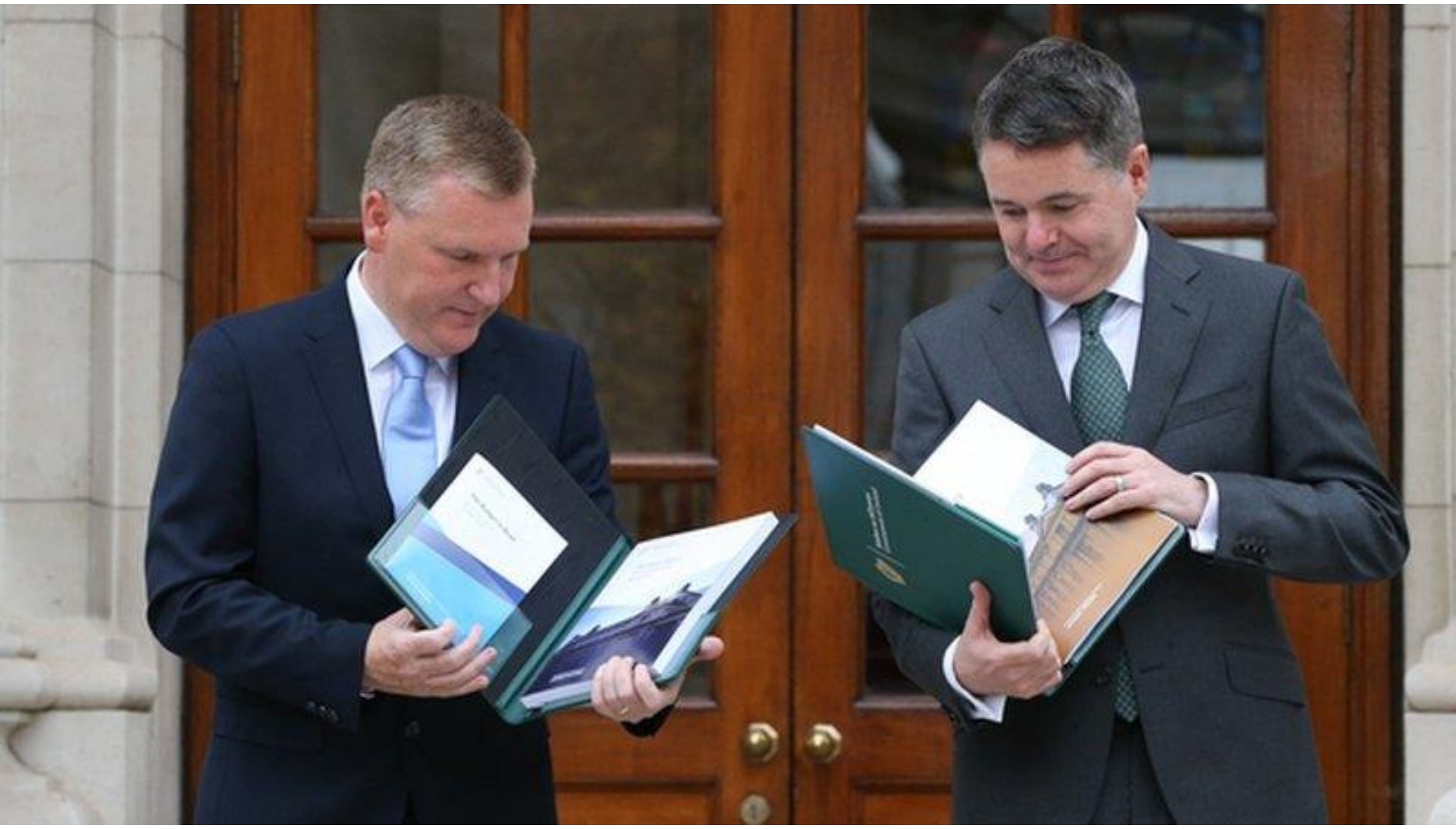
McAVOY

Budget 2022



Planning for Safer Times

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BUDGET 2022: Planning for Safer Times

One of the most substantive proposals in Budget 2022 is the Zoned Land Tax. After a lead-in time of two or three years, depending on when the land was zoned, it aims to charge tax at a rate of 3% on its market value. The tax will apply to land that is zoned suitable for residential development and is serviced. No minimum size exclusion will apply with the result that the tax will apply to relatively small sites in urban areas.

But is the Minister shooting at the right goal? Is the hoarding of zoned land really the fundamental constraint to the supply of housing? Suppose that the constraint lies elsewhere say, in the area of financing for development. Ever since the demise of the Celtic Tiger many developers are short of capital. Added to this, the Regulator's grip on the banks remains tight with the result that debt finance for development, especially development at scale, is limited. It's difficult to see how a Zoned Land Tax will alleviate a funding drought.

Funding however is not the only limiting factor at play in the construction industry. Skilled labour is scarce with the result that labour costs are rising. Regulatory costs have become a burden too. Added to this, materials have been the subject of a significant level of cost-push inflation. All in all, profitability has become a significant concern.

