

ADVISORY | INDUSTRY INFORMATION

Budget 2024 – Tax Highlights Ireland

10 October 2023

Introduction

In the context of a positive economic performance for Ireland against a backdrop of global economic and geopolitical uncertainty, the Minister for Finance, Michael McGrath and the Minister for Public Expenditure and Reform, Paschal Donohoe, announced a 'spend and save' budget that included a significant package of public expenditure measures to further support the Irish economy and society, as well as a commitment to establish two new long-term savings funds to future proof the economy and public finances against a forecast reduction in tax receipts in the years ahead.

We summarise the tax measures and highlights that may be of interest to the international business community below.

Business Taxes

- Next week's Finance Bill will include legislation to implement the OECD Pillar Two agreement in Ireland from 1 January 2024. A "once-in-a-generation reform to our corporation tax system", Pillar Two will introduce a **minimum effective corporation tax rate of 15%** for companies that are part of a multinational group with consolidated revenues in excess of €750m.
- The Minister for Finance referred to the recent announcement that a **dividend participation exemption** will be implemented in Ireland from 1 January 2025 – a welcome measure when it is finally introduced. A public consultation on the participation exemption runs until 13 December 2023.
- The Minister acknowledged the complexity of **interest deductibility** rules and committed to engaging with stakeholders on the issue which will be welcomed.
- While there was no mention of proposed legislation to prevent double non-taxation applying to certain **outbound payments** to jurisdictions on the EU list of non-cooperative jurisdictions, and no-tax and zero-tax jurisdictions, we expect to see new measures when the upcoming Finance Bill is published.
- The **Research and Development (R&D) tax credit** provides a tax credit for qualifying R&D expenditure. In an effort to stimulate further R&D activity in Ireland, the rate is being increased from 25% to 30% for 2024 expenditure and the first year payment threshold, which allows for a capped claim to be paid in full in year one rather than over three years in order to assist with cashflow, is being increased from €25,000 to €50,000.
- A **new capital gains tax (CGT) relief for angel investors** in innovative start-ups is being introduced. Individual investors in innovative SMEs may avail of an effective reduced rate of CGT of 16%, or 18% if investing through a partnership, on a gain of up to twice the value of their initial investment with a lifetime limit of €3m on gains to which the reduced rate of CGT can apply. Investment must be for at least three years and in the form of fully paid-up newly issued shares costing at least €10,000, constituting 5%-49% of the ordinary issued share capital.
- The **Employment Investment Incentive scheme (EII)** provides income tax relief for investments in qualifying SMEs. From 1 January 2024, the minimum holding period to obtain relief is being standardised to four years for all investments and the relief limit is being doubled from €250,000 to €500,000. Further changes will be set out in the Finance Bill and potential simplification of the EII will be considered in 2024.
- Previously announced improvements to the **Key Employee Engagement Programme (KEEP)** regime providing for a tax efficient share option scheme have secured EU State Aid approval. The scheme will be extended until 31 December 2025 and the lifetime company limit for KEEP shares will be raised from €3m to €6m.
- Maximum qualifying expenditure for the **film corporation tax credit** will be increased from €70m to €125m subject to EU State Aid approval, and an incentive for the unscripted production sector is to be developed.
- A public consultation on **share based remuneration** will be launched shortly, recognising the competitive international labour market.
- The existing **Bank Levy** for certain domestic financial institutions applies up to 31 December 2023. A revised bank levy is being introduced for 2024, applying to those banks that received financial assistance from the State during the banking crisis.

Funds Sector 2030 Review

- The Minister noted that the ongoing, **wide-ranging review of the Irish funds sector** is on track, with a report on the outcome of the review due in summer 2024. The Minister specifically referenced consideration of **Life Assurance Exit Tax** and the **taxation of funds, including Exchange Traded Funds (ETFs)**, for Irish investors more generally. Following the conclusion of a public consultation on 15 September 2023, the Department of Finance is currently reviewing nearly 200 submissions from stakeholders and observers. Key objectives of the review include developing a framework within which Ireland can maintain its leading position in fund management and fund servicing and presents a tremendous opportunity to ensure and enhance the resilience of the funds sector in Ireland.

Personal Taxes

- The Minister acknowledged that the competitiveness of Ireland's personal tax regime is a factor in inward investment decisions. Publications released as part of Budget 2024 materials included a review of the personal tax system and an Annual Review of the **Special Assignee Relief Programme (SARP)**.
- As a step towards relieving some of the tax burden on individuals dealing with cost of living pressures, **PAYE and earned income tax credits** will increase by €100 to €1,875 and the **standard rate income tax cut-off point** will be increased by €2,000 to €42,000.
- The current **USC** rate of 4.5% rate will decrease to 4% and the entry threshold for this rate will increase to €25,760.
- No changes were announced with respect to the current rate of tax (33%) for **Capital Gains Tax** or **Capital Acquisitions Tax**.

Property

- In line with recent announcements on the Housing for All plan, the Minister confirmed that housing is the biggest domestic challenge and remains a top priority for the Government. Taxation measures announced included a number of property tax changes to assist new home buyers and encourage the property rental sector.
- A temporary **new tax relief is being introduced for small residential landlords** – the relief will be subject to conditions, including a clawback, and where available, will apply by disregarding the following amounts of rental income for taxation at the standard rate (20%): €3,000 in 2024; €4,000 in 2025, €5,000 in 2026 and €5,000 in 2027.
- The current annual **rent tax credit** will increase from €500 to €750 and will extend to parents who pay for certain types of student rental accommodation for their children.
- A temporary one-year **mortgage interest tax relief scheme** is being introduced for homeowners with an outstanding mortgage balance on their principal private residence of between €80,000 and €500,000 on 31 December 2022. The relief will be based on the increase in interest payments between 2022 and 2023 and will be capped at €1,250 per property.

- The **Help-to-Buy (HTB) scheme** which provides first-time buyers with a refund of income tax and deposit interest retention tax is being extended by an extra year to the end of 2025 and will be available to applicants of the Local Authority Affordable Purchase Scheme.
- The rate of **Vacant Homes Tax (VHT)** is being increased from three times a property's existing base of Local Property Tax to five times the base rate, with effect from the next chargeable period for VHT commencing November 2023.
- The liability date for the **Residential Zoned Land Tax (RZLT)** is to be extended by one year to provide affected parties with more time to engage in the process and to allow for the planned 2024 review of the RZLT maps by local authorities.
- No changes were announced with respect to **stamp duty on real estate transactions**.

Long Term Investment Funds

- The Minister announced the creation of two new sovereign long-term investment funds "to future proof our economy and public finances".
- The **Future Ireland Fund** will be a long-term savings fund, which will use current and predicted future budget surpluses to help meet the costs of running the State in the future. The Minister announced plans to invest 0.8% of GDP annually into the fund from 2024 to 2035 (c. €4.3bn in 2024) with an additional €4bn in seed funding from the dissolution of the current National Reserve Fund. With investment returns factored in, the Department of Finance hopes to reach a fund total of €100bn by 2035.
- The **Infrastructure, Climate and Nature Fund** will be set up with a target of reaching a fund total of €14bn over the next seven years to allow for sustained levels of investment in infrastructure in the event of economic downturns and to support climate and nature-related projects.

What's next?

Further detail on the measures announced in Budget 2024 will be contained in the Finance Bill which will be published on 19 October 2023.

Further information

We practice Bermuda, British Virgin Islands, Cayman Islands, Guernsey, Irish and Jersey law from an international network of ten offices across Europe, the Americas, Asia and the Middle East. For more information, please get in touch with your usual contact at Walkers or any of the contacts in your region listed below.

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