Xeinadin

**Summary of Budget 2023**

# IRISH BUDGET COMMENTARY 2023

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# Content



# Introduction

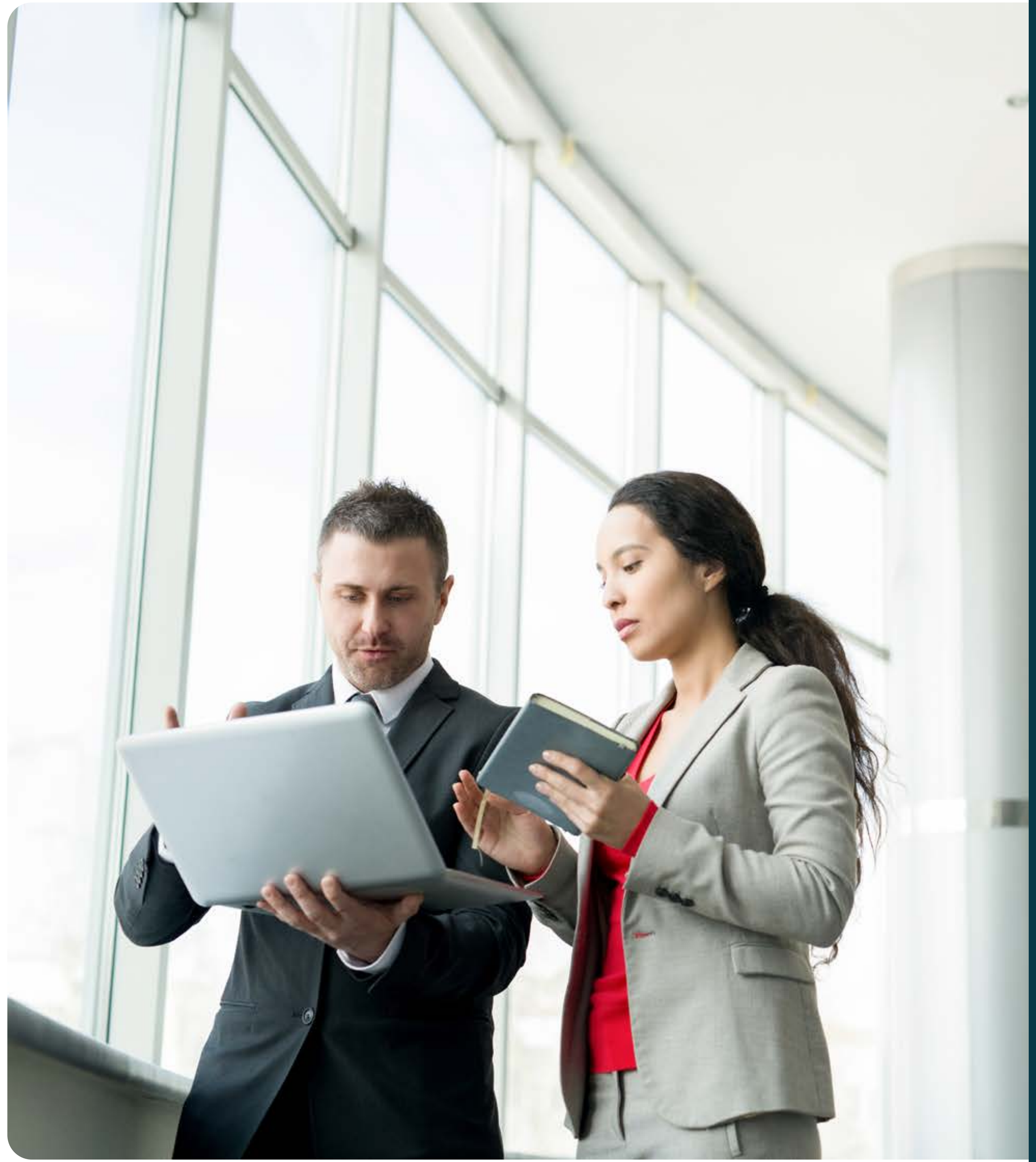
It is extraordinary how quickly the focus of the Government Budgeting process can change. Budget 2022 was announced in October last year with an over-riding focus on dealing with the lingering effects of the COVID-19 pandemic. Since then, pandemic related restrictions have been lifted, however, Russia invaded Ukraine in Spring of this year, an action that has had an astonishing impact, including on the cost of many commodities, and on energy prices in particular.

