<u>Finance Bill 2016 Press Release - Notes to Editors:</u>

Measures announced on Budget Day:

Finance Bill 2016 gives effect to the taxation-related <u>measures announced on Budget Day</u> which include:

Supporting the Housing Market
A package of ten housing market support measures was announced in Budget 2017 to complement the structural measures in the Action Plan for Housing and Homelessness, including the following measures which will be legislated for in Finance Bill 2016:

- **Help to Buy**
  A Help-to-Buy scheme is being introduced which is designed to assist first-time buyers with obtaining the deposit required to purchase or self-build a new-build home. The relief will take the form of a rebate of income tax (including DIRT) paid over the previous four tax years.

  A rebate of up to a maximum of 5 per cent of the purchase price, up to a value of €400,000, will be available. Where new homes are valued between €400,000 and €600,000 the maximum relief (i.e. €20,000) will continue to be available. No relief will be available for new purchases costing over €600,000 or new-builds valued at over €600,000. The relief will be linked to a mortgage being taken out for a minimum of 70% of the purchase price, or in the case of a self-build, 70% of the valuation approved by the mortgage provider.

  Subject to the approval of the Oireachtas, eligibility for the incentive will be back-dated to take effect from 19th July 2016 - the date of the publication of the Action Plan on Housing and Homelessness. This scheme will run until the end of 2019.

- **Interest Deductibility for Residential Landlords**
  Mortgage interest deductibility for landlords of residential property was restricted to 75 per cent of qualifying interest in supplementary Budget 2009, in the context of the fiscal crisis and the need to broaden the income tax base. Interest deductibility for borrowings relating to commercial rental property remained at 100 per cent.

  Reduced interest deductibility has limited the attractiveness of the residential rental market for private landlords and significant progress has been made since 2009 on the broadening of the income tax base in other areas. Accordingly, to further support the provision of accommodation by landlords while still protecting the incentive introduced last year in Budget 2016 to support landlords who let their property to social housing tenants, a phased unwinding of the restriction on interest deductibility over five years has been provided for in the Finance Bill. The first step, an increase from 75% to 80% deductibility, will take effect from January 2017.

- **Rent-a-Room Relief**
  The ceiling for the rent-a-room scheme is being increased from €12,000 to €14,000 for 2017 and subsequent years. The scheme allows homeowners to rent, on a residential basis, a room or rooms in their home and earn up to €14,000 per annum tax free. This change is aimed at encouraging homeowners to rent out vacant rooms with a view to increasing the availability of rental accommodation. The scheme has proven particularly beneficial to the supply of student accommodation.

- **Living City**
  Amendments to the Living City Initiative are being made to encourage an increase in the take-up of the scheme. These include extending the relief to landlords in respect of the renovation of rental accommodation in the special regeneration areas; removal of the restriction on the maximum floor size of the qualifying property; and amendment of the minimum required expenditure to €5,000 to match the minimum spend under the Home Renovation Incentive.

- **Home Renovation Incentive**
  The Home Renovation Incentive (HRI) is being extended for two more years, until 31st December 2018. The Incentive provides income tax relief by way of an income tax credit in respect of expenditure on repair, renovation or improvement works on principal private residences or rental properties where carried out by tax compliant contractors. The HRI has been very successful to date. Works on 46,993 properties have been notified to Revenue's HRI online system as of 1 October 2016, representing more than €1 billion worth of works involving some 8,545 contractors.

- **Capital Acquisitions Tax Thresholds**
  The Group A CAT-free threshold, which applies to gifts and inheritances from parents to their children, is being increased to €310,000 in recognition of the concerns raised regarding increased exposure to the tax following movements in property prices. The Group B threshold, which applies to gifts and inheritances received from other close family members, and the group C threshold which applies in all other cases, are being increased to €32,500 and €16,250 respectively.

The following measures, which do not require legislation in the Finance Bill, also form part of the Housing Supply package:

- **Mortgage Interest Relief – Owner Occupiers**
  In Budget 2017 Minister Noonan confirmed the commitment in the Programme for Government to extend Mortgage Interest Relief beyond the current end date of December 2017 on a tapered basis. The details of the extension will be announced in Budget 2018.

- **ISIF Supported Fund for Housing**
  The Ireland Strategic Investment Fund (ISIF) and the wider National Treasury Management Agency (NTMA) are examining the feasibility of establishing a new funding vehicle, in conjunction with the private sector, that is capable of funding the delivery of new mixed-tenure residential developments, with a strong focus on social housing, in a way that is both off-balance sheet and commercially viable.

- **ISIF Enabling Infrastructure Fund**
  ISIF will support the provision of upfront capital to developers for the delivery of housing-related enabling infrastructure in large scale priority development areas. Repayments will be made either as sites or completed housing units are sold.

- **Student accommodation**
  ISIF (in tandem with third party investors) has already invested €54 million in Dublin City University's €230 million campus redevelopment and is open to further commercial investment opportunities in student accommodation.

