



## Tax Bulletin – Budget 2012

[www.rdj.ie](http://www.rdj.ie)

### INTRODUCTION

Having heard from the Taoiseach and the Minister for Public Expenditure and Reform it was the turn of the Minister for Finance to announce the main taxation measures of Budget 2012 in the Dáil yesterday.

The Minister has sought to raise an extra €1 billion of tax revenue in 2012 principally through changes in indirect taxation and has announced significant measures to incentivise property investment. Additionally, the Budget contains some welcome measures in relation to attracting inward investment into Ireland and outward expansion by Irish companies.

In this Tax Bulletin we will highlight some of the key changes to be introduced, based on information currently available.

### PROPERTY

#### **Stamp Duty - Non Residential Property**

A 2% flat rate of stamp duty on non-residential property, including farmland, is to apply to all instruments executed after 6 December 2011. Consanguinity relief will apply to the end of 2014 to allow 50% relief for family transfers.

#### **Capital Taxes – Rate Increases**

- The capital gains tax rate is to increase from 25% to 30% for disposals after 6 December 2011;
- The gift/ inheritance tax rates are to rise from 25% to 30% for gifts and inheritances taken after 6 December 2011.
- The CAT Group A threshold, which applies mainly to gifts and inheritances received by children from parents, drops from €32,084 to €25,000. This change will apply to all gifts or inheritances received after 6 December 2011.

#### **Capital Gains Tax Reliefs**

- A new incentive relief will prescribe that any gain arising on a property bought between now and the end of 2013, if retained for 7 years, will

be exempt from capital gains tax in relation to the first 7 years of ownership. This measure is targeted at increasing investment in property.

- Although there are no changes to retirement relief from capital gains tax for 2012 or 2013, certain changes have been flagged from 2014 onwards to encourage early transfers of businesses and farms.

#### **Household Charge**

- A household charge of €100 will apply in 2012.

#### **Mortgage Interest Relief**

- An increased mortgage interest relief rate of 30% will apply to mortgage interest paid by first time buyers who took out a qualifying mortgage between 2004 and 2008.
- The Budget provides that current rates of mortgage interest relief will be extended to both first time buyers and non-first time buyers acquiring properties in 2012. It is not clear whether this will extend to the relievable interest limits as well as the ‘appropriate percentage’ but it does appear at least to incentivise property investment in the residential sector.
- Mortgage interest relief will not apply in relation to houses acquired after 2012.

#### **Legacy Property Tax Reliefs**

- The guillotining of the various tax incentive schemes, as was envisaged under Finance Act 2011 will not proceed as planned.
- A property relief surcharge of 5% will be imposed on investors with annual gross income over €100K, the surcharge applying on the amount of income sheltered by property reliefs in a given year.
- Section 23 type reliefs will not be terminated or curtailed for investors with annual gross income not exceeding €100K.

- Accelerated capital allowance type reliefs will not be available after 2014. This will guillotine many capital allowances schemes where the tax life has not expired or where allowances have not been utilised. The precise scope of the measure will not be clear until the Finance Bill 2012 is published.

## PERSONAL TAX

### Income Tax

- There are no changes in the income tax rates, income tax bands or credits.
- The annualised exemption limit for USC is increased from €4,004 to €10,036.
- The PRSI base is to be broadened so that it will apply to rental and other income, including dividend income. These particular changes are to be introduced in 2013. Self-employed persons generally already pay PRSI on these forms of income so should not be affected by this change.
- The normal rate of DIRT is to increase from 27% to 30% in an effort to discourage savings and encourage consumer spending.

### Value Added Tax

In a well flagged move, the standard rate of VAT is to increase from 21% to 23% with effect from 1 January 2012.

### Pensions

- The level of tax relief on pension contributions to remain available at the marginal rate (41%).
- The annual imputed distribution which applies to the value of assets in an approved retirement fund (ARF) at 31 December each year is being increased from 5% to 6% from 31 December 2012 in respect of ARFs with asset values in excess of €2M (or, where there is more than 1 ARF, the aggregate value of the assets in those ARFs exceed €2M).

## COMMERCIAL

### R&D Tax Credit

- In an effort to provide a benefit to SMEs the first €100K of qualifying R&D expenditure is to

qualify for the 25% R&D credit on a volume basis. The base year threshold will apply in relation to any additional R&D expenditure.

- In another measure targeted to benefit SMEs the amount of relief which a business can claim on outsourced R&D costs has been increased.
- 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 the R&D. The details of this are yet unclear but will be interesting.

### SME Incentives

- The 'start-up' corporation tax relief is being extended to new companies which commence to trade in 2012, 2013 or 2014.
- The Minister pointed out that the new Employment and Investment Incentive (EII) scheme, which replaces the old Business Expansion Scheme (BES), is in force since 25 November 2011. The final date for tax relief under the BES scheme will be for shares issued on or before 31 December 2011.

### Special Assignee Relief Programme & Foreign Earning Deduction

- In an effort to encourage inward investment and to allow multinationals, in particular, to attract key individuals to Ireland a "Special Assignee Relief Programme" is to be introduced. More details as to how this will operate should follow in the Finance Bill. This is an extremely welcome development, which should go some way to overcome mistakes of the past, as it will assist in attracting senior executives to Ireland if formulated correctly.
- To aid expansion in certain emerging economies i.e. Brazil, Russia, India, China and South Africa (the BRICS countries) an individual who spends more than 60 days a year working in one of these countries will qualify for a foreign earnings deduction.

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