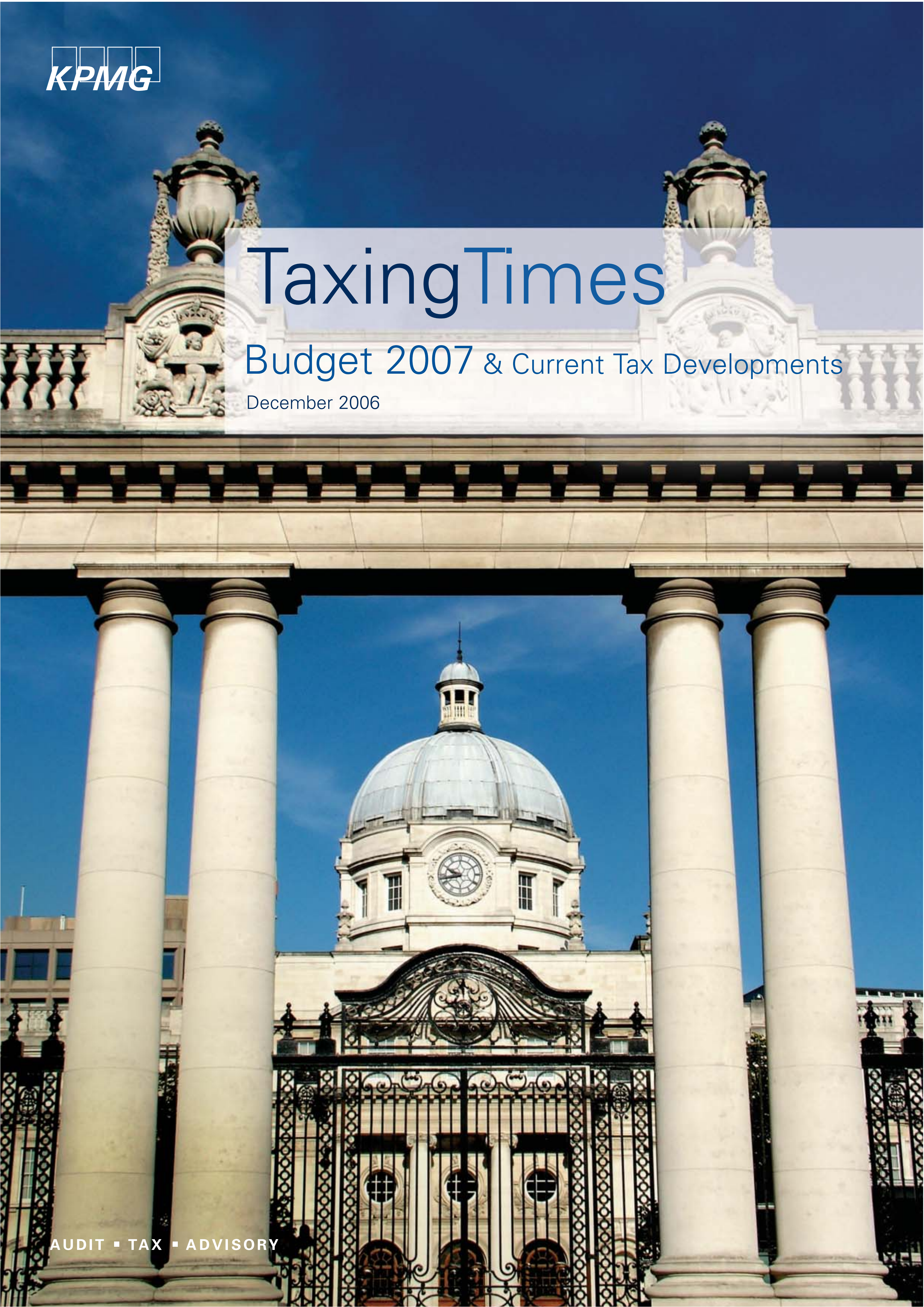
Taxing Times

Budget 2007 & Current Tax Developments

December 2006



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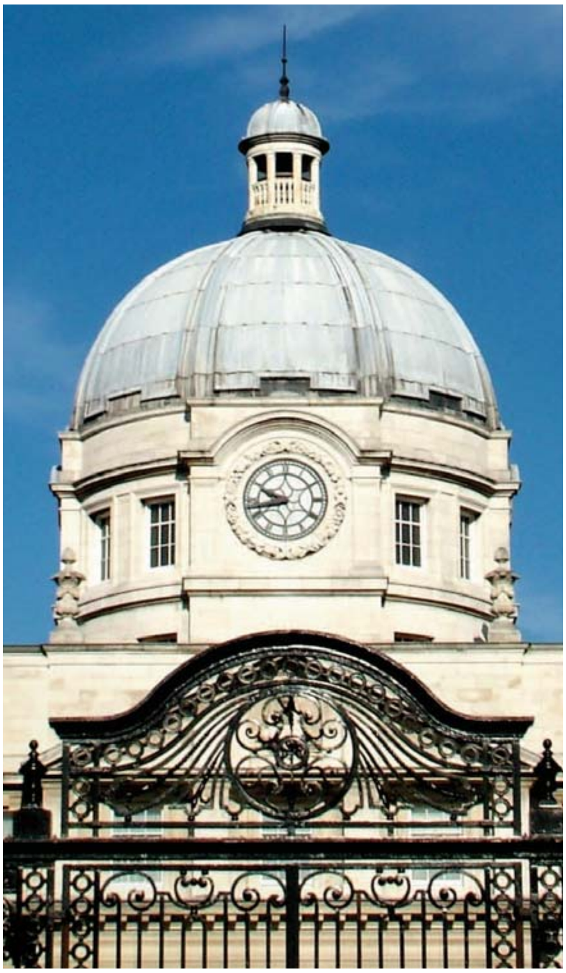

Introduction

Mike Farrell
Partner

Finance Minister Brian Cowen delivered his third budget statement today – the final budget statement of the current government, prior to the 2007 general election. He did so at a time of continued growth and against a background of unprecedented tax revenues.

The minister noted and sought to address the domestic risks of the loss of competitiveness and unbalanced economic growth. The proposed changes will have an impact on virtually all sectors of society. The tax burden on income is reduced for most taxpayers. However, the 1% reduction in the marginal income tax rate will in many cases be fully offset by the increase in income levy. Measures are to be introduced to promote enterprise and innovation. Additional support is provided to pensioners and those in need. Finally, the environmental agenda is advanced.

The income tax changes are planned to ensure that 40% of all earners will be outside the tax net. In addition, 80% of earners are expected to pay income tax at a rate no higher than the 20% standard rate. This compares very favourably with other competing jurisdictions. First-time buyers will be happy with the increase in mortgage interest relief. Stamp duty reform in the housing area remains to be addressed.

Small business will welcome the changes to be introduced. Many of these changes will reduce the administrative burden of complying with tax obligations. Larger businesses will welcome the changes to the Research and Development tax credit regime. The significant improvements in business expansion relief and seed capital relief will breathe welcome new life into those reliefs.

