Minister Noonan delivered his second Budget Speech and advised that the current budget deficit for 2012 will be 8.1% which is within the 8.5% target. The intention is to reduce this deficit to 2.9% by 2015. The Minister summed up the financial crisis in one word "debt" - meaning national debt and personal debt. He said that the Government is committed to reducing the national debt and that the Central Bank will oversee a range of options to deal with unsustainable personal debt. However, there will be no blanket reduction of personal debt.

Budget 2013 saw the introduction of a property tax, a 10 Point Tax Reform Plan to assist SMEs and a REITs system to stimulate the property market. Capital Acquisitions Tax, Capital Gains Tax and DIRT were all increased by 3% and there was also a broadening of the PRSI base. Increases were also announced to motor taxes and excise duty.

BUDGET 2013

The main taxation changes are:-

- The introduction of a Local Property Tax.
- The introduction of Real Estate Investment Trusts (REITs).
- New capital allowance scheme for companies in the aviation sector.
- A rebate scheme for road hauliers to commence in July 2013.
- An increase in the threshold for accounting for VAT on a cash basis from €1m to €1.25m.
- Changes to R&D tax credit relief.
- The extension of stock relief by three years to 2015 and the extension of Enterprise Investment Incentive and Film Reliefs to 2020.
- A 3pc hike in the universal social charge on pensioners earning more than €60,000 and PAYE workers earning more than €100,000.
- Capping the tax relief on pension contributions announced to take effect in 2014.
- An increase in the rates of capital gains tax and gift/inheritance tax by 3% to 33%.

BUSINESS TAX MEASURES

SME 10 Point Tax Reform Plan

A 10 Point Tax Reform Plan has been proposed to assist small and medium sized enterprises with cashflow and also to incentivise job creation. This plan includes the following measures:

1) 3 Year Tax Relief for Start Up Companies

This scheme provides relief from corporation tax on trading income and certain gains in the first three years of trading. Budget 2013 proposes to reform this relief to allow any unused relief to be carried forward beyond the first 3 years of trading due to insufficiency of profits. The maximum amount of relief in any one year cannot exceed the eligible amount of Employers' PRSI in that year.

2) Increase of the de minimus Close Company Surcharge Threshold

Irish tax resident companies which are controlled by five or fewer shareholders, are obliged to pay an additional tax of 20% on its investment or rental income to the extent this income is not distributed to its shareholders within eighteen months of the end of the accounting period in which the income is generated.

Budget 2013 is proposing a new de minimus threshold of €2,000, meaning that any undistributed investment or rental income earned under this threshold will not be subject to the close company surcharge. This threshold was previously €635.

3) Amendment of the R&D Tax Credit Relief

The first €200,000 of R&D expenditure will be eligible for the 25% R&D tax credit on a volume basis. This tax relief was modified in last year's budget which allowed the first €100,000 R&D expenditure to benefit from the tax credit. Prior to Budget 2012, a R&D tax credit was only available on the incremental R&D expenditure incurred by a company over the R&D expenditure incurred in its 2003 base year.

The R&D tax credit regime is to be reviewed in 2013.

4) Increase of the Cash Receipts Basis Threshold for VAT from €1 Million to €1.25 Million

The turnover threshold has been increased from €1 million to €1.25 million for VAT registered persons who wish to opt to account for VAT in respect of supplies of goods or services on a cash basis rather than on an invoice/sales basis. This change takes effect from 1 May 2013.

5) Extension of the Foreign Earnings Deduction for Work Related Travel to Certain Countries Beyond the BRICS

Last year's Budget re-introduced a Foreign Earnings Deduction where an employee spends a minimum of 60 days developing export markets in Brazil, Russia, India, China and South Africa, the so-called BRICS countries.

Where the relevant conditions are satisfied, an individual is entitled to a reduction in their income for income tax purposes up to a maximum of €35,000.

Budget 2013 now extends the Foreign Earnings Deduction to work related travel to Algeria, Democratic Republic of Congo, Egypt, Ghana, Kenya, Nigeria, Senegal and Tanzania.

6) Extension of the Employment and Investment Incentive Scheme

This incentive scheme was introduced by Finance Act 2011 to replace the Business Expansion Scheme ("BES"). The BES was introduced to encourage employment in certain types of companies through the provision of tax relief for investment in these companies. Under the 10 Point Tax Reform Plan, this scheme will extend from 2014 to 2020 subject to EU State Aid clearance.

7) Extension of Stock Relief for Farmers

The general rate of stock relief of 25% has been extended for a further three years to 2015. The Young Trained Farmers stock relief of 100% has also been extended for a further three years subject to receiving EU State Aid clearance.

The definition of registered farm partnerships which qualify for stock relief has been widened to include beef production partnerships for the purposes of the 50% rate of stock relief. This proposed change is also subject to EU State Aid clearance.

