# July Job Stimulus

2020

Your Partner For What's Next

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# Introduction

The July Jobs Stimulus package is a substantial set of measures costed at €7.4bn. As the name suggests, the main focus is on protecting and stimulating jobs with approx. €3bn of the measures announced directed at jobs and training. A further €2bn has been allocated to credit guarantees, €1bn on additional tax measures, €500m on infrastructure investment and the balance on other supporting measures.

On taxation, the emphasis has largely been on measures to stimulate demand, such as a temporary 2% reduction in the standard VAT rate and the introduction of a Stay and Spend Incentive. Other measures focussed on helping cash flow, such as early relief claims for tax losses and a deferral of commercial rates until September 2020. To encourage more cycling to work (easing traffic congestion and the use of public transport) an increase in qualifying expenditure under the “Cycle to Work Scheme” and a shortening of the qualifying period was also announced.

On funding, the plan has expanded the measures available so that all companies from micro to large corporates now have options available. The deployment of funds is focussed on debt-based solutions (rather than grants) with the apparent aim of providing access to capital at market or capped interest rates for varying periods of time. The developments are welcome and should create liquidity for business.

The package is substantial and welcomed and should provide more job security and help stimulate the economy. Some sectors, however, believe more is needed. The cost of any additional measures will need to be weighed up against the country’s overall debt burden and our ability to absorb any further economic shocks. Attention will, nevertheless, shortly turn to what, if any, additional measures will be announced in the Budget in a few month’s time.

Tom Woods

Tom Woods
*Head of Tax & Legal Services*

# Taxation measures

## *The new Employment Wage Subsidy Scheme (EWSS)*

As part of the July Stimulus package released on 23 July, the government announced the introduction of a new Employment Wage Subsidy Scheme (EWSS) which will apply from July 31st until the end of March 2021. It will run concurrently with the existing Temporary Wage Subsidy Scheme (TWSS) until 31 August at which stage the TWSS will cease.

The EWSS provides many employers with an important financial lifeline for the next 9 months. The government is setting aside €2.35 billion in employment subsidies under the EWSS which underpins the importance being placed on maintaining current employment levels within the economy. The inclusion of new hires under the scheme will provide welcome support to employers who will look to expand their workforce in the future.

Financial Provisions (Covid-19) (No.2) Bill 2020, which was published on 24 July, provides the legislative footing for this new wage support scheme and sets out various details of the scheme, including

- the employer and employee eligibility criteria;
- the rates of subsidy payable; and
- other administrative and operational aspects

***How are employers and employees eligible for the new EWSS?***

*Employer Eligibility*

To be eligible to participate in the EWSS, the employer must be able to demonstrate to the satisfaction of the Revenue that their business has been significantly disrupted by reason of Covid-19. Specifically the employer needs to demonstrate at least a 30% decline (or such other percentage as the Minister for Finance may specify) in either the turnover of the employer's business or in customer orders received during the period 1 July 2020 to 31 December 2020, as compared to the same period in 2019.

In cases where the business of the employee has not operated for the whole of the corresponding period in 2019, the following will apply:

i) Where the business operations have commenced on or before 1 November 2019, the 30% decline test must be determined in 2020 by reference to the same reference period last year in which the business was in operation. For example, if the employer's business commenced on 1 September 2019, then a 30% decline in the period 1 September 2020-31 December 2020 must arise as compared to 1 September 2019 - 31 December 2019.

ii) Where the business operations have commenced after 1 November 2019, the employer must be able to show that the turnover or customer orders during the period 1 July to 31 December 2020 will be at least 30% less than what the turnover or customer orders would have been had there been no disruption caused by Covid-19.

While the introduction of a further wage support scheme is welcomed, the reference period for eligibility of 1 July to 31 December 2020 is likely to be a disappointing condition for many employers who may have suffered significantly as a result of Covid-19 in the first half of 2020 and must suffer a 30% decline in the second half of the year in order to avail of any government wage supports from 1 September. Helpfully, under the new EWSS, there is no requirement for the employer to have to demonstrate an inability to pay wages which caused significant confusion and uncertainty amongst employers under the TWSS.

The bill provides that Revenue will publish guidelines to assist employers in determining whether the reduction in turnover/customer orders will occur by reason of Covid-19 and the disruption that Covid-19 is causing to business.

Any employer who is entered in the register established and maintained under the Child Care Act 1991 will be considered eligible for the scheme without having to satisfy the reduction in turnover or customer order tests. This would include pre-schools, play groups, creches and other services catering for pre-school children in addition to creches etc that cater for primary school children.

In order to be eligible for the EWSS throughout the entire period, the employer must be entitled to a tax clearance certificate.

The bill requires employers to review their eligibility criteria at the end of each month for July to March 2021. If as a result of the review, it transpires that the employer does not meet the eligibility criteria they should withdraw themselves from the scheme on ROS with effect from the first day of the following month.

**Eligible Employees**

Any employee who was considered an eligible employee under the existing TWSS provisions will also be considered an eligible employee for the EWSS.

The new EWSS extends the definition of eligible employee to now include an individual who is on the payroll of the employer at any time in the “qualifying period”, i.e. at any time between 1 July 2020 and 31 March 2021. This does, however, exclude an individual who is a proprietary director of the company and someone who is connected with the employer (unless such connected person was on the payroll of the employer between 1 July 2019 and 30 June 2020 and received pay from the employer during that time).

Previously, with a small number of limited exceptions, an employee was only considered eligible for the TWSS where they were included on the employer payroll on 29 February 2020.

The extension of the EWSS to seasonal workers and new hires is a very welcome development, particularly to those sectors such as hospitality or other seasonal businesses who perhaps were closed in February 2020 or operating at a reduced capacity.