This budget edition of Taxing Times provides a summary of the key changes announced today in all areas, including personal and business taxes, property and indirect taxes. The substantive changes that will give effect to the budget statement will be contained in Finance Bill 2007. This is due for publication in early February.

In addition to our analyses of the budget statement, we have included an additional article covering developments in transfer pricing.

This publication seeks only to summarise the minister's budget measures. Your KPMG tax contact is best placed to discuss with you the impact of these changes on your business and personal affairs.

Mike Farrell
Head of Tax and Legal Services

Budget 2007

Personal Tax

As in previous years, the minister focused on reducing the tax burden on the lower and middle income earners.

Robert Dowley
Partner

John Bradley
Partner

Rate Bands and Tax Credits

The budget was dominated by the headline cut in the top rate of income tax from 42% to 41%, effective from 1 January 2007. While welcomed by those earning less than €100,000, those earning above this level will find that much of this benefit will be eroded by an increase of 0.5%, to 2.5%, in the health levy. Individuals in this category with no "specified reliefs" to offset against total income will register a net increase in their take-home pay. However, taxpayers with certain "specified reliefs" to offset against total income may find their total tax bill increasing as levies apply on income before these reliefs.

The standard rate bands have been widened from €32,000 to €34,000 for single people, from €41,000 to €43,000 for married couples with one income, and from €64,000 to €68,000 for married couples with two incomes.

