

# **Finance Bill 2008**

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## List of Finance Bill Items

### **PART 1 - CONFIRMATION OF BUDGET RELATED ITEMS**

#### **Income Tax**

##### **1. 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 increases in interest rates, the specified rate in respect of home loans is being increased from 4.5% to 5.5% and the specified rate in respect of other loans is being increased from 12% to 13%. These changes will take effect from 1 January 2008.

##### **2. Allowance for Rent Paid by Certain Tenants**

The maximum level of rent paid for private rented accommodation on which tax relief can be claimed, at the standard rate of tax, has been increased for those aged under 55 years of age, from €1,800 to €2,000 per annum for a single person and from €3,600 to €4,000 per annum for widowed and married persons. For those aged 55 years and over, the maximum level of rent paid on which tax relief can be claimed has been increased from €3,600 to €4,000 per annum for a single person and from €7,200 to €8,000 per annum for widowed and married persons.

##### **3. Rent-a-Room Scheme**

The limit of the exemption from income tax which applies to rent received, where a person rents out a room or rooms in his or her principal private residence, has been increased from €7,620 to €10,000.

##### **4. Business Expansion Scheme**

The requirement that recycling companies must have received grant assistance before availing of the Business Expansion Scheme (BES) is being replaced by a requirement that they must have been approved for grant assistance or have a statement from an industrial development agency or county enterprise board indicating that they have submitted their business proposals to that agency or board before they avail of the scheme. In the latter cases, the board or agency must issue a statement that in their opinion the trade set out in the business proposal is a qualifying trade for the Business Expansion Scheme. As the BES is an approved State aid, it will be necessary to advise the European Commission of this change.

##### **5. Tax Relief on Trade Union Subscriptions**

The standard-rated tax allowance in respect of subscriptions paid by members of trade unions has been increased from €300 to €350 per annum. This is equivalent to a tax credit of €70 per annum.

##### **6. Remittance Basis**

The tax treatment of investment income and income attributable to the exercise of foreign employments outside the State is being extended to UK sourced income.

##### **7. Fishing Industry**

The tax code will be amended to assist in maximising the take-up of the decommissioning payments.

##### **8. Employee Tax Credit**

The employee (PAYE) credit is being increased by €70 per annum from €1,760 to €1,830.

##### **9. Personal Tax Credit**

The personal credit is being increased by €70 per annum from €1,760 to €1,830 in the case of a single person and by €140 per annum from €3,520 to €3,660 in the case of a married couple.

## **10. One-Parent Family Tax Credit**

The one-parent family credit is being increased by €70 per annum from €1,760 to €1,830.

## **11. Home Carer Tax Credit**

The home carer credit is being increased by €30 per annum from €70 to €00.

## **12. Standard Rate Bands**

The single standard band is being increased by €1,400 per annum from €34,000 to €35,400. The married one-earner band is being increased by €1,400 from €43,000 to €44,400. The married two-earner band is being increased from €68,000 to €70,800, with transferability limited to €44,400. The lone parent/widowed parent band is being increased by €1,400 from €38,000 to €39,400.

## **13. Age Exemption Limits**

The annual limits under which all income is exempted from tax for those aged 65 years and over are being increased by €1,000 single and €2,000 married to €20,000 single and €40,000 married.

## **14. Additional Tax Credit for Certain Widowed Persons**

The widowed person's tax credit is being increased by €50 per annum from €550 to €600.

## **15. Widowed Parent Tax Credit**

The widowed parent tax credit applies to widowed parents with dependent children in the five years following the year of bereavement. The amount applicable for each of the five years is being increased as follows:

<b>Year after year of bereavement</b>	<b>Current</b>	<b>Proposed</b>
Year 1	€3,750	€4,000
Year 2	€3,250	€3,500
Year 3	€2,750	€3,000
Year 4	€2,250	€2,500
Year 5	€1,750	€2,000

## **16. Blind Person's Tax Credit**

The Blind person's credit is being increased by €70 per annum from €1,760 to €1,830 in the case of a single blind person and by €140 from €3,520 to €3,660 in the case of a married couple where both spouses are blind.

