RBK

Ulster Bank

Athlone Chamber
Advancing business together

Budget 2020

Budget 2020

9th October 2019

FIONA MURPHY
TAX PARTNER
RBK

We're by your side

Overview

“This is a budget that has been developed in the shadow of Brexit”

Key Objectives

> - Safeguard the hard won progress of recent years
> - Avoid a situation where decisions made will have to be reversed in future
> - Risk mitigation

Key Assumptions

1. No Deal will see Budget Surplus of 0.2% of GDP swing to a deficit of 0.6% of GDP
2. Employment growth will slow – but still a projection of 19,000 new jobs being created in 2020
3. Increase in tax revenue projected for 2020

Key Factors Underlying Budget 2020

1. Brexit
2. Challenge of climate change
3. Supporting Irish Business

- Little in the way of tax reductions – concern over undermining the stability of the public finances
- Key focus is on providing funds for Government depts. to intervene in vulnerable sectors, business and regions

Brexit

Brexit

> No deal Brexit is the central assumption underpinning Budget 2020

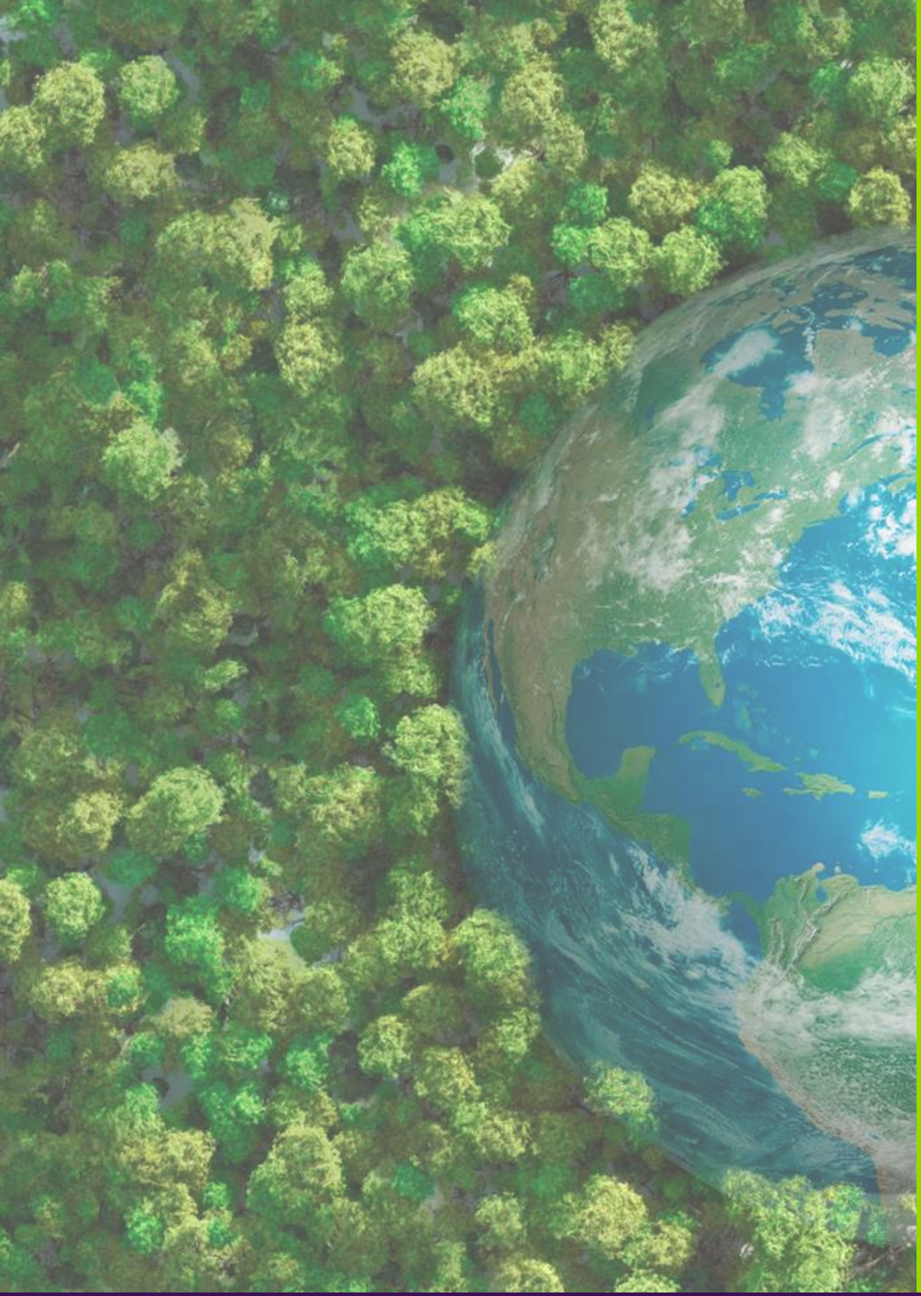
Government actions to date:

1. Published two Contingency Action Plans
2. Enhanced physical capacity at ports and airports
3. Provided training and financial supports
4. Recruited 750 additional staff in key areas
5. Made €600m funding available through loan schemes

Brexit

Budget 2020 – Proposed Actions

1. **Package of over €1.2bn, excluding EU funding**
   I. **€200m funding available in 2020 across a number of Government agencies**
   II. **In the event of a No Deal - €650m available to agriculture, enterprise and tourism sectors with €110m available for vulnerable but viable firms.**
   III. **Balance of €390m to be deployed in due course.**
2. **Standing ready to borrow to intervene as required**
3. **€365m provided for extra Social Protection expenditure (with a further €45m fund available)**



Climate and Environmental Issues

“Without doubt the defining challenge of our generation.”

Climate and Environmental Issues

1. Carbon Tax

- Carbon tax increase of €6 per tonne to €26 per tonne, further increases envisaged
- Increase effective from:
  - 9th October 2019 – Petrol / Diesel
  - May 2020 – Home Heating Oil.
- Petrol and diesel prices to increase by circa €0.02 per litre
- Relief for users of diesel rebate scheme from increase in Carbon Tax

2. Electricity Tax

- Increase in business rate from €0.50 per unit to €1.00 per unit.

Climate and Environmental Issues

3. Electric Vehicles

- **€3 million will be allocated to electric vehicle infrastructure investment to increase the number and availability of charging points.**
- **In addition, €8 million will be allocated to the Department of Communications, Climate Action & Environment to maintain grants for individuals purchasing electric cars.**
- **Extension of 0% Benefit In Kind rate on electric vehicles to 2022.**

Climate and Environmental Issues

4. Other Measures

- 1% diesel surcharge will be replaced by Nitrogen Oxide (NOx) emissions based charged.
- NOx charge will apply to passenger vehicle registered from 1st January 2020.
- Introduce an environmental rationale for Benefit In Kind for commercial vehicles from 2023;
- Extension of VRT reliefs on conventional and plug in hybrids to 2020.

Supporting Business

Key Employee Engagement Programme (KEEP)

Background

- Gains on exercise of KEEP share options liable to CGT (33%) not Income Tax (52%)
- Applies to qualifying share options granted between 1 January 2018 and 31 December 2023

Main Changes – subject to EU approval

- Companies operating through a group structure can now qualify
- More flexibility for employees:
  - Will permit the movement of employees between group entities
  - Allow part time/flexible working (family orientated)
- Existing shares also to qualify for KEEP (full details expected in Finance Bill)

Employment and Investment (EII)

Background

> **Relief currently at 40%**
  > 30% in the first year
  > 10% in year four

Main Changes

> **Full income tax relief will now be granted in the first year**

> **Investment limit increased;**
  > €150k to €250k or
  > €500k where investment for a minimum period of 10 years

> **Changes to have immediate effect from 8 October 2019**

R&D Tax Credits

Micro & Small Companies

> **Increase in Tax Credit from 25% to 30%**

> **Improved method of calculating limit on payable credit;**

> **R&D credit claimable on qualifying pre trading R&D expenditure**

>> **Such credit limited to offset against VAT and payroll taxes**

> **All subject to EU State Aid approval**

All Companies

> **Limit on outsourced R&D to third level institutions increased from 5% to 15%**

Global Mobility

Special Assignee Relief Programme (SARP)

> SARP provides Income Tax relief for certain employees assigned to Ireland for temporary purposes.

