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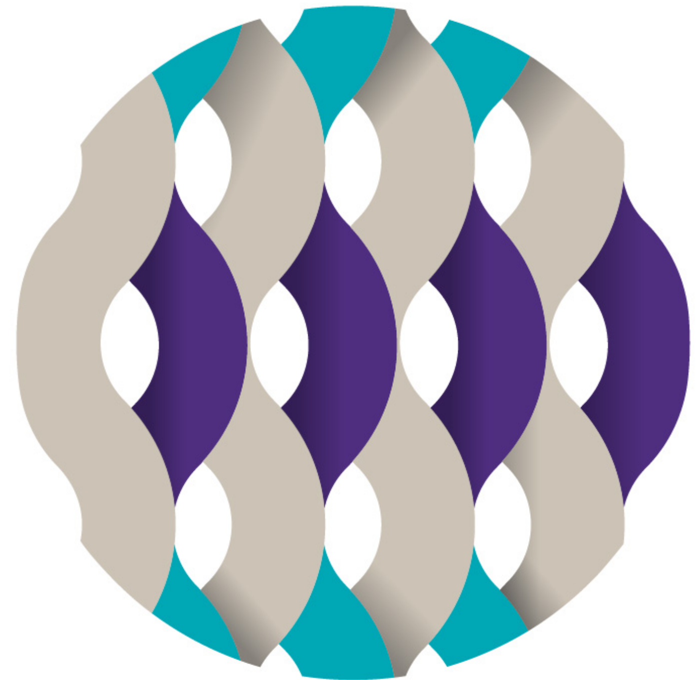
Budget 2018



11 October 2017

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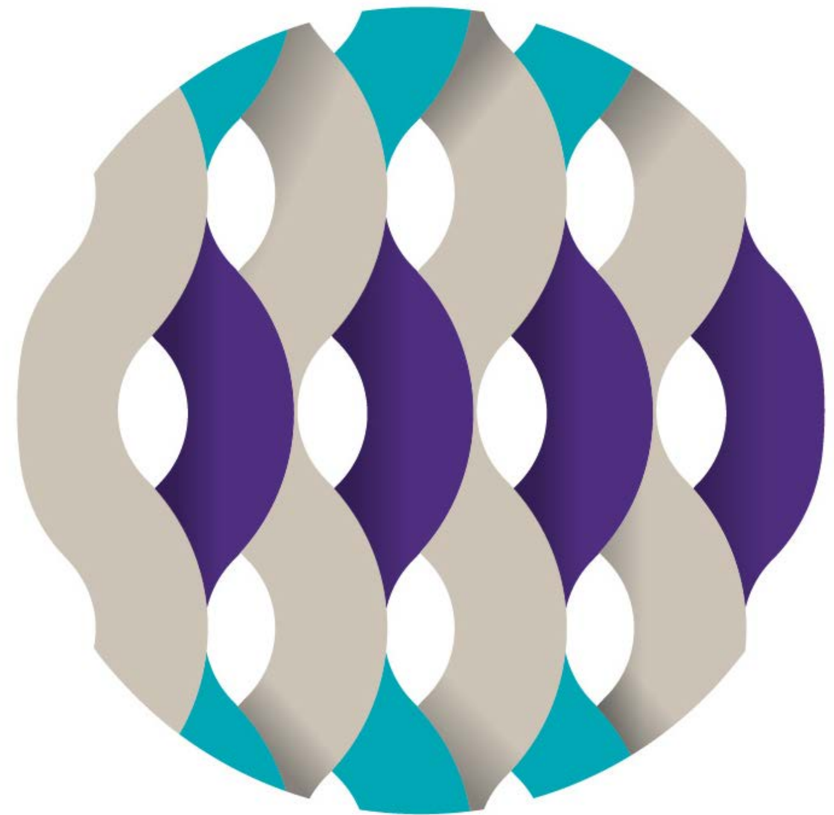
Personal tax



Jim Kelly

Director, Tax

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Personal tax: Income tax bands, rates & credits

Reduction in marginal tax rate of 0.25% on income up to €70,044

(49% to 48.75%) – applies from €34,550

How it happened…..

