



# TaxingTimes

## Budget 2017

& Current Tax Developments

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# Introduction



Conor O'Brien  
Partner

*The Minister for Finance introduced the 2017 Budget (the Budget) on 11 October 2016. Further detailed measures will be included in the Finance Bill to be published on 20 October 2016.*

Budget 2017 is the second budget in a row where the Government's choices have been about how to distribute benefits rather than how to distribute austerity. The movement away from years of austerity will be very much welcomed by a population that endured severe hardship with remarkable discipline. This discipline combined with the skill of policymakers in retaining a very competitive business taxation regime has been crucial in restoring Ireland as one of the fastest growing economies in the developed world – this is best reflected by the growth in employment numbers in recent years.

Wary of repeating the mistakes of the past, the minister has continued the cautious and steady approach of previous budgets. This includes managing down the national debt and creating a "rainy day" fund for the future. Storing up grain during years of plenty has been wise policy since the days of Pharaoh - the minister's proposals in this regard will be welcomed by prudence fans everywhere.

In his Budget speech the minister reiterated Ireland's enduring and extraordinarily firm commitment to the 12.5% rate of corporation tax. This combined with the recent decision to appeal the EU Commission's ruling on Apple demonstrate the Irish State's unrivalled commitment and reliability as a partner for international business. This remarkable reliability has been demonstrated by successive governments of every stripe and now stretches back for six decades.

The minister indicated that he was alive to both the dangers and the opportunities arising from Brexit and this was influential in his decision to retain the 9% rate of VAT for tourism. This will be welcomed by the tourism sector much of which remains marginally profitable.

OECD research shows that, after corporation tax, personal taxes have the greatest impact on a country's competitiveness. The importance of personal taxes will grow in the future due to the impact of changes in international taxation law arising from the OECD's Base Erosion and Profit Shifting (BEPS) project, etc. It is well established by the laws of economics, and by common sense, that small, peripheral economies with relatively little mineral resources need to take particular care of their competitive position in order to compensate for the external diseconomies that they suffer. In our view, it has been clear for some time that attention needs to be given to Ireland's personal taxation regime and in particular to the treatment of internationally mobile executives and domestic entrepreneurs. A degree of personal tax relief was included in the budget, building on that provided last year.

Key measures included:

- A 0.5% cut in the rate of USC for low to middle incomes
- A reduction in the rate of capital gains tax from 20% to 10% on up to €1 million of gains earned by entrepreneurs
- Introduction of a first time house buyer's tax credit with a value of up to €20,000
- An increase in the main exempt CAT threshold from €280K to €310K with proportionate increases in the other thresholds
- A further closing of the gap between the tax credit available to the employed and the self-employed
- A phased reduction of the rate of DIRT by 8% over four years
- A phased restoration of full interest relief for landlords over a five year period
- A commitment to introduce a share incentive scheme for SMEs by 2018
- A €2,000 increase in the "rent a room" relief
- Extension of the Special Assignee Relief Programme (SARP), Foreign Earnings Deduction (FED) and "Start your own business" reliefs

The continued policy of denying any tax relief on incomes over €70,000 is to be regretted. Ireland already has the most progressive income tax system in the EU and the second most progressive in the OECD - recent budgets, including this one, will have skewed this even further. The top 1% of income earners in Ireland already pay more than the bottom 75% combined and suffer marginal tax rates that are very high compared to competitor countries. There is a great deal of economic research that supports the proposition that those earning over €70,000 are being "milked" to a degree that is counterproductive i.e. the exchequer might actually collect more revenue if it were to reduce the income tax rates applying to this group and thereby attract more senior executives, entrepreneurs and related business activity to Ireland.

While the cut in the rate of Capital Gains Tax for entrepreneurs is to be welcomed the failure to raise the threshold to a level comparable to that available in the UK (or to that in the program for government) is disappointing. The minister indicated that the level of the threshold will be reviewed in future budgets.

It is to be hoped that future budgets will combine further tax relief for low to middle earners with personal taxation measures which maximise inward investment and domestic entrepreneurship together with the associated growth and jobs to the benefit of all our people.

Conor O'Brien  
Head of Tax and Legal Services

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# Personal Tax & Employee Issues



Robert Dowley  
Partner

## Universal social charge

The majority of personal tax reductions in the Budget related to Universal Social Charge (USC). The Minister for Finance reiterated that these reductions signal the Government's intent to phase out USC over time as resources permit, which is consistent with the Programme for Partnership Government.

In line with Budget 2016, the minister has focused on rate reductions rather than threshold increases although the rate reductions announced in Budget 2017 are less than those announced in Budget 2016. Each of the three lowest USC rates has been reduced by 0.5%. This continues the reduction in overall marginal tax rates, which commenced last year, with the marginal rate for those earning up to €70,044 reducing from 49.5% to 49%. For individuals whose income does not exceed

€60,000 per annum, a maximum USC rate of 2.5% will be payable where that individual is a full medical card holder or is aged 70 or over.

The minister also announced a very slight widening of the band of income at which the reduced 2.5% USC rate applies from €18,668 to €18,772. This is intended to ensure that a full-time worker on the national minimum wage will not be liable for USC at a rate higher than 2.5%.

The maximum benefit to an individual from the above measures is €353 per annum i.e. €7 per week. It is expected that these measures will take effect from 1 January 2017.

Full details of the revised rates and bands are included in the Tax Rates and Credits 2017 table at the end of this publication.

## Earned income credit

In last year's Budget, the minister introduced an earned income tax credit of €550 per annum for the self-employed. This was intended to partly reduce the tax differential in how the self-employed and employees are taxed.

In line with his commitment last year to introduce further reform if returned to Government, the minister has announced an increase in the earned income tax credit to €950 per annum. It is expected that this increased tax credit will take effect for the 2017 tax year.

While this will be welcomed, a significant differential still remains in the form of:

- (i) A difference of €700 between the PAYE employee tax credit and the earned income tax credit, and
- (ii) The self-employed earning over €100,000 being liable to USC at a rate of 11% whereas the maximum rate of USC payable on employment income is 8%.

## Special Assignee Relief Programme (SARP)

The minister announced that the existing Special Assignee Relief Programme (SARP) is to be extended for a further three years from the end of 2017 until the end of 2020. This relief was introduced in Finance Act 2012 as part of the Government's strategy to attract inward investment to Ireland. The aim of the programme is to encourage the relocation of key talent from within multi-national groups to Ireland.





**Eric Wallace**  
Partner

The relief requires that a number of conditions are satisfied, including the requirement that the employee must have worked outside of Ireland for the same multi-national group for at least six months immediately before their arrival in Ireland. Where the necessary conditions are met, the relief provides for a 30% reduction in an employee's taxable remuneration in excess of €75,000. No changes were announced to the conditions to avail of the relief.

## Foreign Earnings Deduction

The existing Foreign Earnings Deduction (FED) relief is being extended until the end of 2020, with some improvements to the relief.

The relief was originally introduced in Finance Act 2012 with the aim of assisting companies to expand into emerging markets. The original relief provided for an income tax deduction up to a maximum of €35,000 for employees that spent a sufficient number of days working in Brazil, Russia, India, China or South Africa.

