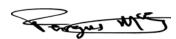
Tax News Budget 2010



"the emphasis in Budget 2010 is on spending cuts but there are some tax changes"

Budget 2010 has been heralded as one of the most significant in recent history given the current state of the public finances. As was widely anticipated, the emphasis in Budget 2010 is on spending cuts, but there are some tax changes. This Tax News highlights the key tax changes that are relevant to our clients. The finer detail of these changes will be set out in Finance Bill 2010, which is due to be published in early February 2010.



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KEY TAX CHANGES

Restriction on tax reliefs for higher income earners

The restriction on tax reliefs for higher income earners has been amended. From 2010 the effective income tax rate for those subject to the full restriction will be increased from 20% to 30% and PRSI and levies will in addition be payable. The amount of income/reliefs that an individual must have for the restriction to apply is reduced from EUR250,000 to EUR125,000, with the full restriction generally applying to income of EUR400,000 and above. Progressive income tax rates of up to 30% are expected to apply to income between EUR125,000 and EUR400,000 and further details on this will be set out in Finance Bill 2010.



"I will examine the curtailment and removal of further reliefs in the context of the Finance Bill."

New levy on Irish nationals and Irish domiciled individuals

A new annual levy of EUR200,000 will apply to all Irish nationals and Irish domiciled individuals whose worldwide income exceeds EUR1 million and whose Irish located capital is greater than EUR5 million.

It is understood that this levy will apply only to individuals who are not tax resident in Ireland, although this is not clearly stated in the Minister's speech.

It is also not clear whether individuals must be both nationals of and domiciled in Ireland for the new levy to apply, or whether an individual who is either an Irish national or Irish domiciled must pay the new levy.

It is expected that this new levy will apply from 2010.

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"the worst is over"

Other tax changes:

- VAT reduced from 21.5% to 21%.
- Mortgage interest relief on a person's main home extended until the end of 2017.
- One year employer's PRSI exemption for all new jobs created for the unemployed in 2010.

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Integration of income tax and social insurance system from 2011

The Minister has announced that it is his objective to introduce from 2011 just two tax charges on income:

- 1. A new universal social contribution that will replace employee PRSI, the Health Levy and the Income Levy, and
- 2. Income tax charged at progressive rates.

Tax free lump sums on retirement and leaving employment

Unexpectedly, there has been no change to tax free lump sums that an individual can receive on retirement or on leaving employment. However, the Minister has stated that pension lump sums below EUR200,000 should not be taxed. Pension lump sums above this level and the tax treatment of pensions generally will be considered in the Government's National Pension Framework due to be published shortly.

Corporation tax

The Minister has confirmed that there will be no change to the 12.5% corporation tax rate for trading profits.

The exemption from corporation tax for the first 3 years for certain companies starting to trade in 2009 has been extended to new companies that commence to trade in 2010, subject to Ministerial order.

And finally, there has been no change to:

- > Gift tax, inheritance tax and capital gains tax rates (still 25%)
- ➤ Gift tax and inheritance tax business relief and agricultural relief (still 90% and no cap)
- CGT retirement relief
- > Rates of income tax, levies and PRSI.

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