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Budgetary Issues in the Finance Bill 2022

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Séanadh

Disclaimer

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Finance Bill 2022 gives effect to tax measures announced in Budget 2023. 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.

In the sections that follow, measures are either described as a 'Budget Measure' or not. Measures that are not described as being a 'Budget Measure' are those that were not announced in Budget 2023, and are either being introduced with Finance Bill 2022, or were possibly announced earlier this year (e.g. through previous announcements or public consultations).

Note that as this paper is intended to assist Members in their scrutiny of measures contained in Finance Bill 2022, it is structured in line with the format of the Bill itself.

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 or to clarify existing measures or features of the tax code. In addition, the Bill gives effect to certain measures that were announced in advance of Budget 2023. Six Financial Resolutions were published alongside Budget 2023 and were subsequently approved by Dáil Éireann. One of these was a general resolution that is used to continue the Dáil debate on Budget 2023. The other Financial Resolutions concerned: the extension of the reductions of mineral oil tax on petrol, diesel and marked gas oil; the continued reductions on VAT on gas and electricity; increased excise on tobacco products; a reduction in fees for special exemption orders; and an increase to the small benefit exemption.[1]

Where possible, the Parliamentary Budget Office (PBO) have endeavoured to provide information on the cost or yield of a measure or a policy change, as estimated by the Department of Finance. 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 2023 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.

It should be noted that, in certain sections, the PBO have provided an estimate from sources other than Budget 2023. This is due to the Department not providing an estimate for certain measures which are "in the base" (see section below on this issue.) The PBO provided estimates from other government sources for the measures which were not counted, and cumulatively, this is approximately €270 million more than the announced tax package.

1 *Financial Resolutions arising from Budget 2023*. Financial Resolutions are must be passed by the Dáil on Budget Day in order to give effect to the taxation proposals for the coming year, pending the enactment of the Finance Act.

A note on the costing of budgetary policies

Providing accurate and detailed policy costings is fundamental for Members to engage in effective budgetary scrutiny. If Members are to provide meaningful oversight of budgetary policy, it is important that they are provided with an analysis of the financial implications of budgetary measures.

Generally, new measures or policy changes that are included in the budget are costed, with these costings feeding into the overall size of the budget package for tax and spending measures. For Budget 2023, the “core” tax package is expected by the Department to cost approximately €1.1 billion (on a net basis). While some of the measures introduced in the budget are implemented on budget night in the form of financial resolutions (e.g. market sensitive policy changes to VAT and Excise), the rest are included in the Finance Bill each year.

The Department generally publishes a “point estimate” of the cost (or yield) of new tax measures on a first- and full-year basis. This information is provided on budget day.

The PBO has, in the past, issued several recommendations regarding the costings process and the provision of costings information by the Department to Members.

Firstly, the PBO would welcome more detailed information on the analysis underpinning budgetary costings. By providing only a point estimate, it is not possible to infer the approach that was taken in determining that estimate, or the uncertainty inherent in the estimate. The PBO would welcome more detailed information on:[2]

- The data that was used and the source of this information;
- The estimation and projection method that was used, including underpinning calculations; and,
- The sources of uncertainty affecting the accuracy of the cost estimate (including, for example, the provision of a range of possible estimates to reflect this uncertainty).

The provision of the above information on the costings of new measures and policy changes introduced in the budget, would enhance parliamentary scrutiny and oversight of the budgetary process.

Secondly, the PBO would welcome the publication of multi-annual costings, as opposed to costings on a first- and full-year basis only. This is particularly important for tax policy changes that will largely take effect beyond the current costing horizon (e.g. the decision to extend a measure by two or more years)[3], or for those that are likely to become more costly year-on-year (e.g. measures for which take-up may initially be very low).

Finally, tax policy costings should include, where practicable, the consideration of behavioural impacts, interaction effects with other measures, and broader macroeconomic impacts, as part of the costings process. While quantifying these factors can be challenging, a qualitative assessment of their potential impact would be welcome and would mark an improvement in current practice.

2 For more information on the uncertainty inherent in policy costing, see: *Uncertainty Challenges in Budgetary Costing Analysis*, PBO, 23 August 2022.

3 For example, Finance Bill 2022 would extend the Knowledge Development Box by four years.

Overall, the PBO believes that the transparency of budgetary costings could be improved by the publication alongside the budget of a separate document dedicated to policy costings. As an example, the Treasury in the UK produces a document[4] that provides costings of policies that have a fiscally significant impact on the public finances, setting out this impact over a five-year period, as well as the assumptions and methodologies underlying the costings, and highlighting the main areas of uncertainty.

"In the base"

In Budget 2023, Tax Policy Changes, there are a number of items with "nil" cost. The document states:

> *"Throughout this document, "nil" signifies that the cost of this item is already incorporated in the base, and as such its further extension incurs no additional cost in terms of budgetary planning."*[5]

The PBO asked the Department of Finance to explain what "in the base" meant, and why certain tax measures do not have a cost when they are extended, while others do. The Department responded stating *"'In the base' means that a measure is, from a budgetary arithmetic perspective, considered to be a structural i.e. non-temporary, part of the taxation system. If a measure has no sunset, or the sunset is not applied from a technical budgetary perspective, the measure is 'in the tax base'. In other words, there is no additional cost to extending the measure on Budget Day. The non-recognition of certain sunsets is the result of an accumulation of various pragmatic decisions taken at the time over many years whereby the Department have made a judgement call on the likelihood of a measure being extended or not. The reasons we have done this is purely from a technical prudential management perspective. From a tax forecast point of view, we have taken this approach so that we were not reliant on the revenue associated with the measure."*[6]

The PBO would draw this to Members' attention. This is relevant as it means the Department has chosen not to show the costs of all extensions and changes, but instead only some measures. It also means that, despite the expiry of certain measures and the need to pass legislation to extend these, the Department is assuming that these measures will be renewed from a budgetary perspective. **This is not good practice for transparency or tax policy. It means that Members do not get clear information on the consequences of their decisions during the tax policy process.** It also means that the Department are building in assumptions that certain tax measures will be extended, rather than awaiting the results of the Finance Bill legislative process. It further suggests that the Department is unlikely to be adequately reviewing and considering these measures when they are being extended, as the Department has already assumed the results of the decision-making process. This undermines proper scrutiny from the Department, and also undermines the parliamentary process.

4 For reference, see: *Spring Statement 2022 – Policy Costings*, HM Treasury, March 2022.

5 *Budget 2023: Tax Policy Changes*.

6 Email from the Department of Finance to the PBO, 27th October 2022.

Reviews

At Budget time, there were a number of tax expenditure reviews published. These included:

- A cost-benefit analysis of Section 481 Film Relief,
- An evaluation of the R&D Tax Credit,
- An evaluation of the Knowledge Development Box[7],
- A review of Help to Buy by Mazars[8], and
- A review of the USC concession for Medical Card Holders[9].

The total quantum of tax reviewed in Budget 2023 was €990 million, which was mostly related to the R&D tax credit (based on the most recent estimated costs of these tax expenditures.) Material from each review is included in the relevant section for each measure.

Finance Bill announcement of proposed further changes

Alongside the publication of the Finance Bill on 20th October 2022, the Department of Finance stated that a number of items announced on Budget day would be introduced at Committee or Report Stage. This is relatively unusual. These include provisions related to the Key Employee Engagement Programme, the introduction of a provision for Accelerated Capital Allowances for the construction of slurry storage, and the extension of a number of agricultural tax measures due to expire at end December 2022. The Department stated that these measures would be introduced a future stages of the Finance Bill due to *"the nature and extent of issues for which provision is being made in the Finance Bill, and the very complex nature of certain drafting requirements, and the need to align certain provisions with EU legislation"*[10]. This includes measures that are dependent on the outcome of negotiations at European level on the Agricultural Block Exemption Regulation (ABER), which is due to expire at the end of 2022 and is currently under review.[11]

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7 These first three reviews were all included in the *Report on Tax Expenditures 2022 (Incorporating outcomes of certain Tax Expenditure & Tax Related Reviews completed since October 2021)*.

8 *Review of Help to Buy* by Mazars.

9 *Review of the USC concession for Medical Card Holders*.

10 *gov.ie – Minister Donohoe publishes Finance Bill 2022 (www.gov.ie)*.

11 *EU State aid rules for agriculture, forestry and fishery (europa.eu)*.

Commission on Taxation and Welfare

The Commission on Taxation and Welfare, chaired by Professor Niamh Moloney, was established in April 2021 on foot of a commitment in the Programme for Government. The Commission was asked to review how best the taxation and welfare system can support economic activity and income redistribution, whilst promoting increased employment and prosperity in a resilient, inclusive and sustainable way and ensuring that there are sufficient resources available to meet the costs of public services and supports in the medium and longer term.

The Commission's report was published on 14th September 2022 and made a number of recommendations[12]. These included recommendations related to base broadening and tax equity. The Commission acknowledged that in the current environment of high inflation and cost-of-living pressures that these recommendations *"may, in the short-term, be challenging"* but noted *"[o]ur terms of reference... charged us to take a medium- to long-term view. We have therefore sought to look through the current difficulties to assess the longer-term needs of the State and the economy and to place the taxation and welfare systems on a sustainable basis to meet future needs."*

Notwithstanding the current constraints related to the high cost of living, it should be noted that many of the Commission on Taxation and Welfare's recommendations were not followed. For example, recommendations related to FED, SARP, R&D, VAT and Help to Buy were not followed. Recommendations that were followed related to the introduction of a LPT surcharge for properties that are vacant. More detail is provided in the relevant sections of this document.

12 *gov.ie – Report of the Commission on Taxation and Welfare (www.gov.ie)*.

Section 2

Measure: An increase in the 2% Universal Social Charge threshold and an extension of the reduced rate of Universal Social Charge for medical card holders for a further year.

Budget Measure: Yes

Description: This section provides for an increase in the 2nd Universal Social Charge ('USC') threshold (the rate which currently applies at 2%) of €1,625 from €21,295 to €22,920. It also extends the reduced rate of USC for those under 70 years whose individual annual income does not exceed €60,000 for a further year.

Cost/Yield: Budget 2023 estimates that the increase in the 2% threshold will cost €67 million in 2023 and €77 million in a full year. Budget 2023 does not include a cost for the extension of the reduced rate for medical card holders, but the recent review suggested that this would cost €40 million in 2023.[13]

Policy Background: The USC is an income tax. It replaced the income and health levies from 1st January 2011 and was introduced in response to the deterioration of the Irish public finances post the 2008 Financial Crisis as part of efforts to broaden the tax base and reduce the deficit. The 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.

The current rates and bands of the USC, prior to the changes being proposed in Budget 2023 are:

- 0.5% on income from €0-€12,012;
- 2% on income from €12,012-€21,295
- 4.5% on income from €21,295-€70,044;
- 8% on income over €70,044; and,
- A 3% surcharge applies to self-employed income over €100,000.

