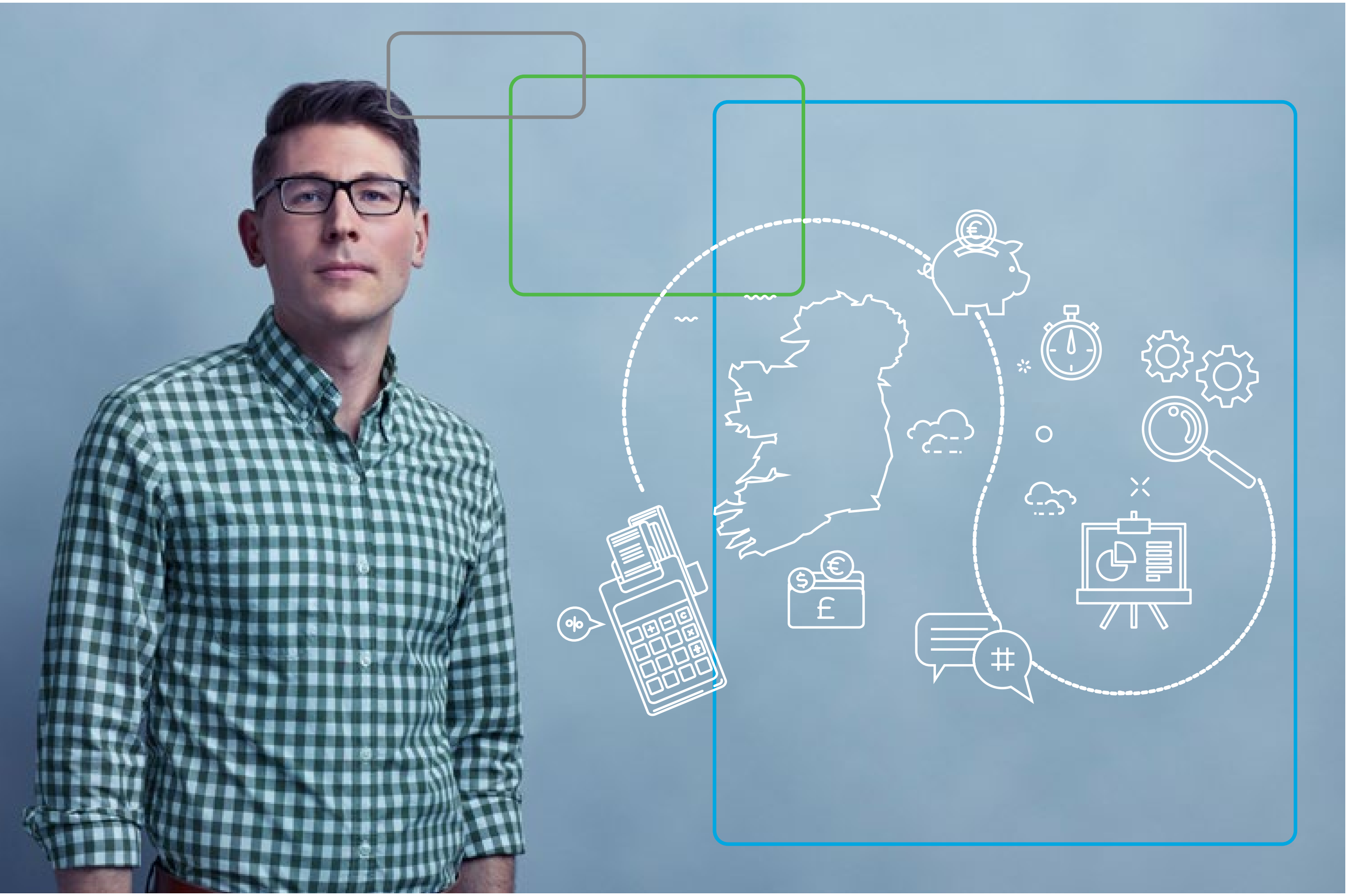

BUDGET 2023

The headlines

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

The highlights

On September 27th the Irish Government announced Budget 2023. This Budget was framed upon the requirements for the Government to provide a "cost of living budget" to support those worst hit by rising domestic and household costs in the backdrop of significant inflationary pressures. It is forecast that the headline rate of inflation for 2023 will be just over 7 per cent, with inflation for 2022 currently running at 8.5 per cent.

The €11 billion Budget package includes a core package of €6.9 billion and "once-off" spending programmes worth €4.1 billion. This is a very significant spending Budget in an Irish context and is framed on the back of very strong tax receipts to date in 2022, which are €10bn ahead of prior year. In this RSM update, we have summarized below the key measures of the proposed Budget.

€1.1b
allocation
for income tax reductions

9%
VAT rate
extended for electricity and gas

40%
refund
on increase in gas and elextiricty prices for trading businesses

€7.50
increase
on **carbon tax** per tonne

12.5%
Corporate tax rate
remains unchanged

"As we have seen all too clearly over the past few years – with Brexit, COVID and now the war in Ukraine – unforeseen risks and challenges are becoming more frequent in their occurrence and more severe in their impact. As one of the most open economies in the world, we benefit when things are going well internationally, but when they reverse, we are also one of the most exposed. As such, it is imperative that we are prepared for these shocks.

Our recovery from the pandemic is testimony to the value of that preparation. We faced the pandemic with our finances in good shape and this ensured we could both respond and recover in the aftermath.

Therefore Budget 2023 helps with the challenges of today, but will also ensure that we have sufficient reserves for what the future may yet bring. We must also be aware of the danger of making inflation worse by decisions that we could take."

