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Budgetary Issues in the Finance Bill 2020

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Séanadh

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Contents

Introduction

Finance Bill 2020 gives effect to tax measures announced in Budget 2021.

This paper provides a description of those measures contained in the Finance Bill which are likely to have budgetary implications. It further includes information on the cost or yield, policy background and policy implications of these measures.[1]

As in previous years, some measures included in the Bill did not feature in this year's budget – some of these are technical amendments intended to correct drafting errors (e.g. section 64-66) or to clarify existing measures or features of the tax code (e.g. section 46). In addition, the Bill gives effect to certain measures that were announced in advance of Budget 2021, such as those announced earlier in response to the COVID-19 crisis (e.g. section 30).

Seven Financial Resolutions were published alongside Budget 2021 and were subsequently approved by Dáil Éireann. Six of these temporarily transposed certain measures announced in Budget 2021 into law.[2] These measures are also included in Finance Bill 2020, and, dependent on approval by Dáil Éireann, will be transposed via primary legislation in Finance Act 2020.

These Financial Resolutions include:

- **Financial Resolution 1** – concerning changes to Excise on tobacco products (Tobacco Products Tax). See section 25 of the Bill;
- **Financial Resolution 2** – concerning changes to the carbon tax (specifically, for mineral oils). See section 26 of the Bill;
- **Financial Resolution 3** – concerning the reduced rate of VAT for hospitality and tourism (from 13.5% to 9%). See section 37 of the Bill;
- **Financial Resolution 4** – concerning the treatment of intangible assets where a balancing charge occurs. See section 17 of the Bill;
- **Financial Resolution 5** – concerning the disposal of debts in respect of Capital Gains Tax. See section 22 of the Bill;
- **Financial Resolution 6** – a technical amendment concerning the deferral of exit tax. See section 24 of the Bill.

Budget 2021 assumes that no trade deal will be agreed between the UK and the EU by the end of the year, and that there will not be access to a vaccine for COVID-19 in 2021. Set in this context, tax policy changes included in the Budget are projected to result in a net revenue loss of approximately €263 million in 2021.[3] This includes revenue raising measures of €165 million, and revenue reducing measures of €428 million.

1 Note that this paper is based on the Finance Bill as published, and does not take account of forthcoming amendments to the Bill.

2 The seventh is a general resolution that is used to continue the Dáil debate on Budget 2021.

3 *Preliminary PBO Review of Budget 2021*, Parliamentary Budget Office, 13 October 2020.

Table 1: 2021 cost of tax policy changes announced in Budget 2021

Revenue raising measures	***+€165m***
Carbon Tax	**+€108m**
Excise	**+€57m**
Revenue reducing measures	***-€427.7m***
Income Tax	**-€35.7m**
VAT	**-€346m**
Help-to-Buy	**-€43m**
Film Relief	**-€2m**
Accelerated capital allowances for energy efficient equipment	**-€1m**

Source: Summary of 2021 Budget Measures – Policy Changes (Department of Finance).

Note: The above refers only to those policy changes for which costings were provided in Budget 2021. There are additional measures that were included in the Budget and/or the Finance Bill, for which no costings information was provided.

However, Budget 2021 does not account for the recent escalation to Level 5 of the Government's *Plan for Living With COVID-19*. This will likely drive-up the cost of some measures and limit the effectiveness of others. For example, the COVID Restrictions Support Scheme (section 11 of the Bill) was estimated to cost €30 million for each week that the country is operating at Level 3 restrictions – this is likely to be substantially higher while the State is operating at Level 5. In addition, the reduction in the 13.5% rate of VAT to 9% (section 37 of the Bill) for hospitality and tourism, will have a limited impact if there are ongoing administrative restrictions in place that are limiting personal consumption.

In the sections that follow, measures that are not described as being a 'Budget Measure' are those that were not announced in Budget 2021, and are either being introduced with Finance Bill 2020, or were possibly announced earlier this year (e.g. through previous announcements or public consultations).

Where possible, the PBO have endeavoured to provide information on the cost or yield of a measure or a policy change, as estimated by the Department. However, this information is not always available in Budget documentation. Some measures, while potentially having an Exchequer impact, were not costed. Where costings have been provided, there may be differences between the cost or yield from a Budget measure in 2021 and in a 'full year'. This usually arises due to the timing of tax payments, which can be after the year is completed. In addition, some measures do not commence on 1 January (e.g. those that are subject to a commencement order). Further, while certain measures are automatically applied to taxpayers (e.g. USC changes), others require engagement with the tax-payer as part of an application process, which can take time.

Note that as this paper is intended to assist Members in their scrutiny of measures contained in Finance Bill 2020, it is structured in line with the format of the Bill itself.

Measures relating to Income Tax, Corporation Tax and Capital Gains Tax

Section 2

Measure: An increase in the 2% USC threshold, and an extension to the application of the reduced rate to full medical card holders under 70 whose income does not exceed €60,000.

Budget Measure: Yes

Description: This section provides for an increase in the USC 2% threshold, bringing it to €20,484 for 2020, and €20,687 for 2021. It further provides that, for full medical card holders, the application of the reduced rate of USC will be extended until the end of the 2021 tax year.

Cost/Yield: Budget 2021 estimates that the increase in the 2% threshold will cost €6m in 2021 and €7m in a full-year, while the extension of the application of the reduced rate for medical card holders, is estimated to cost €44m in 2021, and €53m *per annum* thereafter.[4]

Policy Background: The USC is a tax on income. It replaced the income and health levies from 1 January 2011.

USC is payable on incomes above €13,000 (income at or below this limit are exempt). Once income exceeds this amount, USC is paid on all income. A graduated rate of tax is applied for different income bands.

The current USC bands and rates, prior to changes being proposed in Budget 2021, are:

- 0.5% on income from €0-€12,012
- 2% on income from €12,012-€20,484;
- 4.5% on income from €20,484-€70,044;
- 8% on income over €70,044; and,
- A 3% surcharge applies to self-employed income over €100,000.

USC does not apply to social welfare or similar payments. For an individual whose total income in the year does not exceed €60,000, and who is either aged 70 or over or holds a full medical card, the reduced rate of USC applies to all income over €12,012. The reduced rates are:

- 0.5% on the first €12,012; and,
- 2% on all income over €12,012.

Policy Impact: This change will have a relatively small impact on the level of tax receipts. However, following the increase in the minimum wage (from €10.10 to €10.20 per hour, with effect from 1 January 2021), this measure will ensure that a full-time worker in receipt of the minimum wage does not move to the 4.5% rate of USC.

4 Costings information provided in Budget 2021 indicates that this extension is revenue neutral, as it is already included in the tax base. However, the decision to extend the relief does carry an additional cost in terms of tax revenue foregone for the duration of the extension.

Section 3

Measure: A provision for the tax treatment of the Pandemic Unemployment Payment (PUP).

Budget Measure: No

Description: This section provides that the PUP would be treated as an emolument (essentially employment income) for Income Tax purposes, meaning that recipients of the payment would be liable to pay tax on the amounts received.

Cost/Yield: As this measure was not included in Budget 2021, no costing information was provided. However, it will have a small, but positive, impact on the level of Income Tax receipts. It is worth noting that (as examined in a previous PBO publication),[5] earnings in the sectors with the largest number of PUP recipients tend to be lower than average (the original PUP of €350 per week covered a significant portion of the loss in income for employees in retail, recreation and hospitality). This suggests that, while PUP recipients are liable to pay tax on the payments they received, this is unlikely to yield significant additional receipts for the Exchequer, given the progressivity of the Income Tax structure. For example, a single employee[6] must have income over €16,500 (or approximately €317 per week) in order to pay any Income Tax on their earnings.

In addition, the Revenue Commissioners have stated that Income Tax on PUP payments, if not paid in 2021, will be paid through an automatic adjustment to Income Tax credits over the period 2022-2025,[7] thus the amount collected in 2021 may be low.

Policy Background: The PUP was introduced to help insulate households from income losses as a result of measures taken to reduce the spread of COVID-19. The PUP is available to employees and the self-employed who lost their job on or after 13 March as a result of the pandemic. It remains open to applications until end-2020.

The payment has undergone several changes since it was introduced. Currently, there are four rates (with the latest changes effective from 16 October):

- for earnings of €400 or more, the rate is €350;
- for earnings between €300 and €399.99 per week, the rate is €300 per week;
- for earnings between €200 and €299.99 per week, the rate is €250 per week; and,
- for earnings less than €200 per week, the rate is €203 per week (the same as the primary rate of Jobseekers' Benefit).

