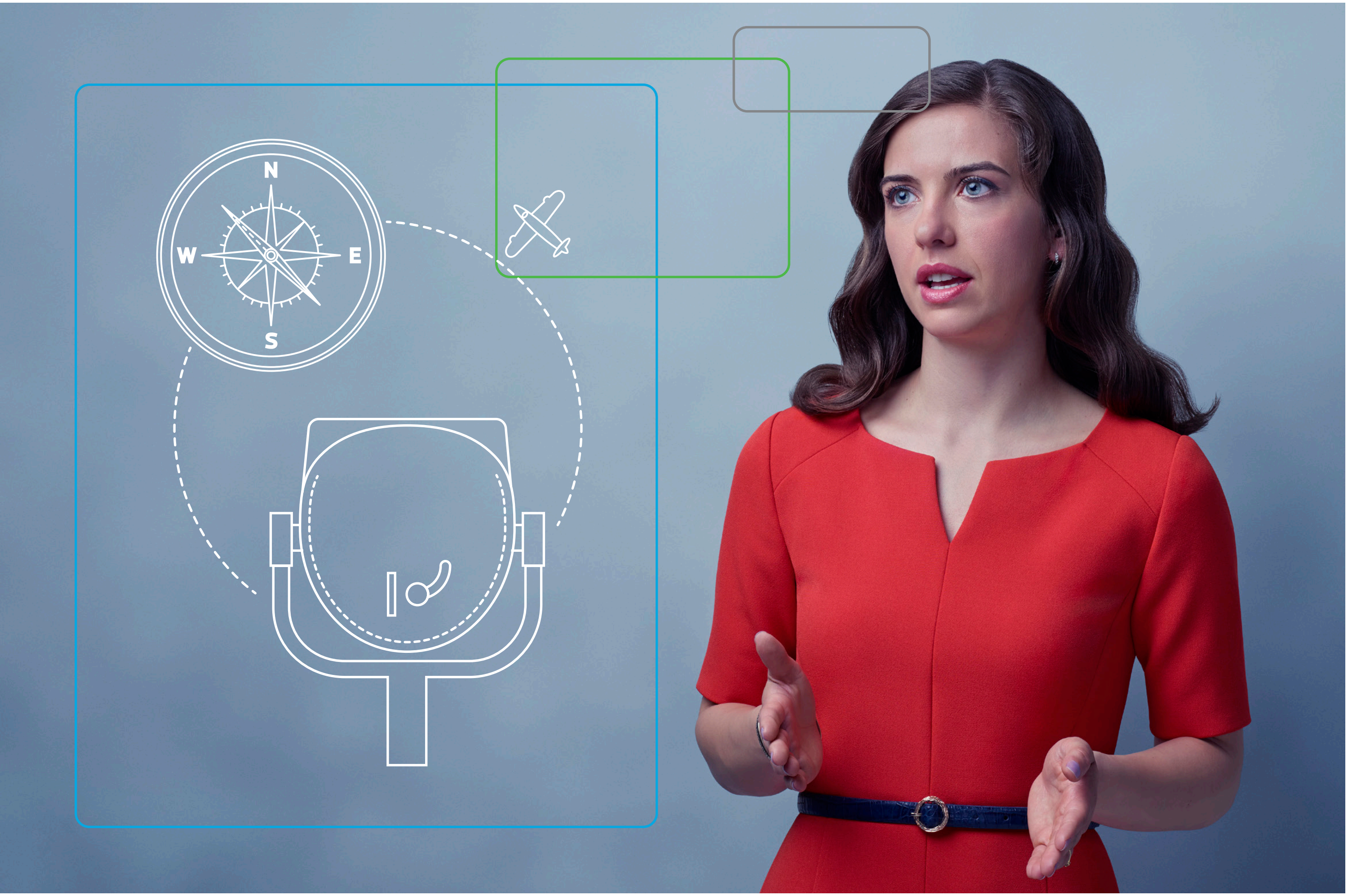

BUDGET 2022

What's new and what does it mean for your business?

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The highlights

On October 12th the Government announced Budget 2022. This Budget was framed upon the requirements for the Government to provide more housing, improve the healthcare system and respond to climate change. The package includes over €4.7 billion of new spending measures, including €520 million in income tax reductions.

In this RSM update, we have summarized the key tax measures included in the Budget.

€17m
additional funding
for enterprise related Covid-19 schemes

€7.50
increase
on **carbon tax** per tonne/Co2 on autofuels

9%
VAT rate
for the hospitality sector extended to August 2022

3%
zoned land tax
to replace Vacant Site Levy from 2024

€520m
allocation
for income tax reductions

6.5%
unemployment rate
by the end of 2022, the lowest rate since the onset of the pandemic.

