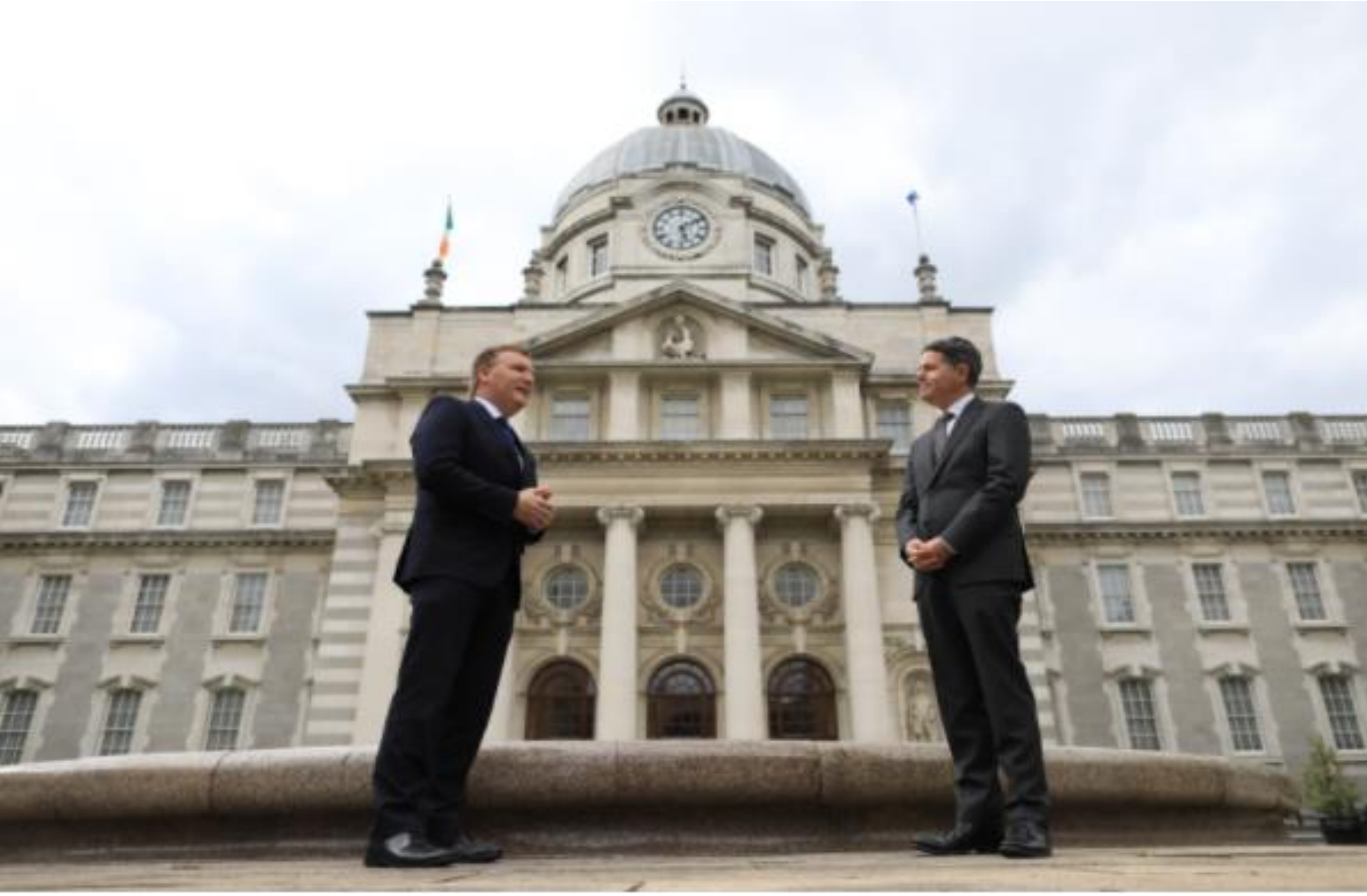
McAVOY

Budget 2021



Operation Life-Support

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BUDGET 2021: OPERATION LIFE-SUPPORT

This was a Budget like no other. Faced with a health crisis that has brought with it an economic crisis and awaiting the outcome of Brexit negotiations that could make the economic crisis a great deal more difficult, the Minister for Finance may have thought that things couldn't get any worse. If so, he was wrong as within the previous 24 hours the OECD announced plans for the sort of global corporate tax revolution that, if put into operation, could put a serious dent in Ireland's corporation tax inflows.

