E. W. LEVINGSTONE & COMPANY – BUDGET 2012 SUMMARY

Taxation

Income tax

There are no changes in the existing rates or income tax bands. There are also no changes to existing tax credits.
However, Illness Benefit will now be taxed from the first day of payment; previously the first 6 weeks (36 days) were exempt from tax. This change is effective from 1st January 2012.

Service Charges

The measures announced in Budget 2011 are unchanged, the relief is being abolished for the tax year 2012 and subsequent years.

Rent tax credit
The measures announced in Budget 2011 are unchanged, relief for rent credit will be withdrawn on a phased basis over 7 years and claimants who were not renting at the 7th December 2010 and who subsequently entered into a rental agreement will not be able to claim relief.

Domicile levy

The citizenship condition for payment of the levy is being removed. This will mean that liable non-residents will not be able to avoid the levy by changing their citizenship status.

Universal Social Charge (USC)

People with an income of less than €10,036 will no longer pay the Universal Social Charge. Currently, people with an income below €4,004 do not pay USC.

PRSI

The current relief of 50% of employer PRSI for employee contributions to pension schemes has been abolished (1 January 2012).

PRSI will be expanded to cover rental, investment and other forms of income from 2013 for PAYE workers.

Value-Added Tax (VAT)

The standard rate of VAT will be increased from 21% to 23% from 1 January 2012. This only affects goods which are already liable to the 21% rate.

The rate of VAT will be reduced from 21% to 13.5% on district heating, for example, where heating is supplied from a central source to a number of business premises within a building. This brings this form of heating in line with other energy suppliers. This is effective from 1st March 2012.

Pet farms and open farms will be liable to charge VAT at 9% on admission fees from 1 January 2012.

Extension of the VAT refund order for flat rate farmers to cover Wind Turbines

With effect from 1st January 2012 the refund order for flat rate farmers will be extended to cover micro/generation wind turbines. This will apply to wind turbines supplied and installed after that date.

DIRT (Deposit Interest Retention Tax) and exit taxes on life assurance polices and investment funds.

The rate of retention tax that applies to deposit interest, together with the rates of exit tax that apply to life assurance policies and investment funds are being increased by 3% in each case and will now be 30% for payments made annually or more frequently and 33% for payments made less frequently than annually. The increase rates will apply to payments including deemed payments made on or after 1st January 2012.

Excise duties

Motor tax rates

Motor tax rates for all categories will increase. (1 January 2012)
Motor tax for cars in band A will go up from €104 to €160, and band B goes up from €156 to €225. Band C will go up from €302 to €330, Band D - €447 to €481, Band E - €630 to €677, Band F - €1,050 to €1,129, Band G - €2,100 to €2,258.
Motor tax rates based on engine size will also increase. For example, engines with 1,001 to 1,100cc will go from €259 to €278; 1,601 to 1,700cc engines will go from €471 to €506; 2,001 to 2,100cc engines will go from €784 to €843.
Motor tax on electric vehicles will increase from €146 to €157.

Vehicle Registration Tax

The current CO2 bands will be reviewed with a view to adjusting the bands by 1 January 2013.

Tobacco Products Tax

Excise Duty on a packet of 20 cigarettes is being increased by 25 cents (including VAT) with a pro-rata increase on other tobacco products. (From midnight on 6 December 2011)

Alcohol

Legislation will be published in 2012 to deal with alcohol abuse issues (including low-cost alcohol sold in off-licenses and supermarkets).

Carbon tax
The carbon tax will be increased by €5 to €20 per tonne on fossil fuels.
The increase will apply to petrol and auto-diesel from midnight, 6 December 2011.

The increase will apply from 1 May 2012 to Kerosene, Marked Gas Oil, Liquid Petroleum Gas (LPG), Fuel Oil and Natural Gas. (This is to take account of the effect the increase would have on home heating costs over the winter months.)
The Carbon Tax will not apply to solid fuels, so there will be no increases for peat or coal.

