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Budget Briefing

11 October 2017

Budget 2018
Welcome

Introduction	Mike Sheehan
Personal / employment	Jackie Coughlan
Business taxes	Frances Lenihan
VAT and wrap up	Mike Sheehan

Mike Sheehan

Budget 2018
At a Glance

	€ m
Fiscal space	500
Public pay stability	(180)
Tax reduction	(335)
Tax increases	830
Spending – current	(684)
- capital	(214)
Deficit	**(83)**

0.3% of GDP

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The Minister Giveth

	2018	Full Year
	€ m	**€ m**
USC reductions	177	206
Tax band widening	132	152
Tax credit increases	24	39
Share options	0	10
Pre letting expenses	1.5	3
VAT refunds for charities	0	5
Tax reliefs	**334.5**	**415**

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The Minister Takes Away

	2018	Full Year
	€ m	€ m
Tobacco	64	64
Sugary drinks	30	40
Mortgage interest	51	175
Intangible assets	150	150
Stamp duty	376	376
0.1% Training levy	58	63
	729	**868**

Jackie Coughlan

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Income Tax Band Cuts

Income Tax Bands	2017	2018	Change
Single Person	€33,800	€34,550	€750
Married, Single Income	€42,800	€43,550	€750
Married, 2 Incomes	€67,600	€69,100	€1,500

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USC Changes

USC Bands (Employees)	2018	Change
€0-€12,012	0.5%	—
€12,013 - €19,372 *	2%	↓ 0.5%
€19,373 - €70,044	4.75%	↓ 0.25%
>€70,044	8%	—

*** Increased by €600**

- **Marginal rate on incomes up to €70,044 reduced from 49% to 48.75%**
- **Income over €100k – 3% surcharge for self employed persons only**
- **Medical card holders & individuals over 70 with income < €60k pay a maximum of 2%**

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Home Carer Credit

- Increased from €1,100 to €1,200
- Claimable where spouse/civil partner works in the home caring for:
  - Child (under 16 / under 18 & in full time education)
  - Individual over 65
  - Individual permanently incapacitated by reason of mental or physical infirmity
- Carer can earn income of up to €7,200 without impacting on the credit
- Carer's income does not take account of DSP carer benefit/allowance

Earned Income Credit

- Increased from €950 to €1,150
- Applies to those earning trading or professional income
- Includes employed directors (>15% holding) who don't qualify for employee tax credit
- Aggregate of employee tax credit and earned income credit capped at €1,650

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Other Income Tax Measures

Target Areas	Measures
Mortgage Interest	• Relief only remains in place for qualifying loans taken out between 2004 -2012 • Scheduled to cease on 31 December 2017 • Relief extended on a tapered basis until the end of 2020 • 75% of existing relief continues into 2018, 50% into 2019, 25% into 2020
Rented Residential Property	• Deduction for pre-letting expenses for properties vacant for 12 months or more • Cap on expenses of €5,000 per property • Clawback if the property ceases to be rented within 4 years • Available for qualifying expenses up to the end of 2021

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- Increase in employer contribution to National Training Fund Levy
- Forms part of Employer PRSI rate – Class A and H
- Increase of 0.1% will cost €63m

	2017	2018	2019	2020
Employer PRSI	10.75%	10.85%	10.95%	11.05%

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Key Employee Engagement Programme ("KEEP")

Introduction of a share-based remuneration incentive for 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, instead of the current liability to income tax, USC and PRSI on exercise.

Available for qualifying share options granted between 1 January 2018 and 31 December 2023, subject to State Aid approval.

Key Employee Engagement Programme (“KEEP”)

Example

- Option granted 11 October 2018 to buy 10,000 shares at €1 per share. Market value of shares at date of grant is €1 per share.
- Option exercised 11 October 2021, 10,000 shares purchased at €1 per share. Market value at date of exercise is €2 per share.
- Shares sold 11 October 2022, 10,000 shares sold at market value of €3 per share.
- Individual’s employment income (excluding options) is in excess of €70,044.

	Non-KEEP Options	**KEEP Options**
Liability at Grant	N/A	N/A
Liability at Exercise	€5,200 (52%)	N/A
Liability on Sale	€3,300 (33%)	€6,600 (33%)
Total Tax Liability	€8,500	€6,600

Results in a 19% tax saving on the gain at exercise and the full tax liability is deferred to the date of sale.

