HLB Ryan & Co.

Chartered Accountants & Registered Auditors

BUDGET 2014

Minister for Finance, Mr Michael Noonan presented his third Budget on Tuesday 15th October, 2013. While tax rates, bands and credits remain unchanged for the third year running, there was no reduction in the basic social welfare rates of people of working age and pensioners, Minister Noonan, followed by Minister for Public Expenditure, Mr Brendan Howlin, managed to unveil a Budget which is designed to extract €2.5 billion out of the economy.

The Budget, in particular, will target the old, the sick, new mothers, the young unemployed, pensions, savers and the dead. On the plus side, free GP care has been introduced for children under five, €20m funding is to be provided to develop community mental health services, schools will get additional teachers, there was no increase in the cost of running a car and tax relief is to be introduced for renovations to your home. There is good news also for the so called "ghost estates" as the Government has earmarked an amount of €10m for their completion.

Minister Michael Noonan said that the purpose of his third Budget was to continue the progress we have made; to reinforce policies that grow the economy; to establish the conditions that create jobs; and to prepare for exiting the bail-out programme.

In one of the tougher measures of the Budget, the Minister announced that the lower jobseekers rate of €100 will be extended to young people under 25 (this rate previously applied to those under the age of 22.), €144 to those aged 25 with those aged 26 and upwards getting €188. The savings are to be invested in youth employment measures such as JobBridge, the National Internship Scheme which provides young people with experience to bridge the gap between study and their working lives and JobsPlus which offers direct cash grants to employers to hire people who have been long term unemployed.

However, in a disappointing measure, the reduced rate of employer's PRSI of 4.25% for employees earning less than €18,000 pa will revert to 8.5% in January 2014. That reduction was introduced to encourage employers to take on employees.

Build your Business Initiative:

The Minister and his Government are of the opinion that too many people in Ireland see themselves as employees for life and wish to encourage people to start their own businesses and in turn generate new jobs. In order to do this, the Minister has announced a series of measures:

- The first measure is similar in ways to the old capital gains tax roll over relief. The individual must have paid capital gains tax on a previous disposal of assets since 1st January 2010. The relief will apply where an individual makes an investment in a new business in the period 1st January 2014 to 31st December 2018 and disposes of this business after three or more years. It provides for a reduction in the CGT on the disposal of the new investment.
- Removal of the high earner restriction from investment in the Employment and Investment Incentive for a period of three years.
- A number of improvements will be made to the Research and Development tax credit regime.
- The start date of the new Film Relief scheme is being brought forward to 2015. It is also being extended to include non-EU talent in order to attract major film productions to these shores.
- The cash receipts threshold for VAT will be increased to €2 million from 1st May 2014 which will assist cash flow and reduce administration in a larger number of small to medium enterprises.
- Relief from stamp duty for certain companies trading on Enterprise Securities Market.
- A new measure is being introduced to help the long term unemployed start their own unincorporated business. The scheme gives a two year exemption from income tax which is subject to a maximum. However it only applies to individuals who have been unemployed for 15 months or more.
- The Minister also announced an increase in the limit for loan applications that can be appealed to the Credit Review Office from €0.5M to €3m to facilitate requests from a broader range of SMEs.

Taxation Measures

Savings

From next year, savers will see nearly half i.e. 41% of any interest they earn being taken by the taxman. This very unwelcome move sees the DIRT rate effectively doubled since the start of the downturn. This increased rate will also apply to life assurance policies and investment funds. As announced in last year's budget it is expected that PRSI will be extended to unearned income such as dividends, rental and deposit interest for all individuals in 2014 (PRSI currently applies to self assessed tax payers only on such income). This will bring the rate of tax on savings to 45%. The aim of this measure is to incentivise investment and spending in the economy which is essential for the creation of jobs.

With the economy showing signs of recovery, property prices are slowly beginning to rise and the extension of the capital gains tax exemption in certain circumstances (see below) and the lower 33% rate applying in others, readers might consider alternative investment in capital growth assets.

Pensions

As has been the practice in recent years, the Minister has once again targeted pension funds. The pension rules are complex and it is recommended that clients contact their pension advisors to establish the impact these changes will have on their funds. The following is a broad outline of the changes.

