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BUDGET 2015 - HIGHLIGHTS

INTRODUCTION

In late 2010, the agreement reached with Troika envisaged a five-year period of adjustment, over which time the borrowing requirement of the Government would fall to a level below 3% of GDP. The 2015 adjustment had been anticipated to be in the order of €2 billion. This adjustment was to have been on top of cumulative adjustments over the last six years of €30 billion.

Over the last six months, expectations emerged that an adjustment of €2 billion might not be required (due to stronger than anticipated economic growth) and as the months passed, a view emerged that no adjustment at all might be required! As the prospect of a neutral Budget gained momentum, this was tempered by a cautionary approach, advocated by the Fiscal Advisory Council and the Central Bank.

The Minister, therefore, needed to chart a course that would deliver some relief, and promise further relief, to a hard-pressed public following six years of austerity, and satisfy the requirements of our international paymasters (i.e. the bond markets) requiring evidence of a prudent approach to financial management. The Minister will have been well aware of the importance of the latter, particularly in light of the Government's stated objective of refinancing expensive IMF borrowings.

Ultimately, the Minister was successful in delivering a modest package of income tax relief for low to middle income workers, while on a sectoral basis, delivering significant targeted relief for the corporate and agri sectors. He dealt with some international criticism of our corporate tax system but also through the announcement of the Knowledge Development Box sent a clear signal to the MNC sector that we are open for business. Finally, with a budget deficit of 2.7%, means the needs of international lenders should be satisfied.

As ever, the detail in relation to all matters announced (or not announced!) will be included in the Finance Bill, due for publication next week.

CORPORATE TAX

Against a backdrop of relatively negative international media coverage of our corporate tax regime, the Minister was faced with the dual objective of reassuring the business sector (particularly, the MNC sector) as to the certainty of the Irish tax regime while, at the same time, reassuring our EU and OECD partners of our willingness to eliminate perceived weaknesses that might facilitate MNC tax-avoidance structures. The Budget statement was successful on both counts.

In terms of reassuring the domestic and MNC corporate sector, the Minister made the following announcements:-

1. The Minister reaffirmed, in the strongest terms yet, the long-term commitment to the 12.5% corporate tax rate, referring to it as 'settled policy' and emphatically stating that 'it will not change'. This is a positive and welcome statement.
2. In conjunction with the Budget statement, the Minister published a Road Map designed to secure Ireland's place as a destination for world class companies. Amongst other things, the Road Map provides for:-
   - an improvement in Ireland's research and development (R&D) regime by phasing-out the 2003 R&D base-year requirement from 1 January 2015;
   - enhancing Ireland's existing intangible asset tax provisions so as to improve our attractiveness for companies as a location to develop intellectual property;
   - improvements to the Special Assignee Relief Programme (SARP) to assist in attracting mobile talent;
3. The Minister announced a public consultation process on what he refers to as a 'Knowledge Development Box'. It is envisaged that this initiative will be along

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the lines of the patent box and innovation box initiatives which have existed for many years in other countries against whom we compete for foreign direct investment. Indeed, the UK introduced Patent Box legislation which is being introduced on a phased basis from April 2013 and provides for a special 10% corporation tax rate. It is anticipated that the legislation to support the Knowledge Development Box will be introduced in Finance Bill 2016, but it is likely that it will focus on the tax treatment of intellectual property developed in Ireland.

4. The Minister announced a new strategy for financial services in Ireland, with a view to protecting and enhancing the existing financial sector and increasing current employment levels from 33,000.

5. In the context of the domestic corporate sector, the Minister announced an extension to the three-year corporate tax relief for start-up companies, as well as an extension to the accelerated capital allowance scheme for energy-efficient equipment for a further three years.

6. Finally, the Minister announced changes effective from 1 January 2015, designed to end the so-called 'Double Irish' structure. This structure has received much coverage in recent months and involved the use by MNCs of an Irish incorporated, but non-Irish tax resident company, to avoid tax. With effect from 1 January 2015, all companies incorporated in Ireland will be deemed Irish-resident, and in the context of companies already in existence, the new rules will apply over a five-year transition period to the end of 2020. The precise details of this change will be set out in the Finance Bill which will be keenly awaited by the MNC sector.

INCOME TAX

As acknowledged in recent months by several Government Ministers, the current marginal rate of taxation (inclusive of PRSI and USC) at 52% represents an unfair burden for low and middle income earners. In this regard, the Minister announced a number of measures to progressively reduce the 52% rate commencing in 2015, with a commitment that this approach would continue in 2016 and 2017. In general, the measures announced today should enhance the position of those earning less than €70,000 per annum but in the context of those earning over €70,000 per annum, the income tax savings arising will be eroded by increased USC.

