SEPTEMBER 2022

budget 2023 highlights

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Overview

As we move past the pandemic and the final supports from that crisis make their way through this system, Budget 2023 focus was on the economic backdrop of an inflation rate unseen for a long number of years driving up the cost of living in particular cost of energy as result of the terrible war in the Ukraine. For these reasons Minister Donohoe has referred to this as a "Cost of Living Budget" and while the purpose of this budget is to provide assistance now it is also intended to be mindful to ensure the country has "sufficient reserves for what the future may yet bring".

Economically the country faces into the above issues with close to full employment, bumper exchequer returns and a €1billion government surplus. However, these optimistic domestic indicators are tempered by the above mentioned inflation rate and aggressive monetary policy that will likely trigger global recessions.

The Minister outlined concerns in relation to the sustainability of some of the government tax revenues, in particular corporation tax and some VAT receipts and plans to ensure that these potentially non-recurring "windfall" tax receipts are not used on permanent expense items but rather split between temporary measures and the replenishing of the National Reserve Fund.

Interestingly, the Department of Finance will now employ a new metric, GGB star, to monitor the public finance. This metric seems to exclude any excess receipts from the Budget Deficit/Surplus calculation.

Modified domestic demand ("MDD") is expected to result in growth of 7.7% in 2022 which is 2% higher than expectations this time last year. However, forecast for next year expect this number to drop to 1.2% with inflation remaining as high as 7% due to expectation that gas prices will remain high.

The Minister also announced a number of reviews of various tax measures and approaches including;

- further analysis of The Tax Strategy Group report in relation to the third rate of income tax will commence,
- the commitment to the development of a medium-term roadmap for tax reform following the Report of the Commission on Taxation and Welfare and
- a review of the REIT, IREF and Section 110 regimes.

Overview

Business Tax

The highlight of the changes for business is the introduction of the Temporary Business Energy Support Scheme ("TBESS") which attempts to assist businesses with the rising cost of energy. Some changes are flag in relation to the refundable element of the R&D Tax Credit which should provide cashflow benefits for companies.

Again, there has been some focus on housing initiatives with the extension of the Help-to-Buy scheme. Also, the introduction of a Vacant Homes Tax, the extension of the Residential Development Stamp Duty Refund Scheme and an increase on the pre-letting expense cap designed to stimulate supply of residential property.

We welcome the announcement that VAT on newspapers and news periodicals will reduce from 9% to 0%. This is a measure we have supported and advised industry representative bodies in getting this important financial support for the industry over the line.

Personal Tax

Being a "Cost of Living Budget" the most significant measures are those aimed at "putting money in the pocket". Significant increases in the Standard Rate Cut Off point, increases in the income tax credits, an increase in the Small Benefit Exemption, and the re-introduction of a rental tax credit are all likely to be felt by individuals.

Overall Budget 2023 is trying to get the balance between support individuals and business in the current inflationary environment without introducing measures that would fuel further inflation. One may feel more could have been done but in specific areas, however, in many way this budget feels an appropriately consistent approach to the steady progress that the economy has made in the last number of years.

We hope you find our commentary on Budget 2023 insightful and informative. If you have any questions on what the measures mean for you or your business, please contact a member of the BDO Tax Team.

Derek Henry

Head of Tax

27 September 2022

Business Tax

Temporary Business Energy Support Scheme
This is a new scheme which is aimed at helping certain Case I trading businesses with increased energy costs.

Eligibility is based on a 50% increase in the average unit price for the relevant period in 2022 compared with 2021. The support will equate to 40% of the amount of the increase in the costs subject to a monthly cap of €10,000 and an overall cap not yet known.

Knowledge Development Box Tax Regime
The Knowledge Development Box tax regime was due to expire in 2022 but this has been extended for another four years (to accounting periods commencing before 1st January 2027). The Knowledge Development Box effective rate may be increased from 6.25% to 10%, albeit the implementation of such a change is subject to a date set by a commencement order (expected to occur in 2023).

R&D Tax Credit Regime
Changes to the timing of repayable credits have been included as part of Budget 2023. The current system of payment in three payable instalments is being changed to a new fixed three-year payment system, with the option that the first €25,000 of a claim will be payable in the first year, something which should provide a cashflow benefit for smaller companies. A company will now also be able to request that the credit be offset against other tax liabilities, with existing caps on the payable element of the credit being removed.

Carbon Tax
The rate per tonne of CO_2 emitted for petrol and diesel will increase from €41 to €48.50 from 12 October 2022.

This would result in an increase of just over 2% in the VAT inclusive price per litre of petrol and diesel. However, this increase will be offset by a corresponding reduction in the National Oil Reserves Agency levy. The overall result will mean no price increase at the pumps.

