EVERSHEDS SUTHERLAND

Field of view
Budget 2021 summary

On 13 October 2020, Ireland’s Minister for Finance and Public Expenditure and Reform, Paschal Donohoe T.D., (the “Minister”) delivered his Budget 2021 speech.

Budget 2021, which was the largest in the history of the Irish State, was framed against the backdrop of a period of unprecedented uncertainty, with Covid-19 and Brexit to the fore in the various spending measures announced. A record spending package of over €17 billion has drawn broad economic welcome, notwithstanding a projected deficit of €21 billion. A strong performance from the resilient multinational economy has meant that the fall in consumption taxes has been cushioned to a large extent by increased corporation taxes. Further, projected falls in GDP have not been as stark as initially feared, with those strong GDP numbers limiting the rise in the debt/GDP ratio, and low interest rates keeping the cost of national borrowing manageable.

The Budget focused heavily on spending, with a tax package of only €270 million. Set out below is a brief overview of the key Tax highlights arising from Budget 2021 as announced. Further details regarding the changes highlighted by the Minister, as well as any measures not specifically announced in his speech, are awaited in the Finance Bill which is expected to be published on 22 October 2020.

The majority of the measures announced by the Minister will take effect from 1 January 2021 following the passing of the Finance Bill. Some of the measures announced by the Minister were introduced by way of financial resolution and took effect from midnight on 13 October 2020 (the relevant measures are referenced below) and other initiatives, such as measures to promote the digital gaming industry are to be developed in 2021 for implementation in 2022.

Tax highlights	
Policy outlook and international tax reform	- Continued commitment to Ireland’s 12.5% corporate tax trading rate. - Finance Bill 2020 will include a technical amendment to the Exit Tax legislation contained in the Anti-Tax Avoidance Directive (“**ATAD**”) to ensure that the provision relating to the calculation of interest on instalment payments of Exit Tax operate as intended. - The process of the transposition of interest limitation rules and reverse anti-hybrid rules required under ATAD will continue into 2021. Following a consultation process, it is expected that such rules will be contained in Finance Bill 2021.

Tax highlights	
	- A technical amendment to section 541 Taxes Consolidation Act 1997 ("**TCA**") to include that transfers of foreign currency between bank accounts, denominated in the same foreign currency held by the same person will not be subject to Capital Gains Tax ("**CGT**"). This will apply to disposals made on or after 14 October 2020. - Work will take place in 2021 on the development of a tax credit for the digital gaming sector, with a view to supporting qualifying activity from January 2022 onwards. - An update to Ireland's Corporation Tax Roadmap is also to be published to summarise the decisions implemented to date and outline areas for future consideration, consultation and action.
Domestic and international large companies	- For specified intangible assets, a balancing charge, or clawback of tax depreciation allowed against the assets, did not previously arise where such an asset was disposed of more than five years after the beginning of the accounting period of the company in which the asset was first acquired. With effect from 14 October 2020, balancing charges may now also arise in respect of specified intangible assets acquired on or after 14 October 2020 where the asset is disposed of more than five years after the beginning of the accounting period in which the asset was first acquired. - Extension of Knowledge Development Box, which provides for a 6.25% effective rate of corporation tax on profits generated from exploiting certain assets, such as patents and software through research and development (R&D) activities carried out in Ireland, until 31 December 2022. - Amendment of the holding requirement under the CGT Entrepreneur Relief, which allows a CGT rate of 10% on disposals of "qualifying business assets", to allow an individual who held at least 5% of shares in a qualifying company for a continuous period of any three years to qualify for the relief (changed from a requirement of three out of the previous five years). This amendment will come into effect from 1 January 2021.
Measures for businesses impacted by Covid-19	- Introduction of a Covid Restrictions Support Scheme ("**CRSS**") for impacted businesses in line with the Plan for Living with Covid-19. From 13 October 2020, qualifying businesses can apply to the Irish Revenue Commissioners ("**Irish Revenue**") for a cash payment for the period of restrictions which results in their operations being reduced or prohibited, subject to a maximum weekly payment of €5,000. Any payment received under the CRSS will take the form of an advanced credit for tax deductible trading expenses and will be available to businesses that have suffered an 80% decline in turnover, calculated with reference to the business' turnover in 2019. - Extension of section 481 (Film Tax Credit) Regional Uplift scheme by inserting an additional year of uplift at the rate of 5% in 2021. - Reduction of the rate of VAT for the hospitality and tourism sector from 13.5% to 9% from 1 November 2020 to 31 December 2021. - Extension of the tax debt warehousing scheme to include repayments of the Temporary Wage Subsidy Scheme owed by employers. Self-employed taxpayers, who as a result of Covid-19 are unable to pay their income tax liabilities, will also be able to warehouse their 2020 preliminary income tax

