



## OHT Guide - Budget 2019

Minister for Finance Paschal Donohoe announced Budget 2019 on 09 October 2018. Many of the measures announced had been leaked in advance and the widely anticipated increase in the income tax standard rate band and cuts to USC were confirmed.

While acknowledging the very high level of national debt (€42,000 for every person resident in Ireland) the Minister indicated that his intention is *“to run surpluses into the future if the economy continues to perform well and to use them to reduce our national debt”*.

### Income Tax

#### Standard Rate Band

Budget 2019 announced an increase of €750 in the income tax standard rate band for all earners, from €34,550 to €35,300 for single individuals and from €43,550 to €44,300 for married couples where only one person is earning income.

#### Tax Credits

There will be an increase in the Home Carer Tax Credit from €1,200 to €1,500 and an increase in the Earned Income Credit for self-employed individuals from €1,150 to €1,350 for the 2019 tax year.

#### Interest Deduction for Landlords

Finance Act 2017 provided that the deduction available for mortgage interest paid on a loan used to purchase, improve or repair a rental property would increase by 5% each year from 75% in 2016 to 100% in 2021. Budget 2019 announced that the increase in the amount deductible will be accelerated so that a 100% deduction is available from 01 January 2019.

### Tax Appeals Commission (TAC)

The TAC is receiving approximately 150 appeals per month in 2018. The 2017 Annual Report from the TAC indicated that it is not adequately resourced to deal with this volume of cases and there was an urgent need for additional staff and resources. The Minister published an independent review of the operation of the TAC and announced his support for the recommendations of the review, mentioning in particular the need for additional staffing and improved IT systems.

## USC

The 2% USC band will increase by €502 and the 4.75% rate will reduce to 4.5%. The standard USC rates and bands from 01 January 2019 will be:

€0 – €12,012	0.5%
€12,013 – €19,874	2%
€19,875 – €70,044	4.5%
Over €70,044	8%

The 3% surcharge that applies to self-employed income which exceeds €100,000 is still in place.



### Capital Acquisitions Tax

The group (a) tax free threshold which primarily applies to gifts/inheritances from parents is being increased to €320,000. This increase of €10,000 applies in respect of gifts or inheritances received on or after 10 October 2018.

This relatively small increase does not tie in with previous indications that the threshold would increase to €500,000.

## **Agri-Taxation Measures**

*“...the sector is facing a number of threats with Brexit posing specific challenges... I also recognise that 2018 has been a difficult year for farmers.”*

Minister Paschal Donohoe, Budget 2019

### *Income Averaging*

Income averaging allows farmers to pay tax on the average income of their farming trade over a period of 5 years, on a rolling basis. This has the effect of averaging the income tax liability over a 5 year cycle, to assist in managing cash flow. This tax treatment has been available to full-time farmers, farming solely or in partnership, but restrictions relating to off-farm income are to be removed, widening the scope of the relief.

### *Stock Relief*

Stock relief encourages investment in farm stock by providing an income tax deduction of 25% of the increase in stock values over an accounting period. Enhanced relief is available to certain categories of farmer (50% stock relief for registered farm partnerships, and 100% stock relief over a 4 year period for young trained farmers). The relief has been extended for 3 years until the end of 2021.

### *Young Trained Farmers Stamp Duty Relief*

There is a stamp duty exemption to encourage the transfer of farmland to a new generation of farmers with relevant qualifications. This has been extended for a further 3 years until the end of 2021.

## **Measures Affecting Business**

*“This is a time of significant global change for business, and my focus is on maintaining a competitive, outward-facing business environment, while ensuring our tax regime is transparent, sustainable and legitimate.”*

Minister Paschal Donohoe, Budget 2019

### *Employer's PRSI*

From 01 January 2019 the weekly income threshold for the higher rate of employer's PRSI will increase from €376 to €386. This will tie in with the increase in the hourly minimum wage to €9.80.

### *Increase in Employer Contribution to National Training Fund Levy*

From 01 January 2019 there will be a 0.1% increase (from 0.8% to 0.9%) in the National Training Fund levy payable by employers in respect of reckonable earnings of employees in Class A and Class H employments.

