

OHT Guide: Budget 2014

Brighter Days Ahead?

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The Minister for Finance, Michael Noonan TD, announced Budget 2014 on Tuesday, 15 October 2013. The Taoiseach described Budget 2014 as *"the last of the really tough ones"* in an interview with RTE Radio. The Government is aiming to ensure that Ireland meets its deficit target and paves the way for Ireland's Bailout Exit (scheduled for 15 December 2013).

After much debate it was agreed that measures of €2.5bn would be required to bridge the deficit, with €900m coming from tax increases and €1.6bn from public spending cuts. The Minister had the benefit of circa €600m in carry forward taxes from earlier Budgets reducing the level of taxation increases required.

One of the main components of the carry forward of tax measures already introduced is the full year Local Property Tax charge in 2014 (rather than the 6 months payable in 2013) which should generate an additional €250million.

OHT's analysis of the taxation measures contained in Budget 2014 is set out below.

Property Incentives

Home Renovation Incentive (HRI)

A scheme for tax relief is being introduced in respect of renovation work carried out in the tax years 2014 or 2015. The Home Renovation Incentive (HRI) scheme will allow a tax credit of 13.5% for expenditure over €5,000 up to a limit of €30,000. The

tax credit will be payable over the two years following the year in which the work is carried out. The qualifying work includes extensions, renovations, window-fitting, plumbing, tiling and plastering. The measure is also aimed at supporting fully tax compliant builders as the expenditure will have to be registered with Revenue. It is anticipated that this scheme may remove some activity from the shadow economy.

Living City Initiative

The Living City Initiative announced in Budget 2013, which was intended to apply to the cities of Waterford and Limerick, is being extended to include Cork, Galway, Kilkenny and Dublin. The initiative was intended to apply to the conversion and refurbishment of dilapidated Georgian houses, and certain commercial retail properties in a "special regeneration area". The initiative is now being extended to include all buildings built prior to 1915 in the relevant areas.

CGT Property Purchase Incentive

In Budget 2012 the Minister for Finance introduced a relief from CGT on gains arising on the purchase of property between 07 December 2011 and 31 December 2013. There is a 7 year holding requirement before relief will be available. The Minister is extending the purchase period for properties to 31 December 2014.

Business Incentives

CGT Entrepreneurial Relief

A new CGT relief is to be introduced which will operate



as a tax credit and be available to a taxpayer who invests funds on which he has previously paid CGT in new business assets. The investment window will run from 01 January 2014 to 31 December 2018 and the investor must retain the new assets for at least 3 years.

The credit available will be the lower of:

- the amount of CGT previously paid by the individual on the disposal of assets from 01 January 2010, and
- 50% of the CGT due on the sale of the new investment

CGT Retirement Relief

Retirement relief is to be extended to cover certain lands that are leased for 5 years or more, and then disposed of to a person other than a child of the taxpayer.

Retirement relief was recently amended to encourage the early transfer of business assets. A higher level of relief will be available after 31 December 2013 where business assets are disposed of before the individual reaches the age of 66 years. The aim of the new measure announced in Budget 2014 is also to encourage the early transfer of business assets (first by way of long lease and then by way of sale).

Employment and Investments Incentive Scheme (EIIS)

The Employment and Investments Incentive Scheme (EIIS) replaced the Business Expansion Scheme (BES) in Finance Act 2011. The EIIS was listed as a specified relief for the purposes of the High Earners Restriction (HER) but is now to be removed from the list of specified reliefs from 16 October 2013 to 31 December 2016. This will mean that investors can avail of income tax relief on the maximum investment of €150,000, without any risk of the relief being restricted during this period.

Income Tax Exemption

An exemption from income tax (for income up to €40,000) will be available for individuals who have been unemployed for at least 15 months and set up a qualifying, unincorporated business. Further details of the relief are expected in the Finance Bill.

Film Relief

The amended film relief scheme announced in Budget 2013 is being brought forward to 2015 from 2016.

The new scheme will change the relief so that production companies will receive a tax credit based on the investment instead of investors receiving an income tax deduction. The scheme will now include "non EU talent" in the definition of "eligible individual". The Minister also announced the introduction of a withholding tax but the details of this withholding tax have not been provided at this stage.