International Tax Reform
International Tax Reform has continued at an intense pace over the last 12 months. However, Ireland's headline Corporation Tax Rate for trading profits remains at 12.5%.

In today's speech, the Minister confirmed that Ireland remains committed to the Two-Pillar agreement and has engaged intensively with both the OECD and EU in order to follow through on this commitment.

Pillar Two, if implemented, will require a 15% minimum effective tax rate for groups with turnover of €750 million and above. The agreement is in line with Ireland's position that co-ordinated multi – lateral action is the best approach to ensuring the international tax system keeps pace with the changes in how business is conducted internationally.

In conjunction with the continuing work to develop the elements to give effect to Pillar Two's minimum effective tax rate, the Department of Finance are also considering and working on options for a move to a territorial tax system. This work will continue over the coming months.

Business Tax

Irish Property Related Measures
Extension of pre-letting expenses for landlords

The cap on tax relief that landlords can claim on pre-letting expenses has been doubled to €10,000 per premises with the period of required vacancy reduced from 12 months to 6 months

Help-to-Buy Scheme Extended

The Help to Buy incentive is a scheme for first-time home buyers. Budget 2023 extends the scheme to December 2024 in its current form, offering first-time buyers a tax rebate of up to €30,000.

A full review of the scheme has been published today and will be considered by Government for future Budgets.

Vacant Homes Tax

A new Vacant Homes Tax will be introduced in 2023 and will apply to residential properties which are unoccupied for twelve months or more. A property will be considered vacant for the purposes of the tax if it is occupied for less than 30 days in a 12-month period.

The tax will be charged at a rate of three times the property's existing basic LPT rate. The tax will be operated on a self-assessment basis and will be administered by the Revenue Commissioners. Exemptions will apply where properties are vacant for a genuine reason (such as where properties are recently sold or currently listed for sale/ rent, properties are vacant due to occupier's illness or long-term care, and properties vacant as a result of significant refurbishment work).

Rent Tax Credit

A new rent tax credit of €500 has been introduced to taxpayers who are paying rent on their principal private residence and are not in receipt of any other housing supports.

The tax credit will apply from 2023 onwards, but it may also be claimed in respect of rent paid for 2022.

The credit will be claimable "in year" in 2023 and in subsequent years and from early in 2023 in respect of rent paid in 2022.

Zoned land tax

The Residential Zoned Land Tax ("RZLT") was introduced by Finance Act 2021. Generally, the tax applies to land that, on or after 1 January 2022, is zoned as being suitable for residential development and is serviced but has not yet been developed.

Business Tax

An owner of land which was zoned as suitable for residential development and serviced on 1 January 2022, and on which development has not commenced before 1 February 2024, will be liable to a charge of 3% of the market value of the land. The owner will also be obliged to file a return and pay the tax on or before 23 May 2024.

Where the land is zoned as suitable for residential development and/ or serviced after 1 January 2022, the tax will be first due in May of the third year after it comes within scope.

The tax is charged annually and, as noted above, is calculated at 3% of the market value of land. Land that is within the scope of RZLT will be identified on a map prepared by the relevant local authority. The first draft maps will be available on 1 November 2022. A person may make a submission regarding the inclusion or exclusion of land on the draft map to the local authority not later than 1 January 2023.

Residential Development Stamp Duty

The Residential Development Stamp Duty Refund Scheme is to be extended to projects commencing before 31 December 2025.

Under this scheme, a portion of the stamp duty paid on the acquisition of non-residential land can be refunded where the land is subsequently developed for residential purposes. This effectively reduces the rate of stamp duty ultimately charged from 7.5% to 2% once the land has been developed.

Living City Initiative

This scheme is extended for a further 5 years to 31 December 2027 with relief available to owner-occupiers to be accelerated so that it may be claimed over 7 years instead of 10 years as is the case currently.

Defective Concrete Products Levy

A new Defective Concrete Products Levy will come into force on 2023, with an aim of offsetting some of the cost to the State of the Defective Concrete Blocks (Mica) Redress Scheme.
The levy will be set at a rate of 10% of the cost of the VAT exclusive cost of the concrete product.

This levy will be self-assessed and administered by the Revenue Commissioners.

Review of REIT and IREF regimes

Minister Donohue has committed to commencing a review of the REIT and IREF regimes that will consider those structures and how best they can continue to support housing policy objectives.

Business Tax

Bank Levy

This levy, which was originally due to expire in 2021, was extended in last year's Budget to end-2022, (albeit applying to a reduced number of institutions, as, Ulster Bank Ireland DAC and KBC Bank Ireland plc were excluded from its scope due to the fact that they are exiting the market), is being extended to end-2023.

