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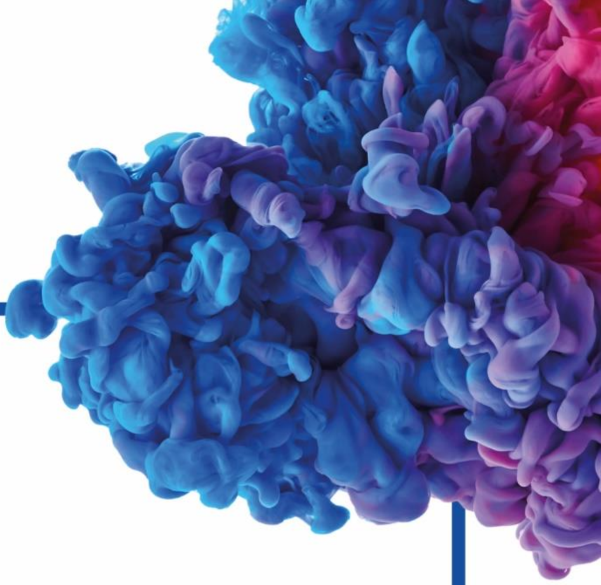

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Budget 2025 – Tax Highlights Ireland

1 October 2024

Introduction

With an election on the horizon, the focus of Ireland's Budget 2025 was firmly on the Government's achievements over the past four years when the Minister for Finance, Jack Chambers, and the Minister for Public Expenditure and Reform, Paschal Donohoe, announced a Budget that included a substantial "cost-of-living" package including many one-off payments, as well as a framework to direct revenue generated by the recent Apple judgement from the Court of Justice of the European Union towards housing, energy, water and transport infrastructure. The need to maintain Ireland's competitiveness in the face of intensifying competition for foreign direct investment was acknowledged, with tax code simplification at the forefront.

We summarise the tax measures and highlights that may be of interest to the international business community below.

Foreign Dividends Participation Exemption

- Next week's Finance Bill will include legislation introducing a **participation exemption for foreign dividends**, effective from 1 January 2025. This highly anticipated legislation follows a consultation process involving two feedback statements.

- Provided certain conditions are satisfied, dividends received from subsidiaries resident in EU/EEA member states and countries with which Ireland has a double tax treaty will be exempt from Irish corporation tax. From a tax compliance perspective, the exemption should be a simplified alternative to the existing complex credit relief method for foreign dividend and should enhance the Irish holding company regime.

- A key criticism of the proposed participation exemption at consultation stage had been its narrow geographical scope, only applying to dividends from companies resident in EU/EEA member states or countries with which Ireland has a double tax treaty. The Minister for Finance notably referred to further consideration in the coming year of **geographic scope** of the foreign dividend participation exemption and of a **possible exemption for foreign branch profits**.

Funds Sector 2030 Review

- The Minister confirmed that he has recently received the report from the Funds Sector 2030 Review team established last year to carry out a detailed forward-looking **review of the Irish funds sector** with a view to safeguarding Ireland's leading position in the investment funds and asset management industry. The Minister signalled that he intends to bring the report to Government, arrange for publication and then outline next steps.

Business Taxes

- Continuing on the theme of reducing the complexity of the tax code, the Minister referred to the public **consultation on the tax treatment of interest** in Ireland launched last week with a deadline for submissions of 30 January 2025. The deductibility of interest is an area which has been complicated by the layering of measures introduced in recent years as a result of the EU Anti-Tax Avoidance Directives (interest limitation, anti-hybrid rules) on top of a myriad of existing Irish domestic rules.

- The **Research and Development (R&D) tax credit** provides a tax credit for qualifying R&D expenditure. While a review of the R&D tax credit is to be undertaken over the coming year, as an interim measure an increase in the first-year payment threshold was announced, which allows for a capped claim to be paid in full in year one rather than over three years in order to assist with cashflow, with the threshold increasing from €50,000 to €75,000.

