

2009 Budget Effects on Irish Payroll Services

The recently published Irish budget for 2009 will require a number of changes to be kept in mind by Irish payroll companies. The most relevant of these are as follows:

INCOME TAX CHANGES Personal Tax Package The main elements, including associated costs, of the personal tax package, which take effect from 1 January 2009, are as follows: Changes to Income Tax Full Year Cost Eurom New Standard Rate Bands from 1 January 2009: Changes to Income Tax Full Year CostEurom New Standard Rate Bands from 1 January 2009: Current Proposed Single Euro35,400 Euro36,400 Married One Income Euro44,400 Euro45,400 Married Two Incomes Euro70,800 Euro72,800 *With a maximum transferability between spouses of Euro44,400 in 2008 and Euro45,400 in 2009 200 Income Levy Full Year YieldEurom Income levy of 1% on income up to Euro100,100 (Euro1,925 per week) and of 2% on income in excess of Euro100,100 (this levy excludes social welfare payments, contributory and non-contributory pensions) 1,180 Total (yield) 980 Income Levy Full Year Yield Eurom Income levy of 1% on income up to Euro100,100 (Euro1,925 per week) and of 2% on income in excess of Euro100,100 (this levy excludes social welfare payments, contributory and non-contributory pensions) 1,180 Total (yield) 980 Income Levy

A new income levy is being introduced that will apply at the rate of 1% to gross income up to Euro100,100 per annum or Euro1,925 per week. A rate of 2% will apply to income in excess of that amount. The levy is paid on gross income, before deductions for capital allowances or contributions to pensions. The levy does not apply to social welfare payments including contributory and non-contributory social welfare pensions. This measure is expected to yield Euro815 million in 2009 and Euro1,180m in a full year.

OTHER INCOME TAX 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 year 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. It is estimated that this measure will be broadly revenue neutral.

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. This measure is expected to yield Euro120 million in 2010 and Euro150m in a full year.

Levy on car parking facilities provided to employees by their employers. A flat rate levy of Euro200 per annum will be charged on employees whose employer provides them with car parking facilities. The levy will be confined to employer provided car parking facilities situated in the main urban centres. The estimated yield from this measure is Euro5 million in 2009 and Euro10 million in a full year.

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. There will be a limit on the value of such purchases of Euro1,000 for each employee. The scheme may also be implemented via salary sacrifice arrangements, whereby an employee agrees to forego part of his/her salary to cover the costs associated with the purchase of the bicycle and associated safety equipment. Where such salary sacrifice arrangements are implemented, they must be completed over a maximum period of twelve months. The estimated cost of this scheme is Euro0.2 million in 2009 and Euro0.4 million in a full year.

Increase in the 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%. These changes will take effect from 1 January 2009. The expected yield from this measure is Euro1.5 million in 2009 and Euro2 million in a full year.

Tax relief for the donations of heritage items The tax relief in respect of the donation of heritage items to approved State institutions is being limited to 80% of the market value of the heritage item donated. The tax relief in respect of the donation of heritage property to the Irish Heritage Trust is being limited to 80% of the market value of the heritage property donated. The ceiling on the aggregate value of donations qualifying for each of these schemes in any one year will remain at Euro6 million.

Change in basis of Benefit-in-Kind (BIK) charge for company cars to relate it to the cars level of CO2 emissions 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. It is estimated that this measure will be broadly revenue neutral.

PRSI CHANGES Employee PRSI annual ceiling As from 1 January 2009, the PRSI contribution ceiling will increase from Euro50,700 to Euro52,000.

VAT Increase in standard VAT rate from 21 per cent to 21.5 per cent. The standard rate of VAT will be increased from 21 to 21.5 per cent with effect from 1 December 2008. This increase will apply to all goods and services which are currently subject to VAT at 21 per cent. This measure is estimated to yield Euro208 million in 2009 and Euro227 million in a full year.

EXCISES Increase in Mineral Oil Tax on Petrol The mineral oil tax on petrol will be increased by 8 cent per litre (including VAT) with effect from midnight on 14 October 2008. This measure is estimated to yield Euro22 million in 2008, and Euro166 million in 2009.

Tobacco Excise The Excise Duty on a packet of 20 cigarettes is being increased by 50 cent (including VAT) with a pro-rata increase on other tobacco products, with effect from midnight on 14 October 2008. This measure is estimated to yield Euro16 million in 2008 and Euro105 million in 2009.

Alcohol Excise Excise Duty on a standard bottle of wine is being increased by 50 cent (including VAT) with effect from midnight on 14 October 2008. Pro-rata increases are also being applied to other wine, and certain other fermented and intermediate products. This measure is estimated to yield Euro5 million in 2008 and Euro31 million in 2009. A reduced rate of excise duty, at 50% of the full appropriate excise duty rate for beer and cider, will be introduced for low alcohol beer and cider (beer and cider products with an alcohol by volume content of 2.8% or less), with effect from midnight on 14 October 2008. This measure is expected to cost the exchequer Euro2 million in 2009 and Euro3 million in a full year.

Excise Licences A range of alcohol-related licensing fees, including off-licences, but excluding pub licences, are being increased to Euro500 in each case. These increases will apply from the appropriate annual renewal dates in 2009. This measure is estimated to yield Euro2 million in 2009 and Euro2.2 million in a full year.

About the Author

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