Budget 2022
Connecting recovery. Recovering confidence.
#BUDGET2022
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Deloitte’s tax specialists in Ireland have analysed Budget 2022 and are pleased to provide you with our perspectives on what it means for you and your business in the future.
In Budget 2021, we saw unprecedented levels of intervention and financial supports being provided to support the Irish economy against a challenging backdrop created by COVID-19 and the expectation of a no deal Brexit. The backdrop for Budget 2022, by contrast, is a testament to the changing economic landscape we find ourselves in as we move towards a post-COVID world. Budget 2022 is set against an economic backdrop where we have seen strong GDP growth quarter on quarter in 2021 and an improvement in public finances driven by recovery in taxation receipts.

With more positive economic indicators than in prior years, Budget 2022 now looks to the post COVID-19 era and to building recovery and confidence across all sectors of the economy. The focus is now on building sustainable growth for the future both in terms of inward investment and domestic business. This is combined with a focus on supporting vulnerable businesses and addressing the cost of living pressures (protecting the most vulnerable), as society and the economy reopens further. The announcement by the Minister of the extension of the Help to Buy scheme is welcome given the current housing crisis. The amendments to the income tax regime to index rate bands and credits to inflation recognises the rising cost of living in recent times.

In line with the Summer Economic Statement, the Minister outlined a core budgetary package for Budget 2022 of €4.7billion. Of this, €500m is allocated for “tax measures”. Key changes and developments on the tax measures announced have been addressed and analysed by our tax specialists in detail.

Throughout his address, the Minister made it clear that the response to COVID-19 from the Government was unparalleled, but also justified. In particular, the announcement from the Minister of the extension to 30 April 2022 of the Employment Wage Subsidy Scheme (EWSS) and the tapering of payment levels is particularly welcome for businesses getting back to full capacity post pandemic. The importance of the wage subsidy schemes in supporting employment throughout the pandemic was alluded to by the Minister and was given credit for the now strong VAT and Income tax receipts to date.

The ever-present challenges in respect of climate change and sustainability were given considerable attention, as noted by the Minister “Future generations will not tolerate inaction from the leaders of today”. Changes on foot of such a comment include amendments to the VRT system, and amendments to tax relief on certain energy efficient equipment are reflective of the considerable attention given to climate change and sustainability, and a core theme we will likely continue to see for many years to come.

Budget 2022 and the upcoming Finance Bill 2021 include a number of well flagged changes to Irish tax law, including the imminent introduction of interest limitation rules required by the EU Anti-Tax Avoidance Directive. The recent announcement from the Minister that Ireland is to agree to the OECD international tax reform proposals on Pillars One and Two will alter the way in which multinationals (including Irish PLCs) tax their profits globally; a key focus in 2022 and onwards will therefore be on the design of such rules. Notwithstanding such changes, Ireland remains in a strong position both...
Overall comments

to attract inward investment and encourage domestic business; the retention and commitment of the Minister to the 12.5% rate of corporation tax for businesses with turnover of less than €750million is welcome in this regard. A number of measures to support business in the future including the extensions to start up relief, the digital gaming credit and the Employment Investment Incentive scheme are welcome, but there may be a mixed reaction with respect to measures such as the Zoned Land Tax.

Continued consultation, dialogue and innovation with respect to the overall tax framework in Ireland will be critical in the years ahead, both for the multinational and domestic sectors.

We hope you will find Deloitte’s commentary on Budget 2022 to be useful and look forward to bringing your further insights on the Finance Bill 2021 when it is released.

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Budget 2022
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**Business**

- Commitment to **12.5% corporate tax rate** for Irish companies with consolidated group revenues less than €750m
- Extension of the Employment Wage Subsidy Scheme, in graduated form, to 30 April 2022, extensions to Employment Investment Incentive
- Interest limitation rules for accounting periods beginning on/after 1 January 2022 and anti-reverse hybrid rules – details in Finance Bill 2021

**Personal**

- Personal Tax Credit, Employee Tax Credit and Earned Income Tax Credit to increase from €1,650 to €1,700
- €1,500 increase to income tax standard rate band for all earners. USC second rate band ceiling to increase to €21,295
- Work from Home income tax deduction of 30% of vouched heat, light and broadband expenses

**Sustainability and housing**

- Zoned Land Tax (3%) on undeveloped serviced residential land to be introduced on a phased basis in 2/3 years to replace Vacant Site Levy
- Help to Buy extended to the end of 2022, further 3 year extension to relief for pre-letting expenses for landlords
- Carbon Tax increase of €7.50 per tonne, amendments to VRT and Accelerated Capital Allowances scheme for Energy Efficient Equipment

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Individuals
Key measures
A number of measures have been announced in the areas of personal taxation, including measures to support farming families and to encourage the letting of currently vacant residential properties.

