Irish Tax Institute

September 2017

Pre-Budget 2018 Briefing Papers

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Factsheet 1

The Tax Base

What the IMF says about Ireland's tax base

"The country's policies should focus on rebuilding fiscal buffers, strengthening economic resilience, guarding against a re-emergence of boom-bust dynamics, and fostering sustainable, inclusive growth."

The IMF emphasised the need to broaden the tax base. Measures to strengthen human capital and reinforce competitiveness, particularly for domestic enterprises, are key to supporting sustained growth and reducing income and regional disparities.

The IMF also emphasised the need to enhance competitiveness through greater support for SME innovation and improved infrastructure.

"To enhance the economy's resilience to shocks, and strengthen the foundations for a sustainable and inclusive long-term growth. Protect public finances by broadening the tax base."

IMF, Ireland: Selected Issues, June 2017

What the European Commission says about Ireland's tax base

"As Ireland is a small and very open economy, its public finances remain vulnerable to external shocks and changes in the economic outlook."

"The Irish economy is sensitive to changes in the international tax environment."

"Relying on a broader tax base enhances revenue stability in the face of economic volatility."

"The stability of tax revenues in the medium term is a concern for public finances."

"The increasing reliance on buoyant corporate tax receipts to finance permanent increases in current expenditure is a concern. This is because corporate tax receipts tend to be a volatile source of revenue in most economies."

"The external environment is increasingly predictable and internal risks continue to remain."

European Commission Country Report Ireland 2017, February 2017

What the Government says about Ireland's tax base

"Further vulnerabilities and risks to the tax base could arise in relation to the European Commission's proposed Common Consolidated Corporate Tax Base (CCCTB), which would involve two steps: the first, a single or common set of tax rules for large companies and permanent establishments in the EU; the second, a consolidated tax return mechanism."

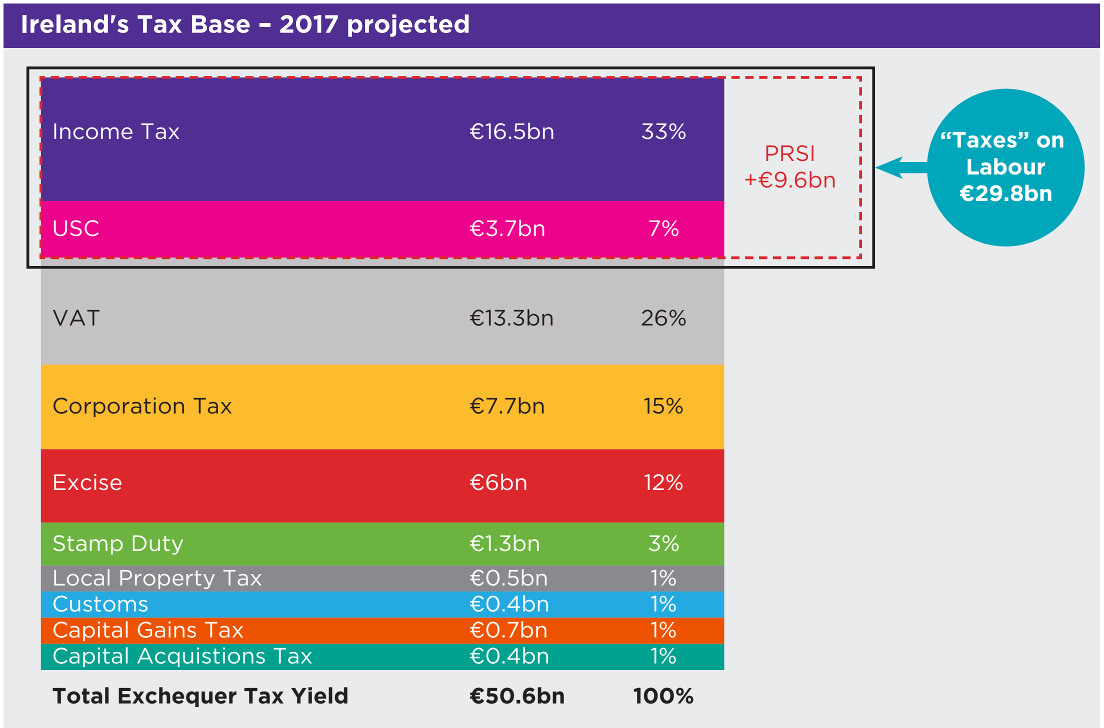
Department of the Taoiseach, Draft National Risk Assessment 2017 – Overview of Strategic Risks

Vulnerabilities of the tax base

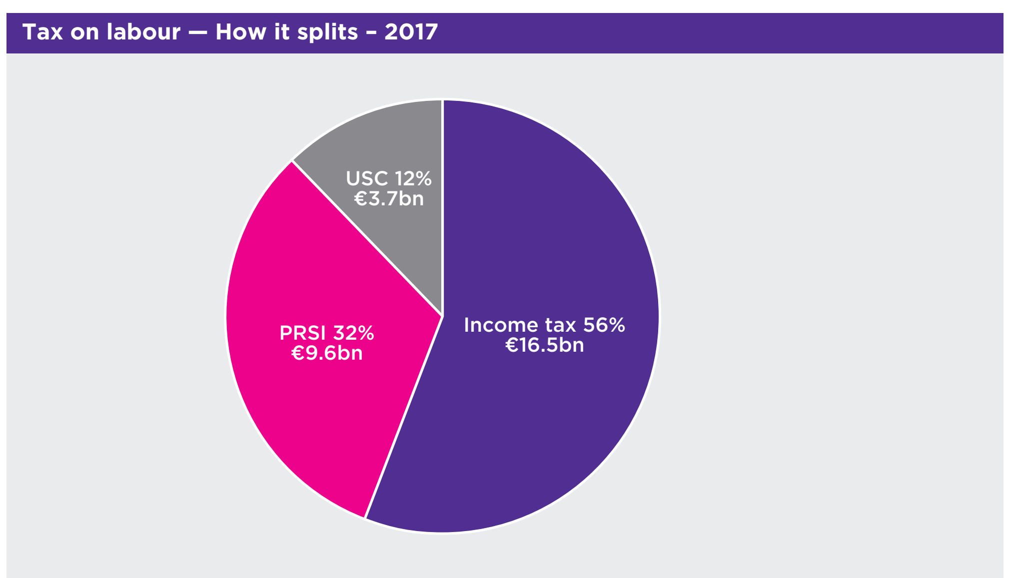
- 80% of Ireland's corporate tax is paid foreign-owned multinationals.[1]
- The top 10 groups account for close to 40% of corporation tax receipts.[2]
- The Department of Finance has also expressed concerns stating that Brexit's *"potential to adversely affect the Irish economy"* and *"the uncertainty of the policy stance of the US"* are *"casting a shadow over future growth of the economy."*[3]

1 Revenue, An Analysis of 2015 Corporation Tax Returns and 2016 Payments, April 2017.
2 Department of the Taoiseach, Draft National Risk Assessment 2017 Overview of Strategic Risks, August 2017.
3 Department of Finance, Ireland's Stability Programme, April 2017 Update, April 2017.

Size and composition of Ireland's tax base[4]



- It is income tax that yields most for the Exchequer – estimated €16.5bn in 2017.
- Total PRSI contributions paid to the Exchequer in 2016 were €9.2bn and are expected to rise to €9.6bn in 2017.
- It is important to note that the estimated PRSI contributions amounting to €9.6bn for 2017 are received in addition to the projected total Exchequer tax yield of €50.6bn for the year. The total Exchequer yield (including PRSI) estimated for 2017 is €60.2bn.
- PRSI collected by the State is equivalent to:
  - 19% of the expected total tax yield (not including PRSI) for 2017 (€50.6bn)
  - 47% of the total estimated personal tax yield for 2017 (€20.2bn)
  - 58% of the income tax take (€16.5bn) and
  - 259% the amount raised by USC (€3.7bn).

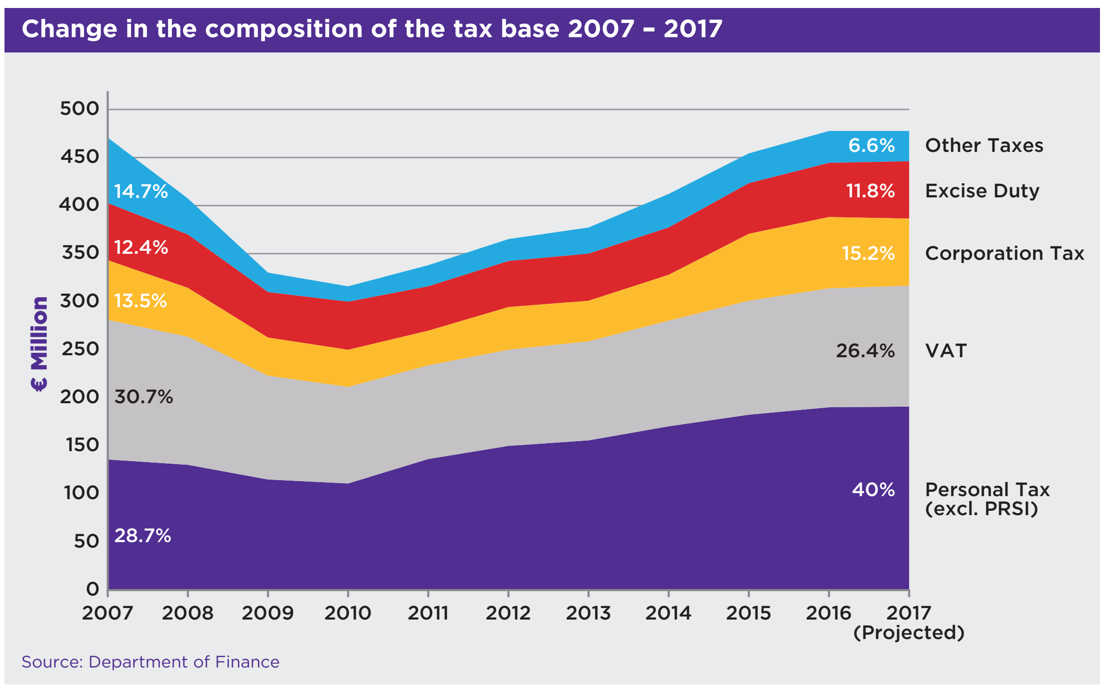


4 Department of Finance, Exchequer Returns 2017.

Exchequer reliance on personal tax has increased

- There has been an increasing reliance on personal taxes since 2007.

