Budget 2019 Briefing

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BYRNEWALLACE BUDGET 2019 BRIEFING

The Minister for Finance and Public Expenditure and Reform, Mr. Pascal Donohoe T.D. announced Budget 2019 today.

Budget 2019 is the first balanced budget in a decade.

As expected, the Irish Government affirmed its longstanding commitment to the 12.5% corporation tax rate for trading activities.

Against the political, economic and diplomatic challenges of Brexit, over €710 million will be allocated to measures to protect the Irish economy including the creation of a Future Growth Loan Scheme for SMEs and the agriculture and food sector.

It came as no surprise that the 9% VAT rate applicable to the tourism and hospitality sector will be abolished from January 2019.

The rumour that stamp duty on residential property transactions involving multiple units would increase in line with the current rate of stamp duty of 6% on non-residential property transactions did not materialise but there remains a possibility that this could be dealt with in the Finance Bill.

More details on the tax measures announced today will be set out in the Finance Bill which is expected to be published on 18 October 2018.

The ByrneWallace Tax Team is ready to assist you, your family and your business in navigating the changes proposed by Budget 2019. Please contact any member of our Tax Team or your usual ByrneWallace contact for more information and advice.

Anthony Smyth

Head of Tax

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BUSINESS TAX

Corporation Tax Rates

There will be no changes to the existing corporation tax rates.

Trading Income	12.5%
Passive Income	25%
Knowledge Development Box income	6.25%

Future Growth Loan Scheme

A Future Growth Loan Scheme was announced as part of a supportive package for SMEs and the agriculture and food sectors.

Implementation of EU Anti-Tax Avoidance Directive ("ATAD")

As expected, regulations concerning Controlled Foreign Companies ("CFC") will take effect from 1 January 2019 to comply with ATAD. As a result, undistributed income arising from some non-genuine arrangements put in place abroad for the purpose of obtaining a tax advantage will now be taxed. Further details on CFC rules are to follow in the forthcoming Finance Bill.

Exit Tax

With effect from midnight tonight, an Exit Tax at 12.5% will apply on any unrealised gains arising where a company migrates or transfers assets offshore, such that they leave the scope of the Irish tax net. The introduction of this Exit Tax was anticipated as part of the implementation of the ATAD but it was not foreseen to have immediate effect.

Rainy Day Fund

As outlined in last year's Budget, some of the high levels of corporation tax paid by multinationals will be set aside and put into a so-called Rainy Day Fund. The Rainy Day Fund will be initially capitalised with €1.5 billion from the Ireland Strategic Investment Fund. Additionally, the Government has committed to putting aside €500 million from the Exchequer starting next year to mitigate future external economic shocks. The aim is that by 2021, the Rainy Day Fund will amount to €3 billion.

Employment and Investment Incentive ("EII")

The EII is a tax relief used by trading companies to attract equity-based risk finance from individuals. The Minister has committed to introducing additional measures to increase the efficiency and effectiveness of this relief in the Finance Bill.

Film Tax Credit

The current Film Tax Credit Scheme was due to expire in 2020. To support the continued growth of the film industry in Ireland, this tax credit will be extended to December 2024. The tax credit will also be amended to introduce a new time-limited, regional uplift of an additional 5% that will taper out over 4 years to encourage activity in more regional areas. Further details are expected in the Finance Bill.

Tax Relief for Start-Up Companies

The Three Year Start-Up Relief for certain companies in their first three years of trading will be extended to December 2021.

Regulation of Crowdfunding

The Department of Finance along with the Central Bank will analyse the tax implications of crowdfunding with a view to legislating for this method of raising finance.

Tax Reform Commitments

The recently published Corporation Tax Roadmap clearly sets out a plan of future actions on corporation tax reform in light of the changing international tax environment. The Minister committed to a review of the transfer pricing provisions to ensure that it adheres to international best practice.

INCOME TAX

Standard Rate Band

Wages are rising again and on average will probably increase by more than 3% next year. As expected with these rises, more people are being pushed into the higher tax band. The standard rate bands have increased by €750. The marginal rate of tax on incomes up to €70,000 is now 48.5%.

Taxpayer	Standard Rate Band
Single, widowed or surviving civil partner (no dependent children)	€35,300
Single, widowed or surviving civil partner (dependent children)	€39,300
Married couple or in a civil partnership (one income)	€44,300
Married couple or in a civil partnership (two incomes)	€70,600

Universal Social Charge ("USC")

There was only one change announced to the USC, with a modest reduction in the third rate of USC from 4.75% to 4.5%.

