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Ireland – *Special Report*: Finance Bill Offers Tax Savings, Enhances Competitiveness

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Ireland's 2014 Finance Bill was published on 23 October 2014.[1] The Bill contains important changes to the Special Assignee Relief Programme, extension of the Foreign Earnings Deduction, a one-percentage point drop in the top marginal rate, and other measures affecting individuals (including international assignees in and outside of Ireland) subject to tax in Ireland.

For a more complete analysis of the Finance Bill 2014, please see a publication of the KPMG International member firm in Ireland, "Taxing Times," and other Finance Bill analysis and offerings by following this link: Commentary and Analysis on Finance Bill 2014 .

Why This Matters

The extension and relaxation of the Foreign Earnings Deduction rules should further aid Irish companies and Irish resident individuals who do business in the qualifying countries. In addition, new rules liberalizing the Special Assignee Relief Programme mean that Ireland is now more competitive in terms of income tax and it should make it easier for employers to attract employees to work in Ireland. In many cases the effective tax rate has been reduced to 35 percent for high-earning employees.

For upper-income employees, the drop in the top marginal income tax rate is offset by the higher Universal Social Charge (USC). Notwithstanding, the changes in thresholds (income tax and USC) and rates should be reflected in international assignment cost projections and budgeting for those individuals on assignments to and from Ireland. Where appropriate, adjustments by payroll administrators to PAYE withholdings will need to be made when the changes are enacted.

Below we discuss briefly the measures affecting individuals – including those on international assignment – and their multinational employers.

Special Assignee Relief Programme

The Special Assignee Relief Programme (SARP) has been in place in Ireland for a number of years and it is a tax relief intended to encourage the relocation of key talent to Ireland. SARP provides relief in the form of a tax deduction from employment income for qualifying employees relocating to Ireland. (For related coverage, see *Flash International Executive Alert* 2012-050, 27 February 2012.)

Under the current programme, tax relief is provided by allowing for a tax deduction equal to 30 percent of the difference between €75,000 and the total of the individual's employment income subject to a ceiling of €500,000.

The current maximum relief allowed is €52,275, i.e., €127,500 (€425,000 x 30%) at the current marginal income tax rate of 41 percent. Under the Finance Bill measures there will be no maximum cap to the relief.

There are a number of restrictive features in the current scheme that have resulted in a low take-up of the programme. In 2012, for example, only 15 employees availed of the relief. The changes contained in Finance Bill 2014 will now allow for SARP to be available to a larger group of key talent relocating to Ireland. New rules for SARP include:

- An extension of SARP for individuals arriving in Ireland up to the end of 2017;
- Removal of the €500,000 ceiling for the tax years 2015 onwards (individuals who have arrived in Ireland prior to 1 January 2015, may benefit from the removal of this ceiling).

The following changes will apply to individuals arriving in Ireland from 1 January 2015:

- The requirement to be tax resident in Ireland only has been removed (this will allow employees to avail of this relief even if they retain tax residence in their home country);
- Where employees are required to perform duties outside of Ireland, the relief will still apply;
- The requirement for the employee to be hired by the relevant employer prior to his/her relocation to Ireland has been reduced from 12 months to six months.

KPMG Note

While the above amendments are viewed positively, we believe the relief could be made more competitive by increasing the 30-percent deduction, by allowing it to be available for new hires, and also by providing relief for USC. However, it is considered a welcome step in the right direction to help Irish companies attract overseas talent to work in Ireland.

Administrative Changes

The Finance Bill introduces a requirement for the employer to notify Revenue of the employee's entitlement to SARP within 30 days of the employee's arrival in the country.

KPMG Note

It appears that failure to meet this condition will mean that the employee cannot avail of the relief. This condition could be onerous, and to have the time period extended would be deemed a positive move.

There is also a requirement on the employer to deliver certain information in respect of the employee to Revenue by 23 February following the year end. This is in line with the P35 filing deadline.

Example

An employee is assigned to Ireland from the U.K. on 1 May 2015 for two years. The employee is Irish tax resident but also retains U.K. tax residence up to 31 December of the first year. The employee commenced employment with the relevant employer in the U.K. 14 months prior to assignment. There is a base salary of €250,000 with 40 work-days in the U.K. up to 31 December of the first year.

- Pre-Finance Act 2014 – The employee would not have qualified for SARP in Ireland until the following 1 January as he was tax resident in Ireland and the United Kingdom. The employee would have had more than 30 days working abroad during the first year of assignment which would prevent him from qualifying for SARP. The employee would not qualify for SARP in the year of departure as he would be resident in Ireland and the United Kingdom.

