An Roinn Airgeadais
Department of Finance

Response to Covid-19
Tax Strategy Group – 21/01
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www.gov.ie/finance

Contents

1 Introduction and Economic Outlook

Summary

1. As noted later in this paper, taking into account the measures announced alongside the Economic Recovery Plan, approximately €41 billion (or nearly one-fifth of national income as measured by GNI*) has been made available over 2020 and 2021, involving the full suite of policy tools, namely direct public expenditure, tax expenditures and 'below the line' supports such as loans and guarantees. Transfers to households (mainly the PUP) and firms (mainly the EWSS) account for the bulk of the expenditure measures. On the revenue side of the equation, tax deferral measures have provided important liquidity support to firms. The Irish response compares well in an international context.

2. Government policy is to avoid a cliff-edge approach to the Covid-19 related support schemes. As the recovery gains momentum, it will be necessary to give consideration to the recalibration and ultimately the phasing out of supports. The Department continues to monitor developments and to inform Government policy as regards these temporary support schemes.

Introduction

3. Before the onset of the Covid-19 crisis, the Irish economy was growing at a robust pace. However, due to the introduction of public health restrictions, all non-essential economic activity was suspended. The pandemic transformed the labour market, from one of full-employment at end-2019 to one which rapidly changed with a large portion of the population receiving Government support. According to a recent Central Statistics Office (CSO) analysis of the recipients of Covid-19 income supports from March 2020 to May 2021, the total weekly number of recipients of Covid support payments, such as the Pandemic Unemployment Payment (PUP) and Temporary Wage Subsidy Scheme (TWSS) or the Employment Wage Subsidy Scheme (EWSS), peaked during the week ending 3 May 2020 at just over 1 million individuals[1].

4. Since then and over the course of last year, the number of individuals in receipt of the PUP or supported by the wage subsidy schemes has fluctuated on various occasions, broadly in line with imposition or easing of public health restrictions. The number of individuals in receipt of the PUP peaked at 605,000 in May 2020 and subsequently moved almost in tandem with the trajectory of the public health restrictions. For the first time since the onset of the pandemic, the number of individuals in receipt of the PUP is now below 150,000. The number of workers supported by the wage subsidy schemes peaked at 420,000 in May 2020 and since then has for the most part been between 300,000 and 350,000 each month. There has also been a degree of inter-play between the operation of the PUP and TWSS/EWSS over the period; each scheme has played a complementary role to the other and, beneath the headline figures, movement of individual beneficiaries has been a feature. In recent months, the trend has been largely one of migration from PUP back towards employment via the EWSS.

[1] https://www.cso.ie/en/csolatestnews/pressreleases/2021pressreleases/pressstatementcovid-19incomesupports-ananalysisofrecipientsmarch2020tomay2021/

5. Overall, the Government's economic policy response has been geared towards building a bridge through to recovery and, at the same time, minimising the permanent fall-out from the pandemic. The reopening of the economy is now well progressed, which in turn supports the return of economic growth. While Government policy is to avoid a cliff-edge approach to the support schemes, as the recovery gains momentum, it will be necessary to give consideration to the recalibration and ultimately the phasing out the temporary support schemes.

6. This is the second TSG paper on the response to Covid-19. The first iteration, Response to Covid 19 – TSG 20/01[2], outlined in broad detail the tax and Revenue response to the pandemic, the introduction of the TWSS, together with an overview of the tax measures provided for in the 'July Stimulus'.

7. This paper focuses on the tax developments over the course of the last year and provides an update on the key support measures that have been at the centre of the response to the pandemic.

[2] https://www.gov.ie/en/publication/fdd38-budget-2021-tsg-papers/

2 Wage Subsidy Schemes

8. In March 2020, Covid-19 had a sudden and profound impact on the Irish economy with the introduction of public health restrictions across all sectors of the economy, except for those business classified as essential services. In response, the Temporary Wage Subsidy Scheme (TWSS) was introduced on 26 March 2020, with the objective of supporting viable firms and maintaining the relationship between employers and their employees.

9. At the outset, it was expected that the TWSS would be in place for a period of twelve weeks. However, given the novel circumstances and the evolution of the situation, it was recognised that the measure should remain in place until 31 August 2020.

10. The TWSS was replaced by the Employment Wage Subsidy Scheme (EWSS) with effect from 1 September 2020. The EWSS continues to operate as an economy wide support and the Government has approved its extension until 31 December 2021.

11. The wage subsidy schemes have been a central pillar of the Government's response to the Covid-19 pandemic. The level of support provided by these schemes is unprecedented.

12. Over the period the TWSS was in operation, 66,600 employers received subsidy payments of €2.8 billion in respect of 664,500 employees[3]. In relation to the EWSS, to date (26 August), payments of almost €4.5 billion and PRSI credit of over €700 million have been granted to 51,200 employers in respect of 645,700 employees[4].

13. A detailed account of the TWSS was outlined in the Tax Strategy Group Paper 20/01, Response to Covid-19[5]. The focus of this section of the current paper is on the EWSS which has been in operation over the last year.

Employment Wage Subsidy Scheme (EWSS)

14. The EWSS has been, and will continue to be, at the heart of the financial supports provided by the Government in response to the continuing Covid-19 crisis. It is a very responsive measure which operates across all sectors on an economy-wide basis. It is not an income support mechanism; it is a business support. As such, the EWSS has played a central role in supporting businesses, encouraging employment and helping to maintain the link between employers and employees.

15. The scheme has two elements as follows:

[3] https://www.revenue.ie/en/corporate/documents/statistics/registrations/a-year-of-covid-19-tax-supports.pdf
[4] https://www.revenue.ie/en/corporate/documents/statistics/registrations/covid-19-support-schemes-statistics-26-august-2021.pdf
[5] https://www.gov.ie/en/publication/fdd38-budget-2021-tsg-papers/

- It provides a flat-rate subsidy to qualifying employers based on the numbers of paid and eligible employees on the employer's payroll; and
- It charges a reduced rate of employer PRSI of 0.5% on wages paid which are eligible for the subsidy payment.

QUALIFYING CRITERIA

16. The primary qualifying criterion for the EWSS is that the employer must be able to demonstrate that they are operating at no more than 70% of the turnover level of the employer's business or the customer orders received by the employer, by reference to a set assessment period, and that this disruption was caused by Covid-19.