So, what does a doctor do when all his devils turn up on the same day? Having helped nurse a sick patient through the trauma of an intervention by the IMF, Pascal Donohoe is no stranger to the intensive care ward. Keeping the patient alive trumps all else. The devils can wait another day.

With this in mind, the Minister administered live-saving medicine in thick dollops. A budgetary spending programme of almost €18bn will see funds allocated to key areas such as housing, health, education and supports for the Small and Medium Enterprise (SME) sector. The largest share, €10.1bn, will go to investment in schools, homes and public transport and will grab the public's attention. But the success of the €3.4bn that is being allocated to the Recovery Fund will be crucial. The Fund will be aimed at stimulating domestic demand and employment. Given the surprises continually thrown up by COVID-19 and Brexit, Mr. Donohoe took pains to point out that it will have the flexibility needed to allow government to react quickly to a constantly changing environment.

For all his resolution, Mr. Donohoe needs a lot of things to go right if his medicine is to prove effective. Interest rates have to stay low-to-non-existent to prevent a crippling Budget Deficit, an acceptable deal on Brexit needs to be achieved if agriculture is to be saved and the patient, in the form of the economy, needs to come back from life-support stronger than ever to produce the tax revenues necessary to reduce the country's debt burden. Apart from the disastrous bank guarantee in September 2008, it is probably the biggest gamble the State has ever made. But Mr. Donohoe is well aware that it's not for nothing that national good fortune is known as the luck of the Irish.

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COVID-19 SUPPORTS

Extension of Debt Warehousing

To support taxpayers who may be facing cash flow difficulties as the income tax deadline looms at the end of October, the Minister has announced an extension of the tax-debt warehousing scheme. Taxpayers will be able to include in the debt warehousing scheme both the balance of their 2019 income tax liability (which is due to be filed with Revenue in October 2020) and their preliminary income tax for 2020. Moreover, the warehousing scheme will include any repayments of the Temporary Wage Subsidy made by employers.

It will be possible to defer the commencement of the repayment period by up to a year. In that period, the taxpayer will not be subject to statutory interest on his or her unpaid tax liabilities.

After the 12-month deferment period has elapsed, the lower rate of 3% statutory interest will apply to any outstanding tax liabilities. This is a significant discount from the standard rate of statutory interest of 10% for VAT and 8% for all other taxes.

Extension of the Employee Wage Subsidy Scheme

The Employee Wage Subsidy Scheme was introduced in August 2020, following the conclusion of the Temporary Wage Subsidy Scheme. This is set to continue until 31 March 2021 and the Minister announced that a similar scheme will be needed to provide business with certainty until the end of 2021.

COVID Restrictions Support Scheme (CRSS)

Under the terms of the government's five-level *Living with COVID* plan, the Minister acknowledged that certain business sectors faced more brutal restrictions than others. In particular, the Minister highlighted the effect the COVID-19 pandemic restrictions have had on businesses in the accommodation, food, arts, recreation and entertainment sectors.

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To this end, the Minister announced a targeted support scheme for businesses that are most adversely affected by the increase in nationwide restrictions to Level 3 or higher. Qualifying businesses can apply to Revenue for a cash payment, subject to a maximum weekly payment of €5,000.

The payment is effectively an advance credit for tax-deductible trading expenses incurred during the period of the restrictions. Payments will be calculated on the average VAT-exclusive turnover for 2019 and will be computed at 10% of the first €1 million of turnover and 5% thereafter.

The scheme will operate only during the period of the COVID restriction and on a self-assessment basis. To demonstrate that their turnover has been severely impacted, businesses must demonstrate that their turnover during the restriction period is not more than 20% of the turnover of the corresponding period in 2019.

