

John M. Shanahan & Co.

Chartered Accountants & Registered Auditors

BUDGET 2016

Introduction

Budget 2016 is the first time that we see most Irish taxpayers reaping significant benefits from economic recovery. Following the financial crisis this is very much to be welcomed and it is to be hoped that this will be the first of many Budgets where relief can be afforded to Irish taxpayers and where Ireland's economic competitiveness can be enhanced.

Since the financial crisis commenced Irish policymakers have acted responsibly and indeed very successfully to protect and enhance the competitiveness of Ireland's attractive corporation taxation regime. Further enhancements are outlined today - most notably the announcement of a Knowledge Development Box regime - ensuring that Ireland remains the location of choice for international business

We have been aware for some time that the spotlight need to shine on the competitiveness of Ireland's personal tax regime and in particular to the relatively uncompetitive treatment of Irish based entrepreneurs.

Budget 2016 takes advantage of the improved economy to provide some personal tax relief. Key measures include:

- A cut in rates of USC for low to middle incomes
- A reduction in the rate of capital gains tax from 33% to 20% on up to €1million of gains earned by qualifying entrepreneurs
- An increase of the main exempt CAT threshold from €225,000 to €280,000
- A start to equalising the tax credit treatment of the self-employed with that of the employed

It is to be regrettable that the Budget continues the policy of denying tax reductions on incomes over €70,000 per annum.

They bear marginal income tax rates which are very high by international standards. There is a wealth of evidence that income tax rates at such levels may well discourage business to such an extent that the total yield to the Exchequer is less

than it would be at lower marginal tax rates

Ireland is projected to have 6.2% economic growth in 2015 - the highest in Europe for the second year running.

With a 2015 Budget deficit of 2.1% of GDP and falling unemployment and national debt ratios the country's economic prospects are very bright. Sound and sensible taxation policies will be required to secure these prospects.



John M. Shanahan & Co.

Chartered Accountants & Registered Auditors

USC Charge

From the 1st of January, the entry threshold to USC will increase from €12,012 to €13,000, removing approximately 42,500 workers from the scope of the charge entirely. It is estimated that over 700,000 income earners will not be liable to USC at all from next year

Changes are also being made to the three lower rates of USC as follows:

- the 1.5 per cent rate to 1 per cent. This applies on the first €12,012 of income
- the 3.5 per cent rate to 3 per cent. This applies on income in excess of €12,012 up to an increased threshold of €18,668.
- the 7 per cent rate to 5.5 per cent. This applies on income in excess of €18,668 up to €70,044.

Self-employed individuals will benefit from the introduction of an earned income tax credit of €550, although they will be disappointed they are not placed on a level footing with PAYE workers and continue to pay a 3% USC surcharge on income in excess of €100,000

Home Carer Tax Credit



The Home Carer Tax Credit has been increased by €190 to bring it up to €1,000 per year, to assist single income married couples with children or who care for an elderly or incapacitated relative. The income threshold up to which the home carer can earn has also been increased by €2,120. This measure will help lower-income families by allowing the home carer to earn up to €7,200 and

still benefit in full from the tax credit. It is assumed that tapering relief will continue to be available and that this will apply for income up to €9,200.

PRSI

For the first time a tapered PRSI credit with a maximum level of €12 per week or €624 in annualised terms is being introduced to alleviate the step effect across a range of incomes. This change will improve the net incomes of low income earners. Relief commences at income of €352.01 per week, and tapers out at a rate of one-sixth of income in excess of this threshold. Relief fully diminishes as income reaches €424 per week.

For Employer PRSI, the entry point to the top rate of 10.75 per cent will be increased by €20 per week to €376 per week. All of the PRSI changes will be brought forward in the Social Welfare Bill.

Artists Income



Whilst there has been no change to the artist exemption in Budget 2016, a review of this relief has been completed this year and an indepth analysis of the feasibility of introducing income averaging for artists will be carried out next year.

John M. Shanahan & Co.

Chartered Accountants & Registered Auditors

Capital acquisitions tax



Capital Acquisitions Tax thresholds were reduced considerably over the period of the financial crisis and at a time of falling asset prices in order to help maintain the yield from capital taxes. In recognition of the recovery in asset prices, particularly property, the Group A tax-free threshold, which broadly applies to transfers between parents and their children, has been increased from €225,000 to €280,000.

While the increase is welcome one must bear in mind that the Class A threshold was €542,544 in 2009. The other band thresholds remain unchanged

CGT Relief Entrepreneurs



The standard rate of capital gains tax (CGT) remains 33% but an enhanced entrepreneur's CGT relief has been introduced which reduces the CGT rate applicable to disposals of the whole or part of a business to 20%.