The Government improved upon the relief since its introduction with the list of qualifying countries gradually increasing to a total of 28 countries prior to Budget 2017. In his Budget speech, the minister added Colombia and Pakistan to the list of qualifying countries. In addition, the minimum number of days working abroad in order to qualify for the relief has been reduced from 40 to 30 days per annum. However, the income tax deduction remains capped at €35,000 per annum.

These amendments form part of the measures intended to encourage Irish businesses to seek out opportunities

to grow their activities in international markets.

## Consultation on PAYE modernisation

In his Budget speech, the minister announced the launch of a consultation process by the Revenue Commissioners on the modernisation of the PAYE system. This is the first major overhaul of the system since its introduction in 1960.

It appears that the proposed modernisation is focussed on using technology to report PAYE details to the Revenue Commissioners in real-time, similar to the real-time information system introduced in the UK in recent years.

The indicative commencement date for the new system is 1 January 2019 and the closing date for submissions from interested parties in response to the consultation paper is 12 December 2016.

The consultation document sets out the potential benefits of upgrading the PAYE system, such as improvements in accuracy, ease of understanding, and transparency of the PAYE system.

It is also envisaged that the current PAYE reporting requirements would be integrated fully into employers' regular payroll processes. This should eliminate the need to complete year-end documents such as P35s and P60s. Importantly, the consultation document notes that there is currently no proposal to change the due date for the remittance of the relevant payroll taxes by employers.

From an employee perspective, it is

proposed that they would be able to claim various reliefs and tax credits such as relief for medical expenses before the end of the relevant tax year. Currently these can only be claimed after the end of the year. However, this would require employees to be in a position to avail of electronic reporting/ updating of data. It remains to be seen whether this will be achievable for all employees in practice.

A potential consequence of introducing a real-time payroll information system that is not mentioned in the consultation document is that the system could be used to more accurately means-test an individual claiming social welfare benefits. The use of the system in this manner may have data privacy implications that would need to be considered.





**Gareth Bryan**  
Partner

It is expected that the process of designing the new system will involve considerable communication between the various stakeholders. Apart from the time involved in obtaining agreement on the design of any new system, practical issues (both on initial setup and recurring) that will need to be resolved include how to deal with:

- (i) The time required for payroll software providers to fully understand the requirements of any new system and write appropriate updates to their software
- (ii) Any update by employers of personnel records that are currently incomplete
- (iii) Potential time lags in obtaining PPS numbers for secondees
- (iv) The timely availability of information to correctly assess share-based remuneration, particularly for employees who have worked in multiple jurisdictions

As mentioned above, a similar real-time payroll information system has been introduced in the UK recently. It is hoped that we can leverage the experience in the UK to overcome any potential teething difficulties, and that the system would be introduced on a phased basis similar to the approach taken to mandatory Revenue Online Service (ROS) filing and iXBRL accounts filing requirements.

## Mortgage interest relief

The minister announced his intention to extend mortgage interest relief beyond December 2017 out to 2020, the details of which he said will be set out in Budget 2018. It is possible this extension will only apply to those

already qualifying for mortgage interest relief up to December 2017. Any extension would be a welcome relief particularly for individuals who took out loans between 2004 and 2008 where relief was available at a rate of 30%.

The delay in announcing the details until Budget 2018 will cause operational challenges for lenders who operate the relief at source as they will presumably be required to implement any such changes by 1 January 2018. The delay will also create uncertainty in evaluating repayment solutions for mortgage customers in difficulty.

## Home carer credit

The home carer credit is intended to assist families who care for a child or dependent relative in the home. This is achieved by giving the carer's spouse/civil partner an additional tax credit against the tax payable on their income.

In last year's Budget, the minister announced an increase in the credit from €810 to €1,000. The Budget 2017 measures include a further increase in the tax credit to €1,100 per annum.



The full tax credit is available where the carer's income is €7,200 or less. A reduced tax credit will apply for incomes up to €9,400 (previously €9,200).

It is expected that the above will take effect for the 2017 tax year, and it is hoped that further increases in the tax credit will be delivered in future Budgets.

## CAT thresholds

The minister's Budget announcements included an increase in the tax-free thresholds that apply for capital acquisitions tax (CAT) purposes. CAT applies at a rate of 33% where the aggregate value of gifts and/or inheritances received since 5 December 1991 exceeds the relevant tax-free threshold.

In making the announcement, the minister referenced increasing asset prices and higher tax liabilities on passing family homes as being the driver for this increase. The Class A tax-free threshold that applies to gifts/inheritances by a parent to a child is to be increased from €280,000 to €310,000. The minister also announced 8% increases to the Class B and Class C tax-free thresholds. While this is still significantly lower than the tax-free thresholds that applied in 2009, it is a move towards restoring the historic position.

Neither the Budget speech nor the accompanying documents confirm the commencement date for these changes.

Full details of the revised tax-free thresholds are available in the Tax Rates and Credits 2017 table at the end of this publication.



# Financial Services



Brian Daly  
Partner



Brian Brennan  
Partner

## Section 110 Securitisation Regime

Ireland's securitisation regime has been the subject of much discussion in recent months. In his Budget speech, the minister reiterated the benefit of Ireland's securitisation regime has been to our financial services industry. However, he suggested that the provisions are being used in ways which were not intended when the relevant section was introduced, particularly in relation to funds and property. The minister announced that legislation to address these concerns (a draft of which was published on 6 September 2016) would be included in the Finance Bill, following a consultation period, but no further detail was provided.

In broad terms, it is proposed that new rules will apply to the extent that a qualifying securitisation company owns financial assets (including loans) which derive their value or the greater part of their value (directly or indirectly) from Irish land and buildings. These financial assets are to be treated as part of a separate business, to be known as a "specified property business" carried on by the company. The general securitisation rules will continue to apply to this specified property business; however, interest deductions in respect of profit-participating loans will be restricted to the amount of interest that would have been payable on that loan had it been a non-profit-participating loan entered into by way of a bargain made at arm's length. Interest paid to certain categories of recipient (such as Irish pension funds, Irish companies, and certain EU

companies) will not be restricted. As a result of these changes, securitisation companies which purchased loans secured on Irish property at a discount could now be subject to Irish corporation tax at the rate of 25% on a significant part of the gains realised on those investments.

## Stamp duty on share transactions

In response to Brexit, the Department of Finance announced that there will be a review of the charge to stamp duty on sales and transfers of stocks, shares, and marketable securities of Irish incorporated companies. Under current legislation, the transfer of such property is subject to Irish stamp duty at a rate of 1%.

The review, which is to be carried out in 2017, is welcome, as Ireland's rate of stamp duty on such transfers is higher than many other jurisdictions, including the UK which has general rate of 0.5%. The review will take account of the sustainability of the tax yield, the UK's future relationship with the EU and competitiveness issues. The elimination of stamp duty on transfers of such assets would enhance Ireland's attractiveness as a location for Foreign Direct Investment.

## Savings products

The rate of deposit interest retention tax (DIRT) will be reduced by 2% each year for the next four years from a current rate of 41% to 33% in 2020.

