The 4 Big B's of Budget 2020

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Introduction

Budget 2020 will be announced by Minister for Finance Paschal Donohoe T.D. on 8 October 2019. The announcement comes at a time of significant economic uncertainty, due to the impending Brexit deadline of 31 October 2019.

The Economic and Social Research Institute (ESRI) has projected a 3 per cent growth in the Irish economy in 2020. However, the ESRI's forecast is subject to the proviso that a no-deal Brexit would reduce any projected growth. Whether the United Kingdom will "crash out" with a no-deal Brexit remains to be seen, however, in light of the risks posed to the Irish economy, Minister Donohoe has confirmed that Budget 2020 will be based on the assumption of a no-deal. While it is essential to mitigate the impacts of a potential no-deal, it is also important that Budget 2020 strategically positions Ireland to take advantage of opportunities presented by Brexit. In this article we identify four key budgetary areas relevant to business – Brexit, bolstering the economy, BEPS & EU ATAD and battling climate change.

1. Brexit

The Government's Brexit Contingency Action Plan Update, published 9 July 2019, recognised that unique budgetary measures would be required in a no-deal Brexit situation. These are likely to involve temporary, targeted funding for the sectors most significantly impacted by Brexit, such as agriculture, tourism and enterprise. It will also be necessary to strengthen the support that public finance provides to the economy, due to potential increased welfare payments resulting from unemployment and lower revenue collections. The Rainy Day Fund could be used as a source for increased public spending, and to mitigate the potential overall shock to the economy. The Government will put a further

€500m into the Rainy Day Fund in 2020, bringing the total available fund to €2 billion. In our view it may be prudent to increase the Rainy Day Fund further in Budget 2020. We would encourage the Government to fortify the safeguards to the economy in the face of the external challenge Brexit poses.

2. Bolstering the Economy

One of the primary focuses of Budget 2020 should be to ensure that the foundations of Ireland's economic stability are protected in the aftermath of Brexit. Measures designed to support businesses most impacted by Brexit and to encourage entrepreneurs and private business in Ireland are expected to be introduced. These measures include enhancements to a number of existing Irish tax regimes, such as the Employment Incentive and Investment Scheme (EIIS), the Key Employee Engagement Programme (KEEP) and entrepreneur relief from capital gains tax. It is predicted that the provisions of Budget 2020 will reaffirm and support our competitive corporation tax regime, with minimal changes to income and personal taxes. Enhancing the attractiveness of Ireland for foreign direct investment should be a crucial element of the Government's post-Brexit strategy. We recommend the extension of the Special Assignee Relief Programme (SARP), which incentivises the relocation of key personnel within overseas organisations to Ireland, beyond its 2020 end point.

3. BEPS & EU ATAD

Budget 2020 will introduce changes to meet Ireland's obligations under the OECD's Base Erosion and Profit Shifting Project (BEPS) and the EU Anti-Tax Avoidance Directive (EU ATAD). Under both BEPS and the EU ATAD Ireland has committed to reforming its tax regime in order to tackle perceived abusive tax practices by multinational companies. Anti-hybrid rules which aim to deny tax benefits resulting from mismatches between different jurisdictions will be introduced from 1 January 2020. Revised transfer pricing rules are also likely to be introduced in the budget. While the introduction of measures to comply with Ireland's obligations under both BEPS and the EU ATAD are essential, it is also important for Ireland to remain competitive in terms of its tax strategy. Ireland is in a unique position to develop a strong corporate sector in the wake of Brexit, which must be supported by maintaining a competitive tax rate, particularly the 12.5% rate of corporation tax.

4. Battling Climate Change

Measures designed to combat climate change are predicted to feature in Budget 2020. Ireland's 2030 emissions target set by the EU Commission is a 30 per cent reduction in emissions compared to 2005 levels. Failure to meet this target could give rise to significant financial penalties. Budget 2020 is expected to include an increase in the carbon tax from €20 per tonne to €30 per tonne of CO_2, as part of planned incremental increases in energy taxes to meet our 2030 commitment. Changes to the motor tax regime proposed by the Government's Tax Strategy Group are expected in Budget 2020. These include an increase in the number of tax bands for vehicle registration tax (VRT), changes to the grants and tax relief on hybrids and electric cars, and replacing the diesel surcharge.

Conclusion

The Government's decision to provide for a no-deal Brexit budget means that spending in Budget 2020 will prove more conservative than that of recent years. However, if the budget deals appropriately with the four key budgetary areas identified in this article by encouraging growth and competitiveness in Ireland's economy while safeguarding it from the potential economic shock posed by Brexit, the overall outlook can be positive for the coming year.

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