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The Roundtable June 2024

Budget 2025 - 'the election budget'

The next Budget will be an election Budget, meaning it will be the Budget that is likely to precede the next General Election, and also will be a defining opportunity for the new Cabinet ushered in by a new Taoiseach, Simon Harris to set out an election agenda for the next five years for the 3 Coalition parties. The August 2023 edition of Finance Dublin featured in its cover story your overview of the Budget Submissions for the 2023 Budget. (a) Taking these as a starting point, can you suggest 'unfinished business' that might be picked up from these?


Michelle Adams

Michelle Adams, Manager, Financial Services Tax, BDO: As Budget 2025 will be an election budget, it serves as an opportunity for the new Cabinet led by the new Taoiseach, Simon Harris, to outline the current and future plans for the 3 Coalition parties.

Upon reviewing the highlights for the Budget 2024 submissions, it is evident that the key focus areas for Budget 2025 will be similar. The Irish housing crisis, personal tax system, SMEs and foreign direct investment remain as top priorities for stakeholders and the public in the upcoming Budget.

The Irish housing shortage is a significant issue and is featured in various media platforms daily. The Budget 2024 submissions included various areas for change including an extension of the "Help to Buy" scheme, tax measures for the cost of building houses, VAT reductions for construction materials and tax reform for landlords. These changes are still considered to be key focus areas going into Budget 2025. The Minister for Finance, Michael McGrath, recently commented that he plans to extend the Help to Buy scheme beyond 2025 which is positive news. He also advised that he wants to increase the rent tax credit for a "number of years into the future" but is not committing to an increase until resources are reviewed.

For Ireland to remain competitive and to attract foreign investment, our personal tax system needs to be a key area for change with a reduction in the marginal cost of employment for employees and businesses. A change to the personal tax system should also be an attractive incentive to keep highly talented people in Ireland. Budget 2024 did introduce an increase in the standard rate band for individuals and couples, an increase in the 2% USC threshold and reduction in the 4.5% USC rate to 4% and as well as an small increase in tax credits. While these changes were welcomed, they do not put the personal tax system at the same level as other countries and so changes to the system should still be a key area of focus for Budget 2025. This should include an increase on the entry point to the marginal income tax rate, the introduction of an intermediate tax rate and band, and a cap on the level of earnings which PRSI applies.

The taxation of SMEs should also remain a critical focus area that will extend to Budget 2025. The Irish tax system should support entrepreneurship to drive economic growth. Key changes are needed including simplifying reliefs such as the Key Employee Engagement Programme, Employment Investment Incentive Scheme (EIIS) and Research and Development (R&D) tax credit for SMEs.

There is much to consider, but a Budget 2025 that addresses the above key areas will be welcomed by stakeholders and the general public of Ireland.

A new tax deal for Securitisation

There have been proposals for the development of a new dedicated Irish Special Purpose Entity (SPE) legal framework to support securitisation and structured finance transactions (see Finance Dublin February 2024) to sit alongside the tried and tested Section 110 company option for the activity. Looking at Ireland's regime for securitisation how could it be enhanced from a taxation perspective, especially in light of international tax reforms such as BEPS?

Tatheer Fatma, Manager, Financial Services Tax, BDO: BEPS Pillar II, a new age in the world's tax landscape, is not only a reform to introduce global minimum tax rules in the Irish tax landscape, but is also a co-ordinated global response to difficulties caused by increasing digitalisation of the economy, which makes it difficult for tax authorities to tackle pitfalls in current tax legislation.

Although Pillar II affects all multinational groups with annual consolidated revenues exceeding EUR750 million, based on financial accounts, enhancing Ireland's regime for securitization from a taxation perspective, particularly in light of international tax reforms such as Base Erosion and Profit Shifting (BEPS), could involve several measures which will provide benefits but also solve problems that securitisation companies may face in future:

Tatheer Fatma

1. Clarity and Transparency: Clear and transparent tax rules relevant to securitization transactions would enhance the attractiveness of Ireland as a jurisdiction, thus avoiding ambiguity and ensuring compliance with international standards.

2. Tax Neutrality: Ensuring that securitization transactions are tax-neutral or tax-efficient for all parties involved can make Ireland more competitive in the world. This means structuring the tax legislation and legal framework in a way that does not create undue tax burdens or incentives that may distort the economic substance of the transactions.

3. BEPS Compliance: Aligning Ireland's tax regime for securitization with the OECD's BEPS recommendations is crucial and this can be achieved by implementing measures to prevent the erosion of the tax base and combat tax avoidance strategies, while also ensuring that legitimate securitization activities are not impacted negatively.

4. Updated Legislation: Regularly updating and modernizing legislation for securitization to reflect evolving market practices and international standards is key. This includes incorporating provisions that address the taxation of various types of securitization structures and instruments. For example any in-scope securitisation companies have their Global anti base erosion model rules ("GloBE") profits, which are calculated using the accounting standard used in preparing the group ultimate parent's consolidated financial statements as opposed to 2004 Irish GAAP. This would create a mismatch between Irish taxable profits prepared under the 2004 GAAP standard as per Irish legislation and GloBE profits on which a minimum tax rate of 15% should apply.

5. Attractiveness for Investors: Implementing tax incentives or exemptions for investors participating in securitization transactions can attract more investment and incentives such as reduced withholding tax rates on interest payments or capital gains exemptions for certain types of investors would be helpful.

6. Collaboration with other countries: Cooperating with other jurisdictions and international bodies to develop consistent tax rules for securitization can improve cross-border transactions and reduce tax-related complexities.

7. Promotion of Certainty and Stability for investors: Providing certainty and stability in the tax treatment of securitization transactions through legislative and regulatory frameworks can enhance investor confidence and encourage long-term investment in the market.

By addressing these aspects and aligning Ireland's taxation regime for securitization with international standards and best practices, Ireland can strengthen its position as an attractive destination for structured finance transactions while ensuring compliance with global tax regulations such as BEPS.