Budget 2023

The EY Perspective

Tax Alert

Building a better working world

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Reaction to Budget 2023

Due to a strong post-Covid rebound in the economy, today's Government response to the global energy and cost of living crises was delivered from a position of relative strength. The challenge for Budget 2023 was in getting the balance right between helping households and businesses combat rising costs, without further fuelling inflation. To do this Minister Donohoe introduced a number of tax measures including widening income tax bands, increasing tax credits and offering substantial energy supports to most individuals and businesses.

On top of these new measures, extensions and amendments to other housing and property-related tax measures were also announced. These will be key to stimulating increased residential market supply and maintaining Ireland's position as a preferred location for international investment. An annual tax credit of €500 was also announced for individuals paying rent on their private residence.

Finally, Minister Donohoe also signalled amendments to both the timing of the payment of the R&D tax credit regime (in compliance with new international legal norms) and an increase in the effective rate of the KDB to 10% (which was also further extended by an additional four years). These were done as part of Ireland's anticipated response to enactment of the OECD Pillar Two provisions. In another welcome note, the Minister also signalled an intention to consider options available for a move towards a territorial corporation tax system.

Summary of Budget measures

Personal taxes

- Personal tax credit: Increase of €75 from €1,700 to €1,775 (doubled for jointly assessed married persons or civil partners).
- Employee tax credit: Increase of €75 from €1,700 to €1,775.
- Earned income credit for self-employed: Increase of €75 from €1,700 to €1,775.
- Income tax standard rate tax band: Increased by €3,200 to €40,000 for all earners.
- Sea-going Naval Personnel tax credit: Extended to 31 December 2023.
- USC: 2% rate band extended by €1,625 from €21,295 to €22,920 (in acknowledgement of the announced 80 cent increase in the minimum wage to €11.30 per hour).
- USC: Reduced (2%) rate of USC for medical card holders retained for 2023.
- Rental tax credit (principal private residence): Introduction of a new €500 credit per year for those who do not get any other housing supports. The new tax credit will apply from 2023. However, it was confirmed that the credit can also be claimed in early 2023 in respect of rent paid in 2022.
- Special Assignee Relief Programme (SARP): Extended to 31 December 2025. The minimum income threshold to qualify for the relief will be increased from €75,000 to €100,000. It is confirmed this increased qualifying threshold will not apply to current claimants availing of the relief.
- Key Employee Engagement Programme (KEEP): Extended to 31 December 2025. Modification to the scheme will see the buyback to KEEP shares by the company from a relevant employee qualifying for the scheme. In addition, an increase to the employee lifetime limit for KEEP shares from €3m to €6m will apply.
- Foreign Earnings Deduction (FED): Extended to 31 December 2025.
- Small benefit exemption: Two non-cash vouchers, totalling €1,000, may now be granted in a single year under this exemption (previously €500). This will apply from 28 September 2022.
- Currently, the financial resolution provides that the concession will only apply to the first and second incentive provided to an employee in the tax year from 2022 onwards.
- Third rate of income tax: Further analysis will be conducted on the impact of the introduction of a third rate of income tax. This analysis will conclude prior to publication of next year's Summer Economic Statement. Were the government to opt for this, it could potentially be in place for January 2024.
- Personal tax reform: A medium term roadmap will be developed, taking account of the recent Report of the Commission on Taxation and Welfare, and will consider a range of measures across income tax, USC and PRSI together with other related personal taxation