**Rates of subsidy payable**

Under the EWSS, eligible employers will receive a per-head subsidy on a flat rate basis which will be determined based on the amount of gross pay that the employer pays to the eligible employee as follows:

| Gross Pay | Subsidy Payable |
|---|---|
| <€151.50 | €0 |
| €151.50 - €202.99 | €151.50 per week |
| €203 - €1,462 | €203 per week |
| >€1,462 | €0 |

The rates payable under the new EWSS have been simplified considerably compared to the rates payable currently under the TWSS. Under the existing TWSS, those employees with gross pay in excess of €960 per week are not eligible for the subsidy. This upper gross pay limit has been increased to €1,462 under the new scheme. However, a lower gross pay limit of €151.50 is now provided for which doesn't exist under the TWSS.

For comparative purposes, we have included the TWSS rates below.

*Employees previously earning up to €586 net per week*

| Average net weekly pay | Subsidy |
|---|---|
| Up to €412 | *85% of AWNP, up to a max of €350* |
| *Between €412 to €500* | *Flat rate of €350* |
| *Between €500 to €586* | *70% of AWNP, up to a max of €410* |

*Employees previously earning in excess of €586 net per week*

| Gross top up payment | Subsidy available |
|---|---|
| Up to 60% of ANWP | €350 |
| More than 60% but less than 80% of ANWP | €205 |
| More than 80% of ANWP | NIL |

**Operational aspects of the EWSS**

*i) Registration for the EWSS*

The employer will be required to register for the EWSS in the same way as it would have done for the TWSS. In other words, for those employers who are looking to enter the EWSS, they will be required to login to ROS and register by way of declaring that the eligibility criteria are met.

*ii) Claiming the EWSS*

While the existing TWSS is considered a payment to the employee (albeit it is administered by the employer), under the new EWSS, the subsidy to be paid to the employer is now more akin to an employment support grant. Under the new scheme, the employer will pay the employee their normal wages and will then receive a subsidy from the Revenue in respect of each eligible employee following submission of the payroll return based on the table set out above. The subsidy will be paid by Revenue to the employer via a bank transfer (as is the case now) within a few days after the employer submitting their payroll return to Revenue for the relevant pay period.

*iii) Tax and PRSI position*

While the bill is silent on the tax treatment of the subsidy payments, it does provide that employers will be required to operate PRSI on all gross payments to be made to their employees having regard to guidelines to be published by the Revenue.

We await guidance from Revenue in this regard.

*iv) Interaction with existing TWSS*

Where an employer is entitled to receive a subsidy for an employee under the existing TWSS during July and August 2020, the employer shall not also be entitled to claim a subsidy under the EWSS in respect of the same employee.

*v) Publication*

As was the case for the TWSS, the names and addresses of all employers who receive a wage subsidy payment under the new EWSS will be published on revenue.ie.

*vi) Anti-avoidance*

The bill includes a specific anti-avoidance provision which seeks to counteract

a) contrived situations whereby any gross pay due to an employee is deferred, suspended, increased or decreased with a view to securing the wage subsidy or
b) situations where an employee is laid off and removed from the payroll and replaced with two or more employees in relation for whom the subsidy would be available.

If Revenue identify any such cases, the employer will be treated as having never been eligible for the scheme and any subsidy payments received would need to be refunded, together with possible interest and penalties.

## *Other employment related matters*

The Temporary Wage Subsidy Scheme (TWSS) since it was launched on 16th March 2020 has played a vital role in retaining the link between employers and their employees and has provided much needed cashflow assistance to those employers who have been hit badly by the pandemic.

The latest figures released show that 68,000 employers have received payments under the scheme to date in respect of over 626,000 employees.

The TWSS has effectively achieved its main objective and has provided a platform for the government to pursue a jobs-led recovery from the serious economic impact of the pandemic in the form of the new Employment Wage Subsidy Scheme (EWSS) prior to the introduction of a National Economic Plan later this year.

Prior to the formal cessation of the TWSS, the bill includes some necessary legislative amendments to the existing legislation.

**Temporary Wage Subsidy Scheme – legislative amendments**

The bill includes updates to the operation of the Temporary Wage Subsidy Scheme (TWSS). These amendments will give legislative effect to features that have been previously announced and are already in practice:

- The extended end date of the TWSS scheme is clarified as 31st August 2020.
- Under the original TWSS legislation, only employees who were on the payroll on 29th February 2020 were eligible for the scheme. The new bill confirms employees who didn't meet that criteria but who returned to work on or after 1 March 2020 following a period of absence whilst claiming certain Social Welfare benefits, e.g. maternity and paternity benefit are also eligible for the scheme. In addition, individuals who attended an apprenticeship and training course administered by An tSeirbhís Oideachais Leanúnaigh agus Scileanna in February 2020 will also qualify.
- A technical amendment to the wage subsidy percentage was required such that this cannot exceed 85% (formerly 70%) where an employees' net weekly pay emoluments for the purposes of the scheme is not more than €586 per week. This amendment was required in view of the fact that the increased percentage wage subsidy had been operating in practice since 4th May 2020.
- The amendments also confirm that 31st July 2020 is the last day that an employer can apply for TWSS.

**Cycle to Work scheme – legislative amendments**

Some small amendments to the Cycle to Work scheme have been included in the bill, no doubt designed to encourage reduced use of public transport.

These provide for an increase in the allowable expenditure on provision to an employee of a tax-free bicycle from €1,000 to €1,500 in respect of e-bikes, and €1,250 in respect of other bikes.

Finally, an employee could previously only avail of the scheme once over a consecutive period of 5 tax years. The bill proposes to reduce this to a consecutive period of 4 tax years. This provides an opportunity to replace a bicycle under the scheme a year earlier than was previously allowed.

**Pandemic Unemployment Payment (PUP)**

Whist not part of the bill, the latest July Job Stimulus announcements also confirm that the availability of the PUP has been extended to 1 April 2021.

This benefit which is currently payable at a rate of either €203 or €350, will be reduced between now and April based on the individuals pre-covid income levels.

The aim is to gradually bring the payments in line with existing social welfare levels. This should address the anomaly that had arisen whereby employees were able to break the link with their employer and be financially better off claiming the PUP.

