Tax Briefing

Budget 2018

10th October 2017

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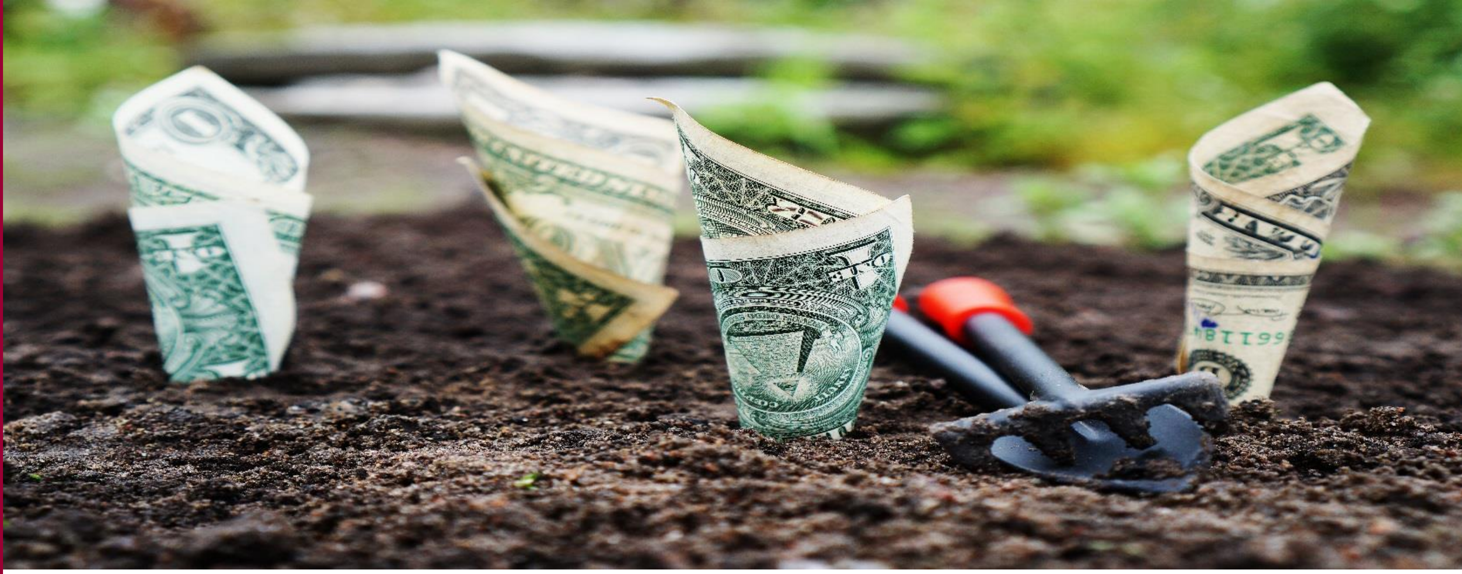


Introduction

The 2018 Budget was introduced by Minister for Finance & Public Expenditure and Reform, Paschal Donohoe on 10th October 2017.

Economic growth

The Budget was presented against a background of continuing economic growth and an economy which is approaching full employment. The Budget is almost a balanced one, which means that our national debt may finally have peaked, though remains at a still massive €200bn. If international interest rates increase, as will almost certainly occur, then our balanced budgets will be in jeopardy. Similarly, any downturn in economic activity will hit tax revenues.

Government expenditure is much harder to reduce, as we saw following the recent economic collapse. However, the Minister appears to be confident that this situation will not arise in the coming years, stating as he did that budgetary expenditure for future years will be linked to growth in the economy. He expressed confidence that the economy will continue to grow for the foreseeable future, though he did caution about the uncertainty arising from Brexit, US tax policy and other World events outside our control.

Budget decisions

As for specifics, the most note-worthy change for commercial property owners will be the trebling of stamp duty with effect from midnight tonight, from 2% to 6%.

The introduction of a new share based incentive scheme (KEEP) will facilitate the taxation of share disposals at the CGT rate rather than the income tax rate (now 48.75% on incomes up to €75,000).

For income tax-payers in general, the increase in the standard rate threshold for an individual, from €33,800 to €34,550, is welcome, as are the modest reductions of 0.25% and 0.5% in the rates of USC. We Irish still hit the top tax rate at earnings levels more than €10,000 below the UK threshold. The Minister signified his intention to amalgamate USC with PRSI in the future. The earned income credit is to increase to €1,150.