Revenue confirmed soon after the introduction of the payment that it was not tax exempt. However, no legislative provisions were made at that time. Revenue have since issued guidance on the tax treatment of the PUP.[8] Any tax owed can be paid partially, or in full, through an online facility. Alternatively, the amount owed can be collected by Revenue (free of interest) by reducing tax credits over a four-year period (beginning January 2022 and ending in 2025).

Policy Impact: This measure will offset a small portion of the Exchequer impact of the PUP. However, it will increase the tax burden of those in receipt of the payment (whether paid up-front or through a reduction in credits). While the liability will be small for most recipients of the payment, for some, it may be more significant i.e. higher earners who claimed the PUP for a short period of time.

5 *Employment in Sectors Most Exposed to the COVID-19 Pandemic*, PBO Publication 9 of 2020, Parliamentary Budget Office, 30 March 2020.

6 Based on the Single Person Tax Credit of €1,650 and the Employee PAYE Tax Credit of €1,650. Individuals may be entitled to other tax credits.

7 Revenue Commissioners (n.d.) *COVID-19 Pandemic Unemployment Payment (PUP) tax liability*.

8 *COVID-19 Pandemic Unemployment Payment (PUP) tax liability*, Revenue Commissioners (n.d.).

Section 4

Measure: An exemption from Income Tax for payments made under the Home Sharing Host Allowance.

Budget Measure: No

Description: This section provides for an exemption from Income Tax for carers in receipt of payment from the Health Service Executive (HSE) in relation to the Home Sharing Host Allowance (HSHA).

Cost/Yield: As this measure was not included in Budget 2021, no costing information was provided. However, there is likely to be a negligible cost in terms of revenue forgone from Income Tax.

Policy Background: Home Sharing is defined as the provision of care to people with an intellectual disability in the Home Sharing family's home. The support provided can be either short term (respite care) or long term (full time support) depending on need.

Payments to carers in these settings are made on behalf of the HSE. There are a range of structured and recommended payments as outlined in the Report of the National Expert Group[9] (2016), and Budget 2021 makes provision for an exemption from Income Tax in relation to these payments.

Policy Impact: This measure provides a legislative basis for the exemption from Income Tax for payments made under the HSSA scheme, ensuring that host carers are not penalised financially in providing care under the scheme, and removing a potential barrier to participation.

Section 5

Measure: An increase in the Dependent Relative Tax Credit.

Budget Measure: Yes

Description: This section provides for an increase of €175 in the Dependent Relative Tax Credit, from €70 to €245.

Cost/Yield: Budget 2021 estimates that this measure will cost €5.2m in 2021, and €5.9m in a full year.

Policy Background: The Dependent Relative Tax Credit was introduced to ease the burden of expense for those that care for relatives at their own cost. The dependent relative includes a spouse or civil partner, a widowed parent or the widowed parent of a spouse, or a son or daughter. The income of the dependant relative must not exceed a threshold of €15,060.

Further tax relief may also be applicable for an individual who covers the health expenses or the cost of nursing home fees for another person. It is not necessary to be in receipt of the Dependent Relative Tax Credit to claim this additional relief.

Policy Impact: This measure will provide additional relief to eligible recipients. The current level of the credit is relatively small (at €70). The effective quadrupling of the credit may encourage a more significant take-up.

9 *Home Sharing in Intellectual Disability Services in Ireland,* Report of the National Expert Group, Health Service Executive, 2016.

Section 6

Measure: An exemption from Income Tax for payments made by, or on behalf of, the HSE in respect of the Mobility Allowance scheme.

Budget Measure: No

Description: This section provides for an exemption from Income Tax for certain payments made by, or on behalf of, the HSE under the Mobility Allowance scheme. The Mobility Allowance is a means-tested monthly payment, paid to individuals with a disability and who are unable to walk or use public transport, but who would benefit from a change in surroundings. While the scheme is now closed, eligibility was determined in line with the following conditions:

- The individual is unable to walk, even with the use of artificial limbs or other suitable aids, or their health is such that the exertion required to walk would be dangerous;
- The inability to walk must be likely to last for at least a year,
- The individual must not be medically forbidden to move;
- The individual must be in a position to benefit from a change in surroundings;
- The individual must be living at home or in a long-term institution; and,
- The individual must pass a means test.

Cost/Yield: As this measure was not included in Budget 2021, no costing information was provided. There will likely be a negligible cost in terms of revenue forgone from Income Tax as a result of this exemption.

In terms of the cost of the scheme itself, as of July 2019, there were 3,831 people in receipt of the payment[10] with an estimated cost of €9 million *per annum*. Thus, the maximum level of revenue foregone would be in the region of €1.9 million (i.e. 20% of €9 million). However, as many recipients may have very low amounts of taxable income, the actual amount of revenue foregone is likely to be negligible.

Policy Background: The Mobility Allowance was introduced in 1979 by the Department of Health. While there is no specific legislation providing for the payment, it is payable under section 61 of the Health Act, 1970. The scheme closed to applications in 2013, however, a decision was made to continue payments on an interim basis to those who were still on the scheme at the time of closing. The scheme is due to be replaced by an alternative Transport Support Scheme.

Policy Impact: This measure provides a legislative basis for the exemption from Income Tax for payments made under the Mobility Allowance scheme, ensuring that there is no additional tax burden for those in receipt of the payment.

Section 7

Measure: An extension of the enhanced Help-to-Buy (HTB) scheme until the end of 2021

Budget Measure: Yes

Description: The HTB scheme is designed to assist first-time buyers in the housing market to acquire the deposit needed to fund the purchase of a home. The scheme is implemented through a rebate of the Income Tax and DIRT paid over the last four years.

10 *PQ 14932/20*, Parliamentary Question, 14 July 2020.

Under the Government's fiscal stimulus package in July,[11] the HTB scheme was enhanced on a temporary basis (for the remainder of 2020), to provide an increased relief up to €30,000 (from €20,000). This section provides for an extension of this enhanced relief by one year, until the end of 2021.

Cost/Yield: Budget 2021 estimates that this measure will cost €43m in 2021 and in a full year. This is in addition to the estimated €100 million that the HTB scheme, in its original form, was expected to cost in 2021.

Policy Background: The HTB scheme was originally introduced in Budget 2017 and was due to finish at end-2019. It was extended in Budget 2020 to end-2021. The July stimulus package enhanced the relief by increasing the threshold amount. The maximum rebate available is now 10% of the purchase price of a house (up from 5%) up to a limit of €30,000 (up from €20,000). This enhanced relief was due to cease at the end of 2020.

Policy Impact: An analysis by the PBO in 2019[12] found evidence of sizeable dead-weight in relation to the HTB scheme, and suggested that the scheme did not fulfil its original aims in an efficient manner. Specifically, some households who had claims approved for the HTB scheme, already had deposits of at least 10% accumulated.

This analysis also found that 21% of claims under the HTB scheme were for properties valued at over €375,000. This suggests that those benefiting from the scheme were households at the higher-end of the income distribution. Considering these findings, the decision to enhance and extend the scheme in this way, is questionable.

Section 9

Measure: An increase in the Earned Income Tax Credit.

Budget Measure: Yes

Description: This section provides for an increase of €150 in the Earned Income Tax Credit, from €1,500 to €1,650.

Cost/Yield: Budget 2021 estimates that this measure will cost €24m in 2021, and in a full year. The cost for 2020 is estimated to be €13m.

Policy Background: The Earned Income Tax credit was introduced in Budget 2016 for self-employed workers who do not have access to the PAYE Tax Credit. It was initially valued at €550, which was lower than the amount available to PAYE employees. This meant that self-employed workers paid more taxes than their PAYE counterparts earning the same income. The previous Government gradually closed the gap between the Earned Income Tax Credit and the PAYE Tax Credit over successive Budgets. This section would equalise the Earned Income Tax Credit with the PAYE Tax Credit.

Policy Impact: While this measure risks narrowing the Income Tax base, it does provide a level of parity between self-employed and PAYE workers in terms of access to tax credits.

11 *Minister Donohoe announced details of tax measures contained in the July Stimulus Plan*, Press Release, Department of Finance, 24 July 2020.

12 *An overview and analysis of the Help to Buy Scheme*, PBO Publication 51 of 2019, Parliamentary Budget Office, 25 September 2020.

Section 10

Measure: An increase in, and extension of, the Sea-going Naval Personnel Credit.

