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GMS Flash Alert

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Ireland – Budget 2025 Measures Announced

On 1 October 2024, the Irish government announced a number of measures that will apply for 2025, some of which seek to address the cost-of-living challenges in Ireland[1]. In addition, some retrospective income tax credits may be available in 2024 for some taxpayers. These measures, along with other previously-announced matters, will be formalised as part of the Finance Bill to be published next week.

In this *GMS Flash Alert*, we describe key measures announced on Budget Day potentially impacting individuals – including internationally-mobile employees and their employers.

WHY THIS MATTERS

A rise in the standard-rate income-tax band, increases in various tax credits and changes to the Universal Social Charge (USC) rates and bands should help lower the tax burden on individuals. In general, changes to the 20-percent band and increases to basic personal tax credits could result in a minimum tax reduction of €650 p.a. for higher-income earners.

In cases of assignments to Ireland where assignees are subject to Irish taxation, and for Irish assignees working outside Ireland but still subject to Irish taxation, international assignment cost projections and budgeting should reflect the changes (when they come into effect) described in this newsletter. Where appropriate, adjustments to gross-up packages and withholding taxes may need to be considered. Each individual's tax status should be determined in light of his or her particular situation.

Other Budget 2025 measures such as pension auto-enrolment and amendments to the Small Benefit Exemption are likely to have implications for employers and their current processes and controls in these areas. Employers should be proactive in reviewing their current processes/controls, considering actions/decisions to be taken, and consulting their tax advisers where necessary.

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Income Tax

- The 20-percent standard rate band will increase by €2,000 to €44,000 for Single Persons, with proportionate increases for other taxpayers like Single Parents and Married Couples/Civil Partnerships.

- The Personal Tax Credit, Employee PAYE Tax Credit, and Earned Income Credit (Self-Employed Person) will be increased from €1,875 to €2,000.

- Increases in various other tax credits including the Home Carer Tax Credit (from €1,800 to €1,950), Single Person Child Carer Tax Credit (from €1,750 to €1,900), Incapacitated Child Tax Credit (from €3,500 to €3,800), Blind Tax Credit (from €1,650 to €1,950), and the Dependant Relative Tax Credit from €245 to €305.

- The Rental Tax Credit will increase from €750 to €1,000 for a Single Person, renting from a third-party landlord. It will now be possible to retrospectively claim the increase of €250 for the current 2024 tax year. Similar benefits apply for jointly-assessed couples where up to €2,000 will be available as a Rental Tax Credit.

- Extension of the Mortgage Interest Relief Credit available in 2023 to 2024 on a retrospective basis. When in effect, this had applied to qualifying mortgages where there had been an increase in the interest paid between the base year 2022. Claims are expected to be made through the 2024 personal tax return.

Employment Benefits

- The Small Benefit Exemption (SBE) has been amended to allow employers to treat the first five minor and irregular non-cash benefits in the year, which cumulatively do not exceed an annual limit of €1,500, as tax free. Previously, the maximum tax-free amount was €1,000 and applied to only the first two such benefits in the year.

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While a welcome improvement, it does not alleviate the administrative burden on employers who are required to track non-taxable SBE amounts for Enhanced Employer Reporting Obligations and taxable amounts for payroll or PAYE Settlement Agreement (PSA) purposes.

Employer-Provided Vehicles

- A new tax exemption will apply in relation to employer-paid installation costs for electric vehicle (EV) home chargers.

- For 2025, the calculation of the imputed benefit-in-kind (BIK) on employer-provided vehicles (EV or fossil fuel) will remain the same as in 2024. It will remain possible to deduct an additional €10,000 from the Original Market Value of the vehicle whose CO2 emissions fall into the A-D category before the application of the relevant imputed BIK rate.

Special Assignee Relief Programme (SARP)

No specific measures were announced in relation to SARP relief. The tax relief currently applies for qualifying employees who come to Ireland prior to 31 December 2025, having been nonresident for at least five consecutive tax years.

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The Budget 2025 announcement, however, did include a report prepared by the Irish Revenue providing statistical analysis relating to the most popular originating countries of claimants, nationalities, and broad income levels of claimants.

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It may be the case that the extension and other amendments to the relief will be provided for in the Finance Bill. We will advise of these as soon the Bill is published.