17. Prior to 1 July 2021, the reference period of assessment was a six month period. For example, the six month period from January 2021 to June 2021 was compared with the same period in 2019. With effect from 1 July 2021, the reference period has been broadened out so that turnover across the whole of 2021 will be measured against the whole of 2019 to determine eligibility.

SUBSIDY PAYMENTS

18. The level of subsidy given to the employer is based on the number of paid workers on the payroll per week, and a flat-rate per head value. When the EWSS was introduced in September 2020, there were two standard rates of subsidy as outlined in column B of the table below. Subsequently and with the introduction of additional public health measures, initially expected for a six week period extending from October through November 2020, the enhanced rates of subsidy as set out in column C applied with effect from 20 October 2020 until 31 January 2021.

A	B	C
Weekly pay	**Rate up to 19 October 2020**	**Rate from 20 October 2020**
Less than €151.50	Nil	Nil
€151.50 – €202.99	€151.50	€203
€203 - €299.99	€203	€250
€300 - €399.99	€203	€300
€400 - €1,462	€203	€350
Over €1,462	Nil	Nil

19. The enhanced rates of subsidy have been extended on a number of occasions, initially to 31 March 2021 by Statutory Instrument No. 50 of 2021 and then subsequently until 30 June 2021 by Statutory Instrument No. 221 of 2021.

20. The recently enacted Finance (Covid-19 and Miscellaneous Provisions) Act 2021 further extended the enhanced rates to 30 September 2021.

EXTENSION OF EWSS

21. On 1 June, the Government approved the extension of the Employment Wage Subsidy Scheme to 31 December 2021 and this was provided for in the recently enacted Finance (Covid-19 and Miscellaneous Provisions) Act 2021.

22. For Quarter 3 2021, it was decided to broadly maintain the status quo for EWSS, including the enhanced rates of support and the reduced rate of Employers' PRSI. As noted above, there is a modification to the conditionality for entry to the scheme with effect from 1 July 2021. The current threshold of a 30% reduction in turnover is retained but the reference period of assessment is broadened out so that, for the purposes of determining eligibility for the scheme, a firm's turnover in the full year 2021 will be compared against its turnover in the full year 2019.

23. This change acknowledges the potentially fragile nature of businesses in certain sectors as they emerge from the impact of public health restrictions; it aims to ensure that such enterprises can continue to benefit from the EWSS and are not precluded from the scheme because their business picks up during the third quarter, with the broad reopening of the economy. The full year reference period will enable these to continue availing of the EWSS as they begin to recover and to maintain the important link with their employees.

24. With many businesses fully closed or severely limited in their capacity to trade due to the public health restrictions in place for the first half of 2021, this means businesses can potentially generate turnover or customer orders of up to 70% of their full turnover/customer orders for 2019 in the second half of 2021 and still remain eligible to claim support under the scheme.

25. The EWSS will be in place until 31 December 2021. However, decisions relating to the operational parameters of the scheme that will apply for Quarter 4 2021. This matter will be addressed ahead of that segment of the year.

26. As the recovery gains further momentum, it is also important that supports are further recalibrated in the longer-term interests of businesses that are in receipt of those supports and in the interests of the wider body of taxpayers. As such, and as already signalled, for Quarter 4, consideration is being given to the appropriateness of a future change to EWSS which will require an employer contribution towards employee wages. This possible change was signalled as part of the announcement on 1st June 2021.

UPTAKE AND COST OF EWSS

27. By its nature the EWSS is a demand led scheme and the cost is driven by the number of employers and employees supported by the scheme. To date (26 August), payments of €4.495 billion and PRSI credit of €719 million have been granted to 51,200 employers in respect of 645,700 employees.

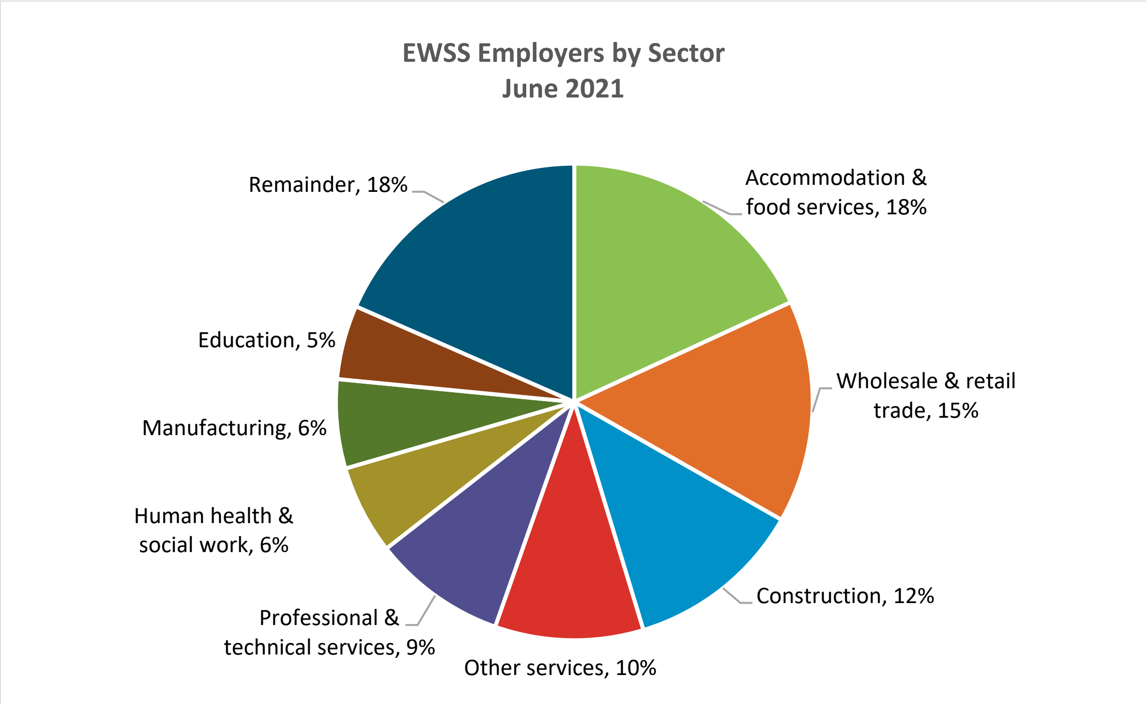
28. As shown in the table below, the EWSS has been a successful policy intervention in supporting the employment and maintaining the link between employers and employers.