## **17. Incapacitated Child Tax Credit**

The incapacitated child credit is being increased in value from €3,000 to €3,660 per annum.

## **18. Age Tax Credit**

The age credit is being increased by €50 per annum from €275 to €325 in the case of a single person aged 65 or over and by €100 from €550 to €650 in the case of a married couple where one spouse is or both spouses are aged 65 or over.

## **19. Mortgage Interest Relief**

The current annual ceiling on the amount of interest that can be allowed on a mortgage is being increased for first-time buyers from €3,000/€16,000 single/married to €10,000/€20,000 single/married.

## **Capital Gains Tax**

### **20. Dissolution of Farm Partnerships**

A Capital Gains Tax exemption will be provided for the dissolution of farm partnerships and will run for 5 years.

## **Corporation Tax**

### **21. Preliminary Tax Payment Arrangements for Small Companies**

Small companies have the option of paying their preliminary tax at the lower of 90% of the final liability of the current accounting period or 100% of the final liability of the previous accounting period. The Corporation Tax liability threshold for treatment as a small company is being increased from €150,000 to €200,000. This will be effective from preliminary tax payment dates arising after 5 December 2007.

### **22. Preliminary Tax Payment Arrangements for Start-up Companies**

Under the measure introduced in last year's Budget, new or start-up companies with a Corporation Tax liability of €150,000 or less, for their first accounting period are not required to pay preliminary tax in respect of that first accounting period. The tax liability threshold under this arrangement for new or start-up companies is also being increased to €200,000 and this change will also be effective from preliminary tax payment dates arising after 5 December 2007.

### **23. International Financial Reporting Standards (IFRS) Rule**

Transitional arrangements which relax the interest charge on underpaid preliminary Corporation Tax for companies in very specific circumstances for certain companies whose accounts are based on International Financial Reporting Standards (IFRS) will be changed in the Finance Bill so that these arrangements can be used on a permanent basis.

### **24. Tax Credit Scheme for Research and Development Expenditure**

The base year for expenditure which is used to calculate the qualifying incremental expenditure on research and development (R&D) under the tax credit scheme is being fixed at 2003 for a further 4 years to 2013. The change will provide an additional incentive for increased expenditure on R&D in future years and it will offer more certainty to industry in relation to the tax credit scheme. The look-back period will also be extended to 10 years.

It will be necessary to inform the European Commission about these changes from a State Aid perspective.

### **25. Capital Allowances (and Expenses) for Business Cars**

A revised scheme of capital allowances and leasing expenses for cars used for business purposes is being introduced. The revision will link the availability of such allowances and expenses to the CO<sub>2</sub> emission levels of the vehicles. Cars will be categorised by reference to CO<sub>2</sub> emissions with the emissions bands being broadly consistent with the new VRT system, as follows:

Category A Vehicles	Category B/C Vehicles	Category D/E Vehicles	Category F/G Vehicles
0-120g/km	121-155 g/km	156-190g/km	191g/km +

Cars with CO<sub>2</sub> emission levels in Category A/B/C above will benefit from capital allowances at the current car value threshold under the existing scheme of €24,000, regardless of the cost of the car. Cars in Category D/E will receive allowances of 50% of the current car value threshold or 50% of the cost of the car, if lower. Cars in Category F/G will not qualify for capital allowances.

As regards leasing expenses, cars in Category A/B/C will benefit from a proportionately higher deduction than the actual leasing expenses where the cost of the car is less than €24,000. Cars in Category D/E will get 50% of the leasing expenses they would otherwise benefit from under the current scheme. Cars in Category F/G will not qualify for a deduction for leasing expenses.

The revised scheme will come into effect in respect of cars purchased or leased on or after 1 July 2008.

## **Stamp Duty**

### **26. Residential Property**

A reform of the manner in which stamp duty is charged on residential property was announced. This takes effect in respect of deeds executed on or after 5 November 2007.