The USC does not apply to social welfare or similar payments.

Budget 2023 also saw the extension of the concession regarding USC for those who hold a medical card (subject to certain qualifying criteria) by a further year. Costing information provided in Budget 2023 indicates that this extension *"incurs no additional cost in terms of budgetary planning"* 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 forgone for the duration of the extension.

For an individual whose total income in the year does not exceed €60,000 and is either (i) aged 70 years or older, or (ii) holds a full medical card, the reduced rate of USC applies to all income over €12,012. The reduced rates of USC are:

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

13 Budget 2023, *Review of the USC concession for Medical Card Holders*.

Policy Impact: The change to the 2% rate will have a relatively small impact on the public finances but will narrow the tax base. However, it is a progressive measure as it ensures that a full-time worker in receipt of the minimum wage does not move to the 4.5% rate of USC when the minimum wage increases from €10.50 to €11.30 per hour, from 1st January 2023[14]. This represents an increase in the national minimum wage of 80 cents per hour or 7.62%, when implemented. It is expected that approximately 165,000 people will benefit from this change[15].

A review of the reduced rate of USC for medical card holders was published alongside Budget 2023[16]. This suggested that the cost of this reduced rate was approximately €33 million in 2019, the most recent year for which data are available, and tentatively estimated to cost €40 million in 2023. In 2019, an estimated 117,000 taxpayer units benefitted from this scheme. The review found that this reduced rate could be seen as inequitable, as medical card holders are being treated differently to other taxpayers with the same income level. The review also noted that the recent report of the Commission on Taxation and Welfare had recommended that *"rates of Universal Social Charge should be determined by income level and not by reference to any other eligibility criteria"*. The review also noted that *"From a broader efficiency perspective, the principle of linking eligibility for a tax relief directly with health policy decisions outside of the remit of the Minister for Finance is questionable. A significant change in the policy for medical cards could result in an increase or decrease in the number of medical card holders, which in turn could have direct implications on this relief and consequentially on the Exchequer."* The review recommended that the reduced rate of USC for medical card holders is withdrawn. The review noted, however, that in light of the current cost of living pressures, *"it may not be desirable to withdraw the relief at the end of 2022. Consideration could be given to signalling the permanent withdrawal of this concession from a future date."*

Section 5

Measure: An extension of the Help to Buy ('HTB') Scheme.

Budget Measure: Yes

Description: An extension of the Help to Buy Scheme at the enhanced rate for a further two years until 31st December 2024.

Cost/Yield: The Department of Finance has not provided clear estimates of the cost of this measure. Budget 2023 estimates that this measure will cost €83 million in 2023 and in a full year. Budget 2023 documentation also states that the full cost of this measure is estimated to be in the region of €175 million of which €92 million *'is in the tax base'*.

The PBO notes that these are the same cost estimates provided in Budget 2022 despite the increase in Irish Residential Property prices during this period.

14 Merrion Street, *Press Release Tánaiste announces increase in the National Minimum Wage and sets the 2023 Living Wage*.

15 Ibid.

16 Budget 2023, *Review of the USC concession for Medical Card Holders*.

Policy Background: The Help to Buy Scheme was introduced in Budget 2017 to assist first-time buyers in the housing market to acquire the deposit needed to fund the purchase or self-build of their first primary residence, and to encourage new development. The scheme is implemented through a rebate of the Income Tax and Deposit Interest Retention Tax (DIRT) paid by the claimant over the previous four years. In the 2020 July stimulus package, the maximum rebate available was enhanced. The maximum rebate available was increased to 10% of the home's purchase price (up from 5% previously) up to a maximum of €30,000 (up from €20,000 previously), provided that the applicant satisfies certain conditions. The Help to Buy Scheme was extended in Budget 2022 until the end of 2022 and has now been extended again by a further two years in Budget 2023 until the end of 2024.

To clarify, income tax relief is available to the lesser of: i) €30,000 or, ii) 10 per cent of the home's purchase price (or the completion value of the property in the case of self builds), or iii) The amount of Income Tax and DIRT paid over the four years prior to making the application. In order to qualify for the scheme, the loan to value ratio needs to be at least 70% of the property's purchase value and for property purchases/builds after 1st January 2017 the property price must be less than €500,000. It should be noted that the HTB scheme only applies to new builds.

Policy Impact: The Help to Buy scheme was introduced to assist those who could afford the mortgage repayments on a house but did not have a sufficient deposit. By end September 2022, 35,374 people have successfully made claims from the scheme since its introduction in 2017, at a cost of €691.6 million[17]. The initial HTB scheme provided up to €20,000 in support however this amount increased to €30,000 under the enhanced HTB scheme 'July Jobs Stimulus' Plan of 2020[18].

The PBO has previously noted that the cost of the 'Help to Buy' scheme has been higher than anticipated[19]. By the end of 2021, the estimated total costs of approved HTB claims were €559.7 million, 43% above costs estimates[20]. The PBO has also previously noted the *deadweight losses* associated with the scheme, whereby one third of participants already had their deposits saved (at least 10% of the property purchase price) and used the scheme to create larger deposits. This *deadweight loss* refers to the fact that this economic activity (the purchase of homes) would have taken place without the tax incentive[21].

The Department of Finance commissioned a review from Mazars on the scheme, entitled '*Help to Buy Scheme Review*'. This review concludes that the scheme has weaknesses, is not sufficiently efficient to represent good value for money, and should be withdrawn, but not immediately. Mazars suggest that the scheme should be extended for a further two years only while another measure is developed to assist purchasers with saving a deposit. Mazars do not suggest that this alternative instrument should be through the tax system. Clearly stating the intention to replace Help to Buy at the end of those two years would provide certainty and clarity. During that two year extension, Help to Buy should not apply to self-builds, and the minimum mortgage Loan-to-Value ('LTV') should be increased from 70% to 80% for applications to the scheme after the end of 2022. It is suggested that these two changes would help reduce the level of deadweight loss. The Department of Finance did not make the changes recommended by Mazars arising from the review.

17 *Help to Buy (HTB) incentive monthly statistics (revenue.ie)*.
18 Government of Ireland, *July Jobs Stimulus 2020*.
19 PBO (2022), *An overview of the Help to Buy Scheme from 2016 to 2021*.
20 Ibid.
21 Ibid.

It should be noted that the Commission on Taxation and Welfare[22] recommended that the Help to Buy scheme be allowed to expire as planned at the end of 2022. The Commission noted that *"[w]hile the Commission acknowledges Government policy in widening access to home ownership, it recommends that such supports, if appropriate, can be provided more equitably outside of the taxation system. Such a change is consistent with the Commission's view that the tax system should be neutral in its treatment of taxpayers that rent or purchase their homes."*

Section 6

Measure: An increase in the limit of the Small Benefit Exemption to €1,000 and an increase in the number of benefits that an employer can give from one to two per year.

Budget Measure: Yes

Description: Budget 2023 will see an increase in the maximum annual total of tax-free status, the Small Benefit Exemption, from €500 to €1,000. The benefit must not be in cash and the unused allowance amounts cannot be carried over.

Cost/Yield: Budget 2023 estimates that the increase in the limit of the Small Benefit Exemption will cost €2m in 2023 and €2m in a full year.

Policy Background: This policy provides companies with a means to compensate workers and to provide an incentive in a tax-efficient manner. This measure was subject to a Financial Resolution on Budget night, and thus will come into effect in the current tax year. This also reflects that during the pandemic, the Office of Revenue Commissioners provided a concessionary measure in the Small Benefit Exemption.

The concessionary measure enables employers to thank employees for their efforts during the pandemic by accelerating part of an incentive usually paid later in the year or making an additional award. The concessionary measure is applied for 2020 and 2021 years of assessment and will continue for 2022.

Policy Impact: This measure was introduced by Financial Resolution on Budget Night[23] and comes into effect in the current tax year.

22 *Report of the Commission on Taxation and Welfare, 2022*.

23 *Financial Resolutions arising from Budget 2023*.

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Section 7

Measure: Benefit-in-Kind Exemption for cargo bicycles.

Budget Measure: No

Description: This section extends the benefit-in-kind exemption for bicycles/pedelecs and/or safety equipment to cargo bicycles, and increases the threshold to €3,000 for these cargo bicycles.

The current measure provides an employee with an exemption from benefit-in-kind (Income Tax, PRSI and USC) on the first €1,250/€1,500 of spending incurred by an employer linked to the provision of a bicycle/pedelec and/or safety equipment to an employee or director, where all of the conditions contained within the provision are satisfied.

Cost/Yield: No costing was provided.

Policy Background: Ireland has committed to a 51% reduction in greenhouse gases from 2021 to 2030 (equivalent to an average annual reduction of 7% based on 2005 level emissions) and to achieve full carbon neutrality by 2050[24]. The transport sector in Ireland currently accounts for approximately 20% of Ireland's Greenhouse Gas Emissions[25]. To reduce carbon emissions in this sector, the Climate Action Plan 2021 outlines a national target of almost one million electric vehicles on Irish roads by 2030[26].

Policy Impact: It is hoped that there will be an increase in the usage of cargo bicycles, thus encouraging alternative forms of transport which are more environmentally friendly, and encourage "active transport" as a form of exercise.

Section 9

Measure: An increase in the income tax standard rate band and an increase in tax credits.

Budget Measure: Yes

Description: This section provides for an increase of €3,200 in the income tax standard rate band for all earners, from €36,800 to €40,000 for single individuals and from €45,800 to €49,000 for married couples or civil partners with one earner.

The value of the Home Carer Tax Credit will be increased from €1,600 to €1,700.

There will also be an increase in the Personal Tax Credit, the Employee Tax Credit, and the Earned Income Tax Credit from €1,700 to €1,775.

Cost/Yield: Budget 2023 estimates that this measure will cost €1,064 million in 2023 and €1,226 million in a full year.

24 Irish Government (2020), *Programme for Government: Our Shared Future*.

25 PBO (2021), *An Overview of Electric Vehicles and Their Impact on The Tax Base*.

26 PBO (2022), *An Overview of Ireland's Electric Vehicle Incentives and a Comparison With International Peers*.

Policy Background: As noted by the Tax Strategy Group papers, it is generally accepted that the entry point for the higher rate of income tax in Ireland, at €36,800 for single individuals and €45,800 for married one-income earners (prior to Budget 2023 changes) is low by international standards[27]. This is highlighted by a recent PBO data visualisation comparing income tax rates, bands and burdens across Europe[28]. The Tax Strategy Group Papers noted that in terms of the distributional impact, approximately 1 million (35%) of taxpayers would benefit from the introduction of either a new €5,000 band or €10,000 band[29].

Indexation refers to a systematic approach to welfare and tax changes, usually to align with price or wage increases, in order to maintain the spending power of an individual's income[30]. Indexation is not a feature in the Irish system, as Government take an *ad hoc* approach to tax and welfare changes. These tax changes are not indexation, but do aim to increase a taxpayers' take home pay.