In light of this, the Budget 2023 announcement was brought forward by a few weeks to 27th September and was captioned a "Cost of Living Budget" intended to help people and businesses cope with rising prices. Inflation is expected to be reported at 8.5% in 2022, and 7% in 2023, (reduced to 5.25% and 4.5% respectively when the energy price increases are excluded). Consumer demand, and economic growth are both being adversely affected by inflationary pressures.

However, there is some good news! Exceptional tax receipts in Ireland will result in a significant surplus of income over expenditure in 2022 – expected to amount to €1 billion this year, and €6.2 billion in 2023, (contrasting with a deficit of €7 billion reported in 2021). This unexpected surplus underpins the tax reductions and welfare increases that have been announced in Budget 2023. There were minimal changes to note for business, with no efforts made to reform the Employment and Investment Incentive (EII) scheme, nor to incentivise investment through new or extended Capital Gains Tax reliefs.

The measures announced include an allocation of €2 billion into the National Reserve Fund in 2022, (with a target allocation of €4 billion to this Fund in 2023). Rebuilding the value of this National Reserve Fund is prudent, - it was a valuable resource during the recent COVID-19 pandemic, and now needs to be replenished. A considerable proportion of Ireland's tax revenues remain unpredictable as has been widely reported, approximately one eighth of the country's total overall tax revenues are collected as Corporation Tax receipts from just ten corporate multinational groups. This represents a concerning over-reliance on a very small number of taxpayers. It is worth noting that much of the surplus revenues collected in 2022 are Corporation Tax receipts, and any change in the tax revenues flowing from these ten taxpayers for any reason could have a devastating effect on our national finances.

Our cutting-edge Tax Team have reviewed the detailed Budget 2023 announcements and publications issued today from both the Department of Finance and the Department of Public Expenditure and Reform, and have summarised below some of the main impacts for you and for your business.



## General Highlights

Income Tax Credits and Thresholds increased, so that an individual earning at least €40,000 per annum should see their Income Tax liability reduced by €830 per annum.

New Tax Credit for individuals who live in a rented home, amounting to €500 per annum.

Credits totaling €600 to each household to assist with the cost of energy this winter, and targeted credits for certain businesses that are significantly affected by cost of energy increases.

Increase of €12 per week to all social welfare recipients from 1 January 2023, and double payment of children's allowance in November 2022.



# Income Tax / USC

The increase in the Income Tax standard rate band, together with the increases in tax credits, will result in annual tax savings of €2,580 for a couple living in rented accommodation (where both have earnings in excess of €40,000). The change in the tax band, which is effectively the most significant Income Tax cut provided since the global financial crisis, appears designed to be in line with the increases provided to Social Welfare recipients.

The increased ceiling for the 2% rate of USC will ensure that a full-time adult worker who benefits from the increase in the hourly minimum wage rate from €10.50 to €11.30 will remain outside the top rates of USC.

The relaxing of rules on tax deductibility of pre-letting expenses will be seen as an effort to encourage landlords to bring additional properties to the rental market. Contrary to some pre-Budget speculation, no measures were announced which might have made it more attractive for current landlords to stay in the market.

The Minister outlined the Government's commitment to developing a medium-term roadmap for personal tax reform. He said that an analysis would commence immediately and should be concluded by early summer 2023. Should the Government opt for the introduction of a third rate of income tax, he believed that that this could be introduced by 1 January 2024.



## Highlights

- An increase of €3,200 in the Income Tax Standard Rate Band Cut-Off Point for all earners.
- An increase of €75 to each of the personal tax credit, employee tax credit and earned income tax credit.
- An increase of €100 in the home carer tax credit.
- A new rent tax credit of €500 (€1,000 for married couples / civil partners) is being introduced for those not in receipt of any other State housing support. This credit will apply to tax years 2022 to 2025 (2022 claimed in early 2023).
- The ceiling for the 2% rate of USC will be increased by €1,625 from €21,295 to €22,920.
- The USC concession for medical card holders is being extended for a further year to 31 December 2023.
- Pre-letting expenses for landlords is being amended to increase the eligible expenditure cap from €5,000 to €10,000 per property with effect from 1 January 2023. The requirement that the property must have been vacant for twelve months is being halved to six months.

