Briefing
Budget 2019

The 4 Big **B**'S of Budget 2019


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On Tuesday 9th of October 2018, Minister for Finance Mr. Paschal Donohoe TD will deliver his second Budget. Ten years on from the economic crash of 2008 the Irish economy has rebounded and for the fourth year running we have the fastest growing economy in the EU. As recently as last week, the Economic and Social Research Institute (ESRI) forecast growth of 8.9% for 2018, followed by growth of 4.5% for 2019. The ESRI revised their earlier predicted growth forecast due to two main factors. First, domestic consumption and consumer spending has increased at a faster pace than previously expected. And second, a decline in imports of research and technology based services amongst multinational firms has led to considerable volatility and an improvement in the trade balance. However, the ESRI has warned that these amended forecasts are based on the assumption that a European Economic Agreement will exist between the EU and the UK after March 2019. In this article we focus on the 4 core pillars which we believe the Minister will focus on when framing the terms of the Budget.

1. Brexit proofing

It is becoming increasingly likely that Brexit is going to end in a messy divorce, which could bring a real shock to the Irish economy. The National Competitiveness Council identifies Brexit as the single biggest, and most immediate threat to Ireland's medium-term prosperity. The Government should continue to focus on Brexit proofing the economy. With significant uncertainty remaining as to what form Brexit will take, and with many entrepreneurs evaluating where they will base themselves in a post-Brexit world, changes to Ireland's entrepreneurial and private business regime would be helpful. In particular, we would encourage the Government to consider extending entrepreneurial relief for Capital Gains Tax (CGT) from €1 million to €10 million, which is currently the position in the UK.

2. Businesses

Ensuring Irish business and entrepreneurs can grow and scale their business from Ireland should be a key tenant of Budget 2019. The introduction of the Tax Cuts and Jobs Act 2017 in the US, which implemented one of the biggest reforms to the US tax code in decades, is an important factor to bear in mind in ensuring that Ireland can continue to attract US business. In order to continue to attract FDI, tackling infrastructure and housing supply should be part of a larger goal to improve Ireland's competitive climate.

3. BEPS

The BEPS (Base Erosion and Profit Shifting) Project is an initiative led by the OECD to tackle perceived abusive tax practices by large multinational companies. Given that the deadline for implementing changes into Irish tax law arising from BEPS is fast approaching, it is expected that there will be changes as a result of BEPS and the Anti-Tax Avoidance Directive (ATAD) in the Budget. One of the key changes expected in Budget 2019 will be the introduction of Controlled Foreign Company (CFC) rules designed to deter companies from shifting profits into non-genuine low tax structures. While changes to Ireland's transfer pricing rules were recommended in Ireland's Corporation Tax Roadmap (published in September 2018), it is not expected that these will be introduced in this year's Finance Bill.

4. Bands

In relation to personal taxes, all indications to date are that the focus will be on tax bands and not tax rates. It is likely that we will see some widening of the 20% tax band. There may also be some small tweaks to the USC. It is not anticipated there will be any significant changes on PRSI. The Government is continuing its complex work on merging of USC and PRSI together. For self-employed individuals, it's likely the Government will continue to narrow the gap between the earned income credit (currently €1,150) and the PAYE credit (currently (€1,650). However, with Ireland's top rate of tax at a combined rate of 52%, this compares unfavourably with top rates in both the UK (45%) and US (37%). Therefore, further work is needed to reduce these rates to make Ireland an attractive location for attracting top talent in a post Brexit environment. In last year's budget, a new Key Employment Engagement Programme (KEEP) initiative "to support small and medium enterprises in their efforts to attract and retain key employees in a competitive international labour market, by providing for an advantageous tax treatment on share options" was announced. The KEEP legislation has been criticised as being too restrictive because the value of the share options granted are capped by reference to the employer's annual emoluments. Calls have also been made for the KEEP scheme to be extended beyond the SME sector, which would serve to augment Ireland's competitiveness in attracting and retaining top talent.

Conclusion

Budget 2019 is an opportunity for the Government to future proof the Irish economy in terms of setting us on a course to be able to deal with any bumps that lie in the road ahead. If the Government get a B+ in their budget scorecard, perhaps that won't be a bad result!

For further information on the measures announced in the budget please contact a member of the Tax Team in McCann FitzGerald.

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