Ernst & Young Tax Services

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TAX ALERT

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Budget 2008

Faced with reduced revenue receipts, the Minister for Finance, Brian Cowen TD, announced one of the tightest budgets of his reign. Some measures included stamp duty reform, changes to motor taxation, the extension of film relief and fixing the base year for R&D expenditure at 2003 for a further four years until 2013.

Personal Taxes

Income Tax
As a result of the tax measures announced by the Minister, at least two out of every five taxpayers will now be outside the tax net and four out of every five taxpayers will only pay tax at the standard rate.

As expected there were marginal increases in the tax bands and credits with no reduction in the tax rates. However, the employee PRSI threshold has been increased to €50,700 from €48,800 leading to an increase of up to €76 per annum, for those earning more than €50,700.

Mortgage Interest Relief
Again this year, the Minister did assist first-time buyers (i.e. those in the first seven years of their mortgage) by increasing the interest relief qualifying for tax relief at the standard rate of 20% to €10,000 for single persons and to €20,000 for married persons. This represents a monthly saving of €33 for a single person and €66 for a married couple. However, the ceiling for non-first time buyers has remained static at €3,000 for single persons and €6,000 for married persons.

Rent a Room Scheme
The amount of rent which a home owner can earn under the rent a room relief scheme is increased from €7,620 to €10,000 per annum. This relief is available where a person rents out a room or rooms in his or her principal private residence.

Rent Credit
The Minister increased the rent credit from €360 to €400 for a single person (under 55), and from €720 to €800 for a married couple (under 55) who are living in rented residential accommodation. The credit available for those over 55 is double that for under 55s at €800 for a single person (€1,600 married).

Preferential Loans
An employee in receipt of a preferential loan is charged to income tax on the difference between the interest actually paid and the amount which would have been payable at the "specified" rate of interest for the loan. To reflect increases in interest rates, the specified rate in respect of home loans is being increased from 4.5% to 5.5 % and the specified rate in respect of other loans is being increased from 12% to 13%. These changes will take effect from 1 January 2008.

UK Source Income
Historically, certain categories of tax payer have been liable to income tax in Ireland on sources arising in Ireland or the UK, with other sources only being taxed on the amount of income brought into Ireland (known as the remittance basis). This favorable treatment is available primarily to non-Irish citizens who have established Irish tax residence. Following criticism from the EU Commission, the Minister has been forced to amend the legislation with the result that UK source income, with the exception of employment income relating to Irish duties, will qualify for the favorable remittance basis from 1 January 2008.

Business Taxes

Companies and Preliminary Corporation Tax
The Minister for Finance announced further welcome changes to the preliminary corporation tax payment regime for companies. Where companies rely on the "small company" mechanism for making their preliminary corporation tax payment, they can pay 100% of their previous accounting period's liability for their payment on account, instead of paying 90% of an expected corporation tax liability for the current accounting period. In last year's Budget, the small companies' threshold amount was increased from €50,000 to €150,000. This year the €150,000 limit is being increased to €200,000. In addition, the small company threshold for companies in a commencement situation is also being increased from €150,000 to €200,000. This means that where a company's expected corporation tax liability for their first accounting period is less than €200,000, it no longer has to pay preliminary corporation tax, and instead it pays its full corporation tax liability at the time it files its corporation tax return (approximately nine months after the end of the accounting period). The new measures take effect for preliminary corporation tax payment dates arising on or after 5 December 2007.

In a further technical measure, companies whose taxable income is based on the movement in fair values of financial assets and liabilities under IFRS (or equivalent Irish GAAP) will see the arrangements that had previously been introduced on a transitional basis to ease the compliance burden associated with the estimation of their preliminary corporation tax liability made permanent. The previous transitional arrangements allowed a company, for its first accounting period post the adoption of IFRS, to disregard unrealised gains and losses on financial assets or financial liabilities arising in the two month period 1 November to 31 December, in determining the adequacy of the amount of their preliminary corporation tax payment. Any shortfall in the preliminary corporation tax payment amount must then be paid over to the Revenue by the following 31 January.

