budget 2020 **highlights**

Smart business advisors

Overview

In keeping with the tradition of recent years, there were few surprises in Minister Donohoe's speech, with most of the taxation and social welfare measures having already been flagged well in advance.

This Budget is presented with the potential uncertainty of a "no deal" Brexit, looming over the economy.

While the economy is in a strong position with a GDP growth forecast of 5.5% for 2019, tax revenues in line with forecasts with €4.07 billion collected by end of September 2019, and unemployment at 5.3%, the Minister stated that he shares the Irish Fiscal Advisory Council's assessment around the uncertainty of the unprecedented nature of a disorderly Brexit.

To this end, the Minister announced a funding package for a 'No Deal' scenario. The fund will be over €1.2 billion, excluding EU funding. An amount of circa €200m will be made available next year. The funding will be from borrowed money, however, it will not be drawn down unless we are in a 'No Deal' situation.

The support will be given by way of grants, loans and equity investment and will focus on the most exposed sectors, including food, manufacturing and internationally traded services.

The Minister also committed to using additional supports, if required, from resources which would otherwise have been dedicated to the 'Rainy Day Fund'.

The Minister also announced several measures under the heading of climate change. The main change is the increase in Carbon Tax from €20 per tonne to €26 per tonne.

Business

The Minister again stressed the importance of Ireland's 12.5% Corporation Tax rate in promoting investment.

He reiterated the Government's policy of continuing Corporation Tax reform with new anti-hybrid mismatch rules to be introduced in the Finance Bill 2019 which is scheduled for publication shortly. The Bill will also contain a reform of our transfer pricing provisions to ensure they are in line with current OEDC standards. These new provisions will apply to a much broader range of businesses than heretofore.

We welcome the proposed changes to the Key Employee Engagement Programme (KEEP), and the Employment & Investment Incentive (EII) schemes which should be of benefit to SME businesses.

There are also some positive changes to the R&D Tax Credit regime.

It was extremely disappointing that the Minister did not increase the cap on gains that qualify for Capital Gains Tax entrepreneurial relief. Some increase had been widely expected. BDO believe that it is essential that Ireland needs 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.

There is also some negative news for the property sector with an increase in the Stamp Duty rate for non-residential property from 6% to 7.5%, and a number of anti-avoidance measures aimed at Irish Real Estate Funds and Real Estate Investment Trusts.

Personal Tax

There are no real changes in the personal tax regime other an increase in the Home Carers tax credit from €1,500 to €1,600, and an increase in the “Earned Income Tax Credit” from €1,350 to €1,500.

The Minister also introduced what appear to be some complex “tax compliance” changes to Dividend Withholding Tax (DWT). Full particulars will be contained in the Finance Bill 2019.

On the capital taxes side, the Group A Class threshold (parent to children) is increased from €320,000 to €335,000 with effect from today.

Overall Budget 2020 provides very little positive news for Ireland’s business community. In particular, we believe that much more needs to be done particularly in the 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 2020 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

8 October 2019

Business Tax

Key Employee Engagement Programme (KEEP)

KEEP is an incentive introduced in 2017 to facilitate the use of share-based remuneration by unquoted SME companies to attract key employees. The Minister made the following changes to KEEP:

- To apply to group structures and provide greater flexibility for employees to move with such group structures
- To provide for part-time and family friendly arrangements

R&D Tax Credit

We welcome the increase in the available credit from 25% to 30% for Micro and Small companies, as well as the ability for such companies to now claim the credit in periods before they have commenced to trade. These are subject to State Aid approval and full details of the mechanism and rules on repayable credits will be included in Finance Bill 2019.

Another welcome change is the increase in the amount that can be outsourced to third level institutions for all claimants; this has been increased from 5% to 15% of qualifying internal spend.

Exit Tax

There is a technical legislative amendment to the Exit Tax provisions to be introduced by Financial Resolution tonight. The Minister did not provide any details other than to say that the amendment is to ensure that the the Exit Tax provisions will function as intended.

