UPDATE

Irish Budget 2025 – Implications for International and Irish Business

What You Need to Know

- Budget 2025 ("the Budget") is Ireland's annual statement on proposed tax measures and budgetary expenditure.
- There will be significant changes to the taxation of non-Irish dividends. This will promote Ireland's attractiveness as a location for holding companies.
- Stamp duty rates on certain Irish residential property will increase to 6%. However, this is not expected to apply to sales of apartment blocks or student housing.
- Incentives for Irish investors and innovative companies were extended.
- The announcements in the Budget will be followed by the publication of Finance Bill 2024 next week. The Bill is expected to be enacted within a short timeframe.

Irish Budget Background

On 1 October 2024, the Irish Minister for Finance ("the Minister") presented Budget 2025. The Budget takes place against a background of healthy tax revenues. Budget 2025 is more domestically focused than in recent years, with a particular emphasis on personal taxes. However, there are a number of tax changes impacting international business.

Corporation Tax and International Business

The Minister confirmed the intention to introduce a tax exemption for foreign dividends from 1 January 2025. This major development will improve Ireland's status as a holding company jurisdiction and investment hub.

Based on the pre-budget consultation materials the exemption will initially be limited to dividends from holdings of 5%, which are held in companies which are resident in EU jurisdictions, or jurisdictions with which Ireland has a double tax agreement.

The Minister announced that work will continue in the coming year on the geographic scope of the exemption (i.e., it could be extended). Work is also continuing on a proposed foreign branch profits exemption.

Additionally, a comprehensive review of the tax treatment of interest is underway, aiming to reduce complexity in Ireland's tax code. The aim of this review is simplification and improvements across all sectors, including "section 110 companies" and Irish trading groups.

Investment Funds and Financial Services

No changes to the taxation of Irish investment funds were announced.

The Minister noted there had been detailed consultation on investment funds taxation. This had seen many calls for simplification and reform of the taxation of investment funds and adjacent areas. The Minister noted that he has received the final report which he will review and bring to Government before outlining the next steps.

It has been speculated that measures under consideration include (i) a lowering of the rate of tax for Irish investors in investment products, from 41% to 33%; (ii) reform of Ireland's dividend withholding tax regimes to promote the use of Ireland's partnership fund structures; (iii) reform to the VAT treatment of Irish limited partnerships formed under the 1907 Limited Partnership regime; and (iv) incentives aimed at promoting Irish pension funds into investing into the domestic Irish economy.

It now appears that the Irish funds industry will have to wait until 2025 to find out whether any of these changes will be adopted.

The bank levy, which was due to expire, has been extended for a further year, with a target yield of €200 million.

Real Estate

The Minister announced several measures impacting the real estate investment sector.

The rate of stamp duty applicable to residential property valued above €1.5 million has been increased to 6% (on the portion in excess of €1.5 million only), with immediate effect. There is some ambiguity regarding whether this higher stamp duty rate applies to multiple properties purchased below the threshold when their combined value exceeds €1.5 million.

The Government clarified that it will apply to each residential "unit". This should mean that block sales of PRS or student housing will not be impacted, apart from certain high-value individual units. The Finance Bill will require review with respect to this element.

To discourage bulk purchases of houses by investment funds, the higher rate of stamp duty on bulk acquisitions of houses has been increased from 10% to 15%, effective immediately.

The Vacant Homes Tax will increase from 5 to 7 times the property's existing base Local Property Tax rate.

The Minister reaffirmed the role of the Residential Zoned Land Tax ("RZLT") as a key tool to drive the development of houses on land zoned for residential use and which has necessary services in place. The tax, at 3% of the market value of the land, will be charged annually from 1 February 2025.

Landowners will have an opportunity in 2025 to seek an exemption through their local authorities to rezone their land to better reflect its current use. Legislation will be introduced to allow for: (i) a 12-month deferral of RZLT between the grant of planning and commencement of development; and (ii) an exemption to RZLT during judicial review proceedings brought by a third party.

SMEs and Investment

There was no change to the headline rate of capital gains tax (33%).

Three domestically focused schemes, the Employment Investment Incentive, the Start-Up Relief for Entrepreneurs, and the Start-Up Capital Incentive will be extended for a further two years, to the end of 2026. The amount invested in respect of which an investor can claim relief on under the Employment Investment Incentive will increase to €1 million. Due to changes introduced in 2024, the rate of relief depends on the nature of the investment company and can be as low 20% for some businesses.

In 2023, a capital gains tax relief (the "Angel Investor Relief") was introduced. It allows for a 16% rate of capital gains tax for investments in start-up entities. The lifetime limit on gains to which the relief applies will be increased from €3 million to €10 million.

There is a new measure giving relief for expenses incurred on an initial stock market listing. A deduction will be for expenses incurred wholly and exclusively on a first listing ("IPO") on a recognised stock exchange in Ireland or the EU/EEA area. The relief will be available to investment companies and trading companies. It will be subject to an overall cap of €1m and will apply to successful listings completed on or after 1 January 2025.

The Minister also noted a possible stamp duty relief for Irish SMEs accessing equity via certain platforms. No details of this change were published.

Share-Based Remuneration

No changes to share based remuneration were announced. However, the Minister published a departmental report on share-based remuneration and noted a number of recommendations arising from it will be considered. No timeline was given for this. The key recommendations are unlikely to be acted upon before the next general election.

Climate Change and Energy

The Minister announced several climate-related tax measures. The VAT rate for the installation of heat pumps has been reduced to 9%, the carbon tax on petrol and diesel has been increased, the accelerated capital allowances scheme for gas and hydrogen-powered vehicles has been extended for a further year, and the maximum emissions threshold for low-emitting company car capital allowances has been reduced.

VAT

The reduced 9% rate for gas and electricity will be retained for another 6 months until 30 April 2025. The Minister also announced an increase in the VAT registration thresholds for the supply of goods and services to €85,000 and €42,500, respectively.

Income Tax and Capital Acquisitions Tax

The Minister announced an increase in income tax credits and bands, as well as a reduction in USC rates. He announced an extension of the small benefit exemption to €1,500 which is intended to exempt small benefits and gifts from employers.

The Benefit-in-Kind ("BIK") regime for company cars has also been extended. There will be a BIK exemption for the provision of electric vehicle chargers at the home of a director or employee.

For Capital Acquisitions Tax ("CAT" or gift tax), the Group A threshold (generally parent to child) has been increased from €335,000 to €400,000, the Group B threshold from €32,500 to €40,000, and the Group C threshold from €16,250 to €20,000.

Use of the *Apple* Escrow Receipts

Budget 2025 also outlines a framework for utilising the €14.1 billion Apple Escrow Fund, following a recent European Court ruling. The funds will be strategically invested to maximise economic and social returns through key infrastructure projects in housing, energy, water, and transport.

The framework emphasises principles such as deliverability, value-for-money, additionality, and prioritisation for economic impact. The aim is to complement existing funding sources like the National Development Plan ("NDP") and the Infrastructure, Climate and Nature Fund ("ICNF"), ensuring coordinated and impactful investments.

Further Information

For further information, please consult with your usual Maples Group contact or any of the persons listed below.

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