Finance Bill 2014

Income Tax

The Finance Bill gives effect to the range of changes to income tax and USC rates and bands which were announced in the budget.

- A 1% decrease in the marginal rate of income tax from 41% to 40%.

- A €1,000 increase in the standard rate income tax band from €32,800 to €33,800 for a single person and from €41,800 to €42,800 for a married couple with one earner. The band will increase by €2,000 for a married couple with two earners.

- An increase in the USC exemption threshold from €10,036 to €12,012.

- The Finance Bill confirms that the extra 3% USC for self-employed individuals earning more that €100,000 is being extended indefinitely (increasing the rate from 10% to 11%). When combined with the 1% income tax reduction, the marginal rate for the self-employed remains at 55% on income above €100,000.

- The rate of USC for taxpayers earning PAYE income in excess of €100,000 will be 8%.

- The reduced rate of USC (now 3.5% from 2015) for medical card holders and those over 70 earning less than €60,000 has been extended to the end of 2017.

  The revised rates of USC will be as follows:

  €0 to €12,012 @ 1.5%
  €12,013 to €17,576 @ 3.5%
  €17,577 to €70,044 @ 7%
  €70,045 to €100,000 @ 8%

Despite reducing the marginal rate of income tax from 41% to 40%, the 41% tax rate remains for income arising from deposit interest, offshore funds, life assurance policies and investment undertakings.

Other Personal Tax measures

The Finance Bill confirms a number of Budget announcements on other personal tax issues:

- Rent-a-room relief is amended to increase the exempt amount from €10,000 to €12,000 for 2015 and onwards.

- The Artist's exemption is amended to extend the relief to individuals resident in the EU or an EEA member state and to increase the exemption from €40,000 to €50,000.

- The Special assignee relief programme (SARP) is extended for a further 3 years until the end of 2017 and the upper salary threshold of €500,000 is being removed. There have been some additional amendments to the programme.

- The Foreign Earnings Deduction (‘FED‘) scheme is being extended to the end of 2017. It is being extended to include time spent in Mexico, Chile, as well as certain countries in the Middle East and Asia. There have been some additional amendments to the programme.

- Income tax relief for losses incurred in the course of non-active trades is capped at €31,750 in certain circumstances.

- The Home Renovation Incentive scheme is been extended to include rental properties whose owners are liable to income tax.

- A range of new penalties has been introduced to apply in cases where a principal contractor fails to operate RCT on payments to subcontractors.

- The bill enables Revenue to issue a notice to individuals they believe are chargeable to the domicile levy requiring the delivery of a domicile levy return and payment within 30 days.

- There are provisions clarifying that individuals who pay tax through PAYE and also have interest subject to DIRT not exceeding €3,174 may not have to file a tax return.

- As announced in the Budget, the Bill provides for a refund of DIRT for first time buyers on interest arising on savings used to fund a deposit of up to 20% of the purchase price of a house / apartment.

Business Tax matters

- The Bill contains measures to amend Ireland’s company tax residence rules to provide that all companies that are incorporated in Ireland will be automatically tax resident here (unless otherwise determined under a bilateral tax treaty which supersedes domestic law). The change will come into effect for new companies from 1 January 2015 while a transition period will apply until 2020 for existing companies. This change will bring Ireland’s rules into line with the rest of the OECD.

- As highlighted in the Budget, the Bill contains measures to extend the 3 year tax relief for start-up companies to start-up companies which commence a new trade in 2015.

- Finance Bill 2014 contains a technical amendment to clarify when tax becomes due and payable in respect of a chargeable gain arising on a company leaving a group

- The Bill provides for changes to the Employment Investment Incentive Scheme (“EIIS”).

- The Bill makes a number of changes to the Film Relief Scheme including the removal of the requirement for applications to be made in advance of the commencement of the principal photography, first animation drawings or first model movement (as applicable). The Bill also removes the requirement for a qualifying company to distribute films.