### **27. Claw Back of Owner Relief on New Houses and for First-Time Buyers**

The 5 year claw back period is being reduced to 2 years from 5 December 2007.

### **28. Financial Cards and Cheques**

The duty on ATM/Debit cards is being reduced by 50% and charge cards/credit card accounts by 25%. The duty on Bills of Exchange (cheques) is being increased from 15 cent to 30 cent.

Commencing in December 2008, financial institutions will be required to make a preliminary payment in amounting to 80% of the previous year's liability.

## **Stamp Duty and Capital Gains Tax**

### **29. Site to Child**

The exemption that applies where a parent transfers a site to a child to build a house is being increased to €500,000 (from €254,000).

## **Indirect Taxes**

### **Excise**

#### **30. Tobacco Excise**

The Excise Duty on a packet of 20 cigarettes was increased by 30 cents (including VAT) with a pro-rata increase on other tobacco products, with effect from midnight on 5 December 2007. This has been provided for by financial resolution on Budget night.

#### **31. Alcohol Licensing Regime**

Licensing fees for Off-licences are being increased from €250 per licence to €300 per licence with effect from 1 October 2008.

#### **32. Excise on Electricity**

Under the EU Energy Tax Directive all Member States are required to introduce an excise tax on electricity. In Ireland's case this must be done in 2008. From 1 October 2008 the following EU minimum rates will apply; 50 cents per megawatt hour (MWh or 1,000 units) for business use and €1 per megawatt hour for non-business use. However, electricity used by households will be exempt from the new charge as will electricity produced from renewables and combined heat and power generation. Electricity used principally for the purposes of chemical reduction and in electrolytic and metallurgical processes will be exempted. Energy products and electricity used to produce electricity are also being exempted from excise taxation. The overall cost and impact on electricity prices for business will be marginal.

### **VAT**

#### **33. VAT Registration Thresholds for SMEs**

The VAT registration thresholds for small businesses are being increased from €35,000 to €37,500 in the case of services, and from €70,000 to €75,000 in the case of goods. These increases will take effect from 1 May 2008.

### **34. Reduced VAT Rate for Certain Agricultural Inputs Used to Produce Bio Fuel**

The VAT rate on the supply of elephant grass rhizomes, seeds, bulbs, roots and similar supplies used for the agricultural production of bio-fuels will be reduced from 21% to 13.5% with effect from 1 March 2008.

### **35. VAT on Commercial Property Transactions**

Provision will be made in the Finance Bill for the introduction of a new system for applying VAT to property transactions. The changes are designed to simplify the rules for VAT on property, while ensuring a more equitable treatment for taxpayers. The new rules will apply to both commercial and residential property supplied in the course of business. The VAT charge on sales of residential property is unchanged. The new system will take effect from 1 July 2008.

### **36. Reverse Charge Mechanism in the Construction Sector**

A reverse charge mechanism for VAT on supplies made by a subcontractor to a principal contractor in the construction sector is being introduced with effect from 1 September 2008. This is a simplification measure.

## **Taxation in Relation to Cars**

### **37. Vehicle Registration Tax (VRT)**

Under the revised VRT system the CO<sub>2</sub> emissions of a car will replace engine size as the criterion to determine the VRT rate payable on the car at point of registration. The VRT rates will continue to be applied to the Open Market Selling Price of the car. The revised VRT system will take effect on 1 July 2008. The following Table sets out the CO<sub>2</sub> Emission Bands and the relevant VRT rates under the revised VRT system.

