

Republic of Ireland Budget 2009

COMMENTARY

With the economy in recession, the property market at a virtual stand still, and the government's recent decision to guarantee all bank deposits, Brian Lenihan's first budget was expected to increase taxes, whilst at the same time cutting government spending.

He didn't disappoint. In an attempt to balance the books, he has increased the tax burden on individuals, while doing little for industry or business in general.

The main changes detailed below, will effect,

1. ROI resident companies,
2. UK residents with business and / or personal interests in the Republic, and
3. UK companies with business interests in ROI.

PERSONAL TAX

Income Levy

The introduction of a new income tax levy, which will apply at a rate of 1% to gross income up to €100,000 per annum. A rate of 2% will apply to income in excess of that amount. The levy is paid on gross income before deductions for capital allowances or pension contributions.

Personal Tax Credits and Bands

The standard rate tax band is being increased by €1,000 for a single person (or married one earner couple) and €2,000 for a married two earner couple.

DIRT

The rate of retention tax that applies to bank deposits is to increase from 20% to 23% and to 26% on certain saving products. The increased rates will apply to payments after 1st January 2009.

Pensions

The earnings limit on which tax relief may be obtained for pension contributions has been reduced from €275,000 to €150,000.

Charge on Non Principal Private Residences

A new local authority charge of €200 per dwelling will be introduced in 2009, on non principal private residences.

Thus in the future, individuals (including UK residents) with holiday homes and / or residential investment properties in the ROI will have to pay the levy on an annual basis on each property owned.

BUSINESS TAX

Corporation Tax

The rate of CT remains unchanged at 12.5%.

However companies with a corporation tax liability of more than €200,000 in their previous accounting period will now have to pay their preliminary tax in two instalments, as follows;

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

e.g. 21 June of the current year for a company with a 31 December year-end.

- The second instalment will be payable (as at present) in the eleventh month of the accounting period. The amount payable will bring the total preliminary tax paid to 90% of corporation tax liability for the current accounting period.

e.g. 21 November of the current year for a company with a 31 December year-end

These measures are effective for accounting periods commencing on or after 14th October 2008.

Start-up Companies

A welcome measure was introduced in respect of new start-up companies which commence trading in 2009. Such companies will be exempt from corporation tax and capital gains tax in each of the first 3 years to the extent that their tax liability for the year does not exceed €40,000.

R&D Credit

The current 20% rate of tax credit for incremental expenditure undertaken by a company on qualifying Research and Development (R&D) is being increased to 25%. This will apply to accounting periods commencing on or after 1 January 2009.

CAPITAL GAINS TAX

The rate of capital gains tax is increased from 20% to 22% with effect from 14th October 2008.

With the reduction in UK Capital Gains Tax to a flat rate of 18%, we now have a 4% differential between UK and ROI tax rates.

In addition, the first period of assessment has changed to the period from January to November, with tax due for payment by mid- December. The due date for CGT arising from disposals made in December, is the following 31st October.

Thus a UK resident selling a their Holiday home in Donegal for a £50k gain in say May 2009, will now have to pay CGT in ROI of £12k by December 2009. The UK tax liability of £9k (ignoring annual exemption) is not due for payment until 31st January 2011. In reality the UK liability will be offset by tax already paid in the Republic.

VALUE ADDED TAX

The standard rate of VAT will be increased from 21% to 21.5% with effect from 1st December 2008. Just in time to catch the Christmas shoppers. The lower rate of 13.5% remains unchanged.

UK business' selling goods to the ROI can continue to zero rate the supply on the presentation of a valid ROI VAT number (by the customer), and on proof that goods have crossed the border.

If a UK individual or Company is providing services in the ROI they must register for VAT there.

STAMP DUTY

In an attempt to stimulate the property market the top rate of stamp duty on commercial properties only has been reduced from 9% to 6%. This reduced rate applies to transactions on or after 15th October 2008.

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