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Budget 2011 introduced significant reforms to the income tax system with a comprehensive broadening of the income tax base at both the bottom and top end. The new Universal Social Charge, on income over €4,000, in particular, is a major reform of the current system. While the Budget will hit the pockets of all taxpayers some measures aimed at small businesses are to be welcomed, such as the reduction of the effective marginal rate for the self-employed to that of employees at 52% and the proposed reform of the BES Scheme (now Employment and Investment Incentive).

Increased Personal Taxes

Introduction of Universal Social Charge

In Budget 2010 the Minister for Finance expressed his plans to reform the current income tax system and introduce a system with just two charges on income; consisting of a broad-based universal social charge (USC) and income tax at progressive rates. A USC has been introduced in this Budget to apply from 2011. This charge will incorporate the income levy and the health levy and will apply to income as follows:

Rate of USC	Income
0%	<€4,004
2%	€0 - €10,036
4%	€10,037 - €16,016
7%	>€16,016

Annual income below the lower threshold of €4,004 will not be chargeable to the USC but once this amount has been exceeded the USC will be applied to the entire income. This is similar to the current basis of calculation of the income levy and health levy.

The USC will apply on a similar base to the income levy therefore pension contributions will not be deductible; however there will be exemption from the charge for "genuine" capital allowances used in business. Those over 70 will be subject to a reduced rate of USC. The Minister has noted that the USC will be revenue neutral for 2011.

Key PRSI Changes

The PRSI ceiling of €75,036 for employees is being abolished. Therefore PRSI will now be payable by employees at 4% without any cap. The rate of PRSI for the self-employed is being increased from 3% to 4%. The proposed USC reform does not include PRSI for now.

Overall Marginal Rates for Employed and Self – Employed Now Aligned

As a result of the changes the overall marginal rates of tax for the employed and self employed are now aligned as follows:

	Self-Employed	Employed
Income Tax	41%	41%
PRSI	4%	4%
USC	7%	7%
Total	52%	52%

Reduction in Bands and Credits by 10% for 2011

The Minister had detailed in the Four Year Plan his proposals to reduce the value of tax credits and bands by 16.5% by 2014. As set out in the Plan these measures were to be frontloaded and the Budget confirms reductions of circa 10% for 2011 in the bands and the credits. Therefore the standard rate bands will be:

Category	2011	2010
Single/Widowed	€32,800	€36,400
Married Couple, one income	€41,800	€45,400
Married couple, two incomes	€65,600	€72,800
One-parent family	€36,800	€40,400

The following tax credits are also being reduced by 10% - personal credit, PAYE, home carer, age credit and one-parent family credit.

The Age Exemption limits (for over 65s) are being reduced from 2011. This means a decrease of €2,000 for single persons (to €18,000) and a decrease of €4,000 (to €36,000) for married couples.

Pension Changes Introduced

The Four Year Plan proposed a number of significant changes to tax relief for pensions. The Budget notes the measures to take effect in 2011 which include:

- From 1 January 2011 employee pension contributions will be liable to employee PRSI and the USC.
- An annual earnings cap for employee/personal pension contributions of €115,000 (down from €150,000). It would appear that contributions made in 2010 in respect of 2010 will be able to avail of the higher cap whereas contributions made in 2011 in respect of 2010 will be subject to the reduced limit of €115,000.
- The maximum allowable lifetime limit (the Standard Fund Threshold) for a tax-relieved pension fund has been reduced to €2.3million from Budget day, down from €5.4 million.
- The tax free limit on retirement lump sums has been reduced to €200,000 from 1 January 2011. The excess over €200,000 will be taxed at the standard income tax rate of 20% up to an amount equal to 25% of the new Standard Fund Threshold (ie. up to €575,000). The excess will be taxed at the marginal rate of income tax. Tax free lump sums taken on or after 7 December 2005 will count towards establishing whether the tax free amount has been “used up”.
- The annual imputed distribution applicable to assets in an ARF is being increased from 3% to 5% in relation to asset values at 31 December 2010 and thereafter.