8) Introduction of New Capital Gains Tax Relief for Farmers

A new capital gains tax relief is being introduced to facilitate farm restructuring. The relief will be available where the proceeds from a sale of farm land are reinvested for the same purpose. The sale and purchase of farm land must occur within 24 months of each other and the initial sale or purchase transaction must occur within the period commencing 1 January 2013 and ending on 31 December 2015.

The relief will also apply to farm land swaps subject to certification by Teagasc for all transactions seeking relief.

DEREK MADDEN & COMPANY

This new relief is subject to receipt of EU State Aid approval.

9) Review of the "carried interest" Provision in the Tax Code

Budget 2013 Summary makes reference to a review of the carried interest provisions in the tax code with a view to the reform of such provisions in order to assist companies involved in innovation activities to access investment from venture capital funds.

10) Announcement of a Public Consultation to Identify Ways to ease the Administrative Burden of Tax Compliance for Micro Enterprises

Aviation Sector

Businesses operating in the aviation sector can avail of an accelerated capital allowance scheme over seven years in relation to the construction of certain aviation-specific facilities. It is proposed that this scheme will operate for a period of five years from commencement of the scheme and will be subject to certain restrictions. For example, unused capital allowances cannot be used to shelter other income.

Other Business Changes

Real Estate Investment Trusts

An established, internationally recognised model for property investment - Real Estate Investment Trust (REIT) is to be introduced. REITs are listed companies, used to hold rental property, which provide a return for investors similar to that of direct investment in property. Qualifying income and gains of a REIT will be exempt from corporation tax at the level of the REIT company.

Film and TV sector

Film relief (known as section 481 relief) is to be extended to 31 December 2020 with changes to the scheme to be introduced in 2016 to enable tax relief to flow to production rather than tax payers.

Tourism Sector

The 9% VAT rate of the tourist industry will continue in 2013.

Hauliers

A relief from excise duty on auto-diesel for licensed road hauliers will be introduced from 1 July 2013.

PERSONAL TAX MEASURES

Personal tax rates and Universal Social Charge (USC)

There is no change in the headline rates of personal tax of 20% and 41%. But the effective rate of tax and USC payable by PAYE workers earning in excess of €100k and pensioners earning more than €60k will increase by 3% with effect from 1 January 2013 with a three-point increase in the USC.

Introduction of a Local Property Tax

The new Local Property Tax will commence with effect from 1 July 2013, thereby resulting in a half year charge in 2013. The new tax will be administered by the Revenue Commissioners. It applies to private homes and residential investment properties.

The tax will be payable based on the market value of the property as assessed by the owner. The initial valuation on 1 May 2013 will determine the tax payable up until and including 2016. The Revenue Commissioners will issue guidelines in March 2013 to property owners to advise on how to value their properties. The Local Property Tax Return will need to be completed in May 2013. In 2013, the tax will be due in July if making a single payment as opposed to paying by direct debit. In subsequent years, the tax will be due in March of each year.

The applicable tax rate is 0.18% on properties valued at up to €1 million and 0.25% on any excess value over €1 million. For properties valued between €100,000 and €1 million, there are valuation bands of €50,000. Therefore, a property valued between €500,001 and €550,000 will be assessed at €525,000. A property worth €1.25 million will be liable to tax at 0.18% on the first €1 million and 0.25% on €250,000. The table below sets out examples of the property tax that will apply in 2013 and 2014 based on different property values.

Property Value	2013	2014
€325,000	€292	€585
€775,000	€697	€1,395
€990,000	€877	€1,755
€1,250,000	€1,212	€2,425

There are a variety of payment options available. In the absence of election by liable persons to a particular payment method the Revenue will automatically deduct the tax at source. In the case of the self-employed the Revenue Commissioners will not issue a tax clearance certificate where there is unpaid Local Property Tax. Late delivery of the Local Property Tax Return will be

linked to the filing of an income tax return, thus exposing a self-employed taxpayer to a late filing penalty.

First time buyers who purchase a property in 2013 will be exempt from the Local Property Tax up until 2016. In addition, purchasers of new and previously unoccupied houses will also be exempt from the Local Property Tax up to the end of 2016. There are also a number of options to defer the payment where owner occupiers have a gross income of less than €15,000 (single) or €25,000 (couple) or their net income after 80% of their mortgage interest is less than these amounts. Where the Local Property Tax is deferred, annual interest of 4% will apply.

From 2015, the local authorities will have the power to vary the rates by 15% above or below the national central rates.

The Household Charge is to be abolished from 1 January 2013. The annual Non Principal Private Residence Charge (NPPR) will apply for 2013 and will be abolished thereafter.

The Finance Local Property Tax Bill 2012 will be published later this week and will set out full details of the tax.

Mortgage Interest Relief

As planned, mortgage interest relief is being abolished in respect of properties purchased after 31 December 2012.

