BUDGET

2018

Tax Policy Changes

BAILE ÁTHA CLIATH
ARNA FHOILSIÚ AG OIFIG AN tSOLÁTHAIR
Le ceannach díreach ó FOILSEACHÁIN
RIALTAIS
52 FAICHE STIABHNA, BAILE ÁTHA CLIATH D02DR67
(Teil: 01 – 6476834 nó 1890 213434; Fax 01 – 6476843)
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BUDGET 2018

TAX POLICY CHANGES

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Summary of
2018 Budget Measures
Policy Changes

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Taxation Measures

Taxation Measures for Introduction in 2018

Measure	Yield/Cost 2018	Yield/Cost Full Year
USC		
• 2.5% rate reduced to 2%	-€72m	-€83m
• €600 increase to €18,772 band ceiling	-€21m	-€24m
• 5% rate reduced to 4.75%	-€84m	-€99m
Total cost of USC measures	-€177m	-€206m
USC Rates & Bands from 1 January 2018: Incomes of €13,000 are exempt. Otherwise: • €0 – €12,012 @ 0.5% • €12,012 – €19,372 @ 2% • €19,372 – €70,044 @ 4.75% • €70,044+ @ 8% • Self-employed income over €100,000: 3% surcharge		
Marginal tax rate on incomes up to €70,044 reduced from 49% to 48.75%		
The USC relief for medical card holders is being extended for a further two years (revenue neutral as already in tax base). Medical card holders and individuals aged 70 years and older whose aggregate income does not exceed €60,000 will now pay a maximum USC rate of 2%.		
Income Tax		
An increase of €750 in the income tax standard rate band for all earners, from €33,800 to €34,550 for single individuals and from €42,800 to €43,550 for married one earner couples.	-€132m	-€152m
An increase in the Home Carer Tax Credit from €1,100 to €1,200	-€7m	-€8m
An increase in the Earned Income Credit from €950 to €1,150	-€17m	-€31m
Excise Duties		
Tobacco Products Tax		
The excise duty on a packet of 20 cigarettes is being increased by 50 cents (including VAT) with a pro-rata increase on the other	+€64m	+€64m

tobacco products, and an additional 25c on roll your own tobacco. This will take effect from midnight on 10 October 2017.		
Sugar Tax A tax on sugar sweetened beverages is to be introduced on 1 April 2018. The tax will apply to sugar sweetened drinks with a sugar content between 5 grams and 8 grams per 100ml at a rate of 20c per litre. A second rate will apply for drinks with a sugar content of 8 grams or above at 30c per litre.	+€30m	+€40m
Benefit in Kind on Electric Vehicles A 0% benefit-in-kind (BIK) rate is being introduced for electric vehicles for a period of 1 year. This will for allow for a comprehensive review of benefit in kind on vehicles which will inform decisions for the next Budget. Electricity used in the workplace for charging vehicles will also be exempt from benefit in kind.	-€0.5m	
Other Income Tax		
Mortgage Interest Relief Tapered extension of mortgage interest relief for remaining recipients – owner occupiers who took out qualifying mortgages between 2004 and 2012. 75% of the existing 2017 relief will be continued into 2018, 50% into 2019 and 25% into 2020. The relief will cease entirely from 2021. (Generates an exchequer yield as the full relief is currently in the tax base.)	+€51m	+€175m
Key Employee Engagement Programme (KEEP) A share-based remuneration incentive is being introduced to facilitate the use of share-based remuneration by unquoted SME companies to attract key employees. Gains arising to employees on the exercise of KEEP share options will be liable to Capital Gains Tax on disposal of the shares, in place of the current liability to income tax, USC and PRSI on exercise. This incentive will be available for qualifying share options granted between 1 January 2018 and 31 December 2023.	-	-€10m
Pre-letting Expenses – Rented Residential Property To encourage owners of vacant residential property to bring that property into the rental market, a new deduction is being introduced for pre-letting expenses of a revenue nature incurred on a property that has been vacant for a period of 12 months or	-€1.5m	-€3m

more. A cap on allowable expenses of €5,000 per property will apply, and the relief will be subject to clawback if the property is withdrawn from the rental market within 4 years. The relief will be available for qualifying expenses incurred up to the end of 2021.		
VAT **Increase in the VAT rate on sunbeds from 13.5% to 23%** In line with the Government's National Cancer Strategy, the VAT rate on sunbed services is being increased from 13.5% to the standard rate of 23% from 1 January 2018, in order to deter sunbed use, due to clear evidence of a link between sunbed use and skin cancer. The VAT increase will result in a minimal Exchequer gain. **Charities VAT Compensation Scheme** A VAT refund scheme is being introduced to compensate charities for the VAT they occur on their inputs. The scheme will be introduced in 2019 in respect of VAT expenses incurred in 2018. Charities will be entitled to a refund of a proportion of their VAT costs based on the level of non-public funding they receive. An amount of €5m will be available to the scheme in 2019.	€0m €0m	€0m -€5m
Capital Gains Tax **Changes to section 604A of the Taxes Consolidation Act 1997 (Relief for certain disposals of land or buildings aka the 7-year CGT relief)*** An amendment will be made to Section 604 of the Taxes Consolidation Act 1997, otherwise known as the 7-year CGT relief, which will allow the owners of qualifying assets to sell those assets between the fourth and seventh anniversaries of their acquisition and still enjoy a full relief from CGT on any chargeable gains.	€0m	€0m
Capital Acquisitions Tax **Treatment of solar farms for the purposes of the Capital Acquisitions Tax (CAT) agricultural relief; Capital Gains Tax (CGT) retirement relief** For the purpose of CAT agricultural relief and CGT retirement relief, agricultural land placed under solar infrastructure will continue to be classified as agricultural land (formerly it would no-longer have been deemed agricultural land), but with a condition restricting the	€0m	€0m

amount of the farmland that can be used for solar infrastructure to 50 per cent of the total farm acreage.		
Compliance **Employer PAYE Compliance Project** In preparation for PAYE Modernisation a project is required to ensure compliance with employer obligations. A range of compliance interventions will be required. Resources will include enhancing ICT capacity for data matching and analytics, and capability building. **eCommerce/Online Business Compliance Project** Building on knowledge gained in National Compliance Imperative in 2017, a compliance project tackling risks identified by e-commerce and online businesses. **Tax avoidance and base erosion capacity** Build high level technical capacity to tackle complex tax avoidance and transfer pricing cases. Also to support Competent Authority role, including MAPs. Required to protect tax base and contribute to additional yield.	€50m €30m €20m	€50m €30m €20m
Corporation Tax **Capital Allowances for Intangible Assets** This measure will provide that the deduction for capital allowances for intangible assets, and any related interest expense, will be limited to 80% of the relevant income arising from the intangible asset in an accounting period. Full details of this measure will be contained in the Finance Bill. **Accelerated Capital Allowances for Energy Efficient Equipment** This is a measure to incentivise companies to invest in energy efficient equipment. This measure was due to expire at the end of 2017 and following a review by the Department of Finance is being extended to the end of 2020.	€150m €0m	€150m €0m

Stamp Duty **Change of rate of Stamp Duty on Non-Residential Property from 2% to 6%** **Extension of Consanguinity Relief and Change of Rate of Relief** (This is an extension of a relief, net amount coming in should not change)	€376m €0m	€376m €0m
Increase in employer contribution to National Training Fund levy From 1st January 2018 there will be a 0.1% increase (from 0.7% to 0.8%) in the National Training Fund Levy payable by employers with respect of reckonable earnings of employees in Class A and Class H employments.	€58m	€63m

Taxation Annexes to the Summary of 2018 Budget Measures

Contents

ANNEX A

A distributional analysis of Budget 2018 Measures on a variety of household family types across a range of income levels.

Introduction

This Annex presents a range of information that illustrates the effect of the Budget measures on different categories of income earners and household types. Distribution tables show the impact of Budget measures for different family types – single individuals, married couples, families with children - across a range of income levels from €12,000 to €175,000.

The examples are based on specimen incomes from both employment and self-employment sources. These cases deal with basic personal tax credits, the PAYE employee tax credit, earned income tax credit, the home carer credit, the age credit and age exemption limits, the standard rate bands, PRSI and the Universal Social Charge (USC). Social welfare payments such as the State pension, Family Income Supplement and Child Benefit are included, where relevant. Variations can arise due to rounding.

There are also tables showing the average effective tax rate for different household types with employment and self-employment income for the years 2003 to 2018.

Information is also provided on the distribution of income earners for Income Tax purposes on a 2017 and a post-Budget 2018 basis. This shows a breakdown of the number and percentage of income earners who are: exempt from Income Tax; paying Income Tax at the standard rate; and paying Income Tax at the higher rate.

A number of illustrative cases are also provided to demonstrate the impact of the Budget changes across a broader range of family types and income sources.

This complements other analyses that are undertaken aimed at integrating equality and distributional considerations into the Budget process as set out in the Economic and Fiscal Outlook section of this document. In particular, the following Annex B provides a broader examination of income tax and progressivity issues.

(i) Examples showing the effects of Budget changes on different categories of single and married income earners

EXAMPLE 1

Single person, no children, private sector employee taxed under PAYE

Full rate PRSI contributor

Note: **Assuming that employees currently earning less than €18,759 p.a. earn all their income at the minimum wage and will therefore benefit from an increase of 3.24% (€9.25 to €9.55 per hour) in their gross income**

Gross Income			Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income	Effective Tax Rate	
Existing	Min. Wage	New	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	Increase	€	€	€	€	€	€	€	€	€		%	%
12,000	389	12,389	0	0	0	0	0	0	389	7	3.2%	0.0%	0.0%
14,000	454	14,454	0	0	0	0	110	109	455	9	3.3%	0.8%	0.8%
18,000	584	18,584	300	417	0	166	210	191	319	6	1.8%	2.8%	4.2%
20,000	0	20,000	700	700	459	459	290	237	53	1	0.3%	7.2%	7.0%
25,000	0	25,000	1,700	1,700	1,000	1,000	540	475	66	1	0.3%	13.0%	12.7%
30,000	0	30,000	2,700	2,700	1,200	1,200	790	712	78	2	0.3%	15.6%	15.4%
35,000	0	35,000	3,940	3,790	1,400	1,400	1,040	950	241	5	0.8%	18.2%	17.5%
45,000	0	45,000	7,940	7,790	1,800	1,800	1,540	1,425	266	5	0.8%	25.1%	24.5%
55,000	0	55,000	11,940	11,790	2,200	2,200	2,040	1,900	291	6	0.7%	29.4%	28.9%
75,000	0	75,000	19,940	19,790	3,000	3,000	3,189	3,011	328	6	0.7%	34.8%	34.4%
100,000	0	100,000	29,940	29,790	4,000	4,000	5,189	5,011	328	6	0.5%	39.1%	38.8%
150,000	0	150,000	49,940	49,790	6,000	6,000	9,189	9,011	328	6	0.4%	43.4%	43.2%
175,000	0	175,000	59,940	59,790	7,000	7,000	11,189	11,011	328	6	0.3%	44.6%	44.5%

Variations can arise due to rounding

EXAMPLE 2

Married couple, one income, no children, private sector employee taxed under PAYE

Full rate PRSI contributor

Note: Assuming that employees currently earning less than €18,759 p.a. earn all their income at the minimum wage and will therefore benefit from an increase of 3.24% (€9.25 to €9.55 per hour) in their gross income

Gross Income			Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income	Effective Tax Rate	
Existing	Min. Wage	New	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	Increase	€	€	€	€	€	€	€	€	€		%	%
12,000	389	12,389	0	0	0	0	0	0	389	7	3.2%	0.0%	0.0%
14,000	454	14,454	0	0	0	0	110	109	455	9	3.3%	0.8%	0.8%
18,000	584	18,584	0	0	0	166	210	191	436	8	2.5%	1.2%	1.9%
20,000	0	20,000	0	0	459	459	290	237	53	1	0.3%	3.7%	3.5%
25,000	0	25,000	50	50	1,000	1,000	540	475	66	1	0.3%	6.4%	6.1%
30,000	0	30,000	1,050	1,050	1,200	1,200	790	712	78	2	0.3%	10.1%	9.9%
35,000	0	35,000	2,050	2,050	1,400	1,400	1,040	950	91	2	0.3%	12.8%	12.6%
45,000	0	45,000	4,490	4,340	1,800	1,800	1,540	1,425	266	5	0.7%	17.4%	16.8%
55,000	0	55,000	8,490	8,340	2,200	2,200	2,040	1,900	291	6	0.7%	23.1%	22.6%
70,000	0	70,000	14,490	14,340	2,800	2,800	2,790	2,612	328	6	0.7%	28.7%	28.2%
100,000	0	100,000	26,490	26,340	4,000	4,000	5,189	5,011	328	6	0.5%	35.7%	35.4%
150,000	0	150,000	46,490	46,340	6,000	6,000	9,189	9,011	328	6	0.4%	41.1%	40.9%
175,000	0	175,000	56,490	56,340	7,000	7,000	11,189	11,011	328	6	0.3%	42.7%	42.5%

