

PRESS RELEASE
FINANCE BILL 2012

The Minister for Finance Michael Noonan T.D. today (8th February) published the Finance Bill 2012 which gives effect to the taxation measures announced in last December's Budget. The Minister said:

“This Finance Bill is a further step towards economic recovery and regaining our fiscal autonomy. The achievement of these objectives will take time but we are making good progress in implementing our Programme for Government. The primary purpose of Budget 2012 was to support the creation of jobs in the short term, the medium term and the long term while reducing the deficit to support a sustainable economy.

The Budget contained a number of targeted supports for employment for both the FDI and the SME sectors and the Bill provides additional details of the support for financial services flagged in December. The objective is to take our very limited resources and apply them to areas where there is the best employment potential and returns for that investment of public money. I would highlight a number of measures in particular:

A new Special Assignee Relief Programme (SARP) will reduce the cost to employers of assigning skilled individuals in their companies from abroad to take up positions in Ireland. Such individuals could be transferred to head up new divisions of the company or take charge of new product development. Similar schemes are in operation in some of the countries with which we compete for investment and can be a persuading factor when companies decide where to locate investment projects. This measure will help improve the quality of our human capital which in tandem with our corporate tax offering will help us to compete for FDI.

There are also targeted enhancements to the R&D tax credit scheme to encourage the productive, high value-added sectors of our economy in order to work our way out of the current downturn. The changes in the Bill provide targeted benefits to SMEs. In addition we are again tying to maintain our pool of skilled workers by permitting companies in receipt of the R&D credit the option to use a portion of the credit to reward key employees who have been directly involved in the creation or development of the R&D process.

For business to thrive we must ensure that it is as straightforward as possible for businesses and individuals to pay their correct amounts of tax through simplification and modernisation. We must also ensure that Revenue have appropriate powers to deal with those who do not. Finance Bill 2012 includes a range of such measures and provide Revenue with investigative powers where serious tax fraud is suspected.

Finally, the Bill is about fairness. It gives effect to my Budget Day announcement that Mortgage Interest Relief (MIR) will be increased to 30% for first-time buyers who purchased their first homes in the years 2004 to 2008 and increases the exemption threshold for Universal Social Charge from €4,004 to €10,036. At the same time it imposes limits on the use of legacy property reliefs and abolishes certain tax avoidance schemes.

Economic circumstances mean we must target support where it is most needed. I am confident that the measures contained in this Finance Bill provide balanced, targeted and effective support to business to encourage job creation which will be the cornerstone of our economic recovery.”

The Bill, which will go through the Oireachtas in the coming weeks, gives effect to the following measures announced on Budget Day:

- The Bill makes provision for **the changes to mortgage interest relief** announced in Budget 2012 to implement the Programme for Government commitment. It provides for an increase to 30% in mortgage interest relief for first time buyers who took out their first mortgage in the period 2004-2008. The Bill will also make provision for the Budget announcement that mortgage

interest relief will be available at 25% for first-time buyers who purchase in 2012 and at 15% for non-first-time buyers who purchase in 2012.

- The Bill makes provision also for the Budget announcement to increase the **exemption threshold for the Universal Social Charge** from €4,004 to €10,036. This measure will remove approximately 330,000 people from the liability to the Universal Social Charge.
- A **Special Assignee Relief Programme (SARP)** is being introduced to reduce the cost to employers of assigning skilled individuals from abroad to take up positions in the Irish based operations of their employer. An exemption from income tax on 30% of salary between €75,000 and €500,000 will be provided for employees that are assigned for a minimum of 1 year and a maximum of 5 years.
- A **Foreign Earnings Deduction (FED)** is being introduced to assist companies seeking to expand into emerging markets in Brazil, Russia, India, China and South Africa. The maximum amount of income that can be deducted under the scheme will be €35,000 per annum. The deduction will operate for three years (ending in the 2014 tax year).
- Approval for the **Employment and Investment Incentive (EII)** was received from the European Commission in November last year. The relevant changes were introduced by Financial Resolution on Budget day and are now being reflected in primary legislation.
- The **DIRT (Deposit Interest Retention Tax)** rate has been increased by 3 percentage points to 30% and the rate for certain longer term savings products has also been increased by 3 percentage points to 33%. The increased rate applies to interest paid or credited on or after 1 January 2012.
- **Retirement relief** will be modified as announced in the Budget. An upper limit of €3m on retirement relief for business and farming assets disposed of within the family is introduced where the individual transferring the assets is aged over 66 years. This will incentivise earlier transfer of farms. The current unlimited amount applies for a transitional period of two years for individuals currently aged 66 or who reach that age before 31 December 2013.
- A new **incentive relief from CGT** is being introduced for properties bought between Budget night and the end of 2013. Where such property is held for more than seven years the gains attributed to that seven year period in that period will be relieved from CGT.