The single person's tax credit has increased by €130 to €1,760, while the married couple's credit has increased by €260 to €3,520. The employee tax credit is now €1,760, an increase of €270. There have also been increases in certain tax credits for widowed persons, widowed parents for the first five years after bereavement, the blind person's allowances, the incapacitated child credit (which has been doubled to €3,000) and the age credit (which has been increased to €275 for a single person and €550 for a married couple).

The age exemption limits have also been increased, rising by €2,000 to €19,000 for a single person and by €4,000 to €38,000 for a married couple.

The minister was not prepared to reduce stamp duty rates. However, for first-time buyers he doubled the ceiling for mortgage interest relief: to €8,000 for single people and €16,000 for married couples. This increased relief will be available to all first-time buyers who are in the first seven years of their mortgage. For non–first time buyers, the mortgage interest relief ceiling is increased from €2,540 to €3,000 for a single person and from €5,080 to €6,000 for a married couple.

Income tax reliefs and exemptions

The BES scheme has been extended for a seven year period to 31 December 2013. Moreover, the minister has dramatically increased the minimum limit on which an investor may claim relief for investment in BES companies, from €31,750 to €150,000. It is likely that this increase will breathe new life into the BES market.

The Seed Capital Scheme is also being renewed for a seven year period, and in that case, the investor limit is being increased from €31,750 to €100,000.

Both the continuation of the schemes, and the proposed increases, will require the approval of the EU Commission before implementation.

Last year, the minister introduced a new childminding relief, which allowed an individual to earn up to €10,000 free of tax from childminding in their own home. This limit has been extended to €15,000, due to the disappointing take-up over the last year.

Preferential Loans

The specified interest rate on preferential loans from an employer to an employee has increased from 3.5% to 4.5% in respect of home loans, and from 11% to 12% in respect of other loans. These increases take effect from 1 January 2007. This is a tax increase, as it expands the base on which the benefit in kind charge applies.

PRSI Changes

The PRSI ceiling for employees will increase from €46,600 to €48,800.

Capital Gains Tax (CGT)

Retirement relief is an exemption from CGT which applies where an individual is over 55 years, and disposes of a business (including farming assets). Provided certain conditions are met, CGT is not payable where the proceeds do not exceed €500,000. The minister has increased this threshold to €750,000 with effect from 1 January 2007.

Administrative Measures

Following recent criticism that substantial tax reliefs were not being availed of by PAYE workers, the minister has announced that a number of changes are being introduced to make it easier for taxpayers to claim these. For 2007, all age-related tax credits will, where possible, be credited automatically to the taxpayer, and a system will be implemented to credit tax relief on trade union subscriptions automatically, based on trade union membership lists.

Looking to 2008, it is planned to automate repayments in respect of non-reimbursed hospital expenses, prescribed drugs pharmacy costs and certain tuition fees using information from appropriate third parties. Tax relief due on medical insurance paid by employers that has been subject to benefit-in-kind taxation will be automatically included in the employee tax credit.

In addition, work will be progressed on applying similar procedures in due course to nursing home and other medical expenses that qualify for tax relief. While the underlying idea is commendable, the practical implementation of the changes may prove difficult for Revenue, especially in

relation to those costs deductible against income charged at the higher rate.

Currently the DIRT deducted at 20% from interest on deposit accounts can be refunded by Revenue to an individual who is exempt from income tax if the person or the person's spouse is over 65 years of age or permanently incapacitated.

The minister has stated that these rules will change so that such individuals can eliminate the necessity to apply for a refund by notifying their financial institution of their taxable position, enabling them to receive the interest without deduction of DIRT.

Business Tax Matters

The focus as regards business taxation was firmly on small businesses and fostering this critical entrepreneurial sector. As such the approach taken is supportive of the general government policy of increasing Ireland's competitiveness.

Eoghan Quigley
Partner

Jim Clery
Partner

BES & Seed Capital

The Business Expansion Scheme ("BES") is designed to provide a cheap source of equity finance for start up or developing companies. The enhancement of the scheme has to be welcomed as it makes it more economical for companies to raise this source of finance. The complexity of the BES tax rules together with the relatively small amount of finance allowed to be raised mitigated against its effectiveness as a source of finance for growing companies.

