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## Budget 2012 Highlights

The Minister for Finance has announced details of Budget 2012. The Plan has introduced proposals for significant revenue generating measures focusing on the indirect tax side, mainly VAT and also Capital taxes.

The financial adjustment was set at €3.8bn with €2.2bn coming from expenditure cuts and €1.6bn coming from increased taxation measures including:

### Income Tax/PRSI

- As promised in the recent Programme for Government, the Minister for Finance has not increased income tax, and the standard rate band and tax credits remain the same as in 2011.
- From 1 January 2012, individuals with total income lower than €10,036 (previously €4,004) will be exempt from the Universal Social Charge.
- Employers will be required to collect the Universal Social Charge on a cumulative basis from 1 January 2012.
- Employees with other income such as rental income, dividend income and deposit interest will see an increase in taxes from 1 January 2013, given the imposition of PRSI on this investment income. Proprietary directors and the self-employed already pay PRSI on investment income.
- Following on from changes during 2011, employee PRSI will apply to all share-based remuneration from 1 January 2012. The exemption from employer PRSI on all such remuneration remains in place.
- Removal of 50% employer PRSI relief for employee contributions to occupational pension schemes from 01 January 2012.
- The main deposit interest retention tax (DIRT) rate has been increased from 27% to 30% and the higher DIRT rate of 30% has also been increased to 33%. These increases will apply from 1 January 2012.
- Mortgage interest relief has been increased to 30% for first time buyers who bought their properties at the height of the property boom between 2004 and 2008. The rate for first time buyers who purchase in 2012 will be 25% and non-first time buyers will obtain relief at 15%. For those who purchase after 2012 mortgage interest relief will no longer be available and it will be completely abolished from 2018.
- The household charge of €100 per household will be effective from 1 January 2012. This charge will be replaced by a charge on property values from 2014 onwards.



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- Removal of the tax free exemption of the first 36 days of Illness Benefit and Occupational Injury Benefit paid to employees
- Property Based Reliefs:
  - Introduction of a 5% surcharge targeted at property investors whose gross income exceeds €100,000. The surcharge will apply on the amount of income sheltered by property reliefs in a given year and will be introduced with effect from 1 January 2012.
  - Investors in accelerated capital allowances schemes (e.g. hotels) will no longer be able to use any capital allowances beyond the tax life of the particular scheme where that tax life ends after 1 January 2015

## Tax Credits, Tax Bands & Universal Social Charge

Tax Credit	2011	2012
Single Person	1,650	1,650
Married Person	3,300	3,300
PAYE Credit	1,650	1,650
Widowed Person (without dependant children)	2,190	2,190
One Parent Family Credit	1,650	1,650
Incapacitated Child Credit Max	3,300	3,300

## Tax Bands

Personal Circumstances	2011	2012
Single/Widowed without dependant children	32,800 @ 20% Balance @ 41%	32,800 @ 20% Balance @ 41%
Single/Widowed qualifying for One Parent Family Tax Credit	36,800 @ 20% Balance @ 41%	36,800 @ 20% Balance @ 41%
Married Couple one spouse with Income	41,800 @ 20% Balance @ 41%	41,800 @ 20% Balance @ 41%
Married Couple both spouses with Income	41,800 @ 20% with increase of 23,800 max Balance @ 41%	41,800 @ 20% with increase of 23,800 max Balance @ 41%



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## Universal Social Charge (USC)

### Individual aged under 70 years

USC Thresholds					
2011			2012		
	Rate				Rate
Income up to €10,036	2%	Income up to €10,036			2%
Income from €10,037 to €16,016	4%	Income from €10,037 to €16,016			4%
Income above €16,016	7%	Income above €16,016			7%

### Individual aged 70 years or over, or individuals who hold a full medical card (regardless of age)

USC Thresholds					
2011			2012		
	Rate				Rate
Income up to €10,036	2%	Income up to €10,036			2%
Income above €10,036	4%	Income above €10,036			4%

### Exempt Categories:

2011	2012
Where an individual's total income for a year does not exceed €4,004	Where an individual's total income for a year does not exceed €10,035
All Dept of Social Protection payments	All Dept of Social Protection payments
Income already subjected to DIRT	Income already subjected to DIRT

## Duties

- The rate of stamp duty on non-residential property has been significantly reduced from a top rate of 6% (on transfers exceeding €80k) to a flat rate of 2%
- The special 50% stamp duty reduction for transfers within families, which was removed for transfers of residential property in Budget 2011, is to be totally abolished from 1 January 2015.

