

PwC Private Business Services

Budget 2016

Irish Internet Association

“Post recession, pre-election”

14 October 2015



Speakers



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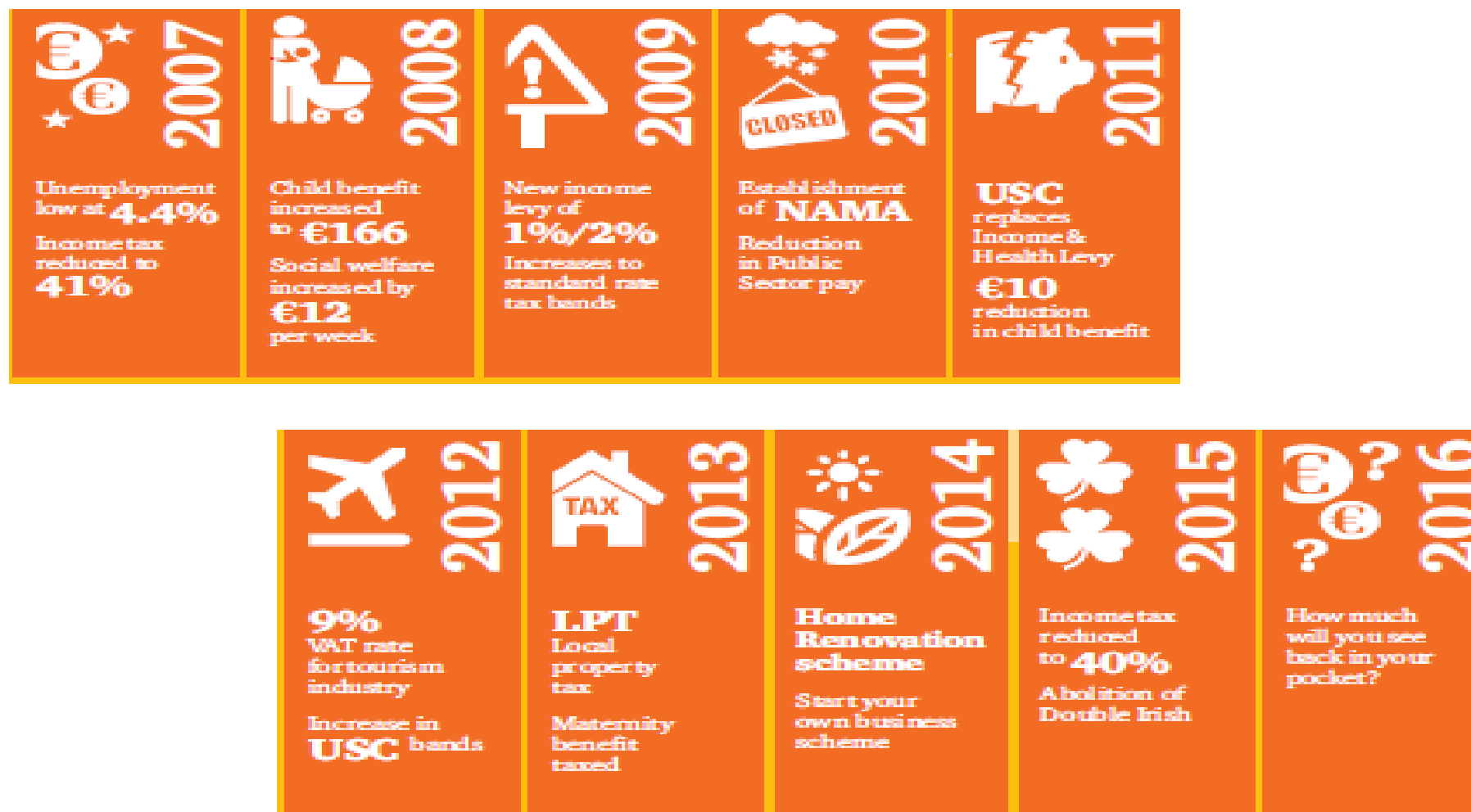
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Backdrop to Budget 2016

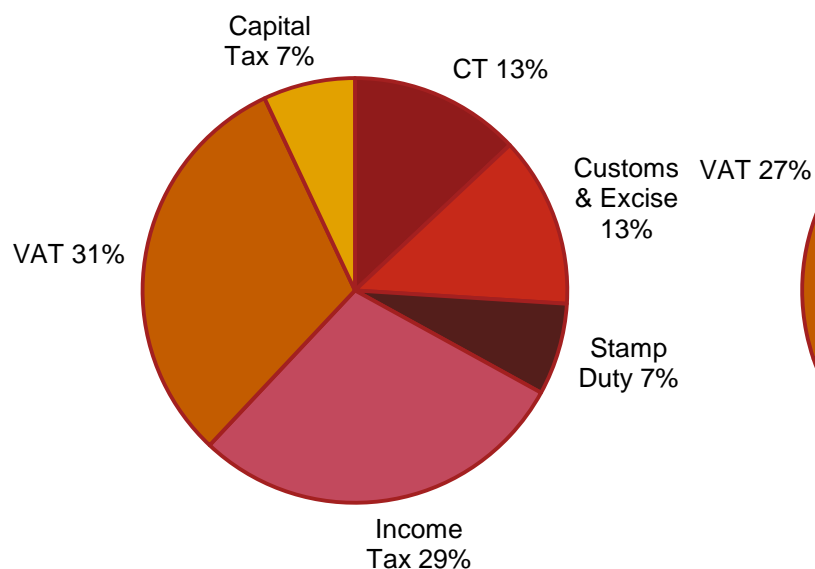
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Budgets over the last 10 years...

