CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

Pre-Budget 2019

Submission

Introduction:

Ireland has a track record for attracting quality foreign direct investment. Brexit can create an opportunity to attract new investments into Ireland across a range of sectors including the agri-food, financial services and funds sectors.

Certainty is a key ingredient of tax competiveness to investors and makes Ireland a significantly more attractive jurisdiction for inward investment. Dublin is an obvious option for London's major companies in this space given the short commute and English-speaking workforce.

IDA Ireland has already indicated that a number of financial institutions have intentions to set up or expand their operations in Ireland.

Many global businesses will aspire to having a hub in an EU Member State with access to EU markets. Ireland can continue to attract its fair share of that investment, provided that the right policies and tax environment are prioritised, giving stability to the overall economy.

There is also opportunity for Irish businesses to grow and expand by accessing European markets which may not have been previously considered. With regards to this, the Government will need to provide targeted support to indigenous Irish businesses particularly those with growth potential to compete internationally.

The measures outlined in this pre-budget submission from CPA Ireland should be adopted by Government in order to improve conditions for business and growth orientated businesses.

About CPA Ireland:

CPA Ireland is one of the main Irish accountancy bodies with 5,000 members and students. The CPA designation is the most commonly used designation worldwide for professional accountants and the Institute's qualification enjoys wide international recognition. Our membership operates in Public Practice, Industry, Financial Services and the Public Sector and CPAs work in over 48 countries around the world.

R&D Tax Credit System

The R&D tax credit system should be tailored to the size of the entity attempting to avail of it. The 2016 Department of Finance Economic Evaluation of the R&D Tax Credit “show that it is mainly older, larger and non-Irish firms who derive financial benefit from the scheme”.

The scheme needs to be streamlined with timelier processing of R&D claims and greater support given to indigenous Irish growth orientated companies.

For Ireland to remain competitive with other jurisdictions such as the UK, the Government must act to make them fit for purpose for SMEs. An important measure of commercial vitality is a country's spending on research and development. Total spending on R&D in Ireland was just over 1.6% of GDP in 2014, below the EU average of 2.1% and less than half that of Finland, one of Europe's top performers. Of the already small amounts, only one-third is accounted for by home-grown companies.

Business & Entrepreneur Community:

Although CGT Entrepreneur relief is welcome, it is of limited value and when compared to similar benefits offered under the UK regime demonstrates a competitive disadvantage. The relief currently applies a reduced CGT rate of 10% on qualifying gains of up to €1m in a vendor’s lifetime. The UK equivalent applies up to a £10m threshold. This has led to entrepreneurs questioning whether Ireland is the best location from which to operate their business, particularly given the proximity of the UK. Furthermore, the conditionality attached to the relief is overly onerous and currently lacks commerciality for vibrant businesses. CPA Ireland recommends that this relief is improved in order to enhance Ireland’s attractiveness to entrepreneurs and help ensure indigenous companies develop beyond start-up phase.

A recent emerging trend is the premature exit of entrepreneurs upon a business reaching a value milestone, thus inhibiting the ambition to grow and scale an Irish-owned company. To encourage longer-term commitment to and scaling of Irish indigenous business, we suggest the introduction of a tapered CGT rate that would reflect the length of time the individual has held his/her shares. This relief could be linked to other reliefs which would also allow an entrepreneur to access cash as necessary.

In order to encourage entrepreneurs to commit to their business for the longer term, the CGT position should be amended by granting such individuals higher lifetime limits and lower rates of CGT, commensurate with how long they have held their shares in the business. In addition, cash extraction and exit measures reflecting a longer holding period should be considered to further incentivize an entrepreneur to stay in the business and grow it for either an IPO or the next generation.

Personal Taxation:

An overall simplification of the personal taxation system is well overdue and others will need to be carefully addressed to ensure a fair system emerges.

Overall the current employee marginal rate (comprising of income tax, USC, and PRSI) of 52% remains too high to attract staff from abroad. Furthermore the self-employed marginal rate of 55% unfairly penalises the self-employed. We recommend that the 3% USC surcharge where non-PAYE income is more than €100,000 a year be removed.

A roadmap to determine the approach and timing to reduce the marginal tax rate on a phased basis is overdue. This should be coupled with ensuring that assignee reliefs are operating at competitive levels to attract key roles and talent into Ireland (which is an important factor impacting location decisions for investments).

Additionally current proposal to merge PRSI and USC will be a complex endeavour as one is calculated on a weekly basis and the other cumulative, they also have differently calculated rates and changing the title does not make it any less permanent. As this proposal would result in a temporary tax becoming permanent, CPA Ireland feels that this is a retrograde step and would not be in favour of this proposal.

Conclusion:

In summary, it is a strategic imperative that Government strikes a balance in creating an equal and innovative stable tax policy environment without compromising the benefits that both the SME and FDI sectors bring to the overall economy.