www.pwc.ie/budget

Getting the balance right?

Budget 2016

How the Budget affects you and your business

pwc

Table of Contents

Overview	3
Economic context	5
Large Irish Corporates and Plcs	7
Private Business	9
Financial Services	11
Foreign Direct Investment (FDI)	13
Country by Country Reporting	15
Property	17
Indirect taxes	19
Employment taxes	21
Pensions	24
Agri-tax	26

Overview

Joe Tynan

Overview

Our view

The tax adjustments announced in Budget 2016 are aimed primarily at improving the tax situation for workers, particularly low to middle income earners. The measures are the second instalment of a three year plan to reduce the income tax burden, and should stimulate spending.

The package of incentives for entrepreneurs and the Knowledge Development Box should encourage domestic business growth. However, international relativities in these areas are becoming more important.

For those multinationals reassessing the location of their global operations as part of the BEPS process, Ireland is a very attractive proposition. Our early engagement with the BEPS process should work to our advantage.

However, Ireland’s high marginal income tax rate may make it uncompetitive in attracting foreign talent.

CbCR is likely to present many challenges to multinational groups.

Detailed analysis

The Irish economy is now in better shape than at any time since the beginning of the financial crisis. The Minister’s key challenge was to ensure that the resources available to him were used to underpin confidence in a strong economy, continue to facilitate the creation of sustainable employment and encourage entrepreneurship.

The personal tax measures introduced include significant reductions in USC, the phasing in of a tax credit for the self-employed and a package of enhancements for entrepreneurs. The effective tax rate for the self-employed will also be brought closer to that of PAYE workers.

As expected, the most significant measures announced for businesses are the introduction of the Knowledge Development Box (KDB) and Country by Country Reporting (CbCR).

The OECD recently published its final BEPS papers. These embody a move towards better alignment of taxing rights with substance. For multinationals looking to align their IP with substance in a jurisdiction with a good tax regime and a successful track record, Ireland is a very attractive proposition. Our established regime of tax relief for expenditure on intangible assets and R&D activities, coupled with the new KDB, should provide long-term certainty on tax treatment to groups looking for an appropriate location for their IP-related activities.

However, a significant challenge will be to ensure that key management associated with such new activities is located in Ireland. Our high marginal rate of income means that Ireland will continue to struggle to compete with rival jurisdictions in attracting foreign talent to relocate here.

CbCR is also likely to present many challenges. Concerns have been raised regarding the significant administrative burden that this will place on multinationals and the confidentiality of sensitive information. Tax authorities will now have the information to analyse a wide variety of data across groups. There are fears that groups could be in a perpetual audit or enquiry cycle as tax authorities get to grips with this information.

Economic context

Austin Hughes

Economic context

Introduction

Budget 2016 adds significant spending power to the Irish economy. Although political considerations played a key role, this boost can be justified on economic grounds. The upswing is strong but it remains uneven and unemployment is still high at 9.4%. Spreading the recovery and signalling that the period of painful adjustment is over are crucial for business and consumer confidence.

Major progress has been made in improving Ireland's fiscal position. EU rules should ensure this continues. If there is a concern, it's that the looming election likely precluded politically sensitive initiatives to tackle impediments in several important areas. However, Budget 2016 signals that it is now possible to cut borrowing and support economic activity.

Detailed analysis

I think the Irish economy will grow by about 6.5% in 2015, the fastest rate since 2000. While recovery is real, the measured increase in GDP in 2015 likely exaggerates the scale of improvement being experienced by the bulk of businesses and households. The upswing is felt to widely varying degrees across different sectors and parts of the country. Budget measures should broaden the reach of the recovery.

GDP growth may ease to about 4.5% in 2016 as a fragile world economy will restrain exports. Numbers at work and household spending should post solid increases helping unemployment drop to 8%. With significant 'slack' in the Irish economy and strong global disinflationary pressures, consumer prices are likely to remain subdued –probably rising by about 1% next year. However, rapid inflation may persist in areas such as rents, insurance and education.

Government borrowing of around 2% of GDP in 2015 will comfortably beat the target of a deficit below 3%. Ireland now moves from the corrective phase of EU fiscal rules to the preventive phase in 2016. Progressive improvements in the underlying deficit will be required each year. A headline target of 1.2% of GDP in 2016 looks achievable given healthy domestic economic conditions.