The PUP will not be available for new claimants with effect from 17 September 2020.

## *Property*

### Commercial rates waiver

All businesses will now be granted a waiver of commercial rates for the six months to the end of September 2020. This extension is much needed by businesses.

Consideration could also be given to the introduction of business rent relieving measures for businesses struggling to meet their fixed rental costs.

### Help to Buy scheme

For a short period (to 31 December 2020) the Help to Buy scheme will be substantially extended in two important ways

(i) The maximum amount will increase to €30,000 and
(ii) The maximum percentage of the price allowed will increase from 5% to 10%

The proposed enhancement of the Help to Buy scheme has the capacity to greatly facilitate the building of new homes as well as to create and restore employment in the homebuilding sector and will enable a greater cohort of buyers to access the relief. This is a key measure to assist in both the housing supply and COVID rebuilding agendas.

The time period is short and we would hope that on review it will be extended out to 31 December 2021 which would be consistent with the scheme generally.

## *Loss relief for corporates and self-employed*

### Income tax losses and capital allowances

The July Stimulus package has recognised that, unfortunately, many individuals carrying on a trade or profession (either solely or in partnership) will incur losses in 2020. The relief for such losses and the capital allowances for the year would often only be available in computing the income tax payable on profits earned in a subsequent year.

From a cashflow perspective, this might mean that an individual would incur the loss in 2020 but only benefit from a reduced tax payment in late 2021 at the earliest. The July Stimulus introduced provisions to accelerate this relief for losses and capital allowances of up to €25,000 incurred in 2020.

*Amounts eligible for accelerated relief*

The amount that is eligible for accelerated income tax relief is the aggregate of (i) the loss incurred in 2020, and (ii) the industrial buildings allowances and capital allowances to which the individual is entitled for 2020, that would otherwise be carried forward for relief in 2021 or subsequent years under normal income tax rules.

As mentioned above, the maximum amount eligible for accelerated relief is €25,000 i.e. tax impact of €10,000.

If these losses and capital allowances were carried forward and relieved under normal income tax rules, the individual would also benefit from USC relief (benefit of up to an additional 11%) – it is to be hoped that this anomaly will be rectified as the bill progresses to enactment.

*Timing of relief*

The bill provides for individuals to make 'interim' claims for this relief when filing their 2019 tax return, i.e. before the final loss and capital allowance position for 2020 is known. In doing so, individuals must make a best estimate of their final position for 2020, and at the date of making the interim claim, must be 'tax compliant' i.e. have met all their obligations with respect to the delivery of tax returns and the payment of all taxes (including any interest or penalties thereon).

From a practical perspective, this means that individuals could file their 2019 tax return including an interim claim for relief as soon as the bill is passed. Where the preliminary tax already paid for 2019 (prior to the onset of Covid) exceeds their 2019 liability after taking account of the interim claim for relief, they should be able to secure an immediate income tax refund.

Any individuals making an interim claim must prepare and retain records evidencing the basis on which they computed the amount of relief due.

To prevent abuse of this relief, interest at a rate of 8% per annum will apply to any 'excess' tax repaid where (i) the claim for excess relief was made either deliberately or carelessly, or (ii) the individual did not adjust the claim without unreasonable delay on realising that the relief claimed was excessive.

*Farm losses*

The bill also includes a separate relieving measure for farmers who are availing of the income averaging provisions and had elected to defer the tax that fell due under these provisions in one of the years 2016-2019. In addition to the tax normally payable in 2020 on current profits, such farmers would also have been required to pay some of the tax previously deferred. In recognition of the cashflow difficulties this could cause for farmers, the bill allows such farmers to claim a further payment deferral.

Where this second deferral is claimed for 2019, the tax payment that would have fallen due in 2020 should instead fall due in four equal annual instalments from October 2021 to October 2024.

### Corporation tax losses

In the July Stimulus, the government has introduced a temporary acceleration of corporation tax loss relief for tax compliant companies, providing cash flow support to previously profitable companies which incur losses as a result of Covid 19. The relief applies to a company's trading losses incurred in an accounting period which includes some or all of the period 1 March 2020 to 31 December 2020.

*Amounts eligible for accelerated relief*

The amount eligible for accelerated relief is 50% of the tax-adjusted loss the company estimates it will incur for the relevant accounting period. For a company with a calendar year accounting period, this means that they can include in their 2019 corporation tax return due to be filed by 23 September a claim for relief on 50% of the losses they expect to incur in 2020. (Under normal rules, such relief would only be available when filing the 2020 tax return at some point in 2021.)

This should provide a timely cashflow boost for such companies, either by giving rise to a refund of tax already paid for 2019 or reducing the balancing payment that falls due in September.

*Conditions*

In order to avail of this interim claim for relief, a claimant company must at the date of the claim have met all their obligations with respect to the delivery of tax returns and the payment of all taxes (including any interest or penalties thereon).

Any company making an interim claim must prepare and retain records evidencing the basis on which they computed the amount of relief due.

*Timing of relief*

Claims for accelerated relief must be made:

- No earlier than four months from the beginning of the accounting period in which the loss will be incurred, and
- No later than five months after the end of the accounting period in which the loss is incurred.

As is the case for the new income tax relief, to prevent abuse of this relief, interest at a rate of 8% per annum will apply to any 'excess' tax repaid where (i) the claim for excess relief was made either deliberately or carelessly, or (ii) the company did not adjust the claim without unreasonable delay on realising that the relief claimed was excessive.

## *Interest on the late payment of tax*

The July Stimulus introduced measures to reduce the rate of interest charged on the late payment of certain tax liabilities.

Under these measures, a reduced interest rate of 3% per annum (0.0082% per day) should apply to outstanding tax liabilities where the taxpayer has (i) entered a payment agreement with the Collector-General on or before 30 September 2020 with respect to the payment of those liabilities, or (ii) reached a payment agreement with the Collector-General on foot of a request for such an agreement that was made on or before 30 September 2020.

