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BUDGET 2016

Opening his 2016 Budget speech, Minister Noonan reflected on the social and economic challenges we have overcome in the 100 years since the Easter Rising. He stated that the priority of this budget was to keep the recovery going while providing relief and better services for the Irish people. It was described as a pro work budget, fostering job creation as a cornerstone of budgetary strategy, making work pay for people taking up jobs and encouraging entrepreneurship.

Working parents

Working parents of young families were a key target for the budget measures with an increase in child benefit of €5 per child per month, an extension in preschool childcare supports and a broadening of free access by children under 12 to GP's. Families with one parent at home will get an increase in the annual Home Carer tax credit subject to income restrictions. A new Paternity Benefit is being introduced from September 2016 whereby fathers will have the option of applying for 2 weeks leave at a rate of €230 per week. The Government pledged to increase the minimum wage from €8.65 to €9.15 from 1st January 2016 aimed at "making work pay".

The "Squeezed Middle".

The focus on the budget was also about giving something back to Ireland's middle earners described as the "squeezed middle". While the income tax rates and bands remained unchanged there were significant and welcome changes to the USC which will have most impact for middle earners. This charge, which is applied to gross income, has a significant impact on after tax income. The effect of the changes will be to reduce the marginal rate of tax to 49.5% for all earners under €70,044. This is the first time since the supplementary budget in April 2009 that the marginal rate has dropped below 50% for middle income earners. There was understandably criticism that those in receipt of income in excess of €70,044 would continue to pay USC at 8% and those in self- employment would continue to pay USC at the penal rate of 11% on income in excess of €100,000. They will of course benefit from the reduction in the lower rates but it was expected that there would be some movement on the 8% rate and also the 11% rate which applies only to the self-employed. The entry rate for USC is €13,000 and medical card holders and individuals aged 70 years and over whose aggregate income does not exceed €60,000 will now pay a maximum rate of 3% USC.

The Minister did indicate that he would move towards the total abolition of the USC charge if he were re-elected.

Self-employed

In a move to reduce the tax burden on the self -employed, the Government introduced an Earned Income Tax Credit to the value of €550 per annum from 1st January 2016. There were also increases in the threshold of weekly earnings at which top rate employer's PRSI applies.

Fostering Innovation

To incentivise Research and Development and innovation, the Government is to introduce a Knowledge Development Box (KDB) which will be the first OECD compliant KDB in the world. The Minister stated that this will not only benefit Ireland's multinational sector but will also encourage indigenous R & D and foster innovation among home grown start -ups and SME's. The corporation tax rate for income qualifying for relief under the KDB has been confirmed at half the corporation tax rate i.e. 6.25%.

International Tax Strategy

The Minister also announced the publication of an update on the Government's International Tax Strategy which explains the approach to the implementation of the OECD Base Erosion and Profit Shifting reports and how we will engage with the emerging EU tax agenda. The Minister confirmed that the Finance Bill will contain legislation to introduce country by country reporting in accordance with the OECD standards and Ireland will seek to introduce the updated OECD transfer pricing guidelines into Irish law.

Support for the elderly

In a gesture of support for pensioners aged 66 and over, otherwise known as "the grey vote", the weekly rate for pensioners has been increased for the first time since 2009. From 1st January 2016 those who are getting the State pensions will benefit from an increase of €3 per week and an increase in the Christmas bonus of 75% of its weekly level. The fuel allowance has also been increased to €22.50 per week for the duration of the fuel season.

Children, Health and Education

The Early Childhood Care and Education Scheme is being extended. From now on, children will be eligible for free childcare from three years of age until they are five and a half or until they start primary school. Additional funding will also be provided to facilitate the full participation of children with disabilities in the scheme. While this will have a substantial financial benefit for working parents, the reality is that places are limited and many parents will not be able to access the scheme. Funding is also being put in place to develop after school childcare in school buildings.

Additional teaching posts are being created, including 600 new posts for resource teachers and the pupil teacher ratio is being reduced.

In 2016, subject to successful negotiation with doctors' representatives, it is planned to extend GP care without fees to all children under 12. Funding is also being made available to provide therapeutic services for children, particularly for speech and language therapy.

Home Carers

The respite grant for home carers has been restored to its previous level of €1,700 from next year. In addition, carers who are in receipt of Carer's Allowance will continue to receive their payment for an additional 6 weeks subsequent to the death of the loved one for whom they are caring.

PRSI

Employees:

With effect from 1st January 2016, partial relief from employee's PRSI is to be introduced for those with weekly earnings between €352 and €454 and will be subject to a maximum of €12 per week. There is no employee's PRSI due on weekly earnings of €352 or less.

Employers:

The entry point for the top rate of employer's PRSI of 10.75% will increase by €20 per week from €356 to €376 per week.

