# BUDGET 2018
## Highlights

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## Overview

Paschal Donohoe, Minister for Finance and Public Expenditure & Reform delivered his first Budget today. In keeping with the tradition of recent years most of the measures had already been flagged in the media over the past few days.

This Budget is being presented in an environment of continuing economic recovery with the Department of Finance forecasting economic growth in 2017 of 4.3%, and 3.5% for 2018, taking account of the measures announced today. Employment continues to grow, with unemployment (at 6.1%) at its lowest level since 2008.

The total Budget day package is €1.2billon with €898 million in spending and tax reductions on income to the tune of €338 million. Of the €898 million on spending, €684 million is earmarked for additional current expenditure and an additional €214 million on capital projects.

Minister stated that the overall reduction in the taxation burden as a result of the Budget measures will be circa €300m, comprising €500m in tax cuts offset by tax revenue raising measures of €195m.

### *Business*

The Minister reaffirmed the Government's commitment to the 12.5% Corporation Tax rate as "a core part of our offering".

We welcome the modest changes in the standard rate income tax band, USC rates and certain tax credits albeit there is an increase of 0.1% in the employers PRSI contributions.

However, echoing the Minster's own comments that we should "reward work and ensure our system of taxation is also fair", we believe that more needs to be done to ensure that the marginal personal tax rate is reduced to less than 50% as soon as possible.

It was also disappointing that the Minister did not increase the cap on gains that qualify for Capital Gains Tax entrepreneurial relief. In our view, we need to move towards the UK limit of Stg£10m if Irish indigenous entrepreneurs are to be encouraged to remain in Ireland and/or attract overseas entrepreneurs to set up businesses in Ireland.

We also welcome the Minister's announcement of a new employee share participation incentive scheme – Key Employment Engagement Programme ("KEEP") for SME's. Whilst there is very little detail on the scheme it should be a support for employers to attract and retain key employees in a highly competitive international employment market. The essence of the scheme is that gains arising to employees on the exercise of KEEP share options will be liable to Capital Gains Tax rather than Income Tax. The scheme is scheduled to come in effect for options granted after 1 January 2018 but is subject to EU State Aid approval.

In response to the recent Coffey report the 80% cap on the amount of capital allowances and related interest deductible against related income, has been reintroduced from midnight tonight. The Minister also announced a public consultation process as part of the Update on International Tax Strategy.

On the indirect tax side the Minister announced the introduction of a "sugar tax" from 1 April 2018, and confirmed the retention of the 9% VAT rate for tourism related activities.

### *Property*

The most significant taxation changes announced in the Budget relate to the property sector.

- Stamp Duty is being increased on non-residential property, with effect from midnight tonight, from 2% to 6%, with a potential refund mechanism where the land is subsequently used for housing development.
- The 7-year Capital Gains Tax relief is being amended to allow owners of qualifying assets to sell those assets between the fourth and seventh anniversaries without diluting the relief.
- An increase in the "vacant site levy" from 3% to a rate of up to 10%.
- Tax relief for certain pre-letting expenses.

Clearly the Minister hopes that these measures will encourage property owners to develop, and/or bring their properties into the rental market to stimulate the housing supply.

***Personal Tax***

The standard income tax rate band is increased by €750. However there is no change in the marginal rate which remains at 40%. There are also some changes in the tax credits regime with the Home Carer tax credit going from €1,100 to €1,200, and an increase in the "Earned Income Tax Credit" from €950 to €1,150.

The Minister also announced an extension to mortgage interest relief, in a tapered manner, for years 2018 to 2020.

Whilst overall Budget 2018 provides some welcome news for Ireland's business community, we believe that much more needs to be done particularly in area of high personal tax rates, on both income and capital gains. Competitive tax rates are a key element for growth and jobs in the economy.

I hope you find our commentary on Budget 2018 insightful. If you have any questions on what the measures mean for you, or your business, please contact any member of the BDO tax team.

**Ciaran Medlar**
**Head of Tax**

**10 October 2017**

## Business Tax

### Accelerated Capital Allowances for Energy Efficient Equipment

The scheme of accelerated capital allowances for energy efficient equipment has been extended to apply to expenditure on such equipment up until the end of 2020.

### Capital Allowances for Intangible Assets

The deduction for capital allowances on intangible assets and any related interest expense will be limited to 80% of the relevant income arising from the intangible asset in an accounting period.

### Key Employee Engagement Programme (KEEP)

A share-based remuneration incentive is being introduced to facilitate the use of share-based remuneration by unquoted SME companies to attract key employees. Gains arising to employees on the exercise of KEEP share options will be liable to Capital Gains Tax on disposal of the shares, in place of the current liability to income tax, USC and PRSI on exercise. This incentive will be available for qualifying share options granted between 1 January 2018 and 31 December 2023

### National Training Fund Levy

From 1 January 2018, the National Training Fund Levy payable by employers will increase from 0.7% to 0.8% of reckonable earnings of employees in Class A and Class H employments. This will have the effect of increasing the employer's PRSI rate from 10.75% to 10.85%.