Historically, the rate of DIRT has moved in lockstep with the exit tax applicable to life assurance policies and investment in fund products. However, the reduction in rate announced by the minister will

only apply to DIRT. Payments from life assurance policies and investment funds will remain taxed at the 41% rate.

The rate of DIRT in 2020 will equate with the current rate of capital gains tax (CGT). Assuming the CGT rate remains the same, this should level the playing field between deposit investments and direct investment in capital growth assets. However, if the rate differential were to remain on life policies and investment funds this would create an unfair disadvantage. Investors' preferences for longer term deposit products could be a consequence of these measures but would be dependent on their view of future interest rates.

## Bank levy

Finance Act 2015 extended the bank levy to 2021. In Budget 2016, it was announced that a new basis for calculating the levy would be introduced and it was expected that this new basis would be announced in Budget 2017. However, it would now seem likely that details will not be announced until the publication of the Finance Bill.



# Business Tax



Anna Scally  
Partner

## Start Your Own Business

The minister announced the extension of the Start Your Own Business scheme for a further two years to 31 December 2018.

The scheme, which was introduced in Finance (No.2) Act 2013, provides qualifying individuals relief from income tax up to a maximum of €40,000 per annum for a period of two years. To qualify for the relief, the individual must have been unemployed for twelve months or more and in receipt of at least one of certain social welfare payments prior to establishing the business. The relief applies to individuals setting up newly established, unincorporated businesses.

## Entrepreneurs CGT Relief

A reduced rate of capital gains tax of 20% was introduced in Finance Act 2015 with effect from 1 January 2016

to disposals of the whole or part of a qualifying trade or business owned by a qualifying individual for at least three years before disposal.

An individual will be considered a qualifying individual for the purposes of the relief if they have worked as a director or employee of the company for three of the five years prior to disposal. Qualifying assets for the purposes of the relief include shares in or assets of any company other than those involved in certain excluded activities, such as dealing in shares, securities, commodities, land or property. In addition, a disposal of shares will only qualify to the extent the individual holds 5% or more of the ordinary share capital.

The applicable rate of capital gains tax is being reduced from 20% to 10%. All other aspects of the relief remain unchanged including the lifetime limit of €1 million in chargeable gains to

which the relief can apply. The minister has signalled his intention to review the €1 million lifetime limit in future Budgets.

While the reduction in the rate is a welcome improvement, it is disappointing that the lifetime limit has not been increased, particularly to ensure the relief is competitive with that currently available in the UK, where the total lifetime limit is £10 million.

## Corporation Tax start-up relief

This relief reduces corporation tax payable on the profits of a new trade and gains on disposal of any assets used for the purposes of the new trade in the first three years of trading. It was extended by three years in Finance Act 2015 to trades which commence on or before 31 December 2018. The reduction in corporation tax is linked to the amount of employer PRSI







Andrew Gallagher  
Partner

paid in respect of each employee, subject to a maximum of €5,000 per employee, and is only available where the company's annual corporation tax liability on qualifying income and gains does not exceed €40,000 (marginal relief is available where the corporation tax liability is between €40,000 and €60,000).

While no further changes or extensions to the relief have been announced, the Government has confirmed its commitment to the relief in its Update on Ireland's International Tax Strategy 2016 paper stating that it plays an important role in assisting small businesses in starting, growing and creating jobs.

### Share based incentive scheme for SMEs

Following a significant number of submissions in response to the public consultation and review of share-based remuneration carried out by the Department of Finance, the minister has signalled his intention to introduce a new share-based incentive scheme specifically aimed at Small and Medium Enterprises (SMEs) in Budget 2018.

The new scheme will be subject to EU State-aid approval and engagement with the Commission will take place in advance of the next Budget to ensure compliance with State-aid rules.

While it would have been preferable for details to have been announced in the Budget, any improvements to the taxation of share-based remuneration will, nevertheless, be welcome.

### Tackling tax evasion

The minister used his Budget speech to announce a comprehensive programme of targeted compliance interventions against offshore tax evasion. He prefaced his announcement with a reference to the release of the Panama Papers which were well publicised earlier this year and attracted much public disapprobation and denunciation.

The minister announced the following initiatives in this area:

- The application of advanced analytics techniques, applied to various data sources including data newly available through FATCA, EU and OECD exchange of information programmes;
- The introduction of a new strict liability offence for failure to return details of offshore accounts or other

offshore assets; and

- The denial of the opportunity, from 1 May 2017, to make a "qualifying disclosure" in the area of offshore accounts and assets, therefore denying access to the reduced penalties that can otherwise arise from such qualifying disclosures. The timing suggests a final opportunity for those illegally using offshore accounts or structures to regularise their affairs before summer of next year.

These measures will be legislated for in the Finance Bill.

In addition, the minister announced the allocation of an additional €5 million to the Revenue Commissioners for investment in systems and equipment, and the recruitment of 50 additional staff.



# Property & Construction



Jim Clery  
Partner

## Increasing the supply of residential housing

As mooted in the Action Plan for Housing and Homelessness announced in July 2016, the minister has now formally introduced a Help-to-Buy Scheme designed to assist first-time buyers struggling to fund the deposit required to be eligible for a mortgage under the Central Bank's macro-prudential rules.

The objective of the new scheme is to create additional demand for houses, given market trends suggest that with increased demand, increased supply will follow. We think this is correct and that the measure will increase supply.

The scheme will take the form of a rebate of income tax paid over the previous four tax years which will act as a contribution to the deposit needed to fund the purchase of a new home. The maximum rebate available will be 5% of the purchase price of the new home up to a maximum of €20,000.

The key elements of the scheme are:

- The property must be a new build or self-build, and must be purchased as a principal private residence.
- In order to qualify, applicants must take out a mortgage of at least 80% of the purchase price. According to the Budget publications issued by the Department of Finance, individuals who are in a position to avail of a mortgage at a lower loan to value ratio than 80%, already have sufficient resources to meet the deposit requirements of the Central Bank rules and are less in need of assistance from the Exchequer.
- When the home costs between €400,000 and €600,000, the maximum rebate of €20,000 will continue to be available.
- No rebate will be available for new purchases or self-builds costing over €600,000.
- Rebates will be available for eligible purchases and self-builds/first

mortgage drawdowns from 19 July 2016 until the end of 2019.

- Applicants will be able to apply for the rebate via an online Revenue website from January 2017.
- The Governor of the Central Bank has agreed that any rebate received under the scheme will be reckoned in full in the calculation of the deposit required to be eligible for a mortgage under the Central Bank rules.
- Relief is not available for buy to let properties or second-hand homes.
- A joint purchase between a first time buyer and a non-first time buyer will not be eligible for the scheme.

The practical application of the scheme needs to be clarified as it is not clear how individuals will fund the shortfall in the deposit pending the rebate from the Revenue Commissioners.

## Rental Income – landlord interest deductions on residential properties

Following the relaxation of interest deduction restrictions in Finance Act 2015 for certain properties let to either individuals in receipt of rent supplement/housing assistance payment or to local authorities, the minister has announced that he will restore full interest deductibility for landlords of other residential properties on a phased basis starting in 2017. From 2017 the deduction available for interest on borrowings used by a landlord to fund the purchase, improvement or repair of a residential property will increase from 75% to 80%. The amount which will be deductible will increase by instalments of 5% per year thereafter until the 100% deduction







Olivia Lynch  
Partner



is restored. It will be 2021 before a deduction for 100% of interest expense will be available.

