Budget 2021 Highlights

On Tuesday 13th October, Finance Minister Pascal Donohoe announced an unprecedented 2021 Budget package investing €17.75 billion in the economy. The Budget was focused on investment and helping businesses impacted by Covid-19.

We have prepared a brief summary of the 2021 Budget highlighting some of the key changes outlined by the Minister.

1. Income Tax

a) Debt Warehousing of 2019 Tax Liabilities

The current debt warehousing measures will be extended to include the 2019 income tax balances and 2020 preliminary tax for self-employed taxpayers who are adversely affected by Covid-19. Payment of the tax can be deferred for a year without interest, with a 3% rate applying thereafter. The Minister also noted that no surcharge will apply.

We understand that this means that self-assessed taxpayers in this situation should now be able to avail of the extended ROS Pay & File deadline of **10th December 2020**. If income for 2021 is also at least 25% lower than income for 2019, the balance of 2020 income tax and preliminary tax for 2021 can also be warehoused.

b) USC and Income Tax Bands

The ceiling of the 2% USC rate will be increased from €20,484 to €20,687 to ensure it remains the highest rate of USC paid by full-time minimum wage workers, when the National Minimum Wage increases on 1st January 2021.

As expected, there were no changes to the income tax rates and bands. The entry point to the 40% income tax rate remains at €35,300 for single individuals and €44,300 for married couples (with one earner).

c) Earned Income Tax Credit

The Earned Income Credit for the self-employed will increase by €150 to €1,650 from the tax year 2020 onwards, to bring the credit to the same level as the PAYE Tax Credit.

d) Employer's PRSI

The weekly income threshold for the 11.05% rate of employer's PRSI will be increased from €395 to €398 from 1st January 2021. This will ensure that the 8.8% rate of employer's PRSI applies in respect of workers on the minimum wage, once it is increased on 1st January 2021.

e) Remote Working

Acknowledging the additional financial burden on workers who are working from home, the Minister confirmed that employers can pay their employees €3.20 per day without a benefit-in kind charge arising.

Alternatively, employees can claim a tax deduction for utility expenses, such as light and heat. Employees may now also include the cost of broadband for 2020 and claims for other vouched expenses can be made by employees provided they are incurred "wholly, exclusively and necessarily" in the performance of their duties of employment.

2. Covid-19 Wage Supports

a) Employment Wage Subsidy Scheme (EWSS)

The current EWSS is due to expire on 31st March 2021, however Budget 2021 is providing for a similar type of scheme until the end of 2021. Further details on this scheme will be supplied at a later date.

b) COVID-19 Pandemic Unemployment Payment (COVID–PUP)

There were no changes to the rates of payment of the COVID-PUP.

Self-employed workers will be able to earn up to €480 per month (gross) and retain their COVID-PUP entitlement.

3. Supports for Covid-19 Impacted Businesses

a) Covid Restrictions Support Scheme (CRSS)

The Minister announced a new Covid restrictions Support Scheme (CRSS) which is aimed as businesses which have either been prohibited from trading or are only able to trade at a significantly reduced level as a result of restrictions.

The scheme will generally operate when Level 3 restrictions, or higher, are in place and cease when restrictions are lifted. The support will take the form of a cash rebate to businesses based on their average VAT-exclusive turnover for 2019 and will represent an Advance Credit for Trading Expenses (ACTE) that are deductible for income tax or corporation tax for the period of the restriction or reduction in activity from 13th October 2020.
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The cash payment will be calculated as 10% of the first €1 million in turnover and 5% of turnover in excess of €1 million. Payments will be subject to a maximum weekly payment of €5,000.

To qualify for the scheme, businesses must demonstrate that their turnover has been severely impacted by COVID-19, with turnover not exceeding 20% of the turnover of the corresponding period in 2019. Revenue will operate the CRSS, with the first payments to be made from mid-November and with valid claims processed within two to three working days of the claim. The scheme will run until 31st March 2021.

b) 9% VAT for Tourism & Hospitality

The 9% VAT rate reinstated for the tourism and hospitality sector. This VAT rate change will apply from 1st November 2020 until 31st December 2021.

c) Expanded Debt Warehousing

The debt warehousing arrangement will be expanded to include repayments of subsidies paid under the Temporary Wage Subsidy Scheme (TWSS) owed by employers who are unable to repay the excess subsidy immediately, due to the impact of COVID-19 on their business. The 2019 income tax balance and 2020 preliminary tax due by adversely affected self-employed taxpayers can also be included in the debt warehousing arrangement.

d) *Commercial Rates Waiver*

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.