The remaining banks, to whom the levy continued to apply, paid the same amount in 2022 as they did in 2021, i.e. €87 million. The findings of the ongoing Retail Banking Review (due to report in November 2022) are awaited as they are expected to inform considerations of this Levy's future. It is expected that the amount of levy collected in 2023 will again be in the region of €87m.

Green Incentives

Approx. half of the €623 million raised from carbon tax in 2023 is to be invested in improving the energy efficiency of houses.

€4.3 million will be allocated to support the formal establishment of the Maritime Area Regulatory Authority (or MARA) early in 2023. MARA will be a key enabler in respect of Ireland's ambitions in the Offshore Renewable Energy sector.

€87 million is being allocated to the retrofitting of social housing in 2023.

€850 million in capital investment to the Department of the Environment, Climate and Communications in 2023. Of this €850m allocation €337 million of this funding will go towards grants for energy efficiency. This will fund over 37,000 home energy upgrades including bringing over 13,800 homes to a Building Energy Rating (BER) of B2 and 6,000 free upgrades under the SEAI energy poverty scheme.

Introduction of a new low-cost loan scheme for residential retrofit. This scheme will enable credit institutions to offer loans with reduced interest rates to private homeowners and non-corporate landlords to make home energy efficiency upgrades more affordable.

€36 million in the Budget has been allocated to the Department of Enterprise, Trade and Employment to support the investment in digitalisation and the green economy. This will allow Enterprise Ireland to expand their science and technology programmes. The funding will also allow further calls to take place under the Disruptive Technologies Innovation Fund.

Increased funding for Local Enterprise Offices to allow for the continued roll-out of the energy efficiency scheme for small firms.

Business Tax

Agri-Business

Young Trained Farmer (Stamp Duty) Relief Extension to 31 December 2025.

Farm Consolidation (Stamp Duty) Relief Extension to 31 December 2025.

Farm Restructuring (Capital Gains Tax) Relief Extension to 31 December 2025.

Stock reliefs Extension of the Young Trained Farmer and Registered Farm Partnerships stock reliefs to 31 December 2024.

Accelerated capital allowances for farmers for the construction of modern slurry storage facilities; this will assist the sector in implementing environmentally positive farming practices. The accelerated allowances work so that 50% of expenditure is claimed over 2 years.

€81 million in carbon tax funding was provided to the Department of Agriculture, Food and the Marine in 2023. This increased funding will be used to fund the new agri-climate rural environment scheme detailed in Ireland’s Common Agricultural Policy (CAP) Strategic Plan 2023. This is to support up to 50,000 farmers who undertake actions that will support improved outcomes on biodiversity, climate, air and water quality.

Personal Tax

Income Tax Rates, Bands, Tax Credits and Exemption Limits

The income tax standard rate band is increased from €36,800 to €40,000 for single individuals, and from €42,800 to €49,000 for married couples/civil partners with one earner.

The Personal Tax Credit, the Employee Tax Credit (PAYE Credit) and Earned Income Credit for self- employed, are all increased from €1,700 to €1,775.

The Home Carer Tax credit is increased from €1,600 to €1,700.

No changes were made to Income Tax rates.

The Minister did announce that the Department of Finance will undertake an analysis of the third rate of income tax, as recommended in the recent Tax Strategy Group report, as part of an overall plan to develop a medium-term roadmap for personal tax reform. This roadmap will also take account of the recent Report of the Commission on Tax and Welfare.

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

There are no changes to the rates and bands for employee PRSI contributions for 2023.

The 2% USC band has been widened so that it applies on income of €12,013 to €22,920 from 1 January 2023. This is to ensure that people on the national minimum wage will not see the recent increase push them into the 4.5% USC band.

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.

Key Employee Engagement Programme (KEEP)

KEEP is a tax efficient share option scheme whereby a participant is given an option to acquire shares at a future date, at a fixed price. However, the participant will not have to pay tax when they exercise the option, even if the shares have increased in value. There are a significant number of qualifying conditions.

The scheme has now been further extended until 31 December 2025. In addition, in order to enable the participants to more readily dispose of these shares, it will now be possible for the company to buy back the shares from the participant.

The lifetime company limit on the value of KEEP shares that can be issued is being raised from €3 million to €6 million.

Finally. Following a period of consultation with the European Commission, the changes to KEEP rules made in Finance Act 2019 in relation to group structures and qualifying employees are being brought into effect

Personal Tax

Special Assignee Relief Programme (SARP)

SARP provides Income Tax relief for certain individuals who are assigned to work in Ireland from abroad. The main benefit of the programme is that 30% of the individual's income, in excess of €75,000, is removed from the income tax net. There are a significant number of qualifying conditions to be met in order to avail of this relief.