In the area of income tax, a package valued at €520 million has been announced. This package includes the following measures:

• The standard rate band for income tax (the amount of income that is subject to tax at the 20% rate) is to be increased by €1,500. This will mean the first €36,800 will be taxable at the 20% income tax rate. The rate bands for single, widowed or surviving civil partners (who qualify for the Single Person Child Carer Credit), married couples with one income and married couples with two incomes will also be increased by €1,500.

• The personal tax credit, employee tax credit and the earning income credit (all currently set at €1,650) will be increased by €50.

• The Universal Social Charge is to be amended so that the ceiling for the second-rate band increase from €20,687 to €21,295.

• The exemption from the top rate of USC for medical card holders, and those aged over 70 earning under €60,000 will continue beyond 2021.

• The deduction of pre-letting expenses for vacant residential properties will be extended for a further three years. Currently the deduction applies to properties that have not been occupied for a period of at least 12 months in the period between 25 December 2017 and 31 December 2021. The aim of the deduction is to incentivise owners of vacant properties to make those properties available to the rental market. Over the last number of years, the number of private landlords has reduced significantly, in part due to the high tax cost applicable to the rental profits (up to 55%) which in many cases makes the letting of property unattractive.

Farming families
The following measures have been announced to continue to support the farming sector:

• Stock relief is to be extended for a further 3 years.

• Stock relief for young trained farmers and registered farming partnerships will also be extended for a further year.

• Stamp duty relief for young trained farmers will also be extended.
Who will be affected?
Self-employed individuals, as well as employees will benefit from the income tax package announced. In addition, certain farming families will continue to benefit from targeted reliefs. Property owners with vacant residential properties will also benefit.

When? What to do now?
Most measures outlined are to be introduced in 2022. The measures for young trained farmers and registered farming partnerships relating to stock relief have only been extended by one year due to current State Aid approval for these schemes. However, it is anticipated that the State Aid approvals for these schemes can be extended beyond 2022.

Our view
Any measure which reduces the effective rate of tax for individuals even in a small way has to be welcomed. However, the government still faces a number of challenges in the area of individual taxation. Our system is complex and while reform had been promised in the past, it is disappointing in this changing business world that it has fallen off the agenda. Further, the dependency on a relatively small number of taxpayers to shoulder the income tax burden together with the high headline rate of up to 55% need to be addressed as part of this reform, in order for Ireland to be seen as competitive in winning investment post the introduction of the changes arising as a result of the world tax reform.

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Tax & Entrepreneurship
Key measures
A number of measures were announced by the Minister for Finance in the area of tax and entrepreneurship. The key measures are as follow:

- The Innovation Equity Fund (initially flagged in last year’s Budget speech) is to be launched in 2022. Funding of up to €90million may be available to support early stage funding for Irish business and support regional business development.
- Once again, changes to the Employment Investment Incentive Scheme (EIIS) have been announced. The changes announced are aimed at making the scheme more attractive to investors, as well as opening the scheme up to a wide range of investors. In this regard the following changes have been announced:
  - The rules relating to the redemption of capital will be amended to modify penalties that currently apply.
  - The rules around the requirement to spend at least 30% of the invested amount before relief is available is also to be amended.
- Corporation tax relief for start-up companies is to be extended such that the first five years of trading will be relieved from tax. The level of relief available is linked to the amount of employers PRSI paid by the company. Currently the relief applies to the first 3 years of trading.
- A new tax credit scheme for the gaming sector has been announced. The relief, in the form of a refundable tax credit, which will apply at a rate of 32%, will apply on expenditure incurred (up to €25million per project) on the design, structure and development of gaming products. A culture certificate from the Minister for Tourism, Culture, Arts, Gaeltacht, Sport and Media will be required in order to make a claim for the relief. Digital games produced mainly for advertising or gambling purpose will not qualify.
- The Employment Wage Subsidy Scheme (EWSS) is to continue for the rest of this year, as well as the first 4 months of 2022. However, from December 2021 to end February 2022 the scheme will be revised to a two-rate subsidy per employee per week (€151.50 and €203). The scheme will not be available to new employers from 1 January 2022. Thereafter a flat rate of €100 will apply to the end of April 2022. From the end of February 2022 the full rate of employers PRSI will be reintroduced.

