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Tax Update
Ireland

Budget 2021 – Tax Highlights

13 October 2020

"If we winter this one out, we can summer anywhere" **- Seamus Heaney**

The Minister for Finance, Paschal Donohoe, quoted this to conclude a budget speech delivered against the backdrop of the Covid-19 pandemic and the very real possibility of a no trade deal Brexit between the UK and the EU. While public expenditure was the focus of the largest budget in Ireland's history, we highlight below a number of tax measures announced today of interest to the international business sector.

Key highlights include:

Reliefs for sectors significantly impacted by Covid-19

- A Covid Restrictions Support Scheme will be introduced to provide payments (up to a maximum weekly payment of EUR5,000) to certain businesses whose trade has been significantly adversely impacted as a result of Covid-19 restrictions. The scheme will operate until 31 March 2021 and payments will take the form of an advanced credit for tax deductible trading expenses.
- The 13.5% rate of VAT applicable to certain hospitality and tourism activities will be reduced to 9% with effect from 1 November 2020 until 31 December 2021.
- The commercial rates waiver introduced in March 2020 will be extended to 31 December 2020 to support eligible businesses impacted by the Covid-19 pandemic.

Business Taxes

- Ireland's commitment to 12.5% corporation tax trading rate was again reaffirmed.
- Transposition of the interest limitation rule and reverse hybrid mismatch rules under the EU Anti-Tax Avoidance Directive (ATAD) is expected to be announced in next year's Budget and be effective from 1 January 2022, in line with Tax Strategy Group recommendations. Confirmation of this timeline is likely to appear in an update to Ireland's Corporation Tax Roadmap to be published shortly.
- Capital Gains Tax Entrepreneur Relief, which allows for a CGT rate of 10% (reduced from 33%) on gains on the disposal of qualifying business assets, will be amended so that an individual who has owned at least 5% of the ordinary shares for a continuous period of any 3 years qualifies for relief. Previously, an individual had to own at least 5% for a continuous period of 3 years in the 5 years immediately prior to the disposal. The individual must still work in the business for 3 out of the 5 years immediately prior to the disposal.
- An anti-avoidance measure was introduced to prevent a chargeable gain or allowable loss arising on the transfer of foreign currency between bank accounts of the same holder.
- The Employment and Investment Incentive Scheme (EII), which allows individual investors to obtain income tax relief on investments made into EII certified qualifying companies, is to be reviewed and potentially enhanced with a focus on improved support for start-ups, attracting capital from a broader range of investors and inclusion of energy-efficient projects.
- A technical amendment will be made to Exit Tax legislation with respect to the calculation of interest on instalment payments.

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Intellectual Property (IP) / Technology

- The Knowledge Development Box (KDB) is to be extended for a further 2 years to 31 December 2022. An OECD compliant IP regime, the KDB provides for an effective 6.25% corporation tax rate on income arising from patented or similarly protected inventions and copyrighted software.
- A tax credit system for the digital gaming sector will be developed, with a view to supporting qualifying gaming activities from January 2022 onwards.
- An amendment to Ireland's favourable intangibles regime will be introduced to better align the regime with international best tax practice. Currently, intangible assets which are held for at least 5 years fall outside of clawback provisions. Intangible assets acquired on or after 14 October 2020 will no longer benefit from this reduced clawback window. It remains to be seen whether this measure will have an impact on future inward investment in this area.
- The update to Ireland's Corporation Tax Roadmap will address the recently published OECD BEPS 2.0 reports which seek to deal with the tax challenges associated with digitalisation. The reports contain proposals in relation to the allocation of taxing rights to reflect digital business models (Pillar One) and the introduction of a global minimum effective tax rate for multinational groups (Pillar Two).

Personal Taxes / e-Working

- As widely anticipated, the Minister confirmed that no changes will be made to Ireland's income tax rates or bands.
- The Minister confirmed the Government's commitment to developing a strategy for remote working and remote service delivery, including the provision of certain tax credit reliefs for employees.

Climate Change

- The motor industry is to be impacted by an amended Vehicle Registration Tax and new Motor Tax regime.
- Increased carbon taxes are part of a series of measures to decarbonise the economy and assist in the Government's climate target of net-zero carbon emissions by 2050.

Real Estate

- The deadline for new applications to the Residential Development (Stamp Duty) Refund Scheme will be extended to 31 December 2022. The period allowed between commencement and completion of construction will also be extended by 6 months to 30 months. The scheme provides for the refund of a portion of stamp duty paid on the acquisition of non-residential land (subject to the higher rate of stamp duty of 7.5%) where that land is subsequently developed for residential purposes to reduce the effective stamp duty rate to a minimum of 2%.

What's Next?

Further detail on the measures announced in Budget 2021 will be contained in Finance Bill 2020, to be published on 22 October 2020.

Key Contacts

If you have any queries or would like more information on any of the above, please contact a member of the Walkers Tax team or your usual Walkers contact.

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