Variations can arise due to rounding

EXAMPLE 3

Married couple, one income, two children, private sector employee taxed under PAYE
Full rate PRSI contributor

Note: **Assuming that employees currently earning less than €18,759 p.a. earn all their income at the minimum wage and will therefore benefit from an increase of 3.24% (€9.25 to €9.55 per hour) in their gross income**

Gross Income			Income Tax		PRSI		Universal Social Charge		Family Income Supplement		Child Benefit		Total Change (including FIS and Child Benefit)		Change as % of Net Income
Existing	Min Wage Increase	New	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€		€	€	€	€	€	€	€	€	€	€	€	€	€	
12,000	389	12,389	0	0	0	0	0	0	11,908	12,012	3,360	3,360	493	9	2.1%
14,000	454	14,454	0	0	0	0	110	109	10,764	10,816	3,360	3,360	507	10	2.1%
18,000	584	18,584	0	0	0	166	210	191	8,424	8,476	3,360	3,360	488	9	1.9%
20,000	0	20,000	0	0	459	459	290	237	7,592	7,852	3,360	3,360	313	6	1.2%
25,000	0	25,000	0	0	1,000	1,000	540	475	5,044	5,304	3,360	3,360	326	6	1.1%
30,000	0	30,000	0	0	1,200	1,200	790	712	2,340	2,600	3,360	3,360	338	7	1.1%
35,000	0	35,000	950	850	1,400	1,400	1,040	950	1,040	1,040	3,360	3,360	191	4	0.6%
45,000	0	45,000	3,390	3,140	1,800	1,800	1,540	1,425	0	0	3,360	3,360	366	7	1.0%
55,000	0	55,000	7,390	7,140	2,200	2,200	2,040	1,900	0	0	3,360	3,360	391	8	0.9%
70,000	0	70,000	13,390	13,140	2,800	2,800	2,790	2,612	0	0	3,360	3,360	428	8	0.8%
100,000	0	100,000	25,390	25,140	4,000	4,000	5,189	5,011	0	0	3,360	3,360	428	8	0.7%
150,000	0	150,000	45,390	45,140	6,000	6,000	9,189	9,011	0	0	3,360	3,360	428	8	0.5%
175,000	0	175,000	55,390	55,140	7,000	7,000	11,189	11,011	0	0	3,360	3,360	428	8	0.4%

Variations can arise due to rounding
Includes the impact of Family Income Supplement (FIS) where relevant
For illustrative purposes, assumes Budget 2018 FIS adjustment applies for 52 weeks

EXAMPLE 4

Single person, no children, taxed under Schedule D (self-employed)

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income	Effective Tax Rate	
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	€	€	€	€	€	€	€	€		%	%
12,000	0	0	500	500	0	0	0	0	0.0%	4.2%	4.2%
14,000	200	0	560	560	110	100	210	4	1.6%	6.2%	4.7%
18,000	1,000	800	720	720	210	180	230	4	1.4%	10.7%	9.4%
20,000	1,400	1,200	800	800	290	237	253	5	1.4%	12.5%	11.2%
25,000	2,400	2,200	1,000	1,000	540	475	266	5	1.3%	15.8%	14.7%
30,000	3,400	3,200	1,200	1,200	790	712	278	5	1.1%	18.0%	17.0%
35,000	4,640	4,290	1,400	1,400	1,040	950	441	8	1.6%	20.2%	19.0%
45,000	8,640	8,290	1,800	1,800	1,540	1,425	466	9	1.4%	26.6%	25.6%
55,000	12,640	12,290	2,200	2,200	2,040	1,900	491	9	1.3%	30.7%	29.8%
70,000	18,640	18,290	2,800	2,800	2,790	2,612	528	10	1.2%	34.6%	33.9%
100,000	30,640	30,290	4,000	4,000	5,189	5,011	528	10	0.9%	39.8%	39.3%
150,000	50,640	50,290	6,000	6,000	10,689	10,511	528	10	0.6%	44.9%	44.5%
175,000	60,640	60,290	7,000	7,000	13,439	13,261	528	10	0.6%	46.3%	46.0%

Variations can arise due to rounding

EXAMPLE 5

Married couple, one income, no children, taxed under Schedule D (self-employed)

Gross Income	Income Tax		PRSI		Universal Social Charge		Total Change		Change as % of Net Income	Effective Tax Rate	
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	€	€	€	€	€	€	€	€		%	%
12,000	0	0	500	500	0	0	0	0	0.0%	4.2%	4.2%
14,000	0	0	560	560	110	100	10	0	0.1%	4.8%	4.7%
18,000	0	0	720	720	210	180	30	1	0.2%	5.2%	5.0%
20,000	0	0	800	800	290	237	53	1	0.3%	5.5%	5.2%
25,000	750	550	1,000	1,000	540	475	266	5	1.2%	9.2%	8.1%
30,000	1,750	1,550	1,200	1,200	790	712	278	5	1.1%	12.5%	11.5%
35,000	2,750	2,550	1,400	1,400	1,040	950	291	6	1.0%	14.8%	14.0%
45,000	5,190	4,840	1,800	1,800	1,540	1,425	466	9	1.3%	19.0%	17.9%
55,000	9,190	8,840	2,200	2,200	2,040	1,900	491	9	1.2%	24.4%	23.5%
70,000	15,190	14,840	2,800	2,800	2,790	2,612	528	10	1.1%	29.7%	28.9%
100,000	27,190	26,840	4,000	4,000	5,189	5,011	528	10	0.8%	36.4%	35.9%
150,000	47,190	46,840	6,000	6,000	10,689	10,511	528	10	0.6%	42.6%	42.2%
175,000	57,190	56,840	7,000	7,000	13,439	13,261	528	10	0.5%	44.4%	44.1%

Variations can arise due to rounding

EXAMPLE 6

Married couple, one income, two children, taxed under Schedule D (self-employed)

Gross Income	Income Tax		PRSI		Universal Social Charge		Child Benefit		Total Change		Change as % of Net Income	Effective Tax Rate	
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week		Existing	Proposed
€	€	€	€	€	€	€	€	€	€	€		%	%
12,000	0	0	500	500	0	0	3,360	3,360	0	0	0.0%	4.2%	4.2%
14,000	0	0	560	560	110	100	3,360	3,360	10	0	0.1%	4.8%	4.7%
18,000	0	0	720	720	210	180	3,360	3,360	30	1	0.1%	5.2%	5.0%
20,000	0	0	800	800	290	237	3,360	3,360	53	1	0.2%	5.5%	5.2%
25,000	0	0	1,000	1,000	540	475	3,360	3,360	66	1	0.2%	6.2%	5.9%
30,000	650	350	1,200	1,200	790	712	3,360	3,360	378	7	1.2%	8.8%	7.5%
35,000	1,650	1,350	1,400	1,400	1,040	950	3,360	3,360	391	8	1.1%	11.7%	10.6%
45,000	4,090	3,640	1,800	1,800	1,540	1,425	3,360	3,360	566	11	1.4%	16.5%	15.3%
55,000	8,090	7,640	2,200	2,200	2,040	1,900	3,360	3,360	591	11	1.3%	22.4%	21.3%
70,000	14,090	13,640	2,800	2,800	2,790	2,612	3,360	3,360	628	12	1.2%	28.1%	27.2%
100,000	26,090	25,640	4,000	4,000	5,189	5,011	3,360	3,360	628	12	0.9%	35.3%	34.7%
150,000	46,090	45,640	6,000	6,000	10,689	10,511	3,360	3,360	628	12	0.7%	41.9%	41.4%
175,000	56,090	55,640	7,000	7,000	13,439	13,261	3,360	3,360	628	12	0.6%	43.7%	43.4%

Variations can arise due to rounding

(ii) AVERAGE EFFECTIVE TAX RATES ON ANNUAL EARNINGS IN % TERMS*
FULL RATE PRSI

FULL RATE PRSI	SINGLE															
Gross Income €	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2009(s) /2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
15,000	6.8%	5.2%	3.2%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	2.7%	2.7%	2.7%	1.9%	1.4%	0.9%	0.8%
20,000	13.1%	11.9%	8.4%	7.1%	5.1%	4.4%	5.4%	6.4%	9.8%	9.8%	11.1%	11.1%	10.2%	7.8%	7.2%	7.0%
25,000	15.7%	14.7%	13.5%	12.5%	10.9%	8.3%	9.3%	10.3%	14.0%	14.0%	15.1%	15.1%	14.4%	13.5%	13.0%	12.7%
30,000	18.9%	18.1%	16.0%	14.7%	13.4%	12.9%	13.9%	16.9%	16.8%	16.8%	17.7%	17.7%	17.1%	16.1%	15.6%	15.4%
40,000	26.1%	25.5%	24.0%	21.9%	19.7%	18.6%	19.1%	22.1%	24.2%	24.2%	24.8%	24.8%	23.7%	22.6%	22.1%	21.4%
60,000	32.3%	32.0%	31.1%	29.8%	28.1%	27.5%	28.2%	31.7%	33.4%	33.4%	33.9%	33.9%	32.8%	31.6%	31.1%	30.5%
100,000	37.0%	36.9%	36.3%	35.6%	34.2%	33.8%	34.6%	39.2%	40.9%	40.9%	41.1%	41.1%	40.4%	39.5%	39.1%	38.8%
120,000	38.2%	38.1%	37.6%	37.0%	35.7%	35.4%	36.5%	41.1%	42.7%	42.7%	42.9%	42.9%	42.3%	41.6%	41.3%	41.0%

FULL RATE PRSI	MARRIED / CIVIL PARTNER, ONE INCOME, TWO CHILDREN															
Gross Income €	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2009 (s)/2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
15,000	2.2%	2.2%	2.2%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	2.7%	2.7%	2.7%	1.9%	1.4%	0.9%	0.8%
20,000	4.7%	4.7%	2.7%	2.7%	2.7%	2.7%	3.7%	4.7%	6.3%	6.3%	7.6%	7.6%	6.7%	4.3%	3.7%	3.5%
25,000	6.5%	5.5%	4.9%	4.9%	4.9%	2.9%	3.9%	4.9%	7.2%	7.2%	8.3%	8.3%	7.6%	6.7%	6.2%	5.9%
30,000	9.8%	9.0%	7.8%	6.7%	5.1%	5.1%	6.1%	9.1%	8.6%	8.6%	9.5%	9.5%	8.9%	7.3%	6.6%	6.4%
40,000	15.5%	14.9%	13.2%	11.5%	10.2%	9.4%	10.4%	13.4%	14.2%	14.2%	14.9%	14.9%	14.5%	12.9%	12.1%	11.6%
60,000	25.1%	24.8%	23.9%	22.5%	20.8%	19.8%	20.5%	24.0%	26.2%	26.2%	26.6%	26.6%	25.7%	24.1%	23.5%	22.8%
100,000	32.8%	32.6%	32.0%	31.2%	29.7%	29.2%	30.0%	34.6%	36.5%	36.5%	36.8%	36.8%	36.1%	35.0%	34.6%	34.2%
120,000	34.6%	34.5%	34.0%	33.3%	32.0%	31.6%	32.6%	37.2%	39.1%	39.1%	39.3%	39.3%	38.8%	37.9%	37.5%	37.1%

* Average Effective Tax Rates 2001-2010: Total of Income Tax, Levies (Income and Health) and PRSI as a proportion of gross income.
Average Effective Tax Rates 2011-2016: Total of Income Tax, PRSI and Universal Social Charge as a proportion of gross income.
Calculations only account for the standard employee credit, personal income tax credit and home carer credit, where relevant.