Budget Measure: Yes

Description: This section proposes to extend the Sea-going Naval Personnel Credit by one additional year, to include the 2021 assessment year. It further proposes to increase the amount of the credit available by €230, from €1,270 to €1,500, with effect from 1 January 2021.

Cost/Yield: Budget 2021 estimates that this measure will cost €0.5m in 2021, and in a full year.

Policy Background: This credit can be claimed by permanent members of the Irish Naval Service who have spent at least 80 days at sea in the immediately preceding year of assessment. The measure was intended to operate on a temporary basis, to be ultimately replaced by alternative measures, following future discussions on the conclusion of the public service stability wage agreement and in respect of recommendations from the Public Service Pay Commission report on the Defence Forces.[13]

Policy Impact: The measure was originally introduced to help address issues relating to recruitment and retention among the Defence Forces, and in recognition of the level of danger and hardship experienced by members of the Naval Service in the fulfilment of their duties.

However, using the tax system to address issues with the pay and conditions of specific public sector employees is questionable, and raises equity issues. It also obscures the cost of providing public services, as the cost of this credit is not accounted for in the Department of Defence's budget.

Section 11

Measure: A provision for the new COVID Restrictions Support Scheme (CRSS).

Budget Measure: Yes

Description: This section provides a legislative basis for the CRSS, which offers targeted support for businesses that have been significantly impacted by the restrictions implemented by Government in the effort to limit the spread of COVID-19.

Under the CRSS, businesses or persons who engage in a trade or partnership, are entitled to apply for support to Revenue for a cash payment (representing an advance credit for trading expenses) if they can demonstrate that their turnover is at or below 25% of their average turnover, for the preceding year of the claim. The maximum weekly payment is capped at €5,000 for each week where restrictions are in place, and the payment will only apply in respect of the time spent at Level 3 restrictions or higher. The scheme is scheduled to operate from 13 October 2020 to 31 March 2021.

Cost/Yield: Budget 2021 estimates that this measure will cost €40m for every week that the country is operating at Level 3 restrictions. No information was provided regarding the potential cost of the scheme while operating at higher levels.

13 *Dáil Éireann debate*, Vol. 989 No. 4, 19 November 2019.

Policy Background: To control the spread of COVID-19, the Government has enacted various measures aimed at reducing close personal contact. This includes mandatory closures or curtailments in respect of non-essential businesses. The CRSS is targeted at businesses that have been required to cease or restrict operations in this way.

Policy Impact: This targeted and temporary measure should assist businesses in remaining commercially viable for the duration of the period of restrictions, increasing the chances that they can return to full-trade once restrictions have eased.

However, where a business does not ordinarily operate from a fixed premises located in a region that is subject to restrictions, but supplies goods or services to other businesses operating in affected regions, that business would not qualify for the scheme. This provision could be particularly problematic for (among others) certain businesses operating in the events industry.

In addition, Budget 2021 documentation states that the cost of the CRSS in 2021 (if any) will be met from the National Recovery Fund. The CRSS is administered by the Revenue Commissioners, and the Exchequer tax returns for October were adjusted to set aside €550 million for CRSS payments in 2020. This means that the tax figures presented (specifically for Income Tax and Corporation Tax) were net of the provision for the CRSS. However, the National Recovery Fund was presented with the spending side of the Budget. It would be more transparent to list the CRSS as expenditure and present unadjusted tax figures when reporting on the Exchequer account.

Section 12

Measure: An extension of the acceleration of wear-and-tear allowances for certain energy-efficient equipment (EEE).

Budget Measure: Yes

Description: This section extends the scheme that provides accelerated capital allowances in respect of certain energy efficient equipment, by three years. With this extension, claims would be available up to accounting periods ending in December 2023.

These accelerated capital allowances are available to companies who purchase certain energy-efficient equipment for use in trade. Instead of receiving capital allowances over the standard period of eight years, capital allowances are "accelerated" and granted up-front in the first year. These allowances can be claimed in respect of 100% of the cost of the equipment.

To qualify for this scheme, equipment must be included in the list of energy efficient equipment as published by the Sustainable Energy Authority of Ireland (SEAI). However, equipment that is leased, let or hired, does not qualify for the allowance. The equipment must be owned by the business.

Cost/Yield: Budget 2021 estimates that this measure will cost €1m in 2021, and in a full year. The annual cost of the scheme at-large is estimated to be €4m.

In reality, in terms of the impact on tax revenue, this is a timing issue. These accelerated allowances would otherwise have been available over an eight-year period (rather than in a single year, i.e. the year of purchase).

Policy Background: In general, equipment that is used in trade is subject to a wear-and-tear depreciation allowance of 12.5% *per annum*. Finance Act 2008 introduced a scheme granting accelerated capital allowances to certain energy efficient equipment. This scheme provided capital allowances of 100% of the cost of the equipment in year-one. The Sustainable Energy Authority of Ireland (SEAI) maintains a list of permitted equipment.

The scheme was extended to sole traders and non-corporates in Finance Act 2016, while Finance Act 2018 introduced additional changes to the scheme, to reduce the cost of administration, and to allow for a more responsive approach by the SEAI when considering products eligible under the scheme.

The scheme was initially intended to run for three years, but has been extended three times, with a current expiration of end-2020.

Policy Impact: This scheme is intended to incentivise companies to purchase energy efficient equipment, to improve energy efficiency among Irish companies and to assist Ireland in meeting domestic and EU targets on energy and emissions.

Take-up of the scheme has increased dramatically in recent years. A review of the scheme published alongside Budget 2021,[14] indicates a cash-flow cost of €3.7m in 2018 among 776 claims, versus a cash-flow cost of just €0.9m in 2016, among just 71 claims. The review concluded that the scheme has had a positive impact in developing a market for sustainable technologies, improving competitiveness and cash-flow for participating businesses, and in reducing energy usage and associated emissions. The review recommended an extension of the scheme to end-2023.

Section 16

Measure: An increase in the rate of Encashment Tax, and the introduction of an exemption from the tax for Irish tax-resident companies.

Budget Measure: No

Description: This section proposes to increase the rate of Encashment Tax from 20% to 25%, with effect from 1 January 2021. In addition, this section provides an exemption to the tax for Irish tax-resident companies. It further provides for certain details to be included with the Encashment Tax return, and the details to be retained by the chargeable person.

Cost/Yield: As this measure was not included in Budget 2021, no costing information was provided. The net revenue impact of this section is unclear. While the exemption from tax on payments made to Irish tax-resident companies will negatively impact on the level of Corporation Tax receipts, the increase in the rate (from 20% to 25%) could have an offsetting effect.

Policy Background: Encashment Tax is a withholding tax deducted from the income sourced from public revenue dividends[15] and from the dividends of a non-resident body. The tax is deducted by the individual responsible for the payment of the income.

Policy Impact: This measure would bring the Encashment Tax rate in line with the rate of Dividend Withholding Tax (which increased to 25% in Finance Act 2019).

14 *Budget 2021 – Report on Tax Expenditures*, Department of Finance, October 2020.

15 Public revenue dividends are dividends, interest and annuities payable from the public revenue of government or a foreign institution. See: *Encashment Tax – Revenue Commissioners*.

Measures relating to Corporation Tax

Section 17

Measure: An amendment in respect of the capital allowances available for certain intangible assets.

Budget Measure: Yes

Description: This section follows *Financial Resolution No. 4* (transposed on budget night), which provides that all intangible assets acquired on or after 14 October 2020, will be subject to a balancing charge on disposal.

This covers a range of intangible assets such as copyrights, trademarks, and patents. It is important to note that this change only applies in respect of specified intangibles acquired on or after 14 October 2020. The rule in place before this amendment, continues to apply to specified intangibles acquired before this date where they have been held for a period of more than five years.

Cost/Yield: No costing information was provided for this measure in Budget 2021. However, it is unlikely to yield substantial additional Corporation Tax revenue, given that it applies to purchases of newly acquired intangible assets, and given the natural depreciation of intangible assets over time.

Policy Background: Finance Act 2009 introduced Ireland's tax regime for intangibles. This regime permits a company to avail of allowances in respect of the cost of acquiring a range of intellectual property assets for use in trade. Generally, a balancing charge arises where an asset is sold and the amount of the sale exceeds any unused allowances.

Previously, a balancing charge did not arise where an intangible asset was held for more than five years. Under this section, regardless of how long the asset is held, a balancing charge may arise on disposal or when the asset is no longer used in trade.

