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Budget 2023 & Current Tax Developments

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Tom Woods
Partner

Introduction

The Minister for Finance introduced the 2023 Budget on 27 September 2022. Further detailed measures will be included in the Finance Bill to be published on 20 October 2022.

Budget 2023 was framed by the Minister for Finance as a "cost of living budget" with the stated aim of helping individuals, families, and businesses to deal with rising prices. The minister also acknowledged the need to strike a balance between providing support to offset the rising cost of living and ensuring the stability of public finances in the face of potential future economic shocks. To this end, the minister confirmed that €2 billion this year, and €4 billion in 2023, will be directed into the National Reserve Fund.

In summary, the tax measures announced amounted to €1.1 billion out of an overall budgetary package of €11 billion. The overall package was very substantial and was enabled by very strong tax receipts in the current year and projected increased receipts in 2023. The measures were both broad based and targeted ensuring there was something for everyone.

To assist individuals and families deal with inflationary pressures, a number of tax measures were announced, including:

- An increase of the standard rate cut off point by €3,200 to €40,000
- An increase in the 2 per cent USC rate band from €21,295 to €22,920
- Increases to personal, employee, earned income and home carer tax credits

A temporary business energy support scheme is to be introduced to assist businesses over the coming months. Eligible businesses will be able to reclaim 40% of the year-on-year increase in their energy bills up to a monthly cap of €10,000 per trade.

The minister emphasised the importance of tackling the housing crisis and climate change, which featured in a number of the measures announced, including:

- The extension of the Help-to-Buy scheme to the end of 2024
- The introduction of a rental tax credit of €500 per annum
- The enhancement of the pre-letting expenses regime for landlords
- The introduction of a vacant homes tax
- An increase in carbon tax on petrol and diesel of €7.50/tonne to be offset by a reduction in the National Oil Reserves Agency (NORA) levy
- The introduction of an accelerated capital allowances scheme for farmers for the construction of modern slurry storage facilities

Looking forward, the minister has committed to preparing a medium-term roadmap for personal taxation reform following the release of the recent report of the Commission on Taxation and Welfare. The minister also reaffirmed Ireland's commitment to the OECD's twin pillar tax reform and that a move towards a territorial corporation tax system is under serious consideration.

The total budgetary package of €11 billion was provided against an economic background of inflationary pressures (forecasted at 8.5 per cent for 2022) and slowing domestic growth (forecasted modified domestic demand of just 1.25 per cent for 2022). With the understandable focus on cost of living measures, it was broadly expected that there would be a limited number of tax measures to maintain our attractiveness to inward investment and entrepreneurs in the coming year. It is hoped that there can be renewed focus on these policy goals in future Budgets.

Tom Woods

Tom Woods
Head of Tax & Legal Services

Contents:

Personal Tax

Robert Dowley
Partner

In the words of the minister, Budget 2023 was a cost of living Budget, and while much of the measures to help citizens have been effected through the social welfare system, the minister has chosen the tax and USC system to be part of the transmission for cost of living subsidies. As a result, the measures are intended to benefit most taxpayers, and will be welcomed by middle income earners in particular.

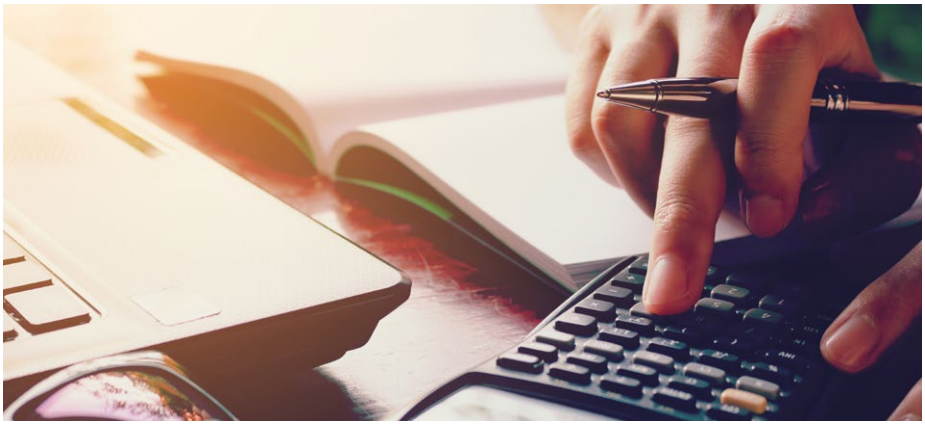
The minister made specific reference to the recently released Commission on Taxation and Welfare report, as well as papers published this month by the Tax Strategy Group, and confirmed that he has requested that his department consider a range of recommendations across PRSI, USC and income tax, with a view to developing a medium term road map for personal taxation reform. Further, the minister has confirmed that the impact of introducing an intermediate third rate of income tax will be considered. The minister outlined that engagement will be required with the Revenue Commissioners in advance of a policy decision being made and that change could be implemented for January 2024.

The specific measures announced in the minister's speech today are detailed below.

Universal social charge

For the fifth Budget speech in a row, no adjustments have been made to the USC rates. Additionally, no explicit mention was made of the 3% USC levy which applies to certain non-employment income.

The second band of USC has been adjusted to ensure a full-time worker earning the new minimum wage of €11.30 per hour will remain outside of the higher rates of USC. This will be achieved by increasing the ceiling at which the 2% rate applies from €21,295 to €22,920. The extension of the band will also result in a modest decrease in USC for people with income in excess of these levels. The increase in the minimum wage and the USC band will both apply from 1 January 2023.