Supporting business

- The Minister reiterated that Ireland is committed to the Two Pillar Agreement to address the tax challenges arising from digitalisation. Work is continuing to develop the multiple new elements required to give effect to the Pillar Two minimum effective tax rate. This work will continue over the coming months, in conjunction with serious consideration of options for a move towards a territorial corporation tax system.
- R&D tax credit scheme: Finance Act 2022 will introduce amendments to the payable element of the R&D tax credit scheme to align with international tax developments.
- Knowledge development box (KDB): Extended to 31 December 2026. The effective rate is to increase from 6.25% to 10%. The change in the KDB rate will come into effect when commenced by the Minister, to be determined by reference to international progress on implementation of the Pillar Two Subject to Tax Rule. This is expected to occur in 2023.
- Temporary business energy support scheme: Introduction of a scheme to assist Case I businesses with their energy costs. It is proposed that the scheme will operate by comparing the average unit price for the relevant bill period in 2022 with the average unit price in the corresponding reference period in 2021. If the increase in average unit price is more than 50% support will be calculated on the basis of 40% of the amount of the increase in the bill. A monthly cap of €10,000 per trade will apply and an overall cap (not yet announced) will apply.

Summary of Budget measures

Agriculture

- Agricultural reliefs: Extension of five agricultural tax reliefs scheduled to expire at the end of 2022: the Young Trained Farmer and Farm Consolidation Stamp Duty Reliefs, the Farm Restructuring Capital Gains Tax Relief, and the Young Trained Farmer and Registered Farm Partnership Stock Reliefs.

  The duration of these extensions are dependent on the outcome of negotiations at a European Level on the Agricultural Block Exemption Regulation.
- Slurry scheme: Introduction of a time-limited scheme of accelerated capital allowances for farmers for the construction of modern slurry storage facilities.
- Flat rate compensation percentage for farmers: There is a requirement per the EU VAT Directive to decrease the flat rate compensation percentage for farmers from the current 5.5% to 5.0% in accordance with criteria set out in the legislation. This change will be introduced from 1 January 2023.

Property

- Help-to-Buy Scheme: Extended until the end of 2024. The scheme is available to first time-buyers who are either buying a newly built property or building their own home. The relief takes the form of a repayment of income tax, including DIRT, paid for the four tax years prior to making an application, with first-time buyers given the option of selecting all or any of the previous four tax years.
- Vacant Homes Tax: A new Vacant Homes Tax will be introduced. The tax will apply to properties which are residential properties for Local Property Tax purposes where the property is occupied for less than 30 days in a twelve-month period. The tax will operate on a self-assessment basis and will be administered by the Revenue Commissioners. The tax will be charged at a rate equal to three times the property's existing base Local Property Tax rate. There will be a number of exemptions to include properties recently sold, or currently listed for sale or rent, properties vacant due to the occupier's illness or long-term care and properties vacant as a result of significant refurbishment work.
- Stamp Duty Rebate - Residential Development: The 'residential development refund scheme' which was due to come to an end on 31 December 2022 has been extended to 31 December 2025. The scheme provides for a refund where stamp duty was paid at the non-residential rate (7.5%) applying an effective 2% rate subject to meeting certain conditions where the land is subsequently developed for residential use and applies to both single dwelling units and multi-unit developments.
- Landlords: The pre-letting expenses regime for landlords was enhanced by doubling the amount that a landlord can claim per house to €10,000 of expenses incurred over 12 months before letting the property and also reducing the period for which a premises must be vacant from twelve to six months.
- Residential Zoned Land Tax: The Minister confirmed that the first draft maps for the operation of the Residential Zoned Land Tax introduced in Finance Bill 2021 will be published on 1 November this year. Following publication those persons impacted will have the opportunity to apply to their Local Authority to have the zoning status of their land amended as part of a variation process. The Minister also announced that he plans to bring forward a number of amendments in Finance Bill 2022 to streamline the operation of the tax. In its current form the tax is levied at 3% of market value with a two-year lead in time for land zoned residential before January 2022 becoming chargeable from 1 January 2024, and a three-year lead-in time for land zoned after January 2022.
- Living City Initiative: Whilst not flagged in the Budget speech the Living City Initiative (LCI) will be extended to 31 December 2027. The scheme was due to end this year. In addition, the relief available to owner-occupiers is being accelerated so that it may be claimed over 7 years in place of the existing 10 years. It is also proposed to allow carry forward of any excess relief by owner-occupiers where it cannot be absorbed in a year up to a maximum of 10 years.
- Defective Concrete Products: The Minister confirmed the introduction of a new levy on concrete blocks, pouring concrete and certain other concrete products to apply from the 3 April 2023 at a rate 10%. The measure is aimed at funding the cost of the Mica Redress Scheme agreed earlier this year for homeowners affected by the issue of defective products used in building their homes.
- REITs and IREFs: In line with the recommendations of the Commission of Taxation and Welfare, the Minister confirmed that a review of the REIT and IREF regimes will be undertaken to consider how those structures can continue to support housing policy objectives. The Commission's proposals in relation to LPT and a Site Value Tax will also be considered further.

