BUDGET 2017

Financial Statement of The Minister for Finance 11th October 2016. This commentary is published by Chartered Accountants Ireland as a service to Chartered Accountants. ISSUED October 2016.

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Tax rates

Tax rates	2016	2017	
Standard tax rate	20%	20%	
Higher tax rate	40%	40%	
Deposit Interest Retention Tax (DIRT)	41%	39%	
Standard rate band			
Single/widowed	€33,800	€33,800	
Married couple one income	€42,800	€42,800	
Married couple two incomes	€67,600	€67,600	
One parent family	€37,800	€37,800	
Home care			
Home carer credit	€1,000	€1,100	
Home carer income threshold	€7,200	€7,200	
Self employed			
Earned income credit	€550	€950	
Universal Social Charge (USC)			
2016		2017	
First €12,012	1%	First €12,012	0.5%
Next €6,656	3%	Next €6,760	2.5%
Next €51,376	5.5%	Next €51,272	5%
Balance over €70,044	8%	Balance over €70,044	8%
Relevant income > €100,000	11%	Relevant income > €100,000	11%

Personal tax

USC bands and rates

Favourable adjustments to the lower USC bands and rates. Rates reduced by 0.5% to 0.5%, 2.5% and 5%. The 8% and 11% USC rates for higher income levels and income tax rates and bands remain unchanged.

Tax credits:

- home carer tax credit increased by €100 to €1,100; and
- earned income credit for self-employed increased by €400 to €950.

Global mobility incentives:

- Special Assignee Relief Programme (SARP) extended to 2020; and
- Foreign Earnings Deduction (FED) extended to 2020, with the minimum number of days required to be spent abroad reduced from 40 to 30 days.

Landlords:

- increase in interest deductibility for residential landlords from 75% to 80% in 2017. To be increased in instalments of 5% until the full 100% is restored;
- rent-a-room scheme income ceiling increased by €2,000 to €14,000 p.a.; and
- the living city initiative is extended to landlords and the requirements for residential applicants have been relaxed.

Other incentives:

- home renovation incentive extended to 31 December 2018; and
- start your own business scheme for the long term unemployed extended by two years to 2018.

Agri-food sector:

- income averaging - farmers facing an exceptionally poor year will be allowed to “step out” of the five year income averaging and pay on a current year basis. This may be availed of for the 2016 tax year, but deferred tax liability will be payable over subsequent years;
- farm restructuring relief - this has been extended by three years to 2019;
- agri-financing - a new low cost (below 3%) loan scheme is to be introduced for farmers; and
- fishermen tax credit - a new tax credit of €1,270 is being introduced for fishermen to assist the viability of the fishing sector. Available for fishermen who have fished for wild fish or wild shellfish for at least 80 days in a tax year.

Energy efficient equipment

The accelerated 100% capital allowances scheme for energy efficient equipment is being made available to sole traders.

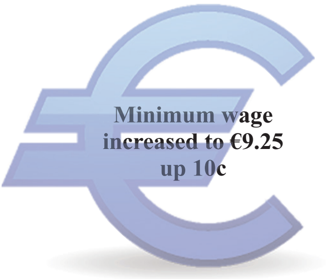
Deposit Interest Retention Tax (DIRT)

The 41% DIRT rate is being reduced to 39% for 2017 and will be reduced by 2% p.a. over three years to 33% by 2020.

Offshore defaulters

The voluntary disclosure regime will be restricted for offshore defaulters with effect from May 2017. A new strict liability criminal offence is to be introduced to aid prosecution of serious cases of offshore tax evasion.

Social protection:



- weekly social welfare payments will rise by €5 per week from March 2017;
- 85% Christmas bonus will be paid for social welfare recipients in 2016; and
- introduction of a single affordable childcare scheme and further non-means tested subsidy from September 2017.

Corporate tax

The Minister of Finance, Michael Noonan, once again confirmed Ireland's commitment to maintaining the 12.5% corporation tax rate.

The low corporation tax rate will continue to secure Ireland's future as a leading destination for Foreign Direct Investment (FDI).