This relief will be available to entrepreneurs up to a lifetime limit of chargeable gains of €1 million with effect from 1 January 2016.

The relief will be available to the individual owners of a trade or business which they have owned for at least three years and will not be available to companies

However, the new relief is still inferior to that currently available to entrepreneurs in the UK,

where a 10% CGT rate applies to entrepreneurs on gains from disposals of a business up to a total life time limit of £10 million

Local Property tax



It is now proposed to postpone the revaluation date for the Local Property Tax from 2016 to 2019, as recommended by Dr. Don Thornhill into the Review of the Local Property Tax, which means that home owners will not be faced with significant increases in their LPT in 2017 as a result of increased property values and it gives sufficient time for other recommendations to be considered in full.

From 2015 onwards local authorities can vary the basic LPT rate. You will be able to confirm the LPT due for 2016 by accessing your LPT record online using your PPS number, Property ID and PIN. Dates of payment vary depending on method used, between January and March 2016

Pension Fund Levy



In 2011 a pension fund levy was introduced to finance the reduced rate of VAT and the other measures in the Jobs. As this is no longer needed, the Minister has today confirmed that the remaining pension fund levy of 0.15 per cent introduced for 2014 and 2015 will end this year and not apply in 2016. The abolition of the levy will be welcomed by pensioners and pension providers alike.

John M. Shanahan & Co.

Chartered Accountants & Registered Auditors

Bank Levy to 2021



The current Financial Institutions Levy which I originally introduced for the 3 year period from 2014 to 2016 allows for a contribution from the banking sector to the economic recovery. The levy, which brings in €150 million per annum, is currently calculated on the basis of DIRT payments made in 2011. Today the Minister has proposed to extend the bank levy to 2021, subject to a review taking place of the methodology used to calculate the levy. This measure is expected to bring in an additional €750 million over the period.

Stamp Duty



With effect from 1 January 2016, the stamp duty of €5 on Debit/ ATM cards will be removed and will be replaced with a 12c charge per ATM transaction. There will be no charge for debit card transactions. The stamp duty payable will be capped at €2.50 per ATM or debit card and at €5 for a combined ATM and debit card.

SME Measures

The Minister has announced a number of key tax reforms targeted at the SME sector.

Start-up relief for companies



The three-year relief from corporation tax for certain trades, introduced in 2009, will be extended by three years. It will therefore benefit trades commenced before 31 December 2018.

The relief from corporation tax on trading income and chargeable gains for start up companies will continue to apply to businesses that commence to trade. Relief applies where the total corporation tax payable for a period does not exceed €40,000 (with marginal relief also available up to a corporation tax liability of €60,000). The amount of relief available is linked to employer's PRSI paid in a period and subject to a maximum of €5,000 per employee.

Microbreweries



Currently, microbreweries producing up to 30,000 hectolitres of beer qualify for a special relief that reduces by 50% the Alcohol Products Tax payable. To further assist their development, the relief will now be available upfront thus reducing the cash-flow burden of the current rebate scheme.

John M. Shanahan & Co.

Chartered Accountants & Registered Auditors

Film Relief



Having reviewed the film tax credit, the Minister today increased the cap on the eligible expenditure to €70 million. This limit will be kept under review going forward. It is my hope that the industry will now make the necessary investments in studio space in order to attract high quality films and create new jobs.

The **Irish Film Board** welcomed the increase of the Section 481 cap to €70 million, saying it would assist in attracting foreign direct investment and generate growth, jobs and exports in the sector.

Transport Costs



Transportation costs are a major issue for every business in Ireland and in order to keep Ireland competitive the Minister has announced a significant reduction and simplification of the commercial motor tax rates, by replacing the 20 existing rates with just 5 rates of commercial motor tax, ranging from €92 to €900 with effect from the 1st of January 2016.

The most significant reductions are concentrated on the larger goods vehicles. The maximum rate of commercial motor tax will be €900 per annum, down from €5,195.

The transport industry, particularly hauliers, should be pleased with the reduction in road tax which is something it has been pressing for in recent times, given the more favourable regime applicable in Northern Ireland and the rest of the UK

Fostering Innovation



To incentivise substantive R&D and innovation, as committed to last year, this year the Minister will introduce, in the Finance Bill, a knowledge development box – or KDB. This will be the first OECD-compliant KDB in the world. This puts Ireland in a unique position to offer long-term certainty to innovative industries planning their research and development investments.

