BYRNE WALLACE

YOUR LEGAL BUSINESS PARTNERS

Budget 2012 Summary

December 2011

Dublin

2 Grand Canal Square, Dublin 2, Ireland
Tel +353 1 691 5000 Fax +353 1 691 5010
Email info@byrnewallace.com Dx 18 Dublin
www.byrnewallace.com

New York

Suite 1407, 14th Floor, 415 Madison Avenue
New York, NY 10017, USA
Tel +1 646 673 8606
Email ny@byrnewallace.com

Executive Summary

With over €21 billion in the way of fiscal corrections already in place over the last 3 years, there were very few easy targets left and even fewer surprises in Budget 2012. Minister Howlin had arguably the tougher job of announcing €475m in spending cuts. With income tax rates and bands remaining unchanged, mortgage interest relief increased and commercial property stamp duty reduced to 2%, Minister Noonan looks to have taken a firm grip of the Dept of Finance reins. The Governing parties hoped to lessen the painful sting by deploying a certain amount of "kite flying" of measures that were not then implemented, and flagging controversial items like the new €100 household charge and increases in VAT and car tax. The new Special Assignee Relief Programme to support Irish sales efforts in high-growth BRIC countries is to be welcomed as an innovative export measure. Taking Budget 2012 as a whole, we remain on course for the Holy Grail of a 3% budget deficit by 2014 as laid out in the National Recovery Plan 2011 – 2014; we are moving towards it at a pace that our funders in the Troika should be pleased with.

We hope you find our summary useful and we would be very happy to answer any of your queries or discuss any of the topics raised in further details.

We look forward to hearing from you.

The ByrneWallace Tax Team

"In this world there are only two tragedies. One is not getting what one wants, and the other is getting it."

Oscar Wilde

Some of the key features:

- 12.5% Corporation Tax rate unchanged
- No changes to headline income tax rates; bands and credits remain unchanged
- 3 year corporation tax relief for start-up companies extended
- Reduction in stamp duty rate for commercial property from 6% to 2%
- Introduction of a Capital Gains Tax incentive
- Increase of Mortgage Interest Relief to 30% for those who purchased their home between 2004 and 2008
- 25% Mortgage Interest Relief for first-time buyers for a final 12 months up until end 2012
- Standard Rate of VAT increased from 21% by two percentage points to 23% effective from 1 January 2012
- Carbon Tax increased from €15 to €20 per tonne effective from 7 December 2011 on petrol and Diesel and from 1 May 2012 on other fossil fuels excluding solid fuels
- Excise on cigarettes increased by 25 cents
- Motor Tax rates increased from 1 January 2012
- Capital Acquisition Tax, Capital Gains Tax and D.I.R.T. increased to 30%
- Introduction of a household charge €100 per household
- Broadening of PRSI to previously exempted income

Tax on Individuals

No income tax increases

There are no changes to income tax rates, bands or tax credits.

Universal Social Charge

Seeking to give relief to the low paid, part-time and seasonal workers, particularly in labour intensive areas such as farming and the hospitality sector, from 1 January 2012 the exemption level will be raised from €4,004 to €10,036.

The Charge will have the following rates and thresholds:

- 0% < €10,036
- 2% first €10,036
- 4% €10,037 to €16,016
- 7% > €16,016

PRSI Changes

The 50% relief of employer PRSI for employee contributions to occupational pension schemes and other pension arrangements is being removed with effect from January 2012.

A further broadening of the base for PRSI to cover rental, investment and other forms of income will be effective from 2013.

Domicile levy

Liability to the domicile levy has been extended to persons who are not citizens of Ireland.

Pensions

Approved Retirement Funds (ARF's)
The annual imputed distribution which applies to the value of assets in an Approved Retirement Fund (ARF) on 31 December each year is being increased from 5% to 6%, with regard to ARFs with asset values in excess of €2 million. The increase applies at 31 December 2012 and for future years. The transfer of ARF assets on the death of an ARF owner to a child of the owner (aged over 21) is subject to a final liability tax equal to the standard rate of income tax in force at the time of transfer. While the current rate is 20%, a final higher tax rate of 30% on such transfers may apply.