The doubling of the amount of BES funding that can be raised by a company from €1 million to €2 million with effect from 1 January 2007 certainly helps to make this source of finance more attractive to companies operating in the particular lines of business (broadly manufacturing, R&D and various strategic service areas) that qualify for the relief.

The extension to the seed capital regime increasing the amount available for tax relief from €31,750 to €100,000 per annum provides a potentially substantial incentive for employees who leave employment to invest in certain new businesses. The relief essentially allows such individuals to claim a refund of tax for up to the previous six years. Therefore, with effect from 1 January 2007, a sum of up to €600,000 subscribed for shares in a new company will be relieved against the income of the individual that was taxed over the six years preceding their investment.

Subject to European Commission approval, the schemes will be extended for 7 years to 31 December 2013.

Helping small business

The Minister announced a number of very welcome measures to ease the administrative and cashflow burdens on small companies. These included:

- The small company threshold for preliminary corporation tax has been lifted from €50,000 to €150,000 with effect from preliminary tax payment dates arising after 6 December 2006. This facilitates the computation of tax for small or start up companies by allowing them to calculate their preliminary tax payments based on 100% of the prior period tax paid (or 90% of the final liability for the current period if they so wish). This therefore allows them to avoid the administrative burden of having to estimate their tax bill in advance of their accounting period end and potentially allows a deferral of the payment of some or all of the tax for a particular period. The extension from €50,000 to €150,000 is meaningful as it allows companies subject to the standard corporation tax rate of 12.5% to possibly earn profits of €1,200,000 whilst remaining within the more favourable small company rules as opposed to the previous threshold of €400,000.
- The extension of the VAT cash accounting threshold for small firms from €635,000 to €1,000,000 will simplify administration and reduce working capital requirements for small or start up companies.
- The frequency of VAT payments, currently six per year, for smaller businesses is being reduced with effect from July 2007. For businesses with a yearly liability of €3,000 or less, the option of filing returns on a half-yearly basis will be

available. For businesses with a yearly liability between €3,001 and €14,400, the option of filing returns every four months will be available.

- The transaction threshold which triggers the requirement for a tax clearance certificate for the award of a public sector contract or grant is being increased from the current €6,500 to €10,000, with effect from 1 January 2007.

Whilst the full year cost of these measures to the Exchequer is estimated at only €53 million, the reduction in the regulatory burden of small and start-up companies which will allow them to focus more on running their businesses should hopefully outweigh this cost.

Capital allowances and expenses for business cars

The car value threshold for business cars has been increased from €23,000 to €24,000. The new threshold will apply to capital allowances and leasing charges for new and second hand cars used for trading, professional or employment purposes.

Corporate tax relief for investment in renewable energy generation

Subject to European Commission approval, the qualifying period for the scheme of tax relief for corporate investment in certain renewable energy projects is being extended from 31 December 2006 to 31 December 2011. Companies can invest up to €12.7 million per annum in such projects.

Property & Housing Related Matters

Property Matters

This has been the quietest Budget for many years on the property front and was to be expected following the major changes in last year's Budget. All of the corporation tax, capital gains tax and stamp duty rates applying to property transactions remain unchanged and this is to be welcomed. However indexation relief for capital gains tax purposes remains frozen at 2002 levels and capital gains tax has therefore increased in real terms.

Changes to stamp duty on property were kept to a minimum with the Minister removing the liability to stamp duty on the acquisition of land by defined Sporting Bodies where the land is acquired for the purposes of promoting games or sports.

Having terminated the vast majority of property tax incentives in last year's Budget, the Minister opened the door slightly for the future when he stated that "we will continue to assess the role that time-limited tax relief schemes can play in supporting public policy objectives".

Tax Credit for Rents Paid by Tenants

The amount of rent paid by tenants for private rented accommodation which qualifies for tax relief at the 20% rate has been increased by €150 and €300 per annum for single and married persons respectively. For those over the age of 55 the amounts qualifying for relief have been increased by €300 and €600 for single and married persons respectively.

Rent-a-Room Relief

This scheme allows owner occupiers to rent out a room in their private dwellings and receive up to €7,620 rent per annum tax free without impacting on stamp duty reliefs obtained on the original acquisition of the property. Measures are being introduced to disallow this relief where the rent is received from a connected person who is also claiming the above mentioned tax credit for rents paid by tenants.