The preventive phase also requires public spending to increases less than the economy's potential growth rate. As this only takes effect next year, there was a strong incentive to boost spending in late 2015. Importantly, this is a once-off and the new rules may prove a significant constraint on future spending.

With the deficit and debt falling rapidly, Budget 2016 had scope to strike a balance between sustaining improvements in the public finances, supporting recovery and tackling a range of 'bottlenecks'. Significantly, there were no major initiatives to boost private housing supply or tackle rapidly rising rents but childcare measures may boost prices in that area.

Importantly, headline tax revenues are roughly back to pre-crisis levels (boosted by the USC). With stability of tax receipts regarded as a key policy priority, this raises important questions in terms of future taxation of those deemed to be high earners on over €70k. Budget data suggest the proportion of earners with a higher rate liability will rise from 18% to 20% in 2016. This could become a vexed topic in coming years.

Large Irish Corporates and Plcs

Paraic Burke

Large Irish Corporates and Plcs

Our view

From a corporate perspective this Budget went completely to script. There was never likely to be anything surprising for business. The two key areas of interest, well flagged in advance, are the introduction of country by country reporting (CbCR) and the Knowledge Development Box.

The introduction of CbCR is a game-changer, resulting in more detailed compliance obligations for large multinational companies and increased scrutiny on corporate structures by Revenue.

The Knowledge Development Box is intended to enhance Ireland's existing intellectual property offering. However, the Budget announcement and the legislation to follow are unlikely to benefit the domestic corporate sector due to the onerous conditions applying to the regime.

Detailed analysis

The message from Budget 2016 is that the economy is growing strongly across all sectors and that Ireland is taking a turn for the better. These are all positive messages for the domestic corporate sector. But what should business take away from today's speech as the key items that will have an impact on them?

The announcement that Ireland will legislate for CbCR, with effect from 1 January 2016, should be of limited surprise. Ireland is following the trend of other early adopters and adhering to the recommendations outlined in the OECD's most recent economic survey for Ireland, which confirmed that we should continue to align our corporate tax system with the BEPS project.

Companies who will have to file CbC reports will need to consider their overall tax strategy in light of this new filing obligation. Given the sensitive nature of the information to be provided, the treatment of the information in a confidential manner will be fundamental to ensure the credibility of the reporting process.

The much anticipated introduction of the Knowledge Development Box is part of the third pillar in Ireland's corporate tax regime which includes the 12.5% rate, the R&D tax credit and the intangible asset regime. While Ireland has first mover advantage in introducing the Knowledge Development Box, it is expected that the regime will be of limited benefit to the domestic corporate sector given the significant costs to invest in and generate the qualifying intellectual property and engage in substantive operations that have a high 'value add' for the Irish economy.

The Summary of Budget 2016 Taxation Measures refers to additional funding to support increased audit and investigation activities by Revenue, expected to generate €75m this year. This will be supplemented by a new debt analysis tool to reduce tax arrears. For businesses this means that more of their time is likely to be spent dealing with queries and investigations from Revenue. This will continue a trend already familiar to the corporate sector.

Private Business
Colm O’Callaghan

Private Business

Our view

While the main focus of this Budget has been to give back to the 'squeezed middle', it will also have a positive impact on private businesses and entrepreneurs. USC changes designed to put money back in the pockets of consumers will help reinforce returning consumer confidence and significantly benefit domestically focused businesses.

The impact that the new Knowledge Development Box ('KDB') will have on innovative Irish businesses, the retention of the 9% VAT rate and the removal of some of the inequality previously borne by entrepreneurs through the introduction of the new self-employed tax credit will also benefit business owners.

The only area of disappointment is that the new 20% CGT rate for entrepreneurs, the introduction of which is welcome, is capped at gains of €1m, which still puts Ireland at a disadvantage when compared to our international neighbours.