The reduced rate of USC for medical card holders who earn less than €60,000 per annum was due to expire at the end of 2022 but has again been extended by a year to the end of 2023. There is also no change in USC for those earning less than €60,000 per annum who are over 70 years of age. The position for both cohorts will likely be revisited in next year's Budget.

Full details of the revised rates and bands are included in the Tax Rates & Credits 2023 table at the end of this publication.

Income tax

The point at which the higher rate of income tax will apply has increased by €3,200 to €40,000. This is the equivalent of an increase in the band of 8.7%, which is in line with the growth in the consumer price index in the year to 31 August 2022. This increase should deliver an annual saving of €640 for a single person earning more than €40,000 per annum and up to €1,280 for married couples/civil partners.

As mentioned above, the Tax Strategy Group recently published papers covering a broad array of topics. One of the topics was the introduction of a third rate of income tax between the current 20% and 40% rates. While there could be some benefit in easing the burden on taxpayers whose taxable income marginally exceeds the standard rate band, the introduction of an intermediate rate would need to be carefully considered in terms of its practical impact (e.g. updates to payroll software and Revenue's own systems). The implications for existing tax reliefs such as pension contributions would also have to be considered. Nevertheless, the minister appears to be committed to considering its implementation for the tax year 2024.

Tax credits

The personal tax credit, employee tax credit and earned income credit will each rise by €75, from €1,700 to €1,775. This represents an increase of 4.41% but there was no mention of index linking these credits to inflation or any wage increases.

The minister also provided for an increase of €100 to the home carer tax credit, from €1,600 to €1,700, and the extension of the sea-going naval personnel tax credit to 2023.

Employment Taxes

Eoghan Quigley
Partner

Small benefit exemption

The tax rules have for several years permitted employers to provide one non cash incentive of up to €500 per annum to an employee without giving rise to a charge to tax where certain conditions are met. This is commonly referred to as the "small benefit exemption".

In a welcome move, the Minister has announced an extension to the current relief.

Firstly, an employer will be permitted to provide up to two qualifying awards per annum and secondly, the maximum tax-free amount per annum has been increased to €1,000. This will provide employers with some further scope to reward employees in a tax-efficient manner.

The incentive is often given as a Christmas voucher. Under a financial resolution, this amendment will come into force with effect from 28 September 2022, so the enhanced benefits are accessible in the current tax year.

Key Employee Engagement Programme

The Key Employee Engagement Programme (KEEP) is a tax relief for share option schemes which commenced in 2018 specifically for employees and directors of certain qualifying SME companies.

The Minister announced in his Budget speech that KEEP is being extended until 31 December 2025 and that a number of positive amendments will be made to the scheme.

The relief is being modified to permit the buy-back of KEEP shares by the company from the relevant employee to qualify for the relief.

In addition, the lifetime company limit for KEEP shares is being raised from €3 million to €6 million.

Lastly, some key Finance Act 2019 provisions with regard to group structures and qualifying individuals are being brought into effect. These provisions allow companies who operate through typical group structures to qualify for KEEP and amend the "qualifying individual" definition to also include certain part-time and flexible working employees.

Special Assignee Relief Program

The Special Assignee Relief Programme (SARP) was introduced from 1 January 2012 and is a key component in Ireland's competitive foreign direct investment offering to attract mobile international talent. SARP reduces the income tax burden for qualifying expatriate executives for up to five consecutive tax years from first arrival in Ireland.

The minister announced the extension of SARP for qualifying individuals arriving up to the end of 2025, and that from 2023, the minimum base salary for an employee to avail of the relief will increase from €75,000 to €100,000.

Foreign Earnings Deduction

In another positive development, the Minister announced an extension of the existing Foreign Earnings Deduction relief until 2025. This relief provides relief from income tax for Irish employees who spend time working in certain qualifying counties.

The extension should hopefully continue to incentivise Irish businesses to develop and expand into new emerging markets.

PAYE Compliance

The Budget also included an announcement that Revenue will undertake targeted compliance interventions with respect to the operation of PAYE by companies. The focus of these interventions is expected to be the operation of PAYE on share schemes, which is a continuation of Revenue's ongoing review of tax compliance in respect of share option schemes.

Business Tax

Andrew Gallagher
Partner

Donal Thomas
Partner

Agri-business measures

During the course of his Budget speech, the Minister for Finance acknowledged the challenges facing farming communities as they deal with rising input costs while moving towards a sustainable future.

To support these farming families, the minister announced his intention to extend a number of important agricultural reliefs which were set to expire at the end of the year. The proposed extensions are dependent on the outcome of negotiations at a European level on the Agricultural Block Exemption Regulation.

Stamp duty exemption for young trained farmers

The stamp duty exemption for the conveyance of farmland to eligible trained farmers under the age of 35 is being extended to the end of 2025. In the absence of this exemption, such conveyances would generally be charged to stamp duty at a rate of 7.5%.

Farm consolidation stamp duty relief

Farm consolidation relief applies a 1% stamp duty charge (instead of the normal rate of 7.5%) on the net consideration where farm holdings are consolidated by way of linked sales and purchases of land that take place within a 24-month period. The relief is being extended for a further three years until the end of 2025.

CGT relief for farm restructurings

Capital gains tax relief for farm restructuring allows farmers to claim tax relief on gains arising from the sale of farmland when the proceeds from the sale are reinvested in acquiring new farmland within 24 months. Full CGT relief is available where the purchase price of the new land exceeds the sales price of the old land, and partial relief is available where the sales proceeds exceed the purchase price. The relief has been extended until the end of 2025.

Enhanced stock relief

Under existing legislation, young trained farmers and registered farm partnerships are eligible for enhanced relief at rates of 100% and 50% respectively for increases in the value of stock. These enhanced reliefs are being extended for a further two years until the end of 2024.