R&D Tax Credits: Promoting Enterprise and Innovation

Ken Hardy
Partner

The Government wants to encourage enterprise, innovation and competitiveness in Irish industry. One important tool in this strategy is the R&D tax credit, introduced in the Finance Act 2004. The Finance Minister has, in response to industry feedback, modified this regime with two positive changes.

Extension to three-year rolling-base period

Base-year expenditure against which qualifying incremental expenditure on R&D is measured is being fixed at 2003 for a further three years. Originally, the base year had been fixed for the first three years of the scheme only (i.e. 2004, 2005 and 2006). The base year was due to roll forward to 2004 for the purpose of calculating the 20 per cent tax credit for 2007. The 'freezing' of the base year for a further three years points to a recognition by the Department of Finance that the average cycle for R&D activities for many companies in Ireland is five to seven years long, and not three years, as previously envisaged by the legislation.

The 'freezing' of the base-year period will notably benefit companies that had significant expenditure on R&D in the period 2004–2006 as it appears that this will not now form part of the base-year expenditure for the years 2007, 2008 and 2009.

While industry will welcome this change, there will be disappointment that a volume-based approach, as opposed to incremental over the base year, was not introduced. Other competing jurisdictions recognise the benefits of this – and industry will probably continue to seek it.

Introduction of qualifying sub-contractor costs

From 1 January 2007, expenditure by companies on sub-contracting R&D work to unconnected parties will qualify under the R&D tax-credit scheme up to a limit of 10 per cent of qualifying R&D expenditure in any one year. This is in addition to the existing provisions that allow for an amount of up to 5 per cent of qualifying expenditure, paid to universities or institutes of higher education, to qualify for the tax credit.

While this change will allow companies outsource up to 15 per cent of their eligible R&D activities, there will be disappointment that the increase was not more generous. It may well be argued that the increased figure does not reflect well on the practicalities of carrying out R&D in Ireland. Multinational companies and small and medium enterprises alike will in many cases not have all the scientific and technical expertise within their own organisations. This expertise is required if they are to address, review and resolve the difficult and challenging issues that arise during R&D activity. Inevitably, companies must subcontract specific pieces of activity to outside agencies. Often, the cost of these activities would be well in excess of the combined 15 per cent threshold amount outlined.

No mention was made in the budget of other important issues, such as:

- Clinical trial costs for pharma, biotech, and medical devices companies that incur large expenditure on essential clinical and pre-clinical trial studies which form an integral part of any R&D.
- Companies with no current tax liability (i.e. most start-up companies) and how they can make use of the credit. In effect, the credit will be of little or no value to these start-ups for a number of years. Other jurisdictions allow for a 'surrender' mechanism where the taxpayer can get some immediate value – at a time when they most need it.

The changes announced are subject to European Commission approval.

Reducing the VAT administration burden for small business

Niall Campbell
Partner

The minister announced a number of welcome initiatives designed to ease the VAT administration burden on small businesses. The initiatives are as follows:

- The VAT registration thresholds are being increased from €27,500 to €35,000 for services and from €55,000 to €70,000 for goods. These increases build on those in last year's budget. The minister expects they could take up to 8,000 businesses out of the VAT system.
- The annual VAT cash accounting threshold is being increased from €635,000 to €1 million with effect from 1 March 2007. Firms which account for VAT under the cash basis are required to pay VAT only when they receive payment rather than when the sale is made or invoiced.
- Certain businesses will be required to make less frequent VAT returns, from July 2007. Currently, VAT returns must be made every two months. The changes will allow businesses with a yearly VAT liability of €3,000 or less the option of submitting half-yearly returns. In addition, for businesses with a yearly liability between €3,001 and €14,400, the option of filing returns every four months will be available.

Conferences – VAT incentives

The minister has acknowledged that the conference business sector will be important in promoting growth in the hotel and tourism, with benefits for the entire country. He is to bring in a measure allowing the deductibility of VAT on conference accommodation expenses. As VAT recovery is currently not allowed on these expenses (in contrast to many other EU member states which are competing with Ireland to attract conferences), the introduction of this measure will help improve Ireland's competitive position. Details of the scheme will be set out in the Finance Bill 2008. This relief is to be ring-fenced to conference accommodation and does not therefore remove the general disallowance of VAT on hotel expenditure.

