

# Budget 2010

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**Minister Brian Lenihan delivered his Budget statement this week. Cutting expenditure was the Budgets' main focus.**

The following is a breakdown of the main highlights that the Budget focused on...

- Decrease in standard VAT rate from 21.5% to 21%
- No change to income tax bands, allowances or credits
- No changes to income tax rates, income levy, or PRSI for 2010
- Universal social contribution scheme to replace PRSI, the health levy, and income levy to be introduced in 2011
- Non-resident Irish nationals or Irish domiciled individuals with worldwide income in excess of €1m and Irish located capital in excess of €5m will be subject to an Irish domicile levy of €200k per annum
- Increase in effective tax rate for high earners to 30% (plus PRSI and levis) for 2010
- Introduction of a carbon tax at the rate of €15 per tonne
- Introduction of car scrappage scheme for cars ten years and older
- Reduction in rates of excise duty on beer and cider, wine and spirits. No change to rates of duty on tobacco products
- Commitment to 12.5% corporation tax rate
- Enhancements to the R&D tax credit regime and Intellectual Property regime may be included in the Finance Bill

## **INCOME TAX**

### **Restriction of tax reliefs for high earners**

The restriction of reliefs measure is being amended for 2010 and subsequent tax years in order to achieve an effective rate of income tax of 30% for those subject to the full restriction. The entry level threshold for the restriction will now occur at adjusted income levels of €125,000 and the full restriction will apply at €400,000.

The minister is introducing an Irish domicile levy of €200,000 per annum on all Irish non-resident nationals and domiciled individuals, whose worldwide income exceeds €1,000,000 million and whose Irish-located capital is greater than €5,000,000.

The tax treatment of pension lump sums and the rate of relief on contributions will be considered in the Government National Pensions Framework to be published shortly by the Department of Social and Family Affairs.

## **OTHER INCOME TAX**

### **Mortgage Interest Relief**

Qualifying loans taken out before 1 July 2011 will continue to get relief for 7 years. Transitional measures will be provided for qualifying loans taken out between 1 July 2011 and end 2013.

Those whose entitlement to relief would, in the absence of this change, expire in 2010 or after, will continue to qualify for relief at the applicable rate up until end 2017.

Abolition of the relief entirely by end 2017.

### **Capital Allowances**

Extension of the existing capital allowances scheme for energy efficient equipment purchased by companies from seven categories of eligible equipment to ten.

### **Corporation Tax**

The Minister reinforced his commitment to the 12.5% corporate tax rate on trading profits. He stated that "The 12.5% corporation tax rate will not change. It is here to stay."

The current 2009 scheme to provide a three year exemption from tax on the income and gains of new start-up companies will include companies who commence to trade in 2010.

The Minister indicated that enhancements to the R&D tax credit regime and Intellectual Property regime will be detailed in the Finance Bill.

### **Capital Taxes**

There were no changes to the Budget on capital gains tax, capital acquisitions tax and stamp duty rates.

### **Relief from Income Levy for certain Farm expenditure**

Relief from the income levy will be allowed in respect of certain expenditure incurred by

farmers to comply with the requirements of the EU Nitrates Directive 91/676/EEC. This measure will cost approximately €6m over a three year period and will cost €1.8m in 2010.

## **EXCISES**

### **Decrease in Excise on Alcohol**

Excise Duty is being reduced on Beer and Cider by 12 cent (VAT inclusive) per pint, on Spirits by 14 cent (VAT inclusive) per half glass, and on Wine by 60 cent (VAT inclusive) per 75cl bottle. These reductions will take effect from midnight on 9 December 2009.

### **Vehicle Registration Tax (VRT)**

The following package of measures will be introduced:

- Car Scrappage Scheme
- Extension of VRT exemption for Electric Vehicles
- Extension of VRT relief scheme for Plug-in Hybrid Electric Vehicles

A car scrappage scheme is being introduced with effect from 1 January 2010, to run until 31 December 2010. VRT relief of up to €1,500 will be provided where a car of 10 years or older is scrapped in accordance with certain criteria and a new car of emissions bands A or B (i.e. with CO<sub>2</sub> emissions of 140g/km or less) is purchased.

The existing VRT exemption for series production electric vehicles and the VRT relief of up to €2,500 for series production plug-in hybrid electric vehicles (both of which are due to expire on 31 December 2010) are being extended for two years until 31 December 2012.

