Quinlan Holohan and Co.
Chartered Accountants

Newsletter

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WELCOME TO THE QUINLAN HOLOHAN & CO. NEWSLETTER

Dear Sir / Madam,

Welcome to the 2nd edition of the Quinlan Holohan & Co. Newsletter. We were delighted with the positive feedback we received from you on our first edition last autumn and encourage your continued feedback.
We hope this newsletter will be of interest to you and you will find the articles, informative and relevant.

In this issue we document highlights from the 2012 budget, detailing the changes and the impact it will have on our personal and corporate tax clients going forward. We also document important changes which we flagged in our previous newsletter with regard to Capital taxes.

We will discuss the new electronic RCT regime which has been implemented by Revenue from 1st January 2012. We provide an overview of the new transitional arrangements that you may not be aware of.

You will find new farming and accounting articles in our newsletter.
In these sections we discuss any new developments or hot topics which we feel should be bought to your attention.

Finally we would like to wish all our clients a happy new year and hope to continue our successful business relationship in 2012.

Yours sincerely,

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This publication is intended only as a general guide and should not be used as a substitute for professional advice.

Highlights of Budget 2012

As anticipated, the unveiling of Budget 2012 on the 4th December confirmed many of the measures we were told to expect, in order to achieve the additional tax levels required to keep in line with the government's National Recovery Plan 2011 to 2014.

€3.8 billion in adjustments were introduced in Budget 2012 of which €1bn related to new tax measures. New tax measures include the household charge €100, standard rate of VAT increase to 23%, increase in rate of Capital taxes and D.I.R.T. to 30%, a new Property relief surcharge of 5% to apply to large investors and an increase on excise on cigarettes up by 25 per cent.

The Government's view is that increases in income tax are detrimental to job creation, therefore the main Income tax rates, bands and credits remained unchanged. There was also no change to core social welfare rates and state pension rates.

The Minister's commitment to maintaining our Corporation Tax rate of 12.5% for the forseeable future is most welcome. Specifically he said; "*Today, I want to say to our friends in the multinational sector who continue to invest so strongly in Ireland and Europe, there will be no change in Irelands 12.5% corporate tax rate".*

The budget also showed the governments commitment to supporting growth and jobs with the introduction of the Special Assignee Relief Programme, extension of the 3 year corporation tax relief for start - up companies, enhanced Stock relief for Registered Farm Partnerships and maintaining retirement relief to enable the Agriculture sector to expand on a global scale in the future.

Finally a most notable feature of the budget was that there were no signifcant changes in the pensions area. The absence of such changes is welcome.

The following outlines the key points from the Budget

Income Tax

- No changes to the Income Tax rates
- No changes to the exemption limits, tax credits and standard rate bands in 2012
- Universal Social Charge exemption limit will be raised from €4,004 to €10,036. Where an individual's total income exceeds €10,036, they will be liable to USC on all income.
- First time buyers who acquired property between 2004 and 2008, there is an increase in the rate of mortgage interest relief to 30%
- For those who buy a home in 2012 the following apply;
  - ⇨ First time buyers will get mortgage relief at a rate of 25%.
  - ⇨ Non-first time buyers will benefit from relief at 15%
- Mortgage interest relief will no longer be available to house purchasers who purchase after 2012 and will be abolished in 2018.
- Property relief surcharge of 5% will be imposed on investors with an annual income over €100k.
- Investors in accelerated capital allowances schemes will no longer be able to use such allowances after 1st January 2015.
- The rate of retention tax (DIRT) has increased from 27% to 30%.
- The employer rebate for redundancy payments has been reduced from 60% to 15% with effect from 1st January 2012.

Business Tax

- Corporation Tax rate of 12.5% is unchanged
- The three year corporate and capital tax break for start up companies is extended to new trades that commence in 2012,2013 & 2014
- Companies will be able to avail of foreign earnings deduction where they plan to expand their export markets into BRICS countries. Further details to be announced in the finance bill
- The first €100,000 of R&D expenditure of all companies will be allowed on a volume basis for the purpose of the 25% R&D credit.

Value Added Tax

- The standard rate of VAT will be increased by 2% from 21% to 23% from 1 January 2012

Carbon Tax / Excises

- Carbon Tax increased from €15 to 420 per tonne effective from midnight Budget night on petrol and diesel. This change equates to 1.5c increase in cost of petrol and diesel. Also changes to household oil and natural gas being targeted from May 2012.
- Excise on cigarettes increased by 25c per packet of 20 cigarettes from 6 December 2011.

