KPMG

# Taxing Times

## Budget 2018 & Current Tax Developments

kpmg.ie/budget2018
#kpmgbudget18

Focus. Clarity. Insight

KPMG is Ireland's leading Tax practice with over 600 tax professionals based in Dublin, Belfast, Cork and Galway. Our clients range from dynamic and fast growing family businesses to individuals, partnerships and publicly quoted companies.

KPMG tax professionals have an unrivalled understanding of business and industry issues, adding real value to tax based decision making.

**Corporate Tax**

**Private Client Practice**

**Global Mobility Services**

**Employment Tax**

**VAT**

**International and Cross Border Tax**

For further information on Budget 2018
log on to: kpmg.ie/budget2018

**Conor O'Brien**
*Partner*

# Introduction

The Minister for Finance introduced the 2018 Budget on 10 October 2017. Further detailed measures will be included in the Finance Bill to be published on 19 October 2017.

Budget 2018 is the third post-austerity budget in a row. Ireland's economic recovery has been remarkably impressive. The economy is now enjoying robust economic growth with almost full employment and an end to Government borrowing is in sight.

This year's Budget is cautious in nature. The policy of maintaining discipline in the management of the national finances is to be welcomed. Recent history has shown that Government revenues can evaporate during economic bad times, and if spending is built to unsustainable levels during good times the State will be left bereft when the economic tide goes out.

The minister once again reaffirmed Ireland's enduring commitment to an attractive corporation tax regime for business – a policy that is supported by the vast majority of members of the Irish parliament and which has endured for six decades. In a fickle world, Ireland's remarkable consistency in its taxation policy towards business is unsurpassed. A great deal of credit is due to Irish policymakers for their consistency and intelligence over this period.

The minister made clear in his speech that he was very conscious of the dangers for the Irish economy arising from Brexit. This was reflected in his decision to retain the 9% VAT rate for tourism – a decision that is most welcome.

Personal taxation is the second front in the war of tax competition and it is a front that is becoming increasingly important due to the way in which international tax law is evolving. There were a number of welcome personal tax relief measures in the Budget including:

- The 2.5% rate of USC is reduced to 2%
- The 5% rate of USC is reduced to 4.75%
- An increase of €750 in the income tax standard rate band
- An increase of €200 in the earned income credit
- An increase in the home carer tax credit of €100
- Capital gains tax treatment to apply to gains on share options granted by unquoted Small and Medium-sized Enterprises (SME) companies to key employees where the conditions of a new Key Employee Engagement Programme (KEEP) incentive are met

The ongoing policy of denying any tax relief on incomes over €70,000 is to be regretted and is compounded this year by the announced 0.3% phased increase in employer's PRSI. The top 1% of income earners already pay substantially more personal taxes than the bottom 74% of income earners combined. The top 6% of income earners pay about half of all personal taxes in Ireland. There is a wealth of independent economic research that indicates the dangers of uncompetitive taxation of this relatively mobile sector, particularly in a small open economy. Care needs to be taken not to kill the golden goose.

The minister also announced a number of measures designed to alleviate the shortage in residential accommodation. The reduction from seven to four years of the holding period to qualify for the capital gains tax exemption on certain property assets should be of assistance in freeing up supply. The increase in the stamp duty rate on the sale commercial property from 2% to 6% is considerably less welcome.

It had been hoped that the Budget might contain some improvements to the entrepreneur's capital gains tax relief and the tax relief for foreign assignees to Ireland. In our view, improvements in these two reliefs could have a very positive impact on jobs and growth in Ireland. It is to be hoped that such measures might be included either in the Finance Bill or in future Budgets so that Ireland can face its future economic challenges in the most competitive shape possible.

Conor O'Brien

**Conor O'Brien**
*Head of Tax and Legal Services*

## Content:

# Personal Tax

## Universal social charge

Once again, the reductions to USC announced in the Budget were well flagged in media commentary in advance of the Budget. In keeping with previous Government pronouncements, the reductions are targeted at low-to-middle income earners, being those earning up to €70,044 per annum. The measures are also aimed at reducing the USC rates without narrowing the USC tax base. As such, the minister announced there would be no change to the USC entry point of €13,000. However, the 2.5% rate will be reduced to 2%, and the ceiling at which this rate applies will also be increased from €18,772 to €19,372. This increased ceiling should ensure that full-time workers on the increased national minimum wage of €9.55 per hour do not pay the upper rate of USC.

The USC rate applying to income between €19,373 and €70,044 is also to be reduced by 0.25% to 4.75%. This change results in a reduction from 49% to 48.75% of the marginal aggregate rate of USC, income tax and PRSI for those earning up to €70,044.

The oft-cited employee marginal rate of 52% (comprising income tax, USC, and PRSI) will continue to apply for incomes above this level, and a marginal rate of 55% will continue to apply to self-employment income above €100,000.

While the above measures should benefit all taxpayers, the maximum benefit to any individual is limited to €178 per annum. It is expected that all of the above measures will take effect from 1 January 2018.

Those holding full medical cards or aged over 70 and earning up to €60,000 annual aggregate income currently benefit from a 2.5% cap on USC rates that was due to expire on 31 December 2017. This cap is being extended for a further two years and is being reduced to 2%. The combination of these changes means that an aggregate marginal rate of income tax and USC of 42% should apply for those earning less

**Robert Dowley**
*Partner*

than €60,000 per annum who are either (i) full medical card holders, or (ii) over 70 years of age.

Full details of the revised rates and bands are included in the Tax Rates and Credits 2018 table at the end of this publication.

The minister also announced that a working group will be established in the coming year to plan the amalgamation of USC and PRSI over the medium term in order to ensure Ireland's personal tax system is competitive and resilient in the future. Of particular note is the minister's stated intention that any such integration should not narrow the tax base. It is anticipated that this initiative will be a complicated process and developments are awaited with interest.

## Income tax bands

In an anticipated and welcome change, the minister announced that the level of income at which people begin to pay the marginal rate of income tax of 40% is to be increased for 2018. The increase of €750 will result in a single person reaching the higher income tax rate at a level of €34,550. Single-income couples, married or in a civil partnership, will reach the higher tax rate at income levels of €43,550. The maximum annual benefit of this change amounts to €150.

## Earned income credit

The earned income credit was introduced from 2016 to reduce the differential in taxes payable by employed and self-employed individuals. The minister announced that the credit for 2018 will increase by €200 to €1,150. Although this is more than double the level of €550 at which it was originally introduced, it is still €500 lower than the PAYE tax credit of €1,650 that is available to employees. On a related note, there has been no equalisation of self-employed and employee PRSI.

## Home carer credit

Continuing a trend from the last two Budgets, the home carer credit is to be increased for 2018. This year's change will see the full credit increase by €100 to €1,200 for the year. The full credit will be available where the carer's income (excluding Carer's Benefit and Carer's Allowance) is €7,200 or less, with a tapering credit available to those with income between €7,200 and €9,600.

