OHT Guide Budget 2021

In his speech for Budget 2021, Minister for Finance Paschal Donohoe said that *"while we continue to prepare for Brexit, we are now responding to the worst global pandemic in a century"* but that "*we will prevail. We will come through this. And from the ashes of the pandemic, together, we will build a stronger, more resilient Ireland."*

Budget 2021 forecasts a deficit of €20.5 billion (or 5.7%) bringing national debt levels to just under €219 billion (almost 108% of national income) and the Minister announced that he would fully utilise the €1.5 billion Rainy Day Fund to assist in this time of need.

Personal Tax

Earned Income Credit

Changes to personal taxation in Budget 2021 are minimal. There will be a €150 increase in the Earned Income Credit (effective from 2020) to bring the value of the credit to €1,650 for the self-employed. The Dependent Relative Credit is increasing from €70 to €245. There will also be an increase for the Sea-going Naval Personnel Tax Credit of €230 bringing the value of the credit to €1,500 in 2021.

USC

The USC second band ceiling is increasing by €203; the second band ceiling is now €20,687. The increase in the 2% rate band ceiling will ensure that a full-time adult worker who benefits from the 10-cent increase in the minimum wage will remain outside the top rates of USC.

Help to Buy Incentive

The Help to Buy (HTB) incentive is a scheme to assist first-time property buyers with the cost of buying or building a new house or apartment, as a home, by giving a refund of income tax and Deposit Interest Retention Tax (DIRT) paid in Ireland over the previous four years.

The amount that can be claimed has been increased to match the temporary enhanced scheme introduced for the end of 2020. The maximum refund is the lowest of the following:

- €30,000
- 10% of the purchase price of a new home (or completion value for a self-build), or
- the amount of income tax and DIRT paid in the four years before the purchase or self-build.

Remote Working

Where an employer does not make a contribution to utility expenses for remote workers, a tax deduction may be claimed for a proportion of vouched utility expenses. The Minister confirmed that remote workers may include a deduction for the cost of broadband in 2020.

Debt Warehousing

The Revenue debt warehousing scheme allows for the deferral of unpaid VAT and PAYE debts arising from the Covid-19 crisis for a period of 12 months after a business resumes trading (allowing for a 2 month period of grace) and the application of a lower interest rate of 3% on the repayment of such debts after that date. The tax debt warehousing scheme is to be expanded to include repayments of Temporary Wage Subsidy Scheme owed by employers.

2019 income tax balances, and 2020 preliminary tax are to qualify for warehousing so that taxpayers will be allowed to defer payments for a period of a year with no interest applying. A 3% interest rate will apply thereafter. The existing warehousing rules require tax returns to be filed on time to avail of warehousing arrangements and it is not yet clear if 2019 income tax returns will need to be filed by 31 October 2020 to avail of debt warehousing or whether the ROS online pay and file extension of 10 December 2020 will be available.

Business

Employer's PRSI

On 06 October 2020 the Government approved an increase of the minimum wage by 10c to €10.20 per hour with effect from 01 January 2021. The weekly income threshold for the higher rate of employer's PRSI has been increased from €394 to €398.

Capital Allowance for Energy Efficient Equipment

The Accelerated Capital Allowance (ACA) scheme is designed to improve energy efficiency among Irish companies and unincorporated businesses.

The ACA scheme allows taxpayers to deduct the full cost of expenditure on eligible energy efficient equipment from taxable profits in the year of purchase.

The scheme was reviewed in accordance with guidelines for best practice for the evaluation of tax expenditures. Following this review, the scheme will be extended until 31 December 2023.

Value Added Tax (VAT)

There will be a temporary reduction in VAT on tourism and hospitality goods and services from 13.5% to 9% effective from 01 November 2020.

The flat-rate scheme for farmers compensates un-registered farmers on an overall basis for VAT incurred on their farming inputs.

The farmers' flat-rate addition is set to increase from the current 5.4% to 5.6% for the year 2021.

Covid Restrictions Support Scheme (CRSS)

The new Covid Restrictions Support Scheme (CRSS) is effective from 13 October 2020 to 31 March 2021 and is aimed at businesses which have been prevented from operating, or that have only been able to trade at significantly reduced levels, due to Level 3 or higher pandemic restrictions.

Qualifying businesses can apply to Revenue for a cash payment, representing an Advance Credit for Trading Expenses ("ACTE") that are deductible for income tax and/or corporation tax purposes for the period when Covid restrictions have resulted in the operation of the business being prohibited, or reduced.

Payments will be calculated on the basis of 10% of the first €1m in turnover and 5% thereafter, based on the average turnover for 2019 excluding VAT. There is a cap of €5,000 per week on the payments.

Technical Amendments

A technical amendment is to be made to section 541 TCA 1997 to close an avoidance scheme. A transfer of foreign currency between bank accounts, denominated in the same foreign currency held by the same person, will not be subject to CGT.

