Budget Alert

Budget 2014

Building a better working world

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Reaction

Focus on kick starting the domestic economy but little to increase our international attractiveness

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In what is hopefully the last austerity budget required to exit the EU/IMF bailout program at the end of 2013, there was a real focus on creating jobs and growth in the domestic economy whilst protecting our reputation from an international tax perspective. While there was a well-signalled reduction in the overall fiscal adjustment required in 2014 down from €3.1bn to €2.5bn, the Minister was still required to achieve an increase in tax revenues of €1.2bn to fund both the deficit target and the jobs initiative, with €700m coming from new measures and €500m from measures already announced in the 2013 budget.

In support of the jobs initiative, the Minister announced 25 pro-jobs and pro-business measures in order to incentivise entrepreneurship, innovation and environment that would cost €500m in a full year.

With the Government on track to meet our fiscal deficit targets, an upward revision of forecasted GDP growth of 2% and a further 1.5% increase in the rate of employment in 2014, the exit of EU/IMF bailout program looks to be within our grasp. However, much of our recovery continues to be dependent on the speed at both which the EU and US economies recover. In this respect, there remain signs of fragility with the recent slowdown in EU economic growth, the recent US Government shutdown and the critical forthcoming discussions on the extension of the US debt ceiling, all of which could have a significant impact on our recovery.

While much of our recovery has been led by the continued impressive performance of our export sector and new foreign direct investment, there was a focus on protecting our international reputation with very little to enhance our international competitiveness.

Reaction (continued)

Attempted shot in the arm of the domestic economy

In a further attempt to kick start the domestic economy and create additional jobs, the Minister introduced 25 new measures incentivising entrepreneurship, innovation, investment, access to credit and finance and providing an opportunity for SMEs to grow. These new measures are in addition to the 10 Point Tax Reform Plan announced in last year's Budget in a similar vein. The package of 25 measures was focused as follows:-

Entrepreneurship

- CGT relief for re-investment of proceeds of previous asset disposals in productive assets
- Start your own business relief for the long term unemployed
- Stimulating Investment
- Removal of high earners restriction for investment in EIIS
- Removal of stamp duty on shares listed on the Enterprise Securities Market
- Inclusion of the REITs in the Immigrant Investor programme

Financing Growth

- Trade finance – potential extension of EIB finance to assist Irish companies
- Credit Review Office – increase in threshold for applications
- SME Communications Strategy – increase awareness of State supports among SMEs
- Building Business Capacity – dedicated training to SMEs on business and financial capacity

Encouraging Innovation

- R&D – increase outsourcing limit to 15%
- R&D – increase volume based credit to €300k
- R&D – allow key employees to reduce personal income tax through the credit

Cash Flow

- VAT – Increase in cash receipts basis threshold to €2m

In addition to the reliefs available, there were some targeted incentives introduced for the Agri-food Industry, Film Industry and Tourism industry in terms of creating additional jobs in those sectors. Of particular note is the retention of the 9% VAT rate for the Tourism and Hospitality sectors and the reduction of the Air Travel Tax to 0%.

The Minister also announced a number of incentives to assist with the continued stabilisation of the property sector through the introduction of a home renovation tax incentive scheme, the extension of the living city initiative, the extension of the CGT relief for property purchases to the end of 2014, the extension of REIT investments to the Immigrant Investor Programme and an increase in vendor capital available from NAMA.

There were also some targeted measures around protecting compliant business by tackling the shadow economy through VAT, Excise and Energy tax anti-fraud measures and the reform of the Appeal Commissioners.

The question remains whether these changes are just tinkering around the edges or whether they will be sufficient to breathe life into the domestic economy. While some of the measures announced in last year's 10 Point tax reform plan created stimulus in certain sectors of the domestic economy, it failed as a whole to have any dramatic impact.

Areas for improvement remain

The amendments announced to the R&D regime are unlikely to have a significant impact on jobs or new investment and do not reflect some of the more fundamental reforms proposed in the Department's review, such as the phasing out of the 2003 base year which if introduced would have a much greater impact. It is also not clear from the amendments announced to what extent the increased outsourcing level will apply to Irish universities.

Furthermore, if we similarly continue to fail to enhance our Intellectual Property (IP) regime to a competitive footing, we are going to continue to lose ownership of IP that is developed in Ireland and the profits that arise from its ownership.

Light is emerging at the end of the austerity tunnel

There was some good news for business in the Budget in that there was very little direct tax increases on the cost of doing business in Ireland e.g., no increase in excise taxes on diesel or petrol and no increases in employer's PRSI. Furthermore, in line with previous Government commitments, there were no increases in personal income tax rates, employee's PRSI or the universal social contribution announced in the Budget.

