Budget 2017: Insights & Analysis

BYRNE WALLACE
TAX ADVISORS

BYRNE WALLACE

LAW FIRM

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OVERVIEW

WELCOME TO THE BYRNEWALLACE TAX ADVISORS BUDGET 2017 ANALYSIS

The Minister for Finance, Mr. Michael Noonan announced **Budget 2017** today.

Budget 2017 is presented at a time when a minority government is delicately navigating its way through the unforeseen impact of Brexit and continuing to respond to major changes in global tax policy.

- The Irish Government has again re-affirmed its commitment to the **12.5% corporation tax rate** for trading activities.
- A package of incentives to **Brexit-proof** particular sectors of the Irish economy has been introduced including incentives to encourage activity in the property market. **Entrepreneurs** will benefit from a new lower Capital Gains Tax rate. The reduced VAT rate for tourism and hospitality services will remain at 9%.
- There are welcome improvements in **personal tax** matters with the view to encouraging employment and returning emigrants by improving the tax home pay of low and middle income earners through the reduction of the Universal Social Charge.

ByrneWallace can assist you and your business in navigating the changes proposed by Budget 2017.

Regards

Anthony Smyth
Head of Tax

BUSINESS TAX

"Ireland's 12.5 per cent corporation tax rate will not be changed and nobody is asking for it to be changed. It is an important part of the reason why we are an attractive destination for Foreign Direct Investment..."

- Minister for Finance, **Budget 2017**

Corporation Tax Rates

There are no changes to the existing corporation tax rates.

Corporation Tax Rates	2017
Trading activities	12.5%
Passive activities	25%
Knowledge Development Box activities	6.25%

Corporation Tax Credits

There are no changes to the Research and Development Tax Credit.

Corporation Tax Credits	2017
Research and Development	25%

Section 110 Companies

The Minister for Finance noted that Section 110 Taxes Consolidation Act, 1997 was introduced to *"benefit the Financial Services Industry...It is now being used in relation to property in a way that was never intended."*

Draft amendments to Section 110 Taxes Consolidation Act, 1997 were published in September 2016 and the Minister for Finance confirmed in Budget 2017 that *"further amendments are necessary to address other issues arising in relation to Funds and property."* These amendments will be set out in the forthcoming Finance Bill.

Review of the Corporation Tax Code

A review of the corporation tax code will be carried out by an independent expert.

INCOME TAX

A welcome reduction to the Universal Social Charge rates will be one of the changes from Budget 2017 that people will feel in their income. The reductions see the lower three rates decrease by half a per cent. This is a positive step towards the phasing out of the USC over time as resources permit.

Universal Social Charge

The entry point for Universal Social Charge (**USC**) will remain unchanged at €13,000. However, the three lower rates of USC will be reduced by half a per cent from 1 January 2017.

Medical card holders and individuals aged 70 and older whose total annual income does not exceed €60,000 will now pay a maximum USC rate of 2.5%.

USC	2017
The first €12,012 of income	0.5%
Income from €12,013 - €18,772	2.5%
Income from €18,773 to €70,044	5%
Income from €70,045 to €100,000	8%
PAYE income in excess of €100,000	8%
Self-employed income in excess of €100,000	11%

Share-based Incentive Scheme

A SME-focused, share-based remuneration scheme will be introduced in Budget 2018 in compliance with EU State Aid rules.

Home Carer Tax Credit

The Home Carer Tax Credit will be increased by €100 to €1,100.

Home Carer Tax Credit	2017
Home Carer Tax Credit	€1,100

Foreign Earnings Deduction (FED)

The FED (a tax relief available to individuals who are resident in the State but who spend significant amounts of time working abroad in qualifying countries) is being extended until the end of 2020.

Qualifying countries are being extended to include Colombia and Pakistan. In addition, the minimum number of days required to be spent abroad in order to qualify for the FED is to be reduced from 40 days to 30 days.

Special Assignee Relief Programme

The Special Assignee Relief Programme is to be extended for a further three years until the end of 2020.

ENTREPRENEURIAL TAX

The increased Earned Income Tax Credit will "benefit over 147,000 self-employed individuals generating business activity across the country."

- Minister for Finance, **Budget 2017**

Earned Income Tax Credit

The Earned Income Credit will be increased by €400 to €950 for self-employed taxpayers and to business owners/managers who are ineligible for a PAYE credit on their salary income.

