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Budget 2012

Minister Michael Noonan presented his first budget to the Dail on 6th December. Many of the changes had been well publicised prior to the Minister's speech. In fact, a number of more onerous proposals appear to have been circulating prior to Budget Day perhaps with a view to preparing us for the worst. It was interesting to note that Minister Noonan opened his speech by referring to the signing of the Treaty of Independence ninety years to the day with commentary about our economic sovereignty. The Minister's hands have been firmly tied by the so called "troika" in requiring substantial cuts to the economy in return for support for our public finances. The overall objectives set out were the protection of employment, promotion of International Trade, the support of indigenous industry, farming and tourism and finally efforts to promote the restoration of a functioning property market. It remains to be seen whether these objectives will be achieved.

The previous day Minister Brendan Howlin announced the planned cuts to public expenditure. One of the key issues for business announced was the reduction in the employer's redundancy rebate from 60% to 15% which is understood to apply from 1/1/2012. There are also provisions concerning the State Pension. For new claimants there are new payment rates of State Pensions where the yearly average number of contributions and credits is less than 48 contributions (from September, 2012). There is also an increase in the minimum number of contributions required to qualify for a Widow/er's contributory pension from 156 to 520 in July 2013.

Also announced were a series of measures that related to the health sector including;

- Increase in cost of private beds in public hospitals
- Insurers will be charged if a private patient is placed in a public bed.
- Monthly charge for prescriptions up to €132 from €120.
- Prescription charge of 50c an item for medical card holders to stay.
- 2% cut in funding for disability, mental health and children's services
- A total of €534 million in savings from Health sought.

These changes are likely to place a very significant additional burden on an already stretched health system. Private health insurance premiums are likely to soar because of these changes with a corresponding reduction in the number of people who will be able to afford private health insurance.

The main changes introduced by Minister Noonan were as follows;

Budget Summary

- No change to income tax rates, bands or personal credits.
- No increase in employee PRSI or USC.
- Exemption threshold for the USC increased from €4,004 to €10,036 from 1/1/2012. Also USC is to be calculated on a cumulative basis.
- Removal of employer PRSI relief on employee pension contributions.
- Increase in CGT, CAT and DIRT rates to 30%.
- Changes to CGT retirement relief.
- CGT exemption for properties bought after Budget date and the end of 2013 where the property is held for more than seven years.
- Reduction in CAT (class A) threshold.
- Stamp duty on non-residential property reduced to 2%.
- Standard VAT rate to increase by 2% to 23%.
- VAT rate on district heating to be reduced to 13.5%.
- 12.5% corporation tax to remain.
- Introduction of €100 household charge.
- Changes to Approved Retirement Funds (ARF) and vested PRSA's.
- Changes to property based tax incentives.
- PRSI to be extended to employee investment income.
- Mortgage interest relief is increased to 30% for first time buyers who bought between 2004-2008.
- First time buyers and non first time buyers who purchase a home in 2012 will be entitled to mortgage interest relief at 25% and 15% respectively. Mortgage interest relief to be phased out by 2018.
- The first 36 days tax exemption of Illness Benefit is to be removed.
- Improvements to Research and Development tax credit regime targeted at SME's.
- Introduction of Special Assignee Relief Programme to attract key talent to Ireland to create more jobs and to facilitate the development and expansion of business here.
- A new Foreign Earnings Deduction to be introduced to aid companies seeking to expand into emerging markets.
- 3 year corporation tax relief for start up trading companies.
- Changes made to the Research and Development tax credit scheme.
- Increase in motor tax from 1/1/2012 on all vehicle types. Also consultation process to be carried out in connection with the motor industry to increase VRT and motor tax revenues in future years.
- Carbon tax to increase by €5 per tonne. However this increase will not apply to solid fuels such as briquettes and coal.

Continued:

- Betting duty to apply to remote betting.
- “Citizen Condition” removed as a requirement from the domicile levy.
- Tax relief for Investment in Renewable Energy Projects, period extended.
- Enhanced stock reliefs to be introduced for farmers. Also VAT refund available to unregistered farmers for wind turbines purchased after 1/1/2012.
- While there were no changes in the budget, a set of proposed amendments to the residence rules will be published in 2012.

I have outlined below the measures I believe will be of interest to readers of the Irish Medical Times.

Income tax rates and tax bands:

As it is the Government’s view that increases in income tax will impact on job creation they have not made any changes to income tax rates and tax bands. This means that wages and salaries will be the same in January as they were for December.

USC – increase in threshold*:*

This measure was introduced to help the low paid, part-time and seasonal workers in labour intensive areas like the hospitality sector and in farming. From 1/1/2012 the exemption level will be raised from €4,004 to €10,036.

The Revenue will collect the USC on a cumulative basis which will remove the opportunity for individuals to reduce their USC charge through multiple employments.

Employer’s PRSI on employee pension contributions

Currently, employer PRSI is only applied to 50% of employee pension contributions. This is to be applied to the full employee contribution from 1/1/2012.

Tax on savings:

From 1/1/2012, the deposit interest retention tax rate and the rate of exit tax that apply to life assurance policies and investment funds will be increased by 3 percentage points in each case and will now be 30% for payments made annually or more frequently and 33% for payments made less frequently than annually.

Capital Acquisitions Tax.

- The CAT rate has been increased from 25% to 30% in respect of gifts or inheritances taken after 6/12/2011.

- The tax free threshold (Class A) which is mainly applicable to gifts and inheritances to children has been substantially reduced in respect of gifts and inheritances taken after 6/12/2011. The threshold which was previously €332,084 is now €250,000. The other tax free thresholds remain unchanged.

