

MONEY

DIFFICULT STAGE
ACTRESS SUSAN
MCFADDEN ON HER
STRUGGLE WITH SAVINGS P13



How to get tax off your back

The lower allowances and higher rates introduced in the budget will pile pressure on consumers. **Niall Brady** offers advice on easing the strain

TAXPAYERS are set to be fleeced in the new year, but they can limit the damage by making the most of the tax breaks still available.

January's pay packets will contain a nasty shock as the new income levy kicks in, on top of income tax, for anyone earning more than €352 a week.

The levy will be 1% on incomes up to €100,100 a year, 2% on earnings of €100,100 to €250,120 and 3% on anything above this.

Some of the government's tax hikes have already taken effect. Vat on most purchases increased by half a percentage point to 21.5% on December 1, while tax on wine and petrol rose on October 14.

The impact has been cushioned by a big fall in oil prices, although this drop has been lessened for those paying for goods and services by cheque following the higher duty on chequebooks imposed in the budget.

As well as raising taxes, the government has given taxpayers fewer places to hide by trimming many of the most popular reliefs and allowances.

Families used to be able to claim top-rate relief on medical bills, cutting a net cost of €500 spent on doctors' and consultants' bills, for example, to €295. But the net cost will rise to €400 in 2009 when relief for medical expenses is restricted to the standard 20% rate for all taxpayers.

Most tax shelters used by the wealthy have been closed down, while access to those that remain has been severely curtailed. Those earning more than €250,000 a year, for example, must pay at least 20% tax on their incomes, no matter how much they plough into tax shelters.

We investigate the tax savings options still available and advise how to make the most of them.

Go into the movies

The government has recently increased the limits for tax-based investing in film production after raising the amount that can be invested in small private companies through the business expansion scheme (BES) two years ago.

Film investors will get 41%

tax relief on investments up to €50,000 next year under government proposals that have yet to be approved by Brussels. This is a maximum tax break of €20,500, an increase of €10,086 compared with the current rules.

BES is even more generous, giving 41% tax relief on investments of up to €150,000 a year. It is much riskier though, because the investments must be for at least five years and much of the money is injected into start-up businesses, where the failure rate can be high.

Films, by contrast, are often commissioned by television companies at prices agreed before production begins. The lower risk involved means banks are willing to back film investing, although the credit crunch could now make finance harder to acquire.

Those investing €50,000 may be able to borrow €36,750, for example, while investing €13,250 of their own money. Even if this money is not repaid, the investors would be quids in because they get tax relief of €20,500 — €7,250 more than they invested.

Peter Squires, of the Dublin accountants Squires & Co, whose clients have helped to finance the new Irish film Kisses, said: "The higher limit makes investing in films far more attractive, with a potential maximum return of €7,250 a year compared with €2,000 under existing rules."

"Anyone willing to take some risk should benefit, provided the money they invest falls into the higher 41% tax bracket."

Maximise your mortgage relief

Those who climbed on to the

property ladder in the past seven years — classed as first-time buyers by the taxman — will get far more tax relief on mortgage interest than other homeowners next year.

Couples can get higher relief on interest of up to €20,000 a year, although many will fall short of this limit in 2009 as interest rates plunge.

To maximise their tax entitlements, first-time buyers should consider moving to interest-only payments in 2009, especially if their incomes are squeezed by the economic slump. Moving to an interest-only mortgage should reduce payments while ensuring that the total outlay qualifies for tax relief.

They should also check they are getting the correct tax relief, especially if they have moved within seven years of buying their first home. Karl Deeter, the operations manager at Irish Mortgage Brokers, said: "You're entitled to be treated as a first-time buyer for tax purposes for seven years, irrespective of whether you still live in your first home."

The tax relief is given at source by banks and building societies, and Deeter says the taxman is investigating whether some borrowers are getting more than their entitlement.

"Revenue is asking for utility bills to check that those getting the relief are owner-occupiers rather than investors," he said.

"It is also checking on mortgage top-up to see if the money was used for debt consolidation, which does not qualify for relief."

Plunder your pension pot

The recession is forcing many employees into early retirement after being made redundant in mid-career.

Unlocking the tax-free money in their pensions to help pay off their mortgages or send children to college can be tricky, however. The pension rules restrict employees to a maximum tax-free lump sum at retirement of 1.5 times their final salary — provided they have been in the scheme for at least 20 years. Those with less service have fewer options,

depriving them of badly needed cash just when they need it most.

