MOORE

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BUDGET 2022 – WHAT DOES IT MEAN FOR YOU?

Minister for Finance, Paschal Donohue, today announced his budget for 2022 which is significantly different from the budget he announced during the worst period of the Covid-19 pandemic emergency last October.

Last year's budget package of €17.75 billion contained a wide range of expenditure and supports aimed at assisting businesses and individuals survive the devastating economic impact of Covid-19.

It was widely leaked in advance of today's budget announcement that this year's package of €4.7 billion, of which €4.2 billion is available for spending with €500 million allocated for tax measures, was primarily focused on tackling the soaring cost of living for families and vulnerable households under pressure with inflation, rising energy costs and childcare expenses.

Below is a summary of the key budget measures:

Taxation

Personal Income Tax

Income Tax

- An increase of €1,500 in the income tax standard rate band for all earners, from €35,300 to €36,800 for single individuals and from €44,300 to €45,800 for married couples / civil partners with one earner.
- An increase in the Personal Tax Credit from €1,650 to €1,700
- An increase in the Employee Tax Credit from €1,650 to €1,700
- An increase in the Earned Income Credit from €1,650 to €1,700

Sea-going Naval Personnel Tax Credit

- Extension of the Sea-going Naval Personnel Tax Credit to 31 December 2022

USC

The following changes to USC will apply from 1 January 2022:

- €608 increase to €21,295 band ceiling

The increase in the 2% rate band ceiling will ensure that a full-time adult worker who benefits from the increase in the hourly minimum wage rate from €10.20 to €10.50 will remain outside the top rates of USC.

The USC Rates & Bands from 1 January 2022 will be:

- Incomes of €13,000 are exempt.

Otherwise:
- €0 – €12,012 @ 0.5%

- €12,013 – €21,295 @ 2%
- €21,296 – €70,044 @ 4.5%
- €70,045+ @ 8%
- Self-employed income over €100,000: 3% surcharge

The reduced rate of USC for medical card holders is being extended for a further year, at an estimated cost of €62m in 2022 and €72m per annum thereafter. This measure is revenue neutral as it is already included in the tax base.

Work from Home Measure

In light of Government policy to facilitate and support remote working, the current tax arrangements for working from home will be enhanced and formalised so that an income tax deduction amounting to 30% of the cost of vouched expenses for heat, electricity and broadband in respect of those days spent working from home can be claimed by taxpayers.

Measures to support Enterprise/SMEs/Agri-sector

Employment Wage Subsidy Scheme

The Employment Wage Subsidy Scheme will be extended until 30 April 2022, in a graduated form.

The following are the broad parameters of this extension:

- no change to EWSS for the months of October and November,
- businesses availing of the EWSS on the 31st of December 2021 will continue to be supported until the 30th of April 2022,
- across December, January and February, the original two-rate structure of €151.50 and €203 will apply,
- for March and April 2022, a flat rate subsidy of €100 will be put in place. In addition, the reduced rate of Employers' PRSI will no longer apply for these two months, and
- the scheme will close to new employers from 1 January 2022.

The estimated cost of extending the EWSS from November 2021 to 30 April 2022 is in the region of €1.26 billion, which is funded by the Vote for the Department of Social Protection.

Taxation of International Flight Crew

Section 127B of the Taxes Consolidation Act 1997 provides for the tax treatment of flight crew in international traffic. An amendment will be introduced in the Finance Bill to exclude non-resident air crew where certain conditions are satisfied.

Employment Investment Incentive (EII)

Extension and expansion of the Employment Investment Incentive scheme to end-2024. There are a number of important further modifications to the scheme are being introduced. The most significant of these is to open up the scheme to a wider range of investment funds in order to attract more investors into the scheme. It is also proposed to allow greater capacity for investors to redeem their capital without penalty - the so called 'capital redemption window' - and to remove the rule that 30% of an investment in an EII company must be spent before relief can be claimed.

Tax Credit for Digital Games

This new relief will support digital games development companies by providing a refundable corporation tax credit for expenditure incurred on the design, production and testing of a digital game.

The relief will be available at a rate of 32%, on eligible expenditure of up to a maximum limit of €25 million per project. A claim for the tax credit for digital games can only be made in respect of a digital game which has been issued with a cultural certificate from the Minister for Tourism, Culture, Arts, Gaeltacht, Sport and Media. Relief will not be available for digital games produced mainly for the purposes of advertising or gambling. As European State Aid approval is required, the credit will be introduced subject to a commencement order.