Dividend Withholding Tax (DWT)

The DWT rate will be increased from 20% to 25% from 1 January 2020 and a modified DWT regime will take effect from 1 January 2021.

The Minister stated that the reason for the rate increase is to better align the amount of tax remitted by companies with the Income Tax and USC ultimately payable by an individual taxpayer.

The modified regime, which will come into effect from 1 January 2021, will utilise real-time data collected under the modernised PAYE system to allow a personalised rate of DWT to be applied to individual tax payers based on the actual rates of tax they pay.

While these two changes should not change the underlying amounts of tax that are due they will have a cash flow benefit for the Exchequer and also result in an increase in the USC receipts and taxpayer compliance.

The increase in the rate should have little impact on most international investors as there are broad exemptions from DWT where companies are owned by investors in EU or double tax treaty jurisdictions or are subsidiaries of listed companies.

Transfer Pricing

The Department of Finance published a transfer pricing 'Feedback Statement' in September 2019.

In his speech today the Minister confirmed his intention to reform Ireland's transfer pricing rules to ensure they are in line with up to date OECD standards.

The detailed reforms will incorporate the OECD 2017 Transfer Pricing Guidelines into Irish law and extend the rules to cover cross-border non-trading and material capital transactions. The new rules will be set out in Finance Bill 2019 and are to apply from 1 January 2020.

Carbon Tax

Increase in Carbon Tax from €20 per tonne to €26 per tonne from midnight tonight for auto fuels and from May 2020 for other fuels.

Irish Real Estate Funds (IREF) & Real Estate Investment Trusts (REIT)

There a number of anti-avoidance measures which are being introduced with immediate effect.

The Minister stated that Revenue have identified some IREFs as having engaged in 'aggressive behaviour' to avoid tax including by using excessive interest charges to shelter profits from Irish property.

Accordingly, a number of anti-avoidance measures are being introduced by way of Financial Resolution tonight to include new limitations on interest expenses to prevent over-leveraging and a measure to combat the artificial avoidance of gains on redemption of IREF units.

There will also be a number of changes to the REIT regime to ensure an appropriate level of tax is paid on property gains.

Stamp Duty

The Stamp Duty rate on non-residential property has been increased from 6% to 7.5% with immediate effect.

We understand the existing 6% rate will apply to instruments signed before 1 January 2020 where a binding contract existed prior to 8 October 2019.

The Minister also announced a 1% stamp duty rate for a scheme of arrangement involving a “cancellation scheme” with immediate effect.

Personal Tax

Income Tax Rates, Bands, Tax Credits and Exemption Limits

The Home Carer Tax Credit is increased from €1,200 to €1,300.

The Earned Income Credit for self-employed is increased from €1,350 to €1,500.

No changes to Income Tax rates or bands.

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

There are no changes to the rates and bands for employer or employee PRSI contributions for 2020. Also, there are no changes to USC rates or rate bands.

Benefit in Kind on Electric Vehicles

The 0% benefit-in-kind (BIK) rate introduced for electric vehicles in Budget 2018 has been extended to 2022. It would appear that the cap of €50,000 on the Original Market Value (OMV) of the vehicle will remain in place.

The Minister also announced that Finance Bill 2019 will introduce an environmental rationale for BIK on commercial vehicles from 2023.

Employment & Investment Incentive (EII)

Full Income Tax relief to be provided in the year of investment. Currently the relief is split over years one and four.

In addition, the annual investment limit for the incentive is increased to €250,000 with a new €500,000 annual investment limit for investors who are prepared to invest in EII for 10 years or more. While these changes are effective immediately full details will be contained in Finance Bill 2019.

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%.

The Group A tax-free threshold which applies to gifts/inheritances from parents to their children has been increased from €320,000 to €335,000.

The Group B and C tax-free thresholds remain unchanged.

WE BDO business differently

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

bdo.ie