Issue 19/2020

29 July 2020

Tax alert

Ireland

July Stimulus Package

Employment Related Measures

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The Government recently announced its stimulus package to further address the economic challenges caused by the COVID-19 pandemic. The Financial Provisions (Covid-19)(No. 2) Bill 2020 (The Bill) was published on 24 July to give legislative effect to the Government announcement, and contains a number of initiatives to assist employers with payroll costs.

Wage Subsidy Schemes - Overview

The Temporary Wage Subsidy (TWS) Scheme, effective from 26 March will continue to run until 31 August. An amendment to the TWS was introduced by the Bill, allowing for a TWS of 85% where the average net weekly pay was €586 or less (up from 70% or €350), backdated to 4 May.

Where an eligible employer has not been entitled to claim the TWS for an employee (eg new hires and seasonal workers), they may now claim under the new Employment Wage Subsidy Scheme (EWSS) from 1July. Entitlements to the EWSS in all other instances are to be considered from 1 September.

The EWSS will run until 31 March 2021.

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Employment Wage Subsidy Scheme

The new Employment Wage Subsidy Scheme (EWSS) commences from 1 July 2020 (for employees for whom the TWS has not been claimed) and from 1 September in all other cases. It will run until at least 31 March 2021. The key features of the scheme are:

- A flat payment per employee to an eligible employer for any employees on gross weekly pay between €151.50 and €1,462. Where gross weekly pay is between €151.50 and €202.99, the subsidy is €151.50. Where gross weekly pay is between €203 and €1,462, the subsidy is €203. The EWSS is not due where gross pay is less than €151.50 or over €1,462 per week.

  Normal payroll to be operated, ie employers will no longer have to calculate 'employer top-up payments' or be concerned about the tapering restrictions that apply. The employee receives their pay as normal and it is subject to PAYE deductions as appropriate.

- The EWSS is a subsidy paid directly to the employer and does not impact the employee's pay. Unlike the TWS, the EWSS payment does not get passed on to the employee and it will not be considered a taxable payment in the employee's hands. Therefore, the anxiety and uncertainty around employees' tax bills associated with the TWS will not be an issue.

- The EWSS payments will be made to an employer as soon as practicable after the filing of the monthly payroll return.

- Employee's PRSI contribution is as normal and Employer's PRSI contribution is 0.5%.

- The EWSS is not due in the case of proprietory directors (15% or more shareholding), or where the employee is a connected individual (member of the extended family), unless such individual was on the payroll at any time between 1 July 2019 and 30 June 2020.

Qualifying Conditions

The employer must be able to demonstrate that they are likely to incur, as a consequence of COVID-19 a minimum decline of 30% in turnover or customer orders in the period 1 July to 31 December 2020 compared to the same period in 2019.

Where a business has commenced after 1 July 2019 but before 1 November 2019, the comparative period will be the date of commencement to 31 December 2019.

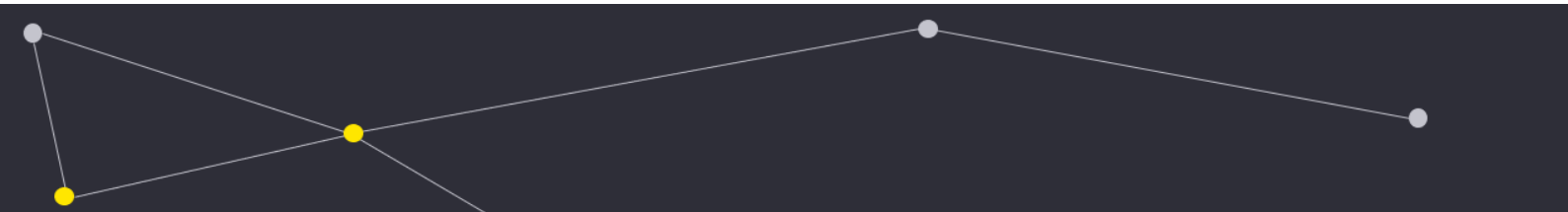
Where a business commenced after 1 November 2019, the decline will be based on projected turnover or customer orders for the period 1July to 31 December 2020.

Qualifying employers are required to self-assess their eligibility at the end of each month and must deregister from 1st of the following month if they do not expect to meet the qualifying conditions.

Anti-Avoidance

The scheme will be administered by Revenue on a 'self-assessment' basis. The Bill provides a number of control measures and anti-avoidance provisions, including:

- Any arrangements under which the employer suspends, defers, increases or decreases an employees' salary in order to qualify for a wage subsidy, or lays off an employee and replaces them with two or more employees for the purposes of securing a higher subsidy will render the employer ineligible for the EWSS from the outset, not just in respect of those employees but in respect of ANY of its employees and any subsidy paid will be clawed back.



- Any subsidy that is overpaid or is to be refunded to Revenue will be treated as an amount of income tax due from the employer and will be subject to interest. Penalties may also apply.
- Revenue will publish a list of all employers to whom a subsidy was paid.

Employment Incentives

The July Stimulus Package, announced on 23 July included provisions for:

- An Apprenticeship Recruitment Incentive which will provide a financial incentive for companies who recruit apprentices of up to €3,000;

- An enhanced JobsPlus Subsidy Scheme to provide subsidies of up to €7,500 over two years for employers who hire someone who is unemployed and under the age of 30.

Details have not yet been published on the eligibility criteria for these schemes.