Policy Impact: The Minister indicated on Budget day[16] that this measure will ensure that Ireland's tax regime for intellectual property is consistent with international best practice (an important consideration under the OECD BEPS initiative), while remaining competitive, legitimate and sustainable. This measure could also have a positive, but negligible, impact on the level of Corporation Tax receipts.

16 *Financial Statement for Minister Donohoe – Budget 2021*, Department of Finance, 13 October 2020.

Section 18

Measure: An extension of the Regional Film Development Uplift.

Budget Measure: Yes

Description: This measure would extend the period during which the uplift rate of 5% applies, until the end of 2021.

The regional uplift to the Film Tax Credit provides a time-limited benefit for production in certain areas (as designated under State aid regional guidelines) to support the development of local talent, beyond main production hubs.

The proposed extension would apply at the uplift rate of 5% for 2021, and tapered (3% in 2022, to 2% in 2023) to zero from 2023 onwards.

Cost/Yield: Budget 2021 estimates that this measure will cost €2m in 2021, and in a full year.

Policy Background: Prior to 2015, the Film Relief was an investor tax relief, granted *via* a deduction from income of the amount invested in the year in which the film investment was made.

Finance Act 2013 amended the scheme, and since 1 January 2015, the Film Relief is a tax credit of 32% that reduces Corporation Tax liability (should the credit exceed the tax due for the qualifying period, it will be a payable credit). The Credit is granted at a 32% rate of the lowest of: (1) eligible expenditure, (2) 80% of the total cost of production of the film, or (3) €70,000,000. The minimum amount that must be spent on the production is €250,000, and the minimum eligible expenditure to qualify for the credit is €125,000.

Budget 2019 introduced a "short-term, tapered regional uplift of 5%" for productions made in areas designated under State-aid regional guidelines (to be phased out on a tiered basis over four years).

Policy Impact: The Department of Finance published[17] a cost-benefit analysis of the film relief alongside Budget 2019. This analysis used data from 2015 to 2017 and found a net economic cost to society from the relief, of €72 million (for 2016). However, the report notes that this cost does not include the cultural dividends or other "unquantifiable benefits" that arise from the credit. The report recommended the collection of more detailed data to facilitate greater assessment of the scheme in future reviews.

The rationale for extending the regional uplift relief, as outlined by the Minister for Finance,[18] is that COVID-19 related restrictions have prevented regional productions from taking place in 2020. A detailed five-year review of the Film Relief was due to be begin in 2020 (in line with the Department's guidelines for the review of tax expenditures more generally). It may not be prudent to make further modifications to this scheme before this review has been finalised.

17 *Budget 2019 – Report on Tax Expenditures*, Department of Finance, October 2018.

18 *Financial Statement for Minister Donohoe – Budget 2021*, Department of Finance, 13 October 2020.

Section 21

Measure: An extension to the Knowledge Development Box relief.

Budget Measure: Yes

Description: This section proposes to extend the Knowledge Development Box (KDB) relief for a further two years, until end-December 2022.

The KDB relief provides for a deduction from Corporation Tax of 50% of qualifying profits, including profits arising from patented inventions, copyrighted software etc., in respect of the expenditure incurred in carrying out research and development (R&D) activities. This results in an effective rate of 6.25%.

Cost/Yield: Budget 2021 indicates that the annual cost of the KDB scheme is €14m (suggesting a total cost for this extension of €28m, assuming that take-up remains the same).

Policy Background: The KDB relief aims to support businesses in retaining and exploiting certain assets (such as patents and copyrighted software) that are developed through R&D activities carried out in the State. The objective of the relief is to encourage companies to develop intellectual property in Ireland and to engage in operations that represent high value-add for the economy (in both in the foreign-direct investment and domestic sectors).

The KDB relief was announced in Budget 2016. The scheme is subject to a sunset clause and is currently set to expire on 31 December 2020. Uptake of the KDB has been low to date. In 2016 and 2017, there were 12 and 13 claimants respectively, for a total cost of €25m. Provisional figures for 2018 suggest that there were less than 10 claimants in that year, for a total cost of €9m.[19] These figures contrast with the estimated annual cost of the scheme, of €50 million, when it was originally announced in 2015, and likely reflects that take-up has been poorer than expected.[20]

The Department of Finance's tax expenditure guidelines would imply that a tax expenditure of this size should be subject to a review within five years (which should then inform any decision to extend the scheme). However, the sunset clause underpinning this relief is due to expire at end-2020, requiring a more immediate consideration of the measure.

Policy Impact: The TSG Paper for Corporation Tax[21] recommends an extension of the relief with a review to be conducted in 2022 when more complete data is available (i.e. data for the four years from 2016 to 2019, and partial data for 2020). This would allow greater insight into the cost and the effectiveness of the relief. At present, the limited data available in respect of KDB claims means that a substantive economic analysis of the measure cannot be carried out. However, the limited take-up of the relief to date may itself be indicative of the effectiveness (or otherwise) of the measure.

The TSG paper further states that the announcement of a two-year extension would provide greater certainty for businesses, in an otherwise challenging environment, given the impact of COVID-19 and the forthcoming end to the Brexit transition period.

19 *TSG 20-03 Corporation Tax* – Tax Strategy Group Papers, Department of Finance, 14 September 2020.

20 Department of Finance (2015) *Summary of 2016 Budget Measures* – Policy Changes.

21 Ibid.

Measures relating to Capital Gains Tax

Section 23

Measure: An amendment to the Capital Gains Tax Entrepreneur Relief.

Budget Measure: Yes

Description: The Entrepreneur Relief offers a reduced rate of Capital Gains Tax (CGT) when an individual is disposing of their business assets. To qualify for the relief, the individual must hold at least 5% of the company for a continuous period of three years in the five-year period immediately prior to the disposal. The gains from the disposal are then charged a rate of 10%, rather than the normal rate of 33%, subject to a lifetime limit of €1m.

This section proposes to amend the Entrepreneur Relief (with effect from 1 January 2021), so that an individual who held at least 5% of the shares in a qualifying company or group of companies for a continuous period of any three years would qualify (i.e. the requirement for assets to be held for three of the five-years immediately preceding the disposal would be relaxed). All other qualifying criteria for the scheme would remain unchanged.

Cost/Yield: No costing information was provided for this measure in Budget 2021. However, this amendment will likely broaden eligibility for the scheme and therefore increase take-up, resulting in a greater cost in terms of revenue foregone.

Policy Background: The Entrepreneur Relief was introduced in Budget 2016. The scheme applied a Capital Gains Tax (CGT) rate of 20% to chargeable gains arising on the disposal by an individual of business assets, up to a lifetime limit of €1m. In Budget 2017, the CGT rate to be applied was reduced to 10%.

Policy Impact: The CGT Entrepreneur Relief is intended to improve the environment for individuals setting-up or carrying out productive business activity in the State. It also aims to incentivise entrepreneurial investment in the Irish economy.

A review of the relief by Indecon was published alongside last year's budget.[22] This review found that the policy objectives of the relief remain valid, and recommended that the relief be retained. However, it further recommended several changes, including a significant increase in the lifetime limit, and an adjustment to the 5% ownership criteria. The review also recommended that the information required from claimants be refined to facilitate future evaluation of the scheme, and suggested that any changes to the relief by reviewed after three years. However, these additional recommendations do not feature in the Finance Bill.

22 *Report on Tax Expenditures – Budget 2020*, Department of Finance, 8 October 2019.

Measures relating to Excise Duty

Section 25

Measure: An increase in the Excise charged on tobacco products (i.e. Tobacco Products Tax).

Budget Measure: Yes

Description: This section follows *Financial Resolution No. 1* (transposed on budget night), which, effective from 14 October, increased the Excise charged on tobacco products, by 50 cent (including VAT) on a pack of 20 cigarettes, with *pro rata* increases on other tobacco products.

This increase brings the price of a pack of 20 cigarettes, in the most popular price category, to €14.00. The Minimum Excise Duty charged on cigarettes also increased and applies at the rate applicable to a pack of 20 cigarettes sold at €11.50. In other words, any pack of 20 cigarettes priced below €11.50 will be subject to Excise Duty as though it was priced at €11.50.

Cost/Yield: Budget 2021 estimates that this measure will raise €57m in 2021, and €57m in a full-year. It is worth noting that this yield is the upper-end of a range of potential estimates published by Revenue (ranging from -€39m to +€55m). This range captures the uncertainty inherent in costing a policy-change that has implications for consumer behaviour (i.e. it is theoretically possible that the higher price reduces consumption, and actually leads to a fall in revenue raised). That said, the demand for tobacco products tends to be relatively inelastic (or resistant) to price increases.

