

Budget 2010



Irish Taxation
Institute

Cork

Thursday, 10 December 2009

Speakers:

Mark Barrett & Michael Mullins,
Moore Stephens Nathans

Rochestown Park Hotel, Cork

7.45 a.m. – 9.00 a.m.



Pre Budget Press

- Tough Budget ahead
Irish Times (Fri, 13 Nov 2009)
- Lenihan's budget speech will bring sense of reality -- but the truth hurts
Irish Independent (Mon, 7 Dec 2009)
- You are right to worry about budget day
Irish Times (Fri, 4 Dec 2009)
- Taxpayers face a generation of pain
Financial Times (Thu, 26 Nov 2009)
- If today's cuts go too far economy will get the snip
Irish Independent (Wed, 9 Dec 2009)

Pre Budget Press

- Realistic budget will reinvigorate economy
Irish Times (Thu, 3 Dec 2009)
- Income tax take €50m over target last month
Irish Times (Thu, 3 Dec 2009)
- Wiggle room in Exchequer figures
Irish Independent (Thu, 3 Dec 2009)

Pre Budget Press

- [Don't tax me, tax him](#)
The Sunday Times (Sun, 22 Nov 2009)

Budget 2010 – Judging this Budget

- Ireland's attractiveness internationally
- Domestically – job creation and economic growth
- Innovative Ideas – preparing for the future

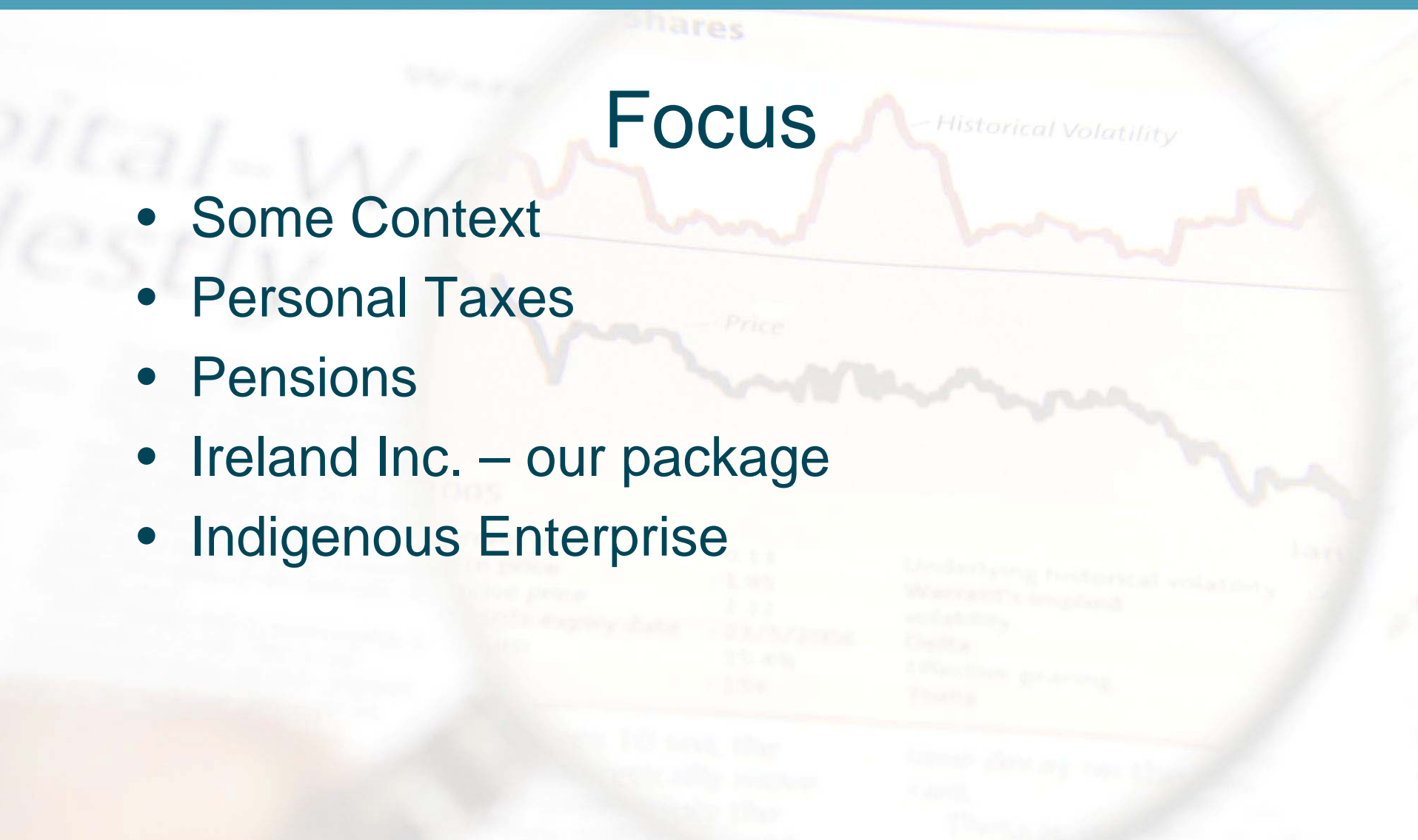
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Focus

