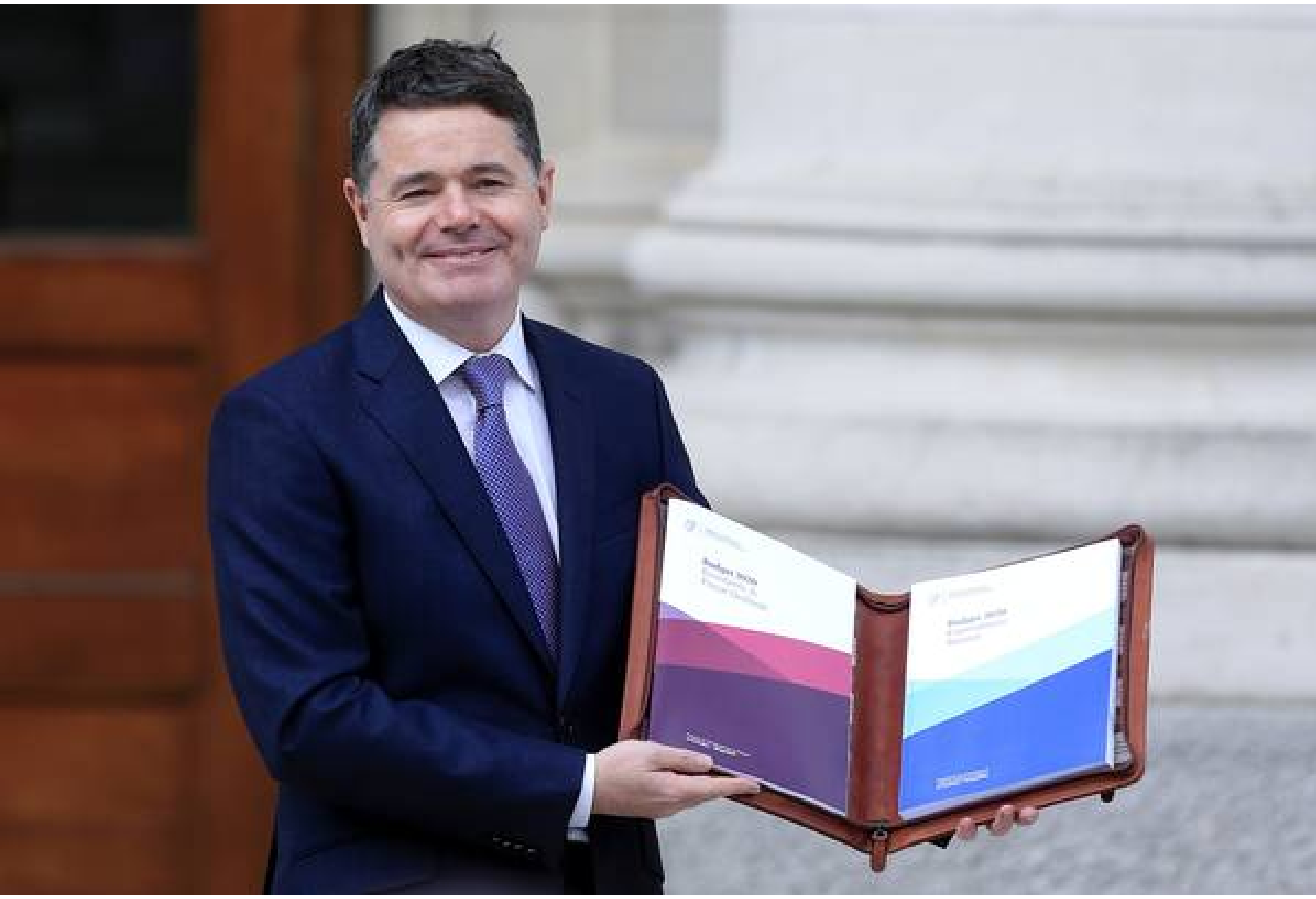
McAVOY

Budget 2020



In the Shadow of Brexit

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BUDGET 2020: A BUDGET FOR UNPRECEDENTED TIMES

"The economy is poised at a point between the twin risks of overheating and Brexit." Anyone wanting to understand the thrust of Paschal Donohoe's Budget needs only to re-read the words, "overheating and Brexit".

Take overheating. Ireland has plenty of experience in dealing with the consequences of an over-heated economy. The Minister's reluctance to announce tax give-aways therefore should come as no surprise. The increase of €15,000 in the main Inheritance and Gift Tax threshold was a case in point. It doesn't keep pace with the rate of inflation in house prices, doesn't qualify as a give-away but highlights the need for more to be done.

In contrast the increase in the rate of stamp duty on commercial property transactions to 7.5% was unwelcome, reminiscent of panic-induced Budgets that attempted to keep the lid on prices before the Financial Crash by introducing a 9% rate. This time however, the target is not home-owners carried away by the boom but an office market, racing to cater for the demand from foreign-direct investment.