Policy Impact: This change will have a large impact on the public finances as it equates to an estimated €1.226 billion in costs in a full year to implement this measure. This measure may improve incentives to work due to the increase in take home pay, particularly for those earning close to the previous income threshold. This may result in a marginal increase in the supply of labour.

Section 10

Measure: An extension of the Sea-going Naval Personnel Tax Credit.

Budget Measure: Yes

Description: This section extends the Sea-going Naval Personnel Tax Credit until 31st December 2023. The value of the credit remains unchanged at €1,500.

Cost/Yield: Budget 2023 estimates that this measure will cost €0.5 million in 2023 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 preceding assessment year. When introduced in 2019, the measure was intended to operate temporarily, 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[31].

27 Department of Finance, *Income Tax Strategy Group – 22/02*.

28 *PBO – A Comparison of Income Tax Rates, Bands and Burdens across Europe*.

29 Department of Finance, *Income Tax Strategy Group – 22/02*.

30 The PBO have published a number of papers on indexation, including *The impact of indexation on jobseeker's replacement rates* and *Social welfare rate changes 2011-2022*. These explain the concepts of indexation and some common concerns.

31 *Dáil Éireann debate*, 19 November 2019.

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Policy Impact: The measure was originally introduced to help address issues relating to recruitment and retention among the Defence Forces and to recognise 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. The ongoing extension of this measure raises questions, as it is unclear how this aligns with the intention to reform the Defence Forces[32] following the Report of the Commission on the Defence Forces in February 2022[33]. A clear plan should be laid out for this measure, rather than *ad hoc* extensions.

Section 11

Measure: Changes to relief arising from a 'Week 53' scenario.

Budget Measure: Yes

Description: This measure amends sections 480B of the TCA 1997 which provides for relief arising in a 'Week 53' scenario.

This amendment provides for the application of section 480B TCA 1997 to the Sea-going Naval Personnel Credit from 1 January 2023. Therefore, where a Week 53 scenario arises, the value of that tax credit will be proportionately increased by one fifty-second for individuals paid on a weekly basis, and one twenty-sixth for individuals paid on a fortnightly basis.

This amendment also clarifies how the provisions of section 480B TCA 1997 apply to the Home Carer Tax Credit. The amendment provides that the income threshold of €7,200, applied when determining if the 'home carer' qualifies for a full or partial tax credit, will be proportionately increased. The proportionate increase is again equal to one fifty-second for individuals paid on a weekly basis, and one twentysixth for individuals paid on a fortnightly basis.

This amendment also provides that where a home carer has emoluments (payments) from two sources (one of which is paid weekly and one of which is paid fortnightly) and a Week 53 scenario arises in respect of both of those sources, the increased income threshold will apply based on whichever of those income sources is most beneficial to the home carer. The Home Carer Tax Credit provisions establish a statutory footing for a practice currently operated by the Revenue Commissioners on an administrative basis and will not involve any change in tax treatment applicable to home carers.

Cost/Yield: No costing for this measure was provided in Budget 2023.

32 *Government announces move to transform the Defence Forces and the largest increase in the Defence budget in the history of the State – MerrionStreet.*

33 *Report of the Commission on the Defence Forces, 2022.*

Policy Background[34]: This measure is a technical change, aimed to ensure that individuals are not penalised by a year containing 53 pay days. In most years, a weekly-paid employee has 52 pay days in a tax year. When calculating the amount of tax, the applicable tax credits and standard rate bands are divided evenly over 52 weeks. However, every five or six years a weekly paid worker will have 53 pay days within one calendar year instead of the normal 52.

The impact of the week 53 pay day is that, unless measures are taken, because a person's statutory tax credits should be divided by 53 rather than 52, in a week where they have a week 53 pay day they will end up with less weekly take-home pay across the whole year as reflected in their weekly payslips when compared with the previous or following years.

Special administrative arrangements were previously in place to ensure this did not happen but, because of the legislative changes made in the Finance Act 2017 to allow for PAYE modernisation, there is no longer a legal basis for the administrative arrangements. Amendments for week 53 were made in Finance Act 2018, but these measures were not included at that time. This amendment is expected to be generally cost neutral from an Exchequer perspective.

Policy Impact: The impact of this change will be positive for recipients of the Sea-going Naval Personnel Credit and the Home Carer Tax Credit. These will receive the full benefit of the credit in each week, similar to the benefit received each week in a normal year.

Section 12

Measure: Introduction of a 'Rent Tax Credit' – more specifically, this section provides for a new income tax credit for rental payments.

Budget Measure: Yes

Description: This section provides for the introduction of a new Rent Tax Credit. The Rent Tax Credit of up to €500 per annum is being introduced for renters in the private rented sector not receiving any other State housing support. Only one credit may be claimed per person per year, and the value of the credit will be doubled for married couples and civil partners. This credit will apply in relation to 2022 to 2025, inclusive. The credit applies to rental payments for an individual's principal private residence, a residence to facilitate work or college, or a residence of a qualifying child attending college.

Cost/Yield: The introduction of this measure is expected to cost the Exchequer €200 million in a full year.

Policy Background: This measure was introduced against the backdrop of increasing pressures in the private rental market. The most recent Daft.ie Rental Report[35] found that there were fewer than three hundred homes advertised to rent in Dublin on August 1st, and just over 700 in Ireland as a whole. That report also found that rents rose nationally at 12.6% year-on-year, the highest year-on-year increase in market rents since the launch of the Daft Report in 2005.

34 Information drawn from the Finance Act 2018 debate – *Select Committee on Finance, Public Expenditure and Reform, and Taoiseach debate – Wednesday, 7 Nov 2018 (oireachtas.ie)*.

35 *Irish Rental Report Q2 2022 | Daft.ie*.

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It should be noted that the Daft.ie report does not take into account the rents paid by renters in place, but instead only new rentals advertised by landlords on this platform. The Residential Tenancies Board (RTB) compiles a Rent Index. As of Q1 2022, the standardised average rent in new tenancies was €1,460 on a national basis, and €2,015 in Dublin[36]. Standardised average rent is a mix adjusted rent that takes account of the changing mix of properties in an area.

Policy Impact: This measure is intended to provide relief for renters who are not in receipt of other State housing supports. It should be noted that this new credit can only be claimed for registered tenancies in an attempt to minimise black market activities (i.e. landlords not declaring rental income). It should be noted that a previous rent tax credit was in place, which was phased out from Budget 2011 and the last claims could be made for 2017. That rent relief had different levels of a credit based on the age of the renter[37].

Section 13

Measure: Foreign Earnings Deduction

Budget Measure: Yes

Description: The extension of scheme for another three years to end of 2025. The Foreign Earnings Deduction provides relief from income tax on up to €35,000 of income for employees who travel out of the State to temporarily carry out employment duties in certain states, which generally are emerging economies. The employee must be tax-resident in Ireland. The temporary period of working abroad in the relevant state must be at least 30 days of the year.

Cost/Yield: No costing was provided for the extension of this measure, and instead the Budget material stated that this was *"in the base"*. Based on the most recent Revenue data available, this scheme cost €4.9 million in 2019 with 676 applicants.

Policy Background: The Foreign Earnings Deduction is for tax residents who spend a period working abroad in the year. The number of qualifying days worked abroad in the relevant state must be during a tax year or a continuous 12 month period that spans two tax years. There are 30 relevant states listed, including some advanced economies but mainly these are emerging economies. In addition, it should be noted that the list of certain states includes the Russian Federation.

Policy Impact: At the time of its introduction, the FED aimed to support efforts by multinational and domestic firms to expand exports into emerging economies. The measure was designed to incentivise employees to travel to emerging economies in an attempt to increase the level of Irish exports. Considering the relatively small number of people impacted by this measure, it was expected that this would have a large impact on them and a small impact on the public finances.

36 *The RTB Rent Index Q1 2022 | Residential Tenancies Board.*

37 *Irish Tax Institute – TaxFind: 473 Allowance for rent paid by certain tenants.*

Exports are a significant contributor to Ireland's economic growth, as a small and open economy, and Brexit has underlined the need for the State to diversify its export base. A review of the scheme should be considered to identify if the policy objectives are being met. The last review of Foreign Earnings Deduction was in 2019, by Indecon.[38] This noted that the policy objectives of the relief remain valid, but some potential exports markets in Asia, Africa and South America are not eligible for the relief. Indecon also noted that there is no conditionality on companies requiring them to be involved in exports to benefit from the relief, noting *"The fact that companies in non-internationally traded sectors appear to avail of FED is not aligned with the stated policy objectives"*.

The Commission on Taxation and Welfare[39] raised concerns about the scheme, and suggested that the qualifying conditions should be reviewed to ensure the measure is utilised by claimants in a manner consistent with its original policy objective. Examples of concerns they raised included that FED does not specify the type of work that must be carried out abroad, nor is it limited to particular sectors (such as requiring the employee to be engaged in export-related activity). The Commission suggested this meant *"it is possible to arrange for an employee to carry out duties on FED assignment that could have otherwise been completed in the State, without affecting entitlement to the relief.*

Additionally, it is possible for a claimant to engage in activity from non-internationally traded sectors. Furthermore, there is no requirement that the duties carried out abroad be linked to an Irish operation. This means that an employee can arrive to a new Irish-based employer, having worked in a qualifying country, or resign an Irish-based employment to work in a qualifying country, and potentially be eligible for FED." The Commission highlighted the importance of ongoing incentivisation of export activity by SMEs.

Section 14

Measure: Extension of the Special Assignee Relief Programme (SARP) to 31 December 2025 and increasing the minimum income limit for new entrants to €100,000.

Budget Measure: Yes

Description: This Programme is being extended for another three years until 31 December 2025. The threshold income to avail of the scheme is being increased from €75,000 to €100,000. SARP provides for relief from income tax on 30% of the employee's income between €100,000 (lower threshold) and €1,000,000 (upper threshold).

Cost/Yield: No costing was provided for the extension of this measure, and instead the Budget material stated that this was *"in the base"*. In 2020, there were 1,659 individuals availing of SARP, working for 501 employers. The estimated total cost of SARP in 2020 was €36.6m.[40]

38 *Review of the Foreign Earnings Deduction*.

39 *Report of the Commission on Taxation and Welfare, 2022*.

40 Office of Revenue Commissioners (2022) *Special Assignee Relief Programme Statistics for 2020*.

Policy Background: SARP provides Income Tax relief for certain people who are assigned to work in Ireland from abroad. The individual must be an employee of the company for at least six months immediately before arrival in Ireland. The company must be tax resident in a state with which Ireland has either a double taxation agreement or a Tax Information Exchange Agreement (TIEA). This income is not exempt from USC or PRSI. The income tax relief can be claimed for a maximum period of five consecutive years. School fees of up to €5,000 per annum and expenses incurred on one trip home per year, where they are paid for by the employer, are not subject to tax, USC or PRSI.