## Business Tax

- Corporation Tax Rate remains at 12.5%.
- Corporation tax 3 year exemption for startup companies is extended to companies commencing to trade in 2012, 2013 or 2014.
- The research and development tax credit is to be amended to improve the benefit to SMEs. The first €100,000 in research and development expenditure will be allowed on a volume (not incremental) basis. The tax credit will continue to apply to incremental



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research and development expenditure in excess of €100,000 as compared with the base year 2003.

- A portion of the research and development tax credit can now be utilised to reward key employees tax efficiently.
- The Minister confirmed that the standard rate of VAT will increase from 21% to 23% from 1 January 2012.
- The Redundancy and Insolvency Scheme is being amended to reduce the employer rebate on statutory redundancy payments from 60% to 15% from 01 January 2012.

## **Capital Acquisitions Tax (CAT)**

- The rate of CAT has been increased to 30% for gifts or inheritances, in respect of a gift or inheritance taken on or after 7 December 2011.
- The Group A tax free threshold for gifts or inheritances from a parent to a child is being reduced from €332,084 to €250,000 in respect of gifts or inheritances taken on or after 7 December 2011. The other group thresholds remain unchanged.

## **Capital Gains Tax (CGT)**

- The rate of CGT has been increased from 25% to 30% from 7 December 2011.
- From 7 December 2011 until the end of 2013 if a property is bought and held for more than 7 years, then any gains accruing in that period will not be liable to CGT.
- CGT Retirement Relief for business and farming assets is maintained for transfers within a family by individuals aged 55 to 66 years. For transfers within a family where the individual is aged over 66 years there will be an upper limit of €3 million placed on the value of the assets being disposed.
- For transfers of assets outside the family, the current upper limit of €750,000 is maintained for those aged 55 to 66 years. However, the limit is reduced to €500,000 for individuals aged over 66 years.

## **Other Measures**

- Carbon tax on fossil fuels will increase from €15 per tonne to €20 per tonne (a 33% rise). This increase will apply to petrol and auto-diesel with effect from 7 December 2011.
- The increase in carbon tax will apply to other fossil fuels such as kerosene and natural gas with effect from 1 May 2012.
- No carbon tax on solid fuels.
- The Motor Tax rates for all categories of vehicles will increase from 1 January 2012. For private vehicles where the tax is based on CO2 emissions, there will be an increase in the annual charge from between €56-€158



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- Annual imputed distribution to Approved Retirement Funds is increased from 5% to 6%.
- All Weekly social-welfare payments unchanged
- The fuel allowance season will be reduced by six weeks from 32 weeks to 26 weeks.
- Child benefit will remain at €140 per month for each of the first two children, but the rates for the third and subsequent children will be standardised to €140 per child over the next two years.
- In relation to the One-Parent Family Payment, the upper age limit of the youngest child for new claimants will be reduced to 12 years in 2012, with further reductions to an eventual seven years on a phased basis.
- The Back to School Clothing and Footwear Allowance will fall from €305 to €250 for children aged 12 years or more and from €200 to €150 for children aged over four.
- Where a Jobseeker's Benefit recipient is working for part of a week, the payment entitlement will be based on a five-day week rather than a six-day week
- The minimum contribution by single tenants towards rent for the purposes of Rent Supplement scheme will increase from €6 to €30 a week, with the minimum contribution payable by couples rising to €35 a week
- The minimum contribution for the purpose of the Mortgage Interest Supplement scheme will increase by €6 to €30 a week for a single person and for couples to €35.
- Third-level student contributions rise by €250

*Please note the above list is not an exhaustive list of proposed changes. In addition, the above notes are based on the budget speech and not on draft legislation, which will not be available until the Finance Bill is published. Derek Madden & Company accepts no responsibility for any action which any individual or business may take or not take based on their reading of this fact sheet. Professional advice should be taken before any action is taken.*

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