Change in the composition of the tax base 2007 – 2017



Source: Department of Finance

- Between 2007 and 2017, Ireland's tax revenue mix has changed, although the overall tax yield in the fiscal years 2007 and 2017 was approximately the same.
- In 2007 and 2008, VAT was the highest contributor to the Exchequer. But in 2009, personal taxes outstripped VAT and the gap has continued to widen.
- Personal taxes now account for 40% of the total tax yield (excluding PRSI).
- Personal tax receipts were €13.6bn in 2007 versus a projected figure of €20.2bn for 2017.
- Corporation tax receipts were €6.8bn[5] in 2007 versus a projected figure of €7.7bn for 2017.

Increased PRSI yield following the removal of the PRSI celling

- An Employee PRSI ceiling of €75,036 applied until Budget 2011, when it was abolished. The result is that Employee PRSI is now uncapped.
- The removal of the PRSI ceiling in 2011 increased the amount of PRSI paid by some taxpayers by up to 60%.

Removal of the PRSI ceiling

Salary Level	PRSI – After the celling was removed	PRSI – when there was a ceiling of €75,036	Difference per annum	% Increase
€75,000	€3,000	€3,000	No change	0%
€100,000	€4,000	€3,001	€999	33%
€120,000	€4,800	€3,001	1,799	60%

5 Figure taken from table prepared by the Department of Finance for statement on corporation tax receipts in Ireland to the Budgetary Oversight Committee on 14 June 2017. (http://www.oireachtas.ie/parliament/media/committees/budgetaryoversight/Opening-Statement---Finance---14-06-17.pdf)

The base – the complexity and the differences

	Income Tax	USC	PRSI
Entry Point	€16,500 for employee €13,000 for self employed €24,750 for single income couple/ single parent €33,000 for two income couple (employees)	€13,000	€18,304 for employees €5,000 for self employed
Rates and Bands	20% standard rate on income up to €33,800 40% marginal rate on income over €33,800	0.5% on first €12,012 2.5% on €12,013 - €18,772 5% on €18,773 - €70,044 8% on €70,045 and above 11% rate for self-employed on income over €100,000	Rates for the most common PRSI classes are: Class A (Employee) 4% on earning over €352 per week Class A (Employer) 8.75% on earnings €376 per week or less 10.75% for all other employees Class S (Self-employed) 4% on annual income over €5,000
Exemptions	Individuals aged 65 and over where income is below €18,000 (single) and €36,000 (married) Artists income (max €50,000) Rent-a-room relief (max €14,000) Childcare service relief (max €15,000) Child Benefit and certain means-tested social welfare benefits Statutory redundancy payments Relief for ex-gratia termination/ pension payments subject to certain limits	All social welfare income Income subject to DIRT Maximum rate of €2.5% for full medical card holders and individuals aged 70 years (and over), with total income that does not exceed €60,000 Rent-a-room relief (max €14,000) Childcare service relief (max €15,000) Statutory redundancy payments Relief for ex-gratia termination payments subject to certain limits	All social welfare income Individuals aged 66 or over Payments out of occupational pensions Rent-a-room relief (max €14,000) Redundancy and ex-gratia termination payments Certain assignees who retain social security coverage in their home country

The base – the complexity and the differences (continued)

	Income Tax	USC	PRSI
Pension contributions	Relief at marginal rate, subject to limits	No relief	No relief
Medical expenses	Relief at standard rate	No relief	No relief
Medical insurance	Relief at standard rate, subject to limits	No relief	No relief
Mortgage interest relief	Relief at standard rate, subject to limits, for qualifying 2004-2012 loans. (Due to expire at 31 December 2017)	No relief	No relief
Employment & Investment Incentive	Relief for investments up to €150,000	No relief	No relief
Special Assignee Relief Programme	Relief on portion of income over €75,000	No relief	No relief (see note under exemptions)
Foreign Earnings Deduction	Relief for income earned while working in a qualifying country	No relief	No relief
Home Renovation Incentive	Tax credit for 13.5% qualifying renovation works	No relief	No relief
Living City Initiative	Relief for refurbishment cost of older buildings in qualifying cities	No relief	No relief
Start Your Own Business Relief	Exemption for profits of up to €40,000 p.a. for 2 years for previously unemployed person who sets up a qualifying business.	No relief	No relief
TaxSaver Commuter Tickets	Relief at marginal rate	Relief from USC	Relief from PRSI

Factsheet 2

Income Tax – the big driver

"Our focus in tax reductions over the coming years will be on middle-income people. We've already taken about 30 per cent of earners out of the tax net altogether - so those on the lowest pay now don't pay any USC or income tax.

. . . We've already protected people on low incomes by removing them from USC and income tax . . . So the focus in terms of tax reduction will be on middle incomes."

Taoiseach Leo Varadkar in an interview with *The Irish Times*, 18 September 2017

"It is right- economically and morally- that in Ireland we have a tax system where those on lower incomes pay less and those who earn more, pay more. That must be sustained.

But an income tax system that starts taking nearly half of every euro earned by the time someone is earning an average wage is not fair, is not economically efficient and is not sustainable.

This is a cap on aspiration and places a ceiling on the ambitions of our people.

I will address personal taxation now and other taxation and expenditure priorities on or before Budget day. One of them is to gradually increase the standard rate cut off point in our income tax code.

We will prioritise band widening over higher rate reduction to prioritise resources on low and middle-income groups."

Speech to the Kennedy Summer School Speakers' Lunch by Minister for Finance and Public Expenditure and Reform, Paschal Donohoe T.D, 8 September 2017

Talking points so far on Income Tax

1. Reducing income tax at the average wage – entry point increase
2. Tapering of the PAYE Tax Credit

Reducing income tax at the average wage - entry point increase

Rates	Band	% of income earners	Number of income earners
40% Higher rate		21%	550,400
20% Standard rate		42%	1,109,800
Exempt		37%	956,100
Source: Revenue Ready Reckoner – Pre – Budget 2018			

- The tranche of income between the old entry point (€33,800) and the new one would now be taxed at 20% rather than 40% for all these taxpayers – making the change expensive.

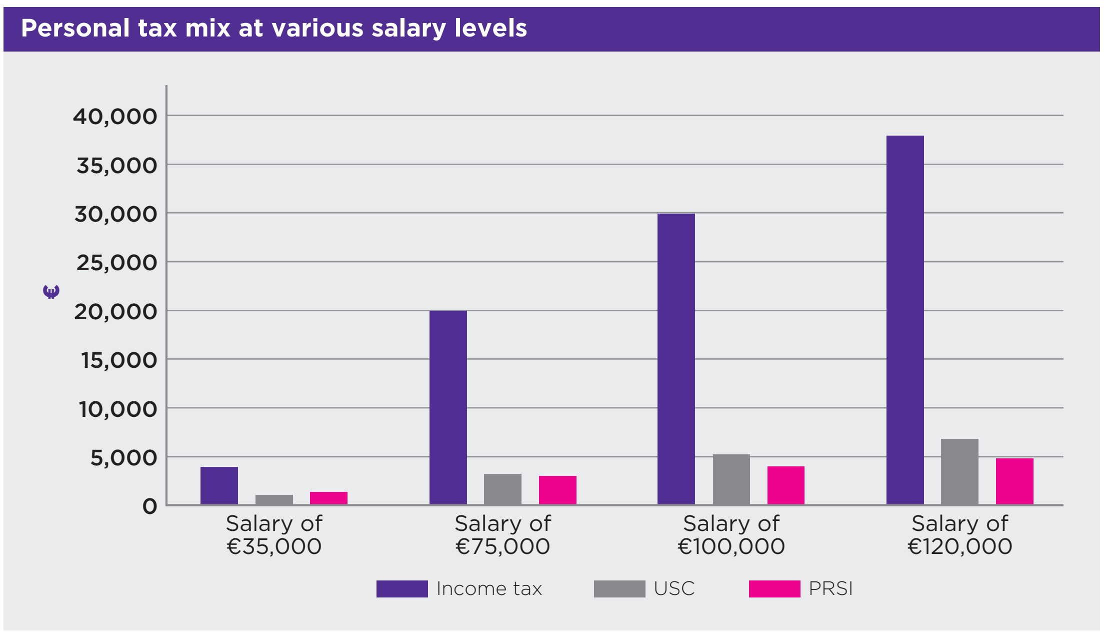
Budget 2018 Option – Increase the entry point into the higher income tax rate by €1,000			
Taxpayer	**Current entry point**	**Possible increased threshold post Budget 2018**	**Exchequer Cost**
Single Person	€33,800	€34,800	€85m
Married Couple (one income)	€42,800	€43,800	€28m
Married Couple (two incomes)	€67,600*	€69,600**	€89m
* A band of €42,800 applies to the spouse with the highest earnings and a band of €24,800 applies to the other spouse. ** If the entry point is increased by €1,000, this would result in €1,000 increase in each of the bands for a married couple with two incomes.			**Total €202m**[1]

The impact of €1,000 increase in the entry point into the higher income tax rate			
Salary	**Current entry point**	**Possible entry point post Budget 2018**	**Saving**
Single Person earning €40,000	€33,800	€34,800	€200 per year
Married couple with two incomes totalling €80,000	€67,600	€69,600	€400 per year

The progressivity of income tax and the "Step effect"

- There are three strands to personal tax in Ireland – income tax, USC and PRSI.
- And although public discussion and debate is usually focused on USC, it is income tax that drives high effective tax rates for those on and above the average industrial wage. This is because the rate doubles from 20% to 40% on income above €33,800.

