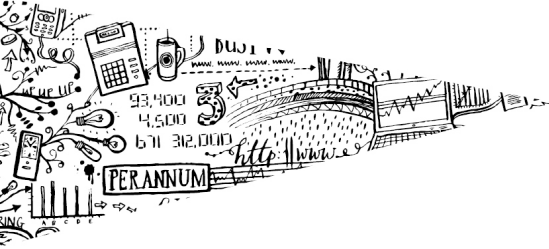


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# Tax alert

## Ireland

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## VAT and Employers' PRSI reductions feature in Government's Jobs Initiative

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The Minister for Finance today announced some welcome measures targeted at improving competitiveness and promoting job creation. The highlights of the proposals are a significant reduction in employers' Pay Related Social Insurance (PRSI) and a new lower 9% rate of VAT for certain activities, primarily tourism-related. The Minister also reaffirmed Ireland's commitment to maintaining the 12.5% rate of corporation tax.

### Reduced rate of VAT for certain activities

As expected, the Minister will be reducing the lower rate of VAT from 13.5% to 9% for certain activities in the labour-intensive service sector of the economy. It will take effect from 1 July 2011 and will apply until 31 December 2013. It is hoped that the reduction will generate employment opportunities. The economic activities which will benefit from the reduction will include hotel and holiday accommodation, restaurant and catering services, and various entertainment services. The new rate will also apply to hairdressing and to the sale of printed matter, including newspapers.

An example of the impact of this change is that a meal for two which currently costs €100 (excluding drink) will cost €96.02 following the 4.5% cut in the VAT rate. Given the anticipated benefit to businesses from increased spending in these sectors, it is anticipated that the reduction in the VAT rate will be matched by an equivalent reduction in prices. In that context, the 9% rate of VAT will be reviewed before the end of 2012 to ensure that the reduction is achieving its desired effect.

The 13.5% rate will be retained for some goods and services. Full details will be contained in the upcoming Finance Bill.

### Employers' PRSI

In line with the Programme for Government, a reduction in the lower rate of employers' PRSI applicable to persons earning up to €356 per week has been announced. The lower rate is to be halved from 8.5% to 4.25% with effect from 1 July next until 31 December 2013. In a welcome move, the Minister also announced the abolition of employers' PRSI on share-based payments which was due to apply from 1 January 2011.

Other labour market initiatives will include a reform of sectoral wage agreements and the announcement of additional training course places.

### **Research and Development Tax Credit Scheme**

The Government reaffirmed the critical role that the R&D tax credit scheme plays in encouraging foreign direct investment. While no details were given, it was announced that the regime is to be amended to improve flexibility in how the tax credit is to be accounted for. This is currently an issue for some corporate groups.

### **Air Travel Tax to be reduced to zero rate**

A €3 air travel tax currently applies to most departures from Irish airports. The Government announced that this is to be reduced to zero with effect from a date to be specified once agreement is reached with the airlines on proposals to achieve an increase in passenger numbers. Discussions are ongoing in that regard. On a separate note, a reform of the visa application system will allow visitors of certain nationalities who are in possession of UK short-stay visas to enter Ireland for short stay tourism and business purposes without the need to apply for Irish visas.

### **Pension Levy**

The above stimulus measures are to be funded by a temporary (four year) levy on funded pension schemes and personal pension plans established in Ireland. It is to be based on market values as at 1 January 2011 and will apply at a rate of 0.6% per annum. See our separate Pensions Alert for further details.

It is expected that the detailed legislation required to implement the above initiatives will be published within the next week or so.

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