Policy Impact: SARP provides income tax relief on a portion of income for qualifying employees who are relocated to work in this State by their employer or associated company. The objectives of the relief is to reduce the costs of employing individuals from abroad, facilitating job creation and business expansion. There have been changes in the minimum income limits over the last few years. An upper limit of €500,000 was withdrawn in 2015, meaning the maximum income that could qualify was not limited. Following a considerable increase in the cost of the scheme, a limit of €1 million was reintroduced in 2018 for new claimants. This means existing claimants above this level may still claim. The 2020 statistics found 72 individual claimants above this level[41].

Claimants in 2020 were mainly in Financial and Insurance Activities (465 claimants) and Information and Communication (379 claimants). 30% of claimants were previously resident in the USA, and 21% previously resident in the UK. In 2020, 23% of SARP relief was reported to have been granted to employees subject to tax equalisation, meaning that that an employee pays no more and no less tax while on international assignment than he/she would have paid had he/she remained in his/her home country.

This means the benefit of the incentive in those cases is mainly passed on to corporate employers located outside the State[42].

It should be noted that the benefits of the scheme will largely depend on the level of deadweight it incurs (that is, the proportion of SARP claimants who might otherwise have moved to Ireland regardless of the availability of the relief). This is difficult to measure. Critics of the scheme also note that this scheme incentivises a multinational company to hire a worker from abroad and relocate them to Ireland, rather than hiring qualified staff in Ireland. However, the scheme was last reviewed in 2019 by Indecon[43], who found that the policy objective of SARP remained valid. Indecon also found that *"the relief appears to have relatively high levels of deadweight but low levels of displacement."*

The Commission on Taxation and Welfare[44] recommended that SARP should be subject to further restriction and its continuation should be subject to regular review as part of the tax expenditure review process. Potential restrictions that could be considered include: the application of a higher effective rate, further curtailment of the upper threshold of the relief, or restricting allowable expenses to those available to assignees generally – this would curtail allowable travel expenses and remove the allowance for school fees.

41 Ibid.

42 Explanation of tax equalisation from the Report by the Commission on Taxation and Welfare.

43 *Indecon Review of SARP, 2019*.

44 *Report of the Commission on Taxation and Welfare, 2022*.

Section 21

Measure: Amendments to the Living City Initiative

Budget Measure: Yes

Description: This measure extends the Living City Incentive to year end of 2027. An additional change is that relief for qualifying expenditure is allowed over 7 years at a rate of 15 per cent in the first 6 years and 10 per cent in the final year. Previously the time period for qualifying expenditure was ten years. There are changes to the carry forward terms of the tax relief. These changes would allow carry-forward of any excess relief by owner-occupiers up to a maximum of ten years.[45]

Cost/Yield: Budget 2023 estimates that this measure will cost €0.5 million in a full year.

Policy Background: The Living City Initiative was first announced in Budget 2013 as a regeneration relief but was amended prior to commencement in 2015. The scheme applies to all houses constructed prior to 1915 and commercial properties within particular areas of urban deprivation in these cities.

The Living City Initiative provides for an income tax deduction for qualifying expenditure incurred on the refurbishment or conversion of certain buildings for use as a residential building. It provides for capital allowances in respect of qualifying expenditure incurred on the refurbishment or conversion of a commercial property in a Special Regeneration Area.

Policy Impact: The aims of the incentive were to regenerate areas of inner cities, in order to encourage residents to move back into these areas, and to regenerate the central business areas. There is an issue regarding the limited take-up of the incentive. The incentive has a very small take-up at present, with less than €0.5 million claimed in 2018, with 27 claimants.[46] The scheme is limited to designated areas within six cities, and a number of requests have been made for extension of the incentive to other locations or to further areas within these cities. There has been no indication of any change in this matter. A review of the scheme should be considered to identify if this incentive is the best approach to achieve the policy objectives, and whether it is appropriately aligned with current Government housing policy.

Section 22

Measure: Amends the treatment of capital sums received for the sale of patent rights

Budget Measure: No

Description: This amendment confirming the outright sale of a patent or a patent pending is not a sale of patent rights. Then the sale of a patent is chargeable to Capital Gains Tax (CGT) and the sale of patent rights for a capital sum is subject to tax as income. There is a charge to corporation tax at a rate of 25% on the sale or transfer by an Irish tax resident person of 'patent rights' where the proceeds of the sale consist of a capital sum.[47]

Cost/Yield: No costing was provided for this measure.

45 Institute of Chartered Accountants in Ireland (2022) *Housing measures Budget 2023*.

46 *Certain property based tax reliefs (revenue.ie)*.

47 KPMG (2022) Taxing Times: *Finance Bill 2022 & Current Tax Developments*.

Policy Background: The definition of Patent rights is *'the right to do or to authorise the doing of anything which but for that right would be an infringement of a patent'*.[48] The difficulty in patent rights is the interaction of the corporation tax charge on the sale of patent rights and capital gains tax (CGT). Patents have been considered chargeable assets for capital gains tax. The changes in the bill aim to provide clarity.

The Finance Bill Explanatory Memorandum states the measures *"provides relief for intra-group transfers of patent rights in a similar manner to the relief which is available to intra-group transfers of patents"*.[49] Relief is provided by deeming that the sale of patent rights intra-group occurs at such an amount that neither a gain nor a loss arises to the selling company. The purchaser is treated as acquiring the patent rights for the same amount.

Policy Impact: The change will bring legislative clarity to the taxation of the sale of patents rights and could provide businesses with more certainty.

Section 23

Measure: The introduction of changes to the payment provisions for the R&D tax credit to reflect international tax changes.

Budget Measure: Yes

Description: The Research and Development (R&D) tax credit provides a 25% tax credit for all qualifying R&D expenditure and is used to reduce a company's Corporation Tax (CT). These amendments are changes to the operation of the R&D tax credit, including the timing of payment of the credit and existing caps on the payable element of the credit are removed. No changes are being made to the quantum of credit that a company may earn.

These are timing changes as there will be a new fixed three-year payment system. A company will have an option to call for payment of their eligible R&D tax credit or to request for it to be offset against other tax liabilities. The first €25,000 of a claim will be payable in the first year to provide a cash-flow benefit for limited R&D activities. In addition, transitional measures will be in place for one year.

Cost/Yield: No costing was provided for this measure. There is no additional revenue for the companies availing of the tax credit and therefore no additional cost to the Exchequer.

Policy Background: Money spent by a company on research and development activities may qualify for the R&D Tax Credit. The qualifying R&D activities must:

- involve systemic, investigative or experimental activities in the field of science or technology;
- involve one or more of these categories of R&D: basic research, applied research, experimental development;
- seek to make scientific or technological advancement; and
- or involve the resolution of scientific or technological uncertainty.

48 KPMG (2022) Taxing Times: *Finance Bill 2022 & Current Tax Developments*.

49 Department of Finance (2022) *Finance Bill 2022*.

Policy Impact: The R&D tax credit was amended to reflect international tax changes. The removal of the limits on payable R&D tax credit may reduce administrative burden for companies. This could assist companies in using the R&D tax credit, especially for large capital R&D investments. This change could promote R&D activity and a wider knowledge economy. The timing change may help the cash flow of small and medium-sized companies (SMEs) with small R&D tax credit claims. This could provide an incentive for companies to engage in R&D activity.

The Department of Finance conducted a tax expenditure review of the R&D tax credit, including econometric analyses this year.[50] There was also a public consultation on the R&D tax credit.[51] The tax expenditure review of the R&D tax credit found it to still be a *"a strategically important element of Ireland's overall support for research and development activities"*. Firm size is found to exert an impact on the level of R&D expenditure, with SMEs tending to underperform compared to the larger companies. There is a difference across economic sectors, with non-manufacturing companies tending to display a lower impact of the R&D tax credit on R&D expenditure levels.

Section 25

Measure: Increase in Pre-letting Expenses for Landlords and A Reduction in the Vacancy Period

Budget Measure: Yes

Description: This section provides that after a period of non-occupancy, pre-letting expenses can be deducted against expenses.

Cost/Yield: Budget 2023 estimates that this measure will cost €1 million in 2023 and €2 million in a full year.

Policy Background: This section provides that after a period of non-occupancy, expenses incurred on a vacant residential property can be deducted against rental income. This section increases the cap on allowable pre-letting expenses from €5,000 to €10,000 and decreases the minimum period for which a property must be vacant from 12 months to 6 months.

Policy Impact: This measure is intended to provide for an increase in the tax relief to landlords on their expenses to encourage landlords who own properties to bring them to the residential rental market, and intends to increase the supply of units in the residential rental market. While this scheme will see an increase in the eligible expenditure limit for pre-letting expenses to €10,000 and a reduction in the vacancy period to six months it may still prove ineffective. It should be noted that this scheme has already been in place (effective 1st January 2018) while the number of small private residential landlords has been decreasing over recent years.

50 Department of Finance (2022) *Report on Tax Expenditures 2022 (Incorporating outcomes of certain Tax Expenditure & Tax Related Reviews completed since October 2021)*.

51 Department of Finance (2022) *Research & Development Tax and Knowledge Development Box: Public Consultation* & *Submissions on the Research & Development Tax Credit and the Knowledge Development Box*.

Section 27

Measure: Changes to the Employment and Investment Incentive (EII), Start-Up Relief for Entrepreneurs, and the Start-Up Incentive (SCI).

Budget Measure: No

Description: EII is a tax incentive that provides tax relief of up to 40% of the investment made in certain corporate trades. The EII allows an individual investor to obtain income tax relief on investments for shares in certain companies up to certain limits each tax year. Relief under EII is available to individual investors in unquoted micro, small and medium sized trading companies. All small and medium companies (SMEs) less than seven years old in qualifying trades may use the incentive, as may certain older companies expanding into new products or geographic markets. Certain activities are, however, excluded. A qualifying enterprise can raise a lifetime maximum limit of €15 million in risk finance utilising this incentive, with a maximum of €5 million in one year. Investment by individual investors can be made directly in the company or through a designated investment fund.

The SURE scheme provides relief on income tax paid in previous years to workers who leave employment and start their own company. SCI is an income tax relief for those investing in micro-companies.

The changes to EII, SURE and SCI enables investors who are deemed "connected" to EII company to claim the tax relief. The definition of connection was as a result of previous investments that a partner or their relatives had made.[52]

Cost/Yield: No costing was provided for this measure.

Policy Background: The Employment and Investment Incentive (EII) is a tax incentive that was introduced in 2011 to encourage individuals to invest in small and medium-sized companies. If certain conditions are met, investors can claim income tax relief on equity-based investments in certain companies. Different conditions apply depending on when the investment was made. For purchases made from 2020 onwards, relief can be claimed on investments up to €250,000 if the shares are held for four years and €500,000 if shares are held for seven years.