This compares favourably with the normal rate of:

- 8% per annum for corporation tax, income tax, and CGT, or
- 10% per annum for PAYE, PRSI, USC, VAT, LPT, and RCT;

that otherwise applies on overdue tax liabilities. The reduced rate will be particularly welcome for taxpayers with outstanding liabilities for taxes other than payroll taxes and VAT, as these are not covered in the stimulus' warehousing measures.

*Effective date*

The reduced rate of 3% per annum should apply from the later of:

- 1 August 2020, or
- The date on which the payment agreement is reached with the Collector-General.

Where a taxpayer fails to meet an obligation under the repayment plan agreed with Revenue, the reduced rate will cease to apply and the normal interest rates will apply from the date of that failure.

The relief does not apply where the Collector-General has already commenced enforcement proceedings for payment of the relevant liabilities.

## Warehousing of PAYE, PRSI & VAT liabilities

The bill provides a legislative footing to the previously announced warehousing of certain PAYE (income tax, USC), PRSI and VAT liabilities ("Covid-19 liabilities"). Pending the enactment of the necessary legislation, Revenue has operated the arrangements on an administrative basis.

Section 3 of the bill amends the interest payable by an employer on PAYE liabilities through the insertion of a new section 991B of the Taxes Consolidation Act. Section 4 sets out the changes for VAT purposes while Section 5 of the bill amends the interest payable by an employer on related PRSI liabilities by the insertion of a new section 17C in the Social Welfare Consolidation Act 2005. Although covered by three separate sections due to legislative differences, the conditions to be met to avail of warehousing relief across these liabilities are broadly the same.

### *Who is eligible for Covid-19 Liability Warehousing?*

While prior announcements focussed the relief at certain small and medium enterprises, the legislation does not include any restrictions to the size of the business. Instead, eligibility will be based upon the following:

- An inability to pay Covid-19 liabilities as a result of the adverse effect Covid-19 has had on the business
- Continued compliance with all relevant obligations required under the relevant Taxes Consolidation Act 1997, VAT Consolidation Act 2010 and Social Welfare Acts (the "Acts")
- The tax affairs of the business/employer are administered by a specified Revenue Division, or if not so administered that a notification has been made to Revenue which provides that the business/employer has formed a view that it is unable to pay all or part of the Covid-19 liabilities.
- An agreement has been made with the Collector General to pay the Covid-19 liabilities due plus interest arising by a certain date.

The requirement to comply with all relevant obligations under the Acts is extremely broad and while targeted at clear non-compliance may inadvertently lead to employers and businesses no longer being considered eligible for relief due to innocent administrative errors.

The date the business is regarded as being first adversely affected will commence only after Revenue has agreed to temporarily suspend collection of Covid-19 liabilities in question. Revenue may also review the basis of any claim when considering whether the business has an inability to pay all or part of the Covid-19 liabilities in question.

*What is the Covid-19 Liability Warehousing Relief?*

The level of relief available is determined by reference to three specific periods. Covid-19 liabilities which have built up in Period 1 while the business is restricted from trading are effectively 'ring-fenced' at a zero or reduced interest rate depending upon the period in question.

- ***Period 1***

This reflects the Covid-19 restricted trading period with the recommencement of the employer/business defined as the date the business is no longer subject to the health restrictions required by law or a later date of recommencement of the business where this is agreed with Revenue.

For PAYE and PRSI purposes, this period commences on the later of either 1 February 2020 or the first day of the income tax month immediately preceding the income tax month when the business was first impacted. For example, where the business was first impacted in April 2020, the start date of Period 1 will be 1 March 2020. For VAT purposes, Period 1 begins on the later of 1 January 2020 and the first day of the bi-monthly VAT period that immediately precedes the bi-monthly VAT period during which the VAT registered person's business was first adversely affected by Covid-19. For example, where Revenue agreed to temporarily suspend interest on the Covid-19 VAT liabilities during the March/ April 2020 VAT period, the start date of Period 1 is 1 January 2020.

The end of Period 1 (in respect of PAYE, PRSI and VAT) will be measured by reference to one of the six bi-monthly taxable periods for VAT purposes. Specifically, Period 1 will continue until the end of the taxable period following the taxable period in which the business recommences. For example, should the business recommence in April 2021 (i.e. during the March/ April 2021 VAT period) the end date will generally be 30 June 2021 (being the end of the May/ June 2021 VAT period).

No interest will be charged on Covid-19 liabilities which are unpaid during Period 1.

- ***Period 2***

This period begins immediately following Period 1 and ends within 12 months or 31 December 2022, whichever is earlier. During Period 2 no interest will be charged on any Covid-19 liabilities outstanding from Period 1.

For PAYE/PRSI and VAT purposes, the Minister can extend the timeframe of Period 2 beyond 12 months by a Ministerial Order, but this period must end no later than 31 December 2022 in all cases.

- ***Period 3***

This period follows the end of Period 2 and will apply a reduced annual interest rate of c. 3 per cent to remaining Covid-19 liabilities until paid in full. A necessary condition to avail of the reduced interest rate is that an agreement has been made with the Collector General to pay the Covid-19 liabilities due before the start of Period 3 and that the business complies with this agreement.

Interest will be charged based upon the following formula

$$DL \times D \times P$$

Where –

DL is the amount of the Covid-19 liabilities which remain unpaid on the first day of Period 3.

D is the number of days (including a part of a day) forming Period 3, and

P is 0.0082 per cent

While interest would normally be calculated by considering any payments made on account, the interest calculation proposed means that taxpayers will be continuing to pay interest on the full amount of any Covid-19 liabilities outstanding at the start of Period 3 irrespective of how many payments have been made prior to repayment in full. As a result, while there is clear incentive to repay such liabilities in full during the zero-rated interest periods, those who are unable to do so will incur a larger than expected interest liability. Not providing credit for payments made on account when calculating interest payable is unusual and we hope this will be rectified as the bill passes through the Dail.

