Budget* 2006

December 2005

Disclaimer: This document is intended only to provide a general guide to the subject matter. Professional advice should always be taken before acting on any information contained in this guide.

Budget highlights

- Significant pension changes
- Phasing out of various property incentives
- Measures introduced for capping the use of specific incentive reliefs
- Abolition of capital duty
- Increase in personal tax credits
- Increase in the standard rate income tax band
- Abolition of remittance basis for employment income

Pensions

As expected, today's Budget delivered by Minister for Finance, Mr Brian Cowen, T.D., introduced a number of significant changes to pensions:

Pension lump sums

The maximum amount of tax-free lump sums which may be paid out of pension funds on or after 7 December 2005 has been limited to €1.25m, where existing lower limits do not apply. While lump sums in excess of this amount may still be paid, they will be subject to tax at the individual's marginal rate of income tax.

Approved retirement funds (ARFs)

A phasing-in of a 3% deemed drawdown on ARFs from 2007 onwards. The deemed drawdowns (reduced by actual drawdowns made during the year) will apply on 31 December each year and will be subject to tax at the individual's marginal tax rate.

Employee pension contributions

The earnings cap of €254,000 for existing employee contributions will be indexed in line with an earnings-index with effect from the 2007 tax year onwards.

Cap on pension funds

The maximum allowable pension fund on retirement for tax purposes will be capped at €5m or the value of the individual's pension fund at 7 December 2005, if higher. These amounts will be indexed annually in line with an earnings-index from the 2007 tax year onwards. Any excess in the pension fund over these limits will be subject to a once-off tax charge at 42% on eventual draw-down.

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Taxation of individuals

The Minister introduced the following changes to personal tax credits and income tax bands:

Personal Tax Credits	Credit	
	2005	2006
Single	€1,580	€1,630
Married	€3,160	€3,260
Additional One-Parent Family Credit	€1,580	€1,630
Employee credit	€1,270	€1,490

Standard Rate Cut-off Level	2005	2006
Single	€29,400	€32,000
One-parent family	€33,400	€36,000
Married - one income	€38,400	€41,000
Married - two incomes	€58,800	€64,000
Maximum standard rate band per spouse	€38,400	€41,000

Remittance basis of taxation

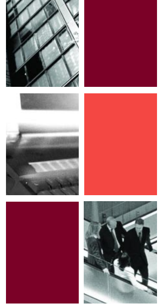
The remittance basis provides favourable taxation treatment in respect of individuals resident in Ireland, but who are either not domiciled or not ordinarily resident in Ireland. This favourable taxation treatment has been abolished in respect of income earned from an employment exercised in Ireland post 1 January 2006.

Childminders' exemption

Individuals, who mind up to three children in their own home, will pay no tax on childminding income, provided it does not exceed €10,000 per annum. Where this income exceeds the limit, the total amount will be taxable.

PRSI / health levies

The employee PRSI earnings ceiling has been increased from €44,180 to €46,600. The lower weekly threshold for liability to PRSI has also been increased from €287 to €300, while the weekly health levy threshold increases to €440.



Capital gains tax

The Minister has sought to close a loophole involving inter-spousal asset transfers followed by the recipient becoming non-resident. Such schemes were used to avoid a liability to capital gains tax. Following this change the subsequent disposal of the asset will be liable to capital gains tax.

Property incentives

The majority of property based tax incentive schemes are to be discontinued, subject to transitional measures, which apply only to projects that have satisfied existing transitional requirements, for example pre-31 December 2004 valid planning application. It will also be necessary that at least 15% of total qualifying construction expenditure (excluding site) be incurred by 31 December 2006. The Budget 2006 requirements for incurring qualifying expenditure are set out in the table below.

Scheme	Budget 2006 requirements
• Urban, rural and town renewal schemes. • Hotels (7 year allowances) • Holiday cottages • Student accommodation • Multi-storey car parks (outside Dublin and Cork) • Third level educational buildings • Developments associated with park and ride facilities • Sports injury clinics	• All expenditure incurred by 31 December 2006 qualifies • Only 75% of expenditure incurred during 2007 will qualify • Only 50% of expenditure incurred between 1 January 2008 and 31 July 2008 will qualify • No expenditure incurred after 31 July 2008 will qualify

The above restrictions do not apply to private nursing homes, private hospitals, convalescent homes and childcare facilities.

The schemes of relief for park-and-ride facilities and living-over-the-shop are closed for new projects since 31 December 2004. These schemes will be reintroduced in a more focused way.

The current scheme of allowances for private hospitals will be extended to private psychiatric hospitals.

In addition, while tax relief is currently available to individuals for interest on loans used to invest in certain companies, this relief will not apply to interest on new loans drawn down after 7 December 2005 to invest in property rental companies.

Other taxation measures

Following the review of taxation incentives undertaken on behalf of the Department of Finance, the Minister has announced the following amendments:

Cap on tax reliefs

A new measure is being introduced from 1 January 2007 to limit the use of tax reliefs by individuals whose taxable income would have exceeded €250,000 in the absence of such reliefs. This will involve a calculation that broadly operates by restricting the maximum amount of "specified reliefs" to the greater of €250,000 or 50% of "recomputed gross income". Any relief denied in a particular year can be carried forward. A full list of "specified reliefs" will be provided in the Finance Bill but will include property based tax incentives.

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Stallion and greyhound stud fees

The tax exemption for income from the sale of certain stallion and greyhound services has been abolished with effect from 31 July 2008. Following discussions with the European Commission, a replacement regime might be introduced.

Artists' exemption

Post 1 January 2007 the artists' exemption will continue to apply where income is less than €250,000 per annum. The cap outlined above also applies to an artist's income in excess of the €250,000 limit.

Business measures

The Minister introduced the following measures that will impact on businesses.

Capital duty

Companies' capital duty has been abolished for transactions undertaken on or after 7 December 2005.

Interest relief

Finance Bill 2006 will include measures aimed at restricting the use of interest relief on borrowings arising on certain transactions between related companies. The restriction will apply to transactions undertaken on or after 7 December 2005.

Leasing income

The Minister has confirmed measures to relax certain restrictions on the offset by companies of losses arising from capital allowances, on the leasing of certain plant machinery. These measures will be contained in Finance Bill 2006.

Betting duty

The betting duty rate will be reduced to 1% with effect from 1 July 2006.

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