Income Tax Credit	2017
Earned Income Tax Credit	€950

Start Your Own Business Relief

The Start Your Own Business Relief will be extended until the end of 2018.

This provides for relief from Income Tax for long term unemployed individuals who start a new and qualifying business, up to a maximum of €40,000 per annum for a period of two years. The individuals must have been unemployed for a period of at least 12 months prior to starting the business.

CAPITAL TAX

As part of a Brexit-proof budget, some specific measures were introduced to support business including an improved Capital Gains Tax relief for entrepreneurs. The increase in the thresholds for Capital Acquisition Tax reflects the improving Irish economy, increasing asset prices and the desire to pass on wealth.

Capital Gains Tax

The rate of Capital Gains Tax has remained unchanged at 33%.

Capital Gains Tax – Entrepreneur's Relief

The Entrepreneur's Capital Gains Tax relief will be reduced from 20% to 10% for gains arising from the sale of the whole or part of a business.

Although the relief is subject to a lifetime limit of €1,000,000 in gains from the sale of qualifying business assets, the Minister for Finance has committed to a review of the €1,000,000 lifetime cap in future budgets.

Capital Gains Tax Rates	2017
On general gains	33%
On the sale of whole or part of a business	10%

Capital Acquisitions Tax

The rate of Capital Acquisitions Tax on gifts and inheritances remains at 33%.

The Group A lifetime tax-free threshold applying to gifts and inheritances from parents to children will be increased from €280,000 to €310,000.

The Group B lifetime tax-free threshold applying to gifts and inheritances made to siblings, nieces, nephews and grandchildren will be increased from €30,150 to €32,500.

The Group C lifetime tax-free threshold applying to gifts and inheritances made to non-relatives will be increased from €15,075 to €16,250.

Capital Acquisitions Tax	2017
Group A Threshold	€310,000
Group B Threshold	€32,500
Group C Threshold	€16,250

The Minister for Finance has committed to revisit these thresholds in the coming years with a view to increasing the thresholds further.

PROPERTY TAX

Budget 2017 introduced a series of measures for home owners, landlords and house purchasers aimed at encouraging activity in the Irish property market.

Local Property Tax

There are no changes to the rates of local property tax.

Local Property Tax Rates	2017
Market value up to €1,000,000	0.18%
Market value in excess of €1,000,000 - Market value up to €1,000,000 - Market value on the balance	 0.18% 0.25%

Home Renovation Incentive

The Home Renovation Incentive (**HRI**) will be extended to 31 December 2018. HRI provides for tax relief by way of an income tax credit at 13.5% of qualifying expenditure on repair, renovation or improvement works carried out on a main home or rental property by qualifying contractors.

Interest Relief: Rented Residential Property

The interest deduction available to landlords on interest payments on monies borrowed to purchase, improve or repair residential rental property was restricted to 75% in 2009. This is now being increased on a phased basis. It will increase to 80% in 2017 and by 5% each year thereafter until 100% deductibility is restored. This will apply to both new and existing mortgages.

Help to Buy Scheme

This new scheme is being introduced to assist first time buyers fund the deposit required under the Central Bank macro-prudential rules. The Help to Buy scheme will provide a rebate of income tax paid over the previous four tax years up to a maximum of 5% of the purchase price of a new home up to the value of €400,000 to first time buyers of new homes. For new homes valued between €400,000 - €600,000, the maximum relief of €20,000 will be available.

No rebate will be available on house purchases in excess of €600,000.

The home must be a new build and applicants must take out a mortgage of at least 80% of the purchase price.

The scheme will be open to applicants from 19 July 2016 until the end of 2019.

Rent a room

The ceiling for exemption from income tax for income received from the letting of a room or rooms in your own home will increase from €12,000 to €14,000 for 2017.

Living City Initiative

The Living City Initiative is a scheme of property incentives designed to regenerate both historic buildings and other buildings in specified cities. Up to now landlords could not claim relief under the residential element of the scheme. The scope of the initiative is to be expanded to include landlords and remove the cap on maximum floor size.

STAMP DUTY

Stamp Duty on Property and Shares

There are no changes to the rates of stamp duty applicable to residential and non-residential property or the stamp duty rate applicable to shares.

