The Consultative Committee of Accountancy Bodies-Ireland

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

Pre-Budget Submission 2023

Enhancing Ireland's competitiveness in challenging times

47/49 Pearse Street

Contents

1. About CCAB-I 1
2. Introduction 2
3. Tax policy to tackle the housing crisis 4
    3.1 Tax reforms to stop the exodus of private landlords 5
    3.2 Tax reforms to accelerate the supply of affordable housing 6
    3.3 Tax reforms to increase the supply of rental accommodation 6
    3.4 Capital tax reforms to encourage the supply of accommodation 7
    3.5 Stamp Duty reform to increase the supply of accommodation 8
    3.6 Administrative burden on non-resident landlords 8
4. Personal taxes 10
    4.1 Employer's PRSI 11
    4.2 Tax relief on pensions should be maintained 11
    4.3 Extend auto-enrolment to other cohorts 12
5. Capital taxes regime needs to reflect the current market 13
    5.1 Reduce capital tax rates 13
    5.2 Increase thresholds for CAT 13
6. Tax policy to foster SME growth 14
    6.1 End tax discrimination against professional service companies and unincorporated businesses 15
    6.2 Capital tax reforms for SMEs 16
7. Simplify the R&D tax credit rules 17
8. Withholding taxes for 'Section 110' companies 19
9. iXBRL – Timing of returns 21
    9.1 iXBRL – Penalties for late filing 21
10. Taxation measures to support a green economy 23
    10.1 Update and simplify the accelerated capital allowance regime for energy efficient equipment 24
    10.2 Enhance the R&D tax credit 25
    10.3 Employment and Investment Incentive (EII) Scheme 25
    10.4 Relief for individuals and companies for investment in renewable energy projects 25
    10.5 Pre-trading expenses 26
    10.6 Encourage uptake of electric vehicles 26
11. Reform tax rules to reflect changing work practices 27
    11.1 Flexible Tax Saver Commuter Ticket 27
    11.2 Normal place of work 28

1. About the CCAB-I

The Consultative Committee of Accountancy Bodies–Ireland is the representative committee for the main accountancy bodies in Ireland. It comprises Chartered Accountants Ireland, the Association of Chartered Certified Accountants, the Institute of Certified Public Accountants in Ireland, and the Chartered Institute of Management Accountants.

Cróna Clohisey (crona.clohisey@charteredaccountants.ie), Gearóid O'Sullivan (gearoid.osullivan@charteredaccountants.ie) or Gráinne McDermott (grainne.mcdermott@charteredaccountants.ie) at Chartered Accountants Ireland may be contacted if any further details in relation to any points made in this submission are required.

2. Introduction

Budget 2023 will take place against a backdrop of extraordinary economic challenges. Ireland's business model is under threat from inflationary pressures, rising borrowing costs and geopolitical instability and uncertainty. While our public finances remain strong, our priority must be to ensure that Ireland's future economic growth is achieved in a sustainable manner so that we remain competitive on the global stage. To do this, investment must be made in the appropriate areas so that Ireland is the place where people want to live and work, and investors want to choose.

We need to improve our tax offering to support workers and indigenous businesses, invest in increasing the supply of affordable housing, and ensure today's students are equipped for the jobs of the future while also keeping pace with automation and digital disruption. We also need to give people and business the necessary supports to meet Ireland's net zero carbon emissions targets by 2050.

Ireland faces a multitude of risks in these challenging times, but we have weathered many storms. For example, Budgets 2021 and 2022 were prepared against a backdrop of an unprecedented global health pandemic, from which Ireland has emerged.

It is on this basis that we put forward the following recommendations to maintain and enhance Ireland's competitiveness on a global scale:

- Accelerate the supply of affordable housing by offering incentives focused on relieving development costs and keeping private landlords in the market.
- Addressing worker retention issues by reforming personal tax allowances so that allowances are 'frontloaded' at the beginning of a person's career.
- To remove barriers to employment creation, Employer's PRSI should not be increased in 2023.
- To increase the flow of funds back to the Exchequer, capital tax rates should be reduced from 33 percent to 20 percent.

- To reflect the current market value of assets, gift and inheritance tax-free thresholds should be increased.
- The discriminative tax treatment of service companies must be reformed if Ireland is serious about encouraging the prosperity of indigenous businesses.
- The importance of already modest capital tax reliefs to Irish entrepreneurs cannot be over-emphasised and any measures which diminish them will negatively impact on the Irish entrepreneurial spirit.
- The R&D tax credit needs to be overhauled and simplified to make it more accessible to SMEs.
- To encourage FDI and competitiveness, Section 110 companies should be allowed to deduct withholding taxes suffered on the receipt of distributions or interest received.
- Pension auto-enrolment incentives should not disturb established tax reliefs for pension contributions.
- The tax system could be used to further accelerate business commitment to net zero targets by allowing tax relief for individuals and companies for investment in renewable energy projects and enhancing the R&D tax credit to support the development of technology to make renewable forms of energy cheaper and more readily available to businesses and households alike.
- A more flexible Tax-Saver Commuter ticket should be introduced to match the hybrid working model that has emerged for certain workers.
- Extend the legislative deadline for filling iXBRL financial statements to be 15 months from the end of the relevant period. In addition, the penalties for late filing of iXBRL financial statements should be made proportionate.