BES and Recycling Companies
One of the requirements that a recycling company must meet, prior to availing of Business Expansion Scheme ("BES"), is that it must have received grant assistance to avail of the scheme. This requirement is to be replaced by a new condition that, prior to availing of the scheme, the recycling company must have its business proposals certified by an industrial development agency or County Enterprise Board. The change in requirements will need to be advised to the European Commission, as the BES is an approved State aid.

Film Relief
The current provisions under S.481 TCA 1997 for Film Relief are to be extended. Tax relief for investment in films is to be extended from 31 December 2008 to 31 December 2012. Any adjustments to the relief will depend on the outcome of a study of the relief that the Minister has commissioned. Finance Bill 2008 will incorporate any revisions required to necessitate the changes to the scheme.

Changes to Capital Allowances and Expenses on Business Cars
The current scheme for capital allowances on business motor vehicles and the restrictions on leasing charges on cars in excess of €24,000 are to be changed. The new scheme will link the availability of capital allowances and expenses to the CO_2 emissions of the vehicles for cars purchased or leased on or after 1 July 2008. Four categories, based on the CO_2 emission levels of the vehicles, are to be introduced and will be based on the new VRT system. Examples of how the capital allowances will be calculated are as follows:

- A car whose CO_2 emissions fall between 0 - 155g/km (Category A/B/C) will benefit from capital allowances at the current car value threshold of €24,000 regardless of the cost of the car.
- A car whose CO_2 emissions fall between 156 - 190g/km (Category D/E) will be entitled to claim allowances based on the lower of (a) 50% of the current car value threshold, or (b) 50% of the cost of the car.
- A car with CO_2 emissions in excess of 190g/km (Category F/G) will not qualify for capital allowances.

With respect to leasing charge restrictions, cars in Categories A/B/C will benefit from a proportionately higher deduction than the actual leasing charges where the cost of the car does not exceed €24,000. Cars in Category D/E will get 50% of the leasing expenses they would otherwise benefit from under the current scheme, while cars in Category F/G will not qualify for a deduction for leasing expenses.

Research & Development Tax Credits
In an effort to encourage increased expenditure on research and development ("R&D"), the base year against which qualifying incremental expenditure is measured is being fixed at 2003 for a further four years, until 2013. The change in requirements will need to be advised to the European Commission, as R&D is an approved State aid.

Fishing Sector
Following on from the Cawley report earlier this year into the Irish Fishing Sector, the Minister has proposed to amend the tax code for the fishing sector, in Finance Bill 2008 to encourage de-commissioning of fishing vessels.

Farming Sector

Following on from the recent reform of the Common Agricultural Policy and the recent growth in the adoption of the innovative farm business structures the Minister announced a number of changes in the farm taxation area including:

- Capital Gains Tax relief to be granted on the dissolution of farm partnerships.
- Removal of claw-back of the benefit of income averaging arrangements on entering a milk production partnership.
- Sugar Beet Growers to be allowed to spread Diversification Aid Compensation over 6 years in calculating taxable income.
- Stamp Duty relief for Farm Consolidation confirmed up to 30 June 2009.

Indirect Taxes

VRT - Restructuring

The Minister has introduced a major restructuring of Vehicle Registration Tax (VRT) legislation in this Budget. The proposed VRT system will be based on the level of CO_2 emissions per kilometre from a car and will come into force on 1 July 2008. The objective of the changes is to ensure that persons choosing lower-emission cars will, in the future, benefit from lower VRT charges than those choosing higher-emission vehicles. The measures introduced by the Minster are part of the process to achieve the Government's target under the Kyoto Agreement to limit the growth in greenhouse emissions while at the same time ensuring that the changes remain as close to tax neutral as possible for the Exchequer. It is estimated that in 2006, VRT brought in €1.3 billion to the Revenue.

VAT – New Property Regime to be introduced on 1 July 2008

The Minister has announced a new VAT regime to be introduced with effect from 1 July 2008.

The four areas which have been addressed under the new regime are:

- Transitional measures designed to bridge the gap between the old and the new regime;
- The sale of buildings and building lands;
- The introduction of a capital goods scheme;
- A new regime with respect to the letting of properties.