Personal Retirement Savings Accounts (PRSA's) "Vested" PRSAs are PRSAs from which retirement benefits have commenced to be taken. This is usually in the form of a "tax-free" retirement lump sum. The annual distribution provision which applies to ARFs will also apply on the same basis to "vested" PRSAs, where the assets are retained in the PRSA instead of being transferred to an ARF. This will include an increased deemed distribution percentage of 6% for vested PRSAs with assets in excess of €2 million. Where an individual holds more than one PRSA, the deemed distribution will apply to the aggregate of the assets in all of that individual's PRSAs, once any one of them is vested. This change will apply in respect of vested PRSA asset values at 31 December 2012 and future years.

Illness Benefit

Illness Benefit will be taxed from the first day of payment; previously the first 6 weeks (36 days) were exempt from tax.

Tax on Business

Corporation Tax

There will be no change in the 12.5% rate of corporation tax. This is good news for both domestic companies and foreign direct investment.

3 Year Tax Exemption for Start-up Companies

The exemption from corporation tax and capital gains tax for certain trading start-up companies in the first three years of trading has been extended to include start-up companies which commence a new trade in 2012, 2013 or 2014.

R&D Tax Credit

There have been a series of measures to support R&D activity in the SME sector. The first €100,000 of qualifying R&D expenditure will receive a 25% R&D tax credit which is given on a volume basis. There is no requirement to refer to the 2003 base year spend. The tax credit on incremental expenditure over €100,000 will continue to apply. Aiming to provide a benefit to SMEs the tax credit continues to apply to incremental R&D expenditure over €100,000 as compared with such expenditure in the year 2003 as the base year.

Renewable energy generation

An extension of the period to qualify for the scheme of tax relief for corporate investment in certain renewables from 31 December 2011 to 31 December 2014 has been announced.

Other Taxation Measures

Capital Taxes

Stamp Duty

The stamp duty rate on commercial property transfers has been reduced from a top rate of 6% to a flat rate of 2%. This change will take place in respect of all non-residential property, including farmland, commercial and industrial buildings. The aim is to bring down the cost of acquiring commercial property which will have positive effects on the property sector. The stamp duty reduction will have effect for all transfers executed on or after 7 December 2011. Now consanguinity relief (intra-family transfers) on transfers of non-residential property will only continue up to the end of 2014 - after this time it will be abolished. Consanguinity relief for residential property transfers was already abolished in last year's budget.

D.I.R.T. & Exit Taxes

With effect for payments made on or after 1 January 2012, the rate of Deposit Interest for Retention Tax that applies to deposit interest and the rate of exit tax that applies to life assurance policies and investment funds are to be increased from 27% to 30%. The rates rise to 33% for payments that are rolled up and made less frequently than annually.

Capital Acquisitions Tax

With effect from 7 December 2011 the rate of capital acquisitions tax was increased from 25% to 30%.

The current Group A tax-Free threshold will be reduced from €332,084 to €250,000 (from ten times to 7.5 times the Group B threshold). This reduction applies in respect of gifts or inheritances taken after 6 December 2011.

Capital Gains Tax

Rate change: The current rate of 25% will be increased to 30% in respect of disposals made after 6 December 2011.

New incentive relief: Also a new incentive relief from CGT has been introduced for property purchased between 7 December 2011 and the end of 2013. For property bought during this period and held for more than seven years, the gain attributable to that period will be relieved from Capital Gains Tax.

Property

Mortgage Interest Relief

Purchasers of property between 2004 and 2008: Mortgage interest relief will increase to 30% for first time buyers who took out their mortgage between 2004 and 2008.

Purchasers of properties in 2012: First time buyers purchasing property in 2012 will get mortgage interest relief at a rate of 25%, non-first time buyers are profiting from a 15% relief.

Mortgage interest relief will no longer be available to house purchasers who will purchase after the end of 2012. It will be fully abolished from 2018.

Legacy Property Reliefs

A report on reducing Legacy Property Reliefs will be published with the Finance Bill.

Section 23 Type Reliefs

A newly introduced property surcharge will be effective from 1 January 2012 on individuals with gross incomes over €100,000. It applies at a rate of 5% on the amount of income sheltered by property reliefs in a given year. This will apply to all investors regardless of whether they invested in Section 23 or accelerated capital allowance schemes with this level of gross income.

Reliefs in Section 23 type investments will not be terminated or otherwise restricted for investors with an annual gross income under €100,000 as these are at the greatest risk of insolvency.

Accelerated Capital Allowance Schemes

It was announced that 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, unused capital allowances can not be carried forward. They will be cut after 31 December 2014.