Personal tax mix at various salary levels



Note: Figures in chart based on a single employee.

1 Revenue Ready Reckoner – Pre-Budget 2018, July 2017, p. 7.

- The combination of the 40% rate applying from a relatively modest income level of €33,800 really drives progressivity in the Irish tax system.

The Step Effect	
Income Level	**Top Tax Rate**
€18,000	22.5%
€25,000	29%
€36,919 (average salary)[2]	49%
€70,044	52%
€100,000 (self-employed income)	55%

- The sharp increase in rate creates a "step effect" whereby the income tax doubles from 20% to 40% on each additional euro earned above the average wage.

The entry point to the top tax rate: Ireland v other countries

- The top marginal tax rate for employees in Ireland is 52% and entry point to this top rate is €70,044.
- However, the rate below 52% is only 3% lower at 49% and this rate applies from €33,801. This is a very low entry point by international standards to a tax rate of this magnitude.

How Ireland's entry point to the top marginal rate compares			
	Country	**Top Marginal Rate**	**Entry Point**
	Ireland	**52%** **55%**	**PAYE income over €70,044** **Self-employed income over €100,000**
	Germany	47.5% 44%	Income over €256,303 Incomes between €54,058 - €256,303
	Sweden	60% 55%	Income over €63,580 Incomes between €43,890 - €63,850
	UK	47% 42%	Income over £150,000 (€165,235)* Incomes between £45,032 - £150,000. (€49,606 - €165,235)*

Source: OECD 2016 figures (http://stats.oecd.org)

* EURO FX rate to GBP 0.9078 (as at 11/09/2017)

Tapering of the PAYE Tax Credit

- Removing the PAYE Tax Credit is a stated objective in Programme for a Partnership Government:

> *"The removal of PAYE tax credit for high earners and other measures to ensure the tax system remains fair and progressive."*

What you need to know about the PAYE Tax Credit

- All individuals earning income taxable under the PAYE system are entitled to the PAYE Tax Credit.
- The current PAYE Tax Credit is €1,650.

2 CSO, Earnings and Labour Costs Annual Report, June 2017.

- The PAYE Tax Credit is a credit against your total income tax bill.
- The impact of the PAYE Tax Credit is that €8,250 of an individual's PAYE income is not subject to income tax, resulting in an annual tax saving of up to €1,650.
- The number of people claiming the PAYE Tax Credit is 1,668,4000.[3]
- The total cost of the PAYE Tax Credit is €3bn.[4]

Tapering the PAYE Tax Credit on a sliding scale – how does it work?

- The Tax Strategy Group has considered removing the PAYE Tax Credit from a person as they move up a salary scale, instead of abolishing the credit in its entirety once they reach a certain income level.
- The more gradual the tapering, the less severe the impact will be for those earning close to the threshold amount.
- The Tax Strategy Group gives an example of tapering the credit at a rate of 5% per €1,000, with the taper period ending at income levels over €120,000.
- If the credit is tapered for income earned between €100,000 and €120,000, then the marginal rate of tax paid on income in this €20,000 band would be 60.25%.

An example of the marginal tax rate resulting from the tapering out of the PAYE Tax Credit above €100,000		
Salary of €110,000	**8.25% Taper (between €100,000 - €120,000)**	
Income over €100,000		€10,000
Income tax due at the marginal rate of 52%	€5,200	
Reduction in PAYE credit (for every €1 earned above €100,000, the credit is reduced by €0.0825. At income of €110,000, the credit is reduced by €825)	€825	
Tax due on additional income (b + c)		€6,025
Effective Rate on additional Income (d / a)	**60.25%**	

- Once the credit completely tapers out, the marginal rate for those earning income above the tapering band would return to 52%, although their overall effective tax rate would have increased (as they would have no entitlement to any of the credit).

Conclusion

The step effect that is caused by the doubling of the income tax rate of €33,800 places a high tax burden on middle income earners. Bringing it closer to international norms is costly because of the number of taxpayers involved.

3 Latest data available is 2014 per Revenue's Cost of Tax Allowances, Credits, Exemptions and Reliefs.
4 Latest data available is 2014 per Revenue's Cost of Tax Allowances, Credits, Exemptions and Reliefs.

Factsheet 3

USC – all you need to know

USC – Talking points to date

> *"Our focus in tax reductions over the coming years will be on middle-income people. We've already taken about 30 per cent of earners out of the tax net altogether - so those on the lowest pay now don't pay any USC or income tax.*
>
> *. . . We've already protected people on low incomes by removing them from USC and income tax . . . So the focus in terms of tax reduction will be on middle incomes."*
>
> Taoiseach Leo Varadkar in an interview with *The Irish Times*, 18 September 2017

> *"We will, over time, amalgamate the USC and PRSI codes. Among other things this will support the improvement of our social insurance system and widen the provision of supports like dental and optical benefits and paternity leave"*
>
> Minister for Finance, Public Expenditure and Reform, Paschal Donohoe, T.D. speech at Kennedy Summer School Speakers' Lunch, 8 September 2017.

1. **Tax Strategy Group Considerations on USC - 25 July 2017**
   - Further reductions in the rates (Option 1)
   - Increase the exemption threshold (Option 2)
   - Increase in the second USC rate band (Option 3)
   - USC for medical card holders and over 70s
2. Merging USC and PRSI – this is dealt with in Factsheet 4.

Tax Strategy Group Considerations on USC - 25 July 2017

Tax Strategy Group: USC Option 1 – Reduce the four lower rates		
Current Rate	**Possible Rate Post Budget 2018**	**Exchequer Cost**
0.5% (on first €12,012)	0%	**€129m**[1]
2.5% (on €12,013 to €18,772)	1.5%	**€164m**[1]
5% (on €18,773 to €70,044)	4%	**€392m**[1]
8% (on €70,045 and above)	7%	**€177m**[1]

Tax Strategy Group: USC Option 2 – Increase Exemption Threshold*		
Current Threshold	**Possible Threshold Post Budget 2018**	**Exchequer Cost**
€13,000	€14,000	**€5.6m**[2]
* There are 92,035[3] taxpayer units earning between €13,000 and €15,000.		

Tax Strategy Group: USC Option 3 – Increase in the second USC rate band		
Current Band for USC Rate of 2.5%	**Possible Band Post Budget 2018**	**Exchequer Cost**
€18,772	€19,772	**€39m**[4]

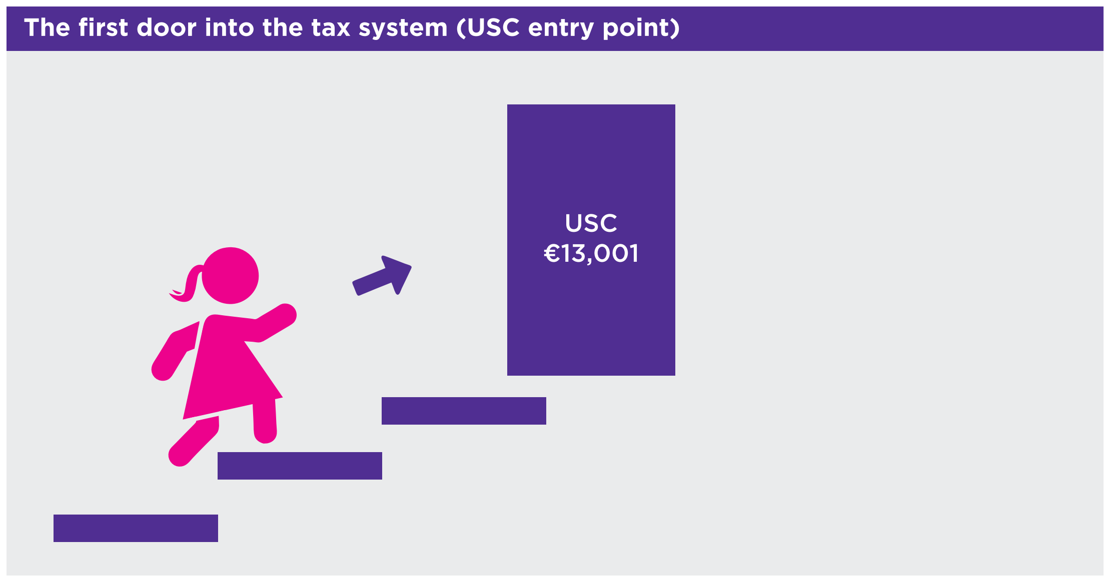
1 Revenue Ready Reckoner – Pre-Budget 2018, July 2017, p. 5.
2 Revenue Ready Reckoner – Pre-Budget 2018, July 2017, p. 8.
3 Revenue Ready Reckoner – Pre-Budget 2018, July 2017, p. 4.
4 Tax Strategy Group – TSG 17/02, p.21.

