Irish Tax Institute

Leaders in Tax

BUDGET 2016
The Tax Story

September 2015

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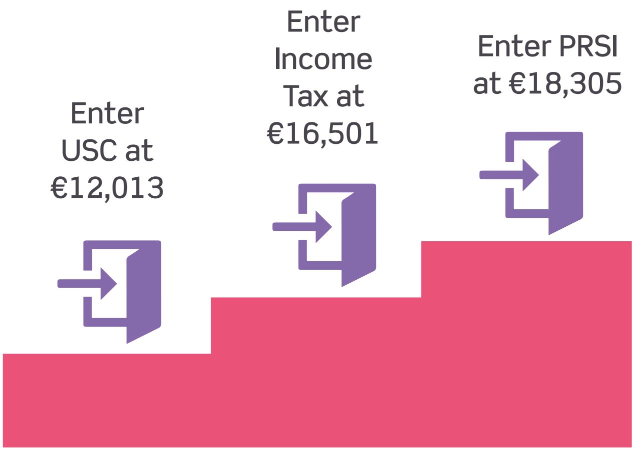
Contents

A Guide to Ireland's Personal Tax Regime

The Different Tax Doors Into the Tax System (Single Person)



USC Rates and Bands

Income band	Rate
If income level is €12,012 or below	Exempt

If you earn over €12,012 you pay USC on all your income at the rates below:	
First €12,012[1]	1.5%
€12,013 to €17,576 (i.e. next €5,564)	3.5%[2]
€17,577 to €70,044 (i.e. next €52,468)	7%
Once you earn over €70,044, the balance of your income is taxed at:	8%

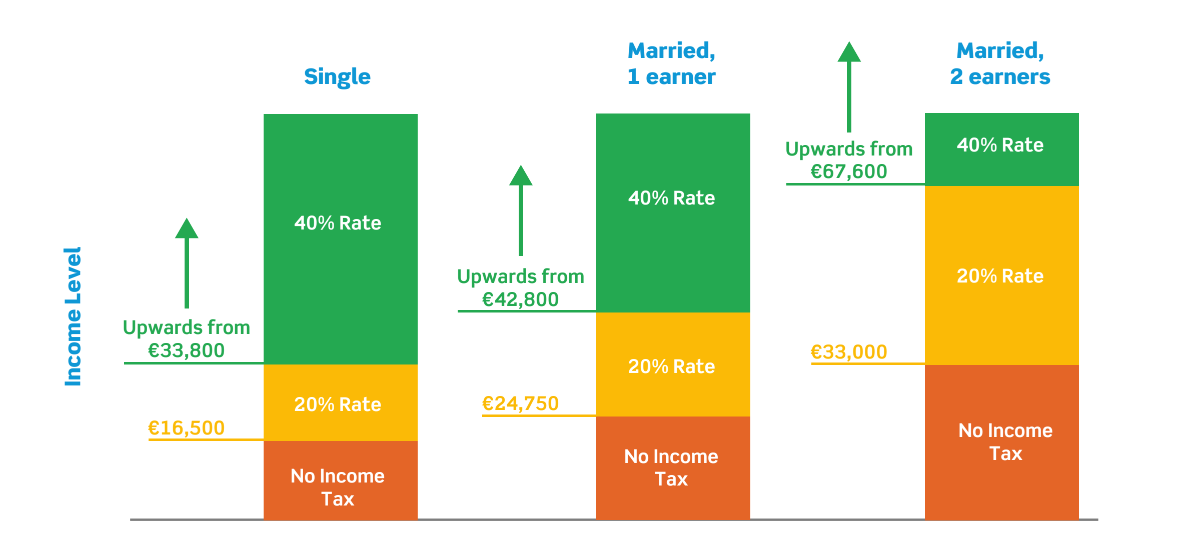
Non-PAYE income that exceeds €100,000	11%

1 Taxpayers with income over €12,012 pay 1.5% on the first €12,012
2 Persons with a medical card/aged over 70 who earn less than €60,000 pay a top USC rate of 3.5%

Income Tax Rates and Bands

Tax Payers	20%	40%
Single Person pays	€33,800 @ 20%	Balance @ 40%
Married couple (one income)	€42,800 @ 20%	Balance @ 40%
Married couple (two incomes)	€67,600[1] @ 20%	Balance @ 40%
One parent/widowed parent	€37,800 @ 20%	Balance @ 40%

Income Tax Structure for Taxpayers



Income Tax

Due to the two main tax credits (Personal Tax Credit & PAYE Tax Credit), a single employee only pays income tax once they earn more than €16,500. Once they earn above this amount they pay 20% tax on income from €16,500 up to €33,800 and 40% tax on the remainder.

To calculate the point at which a person pays income tax you add together all of their tax credits and divide by the standard rate of tax (20%). The combined effect of the personal tax credit and the PAYE tax credit means that a single employee only pays income tax on income earned above €16,500.

$$\frac{\text{Personal Tax Credit} + \text{PAYE Tax Credit}}{\text{Standard Tax Rate}} = \frac{1{,}650 + 1{,}650}{20\%} = €16{,}500$$

1 For married couples with two earners, the first person has a standard rate band of €42,800 and the second person has a standard rate band of €24,800.

Income Tax - Main Credits

Single person	€1,650
Married Couple / Civil Partnership	€3,300
Additional Widowed Person Credit	€1,650
Employee PAYE Credit[1]	€1,650
Home Carer Credit	€810

PRSI Rates

	Income	%
Employee	All income[2]	4%
Self-Employed	All income[3]	4%

PRSI - The Step Effect

An employee is exempt from PRSI until they earn €18,304. However once a person earns more than €18,304, they pay PRSI on their entire earnings at 4% (similar to the USC principle). By increasing your income by €1 over €18,304, your total tax liability increases by €732.

For a self-employed person, the PRSI exemption is only €5,000. Once earnings go over this amount, 4% PRSI is paid on all income and a minimum of €500 must be paid in any year.

Marginal Tax - The Calculation

If you pay the marginal rate of tax, this is the breakdown

Tax Breakdown - the different elements	PAYE person		Self-employed person	
Income Tax		40%		40%
USC	+	8%[4]	+	11%[5]
PRSI	+	4%	+	4%
Total Marginal Rate	**=**	**52%**	**=**	**55%**

1 PAYE taxpayers can claim a PAYE tax credit which is not available to the self-employed. This results in low income self-employed taxpayers facing a higher effective tax rate than employees.
2 Employees earning €352 or less per week are exempt from PRSI.
3 Self-employed persons with annual income over €5,000 pay PRSI at 4%, subject to minimum payment of €500. If annual income is less than €5,000, a self-employed person is PRSI exempt.
4 Above €70,044
5 Above €100,000

Interesting Facts about Our Tax Regime

Taxpayers in numbers

- There are **2.4 million** income earners in Ireland
- **1.74 million** taxpayers pay USC
- **28%** of income earners are out of the tax base **now**
- **753,600** could be out of the tax base in 2016 – representing **31%** of all income earners
- **Over 1.2 million** taxpayers pay USC rates of 7% or higher **(53%)**
- A 3% USC surcharge is currently paid by **28,700** persons
- **303,200** self-employed and proprietary director taxpayers currently do not receive a PAYE tax credit
- Income tax and USC receipts accounted for **41%** of the total **€41.38 billion** tax collected in 2014
- The top 9% of income earners pay **54%** of all income tax and USC

Budget 2016

- Cutting the 7% USC rate to 6% is estimated to cost the Government **€364 million**
- If the 7% USC rate is reduced, the percentage reduction in tax is greatest for those closest to the average wage
- Introducing a PAYE equivalent credit for self-employed taxpayers would cost **€470 million**
- **€173.4 million** is the estimated cost of increasing the entry into the 40% income tax band (for all categories of taxpayers) by €1,000

How does Ireland rank internationally?

- Ireland has **one of the most progressive** income tax systems in the OECD
- EU progressivity Average 120-140: Ireland is **183**
- The entry point to Ireland's 52% marginal rate is **one of the lowest** in the OECD
- Taxpayers earning €75,000 **pay more personal taxes than people in Sweden** (incl. social security)
- Assignee tax relief programmes for "experts" in **Sweden and the Netherlands produce greater tax savings** than the Irish equivalent regime (i.e. their effective tax rate for foreign assignees is lower than Ireland)

Inheriting the family home

- Inheritance tax **rates have increased 65%** since 2008, while property prices are rising
- Average Dublin **house prices exceed the CAT lifetime exemption** thresholds

Economic Context

The Tax Figure in Budget 2016

The Government announced in the Spring Economic Statement earlier this year there will be between €1.2 billion and €1.5 billion available for combined tax reductions and investment in public services. It was repeatedly confirmed the total adjustment will be split 50:50 between tax cuts and expenditure increases[1].

With Exchequer net receipts for the first eight months of 2015 almost €1.4 billion ahead of target[2], it appears likely expansionary measures will be closer to the upper limit of €1.5 billion.

Therefore, we can expect **tax cuts between €600 million and €750 million** in Budget 2016.

Where is the €600 million - €750 million going?

"The majority of available resources will be used to reduce tax on work".

He has also committed to starting the process of *"reducing the gap between PAYE employees and the self- employed".*[3]

Minister Noonan

Economic Growth Predictions

Who?	When?	GDP Growth 2015	GDP Growth 2016
Dept. of Finance	Spring Statement (28 April 2015)	4%	3.8%
IMF	3rd Post Monitoring Review (22 June 2015)	4%	3.3%
ESRI	Quarterly Economic Commentary, Summer 2015 (10 June 2015)	4.4%	3.7%
European Commission	European Economic Forecast, Spring 2015 (5 May 2015)	3.6%	3.5%
Central Bank	Quarterly Update Q3 2015 (29 July 2015)	4.1%	4.2%
OECD	Economic Survey of Ireland (September 2015)	5%	4%

1 Spring Economic Statement, 28 April 2015
2 Exchequer Statement for the period ending August 2015, Department of Finance
3 Speech by Minister Noonan at the ISME Annual Lunch, 29 May 2015

The Ones to Watch in Budget 2016

Personal Tax

- USC Exemptions
- Reduced USC Rates
- Income Tax Bands
- Differences between self-employed and employees

Other Issues

- Entrepreneurs
- Share Options
- Inheritance Tax
- FDI – Knowledge Development Box
- FDI – New Global Tax Rules (BEPS)

Ones to Watch

We have looked at media speculation and commentary by the Government on a number of possible tax changes that might be included in the Budget. Where estimated Exchequer costs are available, these have also been included. [1]

USC

(1) Exemptions: moving the entry point into the USC

Options	Who benefits?	Cost to the Exchequer
Increase the €12,012 USC entry point to €14,000[2] (**without** also re-aligning the 1.5% USC band).	80,000 taxpayers who currently pay USC at a top rate of 3.5%	€22 million[3]
Increase the €12,012 USC entry point by €1,000 to €13,012 **and** re-align the 1.5% band.	All 1.74 million taxpayers who pay USC (72% of all income earners)	€49.7 million
Increase the €12,012 USC entry point band by €1,500 to €13,512 **and** re-align the 1.5% band.	All 1.74 million taxpayers who pay USC (72% of all income earners)	€74.2 million
Increase the €12,012 USC entry point to €14,250 **and** re-align the 1.5% band.	All 1.74 million taxpayers who pay USC (72% of all income earners)	€82 million[4]

(2) Reduce USC rates

Options	Who benefits?	Cost to the Exchequer
Lower the 7% USC rate to 6%	1.28 million taxpayers who earn more than €17,576 (53% of taxpayers)	€364 million
Lower the 7% USC rate to 5%	1.28 million taxpayers who earn more than €17,576 (53% of taxpayers)	Not available
Lower the 8% USC rate to 7%	202,000 of taxpayers who earn more than €70,044 (8% of taxpayers)	€125 million

1 All cost and taxpayer estimates sourced from Revenue Ready Reckoner August 2015 unless otherwise stated. The Ready Reckoner is based on tax “units”, which are equated as taxpayers in this guide. Revenue count a married couple who are jointly assessed as one taxpayer unit.
2 This costing only applies to an increase in the USC entry point. It does not include the cost of increasing the 1.5% band for those who will continue to pay USC, from its existing level of €12,012 up to €14,000. This would be much more expensive as it would result in savings for all 1.7 million taxpayers who are in the USC net.
3 Dáil PQ 103, 12 March 2015 and Revenue, September 2015.
4 Dáil PQ 38, 25 March 2015 and Revenue, September 2015.

Income Tax

Raising the point at which you enter the 40% rate by €1,000[1]	Who benefits?	Cost to the Exchequer
Increase **single** person 40% income tax band by €1,000, from €33,800 to €34,800	All single persons earning more than €33,800	€72.4 million
Increase 40% income tax band for **married (one earner)** by €1,000, from €42,800 to €43,800	All married persons (1 earner) earning more than €42,800	€26.7 million
Increase both 40% income tax bands for **married (two earners)**[2] by €1,000 to €43,800 and €25,800	Married couple (2 earners) earning above the current bands	€74.3 million
Total		**€173.4 million**

Equalize the treatment of self-employed and employees

Options	Who benefits?	Cost to the Exchequer
Introduce an earned income tax credit of €1,650 (same as PAYE tax credit)	303,200 taxpayers (220,000 self-employed and 83,200 proprietary directors who currently do not receive the PAYE tax credit)[3]	€470 million[4]
Introduce an earned income tax credit of €1,650 in phases – say €500 in this Budget	303,200 taxpayers (220,000 self-employed and 83,200 proprietary directors who currently do not receive the PAYE tax credit)	Not available
Eliminate the 11% USC rate / 3% USC surcharge	Approximately 28,700 taxpayers pay the USC surcharge[5]	€125 million[6]

Share Options

Options	Who benefits?	Cost to the Exchequer
Share options	Ireland (employees in start ups, SMEs and expanding Irish companies). This serves the need to retain and attract talent	No costings available

1 The Minister already raised it by €1,000 last October in Budget 2015.
2 For married couples with two earners, the first person has a standard rate band of €42,800 and the second person has a standard rate band of €24,800.
3 Dáil PQ 67, 26 February 2015.
4 Dáil PQ 59, 11 March 2015.
5 Revenue, September 2015.
6 Dáil PQ 104, 12 March 2015.

