The Consultative Committee of Accountancy Bodies-Ireland

Chartered Accountants Ireland
The Association of Chartered Certified Accountants
The Institute of Certified Public Accountants in Ireland

Pre-Budget Submission 2025

SUPPORTING AND SUSTAINING OUR SME SECTOR

47/49 Pearse Street

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EXECUTIVE SUMMARY

The lead into Budget 2025 comes at a time of increased financial pressure for businesses operating in Ireland as well as clear deficits in infrastructures. Small businesses, which includes many family businesses, are being constrained by rising costs and, for many, labour costs now make up a considerable proportion of business expenditure. A lack of supply of housing and childcare places, as well as high personal tax rates, are making it increasingly difficult for people to live and work affordably in Ireland.

While we recognise the ongoing work to improve these areas, there are certain structures that need to be put in place to manage, accommodate and enable Ireland's future growth. Appropriate investment must be made to develop capacity and appropriate infrastructure so that we can meet the significant transformation that lies ahead of us as a result of an ageing population, technological advancement and net zero targets.

The CCAB-I believes that the four fundamental areas of Government focus for Budget 2025 should be:

- Support indigenous small and medium enterprises by reducing the cost and complexity of doing business
- Introduce measures to help to increase the number of childcare places available and support parents return to the workforce
- Reform the personal tax system to retain and attract workers and help people live affordably
- Continue to stimulate and support the completion of new houses

OVERVIEW

For Budget 2025, we are encouraging the Government to take a holistic review of the tax system to identify areas where meaningful reform is possible to help build capacity in the economy. In the past 12 months alone, the CCAB-I has contributed to several crucial public consultations on tax matters and has engaged extensively with the Revenue Commissioners and the Department of Finance during the design and implementation of the domestic legislation underpinning the landmark EU Minimum Taxation Directive (“Pillar Two”).

We have also continued our own engagement with our 30,000+ members who work in every area of the Irish economy. The message we are receiving is that simplifying the tax code, and the administration of same, must be a priority. In addition, the Government must move tax policy in a direction which supports the indigenous Irish economy by encouraging innovation and supporting entrepreneurs and reducing the cost of doing business. It is worth bearing in mind that almost 70% of people working in the business economy in Ireland are employed by SMEs.

At the same time, Irish tax policy must recognise that our economy is deeply integrated within the globalised economy, particularly in the areas of financial services, food, and pharmaceuticals. Some of the world’s largest and most productive companies have established significant operations on our island and our food exports are recognised as some of the highest quality products available on the market.

However, our tax code was designed in a vastly different era. While the underlying principles of business are arguably timeless, the globalised and technologically advanced economy has completely transformed the identifiable tax base of a jurisdiction.

The tax code has therefore been patched up with complex anti-avoidance to bolster legislation designed in a bygone era. This has led to an ever-increasing challenge for compliant businesses who are facing mounting complexity and ever-growing compliance obligations. As such, the introduction of the Enhanced Reporting Requirements for employers as a real-time reporting requirement has been a real blow to smaller businesses in particular, who are already struggling to cope with the complexity of tax administration in modern Ireland.

With the above in mind, the CCAB-I is framing this year's submission to the annual budgetary process within broad policy considerations. The main focus of this year's Budget should be on supporting indigenous and local businesses, reforming the personal tax system, increasing housing supply, and enacting policies to move the provision and cost of childcare forward.

The overarching aim for this and successive Governments must be to adopt a spirit of simplification and cooperation when designing tax policy and administering tax law. We have cited previous submissions where further detail can be found but we understand that specific tax policies are best designed by the Department of Finance once the fundamental needs of businesses are understood, both simplicity and efficiency. Given our position within the Irish economy, we hope that our insights into these needs will inform a dynamic approach to Irish taxation policy.

Supporting SMEs and indigenous business

Ireland's foreign direct investment (FDI) strategy has proved immensely successful over the last 30 years. Some of the world's largest and most productive businesses have significant operations on the island. Our highly educated, hard-working, and reliable workforce all contribute to our reputation globally as a suitable location for global companies to establish high value-add operations. Certainly, government policy must continue to ensure we produce the homegrown talent necessary to service the needs of our pharmaceutical, financial services, and technology sectors.

At the same time, government policy must take steps to enhance the opportunities for indigenous Irish businesses to grow domestically and also compete on European and global markets. Often, we see that once local businesses reach a sufficient operating level, they tend to be acquired by larger multinational enterprises who then have the capacity to scale up those operations. We must empower and enable our SME sector to grow and achieve its potential.