### Living City Initiative

The Living City Initiative is aimed at the regeneration of retail and commercial districts and at encouraging families to live in historic buildings in the centres of Dublin, Cork, Limerick, Waterford, Galway and Kilkenny. The scheme originally only provided relief for an owner-occupier of a residential premises. The minister announced the extension of the relief to include landlords and the removal of the limit on the floor size of a qualifying property. The relief is intended to promote regeneration works on residential buildings built prior to 1915 but because of the significant costs associated with refurbishing old buildings, the take up to date has been low. The inclusion of residential

landlords in the relief will hopefully change this. However, the fact that the relief remains subject to the higher earners' restriction is unhelpful. The capping of relief at €200,000 per project (irrespective of the number of investors) for commercial premises in order to comply with EU state aid rules is also an issue in practice.

### Home Renovation Incentive (HRI)

The Home Renovation Incentive Scheme seeks to incentivise individuals to upgrade their homes using tax compliant contractors. The relief was due to expire on 31 December 2016. Acknowledging that the Help-to-Buy Scheme is targeted at new homes, the minister has extended the HRI which is available for upgrades to second hand homes by two years to 2018. This is welcome given the popularity of the scheme in allowing relief for

refurbishments for individuals who renovate or improve their homes and for rental properties owned by landlords.

### Rent-a-Room Scheme

The threshold for exempt income under the Rent-a-Room Scheme is being increased to €14,000 per annum from the current amount of €12,000.

### Changes to Section 110 and funds legislation

The minister indicated that following the publication of draft amendments to Section 110 legislation, further amendments are necessary to address other issues arising in relation to Funds and property. These changes are discussed further in the Business Tax section of Taxing Times.



# Agri Business



Michael Farrell  
Partner

## Farming and Fishing

The minister acknowledged in his Budget speech that the farming and agri-food sectors have been going through a tough time recently due to lower world prices, weather, Brexit and the subsequent weakening of sterling. To assist these sectors, the minister announced the following package of measures.

### Income averaging 'step out'

The net accounting profit is the normal basis for calculating taxable profits of any business including farming. Income averaging is an alternative method of calculating taxable profits of a farming business. This works by averaging taxable profits over a five year period on a rolling basis with the objective of counteracting volatility in taxable income. Where the profit level is increasing, income averaging reduces the tax liability. However, where profits reduce, the tax liability for a year may be higher than the actual liability for that year alone.

The minister is introducing cashflow relieving measures to allow a farmer who is facing an exceptionally poor year to 'step out' of income averaging for that year. That farmer will then pay tax due on the actual profits of that year with any deferred liability becoming payable over subsequent years. This option will be available for the 2016 tax year.

### Farm restructuring relief

Capital gains tax relief for farm restructuring applies where the proceeds of the sale of farm land are reinvested within 24 months of the sale in other farm land and a number of conditions are met. This relief has been extended to 31 December 2019. All other conditions of this relief remain unchanged.

## Accelerated capital allowances for energy efficient equipment

In line with a recommendation of the 2014 agri-tax review (undertaken jointly by the Departments of Finance and Agriculture) the existing scheme of accelerated capital allowances for investment in energy efficient equipment is being extended to sole-traders and non-corporates. This scheme was previously available only to companies and is aimed at assisting businesses in the farming and marine sectors to invest in energy efficient equipment.

Under this scheme, the full cost of acquiring qualifying energy-efficient equipment can be written off for tax purposes in the year of purchase. Such claims can be made only in respect of equipment that is included on 'the specified list' which is maintained by The Sustainable Energy Authority of Ireland.

### Flat-rate VAT addition

As noted in the VAT and Other Indirect Taxes section of TaxingTimes, the flat-rate VAT addition that is available to unregistered farmers will increase from 5.2% to 5.4% with effect from 1 January 2017. The flat-rate addition compensates unregistered farmers for VAT on their farming costs.

### Raised bogs

Payments to relevant owners and rights holders under the new raised bog restoration incentive scheme will be exempt from capital gains tax.

### Loan fund

A new €150 million flexible loan fund is being developed in conjunction with the Strategic Banking Corporation of Ireland to enable farmers to borrow at a low cost so that they can improve

the management of their cash flow and reduce the cost of their short term borrowings. The interest rate on loans from this fund (which will utilise EU exceptional adjustment aid) will be below 3% per annum.

## Other measures for the fishing sector

In line with a recommendation of the 2015 marine tax review (published as part of Budget 2016), a new income tax credit of €1,270 is being introduced for fishers who have fished for wild fish or wild shellfish for at least 80 days in a tax year. The minister noted that this is aimed at assisting the viability of the fishing sector and at attracting and retaining staff. This credit will shelter income of up to €6,350 per annum.

## Decommissioning of fishing vessels

The minister has committed to providing an attractive income tax package in respect of the decommissioning of fishing vessels. The expected cost of these measures is €2 million but no other details on this package were announced in the Budget.



# Ireland's Tax Strategy



Colm Rogers  
Partner

## Review of the corporation tax code

The Minister for Finance has announced the appointment of an independent economic expert, Mr. Seamus Coffey, to undertake a review of the corporation tax code. The review will assess whether the Irish corporation tax code continues to meet international standards, whilst also delivering tax certainty for business and maintaining competitiveness.

The review will focus on the following matters:

- achieving the highest international standards in tax transparency, including the automatic exchange of information on tax rulings with other relevant jurisdictions, having regard to benefits which may accrue to developing countries from enhancing global tax transparency;
- ensuring that the corporation tax code does not provide preferential treatment to any taxpayer;
- further implementing Ireland's commitments under the Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting (BEPS) project to tackle harmful tax competition and aggressive tax planning;
- delivering tax certainty for business and maintaining the competitiveness of Ireland's corporation tax offering; and
- maintaining the 12.5% rate of corporation tax.

Recommendations arising from the review will be made to the minister by the end of June 2017. The Department of Finance may, as required, facilitate a public consultation with citizens, civil society and stakeholders on any or all of the matters under review.

## International Tax Strategy

The minister published Ireland's International Tax Strategy in conjunction with his Budget 2014 announcement. An initial update on the strategy was published with the Budget 2015 announcement and a further update was published today.

The 2016 Tax Strategy Update confirms the Government's commitment to minimising the impact of Brexit on Ireland. In that context, it highlighted a number of the taxation measures announced in Budget 2017 which are focused on small and medium enterprises, Irish exporters, entrepreneurship and the agri-food sector. It also signalled that the Minister for Jobs, Enterprise and Innovation will shortly introduce legislation to provide an additional benefit, within the parameters of the OECD "modified nexus" approach, for small companies who wish to avail of the Knowledge Development Box (KDB), which was introduced in Finance Act 2015. The Government also reaffirmed its commitment to the 12.5% rate of corporation tax.

