

7th April 2009

MINI BUDGET ANALYSIS



There had been ample warnings in advance of this Budget in terms of steep increases in taxation and cuts in Government expenditure. According to Ms **Jackie Masterston, Tax Partner of Russell Brennan Keane**, Minister Lenihan duly obliged in terms of the increases in taxation which have immediate effect along with some changes that were not expected. She also said that the Minister detailed a platform for budgetary strategy in future years which entail some very fundamental changes to our taxation system.

“It was expected that the budget would be focused mainly on cost saving measures and taxation changes that would give instant results in terms of raising revenue, to help address the shortfall in Exchequer funding” said Jackie. Indeed many of the key changes which were predicted in advance of the budget were in fact confirmed such as;

- Doubling the rate of the income levy to 2%; 4% and 6%. In addition, the entry levels for each of the thresholds have been lowered
- Increases in the rate of excise duty on diesel (no change to petrol) and cigarettes, etc
- The employee PRSI ceiling is being increased
- The existing health levy has also been doubled

Like all budgets he introduced some new unexpected measures to including;

- A special stamp duty trade in scheme for residential properties
- Interest relief on rented residential property to be reduced to 75%
- Deposit interest retention tax (Dirt) increased to 25%
- Increases in the rates of Capital Gains Tax and Capital Acquisitions Tax to 25%
- The capital acquisition thresholds are to be reduced by 20%
- Most tax incentives in the health care sector to be abolished
- A scheme of tax relief is being introduced for the acquisition of intangible assets including intellectual property.
- The 20% special residential land rate of income tax/corporation tax is being abolished and losses from residential property restricted
- Mortgage interest relief on principal private residence will only be available for the first seven years.

According to Jackie, a number of these changes were signalled but were somewhat wider than expected. With the exception of certain initiatives for training etc Jackie commented “Unfortunately few initiatives were introduced to support business or enterprise or indeed to assist in the area of unemployment. “For example, the Minister did not use the opportunity to perhaps give a boost to enterprise through lowering of certain VAT rates, reducing the employers PRSI, or introduce new initiatives to boost enterprise and employment”.

The Minister announced a whole range of initiatives to be introduced over the next few years, as he signalled a platform of reform to be introduced as part of his future budget strategy. The Commission of Taxation is due to report later in the year and its function is to advise the Government on how it might address changes in the taxation system.

Jackie Masterson said that “the changes signalled by the Minister will be fundamental and far reaching with a view to widening the tax base, eliminating or reducing many tax incentives and indeed changing the focus in terms of new sources of taxation. It is very likely that changes will involve the introduction of a property tax; taxation of child benefit; the introduction of a carbon tax and changes to pensions”.

In summary therefore the budget has delivered along predicted lines, tough in terms of the tax increases introduced; cuts in Government expenditure which affect many sectors of society along with setting the platform of taxation reform for the future. Meanwhile, one has to wait to see if the changes introduced will bring about the much needed stability to the economy and if it will help to kick-start activity in those sectors which have been hardest hit in the recent downturn.

For more information please contact Jackie Masterson on 090 6480600 or email jmasterson@rbk.ie

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About RBK

Russell Brennan Keane is one of Irelands leading business advisory and accountancy firms. With 50 years experience providing professional advisory services to a range of clients in the mid to large corporate market in Ireland, from offices in Dublin, Athlone and Roscommon.

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