

**Republic of Ireland
Supplementary Budget 2009**

COMMENTARY

The Republic of Ireland's second budget in 6 months was expected to be tough and it was tough! Virtually ALL taxes have risen (VAT being the exception) and a lot more people will be affected by the new measures. We expected a property tax (which would affect all homes) but they have deferred a decision on this until December.

Whether these radical measures will allay the fears of the international community remains to be seen. Let's hope that the transfer of the toxic debt out of the banks will allow them to inject cash into the trading system and at least let businesses get back to earning profit to allow them to pay these extra taxes.

PERSONAL TAX

Income Tax

The rates of the Income tax levy will double from 1 May 2009 as follows:-

Income Levy Thresholds	Rate
Income up to €75,036	2%
Income from €75,037 to €174,980	4%
Income above €174,980	6%

As the levy increases from 1 May 2009, the rates will be combined with the previous 2009 rates.

This will mean that those on the minimum wage will pay an additional 2% tax on their income, while those earning in excess of €50,000 per annum will pay 4% extra. For certain people earning in excess of €300,000, an additional tax amounting to 9% of their income will become payable.

Personal tax credits remain the same.

Health Levy and Employee PRSI

The health levy, which previously applied at rates of 2% and 2.5%, has also been doubled to 4% and 5% respectively. The point at which the higher rate will apply will be reduced from €100,101 to €75,036. Again, these charges will be effective from 1st May 2009.

With effect from 1st May 2009, the employee's PRSI ceiling will be increased from €52,000 to €75,036.

Mortgage Interest Relief

The intention is to phase out mortgage interest relief over time. This will begin from 1 May 2009 when the relief will only be available in respect of interest paid over the first seven years of a qualifying loan on a person's home. Those who have a house for more than 7 years are set to lose their tax relief for the interest on their home loan.

Interest relief

Interest accruing on or after 7 April 2009 on borrowings used in the purchase of rented residential property will now be restricted so that only 75% of that interest can be set off as an expense against rental income. Commercial properties are not affected.

CAPITAL GAINS TAX

The rate of capital gains tax is being increased to 25% from 22% in respect of chargeable disposals made from midnight on 7th April 2009. The annual exemption remains at €1,270.

CAPITAL ACQUISITIONS TAX

The rate of Capital Acquisitions Tax is being increased from 22% to 25% on gifts or inheritances taken on or after 8 April 2009. It was also announced that the tax free thresholds for gifts and inheritances will be reduced by 20%:-

Threshold Group	Gifts & Inheritances up to 7 th April 2009	Gifts & Inheritances on or after 8 April 2009
Group A: Parent to Child	€542,544	€434,000
Group B: Related Persons	€54,254	€43,400
Group C: Non-related persons	€27,127	€21,700

BUSINESS TAX

Corporation Tax

The rate of Corporation tax remains the same at 12.5%.

However, the special 20% rate of income tax applicable to certain trading profits from dealing in or developing residential development land has been abolished. The relevant income will now be subject to Corporation tax at a rate of 25% and will apply to accounting periods ending on or after 1 January 2009. It is not clear at this stage if this increased rate will also apply to a company's trading profits from certain fully developed residential lands, which are currently taxed at a rate of 12.5%.

Corresponding changes were announced to the relief available for losses attributable to residential property. These changes will apply where trading losses are incurred from dealing in or developing residential development land in circumstances where, had profits been made, they would previously have been eligible to be taxed at a rate of

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20%. Such losses will generally only be relieved at a rate of 20%. These new provisions will not apply where a claim to use those losses has been received by the Revenue Commissioners before 7 April 2009. Similar restrictions will apply for terminal loss relief purposes.

Individuals trading in residential property will be taxed at the individual's marginal rate of income tax for the 2009 tax year.

VALUE ADDED TAX

The rates of VAT have not been adjusted as part of this Budget and remain at 21.5% and 13.5%.

A new VAT Margin Scheme for second hand cars is being introduced with effect from 1 July 2009 whereby dealers will be taxed on their margin in regard to second-hand cars they acquire and resell after that date. Second hand cars acquired before 1 July 2009 and resold after that date will be taxed on their resale price.

However, where such a second hand car is resold before 31 December 2009 the payment of the VAT due on the resale price of the car may be spread in equal amounts over the following three VAT periods. The precise detail will be contained in the Finance Bill.

OTHERS

The excise duty on cigarettes has been increased by 25 cent per packet of 20, with a corresponding excise increase on other tobacco products. The duty on diesel has also been increased by 5 cent per litre. The duty on alcohol and petrol remains unchanged.

The rate of retention tax that applies to bank deposits is to increase further from 23% to 25% and to 28% on certain saving products. The increased rates will apply to interest payments after 7th April 2009.

CONCLUSION

This was never going to be easy – it's very difficult to guess whether it will generate the economic stability the country badly needs. We can only hope it does.

Whilst every effort has been made by Cavanagh Kelly to ensure the accuracy of the information in this overview of the Republic of Ireland 2009 Budget, it cannot be guaranteed and neither Cavanagh Kelly nor any related entity shall have any liability to any person who relies on the information thereon. If having read the above and you would like to discuss further; one of our taxation staff will be pleased to help you.