Rising labour costs, increased regulation as well as skills and labour shortages are putting SMEs under enormous pressure. In 2024 alone, the minimum wage has increased by 12% and the additional sick leave entitlements have added 1% to payroll costs. From 1 October 2024, the rate of Employers', Self-Employed and Employee PRSI will increase by 0.1%. Pensions auto-enrolment will add a further 1.5% in costs during 2025.

SMEs have also had to deal with the introduction of an unprecedented number of new legislative requirements over the past 18 months which significantly adds to the cost and administrative burden. While the Debt Warehousing Scheme has mitigated part of these challenges for some businesses, prohibitive costs persist, and Government needs to be cognisant of this challenge when implementing new regulations, having regard to the timing and suitability of same.

CCAB-I's priority areas to manage business costs:

- Coordinate the introduction of new legislation and regulations in a phased and appropriate manner
- Exempt wages below minimum wage from Employers' PRSI
- Defer any further phases of Enhanced Reporting Requirements for employers for at least three years and remove the real-time reporting requirement
- Remove the two-gift limit to qualify for the small benefit exemption

Adjust Employers' PRSI thresholds

To enable businesses adjust to these mounting costs, we are suggesting that an Employers' PRSI bill is reduced by increasing the entry point at which Employers' PRSI is paid. This would work as follows:

- Weekly wages up to €495.30 should be exempt from Employers' PRSI, i.e. earnings up to the minimum wage (based on a 39-hour week).
- Weekly wages between €495.30 and €577.20 should be subject to the 8.8% rate of Employers' PRSI, i.e. earnings between the minimum wage and living wage (which is suggested to be €14.80 per hour or €577.20 per week based on a 39-hour work week).
- Weekly wages above €577.20 are subject to full Employers' PRSI.

Businesses need Government to implement a clear measure to alleviate the cost burden of Employers' PRSI and increasing the thresholds will benefit smaller businesses in particular.

Address the costs of doing business

In last year's Budget, the Government increased the minimum wage by €1.40 to €12.70 per hour. For a worker employed on a typical 40-hour work week, this results in an increased cost per employee (including Employers' PRSI) of €2,985.

This increase must also be reflected for employees working above the minimum wage limit. In that regard, €3,000 could reasonably be considered as an average increase per employee, someone who employs 10 people would suffer an additional expense of €30,000 per year. This represents a significant increase in business costs.

The Temporary Business Energy Support Scheme was claimed at a level far below the amount allocated. In considering ways to support businesses, particularly SMEs, we urge the Government to consider the realities and the constraints such businesses operate under. In any time-starved organisation where staff-retention is already a pressing issue, there is little scope to commit to onerous reporting requirements.

While the Increased Cost of Business Grant, worth €257 million, was a welcome announcement in Budget 2024, the low uptake from businesses was arguably the result of a delayed communications campaign to raise awareness about the support as well as prohibitive conditions which excluded many businesses.

It is vital that future business supports are accompanied by swift and detailed communications campaigns to better raise awareness, as well as appropriate conditionality. This should enhance the overall uptake of such supports.

Enhanced Reporting Requirements

The introduction of the Enhanced Reporting Requirements (ERR) for employers has been another administrative hurdle that Government has asked businesses to adopt and overcome. There is no dispute in the utility of the information sought to Revenue. However, there are a number of issues (which have been raised consistently by practitioners (including the CCAB-I) at various meetings of the Tax Administration Liaison Committee (TALC)). These include:

- The requirement to report under ERR arises when a payment is made. This is in line with the real-time element of the reporting requirement. This is unnecessary and impractical particularly given there is no tax take. We know that businesses have reduced the frequency of when travel and subsistence are paid to align with payroll dates, and this puts employees at a cash-flow disadvantage while they await payment. We continue to advocate for this reporting to be made on a monthly or even annual basis.
- The reporting mechanisms do not interact with payroll, yet Revenue has requested that payroll software companies design the appropriate mechanisms. This was a significant ask by Revenue and in our view inappropriate given the already mounting administration costs businesses face. While Revenue do offer a manual, line-by-line upload and a file conversion upload, both processes are cumbersome and time-consuming.

At a minimum, we are asking that Government considers an appropriate consultation period with key stakeholders before announcing new reporting measures in the future. We are also asking for a commitment from Government to not extend ERR for at least three years until the system is embedded and an appropriate cost-benefit analysis of the current system has been properly completed.

Remove the two-gift limit for the small benefit exemption

Under section 112B TCA 1997, each year employees can be given two small benefits, tax free from their employer. The benefits must not be in cash and the combined value of the two benefits cannot exceed €1,000.

