Supplementary Budget April 2009

This Update provides commentary and summary of the main changes announced in the Budget on Tuesday 7th April 2009.

THIS IS NOT A CUSTOMER DOCUMENT AND IS INTENDED FOR FINANCIAL ADVISORS ONLY.

Tough Budget but pensions escape untouched

Commentary by Pat O'Sullivan - Head of Investment Strategy

No changes in pension tax arrangements

Despite the fears of many, the Minister for Finance made no changes to the pension tax system. He did indicate, however, that the Commission on Taxation is examining various aspects of pension tax treatment including the treatment of lump sums and he expects to deal with their recommendations in the 2010 Budget next December.

It is hoped that the Commission will recognise the benefits of having a range of incentives to encourage pension saving. The long-term costs of having an under-funded private pension system will result in a huge burden for the state in years to come. It is clearly recognised that the pay-as-you-go systems operating in many European countries are unsustainable and the governments in these countries will be facing mountainous liabilities over the coming decades. In terms of contributing to a meaningful debate about the tax treatment of pensions and pension contributions, Irish Life will be commissioning a major study that will be published later this year. We believe that the merits of a well-funded and structured private pension system have been overlooked by recent commentary and the dangers of altering the system have not been clearly articulated.

But that's where the good news ended

The Minister did introduce a new 1% levy on life assurance policies premiums and increased the levy on non-life insurance premiums from 2% to 3%. This new life assurance levy appears to be applied to new and existing premiums based on our calculations. This new levy will be applied from 1 June. DIRT and exit tax on life assurance policies and investment funds are being increased by 2 percentage points in each case and will now be 25% and 28% respectively. The increased rates will apply to payments, including deemed payments, made from midnight on 7 April 2009. Capital Gains Tax and Capital Acquisitions Tax are to be increased to 25%, while the CAT thresholds are being reduced by 20%. It would appear that the Minister is determined to see higher rates of CGT and CAT and it would be no surprise to see these rates rise to about 30% over the coming Budgets.

Income levies and health levies rise

The other major items in terms of taxation to note are the doubling of the income levies to 2%, 4% and 6% while the health levies were also doubled. Furthermore, the PRSI ceiling was increased to €75,036. In terms of mortgage interest relief, it will be discontinued for any mortgage after the first seven years. While the level at which interest repayments can be claimed against tax for residential rental properties is being reduced from the existing 100% to 75%. This measure will apply to both new and existing mortgages. Commercial properties are not affected.

Overall, the tax changes are expected to generate €3.6 billion in a full year and the expenditure cuts are expected to yield savings of €1.2 billion in a full year. The end result of this is that the fiscal deficit as a percentage of GDP is expected to be 10.75%, which is a little higher than what was expected.

The longer-term outlook will see additional tax increases and expenditure cuts. The cumulative increase in tax revenues for 2010 and 2011 will amount to approximately €4.6 billion, while the expenditure cuts will amount to about €9.4 billion. The emphasis in coming years will be expenditure cuts rather than significant tax increases which is ultimately the right direction to go in, so long as the vast bulk of expenditure cuts are focused on current rather than capital spending.

Irish Life

Supplementary Budget April 2009

SUMMARY BY ADVISORY SERVICES

Despite the many rumours, no immediate changes were made to the taxation of pension arrangements. However, significant changes have been made in respect of life assurance products. A summary of the life and pensions changes announced, together with information on other items of interest, are included below.

TAXATION ON SAVINGS

Deposit Interest Retention Tax and Taxes on Life Assurance Policies and Investment Funds – From midnight on 7 April 2009

The rates of retention tax that apply to deposit interest and life assurance policies and investment funds are being increased by 2%. The DIRT rate will now be 25%. The Exit Tax rate will be 28%. (For wrapper type life assurance products the rate will be 48%). The increased rates will apply to payments, including deemed payments, made from midnight on 7 April 2009.

STAMP DUTY ON LIFE ASSURANCE POLICIES

A new levy on life assurance is being introduced at the rate of 1% on premiums. This new levy will apply to premiums received by an insurer on or after 1 June 2009.

PENSIONS

The minister announced in his speech that the Commission on Taxation is examining various aspects of pension tax treatment including the treatment of lump sums. The minister expects to deal with their recommendations in the 2010 Budget, which will be published in December 2009.

