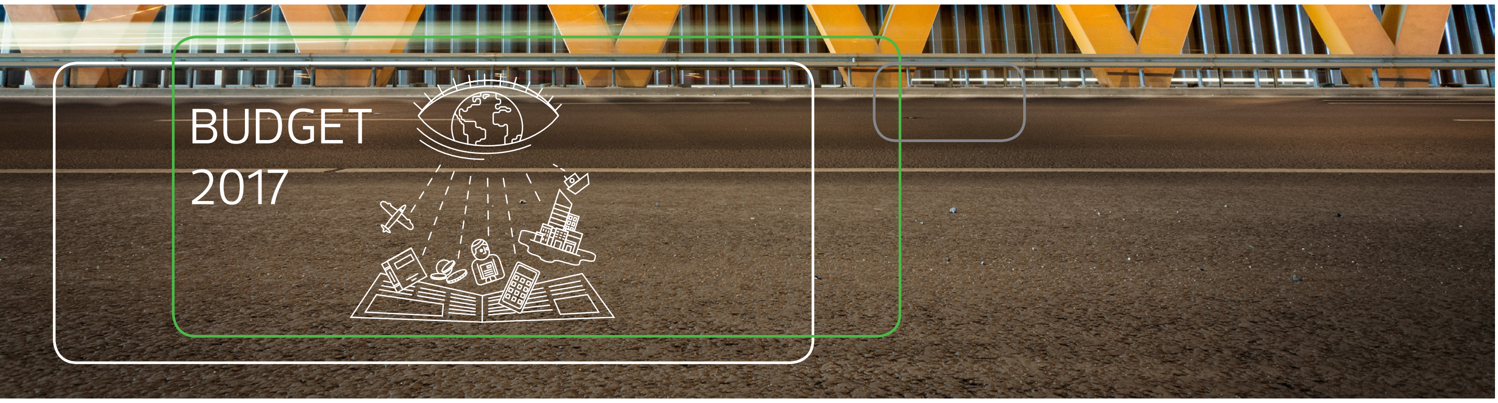

KEY HIGHLIGHTS

Budget 2017 places a much greater focus on public expenditure than on personal tax reform, a ratio of 3:1 of expenditure to tax reform.

The tax reduction measures amount to a net €300 million, whereas the expenditure budgets are being increased by €1 billion with the key expenditure to benefit; housing, health, childcare and education.

The focus of the budget is on sustaining growth in the domestic economy and combating the economic risk of Brexit for indigenous exporters and the Agri-food sector.

Initiatives for the Housing Market

1. First Time Buyers & Home Owners

The following initiatives are targeted at first time buyers and home owners;

- **Help to Buy**
  The details of a welcomed scheme to assist first time buyers has been announced. The scheme will apply to new houses only and represents a refund of income tax paid over the previous 4 years. The relief is capped at 5% of the house price up to €400,000. It will also apply to houses costing up to €600,000 capped at €400,000. There will be no tax refund for houses costing over €600,000. The relief will apply to houses built from 19 July 2016 to the end of 2019. The relief represents a maximum tax refund of €20,000 and can be used towards funding the deposit on the house under the Central Bank funding rules.

- **Capital Acquisitions Tax ('CAT')**
  In terms of CAT; the Group A tax free threshold (parent to child gifts & inheritances) has been increased by €30,000 to €310,000. This is still well short of the €540,000 high in 2009. The other thresholds for blood relatives and non-blood relatives have increased by approximately 7.8% to €32,500 and €16,250 respectively. The Minister indicated that all thresholds will continue to increase in subsequent budgets. This area was specifically addressed by the Minister in the hope that the tax burden will be reduced for properties passed to the next generation.

- **Mortgage Interest Relief**
  Mortgage interest relief has been phased out since January 2013 and was due to end in December 2017. In the budget measures, it was announced that the end date will be extended, but no actual end date was provided.

2. Construction Sector

The following initiatives are targeted at addressing supply issues;

- **Home Renovation Incentive**
  The Minister announced that the end date, for this incentive, will be extended to 2018 - the original end date was scheduled for December 2016. This incentive provides for a tax credit of 13.5% of qualifying expenditure incurred on home improvements and renovations.

- **The Ireland Strategic Investment Fund ('ISIF')**
  It was announced that ISIF will be involved in the following;

  - New funding vehicle for housing – together with the National Treasury Management Agency, ISIF will undertake a feasibility study to assess the launch of a new funding vehicle for the delivery of a mixed-tenure residential developments, to assist with addressing the social housing crisis.
  - Enabling infrastructure investment – ISIF will provide upfront capital to developers to enable infrastructure in large scale priority development areas.
  - Student accommodation – ISIF are continuing to support new investment in student accommodation with focused attention on leveraging third party funds and timely project delivery.

3. Rental Sector

The following initiatives are targeted at the squeezed rental sector;

- **Rent a Room Relief**
  For home owners who generate income from renting rooms in their house, the tax free level has been increased to €14,000, to encourage an increase in supply for students.

- **Mortgage Interest Deductibility**
  Relief for landlords on interest paid is increasing at 5% per annum to bring this back to full relief of 100% over 5 years. This increases the relief to 80% in 2017.

- **Living City Initiative**
  The scheme provides tax relief for expenditure on refurbishment and conversion work that is carried out in both residential and certain commercialproperties located in targeted city areas. The Government have announced that proposals have been put forward to improve the attractiveness of the scheme and encourage increased take up.

Other Budget Measures

- **Corporation Tax / VAT**
  Certain key taxes will remain unchanged; the 12.5% rate of corporation tax was re-affirmed. For the hospitality sector, the 9% rate of VAT will be retained for the forthcoming year in acknowledgement of the challenges that Brexit brings to the sector.

- **Personal Tax**
  In terms of personal tax, the changes are quite low as was expected. Cuts were announced to three levels of the USC of 0.5% in the annual rate band with a small increase in one band. These reductions benefit all taxpayers on income of up to €70,000, at savings of between €2.45 per week and €6.78 per week depending on income levels. The DIRT rate on savings will be reduced over the next four years at 2% per annum commencing in 2017, to bring it to 33% in 2020.
  The earned tax credit for the self-employed commenced last year at €550 and has been increased to €950 per annum. This was introduced towards applying equity in treatment for the self-employed compared to PAYE workers who receive a PAYE credit of €1,650. The home carers credit for one-income families where one spouse stays at home to care for children or the elderly has been increased to €1,100. A new tax credit has been introduced for fishermen of €1,270.

- **Childcare**
  There has been much discussion around childcare supports and the relief comes in the form of universal subsidies for childcare for children aged between six months and three years and means tested subsidies for children up to 15 years.

- **Capital Gains Tax ('CGT')**
  A special rate of CGT of 20% was introduced last year as part of a reformed Entrepreneur Relief. This has now been further reduced to a 10% rate of CGT and compares very favourably to the normal rate of CGT of 33%. There has been no change in the level of chargeable gains that can benefit from the €1 million lifetime threshold but the Minister indicated that this threshold will be reviewed in subsequent budgets.

- **New Loan Scheme for Farmers**
  There has been a package of measures introduced for farmers with a new loan scheme through the Strategic Banking Corporation at an attractive rate of interest – below 3% per annum.

Overall the budget has been designed conservatively to maintain economic stability, protect against the uncertainties of Brexit on economic growth with the focus on repairing and rebuilding public services.

Aidan Byrne
Tax Partner

Trinity House, Charleston Road, Ranelagh, Dublin 6
T +353 (0)1 496 5388
www.rsmireland.ie