



BDO Simpson Xavier Budget 2009 Overview



BDO Simpson Xavier
Business & Financial Advisers

Budget 2009 – Main Features

- No change in tax rates
- No change in tax credits
- Standard Income Tax rate band increased by €1,000 / €2,000
- Introduction of Income Levy
- Decrease in annual earnings limit for pension purposes
- No change to 12.5% rate of Corporation Tax
- Capital Gains Tax Increases to 22%
- Deposit Interest Retention Tax has increased to 23%
- Standard Rate of VAT increased to 21.50%

PERSONAL TAX

Income levy

Income levy of 1% on income up to €100,100 and 2% on the excess. The levy is paid on gross income, before deductions for capital allowances or contributions to pensions. This income levy does not apply to social welfare payments, contributory and non contributory pensions.

Tax on Savings:

The rate of deposit interest retention tax is being increased by 3% to 23%. Also the rates of tax that applies to life assurance policies and investment funds are being increased by 3% to 26%. The increased rates will apply to payments made on or after 1 January 2009.

PRSI: The employee PRSI contribution ceiling will increase from €50,700 to €52,000.

Income Tax Bands

| Income Tax Bands | Existing @ Standard Rate 20% | Increase | Proposed |
|---------------------------------------|------------------------------|----------|----------|
| Single | First €35,400 | €1,000 | €36,400 |
| One Parent Family / Widowed Parent | First €39,400 | €1,000 | €40,400 |
| Married – One Income | First €44,400 | €1,000 | €45,400 |
| Married – Two Income | First €70,800 | €2,000 | €72,800* |

*The tax band of €72,800 available to married couples with two incomes is transferable between spouses up to a maximum of €45,400 per spouse for 2009.

The higher Income Tax rate of 41% will apply on any additional taxable income above these thresholds.

There has been no change to the personal tax credits.

Benefit in Kind:

Provisions will be introduced in the Finance Bill to change the basis of the BIK charge on company cars to relate it to the car's level of CO2 emissions.

Mortgage Interest Relief: The current rate of mortgage interest relief is being increased from 1 January 2009 for first-time buyers from 20% to 25% in year 1 and year 2 and to 22.50% in years 3, 4 and 5. The additional relief will be available to new first-time buyers who have bought a house in the last 4 years.

From 1 January 2009 the rate of mortgage interest relief for non-first-time buyers is being reduced from 20% to 15%.

Pensions: The annual earnings limit for determining the maximum tax relief allowable on contributions for pension purposes is being reduced from €275,239 to €150,000 for 2009.

Charge on non-principle private residence:

A new charge is being introduced on all non-principle private residences. The charge will be set at €200 per dwelling and will be payable by the owners of private rented accommodation, holiday homes and other non-principle residences but will not be applied to new dwellings as yet unsold. This new charge will come into effect in 2009.

Health Expenses Relief:

Health expense relief will be granted at the 20% rate only from 1 January 2009, with the exception of nursing home expenses which will be standard rated from 1 January 2010. Currently relief is available at the marginal rate of 41%.

Levy on car parking facilities provided to employees by their employers:

A flat rate levy of €200 per annum will be charged on employees whose employer provides them with car parking facilities. The levy will be confined to employer provided car parking facilities situated in the main urban centres.

Increase in the Specified Rates for Preferential Home Loans and Other Loans: From 1 January 2009 where employees receive loans (not related to home loans) the "specified" rate of interest in calculating the BIK is being increased from 13% to 15%.

Cycle to work scheme:

The provision of bicycles and associated safety equipment by employers to employees will be treated as a tax exempt BIK, subject to certain conditions.

CAPITAL GAINS TAX

The rate of capital gains tax is being increased from 20% to 22% in respect of disposals made from midnight on the 14th October 2008.

Change in Payment Dates

The payment date in respect of disposals in the period January to November is being changed to mid-December and the tax on disposals in December will now be due on the following 31 October (The income tax pay and file deadline).

CORPORATE TAXATION

The 12.50% corporation tax rate is to remain. The Minister for Finance has emphasised that “this rate of tax is not for changing upwards and it will continue to be a central part of Ireland’s economic brand.”

Tax Credit scheme for Research and Development Expenditure

The 20% tax credit in relation to incremental expenditure incurred by a company on qualifying Research and Development is being increased to 25%. This will apply to accounting periods commencing on or after 1 January 2009.

Preliminary Tax payment dates for Large Companies

At present, companies with a Corporation Tax liability in excess of €200,000 in the previous year are obliged to pay preliminary tax (amounting to 90% of the current year liability) one month before the year end. In relation to accounting periods commencing on or after the 14th October 2008, the preliminary tax payment will be split into two instalments as follows:

The first instalment will be due in the sixth month of the accounting period and the amount payable will be 50% of the corporation tax liability in the preceding accounting period or 45% of corporation tax liability for the current accounting period.

The second instalment will be payable in the eleventh month of the accounting period and the amount payable will bring the total preliminary tax paid to 90% of corporation tax liability for the current accounting period.