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Personal tax: Income tax bands, rates & credits

Income tax bands & rates

- increase of €750 to standard income tax rate band
- no change to income tax rates

Annual tax saving €150

Home carer credit

- increase from €1,100 to €1,200
- income threshold of home carer remains the same at €7,200

Annual tax saving €100

Earned income credit

- increase of €200 from €950 to €1,150

Annual tax saving €200

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Personal tax: Universal Social Charge (USC)

- no significant changes
- increase of €650 in the second USC band + reduction of in the second and third rate of USC = annual tax saving of up to €178
- increasing the ceiling of the second USC band should ensure full time workers on the increased national minimum wage of €9.55 do not pay upper USC rate

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Personal tax: Universal Social Charge (USC)

- USC relief for medical card holders extended for a further two years

- medical card holders & individuals aged 70 years and older subject to maximum USC rate of 2%, provided aggregate income does not exceed €60,000

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Personal tax: Universal Social Charge (USC)

- USC rates and bands 2018

Rate		Bands – Employed		Bands – Self-employed
0.50%		First €12,012		First €12,012
2.00%		Next €7,360		Next €7,360
4.75%		Next €50,672		Next €50,672
8.00%		Remainder		Next €29,956
11.00%				Remainder

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Personal tax: Benefit-in-Kind (BIK)

- zero % BIK rate to be introduced for electric vehicles for a period of one year
- new rate will come into effect from 1 January 2018
- charging electric vehicles using electricity provided by the employer will also be exempt from BIK
- introduction of new rate for one year will allow for comprehensive review of BIK on vehicles – may impact on decisions for 2019 Budget

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Personal tax: mortgage interest relief

- relief extended for owner-occupiers who took out qualifying mortgages between 2004 and 2012 – extension will be tapered

- 75% of existing relief will be available in 2018;
- 50% available in 2019; and
- 25% available in 2020.

- relief will cease entirely in 2021

- tapering of relief will result in exchequer yield, as full relief is currently in tax base

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Personal tax: landlords

- new deduction to be introduced for pre-letting expenses

- conditions /applications include,
- expense must be revenue in nature & spent on residential property
- incurred on a property that has been vacant for a continuous period of at least 12 months
- deduction will be capped at €5,000 per property
- clawback if property removed from rental market within 4 years
- qualifying expenses incurred on or before 31 December 2021

- intention of relief is to encourage owners of vacant residential properties to bring those properties into rental market

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Personal tax: social protection

- weekly social welfare payments will rise by €5 per week from last week of March 2018
- 85% Christmas bonus will be paid for social welfare recipients in 2017

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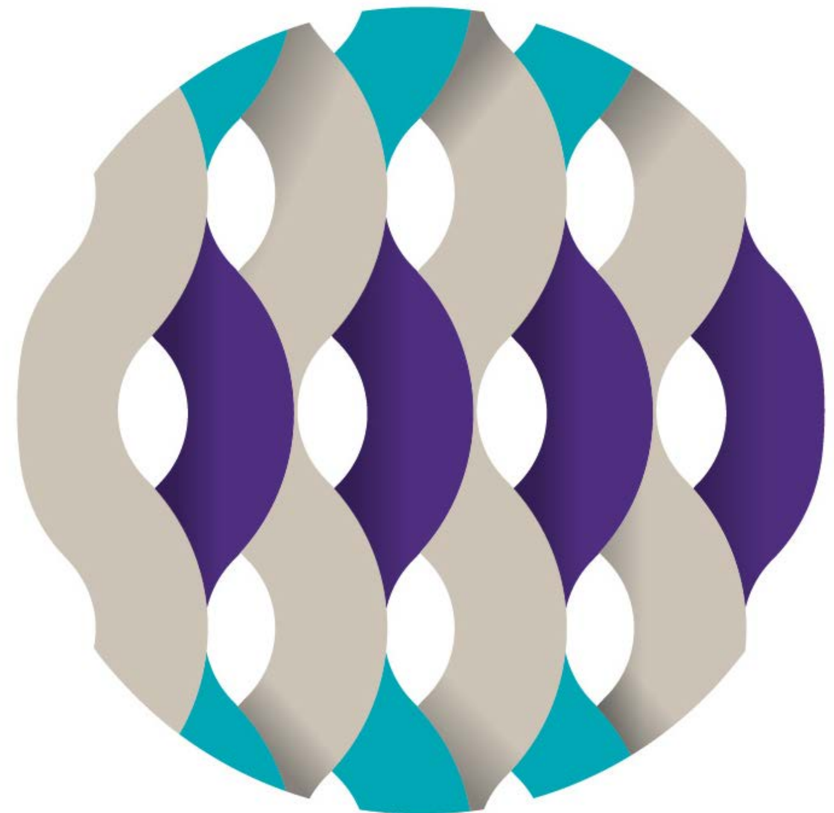
Capital taxes & stamp duty

