

Budget 2015

The following topics are covered:

International Tax	Personal Tax and Pensions	SME Measures
Construction and Property	Agri-tax	VAT and Indirect Taxes

International Tax - A Corporate Tax Road Map

A Road Map for Ireland's Tax Competitiveness has been published as part of the Budget package. The Road map is designed to secure Ireland's place as the destination for the best and most successful companies in the world to locate. It aims to ensure Ireland places itself in the best position possible to become the country of choice for mobile foreign direct investment in a post-BEPS environment.

The Road Map reaffirms Ireland's commitment to the 12.5% corporation tax rate as settled policy which will not change and includes a number of important tax reforms:

Company residence rules

Our current tax residence rules will be amended. The default rule will be that all companies incorporated in Ireland will be tax resident in Ireland. The exact detail of the change will be included in the Finance Bill but it is expected that the 'trading exemption' will be removed from the incorporation test. The change will take effect from 1 January 2015 for new companies. For existing companies, the change will not apply until the end of 2020.

IP capital allowances regime (section 291A TCA 1997)

The current IP capital allowances regime in Section 291A TCA 1997 will be enhanced. The current 80% cap on the aggregate amount of allowances and related interest expense that may be claimed will be removed. Additionally, the definition of "specified intangible assets" will be amended to ensure that allowances are available in respect of "customer lists".

Introduction of a "Knowledge Development Box"

Minister Noonan committed to introducing a "best in class" income-based IP regime. A public consultation will be held in late 2014 on how this regime should be developed and legislation will be introduced in next year's Finance Bill or as soon as EU and OECD discussions on the issue conclude.

R&D tax credit regime

Finance Bill 2014 will provide for the R&D tax credit "base year" restriction to be fully phased out. Revenue will also publish new guidelines to enhance clarity on the administration of the R&D tax credit.

SARP

SARP is being extended for a further 3 years until the end of 2017 and the upper salary threshold (currently €500,000) is being removed. The residency requirements are being amended and the restriction on working abroad is also being removed. The requirement for the individual to have been employed abroad by the employer is being reduced from 12 to 6 months. Further details of the changes are expected to be provided in the Finance Bill. The Institute highlighted these issues with the SARP in our response to the recent Department of Finance consultation.

Revenue resources

Revenue will be allocated additional resources to strengthen their ability to act as a transfer pricing competent authority. The number of transfer pricing disputes is expected to increase as a result of international tax reforms and these additional resources will assist Revenue to deal with this increase.

Tax treaties

Ireland will continue to expand its extensive network of tax treaties and tax information exchange agreements.

Open and transparent tax regime

Ireland will continue to support exchange of information and the OECD's proposals on country by country reporting. Additionally, a spillover analysis of the impact of the Irish tax system on developing economies will be published.

In addition, the Employment & Investment Incentive (EII) and the Foreign Earnings Deduction (FED) are being enhanced (as detailed below in measures in relation to the SME sector).

The Minister has also announced that a new Strategy for Financial Services in Ireland is currently being developed and will be launched next year.

Personal Tax and Pensions

Income Tax & USC

Minister Noonan announced a number of comprehensive changes to the personal tax regime. The reforms are primarily aimed at reducing the tax burden for low and middle income earners. The measures announced by Minister Noonan to apply for 2015 are:

- A €1,000 increase in the entry point to the marginal rate of income tax from €32,800 to €33,800 for a single person and from €41,800 to €42,800 for a married couple with one earner. The band will increase by €2,000 for a married couple with two earners.
- A 1% decrease in the marginal rate of income tax from 41% to 40%.
- An increase in the USC exemption threshold from €10,036 to €12,012.
- A restructuring of the USC bands and rates. This includes increases to the income thresholds, reduction of the two lower rates and a new 8% rate on income above €70,044. (details below)

New USC bands and rates

	Income	%
Employee	Up to €12,012	1.5%
	€12,013 to €17,576	3.5%
	€17,577 to €70,044	7%
	> €70,044	8%
Self-Employed	Up to €12,012	1.5%
	€12,013 to €17,576	1.5%
	€17,577 to €70,044	7%
	€70,045 to €100,000	8%
	> €100,000	11%

- The extra 3% USC for self-employed individuals earning more than €100,000 has been retained (increasing the rate from 10% to 11% for 2015). As such, the marginal rate for the self-employed remains at 55% on income above €100,000.
- Medical card holders and those over 70 earning less than €60,000 will pay a maximum USC rate of 3.5%.