As for Brexit, there is a clear intention to avoid the uncertainty shock that torments our nearest neighbour. So, on the one hand, €1.2 bn is earmarked to support the sectors that will bear the brunt of a Hard Brexit while on the other, tax measures are introduced to stimulate enterprise.

It's in this context that the improvements to the Employment and Investment Incentive Scheme (EIIS) are to be judged. Bringing forward full income tax relief to the year of investment corrects a glaring disincentive whereas the increase in the annual investment limit from €150,000 to €250,000 is a positive move.

This should make it easier for companies to raise significant amounts of capital. And anything that helps EIIS companies move away from being cottage industries and brings them closer to the public markets is a step in the right direction.

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The increase in the R&D credit from 25% to 30% for micro and small companies will help incentivise a sector that is in sore need of an injection of R&D.

Of course, the fact that there wasn’t enough headroom in the public finances to provide for an increase in gains qualifying for 10% Entrepreneurial Relief was a disappointment.

Minister O’Donohoe mentioned that his Budget was written in the shadows of Brexit. Clearly those shadows are getting longer by the day.

BUSINESS TAX

Key Employee Engagement Programme (KEEP)

KEEP was introduced on 1 January 2018 to help unquoted small and medium sized enterprises provide their key employees with a financial incentive linked to the success of their company.

Under the scheme gains arising to employees on the exercise of KEEP share options will not be liable to income tax, PRSI or USC. Instead the gains on exercise are ignored and a charge to capital Gains Tax (CGT) will arise on the disposal of the shares. As with all reliefs numerous conditions apply to the scheme.

The Minister announced that henceforth the programme will apply to company group structures and will allow employees to move within the group structure. He will also amend the rules of the scheme to allow part-time and family-friendly working arrangements for employees availing of the relief. These changes are subject to State Aid approval.

Employment and Investment Incentive Scheme (EIIS)

EIIS provides for tax relief of up to 40% in respect of investments made in certain corporate trades. Up to now the relief was allowed on 30/40ths of the EIIS investment in the year the investment is made. Relief in respect of the further 10/40ths of the EIIS investment became available in the fourth year after the investment was made.

The Minister announced that full income tax relief will be provided in the year of the investment rather than splitting the relief between years 1 and 4. The annual investment limit will be increased from €150,000 to €250,000 and furthermore a €500,000 annual investment limit will apply for investors who are prepared to invest in EIIS for 10 years or more. These changes will apply from 8 October 2019.

The Research & Development (R&D) Tax Credit

The Minister highlighted the important role that research and development plays in the economy by contributing to innovation and productivity and attracting quality employment and investment. Subject to State aid approval the following provisions will be introduced:

1. The R&D tax credit is given at 25% of the expenditure incurred. For micro and small companies this will increase from 25% to 30% of qualifying expenditure. In addition an improved method of calculating the limit on the payable credit will be introduced.
2. Pre-trading R&D expenditure will qualify for the R&D tax credit for micro and small companies. This credit will be available to offset VAT and payroll taxes.
3. Currently there is a limit of 5% on the amount of R&D expenditure that can be outsourced to third level institutes of education. It is proposed to increase this limit from 5% to 15% in respect of all claimants.

Special Assignee Relief Programme (SARP)

SARP provides income tax relief for certain people who are assigned to work in Ireland from abroad. The programme was due to terminate on 31 December 2020. The Minister announced that the Programme will be extended to 31 December 2022.

Foreign Earnings Deduction (FED)

An individual who is resident in Ireland for tax purposes but spends time working in certain foreign countries (such as Brazil, Russia, India, China and South Africa) may be able to claim tax relief under the FED. The relief was due to expire on 31 December 2020. The Minister has announced that the scheme will be extended to 31 December 2022.

Allowance for Capital Expenditure on Scientific Research

The legislation allows a person to claim capital allowances on capital expenditure incurred on scientific research. However other provisions within the legislation can provide additional relief for the same expenditure. The legislation will be amended to address this anomaly.

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Benefit in Kind

The zero rate of Benefit in Kind on electric vehicles will be extended from 31 December 2021 to 31 December 2022. The Minister also announced that he will introduce an environmental rationale for Benefit in Kind for commercial vehicles from 2023.

Employers PRSI

The national training fund levy is charged at 0.9% and is incorporated into employer PRSI which is currently charged at 10.95%. From 1 January 2020 there will be a 0.1% increase in the levy payable by employers. The rate of employer PRSI with effect from 1 January 2020 therefore will rise to 11.05%.

INCOME TAX

Income Tax Bands & USC

In light of the economic uncertainty of the times, the Minister refused to propose an increase to the standard rate bands that charge tax at 20%. Rate bands for both single and married persons will remain the same as 2019. Tax credits will also broadly remain the same, with the exception of the Home Carer Tax Credit and the Earned Income Credit.