Those retiring from the age of 50 can skirt these restrictions by switching out of their employer's occupational pension scheme into more flexible personal retirement savings accounts (PRSAs).

Up to 25% of the money in PRSAs can be withdrawn tax-free at retirement, far more than most employees could ever get by sticking with occupational schemes. But pension rules ban transfers to PRSAs for those who have belonged to an employer's scheme for more than 15 years.

John Mulholland, a director of Custom House Capital, an independent adviser offering PRSA transfers, said: "Immediate access to the tax-free cash in a pension is a huge selling point right now, given the recent spate of redundancies."

"Transferring to a PRSA gives you the option of immediately withdrawing 25% of your pension as a tax-free lump sum, leaving the balance invested in a balanced mix of shares, property and cash."

Split your earnings with your spouse

The owners of family businesses will be able to limit the impact of the income levy by redistributing the incomes they pay themselves, says Joan Burton, the Labour party's finance spokeswoman. Directors earning €200,000 a year, for example, would pay a levy of €3,000. This could be cut to €2,000 by splitting the earnings with a spouse, so each earns €100,000.

Similar savings are possible with income tax. A director earning €80,000, for example, will pay income tax of €23,266 in 2009. The family tax bill could be reduced to €18,016, a saving of €5,250, by transferring €25,000 of the director's earnings to a spouse working in the business.

The family must be able to demonstrate, however, that the spouse is doing a job worth €25,000 a year.

Frank Greene, a tax partner with the accountants Mazars, said: "Owners of family businesses would be much better off splitting salaries on a fair and reasonable basis between spouses to reflect the work they're doing for the business. They must be able to prove, though, that everybody is making a genuine contribution for the money they are earning."

Splitting earnings also makes sense for pension planning because the government will be reducing the income cap on which contributions are based from €275,239 this year to €150,000 next year.



October's budget increased the financial load on taxpayers across the board, but some tax breaks are still available

Incentives that financed a factory

A scheme in Co Limerick offers benefits to both the investors who backed it and the local economy

KILMALLOCK in Co Limerick has a new factory — thanks to €1.2m invested under the business expansion scheme (BES). The money was raised in just 72 hours by accountants Horwath Bastow Charleton from clients attracted by the tax breaks. The factory is part of a community effort aimed at bringing new industry to the town.

"While the tax incentives were crucial, this is a solid investment in bricks and mortar, with a clear path from initial concept to completion," said John Webb-O'Rourke, one of nine local businesspeople behind the Kilmallock Advance Factory project. "We had the

site and Revenue had given BES approval before the investors came on board, so they had answers to most of their questions from the beginning. The focus was on building a factory to create employment locally — not giving tax breaks for investment in property."

The 15,000-sq-ft facility's first tenant, a local logistics company with a fleet of 14 trucks, will move in after Christmas on a 21-year lease. Apart from Webb-O'Rourke, the promoters included his father-in-law, Tim Cahill Senior, and Richard Egan, chairman of the factory scheme.

Cahill has invested personally in the BES project. "He was willing to put his money where his mouth was because he saw the strength of the scheme," said Webb-O'Rourke. "Most of the money, though, came from outside investors —

typically professional and business people from the Munster region — introduced by Horwath Bastow Charleton. I don't think they would have been interested in Kilmallock without the tax incentives."

Community support for the scheme is already paying dividends, with Shannon Development, the agency charged with promoting economic growth in the region, extending its business park in Kilmallock.

"The factory has created confidence locally," said Webb-O'Rourke. "I don't think Shannon Development would have agreed to expand the park if it hadn't been for the BES scheme. It needs to see local commitment before embarking on something such as this."

Niall Brady

MAXIMUM MORTGAGE INTEREST TAX RELIEF

	Single	Married	Widowed
Years 1 & 2	€2,500	€5,000	€5,000
Years 3, 4 & 5	€2,250	€4,500	€4,500
Years 6 & 7	€2,000	€4,000	€4,000
After year 7	€450	€4,000	€4,000

Source: Revenue Commissioners

Government must not become the nation's mortgage nanny

JILL KERBY
COMMENT



The Labour party wants the government to pass legislation that would protect Irish mortgage holders from being foreclosed and evicted from their family home as a result of the downward slide of the economy.

It isn't enough that all members of the Irish Banking Federation are already signed up to a voluntary code of practice on arrears and foreclosures that continues to offer considerable flexibility to people who are having serious trouble meeting their monthly repayments. Nor is it enough that the Ulster Bank and First Active, its sister organisation, have announced a moratorium on foreclosures.