<b>CO<sub>2</sub> Bands</b>	<b>Emissions</b>	<b>g CO<sub>2</sub>/km</b>	<b>VRT Rates</b>
<b>A</b>		0 - 120g	14%
<b>B</b>		121 - 140g	16%
<b>C</b>		141 - 155g	20%
<b>D</b>		156 - 170g	24%
<b>E</b>		171 - 190 g	28%
<b>F</b>		191 - 225g	32%
<b>G</b>		over 225g	36%

### **38. Vehicle Registration Tax (VRT) Relief Scheme for Hybrid Electric and Flexible Fuel Vehicles and VRT Exemption for Electric Vehicles**

The existing 50% VRT relief scheme for series production hybrid electric vehicles and flexible fuel vehicles expired on 31 December 2007. The scheme is being extended in its current form from 1 January 2008 until 30 June 2008. From 1 July 2008 the relief for series production hybrid electric and flexible fuel cars will be replaced by a relief of up to €2,500 on the VRT payable. This relief will apply until 31 December 2010.

An exemption from VRT is being introduced, with effect from 1 January 2008, for series production electric cars (i.e. cars which can be propelled solely by a rechargeable battery) and electric/battery-assisted bicycles. This exemption will also apply until 31 December 2010.

## **Tax Incentives**

### **39. Film Relief**

Extension and amendments to Section 481 Film Relief

## **Farmers Taxation**

### **40. Income Averaging Provisions**

Amendment to Income Averaging Provisions to assist Milk Production Partnerships

### **41. Sugar Beet Diversification Aid Payments**

Provision to allow farmers in receipt of the Diversification Aid element of the Sugar Beet Compensation Package to spread these payments over six years for the purposes of calculating taxable income.

## **PART 2 - FURTHER MEASURES NOT YET ANNOUNCED**

### **Income Tax**

#### **42. Business Expansion Scheme (BES) and Seed Capital Scheme (SCS)**

The extension and amendment of the BES announced in Budget 2007 was approved by the European Commission in August 2007 and implemented via Ministerial Commencement Order in September 2007. These changes will be included in Finance Bill 2008 in order to bring them permanently into effect.

#### **43. Scheme of Tax Relief on Donations to Approved Bodies**

The Irish Heritage Trust will be removed from the 'specified list' of organisations allowed tax relief on donations. The Trust has now attained charitable status for the required period and thus does not require specific mention in the legislation.

#### **44. Approved Financial Participation Schemes – ESOT**

An amendment to the legislation governing Employee Share Ownership Trusts will be made to give Revenue the power to reduce the current requirement for a loan period of 10 years in relation to shares being purchased for employees. This will be done on a case by case basis, while still facilitating access to three times the annual tax relief limit for employees.

#### **45. Approved Financial Participation Schemes - Filing of Returns**

An amendment is being made to provide for the automatic filing of returns for the four approved schemes.

#### **46. Employee Benefit Trusts**

An anti-avoidance provision is being made to the legislation governing taxation of undistributed sums held in employee benefit trusts. This is being implemented to counter possible avoidance measures in the State that have occurred in the UK.

#### **47. Restriction on High Earners**

A technical adjustment is being made to ensure the correct order in calculating certain tax reliefs where the 'horizontal' measure is engaged. It will ensure that the intention of the measure will continue to be met.

#### **48. Salary Sacrifice**

It is proposed to define the term salary sacrifice and specify where such arrangements can apply. This will copper-fasten existing Revenue practice.

#### **49. Relief for Care of an Incapacitated Individual**

An amendment is being made that will put current Revenue practice on a statutory footing. This relates to the relief being available in the year that the person becomes incapacitated.

#### **50. Employee Shares - Convertible**

A change to the tax treatment of shares and other securities issued to employees and directors where such shares have a 'convertible' clause is being implemented. This will mean a second income tax charge will be made on such shares on the date that they are converted to shares of a higher value.

#### **51. Donation of Heritage Items**

The single item valuation requirement of €50,000 for the donation of heritage collections of documents and manuscripts to the National Library is being removed. Such collections must have been in existence for over thirty years.

#### **52. Life Policies Gross Roll-Up Regime – Declarations of Non-Residence**

Where a life assurance company carries on business on a "freedom of services" basis in an offshore state (i.e. outside of Ireland in an EU or EEA Member State), and written approval has been obtained from the

Revenue Commissioners to say that the risk resides in an offshore state, provision is being made that a gain will not be regarded as arising on the happening of a chargeable event.

