OCTOBER 2021

bdo.ie

# budget 2022 highlights

BDO

Smart business advisors

# Overview

**As one would expect, the COVID-19 pandemic provided much of the economic context to Budget 2022 with the medium-term strategy to restore public service, phase out COVID-related spending and repair the public finances.**

**The economy has shown strong signs of recovery with an 8.5% growth in Modified Domestic Demand in the second quarter leading to predicted growth of 5.25% for the whole of 2021 and 6.5% for 2022. Tax receipts have remained strong particularly in VAT and income tax. However, Minister Donohoe noted that while Budget 2022 is designed to bring the national debt to just under €240 billion, this would not be a good place to be when interest rates start to rise and, therefore, more work is required to get debt levels back to a sustainable level.**

### Business Tax

Minister Donohoe announced that the Government had made the "historic decision" to join the global political agreement on corporation tax which means that Ireland will apply a new minimum effective rate of 15% on certain corporate taxpayers. This well flagged decision is a significant shift from the long re-affirmed commitment to the 12.5% rate. However, its application will be limited to large entities with the 12.5% rate retained and continuing to apply to corporates with revenues below €750m. The Minister re-emphasised that even with these new changes, Ireland remains a competitive and attractive location for investment.

Other areas that dominated Budget 2022 are measures related to the Green Agenda and Housing.

On the Green Agenda, the previously agreed increase in carbon taxes, a number of extensions to existing schemes and changes to the VRT bands have been included.

Many of the Housing initiatives are expenditure focused with an emphasis on increasing supply. From a taxation perspective, a new zoned land tax is being introduced to encourage land to be developed into residential property.

The additional commitment of funds to the Innovation Equity Fund and the introduction of a Digital Gaming Tax Credit will be welcomed by the innovation community.

### Personal Tax

The main changes to the personal tax regime are an increase in the income tax standard rate band by €1,500 and a €50 increase in standard income tax credits.

Overall Budget 2022 provides some positive news for Ireland's business community. The retention of the 12.5% rate for the majority of domestic companies is an important development. However, we believe that much more needs to be done for entrepreneurs particularly in the area of high personal tax rates on both income and capital gains. Competitive tax rates are a key element for growth, investment and jobs in the economy.

I hope you find our commentary on Budget 2022 insightful and informative. 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

12 October 2021

# Business Tax

### Global Corporate Tax Deal

Further to the OECD global tax deal announcements last week, the Minister outlined his belief that signing up to the deal was in the national interest at this point in time.

The deal is viewed as being balanced, a fair compromise and a way to give certainty to businesses and investors in order to continue to deliver Irish jobs in the FDI space in particular.

Importantly, the 12.5% rate, or perhaps it should be called the 12.5% “brand” at this point, remains for businesses with revenues of less than €750m. A new minimum effective rate of 15% will apply to large multinationals from 2023 onwards. Details of the OECD measures and transposition of the rules into Irish domestic law will happen over the coming years with plenty of detail yet to be made public.

### ATAD 2 – Reverse Hybrid

Minister Donohoe confirmed that full details of the Anti-Tax Avoidance Directive 2 (“ATAD 2”), Reverse hybrid mismatches, will be provided in the upcoming Finance Bill. As such, Ireland will meet its requirements to implement these rules ahead of the 1 January 2022 deadline.

Broadly, the anti-hybrid rules are aimed at preventing taxpayers from engaging in tax system arbitrage. The provisions seek to neutralise tax advantages, or mismatch outcomes, that arise due to arrangements that exploit differences in the tax treatment of an instrument or entity arising from the way in which that instrument or entity is characterised under the tax laws of two or more territories.

These final ATAD 2 changes aim to remove what are referred to as reverse hybrid mismatches. Reverse hybrid mismatches involve entities that are treated as transparent under the tax laws of the jurisdiction in which they are established but that are treated as taxable entities in the jurisdictions of some, or all, of their investors.

### Brexit Adjustment Reserve (BAR)

Brexit Adjustment Reserve Ireland has been allocated €1.1 billion under the BAR. The objective of the Reserve is to provide support to counter the adverse economic, social, territorial and where appropriate, environmental consequences of the withdrawal of the UK from the European Union (EU). The Reserve may only support measures specifically taken to contribute to this objective and can be allocated across the eligible period of 2020 to 2023. Funding under the BAR will be allocated to affected sectors in tranches when the eligibility requirements have been subject to a full assessment. These allocations will be made across 2022 and 2023 in Revised Estimates, or Supplementary Estimates, as appropriate. It is assumed that €500 million of the overall BAR allocation will be made available in 2022, with the remainder available in 2023.

