Building a better working world

Budget 2021 Tax Alert

Planning for recovery

October 2020

The better the question. The better the answer. The better the world works.

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Reaction to Budget 2021

Having faced the twin threats of Brexit and a global economic slowdown at the beginning of the year, Ministers Donohue and McGrath delivered the first budget of the current coalition Government against the backdrop of an unprecedented, century defining global pandemic.

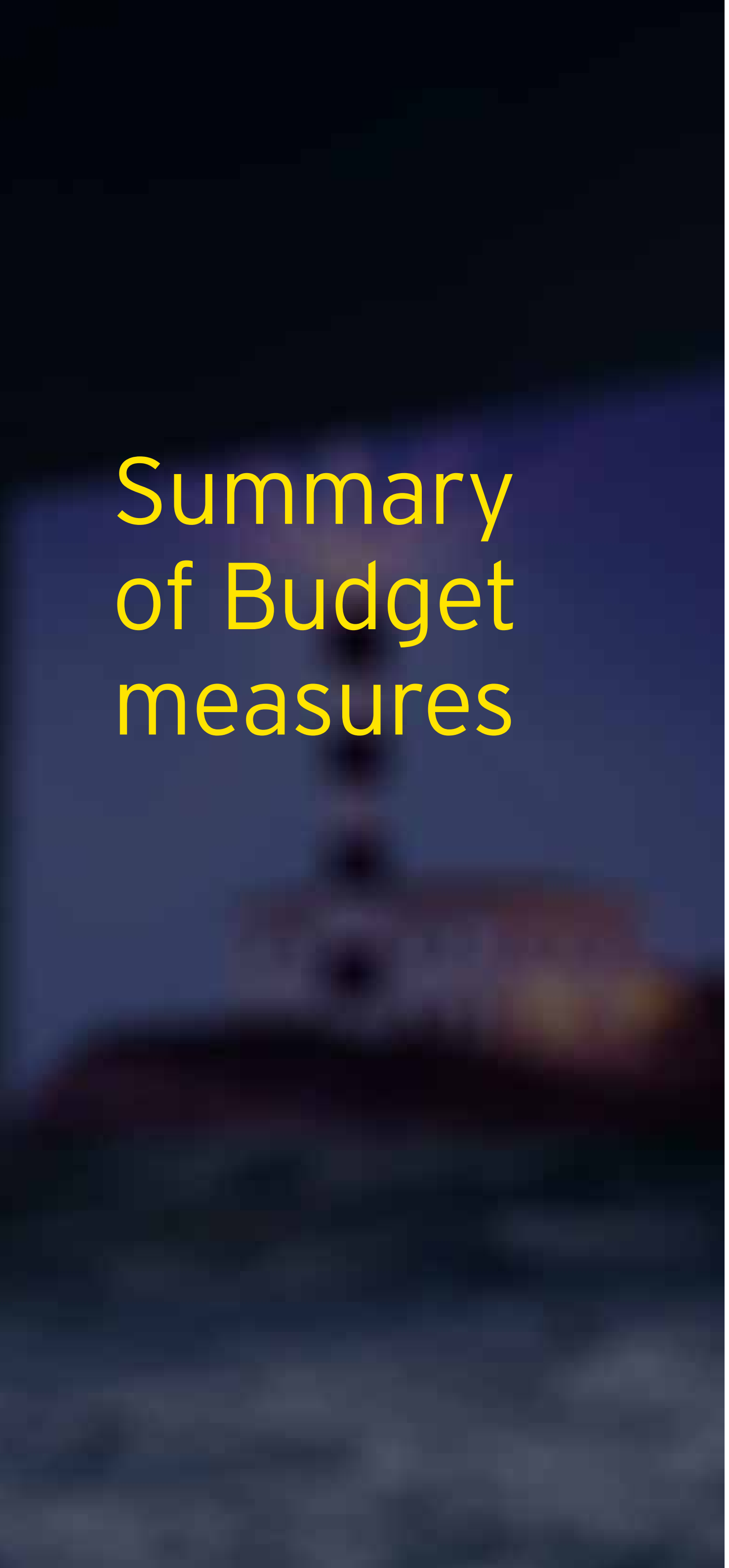
With the previous Government running a 2019 budget surplus of €1.3bn and developing a Rainy-Day Fund of €1.5bn which avoided large scale giveaways, the starting place from which this Government was able to respond was positive.