Foreign Earnings Deductions (FED)

> FED is a relief from income tax for individuals who temporarily carry out duties of their office or employment in certain countries (minimum 30 days).

> Both reliefs were due to end on 31st December 2020. Extended until 31st December 2022.

Corporation Tax Roadmap- Budget 2020 Update

Corporation Tax Roadmap – Budget 2020 Update

- 12.5% Corporation Tax rate *"It has served us well and it will not be changing"*
- Changes introduced in successive Finance Bills to implement changes including:
  - OECD "BEPS"
  - EU Anti Tax Avoidance Directive (ATAD)
- Roadmap
  - outlines action that Ireland is taking as part of international tax reform efforts
  - useful planning tool for the future for companies with cross border operations

Corporation Tax Roadmap - Update

Commitment	Update
Controlled Foreign Company (CFC) rules	CFC rules introduced in Finance Bill 2018
General Anti-Abuse Rule	ATAD commitment met
Multilateral Instrument	Instrument ratified on 1 Jan 2019
Exit Tax	Exit tax introduced in Finance Bill 2018
Interest Limitation Rules	Planned deadline end of 2023
Hybrid Mismatch Rules	**To be introduced in Finance Bill 2019**
Transfer Pricing	**To be introduced in Finance Bill 2019. Commencement in 2020.**
Mandatory Disclosure Rules	Work ongoing with the aim to implement in the near future.
Dispute Resolution	Directive transposed in June 2019
International Mutual Assistance Bill	Drafting of the Bill continues
Consideration of Territorial Regime	Currently deferred until greater certainty around international tax

Transfer Pricing: Budget 2020 Update

Background:

> **Transfer pricing: arms length price applied to transactions between related companies.**

Current 2011 Legislation

(i) **does not apply to SME transactions**

(ii) **Does not apply to non-trading transactions**

(iii) **Grandfathering provisions**

Transfer Pricing- Budget 2020 Update

Changes:

> **New transfer pricing legislation will be included in Finance Bill 2019.**

> **From 1 Jan 2020 will extend the transfer pricing rules to the following:**

(i) Non-trading transactions (specific exemption for transactions between Irish entities)

(ii) Material capital transactions (asset value in excess €25m)

(iii) SME's (subject to Ministerial Commencement Order - not likely to be enacted before 1 Jan 2020).

(iv) Removal of Grandfathering provisions

> **It is also expected that OECD compliant documentation standards will be introduced in the legislation.**

Stamp Duty, Property & Financial

Stamp Duty

Increase to the non-residential rate

> 6% to 7.5% effective from midnight 8th October 2019

> Not limited to commercial real estate

> Overall rate increase of 5.5% over past two years

> Similar transitional measures where binding contracts exist prior to Budget Day – instruments must be executed prior to 1st January 2020

> Refund scheme remains for land subsequently used in residential development – 2% rate to apply

Anti-avoidance measures for Property/Financial Sector

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

- **Gross roll up regimes for holding property investments**
- **New measures to limit interest deductibility, imposition of DWT and reduce CGT benefits increasing the tax yield from such funds**
- **Effective from midnight 8th October 2019**

Section 110 Companies

- **Existing anti-avoidance measures to be strengthened - Details to follow in Finance Bill 2019**

Help to Buy Scheme ("HTB")

- **First time buyer only**
- **Applies to owner/occupiers of**
  - New houses/self builds
- **Income tax rebate up to 5% of purchase price/build value**
  - Capped at €20k
- **House value capped at €500k**
- **HTB Scheme due to cease on 31st December 2019**
- **Extended to 31st December 2021 with no change to underlying conditions conditions**

Income Tax

Income Tax Summary

Marginal Tax Rate 40%	No change
Standard Rate Tax Band €35,300	No change
USC	No change *(other than extension for medical card holders)*
Tax Credits	Increases to Earned Income & Home Carer's

Income Tax Key Measures

Earned Income Credit

> “PAYE Credit” for self employed introduced in 2016

> 2020 – increased to €1,500 (from €1,350 in 2019)

Home Carers Credit

> 2020 – increased to €1,600 (from €1,500 in 2019)

> Available on caring for one or more dependents (not spouse)

USC Reduced Rate

> The reduced rate for over 70’s or full medical card holders has been extended for a further year.