€0 to €12,012	0.5 %
Income from €12,012 to €19,874	2%
Income from €19,874 to €70,044	4.5%
PAYE income in excess of €70,044	8%
Self-employed income from €70,044 - €100,000	8%
Self-employed income in excess of €100,000	3% surcharge

Home Carer Tax Credit

The Home Carer Tax Credit has been increased to €1,500.

ENTREPRENURIAL TAX

Earned Income Tax Credit

The Earned Income Credit will increase to €1,350 for self-employed taxpayers and to business owners/managers who are ineligible for a PAYE credit on their salary income.

Earned Income Tax Credit	€1,350

EMPLOYEE & EMPLOYER TAXES

Key Employee Engagement Programme ("KEEP")

KEEP is a share option programme intended to assist SMEs attract and retain talent in a highly competitive labour market. Since its introduction last year, the conditions for KEEP have been criticised for being too restrictive. The Minister announced an increase in the maximum annual market value of share options that may be granted under KEEP to 100% of an employee's salary. The value of share options that can be granted will increase from €250,000 to €300,000 over a lifetime limit, rather than a three year limit. These amendments should make it easier for companies to utilise KEEP to attract and retain staff.

Increase in Employer Contribution to National Training Levy

The National Training Fund levy will increase from 0.8% to 0.9% and is payable by employers in respect of reckonable earnings of employees in Class A and Class H employments. The increased levy will assist funding in the educational sector.

CAPITAL TAX

Capital Gains Tax ("CGT")

It is disappointing that Budget 2019 did not amend the CGT regime as a way of encouraging investment and economic activity particularly in light of Brexit related challenges. There was no change on the rate of CGT which stands at 33%.

Capital Acquisitions Tax ("CAT")

Despite rumours of an increase in the CAT lifetime tax-free thresholds to accommodate growing property and asset values, only the Group A threshold will change. Group A threshold applies to gifts and inheritances from parents to children and will increase slightly from midnight by €10,000 to €320,000.

There have been no amendments to the Group B threshold which applies to gifts and inheritances made to siblings, nieces, nephews and grandchildren or the Group C threshold which applies to gifts and inheritances made to non-relatives.

Group A Threshold	€320,000
Group B Threshold	€32,500
Group C Threshold	€16,250

There was also no change in the rate of CAT applicable on gifts and inheritances which stands at 33%.

INDIRECT TAX

Value-Added Tax ("VAT")

As expected, the Minister confirmed the removal of the 9% VAT rate for a range of goods and services principally in the tourism and hospitality sector including restaurant and catering services, hotel accommodation and admissions to cinemas, museums and other attractions. Such items will revert to the 13.5% VAT rate with effect from 1 January 2019. It is estimated that the removal of the 9% VAT rate for such items will yield €466 million in 2019.

The 9% VAT rate was introduced in 2011 to stimulate the tourism and hospitality sector which had been badly affected by the economic crash. Given the buoyant state of the sector currently, the Minister believes that the 9% rate is no longer needed. Businesses will need to consider whether to pass on the additional 4.5% VAT cost by increasing prices. They will also need to consider their IT systems and other changes necessary to cope with the increase in the VAT rate, including the implications for the issuing of invoices, credit notes and other related documents. As the increase in VAT will result in additional VAT passing through its systems, businesses need to be confident that their VAT compliance systems are robust.

On a more positive note, the 9% VAT rate will remain in place for the supply of newspapers and sporting facilities. The Minister also announced his intention to align the VAT rates for electronic and physical publications. This follows agreement reached on this matter at EU level last week. Under the current rules, all electronic publications are subject to VAT at the Standard Rate (currently 23%) whereas publications of a physical nature can avail in certain cases of one of the reduced rates (such as the 9% VAT rate in the case of a physical newspaper).

The 23% and 13.5% VAT rates remain unchanged.

Standard	23%
Reduced (land and buildings, heating and electricity, waste disposal, car hire)	13.5%
Tourism and Hospitality Sector	13.5%
Newspapers and Sporting Facilities	9%

Excise Duties

The excise duty on a pack of 20 cigarettes will again increase by €0.50 (including VAT) with a pro-rata increase on other tobacco products effective from midnight tonight. The Minister also introduced a Minimum Excise duty on tobacco products so that all cigarettes sold below €11 will have the same excise applied as cigarettes sold at €11.

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

Carbon Tax

Whilst widely discussed and rumoured to be on the rise, there will be no increase in carbon tax. The rate is to remain as it has stood since 2014 at €20 per tonne.

Betting Tax

Betting tax is a tax on bets placed in the State and will increase from 1% to 2%. In addition, betting duty on the commission earned by betting intermediaries or exchanges will increase from 15% to 25% from 1 January 2019.

Vehicle Registration Tax (“VRT”)

A 1% surcharge will be introduced for diesel engine passenger vehicles registered in the State from 1 January 2019.