Entrepreneurs

Options	Who benefits?	Cost to the Exchequer
Will the government introduce an angel funding scheme similar to the UK SEIS (Seed Enterprise Investment Scheme)?	SMEs and high potential start-ups. The UK SEIS has resulted in a 73% surge in the number of start-ups raising funds from private investors	Not available
Improvements to our existing EII (Employment and Investment Incentive): 1. Increasing the €150,000 annual investment limit for individuals 2. Removing EII from High Earners' Restriction permanently 3. Providing full income tax, USC and PRSI relief in the year of investment (rather than in two stages) 4. Increasing the lifetime limit 5. Excluding EII shares from the charge to CAT	Productive Irish businesses seeking third party funding and investors prepared to fund them	Not available
A re-launch of the CGT Entrepreneurs' Relief to be a clear 10% CGT rate on entrepreneurial gains with deferral of tax for re-investment	Business investors from both Ireland and internationally – particularly those considering or already using the UK Entrepreneurs' relief	Not available

CAT (Gift and Inheritance Tax)

Options	Who benefits?	Cost to the Exchequer
Lower the 33% CAT rate	All taxpayers who have to pay CAT on a gift or inheritance	The cost of reducing the CAT rate from 33% is approximately €12 million per 1% reduction
Increase all CAT thresholds	All taxpayers who have to pay CAT on a gift or inheritance	For every 5% the thresholds are increased, the cost is just over €13 million (assuming each threshold increased by same %)
Introduce a new inheritance tax threshold at €500,000, which would apply only to family homes	Only direct offspring inheriting a family home	No details available – but less costly than a general CAT rate reduction or threshold increase

FDI (Foreign Direct Investment)

Options	Who benefits?	Cost to the Exchequer
The Knowledge Development Box – the Minister may reference the final shape of the "Box" that he announced in Budget 2015	Multinational companies in Ireland, Irish headquartered companies and SMEs who carry out R&D work to develop valuable intangible assets	Not available
OECD BEPS project – the Minister may give some detail on the Government's plans for implementation	Multinational companies	Not available

Progressivity of the Income Tax System

What is Progressivity?

NB **A progressive taxation system means that those on higher incomes pay proportionately higher rates of tax on their income than those on lower incomes. This is clearly the case in Ireland and is widely acknowledged to be so.**

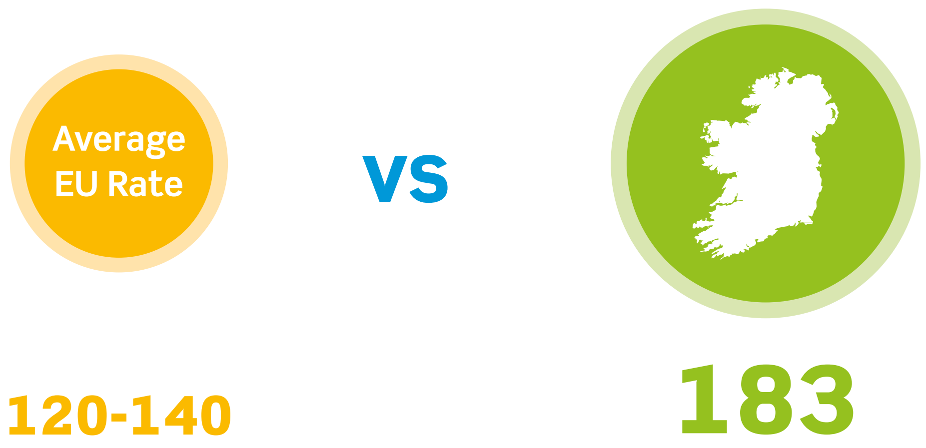
"Ireland already has one of the more progressive income tax systems in the developed world"[1].

Minister Noonan

"The European Commission compares progressivity of taxation by taking the OECD tax wedge for an individual earning 167% of the average wage and dividing it by the tax wedge for an individual earning 67% of the average wage. On a rating system where less than 100 is regressive and above 100 is progressive, most EU countries had a progressivity rate of between 120 and 140. Ireland, in comparison, had a progressivity rate of 183."[2]

Tax Strategy Group

EU Progressivity Ratings - Ireland vs EU Countries



Most EU countries have a progressivity rate of between 120 and 140. Ireland, in comparison, has a progressivity rate of 183

"OECD data confirms that Ireland has the most progressive income tax system in the OECD."[3]

Publicpolicy.ie

1 Minister Noonan, Dáil PQ 99, 23 June 2015
2 Department of Finance, Tax Strategy Group, Annual reports on income tax & USC, 2014
3 Publicpolicy.ie, 31 August 2015

The Tax Base

A taxpayer's first point of entry into the tax system is through the USC. When you remove them from the USC you remove them from the tax base.

2,400,000	Total number of income earners
417,000[1]	The number of taxpayers who have been removed from the tax base since 2012
663,600	The number of income earners who are out of the tax base now (paying no income tax or USC).
90,000[1]	The number of taxpayers expected to be removed from the tax base in the Budget on 13 October 2015
500,000	The total number of taxpayers the Government want to have taken out of the tax base between 2012 and 2016
28%	The % of income earners who are out of the tax base now (not paying any income tax or USC)

2.4 million **= total number of income earners**

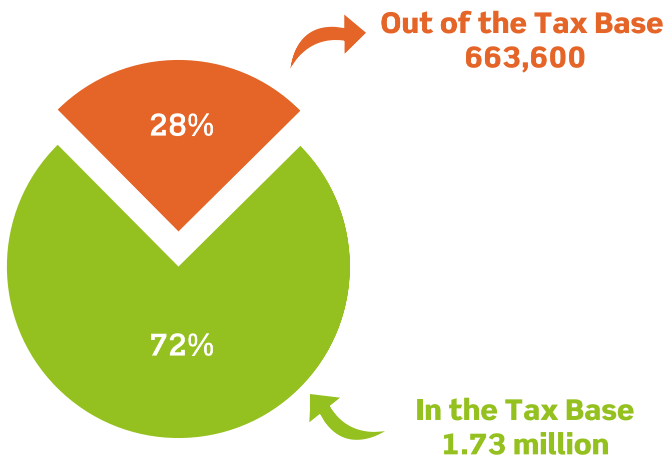
753,600 **= estimated total number of income earners who will be out of the tax base next year if Minister Noonan removes another 90,000**

31% **= estimated percentage of income earners who will be out of the tax base next year**

1 Dáil PQ 19, 7 May 2015

Numbers in and out of the Tax Base now

Source: Revenue Ready Reckoner, August 2015



Total Income Earners: 2.4 million

Narrowing the Tax Base in Budget 2016 - the Cost

Exemptions: moving the entry point into the USC

Options	Who benefits?	Cost to the Exchequer
Increase the €12,012 USC entry point to €14,000[1] (**without** also re-aligning the 1.5% USC band).	80,000 taxpayers who currently pay USC at 1.5%	€22 million[2]
Increase the €12,012 USC entry point by €1,000 to €13,012 **and** re-align the 1.5% band.	All 1.74 million taxpayers who pay USC (72% of all income earners)	€49.7 million
Increase the €12,012 USC entry point band by €1,500 to €13,512 **and** re-align the 1.5% band.	All 1.74 million taxpayers who pay USC (72% of all income earners)	€74.2 million
Increase the €12,012 USC entry point to €14,250 **and** re-align the 1.5% band.	All 1.74 million taxpayers who pay USC (72% of all income earners)	€82 million[3]

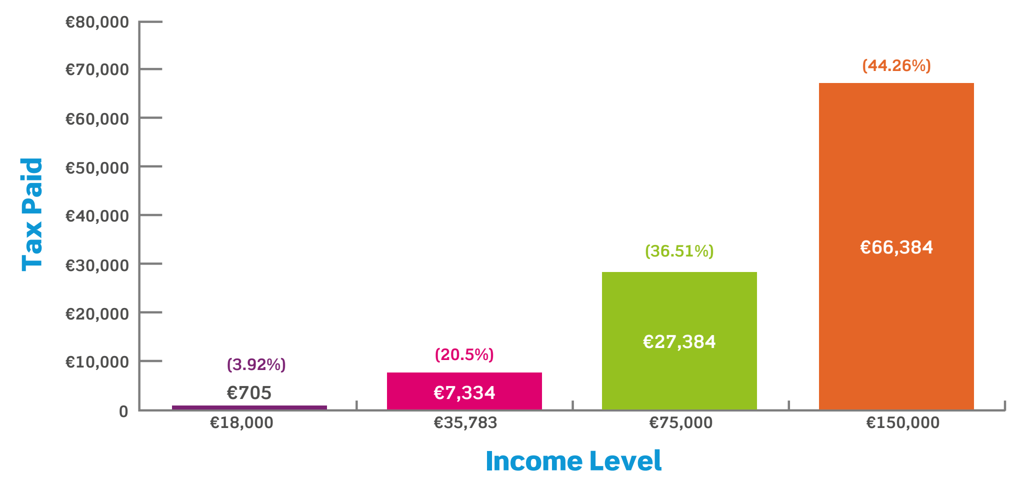
1 This costing only applies to an increase in the USC entry point. It does not include the cost of increasing the 1.5% band for those who will continue to pay USC, from its existing level of €12,012 up to €14,000. This would be much more expensive as it would result in savings for all 1.7 million taxpayers who are in the USC net.

2 Dáil PQ 103, 12 March 2015

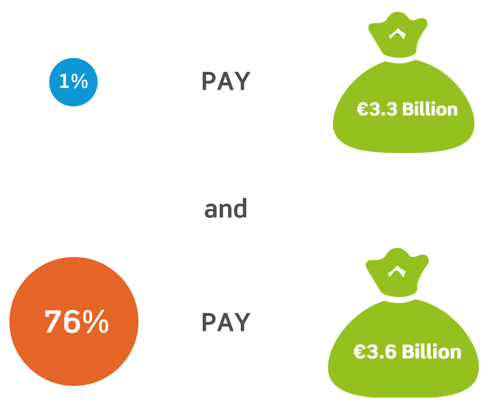
3 Dáil PQ 38, 25 March 2015 and Revenue, September 2015

Progressivity after Budget 2015 - Effective Tax Rate in %

Progressivity after Budget 2015



Income Tax & USC combined - Who pays what?[1]



- **The top 1% pay 19% of all income tax and USC**
- **The bottom 76% pay 21% of all income tax and USC**
- **The top 9% pay 54% of all income tax and USC**
- **The other 91% pay 46% of all income tax and USC**

1 Total income tax and USC receipts in 2014 were €17.13 billion.

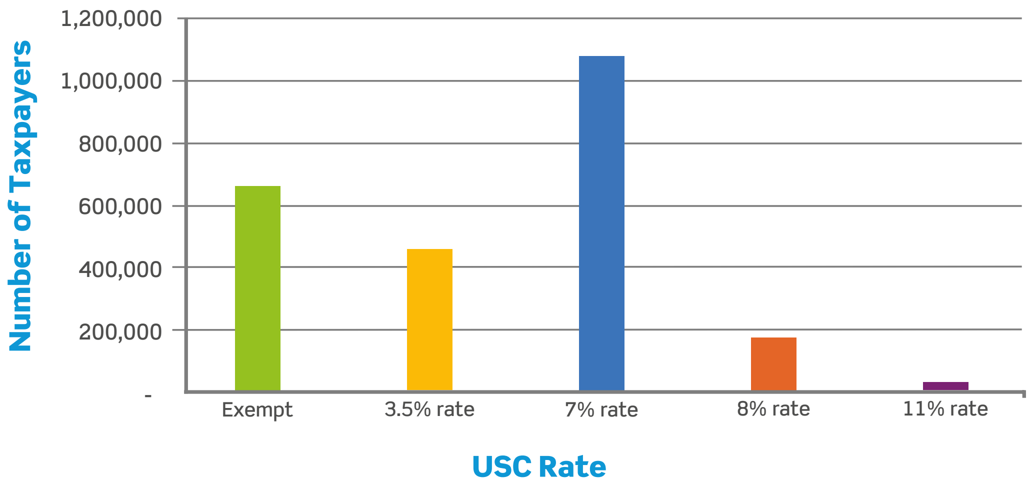
Estimated Cumulative Burden of Income Tax and USC for 2015 Gross Earnings	% Income Earners 2015	% of the Total Income Tax & USC Paid in the State in 2015
> €200,000	1%	19%
> €100,000	6%	42%
> €80,000	9%	54%
> €50,000	24%	79%
< €50,000	76%	21%

Source: Tax Strategy Group, Income Tax and USC paper 2014

The role of the USC

How many people pay USC?

Who pays at the different top USC Rates
Source: Revenue Ready Reckoner, August 2015



USC Top Rate[1]	Number of taxpayers	% of taxpayers
Exempt	663,600	28%
3.5% rate	456,400	19%
7% rate	1,083,300	45%
8% rate	173,000	7%
11% rate	28,700	1%

53%

Source: Revenue, September 2015

How much money the USC brought in 2014

	€ Billion
Total Exchequer Yield	€41.38 billion
Income tax	€13.48 billion
USC	**€3.65 billion**
PRSI (employer + employee)[2]	€8.19 billion

1 There are no taxpayers who pay only a top USC rate of 1.5%.
2 Not included in Total Exchequer Yield.

Exceptions to the USC 7% Rate

The elderly and medical card holders under €60,000 – maximum 3.5% rate of USC

Earning more than €17,576 puts taxpayers into the 7% bracket.