Universal Social Charge (USC)

- No change to the exemption limit of €13,000 p.a.
- No change announced to the €12,012, 0.5-percent USC rate band.
- An increase in the 2-percent USC rate band from €25,760 to €27,382, and a reduction in the 4-percent USC rate band to 3 percent. No change to the 8-percent rate which applies at €70,044 of gross income.
- No change to the 3-percent surcharge (11 percent) applying to non-payroll income or self-employed income which exceeds €100,000 p.a.

Average reductions in USC are in excess of €400 for those earning over €70,044 p.a.

Pay Related Social Insurance (PRSI)

While no changes were announced on Budget Day, readers are reminded that employer and employee rates will incrementally increase on 1 October annually, commencing in 2024. For further details, please see *GMS Flash Alert* 2024-156 (25 July 2024).

Pensions

Standard Fund Threshold (SFT)

While not included in the Budget Speech, in September, the Minister for Finance published the report of the independent examination of the Standard Fund Threshold (SFT) for pensions.[2] The report made a number of recommendations to modernise and update the operation of the SFT.

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It is expected these matters will be included in the Finance Bill. The government has committed to implementing many of these recommendations in a multi-year plan. The plan includes:

- Phased increases in the SFT of €200,000 per year, from 2026 until 2029, and then converging the level of SFT with the applicable level of growth. This would increase the SFT to €2.8 million in 2029.
- The rate of Chargeable Excess Tax (CET) is to remain unchanged with a specific review of the rate to take place by 2030. The report recommends a reduction of the CET rate to a level to make sure the effective rate on the excess benefits over the threshold is not less than the top marginal rate of tax. In current circumstances, a CET rate of 10 percent would be sufficient to achieve this, rather than the current rate of 40 percent.

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- The report also recommends revised valuation factors, taking into account the different types of pensions to which the factors apply, and in particular, the different types of benefits that are provided. The minister noted that an independent evaluation of the age-related valuation factors proposed will be undertaken.
- The threshold for the higher rate of taxation to apply to a pension lump sum will be limited to €500,000, rather than a proportion of the SFT.
- An inter-agency group will be formed to oversee the implementation of the remaining recommendations.

Pension Auto-Enrolment for Employees

Over the summer, the Automatic Enrolment Retirement Savings Systems Act (AE) was passed into law.[3] The aim of AE is to establish a new retirement savings scheme to provide a financial retirement plan for employees who are not already part of a pension-related regime. The new regime will **not** apply to those in "exempt employment," i.e., where contributions are being made to a qualifying pension scheme, Personal Retirement Savings Account (PRSA), or qualifying trust Retirement Annuity Contract (RAC).

Budget 2025 confirms that the roll-out of this new pension arrangement is expected to apply from September 2025.

Further, it was announced that the Finance Bill will provide for relevant taxation measures associated with the new AE scheme. It has already been announced that there will be no income tax relief for employee contributions to the AE scheme (as the state is making a top-up contribution directly to the scheme instead); employers will receive tax relief for their contributions and growth in the AE funds will be exempt from tax. It is expected that retirees will be taxable on the annuities payable from the AE funds, like other arrangements.

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Other Tax Measures for Clarification

Some of the other tax matters awaiting clarification include:

- Whether accrued AE benefits are deductible when calculating the amount of tax exemption available to an employee on termination of an employment,
- The impact for nonresident employees, and
- Whether employees participating in a foreign pension plan but working in Ireland and liable to Irish payroll withholding can be considered in an exempt employment to avoid the need for inclusion in the AE arrangement.

Potential Impact of AE on Business Travellers and Expatriates

In light of the above, the tax measures to be published in the Finance Bill will be important to review to determine whether short-term business visitors or expatriates working in Ireland temporarily may be in scope of AE, notwithstanding contributions are paid to an overseas pension arrangement. Additional cost considerations arise for the employee and employer, as well as the potential Irish and home-location tax impact of accrued AE benefits in such cases, could arise in the absence of a specific exemption.

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Share-Based Remuneration

To coincide with Budget Day, the Department of Finance published a commissioned report which reviewed the Irish taxation of share-based remuneration.[4] The report contains a number of recommendations for the government to consider including measures to foster Ireland's standing as a good place for employees and employers to be based.

No timeframe was given in the Budget announcements in relation to any changes to current tax measures which may be made by the government on foot of the report.