The impact of a decrease of the 2.5% USC rate to 1.5%			
Salary	**Current USC rate on income from €12,013 to €18,772**	**Possible USC rate post Budget 2018 on income from €12,013 to €18,772**	**Saving**
Single Person earning €18,000	2.5%	1.5%	€60 per year
Single Person earning €35,000	2.5%	1.5%	€68 per year
Single Person earning €75,000	2.5%	1.5%	€68 per year

The impact of a decrease of the 5% USC rate to 4%			
Salary	**Current USC rate on income from €18,773 to €70,044**	**Possible USC rate post Budget 2018 on income from €18,773 to €70,044**	**Saving**
Single Person earning €18,000	5%	4%	N/A
Single Person earning €35,000	5%	4%	€162 per year
Single Person earning €75,000	5%	4%	€513 per year

- The main function of the Universal Social charge (USC) has been to broaden the Irish personal tax base. This contrasts with income tax which is the key driver of progressivity in the personal tax system.
- 70% of income earners pay USC (as compared with 63.5% who pay income tax).
- A taxpayer's first point of entry into the tax system is the USC entry point of €13,001 gross income a year.

The first door into the tax system (USC entry point)



- USC is a significant contributor to the Exchequer. It is expected to raise €3.7bn in 2017, which is approximately:
    - 7% of the expected total tax yield (€50.6bn), but less than
    - one-quarter of the amount raised by income tax (€16.5bn).
- The USC was introduced on 1 January 2011 to replace the Income Levy and Health Levy.

The current USC base

2017 rates	Band	Number of income earners	% of income earners
Exempt	Income less than €13,000	748,300	30%
0.5%	All income up to €12,012	0[4]	0%
2.5%	€12,013 to €18,772	484,700	19%
5%[5]	€18,773 to €70,044	1,066,600	42%
8%	€70,045 and above	195,000	8%
11%	Non-PAYE income that exceeds €100,000	22,600	1%
			100%

Tax Strategy Group Proposal – Reduced USC rates for medical card holders and those aged over 70

- Individuals aged 70 years or over and those with a full medical card pay a maximum USC rate of 2.5% provided their total income is not more than €60,000 a year.
- The reduced rate for full medical card holders only is due to expire at the end of 2017 - but not the reduced rate for the over 70s i.e. only those full medical card holders under 70 would be affected.
- The Tax Strategy Group has estimated that the revenue raised if the reduced rate for full medical card holders under 70 years of age expires (as planned) at the end of 2017 would be €71m.

Full Medical Card Holders		Aged 70 years and older	
Annual income < €60,000	**Annual income > €60,000**	**Annual income < €60,000***	**Annual income > €60,000**
Max. USC rate 2.5%** Due to expire – end 2017 Revenue raised €71m	Max. USC rate 11%	Max. USC rate 2.5%** **No expiry date**	Max USC rate 11%

* Note: The €60,000 income cap does not include payments that are exempt from USC, such as the state pension.

** Note: If the reduced rate did not apply, then the maximum USC rate would be 5% for incomes below €60,000.

USC for Medical Card Holders – Options for Budget 2018	Exchequer Saving
1. Allow relief to expire at end of 2017	**€71m**
2. Extend current relief	
3. Modify the extension of the relief into a phased-out period	

5 A taxpayer will only pay the 0.5% USC rate where they earn more than the USC entry point of €13,000. In that case, they pay 0.5% on the first €12,012 and 2.5% on the balance up to €18,772.

6 A maximum 2.5% rate applies to income over €18,722 if an individual is a full medical card holder or is aged 70 or older (with or without a medical card), provided their total income is less than €60,000.

Social Welfare payments are exempt from USC

- One very important source of income that is exempt from USC is social welfare payments. The majority of these payments are subject to income tax.
- This includes significant Exchequer payments such as the state pension, maternity benefit, illness benefit and Jobseeker's Benefit.

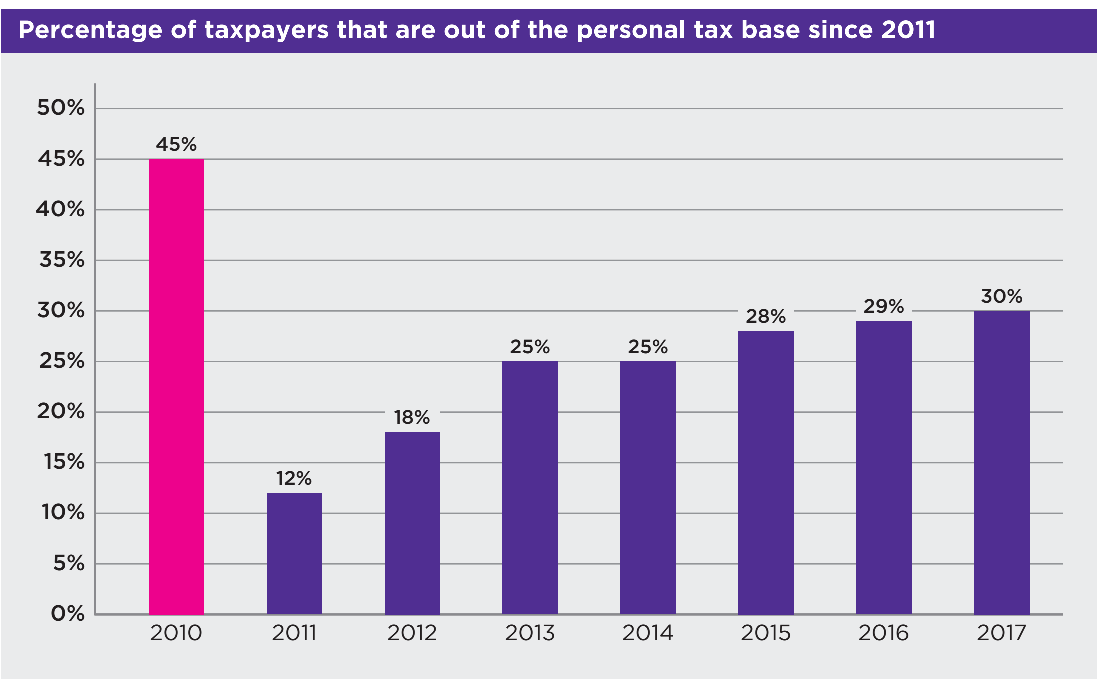
Important notes in relation to OAPs:

- Payments that are exempt from USC, such as the state pension, are ignored when considering the €60,000 income cap for individuals who are 70 years or older for the purposes of USC reduced rates.
- Individuals aged 65 years and over are exempt from income tax if their annual income is less than €18,001 (single) and €36,001 (married couple).
- Individuals who are 65 years or older can claim an Age Tax Credit each year of €245 (single) or €490 (married) in addition to their personal tax credit.
- Individuals aged 66 or older do not pay PRSI on their income.

The narrowing of the USC base since 2012

- While the main function of the USC has been to broaden the personal tax base, 30% of income earners are now exempt from USC.

Percentage of taxpayers that are out of the personal tax base since 2011



- Increasing the USC entry point (currently €13,000) has contributed to 30% of income earners being currently outside the tax net.

Year	Entry Point to USC	Number of income earners exempt from USC	% of income earners exempt from USC
Budget 2011	€4,005	259,512[6]	12%
Budget 2012	€10,037	589,512[7]	18%
Budget 2013	€10,037	572,904[7]	25%
Budget 2014	€10,037	571,786[8]	25%
Budget 2015	€10,037	663,199[7]	28%
Budget 2016	€12,013	703,800[9]	29%
Budget 2017	€13,001	748,300[10]	30%

Year	Summary of changes made to USC since its introduction in 2011
Budget 2011	• When first introduced in 2011, the USC entry point was €4,004. • Rates were 2%; 4% and 7%.
Budget 2012	• Entry point increased to €10,036.
Budget 2013	• Reduced USC rates introduced for medical card holders and those aged 70 or over, with total income of €60,000 or less per year.
Budget 2014	• No USC changes.
Budget 2015	• Increased all bands. • Entry point increased to €12,012. • Reduced two lower USC rates to 1.5% and 3.5%. • New higher 8% rate introduced on all PAYE income over €70,044. • New higher 11% rate introduced for self-employed income over €100,000.
Budget 2016	• Entry point increased to €13,000. • 3.5% and 7% rates reduced to 3% and 5.5%. • 3% USC band extended.
Budget 2017	• Lower USC bands increased. • Three lower rates reduced to 0.5%, 2.5% and 5%.
Note: Further details on each of these changes are set out below.	

Changes made to USC since its introduction in 2011 – Analysis Budget by Budget

- The USC entry point has been changed three times over the past six Budgets.
- Bands have also changed three times in that period.

Budget 2011

- When USC was first introduced in 2011, the entry point was €4,004 and the rates were as follows:

2011 Rates	Band
Exempt	Income less than €4,004
2%	All income up to €10,036
4%	€10,037 to €16,016
7%	€16,076 and above[6]

6 The Income Tax Reform Plan (July 2016) notes that 12% of income earners were exempt from USC.
7 Tax Strategy Group – TSG 12/06 notes that a further 330,000 taxpayers were removed from the USC charge following the increase in the entry point, in addition to 12% previously exempt in 2011.
8 Tax Strategy Group – TSG 15/09.
9 Income Tax Reform Plan (July 2016).
10 Tax Strategy Group – TSG 17/02.
12 A maximum 4% rate applied if the individual was a full medical card holder or aged 70 years or older (with or without a medical card).

Budget 2012

- In 2012, the entry point was increased to €10,036 per annum.

Budget 2013

- In 2013, restrictions were introduced to the (then) 4% USC rate cap for medical card holders and those aged over 70 years. Since that change, the capped USC rate (now 2.5%) has only been available to those taxpayers with total income for the year of €60,000 or less. This total income limit of €60,000 does not include social welfare payments that are exempt from USC.

Budget 2014

- No USC changes.