- Some Context
- Personal Taxes
- Pensions
- Ireland Inc. – our package
- Indigenous Enterprise





Tax Targets in Emergency Budgets

October 2008

€

2bn

April 2009

3.6bn

5.6bn

Tax Yield Figures

	2007	2008	2009(?)	% Drop
Income Tax	13.5bn	13.1bn	12.4bn	(-8%)
VAT	14.5bn	13.4bn	11.4bn	(-21%)
CGT	3.1bn	1.4bn	625m	(-80%)
Stamp Duty	3.1bn	1.6bn	980m	(-68%)
Total Yield	47bn	41bn	32bn	(-32%)

Tax Yield Back at 2003 levels

Since 2003 Current expenditure has increased by 70%

Personal Tax – Speculation

- Reduced band for top rate Income Levy?
 - 6% on income over €150,000 (prev. €174,980)
 - Increase in income levy rates?
- 3rd rate of income tax? - unlikely
- Reduction in basic tax credits
 - Knock-on reduction in income tax entry point
- Employee PRSI Ceiling
 - Increase to €150k or removal?

Effect on Job Creation & Retention

- International Competitiveness
 - UK & France
- Incentive to work; productivity

Current Marginal Personal Tax Rates

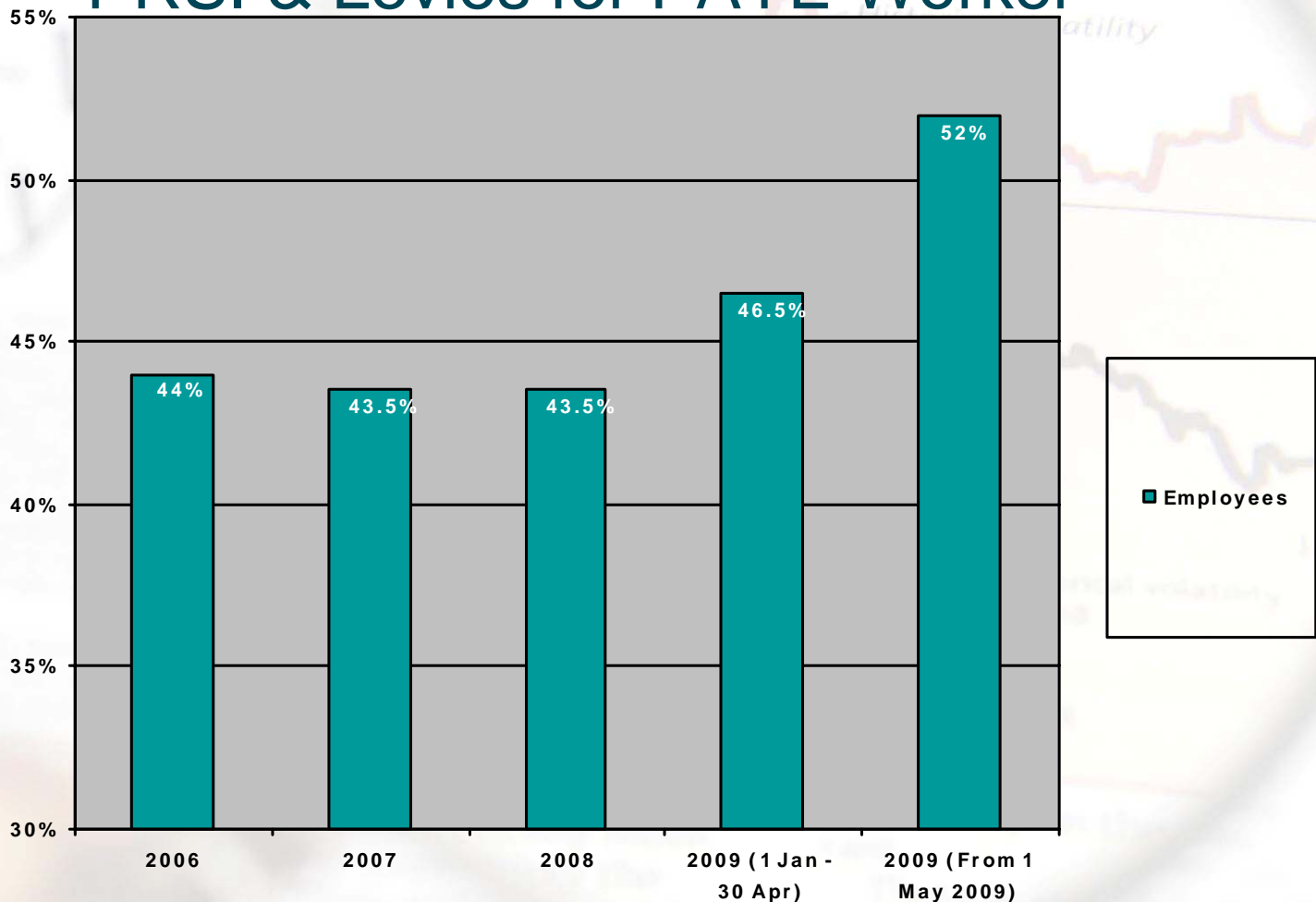
	PAYE Worker Marginal Rates
Income Tax Income over €36,400 (single person band)	41%
Income Levy €174,980 and over	6%
PRSI	0%*
Health Levy €75,036 and over	5%
Total	52%