Highlights of Budget 2012

Capital Taxes

⇨ **Capital Gains Tax**

- The rate of capital gains tax has been increased from 25% to 30% in respect of disposals made after the 6 December 2011.
- A special incentive CGT measure was introduced, where a property is purchased between 6 December 2011 and 31 December 2013 and is held for 7 years, the gain attributable to that 7 year holding period will be relieved from Capital Gains Tax.

⇨ **Capital Acquisitions Tax**

- The capital acquisitions tax rate has been increased from 25% to 30% is respect of gifts/inheritences taken after the 6 December 2011.
- The Class A threshold applicable to gifts to children has decreased from €332,084 to €250,000 from 6th December 2011. The other tax free thresholds remain unchanged.

Stamp Duty

- The single stamp duty rate of 6% for commercial property will be reduced to 2% from 6 December 2011 in respect of all non-residential property transactions.
- Consanguinity relief on transfers of non-residential properties to be retained for intra-family transfers to 31 December 2014.

Other Measures

- Household charge of €100 is being introduced in 2012
- Old Age State Pension and Jobseekers benefit to remain unaffected.
- Drugs Payment Scheme threshold increased from €120 to €132 per month in 2012.
- Entitlements to higher rates of Child Benefit for the third and subsequent child to be phased out.
- Motor tax rates increased from 1 January 2012.

Personal Tax Scenarios 2012

Scenario 1

Single Person, earning €10,000, renting

2012 Changes	€
Change in Tax Bands	0
Change In Tax Credits	0
Change to Rent Tax Credit	(80)
Change to PRSI	0
Change to Universal Social charge	200

Net Gain €120

Scenario 2

Single Person, earning €50,000, property owner

2012 Changes	€
Change in Tax Bands	0
Change In Tax Credits	0
Change to PRSI	0
Change to Universal Social charge	0
Household Charge	(100)

Net Loss €100

Scenario 3

Married Couple, one earning €70,000 and one earning €40,000, property owner

2012 Changes	€
Change in Tax Bands	0
Change In Tax Credits	0
Change to PRSI	0
Change to Universal Social charge	0
Household Charge	(100)

Net Loss €100

Scenario 4

Married Couple, one earning €50,000, one child, property owner

2012 Changes	€
Change in Tax Bands	0
Change In Tax Credits	0
Change to PRSI	0
Change to Universal Social charge	0
Household Charge	(100)
Child Benefit	0

Net Loss €100

Scenario 5

Married Couple, one earning €40,000, one earning €20,000, three children, property owner

2012 Changes	€
Change in Tax Bands	0
Change In Tax Credits	0
Change to PRSI	0
Change to Universal Social charge	0
Household Charge	(100)
Child Benefit	(228)

Net Loss €328

If you require any further information or assistance in relation to the above please do not hesitate to contact:
info@quinlanholohan.ie

Overview of the new RCT regime

On 13 December 2011, the Minister for Finance signed the Commencement Order for the new RCT system which applies from 1 January 2012. The old system will be replaced by an electronic system, where principal contractors will be obliged to engage with Revenue online. From that date, all contacts between a principal and Revenue will be through an on-line process. All principals in the construction, forestry and meat processing sectors will be obliged to submit information, data, payments and returns to Revenue electronically.

The key features of the new system are:

- All principal contractors must engage with Revenue electronically.
- The standard RCT rate is being reduced from 35% to 20%.
- C2 Authorisations will cease to exist
- Sub-contractors who currently hold a C2 Authorisation will qualify for the zero rate status, provided that their tax affairs are kept up to date.
- Revenue will automatically credit a sub-contractor with any RCT deducted.
- Sub-contractors are to receive details of Notified Contracts, Payment Authorisations and notification from Revenue if their deduction rate status changes.
- There will be no interim RCT repayments; instead an automatic offset against other taxes will apply.
- The annual return for RCT is being abolished.
- New penalties and surcharges will be introduced.

RCT Rates in New System

The new regime has implemented three rates of RCT

- Zero Rate
  - ⇨ Current C2 rules will apply (Although no physical C2 card in new system)
- 20% Rate
  - ⇨ Tax registered subcontractors who do not hold a C2
- 35% Rate
  - ⇨ Subcontractors who are either not registered with Revenue for RCT or who are registered but have serious tax - compliance issues.

Revenue will notify each sub-contractor of the initial rate applicable and if their deduction rate changes.

