Trinity College Dublin
Coláiste na Tríonóide, Baile Átha Cliath
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FANASTY BUDGET 2025

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Introduction

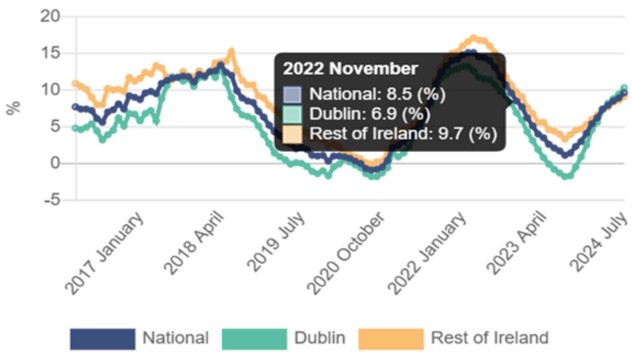
We aim to investigate the impact of three key measures introduced into Budget 2025; the increase in Capital Acquisition Tax (CAT), the increase in the first-year payment threshold for the Research and Development (R&D) tax credit, and the dividend participation exemption for foreign dividends. Our report concludes with a proposal on introducing a tax on higher carbon-emitting products/materials.

Individual & Family

CAT is a 33% tax on gifts and inheritances that exceed specific thresholds. These thresholds differ across three groups: Group A applies to children inheriting from parents, Group B to inheritances from relatives like siblings and grandparents or nephews and nieces, and Group C to other beneficiaries not mentioned above (Revenue, 2023). If the disponer dies within two years of giving the gift, it will be treated as an inheritance. The last rise of any of the three thresholds was in 2019 when Minister Paschal Donohoe increased the Group A threshold from €320,000 to €335,000 (TaxAssist Accountants, 2019).

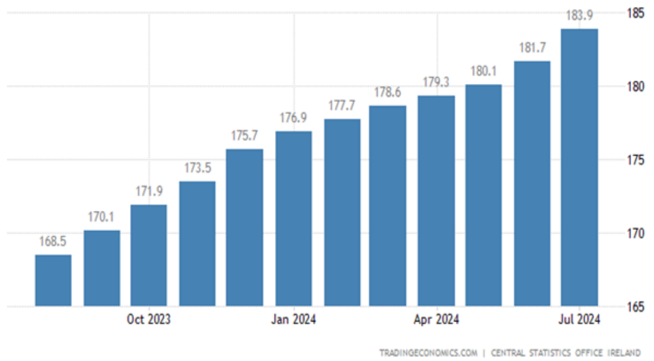
In Budget 2025, Finance Minister Jack Chambers announced further threshold increases: Group A rose to €400,000, Group B from €32,500 to €40,000, and Group C from €16,250 to €20,000 (RTE, 2024). For instance, if someone receives €550,000 from their parents, they will now pay CAT on €150,000, resulting in a tax bill of €49,500, down from €70,950 under the previous threshold, giving recipients a saving of €21,450, or around 30.22% (Citizens Information, 2024).

Chambers justified the increase as "appropriate," given the rise in property prices over recent years (Irish Times, 2024). A report by MyHome.ie and Bank of Ireland showed a 7.5% rise in national asking prices over the past year. In Dublin, prices increased by 6.2%, with a median asking price of €455,000, and 14% of homes sold for 20% above asking price (Hickey, 2024).



(Statista, 2024)

Despite the increase, many argue it doesn't go far enough. Des Lynch of O'Flynn Exhams LLP described the current thresholds as "grossly unfair" for children inheriting from their parents (Coyle, 2024). Data from the Central Statistics Office shows Ireland's housing index reached 183.9 points in July 2024, exceeding the historical average of 125.98 points (CSO, 2024).



(CSO, 2024)

This means many homes now exceed the €400,000 threshold. Former Minister Alan Shatter has labelled CAT a "state-sponsored grave robbery," pointing out that the current Group A threshold is still €142,544 below its 2008 level (Pepper, 2024). Michael Rooney of EY noted the emotional impact of CAT, particularly when it involves family homes, businesses, or farms. He estimated that raising the Group A threshold would cost the exchequer €56 million annually, a small part of the €8.3 billion budget (Coyle, 2024).