"We have faced numerous difficulties since independence, but never one like Covid-19; an invisible enemy that has caused great suffering, and disrupted so much of what is central to our well-being.

Equally, we meet this enemy with greater determination, resolve and resources than ever before in our history. This is due to the careful management of our economy when times were good, the support and solidarity of the European Union, and, more than anything, the hard work, dedication, and resilience of the Irish people.

So, our message is clear.

Yes, the test we face is daunting, further demanding choices await. Yes, the uncertainty and anxiety about the future of lives and livelihoods is great. And yes, we will prevail. We will come through this. And from the ashes of the pandemic, together, we will build a stronger, more resilient Ireland. Budget 2021 is a bridge to that better future."

Minister Paschal Donohue

RSM Commentary

Covid-19 measures

This Budget was prepared on the understanding that we should not be entering into the recovery phase of the pandemic where we could restore our public services and living standards, and repair our public finances.

To date, the total expenditure incurred on Covid-19 has exceed €48 billon; this includes €17.5 billion in wage subsidies and business support schemes directed to individuals, families and businesses.

The specific Covid-19 supports include:

Employment Wage Subsidy Scheme (EWSS)

The EWSS will continue until April 2022, with payments tapering from December 2021. Eligibility for the scheme will remain as a 30% reduction in turnover with the scheme closing to new entrants from 1 January 2022.

VAT

The Minister reaffirmed, during his budget speech, that the 9% VAT rate, applicable to the tourism and hospitality sector, will be extended to 31st August 2022, it was originally due to expire this year. Therefore, with effect from 1 September 2022 the rate will revert to 13.5%. This change has already been confirmed and legislated for prior to the budget.

Commercial Rates Waiver

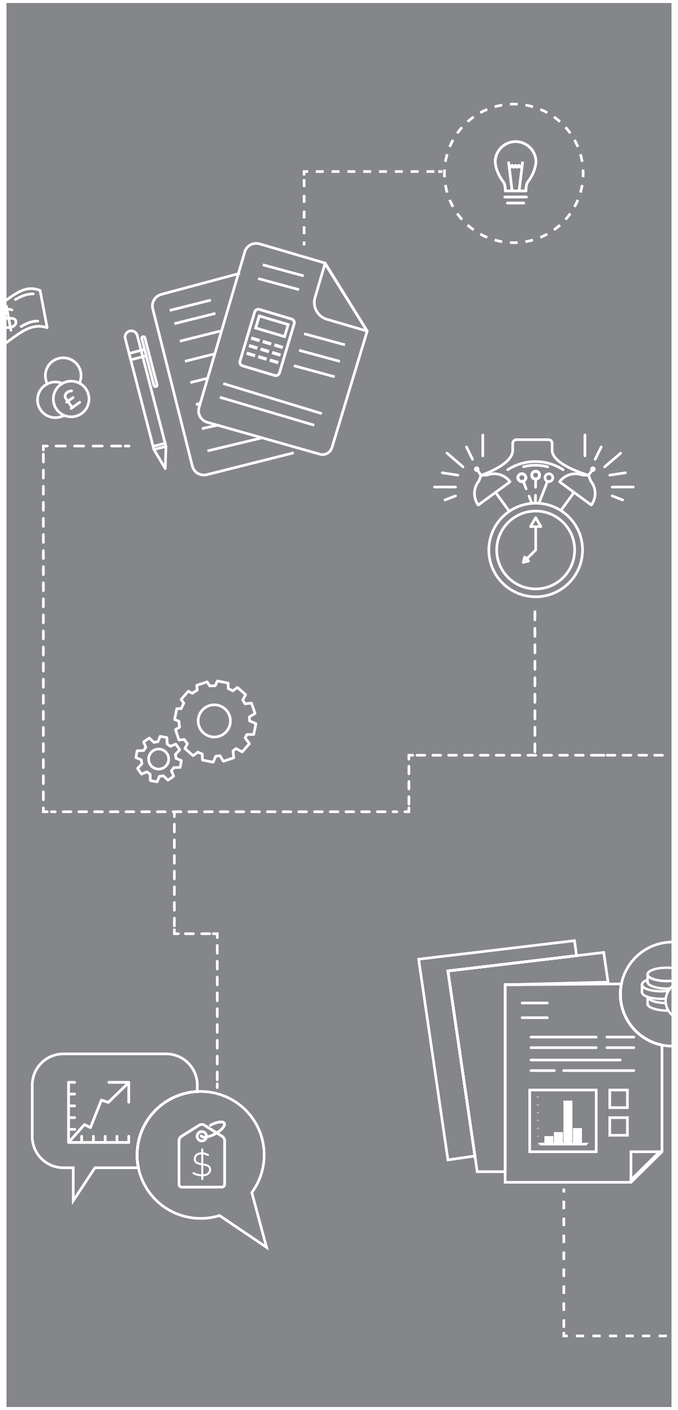
Commercial Rates for the hospitality, arts and entertainment sector are to be extended to the end of 2021.

