

Ireland issues Budget for 2021: Review of indirect tax and environmental measures

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The Irish coalition Government has delivered its first budget. Finance Bill 2020 is expected to be published on 22 October 2020 and signed into law by mid-December. Indirect tax and environmental measures include the following:

Value-added tax (VAT)

- ▶ Reduction in the VAT rate for hospitality and tourism sectors: In response to the impact of COVID-19 on the hospitality and tourism sectors, the Minister has announced a temporary reduction in the VAT rate for these sectors from 13.5% to 9% (to apply from 1 November 2020 to 31 December 2021). In addition to the relief applying to catering services, hotel and guest house accommodation, it will also extend for admission to cinemas and promotion and admission to live performances, museums and exhibitions. Hairdressing services and the printed matter such as brochures, catalogues and maps, etc., will also benefit from the reduction. However, it is difficult to ascertain how effective this reduction will be in light of COVID-19 restrictions for these industries.
- ▶ Farmer's flat-rate addition: Farmers are scheduled to benefit by an increase in the flat-rate addition (from 5.4% to 5.6%).

Excise tax

The usual increase in tobacco excise duty has been announced (50¢ per packet of 20, with a pro-rata increase on other tobacco products).

Environmental measures

- ▶ Revamp of the Vehicle Registration Tax (VRT): The carbon dioxide (CO₂)-based VRT and motor tax regimes will transition to the more robust Worldwide Harmonized Light Vehicle Test Procedure (WLTP) emissions system from January 2021 to encourage consumers to buy greener cars so that Ireland can meet its legally binding targets by 2030. The WLTP system will also apply to used imported cars.
- ▶ In light of the much lower VRT rates for low-emission cars, VRT reliefs for Plug-in Hybrid Electric Vehicles and hybrids will be allowed to expire. The relief for Battery Electric Vehicles will also be tapered. It is intended that the changes to the VRT rates and bands will compensate for the changes to these reliefs.
- ▶ Following on from the introduction of the Nitrogen Oxide (also known as NO_x) surcharge in last year's Budget, the NO_x surcharge bands will be adjusted to ensure that higher NO_x emitting vehicles will pay more.
- ▶ Carbon taxation: The Government has announced that the rate of carbon tax will increase from €26 per ton/CO₂ to €33.50 per ton. The increase will apply to auto-fuels from 14 October and to other fuels from 1 May 2021. The upcoming Finance Bill will also provide for similar annual increases in carbon taxes to achieve a Government target of €100 per ton/CO₂ by 2030 (up from the €80 commitment in Budget 2020).
- ▶ In practice, this increase is expected to add €1.28 to the cost of a 60L tank of petrol, €1.47 to the same amount of diesel as well as adding €0.90 to a bag of coal and €0.20 to a bale of peat briquettes. VAT is also chargeable on such increased prices.

Businesses will need to consider the increasing cost of carbon, and also consider how total carbon emissions can be measured, monitored and reduced to decrease energy costs.

- ▶ Energy efficient equipment: Extension of the accelerated capital allowance scheme for energy efficient equipment for an additional three years to 31 December 2023. The energy efficiency criteria will also be re-assessed in 2021 to ensure the categories of equipment attracting relief remain appropriate and reflect the most up-to-date efficiency standards.

For additional information with respect to this Alert, please contact the following:

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EYG no. 007058-20Gbl

1508-1600216 NY
ED None

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