3. Tax policy to tackle the housing crisis

The residential property market is in crisis. A supply shortage of residential rental properties and increased demand has pushed up the rental prices, making it extremely difficult for prospective 'renters' to find homes. On the other side, due to a shortage of non-rental residences, the price of houses is also rising so 'would-be' purchasers are being pushed into the rental market, therefore further increasing demand in that market.

A sustainable economy requires a functioning housing market. To both attract and retain talent to our shores, we need to be able to provide them with a place to live so that they can work and contribute to Ireland's economy. At the moment, Ireland's housing system is not meeting the needs of our people. There are not enough houses to buy or rent in the private sector and not enough houses are being built by the State for those who need social housing.

Ireland's 'Housing for All strategy' estimates that Ireland will need an average of 33,000 new homes to be provided each year from 2021 to 2030.[1] In an era where the cost of building is high, vacant stock remains unused and housing is becoming increasingly unaffordable for even the middle income earners, all efforts must be deployed to ensure that these targets are met.

Statistics from the Department of Housing show there are 22,000[2] fewer landlords in the market today compared to 2016. Further, research[3] by the Irish Property Owners Association in May 2022 show that just one new landlord is entering the market for every two that are exiting.

While the exodus of the 'accidental landlord' may be due to increasing house prices, it appears that, in general, landlords consider it to be no longer economical for them

1 Housing for All – a new Housing Plan for Ireland.
2 Residential Tenancy Board Survey of Landlords, Tenants and Letting Agents Summary Report July 2021.
3 IPAV/IPOA Jim Power Report May 2022.

to continue to trade as landlords. A public consultation was held in 2017 which examined the tax treatment of landlords, yet little changed on foot of this process.

Landlords are an essential feature of a fully functioning residential property market. Currently in the Irish tax system, corporate landlords holding property have a more favourable tax treatment than individuals holding property given that corporates pay tax at 25 percent, while individuals face rates of 52 percent or even 55 percent. This tax treatment should be extended to individuals to address this inequity.

Based on the experience of the last 40 years, tax measures on their own will be ineffective in resolving the current crisis. In fact, the availability of cheap finance coupled with generous tax reliefs contributed to the property crash of 2008. CCAB-I does not support a return to property tax relief in the form of generous allowances. Instead, we suggest other tax reforms to help stimulate the market, and these are discussed below.

3.1 Tax reforms to stop the exodus of private landlords

The property investment model is generally a low risk, long-term investment offering capital security with a low annual rate of return. Many private landlords invested in property as it yielded a modest but steady income stream, providing a modicum of certainty and security into old age.

In recent years, the disparity of tax rates applicable to rental incomes of differing persons has become more apparent. Further, property rental is not recognised as a trade for individuals, thereby denying them parity of treatment with other business owners. By removing disparities, the tax system could be effectively harnessed to encourage landlords to stay in the residential property market and to encourage much needed new entrants to meet the supply shortage. We do not recommend a return to tax reliefs in the form of property allowances, but we do propose the following:

- Local property tax should be allowed as a deduction against rental income.
- Expenses available for deduction against rental income are set out in legislation under section 97 TCA 1997 and we believe that they should become less prescriptive and more in line with normal trading deductions. In the context of taxing rental profits earned by an active class of professional landlords, we suggest that the broader based deduction for financing costs under Case I principles should apply. This would mean a deduction for expenses that are revenue in nature and incurred wholly and exclusively for the purposes of the rental business.

- The wear and tear rates for fixtures and fittings should be increased from 12.5 percent to 25 percent per annum to facilitate landlords investing in the maintenance of properties thus encouraging better standards in rental properties.
- Where landlords retrofit a property to improve its energy rating, 100 percent capital allowances should be offered in the year of work.
- To incentivise loss making landlords to remain in the market, rental losses in a particular tax year could be used against other income (such as employment income) to reduce the tax payable.
- Bring parity to the taxation of corporate and individual landlords. The Government could introduce a flat rate of 25 percent on Case V income for all proprietors.
- Professional landlords should be given access to succession reliefs, such as capital gains tax (CGT) retirement relief available to other business owners, in an effort to improve the long-term investment proposition of the residential rental business.

3.2 Tax reforms to accelerate the supply of affordable housing

Tax policy should focus on promoting the supply of affordable housing by reducing development costs. For example, a tax warehousing scheme could be introduced for developer's PAYE and VAT liabilities whereby tax liabilities would fall due when the housing development is fully completed and sold. Such a scheme would provide better cash flow to the developer while also providing Revenue with full oversight of PAYE and VAT liabilities as tax returns would continue to be submitted over the period the PAYE and VAT liabilities are warehoused.

Enhanced tax deductions should be available for offset against the cost of training workers in the construction industry and enhanced tax deductions should also be available for the cost of providing safety equipment. A super-deduction for capital allowances of 130 percent, for example, would also support investment by builders in heavy plant and machinery which would contribute to the acceleration of the supply of affordable homes.