The Tax Strategy Update also reaffirms Ireland's commitment to maintaining an open, transparent, stable and competitive corporate tax regime. In particular, the paper provides a status update in relation to Ireland's compliance with the OECD BEPS project and reaffirms that Ireland will continue to take any actions needed to implement the BEPS reports. Country-by-country reporting was implemented in Finance Act 2015 and Ireland signed a Multilateral Competent Authority Agreement in January 2016 to share these reports with other tax authorities. In addition, the independent review of Ireland's corporation tax code, announced in Budget 2017, will include

consideration of any further actions which Ireland may need to take to ensure that it is fully compliant with the OECD BEPS recommendations.

The Government has committed to implementing the third and fourth iterations of the Directive on Administrative Cooperation (DAC), known as DAC3 and DAC4, by the end of 2016. DAC3 deals with the automatic exchange of tax rulings among Member States and DAC4 deals with the automatic exchange of country-by-country reports among tax authorities.

The 2016 Tax Strategy Update addresses the government's position in relation to the EU agenda on tax policy matters and confirms that Ireland will continue to engage in relation to EU tax proposals. It confirms that Ireland will implement the measures included in the EU Anti-Tax Avoidance Directive within the agreed deadlines. While Ireland will engage fully in the discussions which will be relaunched later this year by the European Commission in relation to the Common Consolidated Corporate Tax Base (CCCTB) Directive, it will assess whether any outcomes from the process are in the best interests of Ireland. The Government indicated that it does not support initiatives that seek to enforce harmonisation of tax rates, minimum levels of taxation or the inappropriate encroachment of state aid rules into the core Member State competence of taxation.



# VAT and other indirect taxes



**Niall Campbell**  
Partner

## VAT

### VAT Rates

The minister confirmed the continuation of the 9% reduced rate of VAT which was first introduced in 2011 to promote the Irish tourism sector and was extended indefinitely in 2014. The rate applies to a range of goods and services principally in the tourism and hospitality sector, including restaurant and catering services, hotel accommodation, newspapers and admissions to cinemas, museums and other attractions. The minister noted that although the current economic rationale for retaining the rate may not be as strong as when it was first introduced, its retention will act as a buffer for the sector against the weakness in sterling and increased costs of holidaying in Ireland for British tourists.



There are no changes to the scope of the goods and services falling within the 0% rate, 13.5% reduced rate or 23% standard rate of VAT. There had been pre-Budget speculation of potential changes to the VAT rates in other sectors, most notably a potential reduction in VAT on the supply of newly built residential accommodation, but these have not come to pass.

### Flat Rate Addition for farmers

The flat rate addition payable to farmers who are not VAT registered will increase from 5.2% to 5.4% with effect from 1 January 2017. The flat rate scheme compensates unregistered farmers for irrecoverable VAT on their purchases.

### Property Holding Funds

The minister's speech referred to his previously announced intention to amend the corporation tax regime applying to 'Section 110 companies' and other funds engaged in activities relating to Irish property. While any such corporation tax amendments should not directly impact on the VAT exemption for the management of qualifying funds including Section 110 companies, the VAT implications should be considered in respect of any reorganisation or alternative structuring of current or future property transactions.

## Excise Duties

### Combating Climate Change

A number of the minister's proposals in the area of excise duties are intended to incentivise lower carbon alternatives to traditional fuels.

These include:

- An extension to the time period of the existing relief from Vehicle Registration Tax (VRT) on hybrid vehicles and electric vehicles up to 31 December 2018 and 2021 respectively
- A new measure (aimed at reducing the dependence of larger vehicles on diesel) to tax natural gas used as a vehicle fuel at the EU minimum rate of 8%, for a period of eight years
- A new relief from carbon tax for solid fuels that include a biomass element
- A full relief from carbon tax on fuel inputs to create high efficiency electricity in combined heat and power plants.

### 'The Old Reliables' and Micro-breweries

The excise duty on a packet of 20 cigarettes will increase by 50 cent (including VAT) with a pro-rata increase on other tobacco products with effect from midnight of 11 October 2016 (i.e. from Budget night). This measure is estimated to generate an additional €65 million in revenue during 2017.

There are no changes to excise duty on alcohol products (except for the microbreweries relief referred to below), petrol or diesel.

The current 50% relief to the standard rate of Alcohol Products Tax on beers made in microbreweries which produce not more than 30,000 hectolitres per annum is being extended. The relief will apply to microbreweries which produce not more than 40,000 hectolitres annually.





**Terry O'Neill**  
Partner

## Sugar Tax

The minister announced plans to introduce a tax on sugar-sweetened drinks (a 'sugar tax') in 2018, following a public consultation in the coming months.

The proposal follows a global trend towards taxing drinks with a high sugar content as a means of tackling obesity, diabetes and other health risks. Sugar tax regimes are already in place in a number of jurisdictions, including France, Hungary, Norway, Finland, certain US states and Mexico. Interestingly, Denmark had a sugar tax regime for many years but repealed it in 2014 due to leakages in exchequer revenue arising from illegal and cross-border sales.

Perhaps reflecting the Danish experience, and given the integrated production and supply chains between Ireland and the UK, our measures and timing are to be aligned with the proposed UK sugar tax regime, with a suggested implementation date of April 2018. Significant details remain to be determined, including the rate and basis of computation and administration.

The minister launched a public consultation on the practical implementation of the tax, based on Department of Health proposals, which will remain open until 3 January 2017. The proposals are to apply the sugar tax to water-based and juice-based drinks which have an added sugar content of 5 grams/100ml and above. This threshold is intended to exclude the following from the scope of tax: pure fruit juices,

low sugar soft drinks (e.g. diet drinks) and all dairy-based sugar-sweetened drinks. The proposals also apply only to pre-packaged drinks.

An equivalent UK consultation regarding drinks with added sugar (but excluding pure fruit juices and milk-based drinks) has been ongoing since August and closes on 13 October 2016. The UK rate of sugar tax is proposed to be £0.18 per litre where the sugar content is above 5 grams/100ml and £0.24 per litre where the added sugar content is above 8 grams/100ml. We can expect Ireland to closely follow the outcome of the UK consultation, and to take account of the implementation difficulties experienced elsewhere, including potential EU legal challenges.



# Getting Ireland Brexit ready



Brian Daly  
Partner

Following the Government's first assessment in the Summer Economic Statement of the short-term macroeconomic implications of Brexit, the Department of Finance issued a paper with the Budget titled "Getting Ireland Brexit Ready". The paper provides a sectoral analysis of the impact of Brexit and an overview of the policy responses that have been included in the Budget to enable exposed sectors to remain competitive and protect the public finances from Brexit-related shocks.

The paper acknowledges that with around 16% of all exports going to the UK and a similar share of imports depending on the UK, the Brexit decision is expected to have a material negative impact on the Irish economy, and has been a factor in lowering our economic growth forecasts for next year. That said, the severity of the impact is acknowledged to be difficult to gauge at this stage as the terms under which the UK will leave the EU are not yet clear.

Given the significance of the issue for Ireland, a new Government cabinet committee has been established, and a new Second Secretary General has been appointed in the Department of the Taoiseach to look after the integration of international, EU and Northern Ireland functions there.