PAYE Warehousing

The Bill gives legislative effect to the warehousing of taxes, including PAYE, for businesses experiencing cashflow and trading difficulties as a consequence of COVID-19, an initiative announced by Revenue at the onset of the pandemic. The Bill outlines a number of conditions which must be met by the employer to qualify for debt warehousing as follows:

- As a consequence of the effect of COVID-19 and the sectoral restrictions, the employer is unable to pay all or part of PAYE liabilities during Period 1 (see below);
- All tax returns have been filed on time and correctly with Revenue;
- All other tax liabilities have been paid on time and correctly with Revenue;
- The employer has notified Revenue of its view of its inability to pay all or part of the PAYE liabilities;
- The employer must enter into an agreement with the Collector General to pay the outstanding PAYE liabilities together with interest before the first date of Period 3 (see below).

Period 1

The COVID-19 restricted trading period in which the qualifying PAYE debts have been incurred commencing on 1 February 2020, or the date on which the business was adversely affected by the pandemic, if later. For employers who remit PAYE on an annual basis, the full year 2020 will qualify. No interest will be charged in respect of the qualifying debts during this period.

Period 2

A 12-month interest free period, following the end of Period 1, which may be extended by Ministerial Order to no later than 31 December 2022.

Period 3

A period where interest is charge at the lower rate of 0.0082% per day (annualised at 3%), provided the employer has met all the requirements to qualify for debt warehousing. This reduced interest rate will apply until the debt is fully discharged by the employer.

Where the employer fails to comply with the above conditions in any of the 3 periods, the reduced interest rate will no longer apply from the date of non-compliance and the normal interest rate of 0.0274% per day (annualised at 10%) will be charged on the PAYE debt.

The Bill confirms that businesses whose taxes are warehoused will still be able to obtain a tax clearance certificate provided all other tax obligations have been complied with.

Cycle to Work Scheme

Prior to the latest announcements, an employer could fund the purchase of a bicycle and qualifying equipment out of an employee's gross pay, up to a maximum spend of €1,000 every five years. This is now being increased to €1,250 every four years. The scheme has also been extended to ebikes with allowable expenditure, in this case of up to €1,500.

Stay and Spend Tax Credit

To boost the domestic hospitality and tourism industry, the Government has introduced a Stay and Spend Incentive in the form of a tax credit to taxpayers who can claim the lesser of:

- 20% of qualifying expenditure, or
- €125 or €250 in the case of a jointly assessed couple

A minimum spend of €25 (including VAT) per transaction is required on accommodation, food or non-alcoholic drinks where the maximum tax credit available is €125 per taxpayer when they spend €625 or more (or €250 for jointly assessed couples spending €625 each). The expenditure can be incurred on a cumulative basis over the period of the scheme (October 2020 to April 2021) where relief is granted in the tax year the expenditure is incurred. The tax credit can be used to reduce the claimant's income tax liability, or USC liability where there is an insufficient income tax liability available.

The businesses in which qualifying expenditure can be made must be registered with Fáilte Ireland if providing accommodation and in the case of food must be consumed on the businesses premises to qualify. The businesses must also be registered for VAT purposes, have a tax clearance certificate and register with Revenue for the scheme.

In addition, the Government announced the standard VAT rate will be reduced from 23% to 21% for 6 months and will apply not just to the hospitality sector but also extend to the retail sector and other areas of the economy.

First Time Home Buyers Grant

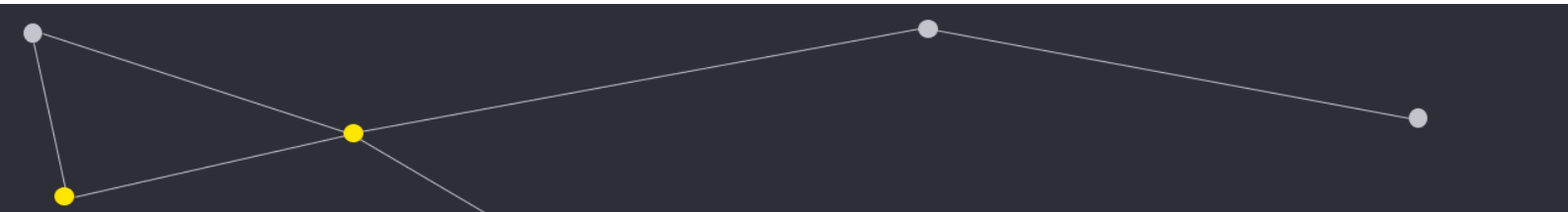
First time home buyers will also receive increased assistance to help maintain demand for home purchases and self-builds from 23 July 2020. Under the current scheme a taxpayer can claim the lessor of:

- €20,000
- 5% of the purchase price of a new house/completion value of a self-build, or
- the amount Income Tax or DIRT paid in the prior four years before purchase/build

As part of the measures introduced under the July Stimulus Package, first time home buyers can now qualify for an increased grant of either €30,000, or 10% of the purchase price of a new house/completion value of the property in the case of a self-build, until 31 December 2020.

SUMMARY

The incentives outlined above, in particular the introduction of the EWSS will be welcomed by employers challenged by the impact of COVID-19. Simplifying the process and doing away with the adverse impact on an employee's tax liability will be a particularly welcome move. The facility to warehouse PAYE liabilities will also ease cash flow issues for employers. It is important that employers follow the rules on the EWSS and PAYE warehousing properly to ensure that they continue to qualify for these incentives.



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119393.temp Produced by Creative (Ireland). 07/2020. ED none.

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