A public consultation on EII was carried out from December 2020 to February 2021. The results of this were not published, though there was a webinar with stakeholders.[53]

Policy Impact: The enhancements to the EII could improve take-up rates. The amendments to this scheme may assist companies. This has the potential to increase entrepreneurship, investment, and employment. This is important as many start-up companies face a difficult business environment arising from Brexit, the pandemic, and inflation.

52 PwC (2022) *PwC Report Finance Bill 2022*.

53 Department of Finance (2022) *Notice of public consultation on the Employment Investment Incentive*.

Section 33

Measure: Extension of the sunset clause of the Knowledge Development Box (KDB) for 4 years, to accounting periods commencing before 1 January 2027. The KDB will have a new effective rate of 10% instead of 6.25%, to come into effect from a date to be set by commencement order.

Budget Measure: Yes

Description: The KDB is an intellectual property (IP) regime which provides for an effective 6.25% rate of corporation tax on certain income from qualifying IP assets. The OECD BEPS Pillar Two agreement, which Ireland signed up to, contains specifically the Subject to Tax Rule (STTR) and this could impact on the KDB. The KDB will have a new effective rate of 10%, because of this agreement. This will be implemented by a Ministerial commencement order once agreement is reached at the OECD/G20 Inclusive Framework on STTR implementation.

Cost/Yield: Budget 2023 estimates that this measure will cost €8m in a full-year.

Policy Background: KDB is a Corporation Tax (CT) relief on income from qualifying assets. A company qualifying for KDB may be entitled to a deduction to its qualifying profits. This means its qualifying profits may be taxed at an effective rate of 6.25%, until the new effective rate is implemented. A qualifying asset is one produced from qualifying R&D activities, including a computer programme, an invention protected by a qualifying patent, IP for small companies which is certified by the Controller of Patents as patentable, but not patented.

Policy Impact: The change to the Knowledge Development Box (KDB) is to prevent KDB profits from being negatively impacted by the introduction of the OECD BEPS Pillar Two's Subject to Tax Rule (STTR). A public consultation on the Knowledge Development Box (KDB) was carried out from April 2022 to May 2022.[54]

The Department of Finance conducted a tax expenditure review of the Knowledge Development Box.[55] The review found that KDB complements the R&D and business supports that Ireland offers in order to develop a knowledge economy. However, a number of concerns were identified. At the introduction of KDB, it was estimated that the cost could be around €50m per annum and to date, that cost has never exceeded €12.2m per annum. There is a very low number of companies taking up the KDB. One explanation is KDB only becomes applicable later in the R&D cycle and that the KDB was only introduced in 2015. It was anticipated that take-up would increase as companies became more familiar with the qualifying rules, however, recent Revenue figures appear to indicate that take-up has plateaued at very low numbers. This was also a period of uncertainty with Brexit and Covid. The review concluded there are also real concerns around the continued effectiveness of the relief in the face of international taxation changes. However, it is an important relief for those companies that claim it and it enhances Ireland's offering for innovative businesses.

54 Department of Finance (2022) *Research & Development Tax and Knowledge Development Box: Public Consultation*.

55 Department of Finance (2022) *Report on Tax Expenditures 2022 (Incorporating outcomes of certain Tax Expenditure & Tax Related Reviews completed since October 2021)*.

The KDB will have a new effective rate of 10% and this change is related to the OECD BEPS agreement. For SMEs (turnover less than of €750 million), outside scope of the GloBE minimum tax rate, the KDB would continue to offer an attractive support. The value of the relief to a company (being the difference between the standard 12.5 per cent corporation tax rate and the reduced effective KDB rate) would reduce from 6.25 per cent to 2.5 per cent.

For larger companies (turnover in excess of €750 million), a KDB claimant is within the scope of the Pillar Two GloBE rules (i.e. the 15 per cent minimum effective tax), are not likely to have a net benefit from the KDB after the implementation of the GloBE top-up taxes.

Section 34

Measure: Extension of Section 481 Film Relief to 31 December 2028.

Budget Measure: Yes

Description: The corporation tax credit is related to production costs of qualifying audiovisual productions, as outlined in Section 481 of the Taxes Consolidation Act 1997. The corporation tax credit is for companies in the film production industry. The amount of relief credit is 32% of whichever is the lowest of: eligible expenditure, 80% of total qualifying film production costs, and €70 million. The Finance Bill will see film relief extended from its current end date of 31 December 2024 to 31 December 2028. This extension will be commenced at a future date, subject to the approval of the European Commission under State Aid rules.

Cost/Yield: As this extension will not take effect until 2025, the Department did not include the cost for this extension in the total Budget package. However, they did provide information in a footnote. The Department notes that a cost will only be applicable from 2025 onward, and the cost will be €98m in 2025. The most recent Revenue data available for this scheme from the Office of Revenue Commissioners shows the scheme cost €104.6 million in 2020 with 47 applicants.[56]

Policy Background: The aim of the film relief is to foster a vibrant film industry by generating employment, skills and supporting the culture of Ireland. The screen industry is a strategic cultural industry important for Ireland's international reputation, cultural engagement and also contributes to the development of the tourism sector. This is in line with Government policy to support the arts sector, through the Creative Ireland Programme and Audiovisual Action Plan.

For a production company to qualify for the relief it must show the projects is important to the promotion and development of national culture. This culture test is administrated by the Department of Tourism, Culture, Arts, Gaeltacht, Sports and Media (DTCAGSM). The production must meet at least three of the eight set criteria of the culture test. There is also an Industry Development Test, which examines if the film is an effective stimulus to film making, including quality employment, training and skills development. There is also a Regional Uplift, an increased rate of relief available to projects which are produced outside the main production hubs.

56 Office of Revenue Commissioners (2022) *Costs of tax expenditures (credits, allowances and reliefs)*.

Policy Impact: The Department of Finance undertook an evaluation of the film tax relief which recommend film relief be extended in advance of its expiration on 31 December 2024.[57] The review also recommended that additional information be included in the application for cultural certification by the Minster for Tourism, Culture, Arts, Gaeltacht, Sport and Media to facilitate future reviews of the relief.

(The following paragraphs in this section are extracted from the review.) The evaluation of the film tax credit provided a descriptive analysis of the relief along with a CBA for the year 2020. The analysis uses data from the Revenue Commissioners and DTCAGSM to outline some of the characteristics of the productions certified under this scheme. It also provides some insights on the Regional Uplift. There were 327 productions certified as a qualifying film for the purposes of Section 481 from 2019 to 2021, representing almost 99 per cent of all applications. Production budget sizes range from under €500,000 to over €10 million – indicating that the scheme assists both small and large-scale productions. In terms of the Regional Uplift, there was a low take-up in 2019 reflecting the requirement for European Commission State aid approval before the relief was introduced mid-way through the year. The number of Regional Uplift claims has subsequently increased, with productions spread across a larger number of locations.

In terms of employment, 60 per cent of the 120 productions in 2019 employed over 50 people. Whilst in 2020 and 2021, 52.6 per cent and 50.9 per cent of the productions in each year employed over 50 people respectively. There were 2,655 FTE employees in the productions in 2020, with 47 per cent of these employed in animations and a further 38 per cent in TV dramas. The number of FTE employees increased to 3,265 in 2021, with almost 41 per cent employed in animation and a further 38.5 per cent in TV dramas.

Overall, the estimated cost of the credit from 2015 to 2021 was approximately €604 million, rising to €785 million when the shadow price of public funds is included. Similarly, the estimated cost of the Regional Uplift over the period from 2019 to 2021 was approximately €10.8 million. This increases to approximately €14.1 million when the shadow price of public funds is included.

The CBA examines the economic cost and benefits of the Section 481 film tax credit for the year 2020, while taking into account standard estimates of the shadow price of labour, the shadow price of public funds, and grant deadweight. The analysis focuses on 2020, as tax data are not yet available for 2021, and FTE data is only available for 2020 and 2021. The CBA finds the net annual economic impact of the Section 481 film tax credit to be -€78.54 million in 2020, before consideration of the cultural dividend and other unquantifiable benefits. It is important to acknowledge that given the broad economic, social and cultural objective, the CBA is not able to quantify all of the ensuing benefits, particularly the social and cultural returns provided by the relief. Furthermore, it is stated Government policy to support the arts sector as a whole, and to specifically support the development and expansion of the film and television production sector.

Finally, the evaluation acknowledges the benefit from having more data available for this CBA, notes some of the data constraints and points to the potential data that would help to enhance future assessments.

57 Department of Finance (2022) *Report on Tax Expenditures 2022 (Incorporating outcomes of certain Tax Expenditure & Tax Related Reviews completed since October 2021)*.

Section 35

Measure: Technical amendments to the tax credit for the digital gaming sector to ensure compliance with State aid requirements

Budget Measure: No

Description: Minor and technical amendments have been proposed in the Finance Bill in response to the European Commission's State Aid requirements. The changes make it clear that the requirement for a company to be resident in a Member State of the European Economic Area (other than Ireland) and the business in Ireland is through a branch or agency only applies at the time of making a claim for the tax credit. Secondly, the requirement that the company files a corporation tax return only applies at the time of making the claim for the tax credit.

Cost/Yield: No costing was provided for this measure in Budget 2023. However, in information provided to the European Commission in August 2022 as part of the request for State Aid approval, it was stated that the total amount of the aid is EUR 20 million (EUR 2 million in 2022 and EUR 6 million per year between 2023 and 2025).[58]

Policy Background: Internationally the digital gaming sector has experienced exponential global growth in the past decade. In 2021, global total video games revenue (excluding esports) was $214 billion.[59] However, the industry in Ireland has not matched this global trend. When the tax credit was introduced, Ireland was generating less than 1% of European digital gaming products.[60] The Department of Enterprise, Trade and Employment estimated that there are 1,638 people employed in the gaming industry.[61] The policy development of the tax credit included dialogue with private sector companies and research into similar tax credits in the UK, France and Canada. The European Commission has granted approval for this digital gaming tax credit.

This is a relief for investment in digital gaming in the form of a corporation tax credit. The relief will be available at a rate of 32% on eligible expenditure not exceeding €25 million per project. There will also be a minimum project spend requirement of €100,000. The digital games will also be required to include an element of European or Irish culture and have a cultural certificate from the Minister for Tourism, Culture, Arts, Gaeltacht, Sport and Media. The company will also need to sign an undertaking regarding quality employment, which is already the case for companies availing of the film tax credit. The European Commission has decided not to raise state aid objections on the basis that the digital tax credit is compatible with the rules of the internal market.[62]

Policy Impact: The tax credit is a refundable corporation tax credit and is similar to the film tax credit. The tax credit for digital games and Ireland's established film and animation sectors should support employment in the wider creative and digital arts sector.

