UPDATE

Irish Budget 2024 – Implications for International and Irish Business

On 10 October 2023, the Irish Minister for Finance presented Budget 2024. This is Ireland's annual statement on proposed tax measures and budgetary expenditure.

The Minister confirmed that Ireland will implement the OECD Pillar Two inspired "global minimum tax" pursuant to the EU Global Minimum Tax Directive.

There were various changes to support Irish investment in indigenous companies, including a new capital gains tax ("CGT") exemption for "angel" investors. In relation to personal income tax, the Minister focused on providing supports to individuals to deal with the high cost of living.

The Minister also announced the creation of two new investment funds intended to support public service and invest in infrastructure and climate related projects.

The announcements in the Budget will be followed by the publication of the Finance Bill (No.2) 2023 on 19 October. The Bill is expected to be enacted by early December 2023.

Implementation of the EU Global Minimum Tax Directive

The Minister confirmed that the Global Minimum Tax provisions will be contained in the Finance Bill. The EU Global Minimum Tax Directive (Council Directive (EU) 2022/2523) provides for the implementation of the OECD Pillar Two Global Anti-Base Erosion rules ("GloBE rules"). The GloBE rules has been the subject of a series of consultations in Ireland which Maples Group and clients participated in.

The rules aim to ensure that groups with annual revenue over €750m have a minimum effective tax rate of at least 15% in every jurisdiction where they operate.

The Minister recognised that this is a once-in-a-generation reform to Ireland's corporation tax system. Based on the draft legislation published to date, if a group within scope has an Irish legal entity, new Irish top-up taxes may subject low-taxed income of the group – wherever arising in the world – to additional tax in Ireland at a rate of 15%. Irish trading companies that are not within the scope of the GloBE rules will continue to be subject to the 12.5% Irish corporation tax rate. The details of the Finance Bill will be closely scrutinised by investors and corporates in order to determine the precise impact of the rules.

The Minister announced an increase in the rate of the R&D tax credit from 25% to 30%. The increase is intended to maintain the value of the credit in light of the increase in rates under GloBE. The R&D tax credit is intended to be a refundable tax credit for GloBE purposes and count as income for the purpose of the rules instead of reducing tax expense.

Investment Funds and Financial Services

The Minister noted that the Irish Department of Finance is currently engaged in a detailed review of the taxation treatment of Irish funds[1]. The final recommendations of this review are expected in mid-2024. Again, Maples Group has been closely involved in this review and made its own submission to the Department of Finance and participated in several industry submissions. The Minister noted the review would consider the taxation of funds, including Exchange Traded Funds ("ETFs"), for Irish investors more generally. Given this review is ongoing, there were no major funds tax announcements in Budget 2024.

The Minister announced a new Irish bank levy. The levy is intended to raise €200m in 2024 – significantly larger than the current bank levy which was due to expire in December 2023. The tax is calculated based on the amount of Deposit Interest Retention Tax that banks pay.

Corporation Tax and International Business

The GloBE rules, and the related R&D credit changes, are most impactful on Ireland's corporate sector.

The Minister noted that a consultation is ongoing on the introduction of "participation exemption" from tax for foreign-sourced dividends. This is expected to conclude in mid-2024. The Minister also suggested that reforms to the Irish interest deductibility rules will be considered. The consultation will be closely watched, with industry seeking simplification of Ireland's rules in this area. The expectation is that there will be further refinements of the Irish tax system and a more suitable regime for holding companies.

Interestingly, the Minister made no reference to the previously announced "outbound payments" tax measures. These are intended to impose withholding tax on payments from Ireland to certain "zero-tax" jurisdictions. It is unclear, therefore, whether the legislation will be introduced in the Finance Bill[2].

Capital Gains Tax and Investment

There was no change in the headline rate of CGT. The CGT measures relate principally to Irish resident investors. A new targeted CGT relief for "angel" investors will be introduced. The relief will be available to angel investors if the period of investment lasts for a period of three years. The investment must consist of fully paid-up newly issued shares, for the value of at least €10,000 and must constitute between 5% and 49% of the ordinary share capital of the company. This scheme is targeted at innovative start-up small and medium enterprises ("SMEs") and certification for the scheme will be carried out by Enterprise Ireland. The SME must be able to demonstrate that the company is financially viable and complies with the EU General Block Exemption Regulation.

The angel investors will be able to avail of a reduced rate of CGT of 16% (or 18% if through a partnership). The reduced rate will be capped at a gain of up to twice the value of their initial investment and there is a lifetime limit of €3 million on gains to which this reduced rate of CGT will apply. The reference to partnerships suggests that the relief will be available for limited partners. It is less clear how the 5% limit will apply in a partnership context. In particular, it is not clear whether the partnership itself must hold 5%, or whether each partner must hold, via the partnership 5%. These issues will be raised by industry groups and considered as part of the Finance Bill.

In relation to investment incentives, the Minister also announced changes to the Employment Investment Incentive ("EII") and similar reliefs. EII relief will now require a minimum holding period of four years for all investments. The maximum investment amount on which an investor may claim relief is increased to €500,000 annually. Reform of EII has been one of the key requests from the Irish start-up sector and these changes will be welcomed.