*Clawback of Covid-19 Liability Warehousing Relief*

Should there be a failure to file relevant returns or meet other compliance obligations during Period 1, 2 or 3, interest will be charged at regular rates from the date of breach. Where there has been a failure to enter into an agreement with the Collector General to pay the Covid-19 liabilities due prior to the start of Period 3, interest at regular rates will arise from the start of Period 3. For PAYE/PRSI purposes, the regular rate of interest is 0.0274% per day or part of a day.

*Other measures*

A business/employer may have already entered into an agreement with the Collector General to pay PAYE/PRSI or VAT liabilities due on a quarterly or annual basis prior to the Covid-19 period. In such cases, while monthly payroll returns still need to be filed, payment of the PAYE/PRSI liabilities are due by 14th of the month following the quarter or 14 days following the year end. This can be extended to the 23rd of the relevant month where paying and filing of such liabilities through ROS.

Provision is made to treat quarterly PRSI/PAYE payments which arise during the income tax months of Period 1 as Covid-19 liabilities for warehousing purposes. Likewise, for annual PAYE remitters, provision is made to treat all the income tax months in 2020 as a Covid-19 liability where Period 1 ends in December 2020 or February 2021.

Businesses whose taxes are warehoused will still be able to obtain tax clearance certificates provided they continue to compliance with all other tax compliance obligations. Further, the Collector General will not seek enforced repayment of warehouse debts during Period 1 to 3 provided that none of the provisions for relief are breached.

## *Indirect Taxes*

**Temporary reduction to the standard rate of VAT**

The stimulus plan contains a temporary reduction to the standard rate of VAT in Ireland from 23% to 21% for a six month period from 1 September 2020.

The standard rate of VAT applies to broadly 50% of economic activity in Ireland and to a wide range of goods and services including for example, the sale of motor vehicles, adult clothing, alcohol, electrical goods, most household goods, non basic foods stuffs, many e-services and professional services. The VAT rate reduction measure has been costed at €440 million for the period of the stimulus.

The VAT rate reduction represents the first change to the standard VAT rate in Ireland since 2012 (when the rate increased to 23% from 21%) and mirrors recent VAT rate decreases in other countries, for example, the United Kingdom, Germany and Austria.

*How will the VAT rate change impact your business?*

The VAT rate reduction will provide a welcome boost to many businesses, in particular those in the B2C sector including retailers and publicans with the potential for price decreases to stimulate demand. For some, the question will be whether to pass on the VAT rate reduction or retain it.

The breadth of the application of the standard rate means the majority of traders in Ireland will need to consider the impact on their business and changes to systems to implement the VAT rate reduction.

*Typical issues that businesses need to consider*

Businesses should consider how the change in the standard rate will impact their operations and any actions required between now and 1 September to ensure readiness for the change.

The following is a list of typical issues to consider;

| Issue | What to consider? |
|---|---|
| Systems | Do you know what steps are required to update your systems for the VAT rate cut? Depending on the particular systems, this may either be a simple task or in other cases may involve significant work on tax codes and tax determination logic, potentially across multiple systems.<br><br>Many businesses may already have had a 21% VAT code on their systems from prior years – however they will need to check whether this code continues to function correctly in terms of calculating VAT and including that VAT in the relevant ledgers and reports.<br><br>Can the systems changes be easily reversed when the rate increases again? |
| Pricing | Should you factor the VAT rate cut into your pricing? This is particularly relevant for businesses who set their prices on a VAT-inclusive basis. |
| Product files | Product files may need to be reviewed and managed noting this is a temporary and not a long-term change. |
| Contracts | Do your existing contracts state prices on a VAT-exclusive or VAT-inclusive basis and do you need to engage with any of your suppliers or customers in respect of the VAT rate change? |
| Timing | How do you determine if the 23% or 21% rate applies for transactions spanning both periods? Working out the tax point of particular supplies can be complex but will take on increased importance.<br><br>Relevant factors can include whether the supply is a discrete transaction or a continuous supply, the time that the payment is made, and whether you are selling to a consumer or another business. |
| Partially exempt businesses | If your business cannot fully recover VAT, can you maximise the benefit of the VAT rate cut? |
| Credit notes | What if you raised an invoice charging 23% VAT but the customer requests a credit note after the VAT rate has changed? This may involve applying the 23% rate during the period of the VAT rate reduction – can your system deal with these scenarios? |
| Direct debit | If your business pays VAT to Revenue on a monthly direct debit basis, can the direct debit payment be reduced in light of the VAT rate decrease? |
| Advance Payments | How to treat advance payments/payments on account received in advance of the VAT rate change |
| Import guarantees | If your business has an import VAT deferment account, can the level of bond or guarantee be reduced to take account of lower VAT import payables? |
| Non-Irish businesses | Businesses established outside of Ireland may be affected by the change. For example, businesses making supplies to Irish consumers of electronically supplied services, broadcasting and telecom services, as well as distance sales of goods to Irish consumers above €35,000 per annum. |

*What does the rate change not impact?*

Importantly, it should be remembered that the change will not impact the VAT treatment of supplies which qualify for the reduced rate of VAT as this rate remains at 13.5%.
This includes many activities in the tourism and hospitality sector such as meals in a restaurant, hotel accommodation, housing and hairdressing as well as general repairs and maintenance.

**Warehousing of VAT liabilities**

The reduction in the standard VAT rate follows on from other tax relieving measures announced by Revenue to help support businesses experiencing cashflow difficulties as a result of Covid-19.

As outlined above, these include “warehousing” arrangements whereby certain VAT liabilities of certain qualifying VAT registered businesses impacted by Covid-19 can be deferred for a period of time without paying interest provided the business continues to meet its normal VAT filing obligations, and thereafter by agreement with Revenue a low interest rate (approx. 3% annually) until they have been repaid.