Jim Kelly

Director, Tax



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CGT

- **changes to Section 604A TCA1997 (relief for certain disposals of land or buildings, aka the 7-year CGT relief)**

- an amendment will be made to Section 604, which will allow the owners of qualifying assets to sell those assets between the fourth and seventh anniversaries of their acquisition and still enjoy a full relief from CGT on any chargeable gains

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“

This will reduce any impact it may have on limiting the supply of development land available for sale

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CGT

- **example 1 – property held for 7 years (originally the shortest holding time)**

- property acquired on 17 December 2013
- original cost €600,000
- enhancement expenditure on 1 January 2019 €10,000,000
- market value on 17 December 2020 €25,000,000

- assuming all conditions are met, the gain is exempt from capital gains tax in accordance with the relief.

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CGT

- **example 2 – property held for 10 years**

- property acquired on 17 December 2013
- original cost €600,000
- enhancement expenditure on 1 January 2020 €10,000,000
- market value on 17 December 2023 €25,000,000

- assuming all conditions are met, a proportionate amount of the gain is exempt from capital gains tax. As the property was held for a total of ten years, the exempt gain arising on the property must be apportioned.

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CGT

- **example 3 – property held for 4 years**

- site acquired by a company on 17 December 2013
- original cost €600,000
- enhancement expenditure on 1 January 2016 €1,000,000
- market value on 17 December 2017 €4,500,000

- as the property is sold within 4 to 7 years of acquisition, there is now full relief available on the disposal.

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General example

Bought	31 March 12	31 March 12	31 March 12	31 March 12
Sold	31 March 18	31 March 19	31 March 20	31 March 21
Years held	6	7	8	9
S604A relief	Yes	Yes	Partial relief	Partial relief

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CAT

- **treatment of solar farms for the purposes of the Capital Acquisitions Tax (CAT) agricultural relief; Capital Gains Tax (CGT) retirement relief**

- for the purpose of CAT agricultural relief and CGT retirement relief, agricultural land placed under solar infrastructure will continue to be classified as agricultural land (formerly it would no longer have been deemed agricultural land)

- condition restricting the amount of the farmland that can be used for solar infrastructure to 50% of the total farm acreage

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CAT

- despite widespread speculation, there have been no changes to the CAT group thresholds or rate of 33%

- they remain as follows:

	Group A	Group B	Group C
On or after 12/10/2016	€310,000	€32,500	€16,250

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Stamp duty

- **change of rate of stamp duty on non-residential property from 2% to 6%**
- commercial property stamp duty rises from 2% to 6% from midnight
- refunds if land used for residential housing (30 months)
- value to the State €376m

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“

This new rate is still below the maximum rate of 9% charged between 2002 and 2008

”

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Stamp duty

- **extension of consanguinity relief and young trained farmer**
- the Minister outlined the government's commitment to these stamp duty reliefs
- maintaining consanguinity stamp duty relief at 1% for inter-family farm transfers for a further three years