The construction and development industries' difficulties are multi-faceted and it will take a lot more than a Zoned Land Tax to solve them. If a developer cannot get the finance to develop a zoned site, a tax that is based on the market value of his land will only increase his liquidity difficulties. The Minister probably isn't old enough to remember the last time a tax was charged on the value of assets irrespective of ability to pay. It had to be withdrawn in disorder. The ghosts of the old Wealth Tax Act might not be too far away.

On a lighter note, the increase in the income tax deduction to 30% of the cost of heat, electricity and broadband for remote workers is a granny's delight. Just think of all those bedrooms that she can re-purpose as serviced offices for her adult children. The loneliness of the empty-nesters may be a thing of the past!

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COVID-19 SUPPORTS

Extension of the Employee Wage Subsidy Scheme

The Employee Wage Subsidy Scheme [EWSS] is set to continue until 30 April 2022, however from December 2021 a more graduated system will come into place.

For employers currently availing of the EWSS, there will be no changes to the scheme for October and November 2021. From 1 December 2021 to 28 February 2022, the original two-rate structure of €151.50 and €203 will apply. For March and April 2022, the two-rate structure will be replaced by a flat rate of €100 per employee per week and the reduced rate of Employers' PRSI will no longer apply.

Businesses who qualify for the EWSS on 31 December 2021 will continue to be supported until the end of April 2022. However the scheme will close to new employers or applicants from 1 January 2022.

Extension of Warehousing of Tax Liabilities

To support tax payers who may be facing an income tax liability in connection with their Schedule E income, the tax debt warehousing scheme will be expanded to include taxpayers who have a material interest in their employer-company. This will enable them to warehouse income tax liabilities in relation to their income from that company.

INCOME TAX

Income Tax Bands & USC

In light of the increasing costs to households across Ireland, the Minister proposed a €1,500 increase in 2022 to the standard rate bands that charge tax at 20%. The rate band for single persons will increase to €36,800 while the increased rate band for married couples with one income will increase to €45,800.

The Personal tax credit, Employee tax credit and Earned Income tax credit will all increase by €50.

The threshold for the second rate band for USC is increased from €20,687 to €21,295. As a result only income between €21,296 and €70,044 will be subject to the 4.5% USC rate in 2022. 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 2022.

Help-To-Buy

The enhanced Help-to-Buy Scheme for first-time buyers has been extended to 31 December 2022. 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.

Work from Home Tax Credits

In order to facilitate and support remote working, the current tax reliefs on expenditure incurred on broadband, electricity and heat are set to continue, with tax relief on 30% of the cost of vouched expenses incurred on the days spent working from home.

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BUSINESS TAX

Corporation Tax

Minister Donohoe referred to the Government's decision to join the global political agreement on the future of corporate tax. The minimum effective rate of corporation tax of 15% will apply to large, multi-national companies. Ireland will continue to offer the 12.5% rate of corporation tax to companies with revenue of less than €750m. Accordingly the 12.5% rate will continue to apply to 160,000 companies who employ 1.8million people.

Relief for Start Up Companies

Section 486C, Taxes Consolidation Act 1997 contains a relief from corporation tax for start-up companies in their first three years of trading. The relief is granted by reducing the corporation tax payable on the profits of the new trade and gains on the disposal of any assets used for the purposes of the new trade.

The amount of relief available is directly linked to the amount of Employers' PRSI paid by the company. The relief will be extended for a period of five years until 31 December 2026. The relief will also be amended to allow companies to avail of the relief over a period of five years rather than the current three year period.

Tax Credit for Digital Gaming Sector

Last year the Minister announced an intention to commence work on the development of a tax credit for the digital gaming sector. Today the Minister announced the introduction of a scheme of refundable tax credits for companies in that sector.

The relief will be given on expenditure incurred on the design, production and testing of a digital game. The credit will be given at a rate of 32% on eligible expenditure of up to a maximum limit of €25m per project.

The relief can be claimed on an annual basis but the project must have a minimum spend of €100,000. A claim for the tax credit for digital games can only be made in respect of a digital game which has been issued with a cultural certificate from the

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Minister for Tourism, Culture, Arts, Gaeltacht, Sport and Media. Relief will not be available for digital games produced mainly for the purposes of advertising or gambling. The Digital Gaming Tax Credit is a State Aid so the commencement of the relief will be subject to approval from the European Union.

Employment Incentive Investment Scheme (EIIS)

The Minister announced the extension to the EIIS for a further three years to 31 December 2024. The scheme will be opened up to a wider range of Investment funds in order to attract more investors. It is also proposed to allow greater capacity for investors to redeem their capital without penalty and to remove the rule that 30% of an investment in an EII company must be spent before relief can be claimed.

INVESTOR TAX

Pre-letting expenditure

Section 97A, Taxes Consolidation Act 1997 provides that certain expenses incurred on a vacant residential premises prior to it being first let after a period of non-occupancy are allowed as a deduction against rental income from that premises. The provision was due to expire on 31 December 2021 but it will now be extended to 31 December 2024.

