# BUDGET 2018

## KEY HIGHLIGHTS

**Budget 2018 focuses on rebalancing our economy, fairness and sustained improvements and long-term investments.**

### Overview

On 10 October 2017, Paschal O'Donohoe, Ireland's Minister for Finance and Public Expenditure and Reform announced the Budget 2018 Statement. The following overarching objectives of Budget were stated;

- Safeguard national finances and help to rebalance our economy;
- Promote fairness and provide for sustained improvements in people's lives; and
- Make sensible and long-term investments to benefit us now and into the future.

These goals are spread over a range of initiatives which cover current and capital spending increases, and taxation reductions.

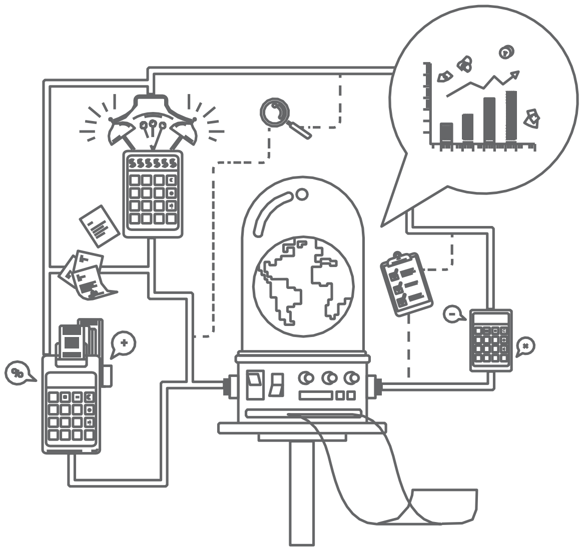
An additional allocation of €4.3 billion over the next 4 years was announced for capital investment projects. An allocation of €1.83 billion has been marked for housing funding initiatives in 2018 and the establishment of a €750m Ireland Strategic Investment Fund to increase the availability of debt funding available for commercial investment in housing. These measures represent the key capital investment initiatives.

In order to help address the significant issues facing the Irish economy arising from Brexit, the Minister announced a Brexit Loan Scheme for SME businesses. This will be supported by the European Investment Bank Group, the European Commission and the Strategic Banking Corporation of Ireland. It will provide €300m of debt finance. The Statement references it will include food businesses given their unique exposure to the UK market. Further details will be announced by the Minister for Business, Enterprise and Innovation, and the Minister for Agriculture, Food and the Marine It will be interesting to understand the granular details of this scheme in due course, and whether it has application outside of the agri-food sector.

As anticipated, the Minister's Budget 2018 Statement did not announce any fundamental changes to the tax code as it applies to corporates or individuals. The Minister did take the opportunity to reaffirm the government's commitment to the 12.5% corporate tax rate, noting;

"We have a stable and competitive corporation tax system, which is internationally recognised as one of the most transparent in the world. Our position is clear. The 12.5 per cent tax rate is, and will remain, a core part of our offering."

This statement will be welcome for foreign direct investment in Ireland. This comes after the OECD recently ranked Ireland as one of only three countries worldwide to have the highest levels of transparency in its domestic tax system. A significant portion of the taxation reductions announced of €335 million arise from income tax and universal charge changes. These changes are covered below, in addition to other measures.



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## Corporation tax

### Capital allowances for intangible assets

As anticipated, a modification to the capital allowance regime for intangible assets has been made, with the introduction of a restriction on the level of relief available. This measure provides that the deduction for capital allowances for intangible assets, and any related interest expense, will be limited to 80% of the relevant income arising from the intangible asset in an accounting period. It is intended that this restriction will apply to expenditure incurred on assets from midnight on 10 October.

This change was widely expected, following its recommendation by economist Seamus Coffey in his government commission report on Ireland's corporate tax code.

### Energy efficient equipment

The accelerated capital allowances for energy efficient equipment, a measure to incentivise companies to invest in energy efficient equipment, which was due to expire at the end of 2017 has been extended to the end of 2020 following a review by the Department of Finance.

## Stamp Duty

As expected, the level of stamp duty on non-residential properties will increase from 2% to 6% with effect from midnight tonight. Stamp duty on non-residential property was lowered to 2 per cent in 2011 to get the commercial property market moving again. Naturally, this measure reflects that tax policy is no longer required to support development in this sector of the economy.

## Personal Taxes

### Rate changes

In terms of personal taxes, marginal changes to bands, credits and universal social charge rates.

