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Irish budget delivers mixed news for business

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In his first budget speech, finance minister Brian Lenihan, said: "We have to ensure that we are a location of choice for foreign direct investment and one in which indigenous industry is able to prosper."

The move was welcomed by the Irish Business and Employers' Confederation (**IBEC**) who said that it was one of the more positive features of the budget from a business perspective.

To emphasise the importance the country's corporate tax regime plays in promoting investment, Lenihan confirmed that the 12.5% rate "is not for changing upwards".

But it was not all good news for business. Large companies with an annual corporation tax liability of more than €200,000 ($271,000) will now have to make preliminary payments in two instalments. Previously companies had to make a preliminary corporation tax payment amounting to 90% of the liability for the current accounting period, one month before the end of the period. But for accounting periods commencing on or after October 14 2008, companies will be required to pay preliminary corporation tax in two instalments.

The first instalment will be payable in the sixth month of the accounting period and the second in the eleventh month.

This could put extra strain on taxpayers. "A lot of companies that carry out activity in the international space find it hard enough already to pay the current 90% liability due to exchange rate fluctuations," said Sharon Burke from KPMG in Dublin.

But the move won't increase the amount of tax payable. "It's just an acceleration of payment dates, and was brought in to help address the recent decline in tax revenues," said Andrew Quinn of Irish law firm, A&L Goodbody.

Lenihan also increased the rate of VAT by 0.5% to 21.5% as of December 1, a move the retail community has strongly condemned.

"The decision to increase the VAT rate is likely to prove counterproductive, said Torlach Denihan, director of **Retail Ireland**, a representative body for Ireland's retail sector. "The increase in VAT makes Ireland less competitive by comparison with our nearest neighbour, Britain where the VAT rate is 17.5% and will compound the problem of people crossing the border to shop.

"It is not the time to increase VAT when consumer confidence is at an all time low and retail sales have fallen sharply for the first time since the late 1980s," he added.

The Ireland VAT increase is part of the international trend to shift the tax burden away from business taxes onto indirect taxes, said Richard Asquith from TMF, an accounting outsourcing firm.

"This is regarded as key for countries seeking to attract foreign direct investment and remain globally competitive," he added. "There seems little doubt that other countries will take a lead from this."

The government has also asked the **Commission on Taxation** to investigate options in the area of intellectual property (IP). Lenihan said that as IP has become important globally in recent years, Ireland needs to ensure that its tax regime fully reflects the changes which have taken place in this area. "If this sector can provide jobs and revenue to the state, I am willing to listen," he said.