



Budget 2019 Summary

Minister for Finance, Paschal Donohoe, delivered the 2019 Budget today, Tuesday 9th October 2018.

This Budget marked the third and final budget of the confidence and supply agreement with Fianna Fáil and brought us one step closer to a General Election.

Minister Donohoe had the unenviable task of marrying expectation with reality in very uncertain times. A €1 billion windfall in Corporation Taxes gave him more leeway than anticipated but led to calls not to make the same mistakes of the past where budgets were based on unsustainable tax receipts from one source.

On one hand, with the economy predicted to be one of the fastest growing in Europe once again this year, the “squeezed middle” were looking for further tax reductions in 2019 from this Government. With a General Election looming large political pressures from TD’s hoping to be re-elected were also a factor.

However, significant overspending particularly in the Department of Health, the potential for Trump trade wars and the dark spectre of Brexit looming meant the Minister had to reflect the optimism of a growing economy whilst preaching prudence given the potential economic headwinds likely to come in to play next year.

In the end he announced a budget package of approximately €1.5 billion in tax cuts and spending increases.

Here we look at how it affects small businesses and the self-employed.

T: 1890 98 76 09

E: info@taxassist.ie

www.taxassist.ie



SUMMARY

- USC rates cut and bands changed – the 4.75% rate is cut to 4.5% - tax saving of circa €60 for those on average industrial wage
- 20% income tax threshold increased to €35,300 for a single person and €70,600 for a married couple – tax saving of €150 for a single person, €300 for married couple.
- Earned Income Tax Credit increased by €200 to €1,350 per annum
- Home Carer Tax Credit increased by €300 to €1,500 per annum
- Employers PRSI rates increased by 0.1% - from 10.85% to 10.95% and from 8.6% to 8.7%
- 0% rate of BIK on electric vehicles extended for a further 3 years
- Landlords can now avail of 100% mortgage interest relief: additional €15 tax deduction for every €100 mortgage interest you pay.
- PAYE Modernisation – Real Time Reporting to commence for employers from 01 January 2019
- 9% rate of VAT removed for Tourism sector – increased to 13.5%
- Minimum Wage set to rise by 25 cents an hour to €9.80 from 01 January 2019
- Inheritance/Gift Tax – the amount of gifts/inheritances you can receive tax free from your parents is to be increased by €10,000

TAX CUTS

EARNED INCOME TAX CREDIT

The Earned Income Tax Credit has been increased from €1,150 in 2018 to €1,350 in 2019.

This means the self-employed are still €300 worse off than their PAYE counterparts even though it had been promised that this position would be equalised by 2018 back when the credit was first introduced in 2016.

INCREASE IN 20% INCOME TAX BAND

The amount of income you can earn which is taxed at the lower rate of tax has been increased from €34,550 to €35,300 for a single person and from €69,100 to €70,600 for a married couple.

UNIVERSAL SOCIAL CHARGE RATE CUT

The 4.75% rate of USC has been reduced by 0.25% to 4.50%.

The second rate band has been increased by €502 to €19,874 to take account of the proposed increase to the minimum wage to ensure that these people do not have any income taxed in the top rates of USC.

The 11% rate for self-employed income over €100,000 remains in place.

HOME CARER TAX CREDIT

The Home Carer Tax Credit may be available to married couples or civil partners where one spouse/civil partner (the "home carer") stays at home to care for one or more dependent persons e.g. a child entitled to a child benefit payment.

The credit will be increased by €300 to €1,500 per annum in 2019.

LANDLORDS

MORTGAGE INTEREST RELIEF

It had been announced in previous budgets that a full 100% deduction for mortgage interest paid on a loan to buy a rental property would be restored by 2021.

The minister took the decision to accelerate this and from 1st January 2019 landlords will be able to deduct the full amount of the mortgage interest they pay against income from that property.

In 2018, Residential Landlords can only deduct 85% of the mortgage interest paid in a tax year against their rental income.

Example:

Tom is a PAYE worker with one investment property. He earns €55,000 through PAYE and €7,500 net profit on his rental property. The mortgage interest on the property per year is €4,500.

The 15% increase in respect of mortgage interest deduction would mean a tax saving of approximately €329 for Tom. This does not include any tax savings on his PAYE income as a result of the proposed budget changes.

EMPLOYERS

PAYE MODERNISATION

From 01 January 2019 a system of real time reporting for payroll deductions from employees will be introduced in Ireland.

This will mean that employers large and small will need to report detailed information to Revenue on the amounts paid to and taxes withheld from their employees on every occasion that they run their payroll throughout the year be it weekly, fortnightly or monthly.

Revenue have undertaken a lengthy and ongoing consultation process with representative bodies and employer groups to construct a system that will be easily integrated into existing payroll systems.

There have been a number of concerns raised about this new reporting structure, in particular for small employers. The main concerns are centred around increased administration, cost, retraining for staff and access to broadband for employers in rural areas as the system will be administered online.