Detailed analysis

Entrepreneurs and owners of private businesses are seen as national assets to be cultivated, motivated and encouraged to help facilitate economic growth and the creation of jobs in Ireland. The tax system is critical in supporting this. This message was clearly given to Minister Noonan in the run up to Budget 2016, and he has started to deliver by helping entrepreneurs overcome some of the inherent risks initially borne by rewarding them with a new, lower, 20% rate of CGT on chargeable gains of up to €1m. Unfortunately, while this is a welcome move, it could have gone further and still leaves Ireland lagging behind our nearest neighbour when it comes to competitive CGT rates for encouraging entrepreneurs.

The Knowledge Development Box ('KDB'), last year heralded to attract FDI, is in fact designed to encourage innovative businesses develop IP in Ireland and will likely be of benefit for Irish companies with a current domestic R&D spend.

The Budget also saw the introduction of a €550 self-employed tax credit designed to remove some of the inequality borne by those in the sector. Disappointingly for business owners, however, the USC differential of 3% on self-employed earnings over €100k remains. No new supports were introduced to help raise capital/finance other than the Minister commencing changes to the Employment and Investment Incentive Scheme that were already announced in last year's Budget.

We welcome the change made to inheritance tax for parent-child transfers, increasing the tax free threshold to €280k. However, transfers of businesses to the next generation, a key and often forgotten stage in the life cycle of any family business, still suffer unnecessary age related restrictions (limiting the amount that can transfer tax free if aged 66 or over) that were not alleviated in Budget 2016.

A review of marine taxation supports was also published today. The proposals will be reviewed for implementation in future Budgets. The retention of the 9% VAT rate in the tourism sector will continue to be a boost for businesses in the hospitality sector, while the USC changes will also undoubtedly go some way to relieve the increasing pressure on employers for wage increases while underpinning returning consumer confidence – both of great importance for domestically focused businesses.

Financial Services

John O'Leary

Financial Services

Our view

There was little in the Budget aimed at the Financial Services sector. The final abolition of the 0.15% pension fund levy will be welcomed by the pensions industry, but the decision to extend the bank levy for another 5 years indicates that the measure is not regarded as an exceptional "crisis measure" but a contribution from the banking sector that will be in place for the medium term.

There was an opportunity in the Budget to make significant improvements to Ireland's offering to attract and retain mobile talent, and to put in place a tax regime for entrepreneurs that would compare favourably with those of our competitors. While the personal tax changes and "entrepreneurial action plan" make some positive changes, they fall short of what is needed to support key areas such as fintech, aircraft leasing and asset management.

Detailed analysis

The Budget contained a number of other measures relevant to the Financial Services sector.

The announcement of a review of the tax treatment of professional body subscriptions is welcome given that many employees across the financial services sector hold professional qualifications. The tax treatment of such subscriptions when paid by an employer is an issue that has arisen in the course of recent Revenue audits and has given rise to significant uncertainty. It is hoped that the outcome of the review will recognise the importance of professional qualifications in attracting investment into Ireland and creating high value employment and specialist skills across the financial services sector.

The Minister announced the introduction of two measures to support the National Payments Plan and the move to a "cashless society". The first measure incentivises the use of debit cards over the withdrawal of cash from ATM machines. The "per-card" Stamp Duty currently levied is replaced by a "per-ATM withdrawal" levy. The second measure is to set a maximum fee limit on interchange fees charged by a debit or credit cardholder's bank to a retailer.

In relation to the aviation services sector, Finance Bill 2013 provided for capital allowances on the construction or refurbishment of certain buildings or structures used in conjunction with the maintenance, repair or overhaul of commercial aircraft. The commencement of this provision remained subject to a Ministerial Order and EU approval. It was announced in the Budget that the scheme is being amended to comply with State Aid rules at an EU level, but will be commenced with effect from Budget Day.

Foreign Direct Investment (FDI)

Harry Harrison

Foreign Direct Investment (FDI)

Our view

We are reaching a critical juncture in the international tax policy debate with the publication of the final OECD/ BEPS papers last week.

The continued enhancement of Ireland's Intellectual Property (IP) and Research & Development (R&D) offerings is crucial to maintaining Ireland's competitiveness.

Against this backdrop, the confirmation in Budget 2016 that Ireland will introduce the proposed Knowledge Development Box at the end of this year is a welcome addition to Ireland's suite of offerings. However, while it is compliant with international guidance, it appears that the overall attractiveness of the regime in its current purposed form is likely to be limited from an FDI perspective.