Recognising the uncertain environment, the Government has also announced a number of taxation measures in Budget 2017 to get Ireland "Brexit ready". These changes (which are discussed in detail elsewhere in TaxingTimes) are in the areas of:

- Small and medium enterprises (SMEs)
- Irish exporters
- Entrepreneurship
- The agri-food sector

The commitment to establish a "rainy day fund" and a new lower debt to GDP target (a ratio of 45% to be achieved by the mid-2020s) are also influenced by concerns around the impact of Brexit.

## Customs duties

The final shape of Brexit will determine whether there are customs duties to be paid on imports, whether there are restrictions on certain goods and services, and whether the customs procedures are relatively simple or more complex. In order to prepare for such changes, the Revenue Commissioners are reviewing the customs procedures in order to scope out the potential problems and identify possible means of minimising the cost for business and maximising the facilitation of trade. For the moment it is not possible to resolve the issues but merely to seek to scope them and be adequately resourced to respond to the problems that may emerge over the next few years.

## Sectoral exposures

In light of Ireland's close trade and financial links with the UK, the paper states that the pass-through of any losses from the UK economy to Ireland (or indeed from any third country trading partners that are themselves impacted by Brexit) are likely to be material but can be mitigated by carefully targeted measures. The

sectors identified by the Government as being highly exposed to and reliant on trade with the UK include:

- Food and beverage
- Electrical equipment
- Materials manufacturing
- Traditional manufacturing

All of these share a number of common features:

- Relatively high levels of exports to the UK
- High levels of imported intermediate goods coming from the UK which are used in the production process (with the exception of the food and beverage sector)
- Relatively high volume/low value products, which would be significantly affected by the introduction of Trade Tariffs
- Significant employers outside the Dublin region, with the border region the most exposed relative to others
- High local economy multiplier ranging from 1.2 (electrical equipment) to 1.5 (food and beverage)
- Significant number of SMEs with a high share of indigenous ownership





Kevin Cohen  
Partner



## Tourism & Hospitality

Whilst the Services Sectors in general would not be affected by trade tariffs to the same extent as manufacturers, certain services sectors such as Tourism and Hospitality are significantly exposed to the Euro-Sterling exchange rate and this sector is also seen as a Brexit-exposed sector within the economy.

## Sectoral Tax Policy Responses

The specific tax policy responses identified by the Government and included in the Budget to assist the exposed sectors in remaining competitive and to trade in diversified markets are:

- Reduced capital gains tax to help entrepreneurs
- An extension and amendment of the Foreign Earnings Deduction to help Irish exporters to diversify their export and import markets
- An extension of the Special Assignee Relief Programme to assist businesses to relocate key staff to Ireland

- An increase to the Earned Income Tax Credit for self-employed taxpayers to encourage entrepreneurship
- The introduction of an income averaging “step-out” in the agriculture sector to help with expected volatility in demand for agri-food products following severe price fluctuations,
- The retention of the 9% VAT rate to help the tourism and hospitality sector to maintain competitiveness in light of recent currency movements
- A €150m loan fund for farmers to improve cash flow management and reduce costs of short term borrowings
- A proposed review in 2017 of the application of the 1% stamp duty to Irish stocks and marketable securities

Each of the above Budget measures are outlined in further detail in this publication.

## FDI Sectors

The Government’s paper acknowledges that Pharmaceutical Manufacturing, and Financial and ICT services sectors, which tend to have high foreign ownership, also have significant export relationships with the UK. The paper indicates that the following are key policy measures to assist the FDI sector to continue to attract jobs to Ireland:

- The ongoing commitment to the 12.5% corporation tax rate
- The R&D Tax Credit regime
- The Knowledge Development Box regime
- The extension of the SARP regime

Whilst acknowledging that the decision to invest into Ireland will be driven by a number of factors, not just taxation, the paper acknowledges that the Government will need to respond to any changes made by the UK to strengthen their overall tax offering, so that Ireland can continue to be relatively attractive compared to the UK from an overall taxation point of view.

The Department of Finance’s paper provides some interesting insights on the sectoral impact that Brexit may have on the Irish economy and it is helpful to have an overview of the policy responses in Budget 2017. Undoubtedly further responses will be needed when more details emerge on the terms on which Brexit will take place. It will also be very helpful to have similar policy responses emerge from other parts of Government and the Financial Regulator in order to ensure that appropriate actions are taken to minimise the adverse impact of Brexit whilst also taking advantage of whatever opportunities may emerge.



# What is 'substance' for transfer pricing purposes?



Conor O'Sullivan  
Partner

The key driver of a multinational group's effective tax rate is usually the jurisdictions in which its profits are recognised and taxed. The Organisation for Economic Co-operation and Development (OECD) has published transfer-pricing guidelines on the allocation of business profits between different jurisdictions. The OECD approach is followed in most (but not all) countries. The guidelines focus on ensuring functions, risks, and assets are rewarded on an arm's length basis.

The fact that most countries follow a common set of principles reduces the risk of economic double taxation. However, the nature of transfer pricing is such that differences often arise in practice. Double taxation treaties between countries generally require different jurisdictions to co-operate to avoid double taxation. Nonetheless, it is a common occurrence for tax authorities to challenge the allocation of profits between jurisdictions – particularly for groups with complex global supply chains. This can lead to significant unexpected tax liabilities and can directly impact shareholder value. For this reason, the governance of transfer-pricing risk is critical and often a matter for consideration at board level.

## Substance and transparency

Traditionally, the emphasis in transfer pricing has been on transaction-focused identification and pricing of intra-group transactions. There has tended to be less focus on the substance of the various group companies making the supplies. This has meant that the

retention of residual profits has gone largely unchallenged.

However, as part of the recent Base Erosion and Profit Shifting (BEPS) project, the OECD has revised its transfer pricing guidelines in a number of areas. This includes the introduction of increased reporting and documentation requirements such as the country-by-country reporting initiatives (which are designed to bring greater transparency to a multinational's activities thereby allowing tax authorities to improve their audit focus). These reporting requirements will apply to most groups for their 2016 financial year. Many groups are assessing how their affairs will be reported and are considering whether changes to how they are organised should be made.

In addition, the OECD has stated that greater emphasis should be placed on demonstrating the economic basis for retaining residual profits with a particular focus on economic substance across a group's entire value chain. This chimes with much of what has been recently said about the need for the recognition of profits to be aligned with economic substance. This is not a new principle. "Ireland Inc" has long understood this and for many years has offered a low, stable corporate tax regime to companies that locate economic substance here.

## Follow the risk

The primary transfer-pricing objective from the BEPS project is to ensure that transfer-pricing outcomes are in line with value creation or 'substance'. The OECD have given a clear road map as

to how economic substance should be analysed in this regard.

The OECD now emphasises that profits should follow risk. Consequently, the location where the key risks for a business are controlled will have significant impact on where the associated profits should be recognised.

In the first instance, assumption and bearing of risk is captured by the contract relating supply of goods or services concerned. This should then be evidenced by the actual conduct of the parties. The control of the relevant risk involves:

- The capability to make decisions to accept, decline, or lay off a risk-bearing opportunity, together with actual performance of that decision making function; and
- The capability to make decisions on whether and how to respond to the risks associated with the opportunity, together with actual performance of that decision making function.

