Budget 2022 Highlights

by Mairead Hennessy

Budget 2022 was announced by the Ministers for Finance and Public Expenditure Paschal Donohoe and Michael McGrath on 12th October last. The Budget has been shaped in the context of the recovery from the Covid-19 Pandemic, Brexit and the recently agreed OECD international tax reform package.

It was acknowledged by the Ministers that the economy is gaining momentum at a very quick pace however, caution was called for in light of the significant Exchequer deficit arising from significantly increased Government expenditure since the onset of the pandemic in March 2020.

The Budget focused on public expenditure in the areas of health, housing, childcare, climate change measures and financial supports for industry sectors impacted by the pandemic.

This article summarises the main tax and public expenditure measures announced in Budget 2022.

Tax measures

The following tax measures will take effect from 1st January 2022, unless otherwise stated.

Personal Tax

Income Tax Rates and Credits

There were no changes made to tax rates for 2022. The standard income tax rate will remain at 20% and the higher rate at 40%.

The Standard Rate Cut Off Points (SRCOPs) for 2022 have been increased as follows:

SRCOP	2021	2022
Single / Widowed Person or Surviving Civil Partner – no children	First €35,300 @ 20% Balance @ 40%	First €36,800 @ 20% Balance @ 40%
Single / Widowed Person or Surviving Civil Partner with qualifying children	First €39,300 @ 20% Balance @ 40%	First €40,800 @ 20% Balance @ 40%
Married Couple / Civil Partnership One Income	First €44,300 @ 20% Balance @ 40%	First €45,800 @ 20% Balance @ 40%
Married Couple / Civil Partnership – Two incomes	First €44,300 @ 20% Balance @ 40%	First €45,800 @ 20% . Plus an amount equal to the lower income (subject to a maximum of €27,800) Balance @ 40%

Certain income tax credits will increase as follows:

Personal Tax credits and bands	2022	2021
Single	€1,700	€1,650
Married	€3,400	€3,300
PAYE	€1,700	€1,650
Earned income tax credit for self-employed	€1,700	€1,650

The sea-going naval personnel tax credit of €1,500 has been extended to 31 December 2022.

These increases were introduced as an effort to ease the cost of living pressure that taxpayers are experiencing as a result in rising prices and inflation.

Universal Social Charge (USC)

A rise in the minimum wage from €10.20 to €10.50 was announced in the Budget to take effect from 1 January 2022. To ensure that the salary of a full-time worker on the minimum wage will remain outside the 4.5% rate of USC in light of this increase the ceiling of the second USC rate will increase from €20,687 to €21,295. Taxpayers with income over €21,295 will also benefit.

The USC rates and bands from 1 January 2022 will be:

- €0 – €12,012 @ 0.5% - no change
- €12,013 – €21,295 @ 2%
- €21,296 – €70,044 @ 4.5%
- €70,045+ @ 8%
- Self-employed income over €100,000: 3% surcharge

Incomes of less than €13,000 remain exempt from USC.

PRSI

The weekly threshold for the higher rate of employer's PRSI will increase from €398 to €410 to reflect the increase in the minimum wage noted above.

Extension of warehousing of tax liabilities for proprietary directors

The Tax Debt Warehousing Scheme

has been extended to allow individuals who have a "material interest" in their employer company to participate.

The Scheme will be extended to all self-assessed income taxpayers with employment income who have a material interest in their employer company to warehouse income tax liabilities relating to their salary from that employer.

This is a very positive measure without which the employer company's warehoused payroll tax liabilities would effectively fall on the individual.

Working from home incentives

The existing tax relief for employees who work from home will be enhanced and formalized. There is no change to current arrangements whereby an employer can pay up to €3.20 per day tax free to an employee working from home. However, where the employer does not make such payment, the facility for employees to claim tax relief from the Revenue will be formalized and tweaked. A tax deduction will be available for employees for 30% of vouched utility expenses in respect of days spent working from home.

Pre-letting expenses

The pre-letting expenditure relief has been extended to the end of 2024.