If more than two benefits are given in a year, only the first two can qualify for tax free status, even if the combined value is less than €1,000 per annum. Subsequent benefits are subject to tax and unused allowances amounts cannot be carried over.

To make it equitable for employees to receive benefits regardless of the timing of the gifts and to reduce the administrative burden on employers, employees should be allowed to receive a number of benefits up to the value of €1,000 tax free. Any benefits in excess of the threshold would be taxed.

Revenue would continue to have sight of all benefits made through the returns made under ERR for employers.

CCAB-I's priority areas to manage the tax burden for SMEs:

- Reduce the rate of CGT from 33% to 25%
- Enable a deferral of CGT where entrepreneurs reinvest the sales proceeds from the sale of a business
- Enhance and simplify the tax legislation around share remuneration as a tool to attract and retain staff
- Introduce an R&D tax credit regime specifically for SMEs

Reduce the rate of CGT to 25%

Tax revenue generated by capital taxes in Ireland in recent years has failed to match the high yields flowing into the Exchequer in the Celtic Tiger years. This is the case despite the recovery of asset values and higher CGT and CAT rates of 33% compared with the 20% rate in place pre-October 2008.

There is merit now in considering reducing the rate of CGT from 33% to 25% to drive a surge in business and personal transactions to bring additional funds into the Exchequer. A lower rate of CGT has been shown in other countries to encourage innovation and risk taking, encourage the sale and purchase of assets, which drives investment activity, and would improve the returns for entrepreneurs.

Based on Revenue's ready reckoner for 2024, this would cost in the region of €595 million. €1.2 billion in CGT receipts were collected in 2023, which was a reduction of €0.2 billion from 2022 figures.

Enhance Revised Entrepreneurs Relief

Government economic and taxation policy must make it attractive for these business-owners to build those companies to the next level.

Tax incentives are always attractive to entrepreneurs. What is less clear is the extent to which greater after-tax proceeds encourages entrepreneurs to reinvest in building new businesses.

Therefore, we are recommending that policymakers consider enhancing Revised Entrepreneurs Relief to encourage reinvestment. Where the proceeds from the sale of a qualifying business are reinvested in a new business, then the proportion of those sales proceeds that are reinvested will qualify for further relief.

In order to ensure that the proposed rollover of Revised Entrepreneurs Relief is effective, the application of the 'working time' requirement should also be considered for such claimants. There is also a wider argument that the 'working time' requirement creates problems for entrepreneurs working across more than one venture. As such, we are asking that the Government considers either the elimination or the simplification of the 'working time' requirement generally.

Improve the tax legislation for share-based remuneration

Earlier this year, CCAB-I responded to the Government's public consultation on share-based remuneration. We ask that the Government considers our recommendations for enhancing share-based remuneration for SMEs, as highlighted in our response, as follows:

- Address the valuation of shares in unquoted companies by introducing an appropriate safe harbour.
- Maintain the Employers' PRSI exemption. The exemption offsets some of the cost of establishing share schemes in Ireland and members strongly advocate for this exemption to remain.
- Introduce a mechanism to enable CGT treatment on a redemption of employee-owned shares.
- Legislate for a tax deferral for employees exercising share options, particularly in unquoted companies, until a liquidity event occurs.
- Enhance the Key Employee Engagement Programme (KEEP) scheme (see below for further detail).

Enhance the KEEP scheme

In relation to KEEP specifically, in 2022 only 154 employees were granted KEEP share options (for 2021, the number was 227). Further, the scheme has been continually amended (most recently in Finance Act 2022) meaning the application of the rules has been wrought with uncertainty. Our members cite the following as ongoing issues with KEEP:

- **Cost:** The cost of implementing a KEEP scheme is prohibitive for many SMEs.
- **Valuation:** To implement a KEEP scheme, arriving at an appropriate valuation requires costly professional services. Therefore, we recommend that Revenue assist SMEs in adopting KEEP by providing guidance on appropriate valuation methodologies and provide either a 'safe harbour' or advance opinion to bring more certainty to participating businesses.
- **Onerous conditions:** The conditions are complex and the risk of non-compliance, therefore, is not offset by the potential benefit to employees. At a minimum, CCAB-I recommends the following changes:

- KEEP legislation should be adapted in line with the Revised Entrepreneur Relief legislation when defining a holding company.
- The exclusion of professional service companies and financial activities from operating a KEEP scheme limits the scope of the programme.
- While the legislative amendment commenced in November 2023 providing for the buyback of shares acquired under KEEP is welcome, we recommend that the limitation in section 177 (6)(b) TCA (which requires shares to be held for a minimum of five years before a buyback occurs) is relaxed in the case of KEEP. From engagement with industry, this is a major deterrent in establishing KEEP as it represents a significant cash-flow issue.
- Further, we recommend that the holding period begins on the date of grant, as opposed to starting from the date of exercise (as with the EMI scheme in the UK).