However, some question how impactful the change will be. Diarmuid Pepper of The Journal, highlighted Minister Paul Murphy's claim during a Prime Time debate that "97% of people will be unaffected by this tax change." CSO data supports this, showing that only 30% of the population inherited assets in 2020, with just 3% paying inheritance tax (Raymond, 2024). Murphy also pointed out that a family home worth up to €770,000 wouldn't be taxed if split among multiple children. Finally, SIPTU has criticised the measure stating it is "fiscally irresponsible," in a country where over 100,000 children live in poverty (Pepper, 2024). They emphasise how true progress should lift everyone, not just those who are fortunate enough to own a home.

Indigenous Irish Businesses

A key measure implemented in this year's budget affecting indigenous Irish Businesses was the 50% increase in the first year payment threshold for the R&D tax credit which saw an increase from 50,000 to 75,000. This increase will be extremely beneficial for small and medium sized enterprises (SME's) and startups with R&D tax credit claims of less than 150,000. Allowing them to gather quicker funding in the early stages of their businesses "where the cash flow cost of investing in the future is most keenly felt." (Lynch, 2024).

This change follows the recent growth in company insolvencies in the first 6 months of this year, rising 25% compared to the same period in 2023. Where " SME liquidations accounted for 83 per cent " of insolvencies in the second quarter of this year (O'Brien, 2024). As a result the increase in the first year payment threshold for R&D tax credits is a welcome change. It will be particularly beneficial for SMEs and startups that are not yet profitable and cannot utilise the R&D tax credit to offset corporation tax, as if unused, it may be carried forward or refunded in instalments over a 3 year period.

This will allow business to receive much quicker funding compared to 2024 where the previous threshold benefited claims under 100,000 (Damien Flanagan, 2024). For example if a business had a R&D tax credit claim of 110,000 under the new changes they would receive:

Year	R&D Refund instalment amount in €	Working
1	75,000	
2	21,000	(35,000 x 3/5)
3	14,000	(35,000 x 2/5)

While previously in 2024 under the 50,000 first payment threshold they would receive:

Year	R&D Refund instalment amount in €	Working
1	55,000	(110,000 x 50%)
2	33,000	(110,000 x 30%)
3	22,000	(110,000 x 20%)

In this example the business will receive an extra 20,000 in the first year alone compared to 2024. This will allow struggling SMEs in Ireland to focus more capital on R&D or covering other business expenses. Overall the first year payment threshold will "have a significant beneficial cash-flow impact on the indigenous SME sector" (Damien Flanagan, 2024).

However there has been criticism over SMEs ability to access the R&D tax credit, in a survey carried out of 500 companies currently benefiting from the R&D tax credit "Only 11% of respondents stated that they didn't perceive any barriers" when applying for incentives (Hardy, 2024). With two of the main barriers being the complicated claims process and the limited eligibility criteria. This can be seen with the lack of change between 2021 and 2022 with the number of companies benefiting from the R&D tax credit only increasing by two.

Table 3: Overall Cost of the R&D Credit

Year	Total Exchequer Cost €m	Number of Companies
2004	70	73
2005	65	135
2006	75	141
2007	166	479
2008	146	582
2009	216	900
2010	224	1,172
2011	261	1,409
2012	282	1,543
2013	421	1,576
2014	553	1,570
2015	708	1,535
2016	670	1,506
2017	448	1,505
2018	355	1,303
2019	626	1,601
2020	658	1,616
2021	753	1,629
2022	1,158	1,631

(Revenue , 2024)

As a result of these barriers, SMEs that may qualify for R&D relief may not be able to access it. Which may impact the effectiveness of the increase in the first year payment threshold to provide relief to struggling SMEs. Addressing these barriers may be a key future consideration for Ireland to "stay ahead in the changing global scene" (Hardy, 2024).

Foreign Direct Investment

Foreign Direct Investment is a critical area of the current budget and the overall development and growth of the Irish economy. With Ireland currently home to over "1,000 leading multinational companies" (Catherine, 2022.) such as Google and Microsoft, FDI is more important than ever. The major policy that impacts the FDI of Ireland in the current budget is the dividend participation exemption for foreign dividends. This would see a change to the current "tax and credit" (Mason Hayes Curran, 2024) regime which has been in use since the introduction of Corporation Tax in 1976. (Book (eISB), 2024.). The new system is set to begin on the 1st of January 2025 (Mason Hayes Curran, 2024).

As Ireland is currently highly dependent on corporation tax and foreign investment this new regime has garnered a positive reaction. In 2023 27.5% of Ireland's total annual income was made through corporation tax reliefs (McCarthy, 2023). This figure would be expected to rise as new FDI's come into Ireland. FDI is a highly competitive area as more countries worldwide try to increase their share of the global market. This illustrates our potential vulnerability if FDI isn't managed properly. To reduce this impact the government has begun implementing of de-risking measures (Donohoe, 2022). The centre of this is the further transferring of funds to the National Reserve Fund of €4 billion (Www.gov.ie, 2023).

