Finance Bill 2007

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PART 1 – MEASURES ANNOUNCED IN THE BUDGET

PART 2 - FURTHER MEASURES NOT YET ANNOUNCED

List of Finance Bill Items

PART 1 – MEASURES ANNOUNCED IN THE BUDGET

Income Tax

1. Personal Tax Credit

The personal credit is being increased by €130 per annum from €1,630 to €1,760 in the case of a single person and by €260 per annum from €3,260 to €3,520 in the case of a married couple.

2. Employee Tax Credit

The employee (PAYE) credit is being increased by €270 per annum from €1,490 to €1,760.

3. The One-Parent Family Tax Credit

The one-parent family credit is being increased by €130 per annum from €1,630 to €1,760.

4. Standard Rate Bands

The single standard band is being increased by €2,000 per annum from €32,000 to €34,000. The married one-earner band is being increased by €2,000 from €41,000 to €43,000. The married two-earner band is being increased from €64,000 to €68,000, with transferability limited to €43,000. The lone parent/widowed parent band is being increased by €2,000 from €36,000 to €38,000.

5. Age Exemption Limits

The annual limits under which all income is exempted from tax for those aged 65 years and over are being increased by €2,000 in the case of a single person and €4,000 in the case of a married couple to €19,000 single and €38,000 respectively.

6. Additional Tax Credit for Certain Widowed Persons

The widowed person's tax credit is being increased by €50 per annum from €500 to €550.

7. Widowed Parent Tax Credit

The widowed parent tax credit applies to widowed parents with dependent children in the five years following the year of bereavement. The amount applicable for each of the five years is being increased as follows:

Year after year of bereavement	Current	Proposed
Year 1	€3,100	€3,750
Year 2	€2,600	€3,250
Year 3	€2,100	€2,750
Year 4	€1,600	€2,250
Year 5	€1,100	€1,750

8. Blind Person's Tax Credit

The Blind person's credit is being increased by €260 per annum from €1,500 to €1,760 in the case of a single blind person and by €520 from €3,000 to €3,520 in the case of a married couple where both spouses are blind.

9. Incapacitated Child Tax Credit

The incapacitated child credit is being increased in value from €1,500 to €3,000 per annum.

10. Age Tax Credit

The age credit is being increased by €25 per annum from €250 to €275 in the case of a single person aged 65 or over and by €50 from €500 to €550 in the case of a married couple where one spouse is or both spouses are aged 65 or over.

11. Rates

The higher rate of tax is reduced by 1% from 42% to 41%

12. Mortgage Interest Relief
The ceiling on mortgage interest relief for first time buyers is being increased from €4,000 to €8,000 in the case of a single person and €8,000 to €16,000 in the case of a married couple or a widowed person.

The ceiling on mortgage interest relief for non-first time buyers is being increased from €2,540 to €3,000 in the case of a single person and from €5,080 to €6,000 in the case of a married or widowed person.

13. Taxation of Unemployment Benefit - Systematic Short-Time Workers
The special tax exemption for unemployment benefit paid to systematic short-time workers is being extended indefinitely.

14. Business Expansion Scheme (BES) and Seed Capital Scheme (SCS)
The Business Expansion Scheme is being renewed from 1 January 2007 for a seven year period to 31 December 2013. The BES company limit is being increased from its current level of €1 million to €2 million, subject to a maximum of €1.5 million to be raised in a twelve month period. The investor limit is being increased from its current level of €31,750 to €150,000.

To provide sufficient time for BES designated funds to raise finance from investors, it is intended to provide that, where any amount raised by a Designated Fund up to 31 January 2007 is invested in qualifying companies before 31 December 2007, the individual investors who subscribed to the funds will have the option of claiming tax relief on their investment for either the 2006 or 2007 tax years. Similarly, in the case of direct investment by investors in qualifying BES companies, where eligible shares are issued before 31 January 2007, the investor will have the option of claiming tax relief on their investment for either 2006 or 2007.

The Seed Capital Scheme is also being renewed from 1 January 2007 for a seven year period to 31 December 2013. The new BES limit of €2 million will also apply to the SCS, subject to a maximum of €1.5 million to be raised in a twelve month period. The investor limit is being increased from its current level of €31,750 to €100,000.

15. Allowance for Rent Paid by Certain Tenants
The maximum level of rent paid for private rented accommodation on which tax relief can be claimed, at the standard rate of tax, is being increased for those aged under 55 years of age, from €1,650 to €1,800 per annum for a single person and from €3,300 to €3,600 per annum for widowed and married persons. This equates to a tax credit of €360 per annum for single persons and €720 for widowed and married persons. For those aged 55 years and over, the maximum level of rent paid on which tax relief can be claimed is being increased from €3,300 to €3,600 per annum for a single person and from €6,600 to €7,200 per annum for widowed and married persons. This equates to a tax credit of €720 per annum for a single person and €1,440 per annum for widowed and married persons.

16. Childminding Relief
Budget 2006 introduced an exemption of up to €10,000 per annum on income from childminding where an individual minds up to three children, who are not their own, in the minder's own home. If childminding income exceeds this the total amount is taxable, as normal, under self-assessment. The €10,000 limit is being increased to €15,000.

17. Rent a Room Scheme
From 1 January 2007, it is proposed to close off use of the Rent-a-Room Scheme where the rent received is from connected persons who in turn are claiming rent relief.

18. Increase in the Specified Rates for Preferential Home Loans and Other Loans

An employee in receipt of a preferential loan is charged income tax on the difference between the interest actually paid and the amount which would have been payable at the "specified" rates of interest for the loans. To reflect increases in interest rates, the specified rate in respect of home loans is being increased from 3.5% to 4.5% and the specified rate in respect of other loans is being increased from 11% to 12%. These changes will take effect from 1 January 2007.

