



**Republic of Ireland
Budget 2010**

Overview

COMMENTARY

Given the current state of the government finances and increases in unemployment and business failures Brian Lenihan has introduced one of the most severe budgets in the state's history.

As part of an effort to achieve €4 billion savings public sector workers pay has been cut by as much as 15%, with the Taoiseach himself taking a 20% reduction in salary.

There is also a significant cut in the rates of social welfare benefits and in funding for all government departments.

However in an effort to stimulate the economy:

- The VAT rate has been reduced to 21%.
- The corporation tax rate has remained unchanged at 12.5%
- New companies commencing to trade in 2010 will not be required to pay corporation tax on all profits and gains earned in the first three years of trading providing profits do not exceed €40,000 per year.

PERSONAL TAX

Income Tax

There are no changes to the income tax bands. However, it has been unveiled that from 2011 a new system of just two charges on income will apply. A new universal social contribution system will replace employee PRSI, Health Levy and Income Levy. It will be paid by everyone at a low rate on a wide basis as a collective contribution to public services.

High earners who are currently availing of the tax incentive schemes will have to contribute more. The effective rate of income tax for those benefiting from reliefs will increase from 20% to 30% on top of which they will also pay PRSI levies.

Tax Exiles

Irish Domiciled individuals will now be subject to an Irish Domicile levy of €200,000 per annum, regardless of where they are tax resident. The levy will apply if their worldwide income exceeds €1 million and their Irish located capital is greater than €5 million.

Mortgage Interest Relief

The mortgage interest relief which was refocused last year on those who bought their homes at the peak of the market and now find themselves in negative equity has been extended until December 2017. The relief will also apply to those who want to buy a house over the next three years.

BUSINESS TAX

Corporation Tax

The rate of corporation tax remains unchanged at 12.5%.

Capital Allowances

Enhanced capital allowances for energy efficient equipment purchased by companies is to be extended from 7 categories of eligible equipment to 10.

Start up companies

The exemption from Corporation tax for the first 3 years, for new companies with profits of less than €40,000, (introduced last year) is extended to include all companies who commence trading in 2010.

VALUE ADDED TAX

The VAT rate is reverting back to 21% from 1st January 2010.

OTHER

A carbon tax has been introduced at a rate of €15 per tonne on fossil fuels. The tax will be effective for petrol and diesel from midnight on 9th December 2009 and for home heating oil and gas from May 2010.

Following on from the UK, a car scrappage scheme has been introduced and will run from 1st January 2010 to 31st December 2010. The scheme will provide a relief of up to €1,500 on VRT when cars aged ten years and over are scrapped and replaced with cars with CO₂ emissions of 140g/km or less.

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The existing VRT exemption for electric vehicles is being extended by two years until 31 December 2012.

With the aim of reducing the number of cross border shoppers, excise duty on alcohol is now reduced with a 12% cut on beer and cider, 14% on spirits and 60% on wines. There is no change to tobacco duties.

No changes were announced to rates of capital gains tax, capital acquisitions tax or stamp duty.

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