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Tom Woods
Partner

Introduction

The Minister for Finance introduced the 2021 Budget on 13 October 2020. Further detailed measures will be included in the Finance Bill to be published on 22 October 2020.

Budget 2021 was introduced by the Minister for Finance against the backdrop of two significant economic uncertainties – the impact of Brexit and the continuing effect of Covid-19. In his Budget speech, the minister indicated that the Budget had been framed on the assumption that no free trade agreement will be agreed between the EU and the UK, and that Covid-19 would continue to be present in Ireland next year with the absence of a broadly available vaccine.

In summary there were very limited tax measures announced – €270m in the context of an overall budgetary package of €17.75 billion. There were no tax measures specifically introduced to address Brexit but there were a range of supports announced for affected businesses. There were, however, a few tax measures introduced to deal with the impact of Covid-19 on certain sectors of the economy, such as a reduced 9% rate of VAT for the tourism and hospitality sector and an extension of certain measures which were announced in the July Stimulus Plan such as warehousing of tax liabilities to now include income tax.

The minister also emphasised the importance of tackling housing and climate change as two of the core missions of the current Government, which can be seen in a number of announced measures including:

- The extension of the accelerated capital allowances scheme for energy efficient equipment for a further three years
- An increase in carbon tax of €7.50/tonne
- Modifications to the VRT regime and motor tax in the context of CO2 emissions
- An extension of the Help-to-Buy measures which were announced in the July Stimulus Plan
- Extension of, and amendments to, the Stamp Duty Residential Development Refund Scheme

The minister acknowledged the role that the relatively stable corporation tax receipts have played in funding pandemic related expenditure and reinforced the commitment to the 12.5% rate of corporate tax. The need for Ireland's broader corporation tax regime to remain competitive, legitimate and sustainable was also emphasised in the context of international developments such as the EU Anti-Tax Avoidance Directive and the various OECD BEPS Inclusive Framework reports.

As expected, no changes were announced in relation to income tax bands. However, some minor amendments to the entry points for USC and employer's PRSI were introduced as well as an increase in the self-employed earned income credit to bring it in line with the PAYE credit. Whilst some minor amendments to Entrepreneur Relief were announced, unfortunately the €1m lifetime limit has not been adjusted. Bringing down the capital gains tax rate was a missed opportunity.

Given the broader economic uncertainty and shift from a surplus position of €1.3 billon to a projected 2020 deficit of €21.5 billion, it was broadly expected that there would be a limited number of tax relieving measures introduced in this year's Budget. That said, it is hoped that measures which have been lobbied for in recent years to improve the competitiveness of Ireland's tax regime will be revisited as the economy stabilises.

Tom Woods

Tom Woods
Head of Tax and Legal Services

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Personal Tax

Robert Dowley
Partner

Personal tax

The current Budgetary environment has meant that there has been very little fiscal space for widespread changes in the area of personal tax, and in line with the Programme for Government agreed in July, there were no broad changes to income tax rates, bands or credits announced in the minister's speech.

The specific measures announced today are detailed below.

Warehousing of income tax liabilities

The minister announced that the tax debt warehousing scheme which is currently available to corporate taxpayers will be extended to self-employed individuals. For these self-employed individuals, the scheme will cover the balance of any income tax payable for 2019 and the preliminary income tax liability for 2020. Both of these liabilities would normally be payable by 31 October 2020 (or the extended deadline applicable to those who pay and file via ROS which is 10 December 2020).

Under this scheme, taxpayers will be allowed to defer payment of their income tax liabilities for up to a year without statutory interest applying. Thereafter, a 3% rate of interest will apply to outstanding liabilities, but no surcharges should arise.

No further details have been provided on the operation of the scheme, such as how it will be accessed by individuals or the criteria for qualification. For example, the equivalent scheme for corporate taxpayers applied automatically for smaller businesses but is only available on request for certain larger businesses. We would anticipate that further guidance on this new scheme will be forthcoming from Revenue.

Universal social charge

As was the case in Budget 2020, no adjustments have been made to the USC rates in this year's Budget. The USC bands have, however, been adjusted slightly with the ceiling at which the 2% rate applies increasing to €20,687 from €20,484. This is to cater for the increase in the minimum wage to €10.20 per hour from 1 January 2021 and ensure that a full-time worker earning the minimum wage does not suffer a higher rate of USC on their income as a result of the increase.

The reduced rate of USC for medical card holders who earn less than €60,000 per annum was due to finish at the end of 2020 but has once again been extended by a further year to the end of 2021.

The minister's speech was silent on any potential amalgamation of USC and PRSI so it appears that we will need to continue to wait for developments in this space.

Full details of the revised rates and bands are included in the Tax Rates and Credits 2020 table at the end of this publication.

Income tax bands

No changes have been made to the income tax bands or rates but there may be some movement in this space in Budget 2022 given the commitment in the Programme for Government to index link tax bands and tax credits to earnings. This is long overdue given the trend of wage growth in recent years. The lack of adjustment to the income tax bands to date essentially amounts to a tax increase given growth in wages, so any efforts on the part of Government to address this would be welcomed.

Earned income credit

The earned income credit was introduced from 2016 to address the difference in taxes payable by employees and self-employed individuals. The credit for 2021 will increase by €150 to €1,650, thereby finally equalising the credit with the PAYE tax credit available to employees.

Dependent relative credit

The dependent relative credit was increased from €70 to €245. This tax credit applies to a taxpayer who maintains a dependent relative, or a dependent relative of their spouse or civil partner, at their own expense. The credit will not be available if the dependent relative's income exceeds €15,060.

Employment Taxes

Eoghan Quigley
Partner

Employment wage supports

Central to the Government's Covid-19 response to date has been supporting job retention and income protection for employees, with the Temporary Wage Subsidy Scheme (TWSS) and the Employment Wage Support Scheme (EWSS) being instrumental in achieving these aims.

In a welcome move, the minister confirmed that TWSS subsidy repayments due by employers for overpaid subsidies can be included in the tax debt warehousing scheme to provide additional liquidity support at this time for employers affected by Covid-19.

As part of the July Stimulus Plan, the Government announced the introduction of the EWSS to replace the TWSS with effect from 1 September 2020. It had previously been announced that the scheme was expected to run until 31 March 2021 and the minister confirmed that further wage subsidy supports will be required beyond this date in 2021. The Government will decide on the form of extended wage subsidies based on the economic landscape at the appropriate time. This will hopefully provide confidence to employers as they navigate through these difficult trading conditions.

Employer PRSI

On 6 October 2020 the Minister for Social Protection announced a €0.10 increase in the National Minimum Wage to €10.20 per hour from 1 January 2021. To ensure that this increase in the minimum wage would not result in an increase in the level of employer PRSI charged, the Budget provided for an increase in the employer PRSI threshold from €395 to €398 from 1 January 2021. This aligns the employer PRSI threshold with the salary/wages of a full-time employee earning the minimum wage.

Remote Working

As a result of Covid-19, employers and employees across the country have had to adapt very quickly (and in many cases for the first time) to a new remote way of working.

The Programme for Government included a commitment to develop a strategy for remote working and the minister confirmed in his Budget speech that an Inter-Departmental Group has been set up to work on this strategy.

While the results of this Group are not yet known, the minister did remind us about the measures of relief already in place to support remote working as follows:

- The ability for employers to contribute towards the expenses of working from home of up to €3.20 per day without a charge to benefit-in-kind arising.
- Alternatively, an employee can make a claim for tax relief directly from Revenue in respect of utility expenses incurred relating to working from home which include light and heat. Revenue has confirmed that this can now also include the costs of home broadband.
- The minister reiterated that claims can also be made for other vouched expenses incurred "wholly, exclusively and necessarily" in the performance of the duties of their employment.

