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Time to lay out clear plans on tax

Ireland must pull out the stops to lure top executives with favourable tax rates

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OPINION

October's budget is coming against a backdrop of global change that brings with it challenges and opportunities. Minister for Finance Michael Noonan has undoubtedly a difficult job and making the right tax decisions brings many challenges. While Ireland was busy balancing its books over the last number of years, others – in particular London – were continuing to create new tax strategies as part of the fight for foreign direct investment (FDI) across the globe.

The first signs of growth will not allow for every demand to be met, but the budget must be taken as an opportunity to chart out our future tax strategy and to give clear signposts to business that Ireland will continue to be the number one choice for FDI, and also to encourage domestic Irish companies to expand and grow. The budget decisions must be made in the context of the OECD Base Erosion and Profit Shifting (BEPS) plan, the international effort to restrict tax avoidance by multinationals. The BEPS process is only one-third complete, and the final detail of the decisions remains two years away. However, it is clear that change is coming.

The reports published by the OECD last week place an emphasis on where key decision makers are based. These are normally the senior executives in a particular company or division whose influence can determine the location of a multi-million euro investment and whose presence here is a must if the all-important substance and activity is to follow.

The Irish Tax Institute has recently prepared a study of effective tax rates on various levels of income. The research shows that at the salary levels demanded by the decision makers, the UK, Germany, the US, Switzerland and Spain, are more competitive than Ireland.

It is unrealistic to expect that the government can transform our income tax regime in one budget. However, we believe that Budget 2015 is the right time to set out a Tax Roadmap for Ireland (as Britain has done), giving direction and detail on an overall tax regime with both income tax and corporation tax improvements. This would be a statement of intent that will give certainty to businesses and foreign direct investors. Such a model won the confidence of companies in the 1990s when Ireland set out, with precision, its plan to bring the corporate tax rate from 38 per cent in 1997 to 12.5 per cent in 2003. There was a timeline and a plan, and an unambiguous destination.

> Tax strategy must give clear sign posts to business

Over the past four years, Britain has secured the confidence of global investors by launching a clear and ambitious UK Roadmap for Tax. Despite the mammoth restructuring of the tax regime that was involved, the clarity and direction that it provided delivered results and delivered them quickly. The inward flow of jobs and investment increased dramatically and Britain moved rapidly up the global attractiveness rankings.

Ireland's 12.5 per cent corporate tax rate is the bedrock of our tax strategy, but there are a series of pillars that support it. Key is the income tax regime; our targeted regime for top mobile executives, known as the SARP (Special Assignee Relief Programme); and an intellectual property regime. We must have compelling and competitive offerings on all three fronts if we are to remain attractive.

The first part of our roadmap must be the income tax regime. With Ireland's personal taxes now well out of sync with competitor countries globally, a clear timeline needs to be announced over which the entry point to the higher tax rate is increased and the high income tax rate is reduced.

As the income tax reform will be a multi-year process, it is necessary for the minister to move in October's budget to alleviate the high effective income tax rates incurred by key mobile executives. The solution is to improve the existing version of the SARP regime. The restrictions and limitations inherent in the current SARP resulted in only 15 people applying for the programme in 2012, highlighting the need for a much simpler and a more attractive offering. In contrast, very effective regimes operate in France and the Netherlands with the Dutch Tax Authority receiving between 10,000 and 12,000 applications for their 30 per cent regime each year.

An attractive intellectual property (IP) regime is the third pillar of a strong FDI offering, and an essential one for Ireland. The taxation of IP is currently being closely studied by the EU and OECD, and it is not yet clear exactly what the tax landscape will look like following this work. What is clear is that Ireland must have an IP regime which is income-based, and that, at a minimum, matches those available in competitor countries.

A 10 per cent 'Patent Box' is one of the central strands in Britain's FDI tax strategy, while a Patent Box type incentive is also available in Belgium, Cyprus, Spain, France, Hungary, Luxembourg, Malta, the Netherlands and Portugal. In recent weeks, German business leaders have also stressed the need for the introduction of a box in their country to promote innovation. Others, such as Israel and Switzerland, are also competing fiercely in this space. Both provide attractive IP offerings.

With the BEPS process moving apace and our global competitors becoming sharper and faster there is pressure on Ireland now to give thought to its overall tax strategy and the path required to achieve it. If we are to continue our leading position in the global rankings and compete successfully for substance, activity and jobs, we need to see a confident and ambitious Tax Roadmap for Ireland.

No better date to start than October 14.

Andrew Gallagher is president of the Irish Tax Institute