The specific provisions can be summarised as follows:-

- The marginal rate of income tax is to be reduced from 41% to 40%.
- Currently, USC applies at 2% on the first €10,036 of income, 4% on the next €5,980 of income, and 7% on the balance (with a 10% rate applying to income in excess of €100k per annum). From 1 January 2015, the rates will be 1.5% on the first €12,012 of income, 3.5% on the next €5,563, 7% on the next €52,467 of income and 8% on incomes in excess of €70,044. The 10% rate applying to certain self-employed income will increase to 11%. The income exemption limit for USC will be increased to €12,012 from €10,036 from 1 January 2015.
- A new water charges' credit, at standard rate, is to be introduced. This will apply in relation to the first €500, per household, per annum and will be claimable on a preceding year basis. This means that a household paying €500 in 2015 will be entitled to tax relief of €100 in 2016.
- The Minister announced that the Artist Exemption threshold is to be increased by €10,000 to €50,000. The exemption is also being extended to non-resident artists.
- The threshold for exempt income under Rent a Room Scheme is being increased to €12,000 per annum from €10,000.
- Finally, while not directly an income tax, the pension levy which applied at a rate of 0.75% in respect of the current year will reduce to 0.15% for 2015, and will be abolished thereafter.

INCENTIVES FOR THE SME SECTOR

- The Minister announced the continuation of the 9% VAT rate in respect of the tourism/ leisure/hotel /restaurant sectors. The continuation of this reduced rate did come with a warning as the Minister made it clear that if there was any evidence of profiteering rather than passing on the benefits to consumers than the 13.5% rate would be reinstated.
- The Minister has previously referred to the establishment of the Strategic Banking Corporation of Ireland (SBCI) and he announced today that the bank would be formally launched towards the end of this month. The bank should increase the availability of loans, of a longer duration, with more flexible terms and at a lower margin, to the SME sector. No further detail was announced in relation to the SBCI and developments in this regard are eagerly awaited.
- Some years ago, the Business Expansion Scheme (BES) was replaced with the Employment and Investment Incentive Scheme (EIIS). The EIIS has received certain

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negative comment and it has been widely reported that the level of uptake under the EIIS has been disappointing. The Minister announced his intention to increase the annual limit for investment to €5M and to increase the lifetime maximum to €15M. The scheme is also to extend to the management and operation of nursing homes, all medium-sized enterprises in non-assisted areas, and internationally-traded financial services that are certified by Enterprise Ireland. On a negative note, the Minister increased the holding period in respect of EIIS investors from three to four years but, positively, he extended the availability of this relief to include hotels, guest houses, and self-catering accommodation for a further three years. Broadly, the changes announced are to be welcomed. All changes announced are subject to approval by the European Commission.

- The Minister announced improvements to the Foreign Earnings Deduction (FED) relief. Briefly, FED relief entitles individuals spending time in certain countries to a tax deduction with a maximum value of €14,000 per annum. This relief is being extended to include Mexico and Chile, as well as certain countries in the Middle East and Asia. Additionally, the minimum number of days that employees are required to be abroad in a year is being reduced to 40 days from 60 days, and finally, in calculating these days, the rules in relation to the inclusion of travel time are being relaxed.

PROPERTY

The Minister made a number of announcements in relation to the property sector, targeted towards particular groups of individuals or specific properties and specifically not targeted towards developers. The key announcements were as follows:-

