

# BUDGET SUMMARY 2011

## INCOME TAX

The following are details of the Budget Statement of 7 December 2010, as made by the Minister for Finance.

The tables below outline the position for 2011.

### Tax Credits

| Tax Credit                                  | 2010 € | 2011 € |
|---|--------|--------|
| Single Person                               | 1,830  | 1,650  |
| Married Person                              | 3,660  | 3,300  |
| PAYE Credit                                 | 1,830  | 1,650  |
| Widowed Person (without dependant children) | 2,430  | 2,190  |
| One Parent Family Credit                    | 1,830  | 1,650  |
| Incapacitated Child Credit Max              | 3,660  | 3,300  |
| Blind Tax Credit                            |        |        |
| Single Person                               | 1,830  | 1,650  |
| Married - One Spouse Blind                  | 1,830  | 1,650  |
| Married - Both Spouses Blind                | 3,660  | 3,300  |
| Widowed Parent Bereaved in 2010             |        |        |
| 2009  | -      | 3,600  |
| 2008  | 4,000  | 3,150  |
| 2007  | 3,500  | 2,700  |
| 2006  | 3,000  | 2,250  |
| 2005  | 2,500  | 1,800  |
| 2004  | 2,000  | -      |
| Age Tax Credit                              |        |        |
| Single/Widowed                              | 325    | 245    |
| Married                                     | 650    | 490    |
| Dependent Relative                          | 80     | 70     |
| Home Carer                                  | 900    | 810    |

### Marginal Rate Reliefs

| Relief<br>(Allowed at the taxpayer's top rate of tax) | 2010 € Max | 2011 € Max |
|---|------------|------------|
| Employing a Carer                                     | 50,000     | No change  |

### Standard Rated Reliefs

(Allowed at 20% rate band)

### Trade Union Subscriptions

Relief for trade union subscriptions paid is being abolished for 2011 and subsequent years.

### Service Charges

Relief on service charges remains unchanged. A maximum of €400 tax relief is granted (at the 20% rate) in 2011 for service charges paid in the year 2010. The relief is being abolished for tax year 2012 and subsequent years.

| Relief at 20% tax rate | Allowed in the year | For service charges paid in the year |
|------------------------|---------------------|--------------------------------------|
| €400                   | 2010                | 2009                                 |
| €400                   | 2011                | 2010                                 |
| Nil                    | 2012                | 2011                                 |

### Rent Tax Relief

Relief for rent credit will be withdrawn on a phased basis over the next 7 years by reducing the amount of rent that can be relieved at the standard rate of income tax as indicated in the following table.

| Tax Year | Single Under 55 | Single Over 55 | Widowed/ Married under 55 | Widowed/ Married over 55 |
|----------|-----------------|----------------|---------------------------|--------------------------|
| 2010     | 2,000           | 4,000          | 4,000                     | 8,000                    |
| 2011     | 1,600           | 3,200          | 3,200                     | 6,400                    |
| 2012     | 1,200           | 2,400          | 2,400                     | 4,800                    |
| 2013     | 1,000           | 2,000          | 2,000                     | 3,600                    |
| 2014     | 800             | 1,600          | 1,600                     | 3,200                    |
| 2015     | 600             | 1,200          | 1,200                     | 2,400                    |
| 2016     | 400             | 800            | 800                       | 1,600                    |
| 2017     | 200             | 400            | 400                       | 800                      |
| 2018     | 0               | 0              | 0                         | 0                        |

Claimants who were not renting at 7 December 2010 and who subsequently enter into a rental agreement will not be able to claim relief.

### Tax Rates and Tax Bands.

The tax rates remain unchanged at 20% (standard rate) and 41% (higher rate).

The table below sets out the tax rates and bands.

| Personal Circumstances                                     | 2010 €  | 2011 €  |
|--|---|---|
| Single/Widowed without dependant children                  | 36,400 @ 20%<br>Balance @ 41%                                 | 32,800 @ 20%<br>Balance @ 41%                                 |
| Single/Widowed qualifying for One Parent Family Tax Credit | 40,400 @ 20%<br>Balance @ 41%                                 | 36,800 @ 20%<br>Balance @ 41%                                 |
| Married Couple one spouse with Income                      | 45,400 @ 20%<br>Balance @ 41%                                 | 41,800 @ 20%<br>Balance @ 41%                                 |
| Married Couple both spouses with Income                    | 45,400 @ 20%<br>with increase of 27,400 max.<br>Balance @ 41% | 41,800 @ 20%<br>with increase of 23,800 max.<br>Balance @ 41% |

### Exemption Limits

The exemption limits for persons aged 65 years and over have been changed as follows:

| Personal Circumstances                | 2010 € | 2011 € |
|---------------------------------------|--------|--------|
| Single/Widowed 65 years of age & over | 20,000 | 18,000 |
| Married Couple 65 years of age & over | 40,000 | 36,000 |

Marginal Relief may apply, subject to an income limit of twice the relevant exemption limit.

