OHT Guide Budget 2022

Economic conditions have eased in tandem with the relaxation of the COVID-19 restrictions and the Minister for Finance Paschal Donohoe introduced Budget 2022 on 12 October 2021 against a backdrop of an improving economy. The Department of Finance's Economic and Fiscal Outlook describes Ireland as entering the next phase – the normalisation phase – of the pandemic, and notes that the economy is increasingly able to stand on its own two feet and therefore should be moving away from deficit-financed current expenditure. The key provisions of Budget 2022 are set out below.

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 the vouched utility and broadband expenses. The Minister for Finance said Government policy is to facilitate and support remote work. People who work remotely will see an income tax deduction of 30% of the cost of vouched expenses for heat, electricity and broadband.

Help to Buy

This incentive provides a refund of Income Tax and Deposit Interest Retention Tax (DIRT) paid in Ireland (minus any refunds already claimed). The Help to Buy scheme is to be extended into 2022.

Pre-letting Expenses for Landlords

The deduction is capped at €5,000 per vacant premises by section 97A (4) TCA 97. The relief for pre-letting expenses for landlords is to be extended for a further three years.

Electricity Sold to the Grid

A tax disregard of €200 has been proposed in respect of personal income received by households who sell surplus electricity that they generate back to the grid.

Income Tax

The standard rate band is to increase by €1,500 and the personal tax credit, employee tax credit, and earned income credits are to increase by €50.

Universal Social Charge

The ceiling of the second USC rate band will be increased from €20,687 to €21,295. This increase in the 2% rate band ceiling will ensure that a full time adult worker who benefits from the 30 cent increase in the hourly minimum wage rate from €10.20 to €10.50 will remain outside the top rates of USC.

The updated USC rates & bands from 01 January 2022 are:

€0 - €12,012	0.5%
€12,013 - €21,925	2%
€21,296 - €70,044	4.5%
€70,045+	8%

Vehicle Registration Tax (VRT)

From January 2022 a revised VRT table is being introduced with increases of 1%, 2% or 4%, depending on the relevant bands. The €5,000 relief for Battery Electric Vehicles is being extended to 2023.

Commission on Taxation and Welfare

In April 2021 the Minister launched the Commission on Taxation and Welfare to independently consider how the taxation and welfare systems can interact to encourage economic activity and increase employment and prosperity while continuing to ensure that the costs of the public services are also resourced.

Key concerns are the impact of COVID-19, the rising age profile, the need to move to a low-carbon economy, and the increased use of digital resources and automation.

Zoned Land Tax

The government's strategy is to deliver an average of 33,000 new homes per annum out to 2030. Housing construction rebounded rapidly this year and there were almost 30,000 housing commencements in the 12 months to August.

The Minister introduced a Zoned Land Tax to encourage the use of land for building homes. The objective is to increase the supply of residential accommodation.

This tax will apply to land which is zoned as suitable for residential development and is serviced, but has not been developed for housing. The Minister is not proposing to have any minimum size exclusions as there may be potential for the tax to incentivise the development of small sites in town centres.

Maps will be prepared and published by Local Authorities in order to identify zoned land. This will occur in advance of the commencement of the measure and maps will be updated on an annual basis.

There will be a process established to enable any person to apply to the Local Authority to have the zoning status of land amended. Each case will be considered on its merits in the context of proper planning and sustainable development.

The Minister is proposing a two-year lead-in time for land zoned before January 2022, and a three-year lead-in time for land zoned after January 2022. This will allow for scope to review the workings of the tax, listen to stakeholders and ensure it is both effective and equitable.

The tax will be based on the market value of the land and the Minister determined that the rate at the outset should be 3%.

The Minister stated that the introduction of this tax is an important step to encourage the release of land for building homes, and he will be open to reviewing the rate in the future.

Exclusions from the tax will include dwelling houses and gardens, amenities and infrastructure. More exemptions will be defined in the Finance Bill.

Tax will operate on a self-assessment basis and will be administered by the Revenue Commissioners. This tax will replace the vacant site levy when introduced.

Capital Allowances

Equipment directly operated by fossil fuels will no longer qualify for accelerated capital allowances.

Under section 285C TCA 97, accelerated capital allowances are available for certain types of gas vehicles and refuelling equipment. 100% of the capital expenditure incurred can be claimed for the year in which the vehicles or equipment are first provided and used by the business. This scheme is to be extended for three years. The scheme is also being extended to include hydrogen powered vehicles and refuelling equipment.

Employment Wage Subsidy Scheme (EWSS)

The EWSS was a measure introduced in 2020 to aid the funding of eligible employers' payroll and gross pay to employees.