Capital Gains Tax

- Unless a person elects otherwise, a return of value payment of €1,000 or less made by Vodafone plc to its Irish shareholders in the form of a special dividend (in respect of certain share consolidations completed by the company in February 2014) will be treated as a capital receipt derived from the shares and subject to capital gains tax. This measure ensures that individuals who made capital losses on Eircom Shares can utilise these losses.

- The Bill contains provisions designed to ensure that works of art do not qualify for exemption from CGT as wasting assets (where the art works are classified as plant).

- The Bill introduces a number of changes to the CGT entrepreneurs' relief in order to ensure that it falls within the General Block Exemption Regulation for State Aid purposes. Changes are also being made to the operation of the relief.

Capital Acquisitions Tax

- Relief from CAT in respect of payments made by parents for the support, maintenance or education of their children has been restricted to apply only in the case of minor children or children under 25 who are in full time education. The relief has been restricted similarly for payments made from trusts set up by the parents of orphaned children.

Farming

- As previously committed, the Bill provides for an exemption from CGT on any chargeable gains arising from the disposal by farmers of Single Payment entitlement where all of those entitlements were fully leased out and where the owners, because of the change in CAP regulations, were advised by the Department of Agriculture to transfer their entitlements to an "active" farmer by 15 May 2014.

- As announced in the Budget, the Bill contains a number of amendments to retirement relief in order to facilitate the transfer of farming land to the next generation.

- The Bill provides for a number of changes to tax regime applicable to farmers.

- Capital Acquisitions Tax relief for agricultural property is being narrowed to ensure that the relief is ring fenced to active farmers or those who lease agricultural property to active farmers.

- The Bill contains measures to provide relief from stamp duty on a lease of land, for a term not less than 5 years and not exceeding 35 years, which is used exclusively for farming carried on by the lessee on a commercial basis and with a view to the realisation of profits. There are claw back provisions.

- Consanguinity relief, which applies to transfers of non-residential property to certain relatives, is due to expire on 31 December 2014. This relief, which halves the applicable rate of Stamp Duty, will be extended for a period of 3 years in certain circumstances where the transferee is an active farmer. The measures contained in Finance Bill 2014 come into operation on 1 January 2015.

VAT

- The Farmers's Flat-Rate Addition has been increased from 5% to 5.2% with effect from 1 January 2015.

- Where a claim is subject to an audit, claim, inquiry, investigation, appeal or judicial proceedings, the relevant records and linking documents must be retained until the VAT claim is determined even if it falls after the standard 6 year document retention period.

- Special anti-fraud VAT measures including the introduction of joint and several liability provisions for unpaid VAT have been introduced in the Finance Bill.

- VAT exemption has been extended to the management of certain defined contribution pension schemes.

- Golf green fees and membership fees will be VAT exempt in all member owned or not-for-profit golf clubs from 1 March 2015.

Pensions

- The Finance Bill includes amendments to close off a number of tax avoidance schemes which are linked to the use of Approved Retirement Funds (ARF) and vested Personal Retirement Savings Accounts (PRSA).

- A new section has been introduced to ensure that any investment returns to the pension arrangement of the connected person will be subject to income tax in the hands of the trustees or administrator of that arrangement.

- In addition, an individual can withdraw funds from an AMRF in any tax year up to 4% of the value of the assets at 1 February. Previously only income or gains within the fund could be withdrawn.

- The rate of tax on a chargeable excess is reduced to 40% in line with the decrease in the marginal income tax rate.

- **Imputed Distributions:** The rate of imputed distribution which applies to a pension fund valued at under €2 million has been reduced to 4% for individuals who are under 70. The 5% rate remains for individuals over 70 where the fund is valued at less than €2 million. The rate for funds valued at greater than €2 million is retained at 6%.

  Please do not hesitate to contact GKS by phone 01-2842544 or email info@gks.ie if you would like to discuss any of the above in greater detail.