58 European Commission (2022) *State Aid – Ireland Tax credit for digital games*.

59 PwC (2022) *Global Entertainment & Media Outlook Perspectives Report*.

60 KPMG (2021) *It's all in the game: How will Ireland compete in the global gaming sector*.

61 European Commission (2022) *State Aid – Ireland Tax credit for digital games*.

62 European Commission (2022) *State Aid – Ireland Tax credit for digital games*.

Section 37

Measure: Extension of the existing Mineral Oil Tax reductions on petrol, diesel and Marked Gas Oil (MGO).

Budget Measure: Yes

Description: This change provides for the extension of reductions in certain Mineral Oil Tax rates which were introduced in March 2022, in response to the energy crisis.[63] The reductions in mineral oil tax provided for VAT-inclusive per litre reductions of 21 cent, 16 cent and 5 cent on petrol, diesel and MGO respectively. These reductions were introduced in March 2022 and were due to end on 12 October 2022. This measure will extend the reduced rates for a further 20 weeks until 28 February 2023.

Cost/Yield: In the Budget, it was stated that the cost was €117 million, VAT inclusive. During the Financial Resolution debate, it was stated that the estimated cost of extension of the reduced rates for a further 20 weeks until 28 February 2023 is €281 million.[64]

Carbon Taxes 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: Following a recommendation by the Commission on Taxation, Budget 2010 introduced a tax on carbon emissions which was intended as an environmental measure, to change behaviour to reduce greenhouse gas emissions, and encourage companies to bring low carbon products and services to the market. This year, there is an increase in Carbon Tax, in line with the projection to bring the rate to €100 a tonne by 2030. This has seen an annual increase in the carbon component of Mineral Oil Tax, based on a schedule that would see an additional increase applied per tonne of carbon dioxide emissions each year towards a rate of €100 per tonne of emissions effective from 2030.

The Carbon Tax increase has been offset by a reduction in the National Oil Reserves Agency's (NORA) levy. The NORA's levy is reduction from 2 cent per litre to 0 cent per litre (VAT Inclusive). This reduction is in light of the ongoing energy crisis. No costings were provided for this offset in the Budget 2023 documentation. The estimated yield to the Exchequer from this increase in Carbon Tax (prior to a reduction in the National Oil Reserves Agency levy) is €114 million in the first year and €151 million in a full-year. According to information from NORA the NORA levy raised €121 million in 2020, and €120 million in 2021 (based on provisional figures).[65] Therefore, the reduction in NORA levy will effectively offset the additional revenue raised from the increase in the Carbon Tax.

Policy Impact: The extension in the existing Mineral Oil Tax (MOT) reductions on petrol, diesel and Marked Gas Oil (MGO) will help to mitigate against the impact of the rising costs of living. However, the primary goal of 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. The extension of the reduction in MOT rates might act as a disincentive to reduce carbon emitting activities.

63 International Energy Agency (2022) *World Energy Outlook 2022*.

64 *Financial Resolution No. 1: Mineral Oil Tax – Dáil Éireann (33rd Dáil) – Tuesday, 27 Sep 2022 – Houses of the Oireachtas*.

65 PBO (2022) *Preliminary Review of Budget 2023*.

Section 38

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

Budget Measure: Yes

Description: This section confirms the Budget increases in the rates of Tobacco Products Tax. The Tobacco Products Tax rate increase amounts to 50 cents on a pack of 20 cigarettes (including Value Added Tax or 'VAT'), with pro-rata increases on other tobacco products.

Cost/Yield: Budget 2023 estimates that this measure will raise €54 million in 2023 and in a full-year. The Revenue Commissioners have expressed a view that increases in excise may not lead to increased yields, as higher cigarette prices in Ireland could reduce demand due to greater incentives to purchase non-Irish duty paid tobacco products as well as to substitute to other products, such as e-cigarettes[66].

Policy Background: The Programme for Government has set a smoking prevalence target of less than 5% of the population smoking by 2025[67]. This is an ambitious target, as the current smoking prevalence is 15.9%[68]. The Irish Department of Health and the Health Service Executive ('HSE') estimate that smoking remains the leading cause of preventable death in Ireland, accounting for over 4,500 deaths annually[69]. They estimate that one out of every two long-term smokers will die of a disease related to their tobacco use[70].

Ireland has among the highest excise rates on tobacco products (including cigarettes and roll-your-own) in the EU[71]. This reflects a long-standing policy of levying high rates of excise duty on tobacco products to meet public health targets[72]. Excise Duty on tobacco products has increased consistently in the Budget over the past 20 years[73]. More specifically, increases of 50 cent were introduced on a pack of 20 cigarettes in each of the previous seven budgets (with at least pro-rata increases applied to roll-your-own tobacco products). Smoking prevalence has fallen from over 25% in 2008[74].

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. However, an increase in the cost of cigarettes may encourage 'black market' activities such as smuggling cigarettes into the country from other jurisdictions.

66 Tax Strategy Group 2021, *General Excise*.
67 Tax Strategy Group 2022, *General Excise*.
68 *Smoking Prevalence Tracker 2022 Half Year Infographic, HSE*.
69 Health Service Executive (HSE), *The State of Tobacco Control in Ireland 2022*.
70 Ibid.
71 Tax Strategy Group 2022, *General Excise*.
72 Ibid.
73 Apart from Budget 2005, Budget 2006, and Budget 2010.
74 *Smoking Prevalence Tracker 2022 Half Year Infographic, HSE*.

Section 39

Measure: For microbreweries, there are two changes in Excise Duty: Microbrewery relief production threshold and Small Cider Producers Excise Relief Scheme.

Budget Measure: Yes

Description: There is a Small Cider Producer Excise Relief Scheme. A 50% excise relief for micro-producers on up to 8,000 hectolitres of cider. There is also an increase in the Microbrewery relief production threshold. The current production ceiling of 50,000 hectolitres will increase to 75,000 hectolitres. The qualifying production threshold for microbreweries is being increased to support business development and employment generation in this industry.

Cost/Yield: Budget 2023 estimates that the Small Cider Producers Excise Relief Scheme will cost €1m in 2023 and in a full-year. No costings were provided for the increase in the Microbrewery relief production threshold.

Policy Background: The EU allows member states to provide microbrewers (producing up to 200,000 hl of beer per annum) relief from excise duty. Ireland introduced its current relief in 2005. It currently allows microbreweries to receive relief on excise duties (50%) on 75,000 hl of beer. In 2020, €5.8 million was claimed under the scheme.

Policy Impact: This is a tax relief on alcohol products tax on beer brewed in small breweries. The purpose of excise relief for microbreweries is to facilitate business development and employment. These changes will allow microbreweries to expand their operations and sales while maintaining access to the relief.

Section 40

Measure: Reduction in excise duty on special exemption orders (SEO's). The rate of duty is reduced to €55 and is applicable to SEO's granted on and after 28 September 2022.

Budget Measure: Yes

Description: There is a Special Exemption Order licence fee reduction. This is a 50% reduction in the excise fees for an application for a special exemption order as a way of supporting the night time economy. The excise fee of €110 per application is reduced to €55.

Cost/Yield: Budget 2023 estimates that the SEO reduction will cost €2m in 2023 and in a full-year.

Policy Background: This excise fee reduction is being implemented alongside a reduction of 50% of the court fees relevant to the application for a special exemption order. It is suggested that these measures will significantly ease the burden facing licensed premises. During the Covid-19 restrictions, a waiver was in place. Minister Donnelly stated that work on wider reform of alcohol licensing is ongoing[75].

Budgetary Issues in the Finance Bill 2022

75 *Financial Resolution No. 4: Special Exemption Orders – Dáil Éireann (33rd Dáil) – Tuesday, 27 Sep 2022 – Houses of the Oireachtas.*

Policy Impact: It is unclear if this measure will be a significant support for licensed premises, but does reduce the costs applying to them.

Section 44

Measure: Extension of the 9 per cent VAT rate on the supply of electricity and gas until 28 February 2023.

Budget Measure: Yes

Description: The extension of the 9 per cent VAT rate on the supply of electricity and gas from 31 October 2022 to 28 February 2023 is aimed at helping customers during this cost of living crisis.

Cost/Yield: Budget 2023 estimates that the extension of the 9 per cent VAT rate on the supply of electricity and gas until 28 February 2023 will cost €45m in 2023. No costings were provided for the full year.

Policy Background: As a Member State of the EU, Ireland's VAT laws must comply with the EU VAT Directive. Under a new EU agreement, the list of goods and services to which a reduced rate applies was expanded to include the supply of electricity and gas.[76] Ireland will apply a reduced rate of 9% VAT rate on the supply of electricity and gas until 28 February 2023.

Policy Impact: This additional 4 months of a lower rate of VAT for the supply of electricity and gas is targeted on the particularly high costs of energy as a consequence of Russia's war on Ukraine and European dependence on Russia as an energy source.

It should be noted that Commission on Taxation and Welfare[77] recommends limiting the use of zero and reduced rates of VAT. The Commission does not support the use of temporary Value Added Tax reductions as a short-term stimulus measure.

Section 47

Measure: Provision for a reduction in the flat-rate addition for farmers.

Budget Measure: Yes

Description: The flat-rate compensation percentage for Farmers is reduced from 5.5% to 5.0%. This is the amount that is paid to farmers in compensation for the VAT incurred on the costs that they can't recover as they are not VAT-registered.

Cost/Yield: Budget 2023 estimates that the reduction in the flat-rate compensation percentage for Farmers will raise €38m in 2023 and €46m in a full-year.

76 *Tax Code – Thursday, 28 Apr 2022 – Parliamentary Questions (33rd Dáil) – Houses of the Oireachtas.*
77 *Report of the Commission on Taxation and Welfare, 2022.*

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 is reclaimed when it is 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 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.). This flat-rate addition has changed multiple times over the last decades. It is calculated based on a methodology that takes account of farming inputs, outputs and the VAT rate structures and a provisional forecast of agriculture inputs and outputs.

Policy Impact: This will decrease the amount added to the price at which flat-rate farmers sell their products to VAT registered persons.

Section 55

Measure: Finance Bill 2022 reduces VAT to zero for items relating to the media industry and for certain medical and sanitary products.

Budget Measure: Yes

Description: The zero VAT rate is being applied to the following: newspapers and news periodicals, including digital editions; automatic External Defibrillators and period products; all non-oral Hormone Replacement Therapy; and all non-oral Nicotine Replacement Therapy.