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Other taxes

- **Key Employee Engagement Programme (KEEP) – will cost State €10m per year**

- a share-based remuneration incentive is being introduced to facilitate the use of share-based remuneration by unquoted SME companies to attract key employees

- gains arising to employees on the exercise of KEEP share options will be liable to Capital Gains Tax on disposal of the shares, in place of the current liability to income tax, USC and PRSI on exercise

- this incentive will be available for qualifying share options granted between 1 January 2018 and 31 December 2023

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Other taxes

- **vacant site levy**
- the vacant site levy is to be more than doubled, rising from the current 3% rate that applies in the first year to 7% for the second and subsequent years.
- the measure, announced in Budget 2018, will mean that any owner of a vacant site on the register who does not develop their land in 2018 will pay the 3% levy in 2019 and then become liable to the increased rate of 7% from 1 January 2019

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Other taxes

- **entrepreneur relief**
- speculation had grown surrounding a possible increase to either the rate or lifetime limit
- both remain the same with the limit remaining at €1million and the rate at 10%

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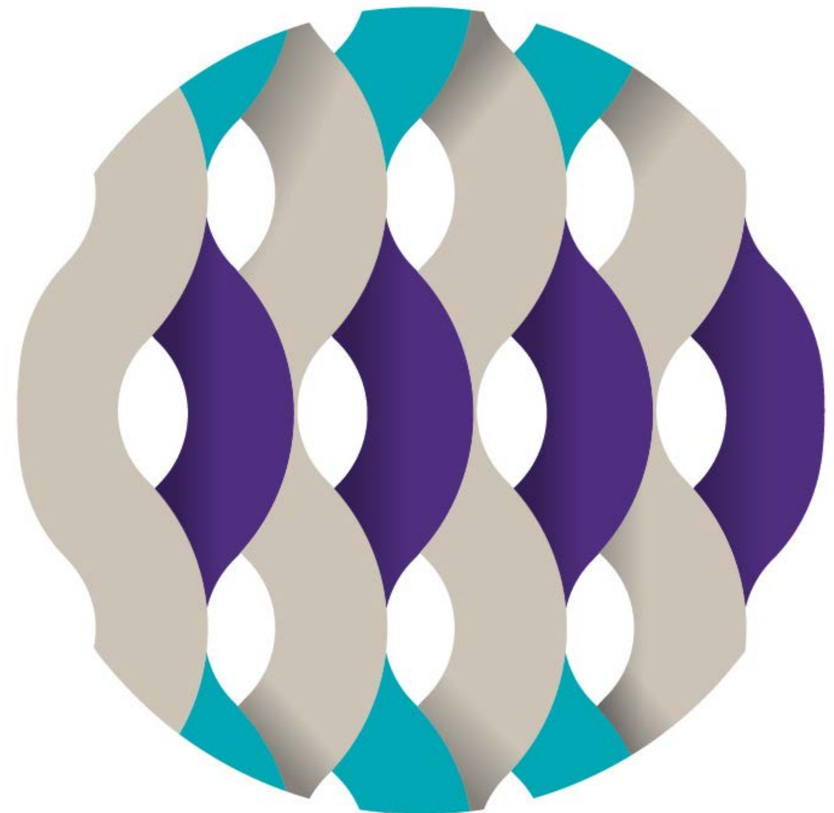
VAT and indirect taxes



Jarlath O'Keefe

Partner

Head of Indirect Taxes Ireland

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VAT and indirect taxes

Retention of 9% rate in tourism sector:

- has been a successful measure in terms of jobs creation and has provided the tourism sector with a timely boost
- concern that it might be removed as hotels/restaurants in certain areas (e.g. Dublin) are busy
- this measure costs €491m annually
- construction sector had sought a similar reduction to the VAT rate on construction services in the hope of stimulating activity in the area – 9% rate was not extended to this sector

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VAT and indirect taxes

- VAT rate applicable to the use of sunbeds will be increased from 13.5% to 23% with effect from 1 January 2018
- aim is to discourage use of sunbeds due to links with skin cancer
- no other VAT rate changes and no change to the farmer's flat-rate addition