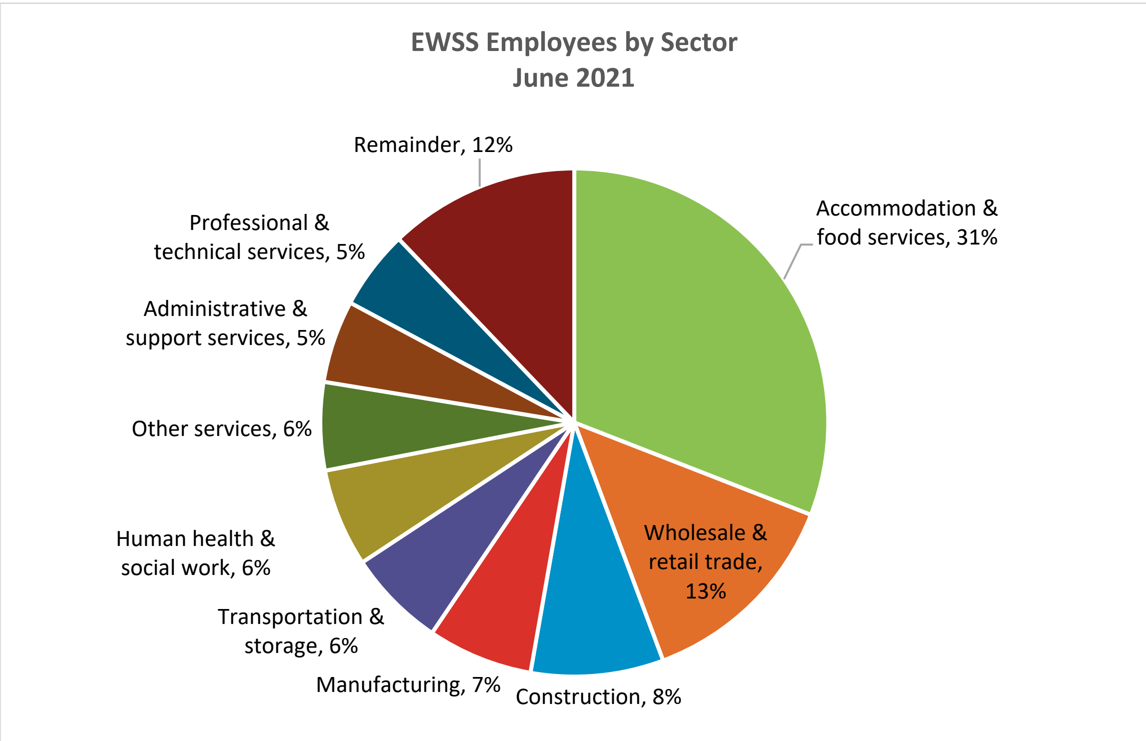
Claim Month	EWSS payments	PRSI Forgone[6]	Total Employers	Employees
July & August[7]	€34.2m	€7.2m	6,500	32,300
September	€256.9m	€61.1m	33,800	344,400
October	€356.5m	€65.0m	35,900	343,300
November	€337.0m	€52.0m	31,100	268,700
December	€409.0m	€62.6m	32,900	318,800
January	€400.1m	€61.2m	36,900	346,400
February	€383.7m	€59.3m	36,100	306,000
March	€394.0m	€61.1m	35,800	303,900
April	€410.8m	€63.5m	34,900	298,900
May	€365.1m	€55.9m	35,300	302,900
June	€415.4m	€62.4m	34,700	345,700
July	€452.7m	€66.0m	31,800	343,500
August (to date)	*€278.8m*	*€41.2m*	*23,800*	*277,700*
Total to date	**€4,495m**	**€719m**	**51,200**	**645,700**

[6] Employer PRSI forgone due to the reduced rate of PRSI (0.5%) applied to wages paid that would otherwise be subject to the 8.8% or 11.05% rate of PRSI

[7] This relates to the salaries of newly or seasonally hired employees who were ineligible for the TWSS

