



**WEDNESDAY 9TH DECEMBER 2009**

**PERSONAL TAX**

- No change in income tax, PRSI or levies
- Broadening the tax base for high earners
- Irish domicile levy of €200,000 proposed
- Mortgage interest relief continued

**BUSINESS TAX**

- No change in the 12.5% corporation tax rate
- Corporation tax exemption for "start-ups" extended

**CAPITAL TAXES**

- No changes proposed to CGT or CAT

**CARBON TAX**

- New tax on fossil fuels introduced

**VAT**

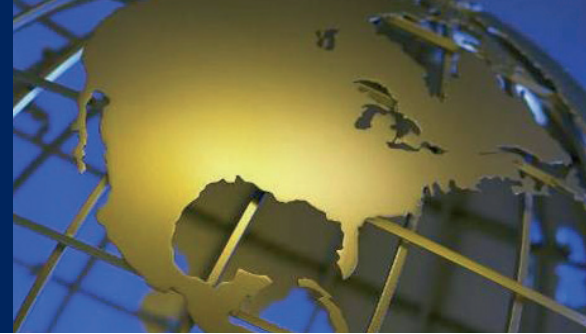
- Standard rate of VAT reduced to 21%

**EXCISE DUTY**

- Decrease of 12 cent per pint of beer/cider
- Decrease of 14 cent per measure of spirits
- Decrease of 60 cent per bottle of wine
- No change on cigarettes

**VRT**

- Electric vehicle scheme extended to 2012
- New car scrappage scheme introduced



## PERSONAL TAXATION

### Personal Tax Credits, Bands and Rates

	2010 €	2009 €
<b>PERSONAL TAX CREDITS</b>		
Single	1,830	1,830
Married	3,660	3,660
<b>PAYE</b>		
	1,830	1,830
<b>AGE EXEMPTION LIMITS</b> (aged 65 and over)		
Single	20,000	20,000
Married	40,000	40,000
<b>20% STANDARD RATE TAX BANDS</b>		
Single	36,400	36,400
Married one income	45,400	45,400
Married two incomes	72,800	72,800

Higher tax rate is 41%.

### PRSI Rates & Ceilings

	2010		2009	
	Employee %	Self Employed %	Employee %	Self Employed %
PRSI	4	3	4	3

The income ceiling for Employee PRSI contribution remains at €75,036. No income ceiling for Self-Employed PRSI.

### Levies

The income levy rates are unchanged for 2010.

Income	Income Levy
Up to €15,028	0%
From €15,029 - €75,036	2%
From €75,037 - €174,980	4%
Over €174,980	6%

The health levy rates also remain unchanged. A rate of 4% applies to those earning over €500 per week (annual equivalent of €26,000). A rate of 5% applies to incomes in excess of €1,443 per week (annual equivalent of €75,036).

In 2011 the Minister proposes to introduce a new system of just two charges on income:

- A new universal social contribution will replace employee PRSI, the health levy and the income levy.
- Income tax will apply on a progressive basis.

### High earners availing of tax incentive schemes

For the tax year 2010, the effective rate of income tax for those benefiting from tax incentives will increase from 20% to 30% plus any PRSI and levies. The entry point to the restriction will now occur at income levels of €125,000, with the full restriction applying at €400,000.

### Taxation of Irish nationals and domiciled individuals

It is proposed that individuals whose worldwide income exceeds €1m and whose Irish-located capital is greater than €5m will be required to pay an Irish domicile levy of €200,000 per annum regardless of where they are tax resident.

### National Solidarity Bond

It is proposed to establish a new National Solidarity Bond to assist the financing of the capital investment programme set out in this Budget.

### Pensions and tax-free lump sums

Pension lump sums over €200,000 may be taxed and the tax treatment of pensions will be considered in the Government's National Pensions Framework to be published by the Minister for Social and Family Affairs.

### Mortgage interest relief

It is intended to abolish mortgage interest relief entirely by the end of 2017. Qualifying loans taken out before 1 July 2011 will continue to receive tax relief at current levels for 7 years and transitional arrangements will apply to loans taken out in the subsequent 18 months at a reduced level and duration.



## **BUSINESS TAXATION**

### ***Corporation Tax Rate***

The 12.5% corporation tax rate will not change.

### ***Extension of Exemption for Start-up Companies***

The scheme whereby new qualifying companies starting in 2009 are exempt from tax is extended to new companies starting up in 2010.

### ***Capital Allowances***

The scheme of 100% capital allowances for energy efficient equipment is expanded to include refrigeration and cooling systems, electro-mechanical systems and catering and hospitality equipment.

