OHT Guide Budget 2025

Introduction

The Minister for Finance Jack Chambers published his first Budget on 01 October 2024, noting that it was the last Budget of the current government, and delivered against a backdrop of easing inflation, a growing domestic economy and high levels of employment. He described the Budget as unique in the opportunity it presents to plan, transform and deliver for the future.

The Minister identified several objectives the Government intended to meet when providing for the tax measures contained with the Budget. These include helping with the cost of living, supporting households and businesses, and supporting housing.

Taxes on Income

Personal Income Tax

The Minister announced an increase of €2,000 in the income tax standard rate cut off-point, bringing it to €44,000. The Single Person Child Carer and married couples' bands are also increasing proportionally. The main tax credits, the Personal and Employee Tax Credits, are increasing from €1,875 to €2,000, with increases also being made to credits such as the Home Carer Tax Credit and the Dependant Relative Tax Credit.

USC

An increase in the ceiling for the 2% rate of USC has been announced, increasing it from €25,760 to €27,382. This is to ensure that minimum wage workers will remain outside the top rates of USC following an increase in the minimum wage to €13.50 per hour. The 4% rate of USC is being reduced to 3% and these changes will apply from 01 January 2025.

Employees' Small Benefit Exemption

The Small Benefit Exemption allows employers to give up to 2 non-cash benefits such as a voucher with a total value of up to €1,000 to an employee without BIK. This is to increase to 5 non-cash benefits per year with a maximum value of €1,500.

BIK Measures

The BIK charge for motor vehicles was amended in 2023 with a temporary universal relief of €10,000 applying to the Original Market Value of a vehicle in Categories A-D, and the reduction of the threshold for the highest mileage band from 52,000 to 48,000. These provisions are being extended to 31 December 2025.

A BIK exemption is being in introduced where an employer incurs an expense in providing a facility for the electric charging of vehicles at the home of a director or employee.

CAT Thresholds

The three tax-free thresholds are being increased for benefits taken on or after 02 October 2024, and the new thresholds are as follows:

Group (a) from €335,000 to €400,000,
Group (b) from €32,500 to €40,000, and
Group (c) from €16,250 to €20,000.

CAT Agricultural Relief

Agricultural Relief is a valuable CAT relief which reduces the market value of agricultural property by 90% for CAT purposes. This can substantially reduce a CAT liability.

From 01 January 2015 a beneficiary needs to meet the active farmer test for 6 years from the valuation date. The proposed amendment will extend this 6 year activity test to the donor, thereby limiting the availability of this relief further.

Stamp Duty

Residential Property

A new 6% Stamp Duty rate has been introduced on residential properties from 02 October 2024. The stamp duty rates for residential properties will be:

1% up to and including €1m
2% over €1m and up to and including €1.5m
6% above €1.5m

Transitional provisions were contained in the Financial Resolution to ensure that the new rate will not apply to any instrument executed before 01 January 2025, on foot of a binding contract entered into before 02 October 2024. A certificate will need to be included in the Deed to this effect.

"Start-up and scaling businesses are the backbone of this country, providing significant employment across the country, with the potential to become the market leaders of tomorrow. It has been a longstanding commitment of this government to support and promote these businesses, including by helping them to attract funding through incentives..."

Statement by Minister Chambers on Budget 2025

Relief for Investment in Corporate Trades

There are income tax reliefs available for the investment by individuals in corporate trades under the following incentive schemes:-

- Employment Investment Incentive (EII)

EII is a tax incentive which provides for tax relief of up to 40% of the investment made in certain corporate trades. The EII allows an individual investor to obtain income tax relief on investments for shares in certain companies up to certain limits each tax year.

- Start-up Capital Incentive (SCI)

SCI is designed to assist start-up companies in raising equity financing from the family members of existing shareholders.

- Start-Up Relief for Entrepreneurs (SURE).

SURE is a tax relief that provides for a refund of Income Tax paid in previous years.

It is proposed to extend these 3 reliefs for a further two years to 31 December 2025.

The relief limit for EII investments is being increased from €500,000 to €1,000,000, and the cap on the relief available for SURE investments is being increased from €100,000 to €140,000 per year.

CGT Angel Investor Relief

CGT Angel Investor Relief was announced in Budget 2024 to encourage investment in innovative start up businesses.