19. Administrative Changes to Help Taxpayers Claim Reliefs

A number of changes in administrative procedures are being introduced which will make it easier for taxpayers to claim reliefs to which they are entitled. For 2007 all age-related tax credits will, where possible, be credited automatically to the taxpayer where a verified date of birth can be established through Revenue or Social Welfare records. Arrangements will be made to enable individuals over 65 or permanently incapacitated, who under existing arrangements are entitled to a repayment of DIRT, to receive interest without deduction of DIRT. A system will be implemented to credit tax relief on trade union subscriptions automatically, based on trade union membership lists. For 2008 it is planned to move, where possible, to automatic or prompted repayments in respect of non-reimbursed hospital expenses, prescribed drugs pharmacy costs and certain tuition fees to the extent that this is possible using information from appropriate third parties. Tax relief due on medical insurance paid by employers that has been subject to benefit-in-kind taxation will be automatically included in the employee tax credit. To support these administrative changes the following legislative changes will be included in the Bill:

- provision for the non-application of data protection legislation to allow third parties supply relevant information to Revenue for the purposes of establishing a taxpayer's entitlement to a relief, subject to the condition that Revenue are to use the information solely for that purpose and for no other purpose,
- in relation to the reliefs for health expenses and tuition fees, the condition that there be a specified relationship between the taxpayer and the person in respect of whom the qualifying expenditure is incurred be dropped,
- in relation to claims for health expenses relief, the current two tier *de minimis* thresholds of €125 and €250 be rationalised into a single threshold of €125,
- the requirement for a taxpayer to claim and prove entitlement to a relief be waived where the Revenue Commissioners are already in possession of information necessary to prove the taxpayer's entitlement.

Capital Acquisitions Tax

20. CAT Agricultural Relief – Off-farm Principal Private Residences

CAT agricultural relief provides relief from CAT on 90% of the value of a gift or inheritance. In order to qualify for the relief, 80% of a farmer's total assets (after receipt of the gift/inheritance) must consist of qualifying agricultural assets. Off-farm principal private residences are not considered farming assets for the purposes of this relief. However, this provision is being amended so that an individual may off-set borrowings on an off-farm principal private residence against the property's value, for the purpose of the 80% test.

Capital Gains Tax

21. Increase in Threshold for CGT Retirement Relief

An exemption from CGT applies in the case of individuals aged 55 and over who dispose of qualifying business or farming assets, subject to certain conditions. Disposals made to a child or favourite niece/nephew are relieved in full. All other disposals are relieved up to the threshold of €500,000. This threshold is being increased from €500,000 to €750,000 from 1 January 2007.

22. Withholding Provisions (15%)
A technical change is being proposed considered to change the date on which tax withheld by a purchaser becomes payable, from the day after the assessment is made to 30 days after the net consideration is paid to the seller.

Corporation Tax

23. Tax Credit Scheme for Research and Development Expenditure
The base year expenditure against which qualifying incremental expenditure on research and development (R&D) is measured under the tax credit scheme is being fixed at 2003 for a further 3 years to 2009. This will provide an additional incentive for increased expenditure on R&D in 2007, 2008 and 2009. The 2003 base year had originally been fixed for the first three years of the scheme (2004 to 2006) and was due to roll forward to 2004 for the purpose of calculating the 20% tax credit for 2007. From 1 January 2007, expenditure by companies on sub-contracting R&D work to unconnected parties will qualify under the tax credit scheme up to a limit of 10% of qualifying R&D expenditure in any one year. This is in addition to the existing provision in the scheme in relation to subcontracting to universities. It will be necessary to inform the European Commission about these changes from a State Aid perspective.

24. Preliminary Tax Payment Arrangements for Corporation Tax
Small companies have the option of paying their preliminary tax at the lower of 90% of the final liability of the current accounting period or 100% of the final liability of the previous accounting period. The corporation tax liability threshold for treatment as a small company is being increased from €50,000 to €150,000**.** This will be effective from preliminary tax payment dates arising after 6 December 2006. New or start-up companies with a corporation tax liability of €150,000 or less for their first accounting period will not be required to pay preliminary tax in respect of that first accounting period and will instead be required to pay their final corporation tax liability for that accounting period at the same time as they are required to submit their tax returns (9 months after the end of the accounting period). This measure will come into effect from preliminary tax payment dates arising after 6 December 2006.

Certain Capital Allowances & Tax Expenditure Items

25. Capital Allowances (and Expenses) for Business Cars
The car value threshold for business cars is being increased from €23,000 to €24,000. The new threshold will apply to capital allowances and leasing charges for new and second-hand cars used in the course of a trade, profession or employment. In the case of corporation tax, the new threshold will apply for expenditure incurred in an accounting period ending on or after 1 January 2007. In the case of income tax, the new threshold will apply for expenditure incurred in the basis period for the tax year 2007 and subsequent tax years.

26. Corporate Tax Relief for Investment in Renewable Energy Generation
The qualifying period for the scheme of tax relief for corporate investment in certain renewable energy projects is being extended from 31 December 2006 to 31 December 2011. The extension is subject to clearance by the European Commission from a State Aid perspective, and will come into operation by way of a Commencement Order to be made by the Minister for Finance following such clearance.

Stamp Duty

27. Stamp Duty Exemption for Sports Bodies
A new exemption from stamp duty is being introduced for those sporting bodies covered by Section 235 of the Taxes Consolidation Act 1997, which are already entitled to relief of income tax and

capital gains tax, subject to certain conditions. The exemption will relate to purchases of land for the purposes of promoting games or sports.

