



TAX
**BUDGET 2012
HIGHLIGHTS**

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Business Tax

The key budget announcement for business tax is to maintain the 12.5% corporation tax rate.

- **Research and Development Tax Credit**

The first €100,000 of R&D expenditure of all companies will be allowed on a volume basis for the purpose of the R&D Tax Credit.

The tax credit will continue to apply to incremental R&D expenditure in excess of €100,000 as compared with expenditure in the base year 2003.

At present sub-contracted R&D costs are eligible where they do not exceed 10% of total costs or 5% in the case of sub-contracting to third level institutions.

The outsourcing arrangements for R&D purposes will be improved in a targeted manner to allow the greater of the existing percentages 5 or 10% as appropriate or €100,000.

Companies will have the option to use a portion of the R&D credit to reward key employees who have been involved in the development of R&D.

- **Start up Companies**

The corporation tax exemption for new 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.

- **Renewable Energy Tax Incentive Scheme**

The qualifying period for the scheme of tax relief for corporate investment in certain renewable energy projects is being extended from 31 December 2011 to 31 December 2014.

- **Special Assignee Relief Programme**

As part of furthering the Government's package for attracting inward investment, a "Special Assignee Relief Programme" is to be introduced. The aim is to allow multinational and indigenous companies to attract key people to Ireland to create more jobs and to facilitate the development and expansion of businesses in Ireland.

- **Foreign Earning's Deduction**

A "Foreign Earnings Deduction" is to be introduced to further support Ireland's export drive by aiding companies seeking to expand into emerging markets. This targeted deduction will apply where an individual spends at least 60 days a year developing markets for Ireland in Brazil, Russia, India, China and South Africa. Further details will be included in the Finance Bill.

- **International Financial Services Industry**

The Finance Bill will introduce a package of measures to support the continued success of the international funds industry, the corporate treasury sector, the international insurance industry and the aircraft leasing industry.

Personal Tax

- **Income Tax Rates and Bands**

The 2011 levels of income tax rates and tax rate bands remain unchanged for 2012.

- **Tax Credits and Age Exemption Limits**

There are no change to the tax credits or age exemption limits

- **PRSI Changes**

The much speculated introduction of a PRSI charge on rental, investment and other forms of income for PAYE taxpayers will not be introduced until 2013.

- **Universal Social Charge (USC)**

The exemption level for the universal social charge will increase from €4,004 to €10,036.

USC will be collected on a cumulative basis effective 1 January 2012.

- **Mortgage Interest Relief**

The mortgage interest relief rate will increase to 30% for first time buyers who took out their first mortgage between 2004 and 2008.

For those who wish to buy a home in 2012, first time buyers will get mortgage interest relief at a rate of 25%.

Non-first time buyers in 2012 will benefit from relief at 15%.

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

- **Tax on Savings**

Deposit Interest Retention Tax (DIRT) will be increased from 27% to 30% for interest payments arising after 1 January 2012.

- **Property Based Reliefs**

New Property Relief Surcharge

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

The surcharge will essentially be a higher rate of USC applying to investors regardless of whether they invested in Section 23 or accelerated capital allowance schemes.

S23-Type Relief

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

Property Capital Allowances

Investors in accelerated capital allowances schemes will no longer be able to use any capital allowances beyond the tax life of the particular scheme where the 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 and beyond will be permitted.

- **Pensions**

PRSI

The current employer PRSI exemption for employee contributions to occupational pension schemes will be abolished from 1 January 2012.

Approved Retirement Funds

The rate of notional distribution on the highest value Approved Retirement Funds has increased from 5% to 6%.

The rate of tax now applying to the transfer of an ARF on death to a child over 21 has increased from 20% to 30%.

- **Domicile Levy**

The citizenship condition in relation to the payment of the Domicile Levy is now abolished.

- **Farm Model Partnership**

To encourage the use of the Farm Model Partnership, a 50% stock relief will be available for all registered farm partnerships. In addition, a 100% stock relief will be available for certain young trained farmers who form partnerships. These measures are an effort to support the farming industry.

- **Household Charge**

The household charge of €100 per dwelling has been confirmed from 2012 onwards.

There is a waiver available for those on mortgage interest supplements and those residing in unfinished housing estates.

There is a provision to allow payment of the charge by instalments.

Indirect Taxes

- **VAT**

The standard rate of VAT is to increase by 2% to 23% effective from 1 January 2012.

A commitment was given that this rate will not increase further during the life of the current Government.

The second reduced rate of VAT of 9% is also to apply to open farms which otherwise would be subject to the standard rate as a result of a European decision.

The VAT rate on district heating is reduced from 21% to 13.5%

The VAT refund order for farm construction is amended to provide that farmers may claim a refund on wind turbines purchased from the 1st of January 2012.

- **Vehicle Registration Tax**

The Government is to engage in a consultation process with the motor industry with a view to putting in place an export refund scheme which would allow for a refund of VRT applying on the permanent export of the vehicle to another Member State.

- **Carbon Tax**

It is proposed to increase the Carbon Tax on fossil fuels introduced in Budget 2010 from the equivalent of €15 per tonne to €20 per tonne and will apply to petrol and diesel from midnight on 6 December 2011. The increase on other fuels such as home heating oil will not take effect until May 2012.

Stamp Duty & Capital Taxes

A reform of stamp duty on non residential property was announced with immediate effect. The Budget has introduced a flat 2% rate for all transactions of non residential property, including farmland, commercial and industrial buildings.

There is no change to the residential property stamp duty rates.


The consanguinity reliefs on transfers of non-residential properties to be retained for intra-family transfers to the end of 2014 and abolished thereafter.

Capital Gains Tax

- The capital gains tax rate has increased to 30% from 25%. This increase applies in respect of disposals made after 6 December 2011.
- A new incentive relief from capital gains tax is being introduced for the first seven years of ownership for properties bought between 7 December 2011 and 31 December 2013, where the property is held for more than 7 years. Where such property is held for more than seven years the gains accrued in that period will not attract capital gains tax.
- Capital gains tax Retirement relief applying to a transfer by individuals over 55 years has been modified so as to incentivise the timely transfers of farms and businesses within the family before the current owner reaches 66. For transfers outside the family, the limit of €750,000 will be maintained for individuals aged between 55 and 66. If a transfer occurs where the individual is over 66, the limit is reduced to €500,000. The current upper limit of €750,000 applies for a transitional period of two years for individuals currently aged 66 or who reach that age before 31 December 2013.

Capital Acquisitions Tax

- The capital acquisitions tax rate has increased to 30% from 25%. The increase applies in respect of gifts or inheritances taken after 6 December 2011.
- The current Group A tax free threshold has been reduced to €250,000 from €332,084. This reduction applies in respect of gifts or inheritances taken after 6 December 2011.
- The current Group B and Group C tax free thresholds remain unchanged at €33,208 and €16,604 respectively.



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