Newsrelease from the Department of Finance on the Finance Bill 2011

January 21, 2011

The Minister for Finance Brian Lenihan T.D. today published the Finance Bill 2011 which gives effect to the taxation measures announced in last December's Budget. The Minister said:

"This Finance Bill is an important element of the National Recovery Plan which plots a course to sustainable economic growth and employment.

The measures contained in the Bill continue the process of stabilising our public finances, providing appropriate support to business and assisting the Revenue Commissioners to maintain a climate of compliance.

The measures in the Bill which will assist all businesses and help boost employment include the Employment and Investment Incentive , which replaces and updates the Business Expansion Scheme. In response to calls from the tourism industry, the Air Travel Tax is being substantially reduced. I have extended the three year corporation tax exemption for start up companies which create jobs. The Bill also gives effect to the fundamental reforms of Stamp Duty contained in the Budget, which will improve and stimulate the operation of the property market. Work is ongoing on the changes required in the tax system to give effect to the Civil Partnership legislation, as well as the tax treatment of bank bonuses in relevant financial institutions. Amendments relating to these areas will be considered at later stages of the Bill.

It is important to have a tax system that supports our potential to grow. That is why the Government decided, as set out in the National Recovery Plan, that two- thirds of the required budgetary adjustment over the period 2011-2014 should be achieved by way of expenditure reductions and one-third should be raised by taxation. Taxation policy measures announced in the Budget of December 7th provided for an estimated yield of €1.4 billion in 2011 and just under €2.6 billion in a full year. Most of the income tax changes envisaged in the National Recovery Plan were made in Budget 2011 and are now being given legal effect in this Finance Bill.

The measures contained in this Finance Bill, together with our budgetary strategy, will continue to encourage employment and promote genuine economic recovery."

The Bill, which will go through the Oireachtas in the coming weeks, gives effect to the following measures announced on Budget Day:

The Bill sets out the details of the Universal Social Charge (USC), introduced to replace the Income Levy and the Health Levy as announced by the Minister in Budget 2010. The USC is a more sustainable charge that applies on a wider base. It removes the steps and poverty traps associated with the Income Levy and Health Levy. The Income Levy and Health Levy had different rates of charge and different bases. The interaction of the Levies, PRSI and Income Tax created irregularities in the total tax liability as income increased. The USC goes some way to provide a smoother progression and in dealing with irregularities of the previous two charges.

Provision is made for reductions of 10% in Income Tax Credits and Bands as announced in the Budget. Provision is also being made for the reduction of the age exemption limits. These changes are in line with the commitments in the National Recovery Plan, 2011-2014.

A number of reliefs and exemptions are being either restricted or abolished. These include Rent Relief (phased out over 8 years), Patent Royalty Exemption, tax relief for trade union subscriptions, relief from BIK for employer-provided childcare facilities, capital expenditure on new machinery and plant for use in mining, and a number of share-related measures: relief on loans to acquire an interest in certain companies, Approved Share Options Scheme and relief for new shares purchased by employees. In line with the Budget announcement, provision is being made to restrict the tax exempt earnings of Artists to €40,000.

The provisions on the property-related tax expenditures, as announced in the Budget, are fully contained in the Bill (Sections 22 and 23), but the Government has decided that they will now be subject to a commencement provision which may only take effect in the next tax year following the preparation and publication of an economic impact assessment on the proposed changes. The intention to carry out an impact assessment was announced on Budget day. In light of the wide range of concerns that has been expressed regarding the potential effects of the changes on the real economy, and on employment in particular, the Government decided that such an assessment should be undertaken in advance of the commencement of the provisions

The existing Business Expansion Scheme (BES) is being reformed and renamed as the Employment and Investment Incentive (EII). This new incentive will be more targeted at job retention and creation. As the BES is an approved State Aid, any changes must first be approved by the European Commission before they can come into effect. Once the necessary approval is received from the European Commission, the new incentive will be commenced by Ministerial Order. This will encourage job creation in new and existing companies.

Tax relief for energy-efficiency works: Income Tax relief will be provided for expenditure incurred by individuals (not the landlord of the property) on a range of works undertaken to improve the energy efficiency of residential premises situated in the state. A maximum of €30 million in relief per annum will be allowed for this scheme.

The Relevant Contracts Tax system is modified to replace the current RCT rates with a three-rate withholding system on a revenue-neutral basis. A 0% rate which would apply on the same basis as currently applies to a C2 holder. A 20% rate will be introduced for subcontractors registered for tax with an established compliance record. The 35% rate will be retained as the default rate where the other rates are not appropriate.

The Bill gives effect to the fundamental reforms to Stamp Duty on residential property as announced in the Budget. Stamp Duty is now payable on 1% on residential property transactions valued up to €1 million and 2% on the excess over €1 million. This applies to all such transfers on or after 8 December 2010.