R&D Tax Credit regime for SMEs

For several years now, the CCAB-I has called on the Government to consider reforming the R&D Tax Credit with a specific regime for SMEs. In 2021, companies with more than 250 employees represented 12% of claimants, however they accounted for 74% of the total value of the R&D tax credit claimed for that year. By comparison, companies with fewer than 50 employees represented 65% of claimants but accounted for only 12% of the total credit claimed.

There are obvious reasons why larger organisations represent a larger proportion of the amount of R&D tax credit claims in a year. However, our members consistently report that smaller organisations are disincentivised from claiming an otherwise available R&D tax credit on the basis of a lack of certainty, fundamental tax risk, and clunky scrutiny of claims. The reporting requirements are also onerous.

To encourage SMEs to claim the R&D tax credit, the CCAB-I is recommending that the following measures are considered to improve the uptake of the relief:

- Simplification of the documentation requirements for SMEs
- Simplification of the qualification criteria for SMEs
- A pre-clearance system for first time claimants operated by Revenue (noting the recent introduction of a pre-notification system)
- Improved Revenue guidance targeted at SMEs and including a list of common pitfalls encountered by claimants.
- Offer an enhanced rate for small and micro companies of 50%.

In addition, we are asking policy-makers to consider the onerous penalties that can apply for minor administrative mistakes. This is a valuable relief for businesses If the substantive aspects of the claim are satisfied, then a minor administrative mistake should not result in onerous penalties. Further, such an approach can deter businesses who would otherwise greatly benefit from claiming the relief.

Improve the childcare system

CCAB-I's priority areas for childcare:

- Improve the supply of childcare places for pre-school children
- Increase the amount of tax-free income individuals providing child-minding services in their own homes can earn from €15,000 to €20,000
- Introduce a new tax credit for working parents returning to the workforce after birth to incentivise them to do so

As a part of the critical infrastructure of a fully functioning economy, childcare provision must be affordable, adequate, and suitable for needs of the children involved. Working parents are unable to participate fully in the economy due to capacity constraints and the affordability of childcare across the country.

In a survey of members of Chartered Accountants Ireland in Q3 of 2023, difficulty in obtaining a place in a childcare setting was the biggest issue facing working parents. 97% of members surveyed have considered adjusting their working patterns as a result of childcare responsibilities, with almost half already reducing their working hours.

The cost of childcare was also problematic with one third of members currently pay up to €1,000 per month per child on childcare with a further one third paying between €1,000 and €2,000 per month per child. We acknowledge the measures announced in Budget 2024 to substantially increase the National Childcare Scheme subsidy from €1.40 to €2.14 per hour from September 2024.

However, substantially more must be done on increasing supply and capacity in the market.

Echoing the position paper published by Chartered Accountants Ireland in 2023 – *Supporting Working Parents* – we call on the Government to:

- Commit to a whole-of-Government long-term strategy which recognises childcare as part of the critical infrastructure necessary for the functioning of the economy.
- Ensure funding of the existing system reflects the true cost of service provision and encourages growth in the sector.
- Plan for adequate capacity in the sector by officially analysing and documenting childcare needs in local areas on a regular basis.
- Examine whether creche and pre-school facilities could be included on the grounds of primary schools to coordinate full-time and after-school care.
- Encourage, through Core Funding, the availability of flexible or part-time childcare places to reflect current work patterns.
- Enhance awareness of the National Childcare Scheme (NCS) subsidies among parents and translate the system into languages in addition to English to encourage its uptake.

Modernise Childcare Services Relief

Finance Act 2006 introduced the Childcare Services Relief to exempt income earned by individuals providing child-minding services in their own homes. Income up to €10,000 was initially exempt but this was increased to €15,000 in the following Finance Act 2007. The relief has not been updated since then.

The most recent data available from Revenue indicates that 570 exemptions were granted under the Childcare Services Relief in 2021, with an estimated cost in terms of foregone revenues standing at €1.2 million. This was a significant decrease from the 690 exemptions that were granted in 2018 at cost of €1.6 million. Since the relief was introduced, it has cost the Exchequer €14.7 million.