VAT initiatives for 2007 – Property review

During the last two years, the Revenue Commissioners have been conducting a significant review of the VAT regime applicable to property. This review was prompted by the increasing complexity of the current system and resulting concerns about its practical application.

The Department of Finance has announced that the initial recommendations of the Revenue review group will be published in mid-December with a view to possible implementation of a new system in the Finance Act 2008. However, in recognition of the complexity of the area, Revenue and the Department of Finance will continue to take comments on the proposed amendments. We recommend that all interested industry parties keep a close eye on this issue during 2007 as the proposed changes are likely to have significant practical and commercial implications.

The minister did not announce any changes to VAT in the financial services sector. However, the EU Commission is currently engaged in a wide-ranging review of the current EU VAT and financial services system. As EU legislation has direct effect in Ireland in respect of VAT, this review could result in significant changes to the current system of VAT and financial services in Ireland.

This review is one of many ongoing EU initiatives in respect of VAT and demonstrates the increasing importance of the EU in shaping VAT legislation and policy in Ireland.

VAT rates

Despite calls from various industry sectors and charitable groups, the minister has made only a small number of limited changes to VAT rates. While the standard rate of 21per cent and the 13.5 per cent rate remain unchanged, one minor change that will be welcomed by parents of small children is that the minister is reducing the VAT rate on child car seats from 21 per cent to 13.5 per cent with effect from 1 May 2007.

Farmers Get Extra Relief

Pat McDaid
Partner

The tax changes relating to farming are as follows:

Capital allowances for milk quota

In general, farmers are allowed tax depreciation over seven years for capital expenditure on the cost of purchasing a milk quota. The relief is being extended for quotas purchased under the Milk Quota Trading System.

Stamp duty

The relief from stamp duty on land exchanges between two farmers consolidating their holdings is being extended for a further two years, to 30 June 2009. The relief will also apply to each farmer where only one farmer is consolidating his holding.

The Finance Minister also announced changes in relation to the stamp-duty relief available to farmers under 35 who buy farm land. These changes relate to the qualifying educational criteria and refunds procedure.

Capital gains tax

Subject to conditions, an individual over 55 who disposes of farming assets to a child or "favourite nephew or niece" can claim exemption from capital gains tax.

The maximum consideration for disposals to other persons is being increased from €500,000 to €750,000, from 1 January 2007.

In addition, the condition that farming assets have to be owned and used for farming purposes for ten years prior to the disposal is being relaxed.

The relief is being extended in certain circumstances to disposal of land that has been leased prior to the disposal.

Capital acquisitions tax (CAT)

CAT agricultural property relief provides a 90 per cent reduction in the taxable value of agricultural property for CAT purposes. To avail of the relief, not less than 80 per cent of a person's assets, after the gift or inheritance, must comprise agricultural property in Ireland. For the purposes of the 80 per cent test, the value of an 'off-farm' principal private residence, which is a non-qualifying asset, is to be determined after taking account of the borrowings on that residence.

Income tax

An income-tax exemption is available in respect of rental income from certain leases of farm land. With effect from 1 January 2007, a new exemption of €20,000 per annum will be introduced for leases with a duration of 10 years or more.

From 1 January 2007, the general 25 per cent stock relief for farmers and the 100 per cent special incentive stock relief for certain young trained farmers are being extended for a further two years. This measure is subject to clearance by the European Commission, under State Aid rules.

VAT

The farmers' flat-rate addition is being increased from 4.8 per cent to 5.2 per cent with effect from 1 January 2007. However, the rate of VAT for registered farmers and other businesses on the supply of livestock, live greyhounds and the hire of horses remains unchanged at 4.8 per cent. This could cause some confusion in the industry as the flat-rate addition and the livestock rate have traditionally been the same.

Other Measures

Paul McGowan
Partner

Tom Woods
Partner

Stamp duty

The minister has abolished stamp duty under the head of charge for mortgages on deeds executed on or after 7 December 2006. Up until now, stamp duty of up to €630 could arise on such deeds.

The minister has also announced that a new intermediary relief from stamp duty for members of the stock exchange is under consideration and may be introduced in Finance Bill 2007. The intention would be for this relief to consolidate and replace existing reliefs in order to better reflect modern share-dealing practices.

