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Pre-Budget 2019: Stamp Duty, Capital Gains Tax, Capital Acquisitions Tax, and Local Property Tax Issues and Options

Summary of Tax Strategy Papers

Introduction

The Tax Strategy Group (TSG) is comprised of a number of senior officials and political advisors from across a range of civil service departments and offices. Though not a decision making body, the TSG discusses, on the basis of pre-prepared papers, tax related issues and options to be considered in the budgetary process. These papers are later published. In order to aid Members of the Oireachtas to engage on the issues in Budget 2019, the PBO has prepared a series of summaries of the TSG papers highlighting some of the main issues and policy options.

The purpose of this note is to summarise the Tax Strategy Group (TSG) commentary relating to Capital Gains Tax (CGT), Capital Acquisitions Tax (CAT), and Stamp Duty, to highlight some of the upcoming changes relevant to these taxes, and to discuss some of the relevant options proposed by the TSG papers. The TSG papers do not discuss Local Property Tax (LPT). However, options relating to LPT are presented in the Revenue Commissioner's pre-Budget 2019 Ready Reckoner and these are presented in this Note.

Table 1 shows that in 2017 almost €3 billion was collected from this group of taxes. In 2018 this is expected to rise to almost €3.5 billion mainly as a result of the changes to the stamp duty on commercial property in Budget 2018. This group of taxes represents approximately 4% of total General Government revenue.

Table 1: Revenue from selected taxes 2017 and 2018, € million

	2017	2018
Stamp Duties	1,195	1,675
Capital Gains Tax	826	845
Capital Acquisitions Tax	460	470
Local Property Tax	477	470
Total	**2,958**	**3,460**

2018 revenue is projected. Source: SPU 2018 and Revenue Commissioners Net Receipts.

Key upcoming developments and tax policy options

- A review of Stamp Duty on share transactions is currently being considered by the Minister for Finance and may lead to changes in the Budget.
- Due to the increase in the Stamp Duty rate on non-residential property to 6%, the cost of any exemptions/reliefs to the duty (e.g. agri-tax reliefs) have in effect tripled.
- The Capital Gains Tax rate at 33% is high compared to the rates in other European countries. Cutting the rate by one percentage point would cost €34 million per annum.
- Reducing the Capital Acquisitions Tax (which includes inheritance tax) rate by one percentage point would cost €14 million per annum. Increasing the Group A threshold by €31,000 would cost €22.4 million per annum.
- The outcome of the review of the Local Property Tax is due to be announced with the Budget.

Stamp Duty

The total yield from Stamp Duty in 2017 was €1.2 billion, approximately 2.4% of total tax receipts that year. Stamp Duty is generally a tax on documents or instruments executed in Ireland, or related to the transfer of property or activity in Ireland. To be liable an instrument must be listed in Schedule 1 to the Stamp Duties Consolidation Act 1999.

Stamp Duty chargeable in Ireland falls into two main categories.

- The first comprises the duties payable on a wide range of legal and commercial documents, including (but not limited to) conveyances of property, leases of property, share transfer forms and certain agreements.
- The second category comprises duties and levies payable by reference to statements. These duties and levies mainly affect banks and insurance companies and include a duty in respect of financial cards e.g. Credit, ATM, and Charge cards, and levies on certain insurance premiums and pension schemes.

Some Stamp Duties are fixed, while others are levied on a percentage basis, i.e. the tax due relates to the value of the transaction.

Agri-tax reliefs

A number of tax reliefs relating to Stamp Duty are discussed in the TSG paper, including a number of agri-tax reliefs, two of which have only commenced in 2018. The long-term leasing Stamp Duty relief came into effect 1 July 2018, and the farm consolidation relief commenced 1 August 2018 following EU State Aid approval. Consanguity relief (a relief on the transfer of agricultural land between related parties, which applies a rate of 1% instead of 6%) is due to expire 31 December 2020, while the Young Trained Farmers relief is due to expire at the end of this year (i.e. 31 December 2018). This relief provides an exemption from Stamp Duty for qualified farmers under 35, when certain conditions are met. The cost of extending this relief is estimated at €24 million per annum in the TSG paper, despite the fact that the relief cost only €7.8 million in 2017 and €4.6 million in 2016. This is due to increases in the Stamp Duty rate.