Who will be affected?
New businesses/start-ups and scale ups should benefit from the measures announced, as well as those involved in the digital gaming sector. In addition, the revisions to EIIS should assist scaling Irish businesses in accessing funding for expansion of their business and thereby creating additional indigenous employment.
Our view
Any measures aimed at supporting and encouraging entrepreneurs, as well as measures to assist scaling Irish businesses to expand are to be welcomed, in particular in the current post lockdown environment. Several revisions to EIIS have been announced over a number of Budgets, with varying degrees of impact and there have been calls to do something radical to kick start the indigenous ecosystem in recent months. It is hoped that the current revisions will have a tangible positive impact on scaling Irish businesses and make access to funding easier and more efficient, however, some obvious enhancements to the scheme remain and which we hope to see in the Finance Bill 2021. The launch of the Innovation Equity Fund is also welcome as an additional source of early stage funding for scaling Irish businesses.

The announcements of the measures to support the digital gaming sector are also welcome to encourage indigenous companies expand their operations. Given the nature of the business and the new hybrid working models that have been developed throughout the Covid-19 period, it is hoped such measures to support sectors such as digital gaming might encourage the establishment of businesses across the country, rather than just in the large urban centres.

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Indirect Tax (VAT)
Indirect Tax (VAT)

Key measures
The main VAT change in the Budget is an extension until August 2022 of the 9% VAT rate that applies primarily to holiday accommodation and meals. The rate was due to revert to 13.5% on the 1 January 2022, and is positive news for the beleaguered hospitality and tourism sector.

The only other VAT change was a small reduction from 5.6% to 5.5% in the payment to farmers to compensate them for the fact that they cannot recover VAT on their costs, known as the flat-rate addition.

The rates of VRT payable on the purchase of new vehicles and imports of used vehicles is scheduled to increase with higher increases applying to vehicles with higher emissions. There will be a 1% increase for vehicles that fall between bands 9 -12, a 2% increase for bands 13-15 and a 4% increase for bands 16-20. The €5,000 relief for battery electric vehicles has been extended to the end of 2023.

Also as provided for in Finance Act 2021 there will be an increase in duty on fuel of €7.50 per tonne of carbon dioxide effective from May 2022. This will increase the cost of diesel by 2.5 cents a litre and petrol by 2.1 cent a litre.

Similar to last year’s budget the only change to tax on the “old reliables” is an increase in excise duty of 50 cents per pack of 20 cigarettes and pro-rata changes on other tobacco products.

Who will be affected?
The tourism and hospitality sector will be the main beneficiaries from the extension of the 9% VAT rate to August 2022. Some businesses may be able to pass on the benefit of the lower rate to the consumer but this likely to be challenging for a sector that has been so hard hit by the pandemic.

The Budget heralds an increase in the cost of motoring due to the increase in carbon taxes from 1 May 2022 and the increase in VRT from January next. However, motorists and businesses buying electric vehicles can plan on the basis that the VRT relief of €5,000 will continue to apply until the end of 2023 which is good news for the motor industry.

Non-VAT registered farmers will also suffer additional costs as result of the reduction in the flat rate addition.
Our view

We welcome the extension of the 9% rate for an additional eight months in 2022 which will include the 2022 summer season. However, as businesses in the hospitality and tourism sectors are still dealing with the massive reduction in their incomes due to the pandemic and the fact that they were unable to trade for significant periods of time we would ask that the 9% rate would continue until at least the end of 2023.

The other main changes announced in the budget are to the costs of motoring as a result of the increased carbon tax and an increase in the rate of VRT. Clearly the aim of these changes and the retention of the €5,000 VRT relief is to reduce greenhouse emissions by encouraging the use of electric vehicles and while recognising that these changes will increase costs we support and welcome the positive impact it will have on the environment.