This Programme is being extended for a further three years until 31 December 2025. However, for individuals claiming the relief for the first time in 2023, their basic salary will have to be at least €100,000. This threshold has been increased from €75,000. Existing claimants are not affected by this change.

Foreign Earnings Deduction (FED)

This scheme is being extended for a further three years to the end of 2025. It provides relief from income tax on up to €35,000 of income for employees' tax-resident in Ireland who travel out of the State to temporarily carry out duties of employment in certain qualifying countries.

Small Benefit Exemption

Generally, where an employer provides a voucher or other incentive to an employee it is chargeable to PAYE, USC & PRSI. However, the Small Benefit Exemption enables an employer to provide a voucher or incentive to an employee without giving rise to a charge to tax where certain conditions are met.

The "Small Benefit Exemption" limit has now increase from €500 to €1,000 per annum. An employer can now provide up to two (previously one) benefits, totalling €1,000, in a year. These changes take effect 28 September 2022 so these increases can be provided to employees in the current tax year.

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 & Excise

Electricity and Gas

In a very welcome development, the temporary 9% VAT rate for the supply of electricity and gas has been extended until 28 February 2023. The temporary reduction in the VAT rate from 13.5% to 9% was due to expire on 31 October 2022.

Hospitality & Tourism Sector

As expected, there has been no extension to the temporary 9% VAT rate for the hospitality and tourism sector. As confirmed previously by the Minister the temporary reduction in the VAT rate from 13.5% to 9% will expire on 28 February 2023.

VAT on Newspapers

VAT on newspapers and news periodicals (including digital editions) will reduce from 9% to 0% from 1 January 2023.

VAT on Health Products

In a potential life changing move, the Government has removed VAT on automatic external defibrillators with the 0% rate applying from 1 January 2023. The 0% rate will also apply to non-oral hormone replacement and nicotine replacement therapies, as well as the small number of period products that are currently subject to a 9% VAT rate again from 1 January 2023.

VAT & Excise

Farmers Flat Rate Addition

The VAT Flat Rate Addition will decrease from 5.5% to 5% with effect from 1 January 2023. The Flat Rate Addition compensates farmers who are not VAT registered for VAT incurred on their purchases.

Excise

The current excise reduction of 21 cent per litre in respect of petrol, 16 cent per litre in respect of diesel and 5.4 cent per litre in respect of Marked Gas Oil (MGO), is retained until 28 February 2023.

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.

The option in the revised EU Alcohol Directive to grant up to 50 per cent excise relief to independent small producers of cider and pear cider will be implemented.

In order to support the night-time economy, there will be a reduction in excise fees for a special exemption application order from €110 to €55.

Appendices – Budget 2023 Tables

Income Tax & USC

Tax rates	2023	2022
Standard tax rate	20%	20%
Higher tax rate	40%	40%
Standard rate bands		
Single/widowed	€40,000	€36,800
Married couple/civil partnership one income	€49,000	€45,800
Married couple/civil partnership two incomes	€80,000	€73,600
One parent family	€44,000	€40,800
Tax credits		
Single person	€1,775	€1,700
Married couple/civil partnership	€3,550	€3,400
Single person child carer	€1,650	€1,650
PAYE	€1,775	€1,700
Earned income	€1,775	€1,700
Home carer (maximum)	€1,700	€1,600
Rent **May be claimed in respect of rent paid in 2022, in early 2023*	€500	€500*

Universal Social Charge (USC)

Income €13,000 or less exempt. Otherwise:

2023		2022	
First €12,012	0.5%	First €12,012	0.5%
Next €10,908	2%	Next €9,283	2%
Next €47,124	4.5%	Next €48,749	4.5%
Balance over €70,044	8%	Balance over €70,044	8%
Relevant income > €100,000	11%	Relevant income > €100,000	11%

Appendices – Budget 2023 Tables

PRSI

Tax rates	2023	2022
Class A Employee PRSI	4%	4%
Employer PRSI on weekly income	8.8% (not exceeding €410)	8.8% (not exceeding €410)
Employer PRSI on weekly income	11.05% (not exceeding €410)	11.05% (not exceeding €410)
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

*KDB increased effective rate to 10% expected during 2023, subject to Ministerial

Stamp Duty

Residential property valued <€1m	1%
Residential property valued >€1m	2%
Residential (at least 10 relevant units)	10%
Non-residential 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 28.02.2023
Reduced rate for electricity & gas	9% until 28.02.2023

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