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in this issue...

THE YEAR AHEAD

The hazards involved in economic forecasting have been highlighted in dramatic fashion over the past year. While reviewing the equivalent piece I wrote this time last year, two statements stand out, that remind me once again of the futility of economic forecasting.

Firstly, in relation to the international outlook, I expressed a view that a hard Brexit would be avoided, and that the US/Chinese trade spat that had dominated 2019, would ease ahead of the US presidential election. I concluded based on these assumptions that 'despite all of these uncertainties, mainly related to global geo-politics, it is more likely that global growth will be stable or slightly stronger over the coming year'.

Secondly, in relation to the domestic economy, I opined that while 'there are always risks and challenges in any society and any economy, how they are addressed is of prime importance. In overall terms, 2020 should prove another year of solid growth for the Irish economy, but political developments have overtaken all else to become the most significant risk factor.' This was written in the aftermath of the very difficult Irish general election.

A hard Brexit was avoided when the UK formally left the EU at the end of January 2020, and the US and Chinese began a process of appeasement in the early weeks of the year. So far so good, but unfortunately a few weeks after I penned the piece, COVID-19 was declared a global pandemic, and the whole world was subsequently thrown into social, political, and economic turmoil. The moral of the story is that in business and life, one should always expect and plan for the unexpected.

Continued

THE YEAR **AHEAD**

There is little point in going back over the impact of the pandemic during 2020, but a few things stand out that will have significant implications for the coming year.

- Global policy makers reacted fast and aggressively to the crisis. Central banks slashed official interest rates; bond buying or Quantitative easing (QE) was ramped up aggressively in an effort to pump liquidity into the global financial system, and reduce the costs of government borrowing; and governments virtually everywhere engaged in massive fiscal expansion, and accepted that big budget deficits would be a price worth paying to support households, businesses, and healthcare systems. All of these policies are ongoing and will be required for some time yet.
- All over the world we have seen strong growth in household and corporate savings. Basically, many businesses and households have continued to earn, but lack either the ability or confidence to spend and invest. These amassed savings will at some stage be unleashed back into the real economy and deliver a strong economic rebound driven by pent-up demand. In Ireland, household deposits increased by €14.1 billion during 2020 to reach a record high of €124.5 billion; and non-financial corporate deposits increased by €11 billion to reach €72.7 billion. This is a lot of money and a lot of pent-up demand in the system.

Looking ahead to 2021, it is possible to be optimistic about the global and the domestic economy. This is of course subject to all of the caveats about the mutating virus and the vaccines. The very stringent restrictions put in place here in Ireland and in many other countries at the end of 2020 could last well into the second quarter, and will obviously have a very significant impact on economic activity. There is not a lot that can be done about that. It is necessary to bring infection levels down, but the Irish Government will have to continue to provide strong financial support to households and businesses for the foreseeable future. The hope is that an effective vaccine programme will be rolled out as quickly and efficiently as possible, and restore some semblance of normality to the economy and society in the second half of the year.

2020 was a very strange year for the Irish economy. In the first nine months of the year, gross domestic product (GDP) expanded by 3 per cent, and it looks set to be one of only a very few countries globally that is set to deliver positive growth. However, as is always the case, GDP needs to be treated with extreme caution in an Irish context. It grossly exaggerates economic activity.

The overall impact of COVID-19 on the economy has been very mixed, and a real dual economy and labour force has emerged.

On the revenue side, taxation held up very well in difficult circumstances in 2020. Overall tax revenues were down by just 3.6 per cent. The multi-national corporation tax take was very strong, with the overall tax take from the corporate sector increasing by 8.7 per cent to reach a record high of €11.8 billion. VAT declined by a large 17.8 per cent, reflecting the impact on overall consumer spending. Income tax held up remarkably well, with a decline of just 1 per cent. 2020 saw the second highest level of income tax ever collected in this country (the highest was 2019). This is despite the fact that COVID-19 wreaked havoc on the labour market, with a peak of 598,000 workers on the COVID PUP scheme last May. However, the strong income tax take reflects the fact that the higher earners in the economy - public sector, FDI, financial services, professional services - who pay the bulk of income tax anyway, continued to maintain earnings in 2020. Lower paid workers who pay relatively little tax, in sectors such as non-essential retail, personal services, and hospitality, were the ones who have suffered most from the COVID crisis. Those sectors and their workers will require strong assistance for the foreseeable future.

