Overview of Finance Bill 2018

Budget 2019

by Mairéad Hennessy

Mairéad Hennesy gives an overview of Budget 2019 / Finance Bill 2018

Budget 2019 was announced by Finance Minister Paschal Donohoe on 9th October last. The Budget comes at a time when there are more people at work in Ireland than ever before and the economy is growing steadily. Nevertheless, the Minister rightly emphasised the importance of prudently managing the State's finances so as to protect its resilience against global challenges such as Brexit.

This article discusses the main tax measures announced in the Budget and provided for in Finance Bill 2018, as published on 18th October 2018. Changes may be made to the Finance Bill before it is enacted in December 2018.

Personal Taxation

Income tax rates and the Standard Rate Cut-Off Point

No changes to income tax rates were introduced in the Budget, with the standard rate and higher rate remaining at 20% and 40% respectively.

The income tax standard rate bands were increased and the bands for 2019 will be as follows:

Standard Rate Tax Band	2019	2018
Single Individual	€35,300	€34,550
Married One Income	€44,200	€43,550
Married Two Incomes	€70,600	€69,100

Tax Credits

Points to note regarding income tax credits for 2019 are:

- The Personal Income Tax Credit remains unchanged at €1,650 for single individuals and €3,300 for married couples.
- The Earned Income Tax Credit will increase from €1,150 to €1,350 in 2019 for taxpayers earning self-employed trading or professional income and for business managers who are not eligible for the PAYE Tax Credit.
- The PAYE Tax Credit remains unchanged at €1,650.
- The Home Carer's Tax Credit increase by €300 for 2019 to bring it up to €1,500 per year.

Universal Social Charge (USC)

For 2019, USC will apply at the following rates for those earning in excess of €13,000:

- On the first €12,012 – 0.5%
- On the next €7,862 – 2.0%
- On the next €50,170 – 4.5%
- On the balance – 8%
- Self-employed people earning in excess of €100,000 – 11%

Budget 2019 changes to the USC rates ensure that the salary of a full-time worker on minimum wages do not move into the 4.5% USC bracket.

Employment Taxation

Key Employment Engagement Programme (KEEP)

The KEEP was introduced in Finance Act 2017 to support SMEs to attract and retain key talent by providing for an advantageous tax regime for employee share options. The scheme has been amended under this year's Finance Bill such that the ceiling on the maximum annual market value of the shares to be awarded equates to an employee or director's salary or €100,000. Also, the total market value of shares that can be granted by a company to a director or employee is now subject to a life-time cap of €300,000.

These amendments are subject to Ministerial order following State Aid approval.

Benefit in Kind (BIK) on Electric Vehicles

The exemption from BIK on electric vehicles that was introduced in Finance Act 2017 has now been extended until 31 December 2021 for electric vehicles with an original market value (OMV) of €50,000 or less. A deduction of €50,000 will be available for electric cars and vans with an OMV in excess of €50,000 when determining the taxable BIK using existing rules.

Corporation Tax

Exit Tax

A new exit tax regime was announced in the Budget and took effect on 10th October 2018. 12.5% exit tax now applies to any unrealised capital gains when companies migrate or move assets offshore such that they leave the scope of Irish tax, by deeming a disposal to have occurred. The rules include an anti-avoidance provision where the 33% rate rather than the 12.5% rate will apply if the event that gives rise to the exit tax charge forms part of a transaction to dispose of the assets and the purposes of the transaction is to ensure that the gain is taxed at the lower 33% rate.

Controlled Foreign Company (CFC) Rules

New CFC rules are being introduced for accounting periods beginning on or after 1 January 2019. These rules are an anti-tax abuse measure designed to prevent the diversion of profits to offshore entities in low- or no-tax jurisdictions and are required by the EU's Anti-Tax Avoidance Directive (ATAD). The rules operate by attributing certain undistributed income of a CFC, arising from non-genuine arrangements put in place with the aim of securing a tax advantage to the controlling company in Ireland for immediate taxation, where that parent company has "relevant Irish activities", including significant people functions in Ireland.

Start-Up Relief for Companies

The three-year corporation tax relief for certain start-up companies is extended until 31 December 2021.

Film Relief

Film Relief is extended until December 2024 and will operate on a self-assessment basis. Provision is also made for a time-limited tapered percentage uplift in relief for productions in State Aid approved regions of the country. The uplift is tapered over 4 years and is applied at a rate of 5% in years 1 and 2, 3% in year 3 and 2% in year 4. The tapered uplift is subject to State Aid approval.

Investment Reliefs

Changes to tax reliefs on investments in start-up and scale-up businesses were flagged in the Budget. The details of these changes as set out in the Finance Bill are positive and an overall improvement which hopefully will increase the take up of these tax reliefs.