The most significant change is that, irrespective of the length, a lease will always be treated as a service and generally will be exempt from VAT. It will be open to a landlord to opt to have a letting taxed where the letting is not between connected parties. Where an option is effected VAT at the rate of 21% will be due on each rental payment.

VAT – Changes in the Construction Sector

In an attempt to curb the amount of VAT lost as a result of sub contractors in the construction industry not remitting VAT charged to main contractors, a reverse charge is being introduced with effect from 1 September 2008. This means that the principal contractor will now be liable to account for the VAT due on the subcontractor's supplies. The proposed measure is vague (it makes no mention of whether it will apply to goods, services, supplies of both, established subcontractors, non-established subcontractors) but will hopefully become clearer on foot of the proposed consultation with the construction sector.

Facts About Tax 2008	2008 Euro	2007 Euro
Income Tax Rates		
Standard	20%	20%
Marginal	41%	41%
Standard Rate Bands		
Single	35,400	34,000
Married *	70,800	68,000
Married – one income	44,400	43,000
Single Parents	39,400	38,000
* both spouses income >	26,400	25,000
Personal Tax Credits		
Single Person	1,830	1,760
Married Person	3,660	3,520
PAYE Credit	1,830	1,760
Home Carers Credit (Maximum)	900	770
- Spouses income limit	5,080	5,080
- Marginal relief / effective limit	6,620	6,620
- Optional cut-off point	3,667	3,667
One Parent Family Tax Credit	1,830	1,760
Age Tax Credit (65 or over)		
- Single	325	275
- Married	650	550
Blind Tax Credit		
- Blind Person	1,830	1,760
- Both Spouses Blind	3,660	3,520
Trade Union Subscriptions (Maximum)	70	60
Service Charges (Maximum)	80	80
Rent		
- Single under 55	400	360
- Single 55 or over	800	720
- Married/widowed under 55	800	720
- Married/widowed 55 or over	1,600	1,440
Incapacitated Child Credit (maximum)	3,660	3,000
Dependent Relative (maximum)	80	80
Age Exemption Limits		
Single over 65	20,000	19,000
Married over 65	40,000	38,000
Mortgage Interest Relief		
First Time Buyer		
Single	2,000	1,600
Married	4,000	3,200
Other		
Single	600	600
Married	1,200	1,200

Facts About Tax 2008	2008 Euro	2007 Euro
PRSI Rates		
Employer		
- standard	10.75%	10.75%
- lower rate	8.50%	8.50%
Weekly lower rate limit	356	356
Self-employed		
- PRSI	3%	3%
- Health levy	2%	2%
Minimum Contribution	253	253
Employee		
- PRSI	4%	4%
- Health levy	2%*	2%*
PRSI		
Employee annual PRSI ceiling	50,700	48,800
Weekly PRSI allowance	127	127
Weekly PRSI threshold	352	339
Weekly Levy threshold	500	480
Capital Gains		
Standard rate	20%	20%
Foreign life assurance policies	40%	40%
Tax Clearance CG50 limit	500,000	500,000
Withholding tax rate	15%	15%
Annual exemption	1,270	1,270
Capital Acquisitions Tax		
Standard rate	20%	20%
Corporation Tax Rates		
Standard rate on trading income	12.50%	12.50%
Higher rate on passive income	25%	25%
Manufacturing (effective rate)	10%	10%
Qualifying Shipping	12.50%	12.50%
Residential land (effective rate)	20%	20%
Non-residential land	25%	25%
VAT Rates and Limits		
Standard	21%	21%
Reduced rate	13.5%	13.5%
Farmers Flat rate	5.2%	5.2%
Distance selling limit	35,000	35,000
Registration limit – taxable goods	75,000**	70,000
Registration limit – taxable services	37,500**	35,000
Cash receipts basis limit	1,000,000	1,000,000

**Rate increase by .5% for individuals on income in excess of €100,100 per annum or €1,925 per week*
***With effect from 1 May 2008*