Cost/Yield: Budget 2023 estimates that the application of zero VAT rate for the mentioned items will cost the Exchequer:

	2023	Full year
Application of a zero VAT rate for newspapers and news periodicals, including digital editions	-€32.5m	-€39m
Application of a zero VAT rate for Automatic External Defibrillators and period products	-€0.4m	-€0.5m
Application of a zero VAT rate for all non-oral Hormone Replacement Therapy	-€0.8m	-€1m
Application of a zero VAT rate for all non-oral Nicotine Replacement Therapy	-€0.8m	-€1m

Policy Background: As a Member State of the EU, Ireland's VAT laws must comply with the EU VAT Directive. From 6th April 2022 a zero rate can be applied to the following 7 categories of Annex III of the VAT Directive: 1, 2, 3, 4, 5, 6, and 10c. This roughly boils down to food, water, medicine, medical devices, transport, published items and solar panels. Full descriptions available at *ANNEX III VAT directive (lexparency.org)* There is also a provision to keep zero rates on other items in Annex III so long as the total number of categories covered does not exceed seven. For Ireland we use category 29 (lighthouse/life boat related) and category 24 (children's clothes and children's footwear).

The VAT rate on newspapers and news periodicals, including digital editions, will be reduced to zero from 9%. The VAT rate on automatic external defibrillators and some period products will be reduced to zero from 23% and 9% respectively. The VAT rate on non-oral Hormone Replacement Therapy medicine and non-oral Nicotine Replacement Therapy will be reduced to zero from the standard rate. All these changes will be introduced from 1 January 2023.

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Policy Impact: The estimated cost to the Exchequer for these VAT measures is relatively limited and aims to provide a support to the media industry and for medical and sanitary products. However, with the cost of living crisis, it is unclear the impact on consumer behaviour or consumption as a result of these VAT changes. The zero-rating of these medical and sanitary products will relieve the VAT burden on the price of purchasing these products.

It should be noted that the Commission on Taxation and Welfare[78] recommended limiting the use of zero and reduced rates of VAT.

Section 57 and 58

Measure: Amendments to the 10% Stamp Duty where 10 or more residential units are bought.

Budget Measure: No

Description: Section 31E provides for a higher rate of stamp duty of 10% where 10 or more individual residential units (which excludes apartments) are acquired, whether directly or indirectly, in any 12-month period. In place since 2017, this is a refund scheme whereby a portion of the stamp duty paid on the acquisition of non-residential land is refunded where that land is subsequently developed for residential purposes (subject to certain conditions). The net minimum stamp duty payable after a refund is 2% (the normal rate for non-residential property is 7.5%). The scheme was previously extended by two years in Budget 2021.

Section 57 clarifies that section 31E applies where there is an acquisition of a partial interest in a residential unit, and not just a full interest in a residential unit. It further clarifies that where a person acquires a partial interest in a residential unit, that partial interest, expressed as a fraction, will be taken into account for the purpose of determining whether the 10-unit threshold has been met.

This section also amends 31E(7) by excluding acquisitions by home reversion firms pursuant to a home reversion agreement, as defined by the Central Bank Act 1997, from the scope of section 31E.

Section 58 corrects cross references and extends the date at which projects wishing to avail of this scheme must commence construction from 31 December 2022 to 31 December 2025.

Cost/Yield: No costing was provided for the higher rate of stamp duty when originally announced in May 2021. The Minister for Finance indicated that the purpose of the charge is to disincentivise such purchases and influence behaviour, rather than as a revenue raising measure. At the time of its introduction, Revenue was unable to provide an assessment of the additional monies it would raise.

Policy Background: As noted in the Tax Strategy Group paper on Stamp Duty[79], in May 2021 there was growing awareness of investment funds buying up residential units, including entire phases of housing estates, making it more difficult for first time buyers to acquire homes. This led to the Dáil passing a Financial Resolution on 19 May 2021 which introduced a new stamp duty rate of 10% to any acquisition of ten or more residential units in a 12-month period.

78 *Report of the Commission on Taxation and Welfare, 2022*.

79 Tax Strategy Group 2021, *Stamp Duty*.

There were a couple of exemptions from the new 10% stamp duty rate on bulk purchases of residential units provided for in the Financial Resolution including:

i. Apartment blocks as defined in section 13 of the Act; and

ii. Multiple purchases by Local Authorities, Approved Housing Bodies and the Housing Agency.

In addition, two extra exemptions were provided for in the Finance (Covid-19 and Miscellaneous Provisions) Act 2021 at the request of the Minister for Housing, Local Government and Heritage

i. An exemption from the 10% stamp duty rate for private sector participants in the Mortgage to Rent Scheme; and

ii. An exemption which provides that where a residential unit that is subject to the new rate of stamp duty is acquired, and then, within 24 months, leased to a local authority for social housing purposes, the stamp duty paid over and above the pre-existing rates that apply to acquisitions of residential property will be refunded.

The Tax Strategy Group paper on Stamp Duty explains their rationale for each of the above exemptions:

- Apartment blocks were exempt as there was a perceived risk that developers would exit from the apartment building market and concerns about the viability of such projects.
- Purchases of homes by agents of the state were exempt to ensure implementation of other housing goals (e.g. provision of social housing, etc).
- The Mortgage to Rent Scheme provides for an Approved Housing Body, or since 2018, a private company, to acquire a property with an unsustainable private mortgage from a lender, which enables the household to remain in their home as a social housing tenant. While Approved Housing Bodies were exempt from the 10% Stamp Duty rate under the terms of the Financial Resolution, private companies were not, hence the Finance Bill proposes an amendment.
- The exemption for residential units which are acquired and then leased to a local authority for social housing purposes within 24 months was introduced due to concerns that in the absence of this exemption it would have an adverse impact on the Department of Housing, Local Government and Heritage's social and affordable housing leasing programme. It was argued that there would be an opportunity cost in forgoing this programme as these dwellings would have to be located/identified and then developed/purchased and funded from elsewhere with a cost incurred.

Policy Impact: The policy objective of the new higher rate of stamp duty is to act as a disincentive to large institutional investors and other funds engaging in the bulk buying of potential homes for citizens.

Section 63

Measure: Extension of the Bank Levy to the end of 2023

Budget Measure: Yes

Description: The tax base for bank levy is the interest paid on deposits. The bank levy will be extended for another year until the end of 2023. KBC Bank Ireland plc and Ulster Bank Ireland DAC are in the process of leaving the market in 2022, they were excluded from this charge. The other banks to whom the levy continued to apply paid the same amount in 2022 as they did in 2021, i.e. €87 million. The findings of the Retail Banking Review due to report in November 2022 are expected to inform considerations of this levy's future.

Cost/Yield: Budget 2023 estimates that the measure will raise €87m in 2023 and no costing for the full year was provided.

Policy Background: The Financial Institutions Levy (or Bank Levy) was initially introduced in 2014 for three years. The rate was calculated as 59% of DIRT payments and generated €150 million. The levy was subsequently extended, and the rates have changed to ensure that the levy continued to generate €150 million (as DIRT receipts have fallen).

Policy Impact: While this levy will raise €87 million, it is roughly half what it had originally generated as two banks are in the process of leaving Ireland. For banks still liable for the levy, their payments will remain the same as in 2021. The levy and its future should be assessed in the Retail Banking Review due to report in November 2022[80].

Section 84

Measure: Vacant Homes Tax

Budget Measure: Yes

Description: A Vacant Homes Tax ('VHT') will be introduced in 2023. The tax will apply to residential properties which are occupied for less than 30 days in a twelve month period.

Cost/Yield: This measure is forecast to raise €3 million in a full year for the Irish Exchequer and will slightly broaden the tax base.

Policy Background: The VHT will be self-assessed and administered by the Revenue Commissioners. The tax will apply to residential properties which are unoccupied for twelve months or more. A property will be considered vacant for the purposes of the tax if it is occupied for less than 30 days in a 12-month period. The tax will be charged at a rate equal to three times the property's existing Local Property Tax Liability ('LPT').

A residential property will be within the scope of the tax if it has been occupied as a dwelling for less than 30 days in a chargeable period. Each chargeable period will commence on 1st November and end on 31st October the following year. The first chargeable period commences on 1st November 2022.

80 *gov.ie – Retail Banking Review (www.gov.ie).*

Policy Impact: It is hoped that the measure will increase the supply of homes for both renting or purchase. This measure is not primarily designed as a revenue raising measure. It should be noted that this tax will only apply to habitable residential properties – it will not apply to derelict or uninhabitable properties as these are covered under the Derelict Site Levy, which is currently under review[81]. There may be some limitations to the efficacy of this tax: it may be hard to prove a residential property was unoccupied for the purpose of applying the tax.

It should also be noted that there are several specific exemptions from the new Vacant Homes Tax, which may be claimed by the chargeable person where the applicable conditions are met:

- Death of the chargeable person in respect of the property, where the property was the sole or main residence of that person, in either the chargeable period or in the 12-month period before the start of the chargeable period.
- A grant to administer the estate of a deceased chargeable person issues in the chargeable period and for any chargeable period following such a grant, where the administration of the estate has not yet completed. This exemption applies only where the property was the sole or main residence of that person.
- The property was being actively marketed for sale.
- The property was being actively marketed for rent.
- The sale or occupation of the property was prohibited by a court order.
- The property was undergoing structural works, substantial repairs, or significant refurbishment during the chargeable period.
- The property was not occupied by the chargeable person as a result of his or her mental or physical infirmity, where prior to this the person occupied the property as his or her sole main residence.
- The property is owned by a North-South implementation body within the meaning of the British-Irish Agreement Act 1999.

Section 85

Measure: This section makes several changes to the Zoned Land Tax ('ZLT') to support the efficient administration of the tax.

Budget Measure: No

Description: The Zoned Land Tax was announced in Budget 2022 and is being introduced with a two-year lead-in time for land zoned before January 2022 and three years for land zoned after January 2022. As noted previously by the PBO[82], the Zoned Land Tax will be applied annually to owners of vacant or derelict land which has been zoned for residential use. The 3% tax is based on the market value of the land in question. The Zoned Land Tax will replace the vacant site levy. The vacant site levy was collected by local councils but the Zoned Land Tax will be collected by the Office of Revenue Commissioners. Unlike the vacant site levy, there is no minimum site exclusion.

81 *Derelict Sites – Thursday, 23 Jun 2022 – Parliamentary Questions (33rd Dáil) – Houses of the Oireachtas*.

82 PBO (2021), *Budgetary Issues in the Finance Bill 2021*.

Budgetary Issues in the Finance Bill 2022

However, there are several exemptions for land that is used for the purposes of a trade/profession or infrastructure facilities, has a statutory condition that prevents development, pays commercial rates, or is designated as derelict and pays the derelict site levy.

Section 85 of the Finance Bill 2022 amends Section 653I of the Taxes Consolidation Act 1997 to require proof of ownership to be made available where a landowner makes a submission to a local authority to vary the zoning status of land which is within the scope of the tax.

The amendment to section 653S of the Taxes Consolidation Act 1997 provides for a penalty of €3,000 for failure to register for the tax.

Residential zoned land tax is currently not deductible in relation to income tax, corporation tax and capital gains tax. The amendment to section 653AK further restricts the deductibility of residential zoned land tax in relation to the universal social charge and the domicile levy.

Cost/Yield: No estimate was provided.

