

I BUDGET 2009

Amid economic uncertainty and a fall in tax revenue, the Irish Government published Budget 2009 yesterday. There was much discussion of the current turmoil in the financial markets and the deficit faced by the Irish Government in the Minister's speech. The response of Government has been to introduce a number of taxation measures and the following contains a summary of the main issues of interest to businesses.

- The Minister stated that a low rate of corporation tax is essential to Ireland's prosperity and confirmed that there will be no change upward in the 12.5% rate of corporation tax. In particular, he stressed the importance of the pharmaceutical, technology and financial services sectors.
- The general VAT rate will be increased by 0.5% to 21.5% with effect from 1 December. The other VAT rates remain unchanged.
- The top rate of stamp duty on commercial property has been reduced from 9% to 6% in respect of instruments executed on or after 15 October.
- The rate of capital gains tax has been increased from 20% to 22% with effect from 15 October and the due date for payment has been brought forward.
- A new tax in the form of an income levy has been introduced. It will apply to gross income (i.e. income before deducting capital allowances and pension contributions etc.) and will be charged at a rate of 1% on income of up to €100,100 and at a rate of 2%, on the excess.
- The tax credit available for incremental expenditure on research and development work has been increased from 20% to 25% for accounting periods commencing on or after 1 January 2009. In addition, the Commission for Taxation is to make recommendations about how to improve the Irish tax system for intellectual property.
- New start up companies that commence trading in 2009 will be exempt from corporation tax on income and capital gains for the first three years of business where their tax liability would otherwise be €40,000 or less.
- The payment dates for Corporation taxpayers have been brought forward where the corporation tax liability for the year exceeds €200,000. This will apply to accounting periods commencing on or after 14 October.
- An extension to the categories of energy saving equipment which will qualify for 100% capital allowances (tax depreciation) has been announced to include data server related systems, large energy saving office equipment associated with Information & Communications Technology and certain heating and electricity systems.

- Deposit Interest Retention Tax (DIRT) which applies to savings income has been increased by 3% to 23% for ordinary deposit accounts and to 26% on other savings products with effect from 1 January 2009. Similarly, the rates of withholding tax that apply to life assurance funds and investment funds are being increased by 3% from 20% to 23% in respect of annual distributions and from 23% to 26% in respect of disposals, deemed disposals and other distributions.
- A new tax charge is being introduced on employees who are provided with car parking facilities by employers in certain urban centres. A flat rate charge of €200 per annum will apply.
- The annual earnings limit for determining the maximum tax allowable pension contributions has been reduced from €275,000 to €150,000 for 2009.

Subject to the above comments, the tax system and rates of tax remain largely unchanged. The standard rate of income tax remains at 20%, the top rate at 41% and social welfare contributions in the form of PRSI deductions remain the same. The Corporation tax rate of 25% on passive income and, as noted above, the 12.5% rate for trading income remain unchanged, as does capital acquisitions tax (inheritance and gift tax) of 20%.

The detail of precisely how the above measures will be implemented will be contained in the Finance Bill which is due to be published on 20 November. It should be noted that the Finance Bill may contain additional taxation measures.

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