3.3 Tax reforms to increase the supply of rental accommodation

Rent-a-Room Relief was introduced to increase the availability of rented residential accommodation. Sums not exceeding €14,000 per annum, arising to an individual in respect of the letting, for residential purposes, of a room or rooms in their home, including sums related to the provision of meals or other services supplied in connection with the letting are exempt. The current threshold is below the national standardised average rent, which exceeded €16,000 by the end of 2021.[4]

4 Residential Tenancies Board Rent Index Q3 2021.

While we understand the role the threshold plays in keeping rents lower, the “all or nothing” operation of the relief can deter individuals opening rooms to tenants. We believe the number of rooms that can be made available under the Rent-a Room scheme can be greatly expanded if:

- The maximum threshold for the Rent-a-Room relief is increased to match market rents.
- The “cliff-edge” be removed from the relief, thereby allowing individuals to earn up to the maximum threshold tax -free, with only the excess subject to tax.

3.4 Capital tax reforms to encourage the supply of accommodation

As landlords withdraw from the rental market, some opt to sell the property, others do not. The current rate of CGT of 33 percent is high by international standards and the annual capital gains exemption of €1,270 is relatively insignificant.

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 percent compared with the 20 percent rate in place pre-2008. A reduction in the rate of CGT to 20 percent would increase the number of properties made available to the residential property market, and possibly encourage new landlords to enter the rental market if they do not see the tax on exit as a deterrent and are seeking a worthwhile investment.

The decision by a landlord to sell a residential property can often result, not only in the curtailment of rental income for the seller, and possibly the purchaser, during the sales process, but also the displacement of a possible reliable tenant. A relief from CGT on disposal of a rental property to encourage the retention of the property as a rental property would be welcomed.

We believe that the following measures will not only prevent the extraction of rental properties from the market and reduce the displacement of tenants, but will in fact result in more residential properties becoming available to purchase:

- Make available a relief from CGT on disposal of a rental property, conditional on the property being sold with a tenant in situ and/or a requirement for the property to continue in use as a rental property. A claw-back provision similar to that contained in capital acquisitions tax (CAT) business asset relief could apply whereby if the purchaser does not honour the tenancy agreement, sells

the property within the term, or ceases to lease the property, any CGT that would have been payable by the original seller now becomes payable on the purchaser. We would suggest that anti-avoidance provisions be introduced to ensure that transactions are not constructed in order to avoid CGT.

- Reduce the standard rate of CGT from 33 percent to 20 percent to release much needed residential property back into the property market for younger generations.

3.5 Stamp Duty reform to increase the supply of accommodation

The residential Stamp Duty Refund Scheme (SDRS) facilitates the refund of stamp duty paid on non-residential land where it is subsequently developed for residential purposes. One of the conditions of the relief is that the residential units account for at least 75 percent of the total surface area of the land. This percentage requirement is not aligned with the current Government strategy of encouraging mixed-use developments to enable people to live closer to where they work,[5] with many redevelopment areas across the country zoned for mixed-use proposes according to various Local Area Plans.[6]

The residential unit test under the SDRS should therefore be amended to allow for a stamp duty refund where the residential development meets either the 75 percent test, or where lower, it meets the proportion of residential units set out in the relevant Local Area Plan or city and county council development plans.

3.6 Administrative burden on non-resident landlords

Current legislation dictates that non-resident landlords must adhere to additional administrative requirements in order to ensure that tax is paid on Irish rental income. These requirements are onerous and costly and penalise landlords who genuinely want to pay their taxes.

Where rents are paid directly by a tenant to a landlord whose usual place of abode is outside the State, sections 238 (2) and 1041 of the TCA 1997 state that the tenant is obliged to deduct income tax at the standard rate from the payment. The tenant must remit the tax deducted from the rent when filing a return of income for the tax year.

5 Project Ireland 2040.

6 Local Area Plan for the South Docks in Cork City and the Mixed-Use plans for the Kings Island area of Limerick City.

Alternatively, a collection agent may be nominated to act on behalf of a non-Irish resident landlord in the collection of rent; for example, an estate agent, a management company, a solicitor, or someone the non-Irish resident landlord has nominated to act on their behalf. The landlord is assessable and chargeable to income tax or corporation tax in the name of the Irish collection agent, as applicable (section 1034 TCA 1997).

Non-resident landlords are not allowed under legislation to simply collect the rents and file an income tax return to reflect the tax due. This includes landlords that are resident in Northern Ireland, who may rent a property across the border in Ireland.

While we recognise the purpose of the legislation is to ensure foreign landlords meet their tax obligations and to protect against the risk of lost Exchequer returns, the legislation penalises the many non-resident landlords that are tax compliant and want to pay their taxes in an efficient and timely manner. It also puts a burden on a tenant or collection agent, many of which are unwilling to take on the responsibility of filing and paying taxes on behalf of another person.

Our members tell us that many non-resident landlords are accidental landlords with one property, many of which have left Ireland on a temporary basis with plans to return. Others have tax liabilities of less than €1,000 when all costs are considered. Our members also tell us that foreign accountants and tax authorities in the jurisdiction where the landlord resides have difficulties understanding the concept of rental income being returned by someone other than the landlord and this causes difficulties when filing tax returns in that jurisdiction.

The practical and costly difficulties associated in appointing a collection agent or placing an obligation on tenants to withhold income tax from rents, for a short period of time in some cases, cause many to choose not to rent out their properties, therefore adding to the shortage of housing.

CCAB-I asks that consideration is given to making a legislative change to include a third option for non-resident landlords to collect rents and pay associated taxes due in their own capacity or, alternatively, abolishing the requirement to either appoint a collection agent or asking the tenant to withhold taxes from rents.