The effective rate of CGT on qualifying gains of up to twice the initial investment value will be 16% if the investment is made by an individual or 18% if it is made through a partnership. The relief was subject to a lifetime limit of €3m which is to increase to €10m.

CGT Retirement Relief

Finance Act (No.2) 2023 increased the age parameters (from 66 to 70) and introduced a cap of €10m on Retirement Relief for transfers to a child. The Budget announced a clawback period of 12 years for disposals over €10 million.

Mortgage Interest Tax Credit

The Mortgage Interest Tax Credit, which was introduced as a temporary one year measure in Budget 2024, is being extended by a further year. The tax credit is available at the standard 20% rate to taxpayers making payments in respect of a qualifying loan for a principal private residence, where there was an outstanding mortgage balance of between €80,000 and €500,000 on 31 December 2022.

The credit was available in respect of the increase in interest paid in 2024 over the interest paid in 2022, subject to a cap of €6,250 (giving a maximum tax credit of €1,250). The credit will also be available in 2025.

Farmer's Flat Rate Compensation for VAT

The Flat-Rate Scheme is a special scheme for farmers who are not registered, or required to register, for Value-Added Tax (VAT). The flat rate addition is to increase from 4.8% to 5.1% from 01 January 2025.

Accelerated Capital Allowances – Farm Safety Equipment

Accelerated capital allowances for expenditure incurred by farmers on certain farm safety equipment, and adaptive equipment for farmers with disabilities are available at 50% per annum over two years. The measure is being broadened to allow for relief in respect of expenditure by farmers on certain Targeted Agriculture Modernisation Schemes (TAMS) safety equipment.

Stock Reliefs

Subject to meeting certain conditions, a person carrying on the trade of farming is entitled to a deduction for an accounting period in which there is an increase in the value of the trading stock of the farming trade over the previous accounting period.

The following 3 stock relief provisions, which were due to expire on 31 December 2024, are being extended for a further three years;

- General Stock Relief,
- Young Trained Farmer Stock Relief and
- Stock Relief for Registered Farm Partnerships.

Corporation Tax

Research and Development Tax Credit

The Research and Development (R&D) Tax Credit provides a 30% tax credit for all qualifying R&D expenditure. It is proposed to increase the first year payment threshold from €50,000 to €75,000.

Start Up Relief

Start Up Relief currently provides a Corporation Tax (CT) relief for new small companies which are in the first five years of trading and have an annual CT liability of less than €40,000. Marginal relief is available to companies with a CT liability of between €40,000 and €60,000.

The relief is currently calculated by reference to employer PRSI paid of up to €5,000 per employee and the 4% Class S PRSI paid by owner-directors is not counted. The Budget measure allows up to €1,000 of Class S PRSI per individual to count towards the relief.

Relief for Listing Expenses

A new measure was announced giving relief for expenses incurred wholly and exclusively on an initial stock market listing or IPO on a recognised stock exchange in Ireland or the EU/EEA. The relief will be available for successful listings completed on or after 01 January 2025 and will be claimed by investment companies as an expense of management, and by trading companies as a trading deduction.

Expenses in the year of first successful listing, and the previous three years, will be allowed subject to an overall cap of €1 million per listing.

Film Tax Credits

A Tax Credit for Unscripted Production was announced in last year's Budget and it will be a corporation tax credit of 20% for expenditure incurred on certain unscripted productions up to a maximum of €15m per project. A cultural test will be introduced.

The Minister also announced a Scéal Uplift for small to medium budget productions to act as a stimulus to the creation of an indigenous film industry. This involves an uplift of 8% to the existing film credit for certain feature film productions, resulting in a tax credit rate of 40% for projects with a maximum qualifying expenditure of up to €20 million. This incentive is subject to the sunset clause for Section 481 Film Tax credit which is due to end on 31 December 2028. These Film Credit provisions are subject to State Aid approval.

Participation Exemption

A new Participation Exemption for Foreign Dividends has been announced to simplify the administration involved in claiming double taxation relief. This provides an alternative method of double tax relief for dividends received from subsidiaries in EU/EEA and double tax treaty partner jurisdictions.

From 01 January 2025 a company will have the option to claim the participation exemption or to continue to use existing tax-and-credit relief provisions in Schedule 24, by way of an election in the company's annual corporation tax return. If a company elects in to the participation exemption for a financial period, it covers all relevant dividends for that period.