Given the well-documented issues with the increased cost of childcare in Ireland and the difficulty experienced by parents in obtaining care, we are calling on the Government to increase the limit for Childcare Services Relief to €20,000 per annum, while recognising the plans under the National Action Plan for Childminding 2021–2028.

Furthermore, the costs arising from this relief would be more than offset by increased tax revenues resulting from an increased number of parents re-entering the workforce.

Tax credit for parents returning to work

The 'motherhood penalty' is a term used for the loss of lifetime earnings experienced by women raising children. While the decision to devote more time to rearing children is a personal one, families typically weigh up the relative earning capacity of the individual parents and decide if it makes financial sense to forego one income for a time in light of the cost of childcare.

Regardless of the personal reasons for individuals choosing to devote more time to childrearing, there is an inevitable trade-off between this and career-progression, at least in the short-term. This decision has predominantly been given to women, as women have generally tended to bear the greater burden of childrearing. Hence the term, 'motherhood penalty'.

The cost of childcare or the lack of availability of same should not act as a disincentive for mothers and, indeed, parents to return to work. In this regard, we are proposing a €1,000 annual tax credit for working parents who return to or remain in the workforce. The credit should be available to both employees and self-employed until the child reaches primary school going age.

Personal Tax Reform

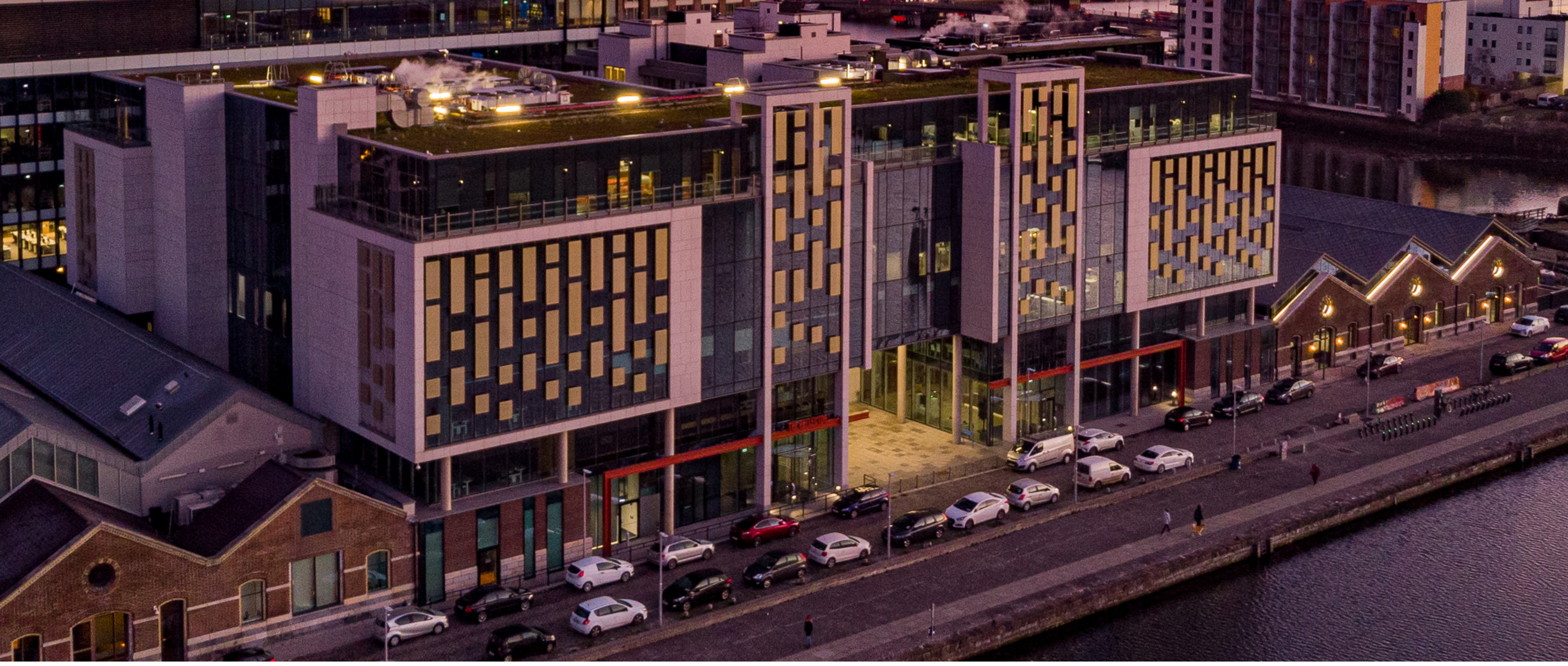
According to the most recently available data, the top 25% of earners contributed circa 80% of income tax revenues with 25% of taxpayers "paying little or no income tax".