Nor, for that matter, is it enough that judges give the defaulter every chance to find the money and keep their homes.

The banks are not interested in having hundreds of foreclosed properties on their hands at a time when there are no buyers and there are already 40,000 unsold properties lying empty around the country. Even forcing mortgage defaulters to put up "For Sale" signs would only drive prices down further in neighbourhoods most affected by job losses.

The idea of a government guarantee against foreclosure is absurd and counterproductive: an invitation to anybody with a huge mortgage who is already experiencing negative equity to stop paying their mortgage in full.

The government currently has enough banking problems on its plate to worry about without turning itself into the nation's mortgage nanny, committing even more billions of taxpayers' money to bailing out not just genuine hardship cases, but the "hardship" of amateur landlords and speculators who often foolishly put their family home at risk to speculate on buy-to-let investments from the Shannon to Shanghai.

The Labour party is quite right to address the wider housing problem: the growing lists of people in need of affordable housing and the growing number of workers who, through no fault of their own, are going to lose their homes due to unemployment.

The same issues are being debated in Britain where two schemes have been launched: one to allow the deferral of interest payments for up to two years to certain borrowers and another that involves the transfer of the defaulter's property to private housing associations. The former owner gets to remain and either pay rent or a combination of rent and equity repayments.

Neither scheme is funded entirely by the government.

It's bad enough that some Irish banks could end up under the dead hand of this government if they are part-nationalised or end up under full government control but, with fewer than 50 foreclosure cases coming before Irish courts every week,

transferring the nation's mortgage debt to the tax-payers seems like a gross overreaction.

McAleese's consuming passion

The lunch that President Mary McAleese shared with her hosts from the University of Arizona last week must have been a little awkward after her "overwhelmed by greed" speech.

The president, who doesn't shy away from social commentary, was referring to the bankers who had benefited most from the mortgage madness that sparked the global credit crisis, but she accused all of us — Americans and Irish — of being complicit in the cult of overconsumption.

"I think that every one of us would have to say with our hands on our hearts that we were all consumed by that same element of consumerism," she is quoted as saying to reporters. "Somewhere along the line, we began to think that we weren't happy with deferred gratification . . . And now the balance presumably is going to swing back the other way and it will be no harm."

Our unbalanced times, said McAleese, "have not been able to secure for us the kind of peace of mind, peace of heart, contentment that we would have wished for. Now we're trying to find our way back to a more rooted and possibly more modest time."

Americans don't do guilt as well as we do, and certainly not when it comes to

the accumulation of wealth, so I expect a few people in her Arizona audience may have objected to being tarred with the label of soulless consumerist.

The real victims of both our bubble economies, the president failed to note, are the majority of people who didn't suck equity loans out of their homes, ratchet up tens of thousands of credit card debt, or borrow money to buy SUVs, holiday homes or to flip buy-to-let property. And they shouldn't feel in the least bit guilty about the consumer items they bought — with their own money or savings — during the boom.

Plastic isn't fantastic

I don't think that the Halifax bank meant to be funny when it sent out a press release with the headline: "Quarter of consumers see cashless society in the future."

Of course, the bank meant that one in four of us expects that notes and coins will disappear some day to be replaced entirely by debit and credit cards, not that we are all going to be short of a few bob in the coming months.

Personally, I don't share the view that cash will disappear completely; there's too much mistrust of banks, and retailers too, who capture and process the data in our accounts. E-banking and card fraud is commonplace — it happened to me last January — and fraudsters don't seem to have much trouble breaking safety codes

and procedures, no matter how often financial institutions say that these have been upgraded.

Unsurprisingly, those who believe we will be a cashless society in the future are aged between 25-44 (35%), while those who would be dissatisfied to rely solely on electronic transactions (46%) are mostly over 45 years old.

But the survey result that surprised me most was that 68% of respondents say they still use cash to pay for their grocery shopping. From my weekly observation at the grocery checkout, it looks like credit cards are the favourite payment method of choice, not even debit cards, especially towards the end of the month.

Halifax says it expects debit and credit card use to rise, which confirms a report I saw from America that said that credit card debt had soared in recent months along with the unemployment rate. When your house is no longer doubling as an ATM, you have no savings and you have just lost your job, credit cards become the bank of last resort, until you max them out, one by one. (Most Americans carry a swathe of cards.)

We all complained that the original €40 annual stamp duty on credit cards was uncompetitive when it was introduced, (it's less now), but Charlie McCreery may have done us all an inadvertent favour: credit cards may be widely used — and overused — here, but few people carry more than one or two in their wallets.