Minister Noonan confirmed that further reforms will be made to the personal tax system over the next two Budgets. While specific details of future changes have not been outlined, the intention is to *"continue to ease the burden on those in the middle in a targeted manner without giving disproportionate benefits to those on the highest incomes"*.

Pensions

Tax relief will continue to be available at the marginal rate for pension contributions.

The 0.6% levy on pension fund assets will be abolished from the end of 31 December 2014. The Minister has confirmed that the additional levy of 0.15% will expire at the end of 2015.

Tax relief for water charges

Income tax relief at the standard rate will be available on water charges up to a maximum of €500 per household. The maximum tax relief available per household will be €100. Relief will be given on a prior year basis. It is not yet clear how relief claims will be administered. We will be discussing this matter with Revenue.

Rent-a-room relief

Currently, where an individual lets a room in their sole or main residence as residential accommodation, the income may be exempt from income tax where the aggregate sums received are below €10,000. This exemption threshold is being increased to €12,000.

Artists' exemption

The threshold for the artists' exemption is being increased by €10,000 from €40,000 to

€50,000. The relief is also being extended to artists who are resident or ordinarily resident in another EU Member State or an EEA State.

SME Measures

The Minister has announced a number of key tax reforms targeted at the SME sector.

Start-up relief for companies

The relief from corporation tax on trading income and chargeable gains for start-up companies will continue to apply to businesses that commence to trade in 2015. Relief applies where the total corporation tax payable for a period does not exceed €40,000. The amount of relief available is linked to employer's PRSI paid in a period.

Employment Investment & Incentive Scheme (EII)

A number of changes are being made to the EII regime. These changes require EU approval.

- The limit that companies can raise under the EII is being increased to €5 million annually, with a lifetime cap of €15 million.
- The period for which shares must be held is increasing from three to four years.
- The list of qualifying companies which can raise funds under the EII will be extended to include medium sized companies in non-assisted areas and internationally traded financial services.
- Hotels, guest houses and self-catering accommodation will remain eligible for relief for a further three years.
- The operation and management of nursing homes will be included for three years.

Foreign Earnings Deduction (FED)

A number of changes to the FED have been announced.

- It is being extended until the end of 2017.
- The list of qualifying countries will be extended to include Mexico, Chile and certain countries in the Middle East and Asia. The full list of countries has not yet been confirmed.
- The number of qualifying days which must be spent abroad is being reduced from 60 days to 40 days.
- The minimum stay in a country is now reduced to three days and travel days can be included when calculating the days spent abroad.

In our response to the recent Department of Finance consultation on the FED, the Institute called for an extension to the range of qualifying countries and a reduction in the number of days that must be spent abroad.

9% VAT rate

The reduced 9% VAT rate for tourism-related goods and services is being retained. The Minister noted in his speech that it is incumbent on the industry to ensure that this relief continues to be passed through fully to the consumer and *"if prices begin to rise, the case for retaining the measure diminishes."*

Construction and Property

Minister Noonan announced a number of changes to taxation of property and construction. His stated intention is to remove "*blockages from the system to get the market moving, to generate building activity and to increase supply*".

- The CGT 7 year exemption will expire at the end of 2014.
- The Home Renovation Incentive is being extended to include work carried out on rented residential properties, once the landlord is subject to income tax. The measure will be available for work carried out from Budget night until the end of 2015.
- The 80% windfall tax applying to gains attributable to rezoning of land is being abolished from 1 January 2015. The normal CGT rules will apply to gains arising after this date.
- The "Living City Initiative" announced in Budget 2013 and extended last year will be launched in early 2015 once EU State Aid approval is obtained.
- A DIRT refund scheme is being introduced for first time buyers of residential property. DIRT charged on savings in the 48 months prior to purchase which are used as a deposit to purchase a residential property will be refunded. The savings that can qualify for this relief cannot exceed 20% of the purchase price. The relief will apply from Budget night until the end of 2017.