(s) Supplementary Budget 2009

AVERAGE EFFECTIVE TAX RATES ON ANNUAL EARNINGS IN % TERMS*

SELF EMPLOYED

SELF EMPLOYED	SINGLE															
Gross Income €	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2009 (s)/2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
15,000	12.9%	12.9%	12.5%	12.1%	11.3%	10.8%	10.8%	10.8%	15.7%	15.7%	15.7%	15.7%	14.9%	10.7%	7.6%	6.1%
20,000	17.4%	17.4%	15.1%	14.9%	14.2%	13.9%	14.9%	15.9%	19.3%	19.3%	19.3%	19.3%	18.5%	15.0%	12.5%	11.2%
25,000	18.9%	18.9%	18.7%	18.5%	18.0%	15.7%	16.7%	17.7%	21.7%	21.7%	21.7%	21.7%	21.0%	17.9%	15.8%	14.7%
30,000	21.4%	21.4%	20.2%	19.6%	19.1%	18.9%	19.9%	22.9%	23.2%	23.2%	23.2%	23.2%	22.6%	19.8%	18.0%	17.0%
40,000	27.8%	27.8%	26.9%	25.3%	23.8%	22.8%	23.3%	26.3%	29.0%	29.0%	29.0%	29.0%	27.8%	25.3%	23.8%	22.7%
60,000	34.2%	34.2%	33.6%	32.6%	31.2%	30.6%	31.2%	34.2%	36.6%	36.6%	36.6%	36.6%	35.6%	33.4%	32.2%	31.4%
100,000	39.3%	39.3%	39.0%	38.3%	37.1%	36.7%	37.5%	41.3%	42.8%	42.8%	42.8%	42.8%	42.0%	40.6%	39.8%	39.3%
120,000	40.6%	40.6%	40.3%	39.8%	38.7%	38.4%	39.4%	43.2%	44.8%	44.8%	44.8%	44.8%	44.2%	43.0%	42.4%	41.9%

SELF EMPLOYED	MARRIED / CIVIL PARTNER, ONE INCOME, TWO CHILDREN															
Gross Income €	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2009(s)/2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
15,000	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	6.7%	6.7%	6.7%	6.7%	5.9%	5.4%	4.9%	4.8%
20,000	6.0%	6.0%	3.4%	3.0%	3.0%	3.0%	4.0%	5.0%	7.6%	7.6%	7.6%	7.6%	6.7%	6.0%	5.5%	5.2%
25,000	9.8%	9.8%	9.3%	8.9%	7.8%	4.8%	5.8%	6.8%	11.8%	11.8%	11.8%	11.8%	11.1%	7.3%	6.2%	5.9%
30,000	12.3%	12.3%	11.9%	11.6%	10.7%	9.8%	10.8%	13.8%	15.0%	15.0%	15.0%	15.0%	14.4%	11.0%	8.8%	7.5%
40,000	17.1%	17.1%	16.1%	14.9%	14.3%	13.6%	14.6%	17.6%	19.0%	19.0%	19.0%	19.0%	18.6%	15.6%	13.9%	12.8%
60,000	27.1%	27.1%	26.4%	25.3%	23.8%	22.9%	23.5%	26.5%	29.4%	29.4%	29.4%	29.4%	28.5%	26.0%	24.6%	23.6%
100,000	35.1%	35.1%	34.6%	34.0%	32.7%	32.1%	32.9%	36.7%	38.4%	38.4%	38.4%	38.4%	37.8%	36.1%	35.3%	34.7%
120,000	37.0%	37.0%	36.7%	36.1%	35.0%	34.5%	35.5%	39.4%	41.2%	41.2%	41.2%	41.2%	40.6%	39.3%	38.6%	38.0%

* Average Effective Tax Rates 2001-2010: Total of Income Tax, Levies (Income and Health) and PRSI as a proportion of gross income.
Average Effective Tax Rates 2011-2016: Total of Income Tax, PRSI and Universal Social Charge as a proportion of gross income.
Calculations only account for the personal income tax credit, earned income credit and home carer credit, where relevant.
Supplementary Budget 2009

(iii) ESTIMATED DISTRIBUTION OF INCOME EARNERS ON THE INCOME TAX FILE FOR 2017 AND 2018

	Exempt (standard rate liability covered by credits or age exemption limits)	Paying tax at the standard rate* (including those whose liability at the higher rate is fully offset by credits)	Higher rate liability NOT fully offset by credits	Total
2017	956,000 37.38%	1,094,700 42.81%	506,700 19.81%	2,557,400
2018 on a post budget basis	956,200 36.55%	1,128,400 43.13%	531,700 20.32%	2,616,300

Notes:

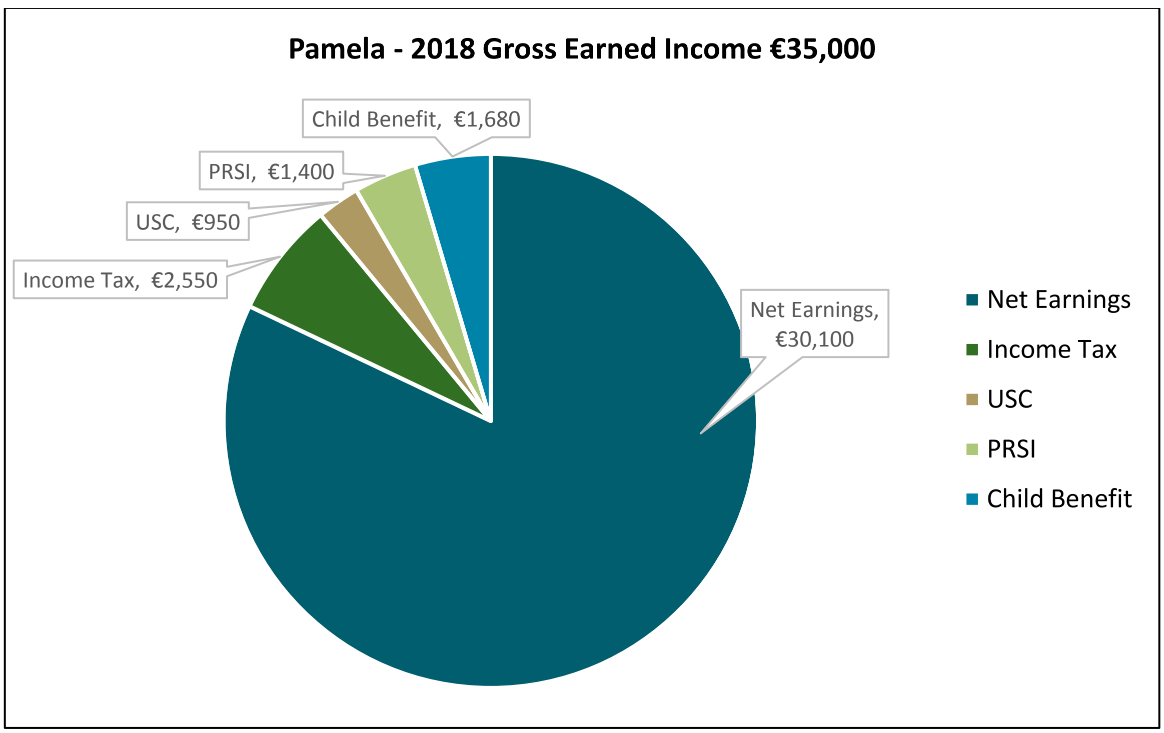
1. Distributions are estimates from the Revenue tax-forecasting model using actual data for the year 2015, adjusted as necessary for income and employment trends in the interim.
2. Figures are provisional and likely to be revised
3. A jointly assessed married couple/civil partnership is treated as one tax unit.

(iv) ILLUSTRATIVE CASES

Example 1

Pamela is a self-employed plumber earning €35,000. She has one child Daniel. She will see a gain of €290 in her annual net income due to this Budget.

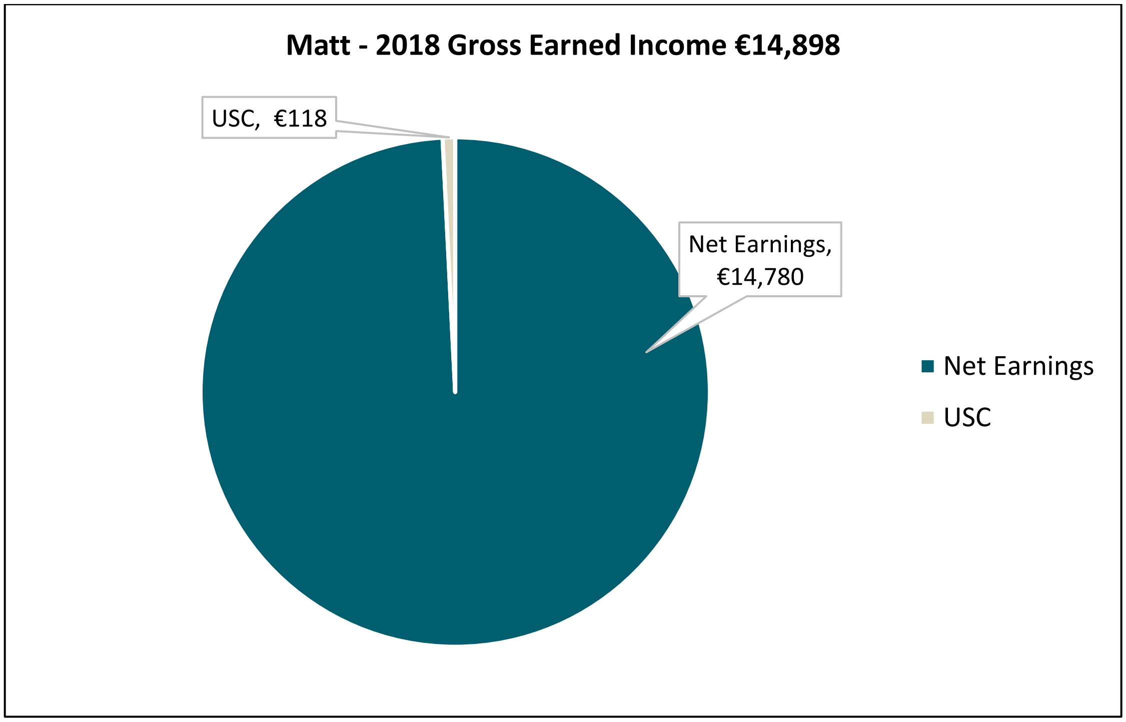
	2017	2018
	€	**€**
Gross Income	35,000	35,000
Income tax liability	2,750	2,550
PRSI liability	1,400	1,400
USC liability	1,040	950
Total tax liability	5,190	4,900
Child Benefit	1,680	1,680
Net Income	31,490	31,780
Annual Gain		290
Change as a % of net income		0.9%



Example 2

Matt is a part-time student who also works 30 hours a week on the minimum wage in a call centre. Matt will see a gain of €471 in his annual net income due to this Budget and the 2018 increase in the National Minimum Wage.

