



Restriction of income tax reliefs and exemptions September 2010

As you will know, the deadline for submitting 2009 Income Tax Returns is fast approaching. You will, at the same time, be focusing on your 2010 preliminary tax payment. As part of that review, you will have to consider whether the restriction on tax reliefs will apply to you.

What is the background to these restrictions?

There was a good deal of publicity up to 2006 relating to very high earners who did not pay any income tax at all, because they were availing of numerous tax reliefs. Because of this, most tax reliefs were restricted in Finance Act 2006. Back in 2006 they only applied to very high earners.

However, because of the worsening state of the nation's finances, these restrictions now apply at much-reduced levels of income in 2010. Unfortunately, therefore, they will apply to many more taxpayers in 2010 et seq.

In what circumstances will the restrictions apply in 2010?

For 2010, the restrictions will now apply where:

- An individual's "adjusted income" is more than €125,000 (ie, income before the deduction of any tax reliefs) and
- The amount of those tax reliefs are in excess of €80,000 and
- Those tax reliefs exceed 20% of an individual's "adjusted income"

Where individuals have certain income such as deposit interest, the restrictions may apply at even lower levels of income.

If you are caught under the above scenario, you will have to pay some level of income tax, regardless of the amount of tax reliefs you may be utilising.

What is the rate of income tax payable?

Where an individual's adjusted income is in excess of an upper threshold, a minimum rate of income tax is payable. For 2010, this upper threshold is €400,000. The minimum rate for 2010 is 30% (previously 20%).

Where an individual's adjusted income is between €125,000 and this upper threshold, a lower rate of income tax will be payable.

In addition, PRSI/levies are payable in the normal way.

What tax reliefs are restricted?

The vast majority of tax reliefs and exemptions are restricted. In fact, it is much easier to list the tax reliefs that are not restricted. The major unrestricted reliefs are:

- Pensions
- Trading and rental losses
- Seed Capital scheme
- Normal business expenses
- Capital allowances on "plant and machinery"
- Personal allowances and "normal" tax credits

What can I do with excess tax reliefs?

These may be carried forward and offset against future income (but subject to these same restrictions in future years).

What can I do to reduce the impact of these restrictions?

If you would like to discuss with us, we would be delighted to help. We can firstly assess whether the restrictions will apply to you and, if they do, we can discuss various planning options.

Please contact either Francis Moriarty or Carmel O'Brien.