Similarly, there will be no change to the Universal Social Charge rate bands. The top rate of USC for all medical card holders and individuals over the age of 70 who earn less than €60,000 will continue to be 2% until the end of 2020.

Home Carer Tax Credit

The Home Carer Tax Credit, which applies to individuals who care for children and elderly or incapacitated relatives will be increased from €1,500 to €1,600.

Earned Income Credit

The Minister has increased the Earned Income Credit for business owners and the self-employed by €150 to €1,500. This will take effect from 1 January 2020.

Drugs Payment Scheme

The Minister announced a €10 reduction in the monthly Drugs Payment Scheme threshold for 2020 bringing the monthly threshold down from €124 to €114.

INVESTOR TAX

The Living City Initiative

In 2015, the Living City Initiative was introduced to provide incentives to boost the residential and retail quality of historical urban areas in Cork, Galway, Kilkenny, Dublin, Limerick and Waterford.

Homeowners in these Special Regeneration Areas are able to claim tax relief for the cost of refurbishment work on their homes at the rate of 10% per annum for a period of 10 years. Retailers and landlords in the same areas are entitled to capital allowances on their refurbishment expenditure spread over a seven year period.

The Minister announced that the Initiative is being extended in its present format until 31 December 2022.

Dividend Withholding Tax (DWT)

As the first part of a two-stage process, from 1 January 2020, the rate of DWT deducted from Irish dividends paid to investors will increase from 20% to 25%.

The change is to close a potential gap identified by Revenue between the DWT remitted to Revenue by companies and the income tax and USC that is ultimately payable by Irish resident taxpayers.

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The increase in DWT is a cashflow measure. It will not affect the underlying rate of Irish tax payable by investors. In the event that the 25% rate results in an overpayment of tax, the relevant amounts will be refunded to the taxpayer.

The second stage of the process will commence from 1 January 2021 when a modified DWT regime will be introduced. In connection with the new PAYE modernisation system, Revenue will apply a personalised rate of DWT to each taxpayer based on the rate of tax that they pay on their PAYE income.

Stamp Duty

Increase in the Rate on Non-Residential Property Sales

Stamp duty on the purchase of non-residential property is currently charged at 6%. The Minister announced an increase to 7.5%, which will come into effect from 9 October 2019. In effect, any purchasers that are buying commercial property and the sale has not yet closed will see their stamp duty cost increase by 25% overnight.

For example, a commercial unit that is sale-agreed for €500,000 will be liable for stamp duty of €37,500 as opposed to €30,000.

Where a binding sale contract is concluded before Budget Day (i.e. by 8 October 2019), the existing 6% rate will apply to sales executed before 1 January 2020.

The Minister has confirmed that any commercial land purchased for the purpose of building residential properties will still be subject to a refund scheme, ensuring that the rate of stamp duty chargeable after a full refund remains at 2%.

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CAPITAL ACQUISITIONS TAX

Increased Group A tax-free threshold

The quantum of gifts and inheritances that can be received tax-free by a child from his/her parents has been increased from €320,000 to €335,000. The increased threshold will apply to gifts and inheritances received on or after 9 October 2019.

FARMERS' TAX

Farm Restructuring Relief

The Minister announced the extension of Farm Restructuring Relief from Capital Gains Tax (CGT) until 31 December 2022. The measure is designed to improve farm efficiency by encouraging farm restructuring. Relief from CGT is available where the proceeds of a sale of farm land are reinvested for the purpose of farming. The sale and purchase transactions must occur within 24 months of each other and the initial sale or purchase must occur within the period from 1 January 2013 to 31 December 2022.

ANTI-AVOIDANCE

Irish Real Estate Funds (IREFs) and Section 110 Companies

The Minister announced the introduction of a number of anti-avoidance measures to counter what Revenue have identified as some IREFs engaging in aggressive behaviour to avoid tax. The measures introduced include a limitation on the interest expenses based on the IREFs' leveraging ratio and an income to interest ratio. These measures will apply from 9 October 2019.

The Minister will also strengthen the anti-avoidance provisions in TCA 1997, s. 110 to ensure that it operates as intended. These measures will be introduced in Finance Bill 2019.

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Real Estate Investment Trust Companies (REITs)

The Minister introduced a number of changes to the taxation of REITs regarding the disposal of properties. Where a REIT distributes proceeds from the sale of a rental property the distribution will be subject to DWT.

The Minister also tweaked an existing provision to encourage REITs to invest for the long term. Where companies cease to be a REIT and have not operated as a REIT for a minimum of 15 years they will no longer be able to avail of a provision which deemed them to dispose of and immediately reacquire properties at the time that they cease to be a REIT. The above provisions will apply from 9 October 2019.