While the minister has not specifically referred to the reliefs that would be replaced, it is expected that the relief would replace the existing member firm or broker/dealer relief. Broadly speaking, the member firm relief applies to members of the Irish or London Stock Exchange that buy stock and sell it within one month through CREST in the ordinary course of their business. The member firm is required to submit a detailed report to Revenue every six months, setting out details of its CREST transactions and those that qualified for the relief. The relief was not specifically designed to take account of more sophisticated transactions such as short sales, hedging transactions, contracts for difference and American depository receipt conversions.

The introduction of the new intermediary relief should simplify what the existing relief is designed to achieve and bring it more into line with what is in operation in the UK.

The intermediary relief may also consolidate the existing market maker relief which provides an exemption from stamp duty on the purchase of stock by members of the Irish or London Stock Exchange who are recognised as market makers in those stocks.

Excise Duty

The commitment in last year's budget to abolish excise duty on home heating fuels has been fulfilled this year. The €16 and €10 per 1,000 litre duties on kerosene and LPG respectively have been abolished, with effect from 1 January next.

Having left 'the old reliables' untouched in the last budget, the minister has increased excise duty on cigarettes by 50 cent per packet of 20, with a corresponding excise increase on other tobacco products.

Vehicle Registration Tax (VRT) and Motor Tax

Environmental considerations will in future drive the taxation of motor vehicles.

A 50 per cent reduction in VRT on electric cars (those propelled exclusively by battery) is being introduced on a one-year pilot basis next year. It appears that hybrid vehicles will not benefit.

A major overhaul of VRT charges is being promised to take into account environmental issues such as carbon emissions. A public consultation will take place, with a target date of 1 January 2008 for the introduction of the new charges.

Public consultation will also take place on a parallel move to rebalance motor tax charges on a similar basis.

Recent Developments in Transfer Pricing

Anna Scally
Partner

Dan McSwiney
Director

Foreign-owned firms in Ireland generally engage in inter-company trading with their parent headquartered overseas. Ireland does not have a separate regime of statutory transfer pricing but, in general, tax authorities on the other side of the transaction do. They will therefore be interested in the prices at which inter-company goods and services are traded.

Recent studies, conducted in 2005 in the US, still find transfer pricing to be a significant issue. Many companies face challenges on a number of transfer-pricing issues and expect these challenges to increase. Indeed, over 50% of US firms state that they set aside in financial statements a provision for transfer-pricing risk.

Two recent developments in transfer pricing deserve comment:

- the code of conduct on transfer-pricing documentation for associated enterprises in the European Union
- the recently released and revised proposed service regulations from the US Internal Revenue Service

Code of conduct

On 27 June 2006, the European Council adopted a code of conduct on transfer-pricing documentation for associated enterprises in the European Union. This was part of a communication of the European Commission adopted on 10 November 2005.

This code aims to standardise the documentation on their intra-group pricing that multinationals must provide to tax authorities. The key points arising from the code are:

a) Member states will accept standardised and partially centralised transfer-pricing documentation for associated enterprises in the EU.

b) Member states will allow smaller businesses to produce less complex transfer-pricing documentation.

c) Member states should not impose a documentation-related penalty if taxpayers comply in good faith and within a reasonable timeframe.

d) To ensure that this code is applied, member states are invited to report annually on how it functions in practice.

It is important to note some of the key points and practical implications of the code.

The code recommends that, where pan-European comparable searches are used instead of local specific comparable searches, the taxpayer should not be subjected to non-compliance penalties related to transfer pricing.

In addition, the code does not require member states to introduce transfer-pricing documentation requirements. It suggests that, when they introduce or amend their documentation requirements, they take care to incorporate the approach of the code.

The code is not a legally binding initiative, but has regard to the sovereignty of member states.

Final and temporary Internal Revenue Service regulations

On 31 July 2006, the IRS issued a publication entitled 'Treatment of Services under Section 482'. These are final and temporary regulations on inter-company services and intangibles. They replaced the controversial proposed service regulations issued in 2003. Their key points are as follows.