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VAT and indirect taxes

Excise duty on tobacco:

- 50 cent increase (inclusive of VAT) on packet of 20 cigarettes and pro-rata increase on the other tobacco products
- effective from midnight 10 October 2017
- brings the price of popular brands up to €12
- expected this increase will generate circa €64m in 2018
- no excise duty increases on alcohol, petrol or diesel

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VAT and indirect taxes

VAT burden on charities to be reduced

- a refund scheme will be introduced in 2019 to compensate charities for VAT incurred in 2018
- level of refund will be restricted in proportion to the level of non-public funding received by the charity
- €5m capped fund will be available and the scheme will be reviewed after three years
- if total claims exceed €5m, individual claims by charities will be repaid on a pro-rata basis

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Other indirect tax measures

- **Sugar-sweetened drinks tax** – will be introduced on 1 April 2018 in tandem with the UK
- two rates depending on the sugar content per 100ml
- 20 cent per litre will apply to drinks with a sugar content between 5 grams and 8 grams per 100ml.
- higher rate of 30 cent per litre will apply where the sugar content is 8 grams or above
- expected to yield €30m in 2018 and €40m in a full year

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Preparing for Brexit

- Minister announced a Brexit Loan Scheme
- purpose is to assist SMEs including agri-food businesses, exposed to the UK market, with their short-term working capital needs
- a fund of €300m will be available to provide loans at a competitive rate
- businesses will need to innovate and sell to new European and international markets
- department of business, enterprise and innovation will have a total budget of €871m in 2018 to proactively respond to the challenges posed by Brexit

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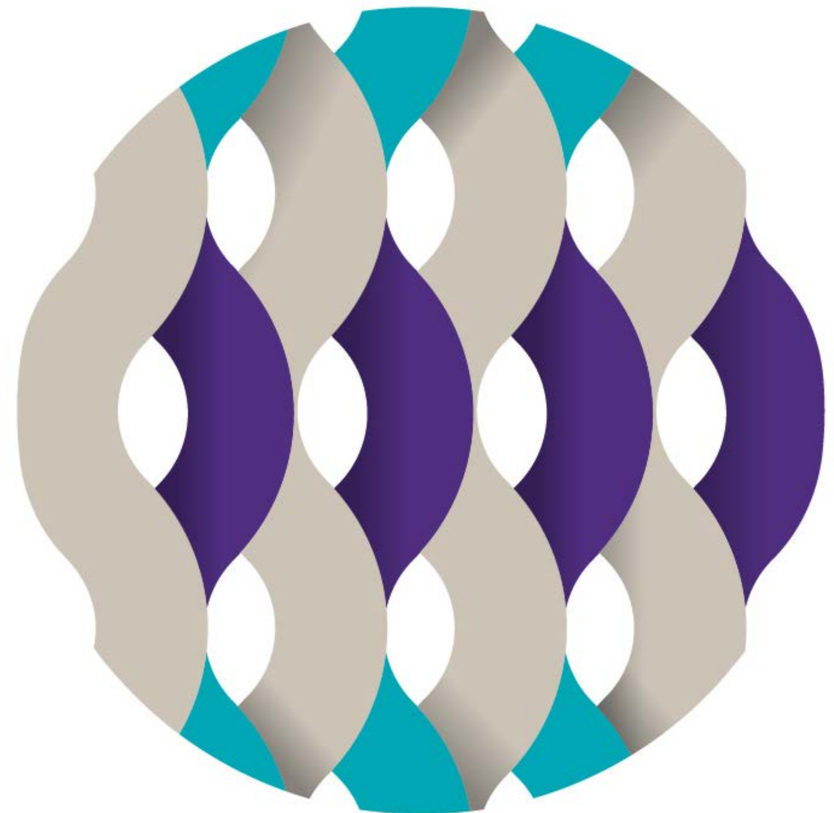
Corporate tax

