



# Parfrey Murphy Newsletter

October 2008

## Budget 2009

Minister Lenihan delivered his first budget on 14 October 2008 amid the backdrop of a domestic recession and a worldwide banking and financial crisis. Many commentators expected the toughest budget in decades. The following are some of the most important provisions of Budget 2009:

### Income Tax

There were no changes to personal tax credits.

The standard rate tax bands changed as follows:

Standard Rate Tax Bands	2008	2009	Change
	20% €	20% €	20% €
Single	35,400	36,400	1,000
Married – one income	44,400	45,400	1,000
Married – two incomes	70,800	*72,800	2,000

\*The maximum transferability between spouses is €45,400 in 2009.

### Income Levy

A new income levy of 1% is being introduced that will apply to gross income up to €100,100 per annum. A rate of 2% will apply to income in excess of that amount. The levy does not apply to social welfare payments.

### Mortgage Interest Relief

The current rate of mortgage interest relief is being increased from 1 January 2009 for first-time buyers from 20% to 25% in year 1 and 2 and to 22.5% in years 3, 4 and 5. The additional relief will be available to new first-time buyers and first-time buyers who have bought a house in the last 4 years. The rate of mortgage interest relief for non-first-time buyers is being reduced from 20% to 15% from 1 January 2009.

### Health Expenses Relief

Health expenses relief will be granted at the standard rate only from 1 January 2009, with the exception of nursing home expenses which will be standard rated from 1 January 2010.

### Car Parking Levy

A flat rate levy of €200 per annum will be charged on employees whose employer provides them with car parking facilities in the main urban areas.

## Cycle to Work Scheme

From 1 January 2009, the provision of bicycles and associated safety equipment by employers to employees who agree to use the bicycles to cycle to work will be treated as a tax exempt benefit-in-kind. The exemption may only apply once in any five year period in respect of any employee up to a value of €1,000 for each employee.

## Increase in Specified Rates for Preferential Home Loans and Other Loans

An employee in receipt of a preferential loan is charged income tax on the difference between the interest actually paid and the amount which would have been payable at the "specified" rates of interest for the loans. To reflect changes in interest rates, the specified rate in respect of loans (other than home loans) is being increased from 13% to 15% from 1 January 2009.

## Benefit-in-Kind (BIK) – Company Cars

The Finance Bill will contain provisions to change the basis of the BIK charge on company cars to relate it to the cars' level of CO2 emissions.

## Employee PRSI

As from 1 January 2009, the PRSI contribution ceiling will increase from €50,700 to €52,000.

## VAT

The standard rate of VAT will be increased from 21% to 21.5% with effect from 1 December 2008.

## Air Travel Tax

An air travel tax applying to all departures from Irish airports will come into force on Monday 30 March 2009. The general rate applying will be €10 per passenger with a lower rate of €2 for shorter air journeys (those under 300 kms).

## Farmers

The farmer's VAT flat rate addition is being maintained at 5.2% for 2009.

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Young trained farmers' stamp duty relief is now being extended for 4 years and the relief will apply in respect of instruments executed no later than 31 December 2012.

The stamp duty relief available to a farmer consolidating his/her holding will be extended to 30 June 2011.

Provision is being made to renew the 25% general farming stock relief and the special 100% stock relief for young trained farmers for a further 2 years to 31 December 2010.

Provision is being made to extend the 31 December 2008 deadline of the scheme of capital allowances for expenditure on certain pollution control measures relief to 31 December 2010.

### Corporation Tax

The current 20% rate of tax credit for incremental expenditure undertaken by a company on qualifying research and development (R&D) is being increased to 25%. This will apply to accounting periods commencing on or after 1 January 2009.

Companies with a corporation tax liability of more than €200,000 in their previous accounting period are obliged to pay preliminary corporation tax, amounting to 90% of the liability for the current accounting period, one month before the end of the current accounting period (and not later than the 21st of the relevant month). The current single payment for large companies' preliminary corporation tax will be split into two instalments. This will apply to accounting periods commencing on or after Budget day, 14 October 2008.

The first instalment will be payable in the sixth month of the accounting period (e.g. 21 June for a company with calendar year accounts) and the amount payable will be 50% of corporation tax liability in the preceding accounting period or 45% of corporation tax liability for the current accounting period.

The second instalment will be payable (as at present) in the eleventh month of the accounting period (e.g. 21 November for a company with calendar year accounts) and the amount payable will bring the total preliminary tax paid to 90% of corporation tax liability for the current accounting period.

New start-up companies which commence trading in 2009 will be exempt from tax, including capital gains, in each of the first three years to the extent that their tax liability in the year does not exceed €40,000.

### Accelerated Capital Allowances – Energy Efficient Equipment

The tax incentive (introduced in Budget and Finance Act 2008) which provides for capital allowances of 100% of expenditure incurred by companies in the year the equipment is purchased is being extended from three categories to seven categories. The new categories will include efficient heating / electricity provision equipment and control systems and efficient electrical and control

equipment associated with process & heating ventilation and air-conditioning systems.

Where newly constructed commercial buildings are used before being sold and the sale does not take place within one year of first use, the purchaser gets the value of available capital allowances on expenditure on a more restrictive basis. The one year time limit for disposal is now being extended to two years.

### Stamp Duty

The current stamp duty applicable to non-residential property is being changed in respect of Instruments executed on or after 15 October 2008. The top rate of duty is being reduced from 9% to 6%.

### Capital Gains Tax

The rate of capital gains tax is being increased to 22% from 20% in respect of disposals made from midnight on 14 October 2008.

The payment date in respect of disposals in the period January to November is being changed to mid-December and the tax on disposals in December will now be due on the following 31 October.

### DIRT, Assurance Policies and Investment Funds

The rates of retention tax that applies to deposit interest, together with the rates of tax that apply to (a) life assurance policies and (b) investment funds, are being increased by 3 percentage points to 23% and 26% respectively from 1 January 2009.

### Pensions

The annual earnings limit for determining maximum tax-relievable contributions for pension purposes is being set at €150,000 for 2009 as compared with the 2008 limit of €275,239.

The indexation of the maximum allowable thresholds for pension funds on retirement (the Standard and Personal Fund Thresholds) will not be made for 2009.

### Investment Properties and Holiday Homes

A new charge on all non principal private residences will be set at €200 per dwelling, and will come into effect in 2009. It will be payable by the owners of rented accommodation, holiday homes and other non principal residences.

**Kieran Kennelly  
Parfrey Murphy  
Chartered Accountants & Registered Auditors  
Lee View House  
South Terrace  
Cork**

**Telephone: (021) 4310266  
E-mail: kieran@parfreymurphy.ie  
Website: www.parfreymurphy.ie**

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