Historically this phrase "wholly, exclusively and necessarily" incurred has been interpreted quite narrowly by the Revenue in deciding whether an employee is entitled to tax relief in respect of the expenses incurred and as such the terminology has been the subject of many court decisions.

Typically, it must be free from doubt that the employee was required to incur the expense as a part of their employment, that the expense relates solely to the performance of their duties, and that they could not have been expected to carry out their duties without bearing the expense.

This can be a high threshold to reach, particularly when an individual is incurring expenses in their home so more detailed guidance from Revenue in terms of how they intend to apply these conditions in a remote working context would be very useful.

Business Tax

Marie Armstrong
Partner

Covid Restrictions Support Scheme (CRSS)

The minister announced the introduction of a new Covid-19 related support scheme, the CRSS, specifically targeting sectors which have been impacted significantly by the restrictions set out in the Government's Plan for 'Living with Covid-19'. The CRSS applies from 13 October 2020 until 31 March 2021, and will operate on a self-assessment basis.

The scheme as currently envisaged will apply to businesses operating in sectors that are impacted by Level 3 Covid-19 restrictions and in particular the accommodation, food, arts, recreation and entertainment sectors. Other sectors may qualify if Level 4 or 5 restrictions are imposed with the result that they are either forced to close or reduce their footfall. While these other sectors were not expanded upon by the minister, we would expect that the health and leisure and non-essential retail industries should qualify if additional Covid-19 restrictions are imposed. Whether non-customer facing industries, such as the construction industry, will be eligible for the scheme is uncertain, but from the information available so far, this appears unlikely given the minister's reference to a lack of "access by customers" being an eligibility requirement of the scheme. In order to qualify for the scheme:

- Customer access to the business premises must be directly prohibited or restricted under Level 3 or higher of the Government's restrictions, and
- The business' turnover must not exceed 20% of the turnover for the corresponding period in 2019.

Once these two conditions are satisfied the business can apply to Revenue for

a cash payment (similar to the TWSS scheme). This cash payment represents an advance credit for trading expenses which are deductible for income and/or corporation tax purposes (ACTE) relating to the period (no earlier than Budget Day) in which the restrictions are effective. Payments will be calculated, subject to a maximum weekly payment of €5,000, based on:

- 10% of the business' first €1 million of turnover, and
- 5% of any excess.

Once Level 3 restrictions or above apply to a county/region, qualifying businesses can enrol in the CRSS in the first week the restrictions apply, with valid claims for the entire period the restrictions are imposed being paid within 2-3 working days. The payments will cease automatically once the Level 3 restrictions or above end. Where restrictions are extended by the Government, an additional claim can be made. It is not yet clear whether or not such payments will be subject to tax, but we would not expect tax to be imposed as this would run counter to the scheme.

The CRSS is a very welcome development to impacted businesses, albeit somewhat limited. However, it must be considered in the context of the existing wage subsidy scheme and the reduced 9% VAT rate for the hospitality and tourism industries as part of a package of measures.

It is hoped that the measures announced by the minister will help to prevent the closure of businesses which operate in the sectors most exposed to Covid-19, allowing them to operate successfully once the relevant restrictions have been lifted.

The estimated cost of the scheme is €40 million for each week Ireland is at Level 3 in every county.

Camilla Cullinane
Partner

Entrepreneur Relief

Under this relief, entrepreneurs pay a special CGT rate of 10% when they dispose of qualifying business assets. The full rate of 33% then applies to gains above the lifetime limit of €1 million.

In respect of a sale of shares in a qualifying company, the change proposed by the minister would see a taxpayer meet the required holding period where they owned 5% or more of the shares of that company for at least three continuous years at any time. Previously, it was necessary to own 5% or more for a continuous three year period in the five year period falling immediately before the disposal. The change will provide more flexibility for working entrepreneurs to qualify for the relief as they can now qualify even where their shareholding has fallen below 5% in the years leading up to the disposal. For example, an entrepreneur who has owned 5% of a company for a continuous three year period can now dispose of a 2% interest, continue to own the remaining 3% for a further four years, and then dispose of the remaining 3% with both sales qualifying for Entrepreneur Relief. The second sale of 3% would not have qualified previously. This measure will come into effect 1 January 2021.

It will still be necessary for the entrepreneur to be an employee or director of the company who has spent at least 50% of their working time for three continuous years, out of the five years falling immediately before the disposal, in service to the company in a managerial or technical capacity.

The retention of Entrepreneur Relief and the change introduced by the minister should be welcomed. However, it is disappointing that that the Government has decided to retain the current rate of CGT whilst omitting to introduce any significant improvements for entrepreneurs and SMEs. It is hoped that the new Commission on Taxation might produce further initiatives to help stimulate this vital segment of the economy and that such initiatives will be taken up by Government in a meaningful way.

Agri-business measures

As noted in the Indirect Taxes section, the flat rate VAT addition that is available to unregistered farmers will increase from 5.4% to 5.6% from 1 January 2021. The flat rate addition compensates unregistered farmers for VAT on their farming costs.

The minister also announced a number of stamp duty measures to support the agricultural sector.

Consanguinity relief

Stamp duty consanguinity relief is designed to facilitate and encourage intergenerational farm transfers. This relief reduces the stamp duty rate from 7.5% to 1% on the transfer of agricultural land to close relatives, provided certain conditions are met.

This relief was due to expire on 31 December 2020, but it will be extended for a further three years until the end of 2023.

Farm consolidation relief

Stamp duty farm consolidation relief provides for a reduced rate of stamp duty of 1% (compared to 7.5%) where a farmer disposes of and purchases land and/or exchanges land with another farmer in order to consolidate an existing farm. Stamp duty at 1% is applied to the excess of the value of the land acquired over the value of the land disposed of, where the acquisition and disposal take place within a 24 month period.

The relief is designed to encourage the consolidation of farm holdings in order to improve the operational efficiency and viability of farms for a period of five years from the date of the transfer.

This farm consolidation relief was due to expire on 31 December 2020, however, the minister announced that it will be extended for a further two years until the end of 2022. This coincides with the expiration date of the equivalent CGT farm consolidation relief.

The above taxation measures were complemented by increases in funding for the Department of Agriculture, Food and the Marine to enable the sector to cope with challenges faced in respect of Covid-19, Brexit and climate change.

Damien Flanagan
Partner

Research and Development Incentives and Capital Allowances

Digital gaming tax credit

Following the significant growth which has occurred within the gaming sector over the past 10 years, the minister announced his intention to commence work on developing a tax credit for the digital gaming sector, with a view to supporting qualifying activity from January 2022 onwards.

It is not yet clear what type of credit will be available, what will constitute "qualifying activity", or how the credit will operate in practice. That said, this is a welcome announcement and we look forward to further developments on how the credit will operate in practice (e.g. aligned to R&D credit or akin to film corporation tax credit).

Knowledge Development Box

The Knowledge Development Box (KDB) introduced by Finance Act 2015, targeted incentivising companies to undertake innovative activities in Ireland by providing for a reduced 6.25% effective rate of tax on certain income that is generated from qualifying IP.

The minister announced an intention to extend the KDB relief scheme for a further two years, applying to accounting periods commencing before 1 January 2023. It is likely that a further extension to the KDB will be considered prior to the next 'sunset clause'.

Energy-efficient equipment

Accelerated wear and tear allowances are available to companies which purchase certain energy-efficient equipment for their trade. Instead of receiving allowances for expenditure over the standard period of eight years, allowances are granted in full in the year of acquisition. Recognising the importance of energy efficiency to the green agenda, the minister announced an intention to extend the regime by three years up to accounting periods ending 31 December 2023.