However there are exceptions:

1. Those over 70 years of age, with total income of €60,000 or less; and
2. Medical card holders with total income of €60,000 or less.

Both of these groups pay a maximum USC rate of 3.5%.

*"The number of income earners who pay the USC at a top rate of 3.5% is estimated to be in the order of **223,700** in 2015. In addition, a **further 57,000** income earners only pay a USC rate of 3.5% by virtue of being over 70 years of age and having aggregate income of less than €60,000.*

*The Revenue Commissioners estimate that a **further 222,000** income earners pay USC at a top rate of 3.5% by virtue of being a medical card holder and having aggregate income of less than €60,000. However, as there is no medical card 'marker' on Revenue records, this figure is a derived rather than an actual estimate".*

Minister Noonan, Dáil PQ 74, 13 May 2015

Over 70's

57,000 income earners pay USC at a maximum rate of 3.5% because they are aged over 70 and have less than €60,000 income per annum.

Medical card holders

222,000 income earners pay a maximum USC rate of 3.5% because they are medical card holders and earn less than €60,000 income per annum.

279,000 = the number of income earners aged over 70 or with full medical cards with income under €60,000 who pay a maximum USC rate of 3.5%

Changes to USC and Income Tax

NB The majority of taxpayers pay the 7% USC rate (53% of all taxpayers - see table page 22).

The Cost to The Exchequer

Options	Who benefits?	Cost to the Exchequer
Lower the 7% USC rate to 6%	1.28 million taxpayers who earn more than €17,576 (53% of taxpayers).	€364 million
Lower the 7% USC rate to 5%	1.28 million taxpayers who earn more than €17,576 (53% of taxpayers).	Not available
Lower the 8% USC rate to 7%	202,000 of taxpayers who earn more than €70,044 (8% of taxpayers).	€125 million

Taxpayer savings if the 7% USC rate is reduced

The latest CSO figures show that the average wage is €36,271 (based on CSO figures published 27 August 2015 for Q2 2015).

If the 7% USC rate is reduced, the percentage reduction in tax is greatest for those closest to the average wage.

Impact of reducing 7% USC rate to 6% on single employee

	€36,271	€75,000	€150,000
Total tax paid now	€7,583	€27,384	€66,384
Total tax paid if 7% USC rate reduced to 6%	€7,396	€26,859	€65,859
Gain per annum	€187	€525	€525
Percentage reduction in tax paid	2.47%	1.92%	0.79%

Impact of reducing 7% USC rate to 5% on single employee

	€36,271	€75,000	€150,000
Total tax paid now	€7,583	€27,384	€66,384
Total tax paid if 7% USC rate reduced to 5%	€7,209	€26,335	€65,335
Gain per annum	€374	€1,049	€1,049
Percentage reduction in tax paid	4.93%	3.83%	1.58%

Changing the Band - The Entry Point

The Cost to the Exchequer

Income Tax

Raising the point at which you enter the 40% rate by €1,000[1]	Who benefits?	Cost to the Exchequer
Increase **single** person 40% income tax band by €1,000, from €33,800 to €34,800	All single persons earning more than €33,800	€72.4 million
Increase 40% income tax band for **married (one earner)** by €1,000, from €42,800 to €43,800	All married persons (1 earner) earning more than €42,800	€26.7 million
Increase both 40% income tax bands for **married (two earners)**[1] by €1,000 to €43,800 and €25,800	Married couple (2 earners) earning above the current bands	€74.3 million
Total		**€173.4 million**

Taxpayer savings if the 40% income tax band is increased

Impact of increasing 40% income tax band by €1,000 (from €33,800 to €34,800) on single employee

	€36,271	€75,000	€150,000
Total tax paid now	€7,583	€27,384	€66,384
Total tax paid if income tax band increased by €1,000	€7,383	€27,184	€66,184
Gain per annum	€200	€200	€200
Percentage reduction in tax paid	2.64%	0.73%	0.30%

1 For married couples with two earners, the first person has a standard rate band of €42,800 and the second person has a standard rate band of €24,800.

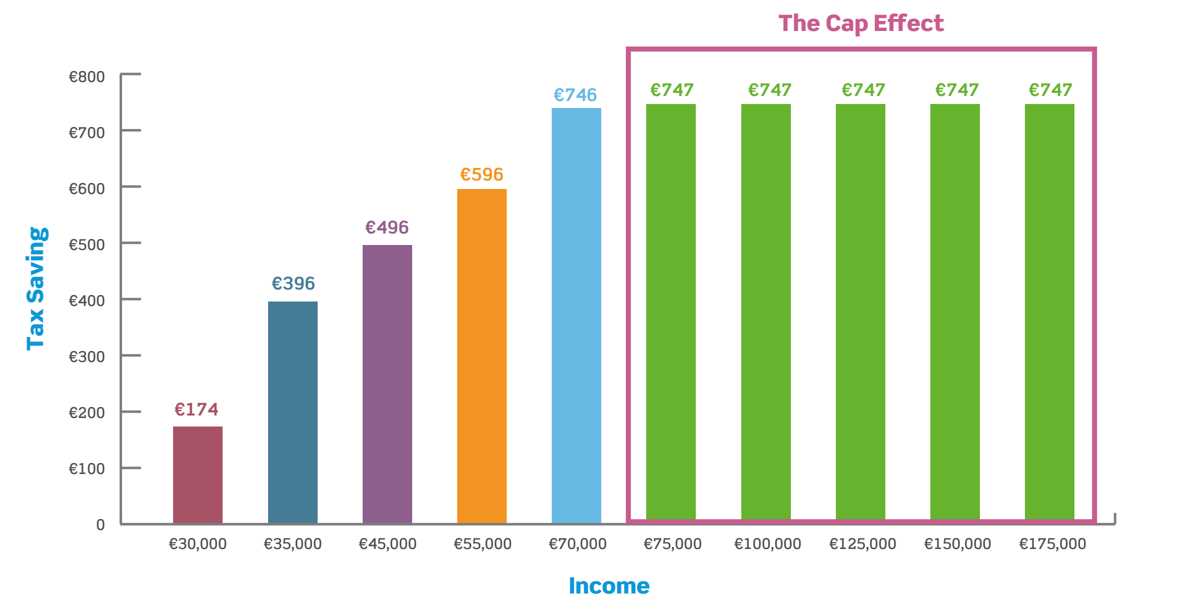
“The Cap Effect” at €70,044

The new 8% USC rate – “The Cap Effect”

What happened in Budget 2015?

1. The top income tax rate fell 1% from 41% to 40%.
2. Simultaneously, the 7% USC rate was increased by 1% to 8% for income over €70,044.
3. In essence, the gain was capped with a maximum benefit of €747.
4. The marginal rate remained the same for those on €70,044 or more: 52% (55% for self-employed)[1]

“The Cap Effect” @ €70,044 after Budget 2015



Future impact of “The Cap Effect” over €70,044

This new “Cap Effect” is designed to **limit the gains** of any future income tax reductions for those over €70,044.

This means that those taxpayers over €70,044 will only benefit from a **fixed** amount of a tax reduction. This is the “Cap Effect”.

The consequence of this new model is that Ireland will retain a high personal tax burden for those over €70,044 for the foreseeable future.

1 Over income of €100,000.

Personal Tax Rates - An International Comparison

"A competitive taxation system is essential to supporting investment and job creation. We must continue to strive to create a 'best in class' taxation system. This requires continued steps to maintain the competitiveness of our corporate tax system and steps to ensure that there are strong incentives to both work (personal taxation) and invest (capital taxes) in Ireland. With respect to personal and capital taxation, Ireland's competitiveness deteriorated over the course of the recession."

Department of Jobs, Enterprise & Innovation, Statement of Strategy 2015-2017

Facts on the marginal rate:

- Ireland's marginal tax rate is 52% (55% for self-employed earning more than €100,000)
- In 2014 it was the **9th highest** in the OECD
- It was almost 6 percentage points **higher than the OECD average** marginal rate of 46.3%

OECD Comparison of Marginal Tax Rates in 2014[1]

	Country	Top marginal income tax & employee social security rate 2014
1	Portugal	61.29%
2	Slovenia	61.05%
3	Belgium	59.45%
4	Finland	57.21%
5	Sweden	56.86%
6	Denmark	56.22%
7	France	55.01%
8	Netherlands	53.41%
9	**Ireland**	**52.00%**
10	Spain	52.00%
11	Japan	51.09%
12	Austria	50.00%
13	Israel	50.00%
14	Canada	49.53%
15	United States	48.60%
16	Italy	47.84%
17	Germany	47.48%
18	Norway	47.20%
19	United Kingdom	47.00%
20	Australia	46.50%
21	Greece	46.00%
22	Luxembourg	45.00%
23	Iceland	44.39%
24	Korea	43.20%
25	Switzerland	41.75%
26	Chile	39.52%
27	Poland	38.75%
28	Turkey	35.80%
29	Slovak Republic	35.05%
30	Mexico	35.00%
31	Hungary	34.50%
32	New Zealand	33.00%
33	Czech Republic	31.10%
34	Estonia	22.58%
	OECD Average	**46.3%**

1 OECD Statistics - Table I.7. Top statutory personal income tax rate and top marginal tax rates for employees. Note at the time of print, a global comparison for 2015 marginal tax rates was not available from the OECD. The marginal rate of tax in Ireland remains at 52% in 2015.

Entry Point to Marginal Tax Rate in Competitor Countries (2014)[1]

	Country	Marginal threshold 2014 (EURO)	Top marginal income tax & employee social security rate 2014
1	Switzerland	621,768	41.75%
2	United States	306,172	48.60%
3	Spain	300,000	52.00%
4	Germany	250,730	47.48%
5	United Kingdom	186,077	47.00%
6	Israel	171,038	50.00%
7	Mexico	169,924	35.00%
8	France	151,956	55.01%
9	Japan	128,287	51.09%
10	Australia	122,291	46.50%
11	Korea	107,285	43.20%
12	Norway	102,617	47.20%
13	Chile	101,083	39.52%
14	Finland	100,000	57.21%
15	Canada	92,947	49.53%
16	Portugal	80,000	61.29%
17	Italy	75,000	47.84%
18	Slovenia	70,907	61.05%
19	Sweden	66,231	56.86%
20	Iceland	60,259	44.39%
21	Denmark	60,243	56.22%
22	Austria	60,000	50.00%
23	Netherlands	56,531	53.41%
24	Czech Republic	45,221	31.10%
25	New Zealand	43,764	33.00%
26	Greece	42,000	46.00%
27	Luxembourg	41,793	45.00%
28	Belgium	37,750	59.45%
29	Slovak Republic	35,022	35.05%
30	Turkey	33,373	35.80%
31	**Ireland**	**32,800**	**52.00%**
32	Poland	20,440	38.75%
33	Estonia	1,728	22.58%
34	Hungary	-	34.50%
	OECD Average	**114,401**	**46.3%**

The figures in this table relate to 2014. In Budget 2015, last October, Ireland raised its entry point to the 40% income tax band by €1,000 from €32,800 to €33,800.

1 All figures sourced from OECD global marginal tax rate comparisons.

Ireland vs Competitor Countries Globally

Effective rates and tax paid

Effective tax rate = total personal tax paid as a percentage of total income

(Based on data from KPMG Ireland)[1]

Employees at €18,000 salary				
	Country	Effective tax rate	Total tax paid	Difference between tax paid in Ireland and others
1	Germany	26.87%	€4,836	€4,131
2	Spain	19.00%	€3,420	€2,715
3	Netherlands	17.93%	€3,227	€2,522
4	Sweden	17.79%	€3,201	€2,496
5	United States	12.49%	€2,248	€1,543
6	United Kingdom	8.01%	€1,441	€736
7	Switzerland	6.25%	€1,126	€421
8	**Ireland**	**3.92%**	**€705**	**-**

Employees at €35,800 salary				
	Country	Effective tax rate	Total tax paid	Difference between tax paid in Ireland and others
1	Germany	36.26%	€12,981	€5,638
2	Netherlands	30.65%	€10,973	€3,630
3	Spain	27.03%	€9,677	€2,334
4	Sweden	23.09%	€8,266	€923
5	**Ireland**	**20.51%**	**€7,343**	**-**
6	United Kingdom	19.93%	€7,136	€ (207)
7	United States	17.54%	€6,280	€(1,063)
8	Switzerland	16.19%	€5,796	€(1,547)

1 Please note certain simplifying assumptions were used due to the different and complex tax regimes in place globally.

Employees at €75,000 salary				
	Country	Effective tax rate	Total tax paid	Difference between tax paid in Ireland and others
1	Germany	43.81%	€32,855	€5,471
2	Netherlands	40.90%	€30,677	€3,293
3	**Ireland**	**36.51%**	**€27,384**	**-**
4	Sweden	35.45%	€26,588	€(796)
5	Spain	34.86%	€26,147	€(1,237)
6	United Kingdom	28.33%	€21,248	€(6,136)
7	Switzerland	28.01%	€21,006	€(6,378)
8	United States	24.41%	€18,308	€(9,076)

Employees at €100,000 salary				
	Country	Effective tax rate	Total tax paid	Difference between tax paid in Ireland and others
1	Netherlands	44.68%	€44,677	€4,293
2	Germany	43.93%	€43,932	€3,548
3	Sweden	40.84%	€40,836	€452
4	**Ireland**	**40.38%**	**€40,384**	**-**
5	Spain	37.40%	€37,397	€(2,987)
6	United Kingdom	31.75%	€31,749	€(8,635)
7	Switzerland	30.31%	€30,310	€(10,074)
8	United States	26.70%	€26,703	€(13,681)

Employees at €150,000 salary				
	Country	Effective tax rate	Total tax paid	Difference between tax paid in Ireland and others
1	Netherlands	47.14%	€70,704	€4,320
2	Sweden	46.22%	€69,331	€2,947
3	**Ireland**	**44.26%**	**€66,384**	**-**
4	Germany	44.06%	€66,087	€(297)
5	Spain	39.93%	€59,897	€(6,487)
6	United Kingdom	36.51%	€54,766	€(11,618)
7	Switzerland	33.28%	€49,921	€(16,463)
8	United States	27.95%	€41,926	€(24,458)

Assignee Relief Programmes for Foreign Executives

High calibre skilled foreign executives are in demand globally and many countries operate tax programmes which encourage executives to locate with them. Ireland is one such country which offers an income tax relief known as the Special Assignee Relief Programme (SARP). The regime is aimed at reducing the cost to Irish employers of taking skilled senior executives on assignment from abroad. The impending changes in the new global tax rules as a result of BEPS will lead to the taxation of profit being more closely aligned with substance. This will lead to greater competition between countries to attract the senior executives who drive investment decisions and the location of new operations.

