

FINANCE BILL 2012
IMPLEMENTING THE PROGRAMME FOR GOVERNMENT: SUPPORTING
JOBS & RESTORING STABILITY

1. IMPLEMENTING BUDGET 2012 PERSONAL TAX PACKAGE

Finance Bill 2012 confirms the measures set out in Budget 2012

Programme for Government Commitments

- Budget 2012 delivered on a number of the key commitments as set out in the Programme for Government
- An increase in the rate of **Mortgage Interest Relief** to 30% for first-time buyers who purchased their first homes in the period 2004-2008; benefitting 270,000 purchasers.
- Extension of Mortgage Interest relief at the rate of 25% for first time buyers purchasing in 2012.
- An increase in the **Universal Social Charge** exemption threshold from €4,004 to €10,036; benefitting 330,000 workers.

Revenue Raising Measures

Budget 2012 introduced over €1 billion in new tax measures. These measures, in conjunction with the full year impact of 2011 measures and the expenditure consolidation set out in the Budget will reduce the deficit to under 8.6% in line with our programme commitments. The Revenue Raising measures set out in the Budget are:

- Standard rate of VAT increased by 2% with no increase to VAT on labour intensive services or in the Tourism sector
- Excise Duty on Tobacco Products increases by 25 cents
- Carbon tax increased by €5 to €20 per tonne
- DIRT increased to 30%
- Capital taxes increased to 30%

The Finance Bill does not contain any further general tax impositions.

Income tax remains unchanged

- No change in the **Income Tax credits, rates and bands**

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2. DELIVERING THE CONDITIONS FOR CREATING JOBS

- The Government is committed to the creation of jobs.
- Budget 2012 introduced a number of targeted measures designed to support job creation in key sectors of the economy and to enhance the attractiveness of Ireland as a destination multinational companies. These measures, the full details of which are set out in the Finance Bill, are designed to support SME's, indigenous companies and large multinational companies.
- The approach adopted in the Budget and in the Finance bill is to use limited available resources to develop specific targeted measures. These measures are focused on areas where the best employment potential and returns for that investment of public money will be delivered.
- This is in line with the Taoiseach's vision to help Ireland become the best small country in the world in which to do business.

Exporting Sectors & FDI

Ireland exporting sectors are leading the economic recovery with exports increasing by 4.4% in the first 9 months of 2011. In addition, Ireland has remained an attractive destination for FDI in recent years, with the IDA reporting a record number of new investments won in 2011.

Building upon this success, and supporting growth and jobs in the **FDI and Exporting Sectors** the **BUDGET** introduced:-

- A **Special Assignee Relief Programme (SARP)** to target the assignment of key foreign-based individuals to the Irish based operations of their employers. This will enable Irish Operation to attract key specialised individuals around which teams and process will be built.
- A modification to the **Research and Development (R&D) tax credit** to allow companies reward key research employees by giving

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companies the option of transferring a portion of the credit to key talent who have been heavily involved in research.

- **Foreign Earnings Deduction (FED)** to support companies who are promoting Irish exports to Brazil, Russia, India, China and South Africa – the so-called BRICS countries.
- An extension of the tax relief for corporate investment in **renewable energy generation** to 2014.

In terms of supporting jobs and enhancing the competitiveness of companies in the **Exporting Sectors** the **Finance Bill** introduced:-

- A modification of the **Tax Treatment of Foreign-sourced dividend** which allows for the extension of the 12.5% tax rate to dividends from non-treaty countries which have signed the OECD Convention on Mutual Administrative Assistance in Tax Matters.
- For the Software Industry, an improved relief for excess **foreign tax on royalties** which, while technical in nature, is a business friendly measure.

International Financial Services Industry

In order to support the job creation goals contained in the **Strategy for the International Financial Services Industry in Ireland 2011-2016**, the **FINANCE BILL** also includes a number of highly targeted supports to enhance the competitiveness of the International Financial Services Sector, including:-

- Reducing double taxation in the corporate treasury and aircraft leasing sectors
- Providing clarity around the tax treatment of complex financial transactions in terms of stamp duty in particular
- Addressing tax issues arising for investment funds due to the UCITS¹ IV Directive which was implemented on 1 July 2011

¹ UCITS – Undertakings for Collective Investment in Transferrable Securities

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- Further easing the administrative burden in relation to non-resident investors in Irish investment funds,
- Enhancements to the tax regime for Islamic Finance which was introduced in Finance Act 2010
- Extending group relief for losses to include group companies with non-EU/EEA parents
- Allowing Irish structured finance companies to invest in “forest carbon credits” in order to support the ‘Green IFSC’ initiative.

