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Tax News

The National Recovery Plan 2011 - 2014

"An opportunity for you to take action prior to 7 December 2010."

Earlier today the Taoiseach Brian Cowen unveiled the National Recovery Plan which sets out a range of spending cuts and tax measures to reduce the national debt over the next 4 years. It is intended that these measures will be included in the Budgets for the next 4 years.

This special edition of Tax News highlights the key tax measures that have been proposed in the Plan. The tax measures proposed are expected to raise EUR5billion over the 4 year period, with most of the tax raising measures to be included in the forthcoming Budget on 7 December 2010.

The Plan states that many measures will take effect from 2011. However, I would not rule out that certain measures may take effect from the date of the Budget. Therefore, you should consider whether there is an opportunity for you to take action prior to 7 December 2010.

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KEY TAX CHANGES

Income tax

One of the key messages from the plan is the intention to broaden the tax base by increasing the number of individuals paying tax. This is to be done by a reduction of 16.5% in the value of personal tax credits and tax rate bands over the 4 year period. It is intended that 65% of this reduction will take effect in 2011.

This means that for a single person the 20% rate band will reduce by EUR6,000 and the personal tax credit will reduce by EUR300 over the 4 year period.

The Plan restates that there will be a universal social charge which will replace the income levy, health contribution and PRSI charge. This charge will be phased in over the 4 year period.

Pensions

There are a number of significant changes proposed to pensions which will limit the level of tax relief available on pension contributions.

- Reduction in the annual earnings cap for pension payments from EUR150,000 to EUR115,000 with effect from 2011

- Income tax relief for pension payments to be reduced to the standard rate of 20%. This is to be phased in from 2012 to 2014

- Removal of PRSI and health contribution relief on pension payments from 2011

- A cap of EUR200,000 will be introduced from 2011 on the maximum tax free amount that can be received from a pension on retirement.

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Abolition and restriction of tax reliefs

The Plan proposes the abolition and restriction of a number of reliefs from 2011 which include the following:

- Tax exemption for patent royalties to be abolished
- Income tax age credit and age exemptions to be phased out over 4 years
- Artists exemption from income tax to be restricted to EUR40,000 of earnings
- Tax free lump sum payments on leaving employment to be capped at EUR200,000. The excess above EUR200,000 to be taxed
- Income tax relief for rent paid for private rented accommodation to be abolished
- Phased abolition of remaining property based tax reliefs.

Property tax

The Plan proposes the introduction of a property tax ("Site Value Tax"). This tax will apply to households and all land other than agricultural land.

An interim fixed charge of EUR100 will be introduced in 2012. A charge based on the value of the property will be introduced from 2013 onwards, at which point commercial rates will be moved to a site value basis.

Capital taxation

The Plan proposes a number of changes for 2012 onwards including the following:

- The current single rate of capital gains tax of 25% will be changed for a system of different rates for different levels of gains
- A similar system of tiered rates of tax will be introduced for CAT and the current tax free thresholds will be further reduced
- Reliefs and exemptions from CGT, CAT and stamp duty will be reduced.

Corporation tax

There will be no change to the 12.5% corporation tax rate for trading profits.

Other tax changes:

- VAT to be increased to 22% in 2013 and 23% from 2014
- PRSI and health contribution to be charged on employee share awards and share options
- BES scheme to be replaced in 2011 with a new scheme, the Business Investments Targeting Employment Scheme (BITES).

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