A deduction against rental income is available for expenses incurred on a vacant residential premises prior to it being first let after a period of non-occupancy (at least 12 months). The deduction is capped at €5,000 and must be incurred in the 12 months before the letting.

Changes to Benefit-in-Kind (BIK) exemption for electric vehicles

There will be an extension of the BIK exemption for electric vehicles to 2025.

From 2023, a tapering effect on the vehicle value will apply. Under current rules, until 31 December 2022, a BIK is only payable on the excess of the original market value over €50,000. This €50k threshold will taper to €35k in 2023, €20k in 2024 and €10k in 2025.

Help to Buy

The enhanced version of the Help-to-Buy scheme introduced in the July Stimulus Package last year, has been extended until 31 December 2022. The maximum credit is 10% of the house price, up to a maximum of €30,000.

Employment & Investment Incentive Scheme (EIIS)

EIIS is being extended until 31 December 2024 and details of enhancements to the Scheme are included in the Finance Bill. These amendments are aimed at encouraging the flow of much needed seed/early-stage investment capital. Among these Finance Bill changes are the following provisions:

- The scheme will be opened up to a wider range of investment funds.
- Investors will be allowed greater capacity to redeem capital without penalty in the "capital redemption window".
- The current rule that requires 30% of investment to be spent before relief can be claimed is to be removed.

Flight crew

Currently, any individual who is employed on board an aircraft operated in international traffic where the place of effective management of the enterprise is in Ireland is subject to Irish income tax. This provision will be amended to exclude non-resident flight crew where several conditions are met.

Income from micro-generation of electricity

Up to €200 of income received by households from the sale of residual electricity to the grid will be disregarded for tax purposes.

Business Taxation

Corporation tax rate

Prior to the announcement of the Budget, the government signed the OECD agreement to introduce in Ireland

- a new minimum corporation tax rate of 15%; and
- the method of allocating taxable profits between jurisdictions.

These provisions result from the OECD's "BEPS 2.0" initiative which proposed a two-pillar approach to dealing with international tax challenges in the era of a digitalized global economy.

Pillar 1 deals with the allocation of company profits between jurisdictions largely based on the location where the services are consumed. Provision in Pillar 1 will apply to group with annual consolidated revenues of greater than €20 billion.

Pillar 2 proposes rules to ensure that groups with annual consolidated revenues of greater than €750 million will pay an effective rate of tax of at least 15%.

A significant level of technical detail still needs to be agreed in relation to these new tax rules and no firm date has been set for when these measures will take effect.

Importantly for Irish SMEs, companies that are outside of the scope of this new legislation will be unaffected by the OECD provisions and the 12.5% corporation tax will continue to apply to the taxable trading profits of those companies.

Employment Wage Subsidy Scheme (EWSS)

The EWSS will be extended until the end of April 2022 on a graduated form. In relation to the scheme, the following points have been confirmed:

- The current rates will be retained for October and November 2021.
- Employers availing of EWSS on 31 December will continue to be eligible until 30 April 2022 assuming they meet the eligibility criteria which will continue to be a 30% reduction in turnover / customer orders in 2021 compared to 2019.
- EWSS will close for new claims from 1 January 2022.
- For December, January and February, a two tier structure will apply to subsidy payments with rate of €151.50 and €203.
- For March and April 2022, a flat rate subsidy of €100 will replace €203 and €150. Also, the rebate of Employer's PRSI will no longer apply for these two months.

Energy-efficient capital allowances

The scheme for accelerated capital allowances for qualifying energy-efficient equipment is being extended for a further 3 years up to 31 December 2024.

As part of the Budget announcement, changes to the current scheme will be introduced where capital allowances at a rate of 100% of the cost incurred on qualifying assets can be claimed in the year of acquisition rather than 8 years for non-qualifying assets.

The scheme is being amended to exclude equipment directly operated by fossil fuels as qualifying assets. The accelerated capital allowances scheme for gas vehicles and refueling equipment has also been extended to 31 December 2024 and extends the definition of qualifying assets to hydrogen-powered vehicles and refueling expenditure.