The report makes several recommendations that are designed to improve Ireland's competitive position, which include:

- The tax treatment of restricted stock units (RSUs) for internationally-mobile employees should be moved to a sourcing or apportionment method aligned with the approach used internationally and aligned with the treatment of stock options for internationally-mobile employees.

- Short-term measures to enhance the attractiveness of the Key Employee Engagement Programme (KEEP) by providing greater clarity and guidance to Small and Medium Enterprises (SMEs) on share valuations for KEEP. Further, the report recommends that consideration should be given to wider amendments and a re-design of KEEP post-2025.

- Simplification of reporting for share-based remuneration to reduce administrative costs and increase the attractiveness of share schemes. As part of this, the report recommends that consideration be given to adopting a pre-notification system for approval of Approved Profit Share Schemes by Revenue.

- A reduced BIK rate on loans to employees to fund the costs associated with the purchase of shares in share-based remuneration schemes. The current rate for such loans is 13.5 percent, with a taxable BIK arising on the difference between the interest paid, if any, and the interest which would have been payable at the 13.5-percent rate. The report suggests the rate could be linked to market interest rates.

- Reform of Employee Ownership Trusts arrangements to align Ireland with the tax treatment of such trusts in the United Kingdom.

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The report also recommends that consideration be given to introducing a cap on the employer PRSI exemption for share-based remuneration, with a view to containing the growth in the cost to the Exchequer of share-based remuneration schemes. Such a change would serve to increase the cost for companies of running employee share schemes, and potentially reduce the attractiveness of these schemes for SMEs in particular, which would appear to be in direct conflict with the aim of the recommendations noted above.

Capital Gains Tax (CGT)

No specific measures were announced that are relevant for employees or internationally-mobile employees, but the following items should be noted:

- The CGT relief for "angel investors" in certain innovative start-ups is being enhanced by increasing the lifetime limit on gains to which relief applies, from €3 million to €10 million.

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- The extension of the upper age limit to 70 in the context of Retirement Relief is being retained. Changes are also being made to provide for a clawback of the relief where within 12 years of receiving the assets, there are disposals by the child or children and the proceeds are €10 million or more. Where the child or children retain the assets for more than 12 years, CGT will be fully abated.

- The Employment Investment Incentive (EII) scheme, Start-Up Relief for Entrepreneurs, and the Start-Up Capital Incentive schemes are to all be extended for two years up to the end of 2026. The EII scheme is also being enhanced by doubling the amount in respect of which an investor can claim relief, from €500,000 to €1 million. The amount of relief available under the Start-Up Relief for Entrepreneurs is also being increased, with the limit rising from €700,000 to €980,000.

Capital Acquisitions Tax (CAT)

In general, once the disponer or recipient of a gift or inheritance is Irish resident or ordinarily resident, the beneficiary will be liable to CAT on worldwide assets once the aggregate value received exceeds the lifetime relationship threshold between the parties. Exceptions to this rule include gifts/inheritances between spouses (which are wholly exempt), while a measure of relief is available to qualifying non-domiciled individuals.

No changes were announced to the CAT rate of 33 percent, but increases have been made to the lifetime tax-free thresholds as outlined below.

- Group A (Parent-Child): from €335,000 to €400,000
- Group B (Siblings; Uncle/Aunt to Niece/Nephew): from €32,500 to €40,000
- Group C (Other): from €16,250 to €20,000.

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Taxpayers with questions about how the above-noted measures may impact them and/or what steps they may need to take to be in compliance, should consult with their usual tax-service provider or a member of the GMS tax team with KPMG in Ireland (see the Contacts section).

FOOTNOTES:

1 For the Budget Speech and related documents, click here.

2 See the 18 September 2024 Department of Finance press release.

3 See Act 20 of 2024 on the website for Houses of the Oireachtas.

4 See the report on this Department of Finance webpage.

FURTHER INFORMATION

You can find more information on Budget 2025 and detailed analysis across various tax heads on the KPMG Ireland website, www.kpmg.ie.

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Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in Ireland:

Thalia O'Toole
Principal, Head of Global Mobility Services
Tel. + 44 (3) 53 1410 2745
thalia.otoole@kpmg.ie

Olive O'Donoghue
Partner, Head of People Services
Tel. + 44 (3) 53 1410 1000
olive.odonoghue@kpmg.ie

The information contained in this newsletter was submitted by the KPMG International member firm in Ireland.

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