### **53. Approved Financial Participation Schemes - SAYE**

An increase in the upper limit from €20 to €500 that can be saved monthly by employees is being implemented for the Save-As-You-Earn Scheme.

### **54. Repeal of Section 187 of the Taxes Consolidation Act 1997 (Exemption from income tax and associated marginal relief)**

The general exemption limits are being abolished from the income tax code through the repeal of section 187 of the Taxes Consolidation Act 1997 on the basis that they are no longer necessary as a mechanism to assist those on low incomes."

### **55. Irish Heritage Trust**

An increase in the ceiling on tax relief for the Irish Heritage Trust by €2 million in 2008 is being made to facilitate the completion of the transfer of the Wood collection to Fota House.

### **56. Tax Arrangements of Compulsory Disposal of Stock (Farming)**

This is to establish parity between the taxation arrangement for the proceeds arising from the compulsory disposal of cattle for TB eradication purposes and the proceeds arising from compulsory disposal for brucellosis eradication.

## **Corporation Tax**

### **57. Package to Address the FII Case**

Provisions will be included in the Finance Bill to deal with items (a) and (b) below:

(a) Tax treatment of foreign dividends received by companies following the decision in the ECJ FII case c-446/04.

(b) Close Company Surcharge - It is necessary to make a change to the rules to address the compatibility of an aspect of the close company surcharge rules with the EC Treaty.

### **58. Changes to the Fiscal Terms Governing Petroleum Exploration and Production**

Introduction of a new profit resource rent tax on profits from petroleum and gas production in the State, following on the Government decision on this matter during the summer. New rates of tax ranging between 5% and 15% will apply to the profits from petroleum and oil production activity depending on the profitability of the oil field. The new tax will be in addition to the corporation tax rate of 25% which has applied to this activity since 1992.

### **59. Allowance for Know-How – s768 TCA 1997**

A review by Revenue of the provisions of this section – which deals with tax relief for certain expenditure on “know-how” that is bought by a person for use in a trade – indicates that certain amendments are required to ensure that the legislation operates as originally intended.

### **60. Tax Incentive for Energy Efficient Equipment**

Introduction of a tax incentive to companies in respect of expenditure on specified equipment used in their business which will save energy and reduce carbon emissions.

### **61. Share Buy-Back Costs**

An amendment is being proposed to the Taxes Consolidation Act to provide that costs incurred by a company in buying-back its own shares are not allowed as a deduction under the Act.

## **Certain Capital Allowances and Tax Exemption Items**

### **62. Capital Allowances for Caravan and Camping Parks**

A Statutory scheme of capital allowances for building and structures erected in Caravan/Camping parks.

### **63. Childcare Facilities Capital Allowance Scheme**

Amendments to capital allowances scheme are required to reflect new Childcare Regulations and to tighten up the definition of 'property developer' under the scheme. Property developers are excluded from benefiting under this and other schemes. Consequential amendments will also be made to the definition of 'property developer' in these other schemes (which are the schemes of capital allowances for private hospitals, mental health centres and the Mid-Shannon Corridor Tourism scheme).

## **Financial Services**

### **64. Securitisation**

Amendments proposed to define carbon credits/carbon permits and insurance/reinsurance policies as financial assets for the purposes of securitisation and to clarify that financial assets held through a partnership interest will be allowed as qualifying assets for the purposes of securitisation

### **65. Eight Year Deemed Disposal - Section 50 Finance Act 2006**

Section 50 of Finance Act 2006 introduced a new chargeable event for investment undertakings, under which a tax charge would be triggered at the end of every 8-year period. A similar provision was also introduced in connection with life assurance policies and offshore funds. The funds industry argues that the rule applying to funds with a small number of Irish resident investors creates excessive administrative burden on the managers of such funds and that it makes Ireland uncompetitive. Proposals for easing the administrative burden are being made.

Technical amendments are also proposed to ensure that the legislation operates as intended in relation to the calculation and payment of the exit tax.