The multi-national segment of the economy is a source of optimism. The end-year results from the IDA show that IDA supported companies increased net employment by 8,944 during 2020 to reach 257,394 jobs in the FDI component of the economy. This is really important in the current challenging environment.

Exports of Chemicals and Pharmaceuticals expanded by 13.8 per cent in the first 11 months of the year, and accounted for almost 66.1 per cent of total merchandise exports. This sector along with other parts of the multinational sector is providing a very solid base for economic growth, employment, and the public finances.

Notwithstanding the current stringent restrictions in place, there are grounds for optimism about Ireland's economic prospects later in 2021. Much of this optimism is obviously contingent on a successful rollout of the vaccine programme. We will also have to mindful of the Brexit impact, and the fact that it will take some time for tourism-related activities to recover. Businesses in these areas will need to get as much ongoing financial support as possible. Apart from the evolving COVID-19 situation and the implications for the health service, housing is likely to dominate political discourse in 2021, as it should. Fiscal austerity must not be mentioned.

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COVID – PUP

The Department of Social Protection (DSP) reported that some individuals have received text messages on their mobile phones purporting to be from Revenue. These messages include a web link that the person is asked to click in order to claim a payment for €350. The DPS issued a reminder that individuals are never requested to submit bank account details via text message or social media.

If you receive any unusual communications from Revenue you should always check with us before replying.

EMPLOYERS REMINDER!!!

As businesses reopen in the weeks to come, employers are reminded that the minimum wage increased from €10.10 per hour to €10.20 per hour on 1 January 2021

TEMPORARY WAGES SUBSIDY SCHEME (TWSS)

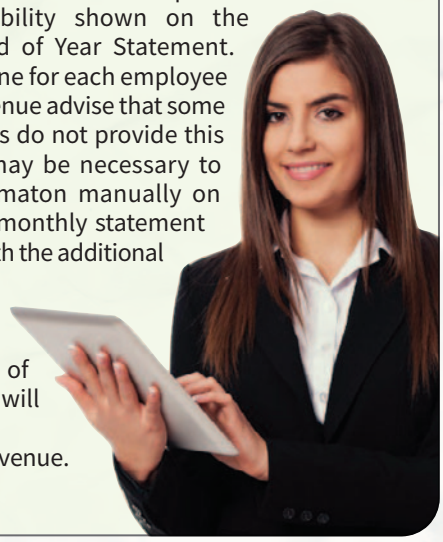
Revenue has confirmed that they will facilitate employers who want to pay the 2020 income tax and USC liabilities of employees which arose due to the TWSS, without the application of benefit in kind (BIK). The employees should have received their Preliminary End of Year Statement detailing their liability. Once the payment is agreed, the employer can

- Provide funds to each employee to meet their IT and USC liabilities, as shown in their Preliminary End of Year Statement. Each employee must then pay their liability via RevPay.

OR

- Amend their last payroll submission fo 2020 to add additional 'IT paid' and 'USC' paid that equals the laibility shown on the Preliminary End of Year Statement. This must be done for each employee concerned. Revenue advise that some payroll packages do not provide this facility and it may be necessary to enter the informaton manually on ROS. A revised monthly statement will be issued with the additional amount to be paid.

The employees' preliminary end of year statement will subsequently be revised by Revenue.



VAT RETURN OF TRADING DETAILS (RTD)

The VAT Return of Trading Details (RTD) is being updated to reflect the temporary change in the VAT rate from 23% to 21% on 1 September 2020. The revised RTD is available since 10 February 2021 and the filng date of the RTD is being extended to 10 March 2021. Revenue recently confirmed that they will accept forms that have been filed already in January and taxpayers are not required to resubmit the VAT RTD using the updated form. The updated return will include single "standard rate" field to capture data on the 23% and 21% supplies.

Where RTD returns are not filed on time and remain outstanding it can affect the issue of tax clearance certificates and RCT deduction rates to businesses.