Income tax receipts are also heavily reliant on salaries paid by multinational firms. These businesses accounted for 32.6% of all income tax receipts in 2020. Ireland's income tax system is ranked second-last (just ahead of France) when compared to its OECD peers. As such, the Exchequer's reliance on high-income earners and multinationals represents a significant vulnerability for the Exchequer.

The personal tax base has been progressively narrowed in recent Budgets, posing a significant risk to the sustainability of our income tax receipts. Research suggests that broadening the income tax base will in fact enhance efficiencies in the tax system.

CCAB-I's priority areas for personal tax reform:

- Introduce an intermediate 30% rate of income tax
- Remove the USC surcharge for self-employed
- USC and PRSI should be merged
- SARP should be permanently legislated for
- Current tax relief for pension contributions must remain



In 2023, the Department of Finance carried out a public consultation seeking views on Ireland's personal tax system, focusing on taxes on earnings. Among our recommendations, which remain today, the CCAB-I noted that:

- Taxpayers in Ireland face early entry into marginal rate taxation at a threshold which is currently below the average industrial wage. To counter this, an intermediate income tax rate of 30% should be introduced.
- Government should also consider legislating on a permanent basis for the indexation of income tax rates and bands.
- USC and PRSI should be merged to reduce the overall complexity of the income tax system. Presently, three separate bases for returning tax/contributions on the same or similar income is not ideal from a tax policy perspective.
- The 3% rate of USC on self-employed incomes over €100,000 is inequitable and should be abolished. Equity is a fundamental tenet of good taxation policy and the additional USC on self-employed persons is contrary to this aim. It is also a disincentive to workers to bear the burden of self-employment. For example, a self-employed doctor could be employing a second doctor. They are both in comparable situations, although the practice owner is bearing significantly more risk by virtue of business ownership. Nevertheless, the self-employed doctor faces an additional 3% of tax on their income over €100,000 simply because they wish to operate as a self-employed person.
- The Special Assignee Relief Programme (SARP) should be permanently legislated for and made available to indigenous business seeking to hire from overseas. The upper income limits should be removed and the entrance thresholds for income reduced. We acknowledge that this must be considered in conjunction with the policy aim of SARP, being to encourage high value add workers to take up employment in the country.
- The current tax relief rates for pension contributions (20% and 40%) must remain in place despite the introduction of auto-enrolment.

Improve the supply of housing

CCAB-I's priority areas for housing:

- Extend the Help-to-Buy Scheme from 31 December 2025 to 31 December 2027 and extend to second-hand homes
- Abolish vacant homes tax as it is too costly to administer, and the behavioural impact of such taxes is not well-established
- Increase the rent-a-room relief income threshold from €14,000 to €20,000 and remove the 'cliff-edge'
- Abolish the non-resident landlord withholding tax system

The twin headwinds of a lengthy period of under-investment in the housing supply combined with a significant increase in the population has proved a massive problem for recent Governments. The current cabinet has established policies which has seen a significant increase in the number of new dwellings completed in recent years.

Data from the Central Statistics Office (CSO) confirms that 29,726 new dwellings were completed in 2022. The comparable figure for 2023 is 32,695, an increase of 10%. Unfortunately, completions are still below the Governments stated requirement of 33,000 new homes per annum per its Housing for All plan.

While supply is the fundamental problem in the Irish housing market, affordability has arisen as a significant barrier for many. Generally, the opportunity to purchase a first home or a home suitable for raising a family has been pushed beyond the reach of many people living and working in Ireland.

The Affordable Housing Schemes (administered at local council level) and the national First Home Scheme, combined with the Help-to-Buy scheme, offer some headroom for individuals and couples purchasing a new home in certain areas. Government needs to continue implementing policy which caters for those trying to establish themselves on the property ladder.

The recent Vacant Homes Tax is likely going to cost more to administer than it will raise. This is a significant issue in Government policy. Implementing and designing a tax is a complex task which requires the use of a significant amount of Government resources. We urge Government to identify areas where investment could make the most difference to citizens.

A tax which has limited behavioural impact and operates at a deficit is not the answer.

Help-to-Buy Scheme

Government policy instead needs to focus on tax measures which support buyers (e.g. the Help-to-Buy scheme and the Affordable Housing Schemes) and ensure that developers continue to focus their attention on building high-quality housing at reasonable prices.