So what do you need to do ?

Obligations on Principals
From 1st January 2012, All Principals must comply with their obligation's in the new RCT system.

They will be obliged to:

- **Notify Revenue of all contracts online**

⇨ All principals will be required to register on ROS, where they will be required to provide basic information on each of their contracts through the RCT service

- **Notify payments online**

⇨ All principals must notify Revenue in advance through the RCT service of each gross payment to be made to each sub-contractor.

- **Provide copy/details of Deduction Authorisation to Sub-contractor**

⇨ The deduction authorisation will authorise the principal to deduct the tax, if any from the gross payment notified. Once the principal notifies Revenue of the relevant payment, Revenue will automatically credit the RCT deducted to the sub-contractors tax record.

- **Submit periodic returns online**

⇨ A pre-populated period-end return will isue to principals, known as a Deduction summary, which is based on Deduction Authorisations issued during the period. This needs to be checked by the principal as it will be deemed to be accepted if no action is taken and the tax will become due.

- **Make payments of RCT deducted**

  Payment is required to be made with the submission of the periodic online return, of the RCT deducted.
  The payments are to be made monthly or quarterly depending on the princpals annual RCT tax payments.

Obligations on Sub-contractors
The obligations of sub-contractors are not as onerous as that of Principals. Unlike principals, sub-contractors are not required to register for ROS for RCT purposes. However ROS access will allow them keep track of the RCT payments credited to their account with Revenue.
Subcontractors will be impacted by the new system in the following ways;

- Will receive a copy of Deduction Authorisation from Principal
- Will be notified by Revenue of RCT rate
- Advised by Revenue when payment noification cancelled or when payment details are amended on the deduction summary
- Credit will be posted to the Subcontractors account based on payment notification by Principal
- Will be available for offset primarily against Income Tax / Corporation Tax and other tax liabilities
- No repayment of tax until the Income Tax / Corporation tax return for the period has been filed and the liability finalised.

So what is the benefit of the new e-RCT system ?

- Eliminate most RCT forms and reduce the administrative burden
- Eliminate errors/delays associated with paper systems
- Automatic updating of Revenue's records for Principals and Subcontractors
- Transactions can be viewed immediately through ROS.
- Pre-populate the periodic Deduction Summary/Return
- Clarity on RCT rate to apply to Subcontractor
- Improve cash flow for Subcontractors

If you require any further information or assistance in relation to the above please do not hesitate to contact:
info@quinlanholohan.ie

Impact of Budget 2012 on Farmers

As previously discussed in our 1st edition newsletter, it was widely anticipated that there would be major changes to the area of Capital taxes, which could have a detrimental effect on Farm transfer taxes.
It was stated in the National Recovery Plan and Budget 2011 that Capital tax reliefs and exemptions would be abolished or greatly restricted. Fortunately for the taxpayer, these predictions were not realised in the 2012 Budget, with the only major change being the increase in both the Capital Gains Tax and Capital Acquistions tax rate from 25% to 30%. The minister also made some changes to retirement relief but the incentive for early transfer of farm still remains. Agriculture relief remains untouched , where a farmer can reduce the value of gifts and inheritences received by 90% provided four fifths of the value of the property they own is made up of agricultural property, after the transfer.

So what impact will Budget 2012 have on the Farm ?

- **Disposals of farm assets within the family**

⇨ Under current law, retirement relief enables individuals who have reached the age of 55, to dispose of their farm to a child tax free, providing certain conditions are satisfied. To retain the incentive of early retirement, budget 2012 maintains this relief where an individual makes a transfer between the ages of 55 and 66. However, the budget introduced a ceiling, where assets are being transferred by an individual aged over 66 to a child.
This may have major implications for farm families where the farm and farming assets are valued in excess of €3m.
In addition, the unlimited relief will apply for a transitional period of two years for individuals currently aged 66 or who reach that age before 31 December 2013.

- **Disposals of farm assets within the family**

⇨ Under current law, retirement relief allows individuals who have reached the age of 55, to dispose of farms outside the family tax free, where the proceeds of disposal of the farm do not exceed €750,000. Budget 2012 has maintained this relief, however it has reduced the threshold to €500,000 where an individual is aged over 66 at the date of transfer. The upper limit of €750,000 will contine to apply for a transitional period of two years for individuals currently aged 66 or who reach that age before 31 December 2013.