**Stay and spend tax credit**

While the VAT rate reduction is isolated to the standard rate and no change was announced to the 13.5% VAT rate, an incentive measure will be introduced in the hospitality and tourism sector by way of an income tax “Stay and Spend” rebate. This will operate as a lifetime tax credit equal to the lesser of 20% of the relevant hospitality expenditure and €125 (or €250 for a couple that is jointly assessed to tax). Expenditure qualifying for the rebate comprises accommodation and food and non-alcoholic drinks (where consumed on the premises of the service provider) between October 2020 and April 2021.

Relief will be given by reference to the tax year in which the expenditure is incurred and the tax credit may be set against a claimant’s USC liability, where he or she does not have a sufficient income tax liability to fully absorb the tax credit in a year of assessment. The claimant must incur minimum qualifying expenditure of €25 (inclusive of VAT) per transaction.

In order to qualify for the scheme, the service provider must be VAT registered and have a tax clearance certificate. It is expected that Revenue will publish details of eligible service providers.

# Funding measures

In response to COVID-19 the Irish government announced or repurposed several debt funding measures to support Irish businesses disrupted by the pandemic.

On Saturday May 2nd 2020 the Government announced a further package of funding supports available to impacted Micro, Small, Medium and Large Corporates.

On Thursday July 23rd 2020 the Government announced the July Jobs Stimulus Package which included changes to existing credit supports and additional credit supports.

Links to the most up-to-date information on the following credit supports can be found here.

Pandemic Stabilisation and Recovery Fund
Credit Guarantee Scheme
Restart Fund
SBCI Future Growth Loan Scheme
SBCI COVID-19 Working Capital Scheme
Microfinance Ireland COVID-19 Business Loan
SBCI Credit Guarantee Scheme
Enterprise Ireland – Sustaining Enterprise Fund

## 1. Pandemic Stabilisation and Recovery Fund

The Ireland Strategic Investment Fund (ISIF) is revising its investment strategy to establish a sub-portfolio within ISIF called the Pandemic Stabilisation and Recovery Fund. This sub-portfolio will invest up to €2 billion of ISIF's readily available capital in medium and large enterprises.

Eligibility

- Clearly and materially impacted by COVID-19;
- Have 250 employees or more;
- Have a turnover of €50 million or more;
- ISIF may consider investing in enterprises below these levels if they are assessed to be of substantial scale and of significant importance at national or regional level;
- Can demonstrate the business was commercially viable prior to the COVID-19 pandemic, and that they can return to viability and contribute to the Irish economy; and
- All sectors will be considered subject to ISIF's Responsible Investment Policies. The business does not currently need to align with ISIF's existing Priority Themes of Regional Development, Housing, Indigenous Businesses, Climate Change, Brexit.

Capital features

- Capacity for long term time horizon;
- Flexibility across types of investment, capital structure, instrument, risk levels etc;
- Patient capital, non-controlling / minority investor; and
- Ability to work with co-investors

Co-investment

- Where existing shareholders have capital available, they will be expected to meaningfully participate alongside ISIF in any recapitalisation.

Double bottom line

- Commercial return and economic impact remain core to the ISIF mandate;
- ISIF will only invest on a commercial basis, in enterprises that present viable business models in the medium to long term;
- ISIF's economic impact focus will shift more towards near term economic stimulation and employment, with a view to support stabilisation and recovery of the Irish economy; and
- ISIF will invest on a commercial basis to enable otherwise viable medium and large-scale businesses to sustain themselves in the near term, irrespective of their sector, and for these businesses to deliver ongoing growth through their ability to persist and support employment over the medium term.
- Further details, including a guidance on the initial information required for an application can be found at https://isif.ie/pandemic-stabilisation-and-recovery-fund

## 2. Credit Guarantee Scheme

The €2 billion COVID-19 Credit Guarantee Scheme will provide an 80% guarantee on lending to SMEs until the end of this year, for terms between 3 months and 6 years with interest free periods of up to 1 year available. SMEs will be able to go directly to the banks in the Scheme, and the guarantee can be used for a wide range of lending products between €10,000 and €1 million. It will be available to all SME sectors, including primary producers. There will be an agreed maximum interest rate at or below market rates. The funds can be used to refinance existing debt which is a key differentiator and precluded under the other supports available.

The credit guarantee scheme is a further development of the existing SBCI Credit Guarantee Scheme. The Lenders will not be subject to a portfolio cap as originally expected. The publication of the legislation with all requisite detail is imminent.

## 3. Restart Fund

This is a €550m fund (increased from €250 million in July) targeted at small and micro enterprises that have been impacted by COVID-19.

Details of the scheme will be worked on by the Department of Public Expenditure and Reform in consultation with the Departments of Business, Enterprise and Innovation and Housing, Planning and Local Government.

It was intended that companies would receive a total amount equivalent to no more than their 2019 rates bill and that there will be a cap per business of €10,000. The July stimulus has increased this cap to €25,000. Further payments may be available to firms which have already received them. The pool of eligible businesses has also been widened to include previously excluded sectors such as B&Bs and charities.

## 4. SBCI Future Growth Loan Scheme

The SBCI Future Growth Loan Scheme has been in existence since July 2019 and is offered with the support of the Department of Business, Enterprise and Innovation, the Department of Agriculture, Food and the Marine, the European Investment Bank and the European Investment Fund (EIF).
The July Jobs Stimulus package provides for an expansion of the SBCI Future Growth Loan Scheme by an additional €300m to €500m.

