

KENNELLY  
& TWOMEY  
L I M I T E D

# Tax Briefing

4 November 2009

# Tax Briefing

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- ▶ Kieran Twomey                      Commission on Taxation Report
- ▶ David Moran                        Budget 2010
- ▶ Jane Florides                        Tax saving opportunities

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# **Commission on Taxation Report**

**- Impact for our clients**

**Kieran Twomey**

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# The tax system is constantly changing



COMMISSION ON TAXATION  
AN COIMISIÚN UM CHANACHAS

# REPORT 2009



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# Commission on Taxation Report

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## 250 tax recommendations

# The Recommendations

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## ▶ **Macro recommendations**

- Annual property tax
- Water charges
- Carbon tax and green measures
- Integration of income tax PRSI/levy systems

## ▶ **Micro recommendations**

- Specific changes to existing tax rules/reliefs

# Recommendation on business reliefs

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## ▶ Current position

- 90% relief on gift/inheritance of a business or a farm

## ▶ Recommendation

- 75% relief but relief capped at EUR3m



# Recommendation on business reliefs

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## ► Example:

	Today	Recommendation
	EUR	EUR
Market value of business/farm	10m	10m
Relief	<u>(9m)</u>	<u>(3m)</u>
Taxable	1m	7m
Gift/inheritance tax	<u>0.25m</u>	<u>1.75m</u>

# Recommendation on pension lump sums

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## ▶ Current position

- 25% of pension fund (or 1.5 times salary) is tax free

## ▶ Recommendation

- EUR200k tax free
- Excess over EUR200k taxable at 20% income tax

# Recommendation on pension lump sums

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► **Example:**

**EUR**

Pension fund 2m

Lump sum of 25% 500k

**Today**

**Recommendation**

Lump sum 500k

500k

Tax payable Nil

60k

# Recommendation on tax residence rules

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## ▶ Current position

- Resident if 183/280 days spent in Ireland

## ▶ Recommendation

- 183/280 days tests
- Permanent home and/or centre of vital interests test(s)

# Recommendation on tax avoidance

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- ▶ What is tax avoidance?
- ▶ Report recommends quicker action by Revenue

# Some “good” recommendations

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- ▶ No wealth tax
- ▶ Inflationary capital gain should not be taxed
- ▶ 0% stamp duty on shares
- ▶ Dividends taxed at a lower rate

# Impact for our clients

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- ▶ These are recommendations (not decisions)
- ▶ Some recommendations will be implemented
- ▶ Implementation will occur over a few years

# Working with our clients

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Action today

Versus

Extra tax cost tomorrow



## Budget 2010

What can we expect?

**David Moran**

# Budget – April 2009

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## Highlights:

- ▶ Income levy increase (to 6%)
- ▶ Health levy increase (to 5%)
- ▶ CGT/CAT increased to 25%
- ▶ Certain capital allowances abolished

# Budget 2010 - timetable



December 2009						
M	T	W	T	F	S	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

- ▶ **Budget Day 9 December**
- ▶ **February 2010 – Finance Bill**
- ▶ **April 2010 – Finance Act**

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**2010 - 4 billion**

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**2011 - 4 billion**

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**2012 - 4 billion**

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**2010 → 4 billion**

**Expenditure cuts ?**

**Tax increases ?**

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55%

Income



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25%

Capital

October 2009

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*“The extent and impact of recent income tax increases significantly limits the scope for action in the 2010 budget”*

*“little scope for additional revenue raising in relation to our indirect or capital taxes”*

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55%

Income

# Employee PRSI

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## ▶ Example – If PRSI ceiling abolished:

	<b>Today</b>	<b>2010</b>
	<b>EUR</b>	<b>EUR</b>
Salary	150,000	150,000
PRSI Ceiling	75,036	N/A
PRSI @ 4%	2,735	5,735

\* First EUR127 income per week exempt

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25%?

Capital

# Budget - April 2009

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*“this may include ... a Carbon tax, a form of property tax .. the elimination of unnecessary reliefs and a review of all areas of tax exempt income”*



# Yes Minister!

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**Business relief**

**Pension lump sums**

**Residence rules**

**Patents**

**Employee termination payments**

**Property capital allowances**

**Tax reliefs for high earners**




**Artists**

**Interest relief on residential borrowings**

**Donations**

# New taxes?

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- ▶ Carbon tax 
- ▶ Property tax 
- ▶ Windfall gains tax 80% 



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# Other targets?

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**5 weeks – take action!**

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# Tax saving opportunities

**Jane Florides**

# Tax saving opportunities

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- ▶ Tax and cash flow saving ideas
- ▶ Action before Budget

**PAYMENT DUE**

Preliminary tax

**PAYMENT DUE**

Capital gains tax

**PAYMENT DUE**

Income tax

# Capital gains tax

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- ▶ CGT for 2009 is due 15 December
- ▶ Loss relief is only on realised losses
- ▶ Have until 30 November to trigger losses
- ▶ Do not forget negligible value claims

# Refunds

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- ▶ Revenue delaying refunds
- ▶ Get your paperwork right first time!

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# Self-employed - saving ideas



# Self-employed: Ideas

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1. VAT – watch your invoice date
2. Consider a change in year end?
3. Use a service company

# Trading income - personally

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**EUR**

Income	200,000
Tax at 55%	<u>110,000</u>
Net	90,000

\* Assuming other income to use 20% rate band

# Trading income - company

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**EUR**

Income 200,000

Tax at 12½% 25,000

Net 175,000

\* Ignoring new start up company tax break

\* No EUR150,000 pension cap

# Run for 5 years and liquidate company

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	EUR
Net income 175,000 x 5	875,000
CGT at 25% *	<u>218,750</u>
Net	<u>656,250</u>
Compared to personal	450,000
Saving over 5 years	206,250

\* Ignores CGT losses

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What are we doing before  
9 December?

# Action point 1

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Take tax free lump sums

1. Pension

2. Termination payments

## Action point 2 - residence

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If non-resident, need to restructure before  
the end of the year

## Action point 3 - Windfall tax

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### 2 key questions

- ▶ Do you have land that may be caught by new windfall tax?
- ▶ Is the value of the land higher than your cost price?



## Example – windfall tax

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- ▶ Land inherited 15 years ago at value IEP50,000
- ▶ Land likely to be re-zoned shortly
- ▶ Current value EUR700,000
- ▶ Consider a contract now to lock in the 25% rate on EUR700,000

# Action point 4 – consider family business transfer

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- ▶ Low values
- ▶ Full business and retirement relief
- ▶ 25% CGT and CAT

# Transfer today EUR10m value

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	CGT/CAT EUR
Transfer today	250k
Transfer post Budget	1.75m
Post Budget – 30% rate	2.1m

\* Ignoring stamp duty

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Thank you.