Accelerated capital allowances for the construction of slurry storage facilities

In an effort to assist the agri-business sector in further adopting environmentally positive farming practices, the minister has proposed an accelerated capital allowance scheme for the construction of new slurry storage facilities. The new scheme will allow farmers to write off over two years the capital cost incurred in constructing these facilities rather than the usual seven years. The new scheme is set to be introduced from 1 January 2023 and will run for three years.

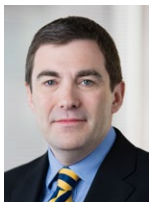
Research and Development Incentives

R&D Tax Credit

Earlier this year, the Department of Finance conducted a public consultation on the R&D tax credit and the Knowledge Development Box. In our submission to the Department of Finance, KPMG recommended that the following important changes should be made to the R&D tax credit regime:

- Amendments to the design of the refundable element of the R&D

Damien Flanagan
Partner



Ken Hardy
Partner

tax credit, so that it would comply with both new US tax regulations and OECD Pillar Two requirements. These changes are critical to ensure that the R&D tax credit continues to be relevant when companies are considering Ireland as a location for international investment in R&D.

- The current Irish repayable tax credit regime allows cash to be refunded over a three year period. It would be more advantageous for companies, and SMEs in particular, if the cash refund was available in full, or at least up to a certain minimum amount, in the year of the claim.

We welcome the minister's statement that amendments will be made to the payment provisions of the R&D tax credit, to ensure it aligns with the new international definitions of refundable tax credits.

The key changes outlined are as follows:

- The existing caps on the payable element of the R&D tax credit will be removed.
- A new fixed three-year payment system will replace the current method of accessing the R&D tax credit through corporation tax offsets and cash refund instalments (under the current system, most refunds are fully received within three years, however, there can be limited circumstances where this is not the case).
- Under the new system, a company will have an option to request either payment of their R&D tax credit or for it to be offset against other tax liabilities.
- The first €25,000 of R&D tax credit claim will now be payable in the first year. This will provide a welcome cash-flow benefit for small and micro companies which make up two thirds of claimants and will hopefully encourage more companies to engage with the regime.

No further detail has been provided about how these changes will operate in practice. It is critical that the mechanism by which these changes are implemented provide clarity for international companies so that they achieve the aims set out by the minister.

Knowledge Development Box

The Knowledge Development Box regime has been extended for a further four years to accounting periods commencing before 1 January 2027. While we welcome the extension of the regime as companies need a long-term incentive to make investment decisions, it would be preferable if the regime were made a permanent fixture of the tax system.

The Knowledge Development Box will be impacted by changes in the international tax environment, specifically under OECD Pillar Two. The Government is taking initial steps to prepare for these changes by increasing the effective tax rate of the regime from 6.25% to 10% (subject to a Commencement Order). Pillar Two includes a Subject To Tax Rule, whereby countries may apply a withholding tax on interest, royalties and defined payments where the recipient jurisdiction applies a nominal corporate tax rate of less than 9% to the payment. Increasing the effective rate of the Knowledge Development Box to 10% is designed to deal with this and the measure will be brought into effect once agreement is reached by the OECD.

While we welcome this change, under the OECD Pillar Two rules, profits taxable under the Irish Knowledge Development Box regime will be included as GloBE income in line with accounting principles and will be subject to the minimum effective tax rate. Despite the deemed tax deduction under Irish domestic rules resulting in the Knowledge Development Box profits effectively being taxable at the proposed new rate of 10%, these profits will be within scope of GloBE and will be subject to the minimum effective tax rate of 15%. This may give

Gareth Bryan
Partner

Philip Murphy
Partner

rise to additional top-up tax payable on these profits, thus almost entirely negating the benefit of the regime for in scope multinational companies. We have recommended that consideration is given to further adjusting the regime so that it falls within the definition of a 'qualified refundable tax credit' under Pillar Two rules. This would help ensure that the regime remains a viable incentive.

It is worth noting that for indigenous and other companies that will not be impacted by the proposed minimum effective tax rate of 15% because they are under the turnover thresholds and will retain a corporation tax rate of 12.5%, the increased tax rate of 10% will significantly reduce the benefit of the regime. Given the low numbers that currently avail of the KDB, this change is unlikely to help with the uptake of the relief.

Film Relief/Multimedia Industry

The minister announced that, in recognition of the long production cycle for audio-visual productions, the film corporation tax credit will be extended for a further four years to 31 December 2028.

The minister also signalled an intention to explore opportunities to encourage international players in new and innovative multimedia industries to locate in Ireland. This is with a view to sustaining and bolstering employment in this sector.

Bank levy

The Budget includes provisions to extend the bank levy for a further year to the end of 2023. The levy is calculated by reference to the amount of deposit interest retention tax (DIRT) paid by a financial institution in a specified base year. It was originally designed to produce a fixed annual yield of €150m, but only €87m will be raised in 2022 in light of the exclusion of Ulster Bank and KBC Bank, further to their exit from the market. The same yield is projected for 2023. The minister also indicated his intention to consider the long-term future of the levy following the publication of the report of the Retail Banking Review.

Other financial services measures

The minister announced a review of certain aspects of Ireland's tax regime for financial services following the recently published recommendations made by the Commission on Taxation and Welfare.

Review of certain investment products

The Government will establish a working group to consider the taxation of funds, life assurance policies and other investment products. The Commission suggested that the main goals of such a review should include how to simplify the tax treatment of investment products generally and the identification of opportunities for greater promotion of horizontal equity and neutrality in the taxation system when it comes to investment decisions.