> Applies where total income €60,000 or less. The first €12,012 @ 5%, 2% on balance.

Dividend Withholding Tax (DWT)

> **Irish resident companies withhold DWT on distributions – perceived gap between DWT remitted by companies and the tax ultimately payable by individuals**

> **Two stage process to increase tax compliance and to ensure correct income tax paid**

Stage 1	Increase DWT from 20% to 25% with effect from 1 January 2020
Stage 2	Introduction of a modified DWT regime from 1 January 2021 Uses real time data collected via PAYE Modernisation to apply personalised DWT rate to tax payer.

Other Measures

Capital Taxes

- 33% rate of CGT and CAT remain
- Group A increased by €15k
- No change to reliefs

CAT thresholds	Group A	Group B	Group C
Post Budget 2020	€335,000	€32,500	€16,250
Pre Budget 2020	€320,000	€32,500	€16,250

Farming

Section 604B CGT Relief for Farm Restructuring

> CGT relief on sale and subsequent purchase or exchange of farmland

> CGT Relief period extended from 31st December 2019 to 31st December 2022

> No change to the conditions of the relief

Income Tax – DIRT

2019	35%
2020	33%

> Phased reduction in DIRT – Introduced in Finance Act 2017.

> A further 2% reduction in 2020.

Employer PRSI / Levy

- Provisions introduced in previous Finance Act
- Increase in employer contribution to National Training Fund
- Employer Levy to increase by 0.1% in 2019 and 2020
- Employer PRSI / Levy:
  - 2018 10.85%
  - 2019 10.95%
  - 2020 11.05%

Social Welfare

- **100% Christmas Bonus for 2019**
- **Increase in the Living Alone Allowance by €5**
- **Income disregards for one parent family payment and Jobseekers Transition – increased by €15**
  - For working family payment – increase by €10
- **Increase in qualifying child payment by €3 for over 12's and €2 for under 12's**
- **Increase in fuel allowance by €2 per week**

What Next?

What’s Next

1. Brexit – The long and winding road
    - Extension, Compromise, Crash out
2. General election – 2020
    - Likely make up of next Dail?
3. Corporate tax reform
    - Incessant pace of international corporate tax reform, Apple State Aid case – decision
4. Climate change
    - Moving towards top of the agenda

Missed Opportunities

1. Entrepreneurs relief- lifetime limit still significantly less than UK equivalent.
2. Capital tax rates – still high internationally
3. USC 3% surcharge for the self employed- penalising the self employed
4. Overhaul of USC and PRSI – income tax system is overly complex
5. Short term business visitors – lack of clarity and uncertainty for multinational businesses
6. Further reform of KEEP e.g. share valuations

Brexit

Tips

Brexit

Customs and VAT

1. Identify applicable tariffs as early as possible and the impact on sales price
2. Consider who will clear goods through customs – clear goods directly and sell within the UK. Minimise disruption for customer
3. Be aware of the impact of UK components on Place of Origin of goods for tariff
4. Consider importing goods and clearing goods into the UK and then making domestic UK supplies – minimise admin and costs for purchasers
5. Register for EORI – needed for international trade
6. Postponed accounting for VAT – included in the Brexit Omnibus Bill

Brexit

Corporation tax

1. Review existing group structures and consider whether any restructuring required e.g. impact of a UK entity on group relief etc.
2. Structure to avoid creating UK PE
3. Opportunities for accessing EU and

Human Capital

1. Look for opportunities to leverage off Ireland/UK common travel area. Unique to Ireland and the UK.
2. Consider access to EU labour market from Ireland and for Irish employees going to other EU jurisdictions.
3. Enhanced role for Ireland/Irish employee in multi-national groups

Brexit

Finance

1. Currency fluctuations- what is your strategy?
2. Acquisition of a UK company/Joint venture to obtain access to the UK market
3. Have you considered your working capital requirements (funding VAT, Stockpiling) relationship with your bankers are critical. Start conversations early

Thank you

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We're by your side

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