While the 0.1% reduction in the flat rate addition is a small change it will cost the farming sector €7m in a full year and can be contrasted with a 0.2% increase in the flat rate addition in the Budget last year.
Financial Services
Key measures
As the country emerges from the global pandemic and attention shifts to recovery and “striving for the best”, aside from some well signposted changes brought about as a result of the EU ATAD, there have been no meaningful changes in the Budget announcement today which fundamentally impact the financial services sector. Similar to Budget 2021, it broadly remains “business as usual” for the sector. That said, there are some measures which merit attention and monitoring by the financial services industry.

Following the announcements last week where Ireland joined the OECD inclusive framework agreement on Pillar One and Pillar Two (whereby an effective rate of 15% will be set for large multinational companies in the future), the Minister re-confirmed the retention of the 12.5% rate of tax for business with annual turnover less than €750million.

In advance of Budget 2022 and through a number of public consultations throughout the year, it has been well publicised that efforts to transpose the final measures of EU ATAD into Irish law will be implemented before the end of 2021. In this respect, the Minister confirmed that the transposition of the ATAD Interest Limitation provisions and Reverse Anti-Hybrid Rules will be included in Finance Bill 2021. With respect to the interest limitation rules, it would appear they will be in effect with respect to accounting periods starting on or after 1 January 2022. No such similar language was included with respect to the Reverse Anti-Hybrid Rules and so we will await the publication of the Finance Bill to determine whether this applies to payments from 1 January 2022.

In addition, it has been announced that the government intends to open up the Employment Investment Incentive (EII) Scheme to a wider range of investment funds. Further details on how the scheme will apply to such funds are expected in Finance Bill 2021.

The Banking Levy which was due to expire at the end of 2021 has also been extended for another year. Following the announcements by Ulster Bank and KBC to exit the Irish market, the Levy will not apply to these banks in 2022. The Levy paid in 2021 of €87 million by the remaining banks will also be applied in 2022. The Minister has also announced that a review on the effectiveness and continuance of the Levy will be undertaken in the near future.

Who will be affected?
There are a number of measures announced and confirmed in the Budget today which should be considered by the financial services sector, in particular, the Interest Limitation Rules and the Reverse Anti-Hybrid Rules that will be introduced in Finance Bill 2021.

While the “devil will be in the detail”, there has already been some public consultations on these matters and the EU Directive is already available. Therefore, it is possible for companies to undertake some modelling and scenario analysis to ascertain the likely impact of such measures.

When? What to do now?
Given the pending introduction of the Interest Limitation Rules and the Reverse Anti-Hybrid Rules, companies operating in the financial services sector are encouraged to use this time to quantify the impact that such rules may have on their operations.
Our view
The Government’s recent commitment to the OECD inclusive framework agreement on Pillar One and Pillar Two has been a welcome development and provides the industry with stability and clarity on Ireland’s position in the next stage of the process as technical discussions continue over the coming months within the OECD. Furthermore, the Government’s continued commitment to Ireland’s 12.5% for businesses with turnover of less than €750 million remains an important message.

Budget 2022 offered an opportunity to enhance the role that the Financial Services sector could play in the attractiveness of Ireland as a location for ESG investment and investment management by offering some targeted initiatives. However, Budget 2022 has not addressed the role that the Financial Services sector can play in the challenges posed by Climate Change despite it being one of the most important issues of our time.

Interest now turns to Finance Bill 2021 which is expected in the coming days. The publication of Finance Bill 2021 will provide the finalised provisions of the Interest Limitation Rules and Reverse Anti-Hybrid Rules together with any further legislative changes that have not been announced in the Budget today.
Key measures

1. Help-to-Buy Scheme
   The scheme will continue at current rates for 2022. A full review of the scheme will take place next year.

2. Zoned land tax
   A zoned land tax will replace the vacant site levy. The tax will apply to land which is zoned suitable for residential development and is serviced, but has not been developed for housing.
   A two-year lead-in time is proposed for land zoned before January 2022, and a three-year lead in time for land zoned after January 2022. The applicable tax rate will be 3% and the tax is to be based on the market value of the land. Certain exclusions will apply.
   The tax will operate on a self-assessment basis and will be administered by the Revenue Commissioners.