We cannot rely solely on export growth and the **FDI and Exporting sectors** for increased jobs. We must also support the domestic **SME SECTOR** as a key engine of employment growth. **The BUDGET** announced a number of supports for that sector:-

- **Foreign Earnings Deduction** to support companies who are promoting Irish exports to Brazil, Russia, India, China and South Africa – the so-called BRICS countries.
- Amendment and Commencement of the **Employment and Investment Incentive**, which will help SMEs to raise investments over and above the limits that applied under the Business Expansion Scheme (BES). The new incentive is also available to many more companies than BES was.
- Three Year **Tax Relief for Start-up Companies** is being extended to 2012, 2013, 2014 which should help boost the population of entrepreneurs in the country
- **VAT Rate on District Heating Reduced From 21% to 13.5%** promotes energy efficient solutions and reduces costs for business.
- A range of new measures to boost the **Research and Development (R&D) tax credit** are being made, particularly focused on the small business sector
- The first **€100,000 of qualifying R&D expenditure** of all firms will qualify for the tax credit and will not have to meet the requirement to be incremental to expenditure in the base year (2003), making it easier for small and medium-sized companies, in particular, to claim the credit,
- Outsourcing limits are being amended to benefit small and medium-sized companies; and

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- Use of the **R&D tax credit** to reward employees should also help small companies retain key talent.

In addition the **FINANCE BILL** widens the scope of **Revenue Job Assist** to allow those that are unemployed for longer than 12 months, who sign for PRSI credits but are not entitled to a payment from the Department of Social Protection to also qualify for the scheme.

3. AGRICULTURE & AGRIBUSINESS - inside and outside the farm gate

The agriculture sector's influence within Ireland is very important and the sector has been to the forefront of our economic recovery. Recent figures confirm this with food and drink exports increasing by 25% in 2011. Ireland's agri-food sector industry provides the main employment for circa 135,000 people. It represents 60% of manufacturing exports by indigenous firms. It comprises over 1,100 enterprises of all sizes. It delivers gross annual output of €22 billion. It provides an outlet for produce from Ireland's 128,000 farms.

In addition to the measures to support the export sector as outlined above the **BUDGET** introduced a number of measures that will **benefit farmers** inside the farm gate including:-

- Bettering targeting of **CGT retirement relief** to encourage timely transfers of farms and businesses.
- Reduction in the **stamp duty rate for transfers of non-residential property to 2%**
- **Stock Relief for Registered Farm Partnerships (PfG)** will be increased to 50%, subject to EU state aid approval. This measure should encourage farm partnership formation and increase the size and productivity of farms.
- A **Farmer Double Deduction for Carbon Tax** whereby a double deduction against the increase in carbon tax on farm diesel is available for profits from farming.
- **Admissions to Open Farms** to Apply at the 9% Reduced VAT Rate. This compensates open farms for the loss of their exempt status, as a result of recent ECJ cases, and puts them on an equal footing with historic houses.

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The **FINANCE BILL** also provides for:-

- Partial relief from **Carbon Tax on inputs to Combined Heat and Power**, to encourage the use of this technology with a view to reducing CO2 emissions and other pollutants.
- The addition of the “**FETAC Level 6 Special Purpose Certificate in Farm Administration**” to the list of recognised courses for Stock Relief and Stamp Duty Relief for “Young Trained Farmers.

4. RESTORING EQUILIBRIUM TO THE PROPERTY MARKET

The biggest loss of employment has been in the construction sector. Many of the jobs will never come back but the potential and sustainable employment levels are higher than currently exist. At one point it made up 20% of GDP and this has now fallen to around 5% of GDP. That is why the **BUDGET** announced targeted measures to support returning construction activity and employment to sustainable levels. These included:-

- Reducing the **stamp duty rate for transfers of non-residential property to 2%**, which lowers the transaction costs for sales of commercial, industrial and agricultural property.
- The **Property Incentive**, which provides that where a property is bought before the end of 2013 and held for at least seven years, gains attributable to the initial seven year holding period will be relieved from CGT.