SARP provides an income tax exemption to such executives of 30% x (salary above €75,000). It is available for up to a maximum five years. Note that it is not available to new hires – the executive must have been employed elsewhere in the multi-national company before being assigned to Ireland.

Following low take up of the relief and a public consultation by the Department of Finance, a number of restrictive SARP conditions were amended to improve this important regime.

While these changes are welcome, Ireland is still challenged in the "war on talent" by similar tax reliefs offered by our competitors. Amongst many other countries, Sweden and the Netherlands both offer their own competitive tax reliefs for expats. Sweden has the "Expert tax relief" and the Netherlands has the "30% ruling".

You will see from the table above, that at a salary level of €150,000, Ireland ranks third behind both the Netherlands and Sweden in terms of tax payable by a person (before considering any assignee tax reliefs). However, when you apply the tax reduction available under the three assignee programmes for the countries topping the list (Netherlands, Sweden and Ireland), international talent coming to Ireland suffers the highest effective tax rate.

This means Ireland has the highest effective tax rate of the three for foreign executives – ahead of Sweden and the Netherlands.

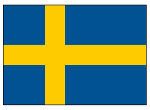
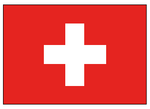
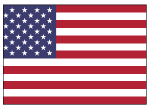
Tax Due and Effective Tax Rates after Assignee Relief is given

(Based on data from PwC Ireland)[1]

Salary of €150,000	Tax reduction available under assignee relief	Effective tax rate (after assignee relief)
Ireland (SARP)	**€9,000**	**38.3%**
Sweden (Expert tax)	€21,968	33.1%
Netherlands (30% ruling)	€23,400	30.8%

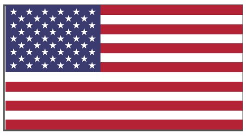
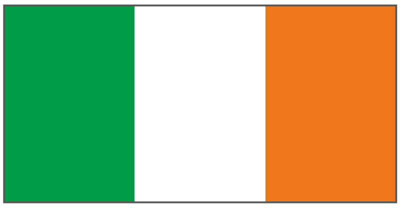
1 Please note certain simplifying assumptions were used due to the different and complex tax regimes in place globally.

Ireland vs Competitor Countries at €75,000

In Ireland you pay €796 more than in Sweden	
In Ireland you pay €1,237 more than in Spain	
In Ireland you pay €6,136 more than in the UK	
In Ireland you pay €6,378 more than in Switzerland	
In Ireland you pay €9,076 more than in the US	

At €75,000, a taxpayer in Ireland pays more personal tax than a taxpayer in Sweden

Ireland vs United States at €75,000

US tax paid at €75,000	Irish tax paid at €75,000
	
€18,308	€27,384

Personal Tax &
'The Global War on Talent'

What the Global Reports Say on Talent and Personal Tax

"There are three broad economic themes underpinning tax reforms in the major economies around the world. One of these themes is "to keep down rates of taxation on internationally mobile economic activities and productive resources so the tax regime attracts these resources and activities and contribute to the strength of the national economy."

(Source: PwC and World Bank Group, Paying Taxes Report 2015, November 2014)

While Ireland ranks 10th overall in INSEAD's Global Talent Competitiveness Index 2014, Ireland ranks 55th in terms of the extent and the effect of taxation on attracting talent. (The UK is 22nd).

(Source: INSEAD, Global Talent Competitiveness Index 2014, December 2014)

What Other Countries Say on Talent and Personal Tax

Sweden

"Sweden must be able to attract global talent. If Sweden wants to take full advantage of globalization, it should rethink its strategy for reaching international talent"

(Source: CEO of Stockholm Chamber of Commerce Maria Rankka, The Local, 17 March 2015)

"Global competition has made access to talent a key factor of success for knowledge-intensive firms. Human capital and brain power is an essential ingredient for growth in the new economic landscape. In specific, the twelve big multinationals with headquarters in Sweden must be able to attract international talent. That is also true for smaller innovation-driven companies, not least the successful Swedish tech start-ups."

(Source: CEO of Stockholm Chamber of Commerce Maria Rankka, The Local, 17 March 2015)

"The barriers to hire foreign experts need to be lowered in tandem with making Sweden more open and welcoming."

(Source: CEO of Stockholm Chamber of Commerce Maria Rankka, The Local, 17 March 2015)

The UK

"We do that [attract earners] first by guaranteeing that tax rates in Scotland will be no higher than the rest of the United Kingdom ... This sends out the right message to everyone from across the UK that Scotland is not about punishing earned wealth."

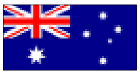
(Source: Scottish Conservative leader Ruth Davidson speech to the Adam Smith Institute, August 2015)

"I want a Scottish Government that unambiguously and enthusiastically seeks, attracts and retains the best talent that Britain has – and which recognises that we need to be in the hunt for talent."

(Source: Scottish Conservative leader Ruth Davidson speech to the Adam Smith Institute, August 2015)

"We [the UK] suffered in the 2000s with a brain drain to Canada, because of Canadian tax breaks for their industry. So a lot of our talent went and a lot of studios set up in Canada. "Thus Britain's games development industry slipped from third place in the world to sixth.

(Source: Jo Twist, Chief Executive of the Association for UK Interactive Entertainment, The London Times, 1 September 2015)



Australia

"Knowledge-based sectors now contribute much more to Australian GDP than the resources sector. To continue to play its crucial role Sydney needs access to the world's talent. The more open we are to talent the more we contribute to Australia."

(Source: Chief Executive of the Committee for Sydney Tim Williams, The Australian Financial Review, March 2015

"Personal taxation is particularly important because it directly affects the ability of businesses to attract the right human capital."

(Source: The Committee for Sydney & Deloitte, 'Visa and tax reforms to ensure Sydney remains open to the world's talent' paper, April 2015)

Singapore

"It would be naive to think that we can keep raising tax rates without affecting our competitiveness. We must remain an attractive place for world-class teams to be in Singapore with Singaporeans at the core, and to keep our place in the world. This will keep our economy vibrant, and retain talent, so that all can contribute to building a better Singapore."

(Source: Finance Minister Tharman Shanmugaratnam, Singapore Budget 2015 speech, February 2015)

Reaction to Singapore's decision to increase the marginal rate from 20% to 22% on income above €202,000 [SGD $320,000]:

"The increase in the top marginal personal tax rate is a calculated risk for Singapore, as its competitive position is weakened for a group of highly mobile senior executives." - Grahame Wright, partner of the human capital division at Ernst & Young Solutions.

Neil Clark, marketing director, Asia Pacific, eFinancialCareers said he doesn't expect the tax increase will hurt recruitment efforts of Singapore firms, however, " if the tax rate went up to 35 percent, that may be a different story".

(Source: CNBC article 'Will Singapore's tax hike on top earners deter top talent?' February 2015)

Belgium

"Fiscal incentives, such as the expatriate tax regime, which help offset high labour costs and attract foreign talent, play a vital role. This is especially true for highly skilled workers, who can cost companies up to 30% more to employ in Belgium than in neighbouring countries."

(Source: American Chamber of Commerce in Belgium, 'Expatriate tax regime in jeopardy', February 2015)

France

"The French government has been actively trying to trim down its notorious red tape and make it easier for companies to attract talent."

(Source: LBB editorial, "Coming or Going? Is France Doing Enough to Attract and Retain Talent?" July 2015

"The city – and what it offers – is already world class so it can easily attract world class talent. To further attract talent, much like Amsterdam did years ago, Paris now has tax breaks for expats and for the companies that hire them."

(Source: LBB editorial, "Coming or Going? Is France Doing Enough to Attract and Retain Talent?" July 2015

What Leading Irish Figures are Saying on Talent and Personal Tax

"In an internationally competitive environment, companies and people look at the total tax burden when deciding to invest or relocate. Ireland needs to be competitive in relation to personal taxation rates. In order to ensure that we can continue to compete to attract and maintain the best talent, the government should continue to reduce the personal tax burden, as budgetary arithmetic allows. The availability of talent will be the key differentiator for locations to win FDI in the future."

(Source: IDA Ireland, 'Winning: Foreign Direct Investment 2015-2019', February 2015)

"More third level qualified people are leaving the country in recent years than are arriving."

(Source: National Competitiveness Council, Ireland's Competitiveness Scorecard 2015, July 2015)

"Attracting talent home is also an emerging issue. Marginal tax rates for higher earning and internationally mobile workers are less competitive."

(Source: National Competitiveness Council, Ireland's Competitiveness Scorecard 2015, July 2015)

"Competition for talent is global and intensifying. Despite significant increases in graduate numbers, skills shortages are emerging across multiple sectors—particularly, science, technology, engineering and ICT."

(Source: National Competitiveness Council, Ireland's Competitiveness Scorecard 2015, July 2015)

"Ireland is a hugely attractive place in which to work and live; however, high rates of personal taxes kick in too early and do not help efforts to sell Ireland as a place to either stay in or move to."

(Source: KPMG Ireland, Irish Times, 27 July 2015)

"Almost 70% of CEOs list the ability to access a highly skilled workforce as a critical factor to maintaining and/or increasing Ireland's attractiveness as a location of choice for FDI."

(Source: PwC 2015 CEO Pulse Survey, July 2015)

"The real pressure for Ireland on personal tax kicks in once the salary levels go above c€70,000. The combination of a very high rate which kicks in at this salary level puts Ireland's effective personal tax rates out of sync with our competitors. It is particularly relevant in an environment when skills are in short supply and where Ireland is trying to maintain our cost competitiveness."

(Source: PwC 2015 CEO Pulse Survey, July 2015)

“Skills and getting the right people are key characteristics of the fastest growing firms”

(Source: InterTrade Ireland, Business Monitor Q2 2015, August 2015)

“A marginal rate of tax above 50% is a tax on talent and makes it more difficult to attract people to this country.”

(Source: American Chamber of Commerce Ireland, statement on the launch of ‘Ireland: A Global Centre for Talent’, December 2014)

“Ireland’s high marginal tax rate has been a dissuasive factor for attracting talent, as potential employees may be sought from countries where their tax burden is lower– often significantly so.”

(Source: American Chamber of Commerce Ireland, Ireland: A Global Centre for Talent, December 2014)

“The personal tax burden on skilled workers is now at a level which is making it challenging to retain critical technical and leadership talent within the jurisdiction.”

(Source: American Chamber of Commerce Ireland: Pre-Budget Submission 2016, July 2015)

“Ireland must remain sensitive to the fact that this vital talent pool is in short supply globally and both employees and potential recruits are being attracted to jurisdictions where their total income tax and national insurance burden is lower – often significantly so.”

(Source: American Chamber of Commerce Ireland: Pre-Budget Submission 2016, July 2015)

“End the new third higher rate of tax above €70,000 which is causing problems in attracting high skilled staff”

(Source: IBEC, Budget 2016 - Invest ambitiously, July 2015)

“The Irish start-up scene, especially the tech entrepreneurs, they’re really competing with the big guns of the world in trying to hire and employ [employees].”

(Source: Terence O’Rourke Chairman Enterprise Ireland, Newstalk, 15 July 2015)

“There is a global war on talent”

(Source: Dublin Commissioner for Startups, Response to Public Consultation Process by the Department of Finance, July 2015)

Share Options Regimes – Crucial for Startups

The Issue: Ireland's regime is not as attractive as competitors

- ✓ Many of Ireland's competitors have introduced tax efficient share option regimes.
- ✓ Some schemes defer the taxation point until the shares are actually sold. This means that the employee has the cash to pay the tax due.
- ✓ Any gains are normally subject to lower capital gains tax rates.
- ✗ This is in contrast with the Irish regime where share options are subject to **both** personal taxes at exercise (i.e. purchase) **and** CGT at the top rate of 33% when the shares are sold.

Why do we need to address this issue?

The issue impacts employees in Irish start-ups, SMEs and expanding Irish companies.

Overall, it impacts Ireland's attractiveness in terms of retaining and attracting talent.

NB **European Commission stresses the importance of employee ownership**

"Thirty years of research have confirmed that companies partly or entirely owned by their employees are more profitable, create more jobs and pay more taxes than their competitors without employee ownership."