Stamp Duty Rates	2017
Residential Property - Market value up to €1,000,000 - Market value of balance	 1% 2%
Non-Residential Property	2%
Shares	1%

INDIRECT TAX

Value Added Tax (VAT)

There are no changes to the rates of VAT.

The Minister for Finance confirmed the reduced 9% rate of VAT applicable to the tourism and hospitality sector (restaurants and catering, hotel accommodation, admission to cinemas, theatres and museums) is to be retained.

Value Added Tax Rates	2017
Standard	23%
Reduced (land and buildings, heating and electricity, waste disposal, car hire)	13.5%
Tourism and Hospitality Sector	9%

Excise Duties

Excise duty on a pack of 20 cigarettes will increase by €0.50 (including VAT) with a pro-rata increase on other tobacco products with effective from midnight tonight.

There are no changes to the excise duty on beer, cider or other alcohol products.

Excise Duty Relief for Microbreweries

The special relief reducing the standard rate of Alcohol Products Tax by 50% on beers produced in microbreweries (which produce not more than 30,000 hectolitres per annum) is being extended to apply to microbreweries which produce not more than 40,000 hectolitres per annum. The relief is provided by way of remission or repayment.

Sugar Tax

A tax on sugar-sweetened drinks will be introduced in April 2018, following a public consultation process.

COMPLIANCE

Revenue Commissioners: Compliance

A comprehensive programme of targeted compliance interventions against those engaged in offshore tax evasion will be launched.

The opportunity for offshore defaulters to avail of the voluntary disclosure regime will be restricted with effect from May 2017.

It is also intended to introduce a strict liability criminal offence to facilitate prosecution of serious cases of offshore tax evasion.

OTHER MATTERS

Deposit Interest Retention Tax (DIRT)

DIRT has been cut by 2% to 39%. The Minister for Finance has committed to a further 2% reduction in DIRT rates each year for the next four years.

Vehicle Registration Tax (VRT)

The VRT reliefs available for the purchase of hybrid electric vehicles and plug-in hybrid electric vehicles are extended to 31 December 2018.

The VRT relief on electric vehicles and electronic motorcycles are being extended for 5 years to 31 December 2021.

Carbon Tax

The fuel inputs used to create high efficiency electricity in combined heat and power are being fully exempted from carbon tax.

Mortgage Interest Relief

The Mortgage Interest Relief will be extended beyond December 2017 to 2020. Details will be revealed in Budget 2018.

Farmers

A range of measures to assist the agricultural sector were introduced against the backdrop of Brexit. Farmers who experience an "*exceptionally poor year*" may pay tax due on a current year basis, with any deferred liability becoming payable over subsequent years. Additionally, the flat-rate addition for farmers not registered for VAT will increase from 5.2% to 5.4%.

Fishermen

A new tax credit of €1,270 per annum will be introduced to assist the viability of the fishing sector.

COMPARISON OF TAX RATES AND CREDITS

Income Tax Rates	2016	2017
Standard	20%	20%
Higher	40%	40%

Income Tax Bands	2016	2017
Income @	20%	20%
Single/Widowed (not a principal child carer)	€33,800	€33,800
Single/Widowed (principal child carer)	€37,800	€37,800
Married Couple (one income)	€42,800	€42,800
Married Couple (two incomes)	€67,600	€67,600
Balance @	40%	40%

Income Tax Credit	2016	2017
Single Person (not a principal child carer)	€1,650	€1,650
Single Person (principal child carer)	€3,300	€3,300
Married	€3,300	€3,300
Employee Tax Credit	€1,650	€1,650
Earned Income Credit	€550	€950
Home Carer Credit	€1,000	€1,100
Fishers Tax Credit	n/a	€1,270

PRSI	2016	2017
Class A1: Employer[1] Threshold	10.75% €356.01	10.75% €376.01
Class A1: Employee	4%	4%
Class S1: Employer[2]	Nil	Nil
Class S1: Employee	4%	4%

Universal Social Charge		2016	2017
Income Exemption Threshold		€13,000	€13,000
First €12,012		1%	0.5%
2016 Next €6,656	**2016** Next €6,760	3%	2.5%
Next €51,376	Next €51,272	5.5%	5%
Over €70,044		8%	8%
Over €100,000 (self-employed income only)		11%	11%