## Mortgage interest relief

Mortgage interest relief is generally only available in respect of owner-occupied residential mortgages drawn down between 1 January 2004 and 31 December 2012. The relief permits a tax deduction for between 15% and 30% of qualifying mortgage interest and is also subject to a ceiling ranging from €3,000 to €20,000 depending on the year in which the mortgage was drawn down.

The relief was due to terminate at the end of 2017. However, on Budget Day last year, the former Minister for Finance, Michael Noonan, signalled that mortgage interest relief would be extended to 2020. Minister Donohoe today confirmed that this extension will be by way of a tapering provision to phase out the relief between 2018 and 2020. The relief for each of those years will be 75%, 50%, and 25% respectively of the existing relief available in 2017. As lenders operate this relief at source, they will undoubtedly face operational challenges in ensuring that their systems are appropriately updated to reflect this measure by 1 January 2018.

# Employee Tax Issues

## Key Employee Engagement Programme (KEEP)

In 2016, the Department of Finance launched a consultation on the Taxation of Share Based Remuneration. In KPMG's response to the consultation, a number of detailed changes were suggested, including the introduction of a new Revenue approved employee share option plan which would seek to place start-up companies and Small and Medium Enterprises (SMEs) on an equal footing with larger employers in attracting and retaining key employees.

Currently, where an employee exercises a share option under an employee share option scheme, a liability to income tax, USC and employee PRSI generally arises at the date of exercise of the option, on the difference between the market value of the share option and the price paid to exercise the option. The timing of this tax liability places most SMEs at a disadvantage to listed companies and multinationals because, unlike their larger competitors, SMEs are generally unable to offer their employees a ready market in their shares which would allow the employee to sell some of the shares to fund the tax liability.

In response to the consultation, in his Budget speech, the minister announced the introduction of a new employee share option incentive scheme targeted at the SME sector. This new Key Employee Engagement Programme (KEEP), will aim to support SMEs in attracting and retaining key talent by effectively deferring the taxation of gains on employee shares until the sale of the shares.

The effect of this new incentive will be to allow qualifying companies to remunerate key employees in a manner which is tax-efficient and is linked to the future success of the company, provided certain qualifying requirements are met throughout the option-holding period. The incentive will be available for qualifying share options granted between 1 January 2018 and 31 December 2023. It is noted that the commencement of the KEEP incentive is subject to State Aid approval but we understand engagement with the European Commission is ongoing and is expected to conclude shortly.

**Eric Wallace**
*Partner*

Broadly, in the case of share options granted and exercised under the KEEP, the tax liability for the employees would only arise at the date of disposal of the relevant shares, and would be subject to capital gains tax instead of income tax, USC and employee PRSI. Therefore, the incentive also provides for a differential of between 15.75% and 19%, based on current tax rates, in the rate of tax payable by an employee on the gain as compared to standard share option gains.

The introduction of KEEP is a welcome development though we await further details in the upcoming Finance Bill of the relevant conditions which will need to be met to qualify under the scheme. For example, it is possible that the value of options permitted to be held under the scheme could be capped. This would align the KEEP scheme with a similar share option scheme in the UK (the Enterprise Management Incentive) which permits employees to have options with a market value of up to £250,000 per employee and employers to grant options with a maximum total market value of £3 million.

## Benefit in Kind on electric vehicles

As part of the Government's program to address climate change, the minister is proposing to introduce a 0% benefit-in-kind (BIK) rate for electric vehicles for 2018. This is an attractive position when contrasted with the rate of BIK on cars generally, which is 30% of the car's original market value. This is a welcome development which should incentivise the take up of electric vehicles.

The minister also announced that a comprehensive review of BIK on cars is to be undertaken. This is a welcome development as the current BIK regime for cars is complex. It is hoped that a simplification of the rules will follow.

## Employer contributions to the National Training Fund

The minister announced an increase in the National Training Fund Levy from 0.7% to 0.8% from 2018 onwards. This increase represents an additional cost of employment for employers. The levy is collected as part of employer PRSI, which is a tax that employers pay on payroll costs. The rate of employer PRSI is currently 10.75%. The increase in the levy means that the rate of employer PRSI will be 10.85% from 2018. The levy is expected to increase further to 0.9% and 1% in 2019 and 2020 respectively, which would increase the employer PRSI to 10.95% and 11.05% in those years.

## PAYE compliance project

Revenue launched a consultation in October 2016 on the modernisation of the Pay-As-You-Earn (PAYE) system, on foot of which Revenue has initiated a programme of modernisation. This PAYE modernisation will require employers to submit real time information on income and taxes for each employee and will allow employees online access to real time information on taxable pay, taxes paid, tax credits (amongst other things). The planned commencement date for this real time reporting is 1 January 2019.

The Budget measures note that a range of compliance interventions will be required to ensure employer obligations are met in advance of implementation in 2019. This follows the release of Revenue's eBrief No. 89/17 on 3 October 2017, which highlights that as part of the Employer Readiness phase of the PAYE modernisation programme, Revenue is contacting employers who do not appear to have informed them of new employees. Therefore, employers should now take the time to review their employee data and payroll processes to ensure that they are ready to comply with real time reporting from 2019.

# Business Tax

Marie Armstrong
*Partner*

Conor O'Sullivan
*Partner*

## Brexit Loan Scheme

Acknowledging the potential impact of Brexit, in his Budget speech, the Minister for Finance announced a new €300 million Brexit Loan Scheme. The scheme is being introduced in order to assist Small and Medium-sized Enterprises (SMEs) to innovate and expand into new markets. The loans will be provided at a competitive rate to qualifying SMEs (including food businesses given their unique exposure to the UK market). The loan fund is backed by the European Investment Bank Group, the European Commission and the Strategic Banking Corporation of Ireland. It is aimed at helping with short-term working capital funding requirements of SMEs.

This scheme announcement follows on from the current Agricultural Cashflow Support Loan Scheme for farmers. That scheme was created to provide €150 million of loans to farmers at an interest rate of 2.95%. It is anticipated that the conditions for accessing the Brexit Loan Scheme will be similar.

As discussed below, the minister also announced a €25 million fund targeted at the development of further Brexit response loan schemes for the agri-food sector.

## Taxation of intangible assets

As discussed in our article "Consultation on Ireland's Corporation Tax Code", a Government commissioned review of Ireland's corporation tax system, which was conducted by Seamus Coffey, has recently been published. The Coffey report's recommendations included the reintroduction of a cap on the annual deductibility of capital allowances and related interest expense on expenditure incurred on intangible assets. Prior to its abolition in 2015, the cap was set at 80% of the profits related to intangible assets net of financing costs arising in the relevant tax year.