In this regard, the level of tax required to be deducted at source by funds and life assurance policy providers was gradually increased to 41% a number of years ago in respect of both income and gains i.e. above both the higher rate of income tax and capital gains tax rate. We therefore expect that one of the key focus areas for the working group will be the scope and possible impact of reducing these rates, similar to the reduction in the rate of DIRT that was introduced several years ago.

Review of Section 110 regime

The minister also announced an intention to commence a review of the Section 110 regime, as recommended by the Commission on Taxation and Welfare. The Commission raised this in the context of the role of institutional investors in the Irish property market. However, acknowledging that the Section 110 regime applies to a broader range of assets than debt secured on Irish property, the report went on to recommend a wider review of the Section 110 regime generally.

Property & Construction

Jim Clery
Partner

As stated by Minister Donohoe in his Budget speech, housing is the central challenge facing the country over the next number of years. In this regard, measures have been introduced or extended to help reduce certain costs facing the sector and its participants. The proposed changes have been designed to promote the viability of homebuilding, reduce the cost of renting and increase the costs of holding passive or unused housing assets. However, the measures lack a coherent effort to reduce the tax disincentives facing Irish landlords who are a vital part of the supply of housing accommodation to tenants. It is hoped that this will be addressed in the future. In the meantime, the measures announced in the Budget are as set out below.

Measures to assist renters and home buyers

Rent Tax Credit

In order to alleviate financial pressures on renters, the minister introduced a new rent tax credit valued at €500 per year. The credit will be available for renters in the private rented sector who are not in receipt of any other State housing support.

Only one credit may be claimed per person per year. However, it is proposed that the value of the credit will be doubled in the case of married couples and civil partners.

The credit may be claimed in respect of rent paid in 2022 and will also apply for 2023 and subsequent tax years. It is proposed that the credit for 2022 may be claimed from early in 2023 and that the credit for 2023 to 2025 may be claimed "in year".

It is anticipated that approximately 400,000 people will benefit from the new credit.

Help-to-Buy Scheme

The Help-to-Buy scheme has been a significant support to first time buyers since its introduction in 2017, with 35,000 people benefitting under the scheme. The scheme was due to end in 2022 but now it will be extended in its current form to the end of 2024. This two-year extension will be welcome for prospective first-time buyers and indeed registered builders who will continue to be able to bring marginal supply onto the market.

The scheme has been enhanced and extended on a number of occasions since its original form in 2017, and the current scheme provides for a refund of the lower of:

- 10% of the cost of a new house,
- €30,000, or
- the income tax and DIRT paid by the buyer for the previous four tax years.

To qualify for the relief, the value of the house must be no more than €500,000 and the mortgage on the property must amount to at least 70% of the value of the property.

An independent review of the scheme had been commissioned by the Government earlier in 2022, and on Budget Day the minister published the report. The report includes a number of recommendations which will be considered in the coming years.

Measures to assist landlords and property developers

Pre-letting residential expenses

In a move to continue to encourage the current owners of vacant residential property to bring such property to the rental market, the minister on Budget Day announced that the rules which allow a deduction for certain 'pre-letting' expenses will be enhanced.

The relief allows for a deduction of certain 'pre-letting' expenses, which would not otherwise be allowable, incurred on a property that has been vacant for a period of time and which is subsequently let as a residential premises on or before 31 December 2024.

Carmel Logan
Partner

The relief was previously available for qualifying expenditure on property which had been vacant for 12 months, up to a cap of €5,000 per property. The relief has been enhanced with effect from 1 January 2023 and will be available for qualifying expenditure on property which had been vacant for 6 months, up to a cap of €10,000 per property. The relief will continue to be clawed back if the person who incurred the expenses ceases to let the property as a residential premises within four years.

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 due to expire for new construction commencing after 31 December 2022, but has now been extended by three years to 31 December 2025.

The scheme was designed to incentivise residential development. However, the conditions to avail of this refund scheme are onerous and subject to relatively tight time limits for both commencing and completing the development of the residential project.

While the three-year extension is welcomed, in order to avail of the relief, construction must start within 30 months of the acquisition of the site. This continues to be a significant challenge on many projects given the fallout from Covid-19 over the last few years, and the impact of significant planning delays which can hamper the ability to start on-site within that window.

Wider property sector measures

Vacant Homes Tax

The minister introduced a new Vacant Homes Tax from 2023 with the stated aim of maximising the use of existing housing stock to increase the supply of homes available for rent or purchase to meet demand. The new tax is not expected or intended to be a significant revenue raising measure, with projected yield of €3m for a full year.

The new tax will apply to residential properties which are occupied for less than 30 days in a 12-month period.

A number of exemptions will apply to ensure that owners are not unfairly taxed where the property may be vacant for a genuine reason. These will include properties recently sold or currently listed for sale or rent, properties vacant due to the occupier's illness or long-term care, and properties vacant as a result of significant refurbishment work.

The tax will be charged at a rate equal to three times the property's existing base Local Property Tax rate (i.e. before any application of the "local adjustment factor"). The tax will operate on a self-assessment basis and will be administered by Revenue.

Residential Zoned Land Tax

Finance Act 2021 introduced a new Residential Zoned Land Tax (RZLT) which will apply to land which is serviced and zoned for residential development (including mixed-use land which includes an element of residential), in circumstances where the land has not been used for the development of housing. A 3% rate of tax will be applied to the market value of the zoned residential land, with the first RZLT charge payable in 2024.

Local authorities have been charged with preparing and publishing maps to identify the land within scope of the new tax. The first such draft map is due for publication on 1 November 2022.

The minister has indicated that Finance Bill 2022 will include a number of amendments to streamline the operation of the RZLT and to ensure it is efficiently administered.

