

Property Relief Surcharge

This surcharge is essentially a higher rate of USC to be applied to persons in respect of income sheltered by the use of certain property and area-based capital allowances as well as section 23-type relief. Residential owner-occupier relief is unaffected by this measure. The surcharge is applied at the rate of 5% where gross income¹ exceeds €100,000 in the tax year and where these reliefs have been used in computing taxable income. The computation of gross income equates with that of “adjusted income” for the purposes of the high earners restriction, though the surcharge itself only applies to income sheltered by the property and area-based reliefs.

For example, take a person with a taxable income of €80,000. This is the income upon which income tax will actually be levied. That income has been arrived at after the application of all allowable deductions and reliefs including capital allowances claimed in that year as well as losses brought forward from previous years. These losses may comprise real commercial losses (arising from interest on borrowings, for example) as well as unused capital allowances from previous years. In the context of rental income, these losses may also include section 23-type losses. The aggregate of all these deductions, charges and reliefs, which are specified reliefs² (for the purposes of the high earners restriction) are then added back to the taxable income to arrive at a figure of gross income. Some of the specified reliefs claimed in that year and which are added back may not be property-based but may relate to the Business Expansion Scheme or Film Relief, for example.

If the gross income figure exceeds €100,000, the person is liable to the surcharge. If not, then the surcharge does not apply. Where the gross income exceeds €100,000, the surcharge applies at the rate of 5% **but only on that element of income sheltered by property-related specified reliefs**. The surcharge will not apply to income sheltered by tax reliefs that are not property reliefs such as BES, film relief or the new Employment and Investment Incentive. Also the various donations reliefs will not be subject to the surcharge.

¹ Referred to in the high earners restrictions as “adjusted income”. Essentially it is taxable income plus all income sheltered from taxation by “specified reliefs”

² “Specified reliefs” all all the various incentive property reliefs both capital allowance and section 23 and student accommodation; loss relief where the loss derives from an entitlement to the various property reliefs, reliefs such as the BES and film relief; donations reliefs; various exemptions and carried forward relief (this is an amount equal to the reliefs “lost” because of the restriction applying in a previous year).

Where an amount of specified reliefs is restricted under the high earners restriction in any year, that relief can be carried forward to be used in subsequent years, subject to the high earners restriction applying in that year. Any income in that subsequent year which is sheltered by relief of this kind will not be subject to the surcharge, on the grounds that it already has been surcharged in an earlier year.

Accelerated Capital Allowances

Investors in accelerated capital allowance schemes will no longer be able to use unused capital allowances beyond the tax life of the particular building where that tax life ends on or after 1 January 2015.

Where the tax life of a building has ended before January 2015, no carry forward of unused allowances into 2015 will be allowed. This measure will apply to passive investors in property schemes and does not affect section 23 type relief.

Full details will be contained in the Finance Bill.

Example 1.

Gross Income:	€102K
Specified Reliefs Used:	€12K (Property €10K and BES €2K)
Taxable income:	€90K
Property Relief Used:	€10K
Levy:	€0.5K (5% of €10K)

Example 2.

Gross Income:	€220K
Specified Reliefs Used:	€100K (Property €90K and BES €10K)
Taxable Income:	€120K
Property Relief Used:	€90K
Levy:	€4.5K (5% of €90K)

Example 3.

Gross Income:	€350K
Specified Reliefs Used:	€150K (€70K Property and €80K BES)
Taxable Income:	€200K
Property Relief Used:	€70K
Levy:	€3.5K

Notes.

1. The term Gross Income equates to Adjusted Income for the purposes of the High Earners Restriction.
2. Specified Reliefs are those reliefs which are taken into account for the purposes of the High Earners Restriction.