Policy Background: As part of the '*Housing for All*' plan, the Government indicated an intention to introduce a Zoned Land Tax. This is part of a series of actions aimed to improve the quantity of housing available on the market, including direct spending.

The Zoned Land Tax was introduced to replace the Vacant Site Levy, which had encountered difficulties in implementation and raised limited revenue. The PBO highlighted this issue and published a report in May 2020[83]. The Vacant Site Levy has been operation since January 2017. Since 2019, the levy is 7% of the market value of the land, and previously was 3%.

Policy Impact: The policy aims to provide an incentive for owners of undeveloped land zoned for residential purposes to build housing or to make them available to the market. This is aimed at increasing the supply of accommodation sites in Ireland. The Zoned Land Tax is not intended to increase tax revenue, but instead to encourage development.

Each local authority has published their draft residential zoned land tax map showing lands that will be subject to the Residential Zoned Land Tax, as of 2nd November 2022[84].

Section 86

Measure: Defective Concrete Products Levy

Budget Measure: Yes

Description: Budget 2023 provides for the introduction of a new levy on forms of concrete called the 'Defective Concrete Products Levy.' It should be noted, the measure in the Finance Bill has changed since the announcement on Budget day.

83 PBO (2020), *Challenges in implementing and administering the Vacant Site Levy*.

84 *gov.ie – Residential Zoned Land Tax (www.gov.ie)*.

The measure aims to go some way to offset the cost to the State of the Defective Concrete Blocks (Mica) Redress Scheme. The levy will apply to specific concrete blocks and pouring concrete. These products fit three broad criteria; they are – primarily used in the construction of buildings, primarily of a structural nature, and products composed primarily of concrete. These concrete products are subject to recognised standards, to which they are required to be manufactured for their use in Ireland, and the levy will be attached to these standards. The levy will be set at a rate of 5% of the cost of the concrete product, ex VAT, and will come into force from 1 September 2023.

Cost/Yield: This measure was expected to raise €80 million in a full-year when announced in Budget 2023 however it is likely to yield less than this as the proposed 10% levy will now be implemented at a rate of 5%. This has been revised to an estimate of €32 million[85].

Policy Background: The introduction of this measure arises from a Government decision taken in November 2021 that a levy should be imposed on the construction sector to contribute towards meeting the cost of the Mica Redress Scheme. More specifically, the intention is to raise revenue to contribute towards the funding of the Defective Concrete Blocks Grant Scheme which was introduced by the Minister for Housing, Local Government and Heritage.

Policy Impact: While this measure may raise a limited amount of additional revenue for the Irish Exchequer it may also increase the cost of construction at a time when the Irish State is experiencing acute pressures in the housing and rental market. It has been estimated that the levy would add between 0.2 per cent and 0.35 per cent to the cost of building a three-bedroom home, and up to 0.2 per cent to the cost of an apartment.[86]

Section 87

Measure: Temporary Business Energy Support Scheme (TBESS)

Budget Measure: Yes

Description: The Temporary Business Energy Support Scheme (TBESS) is a support available to trading and professional businesses who are experiencing significant increases in their energy costs. Businesses in a trade or profession chargeable to tax under Case I or II of Schedule D. Businesses will be able to claim 40% of the year-on-year increase in their bills for the metered supply of electricity and natural gas, up to certain cap for each monthly claim period. Business must be able to show that the average unit price for electricity or gas in their bill has increased by at least 50 per cent. The scheme is for the period from 1 September 2022 to 31 December 2022. It is possible to extend the scheme to 28 February 2023, if the Temporary Crisis Framework (TCF) is extended by the European Commission and beyond that date by a Ministerial Order.

Cost/Yield: No costing was provided for this measure.

85 *Concrete levy to be cut to 5% and delayed until September next year – The Irish Times*.

86 Ibid.

Policy Background: The Temporary Business Energy Support Scheme (TBESS) has been introduced to help businesses over the coming winter period, where energy demand will be higher. This policy is a result of the energy crisis emanating from the Russian war in Ukraine. The European Commission has states that there is a Temporary Crisis Framework (TCF) for state aid measures to support businesses suffering from the exceptional circumstances. There is an overall maximum payment limit for support of €500,000 per undertaking carrying on one or more qualifying business. There are lower limits for a farming business of €62,000 and fishing business of €75,000. The scheme will need to be approved by the EU Commission in advance of making payment.

Policy Impact: This targeted and temporary measure should assist businesses in remaining commercially viable for the duration of the period of exceptional circumstances. The measure aims to increase the chances that companies can survive during the first Winter of this energy crisis and be in a position to operate in a less volatile energy market.

There is a potential the measure could increase energy consumption, rather than reduce energy demand or encourage using more renewable energy. The period of this measure can also be extended which could further strengthen demand for energy.

Appendix

Measures announced at Budget time which are due to be published later during the Finance Bill process

The Department of Finance indicated that certain Budget measures would be included at future stages of the Finance Bill. While the legislation has not been published for these, the PBO have provided the following material to assist members. Caveats apply to the following information – the PBO cannot predict the draft text, and are basing this information on Budget day information.

Proposed changes to KEEP

Measure: Extension of Key Employee Engagement Programme (KEEP) to 31 December 2025. This programme facilitates the buy-back of KEEP shares by the issuing company and increasing the company limit to €6 million.

Budget Measure: Yes

Description: The Key Employee Engagement Programme (KEEP) is being extended to 31 December 2025. There is an on-going review of the Key Employee Engagement Programme (KEEP).[87] The programme is being amended to facilitate the buy-back of KEEP shares by the company from an employee. The lifetime company limit for KEEP shares is being raised from €3 million to €6 million. In addition, changes to KEEP rules in Finance Act 2019 regarding group structures and qualifying employees are being implemented, following consultation with the European Commission.

Cost/Yield: No costing was provided for this measure.

Policy Background: KEEP was introduced in Finance Act 2017 and provides an exemption from Income Tax (including USC) and PRSI for any income/gains realised from the exercise of a qualifying share option. To qualify for KEEP, an option must be exercised within 10 years of it being granted. Gains arising from these options are subject to Capital Gains Tax, rather than Income Tax, USC and PRSI.

The KEEP is a tax efficient share option scheme available to Small and Medium Enterprises (SMEs). The gain by employees on the KEEP option is exempt from income tax, USC and PRSI, subject to a number of conditions regarding employee, company and share options. The Scheme enables the employees to have an option to purchase shares at a future date and at a fixed price. The employee will not have to pay tax when exercising the option, if the value of the shares has changes. The option cannot be exercised within the first 12 months of the grant date or held longer than ten years.

Policy Impact: The objective of KEEP is to facilitate staff recruitment and retention at Small and Medium Enterprises (SMEs) and enable them to compete with larger companies. The KEEP scheme is a notified state aid scheme and the European Commission assesses the compatibility of the proposed aid with internal market rules.

87 Department of Finance (2022) *Key Employee Engagement Programme (KEEP) Questionnaire 2022*.

YTF Stamp Duty relief

Measure: Extension of Young Trained Farmer Stamp Duty Relief.

Budget Measure: Yes

Description: This measure exempts young farmers who meet a certain number of conditions from stamp duty on the conveyance of farmland. This stamp duty would normally be charged at 7.5% and is being extended until 31st December 2025. This is subject to finalisation of issues relating to the Agricultural Block Exemption Regulation at EU level.

Cost/Yield: Extension of the scheme will cost €15 million in 2022 and in a full year.

Policy Background: This policy is aimed at encouraging more people to opt for farmer as a career choice. There have been concerns about the lack of young people entering farming and national agricultural policy is aimed at reversing this trend. As noted by the recent Tax Policy Group Paper on Stamp Duty, 'The age profile of Irish farmers continues to be a cause for concern, with the CSO reporting that 55.3% of farms here were held by those aged 55 and over in 2016.' More recently, the Teagasc National Farm Survey reported an increase in the average age of farmers in Ireland from 55.4 years in 2016 to 59.2 years in 2020.

To meet the criteria for this relief a farmer must be:

- Be younger than 35
- Hold a relevant agricultural qualification
- Have submitted a business plan to Teagasc
- Be registered for income tax,
- Be the head of the farm holding,
- Spend at least 50% of your normal working time farming the transferred land, and;
- Retain ownership of the land for at least 5 years (from the date of the transfer).

Policy Impact: Irish farmers are getting older and there are concerns about the take-up of farming as a profession among younger people. This measure hopes to encourage more young people to choose farming as a career.

Farm consolidation (stamp duty) relief

Measure: Extension of the Farm Consolidation (Stamp Duty) Relief to 31st December 2025

Budget Measure: Yes

Cost/Yield: No costing estimate was provided in the Budget 2023 documentation. According to Revenue, the cost of this relief was €1.3 million in 2021, with 111 claimants[88].

88 *Costs of Tax Expenditures (Credits, Allowances and Reliefs) (revenue.ie)*.

Policy Background: This relief, which provides that a 1% rate of stamp duty (as opposed to the general rate on non-residential property of 7.5%) can apply to instruments giving effect to acquisitions and disposals of agricultural land where the transactions involved qualify for a 'Farm Restructuring Certificate' from Teagasc, which was due to expire at the end of this year, is to be extended until 31st December 2025.

This is subject to finalisation of issues relating to the Agricultural Block Exemption Regulation at EU level.

Farm Restructuring (Capital Gains Tax)

Measure: Extension of the Farm Restructuring (Capital Gains Tax) Relief.

Budget Measure: Yes

Description: It is intended the CGT Farm restructuring relief, which provides relief from CGT for land transactions qualifying for a 'Farm Restructuring Certificate' from Teagasc, and is currently due to expire at end 2022, will be extended to end December 2025. This is subject to finalisation of issues relating to the Agricultural Block Exemption Regulation at EU level.

Cost/Yield: No costing estimate was provided in the Budget 2023 documentation. According to Revenue, the cost of this relief was €0.9 million in 2021, with 13 claimants[89].

Stock Reliefs

Measure: Extension of Young Trained Farmer Stock Relief and Registered Farm Partnerships Stock Relief

Budget Measure: Yes

Description: Stock relief is given as a deduction from trading income. It is calculated by reference to the increase in value of farm trading stock over an accounting period. The deduction is a defined percentage of the increase in value of trading stock as follows:

-25% standard relief for farmers

-50% if you are a partner in a Registered Farm Partnership, subject to certain limits

-100% for young trained farmers, subject to certain limits.

The extension of the latter two enhanced stock reliefs is is subject to finalisation of issues relating to the Agricultural Block Exemption Regulation at EU level.

Cost/Yield: Extension of the scheme will cost €3 million in 2023 and in a full year.

Policy Background: This policy is aimed at encouraging more people to opt for farmer as a career choice. There have been concerns about the lack of young people entering farming and national agricultural policy is aimed at reversing this trend.

89 *Costs of Tax Expenditures (Credits, Allowances and Reliefs) (revenue.ie)*.

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