Defective Concrete Products Levy

On foot of a Government decision in late 2021, the minister on Budget Day introduced a new levy on certain concrete products to fund the cost to the exchequer associated with the Defective Concrete Blocks (Mica) Redress Scheme which was introduced

Cian Liddy
Partner

earlier in 2022 to help homeowners who have been affected by defective products used in the building of their homes.

Concrete blocks, pouring concrete and certain other concrete products will be in scope of the new levy.

The levy will be charged at a rate of 10% at the point of first supply in Ireland and will be applied from 3 April 2023. It is expected to raise €80 million annually for the exchequer. This, of course, will increase construction costs in a sector which is already challenged.

Property structures & other property tax matters

Consistent with the recommendation set out in the Commission on Taxation and Welfare report, the minister has committed to commencing a review of the Real Estate Investment Trust (REIT) and Irish Real Estate Fund (IREF) regimes with regard to institutional investment in the Irish property market. This review will consider those structures and how best they can continue to support housing policy objectives. In our view, the review should include consultation with all stakeholders to ensure these regimes are fit for purpose going forward. The minister noted that institutional investment has played a key role in the provision of housing in Ireland in recent years and we believe that this is often underappreciated by commentators.

In addition, the minister welcomed the Commission's proposals on changes to the Local Property Tax and the introduction of a Site Value Tax. However, he noted these longer-term reforms are wide-ranging and require careful consideration and consultation across Government.

Living City Initiative

The Minister for Finance announced the extension of the Living City Initiative to 31 December 2027. The Living City Initiative is a scheme of property tax incentives which applies to certain "special regeneration areas" in Dublin, Cork, Limerick, Galway, Waterford and Kilkenny. The scheme provides for tax relief for qualifying expenditure incurred on both residential and certain commercial refurbishment and conversion work. The minister has also announced an acceleration of the tax relief for owner-occupiers so that it can be claimed over 7 years instead of 10 years. The relief may be claimed as a deduction from total income of 15% of the total eligible expenditure in each of the first six years and 10% for the seventh year. The carry forward of relief for owner-occupiers will also be allowed where it cannot be absorbed in year.

Indirect Taxes

Glenn Reynolds
Partner

VAT

The minister announced a number of measures with respect to VAT rates, including updates on the expiry dates of the existing temporary VAT rate reductions for gas and electricity, and the tourism and hospitality sector, as well as signalling a number of new VAT rate reductions in the newspaper and health sectors. The latter new reductions follow changes agreed by EU Member States to the EU VAT Directive earlier this year, which give Member States greater flexibility in setting reduced rates of VAT.

Gas and electricity

The minister confirmed that the temporary VAT rate of 9% for supplies of gas and electricity will be extended until 28 February 2023. This temporary rate came into effect on 1 May 2022 and had originally been due to expire on 31 October 2022. The VAT rate for these supplies is now due to revert to 13.5% on 1 March 2023.

Tourism and hospitality

The minister did not extend the temporary VAT rate of 9% for certain goods and services in the tourism and hospitality sectors beyond the current expiry date of 28 February 2023. The VAT rate on these supplies will therefore revert to 13.5% on 1 March 2023. The temporary 9% rate came into effect on 1 November 2020 in response to the challenges faced by the tourism and hospitality sectors as a result of the Covid-19 pandemic.

The goods and services covered by the temporary 9% rate include 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; and hairdressing services.

David Duffy
Partner

Newspapers

The minister announced that the VAT rate applying to the sale of newspapers and news periodicals, including both printed and digital editions, will reduce from 9% to 0% with effect from 1 January 2023.

Health products

The VAT rate applying to automatic external defibrillators, non-oral hormone replacement therapy and non-oral nicotine replacement therapy will reduce from the standard rate of 23% to 0% with effect from 1 January 2023. The 0% VAT rate will also apply to the remaining period products that do not currently qualify for that rate with effect from 1 January 2023.

Flat rate addition for farmers

The flat rate addition payable to farmers who are not registered for VAT will decrease from 5.5% to 5% with effect from 1 January 2023. The flat rate addition compensates unregistered farmers for the VAT which they cannot reclaim on their purchases.

Excise Duties

Mineral oils

The minister confirmed that the excise duty rate reductions of 21 cent (VAT inclusive) per litre for petrol, 16 cent (VAT inclusive) per litre for diesel and 5.4 cent (VAT inclusive) per litre for Marked Gas Oil (MGO) will continue to apply until 28 February 2023. These temporary reductions were previously due to expire on 12 October 2022.

Tobacco products

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 27 September 2022 and will bring the price of a pack of 20 cigarettes in the most popular price category to €15.50.

Alcoholic products

There were no increases in excise duty on alcohol products.

In line with a commitment made last year, the minister confirmed that the excise relief already available to small independent producers of beer will be extended to small independent producers of cider and perry (pear cider). This will reduce by up to 50% the excise duty payable on up to 8,000 hectolitres of cider and perry produced by small independent producers (with an annual production of up to 10,000 hectolitres).

The qualifying production threshold for micro-brewery relief will be increased from the current production ceiling of 50,000 hectolitres to 75,000 hectolitres. This relief from alcohol products tax is available for beer produced in certain qualifying micro-breweries.

The minister indicated that there may be longer term reforms to the taxation of alcoholic products following the publication of the General Scheme of the Sale of Alcohol Bill in the coming weeks.

Late night licences

The minister announced a reduction in excise fees of 50% when applying for a Special Exemption Order required for the operation of late-night venues with effect from 28 September 2022. The reduction will reduce the cost per application from €110 to €55.