Reaction (continued)

Revenue raising measures at a glance

In line with the theme of previous budgets the necessary tax increases are being primarily borne by individual taxpayers through the following:

- Changes to the one parent family tax credit
- Restriction on tax relief for medical insurance
- Removal of tax relief on loans to acquire an interest in a partnership
- Acceleration of the proposed changes to film relief
- Removal of top slicing relief for all ex gratia payments
- Increases in excise duties for alcohol and tobacco
- Increase in DIRT and exit taxes on life assurance policies and Investment Funds to 41%

The above tax increases are consistent with the policy of reducing dependence on transaction related taxes and broadening the base to achieve a more sustainable level of tax revenue.

International tax environment

Whilst the Minister did little to enhance our international tax competitiveness other than re-affirming our commitment to the 12.5% rate and making some minor changes to the R&D tax credit regime, he was very focused on protecting Ireland's reputation. The last 12 months has seen unprecedented media headlines, intense public scrutiny on companies' tax affairs and significant international political debate on how to combat tax evasion and unfair tax competition. Unfortunately, Ireland's tax regime has not emerged from this public debate completely unscathed as the complexities of the international tax system and individual country tax regimes become over-simplified and misrepresented.

In response to these challenges the Minister has issued a statement on Ireland's International Tax Strategy and taken targeted action to address Irish incorporated companies that are tax resident in no jurisdiction. The statement on Ireland's International Tax Strategy reaffirms that Ireland's corporate tax system is open and transparent and that all the rules are clearly set down in our national law. It also reaffirms Ireland's commitment to be part of the solution to combat tax evasion through active participation and support of both OECD and EU initiatives such as BEPS and increased transparency through the automatic exchange of information. It is unlikely that we will see significant further change to Ireland's corporate tax regime until the output of BEPS and/or US tax reform is clear.

However, we continue to remain in an exceptionally competitive international tax environment to secure new foreign direct investment and unless the Government does more to attract key mobile talent and attract the ownership of intellectual property, there is a danger we will lose new projects. Ireland is well placed to take advantage of international tax reform due to the considerable existing substance of multinational companies already here. However there is no guarantee that this will be the case unless Ireland continues to enhance its tax offering. The Government is clearly somewhat restricted in its ability to introduce new tax incentives due to the program of fiscal correction unless they are revenue neutral or positive, as evidenced by their failure to introduce some of the recommendations in the R&D tax regime review, e.g. phasing out of the 2003 base year. The exit from the bailout program at the end of 2013 should provide the Government with greater flexibility to take positive decisions towards enhancing Ireland's competiveness in the future.

While the proverbial rabbit may not have been pulled out of the hat, the Minister has reiterated his commitment to maintaining Ireland's international competitiveness. We await with interest any announcement of the specific measures that the Minister is contemplating.

Business taxation

12.5% corporation tax rate

Budget 2014 again reiterates Ireland's commitment to the 12.5% tax rate applicable to trading profits, with the Minister for Finance indicating that it will remain a cornerstone of Ireland's fiscal policy. This merely restates Ireland's long-standing position on corporate tax policy, which has been maintained consistently by successive Governments. In acknowledging that international tax policy has become the focus of much debate over the last 12 months, the Minister referred to a new International Tax Strategy Statement, which sets out, in clear terms, Ireland's position in relation to its international tax policy, and how it uses that tax policy to compete for international business. The Minister made it clear that Ireland wants to be part of the solution to countering harmful tax practices, and the Strategy Statement outlines that in detail. The Minister also said that he will examine ways in which Ireland can enhance the competitiveness of its corporation tax regime. In light of increasing competition from other countries for international investment, and given the importance of such international investment to our economy, this is a most welcome statement, and it remains to be seen what, if any, measures will be introduced to enhance our competitiveness in the upcoming Finance Bill.

OECD, BEPS and international tax policy matters

In light of the desire to be "part of the solution", as the Minister put it, the Strategy Statement outlines how Ireland will continue to actively engage constructively and purposefully in relation to international tax matters at OECD (including BEPS and Forum on Harmful Tax Practices) and EU-level (including Code of Conduct and Platform for Tax Good Governance), building on the work pushed forward during Ireland's Presidency of the EU in countering tax fraud and aggressive tax planning. For additional detail on BEPS, please see our previous EY Tax Alert of 19 July 2013. The Strategy Statement, while acknowledging that the BEPS project does pose challenges, states that Ireland is fully supportive of solutions which align the taxation of profits and economic activity. The Statement also notes that the Irish corporate taxation system already aligns profits with substantive operations in Ireland, by requiring that a company carry on substantial activities in Ireland in order to benefit from the 12.5% rate.