The minister announced that, in line with the Coffey report recommendation, the 80% cap will be reintroduced for expenditure incurred on intangible assets after midnight on Budget Day. Accordingly there is no change to the tax relief for expenditure on intangible assets incurred before midnight on Budget Day. It is important to note that the full amount of qualifying expenditure will continue to be deductible. The cap merely limits the deductible amount in a given tax year, with any unused excess carried forward for use in later years.

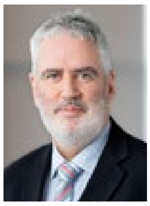
## Agri-business measures

As well as announcing the measures regarding agricultural land leased for solar farm development (discussed below), the minister also announced a number of other stamp duty measures to support the agriculture sector.

Stamp duty consanguinity relief currently applies on the transfer of agricultural land to relatives, subject to meeting certain conditions. Up to now, the effect of the relief was to reduce the relevant stamp duty rate by 50%. Therefore, while the appropriate stamp duty rate on transfers of non-residential property was 2%, the effective stamp duty rate on transfers of agricultural land that met the conditions for consanguinity relief was 1%. This relief was due to expire on 31 December 2017. Whilst the stamp duty rate on transfers of non-residential property will increase to 6% for instruments executed on or after 11 October 2017, as mentioned in our Property & Construction section, the minister announced that consanguinity relief will be maintained at 1% for intra-family farm transfers of non-residential property and will be extended for a further three years until the end of 2020.

At present, where certain conditions are met, young trained farmers under the age of 35 can avail of a stamp duty exemption on transfers of agricultural land. The exemption was due to expire on 31 December 2018. The minister confirmed that the exemption would continue, but did not provide any additional information. Further details should be included in the Finance Bill.

The taxation measures were complemented by increases in funding for the Department of Agricultures, Food and the Marine and the announcement of a comprehensive package of Brexit response measures for 2018, including increased funding for "Brexit response loans" for the agri-food sector. These schemes will be developed in cooperation with the Strategic Banking Corporation of Ireland and others in 2018.



**Michael Hayes**
*Partner*

**Paul O'Brien**
*Partner*

## Green energy measures

In his Budget speech, the minister referred to climate change as "the global challenge of our generation" which "must be met – for the sake of our children and future generations". Indeed, in this era of Brexit and international tax upheaval, the minister should be commended for implementing tax measures which place climate change high on the Government agenda.

### Solar farm measures

The minister announced that agricultural land leased for solar development will retain its status as agricultural land for the purpose of certain capital acquisitions tax and capital gains tax reliefs. The capital acquisitions tax relief concerned provides a measure of tax relief on the transfer of agricultural land by way of gift or inheritance provided certain conditions are satisfied. The capital gains tax relief provides a measure of tax relief on the sale of agricultural land on the retirement of a farmer.

The minister's announcement is important as it will make it easier for solar farm developers to develop solar farms on lands which are the most suitable and cost efficient to develop (typically those which have close proximity to existing grid infrastructure). Various industry participants, including the solar industry representative body, ISEA, have made the point that farmers were reluctant to lease agricultural land to developers where the lease arrangement impacted on the agricultural status of their lands for tax purposes. This had been recognised by the Government and referred to by the former Minster for Finance, Michael Noonan, as a "genuine issue" for the industry.

Although the detail of these measures has yet to be announced, the minister did note that the initiative would be subject to the solar panels covering no more than 50% of the total farm acreage.

### Other green measures

On other 'green' matters, the minister announced in his Budget speech that he was allocating €36 million to facilitate the expansion of the energy efficiency programmes across the public commercial and residential sectors. The minister also announced the allocation of €17 million to fund the rollout of the Renewable Heat Incentive and announced plans to incentivise the uptake of electric vehicles by introducing a 0% rate of benefit-in-kind for electric cars (as mentioned in our Employee Tax Issues section).

The minister also announced a welcome extension to the accelerated capital allowances scheme for certain energy efficient equipment to 2020 (it was previously scheduled to expire at the end of 2017). The scheme permits 100% capital allowances to be claimed in the year of first use for certain energy efficient equipment included on a list maintained by The Sustainable Energy Authority of Ireland.

## Protecting Ireland's tax base with technology

Included in the list of Budget measures was an announcement regarding the use of technology to tackle risks identified by e-commerce and online businesses. There was also an announcement on building high level technical capacity to tackle complex tax avoidance and transfer pricing issues. The purpose of these initiatives is to yield additional tax revenues for the State and to protect Ireland's tax base in the event of transfer pricing disputes between different countries (especially in light of the roll-out of Mutual Agreement Procedures which are designed to facilitate the resolution of cross-border transfer pricing disputes).

# Property & Construction

## Changes to the 7 year CGT exemption

In order to stimulate acquisitions in the property market, a capital gains tax exemption was introduced in Finance Act 2012 in respect of gains on land and buildings acquired under an unconditional contract between 7 December 2011 and 31 December 2014. The portion of any gain exempted was linked to the period of ownership, with a minimum period of ownership of seven years required (with tapered relief available where the asset is held for more than seven years).

In his Budget speech, the minister announced a reduction in the required holding period from seven years to four years. The aim of the change is to reduce any impact the required holding period may have had on the supply of development land, with the intention of increasing supply in the market.

The amendment aims to enable owners to sell assets which qualify for relief between the fourth and seventh anniversary of the acquisition date, while still availing of relief from capital gains tax on any gains arising. It is still unclear whether the change will equally apply to land and buildings located in other EEA States (which are eligible for the current relief). It is expected that this will be clarified in the Finance Bill.

## Increase of stamp duty on non-residential property

The rate of stamp duty on the transfer of non-residential property will increase from 2% to 6% with effect from midnight on Budget Day. The change applies to instruments executed on or after 11 October 2017. The minister made no reference to transitional measures applying in respect of transactions where a binding contract has already been signed, but the conveyance has not yet occurred. This has been raised with the Department of Finance and it is expected that transitional measures will be included in the Finance Bill.

This is a significant change which will likely reduce the number of commercial property transactions in the course of the next year. It seems that the minister's estimated additional yield of €375 million from this measure is highly ambitious, given that c. €9 billion of transactions would be needed to generate such a yield.

In the context of the increase in rate noted above, and in recognition of the housing supply challenges that currently exist in the market, the minister announced that a stamp duty refund scheme will be introduced for

**Jim Clery**
*Partner*

**Olivia Lynch**
*Partner*

land purchased for the development of housing. There will be a number of conditions which will need to be satisfied in order to qualify for a refund, including a requirement that development of the land will need to commence within 30 months of the land purchase. Details of the conditions which will need to be satisfied to qualify for the refund scheme will be outlined in more detail in the Finance Bill.

