

# Budget Review 2018



# Budget 2018

## Overview

Budget 2018 was the first Budget for both Taoiseach Leo Varadkar and Finance Minister Paschal Donohue. Whereas the various social and property spending announcements are broadly welcome, there was very little to incentivise entrepreneurs. Fergus Finlay put it well when he said that the Budget had “nothing not to welcome.” It says something, however, when you need to rely on a double negative to frame praise.

Despite the comprehensive advance leaks, there was nonetheless an air of anticipation regarding what the Budget might bring. The Minister's modest tone and even more modest announcements achieved the Government's main aims of seeking to improve residential property supply and helping the "squeezed middle".

On a positive note, the Minister did improve the tax landscape in some ways for all taxpayers. Our general views are:

- The various measures to incentivise residential property may well be effective.
- Solidifying the 12.5% corporation tax rate is always good news; the changes to capital allowances on intangibles, however, do ever so slightly weaken Ireland Inc's offering internationally.
- Retaining the 9% VAT rate for the tourism sector makes sense.
- Introducing a Sugar Tax means that future Ministers will have a new “old reliable”.
- Minister Donohue also increased Employer's PRSI over the coming years to 11.05%.
- The increase in stamp duty for commercial property – whilst surgically removing property for residential development – will be a real cost on commercial property. This was probably intended to tip the balance in favour of residential investment versus commercial. The stamp duty change as announced could have a more far reaching impact on business, as it could increase the stamp duty rate on goodwill and other assets to 6% – we await to see how this is treated at the Bill stage.

### Key opportunities missed in our view were:

- It was heavily emphasised that the CGT Entrepreneur Relief would be improved upon this year by increasing the threshold significantly. The 33% headline CGT rate could also have been reduced to incentivise the transfer of assets. Neither was announced today by the Minister.
- House prices have increased dramatically, but Minister Donohue did not increase CAT thresholds accordingly.
- The additional 3% USC surcharge for self employed individuals earning over €100,000 remains unchanged, meaning a top rate of tax of 55% for some. The case for incorporation by such individuals remains strong.

Overall Leo Varadkar got it right in his pre Budget preview: “no fireworks, no big bonanza”. Finally, it is worth remembering that the sweeping changes to gift tax in Private Dwelling House Relief were not announced until after the Budget last year. So, beware of surprises that may yet come at the Finance Bill stage. And as always, the devil is in the detail.

# Personal Tax

- There were a number of minor changes to the USC as follows:
  - The 2.5% rate reduced to 2%.
  - The 5% rate reduced to 4.75%.
  - The band for the 2% rate widened to include all income from €12,012 to €19,372 (up from €18,772) per person.
  - Those aged over 70 with income of less than €60,000 will pay USC at a maximum of 2%.
- The income tax standard rate band has increased from €33,800 to €34,550 per person.
- The Earned Income Credit increased from €950 to €1,150.
- The Home Carer Credit increased from €1,100 to €1,200.
- Social welfare payments to increase by €5 per week for many payments (with effect from March 2018). Some other minor changes regarding medical card holders and prescription costs.
- Mortgage interest relief extended to 2020 but at tapered levels.
- Benefit in Kind at 0% for electric cars provided by employers.
- No other announcement in relation to gift/inheritance tax rates or thresholds – possibly more details in the Finance Bill.

The savings from income tax / USC are aimed at the “squeezed middle” and can be summarised as set out below. The numbers assume the person is single for illustrative purposes:

Annual income	Employee – savings per annum	Self-employed – savings per annum
€30,000	78	278
€50,000	278	478
€75,000	329	529
€100,000	329	529
€150,000	329	529

## Property

The Budget included a number of measures intended to generate movement within the residential development sector.