Detailed analysis

The Knowledge Development Box regime will apply a 6.25% corporation tax rate to income arising from qualifying IP, where some or all of the development of that IP takes place in Ireland.

Ireland's Knowledge Development Box, which will be introduced in Finance Bill 2015, will be the first and only box in the world to meet the standards of the OECD's "modified nexus approach". The Minister stated that the Government's commitment to the OECD standard should provide long term certainty in respect of the regime.

A company which owns patented (or other specifically defined) IP may qualify for the reduced tax rate on qualifying income from the IP. However, in order for all qualifying income to come within the scope of the regime, it will be necessary for a significant majority of the R&D work to be undertaken in Ireland. The definition of R&D activities is very similar to the definition included in the R&D tax credit regime.

Ultimately the attractiveness of the regime for most FDI companies is likely to be limited due to the limited nature of IP which will qualify, and the requirement that a significant amount of the related R&D must physically take place in Ireland.

In order to manage the risks and maximise the opportunities that will arise for Ireland in the context of the rapidly changing international environment, we believe that further enhancement of Ireland's suite of offerings should be made over coming months. This could include improvements to aspects of the current IP amortisation regime and the operation of the R&D tax credit regime.

One further point of interest was the 'Update on Ireland's International Tax Strategy' document which was published as part of the Budget documents. This document reiterates Ireland's commitment to the BEPS process and discusses Ireland's approach to the ongoing EU tax agenda. While Ireland is stated as being broadly supportive of much of the work that the EU has recently undertaken on tax, the Government's position is that taxation remains an area for unanimous decision making, and importantly, that Ireland disagrees with any proposals concerning the harmonisation of tax rates or minimum levels of taxation.

Country by Country Reporting

Ronan Finn

Country by Country Reporting

Our view

The new proposals to introduce Country by Country Reporting (CbCR), if in accordance with the OECD standard, will require compliance by Irish parented multinational enterprises with consolidated revenue of €750 million or more. CbCR requires organisations to file a template annually with the Irish Revenue authorities for each tax jurisdiction in which they operate, containing specific financial data covering the multinational's income, taxes, and other key measures of economic activity. The first CbC reports should be prepared for fiscal years beginning on or after 1 January 2016, and filed within 12 months of the year end. A mechanism is also proposed for sharing CbC reports with relevant countries via tax treaties and tax information exchange agreements, together with a secondary filing mechanism that will apply in certain circumstances. CbCR represents a fundamental change in the quantum and quality of data to be provided to Revenue.

Detailed analysis

In July 2013, in response to political and economic pressures, and in a growing climate of austerity and focus on the contribution from business, the OECD issued its Action Plan regarding BEPS. The two key pillars of the BEPS action plan are Substance and Transparency. From a transparency perspective, the BEPS action plan means a hugely significant increase in the level of Transfer Pricing Documentation (TPD) required, of which CbCR forms a key component.

Many countries, including the UK, Australia, Spain, Netherlands and Mexico, have already started to legislate for the introduction of CbCR. Ireland has formally committed to introduce similar legislation in this year's Finance Bill.

CbCR is viewed by tax authorities globally as a positive move towards improved transparency, providing them with the "risk assessment" tool necessary to identify BEPS activity. However, concerns have been repeatedly raised by business regarding confidentiality of information and the increasing compliance burden.

The proposed legislation, if in accordance with the OECD standard, will require the Irish parented groups to populate and submit an annual CbCR template to Irish Revenue disclosing the following data points for each tax jurisdiction in which they operate:

- The amount of revenue, profit before tax, and corporate taxes paid and accrued.
- Capital, retained earnings and tangible assets, together with the number of employees.
- Identification of each entity within the group doing business in a particular tax jurisdiction, with a broad indication of its economic activity.

CbCR, and the wider changes to TPD, will fundamentally change the way Irish multinational enterprises must document intercompany transactions, and create a significant administrative burden. Consideration should be given to how this information and data will be reported, whether finance systems have the necessary capabilities to gather the required data and what ongoing additional resources are needed to implement and manage CbCR. Preparation in the form of dry runs and initial analyses of the output is key.