Now facing a budget deficit of €20.5bn, the further spending measures announced, totalling more than €17bn combined with €270m in taxation measures, represents a budget the likes of which has not been seen in living memory.

The Government sought to respond by focussing on healthcare capacity build and income/employment protection, combined with the largest ever capital spending programme. In terms of providing COVID-19 supports, a new scheme applying to the hospitality and tourism sector will offer some level of stability, with payments made to affected businesses until 31 March 2021. This is combined with a VAT rate reduction to 9% for the sector until December next year. The extension of the Employment Wage Subsidy Scheme will also serve as a reassuring message to employers and workers facing uncertainty.

At the same time as steering the country through the current storm, it is admirable that measures to progress the Government's climate change agenda are also included in the package. The Carbon Tax plan gives business the clarity to make the move to renewable energy and low-carbon initiatives, as the cost of not doing so will increase significantly and impact the bottom line.

With a view to encouraging innovation in a post-pandemic recovery, Minister Donohue signalled the introduction of a tax credit for the digital gaming sector, an extension of the Knowledge Development Box regime and accelerated capital allowances for energy efficient equipment.



Summary of Budget measures

Supporting business innovation

- Corporation tax: The Government's commitment to the 12.5% rate of corporation tax is reaffirmed.
- Knowledge Development Box (KDB): Extended by two years from 31 December 2020 to 31 December 2022.
- Film credit: Extension of enhanced tax credit rates in respect of investment in films made in certain regional areas by an additional 12 months. The maximum rate of 5% will apply in 2021, tapering off to 2% up to 31 December 2023.
- Digital gaming sector: Government to commence work on a tax credit for the digital gaming sector to apply from January 2022.
- Entrepreneurs' relief: Requirement to hold 5% of ordinary shares for a continuous period of three years is no longer required to be met in the five years immediately prior to disposal to facilitate new investors. This measure is effective from 1 January 2021. The requirement to work in the business for three out of the five years prior to disposal remains.

COVID Restrictions Support Scheme

- The Minister announced a new support scheme targeted at businesses significantly impacted or temporarily closed due to the Government's 'Living with COVID-19' Plan. It will apply where and when Level 3 or higher restrictions are in place and will cease upon the lifting of restrictions.
- The Government has recognised that the current Level 3 nationwide restrictions are impacting the accommodation, food, arts, recreation and entertainment sectors. For business in these sectors (others may be added as necessary) the Government will make a cash payment based on 2019 average weekly turnover. Entitlement will arise where Government restrictions directly prohibit or restrict access by customers.
- Payments will be calculated on the basis of 10% of the first €1 million in turnover and 5% thereafter, based on average VAT exclusive turnover for 2019. It will be subject to a maximum weekly payment of €5,000.
- Qualifying businesses can apply to the Revenue Commissioners for a cash payment in respect of an advance credit for tax deductible trading expenses for the period of the restrictions. The scheme provides a cashflow benefit and is effective from Budget day, 13 October 2020 to 31 March 2021. The first payments will be made by mid-November and will continue until the end of the COVID-19 restriction.
- The scheme will operate on a self-assessment basis. A business will be required to demonstrate that its turnover has been severely impacted, i.e. it cannot exceed 20 per cent of the turnover for the corresponding period in 2019.

Supporting employment

- In a welcome move, the Minister announced that the Employment Wage Subsidy Scheme, which is currently set to expire on 31 March 2021, will be extended to the end of 2021. This is in recognition of the ongoing impact of COVID-19, as well as the expected impact of Brexit. The design of the extended scheme will be decided when the economic conditions become clearer.
- The Minister also announced that where employers had amounts overpaid under the Temporary Wage Subsidy Scheme which are repayable to Revenue, they can avail of debt warehousing in respect of these overpayments.
- An inter-departmental group is working on the strategy for remote working and remote service delivery. Meanwhile, the Minister confirmed the ongoing facility to allow employers to make a payment to an employee of €3.20 per day tax free towards the expenses of working from home. As before, where the employer does not make a payment to the employee, the employee may claim a tax deduction for utility expenses such as heat and light and including broadband for 2020, although Revenue currently only allow 10% of these expenses. New guidance is due from Revenue in this regard.
- Employers' PRSI: The weekly employee income threshold for the higher 11.05% employer's PRSI rate is being increased slightly to an amount not exceeding €398 (previously €395).

