**Opening Statement by Irish Tax Institute**
**Oireachtas Joint Committee on Jobs, Enterprise and Innovation**
**Tuesday 24 October 2017**

Chairman, members, thank you for the invitation to appear before the Committee and for the opportunity to outline our views on the tax barriers and tax related costs of doing business.

The Institute has recently undertaken a detailed analysis of the Ireland's tax policy and tax administration system (report attached) as it relates to Irish business; highlighting the aspects that have a restrictive impact on the growth potential of our businesses. These restrictions act as blockers and build additional costs into the business.

These costs and the additional costs that are already emerging because of Brexit impacts the competitiveness of indigenous businesses at a time when they need to be 'business ready' and fully supported for the opportunities and challenges that are opening up in a changing and growing global environment.

The tax-related costs to Irish businesses arise from two issues: tax policy and tax administration.

**Tax policy**

Tax policy impacts business in terms of;

1. high taxes that place extra costs on business and
2. well intentioned tax policies (e.g Foreign Earnings Deduction (FED) and the R&D Tax Credit) that are too bureaucratic and cumbersome to effectively achieve the original policy objective. The result is that these tax measures do not function as intended and where businesses can avail of them, it is costlier to do so.

There are many issues on the tax policy side. Our high effective personal tax rates continue to be a challenge for employers trying to source the best possible staff both in Ireland and abroad. We have had progress in Budget 2018 around the threshold to the higher income tax rate, the fact remains there is a marginal income tax rate and USC cuts of 52% for earners over €70,044 – these are amongst the highest personal tax rates in global terms.

Funding is also an issue – we see an issue of much relevance from looking at recent ECB reports on Irish interest rates versus other EU countries.

We know that Irish SMEs are more reliant on bank finance than those in other EU Member states and that they need to diversify into other sources of finance such as equity. This makes the capital gains tax environment critical for Ireland. Yet at 33% we have the 4th highest Capital Gains Tax Rate in the OECD which does not incentivise investment in business.

We need angel investors. The rate of business angel investment in Ireland is low compared with other countries competing for start-up capital such as the UK, Spain, France, Germany and Sweden. We are also behind economies of a similar size such as Denmark and Finland. This is to the detriment of our budding and growing Irish businesses.

Exports are increasingly important given the challenges presented by Brexit and our need to diversify into other markets. Our Foreign Earnings Deduction (FED) regime aims to encourage businesses to send employees into emerging markets yet only 144 FED claims were made in 2014. With Irish companies needing new export markets more than ever, the range of qualifying countries should be reviewed and broadened.

In many important respects, Ireland's tax policies are not fully aligned with the needs of the indigenous sector and unnecessary tax burdens must be removed if Ireland is to achieve its full potential in this high growth area.

**Tax Administration**

Tax administration issues arise from burdens and uncertainties in the tax administration system that lead to higher costs for business. These range from uncertainties about tax obligations and entitlement to reliefs such as the R&D Tax Credit to new Revenue projects such as PAYE modernisation, through to the uncertainty of tax appeals in dispute of which there are over 4,300 cases at this point in time totalling €1.5 billion.

To bring home the importance of the tax administration system to the growth of Irish business and their employees, I will take the R&D Tax Credit as a very real example.

Only 1% of small firms and 16% of medium firms consider themselves to be R&D active, low percentages in the context of our national ambitions. Innovation is key to driving growth and while Ireland has an attractive R&D tax credit regime, administration barriers are weighing heavily on its success in terms of the low take-up among SMEs.

The Institute's research shows that 75% of Irish companies are aware of the R&D tax credit and 20% have availed of it. However, of those that availed of it, 47% said that the process was difficult to prepare for and administer. Only 35% of companies surveyed said that they intend to use it in the next 18 months, although this would rise to 62% if there was more clarity around the criteria for qualification.

In terms of efficiency and the service to Irish businesses – we need to ensure that Irish businesses are well served by our tax administration system. Businesses and their advisers deserve to be at the heart of a Revenue customer service model that aims to provide a standard of technical support which is "best in class" internationally.

To achieve this, we believe that there needs to be an increased focus on the resourcing and delivery of Revenue's tax technical supports, and in particular the current model for the Revenue Technical Service (RTS) needs to be reformed. Businesses through their advisers need a timely, efficient and responsive technical service to obtain certainty on their tax position when entering into commercial transactions.

Over the Budgets of 2015, 2016 and 2017, Revenue hired 266 additional staff with an emphasis on audit and compliance activity. It is just as important that new resources are targeted at supports and customer services to enable businesses to administer with certainty their tax affairs in a cost-efficient manner.

Tax is difficult and as well as calculating their own income or corporation tax, businesses are also responsible for calculating and collecting VAT and payroll taxes. But when businesses get things wrong, the cost is very high in terms of both interest and penalties. Interest charged by the State on underpaid VAT and PAYE is 10% and on income tax and corporation tax it is 8%.

This compares with 2.75% charged in the UK and 4% interest received from the State by taxpayers who have overpaid. Interest charged at this level is unfair and urgently needs to be addressed in the Finance Bill.

**Conclusion**

Given the challenges and opportunities that lie ahead, the greatest cost of all lies in the opportunity lost to Irish businesses, should we fail to have tax policy and tax administration strategies that do not best serve the needs of Irish business. The impact of this will be felt in terms of their competitiveness, attractiveness, resilience and ability to compete internationally in the export market.

**ENDS**