



# MONEY MATTERS

with Derek Madden & Company



## Jobs Initiative May 2011

On 10 May, 2011, the Minister for Finance, Mr Michael Noonan T.D. presented his Jobs Initiative to the Dáil. This contains a number of measures designed to drive job creation at a time when Ireland's unemployment rate is now 14.7 per cent and with very low confidence in the domestic economy. Before outlining the measures, the Minister took the opportunity to reiterate the government's 'unequivocal' message on Ireland's corporation tax rate, saying 'let me be absolutely clear on this issue: our 12.5% rate of corporation tax is here to stay'.

Any incentives to increase employment thereby increasing tax revenues and reducing payments from the Social Welfare funds are to be welcomed. However the full details on the announcements are needed. Further information and clarifications will emerge in the coming weeks and especially when the Finance (No.2) Bill 2011 is published. It is hoped that the measures announced will allow business to grow by reducing costs and increasing access to capital.

Key Points are set out below:

### 1. New 9% Vat Rate

A new temporary second reduced rate of VAT of 9% will be introduced with effect from 1 July, 2011, in order to stimulate employment. This rate applies to a specific range of services in the tourism industries and certain specific additional areas as follows:

- Restaurant and catering services
- Hotel and holiday accommodation
- Various entertainment services such as cinemas, theatres, amusement parks and sports facilities
- Hairdressing
- Brochures, maps, programmes and newspapers

Most of these activities are labour intensive and the move is designed to encourage activity in these sectors by lowering the cost of same. The hospitality sector should pass on these savings to customers to encourage people to spend.

The new reduced rate will apply until the end of December 2013. The impact of this new rate on the tourism sector is to be reviewed before the end of 2012 in the context of preparing Budget 2013.

### 2. 8.5% Employer PRSI Halved

The lower rate of employer PRSI (8.5%) is to be halved for employees earning up to €356 per week which equates to €18,512 per annum. This will apply from 1st July 2011 to both current employees and new employees until the end of 2013. It was also confirmed that the existing Employer Job (PRSI) Incentive scheme will remain in place until the end of 2011.

The minimum wage will be restored to €8.65 per hour from 1st July 2011 also.

### 3. Research & Development

The tax credit legislation is to be amended to enhance flexibility for companies in accounting for the R & D credit. Specific details are to follow.

### 4. Capital Projects

Approximately €90 million has been made available for school and road repair projects along with an additional €30 million extension to the national retro-fit home energy efficiency and renewable energy programmes. This move has been welcomed by the Construction Industry Federation.

### 5. New SME Loan Scheme

A new loan scheme for small and medium sized enterprises was announced. Minister for Jobs, Enterprise and Innovation Richard Bruton is to provide further details.

### 6. Annual 0.6% Pension Levy

The measures contained in the Jobs Initiative proposal are to be funded by means of a temporary 0.6% levy on the market value of assets in private pensions schemes approved under Irish tax legislation. The valuation date for the levy is to be 1st January 2011 and it is to last four years intending to raise €1.88 billion.

The introduction of this pension levy has angered many and it seems to be another impediment to people providing for themselves after retirement. The uncertainty regarding the future of tax relief on pension contributions and the fear that the temporary levy could become more permanent or extended all lead to warnings of further damage to retirement savings of private sector workings. It is a worrying trend that with Ireland's ageing population there seems to be only discouragement for people to provide for their old age.



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