### **66. Equalisation Reserves**

Statutory Instrument 380 of 2006 requires non-life re/insurance undertakings to establish an equalisation reserve for a certain class of business. Under current legislation equalisation reserves are not allowable as a tax deduction in Ireland although they are allowable as such in most other EU countries.

### **67. Funds Industry**

A number of proposed legislative changes as follows:

- Permit a merger between two Irish funds to avail of stamp duty relief as currently applies to a merger between an Irish and a non-Irish fund
- Extend the provisions of Section 739H TCA 1997 to the reorganisation of an Irish sub-fund of one umbrella fund with an Irish sub-fund of another umbrella fund

## **Capital Gains Tax**

### **68. Exemption for Digital Hub & Comreg**

A provision to exempt the Digital Hub and Comreg from capital gains tax (and CT) is being made.

### **69. Site to Child**

A change is being made to ensure that the €254,000 limit (to increase to €500,000) applies to disposals made by both parents to a child at the same time.

## **Stamp Duty**

### **70. Share Transactions**

Provision that share transfers meeting MiFID reporting requirements will satisfy Intermediary Relief requirements in being introduced.

### **71. Insurance Levy and Financial Cards**

Provision is being made to allow the Revenue Commissioner to make assessments of certain stamp duty levies (financial cards, cheques, 2% non-life levy) paid by financial institutions by way of Submission of Statements/Composition Agreements.

### **72. Residential Leases / Rent**

In the case of residential property, a lease for an indefinite term or a term not exceeding 35 years is exempt from stamp duty where the annual rent does not exceed €19,050; otherwise a 1% duty on the average rent arises. This is being increased to €30,000.

### **73. First-Time Buyer Issues**

Changes will be introduced to deal with a number of issues that have been identified.

### **74. E-Stamping**

New legislation to facilitate the introduction of E-Stamping will be included.

### **75. Long Term Loans**

Section 85 of the Stamp Duties Consolidation Act 1999 will be amended with regard to long-term loans.

### **76. Affordable Home Partnership**

The current stamp duty exemption of local authorities will be extended to Affordable Homes Partnerships.

## **Capital Acquisitions Tax**

### **77. Repayment Claims**

The issue of the period in which repayment claims can be made is being revised.

### **78. Technical Issues – Property Registration Authority**

A number of technical changes are being considered to deal with the Registration of Deeds and Title 2006 and Double Taxation Agreements.

## **Capital Gains Tax / Capital Acquisitions Tax**

### **79. CGT Retirement Relief Abuse**

CGT Retirement Relief is being amended to introduce a “motive” text to ensure the relief is not used for tax avoidance purposes.

## **Indirect Taxes**

### **Excise**

#### **80. EU Energy Tax Directive Derogations**

It is necessary, arising from EU Commission decisions, to withdraw some special derogations which have been availed of under the EU Energy Tax Directive to provide full exemption or partial relief from mineral oil tax. The Finance Bill will make the necessary legislative changes to withdraw the reliefs in respect of (a) fuel for use in private pleasure-flying; (b) fuel for use in private pleasure craft; (c) for recycled waste oil and

(d) fuel used for public passenger transport vehicles. The reliefs will be withdrawn with effect from 1 November 2008. The appropriate full excise rates will apply to fuel used for those purposes from that date.

In the case of public passenger transport vehicles alternative mechanisms which may be used to direct Exchequer resources towards such services from that date onwards continue to be explored by the Department of Transport in conjunction with the Department of Finance.

### **81. Revision of Structure of Mineral Oil Tax Rates**

The mineral oil tax structure in relation to petrol and auto-diesel is being simplified. The changes will result in there being one single rate for petrol and one single rate for auto-diesel.

### **82. Repeal Section 100(1) (e) of the Finance Act 1999**

Section 100(1)(e) of the Finance Act 1999 which provides excise relief for heavy fuel oil intended for use in, or in connection with, the manufacture of alumina is being repealed. A new provision is being inserted to provide exemption from excise duty for the dual use of heavy fuel oil for chemical reduction and in electrolytic and metallurgical processes.