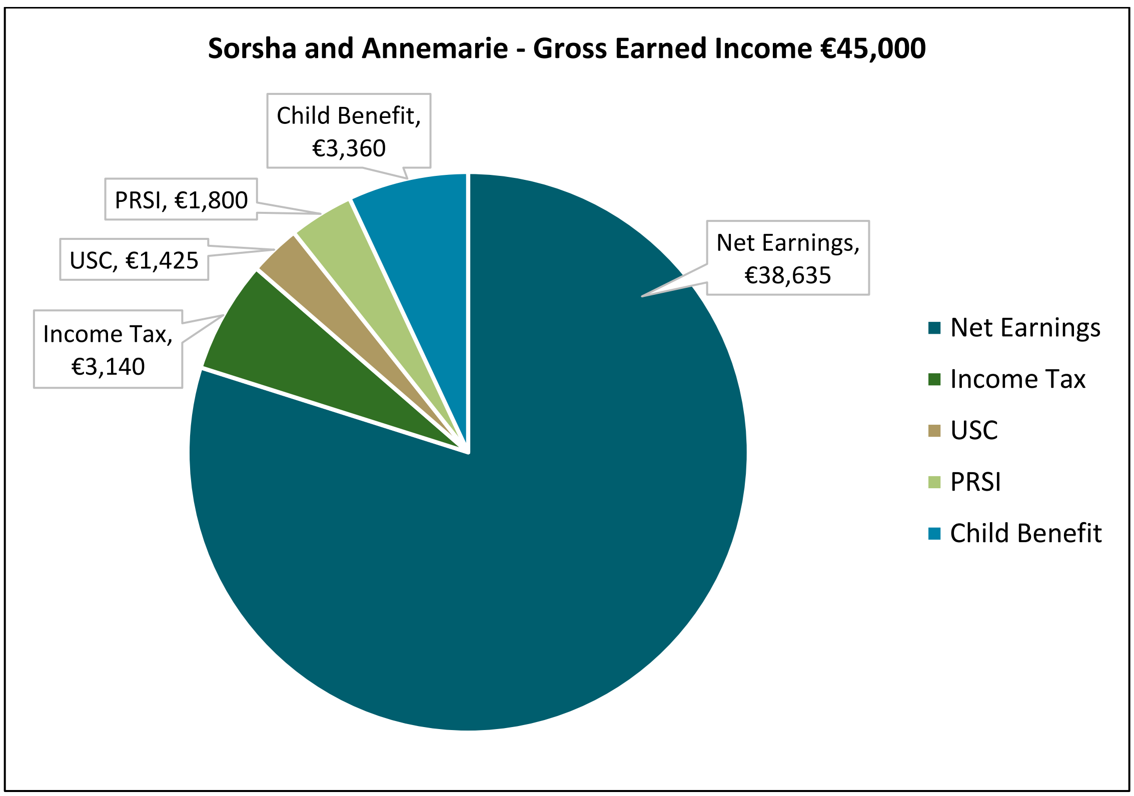
	2017	2018
	€	**€**
Gross Income	14,430	14,430
Minimum wage increase		468
New gross income		14,898
Income tax liability	0	0
PRSI liability	0	0
USC liability	121	118
Total tax liability	121	118
Net Income	14,309	14,780
Annual Gain		471
Change as a % of net income		3.3%



Example 3

Sorsha and Annemarie are married. Sorsha is employed in the IT sector and earns €45,000 per annum. Annemarie works in the family home. They have two children, Rick and Vivienne both aged under 12. The family will see a gain of €366 in their annual net income from Budget 2018.

	2017	**2018**
	€	**€**
Gross Income	45,000	45,000
Income tax liability	3,390	3,140
PRSI liability	1,800	1,800
USC liability	1,541	1,425
Total tax liability	6,731	6,365
Child Benefit	3,360	3,360
Net Income	41,629	41,995
Annual Gain		366
Change as a % of net income		0.9%

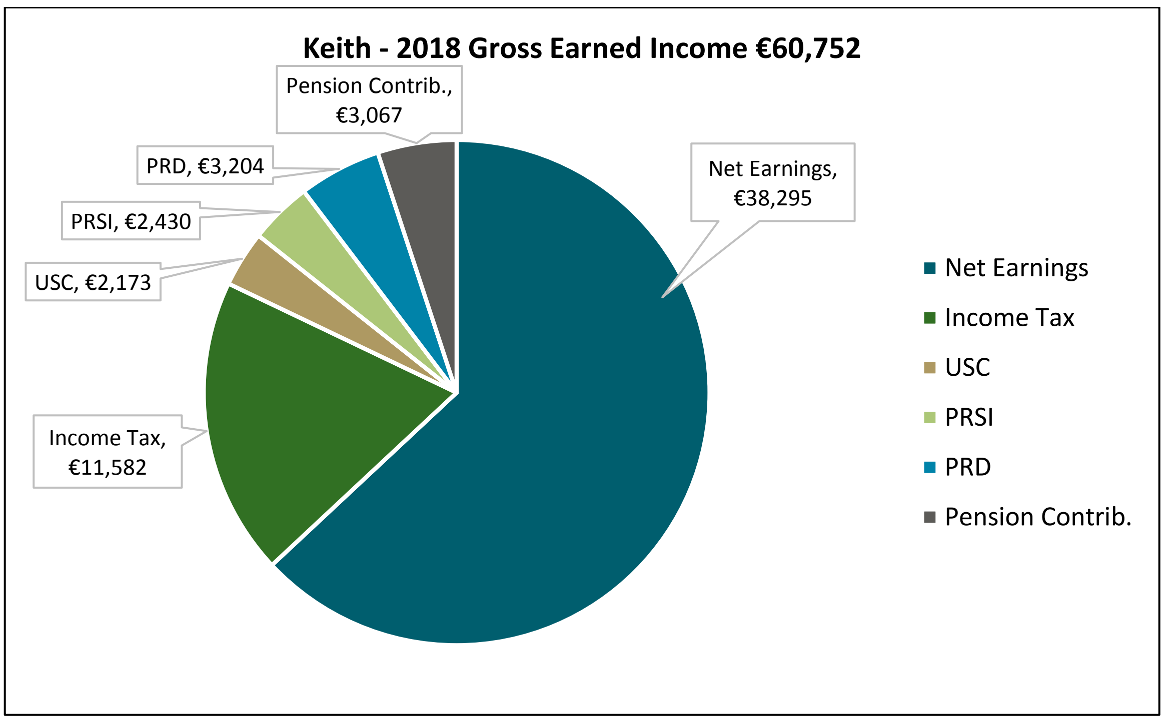


Example 4a (Public Servant)

Keith joined the public service in 2005 and earns €60,000. He will see an increase of €622 in his net income as a result of this Budget and the Lansdowne Road and Public Service Stability Agreements.

	2017	2018
	€	€
Gross Income	60,000	60,000
Public Service Stability Agreement Pay Increase		752
New Gross Income		60,752
Pension contribution	3,036	3,067
Pension Related Deduction	3,125	3,204
Income tax liability	11,476	11,582
PRSI liability	2,400	2,430
USC liability	2,290	2,173
Total tax liability	16,166	16,185
Net Income	37,673	38,295
Annual Gain		622
Change as a % of net income		1.7%

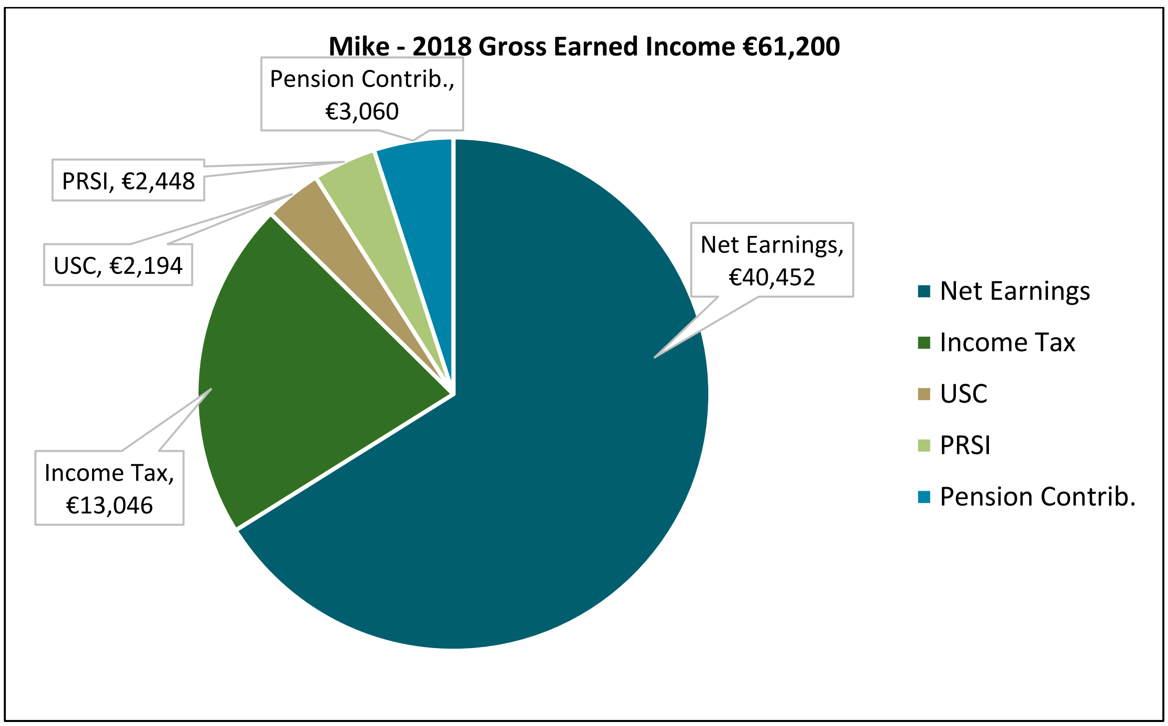
Note: variations due to rounding



Example 4b (Private Sector)

Mike works in the private sector and earns €60,000 and makes a 5% annual pension contribution. In 2018 he receives a pay increase of 2% He will see a gain of €882 in his annual net income as a result of this Budget and his pay increase.

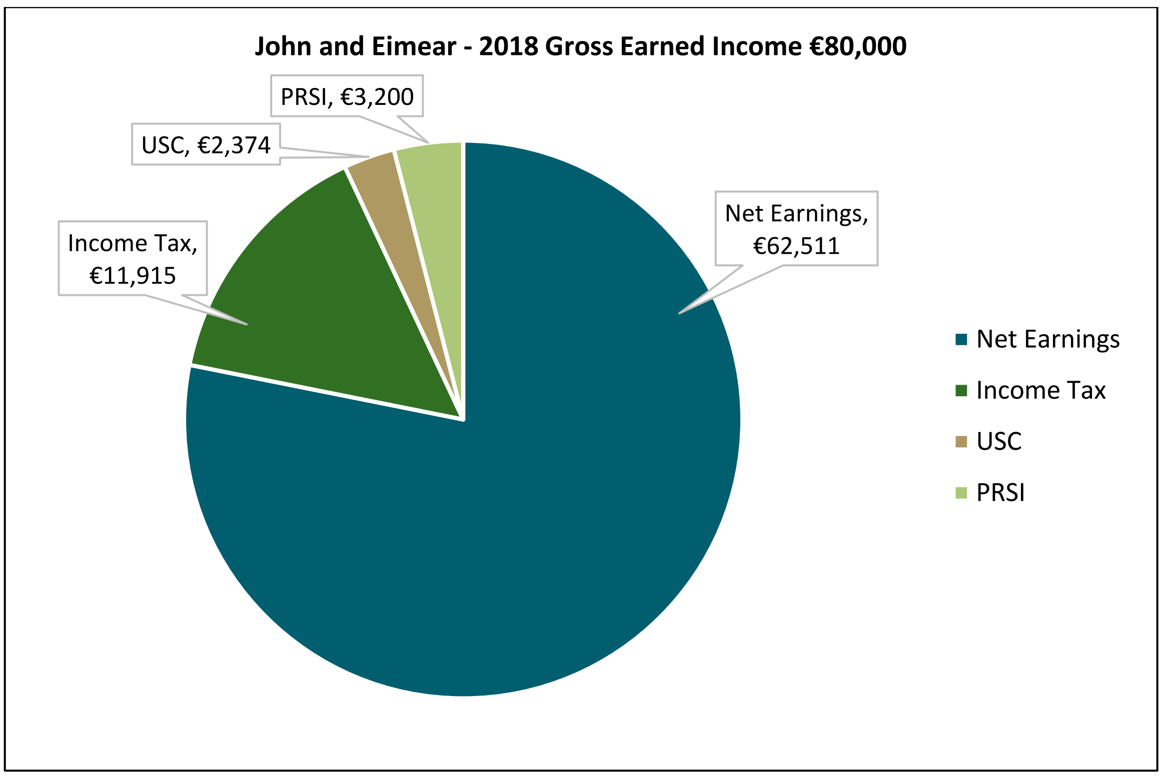
	2017	2018
	€	**€**
Gross Income	60,000	60,000
Pay increase		1,200
New gross income		61,200
Pension contributions	3,000	3,060
Income tax liability	12,740	13,046
PRSI liability	2,400	2,448
USC liability	2,290	2,194
Total tax liability	17,430	17,688
Net Income	39,570	40,452
Annual Gain		882
Change as a % of net income		2.2%



Example 5

John and Eimear are married. John works as a self-employed computer programmer earning €45,000. Eimear works in retail earning €35,000. John has a physical disability and has a trained assistance dog, Al, supplied by an organisation accredited by Assistance Dogs Europe. The family will see a gain of €707 in their annual net income due to this Budget.

