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# Tax News
## Budget 2012

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Preceded by a State of the Nation address and then delivered over two days, Budget 2012 certainly reflects the unprecedented economic climate. The target of the Budget is to reduce the Budget deficit by EUR3.6b through a combination of spending cuts and tax increases.

The tax increases have been targeted at capital taxes and VAT. However, there are some positive aspects in particular in respect of transfers of assets between family members. This Tax News highlights the main tax changes announced in Budget 2012.

Further details on these changes will be included in the Finance Bill which is expected to be published in early 2012.

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### Income tax

- No change in tax rates, tax bands or tax credits.

### VAT

- Rate increased to 23% from 1 January 2012.

## KEY TAX MEASURES

### Capital taxes

- Rate of capital gains tax and gift/inheritance tax (CAT) increased from 25% to 30% from 7 December 2011
- The parent to child CAT free threshold is reduced from EUR332,084 to EUR250,000 with effect from 7 December 2011
- Retirement relief is still available (and unrestricted) for those aged between 55 and 66. However, in a bid to encourage early transfers of businesses, relief will be restricted for over 66's for transfers to family members valued at more than EUR3m and transfers outside the family for more than EUR500,000.
- Rate of DIRT will increase from 27% to 30% from 1 January 2012.

**But there is some good news!**

- Rate of stamp duty on non-residential property (e.g. land and commercial premises) is reduced to a flat rate of 2%. A rate of 1% will apply up to 31 December 2014 for transfers between family members
- A new exemption from CGT was announced for all types of property purchased between 7 December 2011 and 31 December 2013. Where the property is held for 7 years, the gain in that period will be tax free. We will wait with interest to see how this exemption will work, and whether it applies to all properties within the EU.
- There has been no change to CAT business relief or CAT agricultural relief.

"There will be no change in Ireland's 12.5 per cent corporation tax rate."

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## Residence

No change to the tax residence rules but consultation document with proposed changes to be published in 2012

BUDGET 2012

## Tax incentives

The Minister also announced the introduction of two tax related incentives intended to attract investment and create jobs.

- Special assignee relief programme to attract key people to Ireland
- A foreign earnings deduction to apply where an individual spends 60 days a year developing markets for Ireland in Brazil, India, China, Russia and South Africa.

## Property tax

A household charge of EUR100 will be introduced for 2012 on residential dwellings, including second homes and investment properties.

This is additional to the charge (NPPR) of EUR200 on second homes/investment properties.

## Pensions and ARF’s

Tax relief on pension contributions remains unchanged for 2012 (i.e. relief at up to 41%).

Employer PRSI relief on 50% of employee pension contributions will be abolished with effect from 1 January 2012.

The imputed distribution rate for Approved Retirement Fund ("ARF") holders whose funds are worth more than EUR2m will increase from 5% to 6%.  This increase will affect assets held in ARFs at 31 December 2012.

The imputed distribution rules will be extended to all assets held in vested PRSAs and certain unvested PRSAs.

The rate of tax on a transfer of assets from an ARF on death to a child of the ARF owner aged over 21 will increase from 20% to 30%.

## Property based reliefs

Proposals put forward by the previous government to restrict property based tax reliefs will not be introduced.

From 1 January 2012, a surcharge will apply to an individual with gross income over EUR100,000 and who claims property based reliefs. The surcharge is 5% of the income sheltered by the property reliefs.

In addition, for many capital allowance property schemes, relief cannot be claimed after 1 January 2015.  If the tax life of the building continues beyond 1 January 2015 some allowances may be available.



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