28. Head of Mortgage Charge

Mortgage deeds, as with many legal documents, are liable to stamp duty. This is a separate stamp duty from that which is applied to the conveyance of property. Primary mortgages are currently exempt up to the value of €254,000, and those at higher values are subject to stamp duty of 0.1% subject to a maximum duty of €630 whether in respect of residential or non-residential property. The duty currently applied to collateral or additional mortgages is generally a €12.50 fixed duty and in the case of equitable mortgages and transfers of mortgages, generally 0.05%, subject to a maximum of €630. As of 7 December 2006, the stamp duty head of charge for mortgages is being abolished.

29. Irish Stock Exchange – Intermediary Relief

It is proposed to consider introducing Intermediary Relief for Stamp Duty (on similar lines to the UK relief) for broker dealer firms and market makers to replace the existing reliefs available to them. This request was made by the Irish Stock Exchange and is at present under discussion by the officials of the Department of Finance and the Revenue Commissioners with the Irish Stock Exchange.

Indirect Taxes

30. Tobacco Excise

The Excise Duty on a packet of 20 cigarettes was increased by 50 cents (including VAT) with a pro-rata increase on the other tobacco products, with effect from midnight on 6 December 2006. This has been provided for by financial resolution on Budget night.

31. Reduction in Excise Duty for Home Heating Oils (Kerosene & LPG)

The Excise Duty on Kerosene is being reduced from €16 per 1,000 litres to zero. The Excise Duty on LPG is being reduced from €10 per 1,000 litres to zero. These reductions are effective from 1 January, 2007. This has been provided for by financial resolution on Budget night.

32. Introduction of a VRT Relief for Electric Cars

A VRT relief of 50% for electric cars – cars which can be propelled solely by a rechargeable battery – is being introduced on a pilot one year basis, with effect from 1 January, 2007.

VAT

33. VAT Registration Thresholds for SMEs

The VAT registration thresholds for small businesses are being increased from €27,500 to €35,000 in the case of services, and from €55,000 to €70,000 in the case of goods. These increases will take effect from 1 March 2007 and has been provided for by financial resolution on Budget night.

34. VAT Cash Accounting Threshold

The annual VAT cash accounting threshold for small firms is being increased from €635,000 to €1,000,000 with effect from 1 March 2007.

35. Less Frequent VAT Returns for Small Businesses

The frequency of VAT payments, currently six per year, for smaller businesses is being reduced with effect from July 2007. For businesses with a yearly liability of €3,000 or less, the option of filing returns on a half-yearly basis will be available. For businesses with a yearly liability between €3,001 and €14,400, the option of filing returns every four months will be available.

36. VAT Relief for Conferences
A specific measure which will allow deductibility of VAT on conference-related accommodation expenses will be introduced during 2007. The scheme will cover all conferences of 50 or more with no minimum number of nights stay required, which take place on or after 1 July 2007. Full details will be set out in the Finance Bill.

37. Increase in Farmers' Flat-rate VAT Addition
The farmers flat-rate addition is being increased from 4.8 per cent to 5.2 per cent with effect from 1 January 2007. This has been provided for by financial resolution on Budget night.

38. Reduction of VAT rate on Child Car Seats
The VAT rate on child car seats will be reduced from 21% to 13.5% with effect from 1 May 2007. The option of cutting the rate to zero is not permitted under EU Law.

Farmers Taxation

39. Extension of Stamp Duty Relief for Farm Consolidation
Stamp duty relief for exchanges of farmland between two farmers for the purposes of consolidating each farmer's holdings was introduced on 1 July 2005 for a period of two years. The relief is being extended for a further two years to 30 June 2009. The relief will also be extended to qualifying exchanges of land where only one farmer is consolidating his/her holding. In such cases both farmers can qualify for relief, provided both farmers meet all other conditions of the relief. Commencement of these changes will be dependent on State Aid approval from the European Commission.

40. Leased Land Exemption
In Budget 2007 it was announced that an exemption of €20,000 per annum is to be introduced from 1 January 2007 for income derived from certain leases of farmland of ten years or more duration.

41. Extension of Farmer Stock Relief
The 2007 Budget announced that the existing general 25 per cent stock relief for farmers and the special incentive stock relief of 100 per cent for certain young trained farmers will be extended from 1 January 2007 for a further two years subject to clearance with the European Commission under State Aid rules. In addition, the educational qualifications for the special 100% relief are to be aligned with the stamp duty relief for Young Trained Farmers.

42. Scheme of Capital Allowances for Milk Quota
It was stated in Budget 2007 that the scheme of capital allowances for milk quota will being amended to ensure this relief is available for quota purchased under the new Milk Quota Trading System.

43. CGT Retirement Relief – Disposals of Leased Land
An exemption from CGT applies in the case of individuals aged 55 and over who dispose of qualifying business or farming assets. In order for a farming asset to qualify under the relief it must have been owned and used for farming purposes for at least ten years prior to disposal. The relief is now being extended, in certain circumstances, to disposals of land where the land had been leased prior to disposal. In order for such disposals to qualify under the relief, the following three conditions must be met: (a) the land in question must have been leased for no longer than 5 years prior to disposal, (b) the land must have been owned and used by the farmer for ten years prior to the initial letting of the land and (c) the land must be disposed of to the person who was leasing the land.