Betting duty

It is proposed to extend betting duty of 1% to remote betting and to introduce a betting intermediaries' duty (Gross Profits Tax of 15%) to cover betting exchanges. This provision is being legislated for in the Betting (Amendment) Bill. Following publication of the Bill there is a legal requirement to notify the EU Commission 3 months before enactment of the Bill. It is intended that the new taxation regime will commence from the second quarter of 2012.

Property taxes

Household charge

A household charge of €100 is being introduced in 2012. This charge will fund local services, in line with the requirement in the EU/IMF Programme of Financial Support for Ireland. The charge is an interim measure pending design and implementation of a full property tax in 2014.
Owners, not occupiers, are liable. The charge does not apply to social housing or housing provided by a charity. There will be a waiver for those on Mortgage Interest Supplement and for those residing in certain categories of unfinished housing estates. Provision will also be made to allow payment of the charge in installments.

Mortgage interest relief (MIR)
Mortgage interest relief will no longer be available to house purchasers who purchase after the end of 2012 and will be fully abolished from 2018, as previously announced.
First time buyers in 2012 will get mortgage interest relief at 25%. Non-first time buyers in 2012 will get mortgage interest relief at 15%.
The rate of mortgage interest relief will be increased to 30% for first time buyers who took out their first mortgage between 2004 and 2008.

Stamp duty

Non residential property

A new lower rate of 2% has been introduced for non residential property. This single rate will apply to the entire amount of the consideration and the current exempt threshold of €10,000 has been abolished. The new rate applies to instruments executed on or after 7 December 2011.
Transitional arrangements will apply where as a result of the new rate a tax payer is disadvantaged compared to the stamp duty treatment applicable prior to the 7 December 2011. The transitional arrangements will apply where an instrument is executed on or after 7 December 2011 and before 1st July 2012 solely in pursuance of a binding contract which has been entered into prior to the 7th December 2011.

Consanguinity relief, which reduces the stamp duty by 50% will cease to apply to non residential property for instruments executed after 31 December 2014.

Property based legacy relief's.

These measures will apply to the various property based tax relief schemes in the following manner:

Section 23 type relief's and accelerated capital allowances

A surcharge will be introduced effective from the 1st January 2012 on individuals with gross incomes over €100,000. The surcharge will apply at a rate of 5% on the amount of income sheltered by property relief's in a given year.

This surcharge (essentially a higher rate of USC) will apply to all investors regardless of whether they invested in Section 23 or accelerated capital allowance schemes with this level of gross income.

Residential owner occupier relief is unaffected by these changes.

Accelerated capital allowances.

Investors in accelerated capital allowance schemes will no longer be able to use any capital allowances beyond the tax life of a particular scheme where that tax life ends after the 1st January 2015.

Where the tax life of a scheme has ended before 1st January 2015 no carry forward of allowances into 2015 will be allowed.

Capital Acquisitions Tax (CAT)

The current rate of 25% is being increased to 30%. This increase applies in respect of gifts or inheritances taken after 7 December 2011.

The current Group A tax-free threshold is being reduced from €332,084 to €250,000. This reduction applies in respect of gifts or inheritances taken after 7 December 2011. Group A applies where the beneficiary, the person receiving the benefit, is a child of the person giving it. This includes a stepchild or an adopted child.

It appears that the Group B & C tax free thresholds both remain unaltered.

Capital Gains Tax (CGT)

The current rate of 25% is being increased to 30%. This increase applies in respect of disposals made after 6 December 2011.

A net incentive relief from CGT is being introduced for the first seven years of ownership of properties purchased between midnight 6 December 2011 and the end of 2013 and held for at least seven years. Where such property is held for more than seven years the gains accrued in that period will not attract CGT. This measure comes into effect after 6th December 2011.

Measures to incentivise timely Business and Farm transfers

Full retirement relief from CGT for intra-family transfers will be maintained for individuals aged 55 to 66. An upper limit of €3m on retirement relief is introduced for business and farming assets disposed of within the family (where the individual transferring the assets is aged over 66 years). This will act as an incentive for the earlier transfer of farms.

(The current unlimited amount applies for a transitional period of two years for individuals currently aged 66 or who reach that age before 31 December 2013.)