Summary of Budget measures

Indirect taxes

VAT

- Reduced rate applicable to the hospitality and tourism sector: This will be restored to its former VAT rate of 13.5% from 1 March 2023.
- VAT rate reductions: The application of the zero rate of VAT to the following:
    - Hormone Replacement Therapy (HRT) medicine will be subject to the zero rate of VAT from 1 January 2023.
    - Period products currently subject to the 9% rate of VAT will be subject to the zero rate of VAT from 1 January 2023.
    - The supply of nicotine replacement therapies will be subject to the zero rate of VAT from 1 January 2023.
    - VAT rate of 9% applied to newspaper publications (both paper and digital format) to be abolished such that sales will be zero rated from 1 January 2023.
    - Defibrillators will be subject to the zero rate of VAT from 1 January 2023.
- The 9% VAT rate on electricity and gas to be extended to 28 February 2023.

Carbon tax

- Carbon tax rate: Increase from €41 to €48.50 per tonne/CO2. This increase will be applied to auto fuels from 12 October 2022 and all other fuels from 1 May 2023. However, it is expected that the increase will be offset by a reduction in the National Oils Reserve Agency levy.

Excise & customs duties

- Tobacco: Increase of 50c per packet of 20 cigarettes (bringing the price of the most popular brands up to €15.00), with a pro-rata increase on other tobacco products. Both increases to take effect from midnight.

Excise

- Temporary reduction in the excise duties charged on petrol, diesel and marked gas oil: Extension to current rates until 28 February 2023, meaning the continued reduction in petrol by 21 cent per litre, diesel by 16 cent per litre and marked gas oil by 5.4 cent per litre.
- Producers of cider and pear cider: The Minister has announced his intention to grant up to 50% excise relief to independent small producers of cider and pear cider, which will put such products on par with the craft beer sector.

Miscellaneous

- Bank levy: The bank levy will be extended for a further year to end 2023. The long-term future of this levy will be assessed following the publication of the report of the Retail Banking Review.
- Review of operation of section 110 (securitisation) legislation and to establish a working group to consider the taxation of funds, life assurance policies and other investment products.
- Film relief: This relief is extended beyond the current expiration date of 31 December 2024 to 31 December 2028.
- Revenue will conduct a range of targeted projects which will include PAYE, compliance interventions, involving a further focus on share schemes, and increased debt management.
- Windfall Energy Tax: Ireland aims to be part of EU response to high energy prices. If this is not possible the Minister committed to bringing forward measures.

Finance Bill 2022

Finance Bill 2022 is expected to be published on 20 October and signed into law by mid-December.

Budget 2023 Rates at a glance

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Income tax rates	
Standard	20%
Marginal	40%
Standard rate bands	
Single (2022: €36,800)	€40,000
Married/civil partnership (two income) (2022: €73,600)	€80,000
Married/civil partnership (one income) (2022: €45,800)	€49,000
Single parent (2022: €40,800)	€44,000
Income tax credits	
Single (2022: €1,700)	€1,775
Married (2022: €3,400)	€3,550
Single person child carer tax credit (primary carer only)	€1,650
PAYE (2022: €1,700)	€1,775
Earned income credit (2022: €1,700)	€1,775
Age credit - single (married x2)	€245
Medical insurance relief max premium - adult/child	€1,000/€ 500
Home carer credit (2022: €1,600)	€1,700
Dependent tax credit	€245
Rent credit - new - effective from 2022 (married x2)	€500
Income tax age exemption	
Single and widowed	€18,000
Married (either spouse aged 65 or over)	€36,000
Rent-a-room relief	€14,000
Preferential loan specified rates – benefit-in-kind	
Qualifying home loans	4%
All other loans	13.5%
Electric vehicles - benefit in kind	
(exemption capped at €35,000 of OMV, applies on tapered basis to 2025)	0%