The minister also announced that discussions are in train with the pension industry about an initiative that will seek to unlock additional private capital. This is intended to complement debt financing provided by banks and the capital markets, and is to support existing PPP (Public Private Partnership) projects and other projects previously funded by the Exchequer. We will have to wait to see exactly what pension changes arise from these discussions.

CHANGES TO PERSONAL TAXATION WITH EFFECT FROM 1ST MAY 2009

Income levy

The income levy rates are being doubled to 2%, 4% and 6%.

Income up to €75,036 will be subject to a 2% levy. Income above this amount will be subject to the 4% rate, and the 6% rate will apply to income in excess of €174,980. The exemption threshold for this levy will be €15,028

The levy is operated on a weekly / monthly basis. What this means is that if someone earns above the threshold in a particular week / month the levy will be applied at a higher rate. For example, someone earning €24,000 per annum / €2,000 per month would normally be subject to the 2% levy. If they received a bonus in one month of €15,000 this will give them total earnings in that month of €17,000. Of this €6,253 (that is, €75,036 divided by 12) will be subject to the levy at 2%, above this the levy will apply at 4%. Any excess over €14,581 (€174,980 divided by 12) will be subject to the levy at 6%.

At the end of the year any excess levy paid can be reclaimed from Revenue. This may also affect an ARF client making a once off large income withdrawal.

Health Levy

The health levy rates will double to 4% and 5%. The entry point to the higher rate will reduce to €75,036.

PRSI

The employee PRSI ceiling will be increased from €52,000 to €75,036.

Mortgage Interest Relief

With effect from 1 May 2009 mortgage interest relief will be discontinued for any mortgage over 7 years.

Restriction in Interest Relief on Rented Residential Property

The level at which interest re-payments can be claimed against tax for residential rental properties is being reduced from 100% to 75%. This measure will apply to both new and existing mortgages. Commercial properties are not affected.

Irish Life

Supplementary Budget April 2009

CAPITAL GAINS TAX

Rate
The capital gains tax rate is being increased to 25% in respect of disposals made from midnight on 7 April 2009.

CAPITAL ACQUISITIONS TAX

Rate
The capital acquisitions tax rate is being increased to 25% in respect of gifts or inheritances made from midnight on 7 April 2009.

Threshold
The current thresholds are also being reduced by 20% as follows :

	New Threshold	Old Threshold
Group A: parents to child	€434,000	€542,544
Group B: between related persons	€43,400	€54,254
Group C: between non-related persons	€21,700	€27,127

This reduction applies in respect of gifts or inheritances taken from midnight on 7 April 2009.

HEALTH & CHILDREN

The Early Childcare Supplement monthly payment is to be halved to €41.50 per child with effect from 1 May 2009 and then abolished at end-2009. It will be replaced in January 2010 with a pre-school Early Childhood and Education Scheme (ECCE) for all children between the ages of 3 years 3 months and 4 years 6 months.

OTHER ITEMS OF INTEREST

Pension Related Deduction for Public Servants
A change is being made to the public sector pension levy to reduce the impact of the deduction on lower paid public servants. This is partly offset by an increase on higher earners in the public sector.

Earnings Band	New Pension Levy	Old Pension Levy
First €15,000	Exempt	3%
€15,000 to €20,000	5%	6%
€20,000 to €60,000	10%	10%
Over €60,000	10.5%	10%

A scheme was announced for certain areas of the public service to allow staff aged 50 or over to retire from the public service without actuarial reduction of pension entitlements they have accrued to date. Ten per cent of the relevant lump sum will be payable immediately with the balance paid later at the normal retirement age of 60 or 65 without actuarial reduction and subject to current tax law provisions.

Income and losses from dealing in residential development land
The special 20% rate applied to the trading profits from dealing in or developing residential development land is being abolished. The income will be charged at the person's relevant marginal rates of income tax or the 25% rate of corporation tax. There are further points regarding when this change applies and also how trading losses incurred will be dealt with. However, full details on these changes will be contained in the Finance Bill.

Stamp Duty "Trade-in" scheme
A stamp duty "trade-in" scheme is to be established, under which no stamp duty is payable by a person who accepts a traded-in property in exchange or part exchange for a new house/apartment. Stamp Duty will apply when the person subsequently sells on the 'swapped'/traded-in house. Full details of this scheme will be contained in the Finance Bill.