## Vacant site levy

The Urban Regeneration and Housing Act 2015 introduced legislation providing for the establishment of a vacant site register in relation to sites which were situated in an area in need of housing, were suitable for the provision of housing, and were vacant or idle. Additionally, in relation to such vacant sites, a vacant site levy of 3% was to apply from 2018 onwards, with a lower levy of between 0% - 1.5% applying where any site loan was greater than 50% of the market value of the vacant site.

In an attempt to prevent perceived hoarding of development land, the minister announced proposed changes to the vacant site levy which will increase the 3% rate applicable in the first year to 7% in the second and subsequent years. For example, if a vacant site is held in 2018 and 2019, under the proposed changes a 3% levy would apply for 2018, with a 7% levy applying for 2019.

## Pre-letting residential expenses

In a move aimed to address the current shortage of available properties in the private rented sector the minister announced a measure to encourage owners of vacant residential property to bring such property to the market. The proposed new measure will allow a deduction for "pre-letting" expenses of a revenue nature (for example routine repairs and maintenance costs) incurred on a property which has been vacant for a period of 12 months or more (such expenses would not currently be considered deductible). The relief will be subject to clawback if the property is withdrawn from the rental market within four years, and will be subject to a cap of €5,000 per property. The relief will be available for qualifying expenditure incurred up to the end of 2021.

## Increasing the availability of debt funding to developers

In order to increase the availability of debt funding to developers, the minister announced the establishment of a new dedicated fund, Home Building Finance Ireland (HBFI), which will be allocated up to €750 million of ISIF funds to provide commercial lending on market terms to viable residential development projects. In his Budget speech, the minister noted that the additional funding allocated to HBFI has the potential to fund up to 6,000 homes in the coming years.

## Help to Buy Scheme – Indecon Report

Much has been written in the last year in relation to the merits, or otherwise, of the Help to Buy scheme which was introduced in last year's Budget for properties acquired/built by first time buyers between 19 July 2016 and 31 December 2019.

On Budget Day the minister published an independent report by Indecon on the Help to Buy scheme, which can be found on the Department of Finance's Budget 2018 website. One of the key conclusions of the report notes that, given we are in the early days for the scheme, it is too soon to assess its impact on pricing and supply.

The report notes that desirable features of the scheme include its €20,000 cap, restriction to houses purchased below €500,000 and limited lifetime (to 31 December 2019), whilst also suggesting that the scheme has somewhat helped with affordability and is still relevant.

We believe that the Help to Buy Scheme is playing a significant role in making marginal projects viable and that it will, in time, be seen to have helped to boost housing supply considerably. Our more detailed analysis of why we support the Help to Buy scheme is contained in our recent TaxWatch publication available on our website www.kpmgpublications.ie

## Report from the Working Group on the Tax and Fiscal Treatment of Accommodation Providers

Among the many documents published with the Budget was a 136 page report from the Working Group on the Tax and Fiscal treatment of Rental Accommodation Providers.

This report, which can be accessed on the Department of Finance's Budget 2018 website, sets out a number of potential short, medium and long term measures that could be implemented in order to improve the tax treatment of many landlords. It is a comprehensive document based on an open and extensive public consultation. Interestingly, the report notes that majority of Irish landlords are individuals owning one or two properties, and that as of May 2017, the top 20 landlords (large professional landlords including companies, REITs, and investment funds and individuals) accounted for just 2.83% of residential tenancies.

As the majority of its recommendations are, for now, just recommendations, we refer interested parties to the document itself as referenced above for further information.

# VAT and other indirect taxes

## VAT rates

The minister has confirmed the continuation of the 9% reduced VAT rate which 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 rate was originally introduced in 2011 for a three year period and was extended indefinitely in Budget 2014 as part of the Government's Jobs Initiative for Tourism. The minister noted that despite the current strength of the Irish tourism sector particularly in Dublin, the case for the retention of the measure in the national interest remains.

The 23% and 13.5% VAT rates remain unchanged. However, the minister announced the VAT rate applicable to sunbed services will increase from the reduced 13.5% rate of VAT to the standard 23% rate of VAT. There are no changes to the flat rate farmer addition which remains at 5.4%.

## Charities VAT compensation scheme

The minister announced plans to introduce a scheme to partially compensate charities for VAT suffered on their operating costs. This follows on from a report published in October 2015 by the VAT on Charities Working Group in respect of reducing the VAT burden for charities.

The minister announced that the compensation scheme will come into effect from 1 January 2018 with VAT refunds payable one year in arrears. As a result, in 2019 charities will be entitled to seek compensation for some element of the non-deductible VAT incurred on their costs in 2018.

An accompanying paper released by the Department of Finance provides an overview of how the scheme will operate. The paper outlines that charities will be entitled to a refund of a proportion of VAT suffered on their costs based on the level of non-public funding they receive. For example, where a charity's gross income for 2018 comprises 70% privately sourced income including fundraising, subscriptions and donations, the charity may claim up to 70% of the VAT suffered on its costs for the year. A refund will not be available on private, non-charity related expenses or on VAT incurred which is otherwise reclaimable from Revenue.

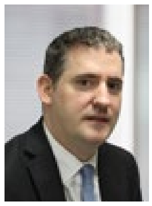
A fund of €5 million will be available to the scheme in 2019. Where the total amount of claims submitted to Revenue exceed this capped amount, charities will be paid on a pro-rata basis. For example, where the total value of all claims received in 2019 in respect of 2018 amounts to €10 million, each qualifying charity will receive 50% of their claim.

A number of conditions will apply including the requirement to be registered with the Charities Regulator, and have a tax clearance certificate. For administrative purposes, claims valued below €500 will not qualify. The full details will become clearer when legislation to implement the scheme is published.

The report of the VAT on Charities Working Group estimated the annual VAT burden for charities at €77.4 million (or 4.5%) of total expenditure. The capping of the scheme at €5 million per annum will limit the quantum of VAT refund each charity can expect to receive but the scheme can be welcomed as a step in the right direction towards reducing the VAT burden for the charitable sector.

## Excise duties

The excise duty on a packet of 20 cigarettes is being increased by 50 cent (including VAT) with a pro-rata increase on other tobacco products and an additional 25 cent on 'roll your own' tobacco. These measures take



**Terry O'Neill**
*Partner*

**Glenn Reynolds**
*Partner*

effect from midnight and are estimated to generate an additional €64 million in revenue during 2018.

There are no increases in excise on alcohol, petrol or diesel or in betting duty.

The minister has requested that a review of carbon tax be carried out to assess the role of the tax in driving changes to behaviour in households and business. It is intended that proposals will be brought forward in Budget 2019.