- Contributions to pension schemes will continue to attract tax relief at an individual's marginal rate of tax subject to the usual maximum and age related restrictions.
- The pensions levy was due to finish at the end of this year but is now set to be increased to 0.75% in 2014 with a reduction to 0.15% in 2015.
- The maximum allowable pension fund that an individual may have at retirement (standard fund threshold SFT) has been further reduced to €2million (previously €2.3million) with effect from 1st January 2014. As with previous reductions in the SFT, individuals with pension rights in excess of €2 million on 1st January 2014 will be able to claim a personal fund threshold of up to a maximum of €2.3 million on application to Revenue. Individuals who have already made such a claim in previous years will not need to enter into a new arrangement as they will retain their personal fund threshold. Where the standard fund threshold is exceeded, the amount above the threshold, known as the chargeable excess will result in a penal tax bill at the point of retirement.

Tax relief on loans to acquire an interest in a partnership:

Currently, tax relief is available to an individual for interest payments on borrowings used to purchase a share in or to contribute money to a partnership in which the individual personally acts. This relief will be withdrawn on a phased basis over the tax years 2014, 2015 and 2016 viz 75%, 50% and 25% with no relief after 31st December 2016. No relief will be available on loans made after 15/10/2013.

Home Renovation Incentive (HRI)

The Minister is introducing a home renovation tax incentive scheme. This will benefit the taxpayer, the construction industry and the exchequer. It is aimed at moving activity out of the shadow economy into the legitimate economy. The measure provides for an income tax credit to homeowners who carry out renovation and improvement works on their principal private residence in 2014 and 2015 using a tax registered builder. Qualifying works include extensions and renovations to the home, window fitting, plumbing, tiling and plastering. The tax credit, which is payable over two years following the year in which the work is carried out, is calculated at a rate of 13.5% on qualifying expenditure over €5,000 up to a maximum of €30,000. The 13.5% rate was chosen, it seems, so as to equal the VAT which would be charged by the builder on the home improvements.

Living City Initiative

This measure which was introduced last year and is aimed at encouraging families to live in historic areas in specified city centres has been extended to include regeneration to residential buildings in areas in Cork, Galway, Kilkenny and Dublin.

One parent family tax credit

Currently, this credit which stands at €1,650 can be claimed by both parents or legal guardians provided the child is resident with each claimant for at least part of the year. This credit will now only be available to one individual i.e. the child's principal carer.

Top slicing relief on termination payments

This relief which essentially limits the tax payable on any termination payments to the individual's average rate of tax over the previous three years is to be abolished.

Corporation Tax

The Minister has re-iterated that the Government is 100% committed to retaining Ireland's 12.5% corporate tax rate.

Over the past twelve months, Ireland has been the focus of global debate concerning the international rules for taxing multi-national companies. In a necessary move to quell International concerns, the Minister has released an International Tax Strategy mission statement. This statement sets out Ireland's policy objectives and commitments for how we view and will deal with a variety of International tax policy issues.

Banking

Bank Levy

This new levy will apply to the amount of tax paid on deposit interest by the financial institution in the year 2011 and will apply from 2014 to 2016.

Bank Losses

The Government gave the State backed banks a welcome boost by stating its intention to reverse a measure introduced in 2009 which restricted the use of losses as a condition of transferring "bad loans" into NAMA

Capital Gains Tax

There were no changes to the CGT rates. However a number of changes were introduced in last year's Budget to the CGT retirement relief which we have already covered in detail. These are due to take effect from 1st January, 2014.

Capital Gains Tax Relief

This is a very valuable exemption from CGT in respect of land and buildings purchased and owned for a period of seven years. It has been extended to include purchases up to 31st December 2014. Any gain attributable to the first seven years of ownership will be exempt from capital gains tax.

Farmers capital gains tax retirement relief:

In a measure to encourage older farmers, who have no children to whom to transfer their lands, to lease out their lands to younger farmers, provided certain conditions are satisfied, a subsequent sale of that land may qualify for retirement relief.

Capital Acquisitions Tax

There were no changes to the rates or thresholds this year.

VAT & Air Travel Tax

The reduction in the VAT rate to 9% to promote the tourism sector has proved to be a major success helping to create over 15,000 new jobs and to protect existing jobs. Although this rate was due to revert to 13.5% at the end of the year it is being retained. To further support the tourism sector the air travel tax is being reduced to zero from 1st April 2014.

Also there were no changes to the other VAT rates of Zero, 23% and 13.5% and the flat rate addition for farmers is being increased from 4.8% to 5% from 01/01/2014.

Pay and file date

Now that the Budget has been permanently brought forward to October each year the Minister has initiated a consultation process in relation to bringing forward the pay and file date for self assessed taxpayers. It is understood that any legislative changes will be included in the Finance Bill.