Regeneration Areas

The Minister indicated that he will examine proposals for targeted incentives in already identified regeneration areas in a number of cities.

Termination and Redundancy Payments

Top Slicing Relief will no longer be available from 1 January 2013 on ex-gratia lump sums in respect of termination and severance payments where the non-statutory payment is €200,000 or over.

Pensions

Tax relief continues to be available at the marginal rate (currently 41%) on pension contributions. However, tax relief on pension contributions will be restricted with effect from 1 January 2014 and will only be given up to a level that will provide pension income of up to €60,000 per annum.

Changes will also be made in 2014 to the maximum allowable pension fund at

retirement for tax purposes (the Standard Fund Threshold).

Individuals will also be allowed a once-off option to withdraw up to 30% of the value of funded Additional Voluntary Contributions (AVCs) made to supplement retirement benefits. Any withdrawals will be liable to income tax at an individual's marginal rate. This option will be available for a period of three years from the passing of Finance Bill 2013. It is not clear if this facility applies to PRSA or RAC contributions.

Finally, the Government also announced its policy that the Pension Levy, which was introduced as part of the Jobs Initiative, will not be renewed after 2014. This levy of 0.6% on the market value of assets under management in pension funds and pension plans was temporarily introduced to apply to years 2011 to 2014 inclusive.

Benefit-in-Kind on Loans

Increase from 12.5% to 13.5% in the specified interest rate used in calculating the taxable benefit from preferential loans, other than home loans. The specified rate used to calculate the taxable benefit from home loans is decreased from 5.0% to 4.0%.

Employment Investment Incentive and Film Relief

The Employment Investment Incentive (which replaced BES relief in 2012) and Film Relief will be extended from 2014 to 2020 subject to State Aid clearance. Film Relief is to be overhauled in 2016 with changes to be announced.

Deposit Interest Retention Tax (DIRT)

The rate of DIRT is to increase from 30% to 33% (or from 33% to 36% for interest paid less frequently than annually).

PRSI

The weekly allowance of €127 per week for employees has been abolished so that PRSI will be paid on all income with effect from 1 January 2013.

Up until now, modified PRSI rate payers have not been liable to PRSI on trading or professional income and unearned income. That has now changed with effect from 1 January 2013.

With effect from 1 January 2014 unearned income for all tax payers will be liable to PRSI at 4%.

An increase has been made to the minimum annual PRSI contribution for self-employed earners from €253 to €500.

Universal Social Charge ("USC")

The reduced rate of USC for those over 70 with an income in excess of €60,000 will be discontinued from the 1st January 2013 with the result that the standard rates of USC will apply. Previously, the maximum rate at which they paid the USC was 3% less than those under 70.

Changes to Tax Relief for Charitable Donations
Finance Bill 2013 will legislate for changes to the tax relief available for charitable donations. The blended rate of refund will be 31% and this rate will take effect in respect of donations made by individuals on or after 1 January 2013.

CAPITAL TAXES

CAPITAL GAINS TAX AND GIFT/INHERITANCE TAX MEASURES

The rate of CGT which is currently 30% has been increased to 33% in respect of disposals made on or after 6 December 2012.

Details of the new relief in respect of certain disposals by farmers are included in the 10 Point Reform Plan for SME's.

Capital Acquisitions Tax ("CAT")

The CAT tax free thresholds in respect of gifts or inheritances taken from 6 December 2012 have reduced by 10% as follows:

Class A from €250,000 to €225,000
Class B from €33,500 to €30,150
Class C from €16,750 to €15,075

The CAT rate has also been increased from 30% to 33% in respect of gifts or inheritance received on or after 6 December 2012.

EXCISE DUTIES, SOCIAL WELFARE CHANGES AND OTHER MEASURES

Other measures announced include:-

- No change in excise duty on petrol or diesel.
- Motor tax on new cars in bands A1 to B2 will increase by between €10 and €40 with higher increases on cars in bands C to G.
- The child benefit rate will be cut by €10 per month.
- The drug payment scheme threshold is being increased from €132 to €144 per month.
- The price of 20 cigarettes will increase by 10 cent and roll your own tobacco will increase by 50 cent per 25g pack.
- Excise duty on a pint of beer or cider will rise by 10 cent, on a standard measure of spirits by 10 cent and on a 75cl bottle of wine by €1
- From 1 July 2013, maternity benefit will be liable to income tax but exempt from the USC.
- The carbon tax will be extended to solid fuels on a phased basis. A rate of €10 per tonne will be applied with effect from 1 May 2013 and at a rate of €20 per tonne from 1 May 2014.

Except where indicated the above measures will apply from midnight on the 6th of December 2012

Tax Credits, Tax Bands & Universal Social Charge

Tax Credit	2013	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
Incapicated Child Credit Max	3,300	3,300

Tax Bands

Personal Circumstances	2013	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	41,800 @ 20%	41,800 @ 20%

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.