[1] Funds Sector 2030: A Framework for Open, Resilient & Developing Markets | Department of Finance Consultation Portal

[2] Proposed Irish Tax Measures to Apply to Outbound Payments (maples.com)

The Minister noted that there would be a further review of EII in early 2024 focusing on the potential for further simplification of the scheme, taking into account EU State Aid rules in the form of the EU General Block Exemption Regulation. In a statement issued on the Irish Revenue website, there is a reference to possible changes to the eligibility criteria for companies. There will be concerns that the review could narrow the availability of EII relief.

Retirement relief will be reformed, with an extension of the upper age limit from 66 to 70. However, the amount of relief will be limited to €10m. These changes are intended to come into effect from 1 January 2025. The introduction of the financial limit may cause some individuals to seek to access the relief sooner rather than later.

Income Tax and Employment

The Minister announced various changes to the personal tax treatment of Irish resident individuals. These include increases in certain income tax credits and the entry point to the higher rate of income tax. There will also be reductions in one rate of Universal Social Charge.

In relation to KEEP share options, the Minister announced EU State Aid approval of changes proposed in 2022 to extend the scheme to 2025 and increase the cap on options to €6m. The Minister also announced a public consultation commencing shortly on share-based remuneration.

Real Estate

There were no changes to rates of stamp duty or VAT on commercial property. Similarly, there were no changes to the corporate tax treatment of landlords or developers.

The changes announced will impact individuals who are landlords, tenants and mortgage holders. In a widely flagged move, the Minister announced a specific tax exemption for landlords who rent their property for four years. Rental income of €3,000 for the year 2024, €4,000 for the year 2025 and €5,000 for the years 2026 and 2027, will be disregarded at the standard rate. The exemption equates to a credit of €600 in 2024, rising to €1,000 in 2026. The Irish Revenue guidance notes that the landlord must have a tax clearance, comply with Local Property Tax and be registered with the Residential Tenancies Board. The properties held by the landlord availing of the relief must remain in the rental market for four years, otherwise the full amount of the relief will be clawed back.

There will be an increase in the annual tax credit for those who are paying rent on their principal private residence. The rental tax credit will now also be available to parents paying rent for student children.

There will be a one-year Mortgage Interest Tax Relief for homeowners with an outstanding mortgage balance on their primary dwelling house of between €80,000 and €500,000 as of 31 December 2022. The relief is based on the increased interest paid on the mortgage in the calendar year 2023 as compared with the amount paid in 2022, at the standard rate of 20% income tax. The relief will be capped at €1,250 per property.

The Vacant Homes Tax will increase considerably. Currently, it is three times the Local Property Tax charged on a property. This will move to five times the Local Property Tax. By way of illustration, in the case of a vacant property in a Dublin suburb valued at €630,000 (the median value in Dun-Laoghaire-Rathdown), the Vacant Homes Tax will tax rise from €2,025 to €3,375.

The Minister also extended the liability date for the Residential Zoned Land Tax by one year, which should lead to a deferral of the payment dates. The extension allows landowners with additional time to engage with the local authorities on the status of their lands.

Climate Change and Energy

The Minister announced plans for a new infrastructure fund known as the Infrastructure, Climate and Nature Fund. This is being established with a view to supporting Ireland's green transition, to allow for sustained levels of investment in infrastructure and to support climate and nature related projects in the event of any future economic downturns. It will be hoped that the establishment of the fund leads to increased investment in wind energy and similar projects.

There were a number of other climate related announcements. The Accelerated Capital Allowances scheme for Energy Efficient Equipment has been extended for a further two years to the end of 2025. In addition, the current benefit-in-kind reliefs for the provision of electric vehicles to staff are being extended and enhanced. From 1 January 2024, the VAT rate for the supply and installation of solar panels in schools will reduce to zero.

The rate per tonne of carbon dioxide emitted for petrol and diesel will increase from €48.50 to €56.00 from 11 October (for auto diesel and petrol) and from 1 May 2024 for all other fuels. For further information on broader ESG matters relevant to international clients and institutional investors, please visit our ESG site[3] where you can learn more about our Global ESG Advisory Group.

VAT

The reduced 9% rate for gas and electricity will be retained for another 12 months. The Minister also announced a small increase in the turnover thresholds above which businesses must register for VAT.

A consultation on VAT and invoicing simplification was announced.

Revenue Simplification

The Minister noted comments regarding the complexity of rules relating to tax reliefs and schemes. This impacts the ability to access the schemes. The Minister announced the establishment of a dedicated Tax Administration Liaison Committee ("TALC") group focused on identifying any opportunities to simplify and modernise the administration of business supports.

Further Information

For further information, please liaise with your usual Maples Group contact or any of the persons listed below.

Dublin

Andrew Quinn
+353 1 619 2041
andrew.quinn@maples.com

William Fogarty
+353 1 619 2730
william.fogarty@maples.com

Lynn Cramer
+353 1 619 2066
lynn.cramer@maples.com

David Burke
+353 1 619 2779
david.burke@maples.com

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[3] https://maples.com/en/esg