Minister Paschal Donohue

Business tax measures and supports

The Minister's Budget speech highlighted that work was continuing to give effect to the OCED Pillar Two minimum effective corporate tax rate. The Minister noted the continuing importance of Ireland's corporation tax regime as a core element of Ireland's economic policy. Ireland's headline corporate tax rate remains unchanged at 12.5%.

This is in the context of Ireland securing agreement in October 2021 with the EU and OECD to a 15% global minimum level of taxation for multinational groups.[1]

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

Innovation incentives

The Minister announced amendments to the payable element of the R&D tax credit, to ensure it aligns with the new international definitions. This is a very positive measures to further bolster a very important pillar of Ireland's FDIO offering.

An extension of the Knowledge Development Box scheme was announced for a further four years with a new effective rate of 10%.

Film Corporation Tax Credit

Extension of the scheme until 2028.

Temporary Business Energy Support Scheme (TBESS)

Businesses carrying on trading activities will be eligible for a refund of 40% on the increase in electricity and gas prices, subject to a monthly cap of €10,000 per trade.

The Stamp Duty Residential Land Rebate Scheme

Extended until 2025.

[1] Prior to this, contentious wording in the draft framework of "at least 15%" was an open issue for Ireland and securing certainty on the minimum rate allowed Ireland to support the two-step pillar process in October 2021, having previously opted out in July 2021. The 15% rate will apply to companies with annual revenue in excess of €750million. It is expected to apply to 56 Irish multinationals employing approximately 100,000 people, and 1500 foreign owned MNEs based in Ireland employed approximately 400,000 people.

Bank Levy

Extended for another year.

Concrete Block Levy

A 10% levy will be applied to concrete blocks, pouring concrete, and certain other concrete products from 3 April 2023. The proceeds of this levy will be used to fund the MICA redress scheme.

Residential Zoned Land Tax

Amendments to the Residential Zoned Land Tax are expected as part of the upcoming Finance Bill.

Vacant Home Tax

A vacant home tax is planned to be introduced, which aims to increase the supply of residential properties

Agricultural Sector

The following reliefs have been extended to 31 December 2025:

- Young Trained Farmer (Stamp Duty) Relief.
- Farm Consolidation (Stamp Duty) Relief.
- Farm Restructuring (Capital Gains Tax) Relief.

The Young Trained Farmer and Registered Farm Partnerships stock reliefs have been extended to 31 December 2024.

There will be accelerated capital allowances for the construction of slurry storage facilities allowing for 50% of expenditure to be claimed over two years.

VAT

Gas & Electricity

The 9% reduced VAT rate for electricity and gas has been extended to 28 February 2023. It was due to expire on 31 October 2022.

Hospitality Sector

There was no extension to the 9% reduced VAT rate for the tourism and hospitality sector. The 9% reduced VAT rate will end on 1 March 2023 when the rate will revert to 13.5%.

Newspapers

VAT on newspapers (including digital editions) to be reduced from 9% to 0% with effect from 1 January 2023.

Agricultural Sector

The flat rate compensation percentage for farmers will be reduced from 5.5% to 5%.

Climate change tax measures

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

Carbon Tax

Carbon tax continues to increase by €7.50 per tonne.

Income tax measures

The income tax measures include a package of over €1.1 billion in income tax reductions. This includes:

(i) An increase in the Standard Rate band of €3,200 for all earners and

(ii) An increase in the Earned Income, Employee and Personal Tax Credits by €75 per annum to €1,775.

Universal Social Charge

A small increase in the 2% threshold for USC.

Rent Credit

Re-introduction of a rent credit of €500 for 2023 and subsequent years.

Home Carer Credit

An increase of €100 in the home carer credit will provide some support for carers.

Small Benefits Exemption scheme

Increase to an annual limit of €1,000 per employee effective from 2022.

Special Assignee Relief Programme (SARP)

The minimum basic salary needed to qualify for the scheme has increased from €75,000 to €100,000 per annum. Extension of the scheme to 2025.

Foreign Earnings Deduction (FED)

Extension of the scheme to 2025.

KEEP schemes

Extension of the scheme to 2025.

Help to Buy scheme

Extension of the scheme to 2024.

Rental Pre-Letting Expenses

Landlords will now be able to claim €10,000 (double the previous amount) per premises in respect of pre-letting expenses. The premises must now only be vacant for a period of six months to qualify (reduced from 12 months).

Conclusion

Overall, Budget 2023 should be welcomed by business and personal taxpayers. The Budget proposed by the Government is influenced strongly by the need to address the immediate issue of rising inflation and energy costs and the corresponding financial burden on lower to middle income individuals and families.

Given the fluidity of the current economic environment, it is possible that further support measures may be necessary in addition to those announced, which the Government has signalled it will review in early 2023. Overall, while the current inflationary pressures are proving challenging, Ireland's overall economic health indicators are strong and it remains highly attractive for existing and new FDIs, with a record number of people employed at over 2.5 million.

View the Government's Budget publications here.

Get in touch

For further information on how the Budget may impact you or your business, please get in touch with your usual RSM contact.

Aidan Byrne
Head of Tax
abyrne@rsmireland.ie

Suzanne O'Neill
Tax Partner
soneill@rsmireland.ie

Paddy Stapleton
Tax Partner
pstapleton@rsmireland.ie

Brian Kelly
Tax Director
bkelly@rsmireland.ie

Barry McNamara
Senior VAT Manager
bmcnamara@rsmireland.ie

RSM IRELAND

Trinity House
Charleston Road
Ranelagh
Dublin 6
Ireland

T: +353 (0)1 496 5388
W: rsmireland.ie

rsmireland.ie

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