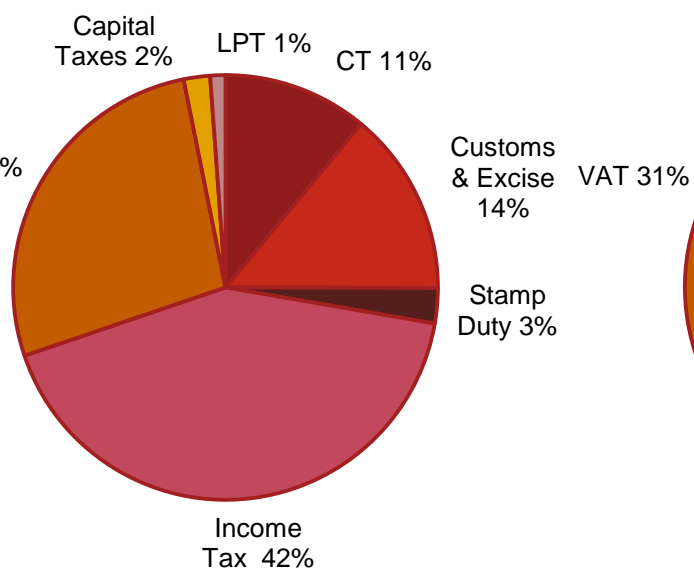


The tax mix has changed

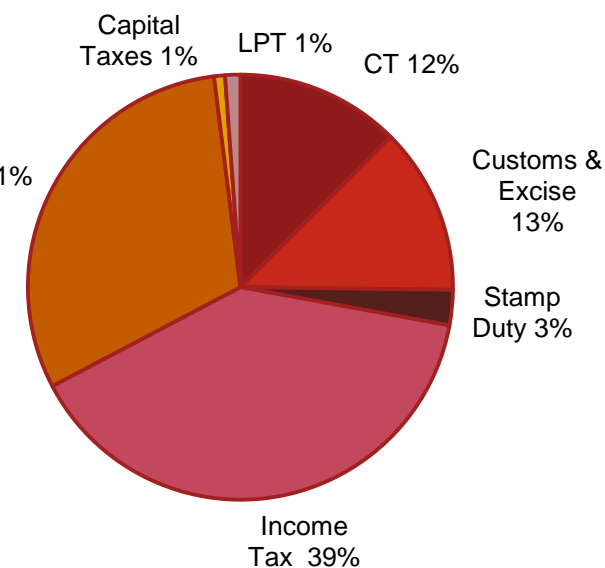
2007



2013



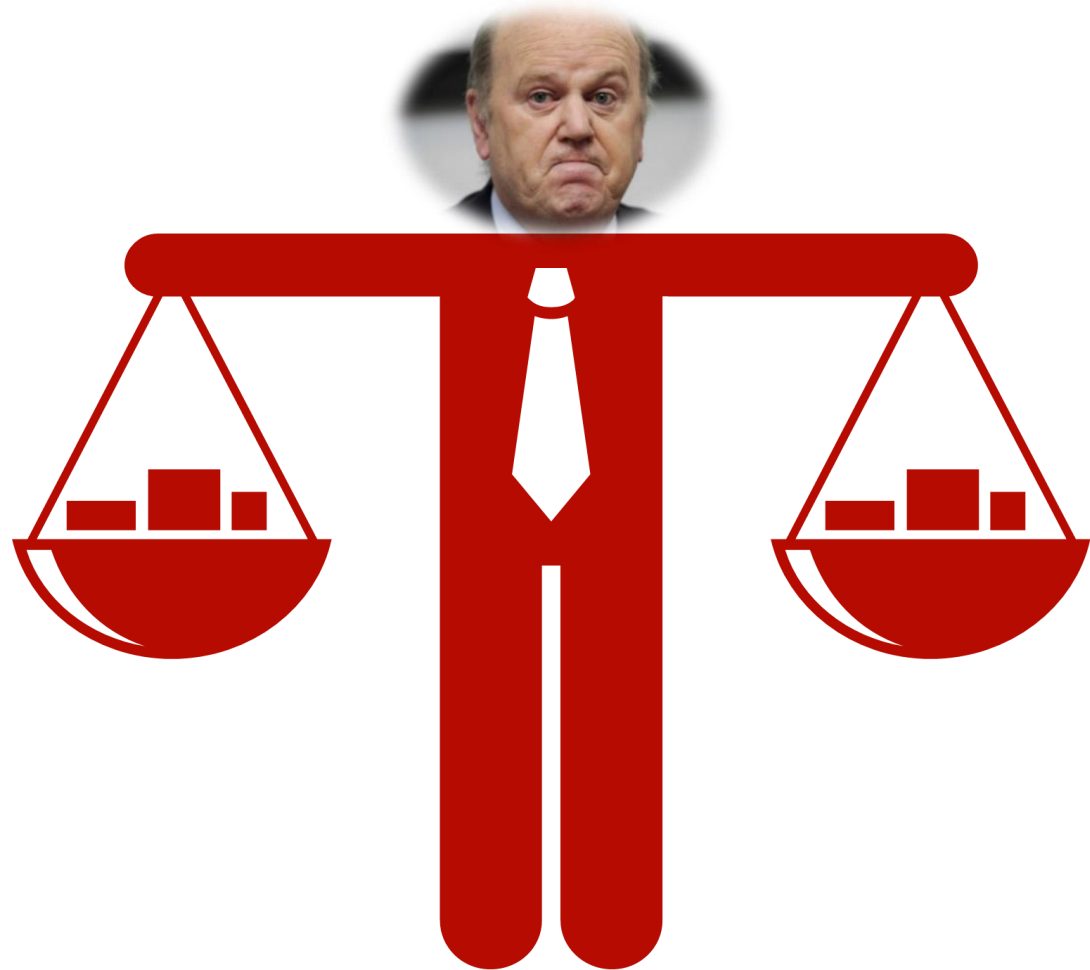
2015



Source: Department of Finance, Exchequer Tax Receipts

Budget 2016 – Getting the balance right

- €1.5 billion to plough back into the economy
- Split 50:50 between tax cuts and expenditure increases



Budget 2016

2

Pre Budget speculation

- Personal tax rates
- Self employed persons/ entrepreneurs
- Knowledge Development Box (“KDB”)
- Capital Acquisitions Tax (“CAT”)
- Capital Gains Tax (“CGT”)



Section 2.1

Personal tax rates

Tax changes

USC

- Rates down
 - 1% on first €12,012
 - 3% €12,012 - €18,668
 - 5.5% €18,669 - €70,044
 - 8%/11% remain
- Entry point €13,000

Income tax

- Home carer credit
 - Increase to €1,000



Case study 1

Single person, salary €55,000

	2015 €	2016 €
Income	55,000	55,000
Less: Income tax	(11,940)	(11,940)
USC	(2,995)	(2,318)
PRSI	<u>(2,200)</u>	<u>(2,200)</u>
Net pay	37,865	38,542 (↑ €677)

