Budget 2009

Key Highlights

- Minister reinforces strategic importance of 12.5% corporation tax rate
- Significant enhancement of the intellectual property regime
- Income levy rates double to 2% and 4% with thresholds reduced
- Health levy rates double to 4% and 5%, higher rate threshold reduced to €75,036
- Employees' PRSI ceiling increased from €52,000 to €75,036
- No change to Employers' PRSI
- Major overhaul of child benefit system proposed
- Restriction on availability of mortgage interest relief
- Announcement of Government intention to restrict further income tax reliefs in the coming years.
- Increase in the rates of CGT and CAT from 22% to 25%
- Decrease of 20% in CAT thresholds
- Increase in excise on packet of 20 cigarettes of 25c
- No change in excise on petrol and 5c per litre excise increase on diesel
- No change in VAT rates
- VAT margin scheme for second hand cars introduced

Taxation of individuals

Individuals have borne the brunt of the measures announced in the supplementary budget.

Income levy

The Minister has proposed extensive changes to the income levy as one of his main revenue generating measures.

From 1 May 2009, the income levy rates will be changed as follows:

Annual Earnings	Current	Amended
Less than €15,028	Exempt	Exempt
€15,028 to €18,304	Exempt	2%
First €75,036	1%	2%
€75,037 to €100,100	1%	4%
€100,101 to €174,980	2%	4%
€174,981 to €250,120	2%	6%
Over €250,120	3%	6%

The income levy is charged on a tiered basis, as such, all tax payers benefit from the tiered rates, i.e. first €75,036 at 2%, balance to €174,980 at 4% and remaining balance at 6%.

Health levy

The Minister has also proposed extensive changes to the health levy.

From 1 May 2009, the health levy rates will be changed as follows:

Annual Earnings	Current	Amended
Less than €26,000	Exempt	Exempt
First €75,036	2%	4%
€75,037 to €100,100	2%	5%
Over €100,100	2.5%	5%

Like the income levy, the health levy is also charged on a tiered basis, as such, all tax payers benefit from the tiered rates, i.e. first €75,036 at 4% and balance at 5%.

Employee PRSI

The employee PRSI ceiling has been increased to €75,036 – in practice this means most employees will be paying PRSI & health levy of 8% on all income up to €75,036, and 5% on the balance, subject to certain reliefs.

Given that the ceiling is an annual figure and the increased health levy rates will be charged on weekly/monthly earning thresholds, some employees may find that they will be subject to up to 9% PRSI & health levy deduction at certain times.

The position of PRSI deductions for employees whose annual earnings exceeded the €75,036 ceiling prior to 1 May will need to be clarified.

Mortgage interest relief

In light of the fall in interest rates, the Minister has announced that relief for mortgage interest relief will only apply to those taxpayers who are currently classed as "first time buyers" from 1 May next. This effectively caps mortgage interest claims to a seven year period. The Minister also signalled that further restrictions to this relief will follow over the coming years.

Retention tax

The Minister announced an increase in the rate of DIRT from 22% to 25% on regular deposits and to 28% on certain other savings products.

Child benefit and early childcare supplement

The Minister has signalled significant changes to both child benefit and the early childcare supplement.

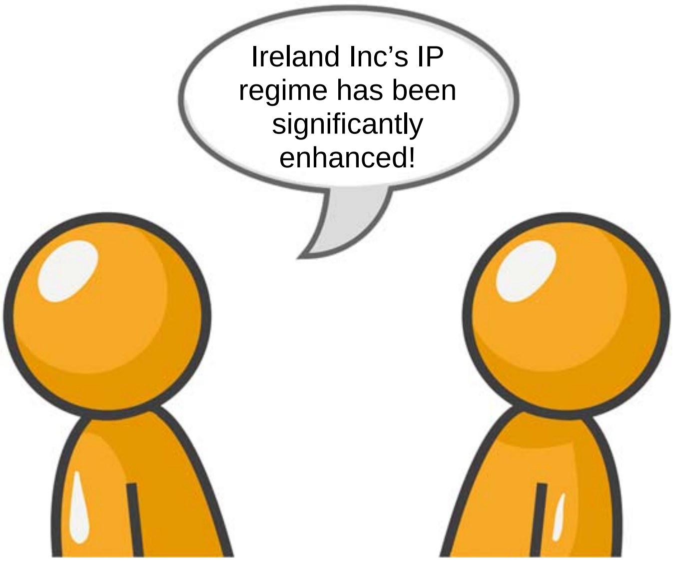
With effect from 1 January 2010, child benefit payments are to be reformed. This will take the form of either a means test or the removal of its current tax-free status. A decision on this will be taken following a report from the commission on taxation.

The early childcare supplement will also be reduced by 50% with effect from 1 May 2009 and abolished from 1 January 2010, to be replaced with a pre-school early childhood and education scheme.

Pensions

The Minister has indicated that the commission on taxation is examining various aspects of pension tax treatment including the taxation of pension lump sums, and he proposes to revisit this area in the December Budget.