- Various measures to support SMEs were outlined including the publication of a review of the **Employment Investment Incentive (EII), the Start-Up Relief for Entrepreneurs (SURE) and the Start-Up Capital Incentive (SCI)** schemes and a confirmation that the three schemes will be extended to the end of 2026. Increases in reliefs under EII and SURE were also announced.

- A **capital gains tax (CGT) relief for angel investors** in innovative start-ups was introduced last year whereby individual investors in innovative SMEs may avail of an effective reduced rate of CGT of 16%, or 18% if investing through a partnership, on a gain of up to twice the value of their initial investment. The lifetime limit on gains to which the reduced rate of CGT can apply is being increased from €3 million to €10 million.

- In an effort to encourage businesses to attract equity investment, the Minister announced a new relief for expenses incurred in connection with an **initial stock market listing (IPO)** on an Irish or EU/EEA stock exchange, subject to a cap of €1 million. It was also announced that the Department of Finance will seek to introduce a **stamp duty exemption** enabling Irish SMEs to access equity via financial trading platforms designed to support their funding needs. Stamp duty currently applies at a rate of 1% on the transfer of shares in Irish incorporated companies.

- The revised **bank levy,** which was introduced for 2024, applying to those banks that received financial assistance from the State during the banking crisis, is being extended by a further year.

Personal Taxes

- The Minister noted that the focus of the personal income tax package in this Budget is to support low- and middle-income earners. Publications released as part of Budget 2025 materials also included an independent review of **share-based remuneration** and an Annual Review of the **Special Assignee Relief Programme (SARP).**

- A number of individual tax credits are set to increase. The **personal tax credit, PAYE employee tax credit and earned income tax credit** will each increase by €125 to €2,000 and the **standard rate income tax cut-off point** will be increased by €2,000 to €44,000, with proportionate increases for married couples and civil partners.

- The current **USC** rate of 4% will decrease to 3% and the entry threshold for this rate will increase to €27,382.

- Due to the appreciation of property values since the previous increase to **Capital Acquisitions Tax (CAT) Thresholds** in 2019, the **Group A threshold** (which applies to gifts or inheritances by children from their parents) will be increased from €335,000 to €400,000, the **Group B threshold** from €32,500 to €40,000 and the **Group C threshold** from €16,250 to €20,000.

- No changes were announced with respect to the current rate of tax (33%) for **Capital Gains Tax** or **CAT.**

Property

- As had been flagged in recent days, in an effort to further discourage significant purchases of houses by investment funds and protect individual buyers, the 10% **stamp duty rate on the bulk acquisition of houses** is to be increased to 15% with immediate effect although some transitional arrangements will apply. This rate applies where 10 or more houses are acquired in any 12-month period.

- A **new higher 6% stamp duty rate** has been introduced on the excess purchase price of **residential properties** above €1.5 million. Stamp duty will now apply on residential property at the rate of 1% on the first €1 million, at 2% on any value between €1 million and €1.5 million, and at 6% on the excess above €1.5 million. The rate of stamp duty on non-residential property is 7.5%.

- The rate of **Vacant Homes Tax (VHT)** is being increased from five times a property's existing base Local Property Tax liability to seven times the base rate, with effect from the next chargeable period for VHT commencing 1 November 2024.

- The controversial **Residential Zoned Land Tax (RZLT)**, which is designed to encourage the development of land zoned for residential development by imposing an annual tax of 3% of the market value of land in scope and for which the first payment was due in 2025, is being amended to allow a further opportunity for RZLT landowners to seek a change in zoning in 2025 where they seek to continue undertaking existing economic activity on the land.

- As further support to the housing market, various income tax reliefs and credits are to be increased and/or extended to support first-time buyers, homeowners, renters and landlords.

What's next?

Further detail of the measures announced in Budget 2025 will be contained in the Finance bill which will be published on 10 October 2024.

Further information

For more information, please get in touch with your usual contact at Walkers or any of the individuals in your region listed below:

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