> Back to top

4. Personal taxes

Traditionally in Ireland, investment policy has focused on taxation from the employer's perspective. Indeed, the Irish economy has thrived in modern times due to the success of our investment policy.

Presently, retaining our highly qualified workforce is a prominent concern among employers. This 'brain-drain' is arguably most noticeable in the medical profession. In its recent publication, Health at a Glance 2021: OECD Indicators, the OECD noted that while Irish universities are attracting prospective medical students from around the world, they cannot secure the internships vital to progress their careers here in Ireland.[7]

The CCAB-I is of the view that the first step in addressing the retention issues blighting the Irish economy in recent years is to consider how we are taxing our workforce, particularly in the early stages of their careers. Consideration should be given to reforming personal tax allowances such that allowances are 'frontloaded' at the outset of a person's career. This could be achieved by increasing allowances available to those under 35, while reducing the allowances available to those over 55 for example.

The CCAB-I acknowledges that recalibrating personal tax allowances is a long-term project. As such, past experience suggests the biggest obstacle will not be determining the relative merit of the proposal, but rather overcoming political resistance to change. However, the CCAB-I suggests that reforming personal tax allowances is in line with Government policy on FDI which notes "talent" among the key areas which makes Ireland a consistent target for such investment.[8] CCAB-I are of the view that personal tax allowance reform should form part of Ireland's overall policy to retain talent on the island.

7 Health at a Glance 2021: OECD Indicators.
8 *Foreign Direct Investment* (Department of Enterprise, Trade and Employment).

In addition to reforming personal tax allowances, the CCAB-I is of the view that a third rate of income tax should be introduced. Presently, a worker in Ireland begins to pay tax at their marginal rate once they have earned €36,800 which is below the average industrial wage. A third rate of income tax would make the tax system more equitable, provided that the entry levels to each band of tax are appropriate.

4.1 Employer's PRSI

The Social Insurance Fund (SIF), which supports the State's varied social welfare commitments, is primarily funded by the PRSI contributions of employers and employees. However, PRSI is a substantial cost to businesses, and it can directly impact the creation of new jobs, as well as maintaining existing employments. As such, it is incumbent upon the Government to recognise that income taxes in Ireland are high and that rising employer PRSI will inevitably further hamper the creation and maintenance of jobs.

Employer's PRSI has increased steadily since 2017 when it was 10.75 percent, to the current rate of 11.05 percent. This is the most employers can be expected to pay, particularly in the current inflationary economic environment.

4.2 Tax relief on pensions should be maintained

The existing and well-established model for tax relief at both standard and marginal rates for pension contributions should be maintained in its current form. This model should also apply to auto-enrolment and the proposal to introduce a second model, whereby the State contributes €1 for every €3 paid in by an employee, should be withdrawn. The operation of two tax systems between auto-enrolment and private pension schemes will cause needless tax arbitrage and confusion within the market.

According to Revenue statistics,[9] 30 percent of all employees are making regular contributions to their pensions, and the gross income point at which most employees make a pension contribution is between €40,000 and €45,000, i.e. middle-income earners and marginal taxpayers.

These individuals cannot be considered 'high earners' and are not going to be wealthy in retirement. The same statistics show that 65 percent of those in retirement have estimated annual incomes of €20,000 or less (excluding the State Pension).

9 Revenue's 2019 Statistics and Insights from the First Year of Real-Time Payroll Reporting (PAYE Modernisation).

Pensions draw-downs are taxed at marginal rates meaning that the tax is effectively deferred rather than avoided. If tax relief is reduced for middle-income workers from 40 percent to 25 percent, this will greatly reduce the incentive for them to continue to save for their pensions. This reduced level of saving would mean that these individuals would have lower pensions in retirement, which could lead to greater demands on the State Pension.

4.3 Extend auto-enrolment to other cohorts

Many lower-income earners, zero-contract workers, carers, and women who have taken time out of the workforce will rely on the State Pension in old age to fund their retirement. This cohort of people should be encouraged, by way of a credit or tax relief, to provide for some level of private pension and auto-enrolment can help with this. For example, in the UK, the auto-enrolment system allows non-earners to contribute up to £2,880 each tax year and receive an automatic tax relief or top up of 20 percent even though they are not paying income tax. Effectively this means that £3,600 is paid into a pension scheme after tax relief is claimed by the provider. A similar targeted approach should be adopted in Ireland to protect the most vulnerable in our society.

5. Capital taxes regime must reflect the current market

5.1 Reduce capital tax rates

While asset values have recovered since the 2008 recession, CGT and CAT rates have increased. However, the yield from these taxes remains lower than what was received during the Celtic Tiger. CCAB-I believes that lowering the rates of CGT and CAT should generate an increase in both private and commercial transactions resulting in a much-needed flow of funds back into the Exchequer.

A lower rate of CGT would incentivise innovation and risk taking which in turn would drive investment activity thereby improving the returns for entrepreneurs.

As noted already in this submission, the CCAB-I is calling for a headline capital tax rate of 20 percent. This level of taxation would be a more reasonable level of taxation on gains, gifts, and inheritances.

