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THE OUTLOOK FOR IRELAND 2017 AND BEYOND

As we move into 2017, the external environment looks reasonably positive. The US economy is doing well; the UK economy is still showing good momentum; China is starting to recover again; and the moribund Euro Zone economy showed some signs of improvement towards the end of 2016. US interest rates will rise further during 2017, but we are not likely to see an increase in ECB rates. However, towards the end of the year it is conceivable that the possibility of a change in the ECB's historically low interest rate stance could be increasingly discussed. Higher ECB rates most likely to be a story for 2018, rather than 2017.

While there is cause for optimism for the Irish economy in 2017 and beyond, policy makers will need to manage the challenges very carefully.

Brexit and the economic policies of President Trump represent the main external concerns. The key domestic challenges include:

- Growing wage pressures in the public sector;
- The housing crisis;
- Pressure to increase expenditure on public services; and
- Weak domestic political leadership.

Ireland cannot allow the cost competitiveness of the economy and the fiscal situation be undermined at a time when the recovery is facing immense challenges, both from external and domestic sources. Careful, prudent control of wage costs and the public finances is essential. When all of these factors are weighed up, GDP growth of around 3.3% looks realistic for 2017. However, international political developments will need to be monitored very closely.

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The key economic concerns for Ireland following the election of President Trump are twofold; US corporation tax policy and the future for free trade.

President Trump has pledged to cut the US corporation tax rate from 35% to 15% in an effort to attract US overseas investment back to the US, and discourage further overseas investment. In 2015, Ireland had 1,254 foreign-owned companies operating in the country, accounting for 187,056 jobs. 707 of those companies were from North America and they accounted for almost 74% of total employment

Brexit poses a considerable threat to the future wellbeing of the Irish economy. The post-Brexit trading relationship between the UK and the EU, and by implication Ireland, is the obvious longer-term issue. The performance of sterling is the more immediate one.

On January 17th, Prime Minister May delivered what is arguably her most comprehensive assessment of what the post-Brexit future might look like for the UK. The Prime Minister is quite clear that the UK will leave the EU. She ruled out the possibility of partial membership of the EU or a 'half-in, half-out' situation. She does not want the type of model adopted by other countries, presumably meaning countries such as Norway and Switzerland, who have access to the single European market, but at a price.

The Prime Minister was also categoric in her suggestion that no deal would be better than a bad deal for the UK, suggesting that if a 'good' deal cannot be agreed, the UK would be willing to rely on World Trade Organisation (WTO) rules. This would not be good news for indigenous Irish industry, and for the Irish agri-food sector in particular. Indigenous Irish industry exports 60% of what it produces and 40% of this goes to the UK. In 2016, 37% of exports from the food & drink sector went to the UK.

In 2016, Great Britain accounted for just under 41% of overseas visitors to Ireland. As such, Great Britain is the most important source market for visitors to Ireland. However, the average length of stay is less than for markets that are further away, and as a consequence, Great Britain accounted for a lesser 23% of total overseas earnings from tourism. However, for the Irish tourism sector, sterling weakness does represent a competitiveness challenge.

Sterling weakness poses the most immediate challenge to this trade, but the longer-term implications of barriers to this trade would be much more significant.

The Prime Minister also suggested that if the UK does not get a good deal from the EU negotiations, the UK could change its economic model, with a sharp cut in the corporation tax rate a distinct possibility in order to attract foreign direct investment (FDI). This would pose a further challenge to Ireland's economic model.

In the face of the near and longer-term challenges to the Irish economy posed by the posited economic policies of President Trump, and the Brexit process, it will be increasingly important for Ireland to focus on competitiveness, broadly defined.

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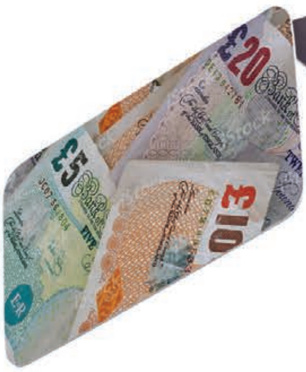
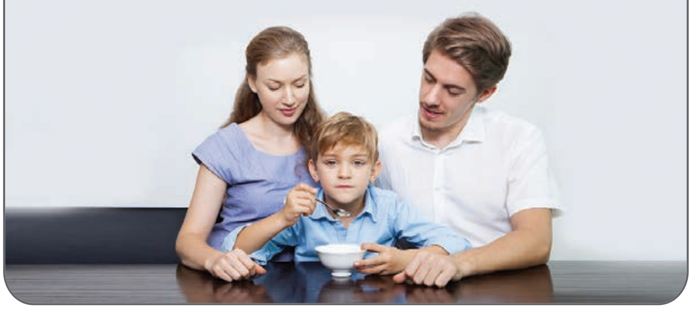