Accelerated Capital Allowances Gas & Hydrogen Vehicles

The Accelerated Capital Allowances scheme for gas and hydrogen-powered vehicles and refuelling equipment provides a tax incentive for companies and unincorporated businesses who invest in such vehicles and equipment for the purposes of their trade.

It is proposed to extend the relief for a further year, to 31 December 2025, to allow the Department of Transport time to review the climate policy objectives underlying the scheme.

Emission Thresholds for Vehicle Capital Allowances

The CO_2 thresholds for claiming capital allowances on business cars are being reduced to reflect improved vehicle emissions standards.

From 01 January 2027, an expenditure of €24,000 will be allowable for cars with CO_2 emissions of 0-120g/km. A reduced amount of €12,000 will be allowable for vehicles with CO_2 emissions of 121-140g/km and there will be no allowable expenditure for vehicles with emissions >141g/km

"This measure is designed to incentivise uptake of EVs in the company car sector which will over time assist the acceleration of a second hand EV market."

Statement by Minister Chambers

Housing Market

Help to Buy Scheme

The Help to Buy Scheme is an income tax measure designed to help first time buyers saving for a deposit, and it will be extended for a further four years until the end of 2029.

Rent Tax Credit

The Rent Tax Credit is being increased from €750 to €1,000 for 2025, and this increase will also apply for 2024.

Pre-Letting Expenditure

The measure allowing landlords to claim up to €10,000 in pre-letting expenditure from rental income has been extended to from the end of 2024 to 31 December 2027.

Residential Zoned Land Tax ("RZLT")

Amendments to the Residential Zoned Land Tax ("RZLT") will be made to provide a further opportunity or RZLT landowners to seek a change in zoning in 2025 to reflect the economic activity undertaken on the land.

Vacant Homes Tax

The Vacant Homes Tax rate will increase from 5 times the property's existing base LPT liability, to 7 times the LPT liability, with effect from 01 November 2024.

VAT

Increase in VAT Registration Thresholds

It is proposed to increase the VAT thresholds to €42,500 for services and €85,000 for goods to assist small businesses which are outside the VAT thresholds to remain there.

VAT Rate on Heat Pumps

A reduction in the VAT rate for heat pumps to 9% is proposed from 01 January 2025 to encourage homeowners to install heat pumps.

VAT Rate for Gas & Electricity

It is proposed to extend the application of the 9% rate of VAT on gas and electricity from 01 November 2024 to 30 April 2025 to reduce the cost of living.

"… the Government's "everything now" approach is adding needless pressure to the economy".

"Ireland's extraordinary intake of corporation tax receipts has led to a surplus. However, without these windfalls, the surplus would disappear, leaving a large deficit".

"…the surplus is entirely driven by exceptional corporation tax receipts. These are paid by a handful of foreign multinationals based on overseas profits. …. The highly unpredictable nature of the windfalls means they should be set aside." "Instead, the Government is saving just half of its corporation tax windfalls and pumping the rest into the economy".

"The receipts are incredibly concentrated. Just three multinationals made up 43% of corporation tax receipts in 2022."

IFAC Pre-Budget Statement Budget 2025

Conclusion

The recent Apple judgement has provided one-off revenue of €13bn that the Minister said has the capacity to be transformational. Additional funds have come from the recent disposal of circa 5% of the State's shareholding in AIB, reducing the stake from 30.5% to circa 25.5% of the ordinary share capital and realising €592.9m.

The government wants to use the windfall to fund the housing, energy, water and transport infrastructures and a €3bn package for infrastructure spending was announced with €1bn going to Irish Water for non-domestic capital investment, €1.25bn going to the Land Development Agency to deliver affordable homes and €750m being provided for electricity grid infrastructure.

IFAC's Pre-Budget Statement indicates that 60% of corporation tax receipts are from just 10 multinational firms, giving rise to concern that there is an overreliance on a small sector of the economy, which is affected by international concerns rather than being linked mainly to Irish economic activity. It was noted that if the windfall receipts are excluded, the underlying general government balance has been in consistent deficit since the financial crisis.

However, the Government's focus is to build infrastructure, which is a fundamental component of Ireland's competitiveness, on the basis that improving it is vital to maintaining employment and a strong economic position.

Caveat: *These notes are intended as a general guide to Budget 2025. 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*