International corporate tax update

Three publications have been released along with the Budget, which highlight the commitments to Ireland's international tax strategy:

1. the Government has published a second 'Update on Ireland's International Tax Strategy' in light of Brexit which reaffirms its commitment to the OECD BEPS project and the EU tax proposals;
2. 'Getting Ireland Brexit Ready' has been published outlining the policy responses to Brexit to enable exposed sectors of Ireland's economy to remain competitive, and to protect the public finances from Brexit related shocks; and
3. 'An Economic Evaluation of the R&D Tax Credit' - this report highlights the beneficial impact the tax credit has had in encouraging innovation and investment in R&D in Ireland.

A review of the Irish corporate tax code was launched by the Minister, which will include consideration of how best Ireland can deliver tax certainty for business and maintain the competitiveness of Ireland's corporation tax offering. This independent review, to be carried out by Seamus Coffey of University College Cork, will include consideration of what further actions Ireland may need to take to ensure we are fully compliant with the OECD BEPS recommendations.

Knowledge Development Box (KDB)

This relief was introduced with effect from 1 January 2016, and new legislation will shortly be brought forward by the Minister for Jobs, Enterprise and Innovation, Mary Mitchell O'Connor, to provide an additional benefit, within the parameters of the OECD 'modified nexus approach', for small companies that wish to avail of the KDB.

Section 110 companies

Draft legislation was published on 6 September to counteract perceived abuses of the Section 110 regime for Irish property transactions. The Minister indicated that after appropriate consultation, issues arising in relation to funds and Irish property would also be addressed in the Finance Bill.

Future developments announced:

- a new SME-focused share-based incentive scheme is to be introduced in Budget 2018; and
- Revenue are launching a consultation process to redesign and modernise the PAYE system, aimed to help employees manage their tax affairs, reduce administrative costs and improve compliance.

Capital taxes

Entrepreneur Relief from CGT - the 20% rate of CGT (general rate 33%) introduced in Finance Act 2015 on disposals by entrepreneurs of certain business assets or shares has been reduced to 10%. There has been no change to the €1m lifetime limit of qualifying capital gains, although the Minister has indicated he will review this limit in future budgets.

Capital Acquisitions Tax (CAT) - the Group A tax free threshold has been increased from €280,000 to €310,000. This threshold generally applies to gifts and inheritances from parents to their children. The Group B and Group C have increased by circa 8% each to €32,500 and €16,250 respectively. No change to the rate of CAT, which is currently 33%.

Property initiatives

Help-to-Buy scheme - a welcomed initiative for first time buyers of newly built primary residences. This provides a rebate of income tax paid over the previous four years up to a maximum of 5% of the purchase price, capped at €400,000, equivalent to a maximum tax rebate of €20,000.

No rebate on house purchases in excess of €600,000, and second hand properties do not qualify.

Any rebate received will be taken into account in the calculation of the deposit required to be eligible for a mortgage. This scheme is effective for purchases from 19 July 2016 to the end of 2019.

Mortgage interest relief - the tax relief at source in respect of mortgage interest is to be extended beyond December 2017 out to 2020. Details will be announced in Budget 2018.

Indirect taxes

VAT - the farmer's flat rate addition is being increased to 5.4% (from 5.2%) with effect from 1 January 2017. There are no changes to any of the other existing VAT rates, including the 9% rate for the tourism sector.

Excise - the excise duty on 20 cigarettes is being increased by 50 cent (including VAT) with effect from midnight 11 October, with pro rata increases for other tobacco products. This will increase the price of most popular brands to €11. There are no changes in the rate of duty on petrol, diesel or alcohol.

Micro-breweries - micro-breweries currently qualify for a special relief from alcohol products tax where output does not exceed 30,000 hectolitres p.a. This output limit is being increased to 40,000 hectolitres p.a.

Carbon tax - fuel used to create high efficiency electricity in combined heat and power plants is being fully exempted from carbon tax.

Vehicle Registration Tax (VRT) - the VRT relief available for electric vehicles is being extended to 31 December 2021 while the relief for hybrid electric vehicles is being extended to 31 December 2018.

Natural gas - to reduce dependency on diesel, where natural gas is used as a vehicle fuel, it will be taxed at the EU minimum rate of excise for a period of eight years.

Sugar-sweetened drinks tax - to be introduced in April 2018 in tandem with the UK.