## Vehicle Registration Tax (VRT)

There were no further changes in the Budget in relation to the VRT reliefs on the registration of hybrid and electric vehicles, which were extended in Budget 2017. These reliefs are currently scheduled to continue to the end of 2018 in respect of hybrid vehicles and the end of 2021 in respect of electric vehicles. The reliefs are up to a maximum of €5,000 for electric vehicles and lower amounts for hybrid vehicles.

The minister announced plans to bring forward proposals for discussion in early 2018 in relation to the VRT treatment of leased vehicles following a recent decision of the Court of Justice of the European Union (CJEU). That decision held that Ireland was in breach of EU law by imposing the full amount of VRT on vehicles temporarily brought into the State for lease or hire. It was held by the CJEU that only a proportionate amount of VRT should apply to reflect the temporary use of such vehicles in Ireland.

## Sugar tax

Following an announcement in Budget 2017 and a public consultation process, the minister confirmed plans to introduce a tax on non-alcoholic sugar-sweetened drinks (a 'sugar tax'), with effect from April 2018, subject to EU State Aid approval.

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, certain US states and Mexico, with South Africa also proposing to implementation a sugar tax this year.

The rate of sugar tax will be 30 cent per litre on drinks with 8 grams or more of sugar per 100 millilitres, and 20 cent per litre on drinks with a sugar content of 5 grams or more but less than 8 grams per 100 millilitres. The tax will exclude sugar sweetened drinks with less than 5 grams of sugar per 100 millilitres, pure fruit juices that do not contain added sugar (however if sugar is added to these drinks the entire sugar content will become liable to the tax) and dairy products. It is intended that the tax will become liable on the first supply in Ireland, such that it will be payable by importers and producers of sugar based drinks falling within the designated thresholds.

Ireland's sugar tax rates and the introduction of the tax are to be aligned with the proposed introduction of a sugar tax regime in the UK (also due to be introduced in April 2018). This is intended to minimise the potential for leakages in exchequer revenue arising from illegal and cross-border sales, as was experienced by Denmark resulting in the repeal of its sugar tax regime in 2014.

The exact details will become clearer when legislation to implement the tax is published but the new tax would add approximately 10c to a 330ml can of soft drink with sugar content levels in the higher bracket. The tax is initially estimated to generate yields of €30 million in 2018 and €40 million for a full tax year thereafter.

# Ireland's International Tax Strategy

## Update on Ireland's international tax strategy

The previous Minister for Finance published Ireland's International Tax Strategy in conjunction with his Budget 2014 speech. His successor published an update on the strategy with Budget 2018.

Importantly, the minister reaffirmed Ireland's commitment to the 12.5% rate of corporation tax. He also confirmed that Ireland will continue to take the actions needed to meet the highest international standards in tax, while offering a competitive tax regime that assists in building the Irish economy. The key areas addressed in the update are summarised below.

## Ireland and global tax reform

Ireland is committed to the OECD Base Erosion and Profit Shifting (BEPS) global tax reform process and has already taken a number of steps towards implementing the BEPS recommendations. In addition, in 2016 the Government commissioned an independent review of Ireland's corporation tax system which was conducted by Seamus Coffey and was recently published. As discussed in our article "Consultation on Ireland's Corporation Tax Code", the Coffey report sets out a roadmap for Ireland to follow in bringing certainty to the implementation of the remaining BEPS recommendations.

Ireland was among the first countries to implement Country-by-Country Reporting which requires large multinational groups to disclose details of their profits and other key data on a country-by-country basis. The first Country-by-Country Reports will be filed with the Irish Revenue this year and will be exchanged with the tax authorities in all relevant countries.

The Irish Knowledge Development Box (KDB) provides for profits from certain intangible assets to be taxed at a lower rate of corporation tax of 6.25%. The KDB was assessed by the EU and the OECD and found to be the first such regime to be fully compliant with the new international standards for patent boxes.

**Colm Rogers**
*Partner*

Ireland was also among the first countries to sign the OECD BEPS multilateral instrument (MLI) in June. This MLI will provide the mechanism for tax treaties to be automatically updated to reflect a number of important BEPS recommendations without the need for countries to engage in separate bilateral negotiations. Ireland will seek to ratify the MLI, with the first steps in this process being taken in next week's Finance Bill.

Work at the OECD continues on how tax systems should reflect the increasing digitalisation of the economy. Ireland is actively participating in this work through the Task Force on the Digital Economy. An OECD report on this matter is due to be published in the early part of 2018.

## Ireland's engagement with EU tax proposals

The update to the International Tax Strategy addresses the Government's position in relation to the EU tax policy agenda and confirms that Ireland will continue to engage with EU tax proposals.

Ireland has actively engaged in the EU initiatives to ensure the consistent and strong implementation of OECD BEPS recommendations across the EU. The Second Anti-Tax Avoidance Directive was agreed by EU Member States earlier this year. This Directive significantly strengthened anti-avoidance provisions to target hybrid mismatches (e.g. tax reductions resulting from differing the treatments in different jurisdictions) and brings EU law more closely in line with the BEPS recommendations.

Work is already underway to fully transpose the fifth iteration of the Directive on Administrative Cooperation (DAC5) into Irish law. DAC5 will ensure that tax authorities are given access to relevant information prepared by financial institutions as part of their anti-money laundering requirements. Ireland is also engaging in discussions on DAC6 which would impose a requirement on tax advisers and companies to disclose tax planning arrangements that meet certain hallmarks that are indicative of aggressive tax planning. Ireland is one of the three EU Member States that already has mandatory disclosure rules in place.

The tax strategy update confirms that Ireland will implement the Directive on Dispute Resolution Mechanisms by June 2019. This Directive extends the availability of arbitration in cases where two Member States disagree on how, and where, a taxpayer should be taxed.

Member States are also actively discussing the taxation of digital business. Ireland has emphasised the need to wait for the outcome of the work of the OECD Task Force on the Digital Economy before moving ahead with EU measures.

The update to the International Tax Strategy states that discussions continue on the common tax base aspect of the Consolidated Common Corporate Tax Base (CCCTB) proposal. However, the update reiterates that Ireland will continue to insist that all tax measures at EU level require unanimity before they can be agreed, reflecting the fact that tax is a key Member State competence.

## Tax transparency & tax and development

The tax strategy update also emphasises that Ireland remains a leading supporter of international efforts to increase tax transparency. The Irish Government has committed to the highest international standards in transparency in the taxation of the corporate sector with a view to tackling the global problems of tax avoidance and aggressive tax planning.

Ireland's strong record in this area, including its strong support of the various DAC iterations, has been recognised by the Global Forum on Transparency and Exchange of Information for Tax Purposes, which awarded Ireland the highest possible rating following a second peer review which assessed Ireland's compliance with international standards for the exchange of information between tax authorities.

The update also reaffirms Ireland's commitment to constructive and respectful engagement with developing countries in relation to tax matters. Ireland has signed up for the Addis Tax Initiative and is an active participant in the EU Platform for Good Tax Governance.

