An Roinn Airgeadais
Department of Finance

BUDGET 2014

Finance (No.2) Bill 2013 published

- *Finance (No.2) Bill 2013 gives effect to taxation measures announced in Budget 2014*
- *Commencement date of Home Renovation Incentive brought forward to 25th October 2013*

The Minister for Finance, Michael Noonan T.D., today (24th October 2013) published the **Finance (No. 2) Bill 2013.** The Bill gives effects to taxation measures announced in Budget 2014.

Commenting on the publication of the Finance Bill, the Minister for Finance, Michael Noonan T.D. stated:

"Budget 2014 was carefully calibrated to support economic growth and job creation, to reduce our deficit to 4.8% and to secure Ireland's exit from the EU/IMF programme. Finance (No.2) Bill 2013 give effects to the tax measures that underpin this strategy.

Twenty five pro-business and pro-jobs measures were introduced in Budget 2014, including the retention of the 9% rate of VAT for the tourism sector, the reduction of the air travel tax to €0, the introduction of a home renovation tax incentive scheme, enhancements to a number of agricultural incentives and a package of measures to encourage innovation, entrepreneurship and investment.

In addition, I have decided to bring forward the commencement date for the home renovation incentive to include works that commence on or after the 25 October 2013. This will act as a timely boost to this key sector and will ensure that works starting from tomorrow will be eligible for this incentive.

The full cost of the pro-jobs measures is in excess of €500 million in a full year and as I set out on Budget day close to €700 million of new tax measures are required to funds the jobs package and reduce the deficit in the public finance. This Bill sets out further details on these revenue raising measures."

The Bill, as usual, also contains details of a number of changes not yet announced, including many of a technical or administrative nature. Details of the Bill are set out in the Notes to Editors below:

Notes to Editors:

Measures announced on Budget Day:

Finance (No. 2) Bill 2013 gives effect to the taxation-related measures announced on Budget Day which include:

- The 9% VAT rate on tourism related services was due to expire at the end of this year but will now be retained. This will support the increased number of jobs already in place in that sector and accelerate the creation of new jobs.

- A scheme of tax relief for home renovation work is being introduced. Relief will be granted at a rate of 13.5% on qualifying expenditure up to a maximum of €30,000 ex VAT. The minimum expenditure must be €5,000 ex VAT. Relief will be granted by way of tax credit split over two years following the year in which the works are carried out. The scheme will run from 25 October 2013 to 31 December 2015. Works carried out in 2013 will be deemed to have taken place in 2014 and the credit will be awarded in 2015 and 2016.

- CGT retirement relief is being further extended to disposals of leased farmland in circumstances where, among other conditions, the land is leased over the long-term (a minimum lease of 5 years) and the subsequent disposal is to a person other than a child of the individual disposing of the farmland.

- A CGT incentive is being introduced to encourage entrepreneurs (in particular "serial" entrepreneurs) to invest in assets used in new productive trading activities. Commencement of this measure is subject to receipt of EU state-aid approval.

- The farmer's flat-rate addition is being increased from 4.8% to 5% with effect from 1 January 2014. The flat-rate scheme compensates unregistered farmers for VAT incurred on their farming inputs. The flat-rate addition is reviewed annually in accordance with the EU VAT Directive and the increase to 5% in 2014 continues to achieve full compensation for farmers.

- Three courses are added to the list of relevant qualifications required to apply for Young Trained Farmer (YTF) relief from Stamp Duty and for the 100% enhanced rate of Stock Relief, and to update references in the Stamp Duties Consolidation Act 1999 and the Taxes Consolidation Act 1997, to the body which certifies such courses, which is now called the Qualifications and Quality Assurance Authority of Ireland.

- As an employment activation measure, the Start Your Own Business incentive will provide an exemption from Income Tax up to a maximum of €40,000 per annum for a period of two years, to individuals who set up a qualifying, un-incorporated business, having been unemployed for a period of at least 15 months prior to establishing the business.

- The Employment and Investment Incentive will be removed from the High Earners' Restriction for a period of three years in order to stimulate investment in SMEs.

- Capital allowances for plant and machinery used in manufacturing trades that are claimed by passive investors in a leasing trade, will be included as a specified relief for the purposes of the high earners' restriction.

- The R&D tax credit applies to the amount of qualifying R&D expenditure by a company in a given year that is in excess of the amount spent in 2003, which is the 'base year' for the regime. Finance Act 2012 provided that the first €100,000 of qualifying R&D expenditure would benefit from the tax credit without reference to the 2003 base year and Finance Act 2013 increased that amount to €200,000. The amount of initial expenditure which can qualify without reference to the base year is now being increased to €300,000. The amount of expenditure on R&D outsourced to third parties which is allowed to qualify for the credit is limited to 10% of the total amount of expenditure on R&D qualifying for the credit in a given year. This limit is being increased from 10% to 15%. Since 2012, a company with an entitlement to the R&D Tax Credit can surrender a portion of the credit to employees who meet the definition of a 'key employee'. Subject to certain conditions, the employee can use the benefit of the tax credit to reduce their own income tax liability. Modest amendments to the key employee provision were announced in the Budget to remove some barriers to uptake.

