Budget 2019

On 9th October 2018, Minister for Finance and Public Expenditure and Reform Mr. Paschal Donohoe T.D. announced the Budget for the upcoming year. The following commentary has been prepared by Bradley Tax Consulting.

BRADLEY TAX CONSULTING

Budget Summary 2019

Tax Rates & Credits

Tax Rates	2018	2019
Standard tax rate	20%	20%
Higher tax rate	40%	40%

Standard Rate Band		
Single/Widowed	€34,550	€35,300
Married couple one income	€43,550	€44,300
Married couple two incomes	€69,100	€70,600
One parent family	€38,550	€39,300

Home Carer		
Home carer credit	€1,200	€1,500
Home carer income threshold	€7,200	€7,200

Earned Income Credit		
Earned income credit	€1,150	€1,350

Universal Social Charge (USC)			
2018		**2019**	
First €12,012	0.50%	First €12,012	0.50%
Next €7,360	2.00%	Next €7,862	2.00%
Next €50,672	4.75%	Next €50,170	4.50%
Balance over €70,044	8.00%	Balance over €70,044	8.00%
Self-employed income > €100,000	3.00%	Self-employed income > €100,000	3.00%

Personal Tax

Income tax bands

The standard rate tax band for an individual has increased by €750 representing an annual tax saving of €150 for individuals in the marginal rate tax bracket.

While the marginal tax rate for incomes below €70,045 will be 48.5%, the marginal rate for incomes above this sum remain at 52% for PAYE workers and 55% for self-employed.

Income tax credits

The earned income credit, available to self-employed individuals and business owners who are ineligible for the PAYE tax credit, has increased from €1,150 to €1,350. This credit remains lower than the PAYE credit despite Government commitments.

The home carer tax credit has increased from €1,200 to €1,500. The home carer income threshold of €7,200 remains unchanged.

Universal Social Charge (USC)

The second USC band has increased by €502 from €19,372 to €19,874 and the 4.75% rate of USC has decreased to 4.5%.

The entry level of income chargeable to USC remains unchanged at €13,000.

Landlords property related interest deduction

Budget 2017 announced that the deductibility of interest paid on loans used by landlords to purchase, improve or repair residential property would increase from 75% to 100% on a phased basis. This was due to be implemented by increasing the level of deductibility by 5% each year from 2017.

Budget 2019 announced that this will be accelerated to 100% from 1 January 2019.

Key Employee Engagement Programme (KEEP)

The share-based remuneration scheme known as the Key Employee Engagement Programme (KEEP) was introduced in Finance Act 2017 to facilitate the use of share-based remuneration by unquoted SMEs to attract and retain key employees. The uptake of KEEP by employers has been low and KEEP is to be amended as follows:

1. In respect of individual employees, the ceiling for the maximum annual market value of shares that may be awarded is increased from 50% to 100% of an individuals' salary.

2. The three-year limit, which applies to the maximum amount of share options an employee can receive, is to be replaced with a lifetime limit.

3. The maximum value of share options that an employee may be granted under the scheme has been increased from €250,000 to €300,000.

The above changes do not adequately address the limitations of this regime.

Minimum wage

The hourly minimum wage will increase from €9.55 to €9.80.

Social protection

In addition to a €5 per week increase in all weekly social welfare payments from next March, the full Christmas bonus payment will be paid to all social welfare recipients this year.

€1.25 billion has been allocated for the delivery of 10,000 new social housing units in 2019.

Agri-taxation

Income averaging, which allows certain farmers to calculate their taxable income for a year as the average of their actual income for the current year and the previous 4 years on a rolling basis, is to be extended to farmers who have off-farm or non-farm related trading income. This could be helpful for farmers looking to diversify in light of Brexit.

Stock relief, which provides for a deduction of between 25% to 100% of the increase in the value of trading stock in an accounting period from farm trading income, was due to expire on 31 December 2018 has been extended for 3 years until 31 December 2021.

Employment and Investment Incentive (EII)

Arising from a review of the Employment and Investment Incentive, the Finance Bill will contain a package of measures to address the main problems identified by the review and to increase the relief’s efficiency and effectiveness.

Corporate Tax

Corporation tax rate

The corporation tax rate of 12.5% remains unchanged.

Film relief

The scheme provides relief in the form of a corporation tax credit relating to the cost of production of qualifying films. The credit is granted at a rate of 32% of qualifying expenditure subject to a cap of €70 million. The credit was due to expire at the end of 2020 and will now be extended until 2024. A new regional uplift commencing at 5% is also being introduced, subject to State aid approval, for productions being made in areas designated under the State aid regional guidelines.

Start-up relief

The three year start-up relief provides corporation tax relief for certain start-up companies. The relief is being extended for a further three years until the end of 2021.

Accelerated capital allowances for employer provided fitness & childcare facilities

Finance Act 2017 introduced a scheme of accelerated capital allowances to encourage employers to provide fitness and/or childcare facilities for the use of their employees. This scheme is being amended and further details are expected when the Finance Bill is published.

Accelerated capital allowances for gas-propelled vehicles and refuelling equipment

New accelerated capital allowances are to be introduced to encourage the use of gas-propelled vehicles and refuelling equipment. The aim of this measure is to encourage an increase in the use of natural gas and bio-gas propelled commercial vehicles as a more environmentally friendly alternative to diesel.

Anti-Tax Avoidance Directive (ATAD)

Ireland continues to be an attractive and highly-skilled country in which to do business. The corporation tax roadmap was published last month. As part of this roadmap a number of changes to the Irish tax regime will be introduced.