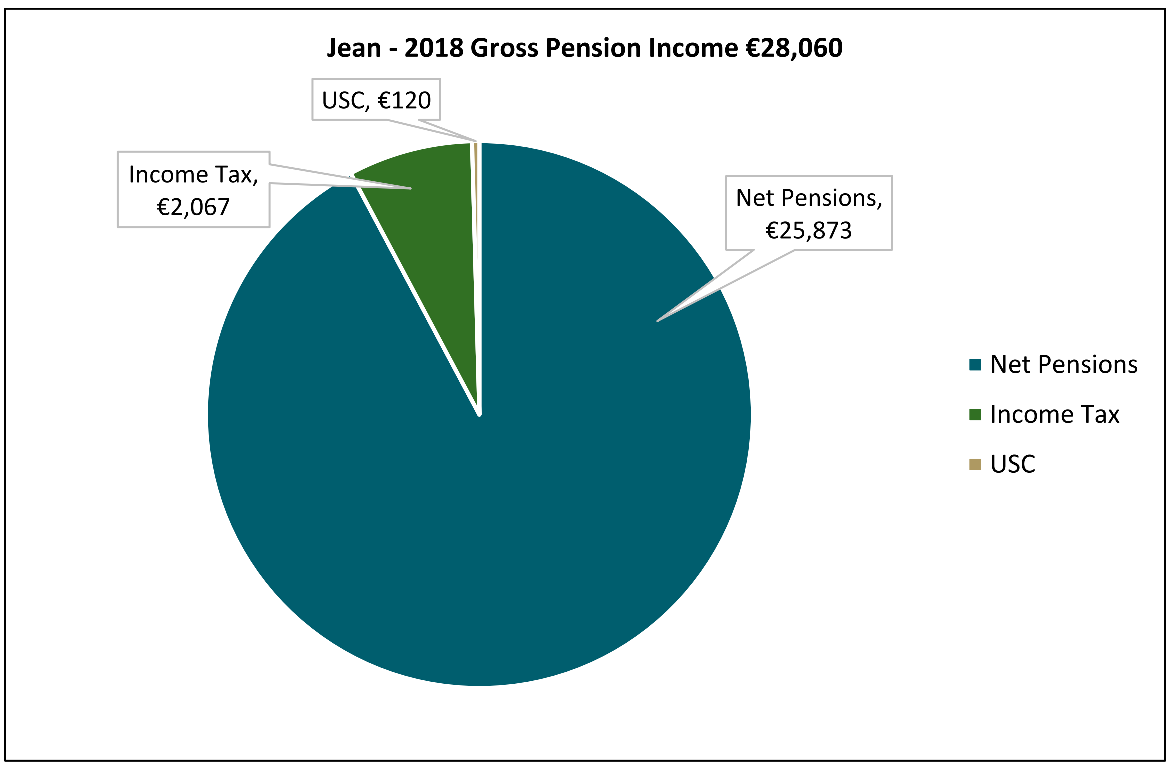
	2017	2018
	€	€
Gross Income	80,000	80,000
Income tax liability	12,415	11,915
PRSI liability	3,200	3,200
USC liability	2,581	2,374
Total tax liability	18,196	17,489
Net Income	61,804	62,511
Annual Gain		707
Change as a % of net income		1.1%



Example 6

Jean is 78 and receives the contributory State Pension and has an occupational pension of €15,000. Jean will see a gain of €211 in her annual net income due to this Budget.

	2017	2018
	€	€
State Pension	12,347	12,592
Living Alone Increase	468	468
Occupational Pension	15,000	15,000
Total income	27,815	28,060
Income tax liability	2,018	2,067
PRSI liability	0	0
USC liability	135	120
Total tax liability	2,153	2,187
Net Income	25,662	25,873
Annual Gain		211
Change as a % of net income		0.8%

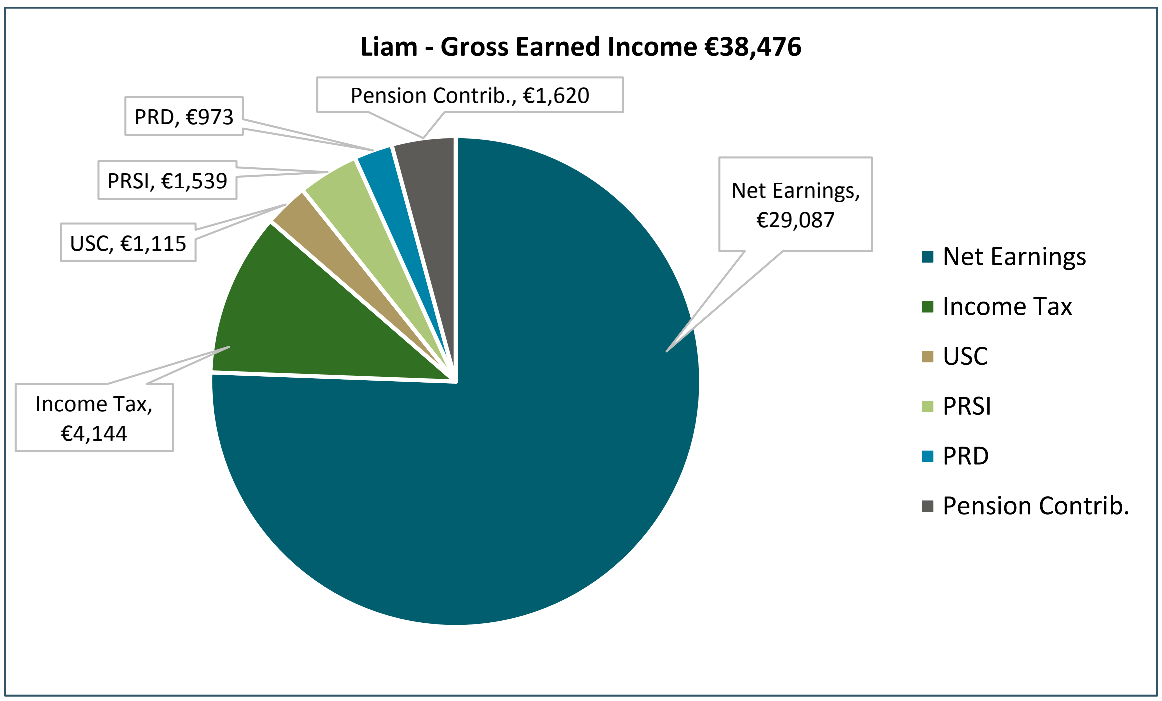


Example 7a (Public Servant)

Liam joined the public service in 2010 and earns €38,000. He will see an increase of €455 in his net income as a result of this Budget and the Lansdowne Road and Public Service Stability Agreements.

	2017	**2018**
	€	**€**
Gross Income	38,000	38,000
Public Service Stability Agreement Pay Increase		476
New Gross Income		38,476
Pension contribution	1,606	1,620
Pension Related Deduction	925	973
Income tax liability	4,128	4,144
PRSI liability	1,520	1,539
USC liability	1,190	1,115
Total tax liability	6,838	6,798
Net Income	28,631	29,087
Annual Gain		455
Change as a % of net income		1.6%

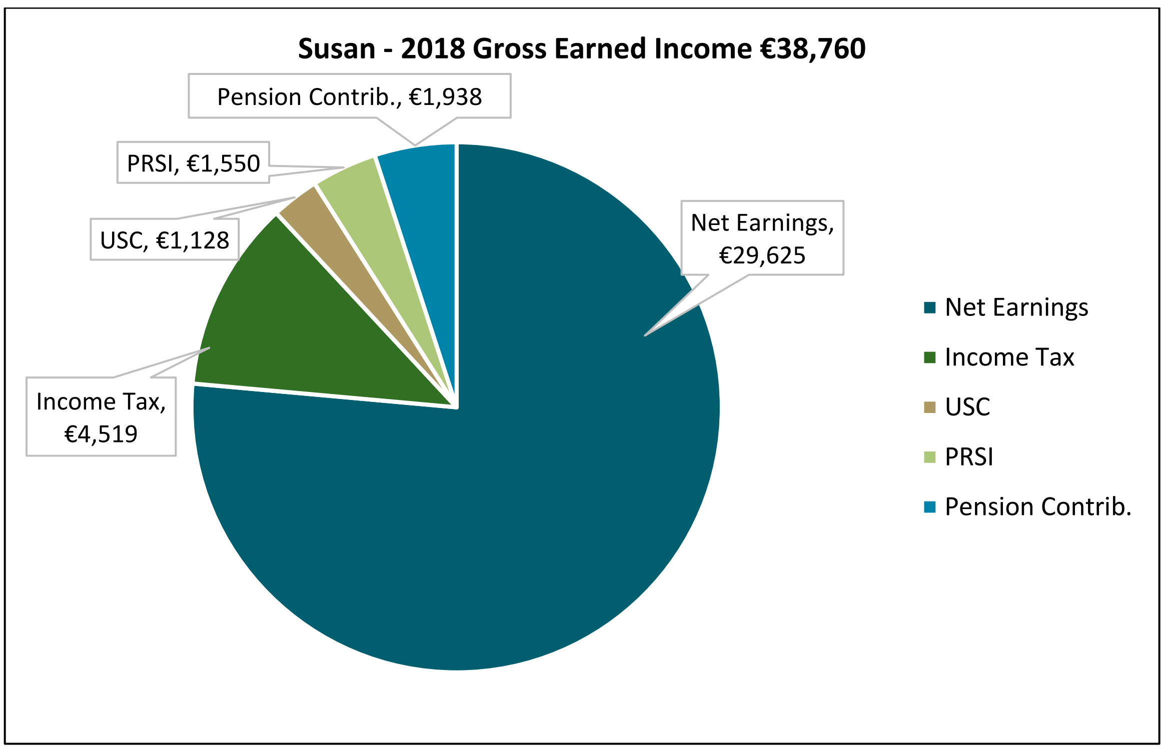
Note: variations due to rounding



Example 7b (Private Sector)

Susan is employed in the PR department of a national retailer. She earns €38,000 and makes a 5% pension contribution each year. In 2018 she receives a pay increase of 2%. Susan will see a gain of €615 in her annual net income as a result of this Budget and the pay increase.

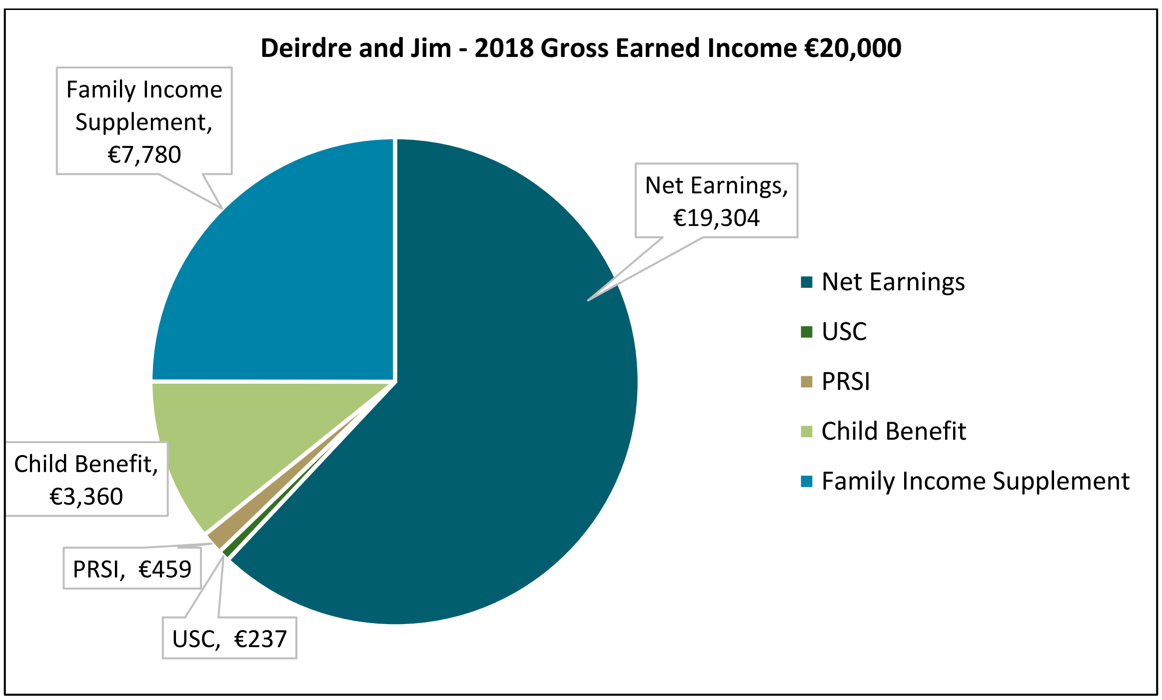
	2017	2018
	€	€
Gross Income	38,000	38,000
Pay increase		760
New gross income		38,760
Pension contributions	1,900	1,938
Income tax liability	4,380	4,519
PRSI liability	1,520	1,550
USC liability	1,190	1,128
Total tax liability	7,090	7,197
Net Income	29,010	29,625
Annual Gain		615
Change as a % of net income		2.1%



Example 8

Deirdre and Jim are married with two children, Faye and Charlie. Deirdre works in the family home. Jim works as a courier earning €20,000 a year. The family will see a gain of €241 in their annual net income due to this Budget.

