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Mr. Brian O'Connell
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To: boconnell@indecon.ie

12 July 2019

Dear Sir

Re: Foreign Earnings Deduction

The Institute welcomes the opportunity to provide input to the Public Consultation on the Foreign Earnings Deduction (FED).

The FED is an income tax relief available to employees who temporarily carry out their duties overseas in specific countries, earmarked by the Government as potential export markets. The FED plays an important role in encouraging and incentivising Irish businesses to export to these new markets and should continue beyond 2020.

Currently, there are 30 countries that qualify for the FED, including the 'BRICS' and certain Middle Eastern, South American, Asian and African countries.¹ However, these represent a small proportion of the countries to which Ireland exports. With the impending departure of the UK from the EU, Irish companies need to establish new export markets now more than ever. Therefore, the relief should be retained, and the range of qualifying countries should be reviewed and broadened to closely align with the Government's Global Ireland 2025² initiative, which aims to accelerate progress on diversifying and growing Irish exports, in response to the challenges posed by Brexit.

The FED can help to incentivise individuals to work in Irish SMEs, whilst also encouraging those companies to expand and grow their businesses in export markets. FED has a significant role to play in attracting and retaining key personnel for Irish SMEs, who are responsible for developing new export markets. However, the relatively low cap for the relief and some technical issues with its design are limiting its attractiveness to such employees.

¹ See a full list of countries at Appendix 2.

² Global Ireland - Ireland's global footprint to 2025, Government of Ireland.

We have outlined at Appendix 1, certain limitations in the FED as currently designed, together with detailed recommendations on how to address these issues, to ensure that the relief can be effective in providing support to SMEs seeking to expand into new markets in a post-Brexit environment.

Please contact Anne Gunnell at agunnell@taxinstitute.ie or on (01) 6631750 if you wish to discuss matters raised in this submission.

Yours truly

A handwritten signature in black ink that reads "Marie Bradley".

Marie Bradley
Institute President

APPENDIX 1

Institute Recommendations on the FED

1. Extend the FED beyond 2020

FED is due to expire at the end of 2020. Given the impending departure of the UK from the EU and the critical need for Irish SMEs to diversify and develop new export markets post-Brexit, the FED should be retained and extended beyond 2020.

Institute Recommendation: We recommend that the FED should be extended beyond 2020, as it has a pivotal role to play in assisting Irish companies to grow and develop new export markets in a post-Brexit environment.

2. Extend the list of qualifying countries

FED is available to Irish tax-resident employees who work temporarily for at least 30 qualifying days in any of the 30 listed countries (which includes the BRICS³ and certain Middle Eastern, South American, Asian and African countries). Irish companies urgently need to develop and grow new export markets given the potential impact of the UK's departure from the EU. Therefore, the range of qualifying countries for the FED should be reviewed and broadened. We would suggest that the qualifying countries should be more closely aligned with the Government's Global Ireland 2025⁴ initiative, which aims to accelerate progress on diversifying and growing Irish exports, in response to the challenges posed by Brexit.

Institute Recommendation: We suggest that the range of qualifying countries for the FED should be reviewed and broadened to more closely align with the Government's Global Ireland 2025 initiative, which aims to accelerate progress on diversifying and growing Irish exports.

3. Increase the cap on the relief and extend it to include USC and PRSI

The amount of relief that can be claimed under the FED depends on the individual's salary and the number of days spent working abroad in FED listed countries in a year. In any case, the most that any employee can claim under the FED is income of €35,000 per year, which results in a maximum tax refund of €14,000 (€35,000 x 40%) per employee. The relief does not apply to USC and PRSI.

In any business that is export focussed, senior management and sales teams are required to travel to meet and engage with potential customers and to explore and

³ Brazil, Russia, India, China, and South Africa

⁴ Global Ireland - Ireland's global footprint to 2025, Government of Ireland

develop new business opportunities. Often Irish SMEs are unable to rely on wider brand reputation, compared with established multinationals, to build new customer relationships. This can result in frequent and extended visits to new markets by key personnel to deepen customer confidence in new business relationships.

In this context, the relief available under the FED is relatively low (i.e. the relief is capped at €14,000). We believe that increasing the cap on the FED and extending the relief to include USC and PRSI would enhance the relief as a means of attracting and retaining key personnel for Irish SMEs, who are responsible for developing new export markets.

