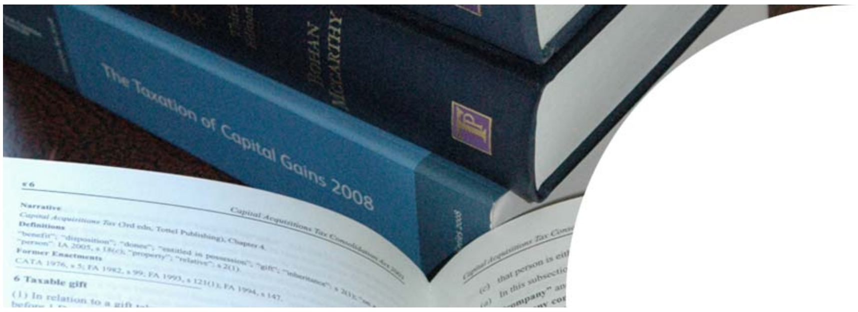

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Ireland's National Recovery Plan 2011 – 2014

Introduction

The Irish Government's National Recovery Plan ("the Plan") was published on 24 November 2010, in the lead-up to Budget 2011 (due on 7 December 2010). The target to be achieved is an Irish deficit of only 3% GDP by 2014 which the Government indicates involves reducing the deficit by €15bn.

The Plan outlines changes in the areas of Income Tax, pensions, Carbon Tax, VAT, and Excise Duty and warns of forthcoming changes to the operation of Capital Acquisition Tax, Capital Gains Tax and Stamp Duty.

One third of the Government's target adjustment of €15bn is to be met from tax, and the balance is to come from spending cuts (tax €5bn: spending cuts €10bn). The Plan spreads the €5bn tax increase over the 4 years from 2011 – 2014 with a target of €2bn in extra taxes in 2011 (matched by €4bn spending cuts) and a €1bn tax increase per year in each of the following 3 years.

The Minister has indicated that he wants to broaden the Irish tax base which relies on relatively small number of top earners. In 2010, 45% of income earners paid no tax at all and only 13% paid tax at the top rate. It is estimated that 60% of total income taxes collected in 2010 came from only 8% of the Irish income taxpayers (i.e. those earning over €75,000).

The Plan aims to broaden the Income Tax base by a phased reduction in income tax bands and credits.

Taxpayers	2004	2005	2006	2007	2008	2009	2010
Top rate taxpayers	23%	21%	18%	16%	16%	14%	13%
Standard rate taxpayers	43%	43%	43%	42%	42%	42%	42%
No tax	34%	36%	39%	42%	42%	44%	45%

Taxes on Income

The top marginal rates will remain the same, at 52% for PAYE workers (in 2010, this is made up of Income Tax 41%, Income Levy 6%, and Health Contribution 5%) and 55% for the self-employed (in 2010, this is made up to Income Tax 41%, Income Levy 6%, Health Contribution 5% and PRSI 3%) However there will be an aggregate 16.5% reduction in the value of bands and credits which will reduce the entry point to Income Tax for a single PAYE person to *circa* €15,300 by 2014. This rebases the Income Tax credits and bands at close to the 2006 level.

By 2014, net pay for a single person on €55,000 will be reduced by €1,860 per annum (€36 per week) or 4.8%. The net pay for a married one-income family on €55,000 will be reduced by €2,310 per annum (€44 per week) or 5.4%.

Income Tax Reliefs Abolished

A number of Income Tax reliefs are to be abolished in 2011, including:

- the investment allowance for plant and machinery and for exploration expenditure
- Approved Share Options Schemes
- the benefit-in-kind ('BIK') exemption on employer provided childcare
- rent relief for private rented accommodation (to be phased out with mortgage interest relief)
- Income Tax relief for trade union subscriptions is to be abolished (in accordance with the Commission on Taxation's recommendation)
- Income Tax age credit is to be phased out over 4 years (contrary to the Commission on Taxation's recommendation)
- Income Tax age exemption is to be phased out over 4 years (contrary to the Commission on Taxation's recommendation)

The Plan introduces PRSI, Health and Income Levy charges for Approved Profit Sharing Schemes, and Approved Save-As-You-Earn Schemes, and extends the PRSI, and Health Levy charges to Unapproved Share Options, and Share Awards.

