

# Budget Review 2019

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# Introduction



# Budget Review 2019

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- ▶ Minister Donohue's second budget
- ▶ Balancing the books
- ▶ Rainy day fund
- ▶ Finance Bill to be published on 18 October
- ▶ Today's topics:
  - ▶ Pre-Budget Submissions
  - ▶ Pre-Budget White Paper
  - ▶ Budget 2019
  - ▶ Brexit – Department of Finance's position
  - ▶ Corporation Tax Roadmap

# Pre-Budget Submissions



# Pre-Budget Submissions

## IBEC

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- ▶ Re-commit:
  - ▶ 12.5% corporation tax rate
  - ▶ Research and Development tax credit
    - ▶ Simplify tax credit regime
  - ▶ Retain 9% VAT rate
  - ▶ Existing exit charge regime
    - ▶ Retain until 1 January 2020
    - ▶ When changed, reduce exit tax to a 12.5% rate
- ▶ New measures:
  - ▶ 12.5% Capital Gains Tax rate for entrepreneurs
    - ▶ No limit on life-time gains
  - ▶ Capital allowances for data centres
  - ▶ Swedish model for share-based remuneration

# Pre-Budget Submissions IBEC

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- ▶ New measures (continued):
  - ▶ Reduced stamp duty for equity on equity transactions
  - ▶ New site value tax
    - ▶ Replace existing commercial rates and vacant sites levy
  - ▶ Extend participation exemption to dividends
  - ▶ Increase entry point to 40% tax band by €1,000
  - ▶ Remove USC and PRSI charge from share options

# Pre-Budget Submissions Irish Tax Institute

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- ▶ Re-commit:
  - ▶ Corporation tax rate regime
- ▶ New measures:
  - ▶ Publish draft legislation in advance of Finance Bill for consultation
  - ▶ Revisit Tax Appeals Commission to reduce backlog
  - ▶ Broaden Entrepreneur Relief
  - ▶ Revise Employment & Investment Incentive and Start-Up Refund for Entrepreneurs schemes
  - ▶ New Special Assignee Relief Programme for SMEs
  - ▶ Revisit Research and Development tax credit

# Pre-Budget Submissions

## Consultancy Committee of Acc. Bodies – Ire.

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- ▶ Re-commit:
  - ▶ Corporation tax rate regime
- ▶ New measures:
  - ▶ Publish draft legislation in advance of Finance Bill for consultation
  - ▶ Change VAT administration to reduce cash flow impact of Brexit
  - ▶ Remove surcharge on service companies
  - ▶ Remove age restriction for CGT retirement relief
  - ▶ Relief for landlords:
    - ▶ Remove mortgage interest restriction
    - ▶ Reduce CGT on disposals of residential properties to 20%
    - ▶ Reduce life of assets from 8 years to 4 years
  - ▶ Index CAT thresholds in line with property prices
  - ▶ Revisit Research and Development tax credit



# Pre-Budget White Paper



# Pre-Budget White Paper

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	2018 €m	2019 €m	% Change
Receipts	59,759	61,052	2.2%
Expenditure	60,290	62,721	4%
<b>Total</b>	<b>(530)</b>	<b>(1,669)</b>	
GDP	€m	€m	
General Government Balance	(195)	640	
% of GDP	(0.1%)	0.2%	

▶ **Prior year:**

- ▶ 3% decrease in receipts predicted
- ▶ Forecast 2018 receipts 5.9% higher than budget last year
- ▶ Why?
  - ▶ Substantial increase in stamp duty and corporation tax receipts

# Pre-Budget White Paper

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	2018 €m	2019 €m	% Change
Customs	343	364	6.1%
Excise Duty	5,620	5,770	2.7%
Capital Gains Tax	943	996	5.6%
Capital Acquisitions Tax	472	499	5.7%
Stamp Duties	1,574	1,736	10.3%
Income Tax	21,443	23,018	7.4%
Corporation Tax	9,604	9,480	(1.3%)
Value Added Tax	14,090	14,570	3.4%
Motor Tax	980	941	(4%)

# Budget 2019



# Income tax

## Distribution of income earners

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	2015	2016	2017	2018	2019
Total	2.354	2.460m	2.557m	2.616m	2.666m
High rate	18%	19.4%	19.81%	20.32%	21.17%
Standard rate	45%	43.3%	42.81%	43.13%	44.26%
Exempt	37%	37.3%	37.38%	36.55%	34.58%

# Income tax

## Tax rates and bands

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- Increase of €750 in standard rate band and married one income couples

