Budget 2010

– Tax Implications for Construction & Property Industry

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As indicated in the supplementary Budget and much leaked in the media, Budget 2010 focused mainly on delivering a €4bn expenditure reduction through a mixture of day to day expenditure efficiencies, public sector wage cuts and a reduction in capital expenditure.

If the effect of these expenditure cuts is to restore confidence in the public finances and thereby improve the prevailing economic mood in the wider economy, the impact on the construction and property sectors cannot be anything but positive.

Rarely has a Budget contained so few surprises and so little in the way of current tax measures. In spite of this, the Minister announced a number of proposals which will significantly affect the Irish taxation landscape in 2011 and beyond.

PROPOSED CHANGES – 2011 & BEYOND

Property Tax

Undoubtedly the most significant element in the Budget from a property perspective was the Minister's announcement that work will begin shortly on the introduction of a property tax as proposed by the Commission on Taxation. The aim of a property tax as espoused by the Commission on Taxation is to reduce dependence on transaction based taxes and to move towards a broader and ultimately more sustainable tax base. It would be expected that the design of a fair and equitable property tax system will take a considerable period of time given the lack of a modern land registration system and the complexities of integrating this with an amended stamp duty regime. Consequently, such a system is unlikely to be in place before 2012. It is interesting to consider that a property tax has achieved such broad political support to date, however this may change as its introduction draws nearer.

Overhaul of Social Security Taxation from 2011

The existence of three classes of social security taxation – PRSI, Health Levies and Income Levies – and the variation in the bases of taxation for each is widely acknowledged as excessively complex and inefficient. The existing system abounds with anomalies and archaic exemptions, which undermines its legitimacy and increases the costs of administration.

In light of this, the Minister has announced a "new universal social contribution" to replace PRSI, Health Levies and Income Levies from 2011 "at a low rate on a wide base...". It remains to be seen how wide the base is to drawn. It would be unwelcome if the base was drawn as wide as the recently introduced Income Levy as this precludes deductions for such items as capital allowances in the context of rental profits and pension contributions in the context of employment earnings.

Change in Income Taxation from 2011

In his Budget speech the Minister repeatedly stressed that despite the perception that those better off are not paying their fair share, in reality the burden of taxation is being disproportionately borne by this group.

> "It is also clear that our income tax system has become very imbalanced. Next year, almost half of income earners will pay no income tax and 4 per cent will pay almost half of the total yield".

That 4% of taxpayers pay 50% of all income tax is an astounding statistic and shines an unfavourable light on the perceived wisdom of taking so many taxpayers out of the tax net in the last number of years. Importantly, the Minister accepts that further increasing the tax burden on those being asked to shoulder a disproportionate burden is not a policy which will aid job creation and economic recovery:-

> "The progressivity of the recent changes is beyond doubt. But we have reached the limit. We will not create jobs by increasing the penalty on work and investment".

In this regard, the Minister has proposed a change to the income tax system in 2011 on a progressive basis to alter the current imbalance. It would be expected that the net result of this would be to ensure that a large proportion of those currently outside of the taxation net are brought in albeit at marginally low levels of tax.

Other Measures

The following changes announced in the Budget should have a positive impact on the construction and property sectors.

Credit Review System

The Minister announced the establishment of a credit review system under the powers available to him under the NAMA legislation, which will provide for an appeals process for SMEs and sole traders in the event of credit refusal by a financial institution taking part in NAMA. It is likely that the existence of such an appeals process will ensure that banks will give due consideration to applications for credit in all cases. The impact on bank credit on the transfer of loans to NAMA together with this proposed credit review system should help get credit flowing to SMEs, which in turn should help to stimulate economic recovery in the wider economy.

Mortgage Interest Relief Extended

A number of extensions have been announced to mortgage interest relief with the aim of helping those in negative equity and to encourage first time buyers back into the market:-

- An extension of relief until 2017 for those who expected the relief to expire in 2010 or after;
- The retention of the current rates and levels of relief for those who take out qualifying loans before 1 July 2011;
- The extension of relief at reduced levels and duration for those who take out qualifying loans between 1 July 2011 and 31 December 2012.

The following is a list of some of the other main changes announced in the Budget:-

- The effective income tax rate for "high earners" who have sufficient reliefs to shelter their income from tax is to be increased from 20% to 30%. This measure ensures that people with capital allowances on properties will have to pay a minimum 30% income tax together with levies up to 14% each year, which surely removes the perception that such "high earners" are not paying their fair share because of the use of tax shelters;
- Irish citizens who are Irish domiciled but non Irish tax resident are to be subject to a €200K annual charge where they have annual worldwide income in excess of €1m and Irish situate capital in excess of €5m. It is not envisaged that this provision will yield material revenue.
- Further improvements to Ireland's intellectual property regime are to be provided for in the forthcoming Finance Bill;
- The three year corporate and capital tax exemption for qualifying start ups in 2009 has been extended to 2010;
- The standard rate of VAT is to be reduced from 21.5% to 21% with effect from 1 January 2010;
- Excise duty on alcohol products is to be reduced with immediate effect – 12 cent per pint of beer, 60 cent per 75cl bottle of wine.
- A carbon tax equating to €15 per tonne is to be introduced immediately equating to additional tax of 3.5 cent and 4 cent per litre of petrol and diesel respectively.
- A car scrappage scheme to be introduced for cars at least 10 years old providing for €1,500 VRT deduction against qualifying vehicles. ◆