Budget 2015

- In 2015, the USC regime was significantly restructured. A number of changes were made to the rates and bands as summarised in the table below. The objective was to reduce the USC burden but in a way that was targeted at lower and middle-income earners. To do this, the Government;
  - Increased all USC bands.
  - Increased the entry point further from €10,036 to €12,012, which according to the Minister for Finance at the time would remove *"80,000 low income earners from the charge altogether."*[13] As it transpired, 91,413[14] additional income earners were outside of the USC net in 2015 according to the Tax Strategy Group.
  - Reduced the two lower USC rates to 1.5% and 3.5%.
  - Introduced a higher 8% rate on all PAYE income over €70,044 to effectively cap the benefit from the 1% income tax rate reduction in that year for those earning over €70,044.
  - This was also the year when a new higher rate of USC of 11% was introduced for the self-employed with incomes over €100,000.

2015 Rates	Band
Exempt	Income less than €12,012
1.5%	All income up to €12,012
3.5%	€12,013 to €17,576
7%	€17,577 to €70,044[9]
8%	€70,045 and above
11%	Non-PAYE income that exceeds €100,000

Budget 2016

- In 2016, the programme of USC reductions aimed at lower and middle-income earners continued. In particular, the marginal tax rate for those earning below €70,044 was reduced to below 50% (i.e. 49.5%) for the first time since 2008.
  - The entry point to USC was further increased to €13,000.
  - The 3.5% and 7% rates were reduced to 3% and 5.5% respectively and the 3% band was extended.
  - The benefits were capped for income earners above €70,044.

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13 Statement of the Minister for Finance, Mr Michael Noonan, T.D., 14 October 2014.

14 Based on figures taken from Tax Strategy Group Paper - TSG 15/09.

15 A maximum 3.5% rate applied if the individual was a medical card holder or aged 70 years or older (with or without a medical card) and their total income was less than €60,000.

2016 Rates	Band
Exempt	Income less than €13,000
1.5%	All income up to €12,012
3%	€12,013 to €18,668
5.5%	€18,667 to €70,044[10]
8%	€70,045 and above
11%	Non-PAYE income that exceeds €100,000

Budget 2017

- The USC reduction programme below €70,044 continued in 2017, with the three lower rates reduced further and lower bands increased for a third year.
- However, no further steps were taken to increase the USC entry point.

2017 rates	Band	% of income earners	Number of income earners
Exempt	Income less than €13,000	30%	748,300
0.5%	All income up to €12,012	0[11]	0%
2.5%	€12,013 to €18,772	19%	484,700
5%[12]	€18,773 to €70,044	42%	1,066,600
8%	€70,045 and above	8%	195,000
11%	Non-PAYE income that exceeds €100,000	1%	22,600

16 A maximum 3% rate applied if the individual was a medical card holder or aged 70 years or older (with or without a medical card) and their total income was less than €60,000.

17 A taxpayer will only pay the 0.5% USC rate where they earn more than the USC entry point of €13,000. In that case, they pay 0.5% on the first €12,012 and 2.5% on the balance up to €18,772.

18 A maximum 2.5% rate applies to income over €18,722 if an individual is a full medical card holder or is aged 70 or older (with or without a medical card), provided their total income is less than €60,000.

Factsheet 4

Amalgamating PRSI and USC

Talking points on PRSI

- Potential to merge USC and PRSI - Tax Strategy Group Considerations, 25 July 2017.[1]

"That we should merge the USC with PRSI. And that's for two reasons, first of all it applies the Contributory Principle, the idea that you contribute into the system, and you get something in return. But it directly links the contributions you pay to a return in terms of services.

"What I am saying fundamentally is you merge USC into PRSI. And you create a new Social Insurance. But in return for that, you expand the benefits that people get in return for that."

"Instead of abolishing USC outright, what I prefer to see is it merged with PRSI. But people getting real benefits in return for it, and that's the difference."

Taoiseach Leo Varadkar T.D., as the then Minister for Social Protection said the following on 25 March 2017 on the programme, Saturday with Claire Byrne, on RTÉ Radio 1.

"It is a complex and challenging task that will take many budgets but, when completed, it will mean having a new European-style social insurance system in Ireland. We've made a good start already with paternity benefit and new benefits for the self-employed."

Taoiseach Leo Varadkar T.D., speaking about plans to amalgamate the USC with PRSI at the Fine Gael Parliamentary Party 'Think-in' meeting, 14 September 2017. (According to the *Irish Times*, 14 September 2017)

"My long-term view of the USC is to see its integration into the existing PRSI code."

Minister for Finance, Public Expenditure and Reform, Paschal Donohoe T.D., *Irish Times*, 5 July 2017.

"We will, overtime, amalgamate the USC and PRSI codes. Among other things this will support the improvement our social insurance system and widen the provision of supports like dental and optical benefits and paternity leave."

Minister for Finance and Public Expenditure and Reform, Paschal Donohoe T.D., speech to the Kennedy Summer School Speakers' Lunch, 8 September 2017.

- The third element of the personal tax system is Pay Related Social Insurance (PRSI) - social contributions. These are paid by employees, employers and the self-employed.
- The amount of PRSI paid is based on earnings, age and hours and the type of work involved.
- PRSI contributions are paid into the Social Insurance Fund (SIF) and are used to pay for Social Welfare benefits and pensions.

Amalgamating PRSI and USC

- At present USC and PRSI are separately administered – one by the Department of Finance, Public Expenditure and Reform and one by the Department of Employment Affairs and Social Protection.
- There are differences in the way PRSI and USC are calculated for taxpayers.

1 Tax Strategy Group – TSG 17/02, p. 14

USC and PRSI – the complexity and the differences

Differences	USC	PRSI
Government Department Responsible	Department of Employment Affairs and Social Protection	Department of Employment Affairs and Social Protection
Collected at source by	Revenue Commissioners	Revenue Commissioners
Paid into	Exchequer tax revenue	Social Insurance Fund
Used for	General taxation	Ringfenced benefits
Paid by	Employees and Self-employed	Employees, Self-employed and Employers
Entry Point	€13,000	€18,304 for employees €5,000 for self-employed No entry point for employers
Rates	5 different rates - 0.5% - 2.5% - 5% - 8% 11%	12 different rates *Employee/Self-employed PRSI* - 0.9% - 3.9% - 3.33% - 4% *Employer PRSI* - 0.5% - 1.85% - 2.01% - 2.35% - 6.87% - 8.75% - 10.05% - 10.75%
Bands/Classes	5 different bands First €12,012 €12,013 – €18,772 €18,773 – €70,044 €70,045 and above Over €100,000 for self-employed income	11 different classes A B C D E H J K M P S (See Appendix 1 for PRSI rates applying to each class)
How it operates	Cumulative annual tax	Week by week basis*
Exemptions	All social welfare income Reduced rates apply to individuals aged 70 years (and over), if total income does not exceed €60,000 Statutory redundancy payments Relief for ex-gratia termination payments subject to certain limits Childcare service relief (max €15,000) Reduced rates apply for full medical holders if total income does not exceed €60,000 Income subject to DIRT Rent-a-room relief (max €14,000)	All social welfare income Individuals aged 66 or over Payments out of occupational pensions Redundancy and ex-gratia termination payments Rent-a-room relief (max €14,000)

* This means PRSI only applies each week where the weekly earning thresholds are exceeded without regard to cumulative annual income.

Tax Strategy Group - TSG 16/05, 15 July 2016

- One option that may be considered as part of the amalgamation of USC and PRSI, is an approach that was discussed by the Tax Strategy Group in 2016.

"One approach to meeting the objective of continuing to phase out of USC, is to abolish the USC charge for low earners and introduce a new PRSI charge for these low earners, which is less than the equivalent charge currently paid through USC. Such an approach could deliver increases in net earnings while, at the same time, strengthening the PRSI contributory principle with a view to ensuring the medium to longer term sustainability of the SIF."

"The general approach can be most simply illustrated through a possible option for the lower paid workers and this is now outlined. Employees do not pay PRSI if their weekly earnings are €352 or less. For illustrative purposes, the USC charge could be abolished for workers earning 352 or less and a new charge of 0.5% applied on earnings between €250 and 352.

The following table shows the impact on employees for weekly earnings ranging from €240 to €352.

		Current (2016)		Illustration		
Annual Income (€)	**Weekly Income (€)**	**USC Charge Weekly (€)**	**PRSI Charge Weekly (€)**	***USC Charge Weekly (€)***	***New PRSI 0.5% Charge Weekly (€)***	***Gain per week (€)***
12,480	**240**	0.00	0.00	*0.00*	*0.00*	*0.00*
13,520	**260**	3.18	0.00	*0.00*	*1.30*	*1.88*
14,560	**280**	3.78	0.00	*0.00*	*1.40*	*2.38*
15,600	**300**	4.38	0.00	*0.00*	*1.50*	*2.88*
16,640	**320**	4.98	0.00	*0.00*	*1.60*	*3.38*
17,680	**340**	5.58	0.00	*0.00*	*1.70*	*3.88*
18,340	**352**	5.94	0.00	*0.00*	*1.76*	*4.18*

Note: Figures for the above table are based on 2016 USC rates.

This would effectively mean that the annual exemption threshold for paying USC would increase from €13,000 to €18,304 (i.e. the annual equivalent of €352 per week). The new PRSI charge would partially offset the benefit of abolishing USC for employees earning under €352 per week."

Extract from Tax Strategy Group - TSG 16/05, 15 July 2016.

PRSI Rates

PRSI is divided into 11 different classes, falling broadly into five categories:

i. Employees in the private sector and certain public servants (Classes A, E and J).

ii. Certain other public servants (Classes B, C, D and H).

iii. Self-employed people, which includes company shareholders controlling over 50% of shares (Class S). Class P applies to certain self-employed share-fishermen.

iv. People who pay no PRSI (Class M).

v. Certain Public Office Holders and employed persons with unearned income over €5,000 (Class K).