Employers are urged to prepare for this fundamental change in reporting as soon as possible in order to ensure that their business is compliant when the new rules become effective in the new year.

CHANGES TO EMPLOYERS PRSI

As flagged in last years budget both rates of employers PRSI have been increased by 0.1%

For employees earning €386 per week or less the rate of Employers PRSI will increase from 8.6% to 8.7%

For employees earning over €386 per week the rate of Employers PRSI will increase from 10.85% to 10.95%

MINIMUM WAGE

The national minimum wage will increase from €9.55 per hour to €9.80 per hour from 01 January 2019.

KEEP SCHEME

The Key Employment Engagement Programme (KEEP) was introduced in last years budget to much fanfare from Government.

The scheme, which is designed to help SME's retain and attract key employees by granting them share options in

the company in a tax efficient manner, has seen very poor take up due to restrictive criteria in the original design of the scheme.

The Government is proposing to make further changes to make it more attractive to employers including increasing the value of the shares that can be awarded to an individual employee.

BIK ON ELECTRIC VEHICLES

The 0% BIK rate for electric vehicles is being extended for a further period of three years with a cap of €50,000 on the value of the vehicle.

CORPORATION TAX

START UP EXEMPTION EXTENDED

The Corporate Tax exemption for new businesses trading through a limited company, which was due to expire on 31st December 2018, has been extended to 31st December 2021.

This relief is potentially worth up to €40,000 per year for the first three years of trading for the new business.

ANTI-TAX AVOIDANCE DIRECTIVE

Two new measures will be introduced in this years Budget to fulfill Irelands commitment to implementing the rules set out in the Anti-Tax Avoidance Directive.

From midnight tonight (9th October), any companies who migrate or transfer assets offshore so that they leave the scope of Irish tax will face a tax of 12.5% on any unrealised gains associated with these assets.

From 1st January 2019 Ireland will also introduce a Controlled Foreign Company (CFC) regime. These rules will be an anti-abuse measure designed to prevent the diversion of profits to offshore entities, or CFC's, in low or no-tax jurisdictions.

CAPITAL TAX CHANGES

INHERITANCE/GIFT TAX

The Minister announced a modest increase to the amounts people can inherit/receive as a gift in their lifetime from their parents.

€10,000 has been added to the Group A threshold which means that you can now receive up to €320,000 in gifts/inheritances in your lifetime without paying any tax.

VAT - Tourism Sector

9% rate abolished

The 9% rate of VAT which was introduced in 2011 to try and boost the flagging hospitality and tourism sector will be withdrawn from 1st January 2019. This special rate applied to a number of goods and services but was most commonly associated with restaurants and hotel rooms.

From 1st January 2019, a 13.5% VAT rate will apply to these goods and services.

The only industries to survive this rate hike were newspapers and sporting facilities.

The VAT rate on e-books and electronically supplied newspapers was also reduced from 23% to 9%.

BREXIT

The Ministers speech referred numerous times to the challenges faced by businesses in light of the UK's imminent departure from the EU.

He recognised the need for Government to set aside funding to combat "the political challenge of a generation".

He announced a Future Growth Loan Scheme for SMEs and the agriculture and food sector which will be funded

to the tune of €300 million. He also indicated that a further €110 million has been set aside for Brexit measures across a number of departments.

The exact detail of these schemes was not announced, and the weeks and months ahead will tell us if these incentives will have any real affect on those who are most exposed to the after effects of Brexit.

EXCISE / CARBON TAX

CIGARETTES, DIESEL AND PETROL

The price of a packet of 20 cigarettes has increased by €0.50 cents.

The expected rise in carbon tax on diesel/home heating oil did not materialise although a 1% surcharge on Vehicle Registrations Tax for diesel passenger cars was introduced.

SUMMARY OF RATES

Income Tax

	2019	2018
Top rate of tax	40%	40%
Higher rate entry point (single person)	€35,300	€34,550

USC:

Income of 13,000 or less is exempt, otherwise:

0.5% rate band (no change)	€12,012	€12,012
2% rate band (no change)	on the next €7,862	on the next €7,360
4.75% rate band (reduced to 4.5%)	on the next €50,170	on the next €50,672
8% rate band (on excess over €70,044)	income > €70,044	income > €70,044
11% rate band (self-employed +€100k)	income > €100,000	income > €100,000

Tax Credits:

Earned Income Tax Credit	€1,350	€1,150
Home Carer Tax Credit	€1,500	€1,200

Value Added Tax (VAT):

VAT Rate of Hospitality	13.5%	9%
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We hope you've enjoyed our breakdown of the Budget 2019 announcements and found this summary useful. Our teams are on hand to help. Please speak to us if you'd like to discuss how the latest announcements will impact your small business.

TaxAssist Accountants has offices across Ireland
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E: info@taxassist.ie
www.taxassist.ie