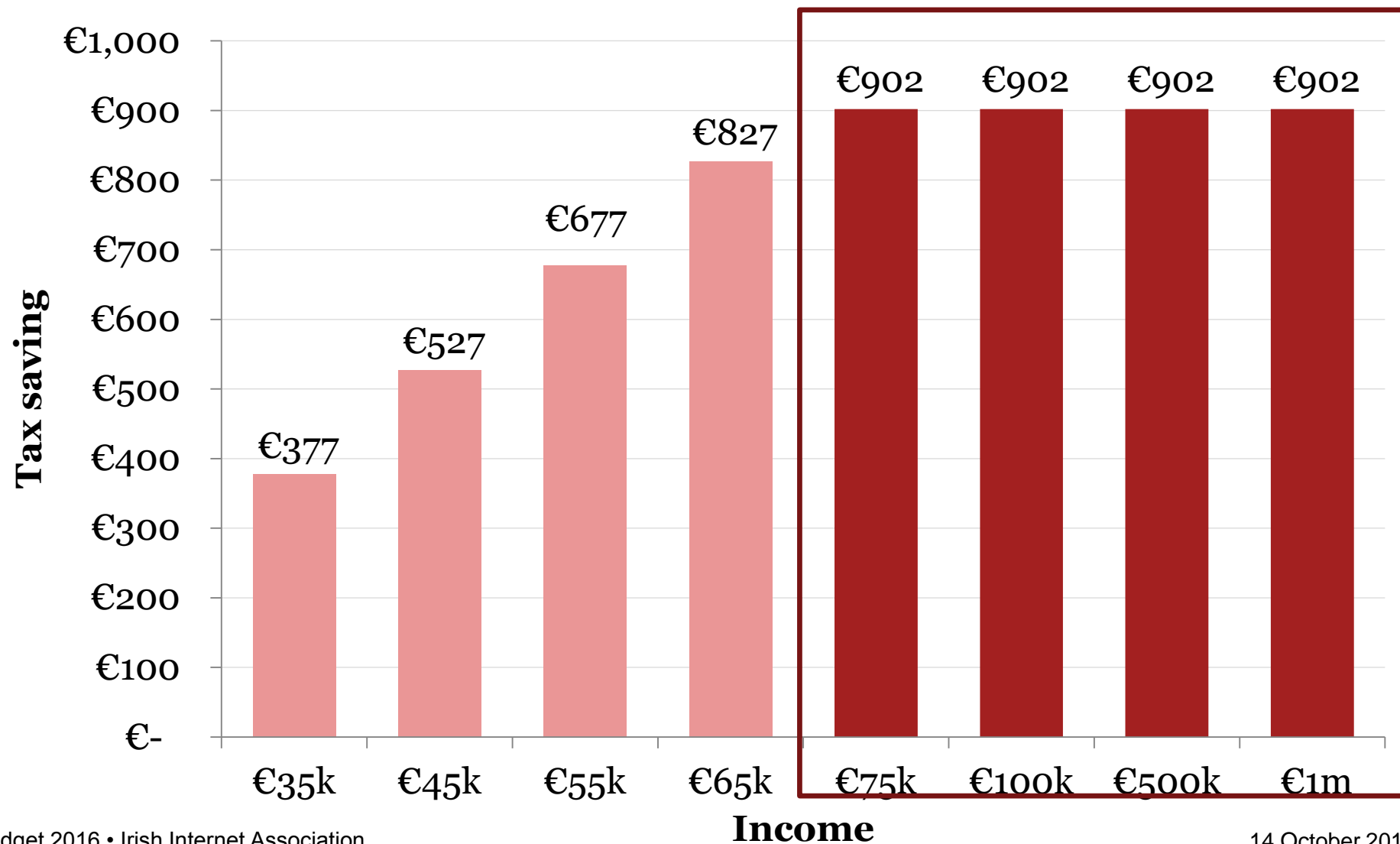
Case study 2

Married person, one earner €200,000, 2 children

	2015 €	2016 €	Difference €
Income	200,000	200,000	
Less: Income tax	(65,680)	(65,490)	(190)
USC	(14,444)	(13,542)	(902)
PRSI	<u>(8,000)</u>	<u>(8,000)</u>	