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Budget 2014 and The Health Service

The Minister for Health, Mr James Reilly said in setting out the key elements of Budget 2014 for the health services:

"*Some difficult choices have to be made. While we are benefiting from the ongoing implementation of difficult decisions we took in 2013 – such as the Haddington Road Agreement – as well as the progressive and reforming decisions – such as generic substitution and reference pricing – additional saving measures will be required"*

The 2014 provision for the health services is €13.660 billion (including €397 million in capital expenditure) and savings measures amounting to €666 million have been identified.

Below are some of the key additional measures:

Medical cards

In what is described as a major drive against fraud, thousands of medical cards are to be cancelled. Those who will be pursued will be those who are no longer eligible for reasons such as employment, emigration or death. Although the Minister for Health, Mr James Reilly declined to say how many cards would be removed, a specific target of €113 million was mentioned.

However, causing particular outrage is the reduction of the thresholds applying to over-70's medical cards. The income threshold for individuals is being reduced from €600 to €500 per week and for couples from €1,200 to €900 per week. Single persons aged 70 or over with income up to €700 per week and couples aged 70 or over with income of up to €1,400 per week will continue to have access to a GP visit card. This means that many elderly people will find themselves paying up to €144 per month for prescribed drugs.

Also, prior to the Budget, the unemployed were told they could hold onto their medical cards for three years after re-entering employment. This has now been changed to a GP visit card

Private patient charges in public hospitals:

The Health (Amendment) Act 2013 introduced a new system of charges for private in-patients using public hospital facilities which will take effect from 1st January, 2014. It is likely that this additional cost will be passed on to the policy holder.

Prescription charges

Currently people with a medical card pay a prescription charge of €1.50 per item subject to a cap of €19.50 per month per person or family. The proposed new rate is €2.50 per prescribed item with a monthly cap of €25 per person or family. This will severely impact on those who are on medication for long term illness.

Free GP care for children under 5

The Minister has announced the introduction of free GP care for children under 5. This measure is unlikely to be introduced until sometime in 2014 as the Health Minister, Mr James Reilly, has confirmed that the measures which will cost around €37 million must be underpinned by legislation. It will involve consultation with doctors and it will have to be decided by the HSE and Department of Health how much GPs are paid by way of annual capitation fee for each child.

Mental Health Services

A further €20m for mental health services has been provided for in the Budget. This funding is to be used primarily for community mental health teams.

Private Health Insurance

Tax relief on health insurance premiums, currently available at 20%, will be restricted to the first €1,000 per adult and €500 per child spent on a policy. Only the proportion of the premium that exceeds these thresholds will not qualify for the tax relief. A child for this purpose is an individual under 18 or a dependent child under 23 years of age who is receiving full time education. This measure, the Minister said, is aimed at “gold plated” medical insurance policies and should not affect the majority of individuals who avail of more standard levels of medical cover. This remains to be seen. Increases in premiums means that the cost of health insurance has doubled in the past two years. Official figures show that almost a quarter of a million people have cancelled their insurance since the peak of the boom. This will have the effect of further increasing pressure on the public health system.

Social Protection

Maternity& Adoptive Benefit

Currently there is a top rate of maternity benefit of €262 per week and a lower rate of €217.80. A single rate of maternity benefit of €230 per week is to be introduced from January 2014 for new claimants. However the rate will continue to be payable for the full 26 weeks.

Telephone allowance

The elderly are set to lose their telephone allowance. Minister Joan Burton is of the opinion that this allowance, which went to landline customers, did not reflect changing technology and the many new bundled communications packages incorporating broadband, mobile and calls. When asked if axing the telephone allowance could threaten the lives of elderly people in isolated areas who relied on the landline for security the Minister said the Department of the Environment would be spending money on personal alarms for the elderly.

Illness Benefit

The number of waiting days for entitlement to illness benefit has been doubled from three to six days.

The Bereavement Grant

In a move which it is anticipated will save €17m per year, the bereavement grant, currently payable to the family of anyone who dies is to be axed. Clearly however, provision must still be made for those who can't afford to pay for funeral costs

Excise duties

There were no increases in excise duty on petrol, diesel or on home heating oil and gas. There were the usual targets such as wine - 50c per bottle, beer and spirits – 10c per pint/standard measure and cigarettes – 10c on a pack of 20.

Conclusion

Mr Noonan stated that one of the primary tasks of Budget 2014 was to lay down the conditions for a successful exit from the bail-out programme at the end of the year. He stated "We are well on course to do this and as the economy continues to grow and jobs continue to be created, we have a fair wind on our backs to achieve our objectives and restore our sovereignty".

The above is a broad outline of the measures introduced in the Budget. It is likely that additional measures will be introduced in the forthcoming Finance Bill. As always readers are advised to take professional advice tailored to their specific circumstances before acting on anything contained in this article.

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