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BUDGET 2018

In his first Budget, Finance Minister Paschal Donohoe delivered modest tax changes which would mainly benefit the so called “squeezed middle” and low earners with a reduction in USC and widening the standard income tax bands. However the benefits to taxpayers will be minimal.

As expected, housing was one of the main themes of the Budget with the Minister announcing a number of measures aimed at increasing supply. However in a controversial move, the Minister announced a sharp increase in the rate of stamp duty on commercial property transactions from 2% to 6% from midnight on Budget day. This increase is likely to reduce the number of commercial property transactions but to counter this, the Minister has announced a stamp duty refund scheme for commercial land purchased for the development of housing, provided the development commences within 30 months of the land purchase.

With Brexit looming in the wings, the Minister made it clear that he was conscious of the threat to the Irish economy. He announced the introduction of the Brexit Loan Scheme for SME’s on the basis that they will need to innovate and increasingly look to markets other than the UK. The Minister also announced the establishment of a “Rainy Day Fund” in the coming year and the transfer of at least €1.5 billion to it from the Ireland Strategic Investment Fund to start it off as “an important step in strengthening the national finances in a changing and risky world, especially in light of Brexit.”

Social Welfare payments are set to rise by €5 and the Christmas bonus of 85% will continue. A new telephone support allowance of €2.50 per week for the elderly in receipt of both the living alone and fuel allowances is being introduced. There has been no increase in child benefit but the qualified child payment which is paid for each child to parents dependent on social welfare is being increased by €2, the first increase in 8 years.

The numbers of teachers are to increase aimed at reducing the pupil-teacher ratio at primary level to the lowest ever recorded level of 26:1.

As usual, cigarettes and tobacco were hit but there were no increases in excise on alcohol, petrol or diesel. A "sugar tax" is to be introduced on 1st April 2018 which will apply to sugar sweetened, non-alcoholic drinks. This is a move to tackle health risks such as diabetes and obesity. Also the VAT on sunbed services is to be increased to 23% in order to deter their use.

HEALTH

The Minister announced an increase of €685 million in the allocation to the Department of Health which means it will get a €15.3bn allocation in 2018. This will allow the recruitment of 1,800 additional frontline staff in services across the acute, mental health, disability, primary and community care sectors. A new access programme will be put in place for the remainder of 2017 and 2018. The extra funding is geared towards assisting all contracts in train to continue, including the new National Children's hospital.

Prescription charges for persons under 70 who hold a medical card will be reduced from €2.50 to €2 per item. Also the monthly cap for prescription charges is being reduced from €25 to €20. Furthermore the threshold for the Drugs Payment Scheme is being reduced from €144 to €134.

PERSONAL TAX

While the changes in the Budget were welcome, employees with earnings over €70,044 will pay taxes at rates of 52% which is a disincentive in attracting key talent to Ireland. Also the Minister failed to reduce the penal USC rate for individuals with self -employment income over €100,000 which gives rise to an effective rate of tax of 55%. The USC charge which was introduced initially as a temporary measure, appears to be here to stay. The Minister announced that a working group would be established in order to amalgamate the PRSI and Universal Social Charge.

TAX Bands & Tax credits.

- The standard tax bands are to be increased by €750.
- The home carer tax credit which is granted where a spouse works primarily in the home to care for children or other dependents is being increased by €100 to €1,200 pa.
- The earned income credit for self-employed taxpayers is being increased from €950 to €1,150. However as this is given to reduce the differential in taxes payable between employees and the self- employed it is still less than the €1,650 PAYE tax credit.

USC

Rates applicable from 1st January 2018:

Incomes of €13,000 or below are exempt. For those earning over €13,000 the rates are as follows:

- €0 - €12,012 @ 0.5%
- €12,012 - €19,372 @ 2%

- €19,372 - €70,044 @ 4.75%
- Over €70,044 @ 8%
- Self- employed income over €100,000 : 3% surcharge.

NB Medical card holders and persons aged over 70 years of age whose aggregate income does not exceed €60,000 will pay a maximum USC rate of 2%.

Mortgage Interest Relief:

Mortgage interest relief for homeowners ceased for new borrowings with effect from 2013. The relief that remained was scheduled to cease at the end of 2017. The Minister confirmed that owners who took out qualifying loans between 2004 and 2012 will continue to get relief on a tapered basis up to 2020. This relief is operated by lenders at source.

EMPLOYMENT TAXES AND PRSI

Employer PAYE Compliance Project

Revenue has initiated a PAYE modernisation project which will require employers to submit real time information on each employee with a planned commencement date of 2019. The Budget acknowledged that a range of compliance interventions will be required to ensure employers meet their obligations in advance of this date.

Benefit in Kind on electric vehicles.