Stamp Duty on share transfers

With regard to the Stamp Duty on share transfers, the TSG references the review and associated public consultation of the *Application of Stamp Duty to Stocks and Marketable Securities of Irish Incorporated Companies*. The report arising from this review is being considered by the Minister for Finance, and sets out three potential options for consideration:

- Retain the status quo (a 1% stamp duty on most share transactions);
- Reduce the 1% to 0.5% to bring it in line with the current UK rate;
- Reduce the 1% to 0% as a competitiveness measure, while retaining the option to increase the rate at some future point.

No estimates of the cost of these proposals are included, however the Revenue Ready Reckoner estimates that a 0.1 percentage point change in this duty would cost or yield €46 million, and that the total revenue raised from this tax for the Exchequer was €449 million in 2017.

Other options

The TSG paper does not give many options with regards to changes in stamp duty rates. However, the Revenue Pre-Budget 2019 Ready Reckoner lists some options and a selection of these are listed in Table 2.

Capital Gains Tax

Capital Gains Tax (CGT) is charged on the value of the capital gain made on the disposal of an asset. Disposals are not limited to sales of assets, a gift of an asset counts as a disposal and will be liable to CGT if a gain is made.

CGT yielded €826 million to the Exchequer in 2017, and is estimated to yield €843 million in 2018.

The economic rationale for considering lowering CGT rates is to encourage investment by allowing investors to retain a higher proportion of their gains. In an international comparison presented in the Tax Strategy Group paper, Ireland's 33% CGT rate is ranked close to the highest in Europe. The CGT rate until 14 October 2008 was 20%.

Table 2: Stamp Duty, selected options and yields, € millions.

Area	Policy option	Yield
Residential property	Increase/Decrease 1% Stamp Duty rate by 0.5 percentage points (p.p.)	+/- €66
	Increase/Decrease 2% Stamp Duty rate by 1 p.p.	+/- €7
	Increase Stamp Duty to 2% on excess above €500,000	+/- €28
Non-Residential property	Increase/Decrease 1% Stamp Duty rate by 0.5 p.p	+/- €53
	Increase Stamp Duty to 2% on excess above €500,000	+/- €74
Shares	Increase/Decrease 1% rate by 0.1 p.p	+/- €46
Cheques & Financial Cards	Increase Stamp Duty on cheques by 50%	+13.1
	10% Inrease/Decrease in the duty on the credit cards	+/- €5.9
	10% increase/decrease in the duty on cash cards	+/- €1.5

Source: Revenue Ready Reckoner Pre-Budget 2019.

The TSG paper and the Revenue Ready Reckoner Pre-Budget 2019 estimate that a one percentage point change (positive or negative) to the CGT rate (currently 33%) would cost or yield €34 million. Each additional percentage point change would also cost €34 million.

The TSG paper suggests that while restricting access to reliefs or exemptions could benefit the Exchequer, there are potential detrimental effects. The paper provides the example of retirement relief, which improves the viability of businesses by limiting the cost of intergenerational transfers.

The TSG paper does however discuss some options relating to entrepreneur relief. Entrepreneur relief applies a favourable rate of 10% CGT on the disposals of qualifying business assets up to a lifetime limit of €1 million. The paper provides some options regarding increases in this lifetime limit and the resulting affect of these increases on yield. See Table 3 for these options.

Table 3: Potential lifetime limits for entrepreneur relief and the resulting effect on yield.

Lifetime Limit Increased to	Yield
€5m	-€49m
€10m	-€54m
€15m	-€56m

Source: TSG Paper on Capital & Savings Taxes - Capital Gains and Capital Acquisitions Taxes.

Capital Acquisitions Tax

The Capital Acquisitions Tax (CAT) includes gift tax, inheritance tax and discretionary trust tax. In 2017, CAT raised €460 million and is provisionally expected to raise €472 million in 2018. The standard Capital Acquisitions Tax (CAT) rate is currently 33% on the proportion of the gifts or inheritance that lies outside the tax free threshold for the applicable group.

There are three tax-free thresholds depending on the relationship between the disponer (i.e. the person making the gift or bequest) and the beneficiary with CAT applying over the thresholds.

- Group A threshold (€310,000) - Applies where the beneficiary is a child (including certain foster children) or minor child of a deceased child of the disponer. Parents also fall within this threshold where they take an absolute inheritance from a child.
- Group B threshold (€32,500) - Applies where the beneficiary is a brother, sister, niece, nephew, or lineal ancestor or lineal descendant of the disponer.
- Group C threshold (€16,250) - Applies in all other cases.