Energy & Climate Measures

Paul O'Brien
Partner

Rising Energy Costs

This was a Budget dedicated to addressing cost of living concerns and the rise in energy costs was a constant theme of the minister's speech. As the minister noted, "the wholesale price of natural gas is now around eight times its average level in the years preceding the war in Ukraine". Electricity prices have increased by a similar amount because natural gas is used to generate around 50% of Ireland's electricity and all generators receive the price set by the most expensive generator. The European Commission has asked each Member State to reduce gas consumption by 15% between August 2022 and March 2023 through fuel switching, temperature limits and information campaigns. Ireland has received an exemption from this target due to its limited connection to the Russian gas system, however Minister Eamon Ryan has accepted the Commission's recommended reduction level as something we should aim to achieve to help reduce prices.

In reality, Ireland is facing not one, but two, energy crises as it is also facing a short to medium term shortfall in generating capacity, currently projected to continue until the winter of 2025. This means that ultimately there may be insufficient generation to meet demand.

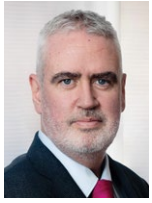
This situation is a result of:

- Ireland's relatively strong electricity demand growth of over 10% in the last decade;
- a lack of investment in additional dispatchable (on-demand) generation over this period; and
- a reduction in the availability of existing dispatchable generation due to the age of the powerstations and maintenance deferred during Covid-19.

The Commission for Regulation of Utilities (CRU) is managing a security of supply programme of work to address the situation. Key aspects include the provision of additional and emergency generating capacity, extending the operation of older generators and demand side mitigation measures. The CRU has proposed recovering €100m of the €478m cost of the security of supply projects from customers in the year from 1 October 2022. The proposal is that €70m of this will be recovered through an increase in network charges levied on the largest consumers of electricity while €30m will be recovered from a wider cohort of consumers.

Business Energy Support Scheme

In his Budget speech, the minister recognised that Irish businesses will experience significant increases in their energy costs over the winter months and noted clearly that "the Government will help". Governments across Europe have adopted a range of policies to help homes and businesses cope with these price increases and the Irish proposal as outlined in the Budget is



Mike Hayes
Partner

to provide businesses with financial support of up to €10,000 per month to help fund rising energy bills. This has been named the "Business Energy Support Scheme" and is expected to cost the State €1.2bn. The scheme will be administered by the Revenue Commissioners and will be open to businesses who carry on a Case I trade, are tax compliant and whose average unit price has increased by over 50% compared to the same bill period in 2021. The relief will be calculated on the basis of 40% of the year-on-year increase and subject to a €10,000 per month limit (and an overall cap). The scheme is subject to EU Commission approval and further details on the operation of the scheme are awaited.

Windfall Tax

In his Budget speech, the minister referred to the work underway at an EU level to impose a windfall tax on profits made by fossil fuel energy generators and a price cap on non-gas generators of electricity (such as wind farms and solar farms). He stated that Ireland aims to be part of this EU-wide response, but if EU measures do not materialise, Ireland would seek to bring forward its own measures.

We await the outcome of further talks at EU level later this month.

Carbon Taxes

The minister announced that carbon tax rate would increase from the current rate of €41 to €48.50 per tonne of CO2. The application to autofuels will be from 12 October with other fuels coming into scope from 1 May 2023. Carbon tax revenues will be used to fund future measures including those supporting retrofitting and sustainable transport. The National Retrofit Plan published in February 2022 refers to the investment of €5bn of carbon tax revenues in the retrofitting of 500,000 homes by 2030.

The increase in carbon taxes for autofuels results in a two cent increase in the cost of petrol and diesel, but this is offset by a two cent reduction in the National Oil Reserves Agency levy which means that the price at the pumps should not be affected.

Commission on Taxation & Welfare

Colm Rogers
Partner

The Commission on Taxation and Welfare published its report "Foundations for the Future" on 14 September 2022. In line with the commitment made in the Programme for Government, the Minister for Finance established the Commission in April 2021 to consider how best the taxation and welfare systems can support economic activity and promote increased employment and prosperity in Ireland, while ensuring that there are sufficient resources available to meet the costs of public services in the medium and longer-term. The Commission has delivered a 500-page report which includes a total of 116 recommendations focused on the design and administration of the tax and welfare systems.

Principles and objective

The report makes clear its rationale with respect to many of its proposals – an ageing population, coupled with the level of public debt and other fiscal risks, mean that it is inevitable in the Commission's view that the total amount of taxation required to fund public services will increase in the years ahead. The approach of the Commission has been to propose revenue-raising measures, with various measures aimed at broadening the tax base as it applies to wealth, earned income, and consumption proposed. Unfortunately, the Commission did not focus in a meaningful way on positive measures to stimulate economic activity to generate additional tax revenues.

By the Commission's own admission, many of their recommendations would require further careful consideration prior to adoption and implementation. To this must be added the very substantial political challenge that would face any Government seeking to introduce the tax increases arising from the report's recommendations.

Camilla Cullinane
Partner

Wealth & transfers of wealth

Importantly, the report does not support the introduction of a net wealth tax in Ireland without first attempting to substantially amend Ireland's existing taxes on capital and wealth. In this regard, it proposes that Capital Gains Tax (CGT) and Capital Acquisitions Tax (CAT) can be substantially reformed to deliver a higher yield, while addressing what it describes as "major deficiencies" in the current structure of these taxes.

While its support for the retention of CGT retirement relief and entrepreneur relief will be welcome for many entrepreneurs and businesses owners, the report proposes a number of measures which, individually or collectively, could substantially impact those looking to pass on businesses, farms, or the family home to the next generation, during their lifetime or on their death. For example, proposals which would impose CGT on transfers on death and reduce the CAT Group A threshold (currently €335,000) to bring it substantially closer to the Group B and C thresholds (currently €32,500 and €16,250, respectively) would by themselves add a significant tax cost to many inheritances. If the Commission's proposals to restrict CAT business property relief and agricultural relief, and bring gains on the disposal of an individual's principal residence within scope of CGT were added to this, it could fundamentally reduce the opportunity available to parents to pass assets to the next generation without fear that the associated tax burden will force the sale of some or all of these assets.