More details about the individuals covered by each of the eleven PRSI classes, together with the related employee and employer rates are set out at Appendix 1 to this worksheet.

The corresponding benefits that an individual may qualify for under each PRSI class are outlined in Appendix 2.

PRSI for Employees

PRSI Class A contributions are the most common contributions paid by employers and employees in Ireland. PRSI in relation to employees is paid by both the employee themselves and their employer. It is paid at the rate set out in the two tables below. However, there are two important points to understand in relation to PRSI:

1. It applies week by week (unlike Income Tax or USC). This means that an employee who earns €350 one week, will not pay any Employee PRSI. However, if that same employee earns €400 the following week, they will be charged Employee PRSI of €12 (i.e. €400 at 4% less €4 PRSI tapered credit). Liability to Employee and Employer PRSI is assessed each week.
2. Employer PRSI differs from Employee PRSI in that it is payable from the first Euro. This means that hiring a person is expensive for small businesses i.e. because there is no exemption.

Employee PRSI (Class A)	**Rate**
Earnings of €352 or less per week	Exempt
Earnings over €352 per week	4%
Employer PRSI (Class A)	**Rates**
Earnings not exceeding €376 per week	8.5%*
Earnings over €376 per week	10.75%*

* The Class A employer PRSI rates of 8.75% and 10.75% include 0.7% relating to the National Training Fund Levy. A proposed increase of the levy between 2018 and 2020, would see employers pay an extra €100 a year in respect of each worker on a €35,000 salary.

The self-employed

Self-employed people with total income of more than €5,000 in a tax year, pay Class S PRSI contributions at 4%.

Appendix 1

Description of people covered by each of the eleven PRSI classes and applicable rates

Class	Description	Rates
Class A	• Employees in industrial, commercial and service-type employment with gross earnings of €38 or more a week from all work. • Civil and public servants recruited from 6 April 1995. • Community Employment workers from 6 April 1996.	Employee Rate – 4% Employer Rate - 8.5%/10.75% (0.5% employer rate apples to community employment participants under Class A8 & A9)
Class B	• Permanent and pensionable civil servants, registered doctors and dentists employed in the civil service and Gardaí, recruited before 6 April 1995.	Employee Rate – First 1,443 at 0.9%; Balance at 4%. Employer Rate – 2.01%
Class C	• Commissioned Army Officers and members of the Army Nursing Service recruited before 6 April 1995.	Employee Rate – First 1,443 at 0.9%; Balance at 4%. Employer Rate – 1.85%
Class D	• Permanent and pensionable employees in the public service, other than those mentioned in Classes B and C, recruited before 6 April 1995.	Employee Rate – First 1,443 at 0.9%; Balance at 4%. Employer Rate – 2.35%
Class E	• Ministers of religion employed by the Church of Ireland Representative Body.	Employee Rate – 3.33% Employer Rate – 6.75%
Class H	• Non-Commissioned Officers and enlisted personnel of the Defence Forces.	Employee Rate – 3.90% Employer Rate – 10.05%
Class J	• Employees in industrial, commercial and service-type employment with gross earnings of less than €38 a week from all work. • People insured for Occupational Injuries Benefits only (e.g. employees over pensionable age). • People taking part in certain Solas training schemes insurable for Occupational Injuries Benefits only. • People whose employment is of a subsidiary nature or of inconsiderable extent (e.g. people insurable at Class B, C, D or H in their main employment and who have a second job). • Attendants at Department of Education and Skills examinations. • Presiding officers and poll clerks at elections and R.D.F members on Annual training.	Employee Rate – Nil Employer Rate – 0.50%

Class K	• Certain public office holders (the President, the holder of a 'qualifying office', members of the Oireachtas, the judiciary, certain military judges, the Attorney General, the Comptroller and Auditor General, members of a local authority and certain members of the European Parliament), who earn over €5,200 a year. These Public Office holders pay PRSI at a rate of 4% on all income. • Any of these specified public office holders who earn €5,200 a year or less (€100 a week or less) have a nil liability – see Class M. • From 1 January 2013, Class K also applies to the additional earned self-employed income over €5,000 from a trade or profession that an individual liable to PRSI under another class has and on any unearned income they have. • From 1 January 2014, employed contributors and occupational pensioners aged under 66 years whose only additional income is unearned may be liable for PRSI contributions on this income.	Employee Rate – 4% Employer Rate – Nil

Class M	• People with no contribution liability such as:
	  • Employees under age 16.
	  • Over pensionable age (including those previously liable for Class S).
	  • persons in receipt of occupational pensions or lump-sum termination payments.
	  • People with Class K with a nil liability (public office holders with a weekly income of less than €100 a week).
		Nil

Class P	• Self-employed people whose main income comes from share fishing.	Self-employed Rate – 4%
Class S	• Self-employed people such as farmers, certain company directors, sole traders and certain people with income from investments, rents and maintenance, where the income is €5,000 or more a year from all sources.	Self-employed Rate – 4% Minimum contribution of €500

Note: People who are not covered by compulsory PRSI may opt to become Voluntary Contributors if they satisfy certain conditions

Appendix 2

PRSI Classes and Corresponding Benefits

Class A Benefits	Class B Benefits	Class C Benefits	Class D Benefits	Class E Benefits	Class H Benefits	Class J Benefits	Class K Benefits	Class M Benefits	Class S Benefits	Class P Benefits
Jobseeker's Benefit Illness Benefit Maternity Benefit Adoptive Benefit Health and Safety Benefit Invalidity Pension Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) State Pension (Contributory) State Pension (Transition) Treatment Benefit Occupational Injuries Benefit Carer's Benefit Paternity Benefit Partial Capacity Benefit	Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) Limited Occupational Injuries Benefit Carer's Benefit	Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) Carer's Benefit	Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) Occupational Injuries Benefits Carer's Benefit	Illness Benefit Maternity Benefit Adoptive Benefit Health and Safety Benefit Invalidity Pension Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) State Pension (Contributory) State Pension (Transition) Treatment Benefit Carer's Benefit Paternity Benefit	Jobseeker's Benefit Illness Benefit Maternity Benefit Adoptive Benefit Health and Safety Benefit Invalidity Pension Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) State Pension (Contributory) State Pension (Transition) Treatment Benefit Carer's Benefit Paternity Benefit	Occupational Injuries Benefits	None	Occupational Injuries Benefits, in certain cases	Widow/ Widower's or Surviving Civil Partner's (Contributory) Pension Guardian's Payment (Contributory) State Pension (Contributory) Maternity Benefit Adoptive Benefit Paternity Benefit Treatment Benefit (from 27 March 2017) Invalidity Pension (from December 2017)	Limited Jobseeker's Benefit Limited Illness Benefit Treatment Benefit

Factsheet 5

Progressivity increases over the year

Ireland has one of the most progressive income tax systems in the developed world – the most progressive within the EU members of the OECD, and the second most progressive within all OECD countries."[1]

- In the tables below, we examine the extent to which progressivity has increased over the years.
- We take €18,000 as a salary base level for the purposes of this analysis.
- These tax computations reflect the position for the tax year 2017 and compare it to the tax position in 2012 and 2016.

Salary of €18,000 versus €75,000			
Salary	**2012**	**2016**	**2017**
Earning X times the salary of an individual on €18,000 (The multiples)	4.2	4.2	4.2
Paying X times the tax of an individual on €18,000 (The multiples)	31.7	44.1	51.2

What does this table show us?

- In 2012, an individual on €75,000 paid a multiple of **31.7** times the tax of someone earning €18,000. By 2017, this multiple has increased to **51.2**.
- Further reductions in USC rates in Budget 2017 which were capped for taxpayers earning over €70,044 increased the progressivity of Ireland's tax system by **16%** year on year.

Salary of €18,000 versus €100,000			
Salary	**2012**	**2016**	**2017**
Earning X times the salary of an individual on €18,000 (The multiples)	5.6	5.6	5.6
Paying X times the tax of an individual on €18,000 (The multiples)	46.5	65.8	76.7

What does this table show us?

- An individual earning €100,00 paid a multiple of **46.5** times the tax of the person on €18,000 in 2012 and this has increased to almost **77** times the tax by 2017.

1 Tax Strategy Group Papers – TSG 17/02, July 2017, p. 13.

Important Note: High Income Earners – The Cap Effect Over €70,000

In addition to removing the PRSI ceiling, Ireland has intervened to cap tax rate reductions since Budget 2015. Ordinarily when there is a rate cut across the board, those on higher incomes receive a greater Euro amount reduction than those on lower incomes because they are paying a lot more tax to start with. This is what happens during rate reduction programmes in progressive tax regimes across the world.