Start- Up Capital Incentive (SCI)

The Finance Bill introduces a new SCIfor micro companies at the very early stage of their life cycle. This incentive includes the following features:

- A self-certifying capability for the company raising investment
- The possibility for relatives of the founder to make a qualifying investment
- The qualifying company cannot have traded or prepared to trade, more than 7 years prior to the share issue date and cannot have any partner businesses or linked businesses.
- The maximum lifetime limit on qualifying investments is €500,000

Employment Incentive and Investment Scheme (EII) and Start Up Relief for Entrepreneurs (SURE)

- As was announced on Budget Day, changes to the EII and SURE tax relief schemes are being introduced so as to address a number of issues regarding the administration of the schemes, small enterprise exceptions and accessibility of the provisions. Both schemes are moving to a self-certification model whereby a qualifying company will be required to provide a "statement of qualification" to certify that the company is a qualifying company before tax relief can be claimed. Both EII and SURE have been extended until 2021.
- There have also been some changes regarding the operation of EII, namely:
- Preference redeemable shares are no longer prohibited.
- Companies that raise funds via EII can now float on the stock exchange.
- Anti-avoidance provisions will apply to deny relief where there are mechanisms put in place to limit the risk of the investor in making the investment.

Other Business Tax Measures

- A number of accelerated allowance schemes have been introduced for capital expenditure incurred on the following:
- Gas propelled vehicles and refuelling equipment used for the purposes of carrying on a trade which includes hire to or carriage of members of the public in the ordinary course of a trade.
- Equipment and buildings used by employers for the purposes of providing childcare services or a fitness centre to employees. This relief will be available to all employers, not just trades consisting wholly or mainly of the provision of childcare services or fitness facilities. One condition of the relief is that the facilities provided cannot be accessible or available for use by the general public.

Agri-tax

Stock relief and young farmer stamp duty relief have been extended to 2021. In order to meet anti-State Aid provisions, a life-time cap of €70,000 on the aggregate of certain stamp duty and capital gains tax (CGT) reliefs available to young farmers is being introduced. The Finance Bill also provides that farmers or their spouse / civil partner with off-farm income from a trade or profession can avail of the 5-year income averaging relief.

Details of when Revenue should receive information supporting a claim for farm restructuring relief are also contained in the Finance Bill

Property Related Tax

Interest Deductibility for Landlords Minister Donohoe announced on Budget Day that landlords will receive a 100% Case V deduction against rental income for interest on qualifying loans with effect from 1 January 2019. This accelerates the restoration of the relief by 2 years.

Rent-a-Room Relief

The Finance Bill also confirms Revenue's approach that income from Airbnb lettings does not qualify for rent-a-room relief. This is put beyond doubt as the Bill introduces a minimum rental period of 28 days for the relief to apply from 1 January 2019. This measure will not impact short-term lettings to language students, provision of respite care or five day a week "digs".

Capital Taxes

Transfer of a Site by a Parent to a Child

The existing CGT relief on the transfer of a site by a parent (or both parents simultaneously) to a child to enable the child to build their own home is extended in the Finance Bill to the spouse or civil partner of the child for disposals made on or after 1 January 2019.

Trusts ceasing to be resident in Ireland

Section 579B TCA 1997 imposes a CGT charge where the trustees of a trust become non-Irish resident or ordinarily resident. Following a ruling by the European Court of Justice recently, the Finance Bill amends section 579B to allow trustees to opt to pay tax under the section in instalments over 5 years.

Capital Acquisitions Tax (CAT) Thresholds

As announced on Budget Day, the Group A CAT Threshold which applies to gifts and inheritances from a parent to a child was increased from €310,000 to €320,000 for gift or inheritances taken on or after 10 October 2018.

CAT Dwelling House Exemption

The Dwelling House Exemption relieves a beneficiary of a CAT liability on the inheritance of certain residential property. One of the conditions of this exemption is that the beneficiary does not have a beneficial interest in any other dwelling house at the date of the inheritance. The Finance Bill introduces an anti-avoidance measure to prevent a person who inherits property from claiming the Dwelling House Exemption, by transferring their interest in another dwelling into a discretionary trust.

Time limit for Revenue Enquiries

Revenue can generally make enquiries about a tax return during the four years after the return is received. There are a number of CAT reliefs (e.g. Business Property Relief and Agricultural Relief) which can be clawed back if conditions are not met for a longer period than four years. The Finance Bill allows Revenue to make enquiries during the four-year look back period which starts on the latest date on which all of the conditions for the relief were required to be satisfied.

Surcharge for late filings

The Finance Bill applies a surcharge where discretionary trust tax returns are not filed by the due date which is within the four months of the valuation date.

Payment of Tax following an Appeal

The Finance Bill provides that any additional CAT that is due following the outcome of an appeal before the Appeal Commissioners is due on the original due date of the appealed assessment unless the tax paid before the appeal was made was at least 90% of the tax due. In these cases, the taxpayer has one month after the date of the determination of the appeal to pay the tax due.

Credit for CGT

A credit for CGT paid is allowed against a CAT liability that arises on the same event. However, if the asset is sold within 2 years of the gift or inheritance then the relief is clawed back. The Finance Bill disapplies this clawback where a life assurance policy that must be cashed in and cannot be retained for the required 2-year period (as it is generally cashed in on a death).

VAT

The VAT rate on tourism increases with effect from 1 January 2019 from 9% to 13.5%, except for the provision of sporting facilities and the supply of newspapers and other periodicals.

The 9% VAT rate will also apply to the supply of electronic publications which is defined in the Finance Bill as including the electronic supply of newspapers, periodicals and books.

Overall Comment

The measures introduced in Finance Bill 2017 are broadly positive. However, disappointingly there has been no changes to key areas such CGT Entrepreneur Relief or the additional USC levy for self-employed individuals. It is hoped that measures addressing these areas will be introduced in the near future.

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