	2017	2018
	€	€
Gross Income	20,000	20,000
Income tax liability	0	0
PRSI liability	459	459
USC liability	290	237
Total tax liability	749	690
Child Benefit	3,360	3,360
Family Income Supplement	7,592	7,780
Net Income	30,203	30,444
Annual Gain		241
Change as a % of net income		0.8%



Annex B

Income Tax and Progressivity Issues

A5.1 Introduction

This annex focuses on progressivity in the Irish income tax system. An income tax is said to be progressive when the average tax rate rises as the tax base (income) rises. This progressivity causes those on higher incomes to pay proportionately more of their income in tax than those on lower incomes. The annex firstly considers the primary measure of income inequality, the Gini coefficient, in the following ways: its trend for Ireland; a comparison with other countries; and the relative role of the tax and social welfare system in driving changes in income inequality. This is followed by a discussion of the tax wedge for individuals on different incomes. Finally, new research conducted by the Department highlights the trade-off between progressivity and volatility in the income tax system.

A5.2 The Income Distribution in Ireland and the OECD

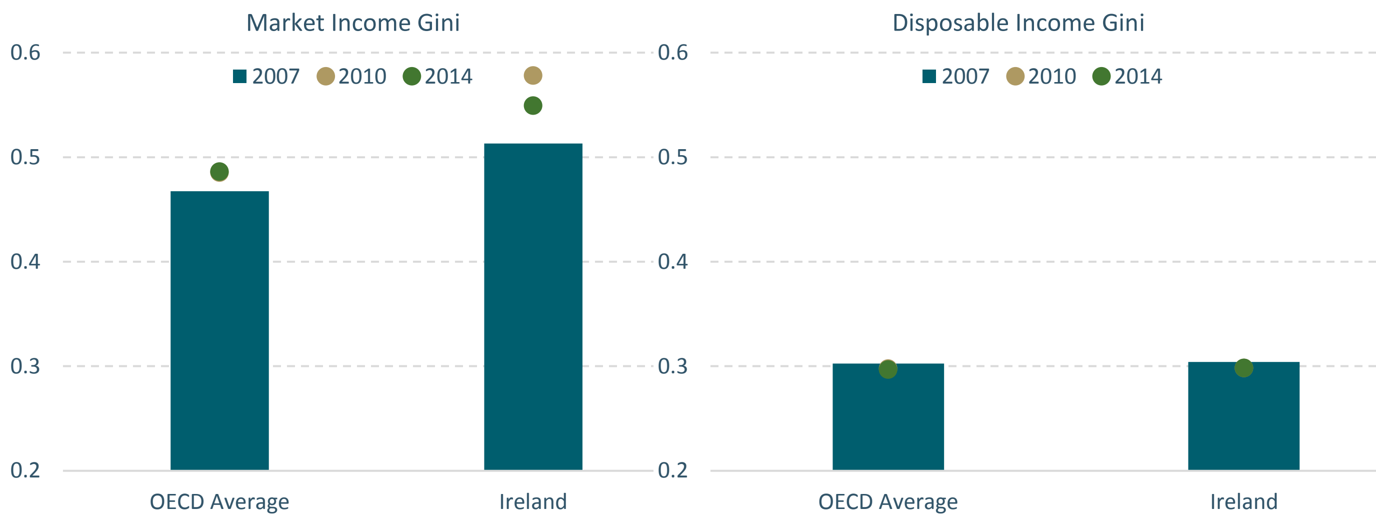
The Gini coefficient is a measure of the distribution of income where 0 represents a situation where all households have an equal income and 1 indicates that one household has all national income. The Gini coefficient can be calculated in terms of market income (income before tax and transfers) and disposable income (income after tax and transfers), with the latter being the most relevant for assessing the ultimate level of inequality.

The Gini coefficients presented here are on the basis of equivalised household income.[1] The left-hand side of Figure A relies on OECD data to consider the market income Gini coefficient, which is a measure of income inequality before the redistributive impact of the tax and social welfare system are accounted for. It shows that market income inequality increased during the crisis (i.e. between 2007 and 2010) in both Ireland and across the OECD. In fact, in 2010 Ireland had the highest level of market income inequality in the OECD. However, in the years since then, market income inequality has fallen in Ireland, in contrast to the rest of the OECD where it remains at crisis-era levels.

Turning to the right-hand side of the chart, the much smaller values for the disposable income Gini coefficient demonstrate the strong redistributive character of the tax and welfare systems in Ireland and across the OECD. The larger reduction in Ireland compared to the OECD illustrates that the Irish system is particularly successful in reducing income inequality. In contrast to market income inequality, disposable income inequality has been remarkably stable over time, both for the OECD average and in Ireland.

[1] Equivalisation adjusts household income on the basis of household size and composition. The OECD uses a scale of 1 for the first adult, 0.7 for subsequent adults and 0.5 for each child in the household. In this way the income of all households is expressed in terms of a single adult household. For instance, a single adult household with an actual income of 100 (100 ÷ 1 = 100) is considered to have the same equivalised income as a two adult household with an actual income of 170 (170 ÷ {1+0.7} =100).

Figure A: the Gini coefficient



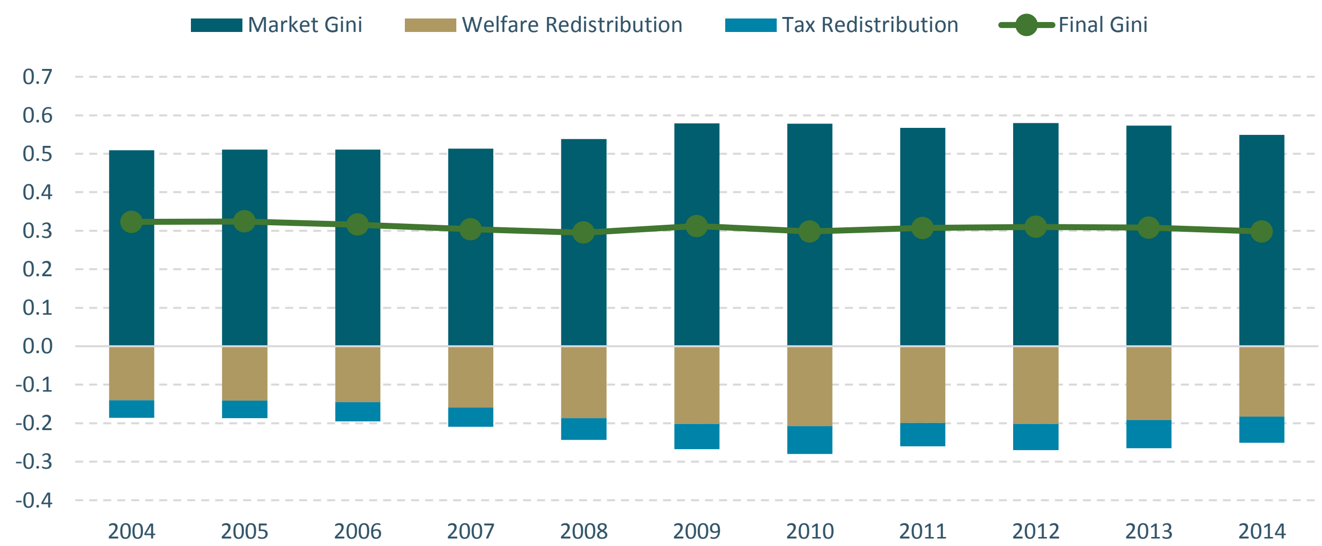
Source: OECD, Income Distribution and Poverty Dataset
Note: the OECD average refers to the 17 member countries for which a long time series of data is available

A5.3 Reduction in Income Inequality through the Tax and Welfare Systems

The extent to which taxation and welfare respectively contribute to the narrowing of the income distribution in Ireland is worth examining further. This can be demonstrated by decomposing the reduction from the initial market Gini coefficient to the disposable income Gini coefficient.

Figure B below shows that, from 2004 to 2007, the Gini for market income in Ireland was stable. Following a step increase over 2008-2009, the market Gini held steady at a higher level before declining in 2014. In a similar pattern, the redistributive impact of the Irish tax and welfare systems also experienced a step change which counteracted the increase in the market Gini. Reflecting these developments, the Gini for disposable income (after taxes and transfers) held at a reasonably steady level throughout the period. As is evident from the graph, the welfare system makes a greater contribution than the tax system in reducing income inequality. This is also the case across the OECD.

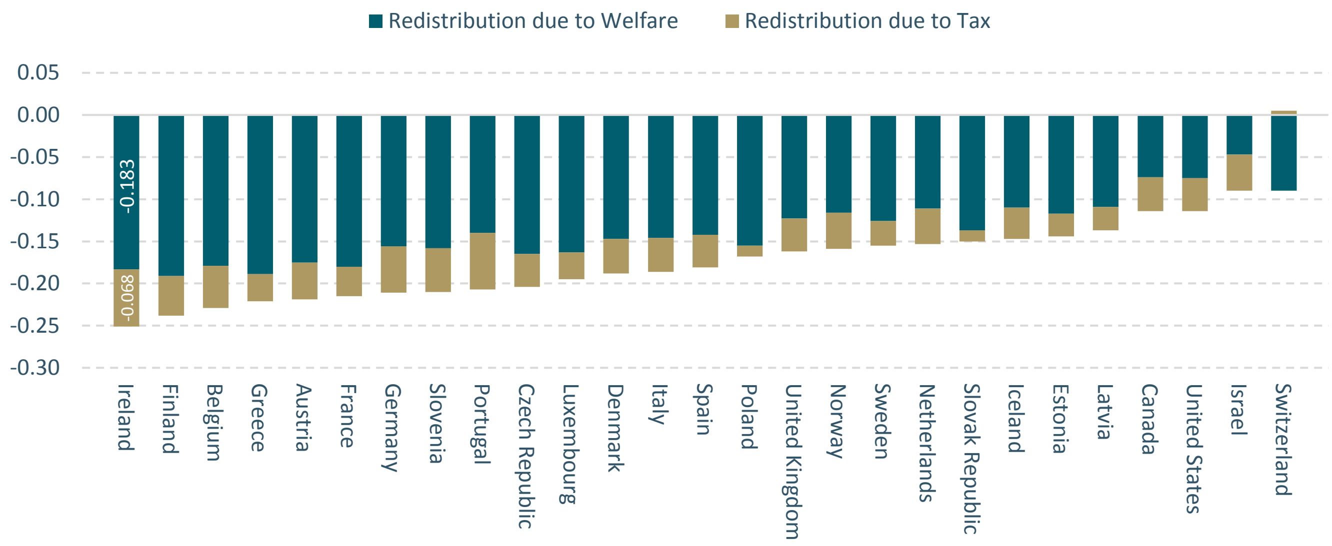
Figure B: the composition of the Gini coefficient in Ireland



Source: OECD, Income Distribution and Poverty Dataset

The latest OECD data (2014) in Figure C show that Ireland had the largest absolute reduction (0.25) in the Gini coefficient between market and disposable income among the 29 OECD countries for which data are available. The Irish tax and welfare systems reduced the initial market Gini by almost half (-46%) from 0.55 to 0.30, which is the third largest proportionate reduction in the OECD. Over one quarter (27.1%) of the reduction in Ireland in 2014 was attributable to the tax system, a proportion exceeded in only five OECD countries. The absolute size of the reduction in the Irish Gini coefficient due to tax is the largest in the OECD.