- The maximum allowable pension fund on retirement for tax purposes, the Standard Fund Threshold (SFT), is being reduced from €2.3 million to €2.0 million from 1 January 2014 with protection arrangements for individuals with pension rights valued above the reduced threshold at that date. In addition, the current single valuation factor of 20 used to place a value on Defined Benefit pension rights for SFT purposes is being replaced from 1 January 2014 with a range of higher valuation factors that vary with the age at which the pension rights are drawn down.

- The annual VAT cash receipts basis threshold for small to medium businesses is being increased from €1.25 million to €2 million with effect from 1 May 2014. This change will assist small to medium businesses in the critical area of cash-flow and reduce administration.

- This Finance Bill extends the definition of 'eligible individual' for the purposes of Film Relief, to include non EU talent, in conjunction with the introduction of a withholding tax. Subject to EU State Aid approval and a commencement order.

- The Bill extends the scope of the Living City Initiative to include residential properties constructed in 1914 or earlier, in designated areas. This initiative is subject to EU State Aid approval and a commencement order. It is also proposed to extend the initiative to Cork, Galway, Kilkenny and Dublin.

- Company residence rules contained in section 23A of the TCA are amended to ensure that mismatches, that can exist between tax treaty partners in certain circumstances, can no longer be used to allow companies to achieve 'stateless' status in terms of their place of tax residence.

- The Bill removes the Stamp Duty charge (currently 1%) on transfers of shares in companies listed on the Enterprise Securities Market (ESM) of the Irish Stock Exchange

(ISE). The ESM is the ISE's market for growth companies. This measure is subject to a commencement order.

- An additional 0.15% levy will apply on top of the current 0.6% stamp duty levy on pension fund assets for the year 2014. The levy will be reduced to 0.15% for 2015.

- Legislation is being put in place to ensure that *ex-gratia* payments to women who were admitted to and worked in Magdalen laundries will not be subject to tax.

- The standard rate of retention tax that applies to deposit interest is being increased by 8 percentage points and will now be 41% for payments made at least once annually. The higher rate of Deposit Interest Retention Tax (DIRT), currently 36% for interest paid less frequently than annually is to be abolished, so that all deposit interest is liable to tax at the same rate (41%). The increased rates will apply to payments, including deemed payments, made on or after 1 January 2014. In addition, the exemption for certain interest paid on "special term accounts" will be abolished for such accounts opened after Budget night and credit union "regular share accounts" will be subject to DIRT on interest/dividend payments made after 1 January 2014.

- The rates of exit tax that apply to life assurance policies and investment funds and other investment products are being increased. The new rate will be 41% (an increase of 8% on the rate for relevant payments and 5% on the previous 36% rate for non-relevant payments. The increased rates will apply to payments including deemed payments, made on or after 1 January 2014. Increases will also apply to the higher rates charged on personal portfolio investment undertakings and personal portfolio life products (to increase from 56% to 60% where correctly declared and from 74% to 80% where not correctly declared.

- The scheme of tax relief for medical insurance premiums is being restricted. Currently tax relief is available at the standard rate on the full amount of any premiums regardless of the level of medical cover. Tax relief will, from 16 October 2013, be restricted to the first €1,000 per adult and the first €500 per child of any premium. The portion of any premium that is payable in excess of these ceilings will not qualify for tax relief.

- Top slicing relief is being abolished for all *ex-gratia* payments made on or after 1 January 2014. This will have no impact on lump sums paid as part of an approved occupational pension scheme. *Ex-gratia* (or discretionary) payments are sometimes made on the termination of the holding of an office or employment, or on death or disablement grounds. Top slicing relief has been available for such awards where the non-statutory element of the payment is less than €200,000. This relief currently acts to reduce the tax rate on the final amount to be charged, to the average effective rate of tax paid for the three years prior to redundancy, retirement, death or disablement.

Measures not announced on Budget Day:

Some of the additional measures in Finance (No. 2) Bill 2013, not announced on Budget Day, include:

- The Bill will enhance double taxation relief in respect of leasing income by providing for the carry-forward of unrelieved foreign tax against future taxable profits from the same source of income. This measure will be of particular benefit to the aircraft leasing industry.

- The Bill provides for the removal of the 50% restriction on the amount of prior year trading losses a NAMA participating institution (PI) can set off against trading profits. The remaining PIs comprise AIB and Bank of Ireland, of which the State owns 99.8% and 15% respectively. This amendment will protect the accounting carrying value of deferred tax assets at the banks, improving capital ratios under the new Basel III rules and enhancing the valuation of the State's equity holdings in the two banks. It also reduces the risk of future capital injections by the State arising from upcoming stress tests.

