An Eye on Budget 2021 | View this email in your browser

COVID-19

Budget 2021 was historic in terms of the value of support measures announced, amounting to €17.5 billion. The Covid 19 Pandemic was to the forefront of the coalition Government when agreeing the current year budgetary measures. As evident from the Exchequer returns to the end of September 2020, particular sectors of the economy continued to perform well despite the pandemic. The Government, through the Minister acknowledged the role that the SME sector plays in the Irish economy and the challenges facing this sector as a result of the Covid 19 enforced trade restrictions over recent months.

State Supports

To date the Government have announced a number of state support measures through the July Stimulus Plan, such as the Credit Guarantee Scheme and the Strategic Banking Corporation of Ireland (SBCI) Working Capital Scheme and Revenue Debt Warehousing. Today, the Minister extended these measures and introduced new schemes to support the SME sector.

- The current employee wage subsidy scheme (EWSS) is due to expire on 31 March 2021, however commitment was given to replace this with a similar type scheme in order to give certainty to employers to the end of 2021.
- Changes have been introduced for self-employed individuals claiming the Pandemic Unemployment Payment (PUP) to have earnings disregarded to allow them to take up intermittent work without losing their benefit.
- Tax debt warehousing (0% interest) has been extended to include the balance of income tax due by impacted self-employed individuals for 2019 and also preliminary tax for 2020. Their deferral period will be one year, with 3% interest applying thereafter. Importantly no surcharge will apply for late payment.
- The Government is to provide an initial €30 million in funding through the Ireland Strategic Investment Fund (ISIF) to support an appropriate and effective scheme and thereby leverage matching funding for early stage seed and growth capital.
- Commitment was also given that the Government would look at the Employment and Investment Incentive Scheme (EIIS) to see if this could be used to support Irish SME's. Restrictions imposed by recent Finance Acts have restricted opportunities for investors to support SME business. In a time when certain sectors of society have huge sums of money on deposit it would be a welcome measure, if deposit holders were able to release some of these funds to support the SME sector and obtain tax relief on the investment.

The **key new announcement** for the SME sector was the Covid Restrictions Support Scheme (CRSS). The CRSS will provide support for businesses who have had to prohibit or restrict access to customers due to Level 3 or higher restrictions. The sectors impacted by the current Level 3 restrictions are accommodation, food and the arts, recreation and entertainment. If the Government decides to move to a higher level of restriction, then other sectors may qualify.

Under CRSS, the Government will make a payment, based on the 2019 average weekly turnover. Qualifying businesses can apply to the Revenue Commissioners for a cash payment in respect of an advance credit for trading expenses for the period of the restrictions. The scheme comes into effect on Budget Day and will run until 31st March 2021. The first payments will be made to affected businesses by mid-November 2020.

Payments will be calculated on the basis of 10% of the first €1 million in turnover and 5% on turnover in the excess of €1 million, based on average VAT exclusive turnover for 2019. It will be subject to a maximum weekly payment of €5,000. For example, a qualifying business with a VAT exclusive turnover of €750,000 in 2019 will receive a weekly payment of €1,442 for the duration of the level 3 or greater restriction.

Once the scheme is operational and a county or region is subject to Government restrictions of Level 3 or above, qualifying businesses can apply to Revenue in week one and valid claims will be repaid for the entire period of the restriction within two to three working days. Payments will automatically cease at the end of the Covid restriction period. If restrictions are extended a subsequent claim can be made.

The scheme will operate on a self-assessment basis and qualification will require a business to demonstrate that their turnover has been severely impacted; that is, it may not exceed 20 per cent of the turnover for the corresponding period in 2019.

