

January 2011

Finance Bill 2011 Highlights

The Finance Bill 2011 was published on 21st January 2011. This gives effect to the measures announced by the Minister for Finance on Budget day and also introduces some previously unannounced measures. A few of the more interesting measures include:

Income Tax/PRSI

- The Universal Social Charge (USC), has been formally introduced from 1st January 2011.
- USC rate graduates to 7% for income in excess of €16,016. A reduced rate of 4% applies to those over 70.
- For 2011 and subsequent tax years, the income tax and capital gains tax tax filing date has been brought forward by one month to 30 September. Self assessed taxpayers must
 - pay preliminary income tax for 2011 by **30 September 2011** and
 - file their 2011 tax return and pay any balance of tax due by **30 September 2012**.
 The rules remain unchanged for the tax year 2010.
- The removal of the Employee PRSI contribution ceiling of €75,076 has been confirmed in the Bill.
- Income Tax bands and Tax credits have been reduced by 10% from 1 January 2011.
- Tax exemption for patent royalties and approved share option schemes has been abolished effective 24 November 2010.
- Artist's exemption from Income Tax is to be reduced to earnings of €40,000.
- The proposals outlined in the Budget which were to severely restrict the use of reliefs in respect of many property tax incentives (*Section 23* properties etc.) have been made subject to a Commencement Order. Any restrictions

will not come into effect until after the results of the Economic Impact Assessment of the proposals have been published. This should defer the implementation of the proposals until at least 2012.

- The restrictions announced on Budget day to tax-free entitlements from pensions on retirement have been confirmed as follows:
 - The first €200,000 will be exempt from tax.
 - The next €375,000 will be liable at 20%.
 - Sums above €575,000 (25% of the €2.3m threshold) will be liable to marginal rate Income Tax.
- All tax free lump sums taken from pensions since 7 December 2005 will be aggregated to determine the tax-rate to be applied.
- The annual earnings cap for pension contributions is reduced from €150,000 to €115,000.
- The Bill provides for a restriction in relief to individuals who have borrowed monies to invest in/ provide a loan to a trading/ holding company. Relief will be reduced over three years with no relief to apply from 2014 onwards.
- Rent Relief: For individuals in existing tenancies on 7 December 2010, rent relief will continue but on a reduced basis in 2011. Rent relief will be phased out gradually so that by 2018, no relief will apply. New tenants will not be able to claim relief from 7 December 2010.
- You may now pay your income tax with a credit or debit card.

Business Tax

- Corporation Tax Rate remains at 12.5%.
- Interest relief will not be available to a company either as a charge or as a trading deduction in respect of funds borrowed from a connected company on or after 21

January 2011 where those funds are used to acquire assets (other than trading stock and qualifying intangible assets) from another connected company.

- The current Relevant Contracts Tax rates of 0% and 35% are replaced with a three rate withholding tax system. No repayments of RCT will be made during the year.
- Corporation tax 3 year exemption for start-up companies is extended to companies commencing to trade in 2011. The relief is now linked to the amount of Employers' PRSI paid in the accounting period
- Details of the Employment and Investment Incentive Scheme, which is to replace the current BES and Seed Capital Schemes, were formalised. The new scheme is subject to a Commencement Order.

VAT

- Reverse charge introduced for sales of scrap metal

Capital Acquisitions Tax

- New annual pay and file deadline for CAT will be 30 September
- The current group tax-free thresholds have been reduced for gifts/inheritorances taken from 1st January 2011 as follows:
 - Group A €244,000
 - Group B €24,400
 - Group C €12,200

Other Measures

- A penalty of €3,000 will apply to any person who makes a false claim for any tax relief or tax credit from income tax.
- A number of changes have been introduced to trigger publication of tax defaulters when an agreed settlement amount is not paid.
- Tax relief at standard rate to max of €10,000 spend on energy improvements to homes.
- Reduction in air travel tax to €3 from March 2011.
- Annual imputed distribution to Approved Retirement Funds is increased to 5%.
- Replacement of third level registration fees with a Higher Education student contribution. Tax relief at 20% on any payment in excess of €2,000
- The commencement date for the mandatory disclosure regime has been changed from 3 April 2010 to 17 January 2011

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