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BUDGET 2013

The Minister for Finance, Mr Michael Noonan T.D. delivered Budget 2013 on the 5th December 2012. In what may be the final December budget many of the proposed changes had already been flagged in the media but the Minister's speech still contained a number of surprises. The following is a brief summary of those changes.

INCOME TAX

There will be no change to Income Tax rates, bands or credits arising from Budget 2013.

Maternity Benefit – will be taxable for all claimants with effect from 1st July 2013, but will remain exempt from USC.

Top Slicing Relief – will no longer be available from 1st January 2013 on ex-gratia lump sums in respect of termination and severance payments where the non statutory payment is €200,000 or more.

DIRT – From 1st January 2013 the rate of retention tax applied to deposit interest/life insurance policies will be increased to 33% for interest payments made frequently/annually and 36% for interest payments made less frequently.

Charitable Donations – simplification of the scheme of tax relief available for donations to charitable and other approved bodies including the introduction of a blended rate of relief at 31%.

BIK on Preferential Loans – increase from 12.5% to 13.5% in the specified interest rate from preferential loans, other than home loans and a decrease in the specified rate used to calculate the taxable benefit from home loans from 5% to 4%.

Film Relief – Relief has been extended to 2020, however the scheme will be reformed to a tax credit model in 2016, so as to ensure better value for tax payers money and to make Ireland even more attractive for foreign film and TV productions.

Pension – The rate of tax relief on pension contributions remains unchanged. However Tax relief will only be permitted for pension contributions up to a level that provides pension income of up to €60,000 per annum. The Pension Levy is to cease after 2014, as per original legislation.

Universal Social Charge – Standard rate of USC will apply to those aged 70 years of age and over and medical card holders earning €60,000 and above with effect from 1st January 2013.

PRSI – There are a number of changes to PRSI as detailed below:

- Removal of weekly PRSI allowance from full rate and modified rate PRSI contributors.
- Increase in the minimum annual PRSI contribution for self employed earners from €253 to €500.
- Unearned income including rental, investment, dividends and deposit income will be subject to PRSI for PAYE employees from 2014.

Local Property Tax (LPT)

Collection of the Local Property Tax (LPT) will commence on the 1st July 2013. The LPT will operate through a system of self assessment and will be administered by the Revenue Commissioners. A half year will be payable in 2013 with a full year payable in subsequent years.

Rates will be as follows:

- For 1st 18 months the national central tax rate will be 0.18% of market value up to €1 million and 0.25% on excess value over €1 million.
- From 1st January 2015 local authorities will have discretion to vary the rate by +/- 15% of the national central rate.

Certain properties will be exempt from assessment, largely corresponding to exemptions from the Household Charge. New exemptions also apply in the case of:

- New and previously unused properties that are purchased between 1st January 2013 and the end of 2016 will be exempt until the end of 2016
- Second hand property purchased by a first time buyer between 1st January 2013 and 31st December 2013 will be exempt until the end of 2016.

A system of voluntary deferral arrangements for owner occupiers will be implemented to address cases where there is an inability to pay the LPT.

The LPT replaces the household charge from 1st January 2013. The annual NPPR charge will apply for 2013 and be abolished thereafter.

BUSINESS TAXES

While reaffirming the Government's commitment to Ireland's 12.5% Corporation Tax trading rate, the Minister also announced a number of measures to assist small business as summarised below.

3 Year Relief for Start-up Companies – To improve job creation and cash-flow, the existing scheme for the relief from Corporation Tax is being reformed to allow unused relief arising in the first 3 years of trading, due to insufficient profits, to be carried forward for use in subsequent years. The maximum amount of relief allowed in any one year is to be restricted to the amount of Employers' PRSI in that year.

R&D Tax Credit – The amount of expenditure eligible for the R&D Tax Credit on a full volume basis is to be increased to €200,000. The regime is to be reviewed in 2013.

Close Company Surcharge – The de minimus level of distributable income liable to the surcharge which is currently €635 is to be increased to €2,000. The increase will also apply to the surcharge on undistributed trading or professional income of certain service companies.

VAT – The ceiling threshold for accounting for VAT on the cash receipts basis is to be increased from €1 to €1.25m from 1st May 2013.

Excise Duty Relief – A relief from excise duty on auto-diesel for licensed road hauliers is to be introduced from 1st July 2013.

