European Tax Newsalert

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Irish Budget 2012

On December 6, 2011, the Irish Minister for Finance announced the Irish Budget 2012. The budget includes a number of positive measures relevant to US multinational companies.

Commitment to the 12.5% corporation tax rate

In his speech, the Minister once again pledged the government's commitment to maintaining Ireland's well established 12.5% corporation tax rate.

Special Assignment Relief Program ("SARP")

The Minister announced that the government will significantly enhance the existing SARP program, which seeks to reduce the personal tax liability for individuals assigned to Ireland, in order to attract key talent to Ireland, thereby creating more jobs and facilitating business development and expansion. The Finance Bill, scheduled to be published in January 2012, will include additional details on these enhancements.

Research & Development ("R&D") tax credit regime

The Minister has introduced enhancements to the R&D tax credit regime. The enhancements to the current regime include the following:

1. The R&D credit currently applies to incremental expenditure above the 2003 fixed base period. Going forward, the first €100,000 of qualifying R&D expenditure will receive the 25% R&D tax credit on volume basis. The tax credit will continue to apply as before to incremental R&D expenditure in excess of €100,000.

2. Companies receiving the R&D credit may use a portion of the credit to reward key employees who have been involved in the R&D. The credit will be a tax-free payment to the employee.

3. The outsourcing limits for sub-contracted R&D costs are being increased to the greater of 10% (or 5% as appropriate) or €100,000.

International financial services

The Minister acknowledged the success of the International Financial Services industry in Ireland over the last 20 years. He also recognized that financial services are highly mobile and that Ireland has to compete to retain and grow the industry. This is consistent with one of the key messages included in a recent publication by the Taoiseach, entitled *Strategy for the International Financial Services Industry in Ireland 2011 - 2016*. In light of this, the Minister announced that the Finance Bill will include measures that support the international funds and insurance industries, the corporate treasury sector and the aircraft leasing industry.

Start-up companies

To support the government's commitment to promoting job creation and indigenous enterprise, the budget proposes to extend the corporate tax and capital gains tax exemption for start-up companies. The exemption will now apply to new companies that commence trading in Ireland during 2012, 2013 and 2014.

Other key measures of interest

- As publicized just prior to its release, the budget contains no changes to personal income tax rates, bands or tax credits.
- The main deposit interest retention tax ("DIRT") rate will increase from 27% to 30%. In addition, the higher DIRT rate of 30% will increase to 33%. These increases are effective on January 1, 2012.
- The rate of capital gains tax ("CGT") and capital acquisitions tax ("CAT") increased from 25% to 30%, effective December 7, 2011.
- The budget introduced a new incentive for property purchased between December 7, 2011 and December 31, 2013. If a property is purchased during this period and held for at least seven years, the gain attributable to that seven-year holding period will not be subject to Irish CGT.
- In order to stimulate the commercial property market, the stamp duty rate on non-residential property has been significantly reduced from a top rate of 6% (on transfers exceeding €80,000) to a flat rate of 2%. This new 2% rate will not only apply to transfers of commercial & industrial land and buildings, but also to transfers of business assets such as goodwill, debtors, contracts, etc.
- The standard VAT rate will increase from 21% to 23%, effective January 1, 2012.

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