- **Stock Relief for Registered Farm partnerships**

⇨ Stock relief allows farmers to deduct 25% (100% for certain young trained farmers) of any increase in the value of stock as a trading expense. This relief is due to expire on 31 December 2012.

⇨ An enhanced 50% stock relief (100% for certain young trained farmers) for registered farm partnerships is being introduced. The minister has introduced this relief to encourage young farmers into the formation of farm partnerships. These reliefs will be available until 31 December 2015 but are subject to clearance from the European Commission under State Aid rules.

- **Value Added Tax (VAT)**

⇨ The minister announced in the budget, that the existing Vat refund order which provides for the refund of VAT paid by unregistered farmers is being extended to include wind turbines purchased from 1 January 2012

⇨ The rate of VAT on admission to open farms will apply at the reduced rate of 9% from 1 January 2012.

- **Carbon Tax**

⇨ Farmers will be allowed a double income tax deduction for increased costs arising from the change in carbon tax rates

- **Stamp Duty**

⇨ Stamp duty on agriculture land transfers (non - residential property transfers) will be reduced from 6% to 2% so as to stimulate land sales and land transfers.

So what lies ahead for the farmer in 2012 ?

⇨ With the removal of the milk quotas anticipated in 2015, it is evident from Budget 2012 that the government is commited to expand production in the agri sector. It has shown its commitment by introducing the stock relief incentive to encourage farmers into partnerships. It has also left the door open for tax relief on farm transfers, with a major incentive now on the earlier transfer of farm assets to the next generation. The window of oppurtunity still exists in 2012 for these farm transfers, with no changes to both agriculture and business relief.
All these incentives will encourage new blood into the dairy sector by facilitating the transfer of land to the next generation of dairy farmers.

If you require any further information or assistance in relation to the above please do not hesitate to contact:
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Planning for the removal of Irish GAAP

Currently accounts for all entities except for public listed entities are prepared under UK/Irish Generally Accepted Accounting Principals (GAAP).

On 29 October 2010, the Accounting Standards Board published its proposals for changes to the financial reporting framework in the UK and Republic of Ireland. This will involve a movement from UK / Irish GAAP to International Financial Reporting Standards (IFRS). The Accounting Standards Board recognises that one size of accounting standard does not fill all entities and therefore a three year tier system is proposed:

TIER	NATURE OF ENTITY		ACCOUNTING REGIME
1	**Entities that have public accountability**		**EU-adopted IFRS**
2	**Entities without public accountability and small publicly accountable entities that are prudentially regulated**		**Financial Reporting Standard for Medium - sized Entities (FRSME)**
3	**Small entities without public accountability**		**Financial Reporting Standard for Smaller Entities (FRSSE)**

We currently expect that these proposals will be effective for accounting periods commencing on / after 1 January 2014. This means companies with December year ends will have to apply the new proposals in respect of the financial year ending 31/12/2014. In real terms to comply with this, entities will need to prepare their opening balance sheet at 1 January 2013 in accordance with the new accounting framework.

How will the changes affect you ?

The majority of companies are likely to fall into Tier 2 or Tier 3 of the above table.

So what does this mean for your Company ?
This will mean that you will notice a number of changes outlined as follows;

- The format and content of financial statements will change e.g. all entities will now be required to prepare a cashflow statement.
- The entity will be prohibited from revaluing property assets
- There will be changes to the manner in which the entity recognises government grants received.
- The entity will be prohibited from capitalising borrowing and development costs. This will impact both results and profits potentially available for distribution.
- Accounting for business combinations, including amortization of goodwill, will change.
- There will be a fundamental change in the basis for the calculation of deferred tax.
- The recognition and measurement of financial instruments and related hedge accounting rules will be more complex.

The main benefit in the adoption of the new framework is that financial statements will be more consistent and transparent. This should aid decision making by investors, lenders and other users.

How Quinlan Holohan & Co. can help ?

We have ideally positioned ourselves to help you in this regard, with key members of our audit team currently undertaking training in International Financial Reporting Standards (IFRS) co-ordinated by the Institute of Chartered Accountants. Also our audit junior staff have been trained under the new financial framework.

We will be in the position to provide you with pragmatic solutions as well as sound accounting advice which include the following;

- Assist in the implementation and transition of the new financial reporting framework
- Assist users of the financial statements (generally directors and senior management) understand changes to the accounts format and how this impacts on the reported results for the period.
- Identify the key accounting / technical differences and understand the implications that they will have on the financial statements.

If you require any further information or assistance in relation to the above please do not hesitate to contact:

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