There is an increase of €750 in the income standard rate band for all earners, from €33,800 to €34,550 for single individuals and from €42,800 to €43,550 for married one earner couples.

Cuts were announced to Home Care Tax Credit was increased from €1,100 to €1,200 and Earned income Credit from €950 to €1,150.

There will be a reduction in the 2.5% USC rate to 2% with an increase in the ceiling for this new rate from €18,772 to €19,372. The 5% USC rate will be reduced to 4.75%. These measures will bring the top marginal rate of tax on income up to €70,044 to 48.75%. The overall impact of these changes is proportionally modest for tax payers at all income levels.

### Benefit in Kind on Electric Cars

To further incentivise the update of electric vehicles, a 0% BIK rate is being introduced for electric vehicles for a period of 1 year. Electricity used in the work place for charging vehicles will also be exempt from BIK.

### Key Employee Engagement Programme (KEEP)

A share-based remuneration incentive is being introduced to facilitate the use of share-based remuneration by unquoted companies to attract key employees. This incentive will be available for qualifying share options granted between 1 January 2018 and 31 December 2023. Any gains arising to employees on the exercise of KEEP share options will be liable to CGT on the disposal of the shares, in place of IT, USC and PRSI on exercise.

## Other Income Tax measures

### Mortgage Interest Relief withdrawal

Tapered extension of mortgage interest relief will apply for remaining recipients – owner occupiers who took out qualifying mortgages between 2004 and 2012. 75% of the existing 2017 relief will be continued into 2018, 50% into 2019 and 25% into 2020. The relief will cease entirely from 2021.

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### Pre-letting Expenses - Rented Residential Property

To encourage owners of vacant residential property to bring that property into the rental market, a new deduction is being introduced for pre-letting expenses of a revenue nature incurred on a property that has been vacant for a period of 12 months or more. A cap on allowable expenses of €5,000 per property will apply, and the relief will be subject to clawback if the property is withdrawn from the rental market within 4 years. The relief will be available for qualifying expenses incurred up to the end of 2021.

## VAT

### Charities VAT Compensation Scheme

A VAT refund scheme is being introduced to compensate charities for the VAT they occur on their inputs. The scheme will be introduced in 2019 in respect of VAT expenses incurred in 2018. Charities will be entitled to a refund of a proportion of their VAT costs based on the level of non-public funding they receive. An amount of €5m will be available to the scheme in 2019.

### Tourism Sector

A reduced VAT rate of 9% applies to certain services in the tourism and hospitality sector. While it is noted that prices in Dublin continue to rise, VAT policy cannot be decided on the basis of one location only but should only be decided in the context of the national interest. Accordingly, it has been confirmed that there will be no change to the VAT rate on the tourism and services sector in Budget 2018, which is a welcome confirmation for the sector.

## Capital Gains Tax

Changes to section 604A of the Taxes Consolidation Act 1997 (Relief for certain disposals of land or buildings aka the 7-year CGT relief)*

An amendment will be made to the 7-year CGT relief, which will allow the owners of qualifying assets to sell those assets between the fourth and seventh anniversaries of their acquisition and still enjoy a full relief from CGT on any chargeable gains. This will assist in releasing additional stock to the housing sector.

## Capital Acquisitions Tax

For the purpose of the Capital Acquisitions Tax (CAT) agricultural relief and Capital Gains Tax (CGT) retirement relief, the leasing of agricultural land for solar panels will be classified as qualifying agricultural land. Previously land which included solar panels would not have been deemed agricultural land for the relief.

However, this will be subject to the condition that the solar panels must not cover more than 50% of the total farm acreage. Agricultural relief reduces the taxable value of qualifying agricultural property and land, gifted or inherited, by 90%, subject to a number of conditions.

Retirement relief provides full or partial relief to individuals aged 55 or over when disposing of any part of business or faming assets. This initiative should encourage farmers to invest in renewable energy and should promote farm diversification.

Please see the following links to the government press releases.

Budget 2018 Financial Statement
http://www.budget.gov.ie/Budgets/2018/Documents/Budget_2018_Financial_Statement.pdf

Summary of Budget 2018 Taxation Measures – Policy changes
http://www.budget.gov.ie/Budgets/2018/Documents/Budget_2018_Summary_of_Measures.pdf

Budget 2018 Fiscal and Economic Outlook
http://www.budget.gov.ie/Budgets/2018/Documents/Budget_2018_Economic_and_Fiscal_Outlook.pdf

**Aidan Byrne**
Tax Partner
abyrne@rsmireland.ie