Corporation Tax Rates	2016	2017
Trading Income (including certain dividends)	12.5%	12.5%
Other Income (excluding Capital Gains)	25%	25%
Knowledge Development Box	6.25%	6.25%

Research & Development Tax Credit	2016	2017
Research & Development Tax Credit	25%	25%

Deposit Interest Retention Tax	2016	2017
Deposit Interest Retention Tax (DIRT)	41%	39%

Capital Tax Rates	2016	2017
Capital Gains (CGT)	33%	33%
CGT Entrepreneurs Relief[3]	20%	10%
Gifts & Inheritance (CAT)	33%	33%

Value Added Tax (VAT) Rates	2016	2017
Standard	23%	23%
Reduced (land & buildings, building services, heating & electricity, waste disposal, car hire)	13.5%	13.5%
Tourism & Hospitality	9%	9%
Exports to Certain Businesses	0%	0%
Farmer's Flat Rate Addition	5.2%	5.4%

Stamp Duty Rates	2016	2017
Certain Stocks and Shares	1%	1%
Private Residential Property: - Market value up to €1m - Market value in excess of €1m	 1% 2%	 1% 2%
Non-Residential Property	2%	2%

Local Property Tax Rates	2016	2017
Market value up to €1m	0.18%	0.18%
Market value in excess of €1m: - Market value up to €1m - Market value on the balance in excess of €1m	 0.18% 0.25%	 0.18% 0.25%

1. *Class A1 is the relevant PRSI category for most employed persons.*
2. *Class S1 is the relevant PRSI category for self-employed persons and certain company directors (including proprietary and non-executive directors).*
3. *Subject to conditions and life time limit on gains up to €1m.*

INTERNATIONAL TAX STRATEGY

"In the ever changing world of international tax reform, Ireland has been the voice of clarity. We have committed to meeting the best new international standards and have set about honouring that commitment without undue fuss or drama. Our core offering is a competitive, business-friendly regime with a rock solid commitment to the 12.5% corporation tax rate."

- **Department of Finance, Update on Ireland's International Tax Strategy** (October 2016)

A Brexit Ready Tax System

The report highlights a number of taxation measures announced in the Budget, with a view to getting Ireland "*Brexit-ready*". These include measures in the areas of small and medium enterprises, Irish exporters, entrepreneurship, and the agri-food sector.

A competitive corporate tax policy to improve innovation and increase capital investment which can help to maximise the economy's potential in the future and other incentives around research and development, and the Knowledge Development Box.

Ireland & BEPS Implementation

The report summarises that Ireland will continue to take actions needed to implement the BEPS reports. The review of Ireland's corporation tax code, which has been launched with Budget 2017, will include consideration of what further actions Ireland may need to take to ensure we are fully compliant with the OECD BEPS recommendations.

Ireland's Engagement with EU Tax Proposals

EU Member States acting together have taken significant actions to combat aggressive tax planning. The substantial achievements of the past year have proven that EU Member States can agree significant Directives which severely restrict the ability of companies to engage in profit shifting or base eroding activities.

The Anti-Tax Avoidance Directive was agreed by EU Finance Ministers in June 2016 and is an important step in efforts to combat aggressive tax planning across Europe. Member States agreed to five significant corporate tax anti-avoidance measures, three of which derive from the OECS BEPS process. The other two measures involve an agreed approach to exit taxes and general anti-abuse rules.

Further new proposals will be debated by Member States over the next year. These include proposals on improving dispute resolution mechanisms and requiring the mandatory disclosure of aggressive tax schemes.

Ireland continues to disagree with any harmonisation of tax rates, minimum levels of taxation or the inappropriate encroachment of State aid rules into the core Member State competence of taxation.

Tax Transparency & Tax and Development

Our domestic legislation must also ensure that the Revenue Commissioners have access to all necessary information. Following the publication of the Panama Papers this year, the Minister for Finance stated he would support granting any additional powers that were necessary to ensure the Revenue Commissioners had access to all relevant information. The upcoming Finance Bill will detail a number of proposals in this regards.

Ireland's International Tax Strategy: Updates and Progress

Ireland's International Tax Strategy sets out a Charter with the principles and objectives underlying Ireland's international tax policy.