- The Irish citizenship condition for the payment of the **domicile levy** will be abolished for tax years from 2012 onwards. This means it will not be possible for an individual to avoid the levy by renouncing Irish citizenship, if s/he meets the other criteria for paying the levy.
- The annual imputed distribution which applies to the value of assets in an **Approved Retirement Fund (ARF)** each year is being increased from 5% to 6% in respect of ARFs with asset values in excess of €2 million and the imputed distribution arrangements are being extended to “vested” PRSAs on the same basis. The transfer of ARF assets on the death of an ARF owner to a child of the owner aged over 21 is subject to a final liability tax the rate of which is being increased from 20% to 30%.
- The scheme which provides **relief from corporation tax on the trading income and certain gains of new start-up companies** in the first 3 years of trading is being extended to include start-up companies which commence a new trade in 2012, 2013 or 2014.
- The following changes to the **R&D tax credit scheme** were announced in Budget 2012 and are being given effect to in the Finance Bill:
 - The first €100,000 of qualifying R&D expenditure will benefit from the 25% R&D tax credit. The tax credit will continue to apply only to incremental or additional R&D expenditure (in excess of €100,000) as compared with such expenditure in the base year 2003.
 - Sub-contracted R&D expenditure is eligible for the tax credit where such expenditure does not exceed 10% of total R&D expenditure or 5% in the case of sub-contracting to third level institutions. The outsourcing limits for sub-contracted R&D costs are being increased to the greater of 5 or 10%, as appropriate, or up to €100,000.
 - Companies who are in a position to offset their R&D credit against corporation tax liabilities will have the option to surrender a portion of the credit to reward key employees who have been involved in the development of R&D.
- The Bill also confirmed the **changes to a number of Indirect taxes**. These include the standard rate of VAT which has increased from 21% to 23% with effect from 1 January 2012. The VAT rate applicable to district heating was reduced from 21% to 13.5% with effect from 1 March 2012. The rate of VAT on admissions to open farms is being amended to apply at the 9% rate.

- The Excise Duty on a packet of 20 cigarettes was increased by 25 cent (including VAT) with a pro-rata increase on other tobacco products, with effect from midnight on 6 December 2011.
- Provision is made to allow for the increase in the rate of Carbon Tax from €15 to €20 with effect from 6 December 2011 in respect of petrol and auto diesel and 1 May 2012 in respect of the other mineral oils and natural gas.

The Minister highlighted a number of the other new measures in the Finance Bill:

- The Bill contains 13 sections which introduce **21 individual measures to support the international financial services industry** to meet the ambitious target of creating 10,000 jobs over the next five years as set out in the Strategy for the sector which was published last July. Taxation measures in this area are outlined in detail in the appendix to this press release. None of the measures have a significant cost element and the majority is aimed at simplifying the tax treatment applying to complex financial transactions in order to make it easier to do business in Ireland. In summary, the measures enhance the competitive position of the sector through:
 - 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 UCITS IV Directive which was implemented on 1 July 2011,
 - 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, and
 - Allowing Irish structured finance companies to invest in “forest carbon credits” in order to support the ‘Green IFSC’ initiative.

