

# TAX ALERT

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## Personal Taxes

In 2007 all earners will benefit from increased tax bands and credits ... [\[More\]](#)

## Business Taxes

The measures aimed at reducing the administrative burden for business will be welcomed ... [\[More\]](#)

## Indirect Taxes

VAT friendly measures for small business are unveiled ... [\[More\]](#)

## Facts About Tax

For a comparison of all the figures and rates at a glance ... [\[More\]](#)

## Contacts

If you require further information, please call your regular contact in Ernst & Young or contact any of the following:

### Dublin

PJ Henehan (*Tax Partner*)  
E-mail: [pj.henehan@ie.ey.com](mailto:pj.henehan@ie.ey.com)  
Tel: +353 1 4750555  
Fax: +353 1 4750599

Declan O'Neill (*Tax Partner*)  
E-mail: [declan.oneill@ie.ey.com](mailto:declan.oneill@ie.ey.com)  
Tel: +353 1 4750555  
Fax: +353 1 4750599

### Cork

Frank O'Neill (*Tax Partner*)  
E-mail: [frank.oneill@ie.ey.com](mailto:frank.oneill@ie.ey.com)  
Tel: +353 21 4805700  
Fax: +353 21 4272465

### Galway

Sandra McDonald (*Senior Tax Manager*)  
E-mail: [sandra.mcdonald@ie.ey.com](mailto:sandra.mcdonald@ie.ey.com)  
Tel: +353 91 530600  
Fax: +353 91 565242

### Limerick

John Heffernan (*Tax Partner*)  
E-mail: [john.heffernan@ie.ey.com](mailto:john.heffernan@ie.ey.com)  
Tel: +353 61 319988  
Fax: +353 61 319865

### Waterford

Paul Fleming (*Tax Director*)  
E-mail: [paul.fleming@ie.ey.com](mailto:paul.fleming@ie.ey.com)  
Tel: +353 51 872094  
Fax: +353 51 872392

### New York (Irish Tax Desk)

Declan Gavin  
E-mail: [declan.gavin@ey.com](mailto:declan.gavin@ey.com)  
Tel: +1 212 7738744  
Fax: +1 212 7736672

**Disclaimer**

## Budget 2007

In pre-election mode, the Minister for Finance, Brian Cowen TD, announced the most generous budget of this Government's reign. Buoyant revenues allowed the Minister to provide some comfort for most taxpayers.

### Personal Taxes

As a result of the tax measures announced by the Minister, those on the minimum wage will now be outside the tax net and all earners will see an increase in their take home pay. However, for those earning in excess of €100,100 per annum, this gain will be offset by the increase in the Health Levy from 2% to 2.5%. For further details on changes in rates and credits see *Facts about Tax* in Appendix 1.

Despite pre-Budget pressure, the Minister did not waver on his promise 'not to interfere' in the property market by reforming stamp duties on residential property. Instead he chose to assist first-time buyers (i.e. those in the first seven years of their mortgage) by increasing the interest relief available to €3,000 for single persons and to €6,000 for married persons. The ceiling for non-first time buyers is also increased to €3,000 for single persons and to €6,000 for married persons.

In other property moves, relief for rent paid for private rented accommodation is also increased. However, with effect from 1 January 2007 it is proposed to close off use of the rent-a-room scheme where the rent received is from connected persons who in turn are claiming rent relief.

In addition, the stamp duty head of charge for mortgage deeds is being abolished for deeds executed on or after 7 December 2006.

The specified rate of interest on preferential home loans and other preferential loans is increased to 4% and 12% respectively, with effect from 1 January 2007.

The €10,000 tax free childminding relief announced in last year's Budget is increased to €15,000. However, it remains to be seen if the estimated 37,000 childminders will now register with the relevant childcare committees.

A number of simplification measures were announced by the Minister in relation to the procedure for claiming certain tax reliefs, including relief from deposit interest retention tax (DIRT).