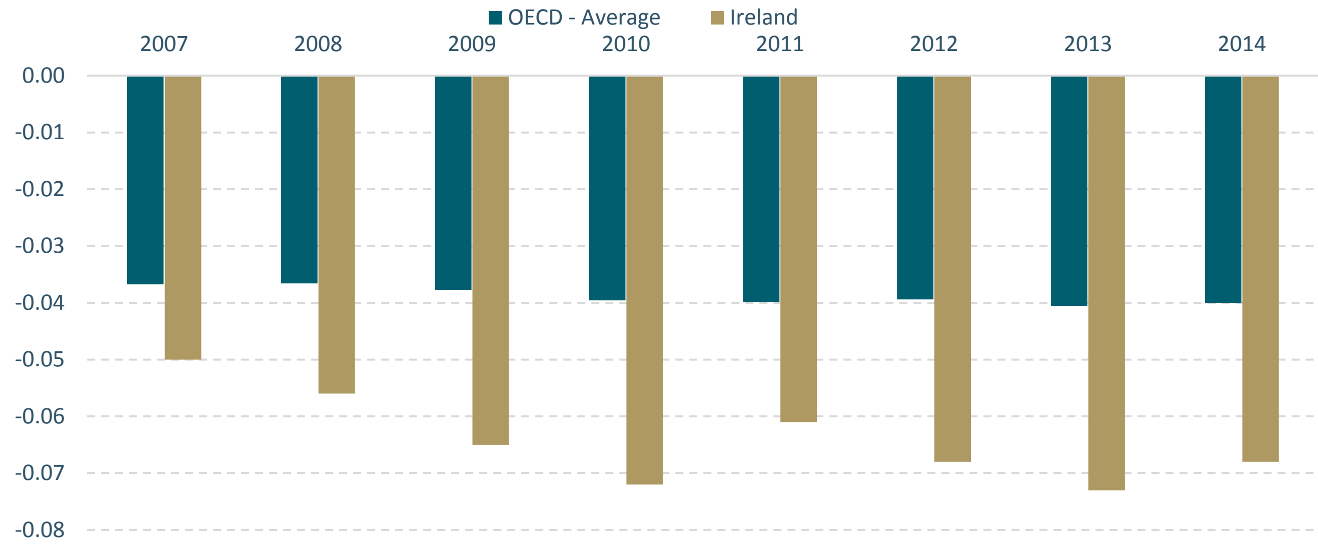
Figure C: reduction in Gini coefficients across OECD due to tax and welfare, 2014



Source: OECD, Income Distribution and Poverty Dataset

When looked at over a slightly longer time period, it is evident that Ireland's tax system has consistently reduced the Gini coefficient to a greater extent than is the case for tax systems in other OECD countries (see Figure D). The absolute contribution of the tax system to narrowing the dispersion of incomes increased between 2007 and 2010, with Ireland's growth being particularly notable. In the case of the OECD, this contribution has been stable since then. In Ireland's case, Budget 2011 measures such as the introduction of USC coincided with a reduced impact from taxation, but the contribution of the tax system has subsequently increased.

Figure D: reduction in the Gini coefficient due to taxation



Source: OECD, Income Distribution and Poverty Dataset
Note: the OECD average refers to the 17 member countries for which a long time series of data is available

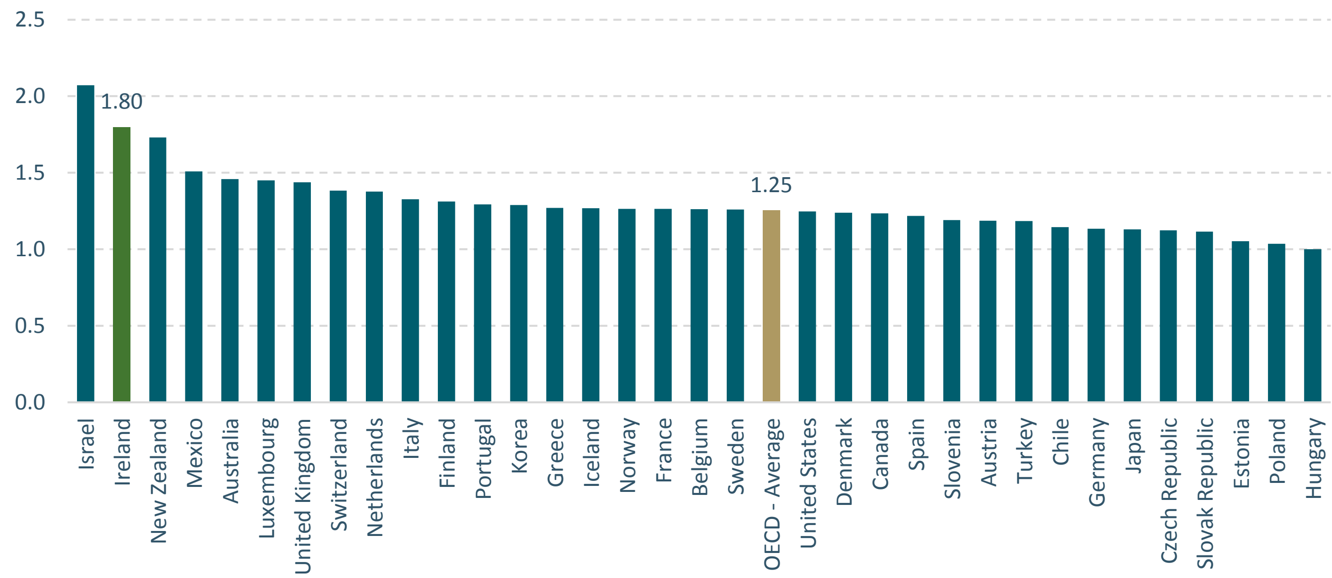
A5.4 Income tax progressivity as measured by the tax wedge

A similar picture of the relatively stronger ability of the Irish tax system to reduce income inequality emerges when a specific measure of income tax progressivity developed by the OECD is used (see Figure E). This measure compares the ratio of the tax wedge[2] of individuals on 167% of the average wage and on 67% of the average wage.[3] On this basis, estimates using OECD data show that with a score of 1.80 Ireland had the second highest progressivity outcome of OECD member countries in 2016 and the highest among EU members.[4]

It should be borne in mind that these comparisons are based on tax rates as set out in the income tax schedule and do not take account of income tax expenditures, for example in respect of pension contributions, which have the effect of reducing the final tax paid. Effective tax rates and the effective tax wedge are likely to be lower which would be expected to result in reduced progressivity as the greater tax liabilities of higher earners have a larger potential to be reduced. This difference between the rates set out in the income tax schedule and effective rates actually paid will be a feature in all countries with income tax expenditures.

[2] The tax wedge is defined by the OECD as the sum of personal income tax, employee and employer social security contributions plus any payroll tax less cash transfers, expressed as a percentage of labour costs.
[3] Based on average earnings in Ireland of €34,800, the OECD measure compares the ratio of the tax wedges of individuals earning approximately €58,200 to €23,300.
[4] The OECD Taxing Wages database is updated more frequently than the OECD Income Distribution and Poverty Dataset, which is why this section uses 2016 data rather than 2014 data.

Figure E: progressivity measured by ratio of tax wedges at 167% and 67% of average wage, 2016



Source: OECD Taxing Wages database

A5.5 Recent Department of Finance and ESRI research on progressivity

The ESRI recently published a paper on tax revenue elasticities which was jointly authored by Department of Finance and ESRI economists.[5] A tax revenue elasticity measures how tax revenues respond to changes in income *absent any discretionary tax policy changes.* It represents a “no change” baseline which is useful for policymakers when assessing revenue volatility. However, a tax revenue elasticity has a secondary interpretation: it provides a measure of progressivity of a given tax. As the elasticity is defined as the ratio of the marginal tax rate to the average tax rate, it follows that whenever the elasticity is above one, the tax is progressive.

The research calculated income tax and universal social charge (USC) revenue elasticities across different years, income levels and taxpayer categories (such as single or self-employed). The average income tax revenue elasticity was estimated to be 2.0 for income tax and 1.2 for USC. The interpretation is that for a one percent increase in income, the average taxpayer automatically pays two percent more in income tax revenue and 1.2 percent more in USC. The research indicates that both taxes are progressive (as they both have revenue elasticities greater than one) but income tax is relatively more progressive than USC.

The research found that the main explanation for the different levels of progressivity between the two taxes relates to the existence of tax credits in the income tax system. All income taxpayers have a personal tax credit and a PAYE or earned income tax credit (EITC) depending on their work status. There are other types of tax credit too which are in place to serve social policy objectives, for example an extra tax credit for parents of children with disabilities. The higher the level of tax credits, the higher the income required before a positive tax liability is created. These tax credits help to reduce people’s average tax rate, which causes the revenue elasticity to increase.

[5] Acheson, J., Deli, Y., Lambert, D., and E. Morgenroth. (2017). *Income tax revenue elasticities in Ireland: an Analytical Approach.* ESRI Research Series, No. 59. This research paper was produced under the Department of Finance and ESRI joint research programme on *The Macroeconomy and Taxation*.

While one conclusion from this research might be that more tax credits would be positive from a progressivity perspective, the key implication of the research is that there is a policy trade-off between progressivity and revenue volatility: the higher the elasticity, the higher the progressivity but also the higher the revenue volatility. The reason the two rise in tandem again relates to tax credits – when an individual's tax credits are exhausted, the proportionate change in their tax liability due to a small change in income can be extremely large, which creates volatility in the revenues.

Overall, the research provides useful insight into how the different structural parameters of the tax system – such as rates, thresholds and credits – influence the well-known progressivity observed in the Irish personal taxation system. It also demonstrates that increased tax progressivity does not come without a cost in terms of the instability in tax revenues that such policy measures can also induce.

A5.6 Summary

This annex sought to address some of the channels through which taxes can affect the income distribution. While acknowledging the necessarily static nature of the results (for example the analyses do not take into account redistribution and progressivity on a lifetime basis), it is evident that, compared to other countries, the Irish tax and welfare systems contribute substantially to the redistribution of income and a reduction in income inequality. The income tax system has become more progressive over time and ranks as one of the most progressive in the OECD. However, as recently highlighted in joint research by the Department and the ESRI, greater progressivity could be at the expense of tax revenue stability.

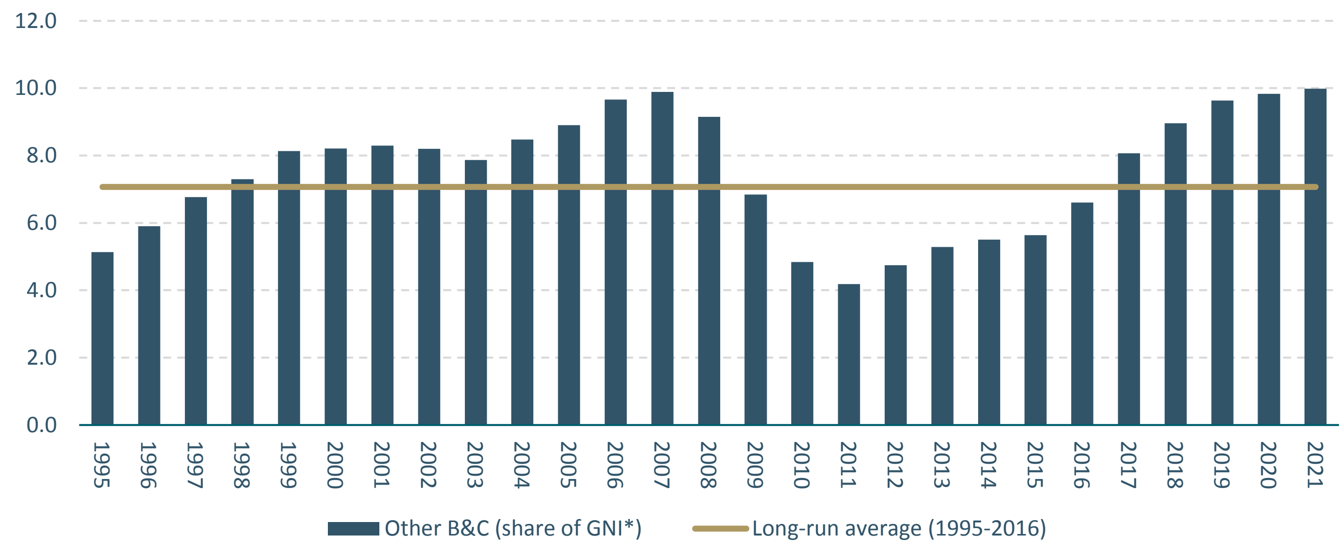
Annex C

Economic Rationale for Increasing Stamp Duty on Commercial Real Estate

Construction Investment Trends and Outlook

The recent sharp increase in investment in construction activity, allied to the need for an increase in housing supply, poses a risk that these developments could, if left unchecked, give rise to overheating in the sector and in the domestic economy generally. This view is shared by commentators such as the ESRI, the Central Bank and the Irish Fiscal Authority Council. In particular, investment in "other building and construction" (essentially construction investment minus housing and improvements) has expanded rapidly over recent years and is approaching its pre-crisis share of GNI*.[6] The Department's forecasts suggest that this category of building investment as a share of GNI* will amount to some 8.1 per cent in 2017, in excess of the long-term average (1995 to 2016) of 7.1 per cent. As shown below, over the forecast period, this share is expected to increase to 10 per cent by 2021.