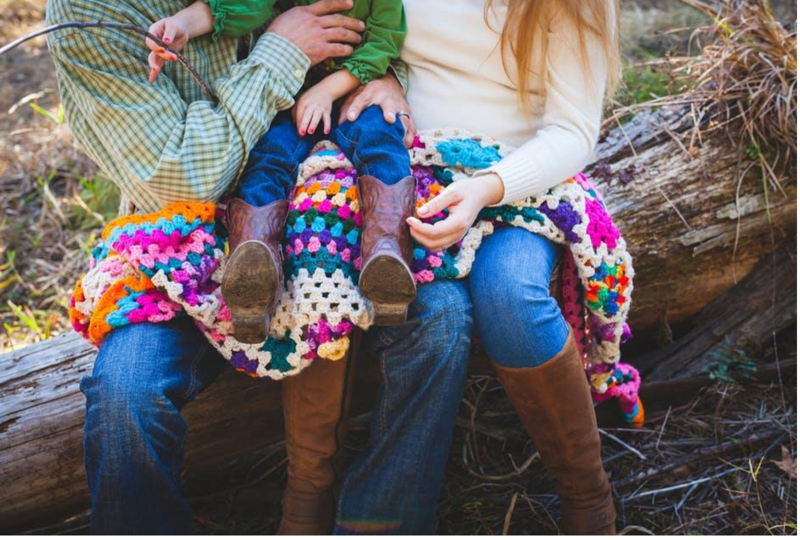
Ireland is well behind most EU countries in the rate of transfer from diesel and petrol engine vehicles to electric ones. The Minister announced an exemption from benefit in kind, for just one year, in relation to the provision by a company of an electrically propelled motor vehicle to its employees. This is welcome, but a lot more needs to be done to persuade drivers to rely on such vehicles for everyday transport. A one-year exemption is unlikely to have companies rushing to commit to a large medium-term investment!

Quite a lot of resources are to be allocated to improving the supply of housing. About €2bn is being allocated to the direct provision of social housing through local authorities, the housing assistance scheme and other targeted allocations. €750m is to be provided to a new fund called House Building Finance Ireland, for which the funds will come from NAMA (which is being wound down over the next few years).

The vacant site levy is being increased from 3% to 7% and if developers continue to hold undeveloped land through 2019 they can end up paying a cumulative levy of 10%.

In general, we welcome the Minister’s approach, which sets out a policy framework for the next several years, rather than the one-year approach which was a feature of previous Budgets.

If you want specific advice in relation to taxation or other financial matters, please contact us as we will be pleased to help.



Summary of Budget 2018 changes (see page 4 for table)

Income tax
Increase in the standard rate tax bands for all earners, increases in the home carers tax credit and the earned income tax credit (entrepreneurs credit).

Decrease in USC rates and extension of USC relief for medical card holders for further two years.

Overall, the marginal tax rate on incomes up to €70,044 is reduced from 49% to 48.75%.

Benefit-in-kind on electronic vehicles will be 0% for one year.

Corporation tax
The rates of corporation tax remain unchanged. Changes to capital allowances on intangible assets will see a limitation of 80% of the relevant income. Accelerated capital allowances for Energy Efficient Equipment have been extended.

Stamp duty
The major change seen in the budget was the increase of stamp duty on commercial properties from 2% to 6%. Residential properties remain unchanged. In addition, consanguinity relief is extended in certain cases.

VAT
There are very little changes in VAT. VAT on the use of sunbeds will rise to 23% as the government seeks to reduce the use of these services in line with the National Cancer Strategy.

Charities may be entitled to a VAT refund on a proportion their inputs in 2019 for purchases in 2018.

Brexit loan scheme
Up to €300m will be available for SME's to assist with short term working capital needs.

Excise duty

A packet of cigarettes will increase by 50 cent, and a 25 cent increase for roll your own tobacco effective from midnight tonight. There are no changes to alcohol, petrol or diesel.

Social welfare
All social welfare payments will increase by €5, commencing in March 2018. The social welfare Christmas bonus will be paid in December 2017 at 85% of the usual rate. The earnings disregarded for jobseekers benefit and single parent family payment will increase by €20 weekly.

Sugar tax
The will be 30 cent tax per litre on sugary drinks with 8 grams of sugar per 100ml. A rate of 20 cent per litre will apply to drinks with between 5 grams and 8 grams of sugar per 100ml. The measure will apply from April 2018.

Prescription charges
Prescription charges are to be reduced for those with a medical card under the age of 70 from €2.50 to €2 per item. The monthly cap is decreased from €25 to €20. The threshold for the drugs payment scheme will be reduced from €144 to €134.

Capital acquisitions tax
No changes were announced in relation to the CAT rate or thresholds from last year's increases. Solar farms will continue to be classified as agricultural land with a restriction of 50 per cent of the total farm acreage.

Capital gains tax
The seven-year period for which land and buildings must be held in order to qualify for CGT exemption is now reduced to a minimum of four years. The Finance Bill, which will be published at the end of next week (Thursday, 19th October 2017), will provide more clarity in relation to this and other matters outlined in Budget 2018.

An 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.

Budget 2018 Summary

Personal income tax rates (Changed)

	First 20%	40%
Single person (Changed)	€34,550	Balance
Married couple/civil partnership (one income) (Changed)	€43,550	Balance
Married couple/civil partnership (two incomes) (Changed)	€69,100	Balance
One parent/widowed parent/surviving civil partner (Not mentioned)	€37,800	Balance

Personal tax credits

Single person	€1,650
Married couple/civil partnership	€3,300
Single person child carer credit	€1,650
Additional credit for certain widowed persons/surviving civil partner	€1,650
Employee credit €1,650 Earned income credit	€1,650
Home carer credit (Changed)	€1,200
Earned income tax credit (Changed)	1,150

Local Property Tax

Market value less than €1,000,000	0.18%
Market value greater than €1,000,000	
First €1,000,000	0.18%
Balance	0.25%

Corporation tax rates (Unchanged)

Standard rate	12.50%
Knowledge Development Box rate	6.25%
Residential land, not fully developed	25%
Non-trading income rate	25%

Capital allowances for Intangible Assets (Changed) and Energy Efficient Equipment

The deduction for capital allowances for intangible assets, and any related interest expense, will be limited to 80% of the relevant income arising from the intangible asset in an accounting period. Full details of this measure will be contained in the Finance Bill.