Receipts from inheritances were €426 million in 2017 from total CAT receipts of €460 million. Gifts at €33 million were the next largest, discretionary trust was €2 million and probate less than €1 million in 2017. In 2017 Group A gifts/inheritances raised €161.1 million with Group B gifts/inheritances raising €234.3 million.

The Revenue Ready Reckoner for Budget 2019 presents some potential policy changes and the resulting effect on tax yield. This information is shown in Table 4.

There are a number of exemptions and reliefs from CAT including Agricultural Relief and Business Relief. These are two separate exemptions that allow for the transfer of certain agricultural assets and business assets respectively at 10% of their market value for CAT calculations. The beneficiary must be an active farmer in the case of Agricultural Relief and other restrictions apply.

Table 4: Selected CAT options and yields

Increase/Decrease in CAT rate		€ million
+/- 1 percentage points		+/- 14
+/- 3 percentage points		+/- 43
+/- 5 percentage points		+/- 73
+/- 10 percentage points		+/- 143
Increase/Decrease in tax free thresholds	**Increase**	**Decrease**
By 1%	-€4m	+€4m
By 3%	-€11m	+€12m
By 5%	-€18m	+€20m
By 10%	-€34m	+€39m
Specific change		**€ million**
Increase the Group A Threshold by €31,000 (i.e. 10%)		-€22.4m
Reduce Agricultural Relief from 90% to 80%		+€7.7m
Reduce Agricultural Relief from 90% to 50%		+€46.7m
Reduce Business Relief from 90% to 80%		+€8.3m
Reduce Business Relief from 90% to 50%		+€40.4m

Source: Revenue Ready Reckoner pre-Budget 2019

The Commission on Taxation in 2009 recommended reducing the scale of these reliefs from 90% to 75% of the taxable value of the relevant assets and capping the relief at €3 million. However, such changes as the TSG paper points out could have a negative impact on the development and growth of family businesses. Following the Agri-taxation Review in 2014, agricultural relief has been maintained in its current form but restricted to apply only to active farmers or where the agricultural property is leased to an active farmer. The Government is due to publish an update on the Agri-taxation Review with Budget 2019.

Local Property Tax

Though not discussed in the TSG papers, Local Property Tax (LPT) is discussed in this note. This will provide context for the tax, given the outcome of the public consultation on LPT, likely to be published soon.

Local Property Tax (LPT) is an annual tax charged on all residential properties in the State, and was introduced in 2013 to replace the Household Charge and the Non-Principal Private Residence Charge. In 2017, LPT raised €452 million, from approximately 1.9 million properties. Local Authorities retain 80% of the LPT yield raised in their Local Authority area. The remaining 20% of funds are paid into an Equalisation Fund, which is used to support Local Authorities that do not have a sufficient base to meet their funding needs. The LPT forms 9% of Local Authority revenue and is an important source of discretionary funds for them.

LPT is a self assessed tax based on the value of the property as of the valuation date of 1 May 2013. The next valuation date is 1 November 2019. These property values are organised into twenty valuation bands, and an LPT rate is assigned to each band. The base rate is 0.18% of the mid-point value of the valuation band on the first €1 million, and 0.25% on the portion above €1 million. From 2015 onwards, local authorities could vary the rate by +/- 15% from the base rate.

The revaluation is expected to expand the tax base due to the increase in property value since the previous valuation date in 2013, and the increase in the number of properties covered by the LPT. The PBO has previously produced a note, Note 2 of 2018, on the revaluation of LPT and alternative options to the planned revaluation scheduled for November 2019.

Though not discussed in the TSG papers, tax options relating to LPT, and the resulting effect on yield of these options, are presented in the Revenue Ready Reckoner. These options assume a LPT yield of €470 million in 2018, see Table 5 for some of these options.

Table 5: Selected LPT options & yields.

Option	€ million (full year)
-15% Local Adjustment Factor*	-49
+15% Local Adjustment Factor*	+100
Additional €100 on every property	+181
Additional €100 on second or more properties**	+53
Additional €100 on every Non-PPR***	+25
Additional €100 on second or more Non-PPR***	+17
Cost if PPRs excluded***	-418
Cost if Non-PPR excluded***	-53

* Compared to adjustment factor in place in 2018
** Includes properties owned by Local Authorities and approve housing bodies, as well as commercial landlords
*** PPR (Principal Private Residence)/Non-PPR as indicated by owners in LPT returns, Non-PPR are mostly composed of rental properties and holiday homes. Source: Revenue Ready Reckoner pre-Budget 2019

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