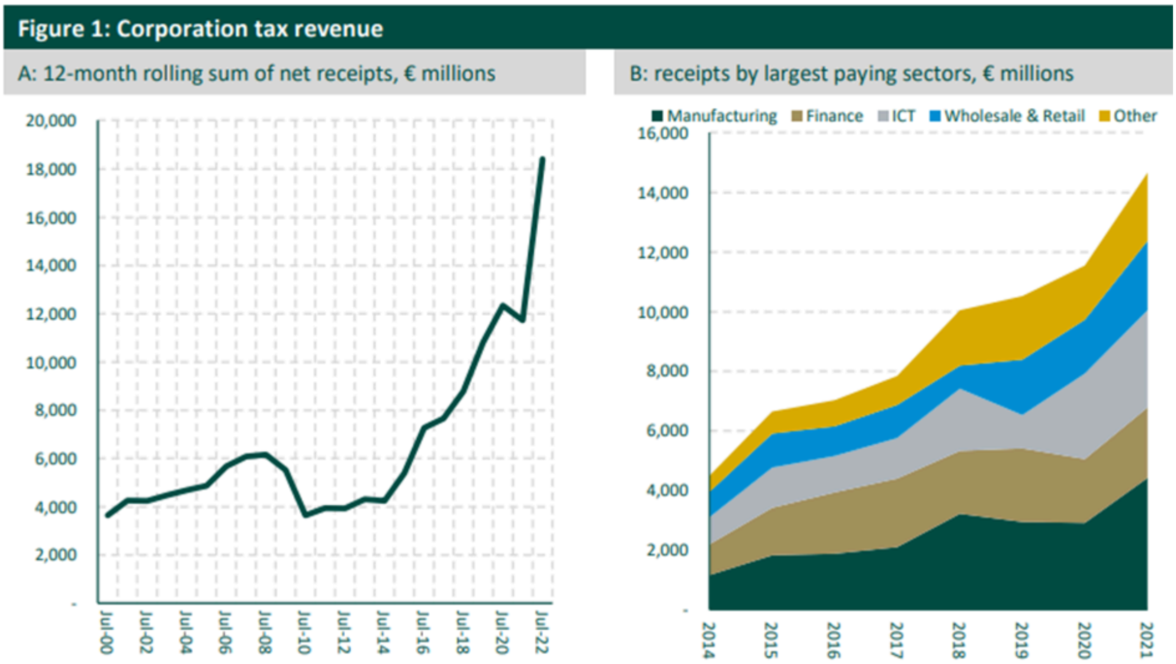
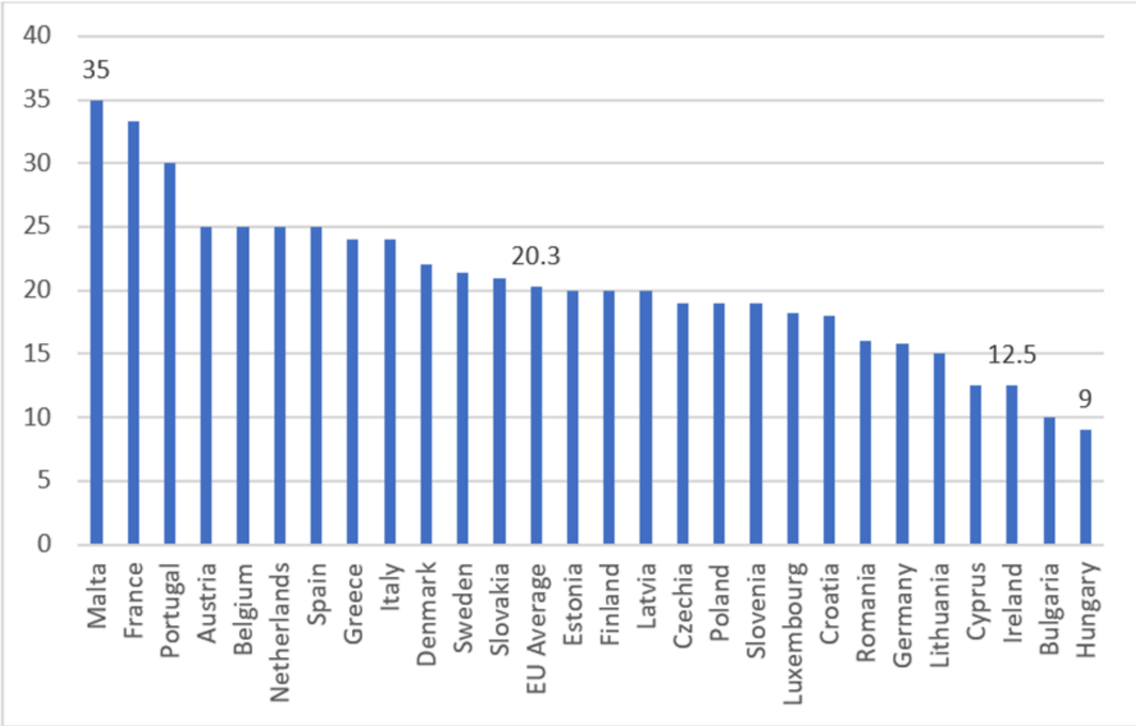