44. Stamp Duty Relief for Young Trained Farmers
Stamp duty relief is available for farmers acquiring land, who are aged under 35 and have specific agricultural training. Amendments are being made to the education criteria and refunds procedure to

this relief. Firstly, the FETAC Level 6 Advanced Certificate in Agriculture will become the new minimum education requirement from 31 March 2008; secondly, the qualifying third-level course titles are being updated; and finally, the refunds procedure is being simplified. The changes being made to the refunds procedure are as follows:

- the time limit within which young trained farmers can complete their education, following the transfer, is being extended from 3 to 4 years,
- the current requirement for specific minimum education attainments at the date of transfer is being abolished,
- the requirement that the refund claim be made within 6 months of qualification is being extended to within four years of qualification, and
- the 5 year period during which a young trained farmer is required to retain and farm the land will commence from the date of the claim for refund.

PART 2 - FURTHER MEASURES NOT YET ANNOUNCED

Note:

- Items listed only imply an issue is under examination for the Finance Bill <u>not</u> any decision/commitment to make a change. Other items not included here may also arise before finalisation of the Bill.

- A number of items on this list are sensitive including certain anti-avoidance provision and it is essential that this list be kept confidential.

<u>Income Tax</u>

45. Introduction of Taxation Measures for Stallions

The current tax exemption on the taxation of stallion stud fees is due to terminate after end July 2008 and will be replaced by a new regime which will have to be cleared with the European Commission. The new regime will allow stallion owners to write off the purchase cost of stallions over a four year period and provide for the taxation of income from the sale of stallions. Certain transitional measures are also included.

46. Business Expansion Scheme (BES) and Seed Capital Scheme (SCS)

In addition to the changes announced in the Budget, a number of other changes designed to improve the operation of the schemes are to be included. These are:

(i) add to qualifying trades recycling companies who have had a grant or financial assistance made available to them by an industrial development agency,

(ii) change the fundraising deadline for the outgoing scheme to 31 January 2007 as a transitional measure, in line with previous practice - this proposal was included in the 2007 Summary of Budget Measures,

(iii) replace the feasibility grant payment requirement with a requirement that the relevant County Enterprise Board provide a certificate validating the business proposal,

(iv) development agencies to be required only to approve an employment grant for internationally traded services as opposed to actually paying the grant in order to gain entry to the scheme (with the grant, of course, being paid at a later stage),

(v) allow an individual to reduce his/her shareholding under SCS below 15% after one year (rather than the current two years) to facilitate additional equity funding,

(vi) increase the overall aggregate limit on amounts subscribed for share and loan capital of the company from €317,500 to €500,000 for an individual holding over 30% of the share capital of a company to ensure that the individual will not be regarded as “connected” with the company.

In addition, a further amendment will be required in order to allow Ireland to meet the requirements of the *Community Guidelines on State Aid to Promote Risk Capital Investments in Small and Medium-Sized Enterprises*. This will involve the following:

(vii) A provision to permit Revenue publish certain information relating to Designated Funds and companies benefiting from the BES and SCS and to provide Revenue with the power to seek whatever information may be necessary from the Funds and companies concerned. This will involve Revenue listing the companies and the Funds benefiting, together with the amount raised and the submitting of this and other such information to the Commission in an annual report.

47. Scheme of Tax Relief on Donations to Approved Bodies

On 18 October 2006 the European Commission issued a reasoned opinion in which it took the view that the difference in treatment between gifts made to charities in Ireland and charities in other Member States is contrary to the EC Treaty. Ireland’s reply reiterated the previously stated position that that the requirement to have a physical and legal presence in the State was absolutely necessary in the case of charities on grounds of public policy and public security, and that this can be justified in the public interest. The European Commission has been advised, however, that Ireland is prepared to amend certain aspects of the scheme in the Finance Bill *viz.* de-list certain bodies and delete certain references to "in the State". Two approved bodies, the Irish Heritage Trust and the US Ireland Alliance will require transitional arrangements. It is proposed to discuss this aspect further with the Commission. It is also proposed to negotiate in the coming months with the Commission, together with some other Member States, on how to deal in an acceptable way with the question of cross border donations to charities (currently, such charities must be established in the State).

48. Restriction on High Earners
There are a number of technical adjustments needed to these provisions.

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50. Tax Treatment of Certain Payments, Expenses and Allowances
A number of issues have arisen in relation to the tax treatment by employers of certain expense payments and allowances. An exemption for the travelling expenses of members of boards travelling to board meetings is being considered.

51. Partnership Profits
It is proposed to close a possible avoidance loophole in relation to unallocated partnership profits by an amendment to Section 1008 TCA dealing with the assessment of partners.

52. Irish Heritage Trust
The Department of the Environment, Heritage and Local Government has requested that certain aspects of the tax rules governing the Trust be examined. Depending on the outcome of further discussions Finance Bill amendments may be required.

53. Life Assurance
Life insurance policies are liable to income tax at 23% on the net investment proceeds of the policy. Liability arises upon disposal of a policy or after a set period of time. The set periods concerned are currently 8 years with regard to single premium policies and 12 years with regard to regular premium polices. This taxation procedure is being amended so that the investment proceeds of all life insurance policies will become chargeable to income tax after a set 8 year period. Some technical amendments will also be made to the legislation introduced in 2006.

54. Investment Undertakings
Legislation introduced last year provided for an exit tax at the end of each 8 year period following the acquisition of units in an investment undertaking. This mirrored a similar provision for life policies. Anti-avoidance provisions are being updated in relation to arrangements identified recently.

55. Tax Treatment of the Allowances of State Body Staff Posted Abroad
The existing provision which provides for the Minister for Finance, in consultation with the Minister for Foreign Affairs or a relevant other Minister, to certify as exempt from taxation certain allowances which provide compensation to officers of the State for the extra costs of having to live outside the State in order to perform their duties is being amended so as to extend similar treatment to the allowances of staff of State Bodies posted abroad in similar circumstances.