Business Taxes

Supporting the Irish SME sector is seen as a key component in getting Ireland's economy operating again. The Minister, as he has done in previous budgets, reaffirmed the Government's commitment to the 12.5% rate of corporation tax and acknowledged the significant impact the corporation tax receipts have played in our economy in funding pandemic related expenditure to date. The Minister has committed to updating Ireland's Corporation Tax Roadmap which will reflect on actions taken to date and to look at further areas

for consideration, consultation and action over the coming months and years.
It is expected that the recently published update by the OECD on tax challenges arising from the digitalisation of the economy will only be one of a number changes to the international tax framework which will require consultation over the coming months.
In line with best international practice, future disposals of intangible assets acquired post 13 October 2020 will be subject to capital allowance balancing charge rules.
Changes to Exit Tax rules under the EU Anti-Tax Avoidance Directive, or "ATAD" are expected to be introduced with effect from Budget night.
The Minister announced an extension to a number of schemes which were due to expire in the next year or two. These include:

- **Knowledge Development Box**, which grants additional tax credits to businesses retaining and exploiting assets that have resulted from R&D activities in Ireland.
- **Film Investment Relief**, which is available to corporate investors is to be retained at 37% until 2022 instead of a tapering relief which was to see the rate drop to 32% by 2022.
- **The accelerated capital allowances scheme** (ACA's) for energy efficient equipment is to be extended for a further three years with a review of the qualifying categories of equipment to be re-assessed to ensure they remain appropriate and reflect the most up-to-date efficiency standards.

The Minister acknowledged the success of the film and animation industries on the domestic and international stage and has committed to look at developing a tax credit for the digital gaming sector with the expectation that it will be available from January 2022.

Personal Taxation

It was well flagged that the budget would be focused on getting the economy back up and running and that there would be minimal changes to personal taxation.
After years of commitment from successive Governments, the PAYE credit and the Earned Income credit are to be equalised. All employees, proprietary directors and self-employed individuals will now get €1,650 either by a PAYE credit or Earned Income credit but not both.
There was a small extension to the second tier of the USC band to exclude a full-time worker on a minimum wage falling within the charge to USC as a result of the increase in the minimum hourly rate from January 2021. The employer PRSI reduced rate of 8.50% will have its ceiling increased from €394 to €398 to accommodate the increase in the minimum wage level.
The Dependent Relative credit will increase from €70 to €245 to support families with caring responsibilities.

State Benefits

Unlike other years, increases were not applied across all social welfare payments but instead were targeted at those less well off. A €5 weekly increase was announced for the living alone allowance. The fuel allowance will increase by €3.50 per week to €28 per week to compensate for the increase in carbon tax on fuel costs.
In addition, there will be a weekly increase of €5 for over 12s and €2.50 for under 12s in the Qualified Child Payment. The Carer's Support Grant is set to increase by €150 to €1,850 per year.

Capital Taxes

Capital Acquisition Tax (CAT)

No amendments were announced in relation to CAT. The tax rate remains at 33% and no changes were announced in the budget to any of the current tax-free thresholds or CAT reliefs. This is the first time since 1990 that there has been no change (upwards/downwards) in the parent/child tax-free threshold.

Capital Gains Tax (CGT)

There was no change in the CGT rate and it remains at 33% despite calls that a rate reduction may trigger more capital transactions which would create badly needed receipts for the Exchequer as was evident from previous reductions in CGT rates.
The Minister announced a technical amendment to the holding period in respect of shares qualifying for Entrepreneurial Relief, however the relief still requires an active working period up to the date of disposal. There was no increase to the current lifetime limit of €1 million.

Property Tax/Stamp Duty

The deferral of the valuation date for Local Property tax (LPT) from 1 November 2020 to 1 November 2021 had been flagged in advance of the budget. This commitment means that taxpayers will not be faced with increased LPT bills for 2021.
The enhanced Help to Buy scheme which was introduced as part of the Government stimulus package on 23 July 2020 is to be extended to 31 December 2021 from 31 December 2020.
The Minister announced changes to the Stamp Duty Residential Development Refund Scheme which allows a rebate for stamp duty paid on the acquisition of land at the standard rate (7.5%) which is used for the construction of residential housing within a period of two years. The scheme is extended to 31 December 2022 and the development period is extended from two years to two and a half years. This is a welcome measure in light of the delays and additional health and safety measures required on construction sites as a result of Covid-19 social distancing measures.
Unlike other budgets, there was very limited tax measures announced in connection with the agri-sector. Consanguinity Relief which provides for a 1% stamp duty charge on the transfers of agricultural land between family members is to be extended for a further three years to 31 December 2023. The 1% stamp duty charge is also extended to transfers incorporating the consolidation of farm holdings until 31 December 2022.