Furthermore, the minister announced that the energy efficiency criteria for the scheme will be re-assessed to ensure the categories of equipment availing of the scheme remain appropriate and reflect the most up-to-date efficiency standards.

Employment and Investment Incentive (EII)

Over many years efforts have been made to streamline the relief and increase its attractiveness to both investors and companies alike, including increasing the investment limits and moving to a system of "self-certification" whereby companies can self-certify that they qualify for the relief (rather than relying on Revenue pre-approval).

The minister announced that a review of the scheme will be carried out later this year to identify how the scheme can be further enhanced to help the SME sector in the current crisis. The review will focus on measures such as improved support for start-ups, the potential to attract capital from a broader range of investors and the potential to include energy-efficient projects within the remit of the EII. This review is much welcomed as the SME sector has suffered greatly due to the lockdown measures imposed and reductions in consumer spending.

We welcome the opportunity to provide feedback to the Department of Finance.

Paul O'Brien
Partner

Film corporation tax credit relief (FCTC)

A reimagined film corporation tax credit (FCTC) relief was introduced in Finance Act 2013 to promote the Irish film industry by encouraging investment in Irish-made films. The scheme provides relief in the form of a corporation tax credit related to the cost of the production of certain films. The relief is due to expire at 31 December 2024.

The minister previously introduced a time-limited, tapered regional uplift of 5% for productions made in areas designated under the state aid regional guidelines to support the development of film production outside of the main production hubs. The FCTC regional uplift was due to expire in 2022. The minister announced that the FCTC regional uplift will be extended by one year to 2023 given that the intended incentive effect of the relief in 2020 was largely eroded by Covid-19 related production shut-downs.

Where the regional film development uplift applies, the FCTC relief will now be available at the following rates for the following periods:

- 37% for claims made between 1 January 2021 and on or before 31 December 2021;
- 35% for claims made after 31 December 2021 but on or before 31 December 2022;
- 34% for claims made after 31 December 2022 but on or before 31 December 2023; and
- 32% for claims made after 31 December 2023 (no regional uplift applies).

Alan Bromell
Partner

Capital gains tax – foreign currency deposits

The transfer of a foreign currency bank deposit out of a bank account is regarded as a disposal of a "debt" within the charge to CGT in certain circumstances.

The minister has introduced a change such that no chargeable gain, or allowable loss, will arise where the deposit is moved to another account belonging to the same person (either with the same or different bank) where it remains in the same foreign currency. This measure is effective from 14 October 2020. The main purpose of this change would appear to be to prevent the realisation of an allowable loss from currency speculation where the deposit is transferred between bank accounts but is not truly divested of.

Commission on Welfare and Taxation

The minister reiterated the intention to establish a Commission on Welfare and Taxation, as committed to in the Programme for Government. The Commission will independently consider how best the tax system can support economic activity while ensuring that there are sufficient public funds. The Commission will have particular regard to the impact of the Covid-19 pandemic, as well as long-term developments such as ageing demographics, the move to a low carbon economy and the rise of digital automation. The minister committed to announcing details over the coming weeks of the membership of the Commission, its resources and terms of reference.

The last report of a Commission on Taxation was in 2009 and although 11 years ago, there was a very similar mandate. Many of the 240 non-binding recommendations to Government at the time could be revisited, albeit by reference to the low carbon and automation agendas.

Property & Construction

Jim Clery
Partner

Carmel Logan
Partner

This is the first Budget in many years that has contained only relieving measures for the property and construction sector. It is clear that Covid-19 has had a significant impact on projects, productivity and viability in the sector. The Government has introduced several targeted extensions to various schemes to take account of the delays being experienced by the construction industry and the current housing crisis.

Help to Buy Scheme

The Help to Buy scheme for first time buyers has been extended to the end of 2021. The enhanced scheme was introduced as part of the July Stimulus Plan to apply from 23 July 2020 and had been due to end this year.

The enhanced scheme provides for a refund of up to 10% (up from 5%) of the cost of a new house, subject to a maximum refund of €30,000 (up from €20,000). To qualify for the relief the value of the house must be no more than €500,000 and the relief is subject to taking out a mortgage of at least 70% of the value of the property. The refund remains dependent upon the buyer having paid sufficient income tax in the previous four years.

As part of the affordable housing measures package for 2021, €110m will be provided to deliver a new national Affordable Purchase Shared Equity Scheme for first time buyers and a new funding model to accelerate the delivery of affordable houses by approved housing bodes. No further details are available on this scheme yet.

In our view, this scheme has played a key role in increasing the level of construction of new homes in Ireland and in that regard, the extension of the enhanced scheme is warranted and beneficial.

Stamp Duty Refund Scheme for residential land

The Stamp Duty Refund Scheme for residential land was introduced in Finance Act 2017. It provides for a refund mechanism to reduce the net effective stamp duty rate for qualifying residential developments to 2%, where higher stamp duty had been paid on the acquisition of the land.

The scheme was designed to incentivise residential development. However, the conditions to meet this refund scheme are onerous and subject to relatively tight time limits for both commencing and completing the development of the residential project. Satisfying these time limits has been made even more challenging by the impact of Covid-19 related restrictions on construction activity.

The scheme was due to expire for new construction commencing after 31 December 2021, but has now been extended by one year to 31 December 2022. In addition, the previous 24 month timeline between commencement of the development and completion has been extended by 6 months. The extension of the scheme and the period in which the development must be completed are welcomed and will hopefully ensure that developers impacted by Covid-19 closures and delays can still avail of the relief.

The refund scheme applies to both the construction of once-off houses as well as multi-unit developments that can involve a portion of commercial development. To date only approximately 8% of applications relate to multi-unit developments. Further changes to enhance the availability of the relief for multi-unit developments would be of considerable assistance.

Commercial rates waiver

The Government have extended the commercial rates waiver that was introduced in March 2020 and due to expire in September 2020, to the end of 2020 to support eligible businesses impacted by Covid-19. The Government will make payments to local authorities to offset the cost of waiving the commercial rates. This will provide relief to businesses as well as certainty to local authorities in ensuring that they continue to be resourced to provide local services.

International Tax

Anna Scally
Partner

Corporation Tax Environment

The minister acknowledged the significant contribution made by corporation tax receipts to date in 2020, noting the c.€7.5 billion as playing an essential role in funding the expenditure measures introduced in response to the pandemic.

In this context, the minister reiterated the importance of maintaining a stable and transparent corporation tax regime, and again reaffirmed Ireland's strong commitment to the 12.5% rate of corporation tax.

In September 2018, the Department of Finance published Ireland's Corporation Tax Roadmap. The minister noted that this would be updated to reflect the actions taken to date and the areas for further review and consultation in the coming months and years. The Roadmap has proven to be a helpful guide to timing and approach to the implementation of the broad ranging tax changes resulting from EU and OECD initiatives, and has provided greater certainty for taxpayers on the direction of travel for the Irish tax regime.

The minister noted that the updated Roadmap will address the OECD BEPS 2.0 blueprints dealing with the tax challenges of digitalisation of the economy. These blueprints, published by the OECD on 12 October 2020, propose a framework for changes to international tax under two broad pillars. Pillar One relates to the allocation of profits of multinationals, linking tax nexus to the jurisdictions in which the consumer markets are located. This represents a significant change to the current transfer pricing approach and is targeted at digital service providers and consumer facing businesses. Pillar Two seeks to implement a global minimum corporate tax rate for multinationals with revenues in excess of €750 million. The OECD has opened public consultations on a number of matters with regard to Pillars One and Two. These consultations are due to close on 14 December 2020, with a view to meeting a mid-2021 deadline for final agreement.