Tax highlights	
	liability, and the balance of their 2019 income tax liability. Irish Revenue have advised that if income for 2021 is also at least 25% lower than income for 2019, then the balance of the 2020 income tax liability and the preliminary tax liability for 2021 can also be warehoused. - The waiver of commercial rates, currently in place, has been extended to Quarter 4, 2020 to support eligible businesses impacted by the Covid-19 pandemic. - Confirmation that there will be no cliff edge end to the Employment Wage Subsidy Scheme currently due to expire on 31 March 2021 and that a similar type of scheme will be needed until the end of 2021 to provide businesses with certainty.
Real estate	- Extension of the Residential Development (Stamp Duty) Refund Scheme to 31 December 2022. In addition, the time allowed between commencement and completion of a qualifying project in order to qualify for a refund under this scheme, is to be extended from 24 months to 30 months. - Extension of the Help to Buy scheme, a tax incentive for first-time property buyers to 31 December 2021 with an increase in the amount claimable to €30,000 or 10% of the purchase price, if less.
Employment and individual taxes	- The tax deduction for utility expenses incurred by employees who are remote working is extended to broadband and other vouched expenses provided they are incurred wholly, exclusively and necessarily in the performance of their duties of employment. Further details on this tax deduction are to be provided by Irish Revenue in due course. - Increase in the 'earned income' credit from €1,500 to €1,650, this brings the credits available to self-employed workers in line with those available to employees. - Increase in the 'dependent relative' credit for carers from €70 to €245. - Increase in the 2% Universal Social Charge ("**USC**") band from €20,484 to €20,687 and the threshold for the higher rate of employer PRSI will increase from €394 to €398. These changes, along with the increase in the national minimum wage, are to be introduced from 1 January 2021 with a view to ensuring that a full time minimum wage worker remains within the remit of the 2% USC band, and the 8.8% rate of employer PRSI. - Extension of the reduced rate of USC for medical card holders for a further year.
Agri-sector	- Extension of Consanguinity (Stamp Duty) Relief until 31 December 2023. - Extension of Farm Consolidation (Stamp Duty) Relief until December 2022. - Increase to the Farmers Flat Rate Scheme from 5.4% to 5.6%.
Climate and environmental measures	- Extension of the accelerated capital allowance scheme for Energy Efficient Equipment until 31 December 2023. In addition, the energy efficiency criteria for the scheme will be re-assessed in 2021 to ensure that the categories of equipment availing of this scheme remain appropriate.

Tax highlights	
	- Increase in Carbon Tax from €26 to €33.50 per tonne. This increase will take effect for auto fuels from midnight 13 October 2020. Its application to other fuels will be delayed until 1 May 2021. - A new Vehicle Registration Tax ("**VRT**") structure of rates and bands will be introduced from 1 January 2021 for new vehicles and imports to align with the Worldwide Harmonised Light Vehicle Test Procedure ("**WLTP**") emissions system, VRT reliefs for plug-in hybrid electric vehicles and hybrids will be allowed to expire at the end of 2020 and VRT reliefs for battery electric vehicles will be tapered to reflect the move to the WLTP emissions system. - A new motor tax rate table will be introduced to align with the move to the WLTP emissions system and it will apply to cars first registered in Ireland from 1 January 2021. Changes will also be made to the existing motor tax rate tables that apply to cars first registered in Ireland between July 2008 and December 2020. - The nitrogen oxide (NOx) emissions based charge introduced in Budget 2020 will be altered to ensure that higher NOx emitting vehicles will pay an increased charge.

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