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Benefit in Kind

- 0% BIK rate for electric cars
- Introduced for a one year period
- Exemption for electricity used in the workplace to charge vehicles
- Comprehensive review of BIK on vehicles proposed
- CO_2 based scheme for BIK introduced in FA 2008 but not yet in force

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PAYE Modernisation

Redesign of the PAYE system which will be effective from 1st January 2019

Objective is to deliver real time information so that Revenue, employers and employees will have the most accurate, up to date information relating to pay and tax deductions

Revenue launched an awareness campaign setting out the steps employers should take to ensure readiness for 1 January 2019

Application of a range of compliance interventions

Resources will include enhanced ICT capacity for data matching and analytics

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Capital Gains Tax

- Amendment to the “7 year CGT relief”
- Introduced for acquisitions of land/buildings between 07/12/2011 and 31/12/2014
- Full relief from CGT where land/buildings were sold after 7 years
- Tapering relief where sold after 7 years
- New provisions - assets can be sold between 4th and 7th anniversary of acquisition and still avail of full CGT relief

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Capital Gains Tax / Capital Acquisitions Tax

- Change to the treatment of farm land leased for solar infrastructure

- Such land will now qualify as agricultural land for CAT agricultural relief and CGT retirement relief

- Not more than 50% of the total farm acreage can be used for solar infrastructure

Missed Opportunities

No change to tax free thresholds for gifts and inheritances

Entrepreneur Relief - no change to the €1m threshold for reduced rate of 10% CGT

Frances Lenihan

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Stamp Duty

- Increase in rate of Stamp Duty on Non-Residential Property from 2% to 6%
  - Expected yield €376m
  - Driven by strong performance of commercial real estate sector, desire to re-balance construction towards residential investment and avoid overheating in the construction sector.
  - 2% rate was introduced in December 2011 having been 6% (from October 2008) and 9% (from October 2002) prior to this.
- Effective for instruments executed on or after 11 October 2017
- Stamp Duty refund scheme to be introduced where commercial property is purchased for the development of residential properties
  - Development needs to commence within 30 months of the acquisition of the land
  - Additional details to be announced in the Finance Bill

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Vacant Site Levy

- Urban Regeneration and Housing Act 2015

- Owners of a vacant site who have been notified that they are on the register by the relevant local authority are liable to Vacant Site Levy

- Rate of 3% for the first year and increased to 7% for the second and subsequent years

- Increased rate of 7% applies from 1 January 2019

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Corporation Tax – Capital Allowances for Intangible Assets

- Section 291A TCA 1997 provides, where certain conditions are met, relief in the form of capital allowances is available on qualifying intangible assets
- Reintroduction of a cap on the deduction available for capital allowances for intangible assets and any related interest expense
- Amounts are limited to 80% of the relevant income arising from the intangible asset in an accounting period
- Any excess amortisation / interest would be carried forward
- Applies to expenditure incurred by a company on or after 11 October 2017
- Additional details to be announced in the Finance Bill

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Corporation Tax - Capital Allowances for Energy Efficient Equipment

- Accelerated capital allowances are available for energy efficient equipment
- Relief was due to expire at the end of 2017
- Now extended to 31 December 2020

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Corporation Tax – Changing Tax Landscape

- Snapshot of number of Revenue e-briefs

2006 - 57 → **2011 - 86** → **2016- 102** → **2017 to date - 90**

- Revenue policy on the maximum period of validity of Revenue opinions or confirmations

- Review of opinions or confirmations issued by Revenue before 1 January 2012

- Review of Corporation Tax Code by independent expert Mr Seamus Coffey
  - Announced in September 2016
  - Report delivered by Mr Coffey on 30 June 2017
  - 18 key recommendations
  - Public consultation

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Corporation Tax – Changing Tax Landscape

Base Erosion and Profit Shifting (BEPS)

- Ireland continues to work closely with 100 countries at the OECD in relation to BEPS, the proposed changes from which include
  - Greater transparency in reporting / transfer pricing
  - Changes to permanent establishment rules
  - Eliminating anomalies created by varying tax treatments
  - Domestic actions and multilateral instrument

- In June 2017, 68 jurisdictions, including Ireland, signed up to the OECD Multilateral Instrument (MLI). MLI is designed to implement a number of changes to double taxation treaties (DTT) in response to recommendations from the BEPS project

- Adds uncertainty in relation to access to DTT benefits

- Needs to be implemented into domestic laws and not anticipated to take effect until 2019

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Corporation Tax – Changing Tax Landscape