	2015	2016	2017	2018	2019
<u>Rate</u>					
High rate	41%	40%	40%	40%	40%
Standard rate	20%	20%	20%	20%	20%
<u>Bands</u>	€	€	€	€	€
Single	36,400	32,800	33,800	34,550	<b><u>35,300</u></b>
Single Parent	40,400	36,800	37,800	38,550	38,550
Married – One income	45,400	41,800	42,800	43,550	<b><u>44,300</u></b>
Married – Two incomes	72,800	65,600	67,600	69,100	69,100

# Income tax

## Tax credits

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- ▶ Increase of €200 in Earned income credit

	2011 - 2015	2016	2017	2018	2019
	€	€	€	€	€
Single	1,650	1,650	1,650	1,650	1,650
Married	3,300	3,300	3,300	3,300	3,300
PAYE	1,650	1,650	1,650	1,650	1,650
Earned income credit	-	550	950	1,150	<b><u>1,350</u></b>

# Income tax

## Other tax credits

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- ▶ Increase of €300 in Home Carer tax credit

	2017	2018	2019
	€	€	€
Single Person Child Tax Credit	1,650	1,650	1,650
Home Carer	1,100	1,200	<b><u>1,500</u></b>
Dependent Relative	70	70	70
Incapacitated Child	3,300	3,300	3,300
Blind Persons – Single	1,650	1,650	1,650
Blind Persons – Married	3,300	3,300	3,300
Age – Single/Married	245/490	245/490	245/490
Fishers Tax credit	1,270	1,270	1,270



# Income tax

## Universal Social Charge

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- ▶ Incomes of €13,000 or less are exempt
- ▶ Increase of €502 to €19,372 band
  - ▶ Counters impact of minimum wage increase
- ▶ 4.75% rate reduced to 4.5%

	2019
€0 - €12,012	0.5%
€12,012 - €19,874	2%
€19,874 - €70,044	4.5%
€70,044+	8%
Self employed income over €100,000	3% surcharge

# Income tax

## Single – Salary of €40,000

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	2018	2019
	€	€
Income	40,000	40,000
Income Tax	9,090	8,940
Tax Credits	(3,300)	(3,300)
Net Income Tax	5,790	5,640
PRSI	1,600	1,600
USC	1,187	1,123
Net Income	31,423	31,637
Increase/(Decrease) in take home pay		<b><u>214</u></b>

# Income tax

## Married – Salaries of €52,000 & €28,000

	2018	2019
	€	€
Income	80,000	80,000
Income Tax	18,180	17,880
Tax Credits	(6,600)	(6,600)
Net Income Tax	11,580	11,280
PRSI	3,200	3,200
USC	2,374	2,246
Net Income	62,846	63,274
Increase/(Decrease) in take home pay		<b><u>472</u></b>

# Income tax

## Married – Salary of €120,000 – No children

	2018	2019
	€	€
Income	120,000	120,000
Income Tax	39,290	39,140
Tax Credits	(4,950)	(4,950)
Net Income Tax	34,340	34,190
PRSI	4,800	4,800
USC	6,611	6,471
Net Income	74,249	74,539
Increase/(Decrease) in tax/USC		<b><u>290</u></b>

# Income tax

## Married – Self-employed – No children

	2018	2019
	€	€
Income	120,000	120,000
Income Tax	39,290	39,140
Tax Credits	(4,450)	(4,650)
Net Income Tax	34,840	34,490
PRSI	4,800	4,800
USC	7,211	7,071
Net Income	73,149	73,639
Increase/(Decrease) in take home pay		<b><u>490</u></b>

# Income tax

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- ▶ Key Employee Engagement Programme scheme
  - ▶ Gains arising on exercise of share options
  - ▶ Subject to Capital Gains Tax as opposed to income taxes
  - ▶ Increase ceiling to equal annual salary
  - ▶ Replace three year limit with lifetime limit
  - ▶ Increase value of share options by €50,000 to €300,000
  
- ▶ PAYE Modernisation
  - ▶ Electronic system will be fully operational from 1 January 2019
  - ▶ Expected yield of €50million

# Employers

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- ▶ Employers' PRSI
  - ▶ Increase in weekly income threshold from €376 to €386
  - ▶ Counters impact of minimum wage increase
  
- ▶ National Training Fund levy
  - ▶ 0.1% increase from 1 January 2019 to 0.9%
  - ▶ Further 0.1% increase signposted with effect from 1 January 2020

# Corporation tax

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- ▶ Re-confirmed commitment to 12.5% rate
- ▶ Film relief
  - ▶ Film tax credit of 32% of qualifying expenditure
  - ▶ Capped at €70million
  - ▶ Extension of relief until 2024
  - ▶ Short term, tapered regional uplift to be considered
    - ▶ Awaiting State Aid approval
- ▶ Start-up relief
  - ▶ Extended for further three years until 2021