# Taxing the Digital Economy

The ongoing expansion of the digital economy across all industries and markets presents new challenges for governments and tax authorities. Both the European Union (EU) and the Organisation for Economic Development (OECD) have recently sought to start a debate on these issues.

## EU initiatives

On 21 September 2017, the European Commission released a communication on a "fair and efficient tax system" in the EU for a single digital market. The communication sets out the critical challenges that policymakers face in ensuring that businesses that provide services in the digital economy are taxed fairly. It noted two main challenges to be addressed so that profits are taxed where value is created:

- Nexus - determining which state has taxing rights over services provided digitally and a commercial presence is only virtual, and
- Value creation - allocating profits to such a virtual presence, when value is created through intangible assets, data, and knowledge.

The Commission says that EU Member States need to address these challenges in a coordinated manner to safeguard fair competition within the EU single market.

In the communication the Commission has proposed a number of possible short term measures which could be introduced:

- An "equalization tax" on turnover, which would take the form of a tax on any untaxed or insufficiently taxed income from digital business activities, either creditable against a company's corporate income tax liability or introduced as a separate tax;
- A withholding tax on digital transactions, which would be levied on a gross value of certain payments to non-resident providers of goods and services online; or
- A levy on revenues generated from the provision of digital services or advertising activity, which would apply on all transactions carried out remotely with local customers by businesses that have a significant commercial presence in that state.

The communication also proposes a long term objective of overhauling international tax rules to embed the taxation of the digital economy in the general international corporate tax framework and to update indicators of a significant economic presence in line with the new digitised business model (e.g., an updated definition of the permanent establishment (PE) to include a 'virtual PE').

One challenge that would need to be addressed in this context is the attribution of profits generated by digital businesses by identifying and valuing intangible assets and establishing their contribution to value creation. Alternative approaches to traditional transfer pricing methods would be required, together with specific anti-abuse rules, in order to prevent the shifting of profits outside the country where value is created. The European Commission also mentioned the possibility of amending the common consolidated corporate tax base (CCCTB) proposal to capture digital activities.

## OECD initiatives

In parallel, the OECD is seeking public comments on the key issues identified in taxing the digitalised economy and the potential options to address these challenges. In this regard, on 22 September 2017, it published a 'request for input' on the tax challenges of digitalisation. This document outlines the work done as part of the Base Erosion and Profit Shifting (BEPS) Action 1 report. That report (published in October 2015) recognised that digitalisation and some of the resulting business models present challenges for international taxation. However, it also acknowledged that it would be difficult, if not impossible, to 'ring-fence' the digital economy from the rest of the economy for tax purposes because of the increasingly pervasive nature of digitalisation.

In its request for input, the OECD invites comments on: the impact of digitalisation on business models and value creation; challenges and opportunities for tax systems; the implementation of the measures outlined in the BEPS package; and potential options to address the direct tax challenges of digitalisation.

We welcome these efforts by the OECD to fully understand the practical and commercial challenges, and the apparent attempt to ensure any proposal is 'future proofed'. This will provide companies with an opportunity to make their voices heard, especially in light of the EU discussions which seem to seek a short term solution, potentially involving one or more of these options. An interim OECD report on this new initiative is expected to be delivered to the G20 Finance Ministers in April 2018.

## Wider economic and business impact

Recognising that digitalisation is an integral part of the wider economy, the proposals put forward by the EU and the OECD, if implemented, will introduce new taxation models that businesses in all sectors will have to consider. The three short term solutions set out in the European Commission's communication were briefly described in the BEPS Action 1 report where it was acknowledged that "Adoption as domestic law measures would require further calibration of the options."

Ireland's government has made it clear

**Anna Scally**
*Partner*

**Gareth Bryan**
*Partner*

that any tax based solutions would require unanimity amongst Member States before EU-wide adoption. Further analysis of these options at an EU level will require close consideration of the following issues.

## Equalisation levy:

- A digital supply chain involving multiple intermediaries where there is an imposition of a levy upon each intermediary with no 'input credit' may result in multiple taxing points for the same supply.
- If an 'input credit' is available to eliminate the risk of multiple taxing points, this may mean that the levy operates much like VAT which means careful consideration is needed in relation to obligations under VAT Directives.
- The difficulties experienced in implementing VAT on digital supplies such as identifying the type of supplies made by intermediaries and identification of the location of the end consumer, will likely also manifest themselves in a levy system.
- Additional costs will likely disproportionately impact on small and start-up businesses.

## Virtual PE:

- The introduction of a new 'virtual PE' concept will have implications for existing treaty obligations (within and outside the EU) which focus on a fixed place of business requiring a physical presence. Changes to treaties on this scale would likely take a long time to implement and may not be agreed to by other countries.
- The role of market access and customer data in 'value creation' will be important in determining how profits are attributed to a virtual PE. This will require new measures in order to apply consistent approaches to valuing market access and customer data.

## Common Consolidated Corporate Tax Base (CCCTB):

- The addition of a virtual PE concept to the existing formulary approach for attribution of profits potentially further favours large Member States over smaller Member States such as Ireland.

## Macroeconomic and tax base implications for EU Member States to consider:

- Will these measures help companies operating within the EU be more competitive in the digital economy or potentially prove a barrier to innovation?
- Will the additional tax costs be passed onto consumers?
- Will these measures slow the deployment of innovative business models in the EU?
- Will the adoption of measures without wider international consensus risk trade retaliation concerns from countries outside the EU?

## **Future implications for your business**

Individual businesses will need to carefully consider the potential impact of these measures on their digitalised business channels and assess how the changes would affect their supplies to EU customers. Particular attention will need to be paid by those businesses whose supply chains include intermediaries and those businesses which make "remote supplies" (i.e. supplies without on-the-ground taxable presence).

If these proposals were to come to fruition, businesses will need to invest in new systems and process and may need to make changes to their supply chains and business models. This could be an expensive and disruptive process. Consequently, we believe it is important that Irish businesses actively contribute to this debate and make sure their voices are heard by policymakers both at home and abroad.

# Consultation on Ireland's Corporation Tax Code

On 12 September 2017 the Department of Finance released the Review of Ireland's Corporation Tax Code, a government commissioned report which was prepared by independent expert, Seamus Coffey. On Budget Day the Minister for Finance announced a public consultation on the implementation of a number of the Report's recommendations.

## Overview of recommendations

Although the Report does not make a specific recommendation on the 12.5% tax rate, its findings are broadly positive on the future sustainability of Ireland's 12.5% regime (though, in his Budget speech, the minister did reaffirm that the 12.5% tax rate will remain and is a core part of Ireland's corporation tax offering). The Report does make a number of recommendations for changes to Ireland's regime. These mainly reflect commitments that Ireland has made as part of multilateral measures to enact further protections against base erosion and profit shifting (BEPS). These commitments are aligned with those undertaken by other European Union (EU) Member States and with recommendations set out by the Organisation for Economic Co-operation and Development (OECD). In this way, the Report seeks to align Ireland's tax regime with evolving international standards for corporate income tax regimes while preserving Ireland's relative competitive position as an attractive location for business.