Reminder – at the date of writing the temoporary reduction in the standard rate of VAT from 23% to 21% is due to end on 28 February 2021

PAY AND FILE SUMMARY

The following is a summary of upcoming pay and file dates:

INCOME TAX

Filing date of 2020 return of income (self-assessed individuals)	**31 October 2021**
Pay preliminary income tax for 2021 (self-assessed individuals)	**31 October 2021**
On-Line pay and file date for 2020 return of income	**TBC**

CAPITAL GAINS TAX

Payment of Capital Gains Tax for the disposal of assets Made from 01 January 2021 to 30 November 2021	**15 December 2021**

CORPORATION TAX

Filing date for Corporation Tax returns for accounting periods ending in July 2020	**21 April 2021**
Balancing payment of Corporation Tax for accounting periods ending in July 2020	**21 April 2021**

Income Protection for Individuals and Business Owners:

How to safeguard your income against any illness or injury.

FEB 2021

Income Protection is a policy that pays you a portion of your income in the event you are unable to work due to illness or injury and covers you until you are either fit to return to work or reach retirement age. Income Protection is widely considered the most valuable protection policy one can have due to the frequency of claims and average pay-out.

You choose your annual benefit up to a maximum of 75% of your regular income, less the state illness benefit. The benefit is payable after a deferral period of your choice from 4-52 weeks and payable until your chosen 'retirement age' from age 55 to age 70. The benefit is payable once you are deemed unable to continue your current occupation due to any illness or injury, including mental health leave.

There are a number of 'built in' benefits to income protection policies that vary by provider, from rehabilitation support, proportionate benefit when returning to work in a reduced capacity and terminal illness benefit to name a few. Income Protection is often confused with serious/critical illness cover, which is a once off payment when diagnosed with a specific illness; Income Protection offers far broader cover on an ongoing basis.

Consider: You likely have your home, motor and maybe even phone insured, but do you have your earnings insured? Your ability to keep your home, motor and phone all rely on your income, is it secure?

Individual Suitability: Income Protection is suitable for anyone who relies on their income to meet their outgoings. The amount of cover an individual requires depends on their own savings, employer's sick pay policy and whether or not their employer provides income protection as a benefit. Assessing your requirements with a qualified advisor is recommended.

Business Owner Suitability: For small business owners, 'executive income protection' can be taken out by the company to benefit the owner and/or key employees. For larger companies/corporations group income protection can be taken out on all or segments of employees. When a company of any size provides income protection for their staff, tax relief is available on premium payments. Studies show that companies with employee benefits have improved retention rates and employee satisfaction. For smaller companies, providing income protection as a benefit is a valuable tool for attracting talent.

Sole traders: If you have fluctuating income, you can opt to have your finances underwritten at the inception of a policy to 'lock in' a set payment in the future, regardless of your income at the time of a claim. This was not previously available in the Irish market and can eliminate paying for a set benefit you may not qualify for, should you become disabled during a trading downturn.

Claim Statistics: The average claimant on an income protection policy is just 42 years of age. The average length of time for claimants in Ireland is 6 years. The two most claimed ailments in Ireland are Orthopaedic (back injury/pain) and Psychological (mental health/stress leave) with cancer and heart related conditions following.

Tax relief: Revenue allow tax relief on premium payments for individuals at their marginal rate (20%/40%) and corporate tax relief of 12.5% for companies providing income protection.

The above information is based on products available in the current Irish market as of February 2021.

Terms vary upon provider.

FÁILTE IRELAND ANNOUNCE €55 MILLION BUSINESS CONTINUITY SCHEME

The scheme announced by Fáilte Ireland is for the tourism sector and is called the Tourism Business Continuity Scheme. The allocation of funds for this scheme was announced during Budget 2021 and delivers a small reprieve for the struggling industry.

Under the €55 million fund, businesses can apply for grants of between €3,750 and €200,000. To be eligible for the scheme, a business must:

- record a monthly turnover from October 2020 to January 2021 that is less than 25% of its average monthly turnover in 2019
- have a minimum annual turnover of €50,000 and minimum fixed costs of 10% of turnover
- not be eligible to apply for the CRSS (Covid Restrictions Support Scheme) or have received funding through the Fáilte Ireland Coach Tourism Business Continuity Scheme or Ireland Based Inbound Agents Business Continuity Scheme.

Applications opened on February 11th on **www.failteireland.ie/business-continuity-scheme.aspx**

FIRST CALL OPEN FOR €100 MILLION BREXIT SCHEME FOR AGRI-FOOD SECTOR

In recognition of the agri-food sector's unique exposure to the impact of Brexit, a new €100m scheme has been unveiled and is being administered by Enterprise Ireland.