Ireland will also continue to progress this agenda through domestic legislation; through continuing to expand its network of tax treaty partners; and through continuing to engage with developing countries and to ensure that their development is not hindered by harmful tax practices. The Strategy Statement also outlines how Ireland will continue to support measures tackling harmful tax practices, such as supporting country-by-country reporting, which could discourage disproportionate profit shifting by multinationals, as well as automatic exchange of information.

Business taxation (continued)

'Stateless' companies

Under current Irish legislation, companies which are not managed in Ireland, and who do not carry on any activities in Ireland, are generally not subject to Irish corporate taxes. Ireland generally taxes companies in a manner which is consistent with double tax treaties and OECD tax principles, imposing tax on Irish companies' worldwide income and profits at either 12.5% or 25%. A new measure will apply to circumvent the possibility of a 'stateless' company. This may require certain companies to review their current policies and governance procedures to ensure alignment with the amended rules. Details of how this will operate, together with details of how this may affect existing companies will be contained in the upcoming Finance Bill, scheduled to be published on 24 October. The new provisions are expected to be operative from 1 January 2015.

CGT entrepreneurial relief

The Minister announced a new CGT relief for entrepreneurs which will apply to an individual who has paid CGT on the disposal of assets since 1 January 2010. Where the individual reinvests in a new trading activity in the period 1 January 2014 to 31 December 2018, and holds that investment for at least 3 years, then the CGT on the disposal of the new investment will be reduced by a tax credit equal to the lower of (i). the CGT paid by the individual on a previous disposal of assets in the period from 1 January 2010 and (ii). 50% of the CGT due on the disposal of the new investment. We will have to await the legislation for clarity on this proposed new relief. If limited to individuals who have actually paid CGT on a disposal since 1 January 2010, then the number of people it may apply to could be very limited. EU State Aid approval will be required before this measure can be introduced.

Research and development (R&D) tax credit

Changes announced in the Budget to the R&D tax credit regime include:

- An increase in the outsourcing restrictions from 10% to 15%. While the increase is an improvement to the R&D tax credit regime, it does not address the fundamental flaw of restricting the relief available where agency staff are utilised in qualifying R&D activities by a company, a growing trend which we are seeing in the IT and pharmaceutical sectors. EY will continue to lobby the Department of Finance in this regard.
- The volume basis in relation to 2003 expenditure was increased from €200,000 to €300,000, affording companies an extra €25,000 of R&D tax credit. Since the introduction of the volume basis in Finance Act 2012, companies with a base year have been able to avail of an additional tax credit of €75,000. This is a positive move to try to deal with the base year issue. The Department of Finance's Review of Ireland's Research and Development (R&D) Tax Credit 2013 recommends that the base year be phased out when resources allow and also acknowledges the negative impact that this is having on long established indigenous and multinational companies carrying on research and development in Ireland.
- Some minor changes are to be made to the employee key incentive provisions in order to boost the take up of this incentive. Details of the amendments to be made to these provisions are to be published later.

The Department of Finance's Review of Ireland's Research and Development (R&D) Tax Credit 2013 was published today and we will publish a separate tax alert on the recommendations and findings of this review.

Start your own business

A new income tax exemption will be introduced for individuals who have been unemployed for a period of at least 15 months and who start their own unincorporated business. The exemption, which will apply for two years, will be limited to earnings up to a maximum of €40,000 per annum.

Similar exemptions already apply to new companies; however the extension of the relief to self-employed activities may encourage more unemployed persons to start up small businesses. The Minister indicated in his speech that the new relief, combined with the home renovation incentive, would particularly benefit construction workers, although the relief is not limited to the construction sector.

Film relief

In last year's Budget, the Minister had announced a major revamp of the section 481 film relief with the introduction of a 32% film tax credit for production companies to coincide with the termination of the popular relief for individual investors in film productions. This change was to take place from 1 January 2016, but is now being brought forward by one year.

The Minister has also announced that he would be extending the terms of the scheme to allow for the inclusion of non-EU talent within the definition of 'eligible individual', with a view to attracting major film productions to Ireland.

Interestingly, the Minister linked the extension of the definition of 'eligible individual' for the purposes of the film relief scheme with the introduction of a withholding tax. No other details were provided but it will be interesting to see if this is a forerunner of a plan to introduce a withholding tax regime for artists generally, in line with many other jurisdictions.

Business taxation (continued)

Financial institutions levy

A new bank levy is to be imposed, which is intended to raise €150m per annum from 2014 to 2016 primarily from the domestic banking sector. As was the case for the previous bank levy, which operated from 2003 to 2005, the liability for any institution will depend on the amount of DIRT remitted by that institution, in this case to be based on 2011 DIRT payments. As the vast bulk of DIRT payments are made by the retail banks operating in the Irish market, the international banking sector should emerge largely unscathed by this levy. The levy will be in the form of a stamp duty, and further detail will be provided in the upcoming Finance Bill.