Policy Background: Ireland has among the highest rates of Excise on tobacco products in the EU, and rates have increased consistently in successive budgets over the last 20 years.[23] More specifically, increases of 50 cent have been introduced on a pack of 20 cigarettes in each of the last five budgets (with at least *pro rata* increases applied to roll-your-own tobacco products). With this, the average price of tobacco has increased by roughly 20% in the three years from March 2017 to March 2020 alone.[24]

Despite these tax increases, the tax content as a percentage of the price for a pack of 20 cigarettes in the most popular price category, has remained constant at around 79%. This reflects the fact that margins for the tobacco trade have also increased, with the trade content as a proportion of the price remaining constant at roughly 21%.[25]

Approximately €1.1bn was raised from Excise on tobacco products in 2019, with €1.2bn forecast for 2020.[26]

Policy Impact: In addition to raising revenue, Excise is generally applied to disincentivise an activity with negative personal or societal impacts ("externality" effects). This is achieved by increasing the cost of consumption for certain products, thereby encouraging a change in behaviour.

23 Apart from Budget 2005, Budget 2006 and Budget 2010.

24 *General Excise Paper*: Tax Strategy Group – TSG 20/08, September 2020.

25 Ibid.

26 Ibid.

Smoking is the leading cause of preventable death in Ireland (at nearly 6,000 deaths annually).[27] Excise on tobacco products is a means of reducing smoking prevalence, with a target of 5% set in the Programme for a Partnership Government, to be achieved by 2025. Prevalence was estimated at 17% in 2019, a reduction from 23% in 2015.

It is worth noting that an increase in price could encourage illicit trade in tobacco products. The Department estimates a (notional) loss to the Exchequer of approximately €242m for 2019 due to consumption of illegal cigarettes. In addition, the scope for additional revenues arising from subsequent increases in Excise on tobacco may be limited – while demand for tobacco products is relatively price inelastic, persistent price increases may eventually reduce overall consumption to the point that additional tax increases actually lower revenues raised.

Section 26-28

Measure: An increase in the Carbon Tax (relating to mineral oil, natural gas, and solid fuel).

Budget Measure: Yes

Description: This measure provides for annual increases in the rate of tax on carbon, out to 2030. Specifically, for:

- Mineral Oil – This section follows Financial Resolution No. 2 (transposed on budget night), which increased the rate of Mineral Oil Tax on auto-fuels from 14 October. This section provides for ten annual increases in the carbon component of Mineral Oil Tax, based on a schedule that would see an additional €7.50 applied per tonne of carbon dioxide emissions in each of nine years, and an additional €6.50 per tonne applied in the tenth year (with a rate of €100 per tonne of emissions effective from May 2030);
- Natural Gas & Solid Fuel – This section also provides for an annual increase in the rate of tax on carbon in respect of natural gas and solid fuel, beginning in May 2021 and ending in 2030. These increases involve an additional €7.50 per tonne of carbon dioxide out to 2029, with an additional €6.50 per tonne in 2030.

Cost/Yield: Budget 2021 estimates that this measure will raise €108m in 2021, and €147m in a full year (as outlined above, the increase will only apply to non-auto fuels from May 2021). It should be noted that measures such as the Carbon Tax are generally intended to encourage a behavioural change (i.e. to reduce consumption of carbon-emitting fuels) rather than to raise substantial revenues. If the measure is effective, revenues raised should generally decline over time (all else being equal).

Policy Background: A tax on carbon was first introduced in Budget 2010 on foot of a recommendation by the Commission on Taxation. The tax was first applied to petrol and diesel (at a rate of €15 per tonne) but was ultimately expanded to other liquid (from 2010) and solid (from 2013) fuels.

The rate was increased to €20 per tonne in 2012, with an increase to €26 per tonne announced with Budget 2020. The current Programme for Government (June 2020) sets out the Government's intention to increase the Carbon Tax to €100 per tonne by 2030. Total receipts for Carbon Tax were €431m in 2019 and are projected to be €455m in 2020.[28]

27 Ibid.

28 *Climate Action and Tax*: Tax Strategy Group – 20/06, September 2020.

Policy Impact: The primary goal behind a tax on carbon, is to incentivise a behavioural change that reduces carbon-emitting activities. This tax also serves to broaden the sources of tax revenue (a recommendation by the European Commission in successive Country Specific Recommendations for Ireland).[29]

For illustrative purposes, the additional cost to consumers of this first annual increase, for a 60-litre fill of petrol and diesel, will be €1.28 and €1.47 respectively (including VAT). A 40kg bag of coal will increase by 90 cents, while 11,000 kwh of natural gas will increase by €16.96.[30]

While the Carbon Tax is a regressive measure (disproportionately impacting on lower-income households) and disproportionately affects those living in rural dwellings, recent analysis by the ESRI explores the ways in which revenues raised from the measure can effectively be used to mitigate the adverse impact of an increase on lower-income households (generally through increases in social welfare payment rates).[31]

The Government has committed to ring-fencing receipts raised from increases in the tax, to address issues related to fuel poverty, a just transition, and green farming. For 2021, the combined proceeds of the increases in the Carbon Tax for 2020 and 2021, and therefore, the funding available to address these issues, is projected to be €238m.[32]

Section 30

Measure: A waiver of the Excise on renewal of certain liquor licences, public dancing licences and certificates of registration of clubs.

Budget Measure: No

Description: This section provides a legislative basis for measures initially announced in a broader package of COVID-19-related supports for public houses, bars and nightclubs. Specifically, it proposes to waive the Excise Duty owed on the renewal of certain liquor licences in the licensing year 2020/2021, and in respect of the renewal of public dancing licences and certificates of registration of clubs in 2020.

Cost/Yield: As these measures were not included in Budget 2021, no costing information was provided. However, these measures were previously announced by Government (on 28 August) as part of a broader package of supports, which also included a waiver of Stamp Duty and court fees owed on licence renewal. Collectively, these supports were estimated to cost €9.4m.[33]

Policy Background: On 28 August, the Government announced a package of financial supports for pubs, bars and nightclubs to mitigate the impact of COVID-19, and to assist in planning and adaptation in advance of reopening the sector.

29 *2020 European Semester*: Country Specific Recommendation/Commission Recommendation – Ireland, May 2020.

30 *Climate Action and Tax*: Tax Strategy Group – 20/06, September 2020.

31 O'Malley, S., Roantree, B., and J. Curtis, 2020. *Carbon Taxes, Poverty and Compensation Options*, ESRI Survey and Statistical Report Series, Number 98.

32 *The Use of Carbon Tax Funds 2021* – Budget 2021, October 2020.

33 *Government announces €16m package for pubs, bars and nightclubs*, Press Release, 28 August.

The rate of Excise charged on the renewal of an on-trade licence is based on annual turnover (of alcohol sales only), while the Excise charged on the renewal of a public dancing licence is €155.

Policy Impact: The tourism and hospitality sector has been particularly negatively impacted by administrative restrictions imposed to curb the spread of COVID-19. The majority of pubs, bars and nightclubs have been effectively closed since March. This supportive measure will reduce the cost of renewal for licensees intending to trade in the next year. Approximately 8,000 publican liquor licences were issued in 2019.[34]

Section 32-34

Measure: Amendments to Vehicle Registration Tax and Motor Tax.

Budget Measure: Yes

Description: These sections propose new charging tables for passenger and light-duty vehicles, to reflect new Worldwide Harmonised Light Vehicle Testing Procedures (WLTP) for Carbon Dioxide (CO_2) emissions. There are also provisions for amendments to Nitrogen Oxide (NOx) tables. This section further proposes adjustments to the reliefs available for certain electric vehicles.

A €5,000 relief would remain for electric vehicles with an Open Market Selling Price (OMSP) of up to €40,000. However, a reduced rate would apply to cars in the €40,000 to €50,000 price range, while cars above €50,000 would no longer qualify for the relief. For new cars registered in the State after 1 January 2021, there would be a new motor tax table with an increased number of emissions bands. The existing CO_2-based table for cars would be amended with higher rates for the most polluting cars.

NEDC-tested cars registered outside the State in the period from July 2008 to 2020 inclusive, but registered in the State on or after 2021, would be subject to the existing CO_2-based table. For used imports which were subject to the WLTP test, the new WLTP table would apply.