### **83. Removal from the Finance Acts the Setting of Fees on Firearm Licences, etc**

It has been agreed that the Department of Justice, Equality & Law Reform (DJELR) should take over the setting of the fees as well as the licensing of firearms. DJELR is in the process of providing for that in legislation. In this context, the Finance Bill provides for the repeal of the provisions of the Finance Acts relating to excise duties on authorisations granted under the firearms legislation. These repeals will come into operation on a day or days to be appointed by order by the Minister for Finance.

### **84. Regulation of Warehousing**

Section 109 of the Finance Act 2001 provides for the approval by Revenue of authorised warehousekeepers subject to certain conditions. An amendment is being introduced to provide for;

- clarification of the relative responsibilities of authorised warehousekeepers who are proprietors of a tax warehouse and those who are tenants in that warehouse,
- clarification of the requirements for authorised warehousekeepers in relation to guarantees covering the risk for excise duty on products held in, and transported from, the tax warehouse,
- Strengthening of Revenue powers to refuse approval, and to revoke it, in certain circumstances.

### **85. Alcohol Products Tax for Microbreweries**

Section 78A of the Finance Act 2003 (as inserted by Section 63 of the Finance Act 2005) provides Alcohol Products Tax relief to a person who owns a qualifying microbrewery. Under subsection 78(A)(4) of the Act, a brewery is not considered to be legally and economically independent of another brewery where it is owned by the same person or associated companies. An amendment is being introduced to change this restriction to extend eligibility for relief, within the over limit, to a person who owns two or more qualifying breweries.

### **86. Revised VRT minimum payment to reflect new VRT system**

A sliding scale of minimum VRT charges in respect of cars is being introduced from 1 July 2008, increasing with CO<sub>2</sub> emission bands and ranging from €280 to €720, in place of the current single minimum charge of €15.

### **87. Amendment to the definition of 'short term car hire' (section 134 Finance Act 1992) to stop avoidance of VRT liability**

Section 134 of Finance Act 1992 provides a VRT relief on cars used in the short-term car-hire industry. The definition of short term car hire is being amended to overcome abuses aimed at avoiding VRT liability. The amendment will provide that where aggregate hires of a vehicle to any customer exceeds 35 days in any twelve month period, such activity will fail to qualify for the short term car hire reliefs.

## **88. Provision in relation to certain secondary customs legislation - bringing it into line with the Mulcreevy judgement**

In the context of the 2004 *Mulcreevy* Supreme Court judgement, a section is being introduced to confirm that three sets of customs Regulations have the force of law by incorporating them in a schedule to the Finance Bill.

## **VAT**

### **89. Apply Reduced VAT Rate to Medical (Contraceptive) Products**

The rate of VAT on non-oral contraceptive products is being reduced from the standard rate of 21% to the reduced rate of 13.5%. [Under EU VAT law it has not been possible to apply a zero rate of VAT to such products since 1 January 1991.]

### **90. Preparatory Changes to Facilitate the Enactment of a recast of the VAT Act in 2009**

It is proposed to enact a recast of the VAT Act in 2009 to align our national VAT legislation with the new VAT Directive 2006/112/EC. In this regard, amendments are being introduced to the VAT Act. The preparatory changes will focus primarily on the concept of “economic activity” as contained in the Directive with consequential changes in the definition of “taxable person” and “business”. In addition it is proposed to update references to the Directive in the VAT Act.

These changes will not impose any additional obligations on persons engaged only in exempt activities or on flat rate farmers.

### **91. Change Arising from ECJ Ruling that “No Show” Deposits Retained Are Not Liable to VAT**

An amendment is being made to the VAT Act to provide that VAT accounted for on a deposit for a supply is refundable if that supply is cancelled and the deposit is retained by the supplier. This amendment is necessary following an ECJ ruling.

