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GMS Flash Alert

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Ireland - Finance Bill Published Following Presentation of 2020 Budget

The Irish Finance Bill was published on 17 October 2019. The Bill embodies the measures announced in Budget 2020, which was recently introduced by the minister for finance against the backdrop of great economic uncertainty.[1] While Ireland has enjoyed enormous economic success in recent years with its fiscal accounts expected to move into surplus this year, the economy is poised at a point between the twin risks of overheating and Brexit (plus a global economy slowing down).

The Budget was shaped on the basis of a "no-deal" Brexit, which sees a prudent approach to the use of the fiscal space. The minister announced on Budget day that there would be no personal tax cuts given the economic uncertainty and outlined a mixture of tax increases and modest tax reductions.

Some of the Budget's measures – now contained in the Finance Bill – affecting individuals and their employers discussed in this GMS *Flash Alert* include:

- Extension of the Special Assignee Relief Programme (SARP), until 31 December 2022;
- Extension of the Foreign Earnings Deduction (FED) to the end of 2022;
- No change to rates of Universal Social Charge (USC);
- An increase in the home carer tax credit by €100;
- An increase in the earned income tax credit by €150;
- An increase in the main exempt capital acquisitions tax (CAT) threshold from €320,000 to €335,000;

In a separate GMS *Flash Alert* we will discuss the measures in the Finance Bill affecting the Key Employee Engagement Programme and the Dividend Withholding Tax.

Many of the measures will take effect on 1 January 2020, unless otherwise noted in the Finance Bill.

(This article is excerpted, with permission, from "[Taxing Times - Finance Bill 2019 & Current Tax Developments]," (17 October 2019) and "[Taxing Times: Budget 2020 & Current Tax Developments]," publications of the KPMG International member firm in Ireland. For full coverage of the Finance Bill and Budget, see the above two publications, or go to: https://home.kpmg/ie/en/home/campaigns/2019/10/finance-act-2019.html .

WHY THIS MATTERS

The tax measures in this Budget, especially the decisions to not adjust the thresholds for USC and personal income tax, could mean slightly higher tax burdens for individuals subject to Irish taxation. However, each individual's tax status should be determined in light of his or her particular situation.

Companies with high-income international assignees who are subject to Irish taxation are unlikely to see any decrease in their assignment-related costs.

In cases of assignments to Ireland where assignees are subject to Irish taxation, and for assignees working outside Ireland but still subject to Irish taxation, international assignment cost projections and budgeting should reflect the changes described in this newsletter once they come into effect. Where appropriate, adjustments to gross-up packages and payroll withholdings may need to be made.

The measures concerning the Special Assignee Relief Programme and the Foreign Earnings Deduction are intended to make the environment for moving workers to and from Ireland more flexible and less costly and enhance the ability of companies to move their employees to Ireland to work and for companies in Ireland to move employees overseas to work.

Extending to 2022 Special Assignee Relief Programme (SARP)

SARP was introduced in 2012 to encourage the relocation of key talent to Ireland and allow the country to compete on the international stage in attracting businesses and key skills.

As mentioned by the minister in his Budget speech, an independent review conducted earlier this year supports the existence of SARP as essential for Ireland to compete with other jurisdictions that operate specific tax provisions to attract skilled executives.

Over the past number of years, with some fine-tuning, SARP has become a valuable regime where approximately 800 individuals qualified for the relief in 2016. Where the relevant conditions are met, the individual will avail of a deduction of 30 percent on earnings over €75,000 up to a cap of €1 million for income tax purposes. The relief is available for inbound employees for up to five years, provided all conditions are met each year.

KPMG NOTE

It is a welcome announcement that this scheme will be extended from 31 December 2020 until 31 December 2022, allowing employees arriving in Ireland in 2021 and 2022 the opportunity to avail of this relief up to and including 2027, thereby helping to cement Ireland's competitiveness for attracting key talent.

For more information on SARP, see this publication from the KPMG International member firm in Ireland.

Continuing Foreign Earnings Deduction (FED) through 2022

FED was also introduced in 2012 to encourage the expansion of Irish indigenous businesses into overseas markets and in particular into emerging markets. The scheme is a key means of supporting Irish employers in managing the costs of sourcing business in emerging markets.

The programme works by allowing a limited deduction from income tax, by way of a refund through the personal tax return, for qualifying work-days an employee or director spends in a specific jurisdiction, provided certain conditions are met. The relief can apply to all income earned from the qualifying office or employment, including share remuneration.

An independent review conducted earlier this year supported the existence and continuation of the scheme and it was announced FED will be extended to the end of 2022. (For more information on FED, see this publication from the KPMG International member firm in Ireland.)

Employer's Pay Related Social Insurance (PRSI)

While there was no mention of PRSI changes in the Budget, the previous announcement from Budget 2019 should not be forgotten. This relates to the change from 1 January 2020, whereby there will be a 0.1-percent increase in the National Training Fund levy payable by employers in respect of reckonable earnings of employees in Class A and Class H employments.

The change leads to the employer's PRSI rate increasing from 10.95 percent to 11.05 percent from 1 January 2020, placing an additional cost on employers.

Universal Social Charge (USC)

The Finance Bill confirms the Budget provision that no adjustments are being made to the USC rates this year. This is somewhat unexpected given that adjustments were made in prior years to USC bands, particularly the ceiling at which the 2-percent rate applies (to take account of an increase in the minimum wage). (See table in Appendix A.)