Capital Gains Tax:

- *Rates*

  The rate of CGT has been increased from 25% to 30% effective 6/12/2011.

- *CGT exemption*

A new incentive relief from CGT is being introduced to incentivise the purchase of properties from 7/12/2011 to 31/12/2013. Where such properties are held for more than 7 years, any gains which accrue in that period will not attract CGT.

- *CGT retirement relief*

Currently, where certain conditions are met, an individual who has reached 55 years of age can transfer their farm or business to a child free of CGT. Full relief will be maintained for individuals aged 55 to 66. However an upper limit of €3m is to be introduced for disposals within the family where the individual transferring the asset is over 66 years of age. The current unlimited amount will continue to apply for a transitional period of 2 years for individuals currently aged 66 or who reach that age before 31/12/2013.

Stamp Duty on Commercial Property

A single rate of 2% stamp duty will apply for transfers of non-residential properties for instruments executed after 6/12/2011. There is a reduced rate of stamp duty (50% of applicable rate) for transfers between related parties. This has been retained in respect of non-residential properties up to 31/12/2014. This means that transfers of non-residential properties between related parties will attract a rate of 1% stamp duty.

Increase in standard VAT rate:

The standard VAT rate is to be increased from 21% to 23% from 1/1/2012. While this will not impact on services provided by medical practitioners in general, practitioners will be aware, that following decisions of the ECJ on VAT exemptions generally, VAT exemption has been denied on services which do not have the effect of protecting a patient's health or diagnosing, treating or curing health disorders.

Pension changes

Practitioners will be aware of the significant changes which were introduced in Finance Act 2011 to pensions. While there were some changes to pensions in the budget it is welcomed that there was no further reduction in the tax relief for pension contributions or further changes to the Standard Fund Threshold or pensions cap.

Approved Retirement Funds:

The annual imputed distribution is the amount of an approved retirement fund (ARF) which must be subject to tax annually. This has been increased from 5% to 6% but only for ARF's or multiple ARF's held by an individual with aggregate asset value of over exceeding €2m. The increase will apply in respect of asset values in affected ARF's at 31/12/2012 and future years.

The transfer, on death, of an ARF to a child of the owner over 21 is currently liable to tax at 20%. It is proposed to raise this to 30% in line with other capital taxes and details will be contained in the Finance Bill.

Personal Retirement Savings Accounts PRSA'S

Vested PRSA's are PRSA's from which retirement benefits have commenced to be taken, usually in the form of the "tax Free" retirement lump sum. These are not currently subject to the annual deemed distribution regime applicable to ARF's. Where the assets are retained in the PRSA rather than being transferred to an ARF, the annual imputed distribution provisions which apply to ARF's will apply to such vested PRSA's. This includes the increased 6% for vested PRSA's with assets in excess of €2m. Where an individual holds more than one PRSA, the deemed distribution will apply to the aggregate of all the assets in all of that individual's PRSA's once any of them is vested. Again the increase will apply to affected PRSA's at 31/12/2012 and future years.

Changes to property based tax incentives:

Readers will be aware of proposals put forward by the previous Government in last years Budget to phase out legacy property tax reliefs. The Minister confirmed that he would not be proceeding with those proposals given the impact they would have. However they following changes were introduced:

Section 23 type reliefs:

A surcharge of 5% is to apply to property investors whose gross income exceeds €100,000. The surcharge will be applied to the amount of income sheltered by property reliefs in a tax year and will apply from 1/1/2012.

Accelerated Allowances:

The 5% surcharge will also apply to investors who have accelerated capital allowances and whose income exceeds €100,000. In addition, investors in accelerated capital allowance schemes will no longer to be able use those capital allowances beyond the tax life of the particular scheme where that tax life ends after 1/1/2015. Where the tax life of a scheme has ended before 1/1/2014 then no carry forward of allowances into 2015 will be allowed.

Mortgage Interest Relief:

First time buyers between 2004 – 2008:

In order to ease the burden for first time buyers who took out their first mortgage at the height of the property boom, the rate of mortgage interest relief is being increased to 30%.

Purchasers of properties in 2012:

First time buyers and non first time buyers who purchase a home in 2012 will be entitled to claim mortgage interest relief at rates of 25% and 15% respectively.

Mortgage interest relief will be phased out by 2018.

Introduction of €100 household charge:

A household charge of €100 per property is to be introduced in 2012 and will be replaced by a full property tax from 2014. It is understood that the liability will rest with the owner of the property, it can be paid in instalments and waivers will apply to some groups.

PRSI Extended to employee investment income:

The PRSI payable by employees will extend to their rental and investment income. This will bring employees in line with the self employed who have been liable to PRSI on such income for many years. This measure is to apply from 2013.

Illness Benefit exemption*:*

This was a measure to target absenteeism. Previously the first 36 days of Illness Benefit was exempt from tax. In a situation where an employee was absent from work and the employer made up the balance of their pay it could happen that they would have had more take home pay than if they were at work. The exemption from tax is being removed.

Conclusion

Whilst most focus is on the Minister's Budget speech the actual changes to the tax regime come through legislation. Between now and early February 2012 when the Finance Bill will be published, representations will be made to the Minister for Finance. The Bill will be debated in the Oireachtas and the Finance Act will be published at the end of March 2012. It is only then that the tax law is firmly established. Many changes can take place between Budget Day and the passing of the Finance Act. I have prepared these comments as a general overview of the main changes announced in Budget 2011 but individuals who are affected by the changes should await the detail in the legislation and take independent taxation advice tailored to their unique personal circumstances before making any decisions based on the Budget announcements.

Finally I would like to note there was one thing Minister Noonan failed to say at the end of his Budget speech…Happy Christmas!

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