Taxation of land and property

The Commission also sees scope for revenue-raising measures with respect to the taxation of land and property.

It was the previous Commission on Taxation report, published in 2009, which proposed the introduction of Local Property Tax (LPT) in Ireland. LPT was then implemented in 2012 with the first charges arising for households in 2013. At the time, the potential benefits of such a tax were clear to the Commission – a broad-based tax on property could be an effective means of raising revenue in a manner that would be equitable and less likely to produce distortionary effects in the market.

The current Commission has taken this a step further, with their report proposing the imposition of a Site Value Tax on all land in Ireland which is not subject to LPT, along with various enhancements to the LPT system. The suggested amendments include increased rates of LPT for vacant properties as well as on properties held by owners of multiple properties that are not occupied as the owner's primary residence or by a registered tenant. The Vacant Homes Tax announced in the Budget and discussed elsewhere in this publication appears to be a step in this direction.

The proposed introduction of a Site Value Tax, which would apply an annual charge based on the value of land, disregarding any development thereon, revisits the work of the previous Commission, where the possibility of introducing such a tax was considered

Tim Lynch
Partner

but ultimately not recommended. The 2009 Commission viewed the practical challenges of introducing a Site Value Tax as prohibitive – in particular, the challenge of building a national map outlining the boundary, ownership, and undeveloped value of every site in Ireland.

While the current Commission acknowledges these challenges, it believes them to be surmountable and the potential benefits to be significant enough to justify the work involved. It is likely that the mapping process for the newly legislated for Residential Zoned Land Tax, which will target undeveloped residentially zoned land, will prove an interesting litmus test, as the first maps defining the scope of that tax are due to be published by local authorities in November this year.

Curiously, at a time when Ireland is facing a significant challenge with the supply of residential accommodation, the Commission has discouraged tax measures aimed at the short-term stimulation of construction activity in the property market.

Promoting enterprise

The Commission's terms of reference also tasked it with considering how Ireland can maintain its attractiveness for foreign direct investment (FDI) and promote growth in our SME sector.

Supports for SMEs

The report places a particular emphasis on adapting the tax system to better support investment in SMEs. Positive recommendations in this regard include opening up CGT entrepreneur's relief to angel investors and enhancing the employment investment incentive (EII) for early-stage, high-risk and R&D-intensive businesses. In addition, the proposal to develop an advance assurance mechanism with respect to the EII and the R&D tax credit regimes (amongst others) would be an important practical

step to opening these reliefs to SMEs and their investors, where the risk of future audit of a self-assessment claim can act as a deterrent to their uptake.

However, the report's proposal that the Class S rate of PRSI (applicable to the self-employed and proprietary directors) should be increased from its current rate of 4% to align it with the Class A employer's PRSI rate of 11.05% may be viewed by many as anathema to the entrepreneurial spirit that many of the report's recommendations seek to foster.

Little for FDI

The report expresses support for the 12.5% rate of corporation tax and notes the significant contribution made by FDI to the Irish economy.

However, the report is conspicuously light on recommendations that would directly improve the attractiveness of Ireland as a location for FDI. Indeed, recommendations such as the proposal to cap or remove the exemption from employer's PRSI on share-based remuneration, to restrict SARP, and limit the availability of the remittance basis of tax to just three years of Irish residence will lead to increased difficulty and cost for large businesses seeking to attract and retain international talent here. Given the ever-increasing importance of aligning the location of talent with where profits are earned in the global tax environment, such recommendations fly in the face of what many would like to see in this area.

Where to from here?

Following publication and significant public comment, the future of the report's recommendations will likely depend in large part on the actual scale and timing of the fiscal challenges which the report seeks to mitigate. In addition, the future adoption of the report's recommendations will be significantly influenced by the political challenge or benefit to any future Government seeking to implement its findings.

Regardless of one's view on the likelihood of the confluence of these factors, it appears certain that by simply voicing many of its recommendations, the Commission has steered the public and private discussions of many Irish policymakers for the future.

Tax Rates and Credits **2023**

Personal income tax rates (changed)

	At 20%, first	At 40%
Single person (increased)	€40,000	Balance
Married couple/civil partnership (one income) (increased)	€49,000	Balance
Married couple/civil partnership (two incomes) (increased)*	€80,000	Balance
One parent/widowed parent/surviving civil partner (increased)	€44,000	Balance

* €49,000 with an increase of €31,000 maximum

Personal tax credits (changed)

Single person (increased)	€1,775
Married couple/civil partnership (increased)	€3,550
Single person child carer credit	€1,650
Additional credit for certain widowed persons/surviving civil partner	€1,650
Employee credit (increased)	€1,775
Earned income credit (increased)*	€1,775
Home carer credit**	€1,700

* Applies to self employed income and certain PAYE employments not subject to the PAYE credit
** It is not possible to claim both the increased Standard Rate Cut-Off Point for married couples (two incomes) and the Home Carer Tax Credit

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

Help to Buy Scheme (unchanged)

Income tax rebate, capped at €30,000, for first time buyers of a principal private residence. The relief is 10% of the house value. 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 has been extended until 31 December 2024.