# Business Taxes

The most significant scheduled change to the Irish Corporate Tax regime remains on the horizon after Budget 2023 with the increase in the headline trading rate of 12.5% still set to increase to a global minimum standard of 15% at some as-of-yet unspecified date in the future. It is expected that the new 15% rate will apply only to companies with global turnover of more than €750 million, meaning that most businesses will remain subject to the 12.5% rate.

The big news for businesses in Budget 2023 was the announcement of the new Temporary Business Energy Support Scheme. This is a €1.2 billion fund that will provide payments of up to €10,000 per month to businesses suffering from a minimum 50% increase in the average unit price charged by their electricity and gas providers compared to 2021. In his speech, the Minister said the scheme would be open only to businesses operating a Case I Trade, meaning that professionals (taxed under Case II) and anyone running a rental or other investment business need not apply. Other eligibility criteria may emerge once full details of the scheme are published. The start date of the scheme is to be backdated to 1st September 2022, and it will run until the end of February 2023. Applications will be made via the Revenue Commissioners.

Capital taxes were entirely missing from the budget speech, with no mention of either Capital Gains Tax or Capital Acquisitions Tax. It appears that the standard rates, thresholds and reliefs for both will remain unchanged in 2023. Equally, no mention was made of the Employment and Investment Incentive (EII), as the government appeared focused on helping existing businesses survive the coming winter rather than promoting new entrepreneurship and growth.

Elsewhere, the Minister has provided employers around the country with the opportunity to ease the impact of inflation on their employees by extending the annual Small Benefit Exemption from €500 to €1,000. This allows employers to provide tax-free non-cash benefits to employees, such as gift cards. The Minister is also now permitting two payments per year, as opposed to one, though the overall benefit will be capped at €1,000. The changes come into effect immediately.

The Minister announced an extension to a number of relief schemes aimed at businesses, along with some modifications to how some of them work. Companies engaged in research and development activity will be interested in proposed changes to the timing of the repayment of excess credits, which currently occurs over a three-year period. We will have to wait until the Finance Bill is published to see the extent of the changes, but it appears that they will include making the payment of the first installment of excess credits a minimum of €25,000, which will benefit smaller organisations. An option to offset excess credits against other tax liabilities is also expected to be introduced.

Also relevant to research activities will be the increase in the effective tax rate applying to Knowledge Development Box activities from 6.25% to 10%. This change will not happen immediately, but rather only when the standard rate of Corporation Tax increases to 15%.

The Key Employment Engagement Programme, or KEEP, which is a share-incentive scheme aimed at SMEs, has come in for considerable criticism in recent years for being overly restrictive, and Budget 2023 includes measures aimed at making it more attractive. Participating companies will now be allowed to buy-back shares from relevant employees, providing the employee with the option of an exit that is not tied to an overall sale of the business. In addition, the lifetime limit for shares issued under the scheme is to increase from €3,000,000 to €6,000,000. Both measures should increase the availability and usability of the scheme.

Lastly, it is notable that the Bank Levy has been extended for a further 12 months, though the Minister hinted that it may be withdrawn from 2024. The Minister also committed to introducing a local windfall tax on exceptional profits recorded by energy companies, if attempts to do so at EU level fail.

## Highlights

- No change to headline Corporation Tax rates, though increase of the standard trading rate to 15% for large companies is still expected at some unspecified future date.
- No change to Capital Gains Tax rates or reliefs.
- Energy Support Scheme announced for businesses.
- Small Benefit Exemption increasing from €500 annually to €1,000 and can now be made over two payments annually rather than one.
- Knowledge Development Box extended to end 2027 and effective rate to rise to 10% when 15% Corporation Tax rate comes in.
- R&D Credit refund system amended.
- KEEP Scheme modified and extended to end 2025.
- SARP Scheme extended to end 2025 and threshold increased from €75,000 to €100,000.
- Foreign Earnings Deduction (FED) scheme extended to end 2028.
- Section 481 Film Relief scheme extended to end 2028.



# Cost of Living Measures

The Minister stated that this Budget will make a difference, and people will see that difference quickly. This is evident from the range of supports being introduced in the coming months, rather than in 2023. Additional one-off social welfare payments were announced to be paid in October, November, and December, while the majority of social welfare increases will become effective from the start of 2023.