Loan features
- Loan amounts from €100,000 to a maximum of €3,000,000 per eligible applicant
- Initial maximum loan interest rate of 4.5% for loans < €250,000 and 3.5% for loans >= €250,000. Variable interest rates are subject to change
- Loan terms range from 8 to 10 years
- Loans unsecured up to €500,000
- Optional interest-only repayments available in certain circumstances
- An “applicant” is an SME or small mid-cap that applies for a loan under the FGLS
- Applicants for loans greater than €250,000 must submit a business plan to the relevant financial provider

Loans can be used for
- Investment in machinery or equipment
- Investment in research and development
- Investment in business expansion
- Investment in premises improvement
- Investment in process innovation
- Investment in people and/or systems

Loans cannot be used for
- Finance of specific export operations, or finance contingent upon the use of domestic over imported products. In particular, it should not apply to financing the establishment and operation of a distribution network in other States, or current expenditure linked to the export activity
- Finance of pure real estate development activity
- Finance of activities constituting pure financial transactions (e.g. purchase of shares)
- Loans to undertakings in difficulty
- Finance of activities forbidden by national or EU law
- Primary Agriculture (see specific FGLS SME Agriculture Customers section)
- Refinance to reschedule existing loan or completed project
- Aid for the acquisition of road freight transport vehicles by undertakings performing road freight transport for hire or reward

Who can apply?
- Viable micro-, small and medium-sized enterprises (SMEs) and small mid-cap enterprises that meet the eligibility criteria.

An SME is defined by the Standard EU definition [Commission Regulation 2003/361/EC] as an enterprise that:
- has fewer than 250 employees
- has a turnover of €50 million or less (or €43 million or less on their balance sheet)
- is independent and autonomous i.e. not part of a wider group of enterprises

- has less than 25% of their capital held by public bodies
- is established and operating in the Republic of Ireland
- A small mid-cap is an enterprise that is not an SME but has fewer than 500 employees.

Who cannot apply?

An SME or small mid-cap that:

- is in financial difficulty
- is bankrupt or being wound up or having its affairs administered by the courts
- in the last five years has entered into an arrangement with creditors, in the context of being bankrupt or wound-up or having its affairs administered by the courts
- is convicted of an offence concerning professional misconduct by judgement, fraud, corruption, involvement in a criminal organisation, money laundering or any other illegal activity where such illegal activity is detrimental to the European Union's financial interests

How to apply?

- Borrowers must first complete the Eligibility Application Form to check if they are eligible to apply to Bank of Ireland, AIB, KBC or Ulster Bank for a loan under the Scheme.
- If eligible they will receive a letter of confirmation from the SBCI which they then present to the bank(s), as part of the credit application process.

Further details

- SCBI Future Growth Loan Scheme

### 5. SBCI COVID-19 Working Capital Scheme

The SBCI COVID-19 Working Capital Scheme is offered in partnership with the Department of Business Enterprise and Innovation, the Department of Agriculture Food and the Marine and is supported by the InnovFin SME Guarantee Facility, with the financial backing of the European Union under Horizon 2020 Financial Instruments.

The loans will be available through AIB, Bank of Ireland and Ulster Bank. Approval of loans are subject to the banks own credit policies and procedures. It should be noted that businesses cannot complete a loan application until they have received their eligibility letter from the SBCI.

Eligibility

To qualify for eligibility to the scheme, each borrower's business's turnover or profitability must be negatively impacted by a minimum of 15% directly due to COVID-19. In addition, borrower's businesses must meet one of 11 possible innovation criterions.

The details of the innovation criteria can be found at https://sbci.gov.ie/products/covid-19-working-capital-loan-scheme.

Loan features
- Loan amounts of between €25,000 to €1.5 million per eligible enterprise.
- Maximum interest rate of 4%.
- Loan terms ranging from 1 year to 3 years.
- Loans unsecured up to €500,000.
- Optional interest-only repayments may be available at the start of the loans.
- The loan amount and term are dependent on the loan purpose.

Loans can be used for
- Future working capital requirements.
- To fund innovation, change or adaptation of the business to mitigate the impact of COVID-19.

Loans cannot be used for
- Refinance of undertakings in financial difficulties.
- Refinance of existing debt (e.g. Terms Loans/Leases/Hire Purchase etc.).

Who can apply?
- Viable micro, small and medium sized enterprises (SMEs) and Small MidCap enterprises that meet the eligibility criteria.

SMEs are defined by the Standard EU definition [Commission Regulation 2003/361/EC] as enterprises that:
- Have fewer than 250 employees
- Have a turnover of €50 million or less (or €43 million or less on their balance sheet)
- Are independent and autonomous i.e. not part of a wider group of enterprises
- Have less than 25% of their capital held by public bodies
- Is established and operating in the Republic of Ireland

A Small Mid-Cap is an enterprise that is not an SME but has fewer than 500 employees

Who cannot apply?
SMEs/ Small Mid-Caps that:
- Are involved in the primary agriculture and/or aquaculture sector
- Are in financial difficulty (excluding cashflow pressures caused by COVID-19 impact)
- Are bankrupt or being wound up or having its affairs administered by courts
- In the last 5 years has entered into an arrangement with creditors, in the context of being bankrupt or wound-up or having its affairs administered by the courts
- Are convicted of an offense concerning professional misconduct by judgement, fraud, corruption, involvement in a criminal organisation, money laundering or any other illegal activity where such illegal activity is detrimental to the European Union's financial interests.

How to apply?
- Borrowers must first complete the Eligibility Application Form to check if they are eligible to apply to Bank of Ireland, AIB or Ulster Bank for a loan under the Scheme.
- If eligible they will receive a letter of confirmation from the SBCI which they then present to the bank(s), as part of the credit application process.

For further details
- COVID-19 loan application

## 6. Microfinance Ireland COVID-19 Business Loan

The COVID-19 Business Loan from Microfinance Ireland is a government initiative to support microenterprises, through the current period of uncertainty, who are or may impacted by the coronavirus in Ireland.

The July Jobs Stimulus Package saw additional liquidity and enterprise investment measures announced worth €55 million to support small and micro companies through additional resources for MicroFinance Ireland and the Local Enterprise Offices.

Eligibility

Any microenterprise (Sole Trader, Partnership or Limited Company) who is currently trading and is;

- Not in a position to avail of Bank finance; and
- Is experiencing a COVID-19 negative impact on their business (The negative impact must be a minimum of 15% of actual or projected in turnover or profit).