HOMEMAKERS SCHEME

One of the qualifying conditions for a State Pension (Contributory) is that the person has a minimum yearly average number of PRSI contributions since entering social insurance to reaching pension age. The Homemakers scheme provides that years spent working in the home while caring on a full-time basis for a child up to 12 years of age or an incapacitated person age 12 or over will be disregarded in calculating a person's yearly average number of contributions. This may assist an individual to qualify for a Contributory State Pension or increase the rate of Contributory State Pension available to them upon reaching 66.



PAY AND FILE SUMMARY

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

INCOME TAX

Filing date of 2016 return of income (self-assessed individuals)	**31 October 2017**
Pay preliminary income tax for 2017 (self-assessed individuals)	**31 October 2017**
On-Line pay and file date for 2016 return of income	**TBC**

CAPITAL GAINS TAX

Payment of Capital Gains Tax for the disposal of assets made from 1 January 2017 to 30 November 2017	**15 December 2017**

CORPORATION TAX

Filing date for Corporation Tax returns for accounting periods ending in August 2016	**21 May 2017**
Balancing payment of Corporation Tax for accounting periods ending in August 2015	**21 May 2017**

TAX TIP

Did you know there is a tax relief for Coeliacs and Diabetics?

MEDICAL EXPENSES

One relief that is commonly overlooked is tax relief on certain day to day medical expenses. Relief can be claimed for 20% of what you spend. Relief is also available if you pay medical expenses for someone else and you don't have to be related to the person whose expenses you might be paying.

Expenses qualifying for the relief include doctors' visits, consultants' fees, prescription medicine, physiotherapy, and routine maternity care. Some expenses incurred abroad, including certain travel costs can also qualify for the relief. You can only claim relief on unreimbursed expenses so if you receive money back from your health insurer, you can't claim tax relief on the amount you were reimbursed. You can make a claim through My Account by providing the amount spent on medical expenses. Receipts don't need to be submitted when making the claim. But just make sure you keep your receipts, because you may be asked for them at a future stage to back up your claim.

RELIEF FROM DIRT FOR FIRST TIME BUYERS

DIRT is a tax on deposit interest payments and is charged at 39% and applies to most people in the country. However, if you are a first time buyer and live in the house or apartment that you bought, you can claim a refund of the DIRT paid on the savings used to buy the property. The relief only applies to savings accrued in the four years prior to the purchase and also only applies to savings up to 20% of the purchase price. The relief is expected to run out at the end of 2017. To make a claim the property must be registered for Local Property Tax (LPT). You log into the LPT system to make the claim.

eRCT UPDATE

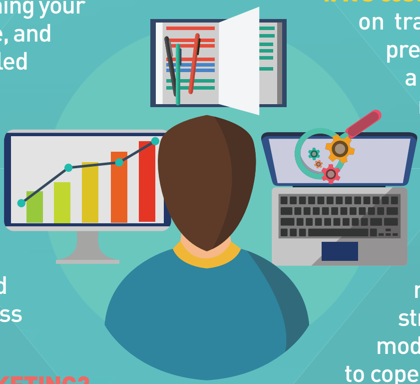
Revenue has updated the eRCT system in an effort to assist taxpayers. Users can now look up payments paid or received for any selected 12 month period and export them to excel. Since December 2016 it is possible to input unreported payments on a closed contract for up to 18 months after the end-date of the contract. When registering for RCT as a sub-contractor on eRegistration, the applicant (or his agent) will be advised that the subcontractor has been given an initial deduction rate of 20% and if the subcontractor requires to change this rate, he/she can navigate the 'look up/review deduction rate' page which can be accessed from the eRCT home page in ROS.

WHY DOES MY SOCIAL BUSINESS NEED TO USE MEDIA?

How do you interact with your customers online? We all know that social media is an essential platform for customer interaction, but some businesses are still not making the most of it as a primary means of advertising and building business networks and brand awareness.