3. Social and affordable housing
   €20Bn to be allocated over the next 5 years to support the provision of additional units.

4. Pre-letting expenses
   At a budgeted cost of €3m, relief for certain pre-letting expenses for landlords will be extended for a further 3 years.

5. Interest limitation rules
   As expected, the ATAD interest limitation rule will be provided for in the Finance Bill 2021.

6. VAT on hospitality and tourism
   The 9% rate applicable to this sector will remain in place until the end of August 2022.

7. Accelerated capital allowances
   Equipment directly operated by fossil fuels will no longer qualify for relief under the scheme.

Our view
With affordability remaining a significant challenge for new home seekers, first time buyers will welcome the news today that the Help-to-Buy scheme will continue in its enhanced form for 2022.

The introduction of the zoned land tax may be of concern to some market participants who want to build on land held but face difficulties with the current planning system of progressing such developments. It is hoped that the detail of the scheme will take account of such issues such that those that are trying to make progress are not unduly penalised. It is possible this tax may also result in the unintended consequence of placing upwards pricing pressure on the cost of new units over the medium term.

With a 2 year lead in time for land zoned prior to January 2022, and a three year lead in time for land zoned after January 2022, one would hope this will give time to review the exact technical
detail of the tax to ensure that is workable.

Although the continuation of the pre-letting expense relief is welcome, we expect the impact of this measure on increasing supply to be low. We would have like to have seen more targeted measures aimed at bringing additional vacant residential units back to the market quickly.

On a positive note for the refurbishment of existing stock, the allocation of €50m to help service sites, refurbish properties in towns and villages and to increase owner occupied development in city centres is welcome.

Confirmation the interest limitation rule will be announced in the forthcoming Finance Bill 2021 while expected is important for market participants due to the broad scope of such rules and the funding required in the development of property.

The continuation of the 9% VAT rate is positive for operators within the hospitality space and news which is needed after a very difficult previous 18 months.

Attention will now turn to delivering on the objectives set out in the ‘Housing for All’ strategy recently published. A shortage of labour and price increases in materials combined with an increase in shipping costs all make this a difficult task. The Government will hope the significant funds allocated to the provision of housing will ultimately see delivery happen over time.

We await the Finance Bill 2021 for more detail on the key measures mentioned above.
Ireland Inc. and Foreign Direct Investment
Key measures

Given the announcement last week that Ireland would sign up to the OECD global tax reform agreement and as a result of that the rate of corporation tax for companies that are part of groups with revenues of €750m and above will increase to 15%, it is no surprise that the Minister discussed this in his Budget speech. The Minister mentioned that the 15% effective rate will apply to those companies when the OECD agreement is in effect (which will be 2023 at the earliest) but reaffirmed the commitment to the 12.5% rate for businesses with global revenue below €750m. This rate will continue to apply to an estimated 160,000 Irish businesses employing an estimated 1.8 million people.

The relief from tax for certain start-up companies will be extended to the end of 2026. It was acknowledged that the scheme continues to support investment and employment and is a valuable relief for recently established companies facing significant challenges to set up business in the wake of the Covid-19 pandemic. The scheme was also extended from the current three years to five years.

Following the announcement in Budget 2021, the Minister announced the introduction of a tax credit for digital gaming sector to encourage investment given the exponential growth in the sector not matched by employment growth. The relief will take the form of a refundable corporation tax credit for expenditure incurred on the design, production and testing of game. The relief will be available at a rate of 32% on up to €25m per project and is subject to commencement orders. Further detail will be included in Finance Bill 2021.

A number of measures in relation to the accelerated capital allowance (ACA) regime for energy efficient equipment were announced. In accordance with wider government policy to reduce reliance on fossil fuels, it was announced that equipment directly operated by fossil fuels will no longer qualify for the ACA regime. An extension to the ACA scheme was also announced for gas vehicles and refueling equipment for three years. Given the higher carbon savings offered by renewable hydrogen, the scheme was widened to include hydrogen powered vehicles and refueling equipment.

Finally, the Minister announced that Finance Bill 2021 will complete Ireland’s transposition of the EU’s Anti-Tax Avoidance Directive providing for the introduction of the interest limitation ratio and the new anti-reverse hybrid rules.