### ***Incentive Measures***

The Minister indicated that a number of incentive measures will be introduced to boost the economy and create jobs:

- A range of measures aimed at boosting employment are to be introduced in addition to the existing supports provided to employers through the Stabilisation Fund and the Temporary Employment Subsidy Scheme. These include a scheme exempting employers from PRSI for workers hired off the Live Register.
- Additional expenditure will be incurred with a view to boosting the tourism sector.
- Additional incentives for R&D and Intellectual Property as a result of the report of the Innovation Taskforce.
- Finance Bill 2010 will include measures to increase Ireland's competitiveness in the international financial services sector with particular focus on the international funds industry.
- Additional funds will be allocated for energy efficient measures which will include a multi-annual National Retrofit Programme including

additional funding to retrofit the social housing stock.

- Other measures to boost the economy include a five year agri-environmental scheme and additional funds for the Forestry and Bio-energy sectors.

### ***Credit Review System on Business Lending***

A credit review system is being established to provide Small and Medium Enterprises (SMEs), farm enterprises and sole traders with a right of appeal where an application for credit is refused by a bank participating in NAMA.

In addition to reviewing individual business decisions, the credit review system will also entail a review of the credit policies and practices of the banks, in relation to all SME sectors, paying particular attention to sectors, such as retail, car dealerships, tourism, and agriculture.

## **VAT**

From 1 January 2010 the standard rate of VAT will reduce from 21.5% to 21%.

The margin scheme for dealers in motor vehicles and agricultural equipment is amended to provide for a restricted VAT credit for cars and agricultural equipment acquired between 1 January 2010 and 30 June 2010.

## **Carbon Tax**

A charge of €15 per tonne of carbon will be levied as follows:

- From midnight 9 December 2009 a carbon charge of 4.2 cent per litre for petrol and 4.9 cent per litre for diesel will apply.
- From 1 May 2010 the carbon charge will be levied on home heating oils and gas. The carbon charge will increase the cost of those fuels by at least 6%.
- Coal and commercial peat will be subject to the charge at a later date. The effect will be to increase the cost of those fuels by at least 10.1%.
- Biofuels are excluded from the charge.

## Excise Duty and VRT

From midnight 9 December 2009 the rates of excise duty on alcohol products are reduced.

A vehicle scrappage scheme will apply from 1 January 2010 until 31 December 2010. The scheme will apply to all cars which are over 10 years old where the new vehicle acquired has CO2 emissions of 140g/km or less. Relief will be given by means of a reduction in VRT of up to €1,500.

Existing reliefs and exemptions from VRT for hybrid and electric cars are being extended until 31 December 2012.

## ECONOMIC OVERVIEW

The stated aim of today's Budget is to stabilise the State's finances, restrict the explosion in the National Debt, and bring Government spending into line with available tax and other revenues.

With current spending of €63.2 billion (compared to €50.2 billion in tax and other revenues) expected out-turn for 2009, the Minister was faced with a daunting challenge in budgeting for the coming year.

For 2010 Mr. Lenihan has instituted quite a drastic programme of public spending cuts. Following substantial taxation increases in last year's Budget (and further taxation increases in the Supplementary Budget in April 2009), he has attempted to keep further tax changes in 2010 to a minimum. His clear objective in that regard is to ensure that overall consumer demand is not undermined further.

He projects tax and other revenues of €50.1 billion in 2010, virtually unchanged from the expected 2009 out-turn. Current spending is targeted at €63.4 billion, again virtually unchanged from the 2009 out-turn.

On the capital spending side, the Minister envisages drastic cut backs. The out-turn for capital spending in 2009 is expected at €8.9 billion (down from €13.1 billion in 2008). The Minister plans to reduce this further to €8.1 billion in 2010.

The Current Budget deficit for 2010 is targeted at €13.4 billion (compared to expected out-turn for 2009 of €13.0 billion). More generally, the Minister sees the overall economy contracting with a drop in GDP of 1.3% in 2010, following the drop of 7.5% in 2009. Price inflation is also expected to be negative at 0.8% for 2010 following a drop in the Consumer Price Index of 4.4% in 2009.

One year ago, we commented in our Economic Overview of the Budget that the Minister had postponed the hard decisions on Public Spending. He has certainly now started the challenging job of getting Public Spending back into line with available revenues. For that, at least, he is to be commended.

Mr. Lenihan stated today that "...the worst is over...". He may have left a hostage to fortune in this remark. With 2010, scheduling an excess of Current Spending over Revenues of €13.4 billion, there are more challenges and more difficult Budgets to be faced before the public finances are regularised.

If you require further information in relation to any of the issues covered in this highlight please do not hesitate to contact one of our Tax team members.

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