The **Foreign Earnings Deduction** relief for work related travel is to be extended to an additional eight African countries to help boost trade of Irish goods and services abroad. However, the earnings cap remains in place.

The **Employment and Investment Incentive (EII)** scheme is to be extended to 2020.

Stock relief – general stock relief, including young trained farmers relief, is to be extended to 2015, and the definition of registered partnerships for the 50% stock relief is to be amended, e.g. beef production partnerships, to give a targeted assistance to the farming sector.

Capital Gains Tax relief for Farmers for land restructuring - where the proceeds of a sale of farm land are reinvested for the same purpose the sale will be exempt from tax. The sale and purchase of land must occur within 24 months of each other commencing 1st January 2013 and ending 31st December 2015. The relief will also apply to farm land swaps subject to certification by Teagasc.

A joint Revenue and Department of Finance public consultation is to be undertaken with a view to identifying ways to ease the compliance cost and administrative burden on micro enterprises.

Aviation Sector
To encourage investment in this area an accelerated capital allowance scheme, over seven years, is to be introduced in relation to construction of certain aviation-specific facilities. The relief will operate for a five year period. Restriction will apply for the use of unused allowances against other income. There will be no exemption from the current treatment of the termination of carry forward of certain losses, which apply to capital allowances remaining unused

after the end of the tax life of the building, where the investor is in receipt of rental income from the facilities or is not an active partner or active trader.

Real Estate Investment Trusts (REITs)
REITs are internationally established vehicles for property investment. They are listed companies which provide a return for investors similar to that of direct investment in property. Qualifying income and gains of a REIT will be exempt from corporation tax in the REIT. Instead, the REIT is required to distribute profits annually, for taxation at investor level.

The aim of a REIT is to provide an after-tax return for investors similar to that of direct investment in property, while also giving the benefits of risk diversification. It is hoped that REITs will encourage foreign capital to be invested in the Irish property market.

Full details of their introduction in Ireland will be contained in the Finance Bill.

Statutory Redundancy Employers Rebate – with effect from 1st January 2013 the scheme, which entitled the employer to a rebate of 15% of statutory redundancy payments, is to be discontinued.

CAPITAL TAXES

Capital Gains Tax – the rate of tax is increased by 3% to 33% with effect from 6th December 2012.

Capital Acquisitions Tax – The tax free group thresholds are to be reduced by 10%, while the rate of tax will increase to 33%. Both changes take effect from 6th December 2012.

INDIRECT TAXES

VAT

The annual cash receipts basis threshold is to be increased from €1m to €1.25m from 1st May 2013.

The reduced rate of VAT of 9% for the tourism industry remains in place.

The farmer’s flat-rate addition will be reduced from 5.2% to 4.8% with effect from 1st January 2013.

VRT & Motor Tax

The rates of both VRT and Motor Tax are being increased with effect from 1st January 2013 and will be based on revised structures on the basis of the carbon emissions of the vehicle. The restructuring of the emission and VRT Bands A and B, and the differential increases applied, maintain a positive environmental incentive towards lower emission vehicles and reflect the shift towards lower emission vehicles.

The VRT reliefs for electric, plug-in hybrid electric vehicles and hybrid and flexible fuel vehicles are to remain in place until the end of 2013. Motor Tax on such vehicles is to be reduced to €120.

Budget 2013

Social Welfare Changes

The rate of Child Benefit will be reduced to €130 per month for each of the first, second and third child with effect from January 2013. The rate for the fourth and each subsequent child will be €140 per month from January 2013 as announced in Budget 2012. From January 2014, the rate for the fourth and each subsequent child will be further reduced to €130 per month.

The Back to School Clothing and Footwear Allowance will be reduced by €50 for children in full-time education. There are no changes to the State Pension, Fuel Allowance, Free travel, Free Television License, Over 80 Allowance, Islander Allowance and the Living Alone Allowance.

The value of the Telephone Allowance will be reduced to €9.50. The Electricity/Gas Allowance will be set at a single rate of €35. These allowances will be shown as a cash credit for those who receive a bill or be paid as a cash allowance.

Prescription charge for medical card holders will be increased to €1.50 per item.

People over 70 years of age with a medical card will have it replaced with a GP only card, if their weekly income is between €600 to €700 for a single person or €1,200 to €1,400 for a couple.

The amount private patients will have to pay for medicines each month, before the State covers the cost, rises from €132 to €144.

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