Net pay	111,876	112,968	1,092
<i>Child benefit</i>	<i>3,240</i>	<i>3,360</i>	<i>120</i>

USC changes

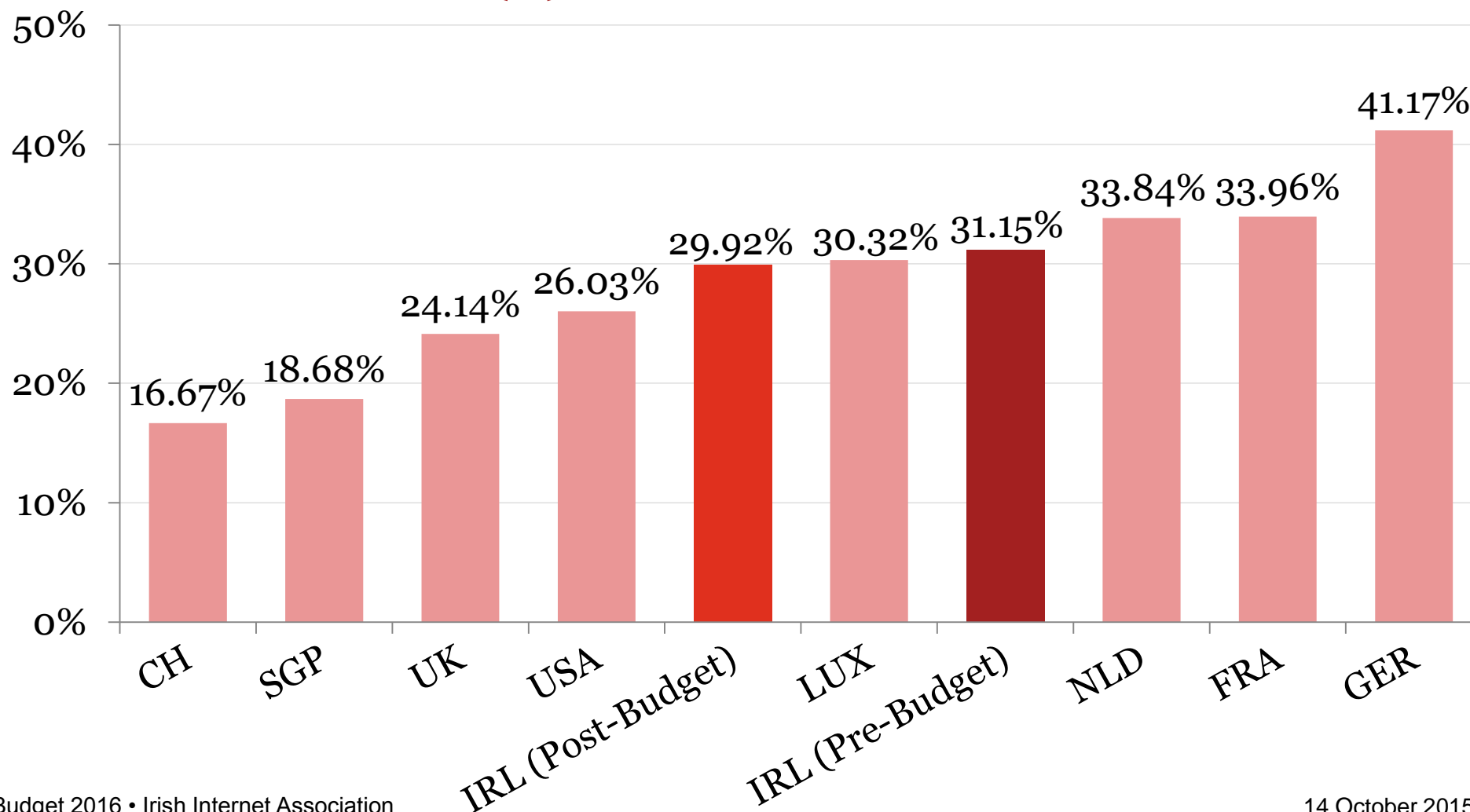
The cap effect – single person



International comparison

Salary €55,000 (single)

