



CUSACK GARVEY

CHARTERED CERTIFIED ACCOUNTANTS

BUDGET 2012

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2. Introduction

The Minister for Finance, Mr. Michael Noonan T.D. delivered his 2012 Budget speech on 6 December.

The Minister stated objective is to promote international trade and indigenous industry, return the property market to a stable footing and generate sustainable growth and employment.

The major changes in taxation, include

- VAT increased to 23%
- Capital Gains Tax increased to 30%
- Capital Acquisitions Tax increased to 30%
- Stamp duty on commercial property reduced to 2% flat rate

It's important to note that the following items remain unchanged

- Income tax rates, credits and bands
- Corporation tax rates

The following summary, which contains detail of the main changes, is not intended as an exhaustive guide to all tax changes to be implemented. Details of all the proposed taxation changes will only become apparent when the Finance Bill is published and subsequently enacted in February/March 2012.



3. Income Tax

As previously indicated by the Minister there were no changes to income tax credits, tax rates and tax bands. A summary of the applicable credits, rates and bands is set out below.

3.1. Tax Credits:

	2012	2011
	€	€
Single person	1,650	1,650
Married couple	3,300	3,300
Single parent – additional	1,650	1,650
Incapacitated child	3,300	3,300
Widowed person	540	540
Dependent relative	70	70
Blind person	1,650	1,650
Home carers credit	810	810
Age credit – single	245	245
Age credit – married	490	490
Employee credit	1,650	1,650

3.2. Tax Bands and Rates:

	2012	2011
	€	€
Single persons tax band	32,800	32,800
Additional band for single parents	4,000	4,000
Married couples' band:		
One income	41,800	41,800
Two incomes	65,600	65,600
Tax rate applicable to above bands	20%	20%
Tax rate applicable to balance of income	41%	41%



3.3. PRSI:

While current PRSI rates remain unchanged the base for PRSI will be broadened by extending the PRSI charge to cover rental, investment and other forms of income. However, this change will not become effective until 2013.

In addition, the remaining 50% employer PRSI relief on employee pensions is to be abolished with effect from 1st January 2012.

	2012	2011
	€	€
Employees;		
Upper ceiling on which PRSI is payable	No Ceiling	No Ceiling
Rates		
PRSI	4%	4%
Self Employed		
Upper ceiling on which PRSI is payable	No Ceiling	No Ceiling
Rates		
PRSI	4%	4%
Employers		
Lower rate	4.25%	4.25%*
Higher rate	10.75%	10.75%
Upper limit	No Limit	No Limit
<p>*Effective from 1 July 2011, prior to this the lower rate was 8.5%.</p>		

3.4. Universal Social Charge (USC):

The exemption level for USC will be raised from €4,004 to €10,036 from 1st January 2012, a move which will benefit lowest paid workers in society. Otherwise the rates of USC remain unchanged.

In addition collection of USC will move to a cumulative basis from 1st January 2012 which will reduce the risks of under or overpayment of the USC.



Universal Social Charge	2012	2011
	€	€
Total income below €10,036 per annum	0%	N/A
Income up to €10,036 per annum	2%	2%
Income between €10,037 and €16,016 per annum	4%	4%
Income over €16,016	7%	7%
Additional charge on self-employed people with income of over €100,000 per annum	3%	3%

3.5. Other changes.

Tax on savings

The rate of D.I.R.T is to be increased from 27% to 30%.

Mortgage Interest Relief

Mortgage interest relief increased to 30% for first time buyers who took out their first mortgage between 2004 and 2008.

The Minister also announced that for those wishing to purchase a home in 2012 the following rates of Mortgage Interest Relief will apply:

Relief for interest on homes purchased in 2012	% relief
First-time buyers	25%
Non-first time buyers	15%

The Minister reaffirmed the previous Government's decision that mortgage interest relief will no longer be available for house purchasers who purchase after the end of 2012 and will be fully abolished from 2018.

Household charge

As previously announced by the Minister a household charge of €100 per dwelling will be introduced.



4. Curtailment of Reliefs

4.1 Legacy Property Tax Reliefs

The Minister conceded that while legacy property reliefs must be reduced the previous Government's proposals for doing this were unworkable and would have done significant and lasting damage to an already distressed property market. As a result of this the measures proposed in last year's budget will not be implemented.

However, a property relief surcharge of 5% will be imposed on investors with an annual gross income over €100,000. This will apply on the amount of income sheltered by property reliefs in a given year.

Reliefs in Section 23 type investments will not be terminated or otherwise restricted for investors with an annual gross income under €100,000.