## Business Taxes

The corporation tax liability threshold for treatment as a small company, for preliminary corporation tax purposes, is being increased from €50,000 to €150,000. In addition, start-up companies with a corporation tax liability of €150,000 or less for their first accounting period will not be required to pay preliminary tax in respect of that first period, but will instead be required to pay their final corporation tax liability for the period at the same time as they are required to submit their tax returns. Both of these measures will be effective for preliminary tax payment dates arising after 6 December 2006.

The Seed Capital Scheme (SCS) and the Business Expansion Scheme (BES) were due to expire on 31 December 2006. However, in a pro-business move, the Minister extended the termination date of both investment schemes to 31 December 2013 (subject to EC State Aid approval). The BES company limit is being increased from €1 million to €2 million, while the BES investor limit is being increased from €31,750 to €150,000. This new BES limit of €2 million will also apply to the SCS, while the SCS investor limit is also being increased from €31,750 to €100,000.

The Minister also announced a generous expansion in the capital gains tax (CGT) retirement relief threshold from €500,000 to €700,000, with effect from 1 January 2007.

On the environmental front, the Minister announced that relief for investment in a renewable energy project, such as solar power, windpower, hydropower or biomass, which was due to terminate on 31 December 2006, is extended for a further five years to 31 December 2011.

In an effort to encourage increased expenditure on research and development (R&D), the base year against which qualifying incremental expenditure on R&D is measured is being fixed at 2003 for a further three years, until 2009. In addition, the Minister also announced that expenditure by companies on subcontracting R&D to unconnected parties will qualify under the scheme, up to a limit of 10% of the qualifying R&D expenditure in any one year.

The threshold for leases and capital allowances for new and second hand cars used in the course of business is increased from €23,000 to €24,000.

With effect from 1 January 2007, the transaction threshold that requires application for a tax clearance certificate for the award of a public sector contract or grant is being increased to €10,000.

The Minister has announced that an exemption from stamp duty for sporting bodies purchasing land will be introduced in the Finance Bill. The exemption will permit sporting bodies to purchase land for the purpose of promoting sports without incurring a charge to stamp duty. A similar exemption currently exists for charities.

The Minister announced a number of incentives across the taxheads for farmers:

- Increase in the VAT flat-rate addition from 4.8% to 5.2%.
- Extension of both the general and special farmer stock reliefs for a further two years, subject to European Commission approval.
- Exemption of €20,000 per annum for leases of farmland for 10 years duration or more, subject to European Commission approval.
- Amendment of the scheme of capital allowances for milk quotas in order to incorporate quotas purchased under the new Milk Quota Trading System.
- Extension of the relief from stamp duty for farm consolidation to 30 June 2009, subject to European Commission approval.

- Amendments to the relief from stamp duty for young trained farmers.
- Subject to certain conditions, CGT retirement relief applicable to farming assets has been extended to disposals of land where the land had been leased prior to disposal.
- Amendment to the Capital Acquisitions Tax Agricultural Relief.

## Indirect Taxes

The Minister has announced that a specific measure will be introduced in 2007 to allow VAT deductibility in respect of conference-related accommodation expenses, which currently attract a 13.5% VAT rate.

The VAT registration thresholds will be increased from €27,500 to €35,000 in the case of businesses providing services, and from €55,000 to €70,000 in the case of businesses providing goods. The effective date of these increases is 1 March 2007.

The thresholds for eligibility to account for VAT on the basis of moneys received (as opposed to invoices issued) will be increased from €35,000 to €1m. The effective date of implementation of this amendment is 1 March 2007.

Currently, a business is required to submit six VAT returns per annum. The Minister has proposed reliefs which will have effect from July 2007. Some businesses will be able to submit two or three returns per annum.

Following a review of the VAT on property legislation by the Revenue Commissioners, the Minister has confirmed that there will be a widespread consultation process with all interested parties before any changes will be implemented to VAT on property transactions. The Minister has indicated that the proposed changes will be introduced in the 2008 Finance Act.

Motorists are to be encouraged to drive more environmentally-friendly cars following the announcement of a consultation process on the linking of VRT rates to CO2 emissions. The Minister intends a carrot and stick approach, i.e. there should be some reward in the VRT system for choosing lower-emission vehicles, and those choosing higher-emission vehicles should pay more. The Minister has set out a range of options for discussion in a Budget booklet that should result in the implementation of a revised VRT system from the start of 2008.