This support will take effect from today, Budget Day (13 October 2020) until 31 March 2021.

VAT relief for Hospitality and Tourism

In addition to the reduction in the standard rate of VAT from 23% to 21% from 1 September 2020 to 28 February 2021, the Minister announced that a reduced rate of VAT for the hospitality and tourism sectors would apply from the 1 November 2020 until 31 December 2021.

Goods and services provided by the hospitality and tourism sector previously subject to VAT at 13.5% will now be subject to VAT at 9%.

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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% in 2021. Rate bands for both single and married persons will remain the same as 2020. Tax credits will also broadly remain the same, excluding the Dependent Carer's Tax Credit and the Earned Income credit.

The threshold for the second rate band for USC is increased from €20,484 to €20,687. Therefore only income between €20,688 and €70,044 will be subject to the 4.5% USC rate in 2021. The top rate of USC for all medical card holders and individuals over the age of 70 who earn less than €60,000 remains 2% until the end of 2021.

Dependent Relative Tax Credit

The Dependent Relative Tax Credit which applies to individuals who maintain elderly or infirm relatives at their own expense will increase from €70 to €245. The revised credit will take effect from 1 January 2021.

Earned Income Credit

The Minister has increased the Earned Income Credit for business owners and the self-employed. This is increased by €150 to €1,650, which will take effect from 1 January 2021.

Help-To-Buy Scheme

The Help-to-Buy Scheme for first-time buyers has been extended to 31 December 2021. Following an extension to the relief in the July Stimulus package, the Scheme offers qualifying first-time buyers a rebate of the lower of the following amounts: 10% of the value of the property; the amount of Income Tax and DIRT paid in the four years before the purchase or self-build or; €30,000.

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BUSINESS TAX

Knowledge Development Box

The knowledge development box was established with the aim of making Ireland an attractive location for the development and exploitation of intellectual property through the use of a low and competitive tax rate of 6.25%. The scheme was due to expire on 31 December 2020 however the Minister has announced the extension of this relief for a further two years to 31 December 2022.

Intangible Assets

To ensure that the tax regime for intellectual property is consistent with international best practice the Minister announced that intangible assets will be fully within the balancing charge rules. This change will take effect from 14 October 2020.

Commercial Rates Waiver

As part of the July Job Stimulus the government provided for a waiver of commercial rates for a period of six months to the end of September 2020. The Minister for Public Expenditure announced an extension of the waiver for the remaining three months of 2020.

GREEN TAXES AND ALLOWANCES

Accelerated Capital Allowances

The accelerated capital allowance scheme is designed to improve energy efficiency among Irish companies and businesses. It allows taxpayers to deduct the full cost of expenditure on certain types of energy efficient equipment from taxable profits in the year of purchase. The scheme is being extended for a further three years to 31 December 2023. The Minister also announced a review of the equipment qualifying for the scheme to ensure the categories of equipment availing of the scheme remain appropriate and reflect the most up-to-date efficiency standards.

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Carbon Taxes

Carbon tax will be increased by €7.50 from €26 to €33.50 per tonne/CO2. The increase will be applied to motor fuel from midnight and to all other fuels from 1 May 2021.

INVESTOR TAX

Film Tax Credit

The regional film development uplift of 5% for films produced in areas designated under the State aid regional guidelines was due to decrease to 3% from 1 January 2021. As the effect of the uplift for 2020 has been lost the Minister announced the extension of the 5% credit for a further year to 31 December 2021. The tapering of the credit will also be extended by a year.

Digital Gaming Sector

Due to the growth of the digital gaming sector and its potential synergies with the film and animation sectors, the Minister announced an intention to commence work on the development of a tax credit for the digital gaming sector.

FARMERS' TAX

Consanguinity Relief

Consanguinity relief provides a lower rate of Stamp Duty on transfers of farm land between blood relatives. The relief was due to expire on the transfer of farm land on 31 December 2020 however the Minister announced the extension of the relief for a further three years to 31 December 2023.