5. BUSINESS-FRIENDLY AND MODERN TAX ADMINISTRATION

Ireland is one of the top-ten rated countries in the world when it comes to the ease of doing business according to the World Bank report Doing Business 2012². This is so by design. Each year the **FINANCE BILL** seeks to modernise and simplify the system to ensure that taxation does not create an excessive burden for business. Finance Bill 2012 is no different with a range of measures designed to help business administration. They include:-

² In “Paying Taxes 2011 - The global picture”, PWC noted that Ireland is the easiest country in Europe to pay business taxes for the fourth year running and the seventh easiest country in the world.

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- **Stamp Duty will be put on a self-assessment footing**, including assessment, audit and appeal procedures, to match the modernisations made to other taxes.
- Changes to self-assessment rules are being made to provide more clarity and certainty for taxpayers and agents and to advance the Government's simplification agenda.
- The **replacement e-RCT** regime in place since January 2012 streamlines and modernises the administration of the **Relevant Contracts Tax**, reduces the incidence of tax fraud and improves the cash-flow position of tax compliant subcontractors. The Finance Bill makes some minor changes to facilitate the new system.
- The **CAT pay and file date** will be returned to 31 October in response to practitioner concerns.
- **Cross-border company mergers and mergers** of Irish public limited companies will be specifically relieved from Stamp Duty.

6. ENSURING FAIRNESS

Fairness in taxation is also a cornerstone of the Programme for Government. We have committed to reduce, cap or abolish property tax reliefs and other tax shelters which benefit very high income earners and we will ensure that tax exiles make a fair contribution to the Exchequer

Specific measures were provided in this regard in the BUDGET including:-

- A **USC property relief surcharge of 5%** will apply to property investors where their income is over €100,000. In addition unused accelerated capital allowances will be lost by 2015 or once the tax life of a building has ended, whichever is the later.
- The increase from 5% to 6% in the **imputed distribution from ARFs** with assets valued at €2 million and the extension of the imputed distribution arrangements, on the same basis, to **vested PRSAs**.
- The increase from 20% to 30% in the final liability tax on assets transferred on death from an ARF to a child of the ARF owner aged over 21 years or over.
- The "citizenship" condition for paying the Domicile Levy was abolished, to ensure the levy cannot be avoided by renouncing citizenship.

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The **FINANCE BILL** now includes a number of additional measures that ensure that higher earners pay their fair share of taxes and eliminates a number of schemes that allowed them to avoid doing so. These include:-

- Tackling recently discovered avoidance schemes to ensure beneficiaries of offshore trusts are liable to CGT on trust gains.
- Preventing avoidance of CGT liabilities on disposals of “bearer shares” in Irish incorporated companies.
- Tackling misuse of agricultural relief from CAT.
- Ensuring Collective Investment Undertakings are taxed at the same rate as investment products which are subject to the “gross roll up” regime.

7. REVENUE POWERS

It is more important than ever that the Revenue Commissioners have powers available to them to ensure they can collect taxes properly due. The Government is aware of the unfair competitive advantage that shadow economy operators have over compliant taxpayers. In this regard the **FINANCE BILL** provides a range of enhanced powers to the Commissioners.

- **Fuel Laundering:** There are proposals to strengthen Revenue powers in the ongoing offensive against criminal laundering of marked gas oils. The Bill extends the license regime for auto fuels to traders on marked fuels.
- Measures to **counter serious tax criminality:** Authorised Revenue officers will be given additional powers (similar to those contained in sections 15 and 16 of the Criminal Justice Act 2011) where they are investigating serious tax offences. Crimes covered would include serious Revenue crimes in the area of customs and excise offences, including oil laundering and cigarette smuggling.
- **Standards for accounting records:** Irish requirements for accounting records are being brought into line with OECD standards in order to ensure that Ireland maintains its reputations as a jurisdiction that plays by international tax rules.

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- **Measures to counter under-reporting of credit card transactions:** Evidence is emerging that some businesses may be underreporting card payment transactions; the evasion takes the form of non-reporting of the on-line business income. The problem is of relatively recent origin but is recognised as significant and may be regarded as a modern equivalent of cash “under the counter” payments.
- **Power for the Collector-General** to require a statutory statement of affairs: In managing tax debt, the Collector-General (CG) bases his decisions on information that he holds and information that may be provided by a taxpayer. The CG needs to know about all the assets and liabilities of a tax defaulter before making decisions and a statement of affairs is considered essential in ensuring that the correct enforcement tool is used and as a means of guaranteeing that someone who is seeking an installment arrangement is being truthful as to the state of their affairs.