The minister acknowledged that these impending changes would likely result in a reduction in profits taxable in Ireland, but also warned of the negative consequences if agreement could not be reached at the OECD level.

EU Anti-Tax Avoidance Directive (ATAD)

The minister reaffirmed his commitment to address the remaining EU ATAD measures which have yet to be adopted by Ireland, namely the introduction of interest limitation and anti-reverse hybrid rules. The minister has committed to the introduction of such legislation next year, which is expected to be introduced in Finance Bill 2021 and to take effect from 1 January 2022.

Cillein Barry
Partner

Intangible Asset Allowances

Ireland's intangible asset regime was introduced in Finance Act 2009 and allows a company to claim capital allowances (tax deductible amortisation) on the cost of acquiring a broad range of intellectual property assets for the purposes of its trade.

The minister announced that qualifying intangible assets acquired on or after 14 October 2020 will be fully within the scope of balancing charge rules. This means that irrespective of how long these assets are held, a balancing charge may arise on their disposal or where they cease to be used for the purposes of a trade. The minister noted that while the impact of the amendment is not expected to result in significant additional tax revenue, it will ensure Ireland's intangible assets regime remains competitive, legitimate and sustainable.

Exit Tax

In line with the EU Anti-Tax Avoidance Directive, Ireland amended its exit tax rules in 2018. Two technical amendments were also introduced as part of Finance Act 2019. The minister announced a further technical amendment to these rules, effective from 14 October 2020, to clarify the operation of interest on instalment payments.

The Irish exit tax applies by deeming there to be a disposal of assets for market value on the happening of certain events, where the assets are taken out of the Irish tax net without otherwise triggering a taxable event.

For certain exits to EU/EEA countries the company can elect to defer the payment of the exit tax and pay the tax in equal instalments over five years including interest. The technical amendment was made to ensure the calculation of interest on exit tax instalment payments which remain unpaid on or after 14 October 2020 are to be calculated on the outstanding balance and not by reference to the amount of the particular instalment due.

Indirect Taxes

David Duffy
Partner

VAT

VAT rate decrease for tourism and hospitality sectors

As anticipated, the minister announced that the VAT rate applicable to certain goods and services, mainly in the tourism and hospitality sectors, will decrease from 13.5% to 9% with effect from 1 November 2020 to 31 December 2021.

The goods and services to which the 9% VAT rate will apply closely resemble those which were previously subject to 9% VAT in the period from 1 July 2011 to 31 December 2018. This includes supplies of certain food and beverages in the restaurant, take-away and catering sectors; admissions to certain attractions including cinemas, museums and exhibitions; hotel, guesthouse and other holiday or short-term accommodation; hairdressing services; and supplies of certain printed matter. The 9% VAT rate will continue to apply to the sale of printed newspapers, digital supplies of e-books and e-publications, and the provision of sporting facilities by profit-making bodies.

Supplies of other goods and services which are subject to the 13.5% VAT rate are not affected by this change.

This targeted VAT rate reduction is a welcome development for the tourism and hospitality sectors which have been heavily impacted by Covid-19. However, suppliers impacted by this change will need to consider the impact on their pricing and ensure that their accounting systems and procedures are updated to apply the revised rate from 1 November 2020.

This change will overlap with the standard VAT rate reduction from 23% to 21% announced as part of the July Stimulus Plan and already effective from 1 September 2020 to 28 February 2021.

Glenn Reynolds
Partner

Farmer's Flat-Rate Addition

The flat-rate addition payable to farmers who are not VAT registered will increase from 5.4% to 5.6% with effect from 1 January 2021. The flat-rate scheme compensates non-VAT registered farmers for irrecoverable VAT on their purchases.

Climate and Environmental Indirect Tax Measures

Carbon Tax

In line with the Programme for Government, the minister announced an increase of €7.50 in the rate of carbon tax from €26 to €33.50 per tonne of CO2 emitted. This equates to an increase of approximately 2 - 2.5 cent per litre in the price of fuel at the pump. This increase will apply to auto fuels with effect from midnight 13 October 2020, and to other fuels will take effect from 1 May 2021.

The minister also announced increases in carbon tax by €7.50 per year up to 2029 and by €6.50 in 2030, to achieve a target by 2030 of €100 per tonne of CO2 emitted.

Vehicle Registration Tax (VRT)

From 1 January 2021, a new table for calculating VRT on motor vehicles will apply based on a CO2 emissions test for passenger cars, known as Worldwide Harmonised Light Vehicle Test Procedure (WLTP). The existing 11 band table for VRT is to be replaced with a 20 band table with a revised rates structure. The new VRT rates will range from 7% to 37% compared to a current range from 14% to 36%. A formula will be used to calculate VRT under the new regime for used vehicles that were subject to the current New Europe Driving Cycle (NEDC) emissions test.

The existing VRT reliefs for plug-in hybrid electric vehicles and hybrid vehicles will expire on 31 December 2020. These vehicles will however qualify for lower VRT rates under the new WLTP system. The existing relief for Battery Electric Vehicles will also be tapered.

The Nitrogen Oxide (NOx) surcharge bands introduced in Budget 2020 will also be adjusted so that higher NOx emitting vehicles are subject to higher rates of VRT.

Motor Tax

A new motor tax rates table will apply to cars that are first registered in the State from 1 January 2021 with a WLTP CO2 value. Cars first registered in the State up to the end of 2020, or from January 2021 which only have the old NEDC figure, will be subject to motor tax in line with the current NEDC motor tax table, with minor adjustments. Pre-2008 registered cars, which do not have CO2 emissions information, will continue to be taxed according to their engine size based on existing rates. There will therefore be three motor tax tables in operation from 1 January 2021.

Tobacco Products Tax

The excise duty on a packet of 20 cigarettes will increase by 50 cent (including VAT), with a pro-rata increase on other tobacco products. This measure will take effect from midnight on 13 October 2020 and is estimated to generate additional revenue of €57 million annually.

Customs Duty

There were no changes in respect of customs duty announced in the Budget.

Tax Transformation & Technology

James Kelly
Partner

Technology & data are revolutionising the world of tax

Covid-19 has increased the reliance on technology in every aspect of our lives. The management and administration of taxes is no different. As we look ahead to 2021, the impact of Covid-19 and Brexit together with the increased pace of regulatory change will make technology and the availability of quality data even more critical to the tax function.

For many tax and finance professionals a changed work environment has highlighted the benefits of robust operating procedures and technology in supporting the tax function. This comes at a time when tax authorities are becoming increasingly sophisticated in the use of technology to focus on the underlying data behind a tax return.

Obtaining the data and information required to support the tax compliance process, respond to tax authorities' enquiries and allow for effective decision-making is a common challenge. Where businesses have taken measures to automate the capture and flow of key tax data, this has helped ensure that the tax function remains effective whilst working remotely and allowed for rapid decision-making as the Covid-19 crisis has evolved and caused business models change.

Data driven change

Data evolution is at the centre of most modern tax authorities, including the Irish Revenue. While historically the tax return was the focal point of tax authority reviews and audits, the underlying data supporting the tax return is now becoming more important. Put simply, tax authorities are now directly accessing, often in real time, the source data underpinning the tax return to identify unpaid taxes.

The significant increase in the volume and quality of data available to Revenue is also driving the design and administration of new tax regimes. Taxpayer data has been central to the design of certain Covid-19 based measures introduced in 2020. For example, the enhanced collection of data under PAYE modernisation is critical to the administration of the Tax Wage Subsidy Scheme (TWSS) and its successor, the Employment Wage Subsidy Scheme (EWSS).