Therefore, with the Help-to-Buy scheme expiring on 31 December 2025, we recommend that this relief is extended for at least a further two years to assist first-time buyers. Acknowledging that the Commission on Taxation and Welfare has suggested otherwise, the current situation of ever-increasing rental costs means that saving the money needed for a deposit is becoming increasingly difficult.

The Help-to-Buy scheme will support first-time buyers who do not have alternative financial support at their disposal.

Rent-a-room relief

Two major factors affecting the residential property market in Ireland are the cost of finance and the cost of renting. Rent-a-room relief, available under section 216A TCA 1997, is capable of offsetting the costs associated both with home ownership and home rental.

However, despite the relief being introduced with the aim of increasing the availability of rented residential accommodation, the gross income exemption limit of €14,000 has not been updated since 2017; a time when average rents were much lower than the present day.

Therefore, the Government should increase the limit for relief from €14,000 to €20,000 to match the standardised annual rent. Furthermore the 'cliff-edge' for qualifying for relief should be removed. These measures should help incentivise homeowners with a surplus of bedrooms to make those spaces available by providing a reasonable financial incentive to do so.

Non-resident landlords

Last year, a new system was introduced for the collection of withholding tax on rent paid to landlords. This was despite calls from across the policy landscape calling for the abolition of the tax collection obligations place on tenants of non-resident landlords.

The Non-resident Landlord Withholding Tax (NLWT) system is cumbersome and does not address the key issue – being the imposition of an unnecessary administrative burden.

While there is an understandable tax collection risk where landlords are non-resident in Ireland for tax purposes, under a self-assessment tax system, placing obligations on tenants is not the correct solution to managing this risk.

Therefore, we continue to call for the removal of the NLWT. Where Revenue identifies that a landlord is non-resident for tax purposes, it has the appropriate powers to manage any identified risks without imposing obligations on a tenant.

Help meet Ireland’s climate goals

Environmental tax policy can help Ireland reach its climate goals of reducing emissions by an average of 7% per annum, towards reaching net-zero emissions targets by 2050.

If tax policy is aligned clearly with decarbonisation objectives, it should incentivise consumers to change their behaviours, and business investment in sustainability will increase. For example, incentivising businesses to embrace the power of climate-positive procurement, providing tax reliefs for businesses that buy local and/or buy ‘circular’ and reusable products, offer a take-back service and/or offer products as a service, e.g. cooling as a service, mobility as a service.

The tax system could further accelerate business commitment to net-zero targets.

CCAB-I’s priority areas:

- Permanently legislate for the accelerated capital allowance regime for energy-efficient equipment (section 285 TCA 1997) in order to simplify and promote the scheme
- Clarify the forms of green research and technology development where spending qualifies for the R&D tax credit
- Align the Employment and Investment Incentive Scheme (EIIS) to the commercial structures used in renewable energy generation, to allow individuals to invest in green energy projects
- Reward companies investing in renewable energy generation by re-introducing relief for investment in renewable energy projects under section 476B TCA 1997
- Extend of the Help-to-Buy scheme to include ‘Help-to-Insulate’

International tax matters

As mentioned at the outset, the Irish economy is deeply integrated within the global economy. Finance (No. 2) Act 2023 saw the introduction of the landmark Pillar Two legislation reflecting our ongoing support of the OECD BEPS Project. Earlier Finance Acts have seen the introduction of a suite of anti-avoidance measures under the EU Anti-Tax Avoidance Directives (ATAD).

Therefore, the consequence of an updated tax code is a patchwork of historic measures now sitting underneath these anti-avoidance and base protecting measures. While the need for robust anti-avoidance legislation is clear, and acknowledging the ever-increasing complexity within which businesses operate, the Government must also make every effort to streamlining the tax code where possible.

Therefore, our two key suggestions on the international tax front this year are introducing legislation to establish a territorial basis of taxation, and to engage in a robust review of the rules regarding interest deducibility, particularly considering the introduction of the Interest Limitation Rule.

Participation exemption for foreign dividends and branch profits

In our response to the recent public consultation on a roadmap for the introduction of a participation exemption to Irish corporation tax, we noted our support for the introduction of a participation exemption for both dividends and foreign branch profits.

Across the OECD, the latest data shows that 26 of 38 OECD countries exempt all foreign sourced income received by parent companies from domestic taxation, including Luxembourg, Netherlands, Estonia, the United Kingdom, and the United States. Of the remaining OECD countries, eight exempt at least 95% of foreign dividends from domestic taxation.