The Artist's Exemption from Income Tax is capped at €40,000. The tax exemption for patent royalties has been removed in accordance with the recommendations of the Commission on Taxation. The Department of Finance has indicated that the abolition of the patent royalties exemption (and the Approved Share Options Scheme provisions) will apply from 2pm on 24 November 2010 (the date of the Plan), and the Budget 2011 Financial Resolutions will reflect this.

The Plan endorses the phased elimination of legacy tax reliefs (i.e. the remaining property based incentives) over the Plan's 4 years. It is not clear at this stage how the Minister will achieve this.

Ex-gratia Termination Payments

Ex-gratia termination payments in excess of €200,000 are to be taxed.

It is not clear from the wording of the Plan whether a payment in excess of €200,000 will be taxed in full or whether it is only the excess over €200,000 that will be taxed. The Commission on Taxation recommended that *"the relief should continue but the quantum of the exempt payment should be limited to €200,000".*

VAT

The standard rate of VAT will be increased from 21% to 22% in 2013 with a further increase to 23% in 2014. The reduced rate of VAT (13.5%) is to remain unchanged. Further consideration will be given to balancing the VAT system and zero rated VAT items.

Relief on Pension Contributions

The National Pensions Framework was published by the Government on 3 March 2010. The foreword stated that "*we are facing a number of significant challenges as a society due to the fact that we have an ageing society and a reducing workforce. We must plan now to ensure the adequacy of retirement incomes and the long-term future and sustainability of our pension system".*

The Framework proposed changing the current system of marginal tax relief for a more transparent State contribution equal to 33% tax relief and accepted the recommendation made by the Commission on Taxation that pension lump sums of less than €200,000 should not be taxed, but tax would be paid over this level.

However in the Plan the Government announced a series of measures which significantly reduce the incentives for people to invest in pensions, and the key ones are:-.

- the abolition of the PRSI and Health Levy relief on pension contributions in 2011, to match the current Income Levy practice of ignoring pension contributions. Over the following three years of the Plan (2012 – 2014) the Income Tax relief on pensions will be reduced (34% in 2012, 27% in 2013 and 20% in 2014)
- a reduction in the annual earnings cap for pensions of almost 25% in 2011, i.e. from €150,000 to €115,000
- capping the relief on pension lump sums at €200,000 (in accordance with Commission on Taxation's proposals)

Once pension contributions relief is reduced to the standard 20% rate a €100 contribution by an individual paying tax at the top rate will effectively cost €80 whereas currently it only costs €51 (for a self employed person).

In practice this proposed system will result in the same funds being taxed twice if the taxpayer is at the marginal rate. Income Tax will be paid when the contribution is made (Income Tax of 41% with relief of 20%), and tax at the relevant top rate in the future if he draws income from the pension.

Property ("Site Value") Tax

An interim Site Value Tax of *circa* €100 per annum will be introduced in 2012. This tax will apply to all land other than agricultural land and land subject to commercial rates, so it will arise on all properties (principal residences and investments) and to sites.

The tax will be increased in later years to circa €200. This is in addition to the Local Authority Non-Principal Private Residence Charge of €200 per relevant dwelling.

CGT, CAT & Stamp Duty

The Plan warns of proposed changes to the following in 2012:-

- CGT rates (differing rates for different levels of gains so that the tax would be applied in bands like stamp duty)
- CGT reliefs (which may be restricted or abolished)
- CAT rates (similar to proposal for CGT)
- CAT thresholds (which are likely to be reduced significantly)
- CAT reliefs (which may be restricted or abolished)
- Stamp Duty reliefs (which may be restricted or abolished)

There is no mention of rate increases in 2011 but the Minister did not exclude the option. There were no details in the Plan of these proposed changes but provisions may be set out in Budget 2011.

Impact on Business

The Government reaffirmed its commitment to the 12.5% Corporation Tax rate and the Minister commented that *"the 12.5% rate is now part of our international 'brand'".* A new "Business Investment Targeting Employment Scheme" (BITES) will replace Business Expansion Scheme (BES) in 2011 to simplify the relief given and allow an significantly increased level of investment.

Domestic water charges

Domestic water charges are due to be implemented by 2014. This is in accordance with the recommendations of the Commission on Taxation.

Carbon Tax

In 2010, Carbon Tax is charged at €15 per tonne. Carbon Tax will be increased to €25 per tonne in 2012, and €30 per tonne in 2014.

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Caveat: This note is general in nature and should not be relied on in specific cases. OHT recommends obtaining formal tax advice before taking any steps with tax implications.

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