5.2 Increase thresholds for CAT

The current Group A threshold for CAT purposes is €335,000. By contrast, at the outset of 2009, the Group A threshold was set at €542,544. Recent statistics from the CSO indicate that house prices have increased by 15.2 percent nationally in the year to March 2022 alone.[10] The CCAB-I is calling on the Government to raise the thresholds for CAT to appropriately reflect this increase in property prices.

At the moment, if a person inherits a family home valued at a modest €450,000 given today's prices, they face a CAT liability in the region of €37,950 (before deductions and costs) and therefore may be left with no option but to sell the property to settle the necessary taxes.

10 Residential Property Price Index March 2022.

> Back to top

6. Tax policy to foster SME growth

Tax policy, which drives entrepreneurship, is self-funding as the Irish Exchequer will be rewarded with increased tax revenue from individuals and corporates alike. Capital tax reliefs and SME-centred reliefs must be bolstered to drive the Irish entrepreneurial spirit to its full potential.

6.1 End tax discrimination against professional service companies and unincorporated businesses

Professional service companies ("service companies") and unincorporated businesses tend to be indigenous businesses that carry on genuine economic activity and the Government should recognise the opportunity for such enterprises to develop, expand and create high value jobs. However, these business entities are not always treated on par with other trading companies.

Service companies, like any other trading company, have many uses for outside investment. Currently they are excluded from the EII Scheme/Start-Up Relief for Entrepreneurs (SURE) and from the Start-up Company Relief. Given the equivalent nature of the activities, service companies would benefit from the various investment reliefs in the same manner as any other trading company.

Further, service companies that are close companies are subject to a 15 percent surcharge on undistributed profits from professional income (i.e. their 'trading' profits), whereas no surcharge applies to undistributed trading profits in other close companies carrying on a trade. The outdated surcharge on undistributed professional income, indicative of a suspicion that is no longer appropriate in the modern regulatory environment, makes it difficult for a professional service company to grow its trade due to the penal tax treatment of funds not extracted from the company.

The amount of tax revenue generated by the surcharge was €21.5 million in 2020 from 3,296 companies.[11] While this is a relatively small amount in Exchequer terms, it represents lost opportunities for the companies concerned, along with the funds distributed to avoid the imposition of the surcharge. Removing the surcharge would place service companies on an equal footing with other trading companies, thereby granting such companies equal opportunities to expand and create high value jobs.

Unincorporated businesses tend to be indigenous businesses providing services and employment in the domestic economy. Many of these businesses are precluded by law from incorporation, such as dentists, solicitors, and veterinary surgeons. Consequently, through no choice of their own, these entrepreneurs are obliged to operate as self-employed individuals and they are exposed to the additional 3 percent USC surcharge on their emoluments; a surcharge that does not apply to the emoluments of employed individuals earning equivalent amounts.

Contributions paid by employers to occupational pension schemes are tax deductible for the employer, not treated as a benefit-in-kind in the hands of the employee and can be paid in addition to the employee's personal contribution limit.

Entrepreneurs that are precluded from incorporating are prohibited from having the same entitlements to provide for their future as individuals operating through a company. These disparities that discriminate against unincorporated entrepreneurs act as deterrents to new entrants to the unincorporated business sector, thereby inhibiting growth, hindering succession and, in some instances, such as farm animal veterinary medicine, will result in the scarcity or demise of certain services that will ultimately have to be provided by Government, resulting in an overall negative impact on the Exchequer.

Government should provide parity of tax treatment for all individuals, thus providing the opportunity for such indigenous unincorporated SMEs to foster growth, encourage succession and create sustainable employment throughout our communities, without fear of discrimination.

The CCAB-I's view is that professional service companies and unincorporated businesses are discriminated against unfairly.

To bring an end to such discrimination, the CCAB-I recommends:

- Professional service companies be given access to the EII Scheme/SURE and to the Start-up Company Relief.

11 Revenue report on Corporation Tax – 2021 payments and 2020 Returns.

- Abolition of the 15 percent surcharge on undistributed profits on professional income.
- Removal of the additional 3 percent USC surcharge on income from self-employment.
- Parity of treatment for pension contributions for all individuals.

6.2 Capital tax reforms for SMEs

A capital tax system that supports enterprise will encourage SMEs to expand, grow and create valued employment.

As noted already, the current CGT rate of 33 percent is too high. A lower rate of CGT could potentially encourage innovation and risk taking and encourage the sale and purchase of assets, driving investment activity and improving the returns for entrepreneurs and the Exchequer. The administrative simplicity would alleviate compliance costs and concerns of all parties.

Retirement Relief and Revised Entrepreneur Relief are key tax supports for entrepreneurs and business owners in Ireland. Together, these incentives encourage entrepreneurs to invest both time and money in developing their businesses. The Indecon Report,[12] the findings of which the CCAB-I supports, recommends the following measures to improve the operation of these key reliefs:

1. Revised Entrepreneur Relief is a worthwhile support to entrepreneurship and should be retained.
2. The requirement for the claimant to hold a minimum of 5 percent of ordinary shares in order to qualify for Revised Entrepreneur Relief should be reformed.
3. The lifetime cap of €1 million should be significantly increased to €12 million for entrepreneurs who reinvest in a new business for the purposes of Revised Entrepreneur Relief.
4. A review of the merits of an integrated Entrepreneur/Retirement Relief should be undertaken.
5. Information required from claimants should be refined to facilitate future evaluations of the reliefs.
6. The impact of any changes to the reliefs should be subject to an evaluation after three years.