56. Irish Haemophilia Society
Changes are being introduced to the type of income qualifying for income tax exemption to include income from an offshore fund.

57. New Middle- Shannon Corridor Tourism Infrastructure Investment Scheme
It is proposed to introduce a limited tax driven scheme for part of the mid-Shannon area. The proposed relief would be restricted to areas within a radius of a number of miles from the river. The relief will be provided by way of accelerated capital allowances over seven years on expenditure

incurred on the conversion, refurbishment and new construction of commercial tourist related "Buildings and Structures" completed within a limited timeframe of the date of the commencement of the scheme."

Corporation Tax

58. Tax Exemption for Royalties and Income from Patents

This exemption has been in operation since the 1970's and an internal review was conducted by the Department of Finance and the Revenue Commissioners in 2005 and published in 2006. Some of the recommendations were implemented in the Finance Act 2006; the remainder will be considered for the Finance Bill 2007. The EU Commission commenced infringement proceedings against Ireland this year in relation to the scheme on the grounds that it is contrary to EU law. We have indicated to the Commission that we will undertake a full evaluation of the scheme in the context of the 2007 Budget and Finance Bill taking account, among other things, of its concerns. An external review of the scheme is under way. A report on the findings of the review is expected before the end of January 2007.

59. Preliminary Corporation Tax Payment Arrangements

The current arrangements whereby large companies have to pay 90% of their final CT liability as preliminary tax one month *before* the end of their accounting period represents a significant burden on such companies and they generally overpay preliminary tax to avoid interest penalties. Revenue have suggested that large companies could be allowed offset their preliminary tax payments between group members for the purpose of working out the adequacy of such payments for interest payments. This may prevent interest arising where say, one company in the group paid too much preliminary tax, while another paid too little.

60. Marks and Spencer Judgement

Amendments will be required to deal with the issues of cross-border losses raised in the ECJ decision on the Marks & Spencer case, insofar as they have relevance for Ireland

61. Transfer of Assets Abroad

Amendments are necessary on anti-avoidance grounds to the legislation on the transfer of assets abroad.

62. Dividend Withholding Tax (DWT)

The introduction of electronic vouchers is a core feature of the harmonisation of global markets which is planned for 2008. It will be necessary to change the DWT legislation to facilitate the use of electronic dividend vouchers. Other more technical changes to the DWT legislation are also necessary.

63. Funds Industry – Various Gross Roll-Up Amendments

Changes are being made to the Offshore provisions to address a tax avoidance that involves certain foreign funds being set up for Irish residents, resulting in a tax liability of 23% instead of 41%. Changes are also being made to include an anti-avoidance provision which will impose an Exit Tax surcharge on certain Collective Investment Undertakings. This will bring their tax treatment into line with the life assurance and pension provisions relating to "wrappers". Consideration is being given to making certain changes relating to the 8 year exit tax in respect of certain funds.

64. Offshore Income Gains

A technical amendment is being introduced to rectify an anti-avoidance provision relating to resident and ordinarily resident.

Pensions Taxation

65. Standard Approval Conditions for Occupational Pensions Scheme "Products"

For reasons of administrative efficiency, Revenue are proposing that the law be amended so that in future where personal pension or single member schemes use standard documentation approved by Revenue and where contributions (both employer and employee) do not exceed the age-based % limits for tax relief, the schemes will qualify as exempt approved schemes for tax purposes without the need for individual Revenue approval.

66. PITC Scheme

Following the introduction of the Pensions Incentive Tax Credits scheme in the 2006 Finance Act which aims to encourage SSIA holders on lower incomes to invest some or all of their matured SSIA funds into long-term pension funds, there was a concern that retired SSIA holders could claim the credits and take out the benefits immediately. The Minister stated in September 2006 that he would introduce in legislation a requirement that SSIA moneys invested in pension funds together with any credits received under the PITC scheme in respect of those investments would have to be held for at least one year, otherwise there would be a claw-back of the credits.

67. Taxation of ARF Notional Distributions

A minor amendment is required to s784A (1BA) of the Taxes Consolidation Act 1997 following on discussions with the Irish Insurance Federation in relation to the operational aspects of the new taxation regime for approved retirement funds due to commence this year. The amendment will give ARF managers an additional month to account to Revenue for any tax deducted on a notional distribution.

68. Limit on Tax Relieved Pension Funds

Chapter 2C of the Taxes Consolidation Act 1997 placed a limit on the maximum allowable pension fund on retirement for tax purposes of EUR5m, known as the Standard Fund Threshold (SFT) or a higher amount known as a Personal Fund Threshold (PFT) where the value of an individual's pension fund exceeded EUR5m on Budget day (7 December 2005). When pension benefits are being drawn down, once their capital value exceeds the SFT or PFT, the excess amount (known as the chargeable excess) is subject to an up front tax charge at 42%. The current legislation does not deal with the implications of a pension adjustment order for the SFT or PFT. Where an individual's pension entitlements are made subject to a pensions adjustment order (PAO) under the Family Law Acts, a spouse and/or dependents are entitled to a specific proportion of an individual's pension benefits. In effect therefore part of an individual's SFT or PFT is transferred to a spouse or dependent and it is necessary to ensure this is reflected in the legislation. In addition, with the reduction in the top rate of tax to 41% in the Budget, the rate of tax applying to the chargeable excess needs to be reduced accordingly.