Other Report recommendations on areas for possible changes include broadening the scope of Ireland's transfer pricing regime, changes to the tax regime for intangible assets, the introduction of a controlled foreign company regime, and changes to the exit tax regime.

## Transfer pricing

The Report recommends that the transfer pricing rules should be updated to apply the 2017 OECD Transfer Pricing Guidelines (the legislation currently applies the 2010 guidelines). It also recommends that a number of other changes should be considered, including:

- Extending the scope of Ireland's transfer pricing rules to non-trading transactions, both domestic and cross-border.
- Extending transfer pricing rules to capital transactions if doing so would improve existing provisions which already apply market value rules to disposals of assets within scope of tax on capital gains or incurring expenditure on assets eligible for capital allowances (including allowances for intangible assets).
- Extending transfer pricing rules to some or all Small and Medium-sized enterprises (SMEs), which are currently not subject to transfer pricing (possibly with reduced documentation requirements).
- Ending the exclusion from transfer pricing of arrangements in place prior to 1 July 2010 under existing grandfathering provisions.

An extension of Ireland's transfer pricing rules to non-trading transactions will likely have significant consequences for business in Ireland, in respect of both domestic and internationally focussed companies, particularly those engaged in intra-group financing. The public consultation announced by the minister on Budget Day includes a review of Ireland's transfer pricing regime. Given the potentially significant impact which the recommendations in the Report could have if implemented, it will be important to monitor the impact of potential future changes. In evaluating how you might be impacted, you should consider the following areas:

- Identifying intra-group arrangements (domestic and cross-border) where transfer pricing adjustments are not made because the transaction is non-trading. Common arrangements include the advance of intra-group loans at below market rates or intra-group informal property letting arrangements.
- The need to put in place (additional) transfer pricing policies and procedures and properly document transfer pricing arrangements.

## Intangible assets

The Report outlines the reliefs under Ireland's Research and Development Tax Credit (R&D Tax Credit) and Knowledge Development Box (KDB) regimes and does not make any recommendations for changes to these. Its recommendations for changes to Ireland's capital allowances regime for intangible assets are confined to reintroducing a cap on the deductibility of allowances and related interest expense – it does not recommend any changes to either the rate of claim or the scope of eligible expenditure for capital allowances on intangible assets. The cap on deductibility of allowances and related interest expense is recommended to be set at 80 percent of trading profits from specified intangible assets (which are those intangible assets eligible for capital allowances relief).

In his Budget speech the minister announced that this recommendation will be implemented with effect from midnight on Budget Day (and, consequently this does not form part of the public consultation). Whilst this change will likely slow down the use of allowances (depending on the profitability of the claimant), it is important to note that the total amount of qualifying expenditure will remain fully deductible, albeit the deductible amount may be capped in certain years, but available for deduction in future periods.

**Sharon Burke**
*Partner*

**Kevin Cohen**
*Partner*

The recommendation to update existing transfer pricing legislation to reflect the 2017 OECD Guidelines will also affect businesses with intensive investment in intangible assets. The 2017 OECD Guidelines on pricing of intangible assets are focussed on attributing profits to the value added by functions related to the development, enhancement, management, protection and exploitation (DEMPE) of the intangibles.

In evaluating how you might be impacted by these possible changes, you should consider the following areas:

- If you are claiming allowances on intangible asset expenditure, review the cash tax and accounting income tax effect of capping each current period allowances claim at 80% of relevant profits.
- If planning future expenditure on intangibles, consider the impact of cap recommendations on the timing of relief claims.
- The current OECD guidelines on transfer pricing for intangibles focus on attributing profits to the value added by key decision makers. Understanding where decision makers are located and how key decisions are made at various levels is an important step in understanding if your transfer pricing approach to the recognition of Irish profits from intangible assets is aligned with current OECD guidelines.

## Other recommendations

Amongst the other recommendations in the Report are proposals to consider introducing both a foreign branch exemption and foreign dividend exemption regimes (in relation to connected company dividends) in tandem with the introduction with a Controlled Foreign Company (CFC) regime. An alternative proposal suggested in the Report is to consider simplifying Ireland's existing approach to affording double tax credit relief for foreign taxes borne on foreign income and branch profits. The requirement to introduce a CFC regime arises from Ireland's obligation to adopt measures agreed at EU level under an EU Anti-Tax Avoidance Directive (ATAD). Under the EU ATAD, Ireland is required to introduce CFC rules by 1 January 2019 and to revise its exit tax regime by 1 January 2020. The design and approach to implementation of these measures is included in the public consultation which was announced on Budget Day.

In evaluating how you might be impacted, you should consider the following areas:

- Review current Irish group holding arrangements to understand the tax profile and nature of activities conducted by foreign subsidiaries and branches in order to assess (i) impact of a possible adoption of a dividend/branch profit exemption in tandem with a CFC regime; and (ii) which of the two forms of CFC regime permitted under ATAD would be the best fit for your business.
- Consider the impact of a revised exit tax regime from 1 January 2020 if future business plans require a transfer of assets/business from Ireland.

## Next steps

KPMG is actively engaged in debates on tax policy matters in Ireland and will continue to proactively engage in the consultation process to represent the views of business across all sectors in Ireland. Given the significance of the potential changes to Ireland's corporation tax code that lie ahead and the impact they will have on business in Ireland, it is imperative that the voice of business is heard during the consultation process.

The consultation period in relation to the Review of Ireland's Corporation Tax Code will run from 10 October 2017 to 30 January 2018. For more insights on Irish tax policy matters as they emerge, and importantly, to have your voice heard in the consultation on these changes, please get in touch with your usual KPMG contact or any member of your KPMG tax team.

# Tax Rates and Credits **2018**

## Personal income tax rates (changed)

| | At 20%, first | At 40% |
|---|---|---|
| Single person (increased) | €34,550 | Balance |
| Married couple/civil partnership (one income) (increased) | €43,550 | Balance |
| Married couple/civil partnership (two incomes)* (increased) | €69,100 | Balance |
| One parent/widowed parent/surviving civil partner (increased) | €38,550 | Balance |

* €43,550 with an increase of €25,550 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)* | €1,150 |
| Home carer credit (increased) | €1,200 |

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

## Help to Buy Scheme (unchanged)

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 €500,000. Post 31 December 2016, there is no relief for houses valued greater than €500,000. Claimants must take out a mortgage of at least 70% of the purchase price. The scheme only applies to new builds, self builds or a converted building not previously used as a dwelling and not to second hand properties. The scheme will be in place until 31 December 2019.