It would appear that this provision will prohibit a loss claim on the transfer of foreign currency, where no economic loss is suffered.

Separately, capital allowances on intangible assets are being amended to bring these assets within the scope of the balancing charge rules.

Carbon Tax

Carbon tax will be increased by €7.50 from €26 to €33.50 per tonne/ CO_2.

This increase will be applied to auto fuels from midnight on 13 October 2020 and the carbon tax increase will affect all other fuels from 01 May 2021.

VRT & Motor Taxes

Vehicle Registration Tax is to be remodelled based on emissions performance levels which are closer to real world performance levels than is currently the case.

Used imports will also have their CO_2 levels uplifted to a level equivalent with the Worldwide Harmonised Light Vehicle Test Procedure (WLTP).

A new motor tax rates table is to be introduced for WLTP cars first registered in the State from 01/01/21.

Minor rates changes are to be implemented in the existing rates table for cars taxed on CO_2 emissions (cars first registered in the State between July 2008 and end 2020).

There will be no motor tax changes to the rates table for cars taxed based on engine size (pre July 2008).

Knowledge Development Box (KDB)

The KDB is a Corporation Tax (CT) relief introduced in 2016 which applies to income from qualifying assets created from qualifying Research & Development activities carried out in Ireland, such as computer programming or creating patented inventions.

A company qualifying for KDB may be entitled to a deduction equal to 50% of its qualifying profits and the relief is to be extended until 31 December 2022.

CGT Entrepreneur Relief

CGT Entrepreneur Relief allows an individual to pay a reduced 10% rate of capital gains tax on the first €1m of gains arising on the disposal of qualifying assets.

One condition of the relief is that the chargeable business assets must have been beneficially owned by the taxpayer for a continuous period of three years in the five years immediately prior to the sale.

The Minister indicated that he is amending the ordinary share holding requirement so that an individual who has owned at least 5% of the shares in a company for any continuous period of three years qualifies for this relief with effect from 01 January 2021.

Digital Gaming Sector

Digital gaming has been identified as a sector that Ireland wants to develop and work will take place in 2021 on the provision of a tax credit for digital gaming, to take effect in 2022.

Stamp Duty

Consanguinity Relief

Consanguinity Relief applies a 1% stamp duty rate (reduced from the 7.5% non-residential rate), to transfers of agricultural land. The transferee must be related to the transferor and must hold a farming qualification, or actively farm the land, for at least six years or lease it for a minimum of six years to someone who will farm it. The relief has now been extended from 31 December 2020, to 31 December 2023.

Farm Consolidation Relief

Farm Consolidation Relief applies if a farmer disposes of and purchases land and/or exchanges land with another farmer in order to consolidate an existing farm. The relief provides for a reduced stamp duty rate of 1% (as opposed to 7.5%) to apply to the difference in value between the land disposed of and the land acquired. The relief is being extended for 2 years (to 31 December 2022) bringing it in line with a parallel CGT relief (S. 604B TCA 97).

Residential Development Refund Scheme

A person who builds dwelling units on non-residential land may qualify for a refund of some of the stamp duty paid on the acquisition of the land, bringing the effective stamp duty rate down to a minimum of 2%.

There are a number of conditions, relating to the area of land developed with housing and the timing of the completion of the units. The relief is being extended from 31 December 2021, to 31 December 2022, and the timeline allowed between the commencement and the completion of construction is being extended to 30 months, so that the scheme ends on 30 June 2025.

Amendment to the Section 481 Regional Uplift scheme

A film production company can use film relief as a credit against Corporation Tax (CT) and the amount of relief due depends on the production costs of the qualifying film.

The credit is generally 32% but a producer in an assisted region outside the current main production hubs, who meets employment and training criteria, can apply for an uplift to get a higher credit.

As the incentive effect of the relief was largely eroded by Covid in 2020, the Finance Bill will extend the uplift 5% to 2021 (giving a total credit of 37%), with the relief being tapered to give an

Brexit

The UK and the EU are now in a Brexit transitional period preserving the existing status quo until 31 December 2020 to enable both sides to agree on a partnership for the future.

During the transitional period the UK is not a Member State but it stays in the EU Customs Union and the Single Market and remains bound by EU international agreements. The Budget assumes that there will be a hard Brexit and the Department of Finance estimates the cost to the Irish economy as a reduction in growth of just under 3 percentage points in 2021.

"We have faced numerous difficulties since independence, but never one like Covid-19; an invisible enemy that has caused great suffering, and disrupted so much of what is central to our well-being."

Paschal Donohoe, Minister for Finance

Caveat: *These notes are intended as a general guide to Budget 2021. OHT has endeavoured to provide an accurate commentary but the notes cannot cover all circumstances. OHT strongly recommends that formal tax advice be obtained before any steps are taken that may have a tax effect.*