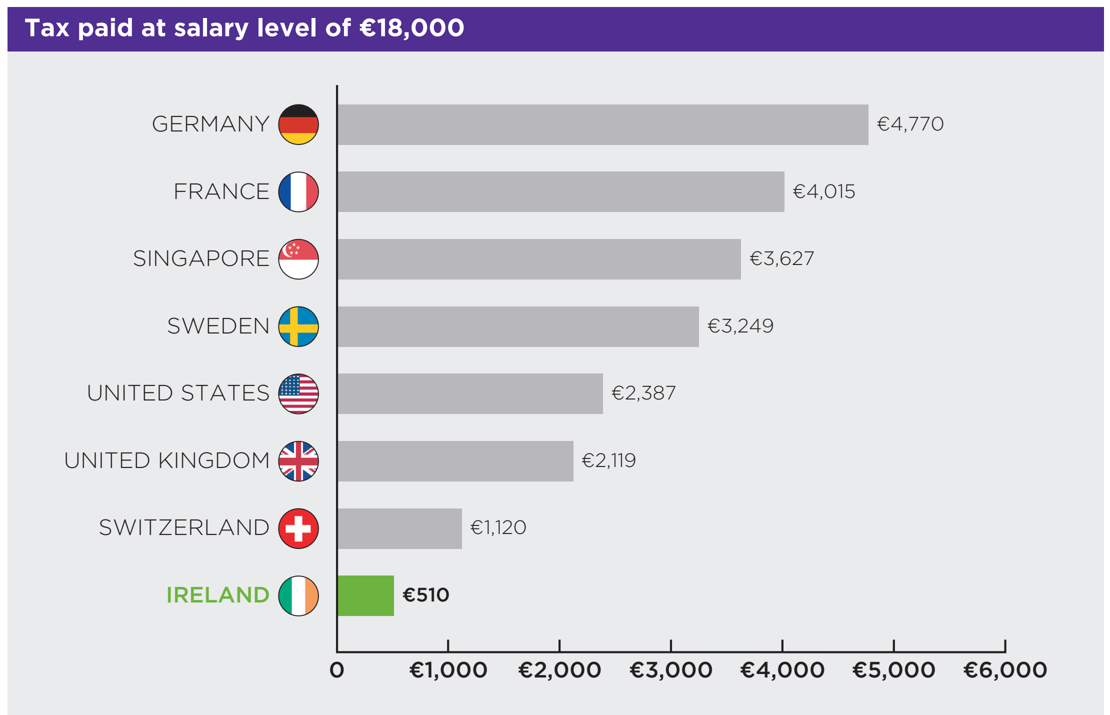
In Budget 2015, the top income tax rate was reduced by 1% for all taxpayers but the top USC rate was increased by 1% on incomes over €70,044. Therefore, any income over €70,044 could not benefit from the reduction in the income tax rate. Similarly, the USC changes in Budget 2016 and Budget 2017 were targeted at the lower rates and bands.

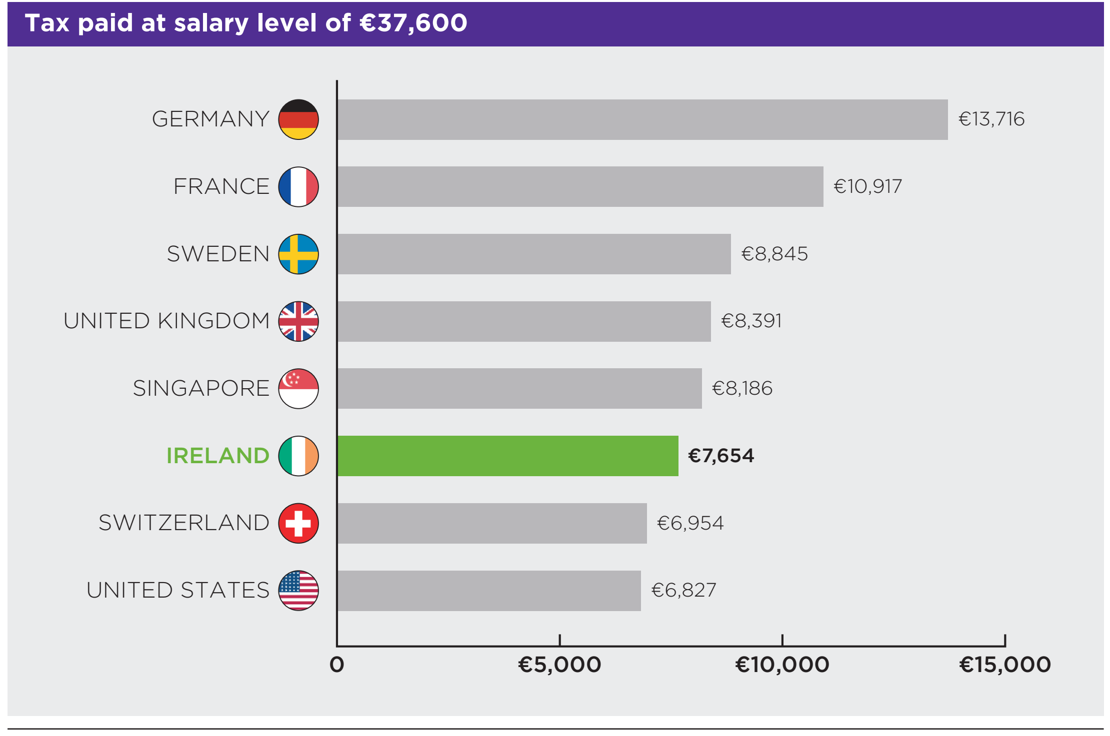
Factsheet 6

International Comparatives

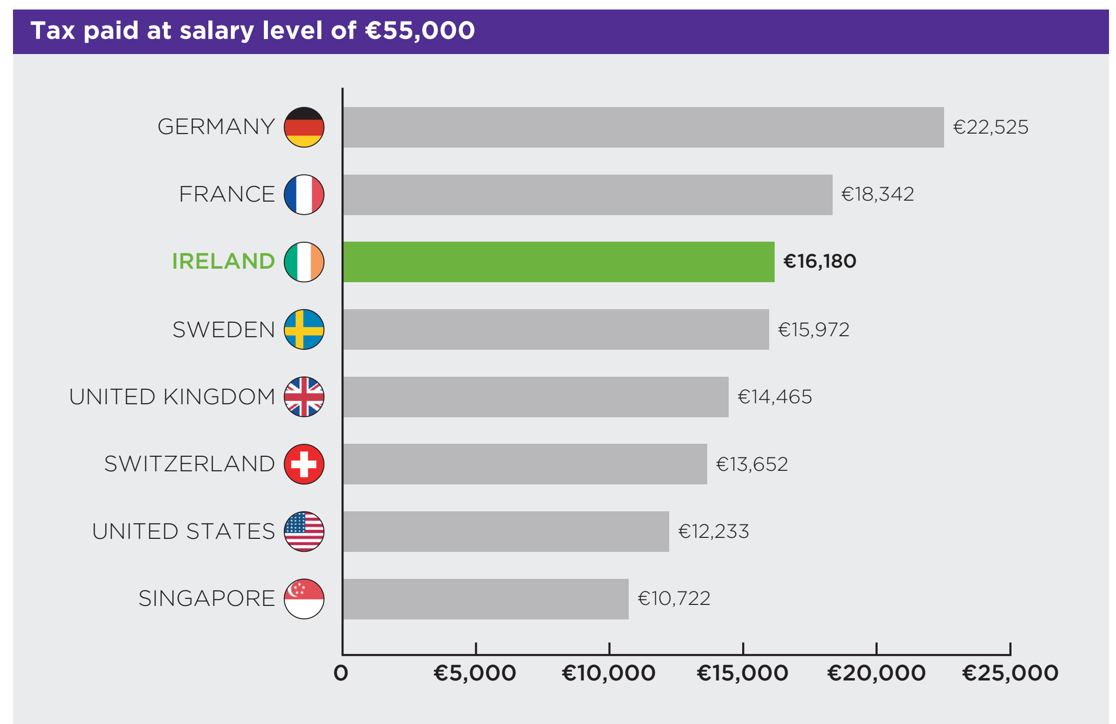
Global Tax Analysis 2017[1] – Ireland v Competitor Countries

- At lower levels, Ireland has the lowest effective personal tax rate of all eight countries examined.
- However, as income levels rise, taxpayers in Ireland move quickly up the international tables.
- Irish taxpayers are paying personal marginal tax rates of 49% on salaries above €33,800 and 52% from €70,045.





1 Based on information from KPMG Ireland.


Tax paid at salary level of €55,000
GERMANY €22,525
FRANCE €18,342
IRELAND €16,180
SWEDEN €15,972
UNITED KINGDOM €14,465
SWITZERLAND €13,652
UNITED STATES €12,233
SINGAPORE €10,722
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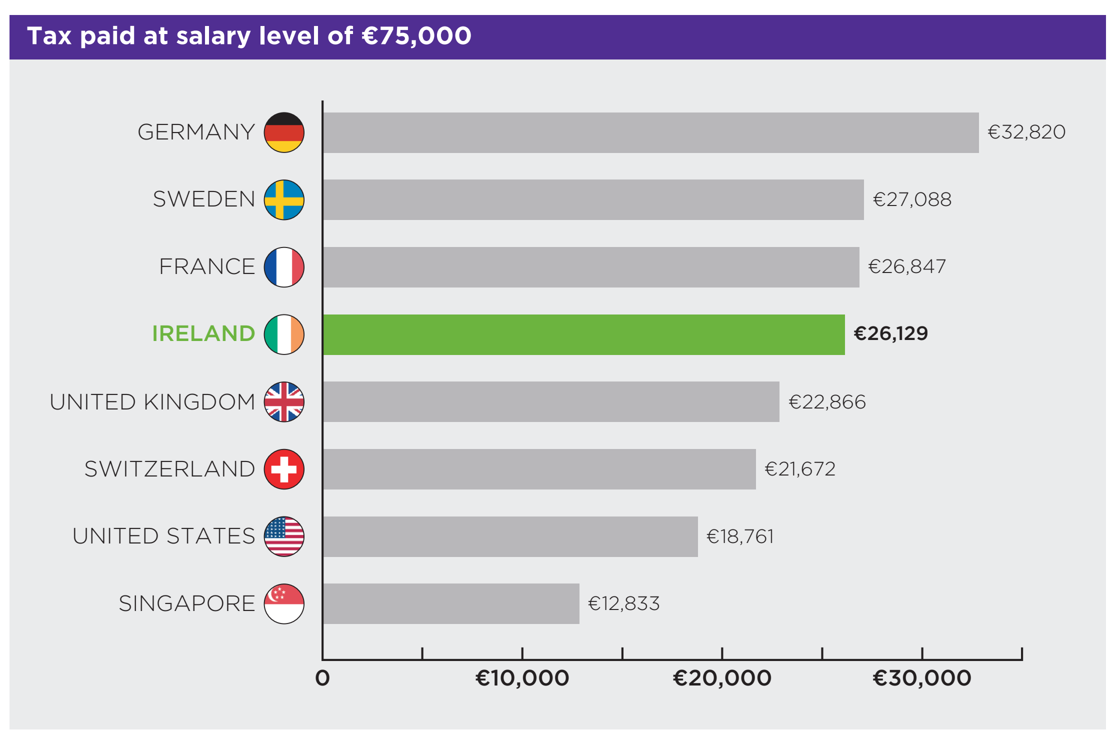
€15,000
€20,000
€25,000