- Section 627 of the Taxes Consolidation Act (TCA) provides for an 'exit tax' on certain companies that cease to be resident for tax purposes in Ireland. Such companies are deemed to have disposed of their capital assets at market value (other than assets which are used for the purposes of a continuing trade in Ireland). In response to recent decisions of the Court of Justice of the European Union in relation to the 'exit tax' regimes of other Member States, the Bill amends Ireland's regime. The amendments provide for an optional scheme of deferred payment of the 'exit tax' in cases where a liability arises on unrealised gains on the migration of a company from Ireland to another EU or EEA Member State.

- As the legislation relating to benefit-in-kind is still determined in miles it has been necessary for employers and payroll providers, in correctly calculating the notional pay associated with the use of a company car, to carry out additional calculations to convert distances and usage into miles. An amendment is proposed to rectify this.

- The VAT rate applying to (a) the supply of live horses, other than those intended for use as foodstuffs or for use in agricultural production, (b) the supply of greyhounds, and (c) the hire of horses, is being increased from 4.8% in order to comply with the Judgement in the European Court of Justice Case C108/2011. The rate applying to these supplies will be 9%, the lowest available reduced rate of VAT. However, the 4.8% rate will continue to apply to livestock in general, and to horses that are intended for use as foodstuffs or for use in agricultural production. In addition, the VAT rate on 'no foal, no fee' insemination services will be increased from 4.8% to the 13.5% reduced rate, so that the same 13.5% rate applies to all insemination services, for all animals, including livestock, horses and greyhounds. The 13.5% rate also applies to the supply of livestock and horse semen. It should be noted that horse breeding and minding will continue to qualify as agricultural services under the flat-rate farmer scheme.

- The Bill amends the provisions for licensing of mineral oil traders, so that a licence shall not be granted where, in relation to dealings in or with mineral oil, there has been a failure to comply with a requirement of excise law by the applicant or the premises or place concerned and that failure has not been remedied. Similar provision is made for where there has been a failure to comply with the conditions attaching to a mineral oil trader's licence. The Bill also amends the provisions for the liability of persons in certain circumstances for the excise duty on an excisable product by introducing a provision aimed at addressing the problem of supply and delivery of marked gas oil for laundering.

- The Bill provides for the exemption from income tax of the annual allowance of €1,000 paid to volunteer members of the Garda Reserve.

- The Finance Bill extends Sportsperson's Retirement Relief to allow it in cases where a sportsperson retires to another EU or EFTA country. This change is being made in response to EU Commission concerns.

- A measure will ensure that grants paid to employers who are participating in the JobsPlus Scheme, administered by the Department of Social Protection, will not be subject to tax.

- A measure is proposed to ensure that taxpayer confidentiality as it applies to Revenue officers will also apply to external service providers that Revenue may from time to time engage – thereby making it an offence for any such service provider to disclose taxpayer information otherwise than in accordance with the Acts. The amendment will also ensure that if either a Revenue officer or a service provider look for information from a taxpayer which they claim is required for the purposes of the Tax Acts, but isn't, they will also be in breach of the taxpayer confidentiality provisions.

An independent cost benefit analysis in the area of AgriTaxation:

This was announced in the Minister's Budget speech and is in line with the Department's policy to review all tax expenditures on a regular basis, and follows on from recent reviews of property, film and R&D tax expenditures. The purpose of this cost benefit analysis will be to assess the costs and benefits of the various existing agriculture tax expenditures with a view to ensuring that the maximum benefit to the sector and to the wider economy is obtained. It is important to state that the overall objective is not to change the level of Exchequer support to the sector through the tax system but rather to maximise the benefits to the economy for the existing level of State support. Any recommendations would be considered in the context of Budget 2015.

Timing of the Finance Bill:

Under the regulations known as the "Two-Pack" which were formally adopted on 30th May, a common budgetary timeline is being introduced for all Euro Area member states. Specifically:

- the draft budget for central government and the main parameters of the draft budgets for all the other sub-sectors of the general government must be published by the 15th of October each year;
- draft budgetary plans in a common format must be submitted by all Euro area Member States not in a programme of assistance; and
- the budget for the central government must be adopted or fixed upon and published by the 31st of December each year.

In light of these requirements, the Government decided to bring Budget Day forward from the first week in December to on or before 15th October from now on. This means that Budget 2014 was presented and published on Tuesday, 15th October this year.

The Government has also decided that the Finance Bill should complete its passage through the Oireachtas by 31st December each year. This means also that, as the Finance Bill is published in 2013, it is called the "Finance (No. 2) Bill 2013" even though it relates to Budget 2014.

Details of all the various measures in Finance (No.2) Bill 2013 are provided in the attached list.

The list is also available, along with the text of the Bill, the Explanatory Memorandum and this press release, at www.finance.gov.ie

Next steps:

Second Stage: 6th November 2013

Ends