# Business Tax

### Digital Gaming Tax Credit

Finance Bill 2021 will introduce a new refundable tax credit for the digital gaming sector for qualifying expenditure incurred on the design, production and testing of a digital game. The relief will be available at a rate of 32% on eligible expenditure of up to a maximum limit of €25 million per project, with a minimum spend of €100,000 per project. To qualify a cultural certificate from the Minister for Tourism, Culture, Arts, Gaeltacht, Sport and Media will need to be obtained and games for the purposes of advertising and gambling will not qualify.

European State Aid approval will be required and therefore, the introduction in the Finance Bill will be subject to a Commencement Order.

### Tax Relief for New Start-up Companies

There has been an extension of the Tax Relief for New Start-up Companies.

The relief first introduced by Finance (No. 2) Act 2008 provides for a three-year exemption from corporation tax.

The relief reduces the corporation tax payable by a new trade on the profits of the trade and gains on the disposal of any assets used for the purposes of the trade. The quantum of the relief available is linked to the amount of Employers' PRSI paid by the company.

The relief has been extended three times in 2014, 2015 and in 2018 and was due to expire on 31 December 2021. Impact of Covid pandemic supports have had on the availability of the relief, the relief has now been extended until the end of 2026. Companies will be able to avail of the relief for up to five years, instead of the current three years.

### Carbon Tax

The Carbon Tax is raised by €7.50 per tonne of $CO_2$ emitted. This is in line with the trajectory for the Carbon Tax that was unveiled in the Finance Act 2020.

A litre of diesel will rise by 2.5 cent - or €1.48 for the average full tank - while petrol goes up 2.1 cent - or €1.28 on a full tank. Home heating oil is also set to rise from May 1st next year, up by €19.40 for a 900-litre tank.

# Business Tax

**Irish Property Related Measures**

### *Zoned Land Tax*

A "zoned land tax" will be introduced with the aim of encouraging the use of land for building homes. It will apply to land which is zoned suitable for residential development and is serviced but has not been developed for housing.

The tax will be at a rate of 3% and based on the market value of the land. There will be a number of exclusions from the tax such as dwelling houses and their gardens, amenities and infrastructure. Other exemptions will be defined in the Finance Bill.

It is proposed that there will be a two-year lead-in time for land zoned before January 2022, and a three-year lead-in time for land zoned after January 2022. This tax will replace the vacant site levy once it comes into operation. The tax will operate on a self-assessment basis and will be administered by the Revenue Commissioners.

### *Help-to-Buy Scheme Extended*

Budget 2022 extends the scheme to December 2022 in its current form, offering first-time buyers a tax rebate of up to €30,000. A full review of the scheme will also be carried out over the course of next year.

### *Extension of Pre-Letting Expenses for Landlords*

The availability of tax relief for pre-letting expenses of landlords will be extended for a further three years, until 31 December 2024.

# Business Tax

### Bank Levy

The Bank Levy, which was due to expire in 2021, is being extended for one further year. The annual yield of this levy has been approximately €150 million to-date. However, it will apply to a reduced number of institutions, as Ulster Bank Ireland DAC and KBC Bank Ireland plc are exiting the Irish market. The Banks who the levy will continue to apply to, will not pay any more in 2022 than they did in 2021, therefore the expected yield for 2022 will be in the region of €87m. A review of the bank levy is to be undertaken in 2022.

### Interest Limitation Rule

In accordance with commitments to international tax reform, the Finance Bill 2021 will complete the transposition of the Anti-Tax Avoidance Directives. The Bill will introduce a limit on deductible interest expenses of 30% of EBITDA for companies within scope of the measure, for accounting periods commencing on or after 1 January 2022. Disallowed interest may be carried forward and may be deducted in future years if the company has sufficient interest capacity.

In line with the provisions of Article 4 ATAD, a de-minimis rule will apply where net interest deductions are below €3 million, and exemptions will apply for standalone entities, legacy debt the terms of which were agreed before 17 June 2016, and certain long-term infrastructure projects. Companies may operate the restriction on a single entity or local group basis, and certain group reliefs may apply where the Irish taxpayer is part of a consolidated worldwide group for accounting purposes.

### Agri-Business

The Minister announced an extension of the following reliefs for the Agri Sector:

1. General tock Relief is being extended to 31 December 2024. This section provides for stock relief at a rate of 25% of the amount by which the value of farm trading stock at the end of an accounting period exceeds the value of farm trading stock at the beginning of the accounting period.
2. Stock relief at a rate of 100% for young-trained farmers is extended to 31 December 2022.
3. The stock relief rate of 50% for farmers who are partners in registered farm partnerships is extended to 31 December 2022.
4. The Young Trained Farmer (stamp duty) Relief is being extended to 31 December 2022.

Per the Minister's comments it is hoped that stock reliefs for young trained farmers and farming partnership together with stamp duty relief for young trained farmers can be extended beyond 2022.