12 Report on Tax Expenditures Incorporating outcomes of certain Tax Expenditure & Tax Related Reviews completed since October 2018.

7. Simplify the R&D tax credit rules

According to Revenue's statistics,[13] the value of R&D expenditure against which tax relief was claimed in 2020 was €3.1 billion. The companies claiming the R&D tax credit collectively paid €5.6 billion of net corporation tax receipts. This is a considerable proportion of the €11.6 billion collected in corporation tax in 2020.[14] Of the €3.1 billion invested in R&D, €2.6 billion was incurred by foreign-owned multinational companies. Certainly, the R&D tax credit has been a key tool in attracting these multinational enterprises into Ireland.

The view of professional accountants is that the R&D tax credit could also become one of Ireland's premier tax offerings for SMEs. However, many SMEs are presently discouraged from making a claim for the R&D tax credit.

From an international perspective, the R&D tax credit must become fully refundable in the year it arises regardless of whether there is insufficient corporation tax liability in the current or preceding accounting year. This is to ensure the credit is congruent with equivalent regulations in the US, as well as OECD GloBE rules.[15] The US is a key trading and investment partner of Ireland. The CCAB-I therefore recommends that the Government ensures US investors are made aware at the earliest opportunity of the Government's commitment to update the Irish R&D tax credit. It should also be noted that a move to a full, upfront repayable credit would be a cash-flow rather than a cost issue for the Exchequer and would be greatly welcomed by the international community.

From a local perspective, the view of professional accountants is that the rules for SMEs engaging in R&D activities must be simplified and measures put in place to assist smaller entities overcome the hurdles they currently face. Many SMEs

13 Corporation Tax –2021 payments and 2020 returns, Revenue Commissioners analysis 2022.
14 End-2020 Exchequer Returns, Department of Finance.
15 Tax Challenges Arising from the Digitalisation of the Economy Global Anti-Base Erosion Model Rules (2021).

are discouraged from claiming the R&D tax credit due to complex and onerous compliance requirements. In terms of encouraging 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 among SMEs:

- 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.
- Improved Revenue guidance targeted at SMEs and sector-specific activities.
- Offer an enhanced rate for small and micro companies of 50 percent.

8. Withholding taxes for 'Section 110' companies

Section 110 TCA 1997 was enacted as a tax-neutral regime for securitisation vehicles which meet certain conditions. From a policy perspective, Section 110 companies were legislated to function as securitisation vehicles to facilitate the acquisition and management of qualifying assets in a tax neutral manner. This is substantiated in Revenue guidance which states that "[section 110 TCA 1997] was designed as a tax neutral regime for securitisation transactions".[16]

This tax neutrality is typically achieved through the issuance of a profit participating note ("PPN") by the Section 110 company which results in a minimal, predetermined, and consistent profit year on year in that company. Although Section 110 companies are subject to corporation tax under Case III at 25 percent, the taxable profits of such entities are calculated in terms of section 81 TCA 1997, similar to a regular trading company. Finance Act 2019 amended section 81 TCA 1997 to provide that in computing the amount of the profits or gains to be charged to tax under Case I/II of Schedule D, a tax deduction should not be allowed in respect of any "taxes on income". This denial of a deduction for foreign withholding taxes seems to be inconsistent with several of the existing unilateral relief rules, e.g. Paragraphs 9DB & 9DC Schedule 24 TCA 1997.

While we understand the policy position with respect to tax deductions for any taxes on income for companies which are carrying on a regular trade in Ireland, this amendment also gives rise to difficulties for many Section 110 companies. As the profits or gains chargeable to tax at 25 percent under Case III by a Section 110 company are firstly computed in accordance with established Case I/II rules (albeit that it is then chargeable to corporation tax under Case III at a rate of 25 percent), a concern exists that a tax deduction may no longer be available for withholding taxes suffered on the receipt of distributions or interest received by a Section 110 company.

16 Page 3, Tax and Duty Manual Part 04-09-01 (September 2021).

An anomaly arises if a deduction is not allowed for withholding taxes suffered and the tax credit available under Schedule 24 TCA 1997 is computed in line with that of a trading company such that income which is not received by a Section 110 company (i.e. the withholding tax) would be subject to tax at a rate of 25 percent.

CCAB-I believe that the non-deductibility of withholding taxes for Section 110 companies:

- Discourages foreign direct investment into Ireland through such companies;
- Places Ireland at a competitive disadvantage in attracting such investment; and
- Is contrary to the objectives of section 110 TCA 1997.

We believe that there are legislative interpretations which could support a Section 110 company being entitled to a deduction for withholding taxes that could realign the tax neutral position of such vehicles while not impacting the policy stance with respect to withholding taxes suffered by trading companies.

9. iXBRL – Timing of returns

Irish tax legislation requires that a company submits details of its financial statements as part of its annual corporation tax return.[17] Where a company is required to submit its financial statements in iXBRL format, these must be submitted on or before the 23rd day of the 9th month following the end of the relevant accounting period.[18] Revenue operates an administrative practice whereby a company may submit its iXBRL financial statements on or before the 23rd day of the 12th month following the end of the relevant accounting period (i.e. a three-month extension).