Figure 1: Corporation tax revenue

(Donohoe, 2022)

The new exemption will work on the basis that foreign dividends will be exempt from Irish corporation tax, with the government hoping to cancel the need for overly complex calculations. Previously foreign companies were doubled taxed at the current corporation tax level of 12.5% on their dividends and then received a trade credit for tax paid overseas (PWC, 2024). The change removes the need for this tax credit as dividends become exempt from being taxed. This change can increase Ireland's attractiveness to new foreign companies and offers incentives for those already located here to remain (Maples, 2024). Ireland currently has one of the lowest corporation tax rates in the EU with the average being just above 20%*(*Larissa Feeney, 2024).



(European Movement Ireland, 2021)

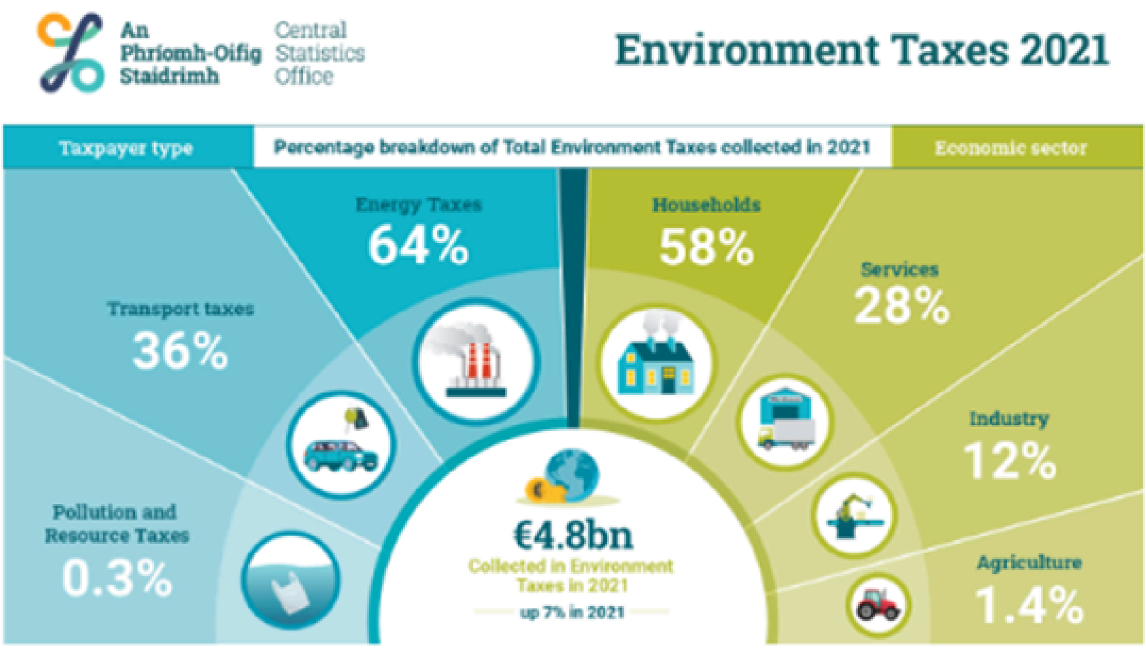
The major issue with introducing this new regime comes in the form of qualifications for it. There are many regulations that firms are forced to abide by. The main regulations involves a parent company controlling at least 5% of the ordinary share capital for 12 months. (McGath, 2024) Furthermore, to be qualified as a parent company involves holding a relevant participation in the relevant subsidiary directly or indirectly by being a resident of Ireland or an EEA state (Maples, 2024). These are repercussions involved in preventing anti-avoidance. This involves making sure that dividends won't be deductible for tax reasons in any other jurisdictions or from the EU list of non-cooperative jurisdictions for tax purposes (McGrath, 2024).