This fundamental change in how tax is administered and collected may result in certain tax returns becoming redundant and being replaced with real time or near time reporting regimes, whereby the tax authorities prepare a draft return based on taxpayer data. This is evident to a certain extent in the PAYE modernisation regime which was introduced in 2019, while similar measures in relation to VAT are thought to be on the horizon. The OECD has highlighted benefits, such as improved compliance and enhanced tax collection, that have been delivered to tax authorities that have implemented similar changes and embraced the power of enhanced data reporting.

Revenue audits and interventions

Perhaps the greatest evolution in the tax compliance process as a result of technology lies in the tax audit process. Revenue now utilise their data analytics and risk assessment capabilities to better target tax risk and utilise their resources as efficiently as possible. In 2019, Revenue's PAYE and VAT Real-Time Risk systems allowed a reduction in the overall number of taxpayer audit and other interventions, but at the same time, the audits were more effective and resulted in an increased overall tax yield.

For taxpayers who are selected for audit, the audit process now typically includes an e-audit component, whereby Revenue review or electronically interrogate source data and records. Depending on the tax type, this might require the business to provide large volumes of data to Revenue, which is then analysed and reconciled to the numbers already disclosed in tax returns and financial statements, in addition to being

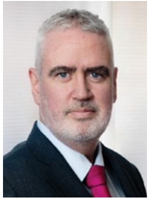
compared to available industry and third-party information.

Preparing for change

The evolving technological and tax landscapes clearly present a risk as well as an opportunity for businesses. In order to succeed, it is critical that tax and finance leaders have a deep knowledge of their tax data and related processes. There is an increasing need for businesses to be 'audit ready'. Conducting a 'health check' that includes a review of the data underpinning tax returns can prove to be a very worthwhile exercise that can identify both opportunities as well as risks.

In addition to being 'audit ready', by harnessing technology and deploying efficient and automated processes, both tax risks and compliance can be managed effectively - allowing tax and finance teams to focus on supporting their business in these challenging times.

A Climate Ambition to 2050



Mike Hayes
Partner

In the week leading up to the Budget, the Government published the draft Climate Action and Low Carbon Development (Amendment) Bill, which aims to set Ireland on a legally binding path to achieve a climate resilient and neutral economy by 2050. The fact that the Government is progressing such a bold piece of legislation during the Covid-19 crisis, securing cross-party support in the process, is quite remarkable and shows that the climate agenda is now firmly embedded in the Government's plans. It also demonstrates that Ireland is now taking a lead on this issue, having previously been considered by some parties as making slower than required progress on the climate change agenda.

The national objective to transition to a climate resilient and neutral economy is also in keeping with wider EU climate ambition and legislation to 2050. The Bill was published a day after scientists from the EU Copernicus Climate Change Service revealed that 2020 had the warmest September on record, which is a timely reminder of the ever-present impact of climate change on society.

The Bill aims to facilitate the implementation of the ambitious Programme for Government commitment to reduce overall greenhouse gas emissions over the next decade by c.7% per annum, putting us on track to achieving net zero emissions by 2050. In his Budget speech, the minister acknowledged that the Bill will establish climate emissions reduction targets in legislation. Placing these targets on legislative footing provides clarity on the plan to transition to a lower carbon economy.

The Budget also provides for a number of measures on carbon tax, VRT and motor tax which support the broader climate change agenda.

How our climate strategy is evolving

There is a sense of maturity in our climate ambition as the Bill provides for the National Mitigation Plan to be superseded with the National Long-Term Climate Strategy and the Climate Change Advisory Council being amended to the Climate Action Council. Similarly, the Bill draws on recommendations of the cross section of Irish people who took part in the Citizens Assembly on Climate, as well the Joint Oireachtas Committee on Climate Action, reinforcing a more mature, inclusive stance when it comes to climate change.

The overall mechanism for delivering on our emissions targets to 2050 is via the introduction of a series of carbon budgets. These carbon budgets will be proposed to the Government by the Climate Action Council, strengthening the role of this body. Starting in 2021, these carbon budgets are to run over five-year periods and shall be based on an economy wide approach running to 2035.

Russell Smyth
Partner

What does it mean for Irish businesses?

This Bill, and its related measures, will undoubtedly have a significant impact on all Irish businesses over the coming decades. Businesses which ignore the climate agenda will inevitably see increased costs from carbon taxes, regulation and changing customer trends. Business organisations such as IBEC and IFA have also been cautiously supportive, recognising that change also creates new opportunities as the landscape evolves and matures.

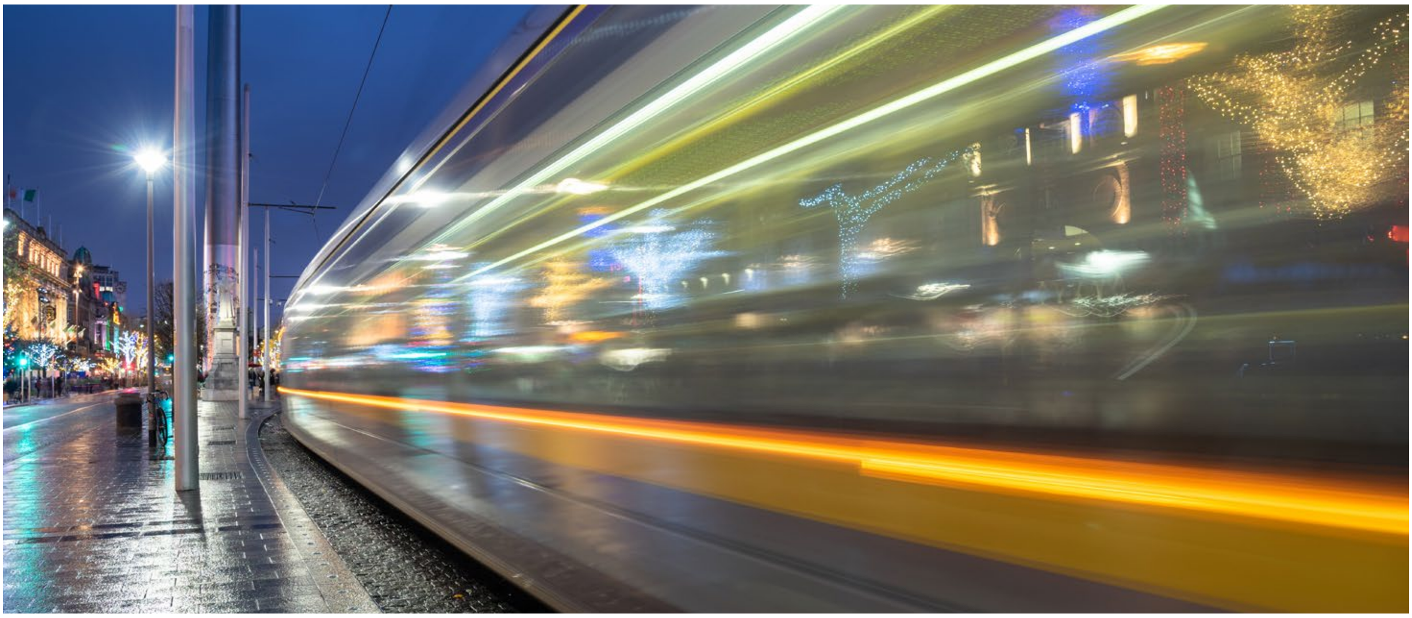
In addition to the carbon budgets which will be set every five years, there is provision within the Bill requiring an annual update to the Climate Action Plan. Originally published in 2019, the Climate Action Plan outlines a range of targets and measures across key sectors such as electricity, transport, built environment, industry and agriculture and gives good visibility of policy direction by sector. For example, changes in residential and commercial building standards will require significant innovation by the construction industry, whilst the phasing out of coal and oil as heating methods will impact whole supply chains across the country. Importantly, the ongoing growth of Ireland's agriculture sector will only continue if it can find a way of decoupling growth from increased carbon emissions. Furthermore, whilst the concept of an emissions ceiling in any given sector (as proposed by the Bill) could prove to be problematic for some, it could also prove to be transformative and an incentive to act sooner rather than later.