CAPITAL ALLOWANCES

Capital Allowances Scheme for certain energy-efficient equipment

The tax incentive introduced in last years Budget which provides for capital allowances of 100% on expenditure incurred by companies in the year the equipment is purchased, is being extended from three categories to seven categories.

The new categories to be included in this scheme are:

- Data server related systems and large energy saving office equipment associated with Information & Communications Technology.
- Efficient heating/electricity provision equipment and control systems.
- Efficient electrical and control equipment associated with Process & Heating Ventilation and Air-conditioning systems.
- Alternative fuel vehicles.

3 Year Tax exemption for Start-up Companies

For new start up companies commencing to trade in 2009 there will be an exemption from tax, including capital gains tax in each of the first three years to the extent that their tax liability in the year does not exceed €40,000.

This is subject to compliance with EU rules on State-Aid. Further details of this incentive will be contained in the Finance Bill.

Capital Allowances for newly constructed commercial buildings

Where newly constructed commercial buildings are used before being sold and the sale does not take place within one year of first use, the available capital allowances to a new purchaser are restricted. In order to relieve this restriction the one year time limit for disposal is being extended to two years.

Seveso-listed industrial facilities

A new ring-fenced tax incentive scheme will be introduced to facilitate the removal and relocation of Seveso-listed industrial facilities which hinder the residential and commercial regeneration of Docklands in urban brownfield areas. The EU Seveso Directive aims to protect public safety by placing land-use restrictions on new residential and commercial development near locations where potentially dangerous activities are undertaken.

This scheme is subject to clearance by the European Commission from an EU State-Aids perspective.

VAT

The Minister has increased the standard rate of VAT from 21% to 21.5% with effect from 1 December 2008.

STAMP DUTY

Stamp Duty on Commercial Property

The current Stamp Duty rates which apply to non-residential property are being changed in respect of Instruments executed on or after 15 October 2008. The top rate of duty is being reduced from 9% to 6% and the new rates are as follows:

| Aggregate Consideration | Rate of Duty |
|-------------------------|--------------|
| Up to €10,000 | Exempt |
| €10,001 to €20,000 | 1% |
| €20,001 to €30,000 | 2% |
| €30,001 to €40,000 | 3% |
| €40,001 to €70,000 | 4% |
| €70,001 to €80,000 | 5% |
| Over €80,000 | 6% |

Financial Cards

The Stamp Duties rates applicable to ATM and Debit Cards have been halved for the year ending 31 December 2008. This stamp duty is payable in 2009.

Bills of Exchange (including Cheques)

The Stamp Duty rate on Bills of Exchange is being increased from 30 cent to 50 cent in respect of Bills of Exchange drawn on, or after, 15 October 2008.

AIR TRAVEL TAX

An air travel tax applying to all departures from Irish airports will come into force on Monday 30 March 2009. The general rate applying will be €10 per passenger with a lower rate of €2 for shorter air journeys (those under 300kms). The airport authority will collect the tax from the airlines.

The air travel tax will not apply to:

- Passengers under two years
- Disabled passengers and assisting persons
- Aircraft with less than 20 passenger seats
- Transit passengers
- Members of the crew
- Air services to and from Irish offshore islands
- Aircraft departing airports that in the previous calendar year had less than 10,000 departing passengers.

EXCISES

The mineral oil tax on petrol has been increased by 8 cent per litre (including VAT) with effect from midnight on 14 October 2008.

The excise duty on a standard bottle of wine is being increased by 50 cent (including VAT) with effect from midnight on 14 October 2008.

A reduced rate of excise duty, at 50% of the full appropriate excise duty for beer and cider, will be introduced for low alcohol beer and cider (alcohol by volume content of 2.8% or less), with effect from midnight on 14 October 2008.

The excise duty on a packet of 20 cigarettes is being increased by 50 cent (including VAT) with a pro-rata increase on other tobacco products, with effect from midnight on 14 October 2008.

A range of alcohol-related licensing fees, including off-licenses, but excluding pub licenses are being increased to €500 in each case. The increased rate applies from the appropriate annual renewal dates.

The betting duty rate will be increased from 1% to 2% with effect from 1 January 2009.

FARMERS

The farmer's flat rate addition is being maintained at 5.2% for 2009.

The exemption from Stamp Duty on the transfer of land to a Young Trained Farmer is being extended for a further 4 year period to 31 December 2012, subject to the existing qualifying conditions.

The 25% general farming stock relief and the special 100% stock relief for Young Trained Farmers is being extended for a further 2 year period to 31 December 2010.

The Stamp Duty relief available to a farmer consolidating his/her holding has been extended for a further 2 year period to 30 June 2011.

The scheme of capital allowances for expenditure on certain pollution control measures has been extended for a further 2 year period to 31 December 2010.

TAXATION IN RELATION TO CARS

There is a 4% increase in motor tax rates for cars below 2.5 litres and CO2 bands A to D, and 5 % for cars above the 2.5 litre threshold and CO2 bands E, F and G.

Trade plate licences will also increase by 4%. The increased rates will apply to motor tax discs and trade licences taken out for periods beginning on or after 1 January 2009.

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This Budget Overview is intended as a general guide to Budget 2009. Professional advice should be taken before acting or refraining from acting on the contents of this newsletter.

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