

7th September 2009

TAXATION COMMISSION REPORT



The long awaited 561 page report from the Commission on Taxation was published at 11am today. Tax practitioners and the media will be pouring over the detail of the report in the coming days. The recommendation of a new property tax and carbon tax was widely rumoured and both feature in the Report.

Pensions

Another much publicised feature of the Report is an overhaul of the pensions system. “The Commission has made a number of recommendations aimed at encouraging more people to save for pensions with a particular focus on low to middle income earners” said Jackie Masterson, Taxation Partner, Russell Brennan Keane.

The proposals include:

- A new Retirement Savings Scheme which would work on a similar basis to the SSIA;
- Matching exchequer contributions (€1 for every €1.60) to replace the current system of tax relief for pensions; with a kick start provision involving a €1 contribution by the Exchequer for every €1 by the taxpayer.
- Previously tax payers could withdraw 1.5 times salary or 25% of their pension fund tax free on retirement, depending on circumstances. The proposal is to cap the tax free element of the lump sum at €200,000 and tax the balance of the lump sum at the standard rate. Further withdrawals from the pension fund will be taxed at the higher rate as before.

Personal Taxes

On personal taxes, Jackie commented on the third rate of income tax being proposed, “The wording seems deliberately vague in that this could potentially be higher or lower than the current top rate. However, if we take the Minister’s assertions that income tax rates will not be increased, the assumption must be that this will be a mid-tier rate designed to broaden the tax base” she continued. .

Business

“For companies and businesses, there are some welcome measures proposed”, said Jackie including an extension of the corporation tax holiday for new businesses starting out in 2010 or 2011 and a similar scheme for non-incorporated businesses. Another welcome proposition is that dividends will be taxed at same rate as deposit interest, ie, 25%, which should provide further incentive to entrepreneurs to continue in or start in businesses in these difficult times.”

“For retiring shareholders of family businesses, the news is not so positive with the proposed restriction of certain key reliefs used to facilitate the transfer of businesses to the next generation. The Capital Gains Tax relief for family transfers will continue but will be capped so that it applies to assets valued up to €3m; the excess will now be taxable. For gift tax purposes, the proposal is to significantly curtail two key reliefs, business property and agricultural relief” continued Jackie. “Previously, the effect of these reliefs was to reduce the tax rate to 2.5% on transfers of businesses/farms; now the rate is reduced to 6.25% for businesses/farms worth up to €3m; for businesses/farms worth more than that, the excess will become taxable, if the Commissions proposals are implemented”.

Commenting on the above, Jackie noted that in the context of the current low valuations of property and businesses, many families were already considering transitioning on their businesses. The threat of the above reliefs being curtailed will be an important consideration in the timing of any such transfers.

PROPERTY

The Report recommends zero-rating of stamp duty for purchasers of principal private residences and replacing the annual €200 levy on residential property with an annual property tax (‘APT’). “This tax would apply to the gross value of all residential property except for certain dwellings including houses rented from local authorities and social housing providers. The Commission makes no explicit reference to valuation bands and rates, although its own workings strongly suggest rates of between 0.25% and 0.30%” commented Derek Andrews, Tax Director, Russell Brennan Keane.

It is recommended that persons living in affluent areas should pay more tax than those in less well off areas. “In this regard, the proposal will reignite criticisms of the previous property tax regime, residential property tax, insofar as it discriminated against those living in urban areas. It is proposed that purchasers of principal private residences be exempted from paying the annual property tax for a seven year period from the year they paid stamp duty” continued Derek.

Other proposals include a windfall tax on gains from rezoning decisions and an annual tax on undeveloped development land.

Carbon Tax

The Reports sets out a framework for the introduction of a carbon tax for inclusion by the Government in Budget 2010. This tax will primarily affect farming, energy, manufacturing and transport businesses and if accepted will come into effect next January. The carbon tax will be applied to emissions from fossil fuels including peat, coal, oil, auto fuel and LPG. The rate of tax will approximate the EU emissions trading scheme price of carbon (€15.24/tCO₂ today) with a proposal for a floor price.

The Commission recommends continuance of the scheme of accelerated capital allowance for energy-efficient equipment scheme. It also recommends that Ireland reduces the rate of VAT on such goods and services in line with our European partners.

If you have any queries or would like to discuss in confidence how this report impacts on you, please contact Jackie Masterson (email jmasterson@rbk.ie) or Tel 01 6440100 or 090 6480600.

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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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