It is important to note that it is not necessary for a company to perform



the day-to-day mitigation of its risks itself as this activity may be outsourced to another party. However, it does not necessarily follow that control of those risks has been transferred to that other party. If the company outsourcing the risk-mitigation activities has (and retains) the capability to determine the objectives of the outsourced activities, to control the appointment of the agent providing the risk-mitigation functions, to assess whether the objectives are being adequately met and to decide whether to adapt or terminate the contract with that provider, these activities would support the position that the company has retained control of the risks.

Critically, however, decision makers should possess competence and experience in the area of the particular risk for which the decision is being made, and possess an understanding of the impact of the decision on the business. In short, they need to be credible.

## Intellectual property

Insofar as Intellectual Property (IP) is concerned, it is worth noting that it is not necessary that the entity assuming and controlling the risk related to a piece of IP also carries out the development, enhancement, maintenance, protection and exploitation (DEMPE functions) in respect of that IP. The outsourcing of DEMPE functions is a common practice and where it occurs, it is still possible for the IP owner to retain the risk associated with that IP provided that control over the outsourced activities is exercised by the owner.

It naturally follows that the more discretion the outsourced service provider has, the higher their arm's length fee will be. Therefore, where DEMPE functions, and in particular the important functions that make a significant contribution to the value of the IP, are not carried out by the party contractually assuming risk (i.e. the IP owner), this will reduce the profits of the IP owner and may increase the difficulty in evidencing the control of risk by the owner.

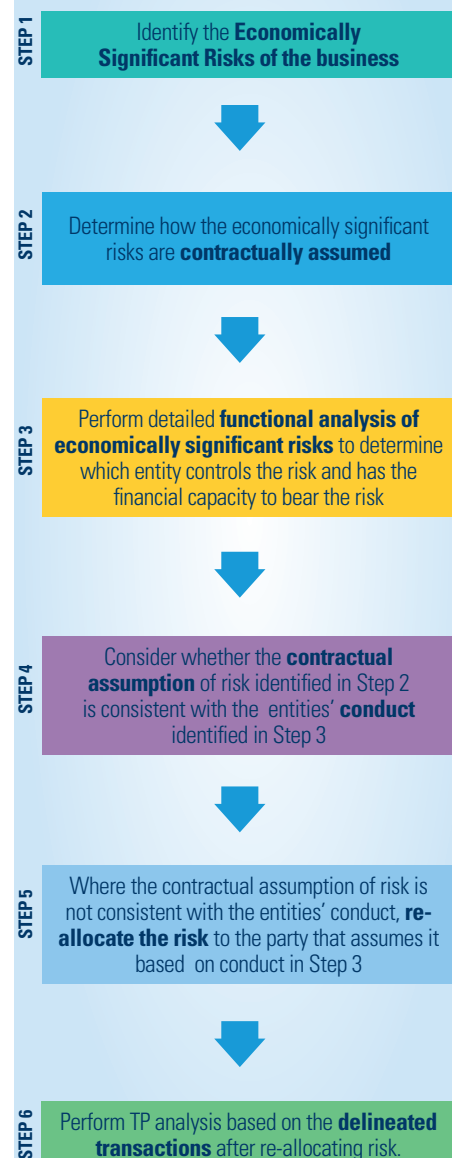
However, so long as the IP owner meets the control requirement (as evidenced by its actual conduct) and has the financial capability to bear the risk, the allocation of risk to the owner is not necessarily affected. This may be the case even where another party also exercises control over some of the risks through, for instance, DEMPE functions.

## A rigorous approach

Successfully managing the above issues requires taxpayers to take a rigorous approach to transfer pricing through a thorough analysis of the total value chain. Depending on facts and circumstances, formal board meetings alone may not be sufficient to fulfil the control requirements for transactional risks. Instead, the manner in which the multinational group evaluates risk-bearing opportunities in practice, the processes it puts in place, and the personnel it deploys to participate in such processes are likely to be relevant.

The key message is that there is a clear way to identify and respond to transfer pricing risk for those groups who proactively address the issue having regard to the principles provided.

## Steps involved in the new risk analysis framework as outlined in the updated OECD Guidelines



Personal income tax rates (unchanged)		
	At 20%, first	At 40%
Single person	€33,800	Balance
Married couple/civil partnership (one income)	€42,800	Balance
Married couple/civil partnership (two incomes)*	€67,600	Balance
One parent/widowed parent/surviving civil partner	€37,800	Balance

\* €42,800 with an increase of €24,800 maximum

Personal tax credits (changed)	
Single person	€1,650
Married couple/civil partnership	€3,300
Single person child carer credit	€1,650
Additional credit for certain widowed persons/surviving civil partner	€1,650
Employee credit	€1,650
Earned income credit (increased)*	€950
Home carer credit (increased)	€1,100
Rent credit - single and under 55 years (reduced)**	€40

\* Applies to self employed income and certain PAYE employments not subject to the PAYE credit

\*\* Rent credit will no longer apply from 2018 onwards

### Help to Buy Scheme

Income tax rebate, capped at €20,000, for first time buyers of a principal private residence. The relief is 5% of the house value (capped at €400,000). Maximum relief (i.e. €20,000) available for homes valued between €400,000 and €600,000. There is no relief for houses valued greater than €600,000. Claimants must take out a mortgage of at least 80% of the purchase price. The scheme only applies to new builds and self builds and not to second hand properties. The relief is a rebate of income tax paid over the previous four years. The scheme takes effect from 19 July 2016 until 31 December 2019.

### Home Renovation Incentive Scheme

Income tax credit split over two years for homeowners who carry out renovation/improvement works on their principal private residence from 25 October 2013 to 31 December 2018 (extended by two years). The credit is calculated at a rate of 13.5% on all qualifying expenditure over €4,405 (ex VAT). The maximum credit is €4,050.

### Home loan interest relief granted at source on principal private residence\* (changed)

#### First time buyers loan taken out from 2009 to 2012

##### Years 3-5

Married/widowed**	Lower of €4,500 or 22.5% of interest paid
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##### Years 6-7

Married/widowed**	Lower of €4,000 or 20% of interest paid
-------------------	-----------------------------------------

#### After year 7 (where applicable up to and including 2017)\*

Married/widowed**	Lower of €900 or 15% of interest paid
-------------------	---------------------------------------

#### Other mortgages, loans taken out from 2004 to 2012

Married/widowed**	Lower of €900 or 15% of interest paid
-------------------	---------------------------------------

#### First time buyers loan taken out from 2004 to 2008

#### Remainder of first 7 years of mortgage

Married/widowed**	Lower of €6,000 or 30% of interest paid
-------------------	-----------------------------------------

#### After year 7 and up to and including 2017\*

Married/widowed**	Lower of €1,800 or 30% of interest paid
-------------------	-----------------------------------------

#### Single persons

Thresholds set at 50% of those outlined above for married/widowed persons

\* Loans taken out on or after 1 January 2013 do not qualify for Mortgage Interest Relief. The relief was to be abolished from the end of 2017 and subsequent tax years. To be extended to 2020 in Budget 2018

\*\* Applies to civil partnerships/surviving civil partner also

### Local Property Tax (varying rates) (unchanged)

Market Value less than €1,000,000*	0.18%
Market Value greater than €1,000,000:	
- First €1,000,000	0.18%
- Balance	0.25%

\* Market Value less than €100,000 - calculated on 0.18% of €50,000. Market Value €100,000 - €1,000,000 assessed at mid-point of €50,000 band (i.e. property valued between €150,001 and €200,000, assessed on 0.18% of €175,000).

