taxation measures. The publication of the Spending Estimates was issued the previous day on Monday 5<sup>th</sup> December 2011.

While it was a harsh Budget, a number of new measures were introduced in an attempt to stimulate business and other transactions including a new income tax relief to attract talent to Ireland, an improved R&D regime that should be beneficial to SME sector, a further extension of the tax exemption for new start-up companies and incentives for the property sector.

We set out below a summary of the main changes introduced.

### Business taxes

- A continued commitment to 12.5% Corporation tax rate
- The corporate tax exemption for start-up companies has been extended for the next 3 years
- A Special Assignee Relief Programme to be introduced.
- The first €100,000 of Research and Development ('R&D') expenditure of companies will be allowed on a volume basis for purposes of R&D Credit. For expenditure in excess of this, the R&D credit will continue to be applied on an incremental basis with 2003 spend being the base.
- Companies will have an option to use a portion of R&D credit to reward key employees involved in the development of R&D.
- Introduction of a Foreign Earnings deduction for temporary assignments to BRICS countries (Brazil, Russia, India, China

- and South Africa)
- Reduction of the employer rebate on statutory redundancy payments from 60% to 15%.
- Removal of the 50% Employer PRSI relief for employee contributions to occupational schemes and other pension arrangements like PRSAs. This is effective from 1 January 2012. Full Employer PRSI is now payable on such payments.
- Capital allowances for renewable energy projects to be extended from 31 December 2011 to 31 December 2014.
- Top rate of VAT has been increased from 21% to 23 % (2% increase). The government has committed not to introduce any further increases on this VAT rate during the lifetime of this government.
- VAT rate on district heating to be reduced to 13.5% following consultation with EU Commission (currently 21%).

### Farming and Agri Food Industry

- The reduction in stamp duty for transfer of farm land from 6% to flat rate of 2%.
- Changes in retirement relief to incentivise the timely transfer of farms and businesses before the age of 66. Where a transfer is made by an individual to a child and the individual is over 66, a new limit of €3M will be applied to the value of assets relieved. In contrast, where the disposal is made by the individual before they are 66 there is no limit to the value of assets. There is a two year transitional period for individuals are already 66 or who

turn 66 before 31 December 2013.

- Enhanced 50% stock relief for all registered farm partnerships and a 100% stock relief for certain young trained farmers forming farm partnerships.
- VAT refund order for farmers to be extended to include a refund on the purchase of wind turbines from 1 January 2012.
- Admission to open farms now at the reduced 9% VAT rate. This follows changes at EU level where admissions to open farms are now liable to VAT as from 1 January 2012.
- Farmers will be allowed a double income tax deduction for increased costs arising from the change in carbon rates as detailed further below.



### Property

- Stamp duty on commercial (all non residential) property will be reduced from 6% to flat rate of 2% from midnight tonight.
- Consanguinity relief on transfers of non residential property to family members will be abolished after 1 January 2015.
- Residential stamp duty rates for residential property unchanged (1% on amounts up to 1M and 2% thereafter).
- Introduction of a CGT incentive for property purchased between midnight tonight and the end of

2013. Any Capital gain attributable on property which is bought during this period and held for at least 7 years will not be subject to CGT, on gains accruing during this period.

- The abolition of upward only rent clauses does not appear to be legally possible. However, Nama landlords may approve rent reductions where it can be shown by tenant that rents are in excess of current market levels and viability is threatened.
- Mortgage interest relief for first time buyers who purchased residential property from 2004 to 2008 is being increased to 30%.



- Purchasers of residential property in 2012 will get mortgage interest relief as follows:
  - First time purchaser – 25% (rather than 15%)
  - Non first time buyer – 15% (rather than 10%)
  - Mortgage interest relief is completely abolished for purchases made on or after 1 January 2013.
- Announcement on Mortgage arrears will be made in coming months.
- Legacy property reliefs:
  - Section 23 investments will not be terminated or restricted for investors with an annual gross income under €100,000.
  - Property relief surcharge of 5% will be imposed on investors with annual gross income over €100,000. This surcharge will apply on amount income sheltered by property reliefs in a given year.
  - Investors in accelerated Capital Allowance scheme will no longer

be able to use any capital allowance beyond the tax life of the scheme where that tax life ends after 1 Jan 2015.

### Personal and Capital Taxes

- There have been no increases in the income tax rates, no reductions in income tax credits and no adjustments to the income tax bands.
- From 1 January 2012, the exemption level for USC charge has been increased from €4,004 to €10,036. This will be collected on a cumulative basis from 2012 thereby reducing the risk of over and underpayment of the USC.
- Introduction of a Foreign Earnings deduction for temporary assignments to BRICS countries (Brazil, Russia, India, China and South Africa).
- Further broadening of base of PRSI to cover rental, investment and other forms of income from 2013.
- Removal of 36 day tax exemption for illness and occupational injury benefit. Further measures to counteract absenteeism to be introduced in 2012.
- The citizenship condition for the payment of the domicile levy has been removed. This removes the ability of an individual to revoke his or her citizenship to avoid the payment of the tax.
- Capital Gains Tax rate has been increased from 25% to 30% for disposals on or after 7<sup>th</sup> December 2011.
- There have been changes to Retirement relief to encourage the transfer of business or farms before the age of 66.
- Capital Acquisitions Tax rate has been increased from 25% to 30% for gifts or inheritances taken on or after 7<sup>th</sup> December.
- The Group A tax free threshold (parent to child) has been reduced from €332,084 to €250,000 as from 7<sup>th</sup> December.

### Other taxes

- DIRT on investments and exit tax on life assurance policies and investment funds has been increased from 27% to 30% and to 33% on payments made less frequently than annually.
- Household charge of €100 per dwelling introduced. There is an exemption for those on Mortgage interest supplement and those living in certain categories of unfinished housing estates.
- Increase in Motor taxes.
- Excise duty on cigarettes increased from 7<sup>th</sup> January 2011.
- Legislation to extend 1% betting duty to online betting and the introduction of betting intermediary duty to be introduced in 2012.

### Pensions

- The annual imputed distribution which applies to the value of assets in an ARF at 31 December each year is being increased from 5% to 6% (an increase of 1%). This applies to ARFS with asset values in excess of €2M or where an individual owns more than one ARF, where the aggregate value of the assets in those ARFs exceed €2M. The increase will apply to affected ARFS at 31 December 2012.
- Vested PRSAs are also affected by the above change.
- The introduction of further changes to the transfer of ARF assets to a child on the death of the ARF owner will be published in the Finance Bill.

### Carbon Taxes

- Increase in petrol and auto diesel prices with effect from 7 December 2011.
- Increase in home heating fuels (e.g. gas) with effect from 1 May 2012.
- No increase in carbon tax on solid fuels such as peat or coal.