Certain Capital Allowances & Tax Expenditure Items

69. Nursing Home Residential Units

The scheme of capital allowances for qualifying residential units associated with registered nursing homes was introduced for a 5 year period in March 2002. Among other changes introduced in the 2006 Finance Act, the period of eligibility for allowances on qualifying expenditure (on a reducing basis) was extended to 31 July 2008 at which time the scheme is due to terminate. An external review of the scheme is underway to establish whether it should be retained beyond that date and in what format. A report and findings of the review is expected by end-January 2007 with a likely Committee Stage amendment.

Financial Services

As previously set out in the Tax Strategy Group paper on the international financial services sector, TSG 06/27, there are a number of specific tax measures that we are currently considering. A brief description of each is set out below, with more detail having already been supplied in the earlier TSG paper.

70. Taxation of Irish Companies with Foreign Branches
Where an Irish resident company has a branch in another country, the income of the branch will be taxed in the other country. It will also be taxed in Ireland as part of the company's world income. This results in double taxation. Where the other country is a country with which Ireland has a tax treaty, the Irish tax on the doubly taxed income will be reduced by the foreign tax on that income. There is no ability to offset any excess foreign tax against tax on any other class of foreign or domestic income.

The rule that the credit for foreign tax can only be set against Irish tax on the doubly taxed income is eased in certain circumstances, such as where dividends are received from substantial shareholdings. This exceptional treatment is limited to dividend and interest payments from subsidiary companies of an Irish parent company. It does not apply in respect of income of a foreign branch of an Irish resident company.

The provision will extend this treatment to the foreign branch trading income of an Irish company and also the provisions introduced in Finance Act 2006 to allow for a limited form of pooling of foreign tax credits will be extended to foreign branch trading income.

71. Treatment of Interest as a Distribution
Interest which is paid to a 75% related non-resident company is treated as a distribution and is disallowed in calculating a company's income for tax purposes. Companies however may elect to not have this treatment apply where certain conditions are met and where the interest is to be paid to resident of an EU Member State or a country with which Ireland has a tax treaty. Prior to 1 January 2006, IFSC and Shannon companies who met the other conditions could opt not to have the distribution treatment apply, regardless of the location of the recipient of the interest. This non-deductibility may give rise to double taxation in certain circumstances where payments to non-treaty countries may also be liable to dividend withholding tax, which the recipient of the interest will not be in a position to reclaim. We will introduce measures to eliminate any double taxation that arises.

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74. CAT liability for Irish Administered Offshore Funds
Where non-domiciled funds are administered from Ireland, and the share register is also maintained here, a charge to Capital Acquisitions Tax may arise in certain circumstances. To avoid this charge the share register is normally kept offshore by Irish fund administrators. Although exemptions exist in legislation for ensuring that the charge does not arise for specific fund types in Ireland, it has been requested that the administration of funds itself be exempted. We are currently examining this issue to establish what difficulties exist with a view to a possible Committee Stage amendment.

75. Foreign Currency Matching
A technical amendment is required to a change introduced in Finance Bill 2006 to clarify the intention of the legislation.

Double Taxation Agreements/Tax Information Exchange Agreements

76. DTAs/TIEAs
There are a number of proposed changes to the legislative provisions that make DTAs and TIEAs part of Irish law that we are currently examining. The issues are as follows;

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(ii) As the legislation is currently drafted there is the risk that TIEAs could be regarded as conferring similar domestic tax benefits on contracting jurisdictions as those given in Irish law to Treaty partners. In the circumstance it is proposed to delink TIEAs from Section 826 and to include specific reference to them in a new section which would ring fence whatever specific benefits are agreed. It is proposed to remove this potential ambiguity by means of a Finance Bill amendment at Committee Stage.

77. Unilateral Credit Relief against CGT for Certain DTAs

We will be addressing on a unilateral basis the fact that 10 of Ireland's older double taxation agreements (DTAs) predate the introduction of capital gains tax (CGT) in Ireland in 1975. Irish CGT is therefore not a covered tax in those DTAs. This may result in gains derived by Irish resident persons from the disposal of property in such countries being taxed twice, in Ireland and also in the other country. Pending the renegotiation of these DTAs, it is proposed to include in the Bill a provision that will grant, on a unilateral basis, a credit against Irish CGT for foreign tax paid on capital gains in such cases. This will reflect the treatment available under modern DTAs where CGT is a covered tax. Under the older DTAs the foreign tax may only be deducted in computing the gain, rather than being credited directly against the Irish CGT.

Capital Gains Tax

78. Child

It is proposed to extend the definition of a child for disposals within a family of a farm / business to a grandchild, where the parent of the grandchild is a deceased child.

79. CGT Exemption for Sports Bodies - Anti-Avoidance measure

A technical amendment is being proposed to rectify an anti-avoidance provision relating to the exemption from capital gains tax, available to designated Sports bodies.

Stamp Duty

80. First Time Buyer – Divorce / Separation

It is proposed to extend the existing first-time buyer stamp duty provision relating to persons who have undergone a judicial separation/divorce. This will ensure that where the existing condition, that the 'family' home must still be used by the other spouse, is not met as a result of the sale of the house, the individual can still benefit from first-time buyer relief.

81. Property Review

Consideration may be given to introducing changes to the stamp duty regime relating to property. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

82. Minor Heads of Charge

It is proposed to abolish some minor heads of charge in the context of e-stamping.

Capital Acquisitions Tax

83. Dwelling House Relief

Changes are being introduced to prevent possible abuse of this provision by wealthy individuals transferring expensive houses to their children.

84. Discretionary Trust Tax

It is proposed to change the date on which the tax becomes payable where a trust is created following death. This follows a High Court decision earlier this year.

85. Agricultural / Business Relief

It is proposed to alter the date from which interest becomes payable in the context of a clawback of relief.