# Personal Tax

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

The income tax standard rate band is increased for all earners from €35,300 to €36,800.

The Personal Tax Credit, the Employee Tax Credit (PAYE Credit) and Earned Income Credit for self-employed, are all increased from €1,650 to €1,700.

No changes were made to Income Tax rates.

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

There are no changes to the rates and bands for employee PRSI contributions for 2021.

From 1 January 2022 the weekly income threshold for the higher rate of employer's PRSI will increase from €398 to €410.

As there were more significant changes expected in this area, it appears that the Government are deferring any decisions on PRSI and pensions until full consideration has been given to the recommendations of the recent Pensions Commission report.

The 2% band has been widened so that it applies on income of €12,013 to €21,295 from the start of 2022 – from €20,687 previously. This is to ensure that people on the national minimum wage will not see the 30 cent an hour increase push them into the 4.5% USC band.

### Employment & Investment Incentive (EII)

Recognising the potential of the Employment Investment Incentive (EII) scheme to incentivise investment in start-up businesses and to stimulate job creation, the Government has extended the scheme for another three years. The scheme will therefore apply to investments made in eligible company shares which are issued on or before 31 December 2024. The scheme will also be opened up to a wider range of investment funds in order to attract more investors to the scheme.

Prior to Budget 2022, a qualifying company must have spent 30% of the amount raised on each share issue on a qualifying purpose before it could apply to the Revenue for EII eligibility and have a Statement of Qualification issued. This 30% rule will now be relaxed.

It is also proposed that greater flexibility be provided around the "Capital Redemption Window" to allow EII investors redeem their capital investment without triggering any clawback / penalty.

# Personal Tax

### Wage Supports

The Employment Wage Subsidy Scheme (EWSS) will remain in place in its current form up to 30 November 2021. The Scheme will then be wound down over the period to 30 April 2022.

The following are the broad parameters:

- businesses availing of the EWSS on the 31st of December 2021 will continue to be supported until the 30th of April 2022,
- across December, January and February, a two-rate structure of €151.50 and €203 will apply,
- for March and April 2022, the final two months of the scheme, a flat rate subsidy of €100 will be put in place. The reduced rate of Employers' PRSI will no longer apply for these two months,
- the scheme will close to new employers from the 1st of January 2022,
- eligibility for the scheme will continue to be a 30% reduction in turnover/customer orders in the full year 2021 as compared to the full year 2019.

### Tax Debt Warehousing Scheme

The Tax Debt Warehousing Scheme will be expanded under Budget 2022. The amendment allows self-assessed income taxpayers with employment income, who have a material interest in their employer company to warehouse income tax liabilities relating to their Schedule E income from that employer company.

### Remote Working

The current Revenue concession on Remote Working Relief, whereby an income tax deduction can be claimed for certain specific expenses incurred while working from home will now be formalised in legislation through the Finance Bill. The amount allowed will now be 30% of the cost of vouched expenses for heat, electricity and broadband incurred while working from home.

### Taxation of International Flight Crew

Currently, any individual who is employed aboard an aircraft that is operated by an enterprise whose effective place of management is in Ireland is within the scope of Irish Income Tax. This position will be amended to exclude non-resident flight crew where a number of conditions are satisfied. Further details will be provided in Finance Bill 2021.

# Personal Tax

**Climate and Environmental Non-Carbon Tax Measures**

*Extension of BIK exemption for Electric Vehicles*

The BIK exemption for battery electric vehicles will be extended out to 2025 but with a tapering effect on the vehicle value.

Up to 31 December 2022 - A full exemption will continue to apply on vehicles with an original market value of €50,000 or less. A partial exemption applies on vehicles in excess of the value. This is granted by reducing the value by €50,000 when calculating the cash equivalent for the car.

From 1 January 2023 – The full exemption will apply to vehicles with an original market value of €35,000 or less with a partial exemption thereafter.

From 1 January 2024 – The full exemption will apply to vehicles with an original market value of €20,000 or less with a partial exemption thereafter.

From 1 January 2025 – The full exemption will apply to vehicles with an original market value of €10,000 or less with a partial exemption thereafter.

The €5,000 relief for Battery Electric vehicles is being extended to the end of 2023.

*Micro-Generation of Electricity*

A tax disregard of €200 is being introduced in respect of personal income received by households who sell residual electricity, which they generate, back to the grid.

*Accelerated Capital Allowance scheme for Energy Efficient Equipment*

The Accelerated Capital Allowance (ACA) allows taxpayers to deduct the full cost of expenditure on highly energy efficient equipment from taxable profits in the year of purchase. The scheme is being amended to prohibit equipment directly operated by fossil fuels from qualifying for accelerated capital allowances.