1. Last year, the Minister announced a Home Renovation Incentive (HRI) designed to provide tax relief to individuals in respect of home renovation expenditure. The Minister announced the expansion of this scheme to rented residential property but only where the landlord is liable to income tax on the rental income derived from the property. In broad terms, the relief will take the form of a 13% credit (based on the cost of work undertaken) subject to certain limits. The relief is to be available on expenditure incurred until 31 December 2015.
2. A year ago, the Minister announced the introduction of the Living City Initiative, with the objective of regenerating the city centre areas within Dublin, Cork, Limerick, Waterford, Galway, and Kilkenny. Implementation of this initiative has been delayed pending approval from the European Commission. The Minister announced that discussions with the Commission are at an advanced stage and it is hoped that the scheme will roll out in early 2015. Broadly, the scheme is designed to facilitate families returning to city centre areas and the transformation of pre-1914 buildings into modern homes. The relief will operate by allowing home owners to offset the entire cost of the renovation against their income tax obligations over a ten-year period.
3. In conjunction with the recent Central Bank announcement on minimum deposit levels for first time buyers (20%), the Minister announced a novel scheme in relation to the refund of Deposit Income Retention Tax (DIRT). The relief will apply until 31 December 2017 and will effectively allow savings up to the level of 20% of the purchase price of a house to accrue on a DIRT-free basis. Individuals will be entitled to reclaim DIRT suffered over the four years up to the date of purchase of the house.
4. A so-called windfall tax, at 80%, was introduced in 2009 applying to gains on the disposal or development of land where those gains were attributable to planning decisions made since October 2009. This windfall tax is being abolished with effect from 1 January 2015. This is a welcome development and should assist in accelerating new house completions.
5. As expected, the Minister announced that the Capital Gains Tax Relief applying in respect of properties acquired between 7 December 2011 and 31 December 2014, will not be extended beyond that date. This announcement came as no surprise and had been well signalled in advance by the Minister. In light of the significant increase in commercial property activity, particularly over the last twelve months, it is arguable that this relief did achieve its intended purpose and that its cessation with effect form 1 January 2015 is justified.
6. Following on from recent media speculation in relation to the introduction of a levy in respect of the owners of zoned and serviced land (who are neither developing nor selling that land) the Minister announced that he will launch a public consultation over the coming months as to whether or not to take steps to introduce taxation measures designed to penalise such landowners. Undoubtedly, this is an issue that will feature in Budget 2016.

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FARMING AND MARINE SECTORS

The report of the Agri Taxation Working Group which was announced in last year's Budget has now been published. It sets out a number of recommendations in terms of increasing the mobility and productivity of land, incentivising the transfer of farms to younger farmers, and measures to assist with the volatility of incomes in the farming sector.

These measures are to be implemented in 2015 and 2016. The key points which were announced by the Minister in Budget 2015 are as follows:-

- There are increased limits in respect of the level of tax-free rents which can be received in respect of the leasing of farm land as follows.

Period of Lease (years)	Exempt Leasing Income
5	€12,000
7	€15,000
10	€20,000
15	€40,000

- In order to assist the transfer of farms to younger farmers, the rules relating to CAT Agricultural Relief and CGT Retirement Relief are being amended so as to facilitate such transfers. The conditions are being broadened to include transfers of con acre and leased land to 'active farmers'. The reliefs will also apply to gifts or inheritances to individuals who are not active farmers but who lease land on a long-term basis for farming use.
- In addition, an exemption is introduced for stamp duty on agricultural leases.
- Income averaging is also being extended which assists in ensuring that tax payments are spread out given the volatility of farm income.
- The farmers VAT Flat Rate Addition is being increased from 5% to 5.2%.
- The Minister has also undertaken to examine the availability of capital allowances in energy-efficient equipment.
- Given the current demographic profile of farmers (CSO statistics show that more than half of all farmholders in 2012 were aged fifty-five or older) and the opportunities that exist from the abolition of milk quotas in 2015, these measures should go some way to ensuring the sector can avail of these opportunities to maximum effect. The package of farming reliefs is to be welcomed and should facilitate the future growth of what is our biggest indigenous industry.

It is recognised that significant opportunity exists in the Marine sector and the Minister has proposed a taxation/financial review of the sectors to ensure that these opportunities are maximised.

TOURISM & AGRICULTURE

The Minister acknowledged the significant contribution of the tourism sector to the economy over the last two years, through the creation of over 15,000 new jobs. This increase in employment was attributed in no small part to the availability of a 9% VAT rate, due to expire on 31 December 2013. The Minister has announced the continuation of the 9% rate on an indefinite basis.

Air travel tax is to be reduced to zero with effect from 1 April 2014. It is expected that this reduction will be utilised by the airlines to develop new routes and build traffic volumes, thereby boosting domestic tourism.

An extension to the capital gains tax retirement relief regime has been announced in respect of the disposal of long-term leased farmholds, in certain circumstances. The objective of this change is to encourage older farmers to lease out their farmland on long-term leases (greater than five years) to younger farmers, in circumstances where the older farmer does not have children who are willing to take up farming.

The eligibility requirement for Young Trained Farmers relief is to be extended by adding three more qualifying courses to the list of relevant qualifications required. This relief allows for qualifying Young Trained Farmers to avail of a 100% rate of stock relief, and also to avail of a targeted stamp duty relief for the acquisition of agricultural assets.

The Minister announced that the farmers' flat rate addition is being increased from 4.8% to 5% with effect from 1 January 2014.

Finally, on a cautionary note, the Minister did acknowledge the importance of the agrifood and fisheries' sector to the economy. However, he indicated that both sectors received significant tax reliefs and incentives over the years, but that an information gap existed in terms of the cost-to-benefit effectiveness of these reliefs. A review group is to be established with the intention of introducing changes in Budget 2015.

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