OHT Guide Budget 2018

In Budget 2018 the Minister for Finance Paschal Donohoe has forecast real growth for the Irish economy of 4.3% in 2017, with a drop to 3.5% in 2018 and announced that we are close to full employment in Ireland.

The Minister stressed the importance of continuing to reduce the debt burden and announced the creation of a Rainy Day Fund with initial funding of €1.5bn.

Budget 2018 focused on meeting housing needs and planning for Brexit.

"It is also vital to keeping our economy competitive and attracting investment in a post-Brexit world.

As we take the next step on our national journey in the face of growing external risks, especially Brexit, we must think bigger and plan for the longer term".

Stamp Duty

The rate of stamp duty on non-residential property has been increased from 2% to 6% for instruments executed on or after 11 October 2017, to reflect the fact that the market is now performing strongly.

The Minister announced a stamp duty refund scheme intended to assist with the supply of housing. The refund will be available in relation to commercial land purchased for the development of housing, and there will be conditions which will be detailed in the Finance Bill. One requirement identified in the Budget is that developers will have to start the relevant development within 30 months of the land purchase.

To facilitate the transfer of farms from one generation to the next, stamp duty consanguinity relief (which was due to expire on 31 December 2017) is to be retained for inter-family farm transfers for a further three years. There are a number of conditions attached to the relief and it only applies if the transferor is under the age of 67 and the land is used for active farming on a commercial basis for 6 years.

The relevant Financial Resolution applies a 1% rate to land which qualifies for consanguinity relief from 11 October 2017.

The exemption from stamp duty on agricultural land for young trained farmers has been extended again. This was due to expire on 31 December 2018.

Income Tax and USC

The income tax standard rate band is to increase by €750 to €34,550 for individuals or €43,550 for married one earner couples. This will equate to a tax saving of €150 for 2018.

The Home Carer Tax Credit can be claimed if a person is married or in a civil partnership, and cares for one or more dependent persons. This credit will be increased from €1,100 to €1,200.

The Earned Income Credit was introduced on 01 January 2016 for self-employed taxpayers and this credit is set to increase from €950 to €1,150.

As expected, the USC rates are set to change to the following from 01 January 2018:

€0 – €12,012	0.5%
€12,012 – €19,372	2%
€19,372 – €70,044	4.75%
Over €70,044	8%

The additional USC on non-employment income over €100,000 remains at 3%. The lower USC rates are unchanged for 2018.

The marginal rate of tax (income tax, PRSI & USC) remains at 52% for employees and 55% for self-employed taxpayers. The Minister noted in his Budget speech that the marginal rate of tax for taxpayers earning under €70,044 will reduce to 48.75% (a 0.25% decrease).

Benefit in Kind on Electric Vehicles

A 0% benefit-in-kind (BIK) rate is being introduced for electric vehicles for a period of 1 year and a comprehensive review of benefit in kind on vehicles will be carried out prior to the next Budget.

Electricity used in the workplace for charging vehicles will also be exempt from benefit-in-kind.

Key Employee Engagement Programme (KEEP)

As announced in Budget 2017 a share-based remuneration incentive is being introduced for key employees of unquoted Small and Medium Enterprises (SMEs). Gains arising to employees on the exercise of KEEP share options will be liable to Capital Gains Tax on a disposal of the shares, in place of the current liability to income tax, USC and PRSI on the exercise of the option. This incentive will be available for qualifying share options granted between 01 January 2018 and 31 December 2023.

Generally a buy-back of shares by an employing company would be subject to income tax and would only qualify for CGT treatment if particular conditions were met. The Budget did not comment on whether it is envisaged that these conditions would be waived to facilitate the buy back of the shares by the employing company.

Further detail will emerge in the Finance Bill and the relief is subject to EU State Aid approval.

Excise Duties and Sugar Tax

The excise duty on a packet of 20 cigarettes is being increased by 50 cents (including VAT) with a pro-rata increase on other tobacco products. Roll your own tobacco will have an additional 25c of excise duty and all changes are set to take effect at midnight on 10 October 2017.

A tax on sugar sweetened beverages is to be introduced on 01 April 2018 with a rate of 20c per litre applying to drinks with a sugar content of between 5 grams and 8 grams per 100ml. A higher rate of 30c per litre will apply for drinks with a sugar content of 8 grams or above.

Capital Acquisitions Tax (CAT)

The Budget made no reference to changes in the CAT rates or thresholds. While such announcements are traditionally made in the Budget speech there is a possibility that changes could be included in the Finance Bill when it is published next week.