# Corporation tax

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- ▶ Accelerated Capital Allowances
  - ▶ Available for employer provided fitness and childcare facilities, gas-propelled vehicles and refueling equipment
  - ▶ Environmentally friendly measure
  - ▶ Cost neutral over the life of the asset
- ▶ Controlled Foreign Company Rules
  - ▶ 1 January 2019
  - ▶ Attributes undistributed income to the parent for immediate taxation
  - ▶ Applies where the tax paid by the overseas subsidiary is less than 50% of that which would have arisen in Ireland
  - ▶ Differences in calculation methods in each jurisdiction
  - ▶ Feedback statement published in September 2018
  - ▶ Awaiting details in Finance Bill

# Capital Gains Tax

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- ▶ No change to headline Capital Gains Tax rate of 33%
  - ▶ In place since 6 December 2012
  - ▶ Each 1% reduction would equate to about €34m
  
- ▶ Exit tax
  - ▶ Tax charge on unrealised gains upon assets leaving the State
  - ▶ Part of Anti-Tax Avoidance Directive commitment
  - ▶ Earlier than anticipated
  - ▶ Introduced to provide certainty
  - ▶ Taxable at 12.5%

# Capital Acquisitions Tax

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- ▶ No change to headline rate of 33%
  - ▶ In place since 2013
- ▶ Group A threshold increased by €10,000

	2018	2019
	€	€
Child	310,000	<b><u>320,000</u></b>
Linear ancestor/Brother/Sister	32,500	32,500
Others	16,250	16,250

# VAT

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- ▶ No change to VAT rates
  - ▶ 0%, 9/13.5%, 23%
- ▶ Change to items falling within 9% rate
  - ▶ Introduced to boost tourism and hospitality sector
  - ▶ Cost estimated to be €2.7billion to date
  - ▶ 13.5% rate will be applicable going forward
  - ▶ Some exceptions:
    - ▶ Newspapers – print and online
    - ▶ Sporting facilities

# Customs & Excise Duty

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	2017	2018	2019
Cigarettes (20)	+50c	+50c	<b><u>+50c</u></b>
Tobacco	Pro-rata	Pro-rata	<b><u>+25c</u></b>
Standard Bottle of Wine	+0c	+0c	+0c
Pint of beer	+0c	+0c	+0c
Standard measure of spirits	+0c	+0c	+0c
Petrol (per litre)	+0c	+0c	+0c
Diesel (per litre)	+0c	+0c	+0c

- ▶ Increases took effect at midnight last night
- ▶ Expected to generate €54.9million in 2019
- ▶ Minimum excise duty on cigarettes below €11

# Landlords

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- ▶ Restriction of interest
  - ▶ Currently capped at 85% of interest accrued
  - ▶ Cap due to be removed by 2021
  - ▶ Removal brought forward
  - ▶ Effective from 1 January 2019

# Farmers

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- ▶ Income averaging
  - ▶ Average income for current year and previous four years
  - ▶ Allows for more predictable tax liability for farming community
- ▶ Stock relief
  - ▶ 25% General Stock Relief on income tax
  - ▶ 50% stock relief on income tax for registered farm partnerships
  - ▶ 100% stock relief on income tax for certain young trained farmers
- ▶ Young Trained Farmers stamp duty relief
  - ▶ Extended for further three years to December 2021

# Stamp Duty

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- ▶ No change to stamp duty rates
  - ▶ Shares - 1%
  - ▶ Other assets - 6%
  
- ▶ Extension to young trained farmers relief



# Miscellaneous

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- ▶ Vehicle Registration Tax
  - ▶ 1% increase for new diesel vehicles
  - ▶ Increase cost of motoring in Ireland
  - ▶ Sharper focus on number of cars imported from the UK
  - ▶ Calls for changes in CO2 emission bands going forward
  - ▶ Relief for electric hybrid vehicles extended to end of 2019
  
- ▶ Betting Tax
  - ▶ Doubled to 2% for all bookmakers
  - ▶ Increase from 15% to 25% on intermediaries' commissions

# Miscellaneous

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- ▶ Carbon tax
  - ▶ No changes for forthcoming year
  - ▶ Long term trajectory to increase from 2020 to 2030

# Brexit



# Brexit

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- ▶ March 2017 – commencement of Article 50 process
- ▶ March 2019 – formal exit from EU
- ▶ Budget 2018:
  - ▶ €300million Loan Guarantee Scheme for Brexit impacted business
  - ▶ €25million Agriculture Brexit Loan Scheme
  - ▶ Two fold increase of additional Brexit-related staff in state agencies
  - ▶ Introduction of Key Employment Engagement Programme
  - ▶ Commitment to increasing public capital investment
- ▶ Department of Finance paper published in August 2018
  - ▶ Post Brexit taxation impacts
- ▶ €110million set aside in Budget 2019