Small benefit exemption	
Non-cash vouchers (2021: €500 single) Effective for 2022 *(2 vouchers may be provided annually, up to max. annual total of €1,000)*	€1,000
Universal Social Charge	
Earnings	
*0 to €12,012**	*0.5%*
€12,013 to €22,920 (2022: €12,013 to €21,295)	*2%*
*€22,921 to €70,044** (2022: €21,296 to €70,044)*	*4.5%*
€70,045 to €100,000	*8%*
PAYE income > €100,000	*8%*
Self-employed income > €100,000	*11%*
** Exempt if income < €13,000* *** Reduced rate 2% for persons holding medical card and/or aged 70, where income < €60,000*	
PRSI rates	
Employer	
Standard rate	*11.05%*
Lower rate	*8.8%*
Weekly lower rate limit	*€410*
Employee	
PRSI	4%
Weekly PRSI threshold (tapering relief available)	€352
Self-employed	
PRSI	4%
Minimum contribution	€500
Pensions	
Annual earnings cap	€115,000
Marginal rate deduction	40%
Tax free lump sum limit	€200,000
Standard fund threshold	€2,000,000
DIRT	
Deposit accounts	33%
Investment funds	41%

Capital gains tax	
Standard rate	33%
Withholding tax rate	15%
Annual exemption	€1,270
Entrepreneur relief (up to €1m chargeable gains)	10%
Capital acquisitions tax	
Standard rate	33%
Thresholds	
Group A	€335,000
Group B	€32,500
Group C	€16,250
Stamp duty	
Residential property	
First €1m	1%
Excess over €1m	2%
Bulk/cumulative purchases of 10 or more residential units in a 12-month period	10%
Non-residential property	7.5%
Local Property Tax (residential property only)	
Band 1: 0 - 200,000	€90
Band 2: 200,001 - 262,500	€225
Band 3: 262,501- 350,000	€315
Bands 4-19: 350,001 - 1,750,000	Range from €405- €2,721
Value > €1,750,000 (calculated on valuation of property)	
First €1,050,000	0.1029%
Next €700,000	0.25%
Balance ** Local Authorities can adjust annually + / - 15% basic LPT rate*	0.30%

Corporation tax rates	
Standard rate	12.5%
Higher rate on passive income	25%
Knowledge Development Box rate* ** Proposal to increase to 10%, subject to Ministerial Commencement Order*	6.5%
Exit tax* ** Applies to unrealised capital gains where companies migrate/transfer assets offshore such that they leave the scope of Irish tax*	12.5%
VAT rates and limits	
Standard rate	23%
Reduced rate	13.5%
Reduced rate (certain goods and services, extended to hospitality and tourism sector to 28 February 2023)	9%
Reduced rate (supply of gas and electricity to 28 February 2023)	9%
Farmer's flat rate (2022: 5.5%)	5%
Distance selling limit	€35,000
Registration limit - taxable goods	€75,000
Registration limit - taxable services	€37,500
Cash receipts basis limit	€2,000,000
Dividend Withholding Tax	25%
Carbon taxes	
Per tonne/CO2 (2022: €41) To be increased incrementally each year to €100 per tonne/ CO2 by 2030 ** Auto fuels w.e.f 12 October 2022* ** All other fuels w.e.f 1 May 2023*	€48.50
Excise duties	
Excise duty on a packet of 20 cigarettes (pro rata increase to other tobacco products)	+50c

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