Corporation tax start-up relief

The existing corporation tax relief for certain start-up companies will be extended until 31 December 2026, and will be available for the first 5 years (rather than the first 3 years) of trading.

Tax credit for the digital gaming sector

A new tax credit for the digital gaming sector was announced. As EU State aid approval is required, the credit will be introduced subject to a Commencement Order.

The introduction of the credit is intended to support quality employment in creative and digital arts in Ireland. The relief will take the form of a refundable corporation tax credit available for digital games development companies for qualifying expenditure incurred on the design, production and testing of a digital game. The credit will be available at a rate of 32% of eligible expenditure up to a maximum limit of €25 million per project. There will also be a per project minimum spend requirement of €100,000. Claims may be made for expenditure incurred on an annual basis and therefore it will not be necessary to wait for the completion of a project to make a claim.

A digital game must be issued with a Cultural Certificate from the Minister for Tourism, Culture, Arts, Gaeltacht, Sport and Media to qualify for the credit. Relief will not be available for digital games produced mainly for the purposes of advertising or gambling. To avail of the credit, a digital game development company will be required to sign an undertaking in respect of quality employment similar to the requirements in place for tax relief for investment in films.

A claimant company will not be permitted to qualify for additional relief for investment in films or the R&D tax credit.

VAT

The temporary VAT rate reduction for the hospitality and tourism sector to 9% will continue until the end of August 2022.

The flat-rate addition for unregistered farmers will decrease from 5.6% to 5.5% for 2022.

Anti-Tax Avoidance Directive (ATAD) – interest limitation and anti-hybrid

The introduction of new provisions to transpose the interest limitation and anti-reverse hybrid provisions from ATAD into Irish law was announced.

The interest limitation provisions will be significant for any businesses that use inter-group treasury/ lending arrangements. The measure will place a limit on deductible interest costs of 30% of EBITDA for companies that come within its scope. Disallowed interest may be carried forward and deducted in future years if the company has sufficient interest capacity. The measures will be effective for accounting periods commencing on or after 1 January 2022.

Importantly for SMEs, the proposed legislation includes a de minimis provision where interest deductions below €3 million will not be affected, and exemptions will apply for standalone entities, and legacy debt arrangements in place before 17 June 2016.

The anti-reverse-hybrid rules will bring certain tax-transparent entities (such as partnerships within the scope of Irish tax) where the entity is at least 50% owned / controlled by entities resident in a jurisdiction that regards that transparent entity as tax-opaque and, as a result of this differing approach, double non-taxation occurs. When the new rules are implemented the profits of the reverse-hybrid entity will be charged to corporation tax.

Other tax measures

Zoned land tax

A new tax which will replace the vacant site levy will apply to land which is zoned suitable for residential development and is serviced but has not been developed for housing. The rate of the new tax will be quite low at 3% and will be applied to the market value of the land.

For land zoned for residential use before 1 January 2022, there will be a two-year lead-in time and a three-year lead-in time for land zoned after that date.

Carbon tax

The carbon tax rate will increase by €7.50 to €41 per tonne of carbon dioxide emitted. This increase is to apply to all auto fuels from Budget Day (12th October 2021) and all other fuels from 1 May 2022. These measures are aimed at supporting decarbonizing the economy in line with Ireland's commitment to reduce carbon emissions by 7% next year.

VRT

The €5,000 relief for Battery Electric vehicles is being extended to the end of 2023. From January 2022, VRT rates will increase for cars with CO2 emissions in excess of 110g/km.

Excise Duty

Excise duty (including VAT) on cigarettes will increase by 50 cents on a packet of 20, with a pro-rata increase on other tobacco products, from midnight of 12th October 2021.

Non-taxation measures

National Development Plan (NDP)

The Budget allocates €11.1 billion under the NDP together with other non-Exchequer investment to cover areas such as:

- Public transport upgrades
- Housing and Urban Regeneration
- Energy Transition and Resources
- Broadband connectivity and communications

This investment represents Ireland's investment in capital at almost 5% of Gross National Income (GNI) and reaffirms the Government's commitment to infrastructure investment in Ireland.