Capital Gains Tax / Stamp Duty

86. Site to Child

Budget 2001 introduced an exemption from stamp duty and capital gains tax where a parent transferred a site to child for the purpose of building a dwelling for residing in themselves. It is proposed to amend this exemption by limiting the size of the site area to 1 acre - exclusive of the proposed house site - in order to counter potential abuse where large tracts of land are transferred, in certain areas, under this provision.

87. Farm Transfers with Families

It is proposed to alter the position where certain exchanges of farm land are made within families.

Residential Property Tax

88. Sunset Provisions

It is proposed to finally abolish the requirement to obtain clearance from Revenue on the sale of certain properties.

Indirect Taxes

Excise

89. Extending Opening Hours of Betting Shops

It is proposed to extend over the winter period the opening hours up to 10pm in betting shops on nights on which night-time horse-racing racing under floodlights will be held (new Dundalk racetrack from August 2007).

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91. Substitute Fuels

It is intended to modify the existing provisions relating to substitute fuels to make it clear that, as provided in the EU Energy Tax Directive, such fuels, including biofuels, fall to be taxed at the rate applicable to the fuel for which they can be substituted. At the moment all substitute fuels used as propellants are taxed at the auto-diesel rate. The proposed modification would result in bioethanol products being taxed at the rate for unleaded petrol. Substitute fuels not used as propellants would continue to be taxed at the rate applicable to Marked Gas Oil.

92. Destruction of Seized Tobacco Products

It is intended to modify the provisions relating to the handling of seized goods so that tobacco products can be destroyed immediately on seizure. This is intended to address serious storage, logistical and security problems posed by the large number of seizures (particularly of postal packages), and would put tobacco products on the same footing as hazardous and perishable goods. The provision would be discretionary and would not affect the retention of evidence where prosecutions are being taken.

93. Increase in Excise Duty Rates on Firearms Certificates & Dealer Registrations
Currently firearm certificates and registrations of firearms dealers are subject to an excise duty and are renewed annually from 1st August. Provisions in the Criminal Justice Act 2006, which have yet to be commenced, will mean that firearm certificates and firearms dealers registrations will be renewable every 3 years from the date of issue/registration. Administration of firearm certificates/registrations is dealt with by the Garda Síochána with the excise duty collected being remitted to the Revenue Commissioners. The rationale for moving from an annual to a three-year lifespan for these certificates/registrations is primarily to free up Garda time and resources – the excise rates are being adjusted in accordance with this change. In addition to the changes to existing arrangements, the Criminal Justice Act 2006 introduces a number of new categories of certificate/authorisation/licence.

94. VRT – Amend Definition of "Mechanically Propelled Vehicle".
EU legislation, transposed into Irish law by Regulations made by the Minister for Transport, now requires that all new passenger vehicles and most new goods vehicles must conform to prescribed EU technical standards, i.e. be "type approved" before they can be authorised for entry into service. The current situation creates a potential legal conflict in respect of vehicles which are required to be registered under VRT law but may not be authorised for entry into service in accordance with EU and Department of Transport type-approval requirements. The amended legislation will clarify the position for the Gardai in that, vehicles which are not registered by Revenue for entry into service, should not be driven on public roads. The vehicles concerned are largely quad bikes or similar type vehicles.

95. VRT - Company Cars Registered Outside Ireland
In response to rulings by the European Court of Justice relating to other Member States it is proposed to allow a State resident, who is employed by an employer established in another Member State to use a car (category A vehicle), registered in another Member State either owned or leased by the employer, for private and/or business use in the State. However, the vehicle must be used principally in the other Member State. Those wishing to avail of this relief will be required to contact Revenue and formally apply for an exemption. XXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXX

VAT

96. VAT Exemption for Homecare Services
The question of the VAT treatment of privately provided homecare services was raised last year by the Minister for Health and Children in the context of that Department's new initiative aimed at providing homecare for people following a period in hospital. Discussions have been ongoing on this matter. In a press release of 7 December 2007 providing details of the Health package under Budget 2007, the Minister for Health and Children confirmed that provision will be made for a VAT exemption on private companies providing homecare packages. An amendment to Health legislation is required before an exemption can be introduced under the Finance Bill. XXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXX

97. VAT Treatment of International Organisations
Supplies from Ireland to international organisations recognised as such by a foreign host country will be zero-rated.

98. Transitional VAT Measures - New Member States (Bulgaria, Romania)
Technical changes will be made to the VAT Act to allow goods from Bulgaria and Romania to be treated as Community goods from 1 January 2007. These will confirm Ministerial Regulations which need to be made before 1 January 2007.

99. Transposition of EU Directives
Directive 2006/69/EC provides for certain optional anti-avoidance measures under the Sixth VAT Directive and it is intended to avail of one particular option XXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

Responses to EU Infringement Notices

100. Fourth Schedule Services Received by Public Bodies
The Commission has challenged our rules concerning VAT on certain services received by public bodies from other Member States in the case where no VAT is applied in those Member States to the services involved. Currently we tax these services in Ireland. Changes to the VAT Act will exclude these services from Irish VAT. This measure will be subject to a Commencement Order.

101. Hire Purchase
The Commission has challenged our rules concerning VAT on hire purchase transactions in cases where the customer defaults on repayments, where finance houses are involved in the transactions. Changes will be made in the VAT Act to address the concerns of the Commission. These changes will treat finance houses as taxable persons in these transactions which will entitle them to claim deductibility and bad debt relief in such cases. Further changes will make the subsequent sale of any repossessed items taxable.