Social Media has changed the way that we communicate, and in particular has brought about a paradigm shift in business to customer communication. The days of pushing your message to your customer and leads are gone, and have been replaced with a customer controlled communication flow.

If you don't have a social media strategy, you're leaving yourself and your business out in the cold. With sites such as Twitter and LinkedIn commanding huge traffic, and Facebook eclipsing every other advertising platform out there, it would be madness not to engage in these forms of advertising and interaction. However, as with every business decision you make, it's vital to get it right.



WHAT'S THE POINT OF SOCIAL MEDIA MARKETING?

1. SEO (Search Engine Optimisation) is still a major driver. If you don't have a good social media strategy, you're risking serious harm to your Search Engine Ranking. What Google likes is what matters, and a business that isn't engaged on social media simply can't command the SEO of one that is.

2. It's what your customers want. As a business, you will be aware of the need to be responsive to your customers and to give them what they are seeking. Put simply, your customers, and many more potential leads, are on social media right now, and if you're not there, they cannot engage with you and will have to seek other options.

3. It's where your competition hangs out. Not having a social media strategy is like setting up a shop in a quiet corner of town that no-one knows about. You're not the only business out there, and social media makes it easy to engage with your users, so if you're not there for them to engage with, they'll be engaging with the competition.

4. It's cost effective. Spending your advertising budget on traditional forms of advertising may be your preferred approach, and these may still provide a good source of income for you, but social media advertising is usually far cheaper, and more effective, as an option. Have a look into the statistics and positive outcomes that you could be accessing, and ask yourself if it's really worth holding out!

5. It's relevant. Ignoring the social media revolution is not helpful to your business strategy and will not allow you to compete in the modern world. If you're worried about your ability to cope in the social media world, talk to the experts and let them handle it for you – it's perfectly possible to interact with your customers and enjoy all the benefits of a social media presence without having to do it all yourself.

However, like most other parts of your business, it is not just about using Social Media – it is about how you use Social Media. To be successful you need to have a clear Social Media Strategy which is aligned to your overall business goal. Executed properly, it can become your most cost effective and productive marketing tool.

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COMPANY PENSIONS:
A GOOD IDEA FOR **YOU** AND YOUR **EMPLOYEES**

Not all employers provide employer sponsored pension arrangements for employees. Apart from cost there is potential for another layer of bureaucracy. None the less with the UK's most recent model of Auto Enrollment it is a matter of time before compulsory pension obligations are introduced here in Ireland. As an employer, the following key points should be considered if proceeding with such an arrangement or reviewing an existing one.

While there is a legal requirement to provide employees with access to some form of pension, a good pension plan can also form an important part of any remuneration package in actively encouraging employees to consider a long term future with your company.

There are generally two company pension plan options available to employers when setting up a pension arrangement for employees - a defined contribution Group Retirement Plan or a Group Personal Retirement Savings Account (PRSA). Both are tax efficient, flexible and accessible ways to provide financial security for your employees in retirement.

One of the key advantages of a pension is the generous tax relief available Tax advantages for you. As an employer you benefit from tax relief on any contributions that you make to your employees' pension plan as these can normally be fully offset against Corporation Tax as a business expense. The net cost of a company contribution of €1,000 is effectively €875.*

Tax advantages for your employees

Employees can normally avail of generous tax relief on their contributions of up to 40%** (subject to Revenue maximum limits) so that if they paid €100 into their pension each month the actual cost to them could be only €60. Employees also benefit from tax free growth on their investment, and a tax free lump sum at retirement.

Employer Contributions

You don't have to make contributions to a Group PRSA arrangement so this option is suitable if you are providing your employees with access to pension provision but don't plan to make a contribution yourself.

Investment Choice

You can decide whether or not to offer investment choice to your employees and if so, decide on the range of funds to make available. You can also offer a default investment strategy which is the fund into which contributions will be invested if an employee does not wish to make the investment choice themselves.

Additional Protection Benefits

You may have the option of adding additional protection benefits to the pension arrangement, for example life cover, income protection cover or premium protection cover. Depending on the age profile of your workforce, it may be relatively inexpensive to add these benefits and they will be highly valued by your employees.