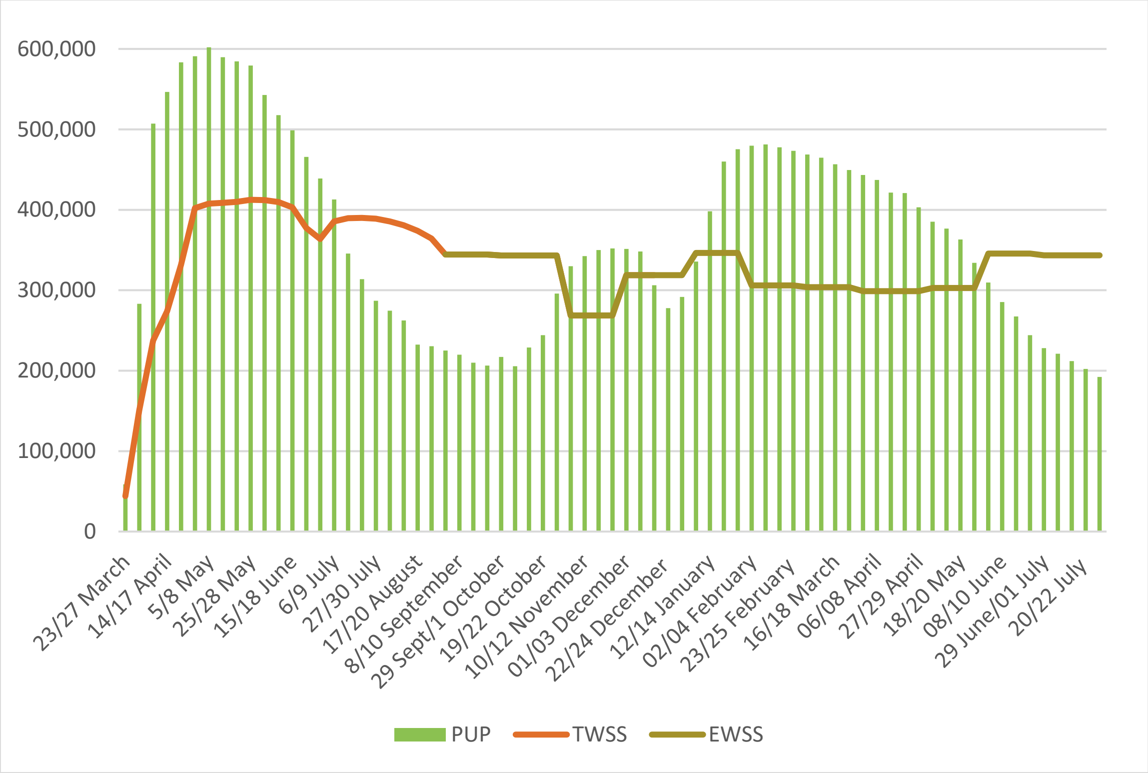
Sectors supported by EWSS





INTERACTION OF EWSS AND PUP

29. The following chart illustrates the number of individuals supported by the TWSS/EWSS and PUP per week across the year from the end of March 2020 to the end of July 2021.



30. As the above shows, once the wage subsidy scheme was established, the numbers on the schemes were relatively stable up until November, when there was a significant reduction in the number of employees in the EWSS from the previous month, the majority of whom went to the PUP. In December, the numbers on the EWSS increased again, with the numbers peaking in January, returning to similar levels that were seen at the introduction of the scheme. Since the reintroduction of public health restrictions in Q1 2021, and with the gradual easing of some restrictions during between April and June, the numbers on the EWSS have remained relatively consistent at around 300,000; they increased to 345,000 in June.

31. The impact of the public health restrictions is more clearly evident in the PUP numbers and correlate to the introduction or easing of the restrictions. For the first time since the on-set of the pandemic, the number of individuals in receipt of the PUP is now below 150,000.

32. The EWSS is an important bridge between the PUP and regular employment which is the ultimate goal. Over the period there has been significant movements between the PUP and the EWSS, in particular flows from the PUP to EWSS and to a lesser extent from EWSS to PUP. The EWSS also plays an important role in supporting employers and employees move back towards regular unsubsidised employment.

33. For example, based on the latest information, during the months of May[8] and June[9] 2021, almost 5,000 employers started or restarted using EWSS to support their employees (3,090 in May and 1,900 in June). Over 85% of these business are small businesses with less than 10 employees. In May, the largest share (1,800) were in the hairdressing and other beauty treatment sector, while in June, largest share (1,000) were in the accommodation and food sector (including bars and pubs). This corresponds with the lifting of the public health restrictions in those sectors during that period.

34. During May and June 2021, almost 135,000 people who were previously on the PUP, moved to employment that was supported by the EWSS, while 16,000 individuals who were previously in EWSS supported employment moved to the PUP.

35. This illustrates that the EWSS is agile and responsive to business needs, it is continuing to operate as intended and provides an important stepping-stone for employees as they move from the PUP back to regular employment. This is, of course, in addition to its role in supporting and maintaining jobs and the relationship between employers and their employees.

FUTURE OF EWSS

36. As matters stand at present, EWSS is being extended out to the end of the year and, although no decisions have been taken in relation to next year, the possibility that it will be extended into 2022 in some form cannot be ruled out. The recently enacted Finance (Covid-19 and Miscellaneous Provisions) Act 2021 provides that the scheme can be extended beyond the end of the year but no later than 30 June 2022, should that be considered necessary and appropriate having regard to the underlying economic circumstances.

37. While Government policy is to avoid a cliff-edge approach to the support schemes, as the recovery gains momentum, it will be necessary to give consideration to the recalibration and ultimately the phasing out the temporary support schemes.

38. The prevailing public health and economic circumstances and the extent that businesses continue to require a policy intervention to support their recovery and employment, are likely to inform any Government response beyond 2021.

INTERNATIONAL PICTURE

39. Ireland is not alone in having introduced measures to support the employee/employer relationship and maintain a portion of wages – similar measures have also been introduced in other European countries.

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[8] https://www.revenue.ie/en/corporate/documents/statistics/registrations/covid-19-support-schemes-statistics-17-june-2021.pdf
[9] https://www.revenue.ie/en/corporate/documents/statistics/registrations/covid-19-support-schemes-statistics-15-july-2021.pdf

40. Ireland’s wages subsidy schemes compare favourably internationally. For example, the UK’s Coronavirus Job Retention Scheme is expected to end in September 2021, as announced in their Spring Budget. Some further changes as regards the level of support were also announced in the Spring Budget. Since 1 July 2021 the level of grant has been reduced from 80% of an employee’s wages to 70%, with a further reduction to 60% for the months of August and September. The employers’ contribution will be to maintain 80% of the employees wage to a cap of £2,500 whilst the government’s contribution tapers down.

41. In comparison, the EWSS is extended until the end of December 2021, and for Quarter 3 the enhanced rates of supports and the reduced rate of employers’ PRSI will remain. As well as there being no tapering of subsidy rates of support for EWSS, the reference period of assessment was also broadened out to allow a firm to compare the full turnover in the year 2021 against its turnover in 2019.

42. Ireland’s wage subsidy scheme has also had greater flexibility when compared internationally, by allowing workers to return to work full time and continue to receive supports. As one of the key objectives of the EWSS is to maintain the link between employers and employees, the EWSS subsidy operates based on an employee’s salary whether they are able to work or furloughed. Many other international supports focus solely on compensating for employees for reduced hours or hours they are unable to work such as those in the UK, Denmark, Germany and Sweden.[10]

[10] https://www.instituteforgovernment.org.uk/coronavirus-support-workers-comparison

3 Covid Restrictions Support Scheme

43. The Covid Restrictions Support Scheme (CRSS) was introduced in Finance Act 2020. The CRSS is a targeted support for businesses significantly impacted by restrictions introduced by the Government under public health regulations to combat the effects of the Covid-19 pandemic. The support is available to companies, self-employed individuals and partnerships who carry on a trade or trading activities, the profits from which are chargeable to tax under Case I of Schedule D, from a business premises located in a region subject to restrictions introduced in line with the Living with Covid-19 Plan.