The above exemption limits are increased by €575 for each of the first two dependent children and by €830 for the third and subsequent children.

\* Denotes a change from the original document

**\* Tax Relief at Source – Mortgage Interest Relief**

The measures announced in Budget 2010 are uncharged:

- Loans taken out from 1 January 2004 to 31 December 2011, subject to qualifying loan criteria, are eligible for TRS Mortgage interest relief until 31 December 2017.
- Loans taken out from 1 January 2012 to 31 December 2012 will be entitled to Mortgage interest relief at the reduced rates of 15% rate for first time buyers, 10% for non First time buyers, per individual on the first €3000 interest paid.
- Loans taken out after 31 December 2012 will not qualify for mortgage interest relief.

The relief will be abolished completely by the end of 2017.

**\* Benefit in kind changes**

The exemption from a benefit-in-kind charge in respect of childcare provided by an employer is abolished. Similarly the exemption from a benefit-in-kind charge in respect of subscriptions to professional bodies which are paid by an employer is also abolished. The cost of the childcare and the subscription amount will now be treated as notional pay for tax purposes. These changes are effective from 1 January 2011.

**INCOME TAX**

**Patent Royalty Income Exemption**

As announced in the National Recovery Plan 2011-2014, the tax exemption for income received by an individual or company from a qualifying patent is abolished as is the tax exemption for distributions made by companies from exempt patent income. In line with established practice, abolition takes effect from the launch of the Plan on 24 November 2010.

With the abolition of the exemption from tax for patent royalties, withholding tax will now have to be deducted from all patent royalty payments as required under section 238 TCA except those covered by the EU Interest and Royalties Directive, certain payments of royalties to companies resident in tax treaty countries as provided for in section 242A TCA and those patent royalties covered by the administrative practice referred to in Revenue's Statement of Practice SP-CT/01/10.

**UNIVERSAL SOCIAL CHARGE (USC)**

The Universal Social Charge (USC), which comes into effect on 1 January 2011, is a tax payable on gross income, including notional pay, after any relief for certain capital allowances, but before pension contributions.

The rates and thresholds of the Universal Social Charge are as follows:

**\* Individual aged under 70 years**

| USC Thresholds                    |      |
|-----------------------------------|------|
|                                   | Rate |
| Income up to €10,036              | 2%   |
| Income from €10,036.01 to €16,016 | 4%   |
| Income above €16,016              | 7%   |

\* Denotes a change from the original document

**Individual aged 70 years or over**

| USC Thresholds       |      |
|----------------------|------|
|                      | Rate |
| Income up to €10,036 | 2%   |
| Income above €10,036 | 4%   |

**\* Exempt Categories:**

- Where an individual's total income for a year does not exceed €4,004
- All Dept of Social Protection payments
- Income already subjected to DIRT.

**LEVIES**

The Income Levy and Health Levy are abolished with effect from 1 January 2011.

**EMPLOYMENT-RELATED SHARE SCHEMES**

**New shares purchased on issue by employers**

The scheme (section 479 TCA 1997) that provides for a single lifetime income tax deduction of up to €6,350 for an employee who purchases shares in his or her employer company, where those shares are retained for a period of three years without being sold is terminated where shares are subscribed for on or after 8 December 2010.

**Approved Share Option Scheme**

Tax relief in respect of share options, granted and/or exercised on or after 24 November 2010 (date of publication of National Recovery Plan) under Approved Share Option Schemes has been terminated, including schemes that have already been approved by Revenue. Such share options are now to be treated in the same manner as unapproved share option schemes.

**Approved Profit Sharing Schemes**

Shares appropriated to employees on or after 1 January 2011 under Revenue approved profit sharing schemes will continue to be exempt from income tax but will be subject to PRSI and the new Universal Social Charge.

**Approved SAYE Share Option Schemes**

Any gain on options that are granted and/or exercised under SAYE Approved Share Option Schemes on or after 1 January 2011 will continue to be exempt from income tax but will be subject to PRSI and the new Universal Social Charge.

