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BUDGET 2012

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In recent years, our budget update to you has been quite short and could easily be missed in our newsletter. This year however, due to the large number of initiatives announced I have had no choice but to lengthen it significantly much to the horror of my Editor who had to find space for it at such short notice!

Budget 2012 has introduced a number of measures to try and revitalise the property market in Ireland. A number of indirect taxes have also been introduced but for the purposes of this article I will look at those which may impact on you from a different perspective.

Commercial Property

It is fair to say that one of the greatest surprises arising out of the budget is in relation to the area of upwards only rent reviews. It had previously been thought that legislation would be introduced revoking such clauses in pre 2010 leases. Leases which were created post February 2010 already have such limitations. This had the effect of restricting investment in the sector as investors could not be guaranteed that the rental flow currently in place would remain. If rents dropped then the value of their investment would be diluted. Certainty has now been given. The Government has committed that there will be no changes to this area. The Minister commented that there was no scheme which could be introduced which would not be open to legal challenge and which would not pave the way to a claim for compensation by Landlords. It is disappointing for many tenants who believe that they are paying excessive rents. Whilst there have been many landlords who have negotiated with tenants on the level of rents, there are still those who refuse to do so. There is some hope for properties in which Nama are involved. Nama have

published their policy guidance which allows Nama to approve rent reductions where the current rent is in excess of market values and the viability of the business is threatened.

Stamp duty has been reduced for commercial properties from a top rate of 6% to a flat rate of 2% which is very welcome. Relief has also been given in relation to Capital Gains Tax. Investors of commercial property who buy before the end of 2013 and who hold on to the property for 7 years will not have to pay capital gains tax on any gain which they make. This could be potentially a very significant saving, depending on how the property market performs in the next 7 years and how capital gains tax rates increase.

Residential Property

First time buyers who buy in 2012 will get up to €5,000 a year in mortgage interest relief for 7 years. The hope is that many first time buyers who are sitting on the fence will now decide to enter the property market, if finance is available in order to avail of this extra benefit. This benefit only applies to property purchased in 2012 thereby forcing them to act now or risk losing a

very lucrative benefit. Mortgage interest relief has also been increased to 30% for those who took out their first mortgages between 2004 and 2008 in an attempt to help those struggling with payments.

Capital Taxes

Capital Gains Tax has been increased from 25% to 30% in respect of disposals made on or after 7 December 2011. Capital Acquisitions Tax has been increased from 25% to 30% for gifts and inheritances taken on or after 7 December 2011. The tax free amount which a child can receive from their parent is being reduced from €332,084 to €250,000. The other two group thresholds of €33,208 and €16,604 remain untouched. This could inadvertently have an impact on those who have made wills based on the thresholds and tax levels being at a certain level. We would certainly encourage everyone to review their wills and make sure that they work from a tax point of view.

Will it work? It looks like the right moves are being made but a lot will still depend on the availability of finance and external factors. I certainly hope that our budget update to you in 12 months time will be just as encouraging.