Accelerated Capital allowances for Energy Efficient Equipment

This measure is being extended to the end of 2020.

Stamp duty - Commercial properties (Changed)

Commercial (non residential) properties and other forms of property, not otherwise exempt from duty.	6%
Extension of consanguinity relief	

Stamp duty - Residential properties (Unchanged)

Properties valued up to €1,000,000	1%
Balance of consideration in excess of €1,000,000	2%

Capital acquisitions tax (Unchanged)

Rate	33%
Thresholds	
Group A	€310,000
Group B	€32,500
Group C	€16,250

Capital gains tax (Changed)

Rate (unchanged)	33%
Entrepreneur relief (unchanged)	10%
Annual exemption (unchanged)	1,270
Relief for certain disposals of land and buildings (changed) *	

*The seven year period for which land and buildings must be held in order to qualify for CGT exemption is now reduced to a minimum of four years. The Finance Bill, which will be published at the end of next week (Thursday 19th October 2017), will provide more clarity in relation to this and other matters outlined in today's Budget.

Mortgage interest relief (Changed)

Tapered extension of mortgage interest relief for remaining recipients – owner occupiers who took out qualifying mortgages between 2004 and 2012. 75% of the existing 2017 relief will be continued into 2018, 50% into 2019 and 25% into 2020. The relief will cease entirely from 2021. (Generates an exchequer yield as the full relief is currently in the tax base.)

Key Employee Engagement Programme (KEEP) (Changed)

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.

PRSI contribution, Universal Social Charge (changed)

	%	Income
Employer	10.75%	No limit
	8.50%	If income < €376 p/w
Employee (class A1)**		
PRSI	4%	No limit

Universal social charge

	2017		2018
First €12,012	0.5%	First €12,012	0.5%
Next €6,760	2.5%	Next €7,360	2%
Next €51,272	5%	Next €50,672	4.75%
Balance over €70,044	8%	Balance over €70,044	8%
Relevant income > €100,000	11%	Self employed income*	3%

*Over €100,000

Income of €13,000 or less is exempt.

The USC relief for medical card holders is being extended for a further two years. Medical card holders and individuals aged 70 years and older whose aggregate income does not exceed €60,000 will now pay a maximum USC rate of 2%.

Deposit Interest Retention Tax (Unchanged)

DIRT (Unchanged)	39%

Excise Duty

Tobacco Products*	Increase of 50 cent (incl. VAT)
Tobacco Products - Roll your own*	Additional increase of 25 cent
Sugar tax**	20cent / 30cent per litre

*Will take effect from Midnight 10/10/2017

**Effective from 1 April 2018. Applies to sugar sweetened drinks with a sugar content between 5g and 8gs per 100ml at a rate of 20c per litre. A second rate will apply for drinks with a sugar content of 8g or above at 30c per litre.

Benefit-in-Kind on Electronic Vehicles

Rate (Changed)*&**	0%

* A 0% benefit-in-kind (BIK) rate is being introduced for electric vehicles for a period of one year. This will for allow for a comprehensive review of benefit in kind on vehicles which will inform decisions for the next Budget.

**Electricity used in the workplace for charging vehicles will also be exempt from benefit in kind.

VAT rates (changed)

Standard rate (Unchanged)	23%
Sunbeds (Changed)*	23%
Reduced rate (Unchanged)	13.5%
Second reduced rate (Unchanged)	9%
Agricultural rate (Unchanged)	4%

*Increase from 13.5% VAT to 23% VAT commencing 1 January 2018

Charities compensation scheme

A VAT refund scheme is being introduced to compensate charities for the VAT they occur on their inputs. The scheme will be introduced in 2019 in respect of VAT expenses incurred in 2018. Charities will be entitled to a refund of a proportion of their VAT costs based on the level of non-public funding they receive. An amount of €5m will be available to the scheme in 2019.

Employer contribution to National Training Fund levy

From 1st January 2018 there will be a 0.1% increase (from 0.7% to 0.8%) in the National Training Fund Levy payable by employers in respect of reckonable earnings of employees in Class A and Class H employments.

Pre-letting expenses - Rented Residential Properties (Changed)

To encourage owners of vacant residential property to bring that property into the rental market, a new deduction is being introduced for pre-letting expenses of a revenue nature incurred on a property that has been vacant for a period of 12 months or more. A cap on allowable expenses of €5,000 per property will apply, and the relief will be subject to clawback if the property is withdrawn from the rental market within 4 years. The relief will be available for qualifying expenses incurred up to the end of 2021.