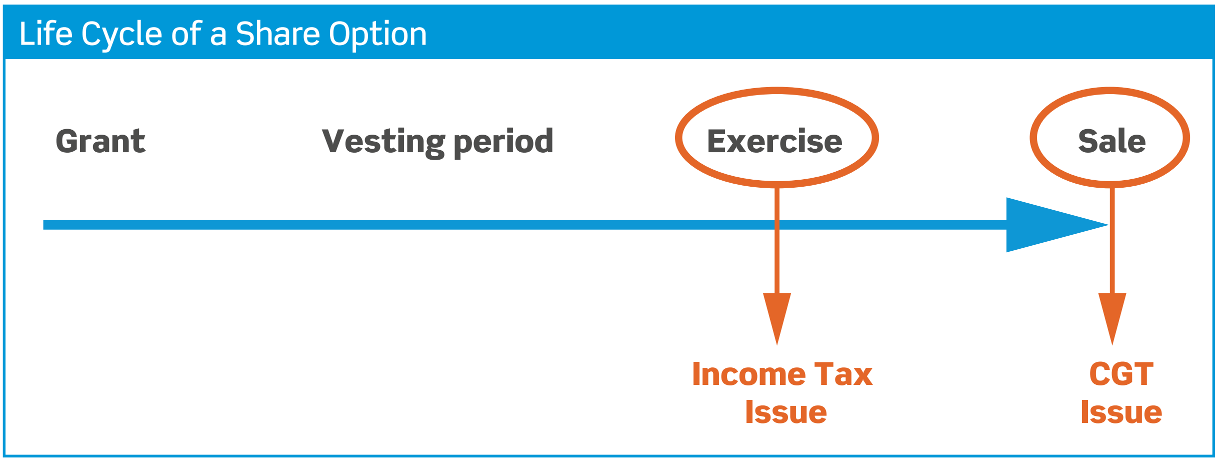
Source: Inter-University Centre for European Commission's DG MARKT, 'The Promotion of Employee Ownership and Participation', October 2014

What are share options?

- Share options are a form of equity remuneration used by companies to attract and retain talent.
- A company is normally free to choose which of its employees and executives may participate in the scheme and on what terms.
- Options are granted to employees, who obtain rights to acquire shares in the employer company at a future date at a fixed price.
- Normally a waiting period and/or performance targets are imposed before the options can be exercised.

Issues with Ireland's share option regime	
Issue 1	The difficulty arising at exercise (purchase) is the fact that although you are making a gain on paper, in reality this is a non cash gain. In order to fund income taxes arising, the employee must pay using their salary/other income or sell some of the shares acquired to generate cash. Selling the shares is not always feasible at this time if it is a private or start up company with no readily available market for the shares.
Issue 2	Share options are taxed at an individual's marginal rates of tax, making it uncompetitive when compared with countries whose marginal rate is lower and/or paid at a higher entry point.
Issue 3	At the date shares are sold, the employee has to pay CGT at 33% on any uplift in value from the exercise date. The CGT rate has increased by 65% since 2008. In some countries, relief is also available to reduce the level of CGT payable on sale of shares e.g. EMI shares in the UK.
Issue 4	The exercise of share options creates tax payment and filing administrative obligations for employees. This is unlike the case with most other forms of remuneration offered by Irish employers which are normally taxed via the PAYE system with no personal filing obligation created.
Issue 5	There are currently only two tax efficient Revenue approved schemes in Ireland, the APSS & SAYE schemes. There are many conditions attached and tax relief is only available for income tax, not USC or PRSI. Implementing these schemes is not always feasible for Irish companies e.g. small start up companies or multinational companies applying a global plan that cannot be tailored for Irish specific rules.

How does the tax on share options work in Ireland?



Step 1 – Grant

- Employee is given a Share Option.
- That is, the opportunity to buy a share at a future point in time at a set value agreed at the very outset, on Day 1.
- The fixed price offered to the employee is known as the "exercise price".

Example: In Year 1, an employee is granted the option to buy 1,000 shares in the company in Year 3 at a fixed price of €5 per share (payable on exercise, in Year 3).

Step 2 – Vesting (Period where targets are met)

- Several performance targets may need to achieved before the options can be exercised.

Example: The options are subject to the company reaching certain growth targets over a set period of time (known as the vesting period).

Step 3 – Exercise (Buy the Share)

- At this point of time, the employee can buy the shares if she/he wishes. There is no obligation to buy – it is an option.
- The employee exercises the right to buy the shares at the price agreed on Day 1.
- If the actual value of the shares at this date is greater than the price the employee has to pay to buy them, a gain is realised for tax purposes.

Example: In Year 3, the shares are worth €8 each. The employee only pays €5 to acquire the shares. A taxable gain of €3 per share arises.

Note: If the actual value of the shares at this date is less than the exercise price, the employee is unlikely to buy the shares i.e. the options will lapse. No tax is then payable.

The Income Tax Issue Arises when you Buy the Shares

- Any gain is subject to income tax, USC and employee PRSI at marginal rates of 52%.
- The employee must pay these taxes to Revenue themselves within 30 days of exercise and must also file an income tax return for that year.

Example: The total taxable gain is €3,000 (€3 per share x 1,000 shares acquired). Tax of up to 52% will be levied on this amount.

Income Tax Due Although The Gain Is Only On Paper

- Even though the employee has not actually made any money and this gain is only on paper, they must still pay income tax, USC and PRSI.

Other Countries Have Addressed This Income Tax Issue

- Many of Ireland's competitors have introduced reliefs to defer the tax trigger point until cash is actually realised i.e. no tax is paid until the shares are actually sold.

Step 4 -Sale (Capital Gains Tax)

- If the employee makes a profit when selling the shares, this capital gain will be taxed.
- Capital Gains Tax (CGT), currently at a 33% rate, will be charged on the difference between the sales proceeds and the value of shares when acquired at exercise (i.e. purchase).

Example: If the employee sells all 1,000 shares for €12 per share, CGT will be charged on the gain of €4,000 (€12,000 sales proceeds less €8,000 cost base). Tax of 33% will be levied on this amount.

What Others are Saying on Ireland's Share Option Regime

Terence O'Rourke, Chairman Enterprise Ireland

"...the reality is that the currency they [Irish start-ups] can best pay those people [employees] is on the shares of that company, or the ability to share in the gain of that company as it grows bigger. And the reality is our tax laws for incentivising employees through things like share options, is not sensible."

".....the point is that income tax crystallises when they get a title of the share, not when they have any cash. And in a private company you can't sell the shares easily. So you're left with this tax bill, at a time, when you've got to raise, pay cash to the taxman, when you've no cash to do it".

(Source: Chairman of Enterprise Ireland Terence O'Rourke Interview, Newstalk Breakfast, 13 July 2015)

American Chamber of Commerce

"With the exception of Approved Profit Sharing Schemes, the overall climate for employee share incentives in Ireland is generally unfavourable."

(Source: American Chamber of Commerce Ireland: Pre-Budget Submission 2016, July 2015)

Small Firms Association

"The current situation is very inequitable and damages the ability of start-ups to attract talent. ... Start-ups cannot pay salaries or offer benefits that compare to large established multinationals, so they must compete to attract talented employees by way of share options with potentially great future value."

"There is currently no good way to reward early employees for the risks they are taking, and the vital contribution they are making to entrepreneurial activity in the Irish economy. Therefore, a mechanism should be available so that employees of start-up companies can be taxed on share options at CGT rates at the time when the purchased shares are disposed of."

(Source: Small Firms Association, Pre-Budget Submission 2016, August 2015)

Interesting Facts

A survey of multinationals by PwC in 2015 identified tax efficiencies/savings for both employees and the company as a main priority for 54% of respondents when implementing equity plans.

(Source: PwC, 2015 Global Equity Incentives Survey, August 2015)

A study by EY shows that 39% of companies operate approved or qualified global share plans to provide participants with beneficial tax treatment. The UK, Australia, France and the US are the most common countries in which companies operate these tax efficient global share plans.

(Source: EY Global Share Plan Survey 2014, October 2014)

A sample of tax efficient schemes in other countries

Country	Ireland	UK	USA
	Unapproved share option scheme	**Enterprise Management Incentive (EMI)**	**Incentive Share Options (ISOs)**
Does the employee pay income tax and social security on exercise?	Yes 52%	No	No (but may trigger Alternative Minimum Tax liability)
CGT on sale?	Yes @ 33%	Yes Up to 28% Entrepeneurs' relief may be available to reduce CGT rate to 10%	Yes @20% State and local taxes may also apply (If certain holding period requirements are not met, gains will be taxed at marginal income tax rates)

PRSI (Pay Related Social Insurance)

Facts on the PRSI regime

Payable by employees and self-employed at 4% if aged 16-66

Employer PRSI rate of 10.75% (reduced to 8.5% where weekly earnings of the employee are less than €356)

PRSI Receipts

PRSI receipts for 2014 were €8.2 billion.

Common PRSI exemptions

Exemption from employer PRSI
• Share based remuneration
Exemption from employee PRSI
• If total weekly employment earnings are less than €352 (€18,304 annual) • Individuals aged 66 or over • Individuals aged 16 or under • Termination payments e.g. statutory redundancy, ex-gratia payments, etc • Social welfare payments e.g. maternity benefit, jobseekers allowance, etc

The big PRSI moves for employees since 2011

2011

- Earnings ceiling abolished.
- Employee PRSI relief for payments to their own pensions and PRSAs abolished.
- Share-based remuneration became subject to employee PRSI at 4% rate (exempt from employer PRSI).

2013

- Weekly PRSI-free allowance of €127 abolished.

2014

- PRSI at 4% chargeable on the additional unearned income (e.g. rental income, dividend income) of employees & occupational pensioners under pension age (previously PRSI exempt).

The Self-Employed Story

3 main differences between the tax treatment of the employed and self-employed person

- Difference No.1 – The 3% USC surcharge
- Difference No.2 - The €1,650 PAYE Tax Credit
- Difference No.3 – PRSI differential

Difference No.1 - The USC surcharge of 3% over €100,000

Once a self-employed person earns more than €100,000, they pay a 3% USC surcharge on income above that level.

If the Minister was to eliminate this extra 3% how many people would benefit?

- **28,700** taxpayers for 2015.[1]
- This is up from 10,300 taxpayers in 2012.

What is the extra tax due?

Total income €120,000	Employee	Self-employed	Difference
Total income tax, USC and PRSI	€50,784	€53,034	€2,250

Difference No.2 - The PAYE Tax Credit

- The PAYE tax credit of €1,650 is available to all employees.
- It is not available to the self-employed or to proprietary directors.

How many taxpayers are impacted by this difference?

Estimated 303,200

"I am advised by the Revenue Commissioners that the estimated number of income earners who are self-employed or proprietary directors and are not in receipt of the PAYE tax credit is ***220,000 and 83,200*** *respectively. The number given for the self-employed relates to income earners whose main source of income is from non-PAYE sources".*

Minister Noonan, Dáil PQ 67, 26 Feb 2015

NB **A self-employed single person on an income of €17,500 pays 5 times more tax and PRSI as an employee on the same income.**

1 Source: Revenue, September 2015.

What could the Minister do?

The most likely way of addressing this difference would be to introduce an earned income tax credit for the self-employed, as originally suggested by the Commission on Taxation.

Would would it cost?

The cost of introducing a credit that is equal to the PAYE tax credit (€1,650) would be **€470 million** per annum when fully introduced. (Source: Dáil PQ 59, 11 March 2015)

If introduced, all self-employed persons and proprietary directors would reduce their tax bill by €1,650.

Difference No.3 (low earners) – PRSI differential

- For a PAYE employee, no PRSI is paid if they earn less than €18,304 p.a. (€352 per week) – once earnings go over this amount, 4% PRSI is paid on **all** income
- For a self-employed person, no PRSI is paid if they earn less than €5,000 of income p.a.
- Once earnings go over €5,000, 4% PRSI is paid on **all** income. A minimum of €500 must be paid
- At an income level of €18,303, a PAYE employee will pay no PRSI
- A self-employed person with an income of €18,303 will pay PRSI of €732 (per annum)

PRSI for the self-employed

PRSI for the self-employed is currently 4%, increased from 3% from 1 January 2011.

The 4% rate applies to all gross income, excluding certain capital allowances.

A self-employed contributor who is liable for social insurance contributions is entitled to the following benefits:

- *State (Contributory) Pension*
- *Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension*
- *Guardian's Payment (Contributory)*
- *Maternity Benefit*
- *Adoptive Benefit*
- *Bereavement Grant on broadly similar conditions as apply in the case of employed persons.*

Self-employed contributors are not entitled to Jobseeker's or Illness Benefit.

What is the combined impact of the USC surcharge and the PAYE tax credit differential for earners over €50,000?

This table shows the combined disparity of tax treatment between employees and the self-employed at middle and higher incomes as a result of:

a. The PAYE tax credit, **and**

b. The extra 3% rate of USC.

(Note: there is no PRSI differential on incomes above €18,304 p.a.)

Salary Level	Effective tax rate for Employee	Effective tax rate for Self-Employed	Extra tax paid by Self-Employed
€50,000	29.2%	32.5%	€1,650
€60,000	32.8%	35.6%	€1,650
€70,000	35.4%	37.8%	€1,650
€80,000	37.5%	39.5%	€1,650
€90,000	39.1%	40.9%	€1,650
€100,000	40.4%	42.0%	€1,650
Above €100,000 the extra 3% USC rate kicks in for the self-employed			
€110,000	41.4%	43.2%	€1,950
€120,000	42.3%	44.2%	€2,250
€130,000	43.1%	45.0%	€2,550
€140,000	43.7%	45.7%	€2,850

What is the combined impact of the PAYE tax credit differential and PRSI differential for a lower income earner?