€70 million is the fist available portion of the Capital Investment Scheme for the Processing and Marketing of Agricultural Products. The Fund is administered by Enterprise Ireland with the aim of advancing product and/or market diversification among primary food processing companies and strengthen the resilience of companies vulnerable to the external trading environment.

This fund is open to Enterprise Ireland clients deemed to be approved small and medium-sized enterprises (SME's) or large enterprises which are engaged in the processing and marketing of certain agricultural products (beef, pig meat, sheep meat, poultry, dairy).

GOVERNMENT BRIDGE THE GAP BETWEEN RETIREMENT AND PENSION

In 2014, the national pension age was increased from 65 to 66 leaving a gap between the age at which most private workers retire (65) and the pension age (66). Many companies in the private sector have a mandatory retirement age written into their employment contracts. The new 'Benefit Payment for 65-Year-Olds' offers a weekly payment for 1 year and does not require the person to go on the Live Register.

While in receipt of the Benefit Payment for 65-Year-Olds, a person continues to get credited contributions on their social insurance record if they had an entitlement to them at the start of the claim. A self-employed person (or a person who was previously self-employed) may be entitled to unemployment credits also.

POSTPONED VAT ACCOUNTING – VAT CHANGES ON BRITISH IMPORTS

Since 1 January 2021, the UK is no longer a part of the EU's Single Market and Customs Union, which has implications around VAT for businesses operating in the Republic of Ireland that import from the UK. The Irish government has introduced a facility called postponed VAT accounting for VAT registered businesses to avoid the payment of import VAT at the point of entry.

This new measure allows you to record the VAT on your VAT return rather than paying it at the point of entry into the State but will not apply to goods brought in from Northern Ireland.

Postponed accounting is a simple measure taken to make it easier for Irish businesses to continue to trade with Great Britain. If your business imports goods from Great Britain and/or another non-EU country, you should ensure your systems are updated and can handle the transactions so VAT will be accounted for under the new postponed VAT procedure.

The VAT 3 return form has been amended to include an additional field for postponed accounting – PA1 – to capture the value of goods imported under the postponed accounting measure (net plus carriage, insurance and freight).The VAT is then accounted for at T1 and T2 (subject to the usual deductibility rules).

Businesses that are excluded from the scheme will be obliged to pay VAT at the point of entry. Businesses that were already registered for VAT and Customs & Excise (C&E) when the Brexit transition period ended on 31 December 2020 won't need to apply for postponed accounting – you would have been automatically entitled to avail of the facility.

If you are VAT registered but were not registered for C&E on 31 December 2020, you must register for C&E and obtain an Economic Operators Registration Identification (EORI) number. New applicants for VAT Registration can find out more on the Revenue website.

Succession Planning

Succession planning can mean many things to different people ranging from "should I make a Will" to somebody who consciously considers the range of tax reliefs available and proactively looks at passing assets to the next generation.

There are several fundamental questions that need to be considered in the context of succession planning such as:

1. **If I give assets away now, do I have sufficient funds to live on?**
2. **Are my children sufficiently mature to receive monies or assets?**
3. **If I have a business, are my children capable of successfully managing the business or should I consider an external management team?**
4. **How do I achieve the above in a tax efficient manner?**

It is important to ask the question "What do you want in the future?". Once this has been established, then we can consider any taxation matters that arise.

If you wish to sell or transfer a business during your lifetime this can result in a costly Capital Gains Tax (CGT) liability for you. A relief known as retirement relief may be available when looking at the CGT implications on a transfer or gift.

Retirement relief provides relief to individuals on the sale or transfer of certain business assets (including agricultural assets), provided certain conditions are met. One of these conditions is that you must be aged 55 years or older however, you do not actually have to retire. This relief can eliminate the CGT due on shares in trading companies where the business assets and/or certain shares in trading companies are transferred to the next generation. If this is done between the ages of 55 and 65, there is no cap on the value of the business assets. Where the transfer is made after you turn 66 years there is a threshold of €3 million.

Full CGT relief may be available up to a limit of €750,000 if this occurs when you are between the ages of 55 and 65 on transfers to persons other than a child. The limit is reduced to €500,000 once you turn 66.