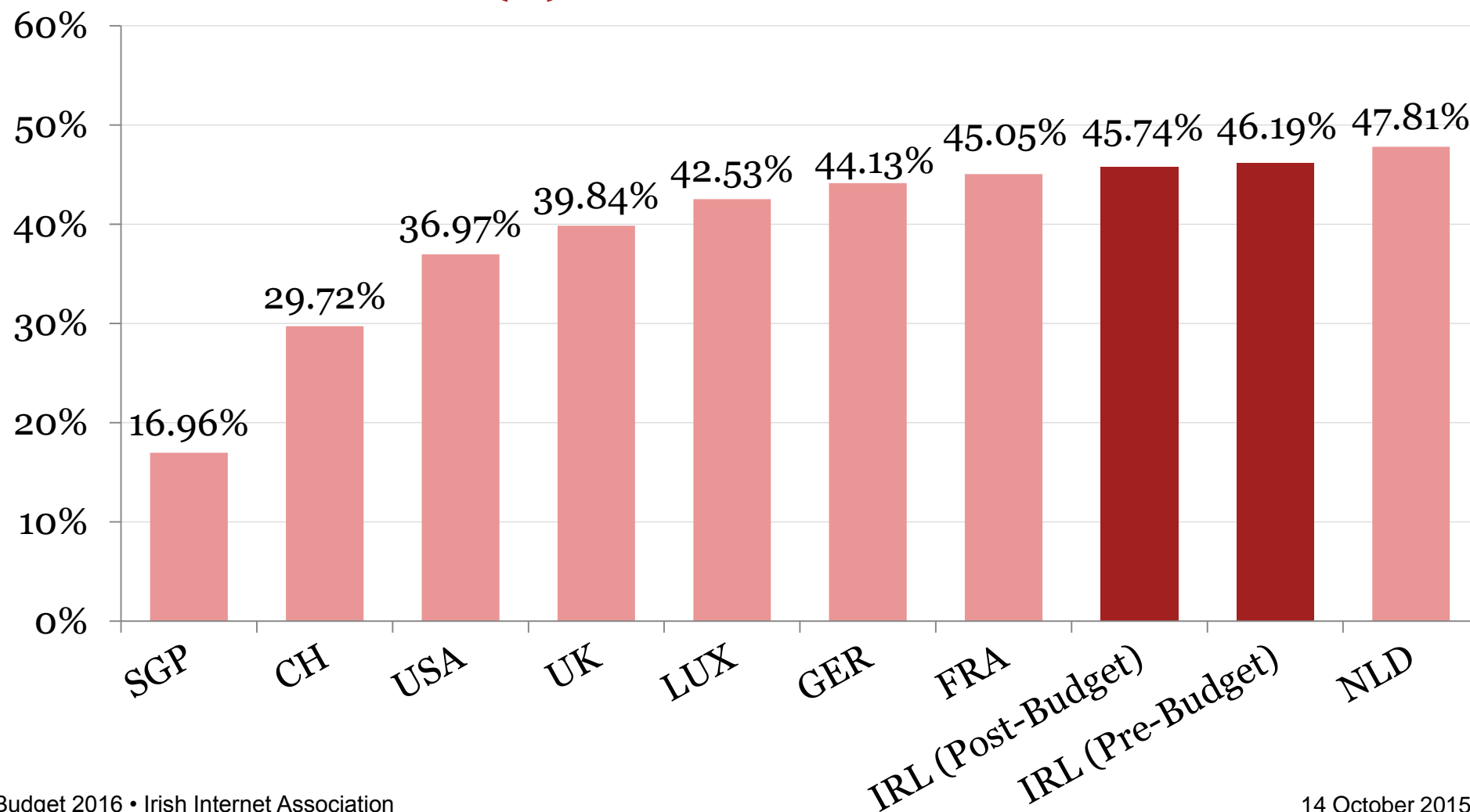
Total effective tax rate (%)



International comparison

Salary €200,000 (single)

Total effective tax rate (%)



Section 2.2

Self-employed

Self-employed

- The three main differences were:
 1. 3% USC surcharge
 2. PAYE tax credit (€1,650)
 3. PRSI differential (rates and benefits)



What changed?

- Earned Income credit introduced on a phased basis - **€550** in 2016
- No change in to 3% surcharge - 11% USC rate remains
- No change in PRSI/benefits

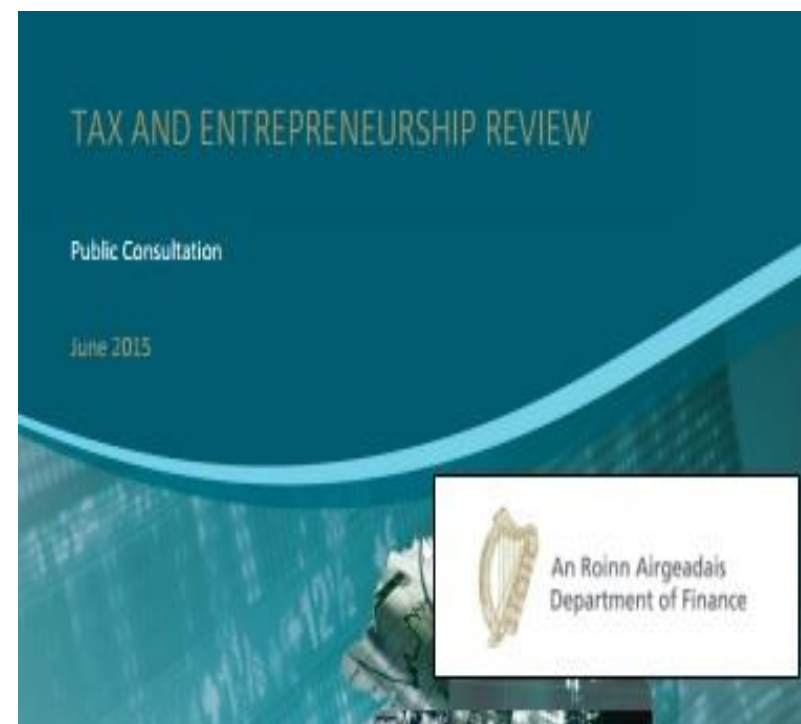


Section 2.3

Entrepreneurs

Entrepreneurs

- **Key issues:**
 1. Rewarding risk
 2. Raising capital/finance
 3. Attracting talent



Source: Dublin Start-up Leaders Group

Entrepreneurs

1. Rewarding Risk

- Disposal of qualifying business assets
- Reduced CGT rate to 20%
- Up to €1m net chargeable gains (max value €130k)
- Effective 1 January 2016
- Scope for planning?