Let's take a single person with an income of €15,000.

If they are an employee they pay:

• No Income Tax (due to PAYE and personal tax credits)[1] • 1.5% USC on the first €12,012, and 3.5% on the balance • No PRSI	€0 €285 €0
Total tax paid	**€285**
Effective tax rate	**1.9%**

If they are **self-employed** they pay:

• Income tax (No PAYE credit available)[2] • 1.5% USC on the first €12,012, and 3.5% on the balance • PRSI of 4% on €15,000	€1,350 €285 €600
Total tax paid	**€2,235**
Effective tax rate	**14.9%**

1 Combined PAYE and personal tax credits of (€1,650 + €1,650 = €3,300). The result of the combined credits is that no income tax is payable on the first €16,500 of income.
2 Personal tax credits only of €1,650. The result is that no income tax is payable on the first €8,250 of income.

Entrepreneurship

Why entrepreneurship is important for Ireland

- Ireland is a small economy.
- SMEs account for 99.7% of active enterprises and 68% of people in private sector employment[1], but our self-employment figures have dropped by 4.5%.
- We are competing with locations such as Silicon Valley, New York, Toronto, London and Paris.
- To be successful, our tax policies must at least match those of our competitors.

The challenges we face

Ireland is not advancing up the global rankings on entrepreneurship; and key Irish entrepreneurs and business leaders are expressing concern about the tax environment.

Ireland's global rankings

Global Entrepreneurship Index[2]

Year	Ireland	UK
2013	17th	14th
2014	18th	9th
2015	17th	4th

Lagging behind the larger EU countries

"While the leading countries have similar entrepreneurial features, individual European nations and the European Union lag behind the United States, and this gap is widening; this is especially evident in Portugal, Ireland, Italy, Greece, and Spain—which lag far behind the larger EU countries and the Nordic fringe."[2]

Global rankings are not improving[3]

- 20,400 people started a new business in Ireland in 2014, down from 32,000 in 2013.
- Ireland fell from 9th in 2013 to 16th in 2014 for early stage entrepreneurial activity across the EU-28.

1 CSO, Business in Ireland 2012, Published December 2014
2 GEDI, Global Entrepreneurship Index 2015, Published November 2014
3 Global Entrepreneurship Monitor 2014, Published September 2015

The Government has introduced a number of measures for entrepreneurs in Ireland

- CGT Entrepreneur Relief was launched in 2013.
- An Employment and Investment Incentive (EII) was introduced to replace the Business Expansion Scheme but is more restrictive.
- Lower 9% VAT rate for certain tourism and personal services. The lower rate of Employer PRSI was also temporarily halved.
- The VAT cash receipts basis was extended.
- The income tax Foreign Earnings Deduction was introduced and subsequently extended.
- The Special Assignee Relief Programme was introduced and then improved in Budget 2015.
- The Start Up Relief for Entrepreneurs (SURE) scheme was launched to replace Seed Capital Relief.
- Start Your Business Relief (SYOB) was launched, which is a tax relief for the long term unemployed who start a business.
- The R&D tax credit base year was removed.
- The Home Renovation Incentive was launched and subsequently extended.

However, many have voiced concerns about the challenges remaining in our tax environment and the need to improve key tax measures

What Irish entrepreneurs and others are saying about our tax environment

"Entrepreneurs would like to be able to take what you've taken from one business and efficiently invest that money in the next venture to create more jobs, but no, you've to take a third of it and hand it over."

"Back in the day when it was closer to 20pc, it was palatable enough, but good God, at 33pc you're getting close to marginal."

Eirgen Pharma co-founder and chief executive Patsy Carney[1]

"We're seeing it become much more attractive for entrepreneurs to found businesses outside of Ireland due to the tax regime."

Slainte Healthcare founder and CEO Andrew Murphy[1]

"A 33pc capital gains rate "doesn't seem right"…….We've got to be competitive with what is out there…the objective of giving a tax break is actually to bring in more money".

Frank Murphy, founder and CEO of Monex Financial Services[1]

1 Sunday Independent, 'Ireland's top entrepreneurs call for overhaul of tax system', 12 July 2015

“There is a global war on talent. The best-funded companies will win this war”

Dublin Start-up Leaders Group[1]

“The UK has recognised the differential risk profiles between micro and medium sized enterprises by introducing SEIS which provides more generous incentives for individuals investing in start-up firms less than two years old with less than 25 employees and gross assets of less than €200,000”

The Irish Software Association[1]

“Investment schemes exist in Ireland – they are just nowhere near attractive enough to drive the levels of investment that are needed and that are seen in the UK”.

Brian Caulfield, Irish Venture Capitalist at Draper Esprit[1]

“Currently the environment in Ireland doesn’t encourage the average man or woman on the street to get involved in investing or startups”. Bringing in a scheme is of “critical importance”. We are starting to see companies move out of Ireland and to the UK earlier “as it is easier for them to get early stage funding there. If we don’t have an environment that prompts people to set up companies than we will fall behind”.

Niamh Bushnell, Dublin Commissioner for Startups[2]

Gary Leyden of NDRC, an early stage investor in Irish tech companies, suggested Ireland should look to the UK and emulate its approach, saying London is aggressively marketing itself as a start-up hub.

Gary Leydon, NDRC[3]

“Dublin Chamber has noted an increase in the number of businesses seeking to relocate to the UK. While this trend does not automatically imply job losses for Ireland, it does carry a heavy opportunity cost as businesses that might otherwise have started or grown in Ireland are now doing so in the UK.”

Dublin Chamber of Commerce [4]

1 Dublin Commissioner for Startups, Response to Public Consultation Process by the Department of Finance, July 2015.
2 Irish Independent, ‘Startups group says tax change could unlock €100m’, 15 July 2015.
3 Irish Independent, ‘Pressure on Ireland as UK attracts one third of VC funding’, 24 July 2015.
4 Irish Independent, ‘High taxes forcing startups to move to the UK’, 23 July 2015.

“A broader range of people have become increasingly interested in this type of risky, but potentially lucrative, investment through schemes where smaller investments of €5,000 to €10,000 are pooled. To encourage this type of investor as well as traditional angels, the Start-up Leaders Group is asking the Government to consider implementing a scheme similar to the UK’s highly successful Seed Enterprise Investment Scheme (SEIS).”

“According to the Irish Venture Capital Association, an impressive €120 million went to Irish companies in the first quarter of this year, but – worryingly – the proportion representing seed capital was only 10 per cent, down from 17 per cent in 2014.”

“The payback of an investment-led scheme that boosts company growth, the group says, is tangible, because high-growth companies create the largest numbers of jobs. In the UK, just 6 per cent of high-growth companies were credited by a Citi study with creating 50 per cent of the UK’s job growth between 2002 and 2008.”

Start Up Leaders Group & Irish Venture Capital Association[1]

The Focus on Entrepreneurs – What other countries are saying

Canada

“In comparison with the United States, hiring foreign talent in Canada is much easier. The Canadian government initiated the special Start-up Visa which offers potential permanent residency and low taxes benefits to attract entrepreneurial talents from abroad. This program was deliberately created to compete with Silicon Valley.”[2]

Netherlands

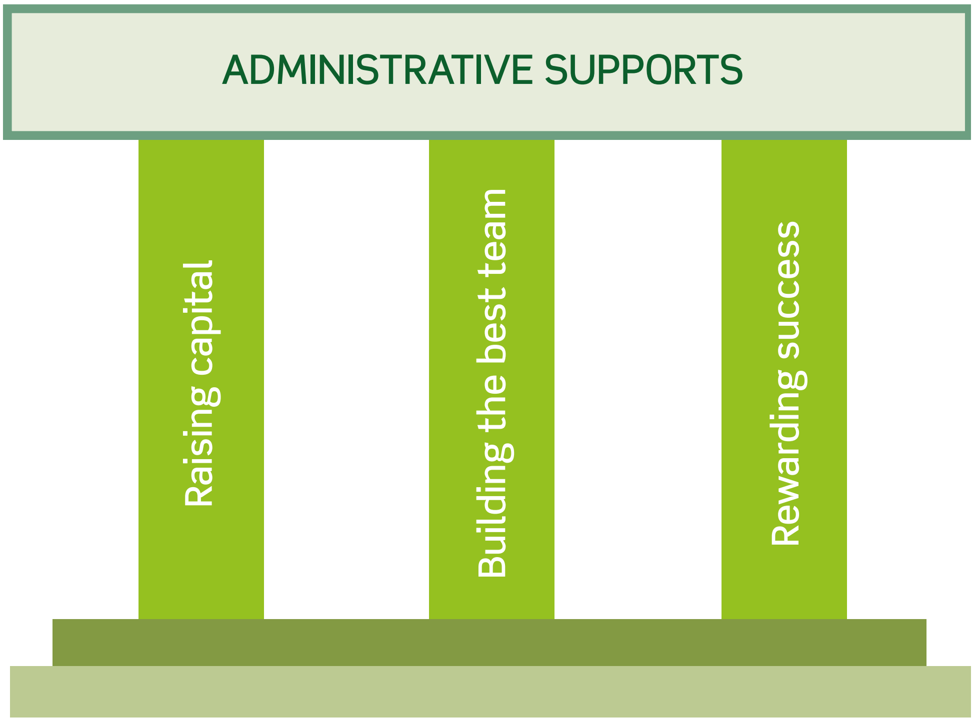
“The government wants to remove barriers and give ambitious entrepreneurs all possible scope for development. Among the advantages: Access to capital, favourable tax regulations, availability of sources of innovation and knowledge and supporting legislation.”

“Ambitious entrepreneurs and start-ups in particular, are a driving force behind the Dutch economy. They generate new jobs and therefore contribute significantly to economic growth and solutions to our societal challenges.”[3]

1 The Irish Times, ‘Big benefits for all from UK’s Seed Enterprise Investment Scheme’, 16 July 2015.
2 AIESEC, ‘Canadian IT Industry: Potential for Future Success’, 20 February 2015.
3 Forbes, ‘Startup Visas: The New Fad Attracting Entrepreneurs To Europe’, 13 March 2015.

Three Pillars for Good Entrepreneurial Policy

1. Raising capital - getting funds and money into business
2. Rewarding risk – the capital tax environment
3. Building the best team within the business – talent and tax



1 Raising capital - getting the venture off the ground and funding growth

- Entrepreneurs are more reliant than ever on raising funds from private capital and venture funds.
- Tax measures are important support to encourage private sector funding in risky investments.
- Ireland's main tax measure to encourage third party investment into entrepreneurial business is called the Employment and Investment Incentive (EII).
- The EII replaced the previous (and more attractive) Business Expansion Scheme (BES) and since 2011, the value of funds invested in entrepreneurial projects has halved.

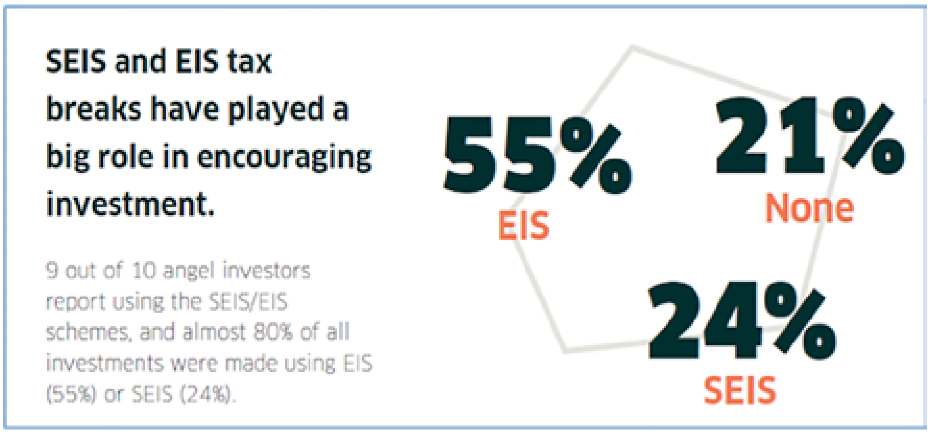
Year	Relief	Cost €million	Funds Invested €million (approx.)[1]	No. of investors
2011	BES	€41 million	€100 million	927
2012	BES	€31.5 million	€76.8 million	984
2012 (part of year)	EII	€4 million	€13 million	352
2013	EII	€12.3 million	€41 million	1,006
2014 (provisional)	EII	€15.1 million	€50 million	1,132

- In 2013 the Government anticipated that the cost of the scheme would be €54 million. The actual cost was €12.3 million - a clear demonstration that the terms of the scheme are delivering sub-optimal investment levels.
- The Government has made improvements to the EII regime since the latest figures above were published. However, more work is needed to make this relief competitive.

Case Study: How tax policy is driving funding for entrepreneurs in the UK

‘The ‘Big 2’ Tax Measures that Drive Funding for UK Entrepreneurs

The UK has two main funding tax measures which play a big role in encouraging investment activity; Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS).



These two measures grew by over 90% and 40% respectively between 2012 and 2014.

Each year private investors account for between £800 million and £1 billion of early stage investment in the UK - the single largest source of early stage capital in this country.

Source: Centre for Entrepreneurs and the UK Business Angels Association[2]

1 Actual levels of funds invested through EII was not available at the time of writing and therefore these figures are estimated based on the published cost amounts by the Department of Finance in October 2014.
2 ‘Nation of angels: assessing the impact of angel investing across the UK’, January 2015.

What commentators are saying about SEIS

The profile of SEIS investors is private professionals or "angels", many of whom are investing small amounts of between £5,000 and £10,000.