- It is proposed to make a number of **administrative changes in relation to assessment**. These include changes to modernise, simplify and streamline the pre self-assessment assessing rules and the self-assessment rules relating to direct taxes. The proposed measures will result in efficiency gains for Revenue, taxpayers and practitioners and, in part, will increase protection of the revenue base.
- The Bill will make provision for two amendments to the **taxation for civil partnerships**. The first provides recognition in tax law of legally binding maintenance agreements made on the breakup of a civil partnership to put them on the same footing as married couples. The second amendment ensures that civil partners whose partnership has broken down and have a legally binding agreement, but who are still living under the same roof, may also obtain the same tax treatment as formerly married couples in similar circumstances.
- The Bill provides for the changes to the **age related income tax credit** for 2012 announced by the Minister for Health in late 2011. The credits will be in five year bands for individuals aged between 60 and 84 and a final band for individuals aged 85 and over. This is the final year of the “interim” tax based scheme. The support for older persons in the health insurance market will not be delivered via the tax system for subsequent years.
- Professional cricket players will be able to avail of the **relief on the retirement for certain income of certain sportspersons** and consequently be eligible for a higher rate of relief on pension contributions made under Section 787 (8A) of the TCA 1997.
- **Compensation payments to turf cutters** for giving up the right to cut turf in Special Areas of Conservation will be exempted from CGT.
- **Stamp Duty** is to be put on a self-assessment footing, in common with other taxes. Instruments will be required to be stated within 30 days of a transaction, the adjudication procedure will be abolished, Revenue will have provisions to make assessments, audit and appeal procedures will be introduced, and other related changes will be made.
- Provision is made to mitigate the harsher impacts at retirement for certain individuals resulting from the significant reduction to €2.3 million in the

maximum allowable pension fund at retirement for tax purposes (the Standard Fund Threshold or SFT) given effect to in Budget and Finance Act 2011. The section does not remove the tax liability arising on a chargeable excess but provides for more flexible recovery of the tax payable. Where the capital value of an individual's pension benefits at retirement exceeds the reduced SFT of €2.3 million, or a higher Personal Fund Threshold (PFT) if applicable, a "chargeable excess" arises which suffers an immediate ring-fenced tax charge of 41 per cent, with further tax implications when the individual's pension benefits are drawn down. Currently, the administrator of a pension scheme is obliged to pay any tax due on a chargeable excess "upfront" and to recover it from the benefits paid to the individual under the scheme.

- The proposed amendments to the **Relief for Investment in Films** are aimed at encouraging compliance by qualifying companies with the reporting requirements of the scheme to the Revenue Commissioners.
- As a measure to assist in the **countering of tax evasion and shadow economy** activities, it is proposed to provide Revenue with powers similar to those contained in section 15 (order to produce documents or provide information) and section 16 (privileged legal material) of the Criminal Justice Act 2011 (CJA). These powers would only be available where Revenue are investigating tax serious tax offences/crimes that are similar to those covered by the CJA.
- The **definition of bread, for the purposes of the application of the zero rate of VAT**, is being revised to reflect the breads currently available on the market, taking account of the development of bread for health, ethnic and other reasons. As a result of the revised definition the range of zero-rated breads will include loaves, rolls, batch bread, bagels, baps, blaas, burger buns, finger rolls, wraps, naan breads and pitta bread.
- Provision is made to allow for a **partial relief from the carbon tax for certain Combined Heat and Power (CHP)** installations not covered by the EU Emissions Trading Scheme.
- Provision is made also to **strengthen Revenue powers to combat the criminal laundering of marked gas oil**, including that a marked fuels trader's licence will

be required for every trader producing, holding, dealing in, or delivering marked gas oil or marked kerosene.

Details of the various measures are provided in the attached list of Finance Bill measures. This list is also available, along with the text of the Finance Bill and the Explanatory Memorandum, at www.taxpolicy.gov.ie

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