4. Corporation Tax

a) *12.5% CT Rate*

There has been no change to the 12.5% corporation tax rate.

b) *Specified Intangible Assets*

Minister Donohoe confirmed that he will amend legislation to provide that all intangible assets acquired on or after 14th October 2020 will be subject to a balancing charge on a subsequent disposal, regardless of when the balancing event may occur.

Prior to this change, no balancing charge (clawback of capital allowances) arises if the intangible asset is held for more than 5 years.

c) *Knowledge Development Box (KDB)*

The KDB will be extended for a further two years until 31st December 2022. The KDB provides for a 6.25% effective rate of corporation tax on profits generated from exploiting certain assets, such as patents and software developed through R&D activities carried out in Ireland.

d) *Film Relief*

The regional uplift to Section 481 TCA 1997 Film Tax Credit will be amended to provide for an additional year at its peak rate of 5%. The regional uplift scheme will now be in place until 31st December 2023. The uplift will then reduce to 3% in 2022, 2% in 2023, and nil thereafter.

5. Capital Taxes

Budget 2021 has been widely praised for introducing some much-needed investment in these uncertain times. However, one area that seems to have been over-looked, yet again, is Ireland's Capital Taxes regime.

While some minor changes were announced yesterday, the long-awaited overhaul of our Capital Taxes regime was not addressed in yesterday's Budget.

a) *Revised Entrepreneur Relief*

Revised Entrepreneur Relief will be amended to allow an individual who held at least 5% of the shares in a qualifying company (or group of companies) for a continuous period of any three years to qualify for the relief.

Previously, qualifying business assets must have been owned by an individual for a continuous period of 3 years in the 5 years immediately prior to the disposal of those assets. This amendment will come into effect from 1st January 2021.

b) Section 541 TCA Anti-Avoidance

To address an avoidance issue, Section 541 TCA 1997 provides that a debt incurred from one person to another does not give rise to a chargeable gain on the disposal of that debt (where the seller is the original creditor).This rule does not apply where the loan is a "debt on security".

c) Foreign Currency

The transfer of foreign currency between bank accounts, denominated in the same foreign currency held by the same person, will not be subject to CGT. This will apply to disposals made on or after 14th October 2020.

6. Property

a) Enhanced Help to Buy scheme

The enhanced Help to Buy (HTB) scheme has been extended. The level of support available to first time buyers was increased to the lesser of €30,000 (up from €20,000) or 10% (up from 5%) of the purchase price of the new home or self-build property for the period from 23rd July 2020 to 31st December 2020.

These additional measures to the HTB scheme are now extended to 31st December 2021.

b) Stamp Duty Residential Development Refund Scheme

The Stamp Duty Residential Development Refund Scheme, which was due to expire for new applications on 31st December 2021, has been extended to construction works commenced by 31st December 2022.

The scheme was introduced in 2017 to provide a refund of a portion of Stamp Duty paid on the acquisition of non-residential land where that land is subsequently developed for residential purposes.

The time allowed between commencement and completion of a qualifying project has been extended by 6 months, from two years to 30 months. This means the last eligible completion date will be 30th June 2025.

7. Agri-tax Measures

a) Consanguinity Relief

Consanguinity Relief, which reduces the stamp duty charge on land transferred between family members from 7.5% to 1%, was due to expire at the end of 2020. The relief will be extended to 31st December 2023.

b) Farm Consolidation Relief

The stamp duty relief on farms being consolidated will be extended to 31st December 2022. The relief is available where farm holdings are consolidated by way of linked sales and purchases of land and also where land is transferred as a gift or by way of exchange.

Stamp duty at a reduced rate of 1% is applied to the excess of the value of the land acquired over the value of the land disposed of, where the acquisition and disposal take place within a 24-month period of each other. The two-year extension to the relief aligns with the renewal date for its CGT equivalent.

c) Flat Rate Farmers VAT

Flat Rate Farmers – the rate of recovery will change from 5.4% to 5.6% from 1st January 2021.

Flat Rate Farmers are compensated for the VAT they are charged on purchases by means of a flat rate addition to the prices they receive from VAT registered customers for their products, cattle, milk, grain, etc.

8. Climate Change and Environmental Taxes

a) VRT

A new Vehicle Registration Tax (VRT) structure of rates and bands will be introduced from 1st January 2021 for new vehicles and imports.

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.

b) Accelerated Capital Allowances

The Accelerated Capital Allowance Scheme for Energy Efficient Equipment has been extended for another 3 years to 31st December 2023. In 2021, the energy efficiency criteria for the scheme will be re-assessed to ensure that the types of equipment included in the scheme remain appropriate and reflect the most up-to-date efficiency standards.

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