The Accelerated Capital Allowance scheme for Gas Vehicles and Refuelling Equipment Scheme is extended to 31 December 2024 and is expanded to encompass hydrogen-powered vehicles and refuelling equipment. The scheme allows taxpayers to deduct the full cost of expenditure on eligible equipment from taxable profits in the year of purchase. The scheme is designed to contribute to the transition toward a low carbon economy by supporting the transition to lower-emission fuels, particularly in the heavy-duty land transport sector.

# Capital Taxes

### Capital Gains Tax

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

### Capital Acquisitions Tax

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

All the Group tax-free thresholds which applies to gifts/inheritances have remained unchanged.

# VAT

### Extension of the 9% VAT Rate for the Hospitality & Tourism Sector

In a welcome development, it was formally confirmed that the hospitality and tourism sector will continue to benefit from the 9% VAT rate until 31 August 2022. The temporary reduction in the VAT rate from 13.5% to 9% was due to expire on 31 December 2021 and is applicable to the supply of guest and holiday accommodation; certain catering and restaurant supplies; admissions to certain attractions including an open farm, cinemas and theatres; hairdressing services; and supplies of certain printed matter.

### Farmers Flat Rate Addition

The Flat Rate Addition will decrease from 5.6% to 5.5% with effect from 1 January 2022. The Flat Rate Addition compensates farmers who are not VAT registered for VAT incurred on their purchases.

### VRT

From January 1st 2022, the VRT regime will change. VRT on cars with emissions in the 111g/km-130g/km band will increase by 1%, cars in the 131g/km-145g/km band will increase by 2%, cars with emissions greater than 146g/km will be subject to rate increase of 4%.

### Excise

An additional 50 cent has been added to the price of a packet of 20 cigarettes with a pro-rata increase on other tobacco products.

In line with the revised EU Alcohol Directive (EU) 2020/1151, the budget provides for the granting of up to 50% excise relief to independent small producers of cider and other fermented drinks.

# Appendices – Budget 2022 Tables

## Income Tax & USC

| Tax rates | 2022 | 2021 |
|---|---|---|
| Standard tax rate | 20% | 20% |
| Higher tax rate | 40% | 40% |
| **Standard rate bands** | | |
| Single/widowed | €36,800 | €35,300 |
| Married couple/civil partnership one income | €45,800 | €44,300 |
| Married couple/civil partnership two incomes | €73,600 | €70,600 |
| One parent family | €40,800 | €39,300 |
| **Tax credits** | | |
| Single person | €1,700 | €1,650 |
| Married couple/civil partnership | €3,400 | €3,300 |
| Single person child carer | €1,650 | €1,650 |
| PAYE | €1,700 | €1,650 |
| Earned income | €1,700 | €1,650 |
| Home carer (maximum) | €1,600 | €1,600 |

| Universal Social Charge (USC) | | | |
|---|---|---|---|
| **2022** | | **2021** | |
| First €12,012 | 0.5% | First €12,012 | 0.5% |
| Next €9,283 | 2% | Next €8,675 | 2% |
| Next €48,749 | 4.5% | Next €49,357 | 4.5% |
| Balance over €70,044 | 8% | Balance over €70,044 | 8% |
| Relevant income > €100,000 | 11% | Relevant income > €100,000 | 11% |

# Appendices – Budget 2022 Tables

## PRSI

| Tax rates | 2022 | 2021 |
|---|---|---|
| Class A Employee PRSI | 4% | 4% |
| Employer PRSI on weekly income | 8.8% (not exceeding €410) | 8.8% (not exceeding €398) |
| Employer PRSI on weekly income | 11.05% (over €410) | 11.05% (over €398) |
| Self-employed PRSI | 4% | 4% |

## Corporation Tax

| | |
|---|---|
| Standard rate | 12.5% |
| Knowledge Development Box | 6.25% |
| Non-trading income rate | 25% |

## Capital Gains Tax

| | |
|---|---|
| General rate | 33% |
| Entrepreneur relief *(reduced rate)* | 10% |
| Annual exemption | €1,270 |

## Stamp Duty

| | |
|---|---|
| Residential property valued <€1m | 1% |
| Residential property valued >€1m | 2% |
| Residential (at least 10 relevant units) | 10% |
| Commercial property | 7.5% |
| Shares (subject to some exceptions) | 1% |

## Capital Acquisition Tax

| | |
|---|---|
| General rate | 33% |
| Group A threshold | €335,000 |
| Group B threshold | €32,500 |
| Group C threshold | €16,250 |

## DIRT

33%

## DWT

25%

## VAT

| | |
|---|---|
| Standard rate | 23% |
| Reduced rate | 13.5% |
| Reduced rate for hospitality sector | 9% until 31.08.22 |

WE BDO business differently

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

bdo.ie