

Budget 2007 Tax Bulletin

The Minister for Finance, Brian Cowen, delivered his Budget yesterday and there were few surprises.

Never has there been a Budget where the headline changes were in the newspapers for days before. Gone are the McCreevy days when we could always expect a rabbit out of the hat!

Yet again, the Budget has been downgraded with the real detail being held back until the publication of the Finance Bill in February when the real tax changes (anti-avoidance changes) will appear with much less fanfare.

Some highlights (excluding personal tax changes) are set out briefly below.

COMMERCIAL

BES/ SCS

The extension of the Business Expansion Scheme (BES) and the Seed Capital Scheme (SCS) for a further seven years (1 January 2007 to 31 December 2013) and the increase in the amount, which can be raised, to €2M is to be welcomed. What is particularly attractive is that the amount of relief which can be claimed by an individual in one year will now be €150,000 for BES and €100,000 for SCS.

This will grant a new focus to fundraising by high growth companies in certain sectors and, given the limit on which relief will be available, will be a real investment option for prospective investors (leaving risk issues aside).

R&D Credit

The R&D tax credit (which amounts to effectively 20% on incremental R&D expenditure) introduced by the Finance Act, 2004 is one of the most complex pieces of legislation introduced in recent years with numerous restrictions, which has resulted in a low take-up of the credit in practice. To improve the

attraction of the credit, two changes have been made:

- The base year is being left at 2003 (and not being rolled forward) until 2009 which will mean a higher credit being available for most companies who incur such expenditure;
- Subcontracting of R&D work to unconnected third parties (sub-contracting to universities was always permitted up to a 5% limit previously) will qualify up to a limit of 10% of total R&D spend.

Preliminary Corporation Tax

For 2006, a 'small company' was obliged to pay its corporation tax preliminary tax liability 1 month and 10 days before the end of the accounting period. To avoid interest charges, this could be based on 100% of the previous year's liability or 90% of the current year. The following changes have been made in relation to small companies and the timing of payment:

- A small company will be a company whose tax liability in the previous year was €150,000 or less (formerly €50,000);
- Small companies will no longer be required to pay preliminary tax before the end of the accounting period but will now be obliged only to pay it when the corporation tax return is being filed – i.e. almost 9 months after the end of the accounting period. This is to address recent controversy between Revenue and tax advisers on this matter.

Conferences

A specific measure is being introduced to allow a deduction to VAT on conference related accommodation expenses. Ireland was seen to be at a disadvantage in this area, as such a measure was already in place in other European countries. The devil will be in the detail, which will only become clear when the Finance Bill is published, but this should provide a boost to the hotel sector.

PROPERTY

CGT Retirement Relief

Two changes were made to CGT retirement relief which exempts from CGT disposals of qualifying business and farming assets by individuals aged 55 years and over.

- The limit of €500,000 for disposals to third parties (consideration received above this could eliminate the relief) is to be increased from 1 January 2007 to €750,000. The fact that no attempt was made to provide this as an absolute relief (unaffected by higher consideration) is a missed opportunity;
- The relief is extended to cover the disposal of farm land where the land has been leased for a period not exceeding five years prior to the disposal (but used for farming for 10 years previously) and where the disposal is to the lessee in question. This will open up unlimited retirement relief for farmers who have opted for the early retirement scheme.

Stamp Duty on Mortgages

Although first time buyers may have been expecting changes to the stamp duty applicable to them, these did not materialise. Instead, stamp duty on mortgages was abolished. On a mortgage of more than €30,000, this is a saving of €30.

Acquisitions by Sporting Clubs

A new exemption from stamp duty has been introduced for certain designated sporting bodies which purchase land for the purposes of promoting games or sports. The conditions which will apply and the manner in which the relief will operate will be outlined in more detail in the Finance Bill.

EMPLOYMENT

In contrast to the bombshell that the Minister dropped in this area last year by introducing, without any consultation, changes to the taxation of overseas workers seconded to Ireland, this year a more benign approach has been taken. The health levy has however been increased from 2% to 2.5% in the case of individuals earning more than €1,925 per week. Also, the employee PRSI ceiling has increased from €46,600 to €48,800.

To reflect the increase in interest rates, the specified rate of interest, for the purposes of assessing whether

there is a preferential loan from an employer, has been increased from 3.5% to 4.5% in the case of home loans and from 11% to 12% in the case of all other loans. This will increase the BIK of employees who have certain preferential loans.

For further information on any of the above matters or on any tax matters, please contact **John Cuddigan** (john.cuddigan@rdj.ie) or **Eoin Tobin** (eoin.tobin@rdj.ie) at 021-4802700