Investors in Accelerated Capital Allowance schemes will no longer be able to use any capital allowance beyond the tax life of the particular scheme where that tax life ends after 1 January 2015. Where the tax life of a scheme has ended before 1 January 2015, no carry forward of allowances into 2015 will be allowed. Full details of this measure will be announced in the Finance Bill.



5. Incentives

5.1 Capital Gains Tax incentive

The Minister has introduced a Capital Gains Tax incentive for property purchased between 7th December 2011 and the end of 2013. If a property is bought during this period and held for at least seven years, the gain attributable to that seven year holding period will be relieved in full from Capital Gains Tax.

5.2 Modification of Retirement Relief

The Minister indicated that Retirement Relief will be modified to incentivise the timely transfer of farms and businesses before the current owners reach the age of 66. The exact details of these modifications will not be available until the Finance Bill is published.



6. Pensions

6.1 Changes to Approved Retirement Funds (ARFs)

The annual notional distribution on high value ARFs and similar products will be increased to 6%. In addition the tax rate on the transfer of an ARF on death to a child over 21 will increase from 20% to 30%.

6.2 Tax relief on pension contributions

The Minister has confirmed that he is not making any changes to the existing marginal rate relief for pension contributions at this time, although we are committed to moving to standard rate relief (20%) under the terms of the EU/IMF Programme



7. Corporation Tax

As expected the standard rate of Corporation Tax remains unchanged at 12.5%.

7.1 Incentives

- The Corporation Tax exemption for start up companies is being extended for the next three years and will be available for companies that commence trading in 2012, 2013 and 2014.
- The scheme of tax relief for R&D expenditure is being expanded to include, among other things, an option to use a portion of the R&D credit to reward key employees who have been involved in the development of R&D.
- A Foreign Earnings Deduction is being introduced for employees who spend 60 days in Brazil, Russia, India, China and South Africa developing markets for Irish Companies in order to support companies expanding into emerging markets.
- A package of measures for IFSC companies will be announced in the Finance Bill.



8. Stamp Duty

Commercial Property

The Stamp Duty System for Commercial Property has been reformed to a flat rate 2% on all transfers effective immediately.

Residential Property

The Stamp Duty System for Residential Property remains unchanged at a flat 1% for all transfers up to €1 million and 2% thereafter.



9. Capital Gains Tax

The rate of Capital Gains Tax is increased from 25% to 30% effective after 6th December 2011.



10. Capital Acquisitions Tax

The rate of Capital Acquisitions Tax is increased from 25% to 30%. In addition the current group tax free thresholds are being reduced. These changes apply in respect of gifts or inheritances taken from midnight on 6 December 2011.

	2012	2011
	€	€
Child or minor child of a deceased child or parent where S116A FA 1997 applies	250,000	332,084
Lineal ancestor (other than a parent where S116A FA 1997 applies), lineal descendent (other than a child or a minor child of a deceased child), brother, sister, child of brother or sister	25,000	33,208
Any other person	12,500	16,604



11. Vehicle Registration Tax & Cars

A consultation process with the motor industry will be initiated in early 2012 to review options for the improvement of VRT and Motor Tax revenues in future years. In the meantime provision will be made for an increase in Motor Tax from 1st January 2012. The increase in Motor Tax is intended to generate additional tax revenue of €47 million.



12. Value Added Tax

The standard rate of VAT is being increased from 21% to 23% from 1st January 2012.

The lower rate of 9% introduced earlier this year remains unchanged.



13. Excise Duties

The duty on tobacco products is being increased with a 25c. increase on a packet of 20 cigarettes and pro rata increases for other tobacco products.

Excise on alcohol is not being increased although the increase in the VAT rate will apply to alcohol.

Carbon tax is being increased from €15 to €20 per tonne. This means a 1.4c increase in petrol and 1.6c increase in diesel from 7th December 2011. The increase in Carbon Tax will also apply to home heating fuel and natural gas although the increase on these items will not be implemented until May 2012.



14. Conclusion

As stated the next stage in the process is the publication of the Finance Bill, which will provide additional detail to the measures announced and will be subject to Dáil debate and amendment. This will be followed shortly thereafter by the introduction of the Finance Act, which brings into law the provisions of the Budget and the Finance Bill.

As always we at Cusack Garvey will be available to answer any query you might have in relation to the Budget or any other matter concerning your finances.

Whilst every effort has been made to ensure that the above information is correct and complete at this time of going to print no responsibility for loss occasioned to any person acting or refraining from action as a result of any material contained or omitted from this document can be accepted by Cusack Garvey.

If you have any queries on the budget or any other matters please do not hesitate to contact us.

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