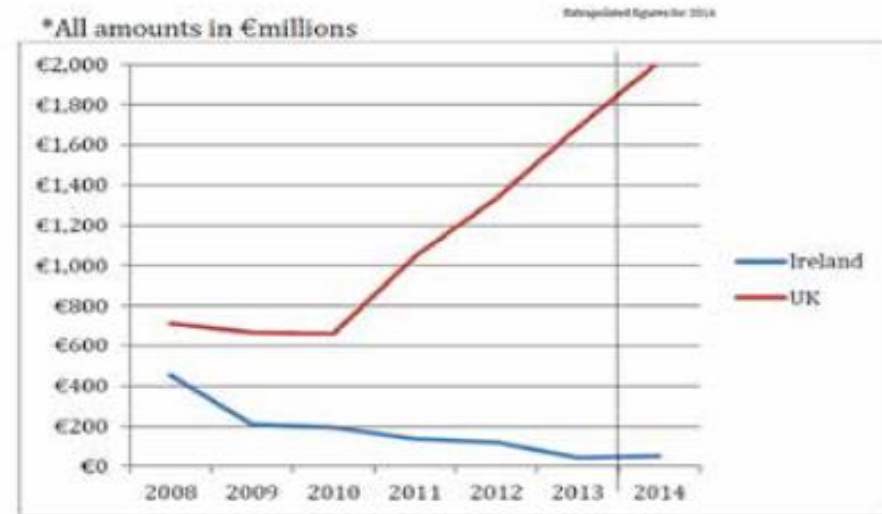


Entrepreneurs

2. Raising Finance/Capital:

- EII v's UK SEIS
- UK relief generous / organised capital finance
- EII still too restrictive

Investment Levels in the UK versus Ireland - Level of Uptake



This graph simply tells us:

- Investment in Irish EIS is declining, particularly in the area of tech startups.
- In stark contrast, the UK has seen a dramatic increase in the level of investment in EIS and SEIS with total investments during the year ended April 5th 2014 at circa £1.5bn.

Entrepreneurs

3. Attracting talent

	Country	Marginal threshold 2014 (EURO)	Top marginal income tax & employee social security rate 2014
1	Switzerland	621,768	41.75%
2	United States	306,172	48.60%
3	Spain	300,000	52.00%
4	Germany	250,730	35.00%
5	United Kingdom	159,077	55.01%
8	France	151,956	55.01%
9	Japan	128,287	51.09%
10	Australia	122,291%	46.50%
31	Ireland	32,800	52.00%
	OECD Average	114,401	46.30%

What Changed

Rewarding Risk:

- New CGT relief - still lags behind our neighbours



Raising Finance/Capital:

- Commenced changes announced in last years Budget for the Employment and Investment Incentive Scheme



Attracting Talent:

- No change - competing with large multinationals



Also ... CT start-up exemption – extended 3 years

Section 2.4

Capital Acquisitions Tax

Capital taxes

CAT

- Class A threshold
- Gift/inheritances from parents
- Increase from €225k to €280k
- Effective 14 October 2015



Section 2.5

Knowledge Development Box

Knowledge Development Box

- Who will benefit from the KDB:
 1. Multinational companies
 2. Irish headquartered companies; and
 3. SME's



Keeping up with the competition

- UK – 10% patent box income
- Luxembourg – 5.75% IP box
- Netherlands – 5% patent box
- Switzerland – licence box and notional interest deduction at Cantonal level



