



Pension Issues to Consider in Advance of the Next Budget

Jacinta Lawlor, Private Client Wealth Management

In light of the country's deteriorating fiscal situation, comments from Government circles indicate that pensions are likely to come into the firing line.

Reduced Salary Cap for Contributions

The 2009 Tax Year sees the introduction of a reduced salary cap for individual pension contributions. The salary cap reduces from €275,000 to €150,000. What this means is that there is limited time remaining to avail of the higher salary cap for 2008. Many clients are affected by this, especially those who fund their pension plans in the final years prior to retirement.

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If you are affected you should contact us without delay. Missing the deadline for availing of the higher salary cap may have an adverse effect on your final retirement fund value.

Changes to Tax Relief?

While nothing has been confirmed by the Department of Finance, it is becoming increasingly clear that the December budget will probably target pension contribution relief.

Various scenarios are being discussed in the media and financial circles. The Commission on Taxation is due to report in July and it is widely felt that recommendations in this report in

numbers of people ‘early retiring’ to draw down their Tax Free Lump Sum. We have noticed a huge increase in the number of clients who want to meet us to plan their exit strategy. Insurance companies

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relation to tax relief on pension contributions will form the basis for any announcements made in December. If you are close to retirement or if you currently avail of pension contribution tax relief at the higher tax rate we would be happy to talk you through some possible options.

Tax on the ‘Tax Free’ Lump Sum?

Again, while nothing has been confirmed by the Department of Finance, Mr. Lenihan’s comments regarding a possible future tax on the Tax Free Lump Sum element of a pension fund have put this issue firmly front and centre in pension circles. Rumours of this possible new tax in the weeks leading up to the mini-budget resulted in a sharp increase in the

have already been in contact with all pension consultants to let them know that, due to volumes, the normal turnaround time for a retirement claim has increased and will probably continue to do so. If you are planning to draw down your pension benefits within the next two years and/or if you are over age 60, it is important you review your options without delay. We will be writing shortly to all of our clients who are aged 60 or over to highlight this issue. However, please contact us directly if you wish to discuss this issue sooner. Remember, once you are aged 60 or over, you do not have to ‘retire’ from your business to draw down your pension benefits.

For a free consultation with Conor or Jacinta, please contact 01-669 9999.

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Quick Wins in Wealth Management Ideas to Generate Immediate Cost Savings

Conor Hughes, Director, Private Client Wealth Management

When people in business are faced with an uncertain future they immediately look at ways to cut unnecessary costs. For the time being the focus for many people is on wealth preservation rather than growth.

A comprehensive financial review is extremely important in the current environment to achieve immediate cost savings for our clients. So, what are some ‘quick wins’?

Maximise Deposit Rates

It sounds simple, but it is amazing how many clients with cash reserves are not availing of the best interest rates on the market. We can provide up to date information on deposit rates from all financial institutions. While in many cases it is simply inertia preventing clients switching funds to avail of the best rates, on numerous occasions we have assisted clients in negotiating better rates with their own bank in circumstances where they wish to maintain the banking relationship.

Review your Pension Scheme

If you have a current pension plan in place for you or your staff then

you need to carry out a full review of its value for money immediately. Do you know the various charges built into the plan? Is the investment strategy in line with your requirements? Extra ‘hidden’ costs over the lifetime of a pension plan can make a huge difference to the final fund value at retirement. Organising a full review can result in huge cost savings. Bear in mind that pension contributions made by you to your staff pension scheme are fully tax-deductible.

Review your Business / Partnership Protection

Many clients set up their Business/Partnership Protection at a time when the value of their business was higher than it is now. It is extremely important to retain this cover in order to ensure that the business has the funds necessary to buy out the spouse/family of a deceased director/partner. However, in the current climate, many businesses

are paying over the odds for this protection. This is an unnecessary expense because the policy will only pay out on the value of the business at date of death regardless of the amount of cover in place. An up to date valuation of the business and a correction in the level of cover in place can achieve an immediate saving.

Review your Income Protection

If your declared salary this year is lower than in previous years, you are paying a higher premium for this benefit than you need to. It is vital that self-employed people resist the temptation to eliminate this cost altogether because unlike

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PAYE employees, their PRSI class means that Social Welfare Disability benefit will *not* be paid in the event that they are unable to work due to illness or injury. However, an insurance company will only replace a maximum of 75% of declared salary regardless of the amount of cover put in place initially. It is pointless to pay for cover you will not

receive. A review may produce immediate cost savings.

Group Risk Schemes

A Group Risk Scheme is life assurance and/or disability insurance taken out on a group basis to cover your staff. In the current environment of pay

freezes and pay cuts, Group Risk schemes have the advantage of increasing the overall benefits package offered by an employer without the cost of an actual salary increase. The premiums payable by the employer are fully tax-deductible.