VAT and Excise

The reduction of the standard rate of VAT from 23% to 21% which was announced as part of the July Stimulus package was not extended in Budget 2021. This reduction is currently in place from 1 September 2020 and is due to expire on 28 February 2021.
The VAT rate for the tourism and hospitality sector has been temporarily reduced from 13.5% to 9% with effect from 1 November 2020. The Minister acknowledged the unprecedented challenges and difficulties faced by this sector as a result of the pandemic. The reduced rate of VAT is in place until 31 December 2021 which will offer some level of certainty to those operating in the sector.
The farmer's flat VAT rate will increase from the current rate of 5.4% to 5.6% with effect from 1 January 2021. This is an incremental payment paid to farmers who are not registered for VAT as compensation for VAT incurred on cost inputs.
Excise duty on the cost of a packet of cigarettes has been increased by 50 cent bringing the total cost of a standard packet of cigarettes to €14. A pro rata increase will apply to other tobacco products. This increase is expected to generate €57m for the Exchequer in a twelve-month period. There was no increase in excise duty on alcohol products or auto fuels.
While it was anticipated that there may be an increase in betting tax as a revenue raising measure, no

changes were announced.

Climate Change

The Minister outlined that climate change is one of the most important priorities for this Government. The Government recently published the draft text of the Climate Action and Low Carbon Development (Amendment) Bill 2020 which sets out in legislative terms how the country will become climate neutral by 2050.

An increase of €7.50 per tonne/CO2 was announced which will increase the current rate of Carbon Tax from €26 to €33.50 per tonne/CO2. This increase applies to auto fuels from midnight on 13 October 2020 and to all other fuels from 1 May 2021.

In addition the Minister outlined the roadmap of carbon taxes increases from 2021 to 2030 whereby there will be an annual increase of €7.50 per tonne up to 2029 and €6.50 in 2030, at which point the carbon tax will be €100 per tonne/CO2.

Motor Tax Reform

The number of UK imported cars has seen a significant rise in recent years due to a drop in sterling values. Many of these vehicles are high emission diesel vehicles which are seen to be having a negative impact on the environment.

In light of this, the Minister acknowledged the need to transition from the current CO2 based vehicle registration regime to a new emissions system known as Worldwide Harmonised Light Vehicle Test Procedure (WLTP) from January 2021. This will result in changes to motor tax rates and the new regime will be based on emissions performance levels which are closer to real world performance levels than the current system.

The VRT relief for Plug in Hybrid Electric Vehicles and Hybrids will expire on 31 December 2020 and will not be extended. The relief for Battery Electric vehicles will also be tapered.

Brexit

The overarching theme of Budget 2020 was Brexit and the support measures that would be required to support Irish businesses. These issues are still present in Budget 2021 but have been overshadowed by Covid 19 measures. The Minister confirmed that the European Council has agreed to establish a Brexit Adjustment Reserve. This reserve will be available to support Ireland in light of the uncertainty arising as a result of the UK leaving the EU.

With less than 100 days until the UK leaves the EU and with no trade deal in place, Irish businesses need to be preparing on the basis that there is no trade deal in place. Revenue and State agencies have stepped up communications in recent weeks on the Brexit campaign "Act now – Get and Be Brexit ready". While there is still some level of uncertainty out there as to what will happen on 1 January 2021 when the UK leaves the EU but at a minimum each business engaging with the UK or transporting goods through the UK should undertake the following steps;

- Register for customs by getting an EORI number, if not already registered;
- Undertake supply chain and cash flow assessments so as to fully understand and identify the impact of Brexit;
- Be aware that Revenue are introducing a new import system in November 2020, and have the capability to lodge customs declarations into this new system, by either getting customs software

or engaging a customs agent;

- Understand the impact of and make arrangements for paying import duties;
- Know the origin and commodity code(s) of the goods traded;
- Ensure compliance with product certification requirements;
- Understand the obligations involved if trading in animal or plant products, and;
- Consider what customs related simplifications or authorisations might be relevant and that would further ease the smooth and efficient flow of trade and goods at import or export.

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