### **92. VAT Cash Receipts Cases**

An amendment is being made to the VAT Act to provide that where a person on the cash receipts basis of accounting grants a discount to a VAT registered person after issuing a VAT invoice in respect of a supply, but fails to issue a credit note to cover the discount, the cash receipts basis of accounting will not apply to that specific supply.

### **93. Amendment in Relation to Hire Purchase Transactions Involving Finance Houses in Certain Cases**

Finance Act 2007 amended the VAT Act in relation to hire purchase transactions involving finance houses so as to allow bad debt relief to finance houses where a customer defaults on repayments. An amendment is being made to the relevant provisions of the Act so that they extend to goods acquired from other Member States and to second hand means of transport and agricultural machinery supplied on hire purchase. It will ensure that finance houses will be entitled to bad debt relief in the event of default by customers in their payments for any goods financed through hire purchase, regardless of the type of goods involved or where they are sourced.

## **Tax Administration**

### **94. Professional Services Withholding Tax**

There will be a routine update of the Schedule of Accountable Persons via additions, deletions and amendments.

### **95. RCT - Declarations**

Amend section 531(6) of the TCA 1997 to permit the Revenue Commissioners to make regulations removing the requirement to make an RCT1 declaration from certain classes of principal contractors.

## **96. RCT - Connected Persons Rule**

Amend connected persons rule in section 531 of the TCA 1997 whereby any person connected to a construction company etc is deemed to be a principal contractor and required to operate RCT, so that it does not apply to "innocent" incidental connections.

## **97. Tax Deductibility – Compliance with OECD Requirements**

A provision will be included in the Taxes Consolidation Act 1997 to prohibit a deduction for tax purposes of illegal payments made to a foreign official. The OECD has for some time taken the view that countries' tax legislation should deny such a tax deduction.

## **98. Enabling Provisions for PAYE Regulations**

Following a review of the enabling PAYE provisions of the TCA and the PAYE Regulations, a number of amendments to primary legislation (section 986) are being considered, e.g. coding of small amounts of non-PAYE income; amendments due to IT developments (e.g. PAYE Online Service); an amendment giving Revenue the power to allow employers a derogation from compliance with certain regulations in certain specific circumstances (e.g. issuing of P45s in certain takeover situations).

## **99. Increases in maximum fines on summary conviction for certain tax offences**

Many of the maximum fines on summary conviction for offences under the Finance Acts are set at €3,000 or lower. It is proposed to raise the maximum fine allowed for a range of summary offences under the Finance Acts to €5,000.

## **100. Section 865 - 4 year Time Limit**

In view of the ambiguity and conflict that arises between the 4 year time limit and certain other provisions (e.g. relief for certain sportspersons allows is over a 10 year period) it is proposed that the specific provisions giving rise to the ambiguity and conflict be amended to make it clear that repayments can be made notwithstanding the provisions of section 865(4) – 4-year time limit.

## **Revenue Powers**

### **101. Residency Status**

Proposed to amend the definition of “authorised officer” in section 818 (Interpretation) of Part 34 T.C.A. 1997 (dealing with provisions relating to the residence of individuals) so that all Revenue Officers can make enquiries on residence matters without specific authorisation.

### **102. Proposal to provide Revenue Criminal investigators with a power to question suspects in Garda custody**

Measures similar to CAB arrangements to address deficiencies in Revenue powers in this regard.

### **103. Reporting of Foreign Rents Received**

Proposed to amend the definition of “premises” in section 888 TCA 1997 (which is concerned with returns by, inter alia, agents in respect of rental income earned from real property in the State) so as to extend the definition to include real property outside the State. This means that, if an Irish letting agent is managing a foreign property on behalf of an Irish resident client, details of any rent received must be provided on request to a Revenue Inspector.

## **Technical Amendments**

The Bill is to include a series of minor technical and drafting amendments. These cover, for example, drafting changes aimed at providing greater clarity or to correct minor errors, amendments to deal with changes in the official names of bodies, corrections of definitions or anomalies, changes addressing non-controversial legal and administrative issues, and so forth.