This levy will be separate from the Credit Institutions Resolution Fund Levy, introduced in late 2012, which aims to collect €25m per annum over 4 years from across the domestic and international banking sectors.

Tax losses in NAMA banks

The main Irish banks have substantial tax losses carried forward, arising mainly from impairments incurred over the last number of years. The Minister has abolished the special rule applicable to the tax losses of banks which participated in the NAMA scheme. Under this rule, NAMA-participating institutions could only use tax losses carried forward against a maximum of 50% of future years' profits, though that could include profits of other group companies. While the bank levy and DIRT rate increase will affect all players in the domestic sector, abolition will only be relevant in practice to the two main domestic banking groups, Bank of Ireland and AIB. The deletion of the rule should be of some assistance to these two groups in converting their deferred tax assets to actual tax savings.

VAT cash receipts basis

Certain taxpayers are permitted to account for VAT when payment for supplies is received, rather than when an invoice is issued. Currently, taxpayers who supply predominantly to unregistered customers, or have annual turnover from taxable supplies of less than €1.25m, qualify to account for VAT on this basis. In an attempt to widen the audience assisted by these cash flow benefits, the Minister has proposed an increase in the turnover threshold to €2m.

Stamp duty

An exemption from stamp duty has been announced for the transfer of shares listed on the Enterprise Securities Market (ESM) of the Irish Stock Exchange. The ESM is the ISE's market for growth companies. This measure, which is aimed at encouraging investment in SMEs, is subject to a commencement order.

Pensions

Pensions/retirement provisions

Last year's Budget speech saw the Minister for Finance indicate that tax relief on pension contributions will only apply for pension schemes delivering income of up to €60,000 per annum with effect from 1 January 2014.

There was a significant amount of debate as to how this change might be implemented with a consultation process undertaken around the specific changes required to the existing regime to give effect to this proposal.

Particular reference was made to an adjustment to the current Standard Fund Threshold (SFT) of €2.3 million – the maximum allowable pension fund at retirement for tax purposes.

Budget 2014 has provided some indication as to how the change will be implemented with the Minister stating that the SFT will be reduced from 1 January 2014 to €2 million. The Minister also stated that other changes to the SFT regime will be introduced from 1 January 2014 in an effort to address the disparity that can arise between Defined Benefit (DB) pension arrangements and Defined Contribution (DC) arrangements in valuing pension arrangements for tax purposes, and to transition to these new arrangements.

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Pensions (continued)

The following rules will apply:

Protection of higher threshold - personal fund threshold (PFT)

- Individuals with pension rights in excess of the new lower SFT on 1 January 2014 will be able to protect the capital value of those rights by claiming a higher PFT subject to a maximum PFT of €2.3m (i.e., the previous SFT limit).
- As before, the PFT must be calculated on the basis of the aggregate of the capital value of pension benefits, if any, which the individual has already become entitled to receive since 7 December 2005 (i.e., crystallised rights) and the capital value of any uncrystallised pension rights the individual has on 1 January 2014 (in other words, pension rights which the individual was building up but had not become entitled to on that date). Where this aggregate amount exceeds the new SFT of €2 million, that higher amount will be the PFT, subject to the maximum PFT limit of €2.3m.
- The current standard valuation or capitalisation factor of 20 must be used to determine the value of DB pension rights for the purposes of calculating an individual's PFT at 1 January 2014.
- The PFT will have to be claimed by way of a PFT notification to the Revenue Commissioners. Details in relation to this process and other aspects related to this regime will be included in the Finance Bill.
- Individuals who applied to the Revenue Commissioners for a PFT under previous arrangements will retain that PFT and will not need to do anything arising from the new arrangements.

Valuing the fund on a BCE (Benefit Crystallisation Event – becoming entitled to receive a benefit under a pension arrangement)

DB pension rights

- All DB pension rights accrued **after** 1 January 2014 will be valued at the point of draw-down for measurement against the SFT or PFT using the prescribed age-related valuation factors at the point of draw-down of those rights.
- All DB pension rights accrued **up to** 1 January 2014 and crystallised after that date will be valued at the point of drawdown for measurement against the SFT or PFT at the current standard valuation factor of 20.
- Where a DB pension is drawn down **after** 1 January 2014, part of which was accrued up to that date and part after that date, the calculation of the capital value will be split. The portion accrued up to 1 January will be capitalised using the current standard capitalisation factor of 20 and the portion accrued after that date will be capitalised using the appropriate age-related valuation factor.
- The change to the higher valuation factors, varying with age, is aimed at ensuring that in future, DB pensions at lower values will be impacted by the reduced SFT as compared with the current regime, with consequent tax implications if the SFT is exceeded.
- It has also been indicated that while the level to which DB pension entitlements can be accrued under the revised SFT regime before being impacted by the threshold will vary with the age at which the benefits are taken, the revised arrangements after the transition phase will generally not impact on individuals whose gross DB pension is in the region of €54,000 per annum or less.