A 0% rate of BIK is being introduced for a period of 1 year. Electricity used in the workplace for charging vehicles will also be exempt.

Key Employee Engagement Programme (KEEP)

In an effort to attract and retain key employees, a new employee share option incentive scheme, targeted at the SME sector, is to be introduced. Currently employees pay punitive rates of tax, USC and PRSI on the exercise of share options and then are liable to capital gains tax on any uplift when they sell the shares. The new incentive, which will be subject to a number of conditions, will apply to share options granted between 1st January 2018 and 31st December 2023. The tax liability will arise only when the shares are sold and will be liable to capital gains tax only.

PRSI

There was no change in the rate of PRSI for the self -employed or employed individuals. However the rate of employer PRSI will increase in 2018 to 10.85%. It is expected to increase further in 2019 and 2020.

VAT

Rates

- The 9% rate of VAT which applies to a goods and services mainly in the hospitality and tourism sector is to be retained.

- The 23% and 13.5% rates remain unchanged.
- VAT on sunbed services is being increased from 13.5% to 23%.

Charities VAT compensation Scheme

This scheme which is to be introduced in 2019 will allow charities to claim back a portion of the VAT on goods and services they purchase in the preceding year. The refund will be based on the level of non-public funding the charity receives.

CAPITAL GAINS TAX

There was no change to the CGT rate of 33%. However, a valuable relief from CGT was introduced in Finance Act 2012 on the disposal of certain properties purchased between 7th December 2011 and 31st December 2014, provided the asset was held for more than 7 years. In order to increase the supply of property in the market, the Minister has reduced the holding period to 4 years.

Agricultural land leased for solar development will still qualify as agricultural land for the purposes of CGT relief.

CAPITAL ACQUISITIONS TAX

There were no changes in the rates or thresholds even though it was widely expected that the parent-child threshold currently €310,000 would be increased.

Agricultural land leased for solar development will still qualify as agricultural land for the purposes of CAT relief.

CORPORATION TAX

Rates

The Minister once again made it clear the 12.5% rate of corporation tax is here to stay.

Intangible Assets

The 80% cap on the annual deduction for capital allowances and interest expense on intangible assets which was abolished in 2015 has been re-introduced with effect from midnight on Budget day.

Accelerated capital allowances for Energy Efficient Equipment.

This measure which was introduced to incentivise companies to invest in energy efficient equipment is being extended to the end of 2020.

PROPERTY

In an effort to stimulate the supply of property for homebuilding, the Minister introduced a number of additional measures in the Budget.

- Investors who purchased residential and commercial property between 7th December 2011 and 31st December 2014 in order to qualify for the CGT exemption can now release this property after 4 years rather than the original 7.
- To prevent hoarding of property by landowners, the Minister announced changes to the vacant site levy. The levy, which was to apply to holders of vacant sites situated in areas in need of housing and were suitable for housing at a rate of 3% in 2018 will now become liable to an increased rate of 7% in the second and subsequent years. In order to have the levy lifted the landowners will need to get on with developing the land.
- In order to encourage owners of vacant residential property to bring that property into the rental market for a minimum of 4 years, pre letting expenditure on repairs etc. (not currently allowable) will be allowed up to a maximum of €5,000 per property.
- To encourage general housing supply €750 million will be allocated to a new housing finance vehicle, Home Building Finance Ireland (HBFI). This is aimed at addressing the difficulties developers have in accessing finance for residential construction.

STAMP DUTY

- The rate of stamp duty on disposals of commercial property increased from 2% to 6% from midnight on Budget day.
- Transfers of agricultural land between close relatives are liable at 1%. This rate is to be extended until 2020.
- The exemption from stamp duty on certain transfers of agricultural land to farmers under 35 is to continue.

CONCLUSION

Given that Minister Donohue is part of a minority government reliant on the support of Independent TD's and Fianna Fail, there were never likely to be any dramatic changes to the existing budgetary regime. The changes announced were largely to be expected with a combination of small welfare increases and tax concessions matched by revenue raising measures.

A steady improvement in the economy brings its own pressures and combined with the economic uncertainty surrounding Brexit this called for a prudent balanced budget.

There will always be those who disagree with the areas that are prioritised but it is less easy to mandate how such priorities are to be funded.

Whereas last week the British Prime Minister, Theresa May, was handed her P 45, albeit by a prankster, it looks like Minister Donohue will keep his job, for the moment.

The above is a broad outline of the measures introduced in Budget 2018. The technical detail will be contained in the Finance Bill which is due to be published on 19th October. It is also highly likely that the Finance Bill will contain additional measures.

Readers are advised to take professional advice tailored to their specific circumstances before acting on anything contained in this article.

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