## Personal Tax

### Income Tax Rates, Bands, Tax Credits and Exemption Limits

The Minister reaffirmed the Government's commitment to reduce the marginal tax rate on lower middle income earners over a number of budgets.

The Home Carer Tax Credit is increased from €1,100 to €1,200.

The Earned Income Credit for self-employed is increased from €950 to €1,150.

The top rate of Income Tax remains at 40%.

The Income Tax standard rate band has increased by €750 from for all taxpayers.

### Pay Related Social Insurance (PRSI) & Universal Social Charge (USC)

There are no changes to the PRSI rates and bands for 2018 other than the increase in the employer's PRSI rate from 10.75% to 10.85%.

On the USC side there are a number of amendments.

Income of €13,000 or less is exempt. Otherwise:

- €0 - €12,012 0.5%
- €12,013 - €19,372 2%
- €19,372 - €70,044 4.75%
- €70,045+ 8%

In the case of non-PAYE income in excess €100,000 the rate remains at 11%.

The Marginal tax rate on incomes up to €70,044 reduced from 49% to 48.75%.

Medical card holders and individuals aged 70 years and older whose aggregate income does not exceed €60,000 will now pay a maximum USC rate of 2%.

**Mortgage Interest Relief**

Tapered extension of mortgage interest relief for owner occupiers who took out qualifying mortgages between 2004 and 2012. 75% of the existing 2017 relief will be continued into 2018, 50% into 2019 and 25% into 2020. The relief will cease entirely from 2021.

**Pre-letting Expenses - Rented Residential Property**

A new deduction is being introduced for pre-letting expenses of a revenue nature incurred on a property that has been vacant for a period of 12 months or more. A cap on allowable expenses of €5,000 per property will apply, and the relief will be subject to clawback if the property is withdrawn from the rental market within 4 years. The relief will be available for qualifying expenses incurred up to the end of 2021.

**Benefit in Kind on Electric Vehicles**

A 0% benefit-in-kind (BIK) rate is being introduced for electric vehicles for a period of 1 year. This will for allow for a comprehensive review of benefit in kind on vehicles which will inform decisions for the next Budget. Electricity used in the workplace for charging vehicles will also be exempt from benefit in kind.

## Indirect Taxes

### VAT

- **Reduced VAT Rate for Tourism Sector**

The 9% reduced rate introduced in 2011 as part of the Governments incentive to assist in the creation of jobs in the tourism sector is retained as a buffer against the adverse impact of the sterling/Euro exchange rate on the sector.

- **Increased VAT rate on sunbeds**

In line with the Government's National Cancer Strategy, the VAT rate on sunbed services is being increased from 13.5% to the standard rate of 23% from 1 January 2018, in order to deter sunbed use, due to clear evidence of a link between sunbed use and skin cancer

### Excise Duties

- **Tobacco Products Tax**

The excise duty on a packet of 20 cigarettes has increased by 50 cents with a pro-rata increase on the other tobacco products, and an additional 25c on roll your own tobacco. This will take effect from midnight on 10 October 2017.

- **Sugar Tax**

A tax on sugar sweetened beverages is to be introduced on 1 April 2018. The tax will apply to sugar sweetened drinks with a sugar content between 5 grams and 8 grams per 100ml at a rate of 20c per litre. A second rate will apply for drinks with a sugar content of 8 grams or above at 30c per litre.

## Capital Taxes

### Capital Gains Tax

An amendment will be made to Section 604 of the Taxes Consolidation Act 1997, otherwise known as the 7-year CGT relief, which will allow the owners of qualifying assets to sell those assets between the fourth and seventh anniversaries of their acquisition and still enjoy a full relief from CGT on any chargeable gains.

The rate of Capital Gains Tax remains unchanged at 33%.

### Capital Acquisitions Tax

For the purpose of CAT agricultural relief and CGT retirement relief, agricultural land placed under solar infrastructure will continue to be classified as agricultural land but with a condition restricting the amount of the farmland that can be used for solar infrastructure to 50 per cent of the total farm acreage.

There were no changes to the CAT rates or Group Thresholds.

## Stamp Duty

Stamp Duty is being increased on the conveyance or transfer of non-residential property, from 2% to 6%, with effect 11 October 2017.

There will be a refund mechanism where the land is purchase for housing development, and the relevant development commences within 30 months of the land purchase.

Dublin: (01) 470 0000
Limerick: (061) 414455



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