Employment & Investment Incentive scheme (EIIS)

The EII and SURE are being amended to comply with State Aid rules. Flagged last year were the proposed changes to the EIIS subject to compliance with European State Aid provisions. Today, with effect from midnight, the amount of finance that can be raised by a company is doubled to €5 million annually subject to a lifetime maximum of €15 million, up from €10 million. The Scheme is also being improved by allowing investments in the extension, management and operation of nursing homes, and all eligible small and medium-sized enterprises can qualify for the Scheme irrespective of geographical location.

High Income Earners

Profits or gains from the occupation of woodlands are being removed from the high earners' restriction.

John M. Shanahan & Co.

Chartered Accountants & Registered Auditors

Farming & Agri Food Sector



Budget 2016 announced the extension of certain Agri taxation measures. General Stock Relief, Stock Relief for Young Trained Farmers, Stock Relief for Registered Farm Partnerships and the Stamp Duty Exemption for Young Trained Farmers are being extended until 31 December 2018

Farm Succession

An income tax credit up to a limit of €5,000 per annum for a period of up to 5 years will be claimable by the partnership and allocated to the partners on the basis of the profit sharing agreement.

The age profile of Irish farmers is increasing, with only 6.2% of farmers aged under 35 while more than 25% of farmers are aged over 65. Following the Agri-taxation review last year, a range of measures was introduced to support the transfer of farms to the next generation to help reverse this imbalance and encourage the transfer of farm enterprises to young farmers, with a view to increasing the productivity of those farms.

One issue that can cause a delay in the lifetime transfer of farms, however, is the need for both parties to derive an income stream from the farm. The Government announced a new succession transfer proposal to help overcome this issue.

This proposal is subject to State Aid approval, but involves the creation of a new Farm Transfer Partnership in which there would be a profit sharing agreement over a specified period not

exceeding ten years. At the end of this period, the farm would be transferred to the next generation.

To support this transfer and address the issue of insufficient income from the farm for two families over this period, an income tax credit worth up to €5,000 per annum for five years will be allocated to the partnership and split according to the profit-sharing agreement.

Another measure to support the transfer of the family farm is the extension to 31 December 2018 of the stamp duty exemption for Young Trained Farmers.

These transfers will also benefit from the increase in the gift/inheritance tax (CAT) threshold from Parent to Child from €225,000 to €280,000.

This should mean that even large farm enterprises could transfer to the next generation without incurring a CAT liability when you factor in the agricultural relief of 90%.

The introduction of the new self-employed income tax credit of €550 is welcome, but there is still a significant difference in how employed and self-employed individuals are taxed.

Perhaps less surprisingly, there was no reduction in the 3% additional USC charge suffered by self-employed people earning over €100,000. This is an unfair additional tax burden for the self-employed.

All stock reliefs were also extended for a further three years to 31 December 2018

The specific Agri-tax measures introduced in this Budget are all targeted at increasing productivity in this sector and encouraging the transfer of the family farm to the next generation.

Farming flat-rate addition

The flat-rate addition payable to non-VAT registered farmers will remain at 5.2% which came onto effect from 1 January 2015. The flat-rate addition compensates unregistered farmers for irrecoverable VAT on their farming inputs.

John M. Shanahan & Co.

Chartered Accountants & Registered Auditors

Property and Construction

Residential housing



It is clear that there is a market failure in the provision of new housing across the country but particularly in Dublin. Driven by demographic demands and strong economic growth, there is a requirement for a minimum of 10,000 new units per annum in the Dublin area but the market only delivered 3,300 units in the last year.

The NAMA Board has been asked to review the residential sites under its control and to estimate what it could deliver on a commercial basis, in terms of residential units, over the next five years. In response, NAMA is aiming to deliver a target of 20,000 residential units before the end of 2020. 90 per cent of these units will be in the greater Dublin area. About 75 per cent of these units will be houses, mainly starter homes

In addition relief will be provided to investors where funds are used for expansion works on existing nursing homes. This is a very welcome change which will go some way to helping nursing homes raise much needed funds to comply with standards imposed by HIQA

Home Renovation Incentive



Budget 2014 introduced a new incentive (being a 13.5% tax credit) for individuals who were owner-occupiers and who renovated or improved their principal private residence located in the

State in 2014 and 2015, using the services of a tax registered and tax compliant builder/contractor.

In a measure which seeks to help upgrade the quality of private rental stock, particularly at the lower end, the minister announced the Home Renovation Incentive is being extended to include rental properties, owned by landlords subject to income tax, for work carried out from 14 October 2014.