Environmental measures

- Revamp of VRT: The CO2-based VRT and motor tax regimes will transition to the more robust Worldwide Harmonised Light Vehicle Test Procedure (WLTP) emissions system from January 2021 to encourage consumers to buy greener cars so that Ireland can meet its legally binding targets by 2030. The WLTP system will also apply to used imported cars.
- In light of the much lower VRT rates for low emission cars, VRT reliefs for Plug-in Hybrid Electric Vehicles and hybrids will be allowed to expire. The relief for Battery Electric Vehicles will also be tapered. It is intended that the changes to the VRT rates and bands will compensate for the changes to these reliefs.
- Following on from the introduction of the Nitrogen Oxide (also known as NOx) surcharge in last year's Budget, the NOx surcharge bands will be adjusted to ensure that higher NOx emitting vehicles will pay more.
- Carbon taxation: The Government has announced that the rate of carbon tax will increase from €26 per tonne/CO2 to €33.50 per tonne. The increase will apply to auto-fuels from 14 October and to other fuels from 1 May 2021. The upcoming Finance Bill will also provide for similar annual increases in carbon taxes to achieve a Government target of €100 per tonne/CO2 by 2030 (up from the €80 commitment in Budget 2020).
- In practice, this increase is expected to add €1.28 to the cost of a 60L tank of petrol, €1.47 to the same amount of diesel as well as adding €0.90 to a bag of coal and €0.20 to a bale of peat briquettes. VAT is also chargeable on such increased prices. Businesses will need to take cognisance of the increasing cost of carbon, and consider how total carbon emissions can be measured, monitored and reduced to decrease energy costs.
- Energy efficient equipment: Extension of accelerated capital allowance scheme for energy efficient equipment for a further three years to 31 December 2023. The energy efficiency criteria will also be re-assessed in 2021 to ensure the categories of equipment attracting relief remain appropriate and reflect the most up-to-date efficiency standards.

Personal taxes

- Earned income credit for self-employed: Increase of €150 from €1,500 to €1,650.
- Dependent Relative Credit: Increase from €70 to €245.
- Pay and File tax payments: July stimulus debt-warehousing provisions to be extended to include self-employed payments of balance of income tax for 2019 and 2020 preliminary tax. The extension will be for a year at zero interest with a 3% rate applying thereafter without surcharge.
- Mortgage interest relief: No change to tapered extension of mortgage interest relief for remaining recipients, i.e., owner occupiers who took out qualifying mortgages between 2007 and 2012. This reduces to 25% of the original rate in 2020. Relief to cease entirely from 2021.
- USC: 2% rate band extended by €203 from €20,484 to €20,687.
- USC: Reduced (2%) rate of USC for medical card holders extended by 1 year to 2021.
- Sea-going Naval Personnel Tax Credit: Extended to 31 December 2021 and by €230 to €1,500.

Summary of Budget measures

Indirect taxes

- Reduction in VAT rate for hospitality and tourism sectors: In response to the impact of COVID-19 on the hospitality and tourism sectors, the Minister has announced a temporary reduction in the VAT rate for these sectors from 13.5% to 9% (to apply from 1 November 2020 to 31 December 2021). In addition to the relief applying to catering services, hotel and guest house accommodation, it will also extend for admission to cinemas and promotion and admission to live performances, museums and exhibitions. Hairdressing services and the printed matter such as brochures catalogues maps, etc., will also benefit from the reduction.
- It is difficult to ascertain how effective this reduction will be in light of COVID-19 restrictions for these industries.
- Farmer's flat-rate addition: Farmers are scheduled to benefit by an increase in the flat-rate addition (from 5.4% to 5.6%).
- Excise: The usual increase in tobacco excise duty has been announced (50c per packet of 20, with a pro-rata increase on other tobacco products).

Property

- Help to buy scheme: The July 2020 stimulus package increased the maximum relief under the Help-to-Buy scheme to €30,000 or 10% of the purchase price of a property until 31 December 2020. This will be extended for another year to 31 December 2021.
- Stamp Duty Rebate: Extension of Residential Development (Stamp Duty) Refund Scheme by one year due to COVID-19 and other issues from 31 December 2021 to 31 December 2022. The time allowed between commencement and completion of a qualifying project is being extended by 6 months to 30 months.
- Consanguinity relief: Reduced 1% rate of stamp duty on transfers of agricultural land between family members extended for a further three years to 31 December 2023.
- Stamp Duty on farm consolidations: Extension of farm consolidation relief (stamp duty) by two years to 31 December 2022. This will align with its capital gains tax (CGT) equivalent.