In our view, Ireland's corporate tax code puts Irish companies at a competitive disadvantage when operating alongside companies in jurisdictions operating territorial systems of taxation. The proposal to introduce a participation exemption for dividends will be incredibly well received by Irish businesses, international businesses operating in Ireland, and global companies considering Ireland as a destination for investment.

We note that the most recent public consultation is focusing on the dividend exemption. We look forward to a similar consultation on the branch exemption in the coming months. Our full recommendations can be found in our responses to the various consultations, but in particular we note:

- The exemption should not be geographically limited other than for income received from companies or branches operating in countries on the EU list of non-cooperative jurisdictions for tax purposes.
- The Government must concurrently review and simplify the existing double tax relief in Schedule 24 TCA 1997.

Commence a review of the rules regarding interest deductibility

Given the introduction of a now robust anti-avoidance system, in particular the Interest Limitation Rule (ILR), the Government should now be able to reform the complex rules relating to interest deductibility.

We suggest commencing a process of stakeholder engagement to identify the most pertinent and pressing aspects of the existing legislation which should be addressed.

The ILR is a measure which preserves the integrity of the Irish tax base. Further, businesses need a certain level of debt to operate. The calculation of taxable profits does not now require an initial analysis of the source of debt.

So long as the Exchequer is guaranteed a certain level of taxable profits (which the ILR ensures), then tax law does not need to address the source of that debt. This can all be discussed once the Government commences the appropriate process of stakeholder engagement.

We understand that there is a public consultation planned later in the year.

Support for the Unified Patent Court

Given Ireland's position as a destination for the location of intellectual property, we also recommend that a robust public information campaign is carried out to ensure the public is aware of the many benefits the Unified Patent Court has for Ireland as a country, ahead of a future referendum

This must not become a political issue but must be recognised as a fundamental economic issue with potentially massive benefits for ancillary businesses also.

End tax discrimination against professional service providers

Professional service providers, which includes companies and unincorporated businesses, are unfairly targeted by specific anti-avoidance provisions and disqualification from valuable tax reliefs. CCAB-I has called for the abolition of discriminatory measures targeting professional service companies for several years now. Professional service companies are productive, entrepreneurial, and high value-adding entities. Further, the owners of these companies pay significant levels of income tax on their earnings. However, they are not afforded the opportunity to build up capital for investment in the same way as their peers in non-service type companies. In addition, they are denied access to share schemes which are generally seen to benefit both employees and the companies employing them.

Surcharge on undistributed income of service companies

The surcharge in section 441 TCA 1997 on the undistributed income of service companies should be removed. Tax legislation should support businesses, not penalise profitable companies. Where business owners make the decision to forego increasing their personal income in order to increase the capital available for investment in their company, they should not be penalised when a comparable non-service company can make the very same decision without incurring a surcharge.

The overarching aim of good tax policy is equity and the surcharge on the undistributed income of service companies is contrary to this aim.

Access to KEEP scheme

The legislation governing the KEEP scheme specifically excludes professional service companies. Professional service providers are in an era of ever-increasing regulation and so many professions are now allowed to operate as companies.

The fact that share-based remuneration has benefits for both businesses and employees is well-documented. Therefore, denying access to the KEEP scheme is an untenable discrimination putting professional service providers at a competitive disadvantage to other competing companies. Further, at a time when many professions are struggling to attract talent, they are without a key tool in the effort to do so.

Access to relief for investment in corporate trades

As above, the legislation governing the reliefs for investment in corporate trades in Part 16 TCA 1997 specifically excludes certain activities, including professional service companies.. Small professional service providers around the country are struggling with mounting costs and with interest rates increasing so too is the cost of capital. Equity is a cheap source of finance. Therefore, this is another instance where professional service companies are at a disadvantage compared to their peers in comparable companies. Further, these schemes provide opportunities for companies to expand and also to benefit from the insights that fresh investors often provide.

Access to start-up company relief

Professional service companies are also excluded from claiming the relief for certain start-up companies in section 486C TCA 1997. This is another valuable relief which professional service providers are precluded from claiming. As we move into an era where such companies are being offered a route to incorporation, they should be supported in the same way comparable companies. It would also support competition and entrepreneurship among professional service providers.

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ABOUT THE CCAB-I

The Consultative Committee of Accountancy Bodies–Ireland is an umbrella group of the accountancy profession in Ireland.

It was established in 1988 to coordinate the representation functions of the participant professional bodies in areas of common interest to the profession.

It has a number of committees which respond to Government and regulatory initiatives in their respective areas.

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Chartered Accountants Ireland
The Association of Chartered Certified Accountants
The Institute of Certified Public Accountants in Ireland