Cost/Yield: No costing information was provided for these measures in Budget 2021. The net revenue impact of these changes is difficult to assess. While the adjustment to reliefs for certain electric vehicles should reduce the level of revenue foregone under this scheme, the amendment of existing CO_2-based tables, such that higher rates will apply to the most polluting cars, could increase revenues raised.

However, ultimately, the aim of linking VRT and Motor Tax to CO_2 emissions is to incentivise the transition to more climate-friendly vehicles. If successful, this can impact the amount of revenue generated.

Policy Background: Road traffic emissions are a recognised contributor to Ireland's Greenhouse Gas Emissions with private cars (accounting for 78% of vehicles registered in the State) contributing twice as much CO_2 as Heavy Goods Vehicles and Light Commercial Vehicles combined.

34 Revenue Commissioners (n.d.) *Excise Licences*.

The Climate Action Plan of 2019 sets a 2030 emissions reduction target of 50% of present levels, with a move towards having 550,000 Electric Vehicles and 290,000 Plug-in Hybrid Electric Vehicles on the road network.

The PBO published an analysis of the sustainability of Vehicle Registration Tax and Motor Tax in 2019,[35] which examines the revenue trends of these taxes. It concludes that the increasing movement towards low emitting cars with low rates of taxation has negatively impacted the level of revenue collected.

Policy Impact: Adjusting VRT and Motor Tax tables provides incentives for consumers to consider a move towards greener, lower-polluting vehicles. The adjustment to rates will align with EU standards and go some way towards supporting the move to meet stated CO_2 emissions targets for 2030. The move towards WLTP testing follows a move away from the discredited New European Driving Cycle (NEDC) testing.

In the longer-term, the sustainability of linking VRT and Motor Tax to CO_2 emissions (in terms of the revenue collected) will need to be reviewed, as electric vehicles' share of all vehicles increase over time.

35 *An Analysis of the Sustainability of Vehicle Registration and Motor Tax*, PBO Publication 50 of 2019, Parliamentary Budget Office.

Measures relating to VAT

Section 37

Measure: The application of the reduced 9% rate of VAT for the hospitality and tourism sectors.

Budget Measure: Yes

Description: This follows *Financial Resolution No. 3* (transposed on budget night) and is a targeted support measure that provides for a temporary reduction in the 13.5% rate of VAT to 9%, from 1 November 2020 to 31 December 2021, for the tourism and hospitality sectors.

More specifically, the reduced rate will apply to:

- The supply of restaurant and catering services;
- Guest and holiday accommodation;
- Entertainment services, such as admissions to cinemas, theatres, museums, fairgrounds and amusement parks;
- Hairdressers; and,
- The sale of printed matter such as brochures, maps and programmes.

Cost/Yield: Budget 2021 estimates that this measure will cost €336m from November 2020 to December 2021. A separate full- and first-year costing has not been provided.

Policy Background: Ireland's VAT laws must comply with the EU VAT Directive. This directs that Member States must apply a standard rate of 15% or more, and can apply up to two reduced rates of 5% or more. Ireland applies rates of 23% (temporarily 21%), 13.5% and 9% in this context. In addition, Member States may retain derogated historical VAT rates, where these rates were in place on and from January 1991 (Ireland's 0% and 4.8% rates, and some activity applying at the 13.5% rate, fit into this category).[36]

A 9% reduced rate was introduced and applied in respect of categories of goods and services previously chargeable at 13.5%, from July 2011 to December 2013. This included, amongst others, hairdressers, accommodation lettings, food sold in restaurants and many entertainment activities. This served as a stimulus measure for labour intensive sectors following the last economic and fiscal crisis.

This reduction was reviewed in advance of Budget 2013, wherein it was determined that there was mixed evidence of an impact on consumer prices, and evidence of employment gains in relevant sectors. The 9% rate was then retained in each subsequent budget,[37] until Budget 2019. The reduced rate was then restored to 13.5% for most goods and services, with effect from January 2019.[38]

36 *Value Added Tax*: Tax Strategy Group – 20/07, September 2020.

37 *Review of the 9% VAT Rate*: Analysis of Economic and Sectoral Developments, Department of Finance, July 2018.

38 It was retained for newspapers and periodicals and the provision of certain sporting facilities by non-charities.

With effect from 1 September 2020 (as part of the Government's fiscal stimulus package in response to the COVID-19 crisis, announced in July) the standard rate of VAT was reduced from 23% to 21%. This reduction will remain in place until end-February 2021.

In 2019, VAT accounted for 25% of all tax revenue (or approximately €15.1bn). Receipts are projected to reach €12.8bn in 2020, and €13.9bn in 2021.[39]

Policy Impact: While this measure risks reducing revenue,[40] it is targeted and temporary, and will provide support to sectors that have been most impacted by COVID-19 related restrictions. However, its success as a business support measure will ultimately depend on the severity and duration of current and future restrictions (i.e. on the extent to which economic activity will be curtailed in response to the virus). Ireland is currently at Level 5 of the Government's *Plan for Living with COVID-19*, with stringent controls in place for the hospitality and tourism sectors, and these restrictions are expected to continue until early December.

Section 38

Measure: Provision for an increase in the flat-rate addition for farmers.

Budget Measure: Yes

Description: This measure increases the farmer's flat-rate addition from 5.4% to 5.6% (with effect from 1 January 2021). In effect, this is the amount that is paid to flat-rate farmers, in compensation for the VAT incurred on the costs that they are unable to recover as they are not VAT-registered.

Cost/Yield: Budget 2021 estimates that this measure will cost €10m in 2021, and €12m in a full-year.

Policy Background: Flat-rate farmers are not required to register for VAT because of the nature of their business (i.e. they are engaged solely in agricultural production activities).

Generally, VAT can be reclaimed where it has been charged on inputs used in the productive process (e.g. business expenses). Flat-rate farmers are not entitled to recover VAT charged on their farming expenses (e.g. equipment and utilities) as they are not VAT-registered. Instead, these farmers are compensated by means of a flat-rate amount that is added to the price at which they sell their products to VAT-registered persons (e.g. to marts, meat factories etc.).[41]

This flat-rate addition has been amended multiple times over the last seven years. In Budget 2013 it was reduced from 5.2% to 4.8%. It was then increased to 5% in Budget 2014, with additional increases to 5.2% and 5.4% in Budget 2015 and Budget 2017 respectively.

Policy Impact: This will increase the amount added to the price at which flat-rate farmers sell their products to VAT-registered persons. As an example, if a flat-rate farmer sells a quantity of milk to a VAT-registered co-operative for €1,000, this increase in the flat-rate addition would increase the price that the co-operative is charged, from €1,054 to €1,056.

39 *Budget 2021 – Economic and Fiscal Outlook*, Department of Finance, 13 October 2020.

40 A recommendation by the European Commission in successive Country Specific Recommendations for Ireland has been to address the issue of tax base broadening.

41 *Other Farm Related Government Services*, Department of Agriculture, Food and the Marine, accessed 3 November 2020.

Section 42

Measure: Provision for the zero-rate of VAT to be applied to PPE and certain other medical supplies and equipment.

Budget Measure: No

Description: This measure provides a legislative basis for the temporary 0% rate of VAT to be applied in respect of the (domestic and intra-EU) supply of personal protective equipment (PPE), thermometers, hand sanitiser, oxygen, medical ventilators, specialist respiratory equipment, and other oxygen therapy apparatus, to the HSE and other health facilities (e.g. nursing homes, GPs) for use in the delivery of COVID-19 related health-care.

This zero-rating applies during the period between 9 April 2020 and 31 October 2020. This section also provides that the Minister must extend this period if the European Commission decides on an extension.

Cost/Yield: As this measure was not included in Budget 2021, no costing information was provided. While the measure will likely have a negative impact on the level of VAT receipts, the bulk of PPE will be purchased by the State through the HSE, and therefore, this revenue foregone would otherwise have been HSE expenditure.

Policy Background: As a Member State of the EU, Ireland's VAT laws must comply with the EU VAT Directive. This directs that Member States must apply a standard rate of 15% or more, and can apply up to two reduced rates of 5% or more. Ireland applies rates of 23% (temporarily 21%), 13.5% and 9% in this context.

In response to the COVID-19 pandemic, the European Commission granted flexibility on a temporary basis in relation to the VAT rate to be applied to certain relevant supplies. Following this, the Minister recommended that a zero-rate of VAT be applied in respect of certain medical supplies to health-care providers, and this was adopted by Revenue in April.[42]

Policy Impact: This measure should aid in the delivery of COVID-19 related front-line medical services during the pandemic. This measure will relieve the VAT burden on the price of purchasing PPE and other relevant equipment used by front-line health-care workers. In particular, the zero-rating will benefit health-care providers that cannot recover VAT on such supplies, due to their VAT-exempt status (i.e. nursing homes).