"SEIS is helping to fuel a hiring spree among tech start-ups. Job vacancies are up 40% since the start of 2015 and 80% year on year."[1]

"58% of investors said they would have invested less or not at all if incentives like SEIS were not available."[2]

"The Seed Enterprise Investment Scheme (SEIS) is working. In fact, it's flying. Over the past year, there has been a 73% surge in the number of start-ups raising funds from private investors through this Government-backed scheme."[3]

"Critically, SEIS tax relief on the investment amount and also the ability to take some relief on any losses removes a significant level of risk out of such investments for smaller investors, making angel investing far more attractive."[4]

What commentators are saying about EIS

"EIS investments are relatively high-risk and they are not for everyone. The risks tend to be mitigated by the attractive tax reliefs."

"EIS is the one tax incentive scheme that has its own box on the tax return. This shows how it's at the heart of government policy."

David Mott, Managing Partner at Oxford Capital[5]

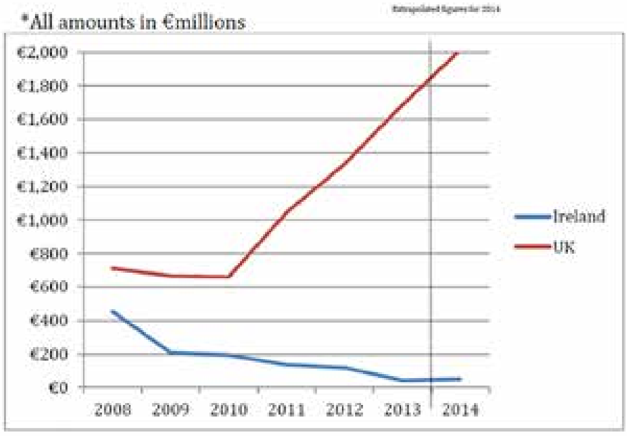
1 Thisismoney.co.uk, 13 June 2015.
2 Deloitte and UK Business Angels Association, 'Taking the Pulse of the Angel Market', May 2013.
3 The Telegraph, 'SEIS success: 73pc surge in start-ups adopting the scheme', 21 October 2014.
4 The Irish Times, 'Big benefits for all from UK's Seed Enterprise Investment Scheme', 16 July 2015.
5 The Financial Times, 'How to invest in enterprise investment schemes', 20 February 2015.

The Comparison of EII in Ireland vs. UK EIS and SEIS

	EII	UK EIS	UK SEIS	Comment
Rate of relief	30% in year 1 + 10% after 3 years	30%	50%	In the UK the relief is available up front compared to Ireland where you have to wait 3 years
Company investment limit	€10 million lifetime limit	Stg£5 million per 12 months. No lifetime limit	Stg£150,000 lifetime limit	€10 million lifetime limit does not compare to unlimited lifetime limit in the UK
Investor Limit	€150,000 p.a.	Stg£1,000,000	Stg£100,000	Larger single investor limit in the UK makes it easier to raise funds. For every 3 UK investors you require 20 Irish investors
Holding Period	4 years	3 years	3 years	
Eligible companies	Most trading SMEs	Most trading SMEs	Small companies (<25 employees + < Stg£200,000 in assets)	
Treatment of Capital Gains	Gain on disposal of shares subject to CGT	Gain on disposal of shares exempt from CGT	Gain on disposal of shares exempt from CGT	UK regime much more attractive with no CGT on disposal

The Impact

Investment Levels in the UK versus Ireland - Level of Uptake



This graph simply tells us:

- Investment in Irish EIIS is declining, particularly in the area of tech startups.
- In stark contrast, the UK has seen a dramatic increase in the level of investment in EIS and SEIS with total investments during the year ended April 5th 2014 at circa £1.5bn.

Source: Dublin Start-up Leaders Group[1]

1 Dublin Commissioner for Startups, Response to Public Consultation Process by the Department of Finance, July 2015.

What would make the Irish reliefs for attracting funds more attractive?

The Government should consider enhancing the Irish EII regime by:

1. Increasing the €150,000 annual investment limit for individuals
2. Removing EII from High Earners' Restriction permanently
3. Providing full income tax, USC and PRSI relief in the year of investment (rather than in two stages)
4. Increasing the lifetime investment limit
5. Excluding EII shares from the charge to CAT (because they qualify for Business Property Relief)

2 Rewarding Risk – The Capital Tax Environment

- Capital gains tax (CGT) and capital acquisitions tax (CAT) rates in Ireland are high at 33%. They have increased by 65% over the past six years.
- Ireland competes with many other countries as a location for start-up investment.
- Investment capital is very mobile and other jurisdictions have increasingly competitive offerings.
- An Entrepreneur Relief was introduced in Budget 2014 to reduce the CGT charge for entrepreneurs on the disposal of a business.
- However the relief is very restrictive and complex. It is only available where an entrepreneur makes two consecutive successful entrepreneurial investments.
- The benefits of the regime are often uncertain and crystallise too far into the future to influence decisions made today.
- The UK has a simpler, clearer and more attractive relief which applies a flat 10% rate to entrepreneurial gains of up to Stg £10m. The Stg £10m limit has increased three fold since the relief was introduced.

CGT in Ireland on an investor's first entrepreneurial gain is taxed at 33%; over three times the tax rate of the UK.

Ireland v UK CGT Regimes – What Is Being Said

"…. people then need a regime which rewards … risk and rewards … enterprise. And at the moment the 33% tax rate is a huge chunk of money taking off, especially compared with what's happening in our colleague country, the UK, fifty miles away from here. Somebody can start up in Newry, and the first ten million they make, is taxed at 10%. Compared to in Ireland where any money you make, in terms of the capital gain that you make on investing in the company, is taxed at 33%. So a clear gap there. And it is a big big gap. "

Terence O'Rourke, Chairman Enterprise Ireland[1]

"We talk about being a tech hub and an epicentre of entrepreneurship …….But we don't have a tax structure to match it. I'm not talking about corporate tax; I'm talking about other rates, like capital gains tax, which are penal compared to neighbours in the UK. It's gotten to the stage that I hear of some companies who openly wonder whether they'll set up in Ireland rather than the UK or the North, partly for this reason. This is something the Government might want to look at."

Cyril McGuire, Trintech[2]

1 Newstalk Breakfast, 13 July 2015.
2 Irish Independent, 'Tax, Trintech and tech exits: how Cyril put a windfall into start-ups', 3 September 2015.

Case Study: A Look At UK CGT Entrepreneurs' Relief

The UK Government's stated ambition is "for the UK to be the best place in Europe to start, finance and grow a business".[1]

- Entrepreneurs' Relief was introduced in the UK from 2008 as a critical tool in pursuing this strategy.
- A low 10% CGT rate applies to gains that qualify - qualifying business assets or shares in a "personal company".
- Standard UK CGT rates are 18% and 28%.
- A lifetime limit of Stg£10 million qualifying gains exists.
- This lifetime limit has been increased three times since the relief was introduced: from Stg£1 million to Stg£10 million.

What Ireland Needs To Do On Entrepreneurs Relief

Improve our entrepreneurship regime so that it at least matches the UK's offering:

- A clear 10% CGT rate on entrepreneurial gains is required.
- Enhanced by allowing payment of tax to be deferred if the sale proceeds are invested in other qualifying business assets within a certain defined timeframe. This would encourage further investment in productive business in Ireland.

3 Building the Best Team for the Business – Talent and Tax

The third challenging element of our tax environment for entrepreneurs is the absence of an attractive share option offering for 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 of the business when cash flow and profits are very tight. For these reasons share options in the company are often the best way of rewarding those who come on board.

Talented employees who are very often the 'make or break' element in a business have to pay income tax in Ireland when they exercise their share options (when they decide to use the option and purchase the underlying share). Furthermore if they hold the shares for a period of time and sell them at a later date they will also be liable to CGT at 33%. This is unusual by international standards.

"This is having a negative effect on the ability of Irish start-ups to attract world class talent."

National Policy Statement on Entrepreneurship 2014 (Department of Jobs)

1 Department for Business, Innovation & Skills, 'The Plan for Growth', March 2011.

Case Study - The role of tax policy in driving an industry's growth

A focus on the games and animation industry

2008-2011

The UK games industry is a good example having lost ground to Canada in the 80's and 90's they have now addressed the position by improving their offering:

Richard Wilson, CEO of the trade group The Independent Game Developers' Association, said the lack of similar incentives in the U.K. led to a declining industry. Its own figures suggest employment in the U.K. sector fell by more than 10% between 2008 and 2011 with investment dropping by £48 million, or about $81 million.

"The approval and implementation of Games Tax Relief is the single biggest policy measure in the history of the U.K. videogame industry," Wilson says. "It could not only help the U.K. become a top three games making nation once again, but allow our sector to reach new creative and artistic heights."

Fortune, 'To stem brain drain, U.K. gaming industry levels up', 12 May 2014

Since 2011

Culture Minister Ed Vaizey says games development has benefited, too, from the introduction of tax breaks, bringing it into line with other creative industries, such as film and high-end television.

"Companies, from the largest to the smallest, are all clear that the tax break is helping projects go ahead that wouldn't otherwise have happened, are acting as a real draw in winning investment from overseas, and crucially are helping studios hire more staff for their next project."

"There are 18 actual and potential games clusters across the UK, with 12 of them already established. There has been an explosion of games companies in the last few years – the number of companies has been growing by 22 per cent annually since 2011, according to Nesta."

UK Culture Minister Ed Vaizey, 'Develop Conference: Brighton 2015', 15 July 2015

In a recent Irish Times report on the state of the games industry in Ireland it was noted:

"In the meantime, the UK has not only caught up with Ireland, but leapfrogged us in terms of being a desirable place to do business for games creators. In the time it took for stakeholders in Ireland to consider their options, our closest neighbour has implemented a tax credit system aimed at games developers and set about creating an environment that would foster the industry's growth, including a funding structure that allows developers to access funding matching and credits to grow their potential investment pile."

"We're missing two things here: we're missing the grant support and the development loan financing support from the equivalent of the [Irish] Film Board, and we're missing the games tax credit, and we're ultimately uncompetitive as a result," says Barry O'Neill of Storytoys.

"Just five years ago, the UK was talking about brain drain, talking about key talent moving away from the UK attracted to Canada by various tax incentives."

"Now, he says, Ireland is at a disadvantage to the UK."

The Irish Times, 'Vision of Irish global games hub fails to materialise', 14 September 2015

Capital Acquisitions Tax (CAT)

There are three key issues when it comes to CAT:

1. Rates have increased 65% since 2008
2. Thresholds have halved since 2009
3. Asset values are increasing

Current Rules

- CAT is a tax on inheritances and gifts e.g. property, shares, cash, valuable jewellery, etc.
- The tax is paid by the person receiving the gift or inheritance.

CAT Rate	33%
Lifetime exemption thresholds	
Group A (Parents to their children)	€225,000
Group B (Between siblings, to nieces/nephews, to grandchildren/ great-grandchildren, to parents/grandparents)	€30,150
Group C (Relationship other that at A/B, e.g. cousins, friends, in-laws, etc)	€15,075

NB **There is no CAT on transfers between spouses. These are totally exempt.**

Small Gift Exemption

- Everyone can receive a gift of up to €3,000 each year without reducing the lifetime threshold.
- This small gift exemption applies to **each** person giving a gift e.g. a person can receive up to €3,000 from each of their parents **every year** without reducing the Group A threshold.
- It is not available for inheritances.
- The annual exemption for gifts was increased from £1,000 (€1,270) to €3,000 in 2003.

Cost of Changing Rates

The cost of reducing the CAT rate from 33% is roughly €12 million per 1%. i.e. a reduction in rate from 33% to 30% would cost circa **€36 million.**

(Source: Revenue Ready Reckoners, August 2015)

Cost of Changing Thresholds

For every 5% the thresholds are increased, it would cost just over **€13 million.**

(Source: Revenue Ready Reckoners, August 2015, assuming each threshold increased by same %)

Introducing a New Inheritance Tax Threshold for Family Homes Only

There has also been recent speculation that the Government may introduce a new inheritance tax threshold at €500,000 which applies only to family homes inherited by lineal offspring.

While no details are available as to the Exchequer cost of such a measure, it would be less costly than a general CAT rate reduction or threshold increase and would target the relief at children inheriting the family home.

The numbers who paid CAT in 2014

(Source: Dáil PQ 71, 22 January 2015)

Tax	Numbers Paying Tax	Average Tax Paid €
Inheritance Tax	11,651	27,722
Other Capital Acquisitions Tax	1,252	26,661
Total	12,903	27,605

Contribution of CAT to the Exchequer

The Government's total 2014 net tax take was €41.38 billion. Only approximately €356 million (<1%) came from CAT gift and inheritance tax.

Historical CAT Thresholds

- Group A threshold is half of what it used to be in 2009
- Combined with increased CAT rates, this means you pay more gift and inheritance tax today than you would have five years ago

Date the CAT Threshold changed	Group A (Son/Daughter)	Group B (Parent/Brother/Sister/Niece/Nephew/Grandchild)	Group C (Relationship other that at A/B)
6 December 2012	€225,000	€30,150	€15,075
7 December 2011	€250,000	€33,500	€16,750
1 January 2011	€332,084	€33,208	€16,604
8 December 2010	€332,084	€33,208	€16,604
1 January 2010	€414,799	€41,481	€20,740
8 April 2009	€434,000	€43,400	€21,700
1 January 2009	€542,544	€54,254	€27,127

Historical rates of CAT

- CAT rates have increased steadily over the last seven years
- The curent rate has increased from 20% in 2008 to 33% now
- This represents a 65% increase in the tax rate

Date the CAT Rate changed	Rate
1 December 1999	20%
20 November 2008	22%
8 April 2009	25%
7 December 2011	30%
6 December 2012	33%

Example of increased tax burden due to reduced thresholds

House worth €250,000 inherited from parent

Year	2009	2015
Group A threshold	434,000	225,000
Chargeable Amount (value of house less group threshold)	Nil	25,000
CAT liability (@25% / 33%)	Nil	8,250

Recent comments on CAT by the Department of Finance

Minister Noonan commented on the possibility of increasing thresholds

"I am aware that the property market continues to improve, with positive developments which had been restricted to the Dublin area now manifesting in other areas of the country, though not to the same extent in terms of price rises, and I recognise that this has a bearing on taxation of the inheritance and gifting of property with respect to CAT thresholds. In this light, I will be keeping Capital Acquisitions Tax thresholds and other aspects of the tax under review, particularly in the context of preparations for Budget 2016 and the consequent Finance Bill. I do not, however, have any plans to modify an individual's threshold based on the number of his or her siblings."