Capital Acquisitions Tax

There has been no change in the CAT rate of 33%. However there has been an increase in the Group A threshold which broadly applies to transfers between parents and their children. The threshold has been increased from €225,000 to €280,000 with effect from 14th October 2015. The CAT thresholds have reduced substantially when asset prices were falling in order to help maintain the yield from capital taxes. While this increase is welcome it does not go far enough to alleviate the burden many families will endure when receiving assets from their parents. In particular this increased threshold will not be sufficient to cover the value of the majority of transfers of family homes in Dublin.

Capital Gains Tax

The standard rate of CGT remains at 33%. However an enhanced entrepreneur's CGT relief has been introduced which reduced the CGT rate applicable to disposals of the whole or part of a business to 20%. This relief will be available to entrepreneurs who have owned a trade or business for at least three years up to a lifetime limit of net chargeable gains of €1 million effective from 1st January 2016. The relief will not be available to companies. Full details of this relief will be available in the Finance Bill.

Local Property Tax

The amount home owners pay in LPT is to be frozen until 2019 and the exemption from the tax for homes affected by pyrite from the levy is to continue.

The introduction of LPT in 2013 set the first valuation date at 1st May 2013. The valuations declared in 2013 formed the basis for the LPT liability for 2013, 2014, 2015 and 2016. The next valuation date was due to be on 1st November 2016 and was to determine the basis for the LPT liabilities for 2017, 2018 and 2019. The valuation date will now be postponed until 1st November 2019. This is a positive step for homeowners as it will mean there will be no increase in LPT in 2017 due to property price increases as the LPT liabilities will continue to be based on the 1st May 2013 valuations.

The postponement of the LPT revaluation is recommended to allow for the development of a new system for calculating the tax rate.

Pension fund levy

The pension fund levy is to be abolished from 1st January 2016. The abolition of this levy will be welcomed by pensioners and pension providers.

Home Renovation Incentive

The Home Renovation Incentive for individuals who improve or renovate their principal private residence in Ireland and also for landlords , introduced in Budget 2014 and due to cease in 2015, has been extended to 31st December 2016.

Home Carer Tax Credit

Currently, families with one parent minding children or a dependant relative at home are entitled to a home carer's tax credit of €810, provided that person's total income is less than €5,080 with tapering relief where the income does not exceed €6,700. This credit will be increased to €1,000 for 2016 and the income threshold is to be increased to €7,200.

Business tax

Relief for start- up companies.

This relief from corporation tax for liabilities not exceeding €40,000 and which applies to start- up companies, has been extended for a further period of three years. The attractiveness of the relief is restricted due to PRSI related conditions. However the relief has been identified by entrepreneurs as an important support.

Employment and Investment Incentive.

The changes announced to the EII in Budget 2015 are being commenced. The scheme is also being improved to allow investments in the extension, management and operation of nursing homes and all eligible SME's can qualify for the scheme irrespective of geographical location.

Film Relief

The cap on the eligible expenditure is being increased to €70 million in the hope the Film Industry will make the necessary investments in studio space in order to attract high quality films and to create new jobs. This change is subject to State aid approval.

Farming

Reliefs such as stock relief and stamp duty exemptions for young trained farmers are being extended for another three years to 2018.

In a further move to encourage the early transfer of farms to the next generation, a new farm succession transfer partnership model is to be introduced which will give a tax credit where two families are sharing income from the same farm.

Other taxes/measures

- Reduction in motor taxes for large goods vehicles.

- Changes to excise duty relief for micro-breweries.
- Changes in stamp duty on debit/ATM cards to increase use.
- Reduction in interchange fees charged by banks to retailers on debit and credit card transactions.
- The 9% rate of VAT is to continue for the tourism sector.
- Recommendations to provide for the extension of some reliefs and the introduction of others, together with overall recommendations to assist the marine sector.

Conclusion

Last year's Budget was a turning point which saw a reversal of some of the tough austerity measures introduced in the downturn. The Irish economy is now in better shape than at any time since the beginning of the financial crisis. Ireland is forecast to be the fastest growing economy in Europe again in 2015.

The Government has given a clear indication that it is seeking to drive economic growth through support for small business and entrepreneurs by introducing a range of measures. While these are welcomed, they fall far short of the reliefs available to entrepreneurs across the water in the UK. Lower marginal rates of tax should help attract new talent or bring back our emigrants. This Budget was aimed at putting cash back in our pockets which will in turn encourage spending and drive economic recovery. The only tax increase in this Budget was a 50C increase in the price of a packet of 20 cigarettes.

Whilst the budget was generally well received and has been heralded as an election budget, the net effect of many of the changes is relatively small. It can in no way be described as a "give away" budget. The marginal rate of personal tax for senior professionals remains high and this is particularly so in comparison with other jurisdictions competing for Irish trained professionals. The evidence on the ground is that many highly trained Irish professionals are choosing to work abroad having completed their (expensive) training here. This should not be seen as a criticism of the individuals but rather the focus should be on the policy makers.

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