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103. VAT Treatment of Fruit/Vegetable Juices
Following a recent Appeal Commissioner ruling which found that the vegetable juice in question should not be excluded from the zero-rate, it is proposed to amend the VAT Act to ensure that the supply of fruit/vegetable juices continue to be taxable at the standard rate. XXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX

104. VAT Waivers for Short Term Letting of Residential Property
It is intended to remove the VAT waivers for short term letting of residential property. Under current Irish legislation, short term letting (i.e. less than 10 years) of property, including residential property, is exempt of VAT. The result is that landlords cannot claim deductibility on their purchases of property for short term renting. However, an option exists for landlords to obtain deductibility on their purchases. They can do this by subjecting the rents to tax. This is referred to as a waiver of exemption. A landlord who avails of this option can deduct VAT on his expenditure and must charge VAT on the rent to the tenant. The original intention of this provision was to enable a taxable person deduct the VAT costs on the acquisition of a property and avoid trapped VAT when the letting was being provided to a taxable person.

105. Additional Material: VAT on Property (for information only)
The Revenue Commissioners have carried out a review of the current system of applying VAT on property transactions. The review concludes that significant changes are required to the system and makes recommendations in that regard. The objective of the proposed change is to simplify the

rules for VAT on property transactions while ensuring a more equitable treatment for all taxpayers and securing the revenue base. Following the Budget interested parties were invited to make submissions regarding the proposed revision to the current system of applying VAT on property transactions. Any resulting legislation will be scheduled for the Finance Bill 2008.

Revenue Powers

Issues for consideration in relation to Revenue Powers include:

106. Stand Alone Search Powers in Criminal Offences

Revenue is seeking a strengthening of their powers of investigation of revenue criminal offences by the enactment of a stand-alone search power and a power to seek a production order, for the purposes of such investigations. The search power currently available to Revenue is focussed primarily on the investigation of a tax liability rather than a criminal offence. The search power can be rendered unusable by the subject of the investigation bringing their tax payments up to date.

107. Power to Require (Current) 3rd Party Information to be Returned Electronically

As part of the evolution of Revenue's new electronic Risk Evaluation Analysis and Profiling (REAP) system to target audit resources, it is desirable that there is a migration from paper based third party information returns to returns in electronic format.

108. Returns on Rent or Rent Subsidies Paid by Public Bodies to Include PPSN

Currently, the Taxes Consolidation Act 1997 requires Government Departments, the HSE and local authorities and similar statutory bodies that make any payment in the nature of rent or for the purposes of rent subsidy in relation to any premise to make a return (automatically under section 894) containing details of the premises, its owner and payments made. Revenue proposes to extend this provision so that these bodies also be required to obtain the PPSN of the landlord concerned so that it can be included in the return and thereby make the information contained in the return more readily available within Revenue.

109. Create New Offence of Impersonating a Revenue Officer

There have been two instances in the last two years of impersonation of authorised officers. Revenue proposes that section 1078 of the Tax Consolidation Act 1997 (which sets out revenue offences) be amended to insert an offence of impersonation of a Revenue Officer.

110. Interest on Repayments

The proposal is that in the case of a valid repayment claim, the interest is calculated from 3 months after the date the claim is made, rather than the current 6 months.

111. Repayment of Tax following Appeal Commissioners' Determination

In a recent case, the Supreme Court ruled that tax overpaid by a taxpayer on the basis of a decision of the Appeal Commissioner was refundable, notwithstanding that the matter was subject of appeal by the Revenue Commissioners to the courts. The Judgement has implications for a number of areas where tax has been overpaid in the opinion of the Appeal Commissioners, and Revenue has appealed the decision to a higher court. In such a situation a number of issues can arise for which there are no adequate statutory provisions. We are considering appropriate legislative provisions to address the issues arising.

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Tax Administration

113. Professional Services Withholding Tax

There will be a routine update of the Schedule of Accountable Persons via additions, deletions and amendments.

114. Issues Relating to Relevant Contracts Tax

There are four changes being made in relation to the legislation governing the administration of Relevant Contracts Tax (RCT), the tax which principal contractors are obliged to deduct at a rate of 35% from payments made to certain subcontractors in the construction, meat processing and forestry sectors. The changes relate to;

(i) commitments made in *Towards 2016* to strengthen the RCT system by, among other things, providing for increased monitoring of the RCT1 Declarations (the declaration made by both a principal and a subcontractor prior to entering into a relevant contract to the effect that the contract is <u>not</u> a contract of employment) – XXXXXXXXXXXXXXXX

(ii) extending the definition of "construction operations" to include the installation of mobile telecommunications networks and local wireless networks,

(iii) extending the existing list of principal contractors who are obliged to operate RCT to include

  a) persons engaged in site development, and
  b) boards set up under Royal Charter (i.e. certain hospitals etc)

115. Fixed Charge on Company Book Debts

Under Section 1001 of the TCA Financial Institutions and Lenders are required to inform the Collector General (CG) if they have taken out a fixed charge on the book debts of a company and to forward a copy of the documents which have been lodged with the Company Registration Office in relation to the fixed charge. The proposal is to replace the requirement for a full set of these documents with a simplified return containing only the details needed by the CG.

Non Tax Item

116. Capital Services Redemption Account

The Bill cancels the annuity payment set by the Finance Act 2006 to take account of the fact that no borrowing was in fact needed for voted capital purposes in 2006. No annuity payment is being provided for in 2007 because no borrowing will be needed for voted capital services in 2007. The CSRA is a sinking fund set up in the 1950s to provide for the repayment of interest and capital on loans to the Government. This is a standard provision in the Finance Bill.

Technical Amendments

117. Technical Amendments

The Bill includes a number of minor technical and drafting amendments.