BEPS Implementation

To comply with Ireland's commitment to implement the Anti-Tax Avoidance Directive (ATAD) new anti-hybrid rules will be introduced for all companies from 1 January 2020.

OECD Transfer Pricing Guidelines will be incorporated into Irish tax legislation for the purpose of modernising Ireland's transfer pricing rules. The rules will also be extended to SMEs, subject to a Ministerial Commencement Order.

Stamp Duty on Schemes of Arrangement

Under current legislation where a company is acquired in accordance with a scheme of arrangement under Chapter 1 of Part 9 of the Companies Act 2014, no stamp duty applies because no transfer of shares occurs due to the company being acquired cancelling its existing shares and re-issuing new shares to the acquiring company.

The Minister has introduced an amendment to the Stamp Duty legislation to provide for a 1% charge to stamp duty where such a scheme of arrangement is used to acquire a company. The 1% charge will apply from 9 October 2019.

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Table of tax rates, bands and credits

Rate bands		2020	2019
Standard tax rate		20%	20%
	Single/Widowed	€35,300	€35,300
	Married Couples (one income)	€44,300	€44,300
	Married Couples (two incomes provided lower-earning spouse has income of at least €26,300)	€70,600	€70,600
	One Parent	€39,300	€39,300
Higher tax rate		40%	40%
	In all Cases	Balance	Balance
Income tax credits		**2020**	**2019**
Personal credit			
	Single	€1,650	€1,650
	Married	€3,300	€3,300
	PAYE credit	€1,650	€1,650
Self Employed credit		€1,500	€1,350
Home Carers credit		€1,600	€1,500
	Home Carers income threshold level	€7,200	€7,200
Widowed without dependent child		€2,190	€2,190
Widowed with dependent child			
	Bereavement year	€3,300	€3,300
	1st Year following bereavement	€3,600	€3,600
	2nd year following bereavement	€3,150	€3,150
	3rd year following bereavement	€2,700	€2,700
	4th year following bereavement	€2,250	€2,250
	5th year following bereavement	€1,800	€1,800
Single person child carer tax credit		€1,650	€1,650
Dependent relative tax credit		€70	€70
Incapacitated child		€3,300	€3,300
Blind person			
	Single	€1,650	€1,650
	Married couple, both blind	€3,300	€3,300
Age Tax Credit			
	Single/Widowed	€245	€245
	Married	€490	€490
Relief for Pension Contributions			
	Earnings limit for determining maximum tax deductible pension contributions	€115,000	€115,000
Imputed Distribution from an ARF		**2020**	**2019**
	Value of fund at 31 December regarded as an imputed distribution		
	Value of fund is €2m or less and individual is not 70 years or over	4%	4%
	Value of fund is €2m or less and individual is 70 years or over	5%	5%
	Value of fund is greater than €2m	6%	6%
Exemption limits		**2020**	**2019**
Age exemption limits (65 years and over)			
	Single/Widowed	€18,000	€18,000
	Married	€36,000	€36,000

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Table of tax rates, bands and credits (cont'd)

PRSI and levies		2020		2019	
		Rate	Ceiling	Rate	Ceiling
Employer	PRSI				
	PRSI	8.50%	€20,072	8.50%	€20,072
	PRSI	11.05%	No limit	10.95%	No limit
Employee	PRSI	4.00%	No limit	4.00%	No limit
Self employed and proprietary directors PRSI		4.00%	No limit	4.00%	No limit
Universal Social Charge (USC) - Exempt Income		€13,000 or less		€13,000 or less	
	- Lower Rate	€0 to €12,012 @ 0.5%		€0 to €12,012 @ 0.5%	
	- Higher Rate 1	€12,013 to €19,874 @ 2%		€12,013 to €19,874 @ 2%	
	- Higher Rate 2	€19,875 to €70,044 @ 4.5%		€19,875 to €70,044 @ 4.5%	
	- Higher Rate 3	€70,045 to €100,000 @ 8%		€70,045 to €100,000 @ 8%	
	- Higher Rate 4	PAYE income in excess of €100,000 @ 8%		PAYE income in excess of €100,000 @ 8%	
	- Higher Rate 5	Self-employed income in excess of €100,000 @ 11%		Self-employed income in excess of €100,000 @ 11%	
	- Medical card holders/ over 70's	Where income does not exceed €60,000 @ 2%		Where income does not exceed €60,000 @ 2%	

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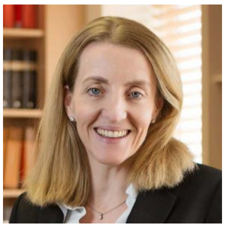

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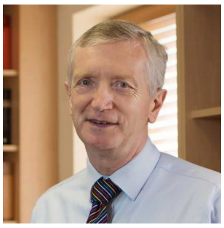

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