Aviation

Amendments are to be made to the income tax treatment of international air crews in order to supports the sector in its recovery.

Remote working

An income tax deduction of 30% of vouched expenses for heat, electricity and broadband incurred while working from home.



Income tax measures

The income tax measures includes a package of €520 million in income tax reductions.
This includes:

i. An increase in the Standard Rate Cut Off by €1,500, and

ii. An increase in the Earned Income, Employee and Personal Tax Credits by €50 per annum to €1,700.

Universal Social Charge

Minor changes to the second USC rate band to ensure full time works on the minimum wage will remain outside the top rates of USC.

Minimum Wages

Minimum wage rises 30 cent to €10.50 per hour.

Help to Buy Scheme

Increased tax relief under this scheme for the purchase of residential housing will be extended until 31 December 2022.

Corporation Tax measures and business supports

The Irish government recently approved OCED proposals to introduce a global minimum corporate tax rate of 15%, applying to companies with a global group turnover in excess of €750m. This represents a significant change in policy from Ireland's long standing 12.5% corporate tax rate. The Minister in his speech affirmed the importance of Ireland maintaining the 12.5% for business with revenue of less than €750 million. This means no change for 160,000 businesses employing 1.8m people.

The key corporation tax measures and business supports provided for in the Budget are as follows:

Zoned Land Tax

A zoned land tax will apply to land zoned for residential use that has not been developed for housing at a rate of 3% of the market value. There will be no minimum size exclusion.

A 2 year lead in for land zoned before January 2022 and a 3 year lead in for land zoned after.

This tax replaces the Vacant site levy and will be self assessed.

Employment Investment Incentive (EII)

Extension of the scheme for a further three years with a number of important improvements. Intending to open up the scheme to a wider range of investment funds, this measure on its own will result in greater investment in early-stage enterprises.

Start Up Relief

The reduction in Corporation Tax for start up companies will be extended to 5 years and will continue until 31 December 2026.

Anti-tax avoidance directive

The implantation of the EU's Anti-tax avoidance directive continues with the implantation of new interest limitation ratio and new anti-reverse hybrid rules.

Details on these new measures should be available next week when the first draft of the Finance Bill is published. The interest limitation rules should impose a limit on deductible interest expenses of 30% of EBITDA.

The anti reverse hybrid rules should bring certain tax transparent entities within the scope of Irish tax where double non taxation occurs as a result of the hybridity.

Tax Credit for Digital Games

The digital gaming tax credit will complement significant innovation incentives already available for this sector. The relief will be available at a rate of 32%, on eligible expenditure between €100,000 and €25 million per project.

Climate Change tax measures

The key climate change measures included in the Budget are as follows:

Carbon Tax

As set out in Finance Act 2020, carbon tax will increase by €7.50 per tonne.

Accelerated Capital Allowance scheme

This scheme for energy efficient equipment has been adjusted to disqualify fossil fuel powered equipment. The scheme for gas vehicles and refuelling equipment has been extended for 3 years. This allows taxpayers to deduct the full cost of expenditure on eligible energy efficient equipment from taxable profits in the year of purchase.

Conclusion

Overall, this Budget should be welcomed by business and personal taxpayers. A rapid economic recovery from the Covid-19 pandemic has put the Irish government in a strong position, allowing for no significant tax increases or spending cuts. Budget 2022 provides a limited extension for many of the pandemic supports introduced in 2020 to provide certainty for the coming months. More longer term, the Budget reaffirms commitment to Project Ireland 2040, which allocates an unprecedented €165bn spending programme across key strategic infrastructure programmes.

Budget 2022 announces an increase in capital expenditure allocation to €11.1 billion in 2022 (an increase of 14% over 2021). This investment in infrastructure will be crucial in maintaining Ireland's attractiveness for existing and prospective international businesses to invest in Irish operations. In this respect, maintaining the 12.5% corporation tax rate for groups with a turnover with less than €750m is significant. Ireland's commitment to the OECD/G20 proposed minimum tax rate of 15% as announced earlier this month for groups with turnover in excess of $750m was well flagged. Ireland's achievement in advance of signing off on this agreement in having the contentious wording "at least 15%" deleted was very significant. This retains Irish sovereignty over corporate tax rate policy, with Budget 2022 committing to a maximum rate of 15%. A rate of 15% positions Ireland very competitively for FDI flows. The work required at OECD and EU level to finalise the proposed global minimum tax rate and changes to the reallocation of taxing rights to the jurisdiction of the consumer will be keenly watched.

Get in touch

If you have any questions or want to know more get in touch with the person you usually deal wtith in RSM or contact a member of our tax team.

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