



Tax Matters – Commission on Taxation report

September 2009

Welcome to the
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edition of Tax
Matters.



Introduction

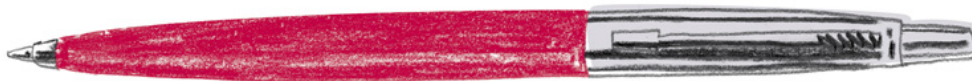
The eagerly anticipated Commission on Taxation report was published on 7 September 2009, after 18 months of preparation.

The final report runs to 550 pages and contains a large number of recommendations to the Minister for Finance. These include specific recommendations, such as the introduction of an annual property tax, together with more general observations, such as that any new taxes raised should be in a “revenue neutral manner”.

It is important to note that the Commission’s report has no legislative basis. While the Commission’s desire is that the recommendations included therein are implemented en masse, it is inevitable that there will be an element of “cherry picking” by the Minister. This could see certain recommended tax raising measures being introduced as early as the upcoming budget in December.

The Minister had flagged earlier this year that certain tax reliefs will be abolished or severely restricted in the near future. The Commission is more specific and highlights in particular reliefs that facilitate the tax efficient transfer of assets to the next generation; the recommendation is that these reliefs be significantly curtailed. The likelihood is that asset transfers will now take place in advance of year end to avoid the impact of any adverse changes.

On the following pages we look at the key highlights of the report with a more detailed review of recommended changes to the Irish pension system.



Highlights

Given the size of the Commission's report, it is difficult to summarise the key points. However, the following recommendations are worth noting:

- the curtailment of certain reliefs which provide for significant tax reductions on the transfer of business assets to the next generation
This includes the introduction of a €3m cap on the exemption from CGT for assets transferred to the next generation and a similar cap on the CAT exemption for business property transfers;
- the amendment of the tax residence rule for individuals to include new tests for permanent home and centre of vital interests;
- the abolition of the remittance basis of taxation, for income and capital gains;
- reform of the income tax system, including a new three rate income tax structure and the introduction of a simplified system bringing together the four existing systems (PAYE, PRSI, health contribution and income levy);
- the removal of the employee PRSI ceiling;
- the removal of the patent income exemption;
- the reduction in the tax rate applicable to dividends to that applying to interest income;
- the replacement of the capital allowances regime with a system based on the accounts depreciation figure;
- the ability for all companies to base preliminary tax payments on the prior year figures;
- the introduction of a carbon tax based on carbon dioxide emissions, with the tax to be collected by the supplier but with an element of “visibility” to the final consumer;
- the introduction of water charges to residential users;
- the introduction of an annual property tax for residential property;
- the abolition of stamp duty on the acquisition of a principal private residence (but not for investors); and
- the introduction of a €200,000 limit on the tax free element of ex gratia termination payments.

Recommendations to the Irish pension system

Looking specifically at pension changes, the following key points should be noted:

- the regime for non-funded pensions is examined to identify the implicit tax cost to the Exchequer in the context of an equitable distribution of the tax expenditure on pensions.
- the current tax-relief for personal retirement provision is replaced by a matching Exchequer contribution of €1 for each €1.60 contributed by the taxpayer.
- as the annual earnings limit (i.e. €150,000 for 2009) does not apply to employer contributions, there should be a correlation between the annual earnings limit and the standard fund threshold, and the reduction in the annual earnings limit suggests that there should be a corresponding reduction in the standard fund threshold.
- a lump sum taken on retirement is liable to tax as follows;
 - an amount of up to €200,000 should be tax free.
 - the balance of the lump sum should be subject to tax at the standard rate of income tax.
- the current tax-relief rules are reviewed to ensure that contributions and remuneration levels cannot be manipulated close to retirement to allow individuals to take advantage of unintended and inappropriate benefits.
- age-related limits on the amount of an individual's relevant earnings should continue.
- the flexibility of an ARF is extended to defined contribution occupational pension schemes.
- anomalies in the treatment of different retirement arrangements should be eliminated as far as possible.
- the various ages specified in the legislation governing the time at which benefits may commence should be reviewed and conformed.

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