Ireland is committed to maintaining an open, transparent, stable, and competitive corporation tax regime

This will be achieved by:

- maintaining a rate of 12.5% on active, trading income and 25% on passive, non-trading income for all domestic and international businesses; and
- considering any proposed changes to our tax legislation in terms of its impact on sustainable jobs and economic growth.

Ireland is committed to full exchange of tax information with our tax treaty partners

We achieve this by:	Developments since October 2015
• Responding to requests for information in an efficient manner • Providing information in as comprehensive a manner as possible taking account of the nature of the request • Complying fully with our responsibilities and obligations as set down in our tax treaties	• Legislative changes made in Finance Act 2015 to improve Revenue's ability to access and exchange information • Text of the Multilateral Instrument agreed at the OECD to update global tax treaties for BEPS recommendations • Government approval to sign two new Double Tax Agreements • Government approval to sign a new Tax Information Exchange Agreement

Ireland is committed to global automatic exchange of tax information, in line with existing and emerging EU and OECD rules

We promote this by:	Developments since October 2015
• Timely transposition of relevant EU legislation into Irish law • Full participation in OECD developments, making appropriate provision in Irish law as necessary • Promoting the use of automatic exchange of information with tax treaty partners	• The second revision of the Directive on Administrative Co-operation that enabled the automatic exchange of financial account information was implemented in Finance Act 2015. Ireland has actively supported work at EU level on a third, fourth and fifth iteration of the Directive on Administrative Co-operation to facilitate the automatic exchange of information on cross border tax rulings, Country by Country reports and to ensure that tax authorities have access to AML information

Ireland is committed to actively contributing to the OECD and EU efforts to tackle harmful tax competition

We achieve this by:	Developments since October 2015
• Active participation in the EU's Code of Conduct and the OECD's Forum on Harmful Tax Practices • Rejecting introduction of measures in national legislation which could constitute harmful tax competition • Eliminating any measure in national legislation if it is found to be harmful • Active participation in the OECD Bas erosion and Profit Shifting project	• Ireland agreed the Anti-Tax Avoidance Directive with our fellow EU Member States to implement a number of BEPS Actions consistently across the EU • Ireland continues to engage constructively on other EU tax files • Ireland remains engaged in the OECD's BEPS project and the new BEPS • Inclusive Framework as it moves into the implementation phase • The Knowledge Development Box was introduced in Finance Act 2015 in a manner that fully complies with the international best practice agreed in BEPS Action 5

Ireland is committed to engage constructively and respectfully with developing countries in relation to tax matters including by offering assistance wherever possible

We achieve this by:	Developments since October 2015
• Supporting international efforts to build developing country capacity to benefit from enhanced global tax transparency • Promoting the extension of Country-by-Country Reporting to areas beyond the "extractive" sector and greater international reporting to competent authorities • Offering financial support to regional initiatives to strengthen tax administrations in Africa • Strengthening the Public Financial Management systems of developing countries	• Ireland continues to encourage other countries to publish their own spill-over analysis, modelled on the report published in last year's Budget • Country by Country Reporting was implemented in Finance Act 2015 and Ireland signed a Multilateral Competent Authority Agreement in January 2016 to share these reports with other tax authorities • Re-negotiated Tax Treaties with two developing countries which provided for greater source country taxation were ratified in Finance Act 2015

HOW CAN BYRNEWALLACE HELP?

ByrneWallace Tax Team

At ByrneWallace, we offer a fully integrated tax service providing both advisory and compliance services to our clients. Our highly experienced team is made up of lawyers, chartered accountants and tax advisors.

Focused on offering pragmatic and realistic solutions, we advise a broad range of clients including private and public sector organisations, international corporations, financial institutions as well as private clients. As part of our multi-disciplinary approach, we regularly work alongside lawyers from our other practice areas to advise on the taxation aspects of client transactions.

Our team has developed specialist expertise advising clients on structured finance transactions, capital market issues, investment funds and cross border financings. We have significant experience in the area of intellectual property planning, mergers and acquisitions, inward investment, group re-organisations, property acquisition and holding structures. We also provide advices on all personal taxation matters including employment related issues, pensions, retirement, succession planning and other matters affecting high net worth individuals.

ByrneWallace can assist you and your business in navigating through the new changes proposed by Budget 2017.

Please contact any member of our Tax Team or your usual ByrneWallace contact for more information or advice.

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