Irish Tax Institute

Leaders in Tax

Press Release

Indication that all workers will have a marginal tax rate less than 50% in future is positive – Addressing high tax rates on talent essential under new global tax rules

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Reacting to the Budget Irish Tax Institute President Mary Honohan welcomed the strides made on reducing personal taxes. "The personal tax burden continues to come down and the changes in USC bands and rates across the board reduce the tax on work which is key to growing our economy further and to encouraging work and employment", said the President.

Positive to hear that marginal rate will come down for all workers in future

Ms. Honohan said: "The cap effect on incomes over €70,000 still remains, however it is really positive to hear the Minister say that, if re-elected, the marginal rate for all workers will come down to under 50%".

Reducing high personal taxes on talent now essential under new global tax rules

Ms. Honohan said: "Reducing the high tax burden on talent and senior decision makers in the future is necessary if we are to compete for foreign direct investment in a world post-BEPS. All the analysis on the new BEPS reports published last week stressed the importance of having talent and substance in the same location in terms of FDI and the allocation of profits under new global tax rules".

The Institute President added: "The focus globally has switched to people, talent and personal taxes and that's where the competition will be played out in future. Our marginal tax rate for decision makers and international talent is a key strategic tax policy issue for Ireland and Minister Noonan has acknowledged that in the Budget. The combination of the cap effect (€70,000) and the low entry point to the 40% income tax rate (€33,800), means the personal tax paid for those on higher incomes hits the very high end of global tax tables will undoubtedly impact Ireland's ability to attract talent in a new world order post BEPS."

Entrepreneurs

The Institute President cautiously welcomed the measures for entrepreneurs.

"The improvements to the EIIS (Employment and Investment Incentive Scheme) and the reduction in the CGT rate from 33% to 20% are welcome but need to go further if we are to be competitive with our nearest neighbours. Improvements in the business tax environment have been needed for some time. Today's announcements provide some encouragement that our tax system and supports for entrepreneurs are heading in the right direction but more is needed", added Ms. Honohan.

Knowledge Development Box

Ms. Honohan said the new Knowledge Development Box (KDB) was to be welcomed.

"Most European countries have similar tax regimes, attracting high value jobs to support the development of intellectual property and R&D so it was important to introduce this KDB to enhance Irish competitiveness and ensure that we continue to lead the way on foreign direct investment that supports real employment and economic activity.
The Minister made it clear today that this KDB will meet the standards agreed internationally for such incentives as part of the BEPS process and as endorsed by the European Union. It will

be the first and only such box in the world that complies with the OECD's new standards and at a time of uncertainty on global tax rules, this gives assurance to multinational companies about the sustainability of the Irish regime.

Under new OECD BEPS rules, companies with intellectual property in Ireland will have to demonstrate that they have significant economic substance here in terms of employees and decision makers. Attracting these decision makers to underpin their economic substance has become more critical than ever and Irish companies will be competing against projects in other jurisdictions for the top talent. Our tax policy for attracting talent will be a key element in our strategic offering in the post BEPS environment.

Ireland’s KDB, together with the R&D tax credit regime and capital allowances regime for intangible assets offers an attractive opportunity for business investing in innovation and intangible assets in Ireland. It signals Ireland’s determination to continue offering a competitive but sustainable tax environment for foreign direct investment, as countries globally work towards implementing new OECD BEPS standards”, concluded the Institute President.