DC arrangements

- For DC arrangements, the capital value of the pension rights on 1 January 2014 remain, as before, the value of the assets in the arrangement that represent the member's accumulated rights on that date i.e., the value of the fund.
- Full details of the above changes will be reflected in the Finance Bill.

Pension fund levy

The Minister confirmed that the 0.6% pension levy introduced to fund the Jobs Initiative in 2011 will be abolished from 31 December 2014. However, he indicated that he will introduce an additional levy on pension funds at 0.15%. The 0.6% stamp duty levy on pension fund assets is to increase on aggregate to 0.75% for the year 2014. The levy will be reduced to 0.15% for 2015.

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Property and construction

Home renovation scheme

The Minister has announced a new scheme of tax relief for renovation work carried out to a principal private residence, which will be available for a period of 2 years from 2014. Expenditure must amount to at least €5,000 and is restricted to a maximum of €30,000. An income tax credit of 13.5% will be available and will be payable over the two years following the year in which the work is carried out. Work carried out must be a qualifying renovation to the home and be carried out by a fully tax compliant builder. Qualifying works include extensions and renovations to the home, plumbing, tiling and replacement windows.

All claims under this new initiative must be registered online with Revenue.

Living city initiative

This initiative, the details of which were first outlined in Finance Bill 2013, is being extended to include residential properties constructed prior to 1915 and certain areas of the cities of Cork, Galway, Kilkenny and Dublin. The intent of the expansion of this initiative is to have a positive effect on the construction sector by encouraging the regeneration of retail and commercial districts and encouraging families to move back into the centre of Irish cities to live in historic buildings.

The initiative provides relief for refurbishment and conversion expenditure incurred by owner-occupiers of residential premises or by either an owner-occupier or landlord of certain commercial premises used as shops or offices.

This initiative will be commenced after EU state-aid approval is obtained.

Property purchase incentive

The time-limit on the CGT relief introduced in the Finance Act 2012 which gives relief on property bought between 7 December 2011 and 31 December 2013 and held for 7 years has been extended by one year. Therefore, properties acquired up to the end of December 2014 may qualify for this relief provided the other conditions of the relief are fulfilled.

Immigrant Investor Programme and REITs

The Immigrant Investor Programme, announced in 2012, allows non-EEA nationals to apply for residency in Ireland subject to making an approved investment (which may be in a business, certain bonds or properties, or philanthropic projects). The Minister announced that REITs would be added to the list of approved investments for this purpose.

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Personal taxes and social welfare

DIRT and exit tax rate

The Minister has increased the DIRT and exit tax rate to 41%. This rate will apply from 1 January 2014 to all payments of in-scope deposit interest and payments from life assurance policies and investment funds to Irish residents. This maintains the long-standing consistency of DIRT and exit tax rates. As a simplification measure, the application in certain circumstances of a higher rate of DIRT/exit tax (traditionally the main rate plus 3%) will be discontinued from the same date. While DIRT applies widely, it should be noted, that persons aged over 65 may be entitled to seek exemption from or repayment of DIRT (subject to income limits).

Tax relief for medical insurance premiums

Relief in respect of premiums for medical insurance is to be restricted to the first €1,000 per adult policy and €500 per child policy. The restriction takes effect from 16 October 2013.

Relief on medical insurance premiums is given at source by deducting the tax relief from the gross premium. Where the restriction applies, the effect therefore will be to increase the premium payable.

Relief for certain partnership loans

Currently, an individual can claim relief on interest paid on monies borrowed to purchase a share in a partnership, or to advance money to a partnership, provided the monies are used solely for the purposes of the partnership's trade or profession.

The relief is to be abolished generally for new loans taken out from 15 October 2013, and will be phased out for existing claimants over a period of 4 years with relief being reduced by 25% each year from 2014. No relief will be granted on most existing loans from 1 January 2017. It appears however, that the Budget 2014 announcements are to have no impact on loans used to invest in farming partnerships.

Abolition of top slicing relief

Top slicing relief (TSR) is currently granted on redundancy and similar severance payments. It operates by reducing the tax rate applicable to the taxable portion of the payment to the average tax rate paid by the recipient for the previous three years.

TSR was abolished for severance payments in excess of €200,000 in the 2012 Budget. The Minister today announced that TSR is to be abolished entirely with effect from 1 January 2014, for all severance payments.