44. Detailed operational guidelines, which are based on the terms and conditions of the scheme as set out in the Finance Act 2020, have been published on the Revenue website at https://www.revenue.ie/en/corporate/press-office/budget-information/2021/crss-guidelines.pdf .

45. The CRSS applies to businesses carrying on trading activities from a business premises located in a region subject to restrictions, which requires the business to prohibit or considerably restrict customers from accessing their business premises and as a result, is operating at less than 25% of turnover in 2019.

46. An eligible business can make a claim under the CRSS for a cash payment known as an "Advance Credit for Trading Expenses". The cash payment enables an eligible business to meet costs associated with its business premises, such as rent, insurance and utilities, at a time when, because of the specific terms of the Covid restrictions, it cannot, for a period of time, provide goods or services to customers or can only do so to a limited extent.

47. The cash payment is equal to 10% of the average weekly turnover of the business in 2019 up to €20,000 and 5% thereafter, subject to a maximum weekly payment of €5,000, for each week that the business is affected by the Covid restrictions. For a business established between 26 December 2019 and 12 October 2020, the claim is based on the average weekly turnover of the business in the period between the date of commencement and 12 October 2020 (subject to a maximum weekly payment of €5,000).

48. Once a business is allowed to reopen following the easing of restrictions, they will cease to qualify for support under the CRSS. However, a business eligible for the CRSS for not less than three weeks can claim an additional payment (referred to as a 'restart week') to assist it with the costs of reopening (normally equivalent to one week, with certain enhanced payments paid from 29 April 2021 – further details below).

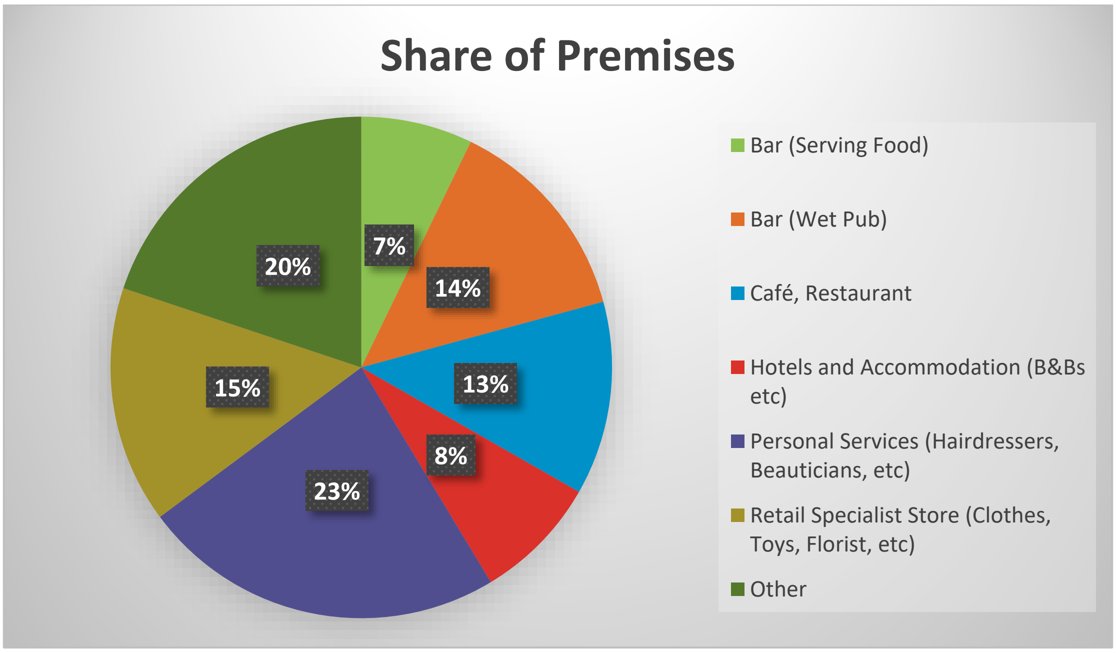
49. A business eligible for the CRSS for not less than three weeks can claim an additional payment (referred to as a 'restart week') to assist it with the costs of reopening (normally equivalent to one week, with certain enhanced payments paid from 29 April 2021 – further details below).

50. Additional seasonal support was provided through the CRSS to qualifying businesses who were closed over the Christmas 2020 period due to public health restrictions introduced by the Government to combat the effects of the Covid-19 pandemic. This is in recognition of the additional financial impact on those business of being closed at Christmas time, which for many would be a particularly busy trading period. Statutory Instrument 104 of 2021 provided for an increase in the levels of payment under the CRSS to 20% of average 2019 turnover up to €20,000 and to 10% of turnover above that amount (effectively a double weekly payment), subject to a maximum weekly limit of €5,000, for the three weeks beginning 21 and 28 December 2020 and 4 January 2021.

51. The CRSS initially ran to 31 March 2021. The legislation permits the Minister to extend it by order up to 31 December 2021 and it was extended to 30 June 2021 by Statutory Instrument 220 of 2021, and further extended to 30 September 2021 in Section 4 of the Finance (Covid-19 and Miscellaneous Provisions) Act 2021 (further detail below).