A new 'service cost method'

- allows taxpayers to charge cost for any of 48 services that are deemed not to contribute significantly to key competitive advantages, core capabilities or the fundamental success or failure of the business
- allows taxpayers to charge cost for any service with a median comparable arm's-length-range mark-up of seven per cent or less

The new rules also narrow the definition of what qualifies as stewardship expenses, requiring that more of those types of expenses be charged out. In addition, shared-services arrangements are explicitly allowed for, analogous to cost-contribution arrangements under the OECD transfer-pricing guidelines.

Transfer-pricing regulations are still evolving and transfer-pricing issues continue to be a main area of focus for most multinationals. It is therefore important to keep seeking advice in order to avoid the many pitfalls in this area.

Tax Rates and Credits 2007

Personal income tax rates

	At 20% First	At 41%
Single person	€34,000	Balance
Lone parent	€38,000	Balance
Married couple (*one income*)	€43,000	Balance
Married couple* (*two incomes*)	€68,000	Balance

*subject to max. transferable of €43,000

Personal tax credits

Single person	€1,760
Married couple	€3,520
One income family, spouse at home caring for children, aged or handicapped	€770 (extra)
PAYE	€1,760
Rent - Single and under 55 years	€360
Widowed person (without dependent children)	€2,310
One-parent family	€1,760 (extra)

Home loan interest

The relief is granted at source

First-time buyers (for the first seven years)

Married couple	Lower of €3,200 or 20% of interest paid
Widowed person	Lower of €3,200 or 20% of interest paid
Single	Lower of €1,600 or 20% of interest paid
Other mortgages	
Married couple	Lower of €1,200 or 20% of interest paid
Widowed person	Lower of €1,200 or 20% of interest paid
Single person	Lower of €600 or 20% of interest paid

PRSI contribution from 1 January 2007

	%	
Employer	10.75	no limit*
	8.50	if income is €356 pw or less**
Employee (class A1)		
PRSI	4.00	on first €48,800***
Health	2.00	Income up to €100,100 ****
	2.50	Income > €100,100

* Includes training levy of 0.7%

** No reference in budget to this increasing

*** Employees earning €339 or less pw are exempt from PRSI. In any week in which an employee is subject to full-rate PRSI, the first €127 of weekly earnings are disregarded

**** Employees earning €480 pw or less and medical cardholders exempt

Self-employed PRSI

	%	
Social insurance	3.0	No limit*
Health	2.00	Income up to €100,100 ****
	2.50	Income > €100,100

*Minimum annual PRSI contribution is €253.

Capital gains tax

Rate	20%
Annual exemption	€1,270

Corporation tax rates

Standard rate	12.50%
Incentive rate	10%*
Residential land, not fully developed	20%
Non-trading income rate	25%

*Companies entitled to the 10% CT rate retain it until 2010

Value added tax

Standard rate/Lower rate	21% / 13.5%*
Flat rate for unregistered farmers	5.20%

*VAT registration threshold for small businesses will be raised from €27,500 to €35,000 in the case of services and from €55,000 to €70,000 in the case of goods.

Personal Tax Scenarios

KPMG

Single person, earning €35,000

Budget 2007 changes	2007 Euro
Tax saving	450.00
Extra tax credits	400.00
Additional PRSI/Levies	0.00

Gain €850

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Married couple, one earning €50,000 two children (aged below 6)

Budget 2007 changes	2007 Euro
Tax saving	510.00
Extra tax credits	530.00
Additional PRSI/Levies	(78.00)
Increased child benefit	230.00

Gain €1,192

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Married couple, one earning €60,000, one earning €35,000, one child (aged below 6)

Budget 2007 changes	2007 Euro
Tax saving	1,150.00
Extra tax credits	800.00
Additional PRSI/Levies	(78.00)
Increased child benefit	115.00

Gain €1,987

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Married couple, one earning €45,000, one earning €30,000

Budget 2007 changes	2007 Euro
Tax saving	950.00
Extra tax credits	800.00
Additional PRSI/Levies	0.00

Gain €1,750

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Unmarried couple, living together, renting, one earning €35,000, one earning €60,000

Budget 2007 changes	2007 Euro
Tax saving	1,150.00
Extra tax credits	860.00
Additional PRSI/Levies	(78.00)

Gain €1,932

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Married couple, one self-employed earning €100,000

Budget 2007 changes	2007 Euro
Tax saving	1,010.00
Extra tax credits	260.00
Additional PRSI/Levies	0.00

Gain €1,270

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Notes

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