Facts About Tax 2007	2007 Euro	2006 Euro	Facts About Tax 2007	2007 Euro	2006 Euro
<b>Income Tax Rates</b>			<b>PRSI Rates</b>		
Standard	20%	20%	Employer		
Marginal	41%	42%	- standard	10.75%	10.75%
			- lower rate	8.50%	8.50%
<b>Standard Rate Bands</b>			Weekly lower rate limit	356	356
Single	34,000	32,000	Self-employed		
Married *	68,000	64,000	- PRSI	3%	3%
Married – one income	43,000	41,000	- Health levy	2%	2%
Single Parents	38,000	36,000	Minimum Contribution	253	253
* both spouses income >	25,000	23,000	Employee		
<b>Personal Tax Credits</b>			- PRSI	4%	4%
Single	1,760	1,630	- Health levy	2.5%*	2%
Married	3,520	3,260	PRSI		
Widowed			Employee annual PRSI ceiling	48,800	46,600
- year of bereavement	3,260	3,260	Weekly PRSI allowance	127	127
- subsequent years (no dependent children)	2,310	2,130	Weekly PRSI threshold	339	300
PAYE	1,760	1,490	Weekly Levy threshold	480	440
Home Carers Credit (Maximum)	770	770	Benefits in Kind exemption limit	250	250
- Spouses income limit	5,080	5,080	<b>Capital Gains</b>		
- Marginal relief / effective limit	6,620	6,620	Standard rate	20%	20%
- Optional cut-off point	3,500	3,500	Foreign life assurance policies	40%	40%
Widowed allowance			Tax Clearance CG50 limit	500,000	500,000
(with dependent children)			Withholding tax rate	15%	15%
- First year after bereavement	3,750	3,100	Annual exemption	1,270	1,270
- Second year	3,250	2,600	<b>Capital Acquisitions Tax</b>		
- Third year	2,750	2,100	Standard rate	20%	20%
- Fourth year	2,250	1,600	<b>Corporation Tax Rates</b>		
- Fifth year	1,750	1,100	Standard rate on trading income	12.50%	12.50%
Single Parent	1,760	1,630	Higher rate on passive income	25%	25%
Age (65 or over in the tax year)			Manufacturing (effective rate)	10%	10%
- Single	275	250	Qualifying Shipping	12.50%	12.50%
- Married	550	500	Residential land (effective rate)	20%	20%
Blind			Non-residential land	25%	25%
- Single widowed	1,760	1,500	<b>VAT Rates and Limits</b>		
- Both spouses	3,520	3,000	Standard	21%	21%
Trade Union Subscriptions (Maximum)	60	60	Reduced rate	13.5%	13.5%
Service Charges (Maximum)	80	39	Farmers Flat rate	5.2%	4.8%
Rent			Distance selling limit	35,000	35,000
- Single under 55	360	330	Registration limit – taxable goods	70,000**	55,000
- Single 55 or over	720	660	Registration limit – taxable services	35,000**	27,500
- Married/widowed under 55	720	660	Cash receipts basis limit	1,000,000**	635,000
- Married/widowed 55 or over	1,440	1,320	<b>Motor Cars Capital Allowances</b>		
Incapacitated Child (maximum)	3,000	1,500	Car value threshold	24,000	23,000
Dependent Relative (maximum)	80	80			
<b>Exemption Limits</b>					
Single under 65	5,210	5,210			
Single over 65	19,000	17,000			
Married under 65	10,420	10,420			
Married over 65	38,000	34,000			
Increase per dependent child					
For each of the first two children	575	575			
For each subsequent child	830	830			

\*Rate increase by .5% for individuals on income in excess of €100,100 per annum or €1,925 per week  
 \*\*With effect from 1 March 2007

## Appendix 1

### Disclaimer

The material in this guide is provided for general information purposes only and does not constitute professional advice. It is necessarily in a condensed form. It should not be regarded as a basis for ascertaining the liability to tax in specific circumstances. Readers are advised to seek professional advice with regard to their particular factual situation concerning specific tax or other matters before taking any decision or course of action.

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