Intangible assets

- To ensure Ireland's capital allowance regime for intellectual property is *"fully consistent with international best practice"* allowances may now be clawed back via balancing charges where assets are sold outside the current five-year holding period. This will only apply to specified intangible assets acquired on or after 14 October 2020.

Miscellaneous

- ATAD: Government confirms introduction of ATAD interest limitation and anti-reverse hybrid rules in Finance Bill 2021. A technical amendment will be made in Finance Bill 2020 to the existing ATAD-compliant exit tax rules.
- Capital gains tax: An anti-avoidance amendment pertaining to bank balance transfers (section 541 TCA97) is being introduced with effect for disposals made on or after 14 October 2020.

Finance Bill 2020

- Finance Bill 2020 is expected to be published on 22 October and signed into law by mid-December.

Rates at a glance

	2021
Income tax rates	
Standard	20%
Marginal	40%
Standard rate bands	
Single	€35,300
Married/civil partnership (two incomes)	€70,600
Married/civil partnership (one income)	€44,300
Single parent	€39,300
Income tax credits	
Single	€1,650
Married	€3,300
Single person child carer tax credit (primary carer only)	€1,650
PAYE	€1,650
Earned income credit (2020: €1,500)	€1,650
Age credit - single (married x2)	€245
Medical insurance relief max premium - adult/child	€1,000/€500
Home carer credit	€1,600
Dependent relative tax credit (2020: €70)	€245
Income tax age exemption	
Single and widowed	€18,000
Married (either spouse aged 65 or over)	€36,000
Rent-a-room relief	€14,000
Preferential loan specified rates - benefit-in-kind	
Qualifying home loans	4%
All other loans	13.5%

	2021
Electric vehicles - benefit in kind	
(capped at €50,000 of OMV, regardless of when vehicle first provided for use)	0%
Small benefit exemption	
Single non-cash voucher	€500
Universal Social Charge	
Earnings	
0 to €12,012*	0.5%
€12,012 to €20,687 (2020: €12,012 to €20,484)	2%
€20,687 to €70,044** (2020: €20,484 to €70,044**)	4.50%
€70,044 to €100,000	8%
PAYE income > €100,000	8%
Self-employed income > €100,000	11%

**Exempt if income < €13,000*
***Reduced rate 2% for persons holding medical card and/or aged 70, where income < €60,000*

PRSI rates	
Employer	
Standard rate	11.05%
Lower rate	8.8%
Weekly lower rate limit (2020: €395)	€398
Employee	
PRSI	4%
Weekly PRSI threshold (tapering relief available)	€352
Self-employed	
PRSI	4%
Minimum contribution	€500

	2021
Pensions	
Annual earnings cap	€115,000
Marginal rate deduction	40%
Tax free lump sum limit	€200,000
Standard fund threshold	€2,000,000
DIRT	
Deposit accounts	33%
Investment funds	41%
Local property tax	
Market value < €1m	0.18%
Excess value > €1m	0.25%
Capital gains tax	
Standard rate	33%
Withholding tax rate	15%
Annual exemption	€1,270
Entrepreneur relief (up to €1m chargeable gains)	10%
Capital acquisitions tax	
Standard rate	33%
Thresholds	
Group A	€335,000
Group B	€32,500
Group C	€16,250
Stamp duty	
Residential property	
First €1m	1%
Excess over €1m	2%
Non-residential property	7.5%

	2021
Corporation tax rates	
Standard rate	12.5%
Higher rate on passive income	25%
Knowledge Development Box rate	6.25%
Exit tax*	12.5%

**Applies to unrealised capital gains where companies migrate/transfer assets offshore such that they leave the scope of Irish tax*

VAT rates and limits	
Standard rate (reverting to 23% on 1 March 2021)	21%
Reduced rate	13.5%
Reduced rate (certain goods and services, extended to hospitality and tourism sector from 1 November 2020 to 31 December 2021)	9%
Farmer's flat rate (2020: 5.4%)	5.6%
Distance selling limit	€35,000
Registration limit - taxable goods	€75,000
Registration limit - taxable services	€37,500
Cash receipts basis limit	€2,000,000
Dividend Withholding Tax	
Dividend Withholding Tax	25%
Excise duties	
Increase per pack of 20 cigarettes	50 cent
Carbon taxes	
Per tonne/CO2 (2020: €26) To be increased incrementally each year to €100 per tonne/ CO2 by 2030	€33.50

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