Section 44

Measure: Provisions to align domestic VAT legislation with the EU's VAT Directive, and amendments to VAT rates applied to specific products and services.

Budget Measure: No

42 *Revenue confirm zero rate of VAT will apply to domestic supply and intra-EU acquisition of PPE during COVID crisis*, Revenue Commissioners, Press Release, 17 April 2020.

Description: This section provides for closer alignment between domestic VAT legislation and the EU's VAT Directive. It further includes changes to the VAT rate applied in respect of specific goods, including:

- Candles – the standard rate of VAT (currently 21%) will apply to all candles (with effect from 1 January 2021);
- Sanitary products – the reduced rate of VAT (13.5%) will apply to certain sanitary products (with effect from 1 January 2021);
- Amusement parks – the reduced rate of VAT (13.5%) will apply to admission fees for amusement parks.

Cost/Yield: As these measures were not included in Budget 2021, no costing information was provided. The application of the standard rate of VAT to all candles will have a positive, but negligible, impact on the level of VAT receipts, while the application of the reduced rate to certain sanitary products and to entry fees for amusement parks, will have a negative, but negligible, impact on VAT receipts.

Policy Background: At present, certain types of candles qualify for the zero rate of VAT (specifically, those that are white and cylindrical).[43] The proposed application of the standard rate of VAT follows the outcome of a relatively high-profile case that was taken to the Tax Appeals Commission, in relation to the type of candle to which the zero rate could apply.[44]

Currently, a zero rate of VAT also applies to certain sanitary products. As outlined elsewhere in this document, Ireland's VAT laws must comply with the EU VAT Directive. Under EU rules, a reduced rate of between 5% and 15% may be applied to certain specified products (up to two reduced rates may be applied). Ireland applies rates of 23% (temporarily 21%), 13.5% and 9% in this context. However, Member States may also retain derogated historical VAT rates where these rates were in place on and from January 1991 (Ireland's 0% rate on specific sanitary products fits into this category). This section provides for the reduced rate of VAT, at 13.5%, to apply to specific (previously unnamed in legislation) sanitary products, including menstrual caps, plants and sponges.

Policy Impact: These measures could make certain types of candles more expensive for consumers, and could reduce the cost of a broader range of sanitary products (albeit, these products will still be charged at a higher rate relative to the current zero-rating applied to others). The aggregate impact on tax revenues is likely to be negligible.

43 *VAT Rates*, Revenue Commissioners, accessed 3 November 2020.

44 *119TACD2020 – VAT*, 29 May 2020.

Measures relating to Stamp Duties

Section 47

Measure: A two-year extension to the relief from Stamp Duty relating to the consolidation of farm holdings.

Budget Measure: Yes

Description: This section provides for an extension to the Stamp Duty relief that can be claimed in respect of the consolidation of farm holdings. The extension would be for a period of two years (until end-December 2022), and is subject to a commencement order.

This measure allows for a 1% rate of Stamp Duty (as opposed to the general rate of 7.5%) to be applied in respect of a land transaction, where the transaction qualifies for a "Farm Restructuring Certificate" for the purposes of Capital Gains Tax relief. It applies in relation to instruments conveying or transferring agricultural land, executed between January 2018 and December 2020. Where there is a purchase and sale of land within 24 months (two years) of each other, that satisfy the conditions of consolidation, then Stamp Duty will only be paid to the extent that the value of the land that is purchased exceeds the value of the land that is sold (both the purchase and sale must occur between 1 January 2018 and 31 December 2020).[45]

Cost/Yield: No costing was provided for this measure in Budget 2021. However, it likely carries a negligible cost in terms of revenue foregone as a result of the extension of the period during which the reduced rate of Stamp Duty may apply.

The Tax Strategy Group Paper for Stamp Duty (published in advance of Budget 2021) indicates that the relief cost €0.3m in 2018 and €0.6m in 2019 (with 45 and 90 claims respectively).[46]

Policy Background: This relief was reintroduced in Finance Act 2017 (having previously expired in June 2009). A review of the relief included alongside Budget 2021,[47] indicates that the relief was reintroduced to mitigate the impact on the farming sector of the increase in the rate of non-residential Stamp Duty from 2% to 6% (announced in Budget 2018). This rate was increased further to 7.5% in Budget 2020.

The review recommended a two-year extension to the relief (aligning the renewal date of the relief with the equivalent Capital Gains Tax relief).

Policy Impact: This relief is one of several that are intended to encourage the consolidation of farming lands. The fragmentation of farming land is costly and can reduce operational efficiency (e.g. through additional time and labour required in tending to land and in the movement of stock and machinery).

45 *Farm Restructuring Guidelines*, Department of Agriculture, Food and the Marine.

46 *Stamp Duty*: Tax Strategy Group – 20/11, September 2020.

47 *Budget 2021 – Report on Tax Expenditures*, Department of Finance, October 2020.

This measure is intended to make the process of farm restructuring more efficient, and to provide for more operationally efficient holdings in general. It removes a tax barrier to farm consolidation, which itself, can also have a positive environmental impact, *via* a reduction in the carbon emissions achieved by farmers spending less time travelling across a more consolidated holding.[48]

Section 48

Measure: Provisions to extend the scheme granting a partial refund of Stamp Duty where land is developed for residential purposes.

Budget Measure: Yes

Description: This section provides for an extension of the scheme that grants a partial refund of Stamp Duty in respect of land developed for residential purposes. It proposes to extend the period allowed for the completion of construction, from 24 to 30 months, and also to extend the duration of the relief by one year (it would then apply to construction projects that commence before 31 December 2022). These measures follow a review of the scheme published alongside Budget 2021.[49]

Cost/Yield: No costing was provided for this measure in Budget 2021. However, a review of the scheme published alongside the Budget estimates that the amount refunded in each of 2019 and 2020, was €9.1m and €6.9m respectively (with 954 and 864 refunds paid in each of these years).[50]

Policy Background: This measure was originally introduced in Budget 2018 to provide a mechanism whereby non-residential land, that is subject to the higher rate of Stamp Duty (originally 6% but subsequently increased to 7.5% in Budget 2020), but that is subsequently developed for residential purposes, can secure a refund of the Stamp Duty paid.

The refund is granted in a way that brings the effective Stamp Duty rate down to a minimum of 2% and may be sought once construction on the relevant units begins.

Policy Impact: This scheme was designed to ensure that the increased rate of Stamp Duty on non-residential property, announced in Budget 2018 (and further increased in Budget 2020), would not contribute to house price inflation *via* increases in the cost of acquiring land for housing development. The scheme was also designed to assist in the timely delivery of new residential accommodation. The review of the scheme published alongside Budget 2021 claims that (up to 29 September 2020) it contributed to the delivery of 8,579 new housing units.

48 Ibid.
49 Ibid.
50 Ibid.

Section 50

Measure: An increase in the Bank Levy from 170% to 308%.

Budget Measure: No

Description: This section provides for an increase in the levy charged to certain financial institutions on the level of DIRT (Deposit Interest Retention Tax) paid in 2019 (the base year), from 170% to 308%. These changes do not affect the DIRT paid by individual savers.

Cost/Yield: This measure is not expected to raise any additional revenue. Instead, it is designed to ensure that the historic yield of €150m is maintained for 2021.

Policy Background: The Financial Institutions Levy (or Bank Levy) was initially introduced in 2014 for a three-year period. The rate was calculated as 59% of DIRT payments and generated €150 million. DIRT receipts have fallen since the levy was introduced, partly related to lower interest rates and a lower DIRT rate. To keep the yield at €150 million, the rate of the levy increased to 170% of DIRT payments made in 2017, under Budget 2020.

Policy Impact: The tax base for this levy is the interest paid on deposits. While the levy rate will increase, the revenue generated will remain at the existing level. However, if individual institutions have grown their market share and hold more deposits than they did previously, they will pay a larger levy. Similarly, with interest rates in some institutions being reduced to negligible levels, if the levy yield is to be maintained without disproportionately affecting individual institutions, the basis for the tax may need to be reviewed.

Section 51

Measure: An extension of Stamp Duty Consanguinity Relief (in respect of sales or transfers of farmland between blood relatives) by three years.

