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Budget 2024 & financial services

BDO's ANGELA FLEMING analyses the key measures announced in Budget 2024 of particular relevance to companies in Ireland's Financial Services sector.

Budget 2024 was primarily focussed on measures to assist with the cost-of-living and inflation issues being experienced by individuals and businesses in Ireland. The Budget did not include significant changes for the Financial Services industry, however, there are several areas worth noting.

International Tax Reform

As expected, the Minister announced that Finance Bill 2023 (to be released the week of 16 October) will contain the legislation to implement the 15% minimum effective tax rate for large companies, as provided for under the OECD Pillar Two agreement and to transpose the EU minimum tax directive into domestic legislation.

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This means that a minimum effective corporate tax rate of 15% (Pillar Two) will apply to the profits of 'large' enterprises, i.e. those whose annual turnover exceeds €750 million as from 2024. As Ireland's existing headline corporation tax rate of 12.5% is below the Pillar Two 15% rate, the legislation will provide for a Qualified Domestic Minimum Top-up Tax (QDMTT) to apply from 1 January 2024. Companies/groups outside the scope of Pillar Two remain subject to the 12.5% rate and the existing tax regime in Ireland.

Territoriality / Participation Exemption

The Minister also referenced his recent announcement that a participation exemption for foreign sourced dividends will be legislated for in Finance Bill 2024 (i.e. next year). This came as no surprise following the publication of the roadmap last month. While the introduction of a participation exemption for dividends is to be welcomed, it is disappointing that it is not being introduced this year, in conjunction with the introduction of the Pillar Two rules, as was indicated in last year's speech.

Angela Fleming: 'perfect is the enemy of good'.

Reform of Interest Deductibility Rules

The Minister announced his commitment to engaging with stakeholders in the period ahead on Ireland's current regime for interest deductibility, noting its complexity. This is very welcome news. The layering of the Interest Limitation Rules on top of an already extensive and complex interest deductibility regime has meant that our rules are overly complex and uncompetitive internationally. An overhaul and simplification of the existing rules is now well overdue. Hopefully this engagement can happen soon with a view to seeing some simplifying measures in next year's Finance Bill.

Bank Levy

The Banking Levy was due to expire in 2023, and currently yields in the region of €87m. The Levy was first introduced in 2014 for an initial three year period. Since then it has been extended each year. Previously it brought in around €150m per annum, but that yield fell due to the exit of Ulster Bank and KBC from the Irish market.

The Minister announced his intention to put in place a revised bank levy in 2024, to raise €200m. The levy is then to be reviewed again next year to ensure that it remains "appropriately calibrated". In his Budget speech, the Minister stated that "it is important that the banking sector continues to make a contribution to the Irish economy following the support they received during the financial crisis".

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Fund Sector 2030

As readers will be aware, there is currently a review of the Funds Sector ongoing. The Minister commented on this in his speech, noting that the review is on track to report to him in Summer 2024 and that following the completion of the review, he will consider whether any changes to the current taxation framework are appropriate.

There was a sense that we could possibly see some changes in this year's Finance Bill notwithstanding that the review is ongoing, however, this seems unlikely now based on these comments. However, there will be ongoing engagement with the Department of Finance over the coming months as part of the review process.

These discussions are an opportunity to impress on the Department the need to introduce tax changes in a timely manner, particularly those which have the potential to improve Ireland's competitiveness internationally and which require relatively straightforward legislative changes.

R&D Tax Credit Regime

In a very welcome announcement for those companies claiming the R&D Tax Credit, the Minister announced that he is increasing the R&D tax credit from 25% to 30%. The purpose of the increase is to maintain the net value of the existing credit for those businesses subject to the new 15% minimum effective tax rate, while also delivering a real increase in the credit to those smaller companies who will not be in scope of Pillar Two. He also announced a doubling of the first-year payment threshold for €25,000 to €50,000, to provide valuable cash-flow support to companies engaged in smaller R&D projects.

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Simplification of the Tax Code

A theme of the Budget speech was to look at ways of simplifying the existing tax code. In addition to the Funds Sector review, dividend participation exemption, and interest deductibility rules – all discussed above - the Minister also referenced his intention to establish a dedicated Tax Administration Liaison Committee (TALC) subgroup focussed on identifying opportunities to simplify and modernise the administration of business supports. In addition, he announced that public consultations will shortly be launched on how digital advances may be used to modernise Ireland's VAT Invoicing and Reporting System, and on share based remuneration. These are important issues, and there is significant value in public consultations in allowing for engagement with stakeholders and prevention of unintended consequences that may otherwise arise without consultation. However, it is equally important that such consultation processes do not result in prolonged implementation timeframes, delaying the introduction of sound and necessary legislative changes. As the saying goes "perfect is the enemy of good"!

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