There has been some commentary that the Bill did not go far enough in its ambition, particularly regarding the sale of fossil fuel cars beyond 2030. We understand the Government remains committed to such a plan but its omission from the Bill at this point was necessary due to EU legislation requiring such a provision to be notified in advance.

Stay the course

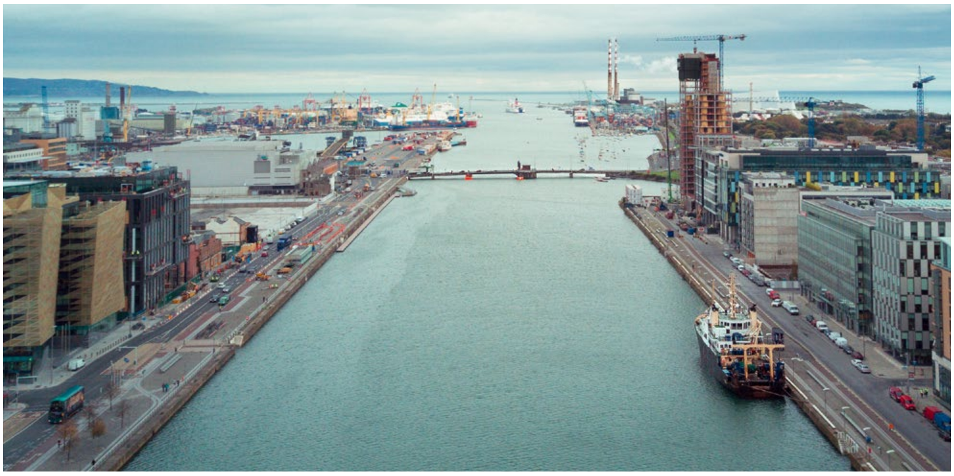
Launching the Bill, Taoiseach Micheál Martin said the impact of our actions on the planet are undeniable, adding that 'climate change is happening and we must act'. For the key sectors listed in the Climate Action Plan there will be increased sectoral reporting requirements in the coming years in the form of emissions targets, strategies and action plans to meet carbon budgets. Within each sector there will be differing levels of maturity, ambition and technological innovation when it comes to climate strategy.

There will be tough decisions required if we are to stay the course and meet National Long-Term Climate Strategy objectives as they are developed and ultimately achieve climate neutrality by 2050.



Major issues in Transfer Pricing

Conor O'Sullivan
Partner



We examine below the notable TP developments during 2020 that Irish business should be considering.

Ireland's revamped transfer pricing rules come into effect

New Irish TP rules, enacted by Finance Act 2019, took effect for accounting periods commencing on or after 1 January 2020.

The principal aspects of the new Irish TP rules include:

- Adoption of the latest 2017 OECD Transfer Pricing Guidelines into law.

  This includes specific legislative provisions that inter-company arrangements be priced based on the substance of the commercial or financial relations, where the form of the arrangement is inconsistent with the substance;

- The legislation also provides Irish Revenue with the explicit power, in certain narrow circumstances, to disregard the contractual form of an arrangement and replace it with an alternative arrangement that achieves a commercially rational result. This is discussed further below in the context of loan arrangements;
- New TP documentation requirements which include an OECD master file and local file;
- Extension of TP rules to "non-trading" transactions, subject to a domestic exemption in certain circumstances;
- Extension of TP rules to capital transactions for the disposal of certain assets with a market value in excess of €25m;
- Proposed extension of TP rules to SMEs pending a commencement order;
- Removal of the legacy 'grandfathering' provision which had historically excluded certain inter-company arrangements executed prior to 1 July 2010 from the scope of Irish TP rules.

Financial Transactions – a changing landscape

The inclusion of 'non-trading' transactions and previously 'grandfathered' transactions within the scope of Irish TP rules has had a substantial impact in respect of financial transactions.

Furthermore, in February 2020, the OECD augmented the 2017 OECD TP Guidelines with Guidance on Financial Transactions (OECD FT Guidance).

This new guidance is directly applicable to any transaction covered under Ireland's international tax treaties but is not yet formally introduced into Irish law for domestic transactions. Irish Revenue has indicated an intention to consider this OECD FT Guidance in their review of loan and other similar financing arrangements and it is expected this will be made explicit when the Revenue's guidance on transfer pricing is issued later this year.

Quantum of debt borrowed

An appropriate amount of debt is a concept that is used by some countries to restrict the amount of intra-group funding that for tax purposes qualifies for an interest deduction. If the recipient has too much debt and too little equity capital, then it may be deemed to be thinly capitalised and the debt may be reduced for tax purposes to an amount that is deemed more appropriate.

Ireland has never had thin capitalisation or other specific rules restricting, for tax purposes, the amount of debt a company could borrow or the amount of interest that could be paid.

The 2017 OECD TP Guidelines now introduced into Irish law require a consideration of the quantum of debt that a taxpayer has borrowed and not merely the rate of interest applicable to the loan. This is a matter of most relevance to highly-geared structures

There is an ongoing debate as to what the 2017 OECD TP Guidelines mean for companies with high levels of debt. There has been suggestion that there is a 'right' amount of debt that a company can borrow. It has been claimed that the appropriate amount of debt is measured

Neil Casey
Partner

under the arm's length principle by referencing the debt to equity ratios of unrelated borrowers. Such gearing ratios simply derive from unrelated borrowers that took on an amount of debt at a price they were willing to pay, but the observed gearing does not provide a basis for claiming that the debt was an appropriate amount. The observed gearing does not show that unrelated borrowers could not have obtained more debt, or that unrelated lenders were not prepared to lend higher amounts.

Our view is that the 2017 OECD TP Guidelines are clear and should be applied to highly geared companies as follows. If a loan arrangement has the legal and economic characteristics of debt, if it is commercially rational, and if it can be priced, then it should be priced as debt regardless of any perceived 'right' amount of debt in the group/sector. This process of accurate delineation of a loan transaction as debt or equity requires assessing the amount of debt that could (as opposed to would), in the circumstances, be borrowed from a third party.

There are established TP practices that taxpayers and experienced TP practitioners can rely on to conduct this assessment. The availability and reliability of data used to conduct this assessment will be critical to taxpayers defending their position. This assessment needs to be conducted for all existing and future loan transactions.

Other financial arrangements

The OECD FT Guidance introduces a wide range of additional considerations which must be applied to financial transactions in general. Few of these concepts are new to experienced TP practitioners, but they represent a substantial body of new considerations from an Irish TP perspective.

As discussed above, this guidance directly applies in the case of treaty transactions and we understand will now also be applied in practice by Revenue to all domestic and non-treaty transactions.

Pricing loan transactions will need to be based on a more rigorous analysis using tools such as loan benchmarking and credit rating agency models to determine standalone credit ratings etc. The use of indicative quotes from banks is discouraged. Groups will also need to adequately consider the concept of 'implicit support' in establishing credit ratings and hence interest rates for borrower entities.

In addition, the various other financial transactions which arise, such as financial guarantee arrangements, cash pooling, treasury activities, and captive arrangements will require accurate delineation and pricing.

One particular area of interest to Irish taxpayers relates to treasury functions, including cash pooling, which have been a focus for a number of European tax administrations. The guidance contains a normative presumption that treasury activities are usually a support service, unless they can be shown to be bearing and controlling financial risk. Assessing the appropriate characterisation and pricing for such entities should therefore be prioritised.