From 01 January 2020 there will be a further 0.1% increase (from 0.9% to 1.0%) in the National Training Fund levy payable by employers in respect of reckonable earnings of employees in Class A and Class H employments. This will effectively have the impact of pushing the overall rate of employer's PRSI and National Training Fund levy to 10.95% in 2019 (up from 10.85% in 2018).

### *Three Year Start Up Relief*

Three Year Start Up Relief provides corporation tax relief for profit-making start-up companies which create and maintain jobs. The relief is being extended a further three years, until the end of 2021.

### *Film Relief*

The scheme provides relief in the form of a corporation tax credit related to the cost of production of certain films. The credit is granted at a rate of 32% of qualifying expenditure which is capped at €70 million. The credit was due to expire at the end of 2020 and will now be extended until 2024.

A new, short-term, tapered regional uplift commencing at 5% is also being introduced, subject to State Aid approval, for productions being made in areas designated under the State Aid regional guidelines.

## *Accelerated Capital Allowances for Employer-Provided Fitness and Childcare Facilities*

This measure, introduced in Finance Act 2017, is being amended and commenced with effect from 01 January 2019. Its purpose is to incentivise employers to provide fitness and/or childcare facilities for the use of their employees, by providing an accelerated deduction for the capital investment costs incurred (certain of which are currently allowed over 8 years).

## *Anti-Tax Avoidance Directive - Exit Tax*

Budget 2019 announced a new Anti-Tax Avoidance Directive (ATAD) compliant exit tax regime effective from Budget night. It will tax unrealised capital gains where companies migrate or transfer assets offshore such that they leave the scope of Irish tax. The rate for the new ATAD compliant exit tax will be 12.5%.

## *Controlled Foreign Company (CFC) Rules*

The Budget announced that the Finance Bill will also provide for the introduction of a Controlled Foreign Company (CFC) regime as required by the ATAD. CFC rules are an anti-abuse measure, designed to prevent the diversion of profits to offshore entities (the CFCs) in low-tax or no-tax jurisdictions.

## *Value-Added Tax (VAT)*

The VAT rate on tourism activities is to increase to 13.5% from 01 January 2019, with the exception of newspapers and sporting facilities, a measure which will raise an estimated €466m in tax in 2019. The rate of VAT on e-books and electronically supplied newspapers is being reduced from 23% to 9% from the same date.

## **Key Employee Engagement Programme (KEEP)**

Gains arising to employees on the exercise of KEEP share options are liable to Capital Gains Tax (as opposed to income tax, PRSI and USC) on disposal of the shares once the conditions of the relief are met. The incentive is available for qualifying share options granted between 01 January 2018 and 31 December 2023. Further details will emerge when the Finance Bill is published.

Three adjustments to the relief were announced in Budget 2019:

- An increase in the ceiling on the maximum annual market value of shares that may be awarded under the scheme to 100% of salary (up from 50%)
- Replacement of the three-year limit with a lifetime limit, and
- An increase in the value of the share options that can be granted under the scheme from €250,000 to €300,000.

## **Brexit**

*“Brexit is the political, economic and diplomatic challenge of our generation.”*

Minister Paschal Donohoe, Budget 2019

The UK, Ireland's single most important trading partner, is due to formally leave the European Union in less than six months. The Budget was planned around an assumption that an agreement will be reached that facilitates an 'orderly' exit of the UK, with a transition period during which the *status quo* is preserved (until the end of 2020) followed by a 'soft' exit involving some form of bilateral trade agreement between the UK and the remaining 27 EU Member States. However, the Minister indicated that he is taking steps to boost the resilience of the Irish economy in order to minimise (as much as possible) any future disruption, particularly if there is a 'hard' Brexit involving the absence of a transition period.

## **Conclusion**

The Minister announced a range of provisions to help build and support business activities, with a particular focus on Agri-Taxation as 2018 has been a difficult year for farmers. The specific challenges posed by the ongoing uncertainty around Brexit was to the forefront in this Budget with the Minister stressing the need to build sufficient flexibility into Ireland's business landscape to "Brexit poof" the Irish economy as far as possible.

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**Caveat:** These notes are intended as a general guide to Budget 2019 OHT has endeavoured to provide an accurate commentary but the notes cannot cover all circumstances. OHT strongly recommends that formal tax advice be obtained before any steps are taken that may have a tax effect.