Relief for certain start-up companies

Finance (No. 2) Act 2008 introduced Section 486C into the Taxes Consolidation Act 1997, to provide relief from corporation tax for start-up companies in their first three years of trading. The objective is to support new business ventures in their critical early years of trading, thereby supporting the creation of additional employment and economic activity in the State. The relief is granted by reducing the corporation tax payable on the profits of the new trade and gains on the disposal of any assets used for the purposes of the new trade. The amount of relief available is directly linked to the amount of Employers' PRSI paid.

The relief will be extended in Finance Bill 2021, for a period of five years until 31 December 2026. In view of the challenges companies currently face in utilising the relief due to the impact that pandemic-related supports have had on Employers' PRSI payments, the relief will also be amended such that start-up companies will be able to avail of the relief for up to five years, in place of the current three years. These changes will provide greater certainty to recently established companies and to those seeking to commence trading as Ireland emerges from the pandemic.

Stock Relief

Extension of stock relief for a further three years. This section provides for stock relief at a rate of 25% of the amount by which the value of farm trading stock at the end of an accounting period exceeds the value of farm trading stock at the beginning of the accounting period. Sections 667B TCA 1997, and sections 667C TCA 1997, which provide for, respectively, enhanced stock relief at a rate of 100% for young trained farmers; and at the rate of 50% for farmers who are partners in registered farm partnerships are being extended for a further year.

Extension of Young Trained Farmer (Stamp Duty) Relief to the end of 2022

Expansion of Warehousing of tax liabilities

The tax debt warehousing scheme will be expanded to allow self-assessed income taxpayers with employment income who have a material interest in their employer company to warehouse income tax liabilities relating to their Schedule E income from that employer company.

Housing

Zoned Land Tax

Introduction of a new 3% Zoned Land Tax (based on market price of land) to encourage the use of land for building homes. It will apply to land which is zoned suitable for residential development and is serviced, but has not been developed for housing

Extension of Help to Buy to end-2022

The Help to Buy measures is being extended at the enhanced rate of support to end 2022.

Extension of pre-letting expenses for landlords to end 2024 **(S97A)**

This measure relating to pre-letting expenses for landlords is being extended to end 2024.

Climate and Environmental measures

Tax treatment of income from micro-generation of electricity

A tax disregard (€200) is being introduced in respect of personal income received by households who sell residual electricity that they generate back to the grid.

Carbon Tax2

As set out in Finance Act 2020, the rate of carbon tax will increase by €7.50 from €33.50 to €41.00 per tonne of carbon dioxide emitted.

This applies from budget night for auto fuels and 1 May 2022 for all other fuels.

Vehicle Registration Tax

From January 2022 a revised vehicle registration tax table is being introduced. The 20 band table will remain with an uplift in rates beginning with a 1% increase for vehicles that fall between bands 9-12; 2% for bands 13-15; and then a 4% increase for bands 16-20 (see Annex B). The €5,000 relief for Battery Electric vehicles is being extended to end 2023.

Extension of BIK exemption for EVs

The BIK exemption for battery electric vehicles will be extended out to 2025 with a tapering effect on the vehicle value. This measure will take effect from 2023. For BIK purposes, the original market value of an electric vehicle will be reduced by €35,000 for 2023; €20,000 for 2024; and €10,000 for 2025.

Accelerated Capital Allowance scheme for Energy Efficient Equipment

The Accelerated Capital Allowance (ACA) scheme for energy efficient equipment is designed to encourage improved energy efficiency among Irish companies and unincorporated businesses. The ACA scheme allows taxpayers to deduct the full cost of expenditure on highly energy efficient equipment from taxable profits in the year of purchase. The scheme is also being amended to prohibit equipment directly operated by fossil fuels from qualifying for accelerated capital allowances.

Accelerated Capital Allowance scheme for Gas Vehicles and Refuelling Equipment

The Accelerated Capital Allowance Scheme for Gas Vehicles and Refuelling Equipment was introduced in Finance Act 2018. The scheme allows taxpayers to deduct the full cost of expenditure on eligible equipment from taxable profits in the year of purchase. It provides for the acceleration of existing allowances and therefore is cost-neutral over the lifespan of the assets.

The use of natural gas and biogas is an environmentally friendly, lower carbon-emission alternative to diesel and petrol for large vehicles such as Heavy Goods Vehicles and busses. The scheme is designed to contribute to the transition toward a low carbon economy by supporting the transition to lower-emission fuels, particularly in the heavy-duty land transport sector. The Bill extends the scheme from its current end date of 31 December 2021 to 31 December 2024. In addition, the scheme will be expanded to encompass hydrogen-powered vehicles and refuelling equipment. Hydrogen offers significant carbon savings as a carbon neutral renewable energy and has been identified as a key element of a wider cross-sectoral shift to a net-zero carbon future for Europe.