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GREEN TAXES AND ALLOWANCES

Tax Exemption for income from micro-generation of electricity

Households which earn extra income from the sale of residual electricity back to the grid, such as electricity generated by solar panels can receive the first €200 tax-free.

BIK Exemption for Electric Vehicles

The BIK exemption for electric vehicles will be extended until at least 2025, with a tapering effect on vehicle value from 2023.

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 amended to prohibit equipment directly operated by fossil fuels from qualifying for accelerated capital allowances.

In addition, the Minister proposed extending and expanding the scheme for accelerated capital allowances for Gas Vehicles and Refuelling Equipment. This scheme, focussed on encouraging an alternative to diesel and petrol for lorries, HGVs and buses, is to be extended from the current end date of 31 December 2021 to 31 December 2024. In addition, the scheme will be expanded to include hydrogen-powered vehicles and refuelling equipment.

Carbon Taxes

Carbon tax will be increased by €7.50 from €33.50 to €41.00 per tonne/CO_2. The increase will be applied to motor fuel from midnight and to all other fuels from 1 May 2022.

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ZONED LAND TAX

The Minister announced the intention to introduce a zoned land tax. The tax will apply to land which is zoned for residential development and is serviced but has not been developed. In advance of commencement of the tax the local authorities will prepare maps that will identify land within the scope of the charge. The tax will be levied at a rate of 3% on the market value of the land. There will be a two-year lead in time for land zoned before January 2022 and a three-year lead in time for land zoned after January 2022. The tax will be a self-assessment tax and will be administered by the Revenue Commissioners. The zoned land tax will replace the vacant site levy.

FARMERS' TAX

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 2022 the farmer's flat-rate addition will be decreased from 5.6% to 5.5%.

Extension of Young Trained Farmer Stamp Duty Relief

The stamp duty relief which allows a young, trained farmer to accept the transfer of an interest in agricultural land without incurring a charge to Stamp Duty will be extended to 31 December 2022.

Extension of Stock Relief

Stock Relief, which entitles a person or a company carrying on the trade of farming to a tax relief on the trading profits of 25% of the amount by which the value of farm trading stock increases during the accounting period, will be extended.

ANTI-AVOIDANCE

Two measures are proposed in order to bring Ireland into line with the EU's Anti-Tax Avoidance Directive. The first targets the practice where a company in a group that is tax-resident in a high tax jurisdiction will borrow money at a significant rate of interest from an associated company based in a low tax jurisdiction. The value of the tax deduction in the high tax country usually far exceeds the tax charged on the interest in the low tax country, leaving the group as a whole in a tax-positive position.

The proposal places a ceiling on the interest outgo that certain companies are able to deduct from their taxable profits. This amounts to 30% of their adjusted earnings. Any interest that is disallowed will be available for carry forward.

The second measure, known as the reverse anti-hybrid rule, aims to correct the position where an entity, such as a partnership, is tax-transparent in its country of operations but its participants are resident in countries that treat the entity as a taxable entity only in the first country. In a case such as this, the profits of the entity could escape taxation altogether. To prevent this the Finance Bill will introduce a measure that will bring such entities within the scope of Irish tax where 50% or more of an entity is owned or controlled by persons who are resident in a jurisdiction that treats it as tax-opaque.

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Table of tax rates, bands and credits

Rate bands		2022	2021
Standard tax rate		20%	20%
	Single/Widowed	€36,800	€35,300
	Married Couples (one income)	€45,800	€44,300
	Married Couples (two incomes provided lower-earning spouse has income of at least €27,800)	€73,600	€70,600
Higher tax rate		40%	40%
	In all Cases	Balance	Balance
Income tax credits		**2022**	**2021**
Personal credit			
	Single	€1,700	€1,650
	Married	€3,400	€3,300
	PAYE credit	€1,700	€1,650
Earned Income credit		€1,700	€1,650
Home Carers credit		€1,600	€1,600
	Home Carers income threshold level	€7,200	€7,200
Dependent relative tax credit		€245	€245
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 contrib	€115,000	€115,000
Imputed Distribution from an ARF		**2022**	**2021**
	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		**2022**	**2021**
Age exemption limits (65 years and over)			
	Single/Widowed	€18,000	€18,000
	Married	€36,000	€36,000

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

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PRSI and levies		2022		2021	
		Rate	Ceiling	Rate	Ceiling
Employer	PRSI				
	PRSI	8.50%	€21,320	8.50%	€20,696
	PRSI	11.05%	0.00	11.05%	0.00
Employee	PRSI	4.00%	0	4.00%	0
Self employed and proprietary directors PRSI		4.00%	0	4.00%	0
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 €21,295 @ 2%		€12,013 to €20,687@ 2%	
	- Higher Rate 2	€21,296 to €70,044 @ 4.5%		€20,688 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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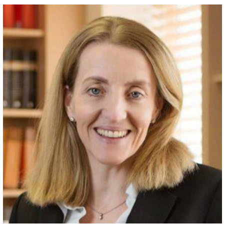

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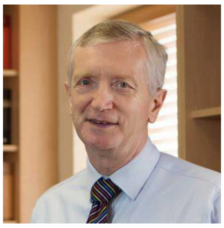

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