OHT Guide
Budget 2023

The Minister for Finance, Paschal Donohoe, released details of Budget 2023 on 27 September 2022 against a backdrop of public concerns on general inflation (energy costs in particular) but with the benefit of high tax receipts to assist in funding the Government's spending plans. He noted that a headline inflation rate of 8.5% is being forecast for 2022, and just over 7% is anticipated in 2023, and announced a "*Cost of Living Budget*", focused on helping individuals, families and businesses to deal with rising prices.

Income Tax Measures

Income Tax Rates & Tax Credits

The following changes have been made to the income tax standard rate band cut-off points:

- The Single, Widowed, or Surviving Civil Partner band rises to €40,000
- The Single Person Child Carer band rises to €44,000
- The Married Persons or Civil Partners (One Income) band rises to €49,000
- The Married Persons or Civil Partners (Two Incomes) band rises to €49,000, with an maximum increase of up €31,000

The following changes have been made to tax credits:

- Personal Tax Credit rises to €1,775
- Employee Tax Credit rises to €1,775
- Earned Income Credit rises to €1,775
- Home Carer Credit rises to €1,700

Small Benefit Exemption

An employer can give employees a small non-cash benefit of up to €500 in value, tax free, each calendar year. It is proposed to allow up to 2 tax-free benefits for each tax year (2022 and 2023) subject to an overall maximum value of €1,000.

Special Assignee Relief Programme (SARP)

SARP provides income tax relief for non-residents who are assigned by their employers to move from abroad to work in Ireland. The relief is being extended for a further 3 years until 31 December 2025. There is a minimum basic salary threshold (excluding bonuses) and this is being increased from €75,000 to €100,000 for new claims.

Foreign Earnings Deduction (FED)

The FED scheme is being extended until the end of 2025. This scheme provides income tax relief on up to €35,000 of income for Irish tax-resident employees who travel outside Ireland to carry out temporary employment duties in certain qualifying countries.

> *"...one of my core objectives in Budget 2023 is to ensure that workers do not find themselves in a position where they pay more income tax solely because of inflation."*
>
> Paschal Donohoe, Minister for Finance

USC

In order to ensure a full-time worker on the minimum wage remains outside the top rates of USC, the ceiling for the 2% USC band has increased to €22,920.

The reduced rates of USC, available to medical card holders with a yearly income which does not exceed €60,000, are being extended until 31 December 2023.

Rent Tax Credit

A new yearly tax credit of €500 is to be introduced for renters in the private rental sector who are not in receipt of other State housing support.

Only one credit may be claimed per person per year, but married couples and Civil Partners may claim a double credit. It is proposed that the credit will be claimed for the years 2023 to 2025, and that a credit for rent paid in 2022 can be claimed in 2023.

Section 481 Film Relief

S. 481 TCA 97 provides a film tax credit available to production companies in the film industry. The amount of relief due depends on the cost of the audio-visual production and if the relief is more than the tax due, Revenue will pay the difference.

The credit is granted at a rate of 32% of qualifying expenditure which is capped at €70 million and the end date for the relief is being extended from 31 December 2024 to 31 December 2028.

Housing

Pre-letting Expenses for Landlords

Section 97A Taxes Consolidation Act 1997 (TCA 97), provides that certain expenses, incurred on a vacant residential premises prior to it being first let after a period of non-occupancy, (pre-letting expenses) are allowable as a deduction against rental income from that property.

The eligible expenditure cap is being increased from €5,000 to €10,000 per property with effect from 01 January 2023.

Additionally, the period which the property must be vacant for pre-letting expenses to be allowable is being halved from 12 to 6 months.

Help to Buy (HTB)

The HTB scheme is being extended to 31 December 2024, which is a further two years.

Vacant Homes Tax (VHT)

A new Vacant Homes Tax (VHT) will be introduced in 2023. It is noted that the primary objective of the tax is to change behaviour rather than raise revenue.

The main points of VHT are as follows:

- VHT applies to residential property only
- The tax will not apply to derelict properties or properties unsuitable for use as a dwelling
- A property will be considered vacant if occupied for less than 30 days in a 12-month period
- The tax will be charged at a rate equal to three times the base Local Property Tax liability
- The Local Adjustment Factor, which can reduce or increase the LPT liability, will not be taken into account when calculating the VHT
- Provisions will be made for exemptions for temporary vacancy arising from genuine reasons e.g., a sale, illness, long-term care or significant refurbishment work
- The tax will be self-assessed and administered by the Revenue Commissioners

Stamp Duty

Young Trained Farmer Relief & Farm Consolidation Relief

The Young Trained Farmer Relief and Farm Consolidation Relief are being extended to 31 December 2025, subject to the finalisation of issues relating to the Agricultural Block Exemption Regulation at EU level.

The Young Trained Farmer Relief provides a full exemption from Stamp Duty to young trained farmers in the acquisition of farmland and agricultural buildings.