*PRSI ceiling for employees of €75,036 after which no PRSI is paid

History of the Marginal Rates (Income Tax, PRSI & Levies)

- Pre October 2008 Budget
 - Marginal rate for employee – 43.5%
 - Marginal rate for self employed – 46.5%
- 1 Jan 2009 to 30 April 2009 (Oct '08 Budget)
 - Income Levy at rates of 1%, 2% & 3%
- From 1 May 2009 (post Apr '09 Budget)
 - Doubling of Income Levy to 2%, 4% & 6%
 - Doubling of Health Levy to 4% & 5%

Marginal Rates of Income Tax, PRSI & Levies for PAYE Worker



April 2009 Budget – The Hit

<u>Single Person</u>	<u>Tax Hit</u>	<u>Loss as % of net Income</u>
€30,000	€900	3.5%
€50,000	€1,500	4%
€100,000	€4,611	7%

[Source: Department of Finance]

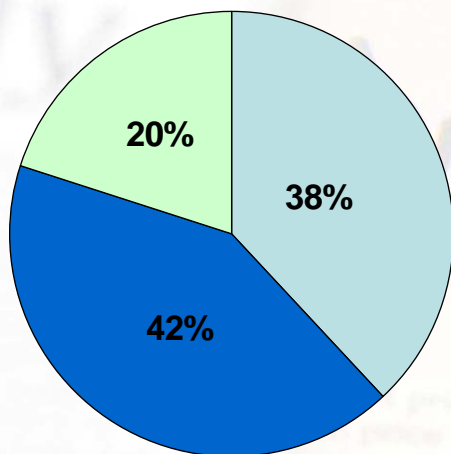
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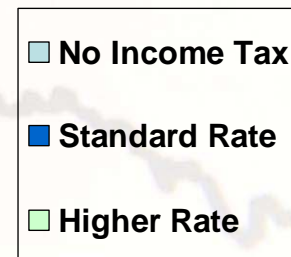
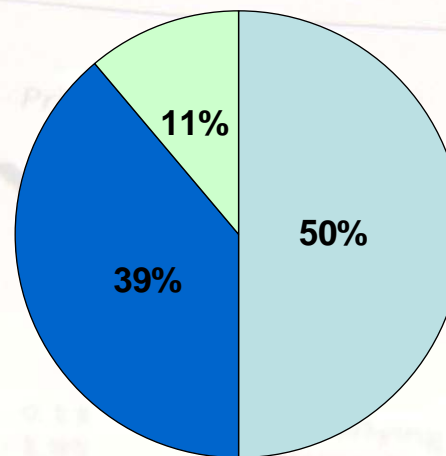
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Who pays income tax at each rate?