COLLEGE FEES

Are you doing a course or funding someone going to third level? You may be able to claim tax relief at 20% for tuition fees paid for in respect of third level colleges, as long as the fees are fully paid and don't exceed €7,000 per annum. The relief applies to tuition only – it does not cover administration, examination or registration fees. Relief isn't available if part of the tuition is funded by a grant, scholarship or employer. If fees are paid in instalments, tax relief can still be claimed once paid.

Revenue publishes a list of colleges and courses eligible for this relief on their website at www.revenue.ie. To claim the relief you need to complete a form and submit this with your P60 to Revenue.

ENTERPRISE IRELAND'S INNOVATION VOUCHERS

The Innovation Voucher scheme encourages innovative development activity by SMEs in Ireland and builds links with Ireland's public knowledge providers to create a cultural shift in the business community's approach to innovation.

Vouchers are used in respect of knowledge transfer projects- whereby knowledge of a scientific, technological or innovative nature is transferred to a small and medium-sized business to innovate a product, process or service. A 'knowledge question' can relate to a number of research or business development areas, such as: developing a new business model, service delivery or customer interface; development of new services; training in innovation management; an innovation or technology audit.

ENTERPRISE IRELAND

NON PRINCIPAL PRIVATE RESIDENCE (NPPR) CHARGE

A recent decision of the High Court on the deductibility against rental profits of the Non Principal Private Residence charge (NPPR) has been appealed by Revenue to the Court of Appeal. Until that appeal is decided Revenue is not a position to amend assessments or process repayment claims based on the High Court judgement.

However, any claims that are received within the statutory time limits, as they apply to each year of assessment, will be retained by Revenue, and processed when the outcome of the Appeal case is known. This means that if, for example, the decision of the Court of Appeal is made in 2018, any claim made now, in 2017, in respect of the year of assessment 2013, will be retained and processed in 2018.

PATERNITY BENEFIT

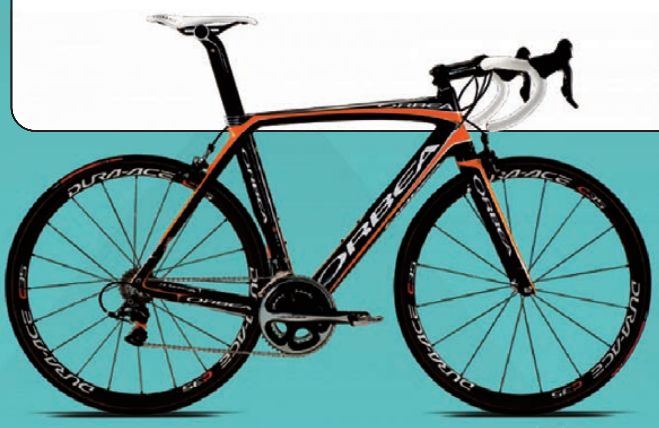
Paternity Benifit is a new payment for employed and self-employed people who are on paternity leave from work and covered by social insurance (PRSI). It is paid for two weeks and is available for any child born or adopted on or after 1 September 2016. You can start paternity leave at any time within the first 6 months following the birth or adoption placement.

You should apply for the payment 4 weeks before you intend to go on paternity leave (12 weeks if you are self-employed).

You must notify your employer that you intend to take paternity leave and of your intended dates no later than 4 weeks before your leave. You must provide proof of the expected date of birth of your child. Generally you will need to provide a certificate from your spouse or partner's doctor confirming when your baby is due, or, confirmation of the actual date of birth if you are applying for leave after the birth.

CYCLE TO WORK SCHEME

The Cycle-To-Work scheme was launched by the Government in 2009 to encourage the use of bicycles to travel to and from work. The scheme allows for a civic or public service employer to incur the expense of providing an individual with a bicycle and bicycle safety equipment up to a limit of €1,000, without the individual being liable for benifit-in-kind taxation. The tax exemption can only be availed of once in any five year period. The scheme is managed by the Department of Finance.



DID YOU KNOW?

97% of businesses across the island have no plans in place to deal with Brexit.

OFFSHORE MATTERS

A key concept of the self-assessment system, which operates on a "carrot and stick" principle, is the presumption of taxpayer honesty, something Revenue sets out clearly in the Customer Charter. So why did Revenue need to send about 500,000 taxpayers letters to, "thank you for filing your 2015 income tax return" and covering other issues as well?