The current upper limit of €750,000 for assets transferred outside the family for individuals aged between 55 and 66 years will be maintained. The upper limit for retirement relief for business and farming assets transferred outside the family is reduced from €750,000 to €500,000 for individuals aged over 66 years.

(The current upper limit of €750,000 applies for a transitional period of two years for individuals currently aged 66 or who reach that age before 31 December 2013.)

Full details of these measures will be set out in the Finance Bill.

Pensions

Approved Retirement Funds

The tax on the value of assets in an Approved Retirement Fund (ARF) at 31 December each year is being increased from 5% to 6% for ARFs with asset values over €2 million (or, where an individual owns more than one ARF, where the aggregate value of the assets in those ARFs exceeds €2 million). (31 December 2012 and future years)

The transfer of ARF assets on the death of the ARF owner to a child of the owner aged over 21 is subject to a final liability tax equal to the standard rate of income tax in force at the time of the making of the such a distribution (currently 20%). It is proposed to apply a higher final tax liability tax rate of 30% to such transfers and the details will be published in the Finance Bill.

Personal Retirement Savings Accounts (PRSAs)

The provisions which apply to ARFs will also apply on the same basis to "vested" PRSAs, where the assets are retained in the PRSA rather than being transferred to an ARF. This includes an increased deemed distribution percentage of 6% for vested PRSAs with assets in excess of €2 million. Further details will be published in the Finance Bill. (31 December 2012 and future years)

Employer PRSI on pension contributions

The current relief of 50% of employer PRSI for employee contributions to occupational pension schemes and other pension arrangements is being removed. The change will be legislated for the Social Welfare Bill.

Corporation tax

Three year tax relief for start up companies

The 3 Year Tax Relief for Start-up Companies scheme provides relief from corporation tax on the trading income and certain gains in the first 3 years of trading. It is being extended to include companies which start up in 2012, 2013 or 2014.

Relief for investment in renewable energy generation

The qualifying period for the scheme of tax relief for corporate investment in certain renewal energy products is being extended form 31st December 2011 to 31st December 2014. The purpose of the scheme is to encourage investment in renewal energy projects and to facilitate the growth of electricity generation capacity using these sources. To qualify for the relief the energy project must be approved by the Minister for Communications, Energy and Natural Resources and be in one of the following categories of technology:

- Solar
- Wind
- Hydro (including ocean, wave or tidal energy)
- Biomass

R & D tax credit
A number of changes are being made to the R & D tax schemes as follows:

Volume basis

- The first €100,000 of qualifying R & D expenditure will benefit from the 25% R & D tax credit on a volume basis. The tax credit will continue to apply to incremental R & D expenditure in excess of €100,000 as compared with such expenditure in the base year 2003.

- **Outsourcing limits**

At present sub contracted R & D costs are eligible where they do not exceed 10% of total costs or 5% in the case of sub-contracting to third level institutions. This limit can disproportionately effect smaller companies who may have greater need to outsource R & D work than larger multi nationals with greater internal resources. The outsourcing limits for subcontracted R & D costs are being increased to the greater of 5 or 10% as appropriate or €100K.

- **Use of the credit to reward R & D employees**

Companies in receipt of the R & D credit will have the option to use a portion of the credit to reward key employees who have been involved in the development of R & D. This change will be monitored closely.

Redundancy

The employer rebate of statutory redundancy payments will reduce from 60% to 15% with effect from 1st January 2012.

Farmers

Stock Relief for Registered Farm Partnerships

An enhanced 50% stock relief (100% for certain young trained farmers) for registered farm partnerships is being introduced and will run until 31 December 2015 subject to clearance with the European Commission under State Aid rules.

Farm Assist

The rate of payment will not change. The assessment of means from self-employment, including farming, is being raised from 70% to 85%. (January 2012)

The deductions from income for children are being halved to €127 per year for each of the first two dependent children and €190.50 per year for each subsequent child. (January 2012)

Changes to the CGT retirement relief

In order to incentivise the timely transfer of farms before the current owners reach 66 years of age changes are being made in respect of retirement relief from CGT. This is dealt with in the Capital Gains Tax section.