The legislative deadline is completely impractical for companies. The three-month extension is a deadline which needs to be carefully manged by practitioners presently. This situation has been exacerbated by the recent amendments to the Companies Registration Office ("CRO") filing process.[19] The fact that the extension to the deadline is on an administrative basis rather than a legislative basis also challenges the principle of certainty enshrined in good tax administration. As such, the CCAB-I is calling for the deadline for filing iXBRL financial statements to be 15 months from the end of the relevant period and for this to be enacted in legislation.

9.1 iXBRL – Penalties for late filing

CCAB-I is of the view that the penalties for failing to make a timely submission of financial statements are completely disproportionate and unfair. It is accepted that a taxpayer's corporation tax obligations are not considered complete until the iXBRL financial statements have been submitted to Revenue. However, the severe penalties

17 Section 884 TCA 1997.
18 Section 959A TCA 1997.
19 In 2021, the CRO introduced a new two-step process for filing an Annual Return. The deadline for submission for a typical company with a 31 December year-end is circa 26 November the following year.

(up to 10 percent of the corporation tax liability) are not reflective of a cohort of taxpayers who, by and large, will have submitted timely corporation tax returns and paid all outstanding liabilities in a timely manner also.

In the UK, where iXBRL financial statements are filed late, but within three months of the relevant deadline, an initial penalty of £100 is applied. The penalty is increased by a further £100 if the financial statements are filed within six months of the relevant deadline. Tax geared penalties apply where financial statements remain unfiled six months after the deadline, with further tax-geared penalties arising after twelve months have passed. In addition, corporation tax loss relief is not restricted on the late filing of iXBRL financial statements in the UK. Ireland should follow the more proportionate approach adopted in the UK for non-compliance with iXBRL filing obligations.

10. Tax measures to support a green economy

Businesses, particularly SMEs, have a crucial role in meeting Ireland's net zero emissions targets by 2050, and in reducing emissions by 51 percent by 2030. However, they will only be able to deliver if they are supported by the appropriate policy framework.

Environmental taxes and tax incentives can play an important role in driving change by businesses in Ireland. In "greening" the tax system, the Government needs to take a long-term approach and provide certainty in terms of environmental tax policy. Consumer and business investment decisions in this area will be driven by this certainty. Tax policy must be aligned clearly with decarbonisation objectives to achieve the desired result of steering investment and consumption choices by consumers in favour of low-carbon alternatives.

To achieve the desired reduction in carbon emissions by an average of 7 percent per annum, and to reach net zero emissions targets by 2050, people and businesses must be incentivised to switch to less carbon-intensive technologies.

The tax system could be further used to accelerate business commitment to net zero targets on implementation of the following:

- State the carbon tax on receipts and set out alternatives.
- Update and simplify the accelerated capital allowance regime for energy efficient equipment and promote the scheme to encourage greater uptake.
- Expand R&D tax credits to encourage innovation in green technology.
- Allow relief for investment in renewable energy generation under the Employment and Investment Incentive Scheme (EIIS).
- Expand the period in which to claim qualifying pre-trading expenses to six years.

10.1 Update and simplify the accelerated capital allowance regime for energy efficient equipment

The CCAB-I believes that the accelerated capital allowances (ACA) for energy-efficient equipment (EEE) scheme should continue beyond the current expiration date of 31 December 2023 and consideration should be given to including the scheme in legislation on a permanent basis.

Under the scheme, 100 percent of the purchase value subject to a minimum spend is written off against profits in the year of purchase. The scheme does not represent tax foregone by the Exchequer over the longer term as the equipment would be eligible for standard capital allowances over the usual 8 years. Rather, the tax relief is provided up front, providing a cash flow benefit to the claimant and a cash outflow effect for the Exchequer. According to Budget 2021 documentation, the annual cost of this scheme is estimated to be €4 million.

The ACA method is a cost-effective way for businesses to increase capital expenditure on equipment, and one that delivers real value and cost efficiencies to a business on their sustainability journey. A recent analysis carried out by the Department of Finance using figures provided by the Revenue Commissioners has shown that claims under the scheme have increased considerably during 2017 and 2018.[20] The analysis showed that micro, small and medium enterprises are using the scheme more than larger businesses.

However, the list of equipment qualifying under the ACA scheme has largely not been updated since 2010, meaning that there is likely to be technology that has emerged since then that would not qualify for the ACA scheme in its current form. This should be rectified immediately.

According to official figures from the CSO,[21] there are 270,344 SME businesses active in Ireland. Relative to the number of SMEs operating in Ireland, the uptake of the scheme appears low, with 776 claims made in 2018. This may be because a minimum spend of €1,000 (and in some cases more) is required when purchasing qualifying EEE. It also may be the result of a lack of awareness of the ACA scheme or the fact that many businesses have not begun their journey to reduce their carbon footprint.

Increased Government promotion of this scheme to encourage participation is needed. We recognise that this will be a cost to the Exchequer and recommend that

20 Budget 2021 Report on Tax Expenditures Incorporating outcomes of certain Tax Expenditure & Tax Related Reviews completed since October 2019.

21 CSO, Business in Ireland, Small and Medium Enterprises, 2018 statistics.

some of the carbon tax receipts should be used to fund this if necessary. The cost will be offset by a reduction in carbon footprint.