One of those issues is "offshore matters", which doesn't just mean sandy beaches in tax havens but also "matters outside the Republic of Ireland". This seems to be the real purpose of the letter – a wide trawl to see if there is any hot money lurking in the shadows of the palm trees, as well as any undeclared income derived from places much closer to home. Announced on Budget Day last October, 30 April is the deadline so action may be needed now.

By way of background, Revenue has a dedicated data analytics team getting ever greater access to global data which, they say, allows them match Irish taxpayers with non-Irish assets and income sources under international exchange of information agreements. While Revenue acknowledge their systems aren't perfect, they say they are improving all the time and making it harder for tax evaders to hide in the shadows. "Come to us before we find you"; that seems to be their mantra on offshore matters. The carrot is the 30 April deadline; after that, it seems a beating with a big stick could ensue.

A detailed FAQ on Revenue's website, updated regularly, contains relevant information. For example, FAQ 1.2 sums up the offshore matters project as follows:

"As and from 1 May 2017, it will no longer be possible to obtain the benefits of a qualifying disclosure if any matters included in the disclosure relate directly or indirectly to offshore matters including the following:

- an account / asset held or situated in a country or territory other than the State;
- income or gains arising from a source, or accruing, in a country or territory other than the State;
- property situated in a country or territory other than the State.

It will mean that, from 1 May 2017, persons with liabilities involving "offshore matters" will be liable to higher penalty rates, the settlement could be liable for publication in the Quarterly List of Tax Defaulters and the person concerned could be the subject of a criminal prosecution.

In addition, the new measures will mean that where there are liabilities arising within the State together with unrelated liabilities relating to offshore matters, a qualifying disclosure will be unavailable in respect of all liabilities except in limited circumstances.

There is now an opportunity to make a disclosure under the current disclosure regime and avail of reduced penalties and non-publication."

An area of concern that emerged for compliant taxpayers was legitimate use of a foreign bank account (e.g. for a family holiday home not rented to third parties). However, Revenue has confirmed no disclosure is needed for such accounts as long as there is no tax evasion involved. And that is the key – while most readers are likely to have no issue with tax evaders being dealt with, it is essential that, in doing so, Revenue does not impinge unduly on its compliant customers with rights under the Customer Charter.

BENEFICIAL OWNERSHIP REGISTER

Following the adoption of the European Union (Anti-Money Laundering: Beneficial Ownership of Corporate Entities) Regulations 2016 (the "**AML Regulations**"), every company or other legal entity (the "**Entity**") incorporated in Ireland (save some narrow exceptions) must keep a beneficial ownership register. Furthermore, in certain circumstances, the AML Regulations impose obligations on individuals who are beneficial owners. It is important that relevant parties are aware that it is a criminal offence not to comply with the AML Regulations.

A beneficial ownership register is a register which records certain particulars regarding an entity's beneficial owners, including:

(a) the name, date of birth, nationality and residential addresses of each of the Entity's beneficial owner(s);

(b) a statement of the nature and extent of the interest held by each such beneficial owner;

(c) the date on which each individual was entered into the register as a beneficial owner of the Entity; and

(d) the date on which each individual who has ceased to be a beneficial owner of the Entity ceased to be such an owner.

The AML Regulations do not deal with whether the information in the beneficial ownership register must be made public. The AML Regulations state that member states must ensure that an Entity's information on its beneficial ownership can be accessed in a timely manner by competent authorities. In addition, information on an Entity's beneficial ownership must be held in a central register of beneficial ownership which must be accessible in all cases to (1) competent authorities; (2) entities required to carry out customer due diligence; and (3) any person or organisation that can demonstrate a legitimate interest. In July 2016, the European Commission published a proposal which seeks to provide public access to essential beneficial ownership information in the case of companies that engage in economic activities with a view to profit however it is, as yet, unclear whether this will take effect.

FURTHER AMENDMENTS TO THE BANKRUPTCY RULES

The Bankruptcy (Amendment) Act 2015 (the "Act"), came into effect on 29 January 2016. It provides further reform to the Bankruptcy process.