Irish Life

Income Tax, PRSI, Social Welfare Changes

Income Tax

Standard rate bands, income exemption limits and some tax credits

Standard rate bands	(no change)
Single/Widowed	
No dependant children	€36,400
With dependant children	€40,400
Married - one income	€45,400
Married - two incomes	€72,800
Max transferable between spouses	*(€45,400)*

Income Tax Credits		(no change)
Personal		
Single		€1,830
Married		€3,660
PAYE / Employer Credit		€1,830
Incapacitated child		€3,660
Blind Person	- single	€1,830
	- married (both blind)	€3,660

Income Levy increase from 1 May 2009	Increased rate
Income up to €75,036	2%
Between €75,037 and €174,980	4%
Income in excess of €174,980	6%

The income levy exemption threshold has been reduced to €15,028 from €18,304. This levy is paid on gross income, before deduction of capital allowances or pension contributions. It does not apply to social welfare payments, including contributory and non-contributory social welfare pensions.

Income Exemption Limits	(no change)
Single/Widowed (aged 65+)	€20,000
Married (aged 65+)	€40,000

Income Tax rates	(no change)
Standard Rate	20%
Higher rate	41%

Savings & Investments Tax	New rate	Old rate
DIRT	25%	23%
Life Assurance Policies (standard rate + 8%)	28%	26%
Wrapper Products (standard rate + 28%)	48%	46%

The increased rate will apply from midnight 7th April 2009

PRSI and Health Levy

PRSI Employee ceiling increased

From 1st May 2009 the annual income ceiling for employee PRSI will increase to **€75,036** (from €52,000). The PRSI rates and ceilings are produced below for reference.

PRSI Rates	A1	S1
Employee Income up to €75,036 (Earnings less than €352 pw exempt)	4.0% First €127 pw exempt	3.0% on all income
Employer All income	10.75%	Nil

Health Levy increase from 1 May 2009	New rate	Old rate
Health Levy	4%	2%
Health Levy higher rate	5%	2.5%
(income over €1,443 per week, €75,036 per year)		

The income exemption threshold for the 4% health levy is €500 per week. Where an individual's income is greater then this amount the levy is charged on all income.

Increases in Social Welfare Benefits

The following table sets out the main Social Welfare benefits

Social Welfare Benefits	Weekly Benefits
State Pension (Contributory + Transition)	
Personal Rate	€230.30
Personal + Adult dependant (over 66)	€436.60
Widow/Widowers Contributory Pension (under 66)	€209.80
State Pension (Non- contributory)	
Personal Rate	€219.00
Personal + Adult dependant (under 66)	€363.70
Widow/Widowers Non-Contributory Pension	€204.30
Invalidity Pension	
Personal Rate (under 65)	€209.80
Person + Adult dependant (under 66)	€359.50
Illness Benefit	
Personal Rate	€204.30
Person + Adult dependant	€339.90
Jobseeker's Allowance	
Personal Rate	€204.30
Person + Adult dependant	€339.90
With effect from 1st week in May	
New claimant (under 20 years of age)	€100.00
New claimant (under 20 years of age) + Adult dependant	€200.00
Reduction does not apply where claimant has a dependant child	
Increases for each Dependant Child	
For all children under age 18	€26.00
For all children aged 18 (ceases January 2011)	€41.00

Child Benefit (Children's Allowance)

Child Benefit	(no change)
First and second Child	€166.00
Third and subsequent Child	€203.00

For children aged 18 the payment is half of the above amounts and will cease for children aged 18 with effect from 1st January 2010.

Early child care supplement

This has been reduced to a monthly payment of **€41.50** to all parents for each child up to 5 years and 6 months. This will be abolished at the end of 2009.

Stamp Duty

Commercial Property (no change)

Consideration	Rate
Up to €10,000	Exempt
€10,001 - €20,000	1%
€20,001 - €30,000	2%
€30,001 - €40,000	3%
€40,001 - €70,000	4%
€70,001 - €80,000	5%
Over €80,000	6%

Residential Property (no change)

Consideration	Rate
Up to €125,000	Exempt
Next €875,000	7%
Balance	9%

No stamp duty on new residential property under 125m^2 for Owner Occupation.

ILA 5411 (REV 04-09)