Business taxation



Intellectual property regime

The Minster announced an enhancement of Ireland Inc's intellectual property regime, which will include a scheme of tax relief for the acquisition of intellectual property. The Minister did not give details of how this relief will operate but indicated that the specifics of this scheme will be included in the forthcoming Finance Bill.

For further details and analysis please see our dedicated release "'Intellectual property tax regime', which can be found on our Budget website.

Corporation tax

The Minister has again taken the opportunity to reinforce the importance of the 12.5% corporation tax rate and has emphasised that it will not change.

Investment Opportunities

Capital allowance schemes

The capital allowance scheme for private hospitals and nursing homes has been terminated. The Minister has indicated that transitional measures in relation to these schemes where projects are at an advanced stage will be included in the Finance Bill. The schemes in relation to palliative care units and childcare facilities remain unchanged.

Residential property dealing

The rate of taxation on residential property dealing has been amended. The special rate of 20% has now been abolished and tax on land dealing will now be charged at either the marginal income tax rate for individuals or at the 25%

corporation tax rate for companies. This will apply in respect of the income tax year of assessment 2009 or accounting periods ending on or after 1 January 2009.

Interest relief on “buy to let”

The Minister has announced a restriction in the relief available on interest on borrowings for residential rental property to 75% of the interest. Commercial properties are not affected.

Reliefs and shelters

The Minister has signalled the intention to continue to restrict “unnecessary” reliefs and shelters from the tax system over the next series of Budgets.

Capital gains tax

The rate of capital gains tax has increased from 22% to 25% in respect of disposals from midnight 7 April 2009.

Capital acquisitions tax

The rate of capital acquisitions tax has increased from 22% to 25% in respect of gifts or inheritances made from midnight 7 April 2009.

The current thresholds for capital acquisitions tax have also been reduced by 20% as follows:

Group	Current	Amended
Group A (Parent to child)	€542,544	€434,000
Group B (Related persons)	€54,254	€43,400
Group C (Non-related persons)	€27,127	€21,700

VAT

VAT rates

Despite expectations to the contrary, there have been no changes to the 13.5% or 21.5% rates.

Margin scheme for second hand cars

The Minister announced that the "Special scheme for means of transport supplied by taxable dealers" will be abolished with effect from 1 July 2009, and will be replaced with a "pure" margin scheme. Further details are awaited, however on the basis of the information available this scheme will operate as follows:

- From 1 July 2009 it appears that a "pure" margin scheme will operate for cars purchased by dealers from that date onwards. A dealer will have no right to recover a residual input credit on the purchase of a "margin car" subsequent to that date. However, VAT will be calculated solely on the margin (i.e. the difference between the cost price and sales price of the car).

- For cars purchased pre 1 July 2009 it appears that a right to deduct a residual input credit will remain and VAT will be calculated on the full sales price (as is the current practice) - it is not yet known if there are going to be any changes to the clawback provisions for such cars.

- For cars purchased pre 1 July 2009 and sold pre 31 December 2009, any VAT payable may be spread in equal amounts over the following three VAT periods.

The introduction of the "pure" margin scheme on 1 July 2009 may help to reduce the VAT cost of UK margin scheme acquisitions. It may also eliminate any potential clawback provisions on cars purchased post 1 July 2009 and sold pre 1 December 2009. Additionally, the spreading of any VAT payable on the sale of cars purchased pre 1 July will provide a welcome cash flow boost to the industry.

Stamp duty

Stamp duty on insurance policies

The levy on non-life insurance policies has been increased from 2% to 3% for offers of insurance / renewals issued from 8 April 2009 where premiums are received by the insurer on or after 1 June 2009.

The Minister announced a new 1% levy on life assurance products. The levy will be due on premiums received by an insurer from 1 June 2009.

It is likely that the application of the above will give rise to administrative complexities which will need to be clarified.

Stamp duty "trade-in" scheme

In an effort to kick-start the housing market and reduce the stock of unsold new properties the Minister has announced a stamp duty "trade-in" scheme.

Under the scheme, where a developer accepts a traded in property in exchange or part exchange for a new house/apartment being sold by the developer, no stamp duty will be payable on the trade in until the traded-in property is subsequently sold. The scheme is due to run from the date of publication of the Finance Bill until the end of 2010 and further details will be contained in the Finance Bill.

Excise duty

With effect from midnight on 7th April 2009, the excise duty on a packet of 20 cigarettes will be increased by 25 cent (including VAT), with a pro-rata increase on other tobacco products.

With effect from midnight on 7th April 2009, the excise duty on auto-diesel will be increased by 5 cent per litre (including VAT).

There will be no increases in excise duties on petrol or on alcohol products.

Commission on taxation

In addition to childcare and pensions as outlined above, the Minister indicated that he is awaiting the report of the commission on taxation in relation to other measures to broaden the tax base including carbon taxes and property taxes.

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