## Home Renovation Incentive Scheme (unchanged)

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. 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)

| Married/widowed** - First time buyers loan taken out from 2009 to 2012 | |
|---|---|
| Years 6-7 | Lower of €4,000 or 20% of interest paid |
| After year 7 (where applicable up to and including 2017)* | Lower of €900 or 15% of interest paid |
| 2018 | 75% of relief available in 2017 |
| 2019 | 50% of relief available in 2017 |
| 2020 | 25% of relief available in 2017 |
| **Married/widowed** - Other mortgages, loans taken out from 2004 to 2012** | |
| 2017* | Lower of €900 or 15% of interest paid |
| 2018 | 75% of relief available in 2017 |
| 2019 | 50% of relief available in 2017 |
| 2020 | 25% of relief available in 2017 |
| **Married/widowed** - First time buyers loan taken out from 2004 to 2008** | |
| After year 7 and up to and including 2017* | Lower of €1,800 or 30% of interest paid |
| 2018 | 75% of relief available in 2017 |
| 2019 | 50% of relief available in 2017 |
| 2020 | 25% of relief available in 2017 |

**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 available in 2017 was extended in Budget 2018 on a tapered basis to 2020

** 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 2019 for new and unused houses purchased between 1 January 2013 and 31 October 2019 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** | 10.85%* (increased) | No limit |
| | 8.6%* (increased) | If income is €376 p/w or less |
| **Employee** (class A1)** | | |
| PRSI | 4% | No limit** |
| Universal Social Charge | 0.5% (unchanged) | €0 to €12,012*** |
| | 2.0% (reduced) | €12,013 to €19,372**** |
| | 4.75% (reduced) | €19,373 to €70,044***** |
| | 8% (unchanged) | > €70,044 |

* 0.1% increase in National Training Levy from 1 January 2018 included in Employer PRSI for Class A and Class H employments

** 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 2.0% band from €18,772 to €19,372

***** Reduced rate (2.0%) 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% (unchanged) | €0 to €12,012** |
| | 2.0% (reduced) | €12,013 to €19,372*** |
| | 4.75% (reduced) | €19,373 to €70,044**** |
| | 8% (unchanged) | €70,045 to €100,000 |
| | 11% (unchanged) | > €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 upper limit of the 2.0% band from €18,772 to €19,372

**** Reduced rate (2.0%) 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 (unchanged)

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

* Relief remains capped at lifetime limit of €1m chargeable gains. 10% rate applies to disposals on or after 1 January 2017

## Capital acquisitions tax (unchanged)

| | |
|---|---|
| Rate | 33% |
| **Thresholds** | |
| Group A | €310,000 |
| Group B | €32,500 |
| Group C | €16,250 |

## 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) | 37%*&** |

* 41% rate remains for exit taxes on financial products

** The rate of DIRT will be decreased by 2% each year for the next 2 years until it reaches 33% in 2020. This was announced in Budget 2017

## Stamp duty - commercial and other property (changed)

6% on commercial (non residential) properties* and other forms of property not otherwise exempt from duty, effective on and from 11 October 2017

* Details of a stamp duty refund scheme for commercial land purchased for development of housing (subject to certain conditions including requirement to commence development within 30 months of purchase) to be announced in the Finance Bill

## 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**

| 2018 changes | Euro |
|---|---|
| Change in Tax Bands | 150 |
| Change to Tax Credits | 0 |
| Change to PRSI | 0 |
| Change to Universal Social Charge | 116 |
| **Net Saving** | **€266** |

KPMG

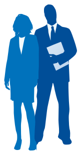
**Married couple, one employed, earning €50,000, three children, property owner**

| 2018 changes | Euro |
|---|---|
| Change in Tax Bands | 150 |
| Change to Tax Credits | 100 |
| Change to PRSI | 0 |
| Change to Universal Social Charge | 128 |
| **Net Saving** | **€378** |

KPMG

**Married couple, both employed, one earning €150,000, one earning €30,000, property owner**

| 2018 changes | Euro |
|---|---|
| Change in Tax Bands | 300 |
| Change to Tax Credits | 0 |
| Change to PRSI | 0 |
| Change to Universal Social Charge | 257 |
| **Net Saving** | **€557** |



KPMG

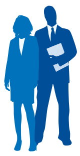
**Married couple, both self employed, one earning €150,000, one earning €30,000, property owner**

| 2018 changes | Euro |
|---|---|
| Change in Tax Bands | 300 |
| Change to Tax Credits | 400 |
| Change to PRSI | 0 |
| Change to Universal Social Charge | 257 |
| **Net Saving** | **€957** |

KPMG

**Unmarried couple, living together, renting, both employed, one earning €80,000, one earning €35,000**

| 2018 changes | Euro |
|---|---|
| Change in Tax Bands | 300 |
| Change to Tax Credits* | (80) |
| Change to PRSI | 0 |
| Change to Universal Social Charge | 269 |
| **Net Saving** | **€489** |



KPMG

**Married couple, both employed, one earning €250,000, one earning €90,000, one child, property owner**

| 2018 changes | Euro |
|---|---|
| Change in Tax Bands | 300 |
| Change to Tax Credits | 0 |
| Change to PRSI | 0 |
| Change to Universal Social Charge | 357 |
| **Net Saving** | **€657** |

**Notes**

* Finance Act 2011 introduced legislation to phase out the rent credit on a sliding scale between 2011 and 2017 with no rent credit available in 2018. The impact of this will be reduced tax relief of €80 (€40 per person) in 2018.

# Disrupt and grow

**Irish CEO Outlook 2017**


of Irish CEOs see disruption as an opportunity – **not a threat.**

Forbes INSIGHTS

**Learn more at kpmg.ie**
**#CEOoutlook**

1 Stokes Place
St. Stephen's Green
Dublin D02 DE03

| | |
|---|---|
| Telephone | +353 1 410 1000 |
| Fax | +353 1 412 1122 |

1 Harbourmaster Place
IFSC
Dublin D01 F6F5

| | |
|---|---|
| Telephone | +353 1 410 1000 |
| Fax | +353 1 412 1122 |

90 South Mall
Cork T12 KXV9

| | |
|---|---|
| Telephone | +353 21 425 4500 |
| Fax | +353 21 425 4525 |

Dockgate
Dock Road
Galway H91 V6RR

| | |
|---|---|
| Telephone | +353 91 534 600 |
| Fax | +353 91 565 567 |

The Soloist Building
1 Lanyon Place
Belfast BT1 3LP

| | |
|---|---|
| Telephone | +44 28 9024 3377 |
| Fax | +44 28 9089 3893 |



Produced by: KPMG's Creative Services. Publication Date: Sep 2017. (2991)