The Act introduces key reforms, as follows:

- Reduction of the normal term of bankruptcy from 3 years to 1 year. This new term will make bankruptcy a more attractive option and mirrors the duration of a normal bankruptcy term in the UK.
- Except in cases of no-cooperation and/or concealment, the maximum duration of a **bankruptcy payment order is reduced from 5 years to 3 years** however in cases of no-cooperation and/or concealment the Court has discretion to extend a bankruptcy term to 15 years.
- Subject to certain exceptions, the family home will re-vest in the Bankrupt on the 3rd anniversary of the bankruptcy. This will not affect any mortgage on the property.
- With the permission of the Court, the Act will permit the Official Assignee to disclaim onerous property.
- The Act clarifies that the Official Assignee is entitled to request the electronic records of a Bankrupt.
- All existing bankruptcies will also enjoy the benefits of these new changes, subject to a 6 month transition period to allow the Official Assignee to take appropriate measures in cases of suspected concealment and/or non-cooperation.

The Act streamlines the bankruptcy process with the reduction of the term and payment orders which will ease the impact on those declared bankrupt. There are further protections for the family home of a bankrupt. At the same time the Act provides for stronger penalties and deterrents to those who seek to abuse the bankruptcy process or cheat their creditors.

ACCOMMODATING EMPLOYEES – IS IT POSSIBLE?

Employers are having to be more accommodating to find solutions for employees who are unable or unwilling to work standard full-time working hours. While there is currently no statutory entitlement under Irish law for an employee on full time hours to be accommodated with part time work, there are a number of alternatives which are being considered and implemented on a more regular basis such as: working from home, flexitime, part time working, and job sharing.

Very often the negatives of such practices are ventilated by employers however there are some common benefits such as increased productivity and efficiency, improved staff morale, reduction in stress and sick leave, reduction in absenteeism and increased job satisfaction for employees.

Employers must ensure that employees who are granted a flexible working arrangement are not treated any less favourably than comparable full time employees unless there are objective grounds justifying the difference in treatment. Employers should ensure a written employment contract is in place which clearly records all of the agreed changes to the employee's terms and conditions of employment and provides for a provision for the employee to revert to full time hours it the changes does not work from the employer's perspective.

Employers should review their Human Resource policies regularly to ensure they are fit for purpose and where flexible working is offered to employees, there should be a clear policy included in the Employee Handbook dealing with this point.

'HARD' BREXIT WOULD IMPACT TRADE AND ECONOMY

The UK Prime Minister has indicated that Britain could opt for no deal at the end of its exit negotiations with the EU on the basis that "no deal is better than a bad deal". In such circumstances, the UK would have to fall back on WTO rules, which would involve tariffs. It would also lose free market access to countries with which the EU currently has trade deals.

WTO rules require a member state to apply a common set of tariffs to all countries with which it has no trade agreements. In this regard, the EU applies a range of common external tariffs on imports from such countries, most notably in relation to food products. The EU would have to levy these tariffs on imports from the UK in the absence of some form of trade deal post Brexit.

Meanwhile, if the UK decides to impose tariffs on imports, it will raise input costs and consumer prices. However, if it decides on very low or no tariffs, it will weaken its hand in negotiating new trade deals with the EU and other countries.

It also seems that the UK may well leave the EU Customs Union as it wants to negotiate its own trade deals with third countries. EU trade with the UK would be clearly impacted by this, with a lot of increased costs, delays and paperwork. There is likely to be a requirement for customs checks and clearance, as well as compliance with regulations on rules of origin, production standards, etc. Such non-tariff barriers are seen as more damaging to trade than the tariffs themselves.

Meanwhile, goods going from one part of the EU to the other, that move through the UK, will require TIR (Transport Internationaux Routiers) carnet customs documentation to avoid import duties and taxes—the goods will also have to be bonded and in sealed lorries.

Irish businesses would be well advised to start preparing for the possibility of a 'hard' Brexit, given that free trade between the UK and EU could end in 2019. Those importing from the UK could be faced with increased administrative costs, tariffs and customs checks. Meanwhile, Irish exporters to the UK, most notably in the food sector, could also be hit with significant tariffs and customs checks, as well as facing increased competition in the UK market.

The ESRI has forecast that a 'hard' Brexit which sees a fall back on WTO rules, would result in a big decline in trade with the UK, and depress Irish growth and employment. Significant declines in UK GDP are also likely in the event of a 'hard' Brexit with WTO rules. A further marked fall in sterling is likely in such circumstances.

However, we will have to await the outcome of the Brexit negotiations, probably in late 2018, to see whether the UK manages to retain relatively free access to EU markets or, instead, has to fall back on WTO rules.

Oliver Mangan, Chief Economist, AIB