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IRISH FINANCE MINISTER DELIVERS 2007 BUDGET SPEECH

by KPMG, Ireland (a KPMG
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Ireland's Finance Minister, Brian Cowen, delivered his third budget statement on 6 December 2006 – the final budget of the current government prior to the 2007 general election.¹ We briefly discuss the measures affecting individuals below. (For coverage of last year's budget, see [Flash International Executive Alert 2005-193](#), 9 December 2005.)

For a more detailed analysis of the budget, please see the Web site for KPMG in Ireland at: <http://www.kpmg.ie/>.

Personal Income Tax Rates

The budget was dominated by the headline cut in the top rate of income tax from 42 percent to 41 percent effective from 1 January 2007. While welcomed by those earning less than €100,100, those earning above this level will find that much of this benefit will be eroded by an increase of 0.5 percent, to 2.5 percent, in the health levy. The 2.5-percent health levy charge applies to all income in excess of €100,100, while all income below this threshold continues to be liable to the health levy at a rate of 2 percent. Individuals in this category with no "specified reliefs" to offset against total income will register a net increase in their take-home pay. However, taxpayers with certain "specified reliefs" to offset against total income may find their total tax bill increasing as levies apply on income before these reliefs.

The standard rate bands have been widened from €32,000 to €34,000 for single people, from €41,000 to €43,000 for married couples with one income, and from €64,000 to €68,000 for married couples with two incomes.

	Income at 20%	At 41%
Single person	€34,000	Balance
Lone parent	€38,000	Balance
Married couple (one income)	€43,000	Balance
Married couple (two incomes) ¹	€68,000	Balance

Note (1): Subject to a maximum transferable amount between spouses of €43,000.

Personal Income Tax Credits

The single person's tax credit has increased by €130 to €1,760, while the married couple's credit has increased by €260 to €3,520. The employee tax credit is now €1,760, an increase of €270. There have also been increases in certain tax credits for widowed persons, widowed parents for the first five years after bereavement, the blind person's allowances, the incapacitated child credit (which has been doubled to

€3,000) and the age credit (which has been increased to €275 for a single person and €550 for a married couple). The age exemption limits have also been increased, rising by €2,000 to €19,000, for a single person, and by €4,000 to €38,000, for a married couple.

The personal income tax credits deductible against calculated tax are noted in the table below.

Type of Taxpayer	Amount
Single person	€1,760
Married couple (one income)	€3,520
Home carer's credit	€770 extra
PAYE	€1,760
Rent – single and under 55 years old	€360
Widowed person – without children	€2,310
One-parent family	€1,760 extra

PRSI

PRSI Contribution from 1 January 2007		
Employer	10.75%	No limit ¹
	8.5%	If income is €356 pw or less ²
Employee class A1		
PRSI	4%	On first €48,800 ³
Health	2%	Income up to €100,100 ⁴
	2.5%	Income more than €100,100

- 1 Includes training levy of 0.7%.
- 2 No reference in budget to this increasing.
- 3 Employees earning €339 or less pw are exempt from PRSI. In any week in which an employee is subject to full rate PRSI, the first €127 of weekly earnings is disregarded.
- 4 Employees earning €480 pw or less and medical card-holders exempt.

Self-employed PRSI		
Social insurance	3%	No limit ⁵
Health	2%	Income up to €100,100 ^{see note 4 above}
	2.5%	Income more than €100,100

- 5 Minimum annual PRSI contribution is €253.

Income Tax Reliefs and Exemptions

- The Business Expansion Scheme (BES) has been extended for a seven-year period to 31 December 2013. Moreover, the minister has dramatically increased the minimum limit on which an investor may claim relief for investment in BES companies, from €31,750 to €150,000. It is likely that this increase will breathe new life into the BES market.
- The Seed Capital Scheme is also being renewed for a seven-year period, and in that case, the investor limit is being increased from €31,750 to €100,000.

Both the continuation of the schemes, and the proposed increases, will require the approval of the EU commission before implementation.

- Last year, the minister introduced a new child-minding relief, which allowed an individual to earn up to €10,000 free of tax from child-minding in their own home. This limit has been extended to €15,000.

Preferential Loans

The specified interest rate on preferential loans from an employer to an employee has increased from 3.5 percent to 4.5 percent in respect of home loans, and from 11 percent to 12 percent in respect of other loans. These increases take effect from 1 January 2007. This is a tax increase, as it expands the base on which the benefit-in-kind charge applies.

Home Loan Interest Relief (Relief Is Granted at Source)

In a climate of high property prices, the minister was not prepared to reduce stamp duty rates. However, for first-time buyers, he doubled the ceiling for mortgage interest relief: to €8,000 for single people and €16,000 for married couples. This increased relief will be available to all first-time buyers who are in the first seven years of their mortgage. For non-first time buyers, the mortgage interest relief ceiling is increased from €2,450 to €3,000 for a single person and from €5,080 to €6,000 for a married couple.

Type of Taxpayer - First-time buyers for the first 7 years	Amount
-- Single person	Lower of €1,600 or 20% of interest paid
-- Married couple	Lower of €3,200 or 20% of interest paid
-- Widowed person	Lower of €3,200 or 20% of interest paid
Other Mortgages	
-- Single person	Lower of €600 or 20% of interest paid
-- Married couple	Lower of €1,200 or 20% of interest paid
-- Widowed person	Lower of €1,200 or 20% of interest paid

Capital Gains Tax

There has been no change to the Capital Gains Tax (CGT) rate which remains at 20 percent for the majority of asset sales except for the sale of certain foreign life assurance policies and offshore funds (40 percent). The annual exemption value remains at €1,270 per person per annum.

Retirement relief is an exemption from CGT which applies where an individual is over 55 years, and disposes of a business (including farming assets). Provided certain conditions are met, CGT is not payable where the proceeds do not exceed €500,000. The minister has increased this threshold to €750,000 with effect from 1 January 2007.

Administrative Measures

Following recent criticism that substantial tax reliefs were not being availed of by PAYE workers, the minister has announced that a number of changes are being introduced to make it easier for taxpayers to claim these. For 2007, all age-related tax credits, where possible, will be credited automatically to the taxpayer, and a system will be implemented to credit tax relief on trade union subscriptions automatically, based on trade union membership lists.

Tax Credit for Rents Paid by Tenants

The amount of rent paid by tenants for private rented accommodation that qualifies for tax relief at the 20-percent rate has been increased by €150 and €300 per annum for single and married persons respectively.

For those over the age of 55 qualifying for relief, the amounts have been increased by €300 and €600 for single and married persons respectively.

Rent-a-Room Relief

This scheme allows owner-occupiers to rent out a room in their private dwellings and receive up to €7,620 rent per annum tax free without impacting stamp duty reliefs obtained on the original acquisition of the property. Measures are being introduced to disallow this relief where the rent is received from a connected person who is also claiming the above-mentioned tax credit for rents paid by tenants.

Footnote:

1 For the budget speech and other related documentation, see the Finfacts Ireland Web site (business and finance portal) at: http://www.finfacts.com/Irishbudget2007Ireland.htm#Budget_2007_Documents
Also, visit the Department of Finance Web page: <http://www.finance.gov.ie/>.

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