Tax paid at salary level of €75,000
GERMANY €32,820
SWEDEN €27,088
FRANCE €26,847
IRELAND €26,129
UNITED KINGDOM €22,866
SWITZERLAND €21,672
UNITED STATES €18,761
SINGAPORE €12,833
0
€10,000
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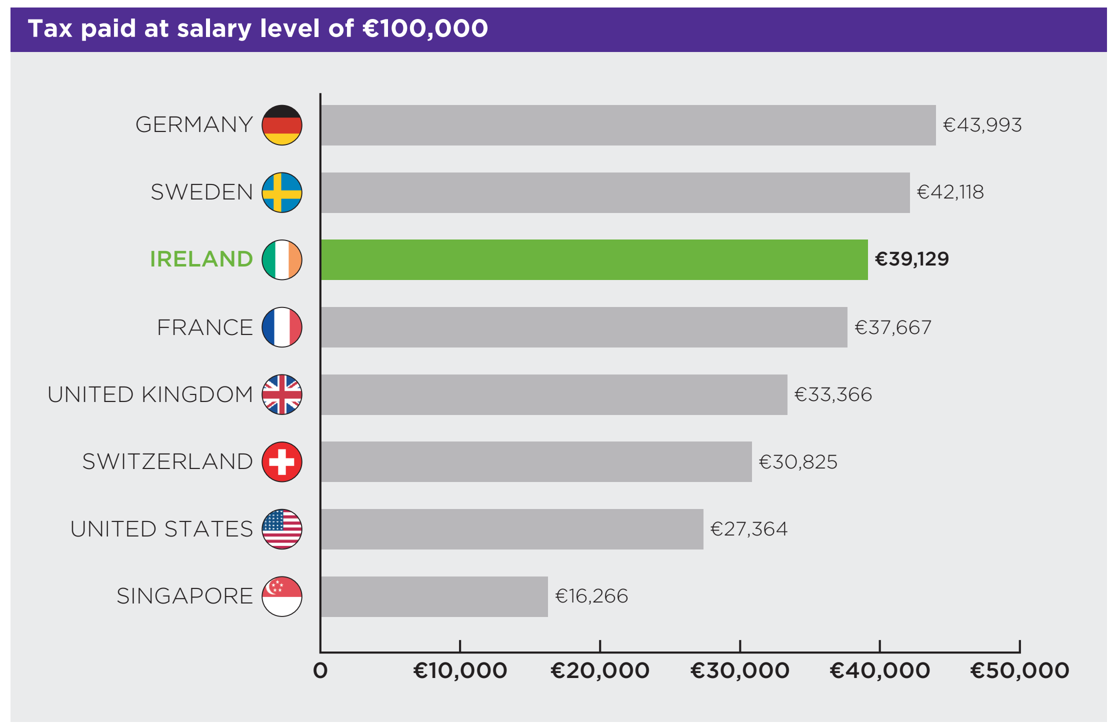
Tax paid at salary level of €100,000
GERMANY €43,993
SWEDEN €42,118
IRELAND €39,129
FRANCE €37,667
UNITED KINGDOM €33,366
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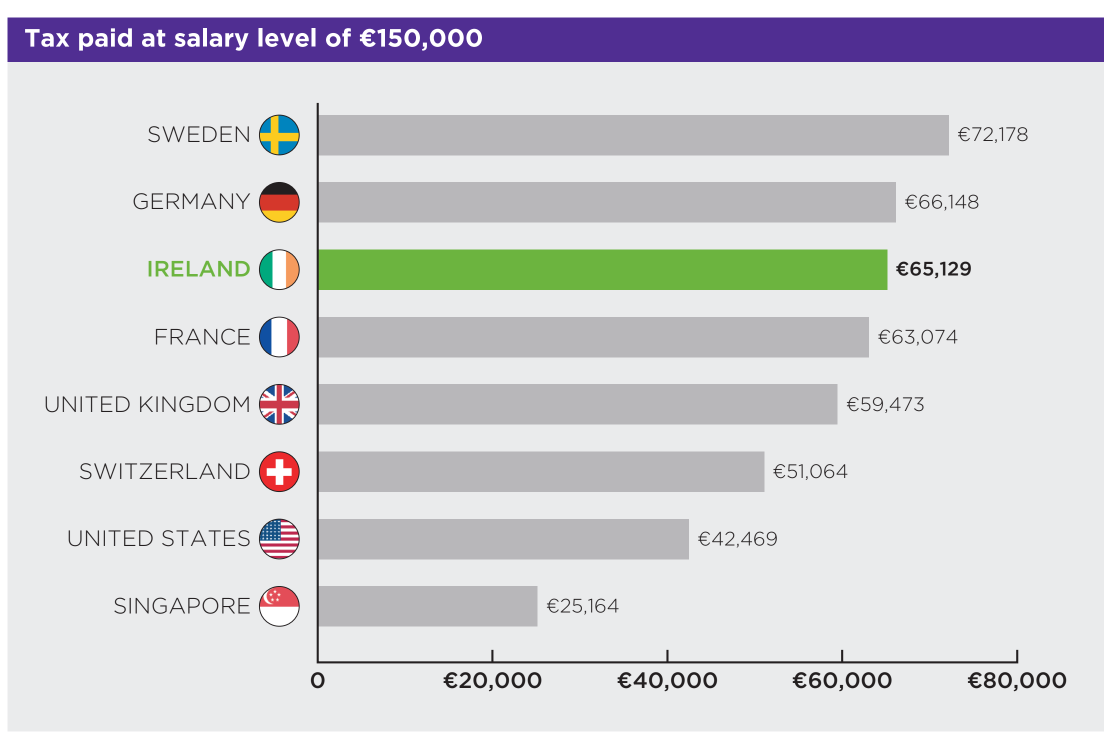
€30,000
€40,000
€50,000


Tax paid at salary level of €150,000
SWEDEN €72,178
GERMANY €66,148
IRELAND €65,129
FRANCE €63,074
UNITED KINGDOM €59,473
SWITZERLAND €51,064
UNITED STATES €42,469
SINGAPORE €25,164
0
€20,000
€40,000
€60,000
€80,000

VAT Rates in Ireland V Competitor Countries

Global Standard VAT Rates	
Sweden	25%
Ireland	23%
France	20%
UK	20%
Germany	19%
Switzerland	8%
Singapore*	7%
US**	1% - 10%

* Standard GST rate in Singapore.

** Sales tax applies in the US at a range of rates depending on the individual State.

Factsheet 6

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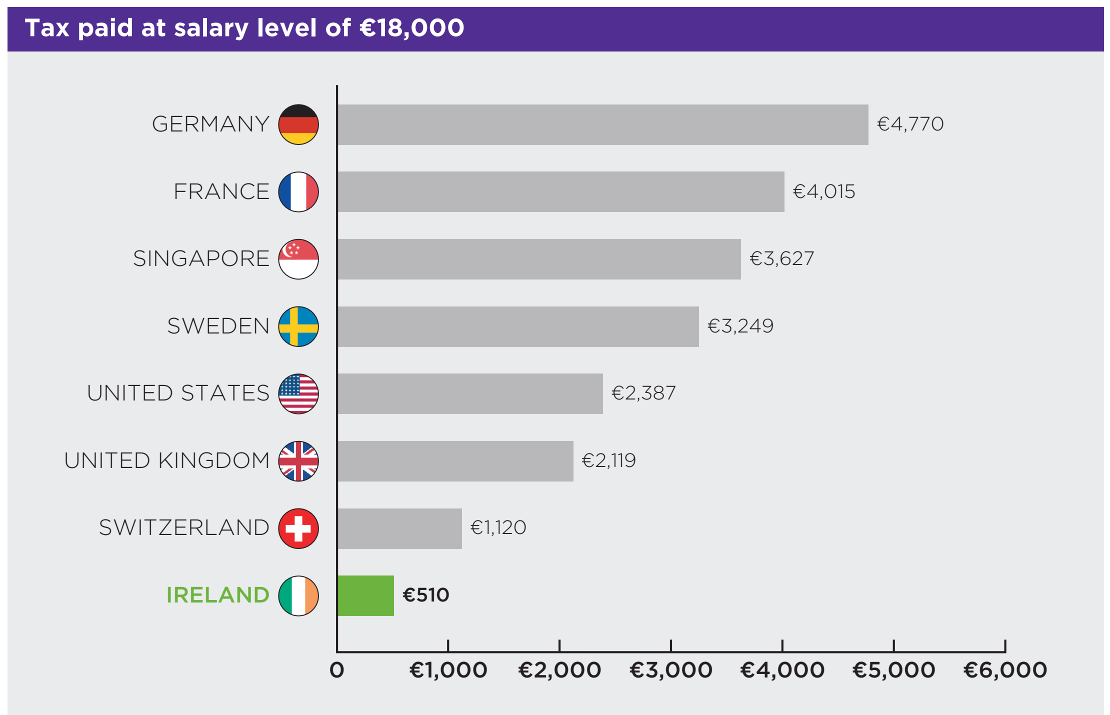