The VRT reliefs available for hybrid electric vehicles and plug-in electric hybrids vehicles will be extended to 31 December 2019.

PROPERTY TAX

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. The relief was due to be increased incrementally over a number of years, but the Minister announced full restoration of the relief such that 100% deductibility will be available from 1 January 2019.

Local Property Tax

There are no changes to the rates of local property tax. The Minister has committed that any future changes to this regime will be moderate and affordable in light of increased changes in property values. A review of the local property tax will be published shortly.

Market value up to €1,000,000	0.18%
Market value in excess of €1,000,000	0.25%

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.

Residential Property	
- Market value up to €1,000,000	1%
- Market value of balance	2%
Non-Residential Property	6%
Shares	1%

OTHER MATTERS

Deposit Interest Retention Tax ("DIRT”)

DIRT on savings will decrease by 2% to 35%. This is in line with the Government's previous commitment made in an earlier Budget to reduce the rate of DIRT over four years from 41% to 33%.

Farmers

A number of measures to assist the agricultural sector are being extended against the backdrop of Brexit including income averaging, stock relief and stamp duty relief for young trained farmers.

Tax Appeals Commission

An independent review of the operations and resources of the Tax Appeals Commission has been published today in conjunction with Budget 2019. The Minister supports the recommendations of the review which include sanctioning additional staff resources. As there is approximately €1.6 billion under appeal, the recommendation to increase staff resources has been welcomed by the Minister and should lead to faster resolution of tax payer appeals in due course.

BUDGET 2019: TAX RATES & CREDITS

Personal Income Tax Rates and Bands		
	20%	**40%**
Single, widowed or surviving civil partner (no dependent children)	€35,300	Balance
Single[1], widowed or surviving civil partner (dependent children)	€39,300	Balance
Married couple or in a civil partnership (one income)	€44,300	Balance
Married couple or in a civil partnership (two incomes)	€70,600	Balance

Personal Tax Credits	
Single person (no dependent children)	€1,650
Single person child carer credit[2]	€1,650
Married or in a civil partnership	€3,300
Employee (PAYE) credit	€1,650
Earned income credit	€1,350
Home carer credit	€1,500

PRSI (Employer Rate)	
Where income exceeds €386 per week	10.85%

PRSI (Self-Employed Rate)	
All income	4%

Universal Social Charge[3]	
€0 - €12,012	0.5%
€12,012 - €19,874	2%
€19,874 - €70,044	4.5%
PAYE income in excess of €70,044	8%
Self-employed income €70,044 - €100,000	8%
Self-employed income in excess of €100,000	11%

1. This rate is available for the principal carer of the child only.
2. This credit is available for principal carer of the child only.
3. Individuals with total income up to €13,000 are not subject to the Universal Social Charge.

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BUDGET 2019: TAX RATES & CREDITS

Capital Acquisitions Tax (CAT) Rate, Thresholds and Exemption		
CAT rate		33%
Group A threshold		€320,000
Group B threshold		€32,500
Group C threshold		€16,250
Small gift exemption		€3,000

Capital Gains Tax (CGT) Rate, Relief and Exemption		
CGT rate		33%
CGT entrepreneurs relief[4]		10%
Annual exemption		€1,270

Deposit Interest Retention Tax Rate		
Deposit Interest Retention Tax (DIRT)		35%

Corporation Tax Rates		
Trading income		12.5%
All other income		25%
Knowledge Development Box		6.25%

Research and Development Tax Credit		
Research and Development Tax Credit		25%

Value Added Tax (VAT) Rates		
Standard rate		23%
Lower rate[5]		13.5%
Second lower rate[6]		9%

Local Property Tax Rates		
Market value up to €1 million		0.18%
Market value in excess of €1 million	0.18% up to €1 million	0.25% on balance

Stamp Duty Rates		
Transfer of certain stocks and shares		1%
Non-residential property		6%
Residential property	1% on consideration up to €1 million	2% on balance

4. Subject to certain conditions and lifetime limit of €1 million chargeable gains.
5. Applicable to certain supplies including tourism and hospitality services, land and buildings, building services, heating fuel, electricity and waste disposal services.
6. Applicable to certain supplies including newspaper publications and electronic publications.

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HOW BYRNEWALLACE CAN 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, advising 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 2019.

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

Disclaimer

This publication is provided for general information purposes only. It is not intended as an exhaustive list of the changes introduced by Budget 2019 and does not purport to deal with all aspects of its subject matter. This publication does not constitute legal, regulatory, company secretarial or any other advice on any matter addressed. Readers should take legal advice before applying the information contained in this publication to specific issues or transactions.

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