Knowledge Development Box – Budget 2015

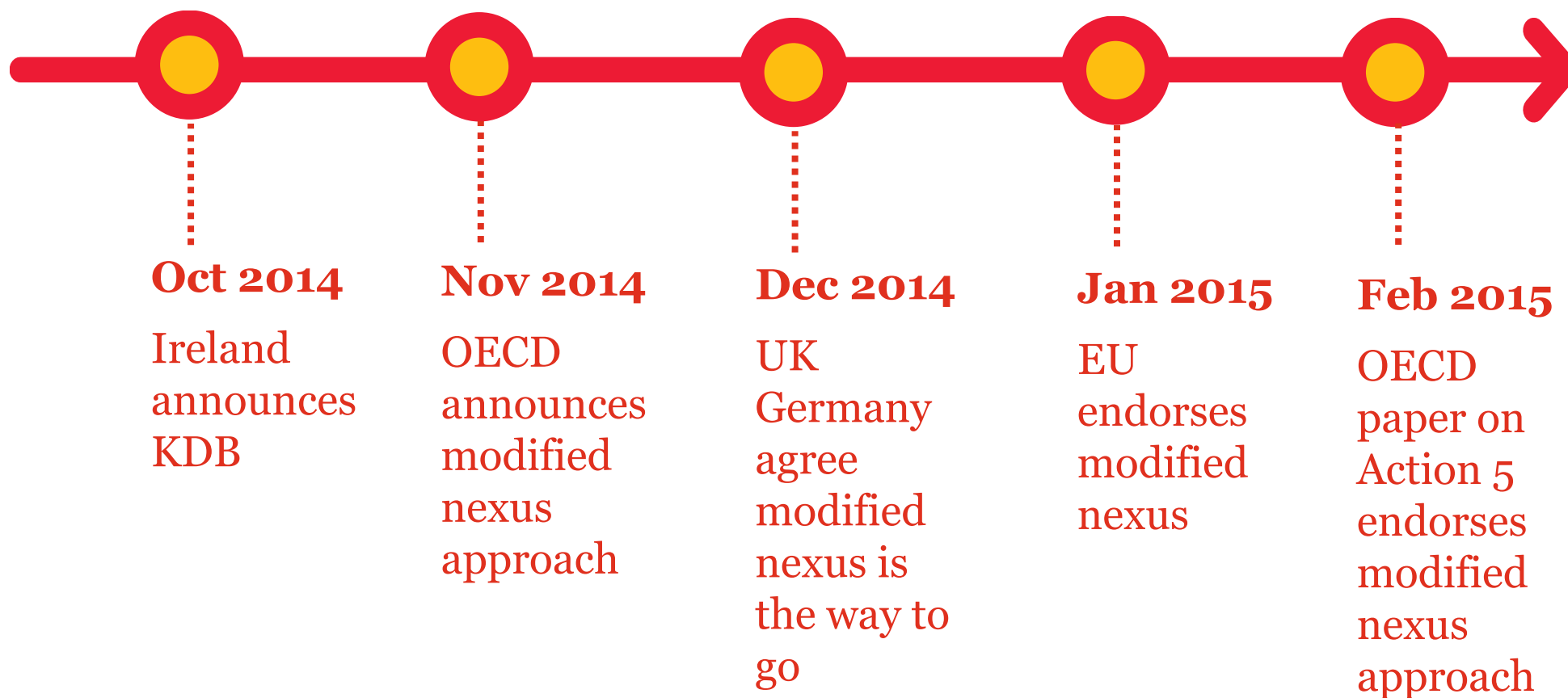


FDI



Indigenous

Knowledge Development Box



Knowledge Development Box – Budget 2016

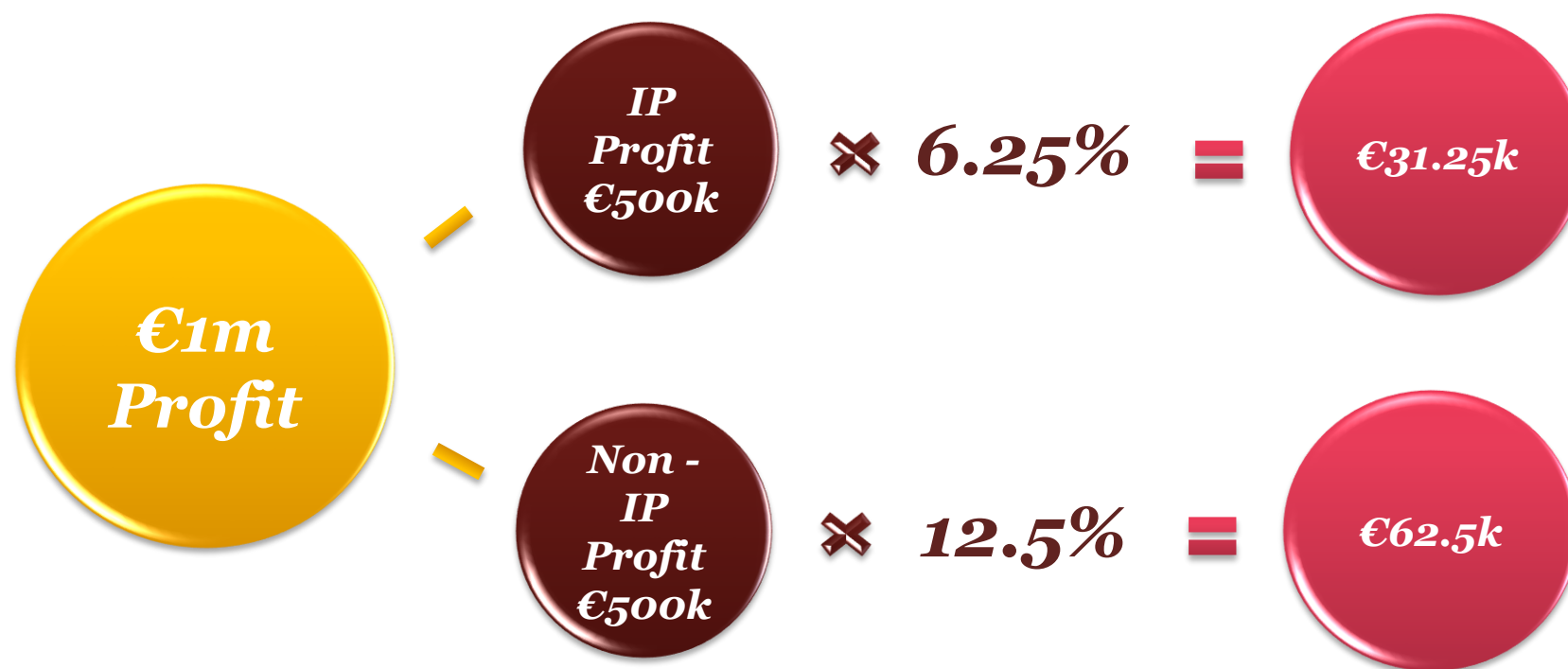


FDI



Indigenous

What Changed



Knowledge Development Box– part of a suite

KDB



**IP
amortisation**



R&D

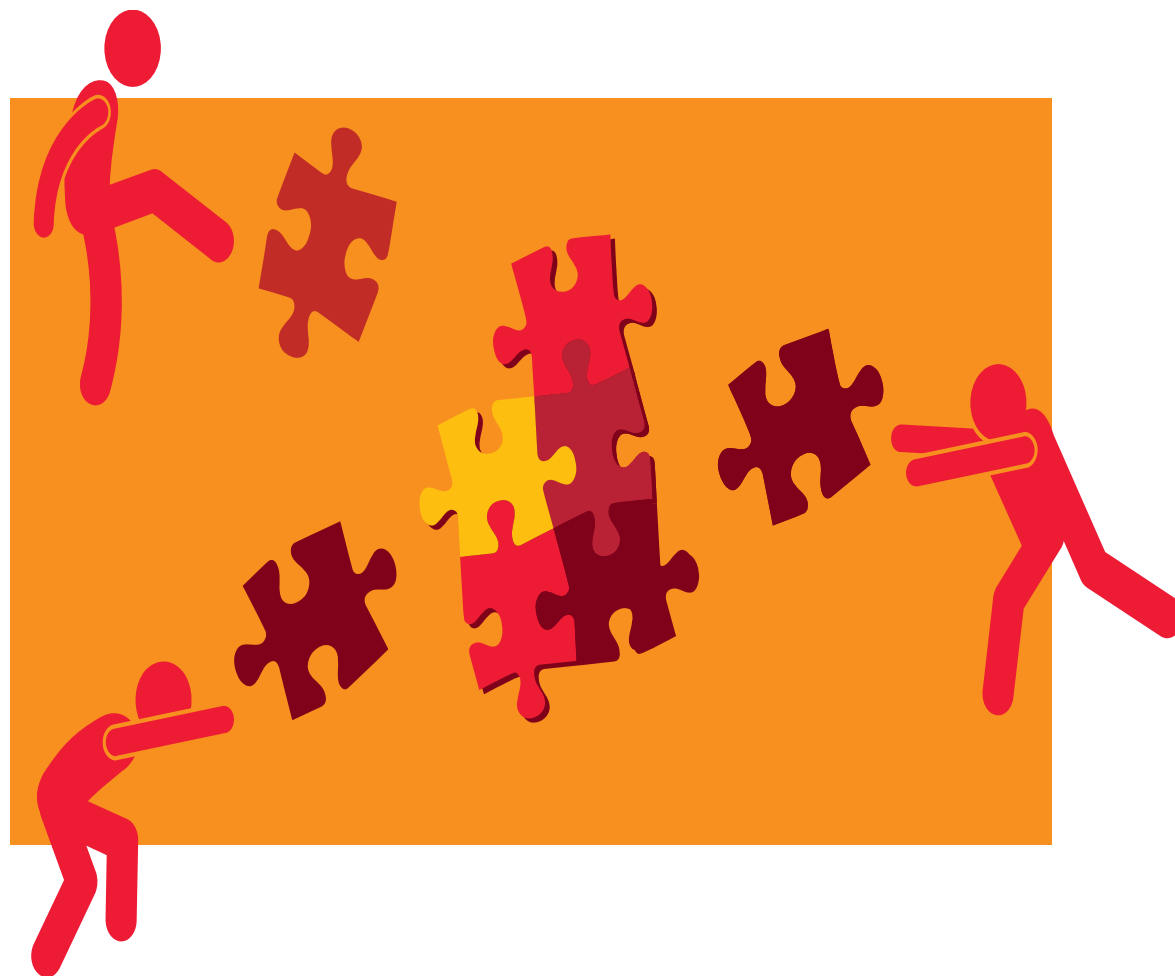


Section 2.6

Base Erosion Profit Shifting (“BEPS”)

BEPS

- All final papers from the 15 Action Plans released last week
- A lot to digest
- Minister announced Country by Country Reporting



Action 13 BEPS – Country by Country Reporting Irish perspective



Section 2.7

Other measures

Revenue activity – recent years

Revenue focus

- **Construction sector**
 - highest no. of audits each year since 2010
 - continues 2015/16
- **Retailers & Rental sector**
- **Medical sector**
- **General**
 - Increase in compliance interventions
 - Voluntary disclosures being proposed by Revenue (Aspect Queries)



Future ambitions of the Govt. if re-elected?

- Abolish USC
- 50% max tax rate for all
- Self-employed to be equalised: 55 - 50%?
- Incentives for skilled workers to come/return to Ireland



What was missed and what's hot

3

What was missed?

- EIIS v' SEIS
- Entrepreneur Relief – further?
- Attracting/retaining talent – Share options
- Self-employed v. employees – USC surcharge
- Employment tax burden – Employers PRSI
- Family business succession – Retirement relief

Finally... what's hot?

- R&D tax credit
 - Revenue audits
- CGT and Business Succession
- Non-filing structures
- Tax efficient wills
- Share incentives
- Family constitutions / shareholder agreements

Questions?

Private Business Services Supporting Private Business Growth



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