The relief was due to expire at the end of 2015 but the Minister has announced that this will now be extended to the end of 2016.

This is a welcome extension to an incentive which has been successful and generally regarded as beneficial to the construction sector.

VAT and Indirect Taxes

VAT rates

The minister has confirmed that the 23% and 13.5% VAT rates will remain unchanged. He also announced the continuance of the 9% VAT rate which was introduced in 2011 as part of the Government's Jobs Initiative for Tourism.

However, he noted that the retention of this rate will continue to be monitored and is dependent on the relevant industries passing on the savings to the consumer. The 9% rate applies to a range of services including restaurants and catering, hotel accommodation, and admission to cinemas, theatres and museums.

Motor Fuels & Alcohol

No increase was announced in the excise duty related to alcohol, petrol or diesel.

Excise Duty

The price of a packet of 20 cigarettes will increase by 50 cents (including VAT) with a pro-rata increase on the other tobacco products, with effect from midnight on 14 October 2014. The excise duty on roll-your-own tobacco will also increase.

There are no increases in excise on alcohol, petrol or diesel. Motor Tax and Vehicle Registration Tax rates also remain unchanged.

Conclusion

The range of measures introduced by the minister goes some way towards recognising the important contribution that Irish entrepreneurs make to the Irish economy and ensuring that we maintain a strong entrepreneurial culture into the future.

In this regard, it is particularly positive that the minister regards these measures as a first step in supporting this sector and that further measures will be introduced in future budgets as resources permit.



John M. Shanahan & Co.

Chartered Accountants & Registered Auditors

Income Tax Rates and Bands

Single Person				
Bands	2016		2015	
Standard	20%	€33,800	20%	€33,800
Top Rate	40%	Balance	40%	Balance

Single Parent/Widowed Parent				
Bands	2016		2015	
Standard	20%	€37,800	20%	€37,800
Top Rate	40%	Balance	40%	Balance

Married or Civil Partnership (Dual Income)				
Bands	2016		2015	
Standard	20%	€67,600	20%	€67,600
Top Rate	40%	Balance	40%	Balance

Maximum amount allowed where one individual is working is €42,800.

Universal Social Charge			
Income	2016	Income	2015
Exempt – €13,000		Exempt- €12,012	
First €12,012	1%	First €12,012	1.5%
Next 6.656	3%	Next 5.564	3.5%
Next €51,376	5.5%	Next €52,468	7%
Balance @	8%	Balance @	8%

The 3% rate applies to Individuals (aged under 70) who hold a medical card whose aggregate income for the year is €60,000 or less.
Self employed Income in excess of €100,000 regardless of age is charged at 11%

PRSI Limits for Employees			
2016		2015	
All Income	4%	All Income	4%
Exempt <€352 per week. Tapered relief applies where weekly Income €352 - €424 per week.		Exempt €352 per week	

Tax Credits		
	2016	2015
Personal	€	€
Single	1,650	1,650
Married/Civil Partnership	3,300	3,300
Widowed	2,190	2,190
One Parent Family Credit (including widowed)	1,650	1,650

PAYE	1,650	1,650
Earned Income Credit	550	Nil

Child		
Incapacitated child (max)	3,300	3,300

Widowed Parent		
Year 1 - 5	3,600-1,800	3,600-1,800

Dependent Relative (max)	70	70
---------------------------------	----	----

Blind Person		
Single	1,650	1,650
Married or Civil Partners (both blind)	3,300	3,300

Home Carers (max)	1,000	810
--------------------------	-------	-----

Age Credit		
Single/Widowed	245	245
Married/Civil Partnership	490	490

Age Exemption Limits – over 65 years of age		
Single/Widowed	18,000	18,000
Married/Civil Partnership	36,000	36,000

The above exemption limits are increased by €575 for each of the first two dependent children and by €830 for the third and subsequent children.

Rent Allowance				
Tax Year	Single Under-55	Single Over-55	Married* Under-55	Married* Over-55
2014	800	1,600	1,600	3,200
2015	600	1,200	1,200	2,400
2016	400	800	800	1,600
2017	200	400	400	800
2018	0	0	0	0

* Also relates to Widowed, Surviving Civil Partner or in a Civil Partnership

Mortgage Interest		2016	2015	
1 st time buyer	Year 1 & 2	25%	Year 1 & 2	25%
	Year 3,4&5	22.5%	Year 3,4&5	22.5%
	Year 6 & 7	20%	Year 6 & 7	20%
Others	Year 1 to 7	15%	Year 1 to 7	15%