Covid-19 and exceptional inter-company trading circumstances

The impact of Covid-19 has been felt across all aspects of Irish business. As a result of these serious challenges, many companies have needed to collaborate and renegotiate with key suppliers and customers to find mutually beneficial ways of maintaining supply and servicing demand. As groups continue to respond to these

external challenges and key business relationships, it is also becoming clear there is a need to review, suspend or temporarily modify existing intra-group transfer pricing arrangements – not least because it reflects how third parties are behaving in these circumstances.

Due to the largely unforeseen and uncontrollable nature of the crisis, it is appropriate to revisit all TP arrangements to address issues that are arising in relation to supply chain reconfiguration, liquidity/cash flow management, capacity planning and 'right-sizing', workforce management etc.

Depending on the circumstances, it may be appropriate that significant exposure to market shock and associated costs or losses are shared proportionately across the group. The options available vary according to the specific facts and circumstances.

Brexit - Actions to take

Brian Daly
Partner

Budget announcements

This year again, as expected, Brexit was a central part of the Budget with significant amounts (€350 million) allocated to various departments across Government. This includes €100 million allocated across the Revenue Commissioners, the Department of Enterprise, Trade and Employment and the Department of Agriculture and €200 million for staffing and infrastructure needs in 2021 – "Deal or no Deal".

The Budget was prepared on the basis of a No Deal i.e. no Free Trade Agreement (FTA) being reached between the UK and the EU. In that context it has allocated €650 million in contingency funding to support affected sectors with €220 million being released immediately. This comes from a €3.4 billion Covid-19 and Brexit Recovery Fund.

The minister also announced in his speech that Ireland will seek to avail of the EU's Brexit Adjustment Reserve in the coming years. The details of this fund have yet to be finalised.

It is welcomed that the Government continues to support businesses in preparing for Brexit notwithstanding the other obvious challenges of our time.

Upcoming Brexit Omnibus Bill

In addition to the measures announced, it is important to note that the Government will shortly bring forward a Bill (more commonly referred to as the Brexit Omnibus Bill) which seeks to preserve continuing access to certain priority services, benefits and reliefs relating to the UK that might otherwise be denied when the Transition Period ends on 31 December 2020. It is understood that it will apply regardless of whether there is an FTA.

The understood purpose of the Bill will be to prevent a cliff edge for Irish businesses and citizens on 1 January 2021 and to satisfy a number of obligations and commitments that Ireland has made to the UK outside of EU membership, e.g. under the Common Travel Area.

It is understood that the Bill will repeal and replace the Withdrawal of the United Kingdom from the European Union (Consequential Provisions) Act 2019. Many of the provisions in this Act, which were subject to Ministerial Commencement Order, cannot be commenced as they were enacted on the basis of no agreement on the terms of the UK's withdrawal from the EU.

It will be important to understand the impact of the measures which are included in the new Brexit Omnibus Bill, in addition to any measures which are not included.

Glenn Reynolds
Partner

Actions to take

Regardless of whether there is an FTA, important changes will apply for business from 1 January 2021. In the context of VAT & Customs, there will be new systems, processes and paperwork requirements. In addition, depending on the outcome of the trade negotiations, there may also be tariffs.

Our advice continues to be that businesses should be prepared in advance for these changes.

We have set out below key actions that businesses should take now in preparation for 31 December 2020 regardless of whether there is an FTA.

VAT & Customs

1. Understand the potential impact on your supply chain

Ensure you have reviewed your supply chain to understand the potential impact of a customs and VAT frontier on the movement of your goods to and from Great Britain. Ensure hauliers and freight forwarders are prepared with the relevant permits and registrations.

2. Customs Classification and Origin

Ensure you have confirmed the commodity codes for all goods moving into and out of Great Britain and you understand the potential tariff and non-tariff implications associated with the movement of your goods. Understand the origin of your goods and whether you can access preferential tariffs.

3. Contracts

Assess whether the terms of your contracts (especially incoterms) with your suppliers and customers meet your needs post Brexit, in particular who is responsible for import clearance and any duties arising. Incoterms are internationally recognised trade terms that define each party's obligations, costs and risks associated with the delivery of goods from seller to buyer.

4. Obtain an EORI number

To operate within a customs regime, importers and exporters of goods need to be customs registered. If not already registered, an application should be filed with Revenue via Revenue's Online Service (ROS) for an EORI (Customs) number if you are importing goods into or exporting goods from Ireland.

5. Filing Customs declarations

Customs declarations will be required whether or not an FTA is agreed. Consider how you will file Customs declarations: for instance, you may wish to appoint a Customs agent or your freight company to file these on your behalf. Depending on your profile, you may prefer to bring the declaration process "in-house", and in which case you will need to consider the associated systems and personnel requirements. Make sure you understand the information needed to file Customs declarations and where you will get it.

6. Export/import controls

Understand whether any additional controls will apply to your goods such as licensing requirements, Sanitary and Phytosanitary (SPS) controls or advance notification requirement (e.g. for agri-products).

7. VAT

Determine if any additional VAT considerations will arise from your movement of goods post Brexit, e.g. additional VAT registration requirements. New VAT measures to be introduced in the upcoming Brexit Omnibus Bill (discussed above) should relieve the VAT funding cost of imports for VAT registered businesses in Ireland. Familiarise yourself with how these rules will operate.

8. Impact on ERP/finance system

Assess what changes may be required to your ERP (Enterprise Resource Planning) or finance systems in anticipation of a changed VAT and Customs Duty accounting regime post-Brexit.

9. **Deferment account/Customs guarantee**

   If you want to be in a position to defer the payment of Customs duty to the 15th day of the month following the month of import of the goods, ensure you have access to a Customs deferment account either directly or through an agent. If directly, the lead in time to obtain such approval can be at least two months and a guarantee is needed.

10. **Landbridge**

    If using the UK Landbridge, understand how transit simplification applies and the procedure to follow in each country (i.e. Ireland, UK and France) to apply the relief.

11. **Use of Other Customs reliefs/ simplifications**

    Make sure you are aware of the reliefs and simplifications available such as customs warehousing and inward processing relief, which could mitigate the impact of Brexit on your business in Ireland or the UK. A guarantee is often required to avail of some reliefs so apply early.

12. **UK temporary measures**

    Consider if any of the temporary Customs relieving measures the UK Government have announced in respect of imports into the UK could assist your business. These measures are designed to reduce the potential for Customs duty and delays at import to arise.

Other areas

13. **Cash flows**

    Review cash flows, working capital and foreign exchange exposures and consider what actions may be required.

14. **People**

    Communicate with staff who could be affected by changes in their rights to reside and work and consider what actions need to be taken to ensure such rights will continue post Brexit.

15. **Tax impact of intragroup payments**

    For companies operating through group structures that include UK tax resident companies, consider the tax treatment of dividends, interest and other payments to / from EU Member States post Brexit and whether making such prior to the expected Brexit deadline / restructuring group operations may be beneficial from a tax perspective.

16. **Data flows**

    Review data flows and consider if restrictions will apply to the movement of personal data from the EU to the UK and whether any derogations can be obtained, or arrangements put in place to facilitate the ongoing transmission of such data.

ROI & NI Poll Results

Final – polling questions and results

ROI Results - July 2020

Question: 1

In planning for Brexit are you assuming:

A. A comprehensive Deal will be done between the UK and EU before 1 Jan 2021. 8%

B. A limited FTA will be agreed before 1 Jan 2021. 55%

C. A Deal won't be agreed before 1 Jan 2021. 37%

Question: 2

In dealing with Customs clearance post 1 January 2021 will you:

A. Outsource the filing of customs declarations to a third-party agent/freight forwarder. 37%

B. Insource and bring the declaration filings 'in-house'. 12%

C. Don't know yet. 51%

Question: 3

What areas are you spending most time on in preparing for Brexit?