Electricity Credit

An electricity credit for all households totalling €600 will be paid in three instalments of €200. The first payment will be made before Christmas, with two further instalments in the New Year

Vacant Homes Tax

Vacant Homes Tax will apply to residential property occupied for less than 30 days in a 12 month period. A number of exemptions will apply to properties which are unoccupied for genuine reasons. Tax will be charged at a rate equal to three times the property's existing LPT

Local Property Tax (varying rates) (unchanged) based on the following bands:

Bands €	Charge
1 - 200,000	€90
200,000 - 262,500	€225
262,501 – 350,000	€315
350,001 – 437,500	€405
437,501 – 525,000	€495
525,001 – 612,500	€585
612,501 – 700,000	€675
700,001 – 787,500	€765
787,501 – 875,000	€855
875,001 – 962,500	€945
962,501 – 1,050,000	€1,035
1,050,001 – 1,137,500	€1,189
1,137,501 – 1,225,000	€1,408
1,225,001 – 1,312,500	€1,627
1,312,501 – 1,400,000	€1,846
1,400,001 – 1,487,500	€2,064
1,487,501 – 1,575,000	€2,283
1,575,001 – 1,662,500	€2,502
1,662,501 – 1,750,000	€2,721
1,750,000 +	€2,721,+0.3% on value over €1.75m

- Valuation date for LPT purposes was 1 November 2021 and determined the LPT to be paid for 2022 - 2025.
- Applies to residential (not commercial) properties.
- Applies to new homes constructed on or before the valuation date of 1 November 2021, which will be brought within the scope of LPT charges from 2022 onwards.
- Various other exemptions no longer apply.
- 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%.

Value Added Tax (changed)

Standard rate/lower rate	23%/13.5%
Hospitality and tourism*, electricity and gas*, and sporting facilities	9%
Flat rate for unregistered farmers (rate decreased)	5%
Cash receipts basis threshold	€2m

* 9% rate applying to hospitality and tourism sector and electricity and gas extended to 28 February 2023
** 0% rate in respect of newspapers and news periodicals, including digital editions, defibrillators, hormone replacement and nicotine replacement therapies, and certain period products introduced from 1 January 2023

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

	%	Income
Employer	11.05%	No limit
	8.8%	If income is €441 p/w or less
Employee* (class A1)		
PRSI	4%	No limit*
Universal Social Charge	0.5% (unchanged)	€0 to €12,012**
	2.0% (changed)	€12,013 to €22,920***
	4.5% (changed)	€22,921 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 €21,295 to €22,920
**** 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. This concession has been extended to the end of 2023

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

	%	Income
PRSI	4%	No limit*
Universal Social Charge	0.5% (unchanged)	€0 to €12,012**
	2.0% (changed)	€12,013 to €22,920***
	4.5% (changed)	€22,921 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 €21,295 to €22,920
**** 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. This concession has been extended to the end of 2023

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

Rent Tax Credit

Taxpayers who are renting a property and are not receiving housing supports will qualify for a rent tax credit of €500 per annum. This credit will be doubled in the case of married couples and civil partners. This credit can be claimed in year from 2023 and from early in 2023 in respect of rent paid in 2022

Tax relief for remote working (unchanged)

Income tax deduction amounting to 30% of the cost of vouched expenses for heat, electricity and broadband in respect of those days spent working from home.

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%

* The Knowledge Development Box has been extended to accounting periods commencing before 1 January 2027. The KDB will have a new effective rate of 10% to come into effect from a date set by commencement order (expected to occur in 2023)
** 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. This has been extended to 31 December 2025

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

10% on the cumulative purchase of 10 or more residential houses in a 12 month period.

Deposit Interest Retention Tax (unchanged)

DIRT	33%*

* 41% rate remains for exit taxes on financial products

Dividend Withholding Tax (unchanged)

Rate	25%*

* A modified DWT regime which was to be introduced from 1 January 2021 was 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.

Personal Tax Scenarios **2023**

KPMG

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

2023 changes	Euro
Change in Tax Bands	640
Change to Tax Credits	150
Change to PRSI	0
Change to Universal Social Charge	41
Net Saving	**€831**

KPMG

Single person employed, earning €45,000, renting

2023 changes	Euro
Change in Tax Bands	640
Change to Tax Credits*	650
Change to PRSI	0
Change to Universal Social Charge	41
Net Saving	**€1,331**

*The new annual rental tax credit of €500 can also be claimed for 2022 from early 2023

KPMG

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

2023 changes	Euro
Change in Tax Bands	1,080
Change to Tax Credits	300
Change to PRSI	0
Change to Universal Social Charge	82
Net Saving	**€1,462**

KPMG

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

2023 changes	Euro
Change in Tax Bands	1,080
Change to Tax Credits*	1,300
Change to PRSI	0
Change to Universal Social Charge	82
Net Saving	**€2,462**

*The new annual rental tax credit of €500 can also be claimed for 2022 from early 2023

KPMG

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

2023 changes	Euro
Change in Tax Bands	640
Change to Tax Credits	300
Change to PRSI	0
Change to Universal Social Charge	82
Net Saving	**€1,022**

KPMG

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

2023 changes	Euro
Change in Tax Bands	1,280
Change to Tax Credits*	1,300
Change to PRSI	0
Change to Universal Social Charge	82
Net Saving	**€2,662**

*The new annual rental tax credit of €500 can also be claimed for 2022 from early 2023

KPMG

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

2023 changes	Euro
Change in Tax Bands	640
Change to Tax Credits	325
Change to PRSI	0
Change to Universal Social Charge	41
Net Saving	**€1,006**

KPMG

Married couple, one employed, earning €50,000, three children, renting

2023 changes	Euro
Change in Tax Bands	640
Change to Tax Credits*	1,325
Change to PRSI	0
Change to Universal Social Charge	41
Net Saving	**€2,006**

*The new annual rental tax credit of €500 can also be claimed for 2022 from early 2023

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