Household Charge

An interim household charge of €100 per household is being introduced in 2012. Pending implementation of a full property tax from 2014.

Indirect Taxes & Misc.

VAT & Excise Duties

The standard rate of VAT on goods and services will be increased by 2 percentage points from 21% to 23% with effect from 1 January 2012.

The VAT rate applicable to district heating will be reduced from 21% to 13.5% in the Finance Bill according to an EU Council Directive. No commencement date has been given as yet.

With effect from 1 January 2012 admissions to open farms will become liable to VAT. Consistent with the recent VAT reduction in respect of the tourism industry, the reduced rate of 9% applies.

Carbon Tax

Carbon Tax will be increased by €5 to €20 per tonne on fossil fuels. The increase will apply to petrol and auto-diesel with effect from 7 December 2011.

Motor Tax

Motor tax rates on all categories will increase with effect from 1 January 2012.

Vehicle Registration Tax (VRT) and Motor Tax – Public Consultation

It is planned to review the current CO_2 bands and rates in line with technological advances. Aiming to adjust the bands with a target implementation date of 1 January 2013, a public consultation will be undertaken to which submissions can be made until 1 March 2012.

Tobacco Tax

With effect from 7 December 2011 excise duty on a packet of 20 cigarettes is being increased by 25 cents (including VAT). There will be a pro-rata increase on other tobacco products.

RCT (Relevant Contract Tax)

With regard to RCT a two-rate withholding system has been introduced. There is a 20% rate for subcontractors registered for tax with an established compliance record and a 35% rate for non registered subcontractors.

The repayment system has been replaced by an offset system, while introducing further reporting requirements for Principals.

Betting (Amendment) Bill

It is intended that a newly introduced betting bill will apply from the second quarter of 2012.

Special Assignment Relief Programme (SARP)

A deduction for foreign earnings will be introduced with the aim to help export companies seeking to expand into emerging markets. It applies where an individual spends 60 days a year developing markets for Ireland in Brazil, Russia, India, China and South Africa – the so called BRICS countries. Details and additional measures will be given in the Finance Bill.

Special Assignee Relief Programme

To support established multinational and indigenous companies expanding a “Special Assignee Relief Programme” has been introduced. This will allow multinational and indigenous companies to attract key people to Ireland so as to create more jobs and to facilitate the development and expansion of businesses in Ireland.

2012 Rates and Credits

Income Tax Rates (No changes)

	2011	2012
Standard rate	20%	20%
Top rate	41%	41%

Standard Rate Tax Bands (No changes)

	2011 €	2012 €
Single / Widowed Persons	32,800	32,800
Married Couples One Income	41,800	41,800
Married Couples Two Incomes	65,600	65,600
One Parent / Widowed parent	36,800	36,800

Tax Credits (No changes)

	2011 €	2012 €
Personal Credit - Single Persons	1,650	1,650
Personal Credit - Married Persons	3,300	3,300
Employee Credit	1,650	1,650
Additional One-Parent Family Credit	1,650	1,650
Home Carer Credit	810	810
Widowed Person Bereaved in Year of Assessment	3,300	3,300

Exemption Limits (No changes)

65 Years and Older	2011 €	2012 €
Single	18,000	18,000
Married	36,000	36,000

Other Credits (No changes)

	2011 €	2012 €
Incapacitated Child Tax Credit	3,300	3,300
Dependent Relative Tax Credit	70	70
Blind Persons Tax Credit - Single	1,650	1,650
Blind Persons Tax Credit - Married (Both Blind)	3,300	3,300
Additional Credit for certain Widowed persons	540	540
Widowed Parent Tax Credit - Year 1	3,600	3,600
Widowed Parent Tax Credit - Year 2	3,150	3,150
Widowed Parent Tax Credit - Year 3	2,700	2,700
Widowed Parent Tax Credit - Year 4	2,250	2,250
Widowed Parent Tax Credit - Year 5	1,800	1,800
Age Credit - Single	245	245
Age Credit - Married	490	490

Universal Social Charge (USC)

	2011	2012
Exemption limit	€4,004	€10,036
Income up to €10,036	2%	2%
Income between €10,036 and €16,016 per annum	4%	4%
Income over €16,016 per annum	7%	7%

Key Contacts

ByrneWallace is one of Ireland's largest law firms and advises on all aspects of taxation. For further information please contact:

Ursula Tipp
Partner & Head of Tax

Tel: +353 1 691 5283
utipp@byrnewallace.com