Microenterprises are businesses with;

- Fewer than 10 full-time employees;
- Less than €2 million annual turnover; and
- A Balance Sheet with Net Assets that don't exceed €2m.

In order to apply for finance up to €50,000, the business must provide a declaration to Microfinance Ireland that they meet the above eligibility criteria.

Loan Features

- Business Loans from €5,000 to €50,000;
- Loans may be used for working capital and required business changes as a result of COVID 19;
- Loan terms up to a maximum of 3 years;
- Six months interest free and repayment free moratorium, with the loan to then be repaid over the remaining 30 months of the 36-month loan period;
- Interest rate of 4.5% if submitted through Local Enterprise Office or referred by borrower's Bank and 5.5% if an application is made directly with Microfinance Ireland;
- No fees and/or hidden costs; and
- Fixed repayments with no penalty for early repayment.

How to apply?

- Talk to a Business Advisor in your Local Enterprise Office;
- Register at microfinanceIreland.ie; or
- Talk to a Microfinance Ireland loan Advisors on 01 260 1007

For further details

- https://microfinanceireland.ie/loan-packages/covid19/

## 7. SBCI Credit Guarantee Scheme

The Credit Guarantee Scheme was in place before COVID-19 but has been repurposed by SBCI to help SMEs access sufficient working capital.

The Scheme aims to assist viable SMEs, which under normal lending criteria are unable to borrow from their bank, in accessing credit. The scheme operates by providing an 80% guarantee to participating finance providers (currently AIB, Bank of Ireland and Ulster Bank) on qualifying loans to SMEs.

The scheme had been designed to address three barriers to lending:

- Inadequate collateral;
- Novel business market, sector or technology which is perceived by finance providers as higher risk under current credit risk evaluation practices; or
- Need for refinancing caused by the exit of an SMEs lender from the Irish market.

The Credit Guarantee Scheme can now also be used by businesses to obtain loans to support changes they need to make to their business in response to COVID-19.

Eligibility
SMEs may be eligible if they:
- Are involved in a commercial activity;
- Are a sole trader, partnership, franchise, co-operative or limited company;
- In the lender's opinion have a viable business proposal; and
- Are able to repay the facility.

Exclusions to eligible SMEs include;
- Primary production in agriculture, horticulture and fisheries are excluded. Note the food and drinks sectors will be eligible for the Scheme.
- Refinancing of existing debts will be excluded as the purpose of this Scheme is to facilitate additional lending into the economy. Such arrangements will continue to be dealt with by banks under their current lending arrangements. However, in cases where new lending is sought along with refinancing, the availability of a guarantee in respect of the new lending element should be of assistance in providing an overall package of support to the business, including consolidation of existing debts.
- Property-related activities will be excluded from the Scheme.

Loan Features
- Facilities of €10,000 up to €1,000,000
- Terms of up to 7 years
- Term Loans, Demand Loans and Performance Bonds.

The interest rate charged on the loan will be the bank's market SME lending rates. In addition, the borrower pays a premium which partially covers the cost of providing the guarantee. The premium can vary but is currently 0.5%. The premium is collected annually or quarterly throughout the life of the guarantee (max. 7 years).

How to apply
Businesses seeking to avail of the guarantee scheme can approach a participating lender. Participating lenders will make all decisions on lending. Currently, Ulster Bank, Bank of Ireland and AIB are participating in the Scheme.

Further details
- https://sbci.gov.ie/products/sme-credit-guarantee-cgs

## 8. Enterprise Ireland – Sustaining Enterprise Fund

In response to COVID-19 Enterprise Ireland has created a new €180 million, fund to provide manufacturing and internationally traded services companies with capital to help stabilise and rebuild their businesses.

Eligibility
The fund is open to eligible companies which;
- Employ 10 or more full-time employees;
- Operate in the manufacturing or internationally traded services sectors;
- Have had a 15% or greater reduction in actual or projected turnover or profit, and/or, a significant increase in costs directly as a result of COVID-19;
- If an SME – have applied for and been unable to raise sufficient funding from the market, a financial institution or, where appropriate, the SBCI COVID-19 Working Capital Loan Scheme; and
- If a large company – have applied for and been unable to raise sufficient funding from and appropriate financial institution.

Who cannot apply?
The following are ineligible companies for the scheme;
- In financial difficulty on 31st of December 2019 (within the meaning of the General Block Exemption Regulation);
- That are active in the primary agricultural, fishery or aquaculture sectors;
- That operate in the coal and steel sector; and
- Are financial institutions included in the Communication from the Commission on the application, from 1 August 2013, of the State aid rules to support measures in favour of banks in the context of the financial crisis ('Banking Communication') (OJ C 216, 30.7.2013, p.1)

Features
- Funding up to €800,000 for each applicant;
- Funding will be in the form of repayable advances or equity investments;
- Funding repayable subject to the project objectives being achieved;
- An annual administration fee of 4%;
- Three-year grace period before advances begin being repaid; and
- Total repayment due by the end of year 5, on successful achievement of the project objective.

How to apply
In order to apply for the Sustaining Enterprise Fund, eligible companies will need to provide:
- A Business Sustainment Plan which details the business project plan, which if fully implemented, will enable the company to be financially viable
- Evidence of application for funding through the SBCI or financial institutions
- Evidence of the need for COVID-19 support funding

- Identification of the sources of additional funding required to fully implement the business project plan; and
- Evidence of a drop of 15% or more (or projected) in income arising from the COVID-19 situation.

The Business Sustainment Plan must identify the extent of the immediate liquidity needs and outline how support provided through the proposed measures will remedy the company's immediate problems.

Applications should be made through Companies existing Development Advisers or through the COVID-19 Business Response Unit at businessresponse@enterprise-ireland.com.

For further details
https://www.enterprise-ireland.com/en/funding-supports/Company/Esetablish-SME-Funding/Sustaining-Enterprise-Fund.html

Guidance/Information
If you have any related questions or need further information about KPMG's response to COVID-19, please get in touch with our Debt Advisory team for assistance.