Anti-Avoidance

Completion of ATAD Transposition

Introduction of new Interest Limitation Rule in line with Article 4 of the Anti-Tax Avoidance Directive (ATAD). This measure will place a limit on deductible interest expenses of 30% of EBITDA for companies within scope of the measure. Disallowed interest may be carried forward and may be deducted in future years if the company has sufficient interest capacity. Full details of the measure will be contained in the Finance Bill.

Introduction of new anti-reverse-hybrid rules in line with Article 9(a) ATAD. This measure will bring certain tax transparent entities (such as partnerships) within scope of Irish tax where the entity is 50% or more owned/controlled by entities resident in a jurisdiction that regard it as tax opaque and, as a result of this hybridity, double non-taxation occurs. Full details of the measure will be contained in the Finance Bill.

Additional Taxation Measures

VAT for Hospitality

Reduced VAT rate of 9% for the hospitality sector will remain in place to the end of August 2022

VAT - Farmers Flat Rate Scheme to the end of 2022

The flat-rate scheme compensates un-registered farmers on an overall basis for VAT incurred on their farming inputs. Based on macro-economic data, a decrease in the farmers' flat rate addition from the current 5.6% to 5.5% is warranted for the year 2022.

Tobacco Products Tax

Increase in 50c on pack of 20 cigarettes with pro-rata increase on other tobacco products.

Bank Levy extended to the end of 2022

Employer's PRSI

From 1 January 2022 the weekly income threshold for the higher rate of employer's PRSI will increase from €398 to €410.

This follows a recommendation of the Low Pay Commission to ensure that the increase in the hourly minimum wage does not lead to work disincentives for workers, in particular those seeking to work full-time.

Expenditure Items

Budget 2022 reflects the Government's commitment to return the public finances to a more sustainable position in the aftermath of significant expenditure resulting from the pandemic. It is clear from the targeted measures taken that the Government are still committed to enhancing public services and social supports, while trying to achieve this in a fiscally viable manner.

In this context the key spending priorities for Budget 2022 are as follows:

- An increase in core current expenditure of €3.1 billion , bringing the total spend to €22.25 billion,. These funds will be primarily focused on improving the scope and availability of public services which will broadly impact on all sectors of our economy.
- Core capital expenditure will increase by approximately €1.1 billion representing an increase of almost 11½% over the 2021 allocation. This showcases a very substantial commitment of resources by our government and initiates the process of increasing voted capital expenditure to 5% of Gross National Income by 2025.
- A number of changes to social welfare payments in an attempt to ease the pressures associated with the increase in cost of living. These include a €5 increase in main weekly welfare payments, state pension and young jobseeker's allowance. In addition to this the weekly fuel allowance will rise by €5 from midnight tonight. Carer's Allowance has been adjusted such that thousands more carers will be eligible to receive the allowance. A single person will be allowed to earn €350, and a couple €750, per week and still qualify for the payment. Confirmation of a double payment of welfare allowances at Christmas was also confirmed.
- The overall allocation for Health next year is €22.2 billion with a further €0.2 billion held in reserve. Less than €1 billion of this is for Covid-19 funding, this is down from €2 billion in Budget 2021. The main focus of the Government is to tackle waiting lists and extended free GP care to older kids up to the age of 7.
- €6 billion will be allocated to Department of Housing, a 15.5 per cent increase on 2021 allocation. The funds will be used to provide additional social housing and increase the supply of affordable homes.

- The Government has demonstrated its awareness of the need for a careful and balanced withdrawal of supports it put in place during the pandemic. In this regard a provision of up to €6.8 billion is available to fund Covid-19 related measures in 2022. This investment will provide for the operation of the automatic stabilisers, primarily jobseekers payments, the extension of the Employment Wage Subsidy Scheme into 2022 and targeted sectoral supports. The Employment Wage Subsidy Scheme (EWSS) will be extended until April 30th 2022 and the payment levels will be tapered down in the meantime.
- Ireland has been allocated €1.1 billion under the Brexit Adjustment Reserve ("BAR"). The objective of the Reserve is to provide support to counter the adverse consequences of the withdrawal of the UK from the European Union (EU). The Reserve may only support measures specifically taken to contribute to this objective and can be allocated across the eligible period of 2020 to 2023. It is assumed that €500 million of the overall BAR allocation will be made available in 2022, with the remainder available in 2023.

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