Budget Measure: Yes

Description: This section provides for a three-year extension of the consanguinity relief, which applies in respect of the Stamp Duty charged on sales and transfers of farmland between certain blood relatives (from 31 December 2020 to 31 December 2023).

This relief provides for the application of a 1% rate of Stamp Duty, where there is a transfer of agricultural land (by sale/purchase, exchange, or gift) between close relations, or specifically:

- A lineal descendent (child, step-child, grandchild etc.);
- Parent, step-parent and grandparent;
- Husband, wife and civil partners;
- Brother, sister, step-brother and step-sister;
- Aunt and uncle; and
- Nephew and niece.

Cost/Yield: No costing was provided for this measure in Budget 2021. However, a review of the scheme published alongside the Budget estimates that the amount in revenue foregone in 2018 and 2019, was €22m and €29m respectively (with roughly 1.7K claims made in each year). Assuming that take-up remains unchanged, this extension could cost roughly €76.5m over the three-years.

Policy Background: Historically, consanguinity relief was a means of allowing the transfer of land within families (either residential or non-residential), while being relieved of half of the applicable rate of Stamp Duty (i.e. if the full rate was 6%, then those qualifying for the relief paid 3%). It is part of a broader package of measures designed to encourage intergenerational transfers of farmland.

Finance Act 2011 removed residential property from the relief. The relief was confined to non-residential property until 1 January 2015, and to farmland thereafter. The relief was originally only applicable where the owner of the land was below 67 years of age. This limit was designed to encourage farmers approaching retirement age to transfer their land to a younger generation within their family, rather than waiting to do so later in life. The 2017 Act abolished this limit.

The extension of the relief provided for in this section follows a review of the scheme published alongside Budget 2021, wherein an extension was recommended.[51] The review further recommended a consideration of the re-introduction of the age limit, to be decided on in advance of next year's Finance Bill.

Policy Impact: The review of the scheme, published alongside the Budget, shows that, in the majority of EU countries, the average age of farmers is increasing and that the number of farmers under 40 years of age is decreasing. There are concerns that this will negatively impact on the farming sector, as younger farmers are associated with relatively more efficient farming practices.

The review further argues that, without the consanguinity relief, the Capital Acquisitions Tax Agricultural Relief which reduces the market value of "agricultural property" by 90% in assessing tax liability on a gift or inheritance, could act to incentivise the deferral of intra-family transfers. In effect, the consanguinity relief for Stamp Duty acts as a counterweight to this, by helping to encourage and support the transfer of land to younger generations of farmers.

51 Ibid.

Miscellaneous Measures

Section 61

Measure: Provision for the inclusion of certain proprietary directors within the scope of the Employment Wage Subsidy Scheme.

Budget Measure: No

Description: This section provides a legislative basis for the inclusion of proprietary directors under the Employment Wage Subsidy Scheme (EWSS). This follows a decision by the Minister in August to expand the eligibility criteria, to permit certain proprietary directors to access the scheme.[52]

Cost/Yield: As this section provides a legislative basis for a policy that was already in effect (on an administrative basis), there is no additional cost arising from the measure. The inclusion of proprietary directors in the EWSS in general, will likely increase the cost of the scheme.

Policy Background: A proprietary director is a director of a company who is the beneficial owner of the company, or who is able (directly or indirectly) to control more than 15% of the ordinary share capital of the company.

Previously, proprietary directors were excluded from the wage subsidy scheme under the Emergency Measures in the Public Interest (COVID-19) Act 2020. As the co-owner of a company, proprietary directors were not considered to be in vulnerable employment.

Following a decision by the Minister regarding the inclusion of proprietary directors where they meet the objective of the scheme (of retaining ordinary employees on the payroll),[53] Revenue issued guidance on eligibility in August 2020. Specifically:

- The employer must meet the eligibility criteria for the EWSS;
- The proprietary director must be on the payroll of the eligible employer;
- The proprietary director must have been paid wages which were reported to Revenue on the payroll of the eligible employer, at any stage between 1 July 2019 and 30 June 2020; and,
- Where a person is a proprietary director of two or more eligible companies, a claim for the EWSS can only be submitted in respect of a single company.

Policy Impact: The inclusion of proprietary directors will benefit smaller business owners in particular, for whom the wage subsidy is a substantial portion of income. Approximately 40,000[54] businesses have registered for the EWSS. More than one proprietary director of a business may be eligible for the scheme.

52 *Revenue confirms certain proprietary directors can claim EWSS from 1 September*, Revenue Commissioners, 31 August 2020.

53 *Minister Donohoe reinstates Proprietary Directors to the Employment Wage Subsidy Scheme*, Department of Finance, 31 July 2020.

54 *Revenue provides details of changes to rates of Employment Wage Subsidy Scheme*, Irish Examiner, 21 October 2020.

Section 62

Measure: Provision for the warehousing of excess payments made to employers under the Temporary Wage Subsidy Scheme (TWSS) which must be refunded to Revenue.

Budget Measure: Yes

Description: This section provides for the warehousing of excess TWSS payments to employers who, as a result of the COVID-19 pandemic, are unable to pay relevant PAYE and TWSS returns.

Small and medium enterprises (SMEs) whose tax affairs are dealt with in Revenue's Business Division or Personal Division, will qualify automatically, while other employers must notify Revenue that they are unable to repay. Employers will be required to continue to file returns and to comply with their other tax obligations, in order to avail of a reduced interest rate of 3% *per annum* on repayments (in Period 3). If an employer does not meet the conditions for debt warehousing, the benefit of the reduced rate will not apply, and interest of 8% *per annum* will be re-imposed.

Cost/Yield: No costing was provided for this measure in Budget 2021. However, there will likely be some revenue foregone due to the application of the reduced rates of interest on the warehousing of refundable payments. In addition, some businesses may, due to insolvency, fail to repay the monies owed.

Policy Background: The Emergency Measures in the Public Interest (COVID-19) Act 2020 provided a legislative basis for the warehousing of unpaid VAT and PAYE debts owed to Revenue. However, prior to this, Revenue suspended debt collection and the charging of interest on late payments in March, in response to challenges facing businesses because of COVID-19.

This section provides a legislative basis for the extension of warehousing provisions to include excess Temporary Wage Subsidy Scheme Payments (TWSS) that are received by an employer, but which must be refunded to Revenue.

Policy Impact: The recent escalation to Level 5 restrictions risks exacerbating cash-flow issues already facing businesses as they continue to navigate the COVID-19 pandemic. If employers have been over-paid subsidies by Revenue under the TWSS, this measure should help to mitigate the impact that repayments might have on the financial position of affected firms.

Section 63

Measure: Provision for the warehousing of Income Tax payable through self-assessment (including the balance of tax due for 2019 and the preliminary tax due for 2020).

Budget Measure: Yes

Description: This section provides for an expansion of debt warehousing measures to include self-assessed income tax (including the balance of tax due for 2019 and the preliminary tax due for 2020).

These provisions would apply where a taxpayer, due to COVID-19 restrictions, expects to experience a reduction of at least 25% in their income for 2020 (when compared to their income for 2019). The provisions further allow for an individual who did not have self-assessed income in 2019, to warehouse tax due for 2020 and the preliminary tax due for 2021, where they are unable to pay due to the adverse impact of restrictions.

In line with the warehousing of PAYE, following the completion of Period 1, a zero-rate of interest will be applied for 12 months (Period 2), and on the completion of Period 2, interest will be charged at the reduced rate of 3% *per annum* until the debt is paid in full (Period 3).

In order to access this scheme, a taxpayer is required to declare that:

- they estimate their total income for 2020 will be less than 75% of their total income for 2019; or
- they are unable to pay the tax that is owed, where they do not have self-assessed income for 2019; and;
- the decrease or the inability to pay, is as a result of public health restrictions (as provided for in regulations made under the Health Act 1947).

Cost/Yield: No costing was provided for this measure in Budget 2021. However, there will likely be some revenue foregone due to the application of the reduced rates of interest on the warehousing of payments. In addition, some individuals may, due to insolvency, fail to repay the monies owed.

Policy Background: The Emergency Measures in the Public Interest (COVID-19) Act 2020 provided a legislative basis for the warehousing of unpaid VAT and PAYE debts owed to Revenue. However, prior to this, Revenue suspended debt collection and the charging of interest on late payments in March, in response to challenges facing businesses because of COVID-19. This section would extend these warehousing provisions to include self-assessed Income Tax.

Policy Impact: This measure should help to mitigate the impact of COVID-19 restrictions on the cash-flow position of the self-employed.

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