This relief could result in significant tax saving for a person transferring their business property. Transfers of business assets by way of a gift or inheritance may result in a Capital Acquisition (CAT) liability for the individual receiving the gift or inheritance. Again there are certain reliefs that should be considered such as business property relief or agricultural relief depending on the business to hand.

If the gift or inheritance consists of certain business assets (including certain shares in family companies) the market value of the business assets can be reduced by 90% if certain conditions are met. This relief can facilitate the transfer of a family business to the next generation.

Agricultural relief is a valuable relief which in certain circumstances can provide for the transfer of farm land and farming property between generations, without incurring a large CAT bill. A gift or inheritance of cash where the cash is used to purchase agricultural land within two years of the date of the gift or inheritance could qualify for agricultural relief if conditions are met.

If you plan to gift certain assets during your lifetime, you may be liable to CGT on the transfer of the asset and the beneficiary may be subject to CAT on the same event. A credit for the CGT paid can be claimed against the CAT liability on this same event. A clawback of this credit may arise if the asset is sold by the beneficiary within 2 years. A valuable exemption known as Dwelling House Relief is currently available. This relief allows for the transfer of a residential property either by gift or inheritance to occur free of CAT, provided certain conditions are met. Furthermore, the value of the property is not taken into account when calculating the tax free thresholds for future gifts or inheritance. If you wish to gift an annual amount to your children or grandchildren, there is a small gift exemption of €3,000 that any individual can receive per calendar year free of gift tax. This sum can be received from numerous donors without being subject to tax.

TIPS:

- Utilise the €3,000 a year small gift exemption.
- Be mindful of age in terms of retirement relief.
- Consider transferring assets that have a market value which is lower than the price paid for the asset as this should result in no CGT.
- Review gifts to children where they are over 18 to ensure they do not fall foul of Revenue guidelines.
- If you have foreign properties, consider any foreign taxes that may arise in the event of your death.

For a fully accurate guide to succession planning in your circumstances, speak with us today.

REMINDER: CHANGE TO PARENTAL LEAVE IN IRELAND

It was announced in Budget 2021 that Parents Leave will be increased from 2 weeks to 5 weeks per parent in respect of children born on or after 1st of November 2019. The period during which this leave can be taken has been extended from 12 months to 24 months so it can be taken up to a child's second birthday or within two years following adoption. This measure will be available from April 2021.

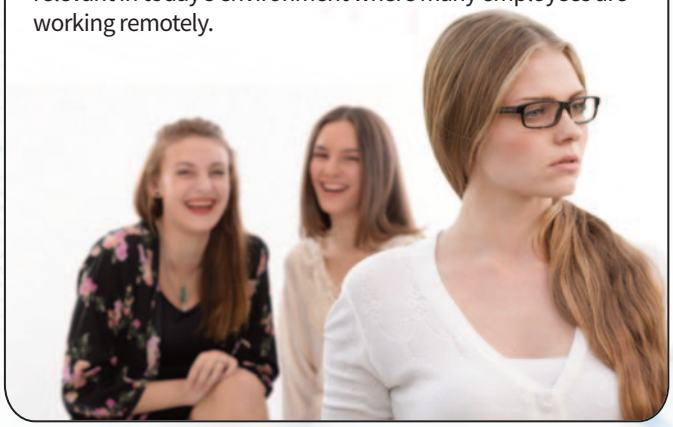
BULLYING AT WORK

In a welcome development on the management of workplace relations, a single joint Code of Practice1 (the "2020 Code")2, has been developed by the Health and Safety Authority ("HSA") and the Workplace Relations Commission ("WRC").

Employers should familiarise themselves with the 2020 Code and update their Anti- Bullying policies. Some items of note from the 2020 Code are:

- Employers must act reasonably to prevent workplace bullying patterns developing. Where there are complaints, the employer must react reasonably, record and respond to each claim.
- An Anti Bullying policy and its implementation will be more successful if employees are invited to participate in creating the policy.
- The 2020 Code emphasises the value of using internal and external mediators that are suitably qualified when aiming to resolve issues at any early stage.
- The role of a "Contact Person" is referred to, which essentially is a supportive person who listens and offers guidance on the various options in line with company policy and procedures on a strictly confidential basis, but this person is not involved in the investigation of the complaint.

A company should also ensure that online/internet bullying is covered within their policy. This section is particularly relevant in today's environment where many employees are working remotely.



