



Tax Matters – tax implications of the National Recovery Plan 2011-2014

Welcome to this special edition of Tax Matters.

“In 2010, it is estimated that 45% of taxpayers will pay no income tax. This is not sustainable..... Those who can pay most will pay most but no group can be sheltered.”

The National Recovery Plan provides a blueprint for a return to growth in the Irish economy and in particular, includes wide sweeping changes to the Irish tax regime.

Such changes are expected to provide one third of the budgetary adjustment and a key feature is the broadening of the Irish tax base.

It is envisaged that the proposals are focused on broadening the tax base while ensuring there is sustainable, structural reform.

The following summarises the main changes proposed for each tax head.



Income tax

- credits and bands are to be effectively rebased to 2006 levels
 - the entry point to income tax for a single PAYE person will fall to approximately €15,300 by 2014, a fall from €18,300 in the 2010 tax year
 - the net pay for a single person on €55,000 will be reduced by 4.8% by 2014 while the net pay for a married one-income family on €55,000 will be reduced by 5.4%
 - the income levy, health levy and PRSI are to be merged into a Universal Social Charge
 - reduction of income tax relief on a phased basis to pension contributions, ultimately resulting in relief being granted at the standard income tax rate
- (the rates will be 34% for 2012, 27% for 2013 and 20% from 2014)
- removal of PRSI and health levy relief on pension contributions
 - reduction in relief for the public service “pension related deduction”
 - reduction in the annual earnings cap for pensions of 25% in 2011, i.e. from €150,000 to €115,000
 - phased abolition of legacy reliefs over the period of the Plan e.g. remaining property based incentives.

The following are to be abolished in 2011:

- tax exemption for patent royalties
- investment allowance for plant and machinery and for exploration expenditure
- approved share option schemes
- BIK exemption on employer provided childcare
- accelerated allowance for capital expenditure on farm buildings for pollution control
- tax exemption for payments to National Co-operative Farm Relief Services Ltd
- income tax relief for rent paid for private rented accommodation (this will be phased out on the same timeline as mortgage interest relief)

- income tax relief for trade union subscriptions
- income tax age credit and income tax age exemptions (phased out over 4 years).

The following expenditure will be curtailed:

- PRSI, health and income levy will be charged on Approved Profit Sharing Schemes and on Approved Save-As-You-Earn Schemes
- PRSI and health levy will apply to Unapproved Share Options and to Share Awards
- the artist’s exemption from income tax will be restricted to earnings of €40,000
- ex-gratia and lump sum pension payments in excess of €200,000 will be taxed.



Corporation tax & VAT

Corporation tax

The government remains steadfastly committed to the maintenance of the 12.5% corporate tax regime as the cornerstone of Irish industrial policy. The Programme for Government clearly states that the government guarantees that the 12.5% rate of corporation tax will remain and that commitment is protected in an EU context by the principle of unanimity in taxation matters.

SME's will be supported through a new scheme referred to as "Business Investment Targeting Employment Scheme" (BITES), which is due to transform the old BES scheme and under this, the maximum amount that companies may raise in a 12 month period will be increased along with the lifetime amount that such companies may raise.

The abolition of the tax exemption for patent royalties will also impact upon many Irish corporate entities.

VAT

- standard rate of VAT to be increased by 1% in 2013 to 22%
- a further 1% increase in the standard rate of VAT in 2014 to 23%
- zero rated VAT items will be reviewed as part of an EU exercise
- various excise measures will be introduced in 2011.

Other

Property tax / Site Value Tax

An interim Site Value Tax will be introduced in 2012 and this will apply to non-agricultural and non-commercial land. A fixed “household charge” of €100 will be in place in 2012 while a full value-based tax will be introduced in 2013. The final Site Value Tax is expected to be an average of just over €200 per site. Following this implementation, commercial rates will be moved to a site value basis also.

Water charges

Domestic water charges are due to be implemented by 2014. There will be metering and charging for domestic water and the commercial opportunities for utility companies will be considered as part of this scheme.

Carbon tax

The price of carbon will be doubled over 4 years. The price will be progressively increased from €15 to €30 per tonne.

Vehicle Registrations tax

Under the Plan, the CO2 bands and rates structures will be examined in light of the overall reductions in CO2 emission levels for new cars. The bands are to be adjusted in line with technological advances on 1 January 2013.

Capital taxes

The capital gains tax (“CGT”) and capital acquisitions tax (“CAT”) systems, structures and thresholds will be reformed in 2012. The single CGT rate will be amended to a system of differing rates for varying levels of gains.

A similar system will be introduced for CAT and the current tax-free thresholds will be reduced to reflect the decrease in asset values over recent years.

The reliefs and exemptions from CGT, CAT and stamp duty will either be abolished or significantly restricted.

Summary

There are significant changes to the tax system proposed in the 4 year Plan. However, opportunities to avail of current tax reliefs still exist and we recommend that you contact your Grant Thornton advisor.



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