Tax transparency is of increasing importance for multinational organisations, and is no longer just an issue for the Head of Tax. Engagement at Board level early on will be crucial in ensuring that CbCR (and wider TPD requirements) are implemented effectively and in line with the organisation's tax strategy and approach to transparency.

Property
Tim O'Rahilly

Property

Our view

While the sentiment of today's Budget was largely positive, the Minister provided very little in terms of changes to real estate taxes.

The Minister acknowledged that there is a "market failure" in the provision of new housing across the country, in particular in Dublin, and that there is a requirement for a minimum of 10,000 units per annum in Dublin.

It is disappointing that he did not offer any tax incentives for developers, such as a reduction in the VAT rate. However, this had been rationalised by an ESRI report which concluded that tax breaks for developers are unlikely to be effective due to other constraints on supply.

The Minister's commitment to the development of 20,000 new residential units by NAMA before the end of 2020 is positive. However, no further commentary was offered on how to resolve the remaining housing shortfall and the other issues facing the construction sector.

Detailed analysis

The Home Renovation Incentive (HRI) was first introduced in Finance Act 2013 and offers a tax incentive of up to approximately €4,000 for homeowners wishing to renovate a property. This was extended in Finance Act 2014 to landlords renovating residential properties, with the limit applying to each property. The relief was due to expire at the end of 2015 but the Minister has announced that this will now be extended to the end of 2016. This is a welcome extension to an incentive which has been successful and generally regarded as beneficial to the construction sector.

The Enterprise Investment Incentive Scheme (EIIS) provides tax breaks for individuals investing in certain corporate trading businesses. In recent years the scheme has been extended to include the operation of hotels and guest houses. In Budget 2016 the Minister announced that the changes previously announced will be commenced (e.g. increases in the relief limits/thresholds and a widening of the qualifying businesses). In addition relief will be provided to investors where funds are used for expansion works on existing nursing homes. This is a very welcome change which will go some way to helping nursing homes raise much needed funds to comply with standards imposed by the Health Information and Quality Authority (HIQA).

The Minister announced a proposal to postpone the revaluation date for Local Property Tax (LPT) from 2016 to 2019. This would mean that homeowners would not be faced with significant increases to the LPT in 2017 and 2018 as a result of increasing property values. This postponement was one of the recommendations in the Review of the Local Property Tax undertaken by Dr. Don Thornhill, which was published today. This report comments that "a recurring tax on residential properties is much more employment and enterprise "friendly" than taxes on income." The review was informed by the results of a public consultation and summarises 13 key recommendations which will be considered for implementation in due course.

Indirect taxes

Caroline McDonnell

Indirect taxes

Our view

As anticipated, there were no significant changes in indirect taxes in Budget 2016.

There are no surprises on the tobacco front as the 50 cent increase was widely anticipated. The relief for micro-breweries should be warmly welcomed and will provide valuable cash flow advantages, especially for start-up operations. The transport industry, particularly hauliers, should be pleased with the reduction in road tax which is something it has been pressing for in recent times, given the more favourable regime applicable in Northern Ireland and the rest of the UK.

The 9% VAT rate was retained, due to its successful and continued contribution to the tourism and hospitality sector, although the Minister did indicate that the case for retaining it for the Dublin hotel sector was diminishing. Perhaps an indication that changes in this space may happen in the future?

Detailed analysis

VAT and excise duties collections continue to perform strongly with surplus over profile for VAT of €250 million by year end and excise duties expected to come in on profile. VAT and excise duties receipts were up €742 million (8.3 per cent) and €211 million (5.9 per cent) respectively in year-on-year terms.

With effect from midnight tonight, 13 October 2015, the excise duty on a packet of 20 cigarettes will increase by 50 cents (VAT inclusive) and a corresponding pro-rata increase will apply to the other categories of tobacco.

The budget provides for a cash flow incentive for micro-breweries. Instead of having to pay and reclaim the reduced rate of excise duty, micro-breweries qualifying for the relief (i.e. production of not more than 30,000 hectolitres per annum) can now claim the relief without the need to pay it first.

With effect from 1 January 2016, road tax for commercial vehicles exceeding 4000kgs in weight will be significantly reduced. The maximum rate of commercial motor tax payable will be €900 per annum, as opposed to the current rate of €5,195.