DIRT Rates Increase by 2%

The rate of DIRT has increased by 2%. This will increase the rate of tax on ordinary deposit accounts to 27% and on longer term deposits to 30%. The rates of exit tax on life assurance policies and investment funds are also being increased by 2%.

Incentive Scheme for Energy Efficient Housing

A new tax incentive scheme is to be introduced to encourage taxpayers to invest in works that will improve the energy efficiency of their homes. Relief at the standard rate of income tax will be allowed for expenditure up to a maximum €10,000 on a list of approved works. Full details of the scheme will be set out in the Finance Bill.

Expenditures that have been Abolished

- Approved Share Option Schemes (from 24 November 2010)
- Patent Royalty exemption (from 24 November 2010)
- BIK exemption on employer provided childcare
- Tax relief on loans to acquire an interest in certain companies
- Tax relief on subscriptions to professional bodies
- The tax exemption for payments to National Co-operative Farm Relief Services Ltd
- The accelerated allowance for capital expenditure on farm buildings for pollution control
- Income tax relief for trade union subscriptions
- Investment allowance for machinery and plant and for exploration expenditure
- Tax relief for new shares purchased by employees
- Rent relief (on a phased basis).
- Capital expenditure on plant and machinery for mining.

Expenditures that have been Restricted

PRSI and USC will now arise on:

- Approved Profit Sharing Schemes
- Approved Save-As-You-Earn Schemes
- Unapproved Share Options
- Share Awards

Property-based Tax Reliefs to be Abolished

The Four Year Plan indicated Government plans to phase out the property-based legacy reliefs. The Budget has indicated how this will be done.

Section 23-type Relief

- From 1 January 2011 Section 23-type relief will only be available for offset against Section 23 income from the related Section 23 property itself.
- At the end of the 10 year holding period any unused relief will be lost. Where the property is sold before the 10 years expires the new owner will not be able to avail of any relief. The seller will be subject to a clawback of relief claimed.
- Where relief has not yet been claimed on a property and it is yet to be sold the 10 year period will commence on 30 June 2011, regardless of the date of the relevant qualifying lease. No Section 23 relief will be available after 30 June 2021.
- The above changes will not affect Residential owner-occupiers.

Capital Allowances (for passive participants)

Capital allowances available to passive participants have been restricted.

- From Budget Day, any unused capital allowances carried beyond the relevant 7 year or 10 year period will be lost.
- From 2011, capital allowances will only be available to relieve income arising from the property to which they relate
- Where a scheme has a period over 10 years which has not ended the period will be truncated to 7 years from when the allowances are first made.
- Capital allowances not made because of truncation will be reduced by 20%.
- All unused and unclaimed capital allowances arising after or carried forward from 2014 as well as unused Section 23 relief carried forward from 2014 will be guillotined.

An impact study of the phasing out of the reliefs is to be carried out.

Cut in Child Benefit

The child benefit has been cut by €10 for the first and second child and fourth and subsequent children. A cut of €20 will apply to benefit for the third child.

Business Taxes

No Change to the 12.5% Corporation Tax Rate

As previously indicated there is no change to the 12.5% rate of tax on trading profits. The Minister noted in his speech "We will defend our 12.5% corporation tax rate against all comers".

Reform of BES

The current Business Expansion Scheme is being reviewed and reformed to ensure that the tax relief is fully targeted at job retention and creation. A new "Employment and Investment Incentive Scheme" (EIS) is being introduced. Under the scheme the lifetime limit a company can raise under the scheme will be increased from €2 million to €10 million. The amount that can be raised in a 12 month period will be increased from €1.5million to €2.5 million. The certification process is also to be simplified. The new incentive will expire in 2013.

The new scheme is subject to EU approval and the current BES scheme will apply in the interim.

The proposals reflect a number of measures which the Institute has raised through our representations to the Department of Finance and Revenue.

Reform of RCT

The current RCT rate of 35% has been replaced with a two-rate system. A withholding rate of 20% will apply for subcontractors registered for tax who have an established compliance record. The 35% rate will apply for subcontractors not registered for tax.

