

# Budget 2007



## Budget highlights

- Reduction in the top rate of income tax to 41%.
- Reduction in the PRSI and health levy burden for low earners but an increase in the health levy by 0.5% to 2.5% for high earners.
- Increase in personal tax credits, bands and exemption limits.
- The tax relief at source system to be extended.
- A doubling in the maximum amount of mortgage interest relief that can be claimed by "first time buyers".
- New measures aimed at reducing the administrative burden for small businesses in the areas of corporation tax and VAT.
- The extension of the BES and Seed Capital Scheme by 7 years and a substantial increase in the investment thresholds.
- The threshold for CGT retirement relief increased from €500,000 to €750,000.

## Taxation of individuals

### Income tax

Some good news for all taxpayers with increases in tax credits, widening of the standard rate band and a reduction in the top tax rate by 1% to 41%. The Minister also proposes a further 1% reduction in the top rate for 2008.

The following changes to personal tax credits and income tax bands were announced;

Tax Credits	2006	2007
Employee credit	€1,490	€1,760
Single	€1,630	€1,760
Married	€3,260	€3,520
Additional one-parent family credit	€1,630	€1,760

Standard rate cut-off	2006	2007
Single	€32,000	€34,000
Married couples - one income	€41,000	€43,000
Married couples - two incomes	€64,000	€68,000



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## PRSI / Health levies

The employee PRSI earnings ceiling is increased from €46,600 to €48,800. The lower weekly threshold for liability to PRSI is increased from €300 to €339 while the weekly health levy threshold increases to €480. For high income earners (individuals earning over €100,100 per annum) there is an increase in the health levy from 2% to 2.5%.

## Mortgage interest relief

There is an increase in the relief for mortgage interest for 'first time buyers'. This relief is increased from €4,000 to €8,000 per annum for a single person and from €8,000 to €16,000 per annum for married couples. The period over which the enhanced 'first time buyer' relief may be claimed is the first seven years of the mortgage.

The ceiling for non 'first time buyers' is also increased, to €3,000 for a single person and to €6,000 for married couples.

## Benefit-in-Kind

To reflect the general increase in interest rates, the 'specified rates' used for the calculation of benefit-in-kind on preferential loans are increased from 3.5% to 4.5% in respect of home loans and from 11% to 12% in respect of all other loans.

## Business Taxation

There are a number of new measures aimed at reducing the administrative burden and providing cash-flow savings for small businesses.

### Preliminary corporation tax

Companies with a corporation tax liability of less than €150,000 (previously €50,000) can now compute their preliminary tax liability by reference to the previous year's results. In addition, start-up companies with a corporation tax liability of less than €150,000 are no longer required to pay preliminary tax for their first accounting period.

These measures are effective for preliminary tax payment dates arising after 6 December 2006.

### Value Added Tax

With effect from 1 March 2007, the VAT registration thresholds for small businesses are increased from €27,500 to €35,000 in the case of services, and from €55,000 to €70,000 in the case of goods. In addition, the annual threshold under which VAT registered businesses can apply the cash receipts basis of accounting is increased from €635,000 to €1,000,000.

From July 2007, VAT filing obligations for small companies will be less onerous.

### Capital allowances and leasing charges for business cars

The value threshold for business cars is increased from €23,000 to €24,000. The new threshold will apply for expenditure incurred in accounting periods ending on or after 1 January 2007.

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**Dublin:** Wilton Place, Dublin 2  
Tel + 353 (0) 1 678 9999  
Fax + 353 (0) 1 662 6200

George's Quay, Dublin 2  
Tel + 353 (0) 1 678 9999  
Fax + 353 (0) 1 704 8600

**Cork :** 1 South Mall, Cork  
Tel + 353 (0) 21 427 6631  
Fax + 353 (0) 21 427 6630

**Galway:** Harr-Mack House,  
IDA Small Business Centre,  
Tuam Rd, Galway  
Tel + 353 (0) 91 764 620  
Fax + 353 (0) 91 764 621

**Kilkenny:** Leggetsrath Business Park,  
Dublin Road, Kilkenny  
Tel + 353 (0) 56 772 1998  
Fax + 353 (0) 56 776 5962

**Limerick:** Bank Place, Limerick  
Tel + 353 (0) 61 212 300  
Fax + 353 (0) 61 416 331

**Waterford:** Ballycar House, Newtown,  
Waterford  
Tel + 353 (0) 51 874 858  
Fax + 353 (0) 51 872 312

**Wexford:** Cornmarket, Wexford  
Tel + 353 (0) 53 52400  
Fax + 353 (0) 53 52440

## LANDWELL Solicitors

Correspondent law firm.  
Tel + 353 (0) 1 662 6655  
Fax + 353 (0) 1 662 6788  
[www.landwellglobal.com/ie](http://www.landwellglobal.com/ie)

## Tax incentives

The Minister announced a number of tax incentive initiatives:

- the **Business Expansion Scheme** is extended for a further seven years to 31 December 2013. The maximum that a company can raise is increased from €1m to €2m, subject to a ceiling of €1.5m in any 12 month period. The maximum annual relief that an investor can claim is increased from €31,750 to €150,000. For amounts invested before 31 January 2007, investors have the option of claiming relief in either 2006 or 2007.
- the **Seed Capital Scheme** is also extended to 31 December 2013. A company may now raise up to €2m under the scheme, subject to a ceiling of €1.5m in any 12 month period. The maximum annual relief that an investor can claim is increased from €31,750 to €100,000.
- the basis for calculating the **Research and Development** tax credit is amended to allow additional relief and expenditure on R&D work subcontracted to unconnected third parties will now qualify for relief, up to a limit of 10% of the qualifying R&D spend in that year.
- the scheme of relief for companies investing in **Renewable Energy** projects is extended to 31 December 2011.

## Other measures

The tourism industry will welcome the proposals to introduce relief for VAT on conference-related expenses, while sporting bodies will now qualify for a stamp duty exemption on the purchase of land.

The farming community will benefit from a number of measures, including an increase in the flat-rate deduction from 4.8% to 5.2%, an extension of stock relief, an improvement in CGT retirement relief and the leased land income exemption.

Also announced is the introduction of a number of simplification measures aimed at facilitating ready access to various tax reliefs.

The Minister signalled, for 2008, a fundamental review of the complex area of VAT on property.

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