**Share Awards**

The treatment of shares and other securities awarded to employees in their employer company, or its parent company, under unapproved share schemes will be brought into the PAYE collection system from 1 January 2011 and will be chargeable to PRSI and the new Universal Social Charge.

**Introduction of lifetime limit on lump sum payments**

Ex-gratia payments made on or after 1 January 2011 will be subject to a maximum exemption limit of €200,000 taking into consideration any prior tax-free payments (including SCSB deductions) which have been received.

### **Tax relief for energy efficiency measures**

Relief will be given up to a maximum of €10,000 at standard rate for expenditure to make homes more energy efficient. Credit will be given in 2012.

### **Property Incentive Changes**

#### **Section 23 Relief**

Changes to the relief for rented residential accommodation (section 23 type relief) are as follows:

- Relief restricted to set-off only against income from the section 23 property
- Any unused relief carried forward beyond 10 year period will be lost
- Where property is sold within the 10 year period, the purchaser will get no tax relief
- Owner-occupier relief is unaffected by these measures
- Where section 23 properties remain unsold as of 30 June 2011, the 10 year period will commence on that day, shortening the period over which relief may be claimed.

#### **Accelerated Capital Allowances**

Restrictions are being placed on the amount, and the use of accelerated capital allowances available under the various area and property based tax incentive schemes. The restrictions are as follows:

- Accelerated allowances given under either Case I or Case V of Schedule D in any year, or carried forward into that year, may only be set off against income from the property which gave rise to the allowance. No sideways setting off of these allowances against income from any other property or any other income will be allowed. These measures apply to passive investors only.
- Where capital allowances were given over a seven or 10-year period, any unused allowances carried forward beyond those respective periods will be lost. This measure applies both where the periods have already ended as well as to those where the periods have yet to end.

Capital allowances given at the standard rate of 4% per annum over 25 years are unaffected by these measures and these changes apply to passive investors only.

- Where capital allowances are given over a period greater than 10 years, this period is now being revised downwards to seven years from the year the allowance was first claimed. Where this seven-year period has already elapsed, any capital allowances which have yet to be given as well as those carried forward to the current year will be lost.

Where the seven-year period has not elapsed, the aggregate of capital allowances not yet given at that time will be reduced by 20% and given over the balance of the seven-year period. In all cases, any capital allowances carried forward beyond the end of the seven-year period will be lost.

Capital allowances given at the standard rate of 4% per annum over 25 years are unaffected by these

measures and these changes apply to passive investors only.

### **PENSIONS**

#### **Employee PRSI on pension contributions**

From 1 January 2011, employee contributions to occupational pension schemes and other pension arrangements will no longer be exempt from employee PRSI. Such contributions will also be subject to the Universal Social Charge which comes into effect on 1 January 2011.

#### **\* Employer PRSI on pension contributions**

Employee contributions to occupational pension schemes and other pension arrangements are exempt from employer PRSI which would otherwise apply at a rate of 10.75%. The extent of this relief will be reduced by 50% from 1 January 2011.

#### **Contribution limit**

The annual earnings limit which (along with age-related percentage limits) determine maximum tax-relievable contributions for pension purposes is being reduced from €150,000 to €115,000 for 2011. The annual earnings limit for 2010 will also be deemed to be €115,000 for the purpose of determining how much of a pension contribution paid by an individual in 2011 will be treated as paid in 2010, where the individual elects under existing rules to have it so treated.

#### **Maximum allowable pension funds**

The Standard Fund Threshold (SFT) is to be set at €2.3 million as on and from 7 December 2010.

A higher threshold may apply if, on 7 December 2010, the capital value of an individual's pension rights drawn down on or after 7 December 2005 (i.e. crystallised pension rights) when added to any uncrystallised pension rights the individual may have, as valued on 7 December 2010, are greater than €2.3 million and lower than €5,418,085 which is the current value of the SFT.

#### **Approved Retirement Funds**

The annual imputed distribution in an Approved Retirement Fund (ARF) at 31 December each year is being increased from 3% to 5% in respect of asset values at 31 December 2010 and future years.

#### **Retirement lump sums**

With effect from 1 January 2011, the overall life-time limit on the amount of tax-free retirement lump sums that an individual can draw down from pension arrangements is being reduced to €200,000. The excess of retirement lump sum payments over €200,000 will be taxed at the standard income tax rate (currently 20%) up to an amount equal to 25% of the new Standard Fund Threshold (up to €575,000). The excess of retirement lump sum payments over that amount will be taxed at the taxpayer's marginal rate of income tax. Tax free retirement lump sums taken on or after 7 December 2005 will count towards "using up" the new tax-free amount and towards determining how much of a lump sum is to be charged at the standard or marginal tax rate.