The changes to the Income Tax system will become effective from the 1st of January 2023.

Standard increases in individual social protection payments are €12 per week / €636 per year. The income tax changes including the increase in tax bands and credits are aimed to provide similar savings to those in the Income Tax system. However, the effect of inflation on general cost of living increases is expected to exceed the tax savings/welfare increases provided in Budget 2023.

## Highlights

### Core Social Welfare Increases

Weekly social welfare rates will be increased by €12 for working age recipients.

€12 increase in weekly payments for pensioners.

Working Family Payment threshold will increase by €40.

### Fuel Supports

Electricity Credits for all households totalling €600 - to be paid in three instalments of €200; the first payment will be made before Christmas, with two further instalments in early 2023.

Once-off lump sum payment of €400 will be made before Christmas to recipients of the fuel allowance.

From 1st January, the qualifying income threshold for the Fuel Allowance will increase from €120 to €200 above the relevant rate of the State Pension (Contributory). For over 70s specifically, the weekly Fuel Allowance means limit is increasing to €500 for single people and €1,000 for couples.

### Exceptional Once-Off Supports

Once off additional payments to Social Welfare Recipients to include a double-week Cost of Living Support payment and a once off double child benefit payment.

There is an additional lump sum payment of €500 for those who qualify for Carer's Support, Disability Allowance, Invalidity Pension and Blind Pension.

There is an additional lump sum payment of €500 for those in receipt of the Working Family Payment.

Once-off payment before Christmas of €200 to recipients of the Living Alone Allowance.

Once-off reduction in the Student Contribution of €1,000 for eligible students in the 2022-2023 education year, and a once-off double monthly payment for those in receipt of the SUSI maintenance grant.

### Childcare

Childcare Budget to reach €1 billion. Funding is being made available to support a reduction of up to 25% in the weekly fee for those availing of the National Childcare Scheme.  This is expected to cost €121 million and will put up to €175 a month, or €2,100 a year, back in the pockets of parents next year.

€42m is being allocated to provide free schoolbooks and related classroom resources to all pupils in recognised primary schools within the Free Education Scheme. This measure will benefit up to 540,000 primary school students.



# Property and Housing

The supply of homes to rent or purchase has been a significant concern for the government over the last number of budgets.

The Minister announced the Vacant Homes Tax with the objective of increasing the supply of homes for rent or purchase to meet demand, rather than raise revenue. (It is only anticipated to raise approximately €3m in a full year). The tax will be similar to LPT in that it will not apply to derelict properties so those vacant properties in the main streets of towns and villages will remain exempt from this tax measure.

The Minister has extended reliefs on the Help to Buy and Living City Initiatives in support of those looking to acquire properties.

While these incentives are welcome, the supply of residential property remains the issue.

It is accepted that market conditions have contributed to the costs of construction and consequently the delivery of new homes. The Government has implemented the new Defective Concrete Products Levy with effect from 3rd April 2023 to contribute to the cost of the Mica Redress Scheme. The levy is expected to raise €80 million annually at a rate of 10%. It is anticipated that this levy will have an effect on costs throughout the supply chain.

The commitment of the government to Housing and Climate Action is welcome. The allocation of €337m towards grants for Energy Efficiency is a step in the right direction but this needs to be supported proactively by SEAI and the authorities charged with the administration of these grants.



## Highlights

### Vacant Homes Tax (VHT)

A new Vacant Homes Tax (VHT) will be introduced from 1st January 2023. The tax will apply to residential properties which are unoccupied for twelve months or more. A property will be considered vacant for the purposes of the tax if it is occupied for less than 30 days in a 12-month period. The tax will be charged at a rate equal to three times the property's existing base Local Property Tax liability (before any Local Adjustment Factor).

There will be a number of exemptions to ensure property owners are not unfairly charged for temporary vacancy arising from genuine reasons. The VHT will be self-assessed and administered by the Revenue Commissioners.

### Help to Buy (HTB)

The HTB scheme is being extended in its current form for a further two years until 31 December 2024.

Income Tax (IT) relief for the HTB scheme is available, to the lesser of:

- €30,000
- 10% of the purchase price of the new home or of the completion value of the property in the case of self-builds.
- The amount of IT and DIRT paid over the four years prior to making the application.

