Tax measures to help entrepreneurs raise capital and share option measures to ensure they can hire talent are priority issues in the Budget

Penal tax system for talented hires that are given shares–
Ireland's regime unusual by international standards

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Speaking at the Irish Tax Institute AGM, incoming President and tax partner PwC, Ms Mary Honohan, said tax measures to help entrepreneurs raise capital and share option measures to ensure they can hire new employees are priority issues for start-ups and expanding businesses in the forthcoming budget.

"All the latest indictors show Ireland slipping down the entrepreneurial ranks instead of going up", she said. "Just this week we have seen evidence of that with a new report on EU entrepreneurial activity and Ireland is headed in the wrong direction", said the Institute President.

Value of funds invested through EII has halved since 2011

When it comes to raising capital, Ireland's only real tax measure to encourage third party investment, EII, (Employment and Investment Incentive) has become so restrictive that the value of funds invested in entrepreneurs through this measure has actually halved since 2011. This is in stark contrast to the two main entrepreneur focused tax measures in the UK which grew by over 90% and 40% respectively between 2012 and 2014.

Ms. Honohan said: "Our policies are not attractive enough for those who take real risks by putting money into start-ups. Over €90 billion is held on deposit in Ireland (at end April 2015). If even a small percentage of this capital was invested in small, high-potential businesses, it would make a difference to entrepreneurs".

Ms. Honohan stressed that the problem was not just about getting funds into entrepreneurial activities in Ireland but also about rewarding investors when companies are sold. "Ireland's capital gains tax environment is immensely restrictive and is exacerbated by the availability of a simpler, clearer and more attractive relief in the UK. The UK allows a capital gain of £10 million at 10% tax before you hit the higher rate of CGT; a limit that the UK has increased three fold since it introduced the relief. In Ireland tax on an investor's first capital gain on entrepreneurial investment is taxed at 33%; over three times the tax rate of the UK", she added.

Penal tax system for talented hires that are given shares to 'come on board' – unusual by international standards

The new Irish Tax Institute President said: "The third challenging element of our tax environment for entrepreneurs is the penal regime for any share options that are given to the talented new hires that are needed to make young start-ups successful. Many new start-ups cannot afford the high salaries that are required to attract in talent at the early stage and so share options in the company are their only way of rewarding those who come on board".

The President said the talented employees who are very often the 'make or break' element in the business are forced to pay income tax when they exercise their share options. "This is unusual by international standards", she said.

Tax treatment of share options having negative effect on ability of Irish start-ups to attract world class talent

Ms Honohan highlighted that the National Policy Statement on Entrepreneurship (Department of Jobs) has said that the current tax treatment of share options is considered to be less competitive than that available in other countries and this is having a negative effect on the ability of Irish start-ups to attract world class talent.

"The UK has an attractive regime designed to help small, higher risk companies recruit and retain employees who have the necessary skills to help them grow and succeed. Ireland needs something similar and we need it soon", she concluded.

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