Who will be affected?

A wide number of companies will be positively impacted by the measures introduced as part of the Budget 2022 – from small start-ups who will benefit from a relief from corporation tax for a longer and extended period, to companies in the Telecommunications, Media and Technology space who will benefit from the gaming tax credit. 1,500 Irish companies which are part of large multinational groups will also be affected by the increased tax rate when it takes effect.

It is surprising to note that the additional budget papers show no additional revenue is expected in 2022 from the introduction of the anti-reverse hybrid rules and interest limitation ratio, the latter in particular may have a significant impact on the amount of interest relief available to companies.
When? What to do now?

There is an element of “watch this space” particularly around the change of rate and international tax reform measures. Progress in relation to tax changes in the US continues. Certain aspects of the OECD tax reform are anticipated to take effect as early as 2023 and to meet this ambitious deadline, critical technical discussions will need to continue over the coming months in line with the framework of the political agreement. There will undoubtedly be many transitional arrangements in the interim which will have an impact on the affected business.

More detail on some of the measures announced as part of the Budget, e.g. the final transposition of the ATAD will be available as part of the Finance Bill. If you have not already modelled the potential impact of the interest limitation ratio, we recommend that work on this commences post Finance Bill.

A significant incentive introduced – the tax credit for the digital gaming sector – is subject to commencement order given that European State Aid approval is required so it will be important to monitor developments in that area. We will also be interested in seeing the finer detail on how the scheme will operate once Finance Bill 2021 is published.

Our view

Budget 2022 comes at a pivotal time in Ireland’s tax landscape, given the increase in the corporate tax rate (for some companies) to 15% once the OECD agreement takes effect. While the 12.5% has been a long-standing pillar of Ireland’s corporate tax regime, the 15% was an expected development and shows Ireland’s commitment to international tax reform. We welcome the retention of the 12.5% rate and the certainty that this brings to a significant number of Irish businesses. Indeed, we also welcome the certainty that the introduction of the 15% brings and that it is a defined rate following the Irish Government’s success for the removal of the phrase “at least”. These rates, including the 15% which is lower than many of our key competitors, together with a range of tax and non-tax factors including talent (as the Minister termed Ireland’s “attractive and dynamic workforce”), track record and infrastructure means that Ireland will continue to be regarded as an attractive location for Foreign Direct Investment. Indeed, the Budget contains many measures for the improvement of these non-tax FDI competitive factors including housing, education, infrastructure.

We welcome the extension – both from three to five year and out to 2026 – of the relief from tax for certain start-up companies. At a critical time, as we begin to navigate out of the pandemic, the certainty afforded to these start-up companies should ensure that domestic business and employment opportunities created on foot of this continue to thrive.

Ireland has a well-established film and animation sector and is poised to become a key player in digital and creative arts. The introduction of a credit to stimulate investment in the digital gaming sector is extremely welcome and will be instrumental in stimulating the digital arts sector in Ireland, which has so much potential. We look forward to seeing more detail on this, and of course other measures announced, as part of the Finance Bill.
The Minister further announced that a public consultation will be launched in the coming weeks on the introduction of an independent commission on taxation and welfare which will be a key process to assist in securing Ireland’s future and promote increased prosperity and we look forward to participating in same.

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Transfer Pricing

There were no specific transfer pricing related measures in Budget 2022. However, it remains a key focus area for taxpayers as they continue to adapt to the new transfer pricing rules and increased compliance burden introduced for 2020 onwards.

During the year (February 2021), Irish Revenue released updated guidance on the changes to the Irish transfer pricing rules, including transfer pricing documentation requirements and the treatment of intra-group loan financing arrangements (requiring a debt capacity analysis based on arm’s length principles).

Furthermore, it is anticipated that the Finance Bill 2021 will contain:

- Revisions to the exemption for domestic Irish transactions from the transfer pricing rules. This is an issue that has caused considerable difficulties for taxpayers as they sought to understand the original legislation, rewritten legislation last year that was ultimately not implemented as well as Irish Revenue’s guidance.

- An extension of transfer pricing rules to the taxation of branches in Ireland in line with the Authorised OECD Approach (and which was subject to consultation during 2021).

Groups that may be affected by the above should closely monitor developments and ensure their compliance with the updated transfer pricing rules in Ireland.