### Living City Initiative (LCI)

The Living City Initiative is being extended for a further five-year period to 31 December 2027. In addition, the relief available to owner-occupiers is being accelerated so that it may be claimed over seven years instead of the existing ten years.

### Defective Concrete Products Levy

The Minister announced a new levy applying at the rate of 10% at the point of first supply in the State will be applied to certain concrete products - concrete blocks, pouring concrete and certain other concrete products. It will also apply to ready to pour (also known as ready-mix) concrete.

### Home Energy Upgrades

The Minister for Public Expenditure has provided €850m in capital investment to the Department of the Environment, Climate and Communications in 2023. €337m of this funding will go towards grants for energy efficiency. This will fund over 37,000 home energy upgrades. Alongside the grant supports that will be available, funding will also be provided to support the introduction of a new low-cost loan scheme for residential retrofit.

### Housing for All Strategy

The Minister for Public Expenditure confirmed that he is allocating €6.2 bn in Exchequer funding to the Department of Housing, Local Government and Heritage. The majority will be allocated to capital investment in sum of €3.5 billion. This is intended to deliver the social housing new build target of 9,100 homes.

# INDIRECT TAXES

## VAT and Excise Duty

The government has decided not to extend the period that the second reduced rate of VAT applies to the tourism and hospitality sector beyond February 2023. This was a temporary measure introduced to stimulate activity in the sector during the Covid pandemic, but notwithstanding that there will undoubtedly be disappointment in the sector with this decision.

In order to help the public and businesses cope with exceptional energy inflation, the temporary reduction in VAT to 9% on Gas and Electricity and the temporary reduction in Excise Duty on petrol, diesel and marked gas oil have both been extended to 28/02/2023.

While the government has pressed ahead with its planned Carbon Tax increase of €7.50 per tonne, the reduction in the National Oil Reserves Agency Levy means that there will be no increase of the price of petrol or diesel at the pump as a result of the carbon Tax increase.

Some other VAT changes, effective 1 January 2023, that were announced include;

- ✓ VAT on Newspapers to be reduced to zero
- ✓ Zero VAT rate will also apply to certain medical equipment (defibrillators), Hormone Replacement Therapy, certain nicotine replacement therapies, and certain period products

In keeping with the government's long-term health objectives, excise duties on a packet of cigarettes will increase by 50c from midnight tonight.