In 2011, a reduced rate of VAT of 9% was introduced for certain supplies, mainly within the tourism and hospitality sector, such as catering, hotel accommodation and cinemas/theatres. This has been retained this year. Although the extension of the 9% rate to a specific sector of the construction industry (residential properties) was speculated on, this measure has not been implemented. This does not come as a surprise, as the application of two different VAT rates to construction services was perceived as having the potential to lead to administrative complications and possible tax abuse.

The Government released the VAT on Charities Working Group report, which has put forward several options that would alleviate some of the VAT burden of charities, while respecting the limited fiscal space available to the Minister for Finance. However, while reference is made to the report in the Budget commentary, no measures have been introduced to date. One to watch for in the Finance Bill, maybe?

Employment taxes

Mary O'Hara

Employment taxes

Our view

The Budget brings good news for low to middle income earners, primarily through a reduction in USC rates and an adjustment of the bands. It also takes a step closer to parity between PAYE workers and self-employed individuals through the introduction of an 'earned income' tax credit.

However, with the marginal rate of taxation remaining at 52% for employees earning in excess of €70,044, the headline tax rates in Ireland remain comparatively high by international standards.

Concerns persist over our ability to attract foreign talent to these shores as a result and an opportunity has been missed to introduce incentives beyond the limited 'SARP' regime to promote Ireland as an attractive relocation destination.

Detailed analysis

As anticipated, low to middle income earners are the main winners in Budget 2016. While the standard and marginal rates of income tax remain untouched at 20% and 40%, adjustments to the USC rates and bands will reduce the overall tax burden on individuals.

The USC rates and bands for 2016, with a comparison to 2015, are as follows:

2016 Bands	Rate	2015 Bands	Rate
€0 - €12,012	1%	€0 - €12,012	1.5%
€12,013 to €18,668	3%	€12,013 - €17,576	3.5%
€18,669 to €70,044	5.5%	€17,577 - €70,044	7%
€70,045 and above	8%	€70,045 and above	8%
€100,000 and above*	11%	€100,000 and above*	11%

*Self-employed income only

An increase in the Home Carer Credit comes into effect from 2016, raising the annual credit from €810 to €1,000. The earnings limit is increased from €5,080 to €7,200.

Self-employed individuals will benefit from the introduction of an 'earned income' tax credit of €550, although they will be disappointed they are not placed on a level footing with PAYE workers and continue to pay a 3% USC surcharge on income in excess of €100,000.

The raising of the PRSI floor for employers to €376 per week sends a positive message to businesses otherwise facing an increased PRSI burden as a result of the impending minimum wage increase to €9.15 per hour. The impact on low income workers is addressed by way of tapering relief.

Employment taxes *Continued*

Up to 2019, Local Property Tax will continue to be based on 2013 valuations. For employers obliged to collect the tax through payroll, this will postpone the administrative challenges that valuation changes can present.

In spite of the positive changes announced, however, Ireland continues to combine one of the highest marginal rates of taxation in the OECD region with one of the lowest entry points to that rate – employees with earnings in excess of €70,044 remain subject to a marginal rate of 52% (including USC and PRSI). The direct result is that Ireland will continue to struggle to compete with rival jurisdictions in attracting key foreign talent to relocate here.

While the Special Assignee Relief Programme (SARP) offers some incentives to those considering a move to Ireland, its inherent restrictions and complexities significantly reduce its appeal and it is disappointing that broader incentives have not been considered in Budget 2016.

Pensions

Munro O'Dwyer

Pensions

Our view

The only specific pensions taxation measure announced in Budget 2016 was the ending of the Pension Levy which had been well flagged in advance.

Looking behind the figures, Budget 2016 included a €300 million gain from maintaining income tax bands at their current levels. Pension limits have also remained stable – including the €115,000 earnings limit for personal contributions, and the €2 million Standard Fund Threshold.

There are indications in Budget 2016 that future income tax relief will come from reductions to USC rates, rather than the indexation of tax bands.

If this approach flows through to pension limits, the implication would be that the earnings limit and Standard Fund Threshold may remain at 2015 values for some time. Quite subtly, this would limit the capacity of tax-efficient pension planning for middle to high income earners.