A consultation will be held in the coming months to examine the issue of zoned and serviced land not being developed. A Vacant Site Levy is to be included in new planning legislation. This levy will allow local authorities to charge a levy of 3% of value on undeveloped sites in urban areas.

Agri-tax

A review of how the taxation system applies to farmers was held earlier this year. The outcome of this 'Agri-tax' review has been published with the Budget and includes numerous recommendations for significant tax changes.

These relate to:

CGT Retirement Relief

- Land which has been leased for up to 25 years in total ending with disposal will qualify for relief (previously this only applied to land leased for a maximum of 15 years). This is a change the Institute sought in our response to the Agri-tax consultation.
- Land which is currently let under con-acre and is disposed of, or let out on a lease of more than 5 years, before 31 December 2016 will qualify for the relief.

Farm leasing

- There has been an increase of 50% in the income exemption thresholds to which land leasing exemption applies and the creation of a new exemption category for leases longer than 15 years.
- The relief will be available where the lessee is a company.
- The requirement for the lessor to be aged over 40 years of age will be removed.

Income averaging

- The period over which income can be averaged is being increased from three to five years.
- The restriction on income averaging where the farmer or his spouse has additional income will not apply where that income relates to on-farm diversification.

CGT Relief for farm restructuring

- The relief will be amended to allow whole farm replacements to be eligible for the relief, subject to meeting the conditions laid down by Teagasc.
- The relief has been extended for a further 12 months to 31 December 2016. The Institute sought this extension.

CAT Agricultural Relief

- Relief is being restricted so that it will only be available where land is inherited by active farmers or individuals who are not active farmers but who lease out the property on a long-term basis to an active farmer.

Stamp Duty

- Agricultural leases between 5 and 35 years in duration to active farmers will be exempt from Stamp Duty.
- Consanguinity Relief, which applies to transfers of non-residential property to certain relatives, and expires at the end of 2014, will be extended but only to cover transfers by individuals aged under 65 to active farmers.

VAT

- The flat-rate farmer addition will also be increased from 5% to 5.2% from 1 January 2015.

An Agri-Tax Review document has been published which discusses some recommendations for additional actions that could be taken in Budget 2016.

The Minister also announced that a consultation is to be published to review the taxation of the marine sector.

VAT and Indirect Taxes

A number of indirect tax and excise measures were announced in the Budget:

- As noted above, Minister Noonan confirmed that the 9% VAT rate for the hospitality sector will continue.
- The flat-rate addition for non-VAT registered farmers will be increased from 5% to 5.2% from 1 January 2015.
- Finance Act 2011 introduced legislation to apply betting duty to "remote" bookmakers and betting intermediaries. The provisions have yet to be activated. The Budget documents note that the enactment of the Betting (Amendment) Bill 2013 (which is currently before the Seanad) will allow for the extension of Betting Duty to remote operators and betting exchanges to be applied in 2015. This will raise €25 million per annum.
- The price of 20 cigarettes will increase by 40c with effect from midnight tonight.
- The VRT reliefs available for the purchase of hybrid electric vehicles, plug-in hybrid electric vehicles, and electric motorcycles are being extended to 31 December 2016.
- The special relief reducing the standard rate of Alcohol Products Tax by 50% on beers produced in microbreweries which produce not more than 20,000 hectolitres per annum is being extended to apply to microbreweries which produce not more than 30,000 hectolitres per annum.
- A 30 day deferral of excise duty will be provided for mineral oil (subject to a commencement order).
- The excise rate for Natural Gas and BioGas as a propellant will be set at the current EU Minimum rate and this rate will be held for a period of eight years.

It was also noted that the change in the VAT place of supply rules coming into place for supplies of electronic services from 1 January 2015 are expected to increase Irish VAT revenue by circa €100 million in 2015.