#### **Interest relief (section 248 relief)**

Tax relief in respect of interest paid on loans taken out to purchase an interest in, or make a loan to a company are abolished for loans taken out after 7 December 2010. Relief for interest paid on existing loans is being phased

\* Denotes a change from the original document

out over a four year period so that only 75% of the interest paid in 2011, 50% of interest paid in 2012 and 25% of interest paid in 2013 will qualify for relief. For tax years 2014 and subsequent years, the relief will be abolished.

**Restriction of Artists' Exemption**

The scheme of income tax exemption, which currently applies to the earnings of artists, is being restricted.

For years up to and including 2010, there was no limit on the amount of income on which exemption could be claimed, although the 'high earners' restriction introduced in 2007 and extended in 2010 may limit the amount of an artist's exemption, in cases where gross income reaches €125,000 per annum.

Section 195 TCA is now being amended to limit, for the tax year 2011 and subsequent tax years, the amount of the exempt income to €40,000 per claimant (i.e. per artist) per annum.

**RELEVANT CONTRACTS TAX (RCT)**

As announced in the Budget Revenue are streamlining and modernising the RCT system. The new system will involve replacement of the current RCT rate of 35% with a two-rate withholding system. This system will involve

- a 20% rate for subcontractors registered for tax with an established compliance record,
- a 35% rate for subcontractors who do not qualify for the 20% rate e.g. not registered for tax.
- The abolition of the monthly repayment system and replacement with an offset system, and
- a move to an e-based system for RCT Principals which will enhance efficiencies within the system.

\* Principals will continue to make payments without deducting RCT where the subcontractor meets certain criteria, similar to the current C2 criteria.

Details of the new system will be included in Finance Bill 2011.

**VAT**

There were no changes announced in the Budget.

**CORPORATION TAX**

**3 Year Tax Exemption for Start-up Companies**

The 3 year corporate and capital exemption scheme for start-up companies, introduced in 2009 and extended in 2010 has now been further extended to new start-up companies in 2011. However, the scheme is being modified from 2011 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. If the amount of qualifying employers' PRSI is lower than the reduction in corporation tax liability otherwise applicable, relief will be based on the lower amount.

**Tax exemption for payment to the National Co-operative Farm Relief Services Limited**

The exemption from corporation tax in respect of grants or payments made by the Minister for Agriculture, Fisheries and Food to the National Co-operative Farm Relief Services Limited is being discontinued from 2011, in line with the recommendation in the 2009 Report of the Commission on Taxation.

**CAPITAL GAINS TAX**

There were no changes announced in the Budget.

**CAPITAL ACQUISITIONS TAX**

The Capital Acquisition Tax tax-free thresholds have been reduced by 20% approximately. The new tax-free thresholds apply to gifts and inheritances taken on or after 8 December 2010.

The new tax-free thresholds (after indexation) are as follows:

|                     |   |
|---------------------|---|
| Group A<br>€332,084 | Applies where the beneficiary is a child (including adopted child, step-child and certain foster children) or minor child of a deceased child of the disponent. In certain circumstances parents also fall within this threshold where they take an inheritance from a child. |
| Group B<br>€33,208  | Applies where the beneficiary is a brother, sister, niece, nephew or lineal ancestor or lineal descendant of the disponent.   |
| Group C<br>€16,604  | Applies in all other cases.   |

**EXCISES**

**Mineral Oil Tax (MOT)**

The rates for petrol and auto diesel are increased with effect from midnight on 8 December. These increases, when VAT is included, amount to 4 cent on a litre of petrol and 2 cent on a litre of auto diesel.

The new MOT rates are €576.22 per 1,000 litres for petrol and €465.70 per 1,000 litres for auto-diesel.

The rate for aviation gasoline, which is aligned to the petrol rate, and the rates for heavy oil used for non-commercial navigation and flying, which are aligned to the auto-diesel rate, are increased accordingly.

**Air Travel Tax**

With effect from 1 March 2011, a single rate of €3 per departing passenger will apply. This new rate replaces the existing distance-related rates of €2 and €10.