Detailed analysis

Minister Noonan confirmed the ending of the Pension Levy which was introduced in 2011 and expired in June 2015. The tax relief regime also remains unchanged, so that individual contributions continue to attract relief at an individual's marginal rate of tax. Given the expected introduction of auto-enrolment in 2017, the ending of the pension levy and unchanged tax relief structures are broadly supportive of private pension saving.

Minister Howlin announced an increase of €3 per week in State Pension payments, but it is unclear whether this move reflects a long term ambition to maintain the real value of the State Pension, or a shorter term goal of sharing higher tax receipts with all sectors of society. The difficulties faced by those reaching retirement age are changing – with more people paying down debt into retirement, and the State Pension age moving out to 68 over time, the ability of the State Pension alone to keep people out of poverty is challenged.

No changes were made to the Standard Fund Threshold, which remains static at the €2 million level introduced on 1 January 2014. While inflation has been benign in the interim, investment returns have been supportive. Individuals with material pension entitlements should consider whether future contributions will attract a penal taxation rate at the point of access, and what opportunities are available to them to manage this exposure.

One of the challenges to private pension provision in recent years has been the weight of negative public sentiment towards pensions, influenced by both the Pension Levy and the well-publicised difficulties experienced within the Irish Defined Benefit pensions market. The removal of the Levy and maintenance of the tax relief on contributions now gives the Government, the pensions industry and employers an opportunity to reverse this sentiment. Crucial to the wellbeing of our future retirees will be their ability now to make sensible, long-term financial planning decisions within a supportive taxation and legislative environment in which they can have confidence.

Agri-tax

Ronan Furlong

Agri-tax

Our view

The Government continues to support the transfer of the family farm to the next generation, by introducing a new succession transfer proposal to increase certainty around the timing of farm transfers. In addition, the stamp duty exemption for Young Trained Farmers is extended to 31 December 2018.

Although not an Agri-tax measure, farmers will benefit from the increase in the parent-child CAT threshold from €225,000 to €280,000.

Similarly, farmers will also benefit from the new earned income tax credit of €550 for the self-employed.

It was disappointing to see that there was was no reduction in the 3% additional USC charge imposed on self-employed individuals earning over €100,000. It's difficult to see the justification for this additional 3%.

Detailed analysis

The age profile of Irish farmers is increasing, with only 6.2% of farmers aged under 35 while more than 25% of farmers are aged over 65. Following the Agri-taxation review last year, a range of measures was introduced to support the transfer of farms to the next generation to help reverse this imbalance and encourage the transfer of farm enterprises to young farmers, with a view to increasing the productivity of those farms. One issue that can cause a delay in the lifetime transfer of farms, however, is the need for both parties to derive an income stream from the farm. The Government announced a new succession transfer proposal to help overcome this issue.

This proposal is subject to State Aid approval, but involves the creation of a new Farm Transfer Partnership in which there would be a profit sharing agreement over a specified period not exceeding ten years. At the end of this period, the farm would be transferred to the next generation. To support this transfer and address the issue of insufficient income from the farm for two families over this period, an income tax credit worth up to €5,000 per annum for five years will be allocated to the partnership and split according to the profit-sharing agreement.

Another measure to support the transfer of the family farm is the extension to 31 December 2018 of the stamp duty exemption for Young Trained Farmers. These transfers will also benefit from the increase in the gift/inheritance tax (CAT) threshold from Parent to Child from €225,000 to €280,000. This should mean that even large farm enterprises could transfer to the next generation without incurring a CAT liability when you factor in the agricultural relief of 90%.

The introduction of the new self-employed income tax credit of €550 is welcome, but there is still a significant diference in how employed and self-employed individuals are taxed. Perhaps surprisingly, there was no reduction in the 3% additional USC charge suffered by self-employed people earning over €100,000. This is an unfair additional tax burden for the self-employed.

All stock reliefs were also extended for a further three years to 31 December 2018.

The specific Agri tax measures introduced in this Budget are all targeted at increasing productivity in this sector and encouraging the transfer of the family farm to the next generation.

www.pwc.ie/budget

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2015 PricewaterhouseCoopers. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. 05638