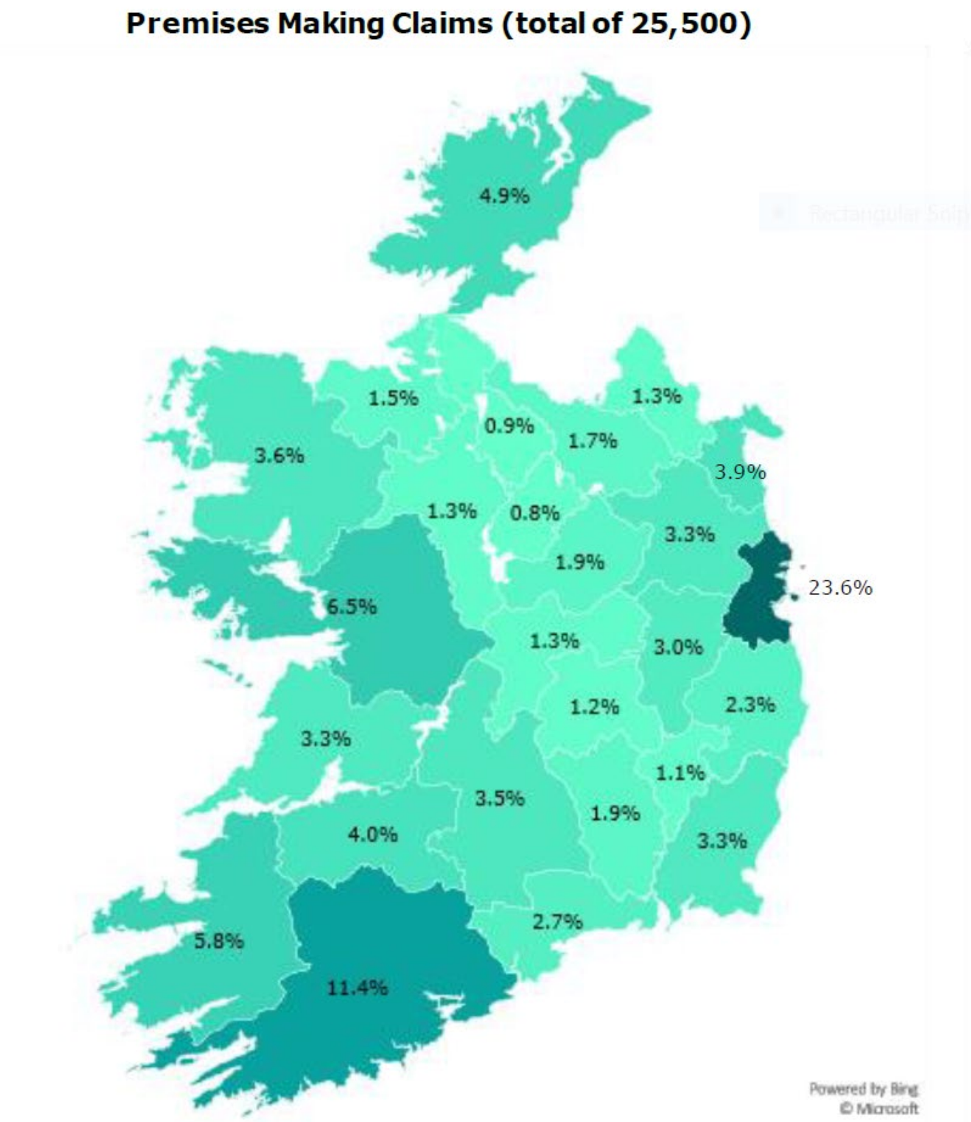
52. Some 23,800 businesses with 26,800 premises registered for CRSS with Revenue, since the introduction of the Scheme. As of Thursday, 26 August, there were 3,600 businesses with 4,300 premises registered. The number of businesses in receipt of CRSS will continue to fall as restrictions ease further. A total of €696m has been claimed by businesses under the Scheme.

53. The main beneficiaries of the CRSS are businesses in the retail and hospitality sectors[11] with the distribution shown below:



[11] 26 August Revenue statistics

54. Beneficiaries were located throughout the country as shown below[12]:



EXTENSION OF CRSS

55. The CRSS was extended to 30 September 2021 by the Finance (Covid-19 and Miscellaneous Provisions) Act 2021. (The power of the Minister to extend the scheme further to 31 December 2021 by order is not changed.)

[12] 26 August Revenue statistics

56. The Act also provides for enhanced restart week payments under the CRSS for businesses reopening after a period of restrictions. Under the amended provisions, the level of “restart week” payment a business may claim depends on the date on which the business reopens (or the “restart week” occurs):
    - where the “restart week” occurs between 29 April 2021 to 1 June 2021, the restart payment will be an amount equal to two weeks at double the normal rate of CRSS (subject to a maximum weekly amount of €5,000);
    - where the “restart week” occurs between 2 June 2021 to 31 December 2021, the restart payment will be an amount equal to three weeks at double the normal rate of CRSS (subject to a maximum weekly amount of €10,000); and
    - in all other cases, the standard restart week payment will apply, which is one week at the standard rates of CRSS (subject to a maximum weekly amount of €5,000).

57. A business may qualify once for either the double restart week payment or triple restart week payment.

58. The CRSS is an additional support measure for businesses that were forced to close or restrict access to their premises on foot of public health restrictions, and was designed to supplement the other Covid support measures such as the EWSS and tax debt warehousing.

4 Tax Debt Warehousing

59. The Financial Provisions (Covid) (No.2) Act 2020 provided for the warehousing of Covid-19 related PAYE (Employer) and VAT tax debts.

60. No interest is charged on the tax debts for the initial COVID-19 restricted trading period (Period 1 under the scheme) or twelve months thereafter (Period 2). Interest will be charged at the reduced rate of 3% per annum after that (Period 3). Businesses will also be required to comply with requirements in relation to tax returns for the duration and pay other liabilities in full and on time.

61. As of end-July 2021, over 92,000 individual businesses have availed of Debt Warehousing with approximately €2.6 billion of debts warehoused (VAT €1.359bn, Employers' PAYE €1.207bn, Income Tax €34m).

EXTENSION OF TAX DEBT WAREHOUSING

62. The Finance Act 2020 extended the warehousing scheme to include excess Temporary Wage Subsidy Scheme (TWSS) payments received by an employer which must be refunded to Revenue and certain income tax liabilities payable through self-assessment.

63. The Finance (Covid-19 and Miscellaneous Provisions) Act 2021 provides for an extension of the periods when debts may be warehoused. During the revised period 1, which now runs to 31 December 2021, debts may be warehoused without interest payable. No interest is payable during period 2 which now runs to the end of 2022. Businesses will agree a phased repayment arrangement with Revenue by end 2022 and a 3% reduced rate of interest will apply until the tax debt is repaid (Period 3). The Act also provides for the inclusion of Employment Wage Subsidy Scheme (EWSS) overpayments received by employers which must be refunded to Revenue in the warehousing scheme.

64. More detail is available at https://www.revenue.ie/en/starting-a-business/paying-your-tax/debt-warehousing/index.aspx .