Agricultural Land

For the purpose of CAT agricultural relief and CGT retirement relief, agricultural land which is under solar infrastructure will be classified as agricultural land (formerly it was not clear if it remained categorised as agricultural land), but this treatment is subject to a condition restricting the amount of the farmland that can be used for solar infrastructure to 50 per cent of the total farm acreage.

There was no parallel provision for CAT business relief (which would generally be available on a farming business if agricultural relief was not available). There is scope for this to be included in the Finance Bill.

Rented Residential Property

In general expenses incurred pre-letting cannot be deducted from rental income. A new deduction is being introduced for pre-letting expenses of a revenue nature incurred on a property that has been vacant for a period of 12 months or more.

A cap on allowable expenses of €5,000 per property will apply, and the relief will be subject to clawback if the property is withdrawn from the rental market within 4 years. The relief will be available for qualifying expenses incurred up to the end of 2021.

The increase in the mortgage interest deduction available for rented residential properties that was included in Finance Act 2016 will take effect in 2018, so that a deduction of 85% of the interest charged will be allowed next year.

The Budget did not make any reference to a deduction from rental income in respect of LPT.

Mortgage Interest Relief

Mortgage interest relief is being extended for owner occupiers who took out qualifying mortgages between 2004 and 2012.

- 75% of the existing 2017 relief will be available in 2018,
- 50% relief will apply in 2019
- 25% relief will apply in 2020

The relief is now scheduled to cease in 2021.

DIRT

The rate of DIRT is due to decrease by 2% for 2018 (from 39% to 37%) under the provisions announced last year in Budget 2017. The rate of DIRT should continue to decrease at a rate of 2% every year until it reaches 33% in 2020.

VAT

The VAT rate on sunbed services is being increased from 13.5% to the standard rate of 23% from 01 January 2018, in order to deter sunbed use. A VAT refund scheme is being introduced to

Corporation Tax Rate

Minister Paschal Donohoe stated that:-

““We have a stable and competitive corporation tax system, which is internationally recognised as one of the most transparent in the world.

Our position is clear. The 12.5 per cent tax rate is, and will remain, a core part of our offering”.

Revenue Compliance

The Evaluation of Budget 2016 Compliance Measures published with the Budget indicates that the average yield (based on 2016 performance data) for 50 trained staff working on audit or other risk management interventions is €26.4 million or €25.8 million respectively.

This works out at an average of €528,000 for each staff member.

Mr Niall Cody, as Revenue Chairman, indicated that the Revenue are building up audit resources, and he noted that it can take up to 3 years to train a Revenue auditor.

compensate charities for the VAT they incur on their inputs. The scheme will be introduced in 2019 in respect of VAT expenses incurred in 2018.

Charities will be entitled to a refund of a proportion of their VAT costs based on the level of non-public funding they receive. An amount of €5m will be available to the scheme in 2019.

Housing

Measures were introduced to promote the construction of new houses and increase the supply of rental accommodation. The Urban Regeneration and Housing Act 2015 provides for the introduction in 2017 of a vacant site register in each local authority area and the payment of a levy of 3% of the market value of the site, with the first payment relating to 2018 and falling due in 2019. The levy will increase to 7% in 2019 (due in 2020).

The introduction of a new, time-limited deduction for pre-letting expenses as set out above is seen as an incentive to encourage owners of vacant residential property to bring that property onto the rental market for a minimum of four years.

CGT "7 Year Relief"

S. 604A TCA 97 gives relief from CGT if a property purchased in the European Economic Area between 07 December 2011 and 31 December 2014 is held for at least 7 years. The Minister reduced the minimum holding period required to qualify for the relief from 7 years to 4 years.

Capital Allowances for Intangible Assets

S. 291A TCA 1997 provides for capital allowances against trading income where companies incur capital expenditure on intangible assets such as patents, copyright, or trademarks for the purposes of a trade.

The Budget restricted the deduction to 80% of the relevant income arising from the intangible asset and any related income expense in the relevant accounting period.

Energy Efficient Equipment

S. 285A TCA 97 provides for 100% capital allowances on new energy efficient new equipment (such as lighting, heating or ventilation systems) bought for use in a business. The incentive was scheduled to run until 31 December 2017 but it is being extended to the end of 2020.

Conclusion

The Minister indicated our economy and public finances are in a better position to weather crises stemming from external factors beyond our control in 2017 than in earlier years.

He focused on balancing the books in 2018, so that resources could be allocated where needed in the future. He indicated that the list of potential external risks is lengthy, and he identified in particular the changes arising from Brexit, and potential changes in US trade policy.

Further details of the provisions set out in Budget 2018 will be contained in Finance Bill 2017 which is due to be published on 19 October 2017.