10.2 Enhance the R&D tax credit

To support continued economic growth and the expected increase in population, Ireland's electricity supply will need to grow but in a greener manner that supports our decarbonisation journey. The Climate Action Plan 2021 sets out that the production of renewable energy must increase by 80 percent by 2030. To achieve this, new technologies will be required to develop solutions in energy production and storage, and carbon sequestration.

The R&D tax credit should be enhanced to support the development of technology to make renewable forms of energy cheaper and more readily available to businesses and households alike. The R&D tax credit has an established administrative infrastructure that could be refined to encourage research and development in renewable energy. For example, the scope of the tax credit could be extended to include 'sustainability innovation', thereby widening Revenue's definition of innovation, which will be critical to developing new energy-efficient solutions. Furthermore, an enhanced 50 percent rate of R&D tax credit to businesses that undertake sustainability innovation.

10.3 Employment and Investment Incentive Scheme (EIIS)

The EII Scheme is a tax relief that encourages individuals to invest in qualifying trading companies. Investment in renewable energy generation to encourage individuals to invest in renewable energy companies should be allowed under the EIIS.

Often investment in renewable companies is precluded from the scheme because their ownership structures do not meet the requisite conditions for EIIS because they are often controlled by another person or corporate.

10.4 Relief for individuals and companies for investment in renewable energy projects

Relief under section 486B TCA 1997 existed for investment in renewable energy generation until 2014 when it ceased to be available. This relief should be re-

examined to allow both companies and individuals to invest in renewable energy projects. It would enable financial assistance by way of tax relief and would act as a stimulus which is critical for changing Ireland into a greener economy.

10.5 Pre-trading expenses

Energy infrastructure projects are long-term projects, and it can take several years before a project can become operational. Tax law currently allows a deduction in respect of qualifying pre-trading expenses which are incurred in the three years prior to the start of the trade. The period for which pre-trading expenses are allowed should be extended from three years to six years to align with the lifecycle of energy infrastructure projects.

10.6 Encourage uptake of electric vehicles

Ireland has committed to having 936,000 electric vehicles on our roads by 2030, with 845,000 of these to be private passenger cars.[22] According to recent statistics,[23] only 8.24 percent of all passenger cars sold in Ireland were fully electric. Given the increased level of uptake that will be required to achieve these targets, the Government will need to do more to encourage the switch to electric vehicles.

For example, the accelerated allowances scheme that applies to Electric and Alternative Fuel Vehicles is based on the lower of the actual cost of the vehicle or the specified amount of €24,000 referred to in section 380K(4) TCA 1997. Where the cost of such a car exceeds €24,000, the capital allowances are restricted to the “specified amount” of €24,000. Given the current cost of electric vehicles, particularly passenger cars which in the main cost more than €40,000, the specified amount should be increased to the amount of €40,000 at least to move it more in line with the market and encourage uptake among businesses.

Consideration could also be given to reducing the VAT rate on electric vehicles in order to bring the cost of these vehicles down to a more competitive level.

22 Ireland’s Climate Action Plan 2021.
23 Motorstats 2021, Society of the Irish Motor Industry (SIMI).

11. Reform tax rules to reflect changing work practices

Hybrid working has emerged as a more common model of work across Ireland since the pandemic. Many businesses are now looking towards their future business model beyond the Covid-19 pandemic and hybrid working is a feature of that model.

Hybrid working will inevitably have different meanings in different companies and industries but common to all is the need for supports to be available to enable this work model to flourish. Many employers see face to face interaction as key for efficiencies, collaboration and to foster learning and development. However, current skills and labour shortages experienced by employers in Ireland have resulted in employers offering more flexible arrangement to attract talent.

We are asking Government to find ways to encourage and assist people as they make this transition to hybrid working.

11.1 Flexible TaxSaver Commuter Ticket

The TaxSaver Commuter Ticket Scheme in Ireland currently operates on the basis that commuters can avail of tax relief on the cost of a monthly or annual commuter ticket, the pricing structure of which is based on a five-day commute.

We believe that a more flexible ticket arrangement should be introduced to cater for the cohort of workers adopting a hybrid approach to work, meaning they will not be returning to their place of work in a full-time capacity.

We believe there is merit in offering a three-day ticket, given there is little reason for people to purchase a monthly or annual ticket under the current scheme if they will only travel to their place of work two or three times per week.

One of the purposes of the Scheme is to encourage workers to use public transport to reduce traffic congestion, among other benefits. In the current period of high inflation and the increasing cost of public transport (albeit the temporary reductions in fares in place until the end of 2022), the tax relief on such tickets has made the use of public transport affordable for many workers.

11.2 Normal place of work

An employee's "normal place of work" is central to the tax treatment of travel and subsistence reimbursements to employees. Revenue holds the position that an employee's home does not qualify as a normal place of work other than in exceptional circumstances and this brings complexity to what should be a straightforward matter.

Rules to establish a normal place of work should now be reconsidered in light of the move to hybrid working arrangements. The employee's normal place of work should be based on the facts of where the employee carries out the majority of their duties of employment, irrespective of whether that is their home or their employer's office or another workspace.

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.

Chartered Institute of
Management Accountants

The Consultative Committee of Accountancy Bodies-Ireland

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