Whereas, the Farm Consolidation Relief provides that a 1% rate (as opposed to the non-residential rate of 7.5%) applies in cases of acquisitions and disposals of agricultural land where the transactions qualify for a ‘Farm Restructuring Certificate’ from Teagasc.

Living City Initiative (LCI)

The Living City Initiative is being extended to 31 December 2027 and the relief for owner-occupiers is being accelerated so that it may be claimed over 7 years instead of the current 10 years. A carry forward of excess relief will be allowed where it cannot be absorbed in the tax year, up to a maximum of ten years. This is to ensure that the overall relief that can be claimed will not be reduced as a result of this acceleration.

New Defective Concrete Products Levy

A new levy of 10% will be applied to ready-mix concrete and certain other concrete products at the point of first supply in Ireland, with a view to offsetting the cost of the Mica Redress Scheme.

“...housing is the central challenge facing the country over the next number of years.

Too many people cannot afford to buy their own home, or are paying too much of their income in rent. Too many people have no home at all. Hundreds of thousands of homes will be required over the next decade across all sectors, social, private and rental.”

Paschal Donohoe, Minister for Finance

Residential Development Refund Scheme

The stamp duty refund scheme which has been in place since 2017 allows a taxpayer to claim a refund of a portion of the stamp duty paid on the acquisition of non-residential land.

The refund scheme brings the stamp duty rate down from 7.5% to 2%, where the land is subsequently developed for residential purposes.

The Minister noted that by the end of 2021, the projects which had availed of the refund scheme delivered over 15,000 residential units.

The construction commencement date is being extended from 2022 to 31 December 2025.

Measures to Support Enterprise

Research and Development Tax Credit

The Research and Development (R&D) tax credit provides a 25% tax credit for all qualifying R&D Expenditure and this is being updated to adjust the timing of payment of the credit, to align it with international developments.

Currently a taxpayer uses the credit in three instalments but that is now being moved on to a fixed 3-year payment system. Transitional measures will be in place for one year.

A company will have an option to call for payment of the R&D tax credit or offset it against other tax liabilities, and existing caps on the payable element of the credit are being removed. The first €25,000 of a claim will be payable in the first year, to provide a cash-flow benefit for smaller R&D projects and to encourage more companies to claim the credit.

Knowledge Development Box

The Knowledge Development Box (KDB) is an intellectual property regime which provides an effective 6.25% rate of corporation tax for certain income from qualifying assets created by R&D activities.

It is being extended for a further 4 years, to allow the relief to be available for accounting periods commencing before 01 January 2027. In order to prepare for the implementation of the OECD Pillar Two agreement, which is designed to ensure that large multinational enterprises (MNEs) pay a minimum level of tax on the income arising in each jurisdiction where they operate, the effective rate of tax on the KDB is being increased to 10%.

This change needs to be brought into effect by Ministerial Order once the OECD proposals are implemented.

VAT

Zero VAT Rate

The application of a zero VAT rate from 01 January 2023 is being made in respect of the following:

- Newspapers and news periodicals, including digital editions
- Automatic External Defibrillators
- Period products
- Non-oral Hormone Replacement Therapy
- Non-oral Nicotine Replacement Therapy medicine

The flat-rate scheme compensates unregistered farmers on an overall basis for VAT incurred on their farming inputs and this flat-rate decreases from the current 5.5% rate to 5.0% from 01 January 2023.

9% VAT Rate for Gas and Electricity

The 9% VAT rate for gas and electricity which was introduced on 01 May 2022 has now been extended to apply up to 28 February 2023.

Key Employee Engagement Programme (KEEP)

This scheme is being extended until 31 December 2025, and is also being amended to allow buyback of KEEP shares from the relevant employee by the company. The lifetime company limit for KEEP shares rises to €6 million.

Changes to the KEEP rules made in Finance Act 2019 concerning group structures and qualifying employees are being brought into effect following consulting with the European Commission.

Farm Stock Reliefs

Stock relief measures for registered farm partnerships and young trained farmers are being extended until end-2024 but this change is contingent on the update of the Agricultural Block Exemption Regulation (ABER).

Construction of Slurry Storage Facilities

An accelerated capital allowances scheme for the construction of slurry storage facilities has been introduced for farmers. The scheme allows farmers to write off the capital cost of the facilities over 2 years rather than 7 years.

Conclusion

At the end of August 2022, tax revenues stood at almost €50bn, which was up by over €10bn on 2021 tax revenues. Due to increases in corporation tax, income tax and VAT receipts, the Government is predicting a 2022 surplus of €1bn (which is a substantial improvement on the 2021 deficit of €7bn), and an increased surplus of €6.2bn is predicted for next year.

The Minister has the funding to increase spending to assist those in need but he noted that in drafting Budget 2023 the Government has a responsibility to strike a delicate balance between helping with the cost of living pressures but, on the other hand, not making them worse by adding fuel to the inflationary fire.

Caveat: *These notes are intended as a general guide to Budget 2023 OHT has endeavoured to provide an accurate commentary but the notes cannot cover all circumstances and OHT strongly recommends that formal tax advice be obtained before any steps are taken that may have a tax effect.*