R & D Incentives

With a view to helping smaller companies engage in R&D, the limit on the amount of expenditure on qualifying R&D which can be outsourced to third parties is being increased from 10% to 15%.

Finance Act 2012 provided that the first €100,000 of qualifying R&D expenditure would benefit from the tax credit without reference to the 2003 base year and Finance Act 2013 increased this amount to €200,000. This amount is now being increased from €200,000 to €300,000.

Since 2012, a company with an entitlement to the R&D tax credit can surrender a portion of the credit to an employee who meets the definition of a 'key employee'. The key employee provision is in place in order to assist companies to attract key talent, by allowing a company to transfer the R&D tax credit to employees who meet certain conditions. Amendments are being made to this element of the scheme to remove some barriers to uptake. Further details of these amendments will be contained in the Finance Bill.

VAT Business Measures

To assist the cash-flow of SMEs, the annual VAT cash receipts basis threshold for small to medium businesses is being increased from €1.25m to €2m with effect from 1 May 2014.

The 9% VAT rate which currently applies to the hospitality sector is being retained

Interest Relief for Investments in Partnerships

Tax relief on interest paid on a loan to acquire an interest in a partnership is to be phased out over a 4 year period. The existing relief will be available on a reducing scale until 01 January 2017. Tax relief was previously granted in respect of any interest paid on a loan which was taken out to purchase an interest in a partnership, provided the purchaser was active in the partnership.

Proposals Announced by the Minister

Pay and File Deadlines

Budget Day has been brought forward from December



“We are well along the recovery path and it is time now, as a nation, to begin to look forward.”

Minister for Finance, Michael Noonan TD

to October because of EU Regulations on budgetary consultation in the Eurozone. This is likely to involve a change in the tax pay & file dates and although the Minister did not mention tax filing deadlines in today's Budget speech, he has launched a consultation process with a view to including a change in dates in legislation when the Finance Act is enacted.

There were 3 options suggested for income tax, as follows:

1. Moving the pay & file date to 30th June;
2. Moving the pay & file date to September;
3. Moving the pay & file date to September but allowing taxpayers to use State payments such as the Single Farm Payment to pay the tax.

The CGT filing date is tied to income tax, and will move with it. The Minister has suggested introducing a third payment date for CGT, so that tax would be paid in September, December and January each year. There is currently no proposal to change the CAT pay & file deadline.

Appeal Commissioners Reform

Michael Noonan announced a reform of the Appeal Commissioners in his budget speech but no detail has been provided at this stage.

Increased Taxation on Income

DIRT - Tax on Savings

The rate of DIRT has been increased by 8% (from 33% to 41%) and the exit tax that applies to certain life assurance policies and investment funds has also been increased to 41%. This measure is aimed at discouraging saving and encouraging spending in the economy but will impact those on low income such as pensioners whose other income is taxed at 20%.

One-Parent Family

The One-Parent Family tax credit which was available to both parents will be replaced with a new Single Person Child Carer tax credit from 01 January 2014, which will only be available to one parent (the principal carer of the child).

Medical Insurance Premiums

Currently, there is a 20% tax credit available in respect of medical insurance premiums.

From 16 October 2013, tax relief will only be available in respect of the first €1,000 of insurance premium paid per adult and the first €500 per child.

Top Slicing Relief

Top slicing relief reduces the effective rate of tax on income received in the form of an ex-gratia lump sum payment made on the termination of employment. In Finance Act 2013 the relief was capped at €200,000 and the Minister has now abolished it completely from 01 January 2014.

Stamp Duty

Stamp Duty Exemption for Shares

An exemption has been introduced for share transfers on the Enterprise Securities Market of the Irish Stock Exchange. Stamp Duty will continue to apply to other share transfers at a rate of 1%. The Enterprise Securities Market (ESM) is one of the 3 markets operated by the Irish Stock Exchange and is designed for smaller companies at earlier stages in their development.

Young Trained Farmers

The list of qualifications for Young Trained Farmers has been extended to include three new qualifications. Young Farmers with these specified qualifications will qualify for stamp duty relief on the acquisition of agricultural property.

Domestic Banks

Financial Institution Levy

A new banking levy is to be introduced for 2014 for domestic banks. This contribution from each institution will be broadly based on the amount of tax paid on deposit interest in 2011. More details on this levy are expected in the Finance Bill.