The monthly repayment system is to be replaced with an offset system. The reporting regime for Principal contractors is to be strengthened.

Corporation Tax Exemption for Start-Up Companies Extended

Budget 2009 introduced an exemption from corporation tax for 3 years on the trading income and gains of new start-up companies. This exemption applied where a new company commenced to trade in 2009 and its corporation tax liability did not exceed €40,000 in an accounting period. Marginal relief also applied.

Budget 2010 extended the scheme to businesses commencing in 2010. This Budget further extends the exemption to companies commencing to trade in 2011. The relief is to be amended so that the value of the relief is linked to the amount of employer's PRSI paid in the period subject to a maximum of €5,000 per employee. If the amount of employer's PRSI is lower than the reduction in the corporation tax liability otherwise applicable relief will be based on the lower amount.

Accelerated Capital Allowance on Energy Efficient Equipment Extended

Finance Act 2008 introduced a new scheme of accelerated capital allowances for expenditure by companies on certain energy efficient equipment. The scheme was to terminate at the end of 2011. It is being extended for 3 more years to 2014.

Air Travel Tax Set at €3

An Air Travel Tax was introduced in 2009. The current two rates of charge (€10/€2) are being revised to a single rate of €3, which will apply from 1 March 2011. The revised charge will apply on a temporary basis to the end of 2011, when it will be reviewed. An incentive scheme involving rebates of airport charges is being introduced to boost the tourism sector.

Capital Taxes

Reform of Stamp Duty on Residential Property

The current system of Stamp Duty on residential property is being fundamentally reformed. Two rates of Stamp Duty will now apply. A rate of 1% will apply to the sale or transfer of property valued up to €1 million. A rate of 2% will apply where the property value exceeds €2 million. All existing reliefs and exemptions for Stamp Duty on residential property are being abolished.

The new regime will apply for instruments executed on or after 8 December 2010. Transitional provisions will be introduced for those who entered a binding contract before 8 December 2010, and who execute the transfer before 1 July 2011. Revenue have published guidance on the changes and transitional arrangements [here](#)

CAT Thresholds Reduced by 20%

The current CAT thresholds will be reduced by 20% in respect of gifts or inheritances taken on or after 8 December 2010. The new thresholds will be:

Group	Threshold
A (eg Son/Daughter, minor child of deceased child)	€332,084
B (eg lineal ancestor/descendant, brother, sister, niece, nephew)	€33,208
C (any other person)	€16,604

The current rate of CAT, of 25%, will apply on the balance. Readers will recall that the Four Year Plan proposed a change in the current single rate of 25% to a system with different rates for different levels of asset values in 2012. No additional information on these proposals were set out in the Budget speech. No changes have been made to the CAT reliefs and exemptions.

No Changes to CGT in Budget 2011

There were no changes to CGT in this Budget. As with CAT, the Four Year Plan set out proposals to broaden the base for CGT and introduce different rates for different levels of gains in 2012.

Indirect Taxes

No Change to VAT Rate in Budget 2011

There will be no change to the 21% VAT rate in 2011. The Four Year Plan proposed increases in the standard rate of VAT by 1% to 22% in 2013 and a further 1% to 23% in 2014. It also notes that the Government will examine the current VAT system and the zero rated items in the later part of the Plan period.

No Change to Carbon Tax in 2011

There has been no change to the carbon tax rate in Budget 2011. The Four Year Plan proposes increases in 2012 and 2014 to result in a €30 per tonne charge – double the current rate.

VRT and Motor Tax

The car scrappage scheme introduced last year is being extended by six months to 30 June 2011. The VRT relief provided in that period will be available up to a reduced maximum of €1,250. VRT relief for series production hybrid and flexible fuel vehicles has been extended to end-2012. The rate of relief provided will be up to €1,500. The VRT relief for plug-in hybrid electric vehicles will continue at up to €2,500 until 31 December 2012.

Excise Duties

The rate of duty on petrol has increased by 2 cent a litre on petrol and 4 cent a litre on petrol.