\* Denotes a change from the original document

## CAPITAL ALLOWANCES

### Energy-efficient equipment

The scheme of accelerated capital allowances for expenditure by companies on certain energy-efficient equipment bought for the purpose of a trade was introduced by Budget and Finance Act 2008 for a three year trial period which ends in 2011. The scheme is being extended for a further 3 years to the end of 2014 at an estimated cost of €2 million in a full year.

### Special allowances for the mining industry

Capital expenditure on new machinery and plant for use in mining qualifies for a 20% investment allowance in addition to normal wear and tear allowances. An allowance of 20% of expenditure incurred on exploration is also available in addition to the 100% exploration allowance for such expenditure. These additional 20% allowances are being abolished in respect of expenditure incurred from 1 January 2011 in line with the recommendation in the 2009 Report of the Commission on Taxation.

### VRT

The scrappage scheme is being extended to 30 June 2011. The maximum relief will be reduced from €1,500 to €1,250. The original eligibility criteria remain with one small exception. The extended scheme is available to a spouse or civil partner.

The relief due to flexible fuel and hybrid vehicles is extended for two years. The maximum relief available under the new scheme is €1,500. As before the relief is on a sliding scale depending on the age of the vehicle in accordance with the following table (i.e. reduces as before by 10% per annum).

| Age of vehicle                          | Maximum amount which may be remitted or repaid |
|---|--|
| New vehicle, first registration         | €1,500   |
| Not a new vehicle but less than 2 years | €1,350   |
| 2 years or over but less than 3 years   | €1,200   |
| 3 years or over but less than 4 years   | €1,050   |
| 4 years or over but less than 5 years   | €900   |
| 5 years or over but less than 6 years   | €750   |
| 6 years or over but less than 7 years   | €600   |
| 7 years or over but less than 8 years   | €450   |
| 8 years or over but less than 9 years   | €300   |
| 9 years or over but less than 10 years  | €150   |
| 10 years or over                        | Nil  |

\* Denotes a change from the original document

## STAMP DUTY

### Reduction in Rate of Stamp Duty on Residential Property Transactions

| Consideration          | Rate of duty |
|------------------------|--------------|
| *First €1,000,000      | 1%           |
| Excess over €1,000,000 | 2%           |

\*The lower rate applies to the entire consideration up to €1,000,000 and the current exempt threshold of €127,000 has been abolished.

The new rates apply to instruments executed on or after 8 December 2010.

Transitional arrangements will apply where, as a result of the new rates, a taxpayer is disadvantaged compared to the stamp duty treatment applicable prior to 8 December 2010. The transitional arrangements will apply where an instrument is executed on or after 8 December 2010 and before 1 July 2011 solely in pursuance of a binding contract which had been entered into prior to 8 December 2010.

### Reliefs / Exemptions Abolished

|   |   |
|---|---|
| Transfer of site from Parent to Child   | All reliefs/exemptions abolished in respect of instruments executed on or after 8 December 2010. <b>Exception:</b> Instruments executed on or after 8 December 2010 but before 1 July 2011 in respect of binding contracts entered into before 8 December 2010, where the effect of the abolition would be that the stamp duty payable would be higher than it would have been under the pre-Budget position. |
| New Dwellinghouses /Apartments with floor area not exceeding 125 sq.m.                                |   |
| New Dwellinghouses /Apartments with floor area exceeding 125 sq.m.                                    |   |
| Residential Property first time purchaser relief  |   |
| Consanguinity Relief (transfers between certain relatives) in relation to residential properties only |   |

### Farmer Stock Relief

The existing general 25 per cent stock relief for farmers and the special incentive stock relief of 100 per cent for certain young trained farmers are being extended from 1 January 2011 for a further two years subject to clearance with the European Commission under State aid rules.

### Farm Pollution Control Relief

The existing scheme of accelerated capital allowances for farmers who incur capital expenditure, before 1 January 2011, on farm buildings and structures for use in the control of pollution is not being extended.

This gives effect to the recommendation made by the Commission on Taxation that this relief should be discontinued.

Normal capital allowances will apply to expenditure incurred on or after 1 January 2011.

**PRSI**

The employee PRSI ceiling of €75,036 is abolished.

Class S PRSI is increased from 3% to 4%.

The modified PRSI rate for civil servants increases to 4% on incomes in excess of €75,036.

A 4% PRSI charge will apply to certain Office Holders.

**Public Service Pension-Related Deduction (PRD)**

From 1 January 2011, employee PRSI will apply to the pension-related deduction which is charged to earnings in the public service. The pension-related deduction will also be subject to the Universal Social Charge.

\* Denotes a change from the original document