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Global Mobility, Immigration and Employment Services
Key measures
From an income and employment tax perspective, there were 5 key takeaways:

1. As had been widely anticipated, there has been an increase in tax bands of €1,500 and an increase in tax credits. The personal tax credit and employee tax credit are to increase by €50 each. In addition, the Minister announced that the 2% USC rate threshold is to be increased from €8,675 to €9,283. The weekly threshold for the higher rate of employer’s PRSI of 11.05% also increases from €398 to €410. These changes are to ensure that those on the minimum wage are not adversely impacted from a tax perspective and that there is no incentive to reduce working hours for a full-time minimum wage worker.

2. The Minister announced that the existing regime for remote working whereby workers may claim a tax deduction for 10% of utility expenses (light/heat) would now be extended to allow for a claim for 30% of such costs. This brings relief for these costs in line with the amount allowed to be claimed in respect of the cost of broadband.

3. The Minister announced the extension of the Employee Wage Subsidy Scheme (EWSS) will be extended to 30 April 2022 with a tapering of the scheme applying from December 2021.

4. The Minister announced that an amendment to the taxation of flight crew operating flights in international traffic will be introduced in the Finance Bill. This amendment is to exclude non-resident air crew from taxation in Ireland where certain conditions are satisfied.

5. Finally, the BIK exemption for electric vehicles will be extended out to 2025 with a tapering effect on the vehicle value. This measure will take effect from 2023. For BIK purposes, the original market value of an electric vehicle will be reduced from €50,000 to €35,000 for 2023; €20,000 for 2024; and €10,000 for 2025.
Our view
In light of the unprecedented circumstances brought about by the Covid global pandemic, it was to be expected that there would be no reduction in the marginal rates of income tax and universal social charge. It is acknowledged that tax giveaways were never likely to feature in Budget 2022 but as our marginal rate remains at 52%, Irish employees still have one of the highest personal tax burdens in the OECD.

The current crisis has shown us that the future of work is changing fundamentally as is evidenced by the way employers and employees alike have embraced working from home arrangements since March 2020. It is a positive development that the percentage of costs which may be claimed by employees for working from home will be increased. However, the existing methodology for calculating allowable costs across 365 days means that in practice the tax relief due to most individuals is minimal. The increase to this relief is likely to be of negligible value. For example, someone who works at home 50% of the time with circa €5,000 a year in expenses, will only benefit by around €175.

The area of remote working becomes more complex when one considers that many employees are currently working in overseas jurisdictions for their Irish employer. If this arrangement continues for a significant period of time or becomes a permanent arrangement this will lead to administrative complications in terms of payroll withholding obligations, immigration requirements and social security contributions. This continues to be a key area of focus for HR departments as consideration needs to be given to developing remote working policies as well as implementing procedures for tracking and monitoring the location of employees. As employers are preparing for employees to return to the office it is clear that there is a need, so as to retain or indeed attract employees, to provide for hybrid arrangements and to consider various models including potentially full time remote working where this is of interest to employees. The development of any policies in this regard should take into consideration potential tax, social security or immigration obligations.

The aviation sector has been significantly impacted by the Covid pandemic. The announcement of a change to Section 127B which imposes a tax charge on flight crew operating in international traffic is welcome. The current position whereby flight crew who are non-Irish resident are required to be subject to Irish payroll taxes has caused significant challenges for Irish airlines. In some cases, this has meant airlines have struggled to attract and retain flight crew due to an inequity of taxation treatment for non-Irish resident employed by Irish airlines and non-airlines. Any provision which supports the sector towards recovery is very welcome.
The changes announced for the BIK on electric vehicles are going to be seen as confusing to employers and will not encourage them to roll-out a fleet of electric vehicles to employees at a time when encouragement is exactly what was needed.

The Special Assignee Relief Programme is a valuable relief that encourages skilled individuals to relocate to Ireland by providing an income tax exemption for earnings in excess of €75,000 up to a cap of €1m. This relief is currently available to individuals who arrive in Ireland up to 31 December 2022 where the relevant conditions are satisfied. Employers are keen to know if this relief will be extended as they plan for future resource requirements in Ireland. The Minister did not reference SARP today, but we would hope there is clarity given in the Finance Bill.
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