A. Tax, in particular Customs and VAT. 75%

B. Availability of people. 3%

C. Supply Chain reconfiguration. 14%

D. Data related matters. 4%

E. Company law driven or Regulatory related matters. 4%

Question: 4

How prepared for Brexit is your business?

A. Have yet to commence preparations. 22%

B. Brexit working group addressing issues and basic preparations e.g. EORI registered and declaration requirements reviewed. 57%

C. Advanced preparations in place, e.g. spoken with suppliers and await to see if our exports/imports will be with or without the benefit of an FTA. 21%

ROI Results - September 2020

Question: 1

In planning for Brexit are you assuming:

A. A comprehensive Deal will be done between the UK and EU before 1 Jan 2021. 2%

B. A limited Free Trade Agreement will be agreed before 1 Jan 2021. 48%

C. A Deal won't be agreed before 1 Jan 2021. 9%

D. A further Brexit extension. 41%

Question: 2

Who will be responsible for the filing of Customs declarations for your business?

A. We will complete declarations in house using a dedicated software solution completed by a team member. 12%

B. We will fully outsource the completion of declarations to a customs agent/freight forwarder. 36%

C. We plan a mixed approach of filing in house and using a customs agent/freight forwarder. 11%

D. Presently undecided. 41%

Question: 3

How prepared for the new VAT and Customs rules on 1 January 2021 is your business?

A. Have yet to commence any preparations 17%

B. Brexit working group addressing issues and basic preparations e.g. EORI registered and declaration requirements reviewed but more to do. 57%

C. Advanced preparations in place, e.g. spoken with suppliers and await to see if our exports/imports will be with or without the benefit of an FTA. 26%

NI Results – July 2020

Question: 1

How prepared are you for Brexit?

A. Advanced preparations in place, e.g. discussions with customs intermediaries, considered at risk solutions, free trade agreement implications etc. 25%

B. Brexit working group addressing issues and basic preparations started, e.g. reviewing supply chains. 48%

C. Have yet to commence preparations as awaiting further clarity on how NI Protocol will apply. 27%

Question: 2

What is the biggest concern for your business in relation to Brexit?

A. Changes to VAT rules in goods for NI businesses. 19%

B. Customs compliance, including tariff issues as never had to deal with before. 48%

C. Possible impact of Rules of Origin in case of no FTA between UK and EU. 8%

D. Supply Chain reconfiguration. 8%

E. Uncertainty around continued access to EU Free Trade Agreements. 17%

Question: 3

In dealing with new import and export entry declarations post 1 January 2021 on the Irish Sea Border will you:

A. Don't know yet. 41%

B. I don't know if this applies to my business. 14%

C. Insource and bring the declaration filings "in house". 25%

D. Outsource the filing of declarations to a third party agent/freight forwarder. 20%

Tax Rates and Credits **2021**

Personal income tax rates (unchanged)

	At 20%, first	At 40%
Single person	€35,300	Balance
Married couple/civil partnership (one income)	€44,300	Balance
Married couple/civil partnership (two incomes)*	€70,600	Balance
One parent/widowed parent/surviving civil partner	€39,300	Balance

* €44,300 with an increase of €26,300 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)*	€1,650
Home carer credit	€1,600

* The increased credit will apply for 2020 also. Applies to self employed income and certain PAYE employments not subject to the PAYE credit

Help to Buy Scheme (increased)

Income tax rebate, capped at €30,000, for first time buyers of a principal private residence. The relief is 10% of the house value (capped at €400,000). 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 is in place until 31 December 2021.

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

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.
- 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%
- LPT liability for 2021 will continue to be based on the value of the property as at 1 May 2013. Revaluation for LPT has been deferred to 1 November 2021

Value Added Tax (changed)

Standard rate/lower rate	23%*/13.5%
Hospitality and tourism**, newspapers, electronically supplied publications and sporting facilities	9%
Flat rate for unregistered farmers (rate increased)	5.6%
Cash receipts basis threshold	€2m

* Temporary decrease in standard rate from 23% to 21% from 1 September 2020 to 28 February 2021
** 9% rate to apply to hospitality and tourism sector from 1 November 2020 to 31 December 2021

Dividend Withholding Tax (unchanged)

Rate	25%*

* The modified DWT regime which was to be introduced from 1 January 2021 has been deferred. Under the modified regime it is proposed to use real-time data collected under the modernised PAYE system to apply a personalised rate of DWT to each individual taxpayer.

PRSI contribution (unchanged), Universal Social Charge (changed)

	%	Income
Employer	11.05%	No limit
	8.8%	If income is €398 p/w or less
Employee* (class A1)		
PRSI	4%	No limit*
Universal Social Charge	0.5% (unchanged)	€0 to €12,012**
	2.0% (unchanged)	€12,013 to €20,687***
	4.5% (unchanged)	€20,688 to €70,044****
	8% (unchanged)	> €70,044

* Employees earning €352 or less p/w are exempt from PRSI. In any week in which an employee is subject to full-rate PRSI, all earnings are subject to PRSI. Unearned income for employees in excess of €3,174 p.a. is subject to PRSI. Sliding scale PRSI credit of max. €12 per week where weekly income between €352 and €424
** Individuals with total income up to €13,000 are not subject to the Universal Social Charge
*** Increase in upper limit of the 2% band from €20,484 to €20,687
**** 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% (unchanged)	€12,013 to €20,687***
	4.5% (unchanged)	€20,688 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% band from €20,484 to €20,687
**** 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 acquisitions tax (unchanged)

Rate	33%
Thresholds	
Group A	€335,000
Group B	€32,500
Group C	€16,250

Corporation Tax rates (unchanged)

Standard rate	12.5%
Knowledge Development Box rate	6.25%
Land (not fully developed) and non-trading income rate	25%
Exit tax*	12.5%

* Applies to unrealised gains arising where a company migrates or transfers assets offshore, such that they leave the scope of Irish taxation

Stamp duty - commercial and other property (unchanged)

7.5% on commercial (non residential) properties* and other forms of property not otherwise exempt from duty.

* There is a refund scheme available to reduce the rate of stamp duty to 2% on certain residential development property transfers.

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

Deposit Interest Retention Tax (unchanged)

DIRT	33%*

* 41% rate remains for exit taxes on financial products

Personal Tax Scenarios **2021**

Single person employed, earning €45,000, property owner

2021 changes	**Euro**
Change in Tax Bands	0
Change to Tax Credits	0
Change to PRSI	0
Change to Universal Social Charge	5
Net Saving	**€5**

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

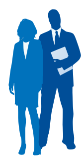
2021 changes	**Euro**
Change in Tax Bands	0
Change to Tax Credits	0
Change to PRSI	0
Change to Universal Social Charge	5
Net Saving	**€5**

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

2021 changes	**Euro**
Change in Tax Bands	0
Change to Tax Credits	0
Change to PRSI	0
Change to Universal Social Charge	10
Net Saving	**€10**

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

2021 changes	**Euro**
Change in Tax Bands	0
Change to Tax Credits*	300
Change to PRSI	0
Change to Universal Social Charge	10
Net Saving	**€310**



* The increase in the earned income tax credit to €1,650 announced in Budget 2021 will also apply for the 2020 tax year.

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

2021 changes	**Euro**
Change in Tax Bands	0
Change to Tax Credits	0
Change to PRSI	0
Change to Universal Social Charge	10
Net Saving	**€10**

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

2021 changes	**Euro**
Change in Tax Bands	0
Change to Tax Credits	0
Change to PRSI	0
Change to Universal Social Charge	10
Net Saving	**€10**

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