

Tax News

Budget 2011



“There is still time to take action before the year end!”

As expected the Budget delivered earlier today included a range of tax measures aimed at increasing the tax take. It confirmed many of the measures outlined in the National Recovery Plan published last month. There is particularly bad news for those who have property based tax reliefs as these will be severely restricted and ultimately abolished from 2014.

Significant changes to tax relief on pension contributions will take effect from 2011 so there is still time to take action before the end of the year.

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KEY TAX CHANGES

Income tax

Income tax credits and tax rate bands will be reduced by 10% from 1 January 2011 (e.g. married personal tax credit reduced from EUR3,660 to EUR3,300).

Health contribution and income levy will be abolished and replaced by a new universal social charge (USC). For income below EUR4,004 no USC is charged. The charge does not apply to Irish bank deposit interest or income from certain fund investments. For many high earners this is a positive move as the top tax rate has been reduced from 55% to 52%.

Level of annual income	USC rate
EUR0 - EUR10,036	2%
EUR10,037 - EUR16,016	4%
EUR16,016 and above	7%

A maximum USC rate of 4% will apply to individuals aged 70 or over.

Pensions

A number of pension changes will be brought in on 1 January 2011. If you are affected by any of these changes you should take action before the end of the year.

- The annual earnings cap for pension payments will be reduced from EUR150,000 to EUR115,000 with effect from 2011. However, to ensure you get the maximum relief in 2010 your pension contribution must be paid before 1 January 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. The next EUR375,000 will be taxed at a rate of 20% and any amount above this will be taxed at marginal rates
- Employer pension contributions will remain tax free but may be liable to PRSI of up to 5.375%
- Maximum permissible pension fund on retirement for tax purposes reduced to EUR2.3m.

2011 tax rate changes:

- DIRT to be increased from 25% to 27%
- Tax rate on certain fund investments to be increased from 28% to 30%
- PRSI ceiling of EUR75,036 for employees abolished
- PRSI rate for self employed increased from 3% to 4%.

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Abolition and restriction of tax reliefs

The following reliefs will be restricted or abolished from 2011:

- Tax exemption for patent royalties to be abolished with effect from 24 November 2010
- 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 at marginal rates
- Restriction and abolition by 2014 of remaining property based tax reliefs.

Stamp duty

The stamp duty rate on transfers of residential property has been reduced for sales closing on or after 8 December 2010.

A rate of 1% will apply to properties valued up to EUR1m and a rate of 2% will apply to the excess over EUR1m. All stamp duty reliefs in respect of residential property have been abolished including:

- First time buyer relief
- Transfer of a site to child relief
- 50% relief for a transfer to other family member.

Capital taxation

The current tax free threshold for gift/inheritance tax will be reduced by 20% in respect of gifts and inheritances taken on or after 8 December 2010. The new rates are as follows:

	EUR
Class A (child)	332,084
Class B (relative)	33,209
Class C (other)	16,604

Corporation tax

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

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