The remaining tax reliefs for severance payments (basic and increased exemption and Standard Capital Superannuation Benefit) are unchanged.

High earners restriction

The Employment Investment Incentive (EII) is a tax relief incentive scheme that provides tax relief for investment in certain corporate trades. The scheme allows an individual investor to obtain income tax relief on such investments up to a maximum of €150,000 per annum in a tax year. Relief is initially available to an individual at up to 30%. The initial 30% relief available for investments under the scheme is being removed from the high earners restriction for a period of 3 years. This restriction limits the amount of tax reliefs that can be claimed by certain high income individuals. The intent of lifting this restriction is to encourage investment in Irish SMEs that are focused on job creation and expansion.

A further change to the definition of 'specified relief' for the purposes of the high earners restriction was announced proposing that capital allowances and balancing allowances claimed by passive investors on plant and machinery used in manufacturing trades will now be within the remit of the high earners restrictions.

Income tax and Universal Social Charge (USC)

No changes were announced to the general rates of USC, income tax or PRSI. Most employees should not therefore experience a reduction in their net after tax pay in 2014. The local property tax will however be applicable for a full 12 month period in 2014, which will result in an increased tax cost for most homeowners.

One parent family credit

The one parent family income tax credit of €1,650 is to be replaced with a single child carer tax credit with effect from 1 January 2014. The new credit will only be available to the primary carer of the child. Currently, both parents may claim the allowance, provided the child resides with them for a portion of the year.

Social welfare

While there were a number of changes to social welfare benefits, two changes are likely to have cost implications for employers to the extent employers choose to absorb these costs. These relate to sickness benefit and maternity benefit.

The waiting period for sickness benefit (during which benefit is not paid) will be increased from three days to six days. Employers who pay their staff during periods of sick leave will not be able to recoup sickness benefit from their employees for the additional three days, resulting in additional cost.

The weekly rate of maternity benefit is to be standardised at €230, resulting in a loss of €32 for some individuals. The change will be effective from January 2014. Individuals currently on maternity leave are not affected. Employers who 'top up' employees maternity benefit will now face a higher cost in doing so.

Tourism

Indirect tax boost for the tourism sector

The Minister announced that the reduced VAT rate of 9% generally applicable on tourism-related goods and services will be retained. The 9% rate in this regard was due to expire on 31 December 2013 with the supplies of applicable goods and services reverting to VAT of 13.5%.

This announcement was made amid concerns that subjecting hoteliers and restaurant owners to the higher rate of 13.5% would directly lead to material jobs losses and to a possible stalling of growth in the tourism industry. The 9% VAT rate is widely regarded as one of the Government's most successful job stimulus policies of recent times, and has been a major factor in creating over 15,000 new jobs in the last two years.

In order to further support the tourism sector, the Minister announced that there will be a reduction of the air travel tax to zero with effect from 1 April 2014. The current rate of air travel tax is €3 per passenger departing from an Irish airport. It is anticipated that this measure will cost the Exchequer €28m in 2014 and €36m in subsequent years but the Minister confirmed that he expects airlines to utilise this measure to develop new routes and build traffic volumes, thereby helping tourism in Ireland. The air travel tax has long been considered to be a punitive and counter-productive measure by leading Irish airlines and travel associations, who contend that any revenue raised by this tax is outweighed by the damage which this causes to the wider economy.

Farming

Review of farmer taxation

The Minister has announced that an independent review will be undertaken in the area of farmer taxation and any resulting recommendations will be considered in Budget 2015. The review is aimed at understanding the cost and effectiveness of the incentives and reliefs available to this sector.

CGT retirement relief

CGT retirement relief has been extended to disposals of leased farmland where certain conditions are met, to encourage older farmers to lease out farmland to younger farmers. In particular the land must be leased for a minimum of 5 years and the subsequent disposal must be to a person who is not a child of the individual disposing of the land.

Currently, individuals who are Young Trained Farmers are entitled to income tax relief in respect of trading stock at the rate of 100% and are entitled to relief from stamp duty upon the acquisition of agricultural land. These reliefs are being expanded by the addition of three qualifying courses to the list of relevant qualifications which a Young Trained Farmer can hold.

Farmers’ flat rate addition

The farmers’ flat rate addition is a scheme which compensates unregistered farmers for VAT incurred on their farming inputs. Last year, the Minister reduced the rate by 0.4% but in a partial reversal of this decision, the Minister has announced that this rate will be increased by 0.2% to 5%.

It is estimated that this measure, effective from 1 January 2014, will cost €8m during 2014.

Excise duties

Tobacco products

The excise duty rate on tobacco products will increase by 10 cent (including VAT) per packet of twenty cigarettes and on a pro-rata basis for other tobacco products with effect from 16 October. It is estimated that the increase will yield an additional €15 million to the Exchequer.

