Tax Update
Ireland

Budget 2023 – Tax Highlights

27 September 2022

Overview

"Ireland's corporation tax regime is a core element of our economic policy mix and a longstanding anchor of our offering to attract FDI. In addition to our 12.5 per cent headline tax rate we will also ensure that we continue to play to our traditional strengths"

The Minister for Finance, Paschal Donohoe, and the Minister for Public Expenditure and Reform, Michael McGrath, announced a budget that, as expected, included a significant package of public expenditure measures to help tackle inflation and rising energy costs. Higher than projected tax receipts and the highest level of Irish employment on record are testament to the resilience of the Irish economy. These buoyant tax receipts will result in €6 billion being allocated to the National Reserve Fund over 2022 and 2023 in order to bolster available reserves for future challenges to the Irish Exchequer. Although the wider macroeconomic environment remains particularly challenging, Ireland's economy has strong foundations and the measures introduced in the budget should help support domestic businesses and future-proof Ireland as an attractive location for foreign direct investment.

We summarise the tax measures relevant to the international business sector below.

Key highlights include:

Business Taxes

- The Minister provided certainty to businesses by reaffirming Ireland's commitment to the 12.5% rate of corporation tax and made reference to Ireland's ongoing engagement at an OECD and EU level in respect of the implementation of the OECD Pillar Two proposals which seek to introduce a minimum effective corporation tax rate of 15% on companies that are part of a multinational group with revenues in excess of €750m. Options for a move towards a territorial corporation tax system will be given serious consideration in conjunction with the ongoing work to implement Pillar Two.
- A new scheme, the Temporary Business Energy Support Scheme (TBESS), will be introduced to support SMEs dealing with rising energy costs. Tax compliant businesses carrying on trading activities that have experienced an increase in average energy prices of more than 50% from the corresponding period in 2021 will be eligible for the scheme. Payments under the scheme will offset 40% of the increase in the relevant energy bill amount, subject to a monthly cap of €10,000 and an overall cap will apply on the total amount a business can claim. The scheme is subject to approval by the EU Commission.
- The Key Employee Engagement Programme (KEEP) regime providing for a tax efficient share option scheme for employees will be extended until 31 December 2025. Changes to the regime made in Finance Act 2019 will come into effect following European Commission approval. The scheme will be amended to permit companies to buy-back KEEP shares from employees and the lifetime company limit for KEEP shares will be raised from €3m to €6m.
- The Special Assignee Relief Programme (SARP) to attract staff from abroad will be extended until 31 December 2025 and the income threshold required to qualify for the scheme will be increased from €75,000 to €100,000.
- The film corporation tax credit will be extended to 31 December 2028.

- The Knowledge Development Box (KDB), which grants a 6.25% rate of corporation tax on income from certain intellectual property assets, will be extended for an additional four years to allow relief for accounting periods commencing before 1 January 2027. A new effective rate of 10% is to apply as part of the implementation of the Pillar Two agreement.
- Amendments will be made to the timing of the Research and Development (R&D) tax credit. The current offset against corporation tax liabilities and three year repayment provisions will be amended to a new fixed three year payment system in order to ensure the scheme complies with Pillar Two guidelines. A qualifying company will have an option to offset against non-corporate tax liabilities and existing caps on the payable element of the credit will be removed. In addition, a company can claim up to €25,000 of eligible refunds in year-one which should provide a cash-flow benefit for smaller R&D projects and encourage more companies to engage in R&D activities.
- The Bank Levy for certain domestic financial institutions will be extended to 31 December 2023. The long-term future of the levy is currently under review.
- The Department of Finance is to commence a review of the use of the Section 110 regime and establish a working group to consider the taxation of funds, life assurance policies and investment funds products. While no further detail was published today, these reviews would be expected to involve consultation with industry and key stakeholders.
- Despite media speculation, the Minister for Finance did not announce the immediate introduction of a windfall energy tax on excess profits from the current volatility in energy markets. Instead, the Government will monitor whether Ireland can be part of an EU-wide response to high energy prices and, if not, will seek to introduce domestic windfall tax measures.

Personal Taxes

- The income tax standard rate (20%) cut-off point will be increased by €3,200 for all income tax payers. The personal tax credit, PAYE employee tax credit and earned income credit will each increase by €75. These measures will take effect from 1 January 2023.
- The recent report of the Tax Strategy Group (TSG) examined the impact of introducing an intermediate or third rate of income tax. Further analysis will be conducted as part of the Government's medium term roadmap for personal tax reform. A range of measures across income tax, USC and PRSI together with other related personal taxation issues will be considered as part of this review which will conclude prior to the publication of the 2023 Summer Economic Statement.
- No changes were announced with respect to Irish Capital Gains Tax or Capital Acquisitions Tax.

Real Estate / Housing

- The residential development stamp duty refund scheme which has been in place since 2017 will be extended for a further three years to the end of 2025. Where applicable, a refund of a portion of stamp duty paid on the acquisition of non-residential land is available where the land is subsequently developed for residential purposes. The net minimum stamp duty payable after a refund is 2% (the standard rate for the acquisition of non-residential property is currently 7.5%).
- The Minister for Finance committed to commencing a review of the REIT and IREF regimes with the Minister stating that: "*[i]nstitutional investment has played a key role in the provision of housing in recent years. This review will consider those structures and how best they can continue to support housing policy objectives.*" No timeline has been provided but a review of the regimes is likely to involve engagement with industry and relevant stakeholders once the terms of review are established.
- The Help To Buy (HTB) scheme which provides first-time buyers with a refund of income tax and deposit interest retention tax (up to a maximum of €30,000) is being extended by two years to the end of 2024.
- In line with recent Government commitments to provide relief for tenants in the private rental sector, the Minister for Finance announced a new Rent Tax Credit of €500 per year for tenants. This will apply to rents paid during 2022 and subsequent tax years.
- Pre-letting expenditure allowable as a tax deduction for landlords will double to €10,000 with effect from 1 January 2023 and the period for which a premises must be vacant to claim the relief will be reduced from 12 to six months.
- The Minister announced a new Vacant Homes Tax (VHT) which is aimed at increasing the supply of homes for rent or purchase to meet the current demand for housing. The tax will apply to residential properties which are occupied for less than 30 days in a 12 month period and will be charged at a rate equal to three times the property's existing basic Local Property Tax rate.
- The Living City Initiative (LCI) which provides tax relief for refurbishing or converting residential or commercial properties in designated special regeneration areas will be extended for a further five years to 31 December 2027.
- As a measure to contribute towards the cost of the Mica Redress Scheme, a 10% levy on concrete blocks and certain other concrete products will apply from 3 April 2023.
- The Budget also included some detail on amendments to streamline the operation of the Residential Zoned Land Tax which was previously announced in Budget 2022.

VAT

- The reduced VAT rate of 9% for the hospitality sector will remain in place until 28 February 2023. VAT on newspapers will be reduced to 0% from 1 January 2023.

What's Next?

Further detail on the measures announced in Budget 2023 will be contained in Finance Bill 2022, to be published on 20 October 2022.

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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