Exit tax

In implementing the new EU Anti-Tax Avoidance Directive (ATAD), the budget introduces a new ATAD compliant exit tax regime which comes into effect from Budget night. This regime taxes unrealised capital gains where companies migrate or transfer assets offshore such that they fall outside the scope of Irish tax. The rate for the new ATAD compliant exit tax will be 12.5%.

Controlled Foreign Company (CFC) rules

As part of the EU's Anti-Tax Avoidance Directive, a Controlled Foreign Company (CFC) regime is to be introduced under Irish law with effect from 1 January 2019. The purpose of the CFC regime is to counter circumstances where profits are diverted to offshore entities in low tax jurisdictions. Under the new CFC regime, such profits would be attributed to its Irish owner(s). These rules will apply for accounting periods beginning on or after 1 January 2019.

Employers Taxation

Employers' PRSI

From 1 January 2019 the weekly income threshold for the higher rate of employer's PRSI will increase from €376 to €386.

Increase in employer contribution to National Training Fund levy

From 1 January 2019 there will be a 0.1% increase (from 0.8% to 0.9%) in the National Training Fund levy payable by employers based on the reckonable earnings of employees in Class A and Class H employments. A similar increase of 0.1% will apply from 1 January 2020 increasing the levy to 1%.

Employer PAYE compliance implementation: PAYE Modernisation

Revenue's updated PAYE system will be fully operational from 1 January 2019. The new system is designed to allow real-time reporting in respect of the payroll taxes position of employers and employees.

Stamp Duty

There are no changes to the current Stamp Duty rates.

Extension of relief from stamp duty for young trained farmers

The exemption from stamp duty known as Young Trained Farmers Stamp Duty Relief was introduced to encourage the transfer of farmland to younger farmers with relevant qualifications. This relief was due to expire on 31 December 2018 has been extended until 31 December 2021.

Indirect Taxes

Excise

The excise duty on a packet of 20 cigarettes is being increased by 50 cents (including VAT). There will also be a pro-rata increase on the other tobacco products. There will be an additional 25c on roll your own tobacco. Both measures will take effect from midnight on 9 October 2018.

The Minimum Excise Duty on tobacco products will be increased such that all cigarettes sold below €11 will have the same excise applied as cigarettes sold at €11. This measure will also take effect from midnight on 9 October 2018.

There will be an increase in the betting duty on bets placed by customers in Ireland. Betting duty will be increased from 1% to 2% for all bookmakers and from 15% to 25% on the commission earned by betting intermediaries.

VRT

A 1% VRT surcharge is being introduced for diesel engine passenger vehicles registering in Ireland from 1 January 2019.

The VRT relief available for conventional hybrids and plug-in electric hybrids is being extended for a period of one year until the end of 2019.

The 0% benefit-in-kind rate for electric vehicles is being extended for a period of 3 years subject to a cap of €50,000 on the original market value of the vehicle.

VAT

The VAT rate on tourism activities is to increase from 9% to 13.5%.

Other services and goods also currently subject to VAT at a rate of 9% will be subject to VAT at a rate of 13.5% from 1 January 2019. However, newspapers and sports facilities will continue to qualify for the 9% VAT rate.

The VAT rate on e-books and electronically supplied newspapers is being reduced from 23% to 9% with effect from 1 January 2019.

Capital Gains Tax (CGT)

The CGT rate is unchanged and remains at 33%.

There have been no changes to Entrepreneur Relief or Retirement Relief.

Capital Acquisitions Tax

Group Thresholds

	Group A	Group B	Group C
On or after 10.10.2018	€320,000	€32,500	€16,250
12.10.2016 – 09.10.2018	€310,000	€32,500	€16,250
CAT Rate	33%		

The increase to the Group A threshold applies in respect of gifts or inheritances received on or after 10 October 2018.

Preparing for Brexit

Britain is set to leave the EU on 29 March 2019 and an agreement between Britain and the EU on the form of their future relationship is yet to be decided. Given the close economic, social and cultural ties between Ireland and Britain, this is now extremely worrying.

A 'no-deal' scenario remains a real possibility at this stage. It is understandable given the lack of certainty on the future relationship between Britain and the EU that the Minister's speech did not include any specific measures to amend existing tax legislation such as the introduction of a VAT deferral licence, the availability of certain tax reliefs, etc.

In the event of a 'no-deal' scenario, it is hoped that legislation would be introduced before 29 March next year in order to help lessen some of the negative tax consequences of Brexit. Exchange rate fluctuations and customs tariffs may increase costs for businesses.

The Minister did however state that "Ireland will press for the closest possible relationship with the UK" in addition to remaining "at the heart of the European Union and open to the world". The following was announced as part of the Brexit preparation package:

- A Human Capital Initiative worth €300 million.
- The launch of a Future Growth Loan Scheme for small and medium enterprises and the agriculture and food sector.
- Provision of over €110 million for Brexit measures across a number of Government Departments.
- Increased funding for the PEACE programme, the purpose of which is to support peace and reconciliation as well as promoting economic and social progress in both Northern Ireland and the border region.

Tax Appeals Commission

An independent review of the operations and resources of the Tax Appeals Commission has been published. There is now a genuine recognition that the tax appeals system is not working properly. Mr. Donohue has promised to implement the recommendations of the review which include the sanctioning of additional staffing resources and additional funding for improved IT systems.

Other Measures

The report of the Review Group established earlier this year to undertake a review of the Local Property Tax will be published in due course.

The Government will establish a Rainy Day Fund to increase Ireland's resilience to economic shocks. The Fund will be capitalised with €1.5 billion from the Ireland Strategic Investment Fund and an annual contribution of €500 million from the Exchequer starting from 2019.

The Government indicated that it intends to consider long term increases in Carbon Tax.

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