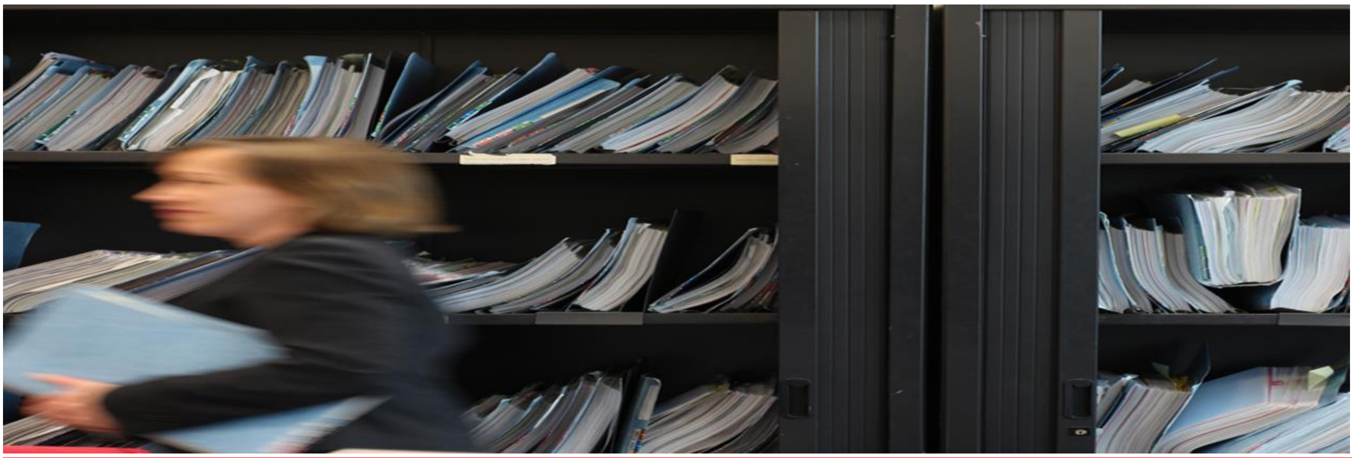

Budget 2014
Main Tax Changes

As George W. Bush said “It’s clearly a budget. It’s got a lot of numbers in it”

In fairness the Finance Minister was faced with a difficult task, he had to reduce the budget deficit by €2.5 billion while trying to stimulate the economy and it is not possible to do this without inflicting some pain. Whether or not the pain is fairly spread, is a judgement call mainly dependant on how the Budget impacts on each of us.

There are a lot of sneaky cuts, welfare reductions, health cut backs, pension levies and excise duties but to his credit the Minister has tried to spread the cuts as widely as possible.

There is mostly good news on the business side to help drive employment and get the economy moving. The increase in the cash receipts basis to €2,000,000 (up from €1,250,000), the retention of the 9% VAT rate for the hospitality sector, tax relief for home improvements, the time limit for acquiring an EEA property to avail of the 7 year CGT exemption has been pushed out by one year to 31 December 2014 and the extra spending provided for in the area of construction.

The Finance Bill which gives legal effect to the Budget is due to be published on 24 October 2013, so there is very little time to make representations or take steps to avoid any further bad news that might be coming down the line. As always the devil will be in the Finance Bill detail, which usually contains anti-avoidance measures not disclosed on Budget Day.

Income tax

There was some good news for individual taxpayers with no increases announced in income tax, USC or PRSI rates and with most tax credits and tax bands maintained at 2013 levels.

One parent tax credit

The only change to tax credits was the abolition of the one parent family tax credit which is to be replaced by a similar single person child carer tax credit from 1 January 2014 which is only available to the principal carer.

Medical Insurance

Limits on the amount of medical insurance premiums qualifying for tax relief at source have been introduced from 16th October 2013 and are capped at €1,000 for each adult and at €500 for each child. This measure will raise the cost of medical insurance for those with expensive policies.

Termination payments

Individuals receiving termination payments on cessation of employment were allowed to claim additional tax relief known as top slicing relief. This relief which limited the amount of tax applicable to such lump sums based on the individual's prior effective rate of tax has now been abolished from 1 January 2014.

Business taxes

12.5% Corporation Tax Rate

Minister Noonan reiterated the government's continued commitment to the 12.5% corporation tax rate.

R&D Expenditure

Previously the first €200,000 of R&D expenditure qualified for relief regardless of the expenditure incurred in the 2003 base year. This amount has been increased to €300,000. Relief for R&D expenditure outsourced to third parties was previously capped at 10% of the total qualifying R&D spend. This limit is being increased to 15%.

Amendments will also be made to the scheme allowing companies to surrender R&D credits to key employees. Further details are due to be announced shortly.

Bank Levy

For the years 2014 to 2016 the banking sector will be subject to a bank levy which is expected to raise €150 million p.a. The levy will be broadly based upon tax on deposit interest for 2011 and full details of this measure will be included in the Finance Bill.

