

Budget 2012 - Key Changes and Planning Options

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The Minister for Finance, Mr. Michael Noonan presented his Budget for 2012 this week. We have prepared the following summary of the key changes and outlined the planning options that clients should consider in terms of their future pension, investment and general tax position.

Pensions – Key Budgetary Changes

The key changes to the pension regime can be summarised as:

| | Current regime until 31st December 2011 | Revised regime from 1st January 2012 |
|---|--|--|
| Pension Tax Relief | Up to 41% | No change, but under review |
| Employer PRSI Relief | 50% of PRSI on employee contributions | No PRSI relief on employee contributions |
| Maximum Pension Fund | €2,300,000 | No change, but under review |
| Maximum Lump Sum | €575,000 | No change, but under review |
| Vested PRSA Distribution (from age 60) | 0% | 5% (6% for PRSAs > €2 million) |
| ARF Distribution (from age 60) | 5% | 5% (6% for ARFs > €2 million) |
| Tax on residual ARF assets passing on death of ARF holder to Child > 21 | 20% | 30% |

Planning Options for Consideration:

- Maximising personal pension contributions to benefit from marginal tax relief
- For individuals with the scope to have a pension fund of up to €2.3 million, maximising contributions and/or taking benefits before any potential reduction in the threshold/lump sum is introduced.

ARF / Vested PRSA Distributions

From 2012, the annual imputed distribution which applies to Approved Retirement Funds ('ARFs') for individuals aged over 60 has been increased from 5% to 6% for ARFs valued in excess of €2 million (or where an individual has more than one ARF, where the aggregate value of those ARFs exceeds €2 million).

In addition, the above distribution regime now applies to 'Vested' PRSAs, i.e. Personal Retirement Savings Accounts ('PRSAs') from which lump sum benefits have already been taken.

This change means that a Vested PRSA will now become a principle source of taxable income for individuals aged over 60, similar to an ARF.

Planning Options for Consideration:

- For individuals who are approaching retirement, consider the merits of taking benefits and incurring the mandatory distribution regime or deferring retirement in order to defer taking taxable distributions;
- For individuals with a Vested PRSA, reviewing your income sources in order to minimise the impact of income tax;
- For individuals with ARFs/Vested PRSAs, reviewing your income strategy to take account of the higher taxable distribution and review the investment strategy to ensure it can accommodate this annual distribution.

Investment – Key Budgetary Changes

The key changes to the taxation of investment income and gains has been summarised in the table below:

| | Current regime | Revised regime | Effective date of revised regime |
|--|----------------|------------------|----------------------------------|
| DIRT | 27% | 30% | 1st January 2012 |
| Fund Exit Tax | 30% | 33% | 1st January 2012 |
| Income Tax | Up to 55% | Up to 55% | 1st January 2012 |
| Employee PRSI on Non-Employment Income | None | PRSI Payable | 1st January 2013 |
| Capital Gains Tax ('CGT') | 25% | 30% | 7th December 2011 |
| CGT Relief on Property Purchases | No CGT Relief | Full CGT Relief* | 7th December 2011 |

* *In an attempt to encourage investment in property, the Minister has introduced a CGT relief incentive. In brief, for any property purchased between 7th December 2011 and 31st December 2013, and held for a minimum of seven years, CGT relief will apply to any gain arising in that period.*

Planning Options for Consideration:

- Minimising exposure to marginal rate income tax by utilising fund-based structures to capture exposure to high income yielding assets;
- Structuring investment portfolios to utilise accumulated losses by seeking to capture return attributed through capital gains;
- Structuring investment portfolio to utilise gross roll up structures which enable income and gains to be accumulated tax free within the respective funds and defers tax until encashment.

Estate Planning – Key Budgetary Changes

The key changes to the estate planning regime can be summarised as:

| | Regime to 6th December 2011 | Revised regime from 7th December 2011 |
|--|--------------------------------|---|
| Capital Acquisitions Tax ('CAT') | 25% | 30% |
| Lifetime CAT gift/inheritance Limit (Parent to Child) | €332,084 | €250,000 |
| Annual CAT gift/inheritance Limit | €3,000 | €3,000 |
| Retirement Relief | Unlimited | For business owners aged over 66, limited to €3 million for transfers to family members and €500,000 for transfers to non-family members Note: two-year grace period |

Planning Options for Consideration:

- Gifting assets to the next generation in order to maximise current lifetime limits;
- Transferring business ownership to the next generation in the coming two years for those over 64 in order to benefit from the current Retirement Relief regime;
- Providing for a means to minimise and/or provide for the tax liability incurred on the transfer of assets over an individual's lifetime/death;
- Considering different structures/mechanisms such as loans, family partnerships and growth shares which enable assets to be transferred to the next generation in order to help protect the future growth from CAT but where control remains with the parent.

How We Can Help

Davy has a team of specialists who are available to meet with you to discuss the options you should consider given your personal financial position. If you would like to arrange a meeting, please contact your Portfolio Manager.

This document is based on our understanding of Budget 2012 as presented by the Minister for Finance, which is currently pending ratification in the Finance Act. Please ensure you read the Risks and Important Disclosures. Please note that this document is general in nature and it is not intended to constitute tax, financial or legal advice. It does not take account of your financial situation or investment objectives. Prior to making any decisions which have tax, legal or other financial implications, you should seek independent professional advice.

Risks

A summary of the risks associated with taking any action outlined above include but are not limited to the following:

- There are risks associated with any pension investment strategy. The value of the investment may go down as well as up. Investors may lose some or all of the money invested. There is no guarantee that the pension scheme will meet its objectives of long-term capital appreciation or the level of income required.
- Tax laws and regulations are constantly changing, and they may be changed with retrospective effect which may have a negative impact on pension schemes or underlying investments. No assurance can be given regarding the actual level of taxation that may be imposed upon pension schemes or underlying investments. Any tax information that may be provided for Irish resident clients is based on Davy's current understanding of the tax legislation in Ireland and the Revenue interpretation thereof.
- There is a risk associated with maturing pensions and the timing of same. You should discuss these risks with a professional pension expert prior to making a decision to redeem your pension prematurely.
- Various investment structures, vehicles and options are available to investors; each has its own benefits and risks, which cannot be fully outlined in this summary document. You should read any investment documentation carefully and discuss the risks with a professional legal and/or tax advisor prior to making an investment decision.
- There are risks associated with passing assets to children, including but not limited to the following: assets could fall further in value; you could have a future requirement for the income or capital from the assets; you could lose all control over the assets and your children may not manage the assets in accordance with your requirements, wishes or intentions.
- Davy does not provide tax or legal advice. It is important to seek independent professional advice prior to making any decisions which have tax, legal or other financial implications.

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