

**KENNELLY
& TWOMEY
L I M I T E D**

Current tax issues for private clients

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Current issues for private clients

- ▶ Tax rates are increasing (and available cash decreasing)
- ▶ Investments are changing

Tax on income

For high earners, the top rate of tax is 55%

How is 55% made up?

Income tax	41%
PRSI	3%
Health levy	5%
Income levy	<u>6%</u>
	55%

* Actual rate for 2009 is 53.16%

Everyone will pay more tax!

2 examples

Example 1 - Dentist

	EUR
Income 2009	400,000
Capital allowances	<u>(40,000)</u>
Taxable income	360,000

- * EUR150,000 cap on pension contributions
- * Income levy (up to 6%) on EUR400,000

Example 2 – Landlord (after April '09)

	EUR
Income from residential properties	300,000
Capital allowances – fixtures & fittings	(15,000)
Loan interest	<u>(200,000)</u>
Net profit	85,000

- Loan interest restricted to 75%
- Tax on EUR135,000
- Income levy on income before capital allowances
- Income levy on 150,000

Married couples

Married couples – getting the balance right

Income Tax 41%

	20%	41%
Single person	First 36,400	Balance
Married one income	First 45,400	Balance
Married two incomes	First 72,800	Balance

*** Spouse should have EUR27,400 income**

Married couple – income 55%

	Husband	Wife
	EUR	EUR
Directors fees	200,000	Nil
Bond interest	50,000	Nil
Dividends	20,000	Nil

Married couple

- ▶ Transfer portfolio into joint names
- ▶ Wife has EUR35,000 income
- ▶ Saving EUR7,500 per year

Levies 11%

Level of income	Health levy	Income levy	Total
0 – 75,036	4%	2%	6%
75,037 – 174,980	5%	4%	9%
174,981 and above	5%	6%	11%

Rates are for 2010

Married couple - again

	Husband	Wife
	EUR	EUR
Directors fees	200,000	Nil
Bond interest	50,000	Nil
Dividends	20,000	Nil

Married couple - further

- ▶ Transfer entire portfolio to wife
- ▶ Wife has EUR70,000 income
- ▶ Saving EUR9,250 per year

Investments

▶ Cash

▶ Bonds

Cash on deposit

- ▶ Ireland 33% (25% DIRT)
- ▶ Within EU 33%
- ▶ Outside EU 55%

Points to note on cash deposits

- ▶ Irish accounts – 25% DIRT. No refund if under 65
- ▶ Foreign currency deposits

Bonds

	Interest	Gains
▶ Corporate bonds	55%	25%
▶ Government bonds	55%	25%
▶ Irish Government bonds	55%	exempt

Bonds – a note of caution

Bond – capital value	5m
Buy with accrued interest	<u>100K</u>
Buy in March 09 for	5.1m
Interest paid 31 May 2009	175K
Sell 1 June 2009 for	5m
Actual profit	75K

Funds instead of direct investment

Irish and EU funds - 28%

Bond interest - 55%

Instead of:

- ▶ Bonds held directly, use an Irish or EU fund
- ▶ Tax saving could be 27%

Income taxed at 55%

- ▶ Identify income streams
- ▶ Can we get a better rate?
 - Deposit interest 33%
 - Fund gains 28%
 - CGT 25%

Income taxed at 55%

Can we move 55% income
to another structure?

Trading income - personally

EUR

Income 200,000

Tax at 55% 110,000

Net 90,000

Trading income - company

EUR

Income 200,000

Tax at 12½% 25,000

Net 175,000

* Ignoring new start up company tax break

* No EUR150,00 pension cap

Run for 5 years and liquidate company

	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

Companies and investment income

- ▶ Generally less attractive
- ▶ Low rate 25% **but** generally have
 - close company surcharge 20%
 - CGT in company on investment growth
- ▶ Trust may be an option

Money already in close company

Trading company paying 25% tax on investment income and close company surcharge

- ▶ Deposit interest: 39%
- ▶ Bond interest: 39%
- ▶ Gain on Irish fund: 28%

Current issues for clients (other than 55% tax)

1. Business transfers to children
2. Charitable donations
3. Potential EUR200k pension lump sum cap
4. EUR200 property tax

Current issues for clients (other than 55% tax)

5. Moving abroad
6. Non-deductibility of certain tax losses
7. Revenue delays in issuing refunds
8. Preliminary tax for 2009

Preliminary tax for 2009

- ▶ Due on 31 October/16 November
- ▶ Can pay 100% of 2008 or 90% of 2009
- ▶ Many people opting for 90% of 2009

* Plus income levy

Preliminary tax 2009 - careful

- ▶ 2009 is not over so income figure is an estimate
- ▶ Interest deduction on rental properties now 75%
- ▶ Some bond sales are taxable as income
- ▶ Most non-Irish fund gains are treated as income
- ▶ 2009 is first year of 8 year funds charge

What can you bring to clients?

- ▶ Suggest looking at investment transfer to spouse
- ▶ Deposits: are they in the right location?
- ▶ Bonds: - manage the tax charge on interest
- consider a fund?
- ▶ Refund claims

Thank you.