Sarah Meredith

International Tax Director



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Corporation tax rate

- renewed commitment to 12.5% corporation tax rate and stability of Irish tax regime
- *“core part of our offering”*
- Ireland’s regime internationally recognised as one of the most transparent in the world

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Intangible assets – 80% cap reinstated

- Section 291A was originally introduced in 2009 with a 80% cap on the allowances available on intangible assets
- up to 31 December 2014, the aggregate of allowances and related interest incurred on the acquisition of intangible assets could not exceed 80% of the trading income derived from that IP
- the cap was lifted in 1 January 2015 with a view to encouraging onshoring of intellectual property assets into Ireland
- this measure has proven to be too successful with a result that IP assets moved to Ireland up to 2015 exceeded €300 billion thereby distorting the Irish tax base leading to "leprechaun economics"

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Intangible assets – 80% cap reinstated

- the Coffey report recommended a restriction of the Section 291A relief back to 80% of available income in order to smooth out corporation tax revenues over time
- the Minister has chosen to implement this recommendation without further consultation
- no impact on IP acquired on or before 10 October 2017
- any excess of allowances / interest can be carried forward to future years so the change will not give rise to a reduction in the overall relief available
- this gives an effective 2.5% corporate tax rate on such IP derived income

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Example of S291A allowances pre and post Budget 2018

IP spend	€10m
Amortisation	€1m
Interest	€500k
IP profits	€1.6m

Example pre Budget 2018

Taxable profits (pre S291A)	€1.6m
Allowances and interest	€1.5m
Taxable profits	€100k
Tax charge	€12.5k

Example post Budget 2018

Taxable profits (pre S291A)	€1.6m
Max allowances (80%)	€1.28m
Taxable profits post S291A	€320k
Tax charge	€40k
Allowances and i c/f	€220k

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Capital allowances

- 100% capital allowances for investment in energy efficient equipment
- requirement for assets to be on SEIA list
- extension of regime to end of 2020
- positive for cashflow and capital acquisition projects

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Seamus Coffey's review of corporate tax code

- Seamus Coffey's review of Irish corporate tax code published on 12 September 2017 to be implemented, subject to a consultation phase

- a sample of the key recommendations include:
  - continue towards tax transparency through appropriate exchange of information
  - consideration of mandatory EU tax-avoidance directive and what changes should be made to Ireland's tax regime

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Transfer pricing post Coffey report / consultation

- application of transfer pricing regime to non-trading transactions
- removal of grandfathering provisions
- extension of transfer pricing rules to SMEs
- OECD 2017 transfer pricing guidelines to be implemented into Irish tax law by 2020
- transfer pricing to become increasingly important

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Corporation tax receipts

Year	Non-financial corporates (€m)	Financial corporates (€m)	Total (€m)
2001	3,102	1,054	4,156
2008	3,336	1,730	5,066
2010	2,944	980	3,924
2015	5,303	1,569	6,872
2016	N/A	N/A	7,351

- conclusion of Coffey report was that the corporation tax receipts seen in 2015 should be sustained in the medium term to 2020

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Public Consultation on Coffey report recommendations

- public consultation paper on Coffey report published by Mr Donohoe on 10 October 2017
- consultation process to run for a period of 16 weeks, up to 30 January 2018
- areas cover GAAR, CFC legislation, exit tax, anti-hybrid rules and transfer pricing

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Update on Ireland's international tax strategy

- review of Ireland's progress vis-à-vis international tax strategies and recommendations since 2016

- some positive developments include:
  - Ireland was among the first countries to sign the OECD BEPS multilateral instrument in June 2017
  - Ireland agreed the second ATAD with our fellow EU Member States to enhance the anti-hybrid provisions previously agreed
  - Ireland was awarded the top rating of compliance when assessed for the second time by the OECD Global Forum on transparency and exchange of information for tax purposes (1 of only 21 jurisdictions)

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Tax avoidance and base erosion

- commitment to build technical capacity to tackle:
  - complex tax avoidance
  - transfer pricing cases

- supporting Competent Authority role, including MAPs

- protection of tax base

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