Innovation Equity Fund

To date, the Government has committed a €30 million investment to the Innovation Equity Fund through the Ireland Strategic Investment Fund. As part of Budget 2022, it was announced that the government intends to commit a further €30 million investment to this fund through Enterprise Ireland. This investment will be matched by €30 million from the European Investment Fund, subject to Board approval. It is intended that these investments will increase the availability of early-stage funding for Irish SMEs. The Innovation Equity Fund is expected to launch in 2022.

Commercial rates

The Commercial Rates Waiver will be extended for Q4, 2021, targeted at the hospitality, arts and certain tourism-related sectors. This is a very welcome measure for businesses that have been worst impacted by the Covid-19 restrictions.

Social welfare

The main social welfare changes announced in the Budget were:

- The maximum rate of all weekly social welfare payments will increase by €5 with proportional increases for qualified adults and people on reduced rates of payment. Individuals aged 25 and under who are getting a reduced rate of Jobseeker's Allowance will get the full €5 increase from January 2022.
- A Christmas Bonus of 100% will be paid in early December 2021 to people getting a long-term social welfare payment.
- The fuel allowance increased by €5 per week from €28 to €33 from 13 October 2021. From January 2022, the income threshold for Fuel Allowance will increase by €20 from €100 to €120.
- Parent's Benefit will be extended by 2 weeks from 5 weeks to 7 weeks for the parents of children born or adopted from November 2019. This will come into effect in July 2022.
- From June 2022, the income disregard for Carer's Allowance will increase from €332.50 to €350 for a single person and from €665 to €750 for a couple. The capital disregard will increase by €30,000 to €50,000. The period during which Carer's Allowance and Domiciliary Care Allowance can be paid for children in hospital will be extended from 3 months to 6 months.

Other measures

A number of healthcare measures were introduced, including free GP care for children up to the age of 8.

An additional 350 teachers will reduce the pupil/teacher ratio in primary school by one point to 24:1. 980 new teachers will be recruited to support children with special needs and 1165 new Special Needs Assistants (SNAs) will be recruited.

Future tax plans

The Commission on Taxation and Welfare will deliver its report in July 2022 which will set out the Commission's recommendations as regards how best the taxation and welfare system can support economic activity and income distribution, whilst promoting increased employment and prosperity. These recommendations are expected to shape Ireland's tax policy over the next 5-10 years' and it is anticipated that measures reflecting the recommendations will be introduced in annual Budgets over the next few years.

Further, given the extent of the international tax changes that will take effect over the next few years, it is vital that Ireland continues to deliver an attractive package for Foreign Direct Investment (FDI). Domestic tax policy will be a key driver in this area, and it is hoped that further measures will be introduced in the near future to address ongoing domestic issues, such as:

- The need to raise tax revenues to pay for Covid-19 related debt
- Housing and school shortages
- Issues within our health system
- Our climate change commitments
- Ensuring Ireland's readiness for a digital future

Final Comment

The legislation enacting the Budget measures are contained in Finance Bill 2021 which was published on 21st October 2021. The Bill is currently going through the legislative process in the Houses of the Oireachtas. The final text of the Bill is expected to be passed into law before the end of the year.

Overall, Budget 2022 promotes entrepreneurship, job creation and economic growth and has broadly been welcomed among business owners. In my view, there were some missed opportunities, however.

More targeted measures to support climate change would have been very welcome. Also, there were no announcements on capital taxes (i.e. Capital Gains Tax and Capital Acquisitions Tax) which is disappointing for businesses who are concerned about succession planning. In addition, anticipated enhancements to the Special Assignee Relief Programme (SARP) and the R&D tax credit regime did not come to pass. It is hoped that measures addressing these matters will be announced in future Budgets.

"Budget 2022 promotes entrepreneurship, job creation and economic growth"

Mairead Hennessy

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