(Source: Dáil PQ 104, 19 May 2015)

"**Minister of State Simon Harris also commented in on the issue:**

"The view of the OECD, supported by our own economic research, is that taxes on immovable property and certain other capital are less harmful and distortionary to economic growth than taxes on work or consumption."

"The Minister recognises that recent growth in property values has implications for the liabilities that can arise from CAT. It is for this reason that he has already indicated to the House that he is reviewing the various aspects of this tax in the context of his preparations for the 2016 budget and the subsequent Finance Bill."

(Source: Minister of State Simon Harris, Dáil discussion, 25 June 2015)

Worldwide Estate and Inheritance Tax Rates

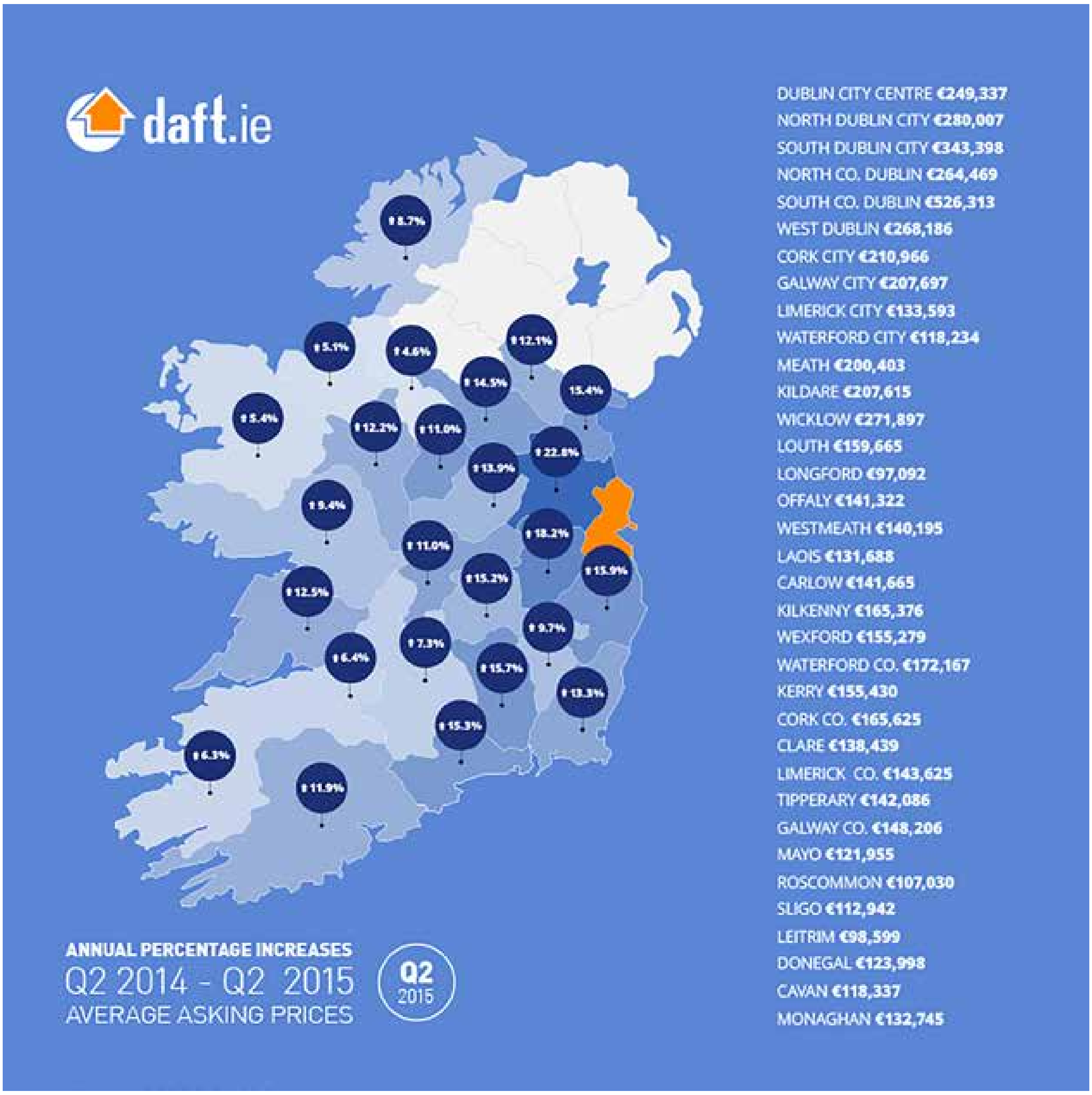
Note below that most countries apply their capital tax (equivalent to CAT) to inheritances only and not to gifts.

(Source: The Tax Foundation, Estate and Inheritance Taxes around the World, March 2015)

Country	Top Rate to Lineal Heir	Tax Type
Japan	55%	Inheritance Tax
South Korea	50%	Inheritance Tax
France	45%	Inheritance Tax
United Kingdom	40%	Inheritance Tax
United States	40%	Estate Tax
Ecuador	35%	Inheritance Tax
Spain	34%	Estate Tax
Ireland	**33%**	**Gift and Inheritance Tax**
Belgium	30%	Inheritance Tax
Germany	30%	Inheritance Tax
Chile	25%	Estate Tax
Venezuela	25%	Inheritance Tax
Bermuda	20%	Estate Tax via Stamp Duty

Property Prices

(Source - The Daft.ie House Price Report Q2 2015, July 2015



CAT Group A Threshold (from parent to child) - €225,000

Average House Prices in 2015

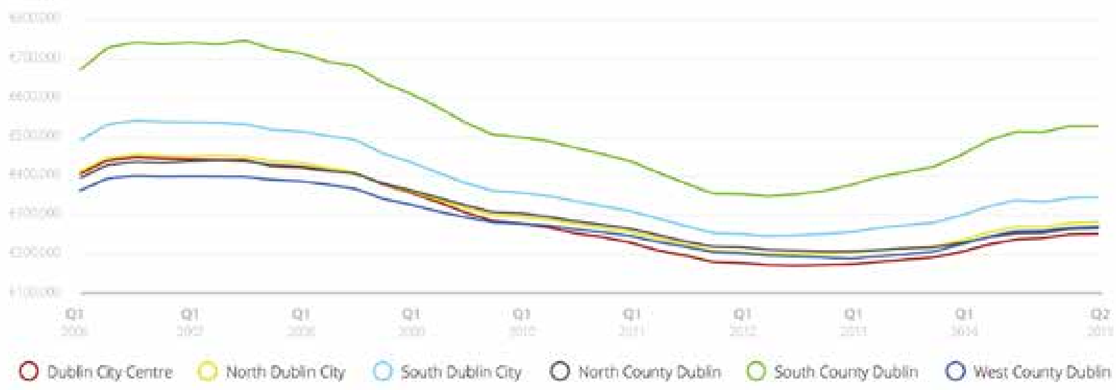
South County Dublin - €526,313

Cork City - €210,966

West Dublin - €268,186

Property Prices in Dublin

How have house prices changed?



Average house price by area, 2006-2015

Property Prices in Munster

How have house prices changed?

Average house price by area, 2006-2015

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What to watch for

1. The Government's position on the final reports from the OECD BEPS project. In particular, the proposals on Country-by-Country Reporting (CbyCR); and

2. Clarification on the detail of the Knowledge Development Box.

The OECD BEPS project

The OECD has been working on a major project throughout 2014 and 2015, aimed at addressing BEPS – Base Erosion and Profit Shifting. There are 15 separate actions within the BEPS project and they broadly cover:

- Changes to transfer pricing rules, particularly intangibles
- Tax jurisdiction and the digital economy
- Instruments to neutralise hybrid mismatch arrangements
- General Anti-Avoidance Rules (GAAR)
- Controlled Foreign Company rules
- Restrictions on interest deductions
- Tax treaty changes – limitation of benefits and GAAR
- Countering preferential tax regimes
- Transparency and CbyCR
- Multilateral cooperation

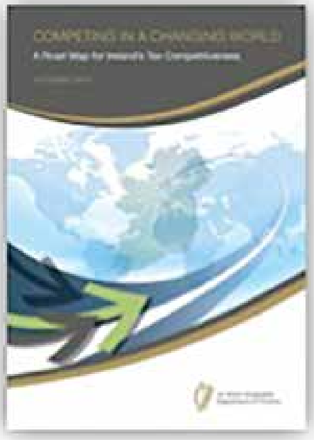
The final BEPS reports are expected to be published by the OECD before the G20 meeting on 8/9 October, addressing the issues above. There will be proposals and recommendations for all OECD countries (including Ireland) to consider and important work will be taking place across the world over the next 1-2 years, as countries consider what their response to the OECD proposals will be.

The Minister may comment on the Irish Government's reaction to the BEPS proposals and its proposed path towards implementation of the appropriate recommendations. Views from Irish stakeholders may be sought on the implementation process.

In particular, the Government may confirm its final position on the transparency initiative – CbyCR, whereby Irish Revenue would share tax information on large multinational companies with other tax authorities.

The Knowledge Development Box (KDB)

What is the KDB?



Minister Noonan launched a Corporation Tax Roadmap last October, as part of Budget 2015. He announced at the time that he would be introducing a form of Innovation/Patent Box called a Knowledge Development Box (KDB) in Budget 2016 and that the legislation for this Box would be included in this year's Finance Bill.

A public consultation was subsequently launched in January of this year.

"The Knowledge Development Box will be best in class and at a low competitive and sustainable tax rate"

"It is also necessary that the regime complies with relevant OECD and EU requirements on income-based intellectual property regimes and this will provide certainty to industry about the sustainability of the incentive".

Department of Finance, KDB Consultation Paper, January 2015

Why is it important?

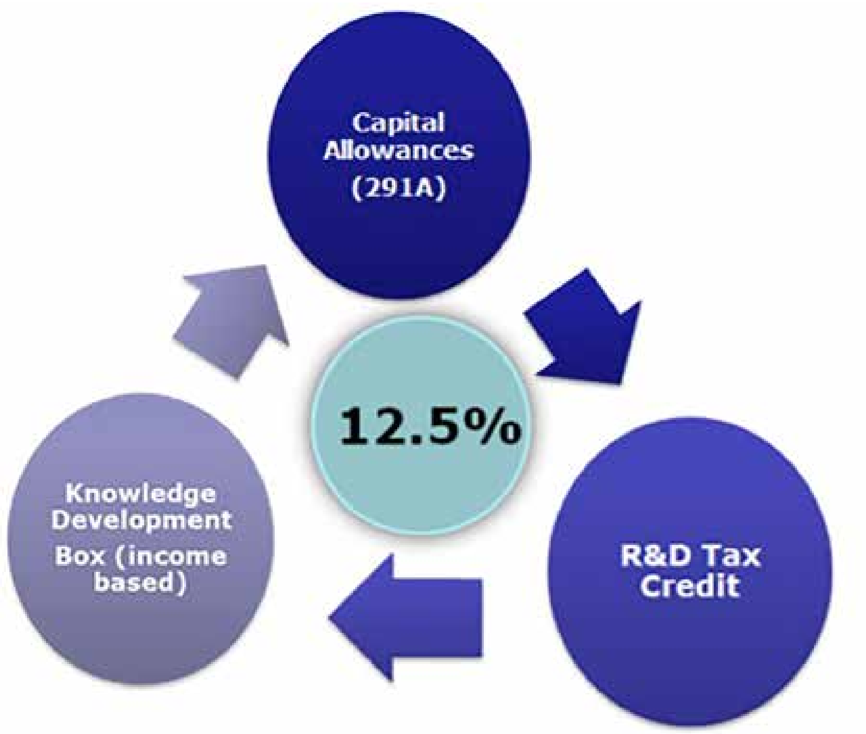
Intellectual property is often the most significant asset of international businesses today. These businesses may have invested substantial funds on cutting edge research and development which is vital to the growth of their business around the globe. The intellectual property that results from this investment is incredibly valuable and significant profits may derive from licensing it worldwide.

Many countries such as the UK, France, Netherlands, Italy, etc. offer attractive tax regimes to encourage multinationals to locate their intellectual property there. The US is also currently considering a proposal for a "box" offering.

Ireland does not currently have a "box" regime for IP and it is hoped that the new KDB will meet this need.

New OECD rules require all countries with a "box" regime to adopt the **Modified Nexus Approach** – which focuses on ensuring that physical work which leads to IP development takes place in the same location as the country where the resulting IP is subsequently licensed. Ireland has committed that any new KDB will be compliant with the Modified Nexus Approach.

When the new KDB is in place, it will be an important addition to Ireland's overall tax offering to support innovation.



Who will benefit from the KDB?

The KDB will be designed to benefit:

- Multinational companies;
- Irish headquartered companies; and
- SMEs

which have intangible assets that they develop in Ireland for use in their business.

NOTES

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