KPMG NOTE

Without an adjustment to this ceiling, which currently stands at €19,874, a full-time worker earning minimum wage could have a small part of his wages liable to USC at a rate of 4.50 percent once the expected increase in the minimum wage to €10.10 per hour takes effect next year.

With no changes being made to the rates of USC, the marginal aggregate rate of Income Tax, USC, and PRSI remains at 48.50 percent for those earning up to €70,044.

The application of the reduced rate of USC for medical card holders who earn less than €60,000 per annum was due to finish this year, but it has now been extended to the end of 2020. There is no change in USC for those earning less than €60,000 per annum who are over 70 years of age.

Despite being introduced as a temporary measure in 2011, the USC has been in place for nearly a decade. In February 2018, the minister established a working group to examine the potential amalgamation of USC and PRSI over the medium term. The findings of the group were made public on Budget day, 8 October 2019, with no clear recommendation on how to proceed at this point.

Income Tax Bands

No changes have been made to the income tax bands or rates. (See table in Appendix B.)

KPMG NOTE

The latest figures available from the Central Statistics Office (CSO) indicate that average weekly earnings in 2019 are growing at a rate of 3.50 percent (up from 3.30 percent at the same time last year).[2] With no adjustment to the income tax bands, this growth in wages will deliver more income tax for the Exchequer, and could push some workers into higher tax bands.

Tax Credits for U.K. Tax-Resident Individuals

The Bill provides for U.K. tax-resident individuals to retain their entitlement to certain personal allowances, deductions, and reliefs (for example, the personal tax credit) when calculating their Irish income tax liabilities after the U.K. ceases to be a member of the European Union. In certain circumstances, the available allowances, deductions, and reliefs will continue to be determined on a pro-rata basis, based on the individual's Irish and non-Irish income. This section will apply once Part 6 of the Withdrawal of the United Kingdom from the European Union (Consequential Provisions) Act 2019 comes into effect following an order from the minister for finance.

Earned Income Credit

The earned income credit was introduced from 2016 to help reduce the differential in taxes payable by employees and self-employed individuals. The minister had announced in the Budget that the credit for 2020 will increase by €150 to €1,500.

KPMG NOTE

This represents further progress towards parity between the tax credits available to employees and self-employed persons. A difference of €150 still remains, and this may be addressed in next year's Budget. In addition, from November 2019, the self-employed will be able to sign up for job-seeker's benefit should their businesses fail. This will also help the self-employed claim benefits similar to their employed counterparts.

Home Carer Credit

In line with recent years, the home carer credit is to be increased for 2020. The latest change will see the full credit increase by €100 to €1,600 for 2020. The full credit will be available where the carer's income (excluding Carer's Benefit and Carer's Allowance) is €7,200 or less, with a tapering credit available to those with income between €7,200 and €10,400.

Capital Acquisitions Tax (CAT) Thresholds

The Bill provides for an increase in the lifetime tax-free threshold that generally applies for CAT purposes for gifts or inheritances taken by a child from a parent since 5 December 1991. This threshold is to be increased from €320,000 to €335,000, and it is expected to take effect for gifts or inheritances taken on or after 9 October 2019.

KPMG NOTE: General Observations on Improving Climate for International Mobile Talent

There may be some disappointment that the Bill does not include measures to improve the competitiveness of Ireland's tax regime for international mobile talent or domestic entrepreneurs.

Ireland has a heavy reliance on the multinational sector for corporation tax receipts (77 percent of total). It is important that the efficient Irish corporate tax regime be complemented by a tax regime that is supportive of the high earners the multinational sector employs.

In this regard, fostering Ireland's appeal for senior executives who lead these multinationals with measures such as a more attractive SARP regime will be key to addressing some of the exposure Ireland has to this base.

FOOTNOTES:

1 For the Finance Bill on the website for the Houses of the Oireachtas, click here.

For the Budget speech and related Budget 2020 documentation, click here.

2 See the webpage for earnings and labour costs on the Central Statistics Office website by clicking here.

APPENDIX A

PRSI Contribution, USC

PRSI Contribution, USC will be applied at the rates shown in the below table.

	Rate	Income
Employer*	11.05% (increased)	No limit
	8.80% (increased)	If income is up to €386 per week or less
Employee**		
• PRSI	4%	No limit**
• Universal Social Charge	0.5% (unchanged)%	Up to €12,012***
	2.0% (unchanged)	€12,013 to €19,874
	4.5% (unchanged)	€19,875 to €70,044****
	8% (unchanged)	Over €70,044
Additional rates for Self-employed	8% (unchanged)	€70,044 to €100,000
	11% (unchanged)	Over €100,000

* 0.1% increase in National Training Levy from 1 January 2020 included in Employer PRSI for Class A and Class H employments.

** Employees earning €352 or less per week 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. A sliding scale PRSI credit of maximum €12 per week where weekly income is 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 2.5% band from €18,668 to €18,772.

**** 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.

APPENDIX B

2020 Personal Tax Bands

2020	At 20% (€), first	At 40% (€)
Single person / widowed without dependent children	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 a maximum increase of €26,300 maximum.

2020 Personal Credits and Reliefs

	€
Employee Tax Credit	1,650
Personal Tax Credits	
- single	1,650
- married / Civil partnership	3,300
Additional Credit for Certain Widowed Persons	1,650
Single Person Child Carer Credit	1,650
Home Carer Credit (increased)	1,600
Earned Income Credit 1,600(increased)*	1,500

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

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