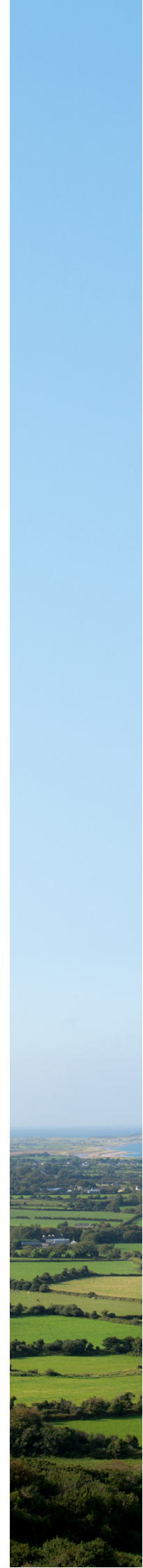
- The rate of stamp duty on the transfer of non-residential property is currently 2%. This rate is being increased to 6% in respect of documents executed after midnight on 10 October 2017.

However, a refund of stamp duty paid on commercial land purchased for residential development may be obtained provided the development has commenced within 30 months of the land purchase.

- The Vacant Site Levy was previously going to be a 3% levy commencing in 2019. The levy will remain at 3% in year 1, but will increase to 7% in subsequent years.
- S604A of the Taxes Consolidation Act 1997 provides CGT relief on the capital uplift of properties purchased between 7 December 2011 and 31 December 2014. Pre Budget 2018, to qualify, the property must have been held for a period of seven years.

An amendment to the qualifying criteria has been announced that will allow owners sell qualifying properties between the fourth and seventh anniversary of acquisition and still receive full CGT relief.

- A tapered extension of mortgage interest relief for owner occupiers who took out qualifying mortgages between 2004 and 2012 was announced.





# Business Tax

- The 12.5% corporation tax rate will remain. “Ireland must compete, not only on the rate, but on the ability to offer certainty”.
- Capital allowances on intangible assets will be capped at 80% of the relevant income (down from 100%) in any one year. This limitation will only apply on expenditure incurred from midnight on the 10th of October 2017.
- A new initiative – Key Employee Engagement Programme – was introduced. It is an advantageous tax treatment for share based remuneration for employees of unquoted SMEs. CGT rates, rather than income tax rates, will apply and the tax will not become payable until the shares are sold.

## Farming and Agri-Business

- Agricultural land which is used 50% or more for solar infrastructure will now qualify as agricultural land for the purpose of two valuable reliefs, Agricultural Relief (CAT) and Retirement Relief (CGT).
- The accelerated capital allowances regime for certain energy efficient equipment has been extended to 2020.
- Consanguinity relief for stamp duty has been extended to 2020, which reduces the stamp duty rate on the transfer of certain agricultural property between family members to 1%.

## VAT

- No change was announced in relation to the 9% VAT rate on tourism related activities.
- A VAT refund scheme is being introduced for charities to compensate them for VAT which they incur on their expenses. The level of VAT refund available will be linked to the amount of non-public funding they receive. The scheme will apply from 2019 in respect of VAT expenses incurred in 2018.
- The VAT rate on sunbed services is being increased from 13.5% to 23% from January 2018.

## Old and New Reliabilities

- A 50 cent increase in the price of a packet of 20 cigarettes has been announced from midnight on 10 October 2017, bringing the average price to €12 per packet. This includes a pro rata increase on other tobacco related products and a 25 cent increase on rolling tobacco.
- The duties on alcohol, petrol and diesel remain untouched.
- As expected, a sugar tax will be introduced – based along the lines of the UK model – with effect from 1 April 2018. The sugar tax will be charged at a rate of 20 cent per litre on sweetened drinks with between 5 and 8 grams of sugar per 100ml, with a higher rate of 30 cent per litre on drinks with 8 or more grams per 100ml.





# Tax Team



**Alma O'Brien**

Partner | Head of Tax  
alma.obrien@bakertillyhb.ie



**Donal Leahy**

Partner | Tax  
donal.leahy@bakertillyhb.ie



**Donal Bradley**

Director | Tax  
donal.bradley@bakertillyhb.ie



**Brenda Swords**

Senior Manager | Tax  
brenda.swords@bakertillyhb.ie



**Kate Prendiville**

Senior Manager | Tax  
kate.prendiville@bakertillyhb.ie