5 Business Resumption Support Scheme (BRSS)

65. The Finance (Covid-19 and Miscellaneous Provisions) Act 2021 provides for the BRSS which will be implemented in September 2021. This scheme is being introduced for vulnerable but viable businesses, particularly in sectors that were significantly impacted throughout the pandemic, even during periods when restrictions were eased.

66. There have been a range of sectoral support grant schemes aimed at assisting businesses in financing their fixed costs and are focused on those that have seen a significant decrease in turnover (75%) or are closed by restrictions.

67. As the economy seeks to re-open, these direct grants will be replaced with a general scheme aimed at any businesses whose turnover remains impacted as a result of public health restrictions. Businesses who previously availed of other schemes such as the Small Business Assistance Scheme for Covid (SBASC) and the Tourism Business Continuity Scheme for example as well as CRSS will be eligible to apply provided they meet the qualifying criteria.

68. It will be administered by Revenue and will operate in a similar way to CRSS: The scheme will not be restricted by location, rate-paying or physical premises. Businesses whose turnover is reduced by 75% in the reference period, 1 September 2020 to 31 August 2021, compared with 2019 will be eligible to apply for a once-off payment based on a percentage of their average weekly turnover for 2019, subject to a maximum payment of €15,000, provided they meet the qualifying criteria. Charities and approved sports bodies may also be eligible.

69. Additional details are available at https://www.revenue.ie/en/self-assessment-and-self-employment/brss/index.aspx .

6 Accelerated Corporation Tax Loss Relief

70. Section 11 of the Financial Provisions (Covid-19) (No. 2) Act 2020 introduced a temporary acceleration of corporation tax relief to give cash-flow support to previously profitable companies experiencing losses as a result of public health measures. The measure has no net cost in the medium term because it is an acceleration of a relief that already exists in the corporation tax code.

71. The provision allows qualifying companies to carry back up to 50% of their estimated trading losses, incurred in an accounting period which contains some or all of the period 1 March to 31 December 2020, against their profits of the preceding accounting period. Under normal rules, this carry back would not take place until up to nine months after the end of the loss-making accounting period, when the corporation tax return is filed.

72. The accelerated corporation tax loss relief allows claims to be made (and revised if necessary) at any time from four months into the loss-making accounting period and up to five months after the end of that accounting period. This significantly accelerates the tax repayments to companies that can be generated from the offset of these losses against previously taxed profits. The balance of the loss is available for carry back in due course under normal rules, when accounts have been prepared after the end of the company's accounting period and a corporation tax return has been filed.

73. As of 30 June 2021, the measure provided cash flow support of in aggregate over €60 million to more than 240 claimants[13]. It should be noted that this data only relates to claims in respect of losses incurred by companies in financial years ending in 2020 because Revenue is not yet in a position to accurately report claims for the carry-back of losses incurred in financial years ending in 2021.

74. Companies with financial years ending in the early part of the year are more likely to have incurred Covid-related losses in their 2021 accounts than in their 2020 accounts, but it is noted that this cohort represents a minority of companies, with over half of companies having a December year-end. Therefore it is not expected that further significant claims will arise in respect of this relief.

[13] Source: https://www.revenue.ie/en/corporate/documents/statistics/registrations/covid-19-support-schemes-statistics-29-july-2021.pdf

7 Income Tax Loss Relief for Self-Employed

75. Section 10 of the Financial Provisions (Covid-19) (No. 2) Act 2020 introduced a temporary Income Tax measures to assist self-employed individuals who were profitable in 2019 but, as a result of the Covid-19 pandemic, were loss making in 2020.

76. The measure allows a once-off carry provision for 2020 losses (including capital allowances) against the 2019 profits of the same trade or profession, thereby reducing the their tax liability for 2019 profits. The utilization of the tax relief for 2020 losses is accelerated by allowing an interim claim to be made by Q4 2020, resulting in a refund of preliminary tax already paid on 2019 profits. A €25,000 limit on the total amount that may be carried back.

77. The combination of the enhanced and accelerated relief provides individuals carrying on a trade or profession as sole traders or members of partnerships with a cash-flow boost from the full utilisation of those losses two years earlier than would ordinarily be the case.

78. As of end July 2021, the measure provided cash flow support of almost €4 million to over 350 self-employed individuals[14].

[14] https://www.revenue.ie/en/corporate/documents/statistics/registrations/covid-19-support-schemes-statistics-19-august-2021.pdf

8 Stay and Spend Initiative

79. The purpose of the Stay and Spend scheme was to provide targeted support to businesses within the hospitality sector whose operations are likely to be most affected by continued restrictions on public health grounds. The scheme ended on 30 April 2021.

80. Under the scheme, a claim may be made in relation to qualifying expenditure incurred between the period 1 October 2020 and 30 April 2021. Broadly, qualifying expenditure includes expenditure on either holiday accommodation or “eat in” food and drink, with a minimum expenditure amount of €25 per transaction being required.

81. In order to avail of the tax credit, taxpayers are required to upload a copy of their receipt(s) for qualifying expenditure to the Revenue Receipts Tracker and then make a formal claim for the credit when submitting their annual Income Tax Return.

82. To late August 2021, a total of 67,529 receipts had been uploaded to the Revenue Receipts Tracker. The related expenditure recorded on these receipts amounts to €11,232,078, and the potential tax cost is €2,246,416, assuming all such expenditure is claimed and qualifies in full for tax relief.

83. The scheme was developed at a time last year when there appeared to be a steady downward trend in infection rates and there was an expectation that the re-opening of the economy could be sustained uninterrupted. Unfortunately, this has not been the case and, with the exception of some short periods, public health restrictions had the effect of impeding the operation of the incentive as originally envisaged. There are no plans to re-introduce this measure.

9 VAT

Overview

84. As VAT is a harmonized tax in the EU, the measures available to EU Member States are bound by the rules of the EU VAT Directive. The Irish Government response to the crisis has been to provide income support to those who needed it, while also providing confidence to employers to retain the link with employees, so that when the crisis passes people can get back to work quickly.

85. In light of the crisis the European Commission, with the agreement of all Member States, applied a zero rate of VAT on a concessional basis on imports and on domestic supplies of specific items. This included personal protection equipment such as facemasks, as well as ventilators, thermometers, hand sanitisers and oxygen as necessary to combat COVID-19 when supplied to the HSE, hospitals, nursing homes, GP practices and the like, for use in the delivery of COVID-19 related health care services to their patients. This application will continue until 31 December 2021.