- Post-Finance Act 2014 – The new measures introduced in relation to residence do not exclude the employee from qualifying for SARP relief in his first year. Allowing the employee to work abroad during his assignment will no longer disqualify the employee from SARP relief. The employee will continue to qualify for SARP in his year of departure.

Foreign Earnings Deduction

The Foreign Earnings Deduction (FED) is a tax relief available to employees of Irish companies who spend time working abroad in certain qualifying countries. Finance Bill 2014 has extended the number of qualifying countries to 28 as follows:

Qualifying Countries - FED			
Algeria	Ghana	Mexico	Singapore
Bahrain	India	Nigeria	South Africa
Brazil	Indonesia	Oman	South Korea
Chile	Japan	Qatar	Tanzania
China, People's Republic of	Kenya	Russia	Thailand
Democratic Republic of Congo	Kuwait	Saudi Arabia	United Arab Emirates
Egypt	Malaysia	Senegal	Vietnam

Source: KPMG, Ireland

The relief was introduced in Finance Act 2012 to support efforts by Irish companies to expand into emerging markets, originally the BRICS countries and further extended in Finance Act 2013. (For related coverage, including the conditions pre Finance Bill 2014, see *Flash International Executive Alert* 2012-050, 27 February 2012.)

According to latest figures available from Revenue, there were only 83 FED claims during 2012 at a cost to the Exchequer of €0.6 million.

The minister has announced improvements to the relief including a reduction in the minimum number of qualifying days in a 12-month period from 60 to 40. In addition, the requirement to spend four consecutive days in a qualifying country has been reduced to three days and travel time can be included.

The level of deduction available to an individual employee is capped at €35,000 for any one year and this has not changed. This means that, while the maximum relief available in 2014 is €14,350 (€35,000 at 41 percent), the maximum relief available in 2015 will be €14,000 (€35,000 at 40 percent) due to the reduction in the marginal income tax rate. Finally, the relief has been extended to 31 December 2017.

Example

Under the current rules, an employee who leaves Ireland every Monday and returns every Friday would not qualify for FED as that employee would not have four consecutive qualifying days when travel time is excluded.

Under the proposed new rules, that employee could have up to five qualifying days in each week travelled.

KPMG Note

While raising the €35,000 cap on the relief would have been a welcome step, the relief has been extended in terms of qualifying countries and the “day count” rules such that more employees should qualify for the relief.

Personal Tax Rates/Thresholds

The minister announced the reduction in the marginal rate of income tax from 41 percent to 40 percent. This change will benefit those on incomes of more than €33,800. However, once income exceeds €70,044, effectively the marginal tax rate will be unchanged since the reduction in income tax rates for those on incomes above that level has been offset by corresponding increases in the USC rates (outlined below). (The tables with the threshold/rate changes, as well as the personal tax credits and PRSI tables, appear on the next two pages.)

Universal Social Charge (USC)

The minister announced that a new USC rate of 8 percent (previously 7 percent) will apply to (i) employment income over €70,044 and (ii) self-employment income between €70,044 and €100,000. For the self-employed, the top rate of USC at 10 percent (7 percent plus 3-percent surcharge), which was due to revert back to 7 percent on 31 December 2014, has been increased to 11 percent. In other words, the existing overall marginal rate of tax of 55 percent is being retained for self-employed people earning over €100,000.

USC Exemption

In a change that will take a large number of people out of the charge to USC, the USC exemption threshold has been increased from €10,036 to €12,012.

Both of the lower USC rates have been reduced by 0.5 percent with the respective bands widened slightly.

Medical card holders and those over 70 whose aggregate income does not exceed €60,000 will continue to be exempt from the 7-percent rate of USC, i.e., the highest rate of USC for which they will be liable is 3.5 percent.

All of the above changes will come into effect from 1 January 2015.

Personal Tax Rates and Credits and PRSI (Tables)

Personal income tax rates (rates and bands changed)		
	At 20%, first	**At 40%**
Single person	€33,800	Balance
Married couple *(one income)**	€42,800	Balance
Married couple *(two incomes)**&**	€67,600	Balance
One parent/widowed parent*	€37,800	Balance

* Applies to civil partnership/surviving civil partner also
** €42,800 with an increase of €24,800 maximum

Source: KPMG, Ireland

(For last year's rates and thresholds, see the KPMG publication, *Taxation of International Executives: Ireland*.)