In relation to pensions, the flexible options on retirement (e.g. access to an Approved Retirement Fund - ARF etc) are being extended to all Defined Contribution (DC) pension arrangements, subject to certain changes to the general conditions attaching to those options and to certain transitional provisions.

The scheme introduced in Budget 2009 which provides a three-year exemption from corporation tax on the trading income and certain gains of new start-up companies is being extended to include start-up companies which commence a new trade in 2011. The scheme is being modified from 2011 so that the value of the relief will be linked to the amount of employers' PRSI paid by a company in an accounting period.

The Bill confirms the changes announced in the Budget to a number of indirect taxes, including: the excise increases on petrol and diesel from 7 December 2010; a single rate of Air Travel Tax of €3 with effect from 1 March 2011; the extension of the car scrappage scheme, at a reduced rate of up to €1,250, until 30 June 2011; the extension of VRT relief for hybrid vehicles and flexible fuel vehicles, at a reduced rate of up to €1,500, for a further two years until 31 December 2012; and the increase in the current VRT flat-rate of €50 for Commercial (Category C) vehicles to €200 with effect from 1 May 2011.

Also introduced, subject to Commencement Order, are the taxation changes necessary for the extension of the 1% betting duty based on turnover to remote bookmakers in respect of bets taken from persons in the State. In view of the different business model adopted by Betting Exchanges, a "betting intermediary duty" will apply at the rate of 15% on the commission they charge/receive from persons in the State. It is planned that the necessary regulatory changes will be provided for through separate legislation amending the Betting Act 1931.

The Minister highlighted a number of the other new measures in the Finance Bill:
The self-assessment rules are amended by bringing forward the date for the payment of preliminary tax for income tax purposes from 31 October to 30 September in the tax year involved. Similarly, the date for the payment of the balance of tax for the previous tax year and the submission of a tax return (relating to Income Tax and Capital Gains Tax) for that year is brought forward from 31 October to 30 September. Similar measures were undertaken last year for Capital Acquisitions Tax (CAT).

The definition of expenditure on research and development for the purposes of the R&D tax credit is being amended so that a company cannot also claim the tax credit on expenditure incurred on specified intangible assets (for which a separate tax relief scheme is already in place.)

Relief under section 247 of the Taxes Consolidation Act, 1997 will not generally be allowed in respect of interest on intra-group borrowings to finance the purchase of assets from another group company nor will such interest be allowed as a deduction in computing profits or gains of a trade.

Changes are being made to counter attempts to extract funds from close companies on a tax-free basis using trusts and other such arrangements. The changes will apply to transfers of assets or liabilities made on or after the date of publication of the Bill.

A customer service initiative to provide taxpayers with additional optional methods for the payment of taxes and duties, including by use of credit card. This gives greater flexibility for making payments while also facilitating voluntary compliance.
The Bill addresses the current lack of a specific tax-related provision governing the confidentiality of taxpayer information provided to Revenue. It will also align the treatment

of confidentiality of taxpayer information which is out of line with the practice in most other tax administrations.

Publication of tax defaulters can only follow ‘agreement’ and ‘payment’ of settlement amounts. Certain taxpayers and agents are aware of this requirement and they persistently resist or refuse to either agree liability or pay the settlement which does not allow Revenue publish the relevant details. The proposals contained in the Finance Bill address this situation.

Revenue is being granted additional powers in respect of false claims for tax relief or tax credits made by or on behalf of taxpayers. The measures impose a penalty on any person who makes a false claim or assists in making a false claim in addition to seeking recovery from the beneficiary of any tax refunded on the basis of a false claim.

Software, known as a ‘Zapper’ which can be applied to electronic point-of-sale records to seamlessly amend them to, for example, reduce the recorded turnover of a business will be outlawed and appropriately stringent penalties introduced.

Section 110 of the Taxes Consolidation Act, 1997 which governs the taxation of securitisation and structured finance transactions, is amended. The purpose of the proposed amendments is twofold. In the first instance, it will extend the type of assets that a section 110 company can acquire to include plant and machinery, commodities and carbon offsets. The carbon offset proposal is part of a broader initiative to develop a Green Financial Services Centre. At the same time, the provisions of section 110 are being restricted to better reflect their original intention.

As the current full exemption from VRT available on the purchase of electric vehicles until 31 December 2012 can result in very large VRT relief in respect of high priced electric vehicles, a cap of up to €5,000 will apply to the VRT relief available with effect from 1 May 2011.

In the case of VAT, the Bill introduces a reverse charge mechanism for the scrap metal sector; the amendment to the notification rules as regards foreign-established mobile traders, and the extension of the penalties regime for VAT non-compliance.