In 2008



2010



[Source: Minister of Finance, Brian Lenihan TD, Dublin Chamber of Commerce Dinner, 15 October 2009]

Impact of Tax Credits

- Single person under 65
 - €18,300 since 1 January 2007
 - This is income which at 20% gives €3,660 or less (i.e. the sum of basic tax credits)
- Married Couple
 - One Income – €31,950
 - Two Incomes – €36,600

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- “Taking the example of people earning €150,000 upwards, one would be required to increase the marginal rate to 67pc to raise €1bn in that area.”
[Source: An Taoiseach, 21 October 2009]
- “I think when it [tax rates] starts to get to 60% or 65% or 70%, then I think no. And I would seriously look at I think moving offshore.”
[Source: Michael O’Leary speaking on Marian Finucane on Saturday, RTÉ Radio One, 28 November 2009]
- The top 4% of income earners pay 48% of Income Tax
[Source: Minister for Finance, Dublin Chamber of Commerce Dinner, 15 October 2009]

Pensions – Where we are

- Personal pension contributions are tax deductible at the marginal income tax rate
- Tax relief on personal contributions is limited to:
 - A cap on earnings of €150,000 p.a.
 - An age-related percentage of income

Pensions – Pre Budget Speculation?

- Introduction of a hybrid rate of tax relief for all (30% / 33%)?
 - Issues – Impact on coverage and adequacy
 - Overall Strategy Needed



Ireland Inc. – Our Package

What's good?	Wish List
<ul style="list-style-type: none">✓ 12.5% Corporation Tax Rate✓ R & D Relief✓ Good Revenue Administration System✓ Centre of international excellence	<ul style="list-style-type: none">Enhance R & D ReliefVenture Capital InitiativesHuman Capital Incentives

Indigenous Enterprises

What's good?	Wish List
<ul style="list-style-type: none">✓ BES /Seed Capital Reliefs✓ R & D Relief✓ Good Revenue Administration System✓ Start up reliefs for corporates	<ul style="list-style-type: none">Widen start-up reliefsEnhance R & D ReliefReduction in Employer PRSI linked to job creation

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What Message Was Sent?

Steps Towards Recovery

“A Cheann Comhairle, the worst is over”....

Government's Plan:

- Stabilise the deficit in a fair way
- Safeguard those worst hit by recession; and
- Stimulate crucial sectors of our economy to sustain and create jobs

Restoring Our Competitive Edge

- Consumer Prices Declining at fastest rate in Europe...but still amongst the highest in Europe
- Wages increased by 70% in ten years – “we have priced ourselves out of the market”..
- Prices and costs of doing business must move down

Why Borrowing is not the Answer

- 1980's experience – all of our taxes went to paying interest on the national debt
- International debt markets have become more crowded and more fragile
- Only decisive action will restore confidence

Why We Cannot Tax Our Way Out Of This

- Heaviest burden is on those best able to pay
- Single person on €100,000 pays 11 times more in tax and levies than a person on €25,000
- “We have reached the limit”



Good Budget For...

- Business
- Economic Recovery?

Bad Budget For...

- Public Servants
- Young Unemployed

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Michael Mullins Moore Stephens Nathans

Reforming The Tax System

- 50% of income earners excluded
- 4% pay 50% of yield
- Time for change
- January 2011

Reforming The Tax System

- Universal Social Contribution
 - Employee PRSI
 - Health Levy
 - Income Levy
- Payable by everybody
- Income tax at progressive rates for higher earners

Broadening The Tax Base

- Property Tax
 - Value of all land in State
 - Site Valuation Tax (Rates)
 - Work is started
- Water Charges
- Second Homes Tax

Broadening The Tax Base

- High Earners - €125,000
- Tax Incentives – Property Based
- 30% IT plus PRSI & Levies
- Full Restriction €400,000
- Curtailment & removal of further reliefs – Finance Act

Broadening The Tax Base

- Irish Nationals
- World wide income €1m
- Irish located capital €5m
- Annual fee €200,000

Broadening The Tax Base

More Powers to Revenue:

- Smuggling
- Tax avoidance Schemes
- Shadow Economy

Broadening The Tax Base

Carbon Tax:

- Starts 10/12/2009
- €15 per tonne
- Petrol/Diesel

Broadening The Tax Base

Carbon Tax:

- Home Heating Oil 1/5/2010
- Coal & Peat: commencement order
- Bogs

“The carbon tax will allow us to maintain a low payroll tax”

Stabilising the Deficit

- €1bn Pay Bill
- €760m social welfare
- €980m day to day spending
- €960m investment projects
- €300m A.N. Other
- €4bn Total

Stabilising the Deficit

Higher Public Servants

- 8%: €125,000 to €165,000
- 12%: €165,000 to €200,000
- 15%: €200,000 +
- Includes hospital consultants
- Pension entitlements of those retiring in 2010 not affected

Stabilising the Deficit

Junior & Mid Public Servants

- 5% of first €30,000
- 7.5% of next €40,000
- 10% of next €55,000
- Average 5% to 8%

Stabilising the Deficit

Commission on Taxation

- Agrees €200,000 cap on Pension Lump Sum
- Tax on balance 30%/33%?
- Tax Relief on Contributions 33%?
- National Pension Framework

Stabilising the Deficit

- Public Service Pensions Increases CPI
- Job Seekers Allowance 20/21: €100 p.w.
- Job Seekers Allowance 22/24: €150 p.w.
- Refuse Job or Training : €150 p.w.
- Child Benefit minus €16 per month per child

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Mark Barrett

Warrant price	0.13	Underlying historical volatility
Warrant price	1.95	Warrant's implied volatility
Warrant price	2.22	Delta
Warrant expiry date	23/5/2008	Collection granting
	15.4%	Yield
	-10%	

Further Expenditure Measures

- Adjustments in day to day spending – savings through efficiencies rather than reductions in services
- Efficiency Review of Local Authorities (Report by mid-2010)



Investment for Recovery and Employment – Areas of Focus for 2010

- Schools Buildings
- Tourism Infrastructure
- Science, technology and innovation
- Green initiatives
- Health sector
- Public Transport
- Finishing Inter-Urban motorways

Safeguarding Those Worst Hit By Recession

- Helping People Back to Work and Protecting Jobs
- €136m in training places and supports
- Responding to the Flooding - €70m package of measures over 2009 and 2010

Mortgage Interest Relief

- Qualifying loans pre 1 July 2011 will continue to get relief for 7 years
- Transitional measures for loans taken out between 1 July 2011 and 2013
- Where relief due to expire in 2010 or after, relief will now apply up until end 2017
- Relief to be abolished completely by end 2017



Stimulating The Economy To Help Sustain And Create Jobs

Retaining a Pro-Enterprise Tax Policy

- “12.5% rate has become an international brand...it will not change. It is here to stay”
- R&D Incentives & Intellectual Property: Report of the Innovation Taskforce – Finance Bill
- Financial Services Sector – package of measures to be introduced in Finance Bill

Corporation Tax

3 Year Tax Exemption for Start-up Companies:

- Exempt from tax where the tax liability (including CGT) does not exceed €40,000 in each year
- Subject to EU State-Aid approval
- Companies commencing in 2009 – Now extended to companies commencing in 2010

Retail Sector

- Reductions in excise duty (Vat Inclusive)
 - 12 cent per pint of beer and cider
 - 14 cent per half glass of spirits; and
 - 60 cent per standard bottle of wine
- Reduction in standard rate of VAT to 21% with effect from 1 January 2010 (reverse October 2008)

Energy Efficiency – Motor Vehicles

- VRT exemptions (electric cars) and reliefs for hybrid cars (€2,500) extended to 31/12/2012
- Car scrappage scheme to run from 1 January to 31 December 2010. VRT relief of up to €1,500 for cars of over 10 years old being scrapped

Boosting Energy Efficiency to Stimulate the Economy

- €130m for National Retrofit Programme 2010
- €50m from Carbon Tax Yield to fund retrofitting social housing stock, avoid fuel poverty etc.
- Scheme of accelerated allowances for energy efficient equipment is being enhanced to include refrigeration and cooling systems etc



Agriculture and Forestry

- Agri-Environmental Scheme - €50m allocation
- Forestry and Bio-energy - €121m

Tourism Sector

- Increase in Tourism Budget to achieve 3% growth
- Investment in visitor attractions trebled to €22m

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