Use of Losses

In 2009 a restriction was placed on the right of banks to use past losses (a “deferred tax asset”) to reduce tax on current and future losses. This restriction applied to banks that were partially re-capitalised by transferring property loans to the National Asset Management Agency (NAMA). The Minister announced measures that would allow bailed out banks to use more of their “deferred tax assets” for off-set against future profits when the banks pay tax.

VAT

Anti-Fraud Measures

The Minister has targeted the “shadow economy” operators and introduced a suite of measures to bring people back to the real economy. In order to protect compliant business from unfair competition in the form of competitors who are not paying their fair share of tax, and to assist the cash flow of small business, the following measures are to be introduced:

- Businesses which have not paid for supplies within six months will not be allowed an input credit and will have to repay any VAT recovered on those supplies.

- Revenue have been given a “quick reaction mechanism” allowing them to apply an emergency and temporary reverse-charge measure to certain goods or services to address sudden and “massive” VAT fraud
- Revenue will be given power to issue a notice requiring businesses to procure specific information where Revenue believe the records will help in identifying VAT fraud

Increase in Farmers’ Flat Rate Addition

The flat-rate scheme allows unregistered farmers (who cannot recover VAT on their expenses) to charge and retain a VAT flat rate sum when they make supplies.

The farmers flat-rate addition is being increased from 4.8% to 5% with effect from 01 January 2014.

Pension

Pension Levy

The Minister is to abolish the 0.6% Pension Levy introduced in 2011 from 31 December 2014 and replaced it with a levy of 0.15% on pension funds in 2014 and 2015.

It appears that both levies will apply in the tax year 2014, resulting in a total cost of 0.75%.

He confirmed that contributions to pension schemes will continue to attract income tax relief at the marginal rate of tax.

Reduction in the Standard Fund Threshold

A limit or ceiling is imposed on the total capital value of pension funds, known as the Standard Fund Threshold (SFT).

The SFT affects the level of benefits that an individual can draw in his lifetime from tax-relieved pension products and the level of pension contributions in respect of which tax relief is granted. This ceiling is to be reduced from €2.3m to €2m from 01 January 2014.

Other Measures

Excise Duty

With effect from midnight on Budget night excise duty on a packet of 20 cigarettes will increase by 10 cent (with a pro-rata increase on other tobacco products).

Excise duty on a pint of beer or cider, and a standard measure of spirits is increasing by 10 cent, and the duty on a 75cl bottle of wine is being increased by 50 cent.

“This Budget has been carefully calibrated to support the growth in jobs that we have seen in the past 18 months, and to keep Ireland on the path to sustainable public finances and economic growth.”

Minister for Finance, Michael Noonan TD

Air Travel Tax

Air Travel Tax is a €3 tax charged on every departure of a passenger from an Irish airport (since 30 March 2009).

This tax is being reduced to zero with effect from 01 April 2014 to support tourism and the Minister indicated that he expects the airlines to utilise this initiative to develop new routes and build traffic volumes.

Public Expenditure Changes

Minister Howlin introduced a number of public expenditure measures, including the following:-

- There will be a review of all medical cards to remove ineligible and redundant cards (saving €113m)
- The income threshold for over-70s for medical cards will be lowered to €900 per week (€46,800 per annum) for a couple and €500 (€26,000 per annum) for a single person
- Free GP care is to be rolled out to all children aged five and under
- The charge for a prescription charge has been increased to €2.50 with an overall monthly cap of €23
- The €850 bereavement grant is being abolished to save €17 million
- €30m is to be allocated to the State’s House Building Programme which will deliver 500 houses, including new builds and the upgrade of previously uninhabitable units
- A further €10m to be allocated for unfinished estates to assist with the completion of “ghost estates” and €10m has been allocated to resolve problems in relation to Priory Hall

Conclusion

The aim of the measures outlined is to incentivise entrepreneurship and business development while further reducing the gap between government income and expenditure. The finer details of the provisions announced remain to be seen, when the Finance Bill is published. The proposals announced may be subject to change and additional provisions may be introduced when legislation is enacted.

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Caveat: These notes are intended as a general guide to Budget 2014 only. The Finance Bill has not yet been published and the proposals may change substantially before the Finance Act is enacted. Formal tax advice should be obtained before any steps are taken that may have a tax effect.