The relief provides that the rate applicable to the transfer of farm land to a relative will be at 1%.

Farm Consolidation Relief

Farm Consolidation Relief provides a rate of Stamp Duty of 1% where the proceeds of a sale of farm land are reinvested in the purchase of farm land within 18 months. The sale and purchase of the farm land must be certified as qualifying land by Teagasc. The relief was due to expire on 31 December 2020 however the relief will be extended for a further two years to 31 December 2022.

Farmer's Flat-Rate Addition Scheme

The Flat-Rate Scheme compensates unregistered farmers for the VAT they incur on farming inputs. With effect from 1 January 2021 the farmer's flat-rate addition will be increased from 5.4% to 5.6%.

CAPITAL GAINS TAX

Entrepreneur Relief

Entrepreneur Relief is an important tax incentive. It allows an entrepreneur to claim a 10% rate of tax on gains from the disposal of certain assets used for the purposes of most trades or from ordinary shares in companies that either carry on most types of trade or which are the parent companies of trading companies. The 10% rate of tax is significantly lower than the standard rate of 33%.

At present one of the conditions for the relief in the case of a disposal of shares is that the individual claiming the relief must own at least 5% of the company's ordinary share capital for a continuous period of 3 years in the 5 years immediately prior to the disposal. The Minister proposes to relax this requirement so that relief will be available to a claimant who has owned at least 5% of the shares for a continuous period of any three years.

The requirement for the claimant to have worked in the business for three out of the five years before disposal remains, however. The Minister made specific mention of this provision, adding that its retention is necessary to ensure that the relief does not benefit passive investors.

STAMP DUTY

Residential Development Refund Scheme

The Residential Development Refund Scheme provides for a refund of a portion of the Stamp Duty paid on the acquisition of non-residential land where the land is subsequently developed for residential purposes.

This scheme is currently due to expire on 31 December 2021 but due to the impact of COVID-19 and a number of other issues, the Minister proposes to extend it to operations that begin by 31 December 2022 and finish within two-and-a-half years.

ANTI-AVOIDANCE

Debts

Gains and losses from the disposal of most forms of debts are neither chargeable to Capital Gains Tax nor allowable as a deduction from chargeable gains. The Minister indicated that he had become aware that the legislation providing for this has been used for tax avoidance. To correct this, he proposes to amend the legislation by way of an immediate Financial Resolution.

BEPS and ATAD

The BEPS project is the OECD's initiative against profit-shifting from high-tax to low-tax jurisdictions by multinational corporations, while ATAD (the Anti-Tax Avoidance Directive) is the EU's response to the initiative. The Minister indicated in his Budget Speech that he will introduce a Financial Resolution immediately to amend Ireland's ATAD-compliant Exit Tax rules to clarify the operation of interest on instalment payments.

Table of tax rates, bands and credits

Rate bands		**2021**	**2020**
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		**2021**	**2020**
Personal credit			
	Single	€1,650	€1,650
	Married	€3,300	€3,300
	PAYE credit	€1,650	€1,650
Self Employed credit		€1,650	€1,500
Home Carers credit		€1,600	€1,600
	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		€245	€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		**2021**	**2020**
	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		**2021**	**2020**
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		**2021**		**2020**	
		Rate	Ceiling	Rate	Ceiling
Employer	PRSI				
	PRSI	8.50%	€20,696	8.50%	€20,488
	PRSI	11.05%	No limit	11.05%	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 €20,687@ 2%		€12,013 to €20,484 @ 2%	
	- Higher Rate 2	€20,688 to €70,044 @ 4.5%		€20,485 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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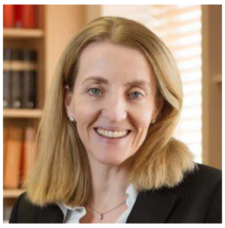

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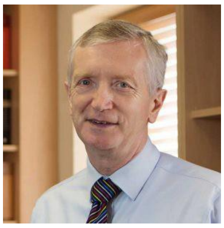

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