Agricultural Reliefs

The Minister intends to extend the various farming stock relief measures.

- General stock relief will continue to the end of 2024.
- Stock relief for Young Trained Farmers and Farm Partnerships, and the Young Trained Farmer stamp duty relief will continue to the end of next year.

The current exemption is scheduled to expire on 31 December 2022 and therefore, all three reliefs can only

Digital Gaming

A new tax credit has been announced to support digital games development companies by providing a refundable corporation tax credit for expenditure incurred on the design, production and testing of a game.

The relief will be available at a rate of 32% of eligible expenditure of up to a limit of €25m per project.

Bank Levy

The bank levy is based on the amount of DIRT (Deposit Interest Retention Tax) paid by a financial institution in a specified rolling base year and is designed to produce a fixed annual yield of €150m.

The levy is to be extended for a further year to the end of 2022.

VAT Rate for Hospitality

The reduced VAT rate of 9% for the hospitality sector is to remain in place to the end of August 2022.

Budget 2022 saw the scheme extended with supports being phased out by 30 April 2022. The following parameters were introduced as the scheme is wound up:

- Businesses availing of the EWSS on 31 December 2021 will continue to be supported until 30 April 2022
- A two-rate structure of €151.50 and €203 will apply from December 2021 until the end of February 2022
- In March 2022 and April 2022, the final two months of the scheme, a flat rate subsidy of €100 will be put in place. The reduced rate of Employers' PRSI will no longer apply for these two months

The scheme will close to new employers from 01 January 2022.

Anti-Tax Avoidance Directive (ATAD)

The Anti-Tax Avoidance Directive (ATAD) requires Member States to introduce an interest limitation rule (ILR). The ATAD ILR is based on the OECD recommended approach and is intended to limit the maximum interest deduction to 30% of EBITDA (Earnings Before Interest, Tax, Depreciation & Amortisation).

Disallowed interest may be carried forward and may be deducted in future years if the company has sufficient interest capacity. A de-minimis rule will apply where net interest deductions are below €3 million, and exemptions will apply for standalone entities, legacy debts the terms of which were agreed before 17 June 2016, and certain long-term infrastructure projects.

Anti-hybrid rules aim to prevent taxpayers obtaining a tax advantage by exploiting differences in the tax treatment of transactions under the laws of two or more jurisdictions. Rules dealing with reverse hybrid mismatches, must be implemented by 01 January 2022. A reverse hybrid mismatch arises where an entity is treated as tax transparent in the territory where it is established but treated as a separate taxable person in the jurisdiction where its investors are located, so that profits go untaxed.

The Minister has completed a public consultation process on Ireland's commitment to introduce a new Interest Limitation Ratio and Anti-Reverse Hybrid rules, and these provisions will be contained in Finance Bill 2021.

Conclusion

The Budget speech was cautiously optimistic referring to the risks of increases in inflation and the cost of living, but assuming that factors such as the global supply chain disruptions that are putting pressure on prices are short lived.

Several economic aftershocks are anticipated as we move through the normalisation phase but overall a bouncing-back of economic activity was predicted, and measures included in the Budget should assist many private businesses and SMEs.

Business Incentives

The Minister announced a package of measures to support smaller businesses and entrepreneurs.

The Employment Investment Incentive (EII) allows an individual investor to claim income tax relief on investments for shares in small and medium sized trading companies, up to certain limits. Shares must be held for at least four years. The Minister announced an extension of the scheme for a further three years and indicated that he would open up the scheme to a wider range of investment funds, remove the 30% expenditure rule and relax the rules around the capital redemption window for investors.

The corporation tax relief for new start-up companies will remain in place until the end of 2026 and extended by 2 years to apply in the first 5 years of trading.

Corporation Tax Rate

The government has taken the historic decision to join the global political agreement on the future of corporate taxation. When this agreement comes into effect, Ireland will apply the new minimum effective rate of 15% However, Ireland will continue to offer the 12.5% rate for businesses with annual revenues less than €750 million.

Innovation Equity Fund

In 2020 the Minister announced a new equity fund of €30m investment which was to be set up through the Ireland Strategic Investment Fund to invest in high innovation Irish companies, in order to boost supports for small and medium sized businesses (SMEs) as they dealt with COVID-19 and to increase the availability of early stage funding.

A further €30m is to be made available to this fund through Enterprise Ireland, and it is anticipated that this will be matched by €30m from the European Investment Fund bringing the total funding up to €90m.

Caveat: *These notes are intended as a general guide to Budget 2022. OHT has endeavoured to provide an accurate commentary but the notes cannot cover all circumstances and OHT strongly recommends that formal tax advice be obtained before any steps are taken that may have a tax effect.*