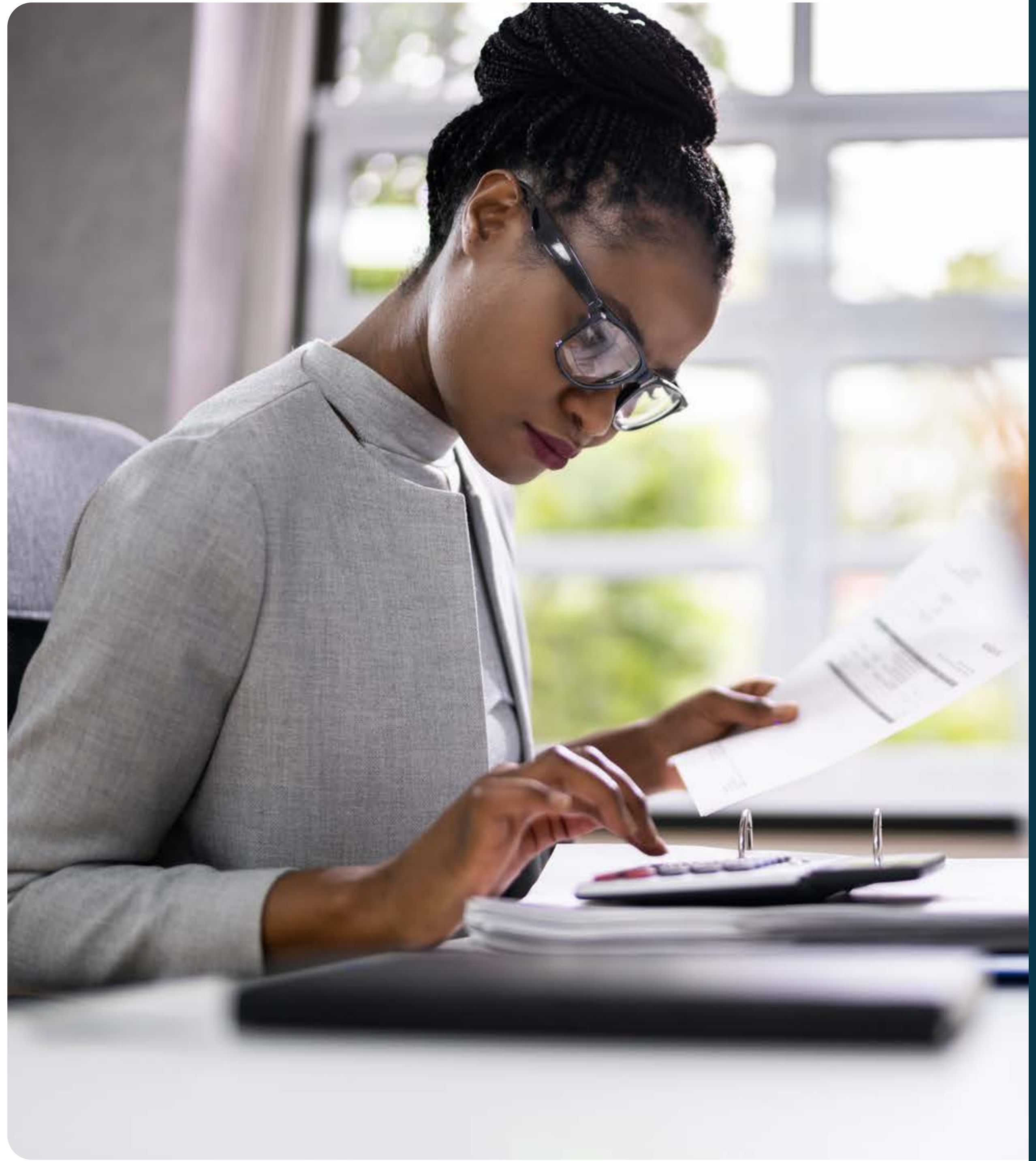
## Stamp Duty

The Residential Development Stamp Duty Refund Scheme has been extended to December 2025. The scheme applies to the development of residential property on non-residential land.

This is a welcome development that should promote investment in new housing stock.

## Late Night Hospitality

In order to help the late-night entertainment industry, the cost of applying for a Special Exemption Order (late licence) will be halved from €110 to €55.



## Highlights

- Once-off measures introduced/extended to help businesses and households deal with energy price increases.
- 9% rate of VAT on gas and electricity extended to end February 2023.
- 9% rate of VAT for hospitality sector will cease end February 2023.
- Increase in Carbon Tax from €41 per tonne to €48.50 per tonne, effective 12 October 2022. This will add 2c to the cost of a litre of petrol and diesel. However, this is will be offset by a reduction in the National Oil Reserves Agency levy of 2c per litre meaning effectively no increase at the pump.

# Farming Sector

The farming sector will welcome most of these measures, though farmers will be disappointed with the reduction in the flat-rate credit, which was not flagged in the Minister's speech but was noted in later Budget publications. It is unfortunate too that fertiliser costs were not mentioned, and this will remain one of the most significant challenges for the farming sector.

The key farming story from the budget is around the five key farm reliefs extended in the Budget. The Minister noted in his speech that the length of these extensions is dependent on EU level negotiations. These reliefs are critical to the passing of family farms from generation to generation. If the EU curtail these reliefs, Irish family farms may be a thing of the past.



## Highlights

Green diesel reduction maintained at 5.4c per litre and extended to end February 2023.

No carbon tax credit increase for 2023.

Temporary Business Energy Support Scheme to help businesses suffering 50% increase in electricity and gas unit prices. See Business Tax section for more details.

New accelerated capital allowances scheme for development of slurry facilities, with relief offered over two years.

Key farm reliefs extended, including the Young Trained Farmer/ Farm Consolidation Stamp Duty Relief (extended to end 2024), Farm Restructuring Capital Gains Tax Relief (also end 2024), and the Young Trained Farmer/Registered Farm Partnership Stock Relief (end 2025).

Flat-rate deduction reduced from 5.5% to 5%.

Department of Agriculture budget increased by €283m to €2.1bn for 2023.

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# We are XEINADIN

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