Overall the introduction of the dividend exemptions in the budget is a highly praised area in the development of Irish FDI. It acts as a further attraction of Ireland for multi-national companies to relocate here.

New Proposal

As the need and global focus on sustainability intensifies, introducing a tax on materials/products that have a high carbon Environmental Product Declaration (EPD) count, could be a crucial step in promoting sustainable practices in the construction and building industry. EPD's provide transparent and standardised information about the environmental impact of materials/products (EPD Ireland, 2020). EPD's allow consumers and businesses to make informed choices in choosing between products with the same function, but with different carbon emissions. Taxing products with a high carbon EPD will encourage consumers to purchase low carbon products.

The built environment and construction sector contributes to 40% of the Earth's carbon emissions while generating 1/3 of the earth's global waste (Climate champions, 2024). In Ireland the built environment is responsible for 37% of emissions in a standard year, 13% of that being embodied carbon (O'Hegarty et al., 2022). However, although the built environment results in 37% of yearly emissions it only represents 12% of Ireland's environmental tax (CSO, 2022).



(CSO, 2022)

A tax on materials/products with high carbon EPD count means the government can incentivize the adoption of more sustainable product/material alternatives. The tax would help EPD products/materials that have a lower carbon emissions than their non EPD counterparts be more viable.

Take steel for example, green produced steel costs on average 40% more than unabated production (Attwood, 2023). Both steels have the same function where one is produced with green energy in Germany and the other with fossil fuels in Poland.

The tax on non EPD and higher emitting materials/products would need to be significant enough to sway choice of materials/ products to the higher costing lower emitting EPD equivalents.

In conjunction with this tax the government should introduce a subsidy on registration and identification of EPD's. To incentivise companies to register their materials/products as an EPD making their environmental impact known and traceable. The funding for this would come from the revenue generated from the tax to keep the government exchequer positive.

Ireland's costs:

Single variation EPD

This is an EPD with just one product and where a separate EPD is prepared for each product variation.

1 EPD	2 EPD	3 EPD	Additional EPD
€1700.00	€1,850.00	€2000.00	+ €100.00

Multi variation EPD

Where manufacturer wishes to include variations eg. density, thickness within the same EPD rather than creating separate EPD for each one and is declaring a full set of LCA tables for each, there is a small charge for each table. This is to cover the time of the verifier to check each of the tables.

Single variation EPD	2 variations	3 variations	Each additional variation
€1700.00	€1,800.00	€1,900	+ €75.00

EPD Registration and publishing fees (excluding VAT) are set as follows:

Number of EPD registered at same time	1st time Registration fee once off	Annual charge. Not currently charged.
1	€1400.00	€0.00
2	€1700.00	€0.00
3	€2000.00	€0.00
4	€2300.00	€0.00
	Add €200 for each additional EPD	
Inclusion of additional product variations tables within same EPD*	€50 per variation	

Images (EPD Ireland, 2020)

Proposed requirements to be eligible to be exempt from the tax:

- EPD verification: Independent verification by a qualified professional party to ensure the accuracy and credibility of the product/material.

- Standard compliance: EPD must comply with Irish EPD standards such as EN15804+A2, ISO 14025 and ISO 14044 (EPD Ireland, 2020).

- Transparency: The EPD must provide clear and comprehensive information, Outlining the description, its uses and methodology used in the LCA.

- Environmental Impact: EPD data on key environmental indicators, such as energy use, water consumption, global warming potential (embodied carbon) and impact on waste.

- LCA (life cycle assessment): An LCA must be conducted to outline and evaluate the environmental impact of the product/material throughout its entire lifecycle. While specifying its unique environmental impact (EPD Ireland, 2020).

The benefit

- Resolving Inequality in the environmental taxing system of Ireland.

- Generating government income while reducing overall C02 emissions.

- Enabling more materials/ products to be registered as an EPD.

- Enabling environmentally friendly businesses and materials/products to gain a more competitive edge and become more feasible.

- Puts pressure on unsustainable products to change as profits fall.

Conclusion

In a budget focused around infrastructure, housing, business support and personal finance (Baker Tilly Ireland, 2024) the three measures discussed in this report are all positive implementations in the right direction. However, as addressed in some aspects there is still room for further scope.

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