86. Additionally, VAT related measures were introduced to assist business, including; the suspension of debt collection in respect of unpaid VAT; reliefs for interest charges; refunds and repayments of VAT were expedited; and new warehousing measures for tax debts were introduced. These measures remain in place.

Application of the 9% VAT Rate

87. In recognition of the challenges facing the Hospitality and Tourism sector arising from COVID-19 the Minister for Finance announced that with effect from 1 November 2020 to 31 December 2021, hospitality and tourism related services and goods currently applying at the reduced rate of 13.5%, were reduced, on a temporary basis, to the second reduced VAT rate of 9%. This includes catering and restaurant supplies, tourist accommodation, cinemas, theatres, museums, historic houses, open farms, amusement parks, certain printed matter, and hairdressing.

88. This reduction was in line with the recommendations made by the Government's Tourism Recovery Taskforce. Representative bodies for the tourism and hospitality sectors have called for the 9% rate to remain in place until 2025 or to remain in place indefinitely.

89. Given the impact of the pandemic in 2021 and in recognition of the continuing challenges facing the Hospitality and Tourism sector, the Government announced on 1st June 2021 that the temporarily reduced VAT rate of 9% applying to these sectors was to be extended to 31 August 2022. This was provided for in the Finance (Covid-19 and Miscellaneous Provisions) Act 2021.

90. This measure is designed to provide support to the sector, where many businesses have been closed for a significant period of time and will be operating at a reduced capacity on

reopening. The extension of the 9% rate until the end of the 2022 summer season allows for a longer period of recovery for the sector.

91. While it is difficult to estimate the cost of the extension, as it is difficult at this time to predict the level of activity in 2022, it is estimated that the extension will cost the Exchequer some €350m.

92. The 9% second reduced rate was in place on a temporary basis from 2012 to 2018 for the tourism and hospitality sectors. The majority of activity reverted back to 13.5%, with the exception of newspapers, eBooks and the provision of sporting facilities, from January 2019.

93. Evaluations were published in 2018 by the Revenue Commissioners and the Department of Finance regarding the 9% rate[15]. The main finding of the Department's Review was that expenditure on goods and services subject to the 9% VAT rate is particularly sensitive to income growth and to the economic cycle, more so than to price changes. This is evidenced by studies which have shown that hairdressing services are twice the cost in Ireland compared to Northern Ireland, despite the fact that a 20% VAT rate applies to the service in the North compared to 13.5% here.

94. As pandemic restrictions are lifted, it is expected that pent up demand for hospitality and tourism services will drive greater economic activity than a reduced rate of VAT, which is not always passed to consumers. In these circumstances, a further extension of the second reduced rate for the hospitality and tourism sectors may not be the most appropriate use of Exchequer funds.

[15] https://www.gov.ie/en/publication/dcc771-review-of-the-9-vat-rate/

10 International Comparison

95. The OECD has continued to publish reports summarising the various measures implemented by jurisdictions around the globe, and looking at how tax can be used in recovery efforts[16].

96. Findings and developments of note in the past year include:
    - Digitalisation of tax administration has significantly helped in dealing with the crisis and enabled administration to effectively and quickly address challenges.
    - Governments have acted swiftly to put in place ambitious support for businesses but now face a complex dilemma that emergency liquidity support remains essential but at the same time is not sustainable over the longer term and may have potential negative effects that need to be addressed to support the recovery.
    - Finance ministries have been at the forefront of the response to the COVID-19 crisis, alongside other actors such as health ministries.
    - Tax administrations around the globe have taken on new responsibilities to support wider government actions to help address the impacts of the COVID-19 pandemic. These responsibilities have included provision of financial support to businesses, redeploying staff and also provision and sharing of information and data analysis in policy development.
    - In taking on these new responsibilities, common issues faced included:
        - The need to rapidly deploy IT solutions,
        - The trade-off between fraud risk and speed of the provision of support,
        - Data protection issues, and
        - The need for tax administrations to be involved in the design stages of policy development.
    - OECD countries' strong fiscal response to the pandemic was appropriate, but public debt burdens have grown and will eventually have to be addressed.
    - Job retention schemes (such as Ireland's EWSS) have been one of the main policy tools used by a number of OECD countries to contain the employment and social fallout of the COVID-19 crisis. Looking forward, governments need to be vigilant to ensure that such schemes are not downscaled too quickly which could allow viable jobs to be destroyed, or too slowly which could become an obstacle to the economic recovery.

[16] Drawn from https://www.oecd.org/coronavirus/en/policy-responses

97. Overall in an international context, Ireland's response to Covid-19 compares very favourably. It has been reported that the fiscal support package introduced in Ireland was large in a euro area context. Specifically, direct supports appear to be a more prominent feature of the Irish fiscal response than in other countries, with the increase in primary government spending the second highest in the euro area in the first three quarters of last year. The fiscal measures have mitigated the impact of the pandemic on households, firms and the broader economy[17].

[17] https://www.centralbank.ie/docs/default-source/publications/economic-letters/vol-2021-no-3-covid-19-and-the-public-finances-in-ireland-(conefrey-hickey-and-mcinerney).pdf?sfvrsn=11

11 Conclusion

98. As reported in the Summer Economic Statement, the Government has responded forcefully to counteract the worst effects of the pandemic, deploying its balance sheet to replace lost income in the private sector and to minimise the long-term damage (‘scarring’) caused by the pandemic. Taking into account the measures announced alongside the Economic Recovery Plan, approximately €41 billion (or nearly one-fifth of national income as measured by GNI*) has been made available over 2020 and 2021, involving the full suite of policy tools, namely direct public expenditure, tax expenditures and ‘below the line’ supports such as loans and guarantees. Transfers to households (mainly the PUP) and firms (mainly the EWSS) account for the bulk of the expenditure measures. On the revenue side of the equation, tax deferral measures have provided important liquidity support to firms.

99. Government policy is to avoid a cliff-edge approach to the support schemes, and as the recovery gains momentum, it will be necessary to give consideration to the recalibration and ultimately the phasing out of supports. The Department continues to monitor developments and to inform Government policy as regards these temporary support schemes.

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