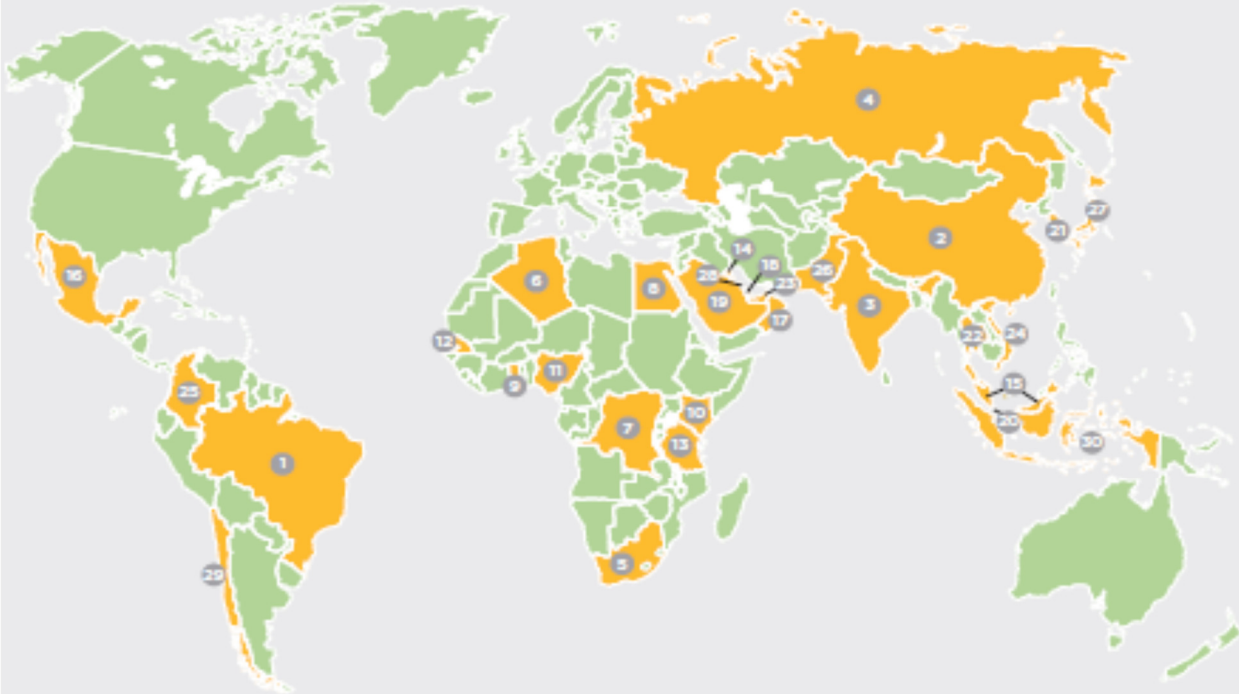
Institute Recommendation: Increasing the cap on the FED and extending the relief to include USC and PRSI would enhance the relief as a means of attracting and retaining key personnel for Irish SMEs, who are responsible for developing new export markets.

4. Reduce the administrative burden and delays for employees

In order to claim FED, an employee must wait until after end of the tax year to obtain a statement from their employer, which includes the relevant details (i.e. dates and locations worked abroad) and then apply to Revenue for the relief. This process means that there can be a significant delay in the employee obtaining the benefit of the relief. By allowing an employer to apply the relief at source to an employee's salary, the administrative burden and delays experienced by employees in obtaining the relief would be reduced.

Institute Recommendation: Real-time reporting of payroll deductions was introduced from 1 January this year. We believe there is scope to allow an employer to apply the FED at source to an employee's salary, given PAYE modernisation. Allowing relief at source in real-time would reduce the administrative burden and delays experienced by employees in obtaining the FED and would provide Revenue with greater visibility of the number of people claiming the relief in any given year.

Foreign earnings deduction - countries that qualify



Foreign earnings deduction countries

- | | | | | |
|-----------------|---------------------------------|--------------|--------------------------|---------------|
| 1. Brazil | 7. Democratic Republic of Congo | 13. Tanzania | 19. Saudi Arabia | 25. Columbia |
| 2. China | 8. Egypt | 14. Kuwait | 20. Singapore | 26. Pakistan |
| 3. India | 9. Ghana | 15. Malaysia | 21. South Korea | 27. Japan |
| 4. Russia | 10. Kenya | 16. Mexico | 22. Thailand | 28. Bahrain |
| 5. South Africa | 11. Nigeria | 17. Oman | 23. United Arab Emirates | 29. Chile |
| 6. Algeria | 12. Senegal | 18. Qatar | 24. Vietnam | 30. Indonesia |