  Further information on the Budget 2017 publication Financial and Fiscal Measures to Support the Housing Market, available via the following link:

  http://www.budget.gov.ie/Budgets/2017/Documents/Financial_and_fiscal_measures_housing_market_final.pdf

Capital Gains Tax, Capital Acquisitions Tax and DIRT

- **Amendment of CGT entrepreneur relief.**
  Finance (No 2) Act 2013 introduced a CGT relief, called entrepreneur relief, designed to encourage the reinvestment of gains from the disposal of a business or business assets in a new business venture. In cases where an individual made a gain on a disposal some time since 2010 and then reinvests the proceeds (within limits) of that disposal in a new venture sometime between 2014 and 2018, any CGT due on the subsequent disposal (subject to conditions) of the assets acquired may be reduced by the lesser of the amount of CGT paid on the first disposal or 50% of the CGT due on the second disposal.

  Subsequently, contributors to the consultation for the 2015 *Tax and Entrepreneurship Review* called for a more straightforward and attractive relief than the one in place, and indicated a preference for a relief more like the entrepreneur's relief in operation in the UK.

  Following this, Budget 2016 introduced a simple and upfront entrepreneur relief, applying a CGT rate of 20% (rather than the general rate of 33%) to the first €1 million of qualifying gains made by individual entrepreneurs and business people, including farmers. The special reduced rate is now being further reduced to 10%. No other aspect of the relief is being changed.

This further reduction in the rate of CGT applying under the entrepreneur relief is intended to strengthen support for entrepreneurship and to send a message that the State is firmly committed to supporting entrepreneurs.

- **Changes to CAT tax-free thresholds.**
  Capital Acquisitions Tax is paid on amounts beyond certain tax-free thresholds depending on the relationship of the beneficiary to the disponer. The Group A threshold, for transfers from parents to their children, is being increased from €280,000 to €310,000 with effect from 12 October 2016 (inclusive). At the same time the Group B threshold, for other transfers within the family, is being increased from €30,150 to €32,500, and the Group C threshold, for other transfers, is being increased from €15,075 to €16,250.

- **DIRT rate**
  DIRT, at the rate of 41%, is deducted at source by deposit takers (e.g. banks, building societies, Credit Unions, Post Office Savings Bank, etc.) from interest paid or credited on deposits of Irish residents. This rate will be reduced by 2% in each of the next 4 years until it reaches 33%.

Corporation Tax

- **Amendment of Section 110 TCA 1997**
  Following on from the publication of a proposed amendment to section 110 TCA 1997 on 06 September 2016, the use of profit participating loans by section 110 companies will be restricted where they are used by qualifying companies relating to Irish property transactions. The final legislation ensures that the original policy objective is met and does not encroach on bona fide securitisations such as collateral loan obligations, commercial and residential mortgage backed securities and loan origination businesses. Where coupons on profit participating loans are paid to individuals within the charge to income tax or companies within the charge to corporations tax; Irish or EEA pension funds, or EEA citizens or companies who will pay tax on receipt of the interest, without any deduction for profit participating interest, provided that the payment of the coupon to the EEA citizen or company is not for tax avoidance purposes, they will be excluded from the amendment. The amendment does not permit the section 110 companies to 'mark to market' or revalue their assets on 05 September 2016. The legislation applies to profits arising from the holding of financial assets that derive their value from Irish land from the 06 September 2016.

Bank Levy

- **Extension of the Bank Levy**
  Section 49 of the Finance Bill follows from the commitment given by the Minister for Finance in his Budget 2016 statement that he would extend the bank levy to 2021, subject to a review taking place of the methodology used to calculate the levy. This measure is expected to bring in an additional €750 million over the period, a very significant additional contribution to the Exchequer.

Measures not announced on Budget Day:

Some of the additional measures in Finance Bill 2015, not announced on Budget Day, include:

Corporation Tax

- **Administrative Cooperation**
  The Finance Bill includes legislation to implement two important EU transparency Directives. One of these provides for the sharing of information between member states about tax rulings issued by tax authorities. The other provides for some minor amendments to our provisions on country by country reporting by large multinational companies in order to bring them fully in line with the agreed EU wide approach.

- **Irish real estate funds (IREFs)**
  The Bill introduces a new regime to provide for the taxation of Irish Real Estate Funds ("IREFs"). IREFs are investment undertakings (excluding UCITS) where 25% of the value of that undertaking is made up of Irish real estate assets. The proposal will ensure that the Irish tax base will be protected where Irish property transactions are taking place within collective investment vehicles.

  IREFs must deduct a 20% withholding tax on certain property distributions to non-resident investors. The withholding tax will not apply to certain categories of investors such as pension funds, life assurance companies and other collective investment undertakings. The amendment will apply to accounting periods beginning on or after 01 January 2017.

Next steps:

Finance Bill 2016 Dáil Second Stage begins Tuesday 25th October 2016.

Timing of the Finance Bill:

Under the regulations known as the "Two-Pack" which were formally adopted on 30th May 2013, a common budgetary timeline was introduced for all Euro Area member states. In light of these requirements, the Government decided, from 2013 onwards, to bring Budget Day forward from the first week in December to on or before 15th October. This means that Budget 2017 was presented and published on Tuesday, 11th October this year.

The Government also decided that the Finance Bill should complete its passage through the Oireachtas by 31st December each year. This means also that, as this Finance Bill is published in 2016, it is called "Finance Bill 2016" even though it relates to Budget 2017.

Details of all the various measures in Finance Bill 2016 are provided in the Appendix to the Press Release. The Appendix is also available, along with the text of the Bill, the Explanatory Memorandum, the Press Release and these Notes to Editors at www.finance.gov.ie

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