NEW CODE OF CONDUCT BETWEEN LANDLORD AND TENANTS FOR COMMERCIAL LEASES

A voluntary Code of Conduct has been developed by Government to facilitate discussions between landlords and tenants impacted by Covid-19. The Code will apply until 31st of July, 2021 and encourages both parties to find alternative arrangements for payment of rent due if possible. A suggested list which has been put forward as options for new arrangements is as follows:

1. Full or partial rent-free period for a set number of payment periods.
2. A deferral of the whole or part of the rent for one or more payment periods.
3. Rental variations to reduce ongoing payments to a current market rate
4. Landlords drawing from rent deposits on the understanding that the landlord will not then require that the deposits be "topped up" by the tenant before it is realistic and reasonable to do so.
5. Provisions for ending the solutions on a fixed date, or on reaching particular trigger points.
6. Tenants and landlords agreeing to split the cost of the rent for any unoccupied period between them.
7. Compromising by extending the term of the lease to cover the period of closure.

LEGISLATION FOR RIGHT TO REMOTE WORKING IS ON THE HORIZON

The National Remote Work Strategy has been published which aims to provide legislation which would grant employees the right to request remote working and to introduce a code of practice on the right to disconnect (personal time). The strategy aims to build on the shift to remote working that has taken place as a result of the current pandemic, and address some of the challenges posed for employees caused by remote working. Expected to be in place by September 2021, the new legislation is still a few months from fruition and no indication has been given as to its parameters.

It is however, unlikely that the legislation will provide for an unequivocal right to work remotely and it is possible that conditions such as the employers' resources and operational capacity to offer such an arrangement.

Brexit Opportunities

For the past number of weeks, headlines have highlighted the negative impact of the new Trade and Co-Operation Agreement (TCA) that has come from Brexit. However, in the words of Albert Einstein "In the midst of every crisis, lies great opportunity". Read on to discover five such opportunities that you could capitalise on.

1. SUPPLY CHAIN CHANGES

Early indicators are that there will be some UK suppliers unable or unwilling to supply goods to the island of Ireland in the short-term, which presents opportunities for local competitors.

For the last number of years, UK companies have been preparing for Brexit by setting up offices in EU jurisdictions. There may now be opportunities for European companies to have a local trading presence within the UK in order to avoid import taxes and high delivery costs.

In particular for Ireland, visa-free travel and the mutual recognition of qualifications with the UK, creates an opportunity for Irish service providers to the UK to steal a march on their mainland EU competitors.

2. CUSTOMS OPPORTUNITIES

There is a severe shortage of knowledgeable Customs Clearance Agents who can deal with the mountain of complexities and paperwork emerging as a result of the recent Trade Co-Operation Agreement. Coupling this administration with the new customs systems introduced by Revenue and HMRC in recent months, has led to a steep learning curve for all actors in the supply chain. This alone will present may opportunities for those willing to upskill. From a practical perspective, one would expect many Bonded Warehouses to sprout up in the UK in the next 12 months also, presenting glorious opportunities for those with the capacity and capability to deliver.

3. EU/UK REPRESENTATION

Cross-border traders will now have to comply with both UK and EU legislation or face the penalties of this invisible trade barrier. Like all crises, this will present opportunities for agents to emerge who are willing to track the regulations that are required under each jurisdiction and relay the information to suppliers.

Further opportunities will exist within the EU and UK, where local representatives may be required in some supply-chains to continue serving either market.

4. LEGAL EXPERTISE

The Trade Co-Operation Agreement that now rules the $1 trillion annual trading between the UK and the EU, was only published a number of weeks ago. It details the regulations and red tape that now surround trading operations between both jurisdictions. The legal interpretation of this long winded report will present an opportunity for legal trade experts to identify these challenges and relay the information to suppliers.

5. TECHNOLOGY

Considering the plethora of trade challenges alluded to above and the future pitfalls to emerge with the full implementation of the TCA, many innovations and disruptive technologies will emerge to ease the pain of EU-UK trade. Think of areas such as:

- Customs Administration Bots in the form of instant customer support chat on Customs websites
- Artificial Intelligence (AI) Sourcing
- Digital supply chain audits
- Websites such as Kwayga.com

This is a brief overview of the early opportunities to emerge from the Brexit crisis, with many more to follow. Feel free to join the discussion below or contact **brexit@arvo.ie** to discuss these items further.