The following personal credits and reliefs are unchanged from 2014.

Personal tax credits	
Single person	€1,650
Married couple*	€3,300
Single person child carer credit	€1,650
Additional credit for certain widowed persons*	€1,650
Employee credit	€1,650
Home carer credit	€810
Water charges credit**	€100
Rent credit - single and under 55 years (reduced)***	€120

* Applies to civil partnership/surviving civil partner also
** Available at the standard rate up to a maximum of €500 per household per annum, prior year basis.
*** Rent credit will be phased out by 2017. €40 reduction in 2015 for a single person

Tax relief capped on medical insurance premia : premium of €1,000 per adult, €500 per child, per annum

Source: KPMG, Ireland

Pay Related Social Insurance (PRSI) (in parentheses are 2014 figures)

	Rate	Income
***Employe**r*	10.75%	No limit
	8.50%	If income is €356 per week or less
Employee		
• PRSI	4%	No limit
• Universal Social Charge	1.5% (2%)	Up to €12,012.00 (€10,036)
	3.5% (4%)	€12,012.01 to €17,576.00 (€10,036.01 to €16,016)
	7%	€17,576.01 to €70,044.00 (Over €16,016)
	NEW 8%	Above €70,044.00

Source: KPMG, Ireland

3-Percent Surcharge (non-PAYE Income)

The government has left unchanged the surcharge of 3 percent applied to individuals who have non-PAYE income that exceeds €100,000 in a year.

KPMG Note

Changes to the income tax and USC regimes were widely anticipated in advance of the recent announcement and, for the most part, the changes contained in the Finance Bill were consistent with changes mentioned in press coverage over the last few weeks.

The changes to USC and personal income tax mean that individuals with income in excess of €70,044 will continue to be subject to tax at marginal rates of 52 percent/55 percent. The overall effective rate may be marginally higher overall as tax reliefs such as pension contributions will be allowed at a lower rate of 40 percent, while the gross income before pension contributions will be chargeable at the increased USC rates. That said, the revision of the SARP rules will result in effective tax rates of approximately 35 percent for expatriates coming to Ireland who qualify for the relief.

Other Measures for Individuals

Pension Levy

The levies of 0.6 percent and 0.15 percent on pension fund assets will expire as follows:

- 0.6 percent levy at the end of 2014
- 0.15 percent levy at the end of 2015

The combined levy of 0.75 percent that applied for 2014 will therefore reduce to 0.15 percent for 2015, with no pension levy for subsequent years.

Other Pension Changes

There were further pension changes, most of which will affect those with high-value pension funds and personal non-occupational pension funds.

Further details are available in “Taxing Times” which can be accessed at this link: Commentary and Analysis on Finance Bill 2014 **.**

Rent-a-Room Relief

The threshold for exempt income under the Rent-a-Room Scheme is being increased to €12,000 per annum from the current amount of €10,000. This applies to sums arising where a person has rented out a room (or rooms) in his or her principal private residence.

Extension of Home Renovation Incentive

Finance Bill 2014 introduced a new incentive (a 13.5-percent tax credit) on qualifying expenditures by individuals who were owner-occupiers and who renovated or improved their principal private residence located in Ireland in 2014 and 2015, using the services of a tax registered and tax compliant builder/contractor. The maximum credit is €4,050.00. In a measure which seeks to help upgrade the quality of private rental stock, particularly at the lower end, the minister announced the Home Renovation Incentive is being extended to include rental properties, owned by landlords subject to income tax, for work carried out from 14 October 2014 until the end of 2015.

Removal of Seven-Year Capital Gains Tax Exemption

As expected, given the recent level of activity in the property sector, the minister confirmed that he is removing the capital gains tax relief introduced to incentivize the purchase of property between 7 December 2011 and 31 December 2014. The capital gains tax exemption for land or buildings purchased and owned for a period of seven years will not be extended beyond 31 December 2014. If an unconditional contract for the disposal of the property has been signed before the end of 2014, the exemption should be available even if the sale does not close until after that date.

The minister stated that the relief had achieved its objectives.

Other Measures for Employers

Share Scheme Administration

Finance Bill 2014 provides for Form RSS1, which is the annual return of share options and other rights, to be filed electronically.

It is expected that this will apply to returns for the 2014 tax year onwards.

Footnote:

1 For more information, see the Department of Finance news release at: http://www.finance.gov.ie/news-centre/press-releases/publication-finance-bill-2014 .

See other Budget documentation at: http://www.budget.gov.ie/Budgets/2015/2015.aspx .

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