- ‘Minimum standard’ changes to the functioning of existing double tax conventions in the areas of treaty abuse, mutual agreement procedures and treaty preambles will be implemented through the Convention
- Optional changes also facilitated to modify tax treaties in respect of permanent establishments (taxable presence), transparent entities, residency tie-breakers, double tax relief, minimum shareholding periods, capital gains derived from immovable property and a jurisdiction’s right to tax its own residents will also be facilitated

- Permanent establishments
  - Lowers the threshold at which a permanent establishment (taxable presence) arises through:
  - (i) broadening the scope of dependent agent permanent establishments (capturing the use of commissionnaire arrangements and other matters);
  - (ii) narrowing exemptions for fixed place of business permanent establishments by requiring activities to be ‘preparatory or auxiliary’ in character and/or by introducing an anti-fragmentation rule;
  - and (iii) countering avoidance where long-duration construction contracts are split into a series of shorter contracts.

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Corporation Tax – Changing Tax Landscape

EU Developments: Anti-Tax Avoidance Directive (ATAD and ATAD 2)

- On 21 June 2016, the EU's ministers of Finance and Economic Affairs, the so-called ECOFIN Council, unanimously approved the ATAD
- Amendments to the EU ATAD (ATAD 2) were approved by the European Parliament in April 2017 - expansion of the scope of anti-abuse rules pertaining to hybrid mismatches
- The ATAD outlines action in three areas already covered by the BEPS actions - Interest restrictions, Hybrid Mismatches and Controlled Foreign Company (CFC) Rules
- Additional actions in relation to Exit Taxation and a General Anti-Abuse Rule
- Generally applicable commencement date for the ATAD provisions of 1 January 2019
  - Exit Taxation and Hybrid Mismatches - 1 January 2020 (1 January 2022 for reverse hybrid mismatches)
  - Interest restrictions – 1 January 2024

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Corporation Tax – Changing Tax Landscape

Common Consolidated Corporate Tax Base (CCCTB)

- Ongoing discussions in relation to the CCCTB
- Two elements being;
  - a Common Corporate Tax Base (CCTB) and
  - a Common Consolidated Corporate Tax Base (CCCTB)
- Irish Government continues to engage in these discussions

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Corporation Tax – Changing Tax Landscape

Ireland's Response

- Commitment to the 12.5% corporation tax rate

- Ireland's International Tax Strategy
  - Committed to the BEPS and ATAD processes and will play its full part in implementation
    - Knowledge Development Box – OECD compliant
    - Country by Country reporting
    - OECD exchange of information requirements

- Tax transparency – awarded top rating for compliance by OECD

- Review of Ireland's Corporation Tax code – Public consultation

The general focus of the OECD's BEPS and the EU's ATAD initiatives on aligning taxing rights with where substance and real economic activities occur is positive in the context of Ireland's 12.5 per cent corporate tax regime, which is substance based.

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Corporation Tax – Changing Tax Landscape

Review of Ireland’s Corporation Tax code – Public Consultation

- Announced as part of Budget 2018 in response to Mr Seamus Coffey’s recommendation
- Consultation period runs from 10 October 2017 to 30 January 2018
- Covers the following areas;

  1. the implementation of ATAD into Irish domestic legislation
  2. the implementation of BEPS Actions 8, 9 and 10 (Aligning Transfer Pricing Outcomes with Value Creation) into Irish domestic legislation
  3. additional considerations regarding Ireland’s domestic transfer pricing rules
     - Consideration to extending transfer pricing rules to SME’s
     - Consideration to extending transfer pricing rules to non-trading transactions
     - Documentation requirements
  4. the effects of moving to a territorial corporation tax base and a review of Schedule 24 regarding the calculation of the foreign tax credits

Mike Sheehan

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VAT - Business

No changes in rates

Sunbeds 13.5% to 23%

9% reduced rate retained

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VAT - Charities

Scheme to provide for VAT refunds

Proportionate to non state funding

Refunds in 2019 re 2018 VAT

Significant for charities not mainly funded by the state

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Coming Down the Line

International tax strategy	Public consultation
USC / PRSI	Plan to amalgamate
VAT changes	New directive 2018 Simplification 2019 Full new rules 2022

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Year End Tax Planning

€3000 - Gift from each parent to each child

€1270 - CGT exemption

€500 – Tax free vouchers

Rollover – CGT losses

EIIS – Investments

Maximise pension contributions

Thank You

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