VAT

Reduced Rate

The reduced VAT rate of 9% applicable to the tourist industry has been retained. This rate was due to revert to 13.5% but the success of the rate reduction in the creation of jobs in the hospitality sector has led to its extension.

Cash Receipts Basis

From the 1st of May 2014 businesses with an annual turnover not exceeding €2 million will be able to account for VAT on the cash receipts basis. This is a welcome measure for small and medium businesses in the area of cash flow and is a significant increase in the previous annual turnover limit of €1.25 million.

Flat-Rate Additions

The flat-rate farmer's addition rate is being increased from 4.8% to 5% with effect from the 1st of January 2014.

Capital taxes

Rates & Thresholds

There has been no change in the capital gains tax or capital acquisition tax rates. CAT thresholds have also remained unchanged. Previous budgets had seen a large increase in capital taxes and significant reductions in the CAT thresholds.

Property Purchase Incentive

Subject to certain conditions properties purchased prior to 31 December 2013 and held for a minimum of seven years were exempt, or partially exempt from capital gains tax where the property was held for greater than seven years. This scheme has now been extended and will apply to properties purchased on or before 31 December 2014.

Entrepreneurial Relief

A new capital gains tax entrepreneurial relief is being introduced. Where an individual has paid capital gains tax on a disposal from 1 January 2010 and invests in a business during the period 1 January 2014 to 31 December 2018 and disposes of the investment after a period of three years the CGT payable on the disposal of the new investment will be reduced. The reduction in CGT will be the lower of the CGT paid on the original disposal or 50% of the CGT due on the disposal of the new investment. This is subject to EU approval.

Retirement Relief

Capital gains tax retirement relief is now being extended to disposals of leased land. This is designed to encourage farmers with no children to lease their farmland to younger farmers. More details are expected to be announced shortly.

Reliefs

Home Renovation Incentive (HRI)

A new tax credit of 13.5% is being introduced for qualifying work carried out by tax compliant contractors where the value of the work is at least €5,000 and subject to a maximum of €30,000. The tax credit will be available over a two year period after the work is completed and is limited to qualifying work carried out in respect of principle private residences. This relief should stimulate the home renovation sector and will encourage contractors to operate outside of the shadow economy.

Employment and Investment Incentive Scheme (EIIS)

The Minister announced that the EII scheme will not be considered a specified relief for the purposes of the high earners restriction for the next three years. This is designed to ensure that individuals investing in business will be able to obtain tax relief for these investments much earlier and should stimulate investment in Irish businesses.

Living City Initiative

The previously introduced Living City Initiative is being extended to include properties constructed prior to 1915 and certain areas of the cities of Cork, Galway, Kilkenny and Dublin.

Enterprise and Jobs

Individuals who have been unemployed for at least 15 months may now avail of an exemption from income tax up to €40,000 per annum for a period of two years where they start their own unincorporated business. Details of what constitutes a qualifying business should be provided when the detailed rules for the scheme are published in the Finance Bill.

Pensions and savings

DIRT and exit taxes

The rate of deposit interest retention tax has been increased to 41% as has the rates of exit tax applicable to life assurance policies and investment funds. This represents a significant increase in the previous DIRT rate of 33%. The changes apply to payments and deemed payments that are made on or after 1 January 2014.

Pensions

The key changes in relation to pensions are as follows:

- Pension contributions will continue to attract tax relief at the marginal rate of income tax.

- The pension levy will be increased from 0.6% to 0.75% for 2014 before being reduced to 0.15% with effect from 2015.

- The standard fund threshold which represents the maximum approved pension fund has been reduced from €2.3M to €2M with effect from 1 January 2014. There are provisions for individuals to obtain approval on a transitional basis for funds that already exceed the €2M cap but subject to the existing threshold of €2.3M.

- The basis on which fund amounts are calculated for defined benefit pensions is being amended. Currently, a multiple of 20 is applied to final pension benefits to establish the fund value and this multiple applies regardless of age. A new method of calculation is to be introduced which incorporates a higher multiple for those retiring at a younger age in calculating the fund threshold for benefits received after 1 January 2014.

While the retention of tax relief at marginal income tax rates for pension contributions is welcome the continuation of a policy applying a pension levy to private pension funds will discourage private pension provision and is likely to result in continued uncertainty as to the long term taxation of private pension funds.

Other Measures

The air travel tax has been reduced to zero from 1 April 2014.

Tax relief on loans used to acquire an interest in a partnership is being abolished in respect of loans taken out from the 15th of October. Relief for loans taken out prior to this date will be reduced over a number of years until 1 January 2017.

A stamp duty exemption in relation to the transfer of shares listed on the Enterprise Securities Market has been announced. This is subject to a commencement order.

Excise duty on a packet of 20 cigarettes is being increased by 10 cents. The duty on a pint of beer and a standard measure of spirits is being increased by 10 cents and by 50 cents on a bottle of wine. These increases take effect from midnight on 15 October 2013.

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