# Brexit

## Post Brexit taxation impacts

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- ▶ Direct taxation
  - ▶ Domestic legislation
  - ▶ Double Taxation Agreement will remain
  - ▶ Legislative inconsistencies
    - ▶ UK no longer falling within definition relation to EU or EEA Member States
      - ▶ Practical impact?
  - ▶ Tax competition between Ireland and the UK
  - ▶ Stamp Duty

# Brexit

## Post Brexit taxation impacts

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- ▶ Indirect taxation
  - ▶ Price differentials and trade diversions
  - ▶ Possible return of Duty Free shopping at ports/airports
  - ▶ VAT Retail Export Scheme
  - ▶ Fraud
  - ▶ Change in point of collection of tax
  - ▶ Administration

# Brexit

## Post Brexit taxation impacts

### ► Customs & Excise

Excisable Products	Products	Personal consumption limits within EU	Duty Free 3 <sup>rd</sup> country limits
Tobacco Products	Cigarettes	800	200
	Cigarillos	400	100
	Cigars	200	50
	Loose Tobacco	1kg	250g
Alcohol Products	Spirits	10 litres	1 litres
	Intermediate products	20 litres	2 litres
	Wine	90 litres	4 litres
	Beer	110 litres	16 litres

# Corporation Tax Roadmap





# Corporation Tax Roadmap

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- ▶ Reiterated 12.5% corporation tax rate as cornerstone of tax policy
- ▶ Actions already taken:
  - ▶ Corporate tax residency rules
  - ▶ Tax transparency and exchange of information
  - ▶ Country by Country Reporting
  - ▶ BEPS multilateral instrument
  - ▶ Information about beneficial owners
  - ▶ Mandatory reporting
  - ▶ Directive on Dispute Resolution Mechanisms
  - ▶ EU List of non-cooperative jurisdictions

# Corporation Tax Roadmap

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- ▶ Anti-Tax Avoidance Directive
  - ▶ Article 4 – Interest limitation rule
    - ▶ 1 January 2019
    - ▶ Could extend to 1 January 2024 where national rules are equally effective
    - ▶ Limit tax deduction for interest to 30% of Earnings Before Interest, Tax, Depreciation and Amortisation
  - ▶ Article 5 – Exit tax
    - ▶ No later than 1 January 2020
    - ▶ Tax value of assets leaving the State on the migration of a company's tax residency

# Corporation Tax Roadmap

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- ▶ Anti-Tax Avoidance Directive (continued)
  - ▶ Article 6 - General anti-abuse rule
    - ▶ 1 January 2019
    - ▶ Arrangements must have valid commercial reasons to be respected for tax purposes
  - ▶ Articles 7 and 8 – Controlled Foreign Company rules
    - ▶ 1 January 2019
    - ▶ Attributes undistributed income to the parent for immediate taxation
    - ▶ Applies where the tax paid by the overseas subsidiary is less than 50% of that which would have arisen in Ireland
    - ▶ Differences in calculation methods in each jurisdiction
    - ▶ Feedback statement published in September 2018

# Corporation Tax Roadmap

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- ▶ Anti-Tax Avoidance Directive (continued)
  - ▶ Article 9 – Hybrid mismatches
    - ▶ 1 January 2020
  - ▶ Article 9a – Reverse hybrid matches
    - ▶ 1 January 2022
  - ▶ Seek to prevent a deduction of the same payment, expense or loss in more than one jurisdiction
  - ▶ Seek to prevent a deduction of a payment in one jurisdiction if the corresponding receipt is not taxed in the other jurisdiction

# Corporation Tax Roadmap

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- ▶ Coffey Report – other measures
  - ▶ Transfer pricing
    - ▶ Legislation expected in Finance Bill 2019
    - ▶ Legislation effective from 1 January 2020
    - ▶ Removal of grandfathering
    - ▶ Application of rules to SMEs
    - ▶ Application of transfer pricing to non-trading transactions
    - ▶ Obligations regarding documentation
  - ▶ Territorial regime
    - ▶ Currently have double tax relief as outlined in Schedule 24
    - ▶ Territorial regime would relief calculation burden and needs to be used in conjunction with Controlled Foreign Company rules
  - ▶ Consultation expected in early 2019

# Conclusion



# Conclusion

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- ▶ Economic recovery evident through higher tax receipts
- ▶ Budget contained little tax changes but significant changes in the medium term due to changing international landscape
  - ▶ Flagged in Road Map
- ▶ General increases to take home pay
  - ▶ Increase in tax bands, USC, etc.
  - ▶ Increase in welfare payments
  - ▶ General election imminent?

# Any questions?





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