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Supplementary Budget 2009

Kieran McCarthy, Partner

Tuesday, 7th April 2009 saw the Government introduce a supplementary Budget for 2009 in an attempt to boost Government coffers due to the continuing deterioration in the Government Finances.

As expected the budget was tough, with most of the emphasis on revenue raising measures with more indicated for next year. Expenditure cuts are not expected to outweigh revenue raising measures until 2011. In this special article of this newsletter we bring you a summary of the key announcements:

- Income Levy rates.
- Abolition of Mortgage Interest relief after 7 years.
- Increases in PRSI and Health Levies.
- Deposit Interest Retention Tax has been increased to 25%.
- Capital Gains Tax and Capital Acquisitions Tax increases to 25%.
- Levies on non life insurance policies were increased 1% to 3% and a new 1% levy was introduced to cover life policies. This latter levy applies to premia received by insurers on or after 1 June 2009 and is expected to apply to life and pension policies, single premium and regular premium contributions & new and any existing policies.
- Introduction of Stamp Duty "trade in" scheme.

Personal Taxes

It was announced that income levies were to be doubled with effect from 1 May 2009 to 2%, 4% & 6% respectively. In addition the thresholds applying

for the 3 rates have been reduced significantly as shown below. It should be noted however that the draft legislation passed on the night of the budget

**Table 1
Income Levy changes as announced**

	Pre-Supplementary Budget	Post-Supplementary Budget
Exemption Threshold (under 65)	€18,304	€15,028
Middle Rate Threshold	€100,100	€75,036
Higher Rate Threshold	€250,120	€174,980
Lower Rate Levy	1%	2%
Middle Rate Levy	2%	4%
Higher Rate Levy	3%	6%

**Table 2
Levy Rates applying to Self Employed for 2009**

Part of Annual Income	Rate of Income Levy
First €75,036	1.67%
Next €25,064	3%
Next €74,880	3.33%
Next €75,140	4.67%
Balance	5%

sets out a backdated hybrid rate for the whole of 2009, while at the same time separately specifying the new doubled rates. It has since been confirmed by the Revenue Commissioners that the hybrid rates, as set out in table 2, apply to self employed income while the rates in table 1 apply to payments taxed through the PAYE system.

PRSI Changes

The health levy which is collected as part of the PRSI system is being doubled to 4% and the PRSI ceiling, above which PRSI as opposed to the health levy is not charged, is being increased from €52,000 to €75,036. Combined with the health levy increase, not counting the income levy increases, this equates to an effective tax increase on income between €52,000 and €75,036 of 6% (2% increase in health levy plus application of 4% PRSI to the amount of the increase).

Mortgage Interest Relief

Owner Occupiers

With effect from 1 May 2009 mortgage interest relief is only available for the first 7 years of the mortgage. Therefore anyone who has had their mortgage for more than 7 years loses mortgage interest relief from this date.

Investors

Mortgage Interest relief for investors in residential rental property is to be limited to 75% of the interest incurred with effect from 7th April 2009. Therefore 100% of the interest in the period to 7th April will be fully deductible with interest incurred after that date limited to 75%.



Property Taxes

The sale of residential development land has benefited from special low tax rates of 20% in the

case of sales by individuals or partnerships as well as companies (land trading by companies is normally taxed at 25%). These low rates are being abolished and are reverting to normal taxation rules, i.e. profits of individuals taxable at up to 41% plus levies.

Property based incentives

Capital allowance schemes in the health sector are to be terminated. These schemes cover private hospitals, registered nursing homes, convalescent homes and associated residential units as well as mental health centres. More details are to follow in the Finance Bill.

Capital Gains Tax & Capital Acquisitions Tax

The rates of Capital Gains Tax & Capital Acquisitions Tax (Gifts and Inheritances) are increased with effect from 7th April to 25%. Tax free thresholds for Capital Acquisitions Tax are also to be reduced by 20%.

Stamp Duty

A trade in scheme which will permit vendors of new houses and apartments to take a purchasers old property in part payment for the purchase of the new property is to be introduced. The effect of the scheme is to ensure that the vendor (acting as a purchaser in respect of the traded in property) will not incur stamp duty on taking the old property until such time as it is sold on. Further details are to be included in the Finance Bill.

Social Welfare Changes

- Abolition of the Christmas bonus.
- Jobseekers benefit for under 20's halved to €100 per week.
- Payments under the rent supplement scheme reduced to reflect drops in rents.
- It was announced that child benefit is to be means tested or taxed from 2010 although this has since changed.
- Indication that Job seekers benefit may be reduced in upcoming budgets.

Other announcements

It has been indicated that further measures in relation to the tax residency rules are to be included in the Finance Bill.

Deposit Interest Retention Tax has been increased to 25%.