



QUESTION OF FINANCE SALARIES

Changes to restriction of reliefs for high earners

Q I KNOW that Finance Minister Brian Lenihan made some references in the Budget to changes on higher earners' restrictions. How has this been changed?

A THE high earners' restriction was first introduced in 2007. It was to ensure that no high-earning individual could use specified tax shelters or reliefs to completely avoid paying income tax.

The high earners targeted by the restriction include those availing of patent royalty exemption, artists' exemption and those protecting their income by investing in business expansion schemes (BES), film investment, donations and capital allowances on tax-incentive properties.

Pension contributions are not included on the list of restricted reliefs. The total of "specified reliefs" which could be used by an individual in any one year was either 50pc of their "adjusted income" or €250,000, whichever was highest.

This generally resulted in individuals with fully sheltered or exempt income in excess of €500,000 paying tax on at least half of their income, those on incomes below €250,000 fully utilising any available reliefs, and those on incomes between these amounts availing of a form of marginal relief. This led to an effective minimum tax rate of 20pc. In Budget 2010, Mr Lenihan said the restriction would in future affect those with incomes over

€125,000, with the marginal relief ceasing to apply at income levels above €400,000.

He also stated that an effective 30pc rate of income tax would thus apply to these taxpayers and that they would also become liable to pay PRSI. Previously, some exempt or sheltered incomes were exempt from PRSI.

Mr Lenihan also indicated that some existing reliefs could be abolished. Full details for this will be published in the Finance Bill due in early February 2010.

■ David Price, Principal, Taxmedic.

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