- Applies to residential (not commercial) properties. Exemptions for houses in certain unfinished estates and newly constructed but unsold property. Exemption until 31 December 2016 for new and unused houses purchased between 1 January 2013 and 31 December 2016 and second hand property purchased between 1 January 2013 and 31 December 2013

- Certain payment deferral options may be available for low income households

- From 2015 onwards, local authorities can vary the basic LPT rates on residential properties in their administrative areas. These rates can be increased or decreased by up to 15%

PRSI contribution, Universal Social Charge (changed)		
	%	Income
Employer	10.75%	No limit
	8.50%	If income is €376 p/w or less
Employee** (class A1)		
PRSI	4%	No limit*
Universal Social Charge	0.5% (reduced)	€0 to €12,012**
	2.5% (reduced)	€12,013 to €18,772***
	5.0% (reduced)	€18,773 to €70,044****
	8%	> €70,044

\* Employees earning €352 or less p/w are exempt from PRSI. In any week in which an employee is subject to full-rate PRSI, all earnings are subject to PRSI. Unearned income for employees in excess of €3,174 p.a. is subject to PRSI. Sliding scale PRSI credit of max. €12 per week where weekly income between €352 and €424

\*\* Individuals with total income up to €13,000 are not subject to the Universal Social Charge

\*\*\* Increase in upper limit of the 2.5% band from €18,668 to €18,772

\*\*\*\* Reduced rate (2.5%) applies for persons over 70 and/or with a full medical card, where the individual's income does not exceed €60,000

### Self-employed PRSI contribution, Universal Social Charge (changed)

	%	Income
PRSI	4%	No limit*
Universal Social Charge	0.5% (reduced)	€0 to €12,012**
	2.5% (reduced)	€12,013 to €18,772***
	5.0% (reduced)	€18,773 to €70,044****
	8%	€70,045 to €100,000
	11%	> €100,000

\* Minimum annual PRSI contribution is €500

\*\* Individuals with total income up to €13,000 are not subject to the Universal Social Charge

\*\*\* Increase in the upper limit of the 2.5% band from €18,668 to €18,772

\*\*\*\* Reduced rate (2.5%) applies for persons over 70 and/or with a full medical card, where the individual's income does not exceed €60,000

### Tax relief for pensions (unchanged)

- Tax relief for pensions remains at the marginal income tax rate

- The Defined Benefit pension valuation factor is an age related factor that will vary with the individual's age at the point at which the pension rights are drawn down

- Except where a Personal Fund Threshold applies, the Standard Fund Threshold is €2m

### Capital gains tax (changed)

Rate	33%
Entrepreneur relief (reduced rate)*	10%
Annual exemption	€1,270

\* Relief remains capped at lifetime limit of €1m chargeable gains

### Capital Acquisitions Tax (rate unchanged)

Rate	33%
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#### Thresholds (increased)

Group A*	€310,000
Group B*	€32,500
Group C*	€16,250

\* Effective date to be announced

### Corporation Tax rates (unchanged)

Standard rate	12.5%
Knowledge Development Box rate	6.25%
Residential land, not fully developed	25%
Non-trading income rate	25%

### Value Added Tax (9% rate retained)

Standard rate/lower rate/second lower rate	23%/13.5%/9%
Flat rate for unregistered farmers	5.4%
Cash receipts basis threshold	€2m

### Deposit Interest Retention Tax (changed)

DIRT (rate reduced)	39% * & ****
---------------------	--------------

\* Unclear if 41% rate will remain for exit taxes on financial products

\*\* Refund of DIRT incurred in previous four years on savings (up to 20% of the purchase price) used by first time buyers to purchase a dwelling. This scheme is in place to the end of 2017

\*\*\* The rate of DIRT will be decreased by 2% each year for the next 4 years until it reaches 33% in 2020

### Stamp Duty - commercial and other property (unchanged)


2% on commercial (non residential) properties and other forms of property, not otherwise exempt from duty.


### Stamp Duty - residential property (unchanged)


1% on properties valued up to €1,000,000


2% on balance of consideration in excess of €1,000,000





KPMG		
Single person employed, earning €45,000, property owner		
2017 changes	Euro	
Change in Tax Bands	0	
Change to Tax Credits	0	
Change to PRSI	0	
Change to Universal Social Charge	228	
Change to Marginal Income Tax Rate	0	
<b>Net Saving</b>		<b>€228</b>

KPMG		
Married couple, one employed, earning €50,000, three children, property owner		
2017 changes	Euro	
Change in Tax Bands	0	
Change to Tax Credits	100	
Change to PRSI	0	
Change to Universal Social Charge	253	
Change to Marginal Income Tax Rate	0	
<b>Net Saving</b>		<b>€353</b>

KPMG		
Married couple, both employed, one earning €150,000, one earning €30,000, property owner		
2017 changes	Euro	
Change in Tax Bands	0	
Change to Tax Credits	0	
Change to PRSI	0	
Change to Universal Social Charge	505	
Change to Marginal Income Tax Rate	0	
<b>Net Saving</b>		<b>€505</b>

KPMG		
Married couple, both self employed, one earning €150,000, one earning €30,000, property owner		
2017 changes	Euro	
Change in Tax Bands	0	
Change to Tax Credits	800	
Change to PRSI	0	
Change to Universal Social Charge	505	
Change to Marginal Income Tax Rate	0	
<b>Net Saving</b>		<b>€1,305</b>

KPMG		
Unmarried couple, living together, renting, both employed, one earning €80,000, one earning €35,000		
2017 changes	Euro	
Change in Tax Bands	0	
Change to Tax Credits*	(80)	
Change to PRSI	0	
Change to Universal Social Charge	530	
Change to Marginal Income Tax Rate	0	
<b>Net Saving</b>		<b>€450</b>

KPMG		
Married couple, both employed, one earning €250,000, one earning €90,000, one child, property owner		
2017 changes	Euro	
Change in Tax Bands	0	
Change to Tax Credits	0	
Change to PRSI	0	
Change to Universal Social Charge	706	
Change to Marginal Income Tax Rate	0	
<b>Net Saving</b>		<b>€706</b>

## Notes

\* Finance Act 2011 introduced a reduction in the rent credit on a sliding scale over seven years. The impact of this will be a reduction of €80 for 2017 (€40 per person).



# Now or never

## Irish CEO Outlook 2016



of Irish CEOs believe the next three years will be **more critical for their industry than the previous 50.**

**Forbes**  
INSIGHTS

Learn more at [kpmg.ie](http://kpmg.ie)  
#CEOoutlook



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