Alcohol products

Wine lovers received another nasty jolt with the announcement that excise duty on a standard 75cl bottle of wine is going up by 50 cent (including VAT) per bottle with pro-rata increases on other products. The rate of excise duty on a pint of beer and cider is increasing by 10 cent (including VAT) and the rate is also increasing by 10 cent (including VAT) on a standard measure of spirits. All these increases are effective from 16 October. The Government has estimated that this rate increase will generate an additional €145 million in 2014.

Mineral oils

There was good news for motorists in that, in line with the previous Budget, there will be no increases in the rates of duty that apply to diesel and petrol.

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Revenue administration

Anti-fraud measures

The Minister announced that a number of anti-fraud measures in respect of VAT will be introduced. While full details of these measures have not been published at this stage, at a high level the measures will include the following;

1. *Disallowance of input VAT*
   Businesses which have not paid for supplies (in full or part) within a six month period will be required to repay the VAT claimed on those supplies. This measure is also intended to encourage prompt payment.

2. *Quick reaction mechanism*
   This measure will allow Revenue to apply an emergency and temporary reverse charge measure to certain goods or services to address sudden and massive VAT fraud. This provision will implement into Irish VAT legislation recent changes to the EU VAT Directive.

3. *Requirement to keep specific records*
   This measure will enable Revenue to issue a notice requiring businesses to procure specific information in circumstances where Revenue have reasonable grounds for believing that the records specified might assist in identifying VAT fraud.

Appeal Commissioners reform

As part of his €500m package of measures for jobs and growth, the Minister announced a reform of the role, functions and structure of the Appeal Commissioners aimed at increasing the cost effectiveness, transparency and certainty of the Appeals regime. This is a welcome announcement and will hopefully lead to a significant improvement in both the transparency and efficiency of the appeals process for taxpayers.

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Rates at a glance

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Building a better working world

Income Tax Rates	2014
Standard	20%
Marginal	41%
Standard Rate Bands	
Single	€32,800
Married	€65,600
Married - one income	€41,800
Single parents	€36,800
Income Tax Credits	
Single	€1,650
Married	€3,300
Single parent child carer tax credit (2014 - primary carer only	€1,650
PAYE	€1,650
Age credit - single (married x2)	€245
Medical insurance relief max premium - adult/child (from 16 October 2013)	€1,000 / €500
Income Tax age exemption	
Single and widowed	€18,000
Married (either spouse aged 65 or over)	€36,000
Preferential loan specified rates - benefit in kind	
Qualifying home loans	4%
All other loans	13.5%

Universal Social Charge	2014
Earnings	
0 - €10,036*	2%
€10,037 - €16,016	4%
> €16,016	7%
> €16,016 and < €60,000 aged 70 and over (medical card)	4%
*exempt if income < €10,036	
**3% surcharge applies to non employment income >€100k	
PRSI Rates	
Employer	
Standard rate	10.75%
Lower rate	4.25%
Weekly lower rate limit	€356
Self-employed	
PRSI	4%
Minimum contribution	€500
Employee	
PRSI	4%
PRSI	
Weekly PRSI threshold	€352
Pensions	
Annual earnings cap	€115,000
Marginal rate deduction	41%
Tax free lump sum limit	€200,000
Standard fund threshold (2013 €2.3m)	€2,000,000

DIRT	2014
Deposit accounts (2013 33%)	41%
Investment funds (2013 36%)	41%
Property Charges	
Local Property Tax	
Market value < €1million	0.18%
Excess value > €1 million	0.25%
Non principal private residence (2013 €200)	-
Capital Gains Tax	
Standard rate	33%
Withholding tax rate	15%
Annual exemption	€1,270
Capital Acquisitions Tax	
Standard rate	33%
Thresholds	
Group A	€225,000
Group B	€30,150
Group C	€15,075
Stamp Duty	
Residential property	
First €1,000,000	1%
Excess over €1,000,000	2%
Non-residential property	2%

Corporation Tax Rates	2014
Standard Rate	12.5%
Higher rate on passive income	25%
VAT Rates and limits	
Standard rate	23%
Reduced rate	13.5%
Reduced rate (certain goods and services)	9%
Farmer's flat rate (2013 4.80%)	5%
Distance selling limit	€35,000
Registration limit - taxable goods	€75,000
Registration limit - taxable services	€37,500
Cash receipts basis limit (€1.25m to 30 April 2014)	€2,000,000
Excise duties (effective 16 October 2013)	
Pint beer/cider and standard spirit measure	+ 10 cent
0.75cl wine	+ 50 cent
Cigarettes (20) (pro rata on other tobacco products)	+ 10 cent
Air Travel Tax (€3 to 31 March 2014)	-