## **Carbon Tax**

A carbon tax at a rate of €15 per tonne is being introduced on fossil fuels. The tax will apply to petrol and auto-diesel with effect from midnight, 9 December 2009; and from 1 May 2010 to Kerosene, Marked Gas Oil, Liquid Petroleum Gas (LPG), Fuel Oil and Natural Gas. The application of the tax to coal and commercial peat is subject to a Commencement Order. Exemption from the tax will apply only to participants in the EU Emissions Trading Scheme (ETS) in respect of fuels so covered.

## **VALUE ADDED TAX**

### **Reduction in standard VAT rate from 21.5 per cent to 21 per cent.**

The standard rate of VAT will be reduced from 21.5 to 21 per cent with effect from 1 January 2010. This decrease will apply to all goods and services which are currently subject to VAT at 21.5 per cent.

## **SOCIAL WELFARE**

### **People of Working Age**

The maximum personal rate for all weekly schemes (other than personal rates applicable to those aged 66 and over) will generally decrease by amounts varying between €8.20 and €8.50 per week from the first week in January 2010 and proportionate decreases will apply in respect of people on reduced rates of payment.

Associated maximum Qualified Adult Allowances will generally decrease by €5.50 per week from the first week in January 2010 and proportionate decreases will apply in respect of people on reduced rates of payment.

There will also be a decrease of €10 per week in the maximum rate and a decrease of €4.50 per week in the minimum rate of Maternity Benefit and Adoptive Benefit from the first week of January 2010.

### **Activation Measures**

There are a number of changes to the Jobseeker's Allowance and Supplementary Welfare Allowance schemes as set out below:

- New maximum personal rates of Jobseeker's Allowance and basic Supplementary Welfare Allowance will be introduced for new applicants aged 20 to 24 inclusive. The new rate will be €100 per week for new applicants aged 20 to 21 and €150 per week for new applicants aged 22 to 24. The Qualified Adult rate applicable to Jobseeker's Allowance/basic Supplementary Welfare Allowance applicants aged 20 and 21 will also be €100 per week and for those applicants aged 22, 23 and 24 will be €130.10 per week. These rate reductions will not apply to claimants with dependant children.
- The personal rate of Jobseeker's Allowance and basic Supplementary Welfare Allowance will be reduced to €150 per week where job offers or activation measures have been refused. Further details of this measure will be published in the Social Welfare Bill, 2010.

### **Children**

Children Child Benefit rates will be reduced by €16 per month from January 2010 bringing the lower rate to €150 per month and the higher rate to €187 per month.

The increase for a Qualified Child will be improved by €3.80 per week from 1 January 2010.

All Family Income Supplement (FIS) earnings thresholds will be increased by €6 per week per child.

### **Reductions in public service salaries and professional fees**

Public Service salaries will be reduced as follows:-

- 5% on the first €30,000 of salary
- 7.5% on the next €40,000 of salary
- 10% on the next €55,000 of salary

This produces overall reductions in salaries ranging from 5% to just under 8% in the case of salaries up to €125,000.

In place of the above reductions, salaries above this level will be adjusted in line with the recommendations of the Review Body on Higher Remuneration in the Public Sector. This will produce reductions ranging from 8% on salaries of up to €165,000, 12% on salaries up to €200,000, 15% on salaries of €200,000 or more and 20% in the case of the Taoiseach.

### **Public Service Pensions**

A new single scheme for all new entrants to the public service from 2010 onwards will be introduced – with main provisions as follows:

- raising the minimum public service pension age to 66 years initially from 65 at present to bring it into line and link it henceforth with the State Pension age;
- setting a maximum retirement age of 70 years – the Public Service Superannuation (Miscellaneous Provisions) Act 2004 removed the retirement age for most new entrants to the public service; for staff recruited before 2004, a maximum retirement age of 65 generally applies; and
- pensions to be based on “career average” earnings rather than final salary as currently applies. A specific “pension accrual rate” will be applied to pensionable pay so that each year public servants will earn or accrue a certain amount of pension payable on retirement. This is a fairer, more equitable and progressive system: it lowers the pensions of persons with high earnings especially in late career with less impact on the pensions of lower paid public servants with relatively “flat” career earnings such as nurses and manual workers.

If you have any queries in relation to any of the above information, please do not hesitate to contact us at Paul O’Donovan & Associates 021-4321799 or e-mail [info@paulodonovan.ie](mailto:info@paulodonovan.ie)