Figure F: other building & construction investment as a per cent of GNI*



Source: CSO and Department of Finance

On the other hand, residential building and construction and housing supply remain well below the levels needed to meet the demand from demographic factors, including a rising population of household formation age and an expected rise in headship rates. To ensure that the building and construction sector is able to meet this demand for new housing, while avoiding overheating in the sector as a whole, policy measures that would incentivise a re-balancing of activity away from non-residential, commercial construction activity in favour of residential activity are needed.

Commercial Real Estate Investment

[6] GNI* is assumed to grow in line with GNP over the forecast period.

While commercial construction activity is important from the perspective of containing business costs and protecting competitiveness, the commercial real estate sector (CRE) has performed strongly over recent years. The economic recovery has led to strong demand for CRE assets. Irish commercial property capital values have risen some 75 per cent from their trough in mid-2013[7]. The Irish commercial property sector attracted €4.5 billion in investment in 2016. The five largest transactions comprised almost half of this spend, with foreign investors accounting for roughly 70 per cent of purchases.

By comparison, rent levels in Dublin have almost doubled in the six years to the first quarter of 2017. CBRE suggest that office rents in Dublin were at €673 per square metre in the first quarter of 2017, just slightly below peak levels attained in 2007/2008. In response, office completions in Dublin have recovered sharply from the period 2011 to 2015 when no new stock came on board. Forecast completions for 2017 amount to approximately 200,000 square metres of space (CBRE). Based on an analysis of projects in the pipeline, CBRE and other commentators are projecting continued strong levels of completions in 2018 and 2019. Currently there is approximately 400,000m^2 of office space under construction in Dublin, which once completed will add approximately 10 per cent to the stock of office space. This suggests that the CRE sector is in a position where some capacity now exists to facilitate a reorientation of resources into the residential construction sector.

Stamp Duty for Non-Residential Property

The use of taxation policy instruments have long been recognised as a potential tool to discourage speculative investment in property markets. For example, in the July 2016 IMF Staff paper on Ireland, reference was made to the use of property taxes (either based on capital or market value, or annual rental value) and cyclical transactions taxes as tools that could help dampen the boom phase of a real estate cycle as well as discouraging speculative activity.

The rate of stamp duty applying to non-residential property (for transactions exceeding an aggregate consideration of £60,000) was 6 per cent between January 1997 and December 2002. In January 2002, the threshold was changed to €76,200. In December 2002, a new, higher rate of 9 per cent was introduced for transactions exceeding an aggregate consideration of €150,000. From October 2008, this was reduced to 6 per cent on aggregate considerations exceeding €80,000. In December 2011, a flat rate of 2 per cent on all transaction values was introduced and has not been adjusted since.

This low, flat rate was introduced at a time when activity levels were very low and can be viewed as a departure from the much higher rates that applied over the preceding fourteen years and one justified by the exceptionally difficult market situation and lack of commercial output that applied at the time of its introduction. With the CRE market now performing strongly, the disjoint between available yields and overall viability considerations as between the residential and commercial sectors, and given the policy desirability of re-balancing construction activity towards residential investment and avoiding overheating in the construction sector, it is now appropriate to increase the rate of stamp duty applying to non-residential property to 6 per cent.

[7] Based on MSCI/IPD data as reported in the Central Bank Macro Financial Review (MFR H1 2017) published end June 2017.

Annex D

Mortgage Interest Relief

The process of phasing out Mortgage Interest Relief (MIR) for homeowners has been under way since 2009. No new borrowings taken out from 2013 on have qualified for the relief, and the relief has expired for qualifying mortgages taken out before 2004. MIR remains in effect only for property owners who took out qualifying loans between 2004 and 2012 and this relief was scheduled to cease on the 31st of December 2017. However, Budget 2018 extends MIR on a tapered basis through to the end of 2020. This tapered extension will take the form of the continuation of 75% of the existing relief into 2018, 50% in 2019 and 25% in 2020.

Technical considerations limit the possibilities with regard to tapering. The solution chosen therefore incorporates reductions in both the ceilings on allowable interest and the percentage of the loan which qualifies for relief.

The interest ceilings will be reduced over the next three years as follows:

Mortgage Interest Relief Ceilings 2017 - 2020

	2017 Ceilings (Current)	2018 Ceilings	2019 Ceilings	2020 Ceilings
Single Person	3,000	2,250	1,500	750
Married Couple	6,000	4,500	3,000	1,500
FTB Single Person	10,000	7,500	5,000	2,500
FTB Married Couple	20,000	15,000	10,000	5,000

Note: FTB refers to a first-time buyer in the first 7 years of a qualifying mortgage

The 'qualifying percentage' refers to the percentage of the principal of a mortgage that relates to the purchase of the property. A loan used entirely for the purchase of the property would currently be 100% qualifying, while a loan used partly for other purposes (such as a re-mortgage to buy a car or consolidate other debts) is restricted accordingly for the purposes of MIR.

Under the tapered extension of the relief, the qualifying percentage for each loan will be reduced to 75% of the 2017 qualifying amount in 2018, 50% in 2019 and 25% in 2020. For example, in the case of a loan that was initially 90% qualifying in 2017, the reductions will be to 67.5%, 45% and 22.5%, thereby reducing the amount of the loan qualifying for relief to 75%, 50% and 25% of the 2017 qualifying amount. The combination of these two factors will ensure that MIR will reduce fairly and equally over the taper period for all remaining recipients, as illustrated below.

It should be noted that the examples overleaf are for illustrative purposes only and use static interest liabilities in the taper period to more clearly illustrate the effect of the taper.

Example 1: Alan and Amy have a mortgage of €400,000 with an interest rate of 3%, i.e. interest payable of €12,000 per year. They currently qualify for the 15% rate and are subject to the €6,000 interest ceiling. In 2017, they will receive relief of €900 (€6,000 x 15%), or €75 per month.

Following the Budget 2018 extension of the relief, their qualifying loan will be limited to 75% in 2018, limiting the potentially qualifying interest to €9,000 (€12,000 x 75%). The interest ceiling will also be reduced to €4,500 (€6,000 x 75%). Therefore, Alan and Amy will receive relief of €675 (€4,500 x 15%) in 2018, i.e. 75% of their 2017 relief of €900. The reduction will continue to €450 in 2019 and €225 in 2020, an even reduction to 75%, 50% and 25% over the three years of the taper.

Example 2: Sarah and Rob have a mortgage of €225,000 with an interest rate of 2%, i.e. interest payable of €4,500 per year. They currently qualify for the 30% rate and are in the lower interest ceiling of €6,000 per year. In 2017 they will receive relief of €1,350 (€4,500 x 30%), or €113 per month. The 2018 reduction in the interest ceiling from €6,000 to €4,500 will not have any effect as their interest payable is €4,500. However, the reduction in their qualifying loan percentage will limit the potentially qualifying interest to €3,375 (€4,500 x 75%). Therefore, Sarah and Rob will receive relief of €1,013, (€3,375 x 30%) in 2018, i.e. 75% of their 2017 relief of €1,350. The reduction will continue to €675 in 2019 and €337 in 2020.

Example 3: Danielle initially withdrew a mortgage of €120,000, however she re-mortgaged since to purchase a holiday home, increasing her principal to €150,000, therefore 80% of her loan qualifies for MIR. She pays an interest rate of 4%, i.e. interest payable of €6,000 per year, receives the 15% rate of relief and is subject to the €3,000 qualifying interest ceiling. Therefore, in 2017 Danielle will receive relief of €450 (i.e. 80% of €150,000, at a 4% interest rate = €4,800, limited to the interest ceiling of €3,000 x 15% rate of relief = €450), or €37.50 per month.

Under this option, the qualifying percentage will be reduced to 60% in 2018 (i.e. 75% of 80%), to 40% in 2019 (i.e. 50% of 80%) and to 20% in 2020 (25% of 80%). The interest ceilings will also decrease over the three years to €2,250, €1,500, and €750.

In 2018 Danielle will have qualifying interest of €3,600 (€6,000 x 60%), subject to an interest ceiling of €2,250, so will receive relief of €338 (€2,250 x 15%), i.e. 75% of her 2017 relief of €450. The reduction will continue to €225 in 2019 and €113 in 2020.

Annex E

(KEEP) Employee Share-Option Incentive Scheme

International research has shown that Employee Financial Participation can be effective in fostering partnership and increasing competitiveness and in helping companies to attract and retain staff in a competitive international labour market. Improved competiveness of companies supports the creation and maintenance of employment, and this in turn supports economic growth which benefits the economy as a whole.

The 'Key Employee Engagement Programme' (KEEP) incentive, introduced in Budget 2018[8], has the objective of supporting SMEs in Ireland in competing with larger enterprises to recruit and retain key employees. Smaller and/or younger companies with growth potential may not have the cash resources available to offer comparable salary packages to large, established businesses. However, where the employee believes in the growth potential of the firm, and by extension the potential for the company shares to increase in value, remuneration in the form of share options may improve the attractiveness of the SME employment offer.

Share-based remuneration in unquoted companies can be unattractive to some employees as an income tax liability arises on the value of any benefit received at the time of acquisition of the shares, but no ready market may exist on which to sell some or all of the shares in order to pay the tax liability.

The KEEP incentive therefore provides that the value of the benefit to the employee on exercise of a qualifying share option will be subject to tax when the employee subsequently disposes of the shares, i.e. when sales proceeds would be available to pay the tax due.

The incentive will allow qualifying companies to provide key employees with a financial incentive linked to the success of the company, provided certain qualifying requirements are met throughout the option-holding period. Gains arising to the employee on the exercise of the KEEP share options will only be subject to tax when the employee subsequently disposes of the shares and will be subject to CGT (currently at 33%). In the absence of this incentive, the share-option gain would be liable to income tax, USC and PRSI at the time of the exercise of the option. The incentive therefore allows a differential at 2018 tax rates of between 15.75% and 19% in the rate of tax payable by the employee on the discount received, depending on total income levels, as compared to the treatment of standard share option gains. This is illustrated in the examples overleaf:

Example Scenario:

- Options provided on 10/04/2018 to purchase €10,000 €1 shares at €1 (current market value at date of grant)
- 10/04/2021: shares are worth €3 per share so employee exercises the option and purchases for €10,000, i.e. benefitting from a discount of €20,000
- 10/04/2024: shares are worth €4 per share and individual sells for €40,000The employee is liable to income tax at the higher rate of 40% and has total income, including taxable share options where relevant, of less than €70,044, i.e. within 5% USC rate band in 2017.

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[8] Commencement of the KEEP incentive is subject to State Aid approval. Engagement with the European Commission is ongoing and expected to conclude shortly.

Comparative Treatment of Share Option Gains	Non-KEEP Options	KEEP Options
	€	**€**
10/4/2018: Grant of Option		
No tax liability as share option is at market value on date of grant	0	0
10/4/2021: Exercise of Option		
Discount of €20,000		
Income Tax @ 40%	8,000	0
USC @ 4.75%	950	0
Employee PRSI @ 4%	800	0
Total tax payable on exercise of option	**9,750**	**0**
10/4/2024: Sale of Shares		
Consideration Received	40,000	40,000
Consideration paid on acquisition	-10,000	-10,000
Discount received which was subject to IT, USC and PRSI	-20,000	0
Chargeable gain	10,000	30,000
CGT @ 33%	**3,300**	**9,900**
Tax Summary:		
Growth in share value	**30,000**	**30,000**
Total taxes payable	**-13,050**	**-9,900**
After Tax Gain	**16,950**	**20,100**
Tax benefit from KEEP incentive (€20,000 @ 15.75%)		**3,150**