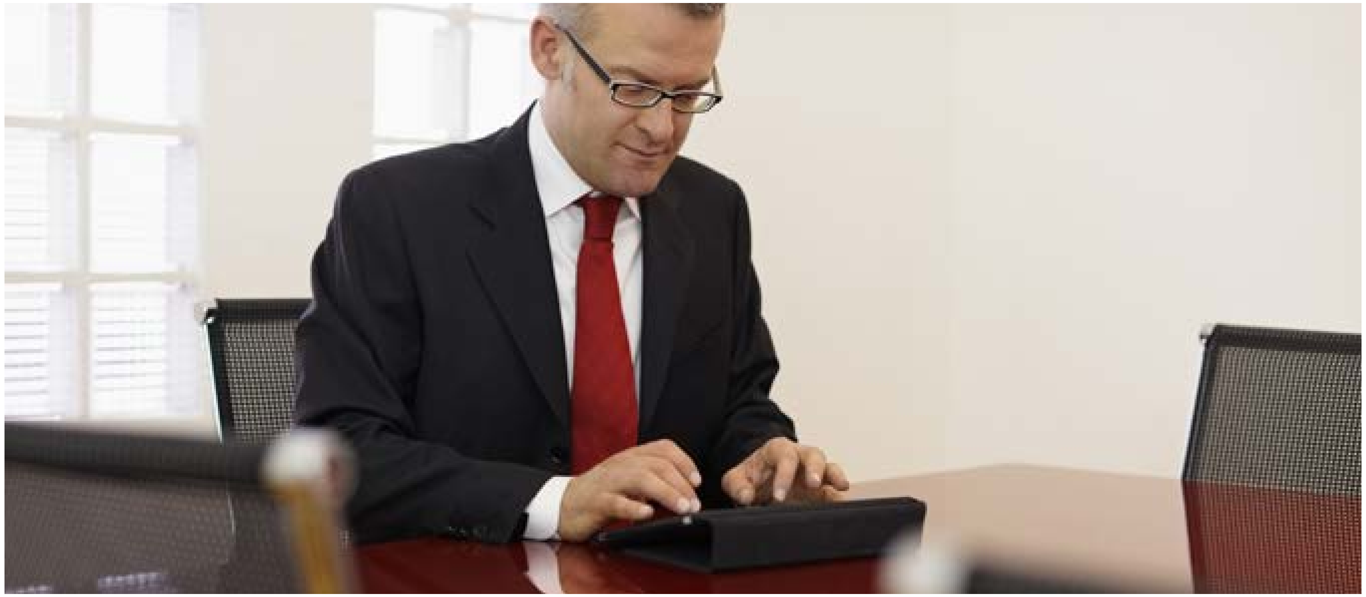
Pin to your notice board for easy reference

Case studies

Scenario 1

Jack is single and is employed in the financial services sector. He earns €80,000 per annum. Jack's employer pays gross medical insurance premium on his behalf of €1,250. He owns a house worth €250,000.

	2013 Budget	2014 Budget	Difference
	€	€	€
Gross Income	80,000	80,000	-
Income Tax Payable	22,362	22,412	(50)
Universal Social Charge	4,919	4,919	-
PRSI	3,200	3,200	-
Local Property Tax (Full year 2014)	202	405	(203)
Net Income	**49,317**	**49,064**	**(253)**
Changes as a % of Net Income			**(0.52%)**



TOC

Case studies

Scenario 2

Hannah is a single parent, with one child. She works as a management consultant earning €58,000 per annum. She owns an apartment worth €150,000.

	2013 Budget	2014 Budget	Difference
	€	€	€
Gross Income	58,000	58,000	-
Income Tax Payable	11,102	11,102	-
Universal Social Charge	3,379	3,379	-
PRSI	2,320	2,320	-
Local Property Tax (Full year 2014)	112	225	(113)
Net Income	**41,087**	**40,974**	**(113)**
Changes as a % of Net Income			**(0.28%)**

Note: Single person child carer credit available to the primary carer only. Child benefit unchanged from 2013.

Case studies

Scenario 3

Luke and Lorna are married. Luke is an electrician and Lorna is a homemaker. Luke earns €32,000 per annum. They have three children, aged two, six and seven. They own a property valued at €230,000.

	2013 Budget	2014 Budget	Difference
	€	€	€
Gross Income	32,000	32,000	-
Income Tax Payable	640	640	-
Universal Social Charge	1,559	1,559	-
PRSI	1,280	1,280	-
Local Property Tax (Full year 2014)	202	405	(203)
Net Income	**28,319**	**28,116**	**(203)**
Changes as a % of Net Income			**(0.72%)**

Note: Child benefit unchanged from 2013.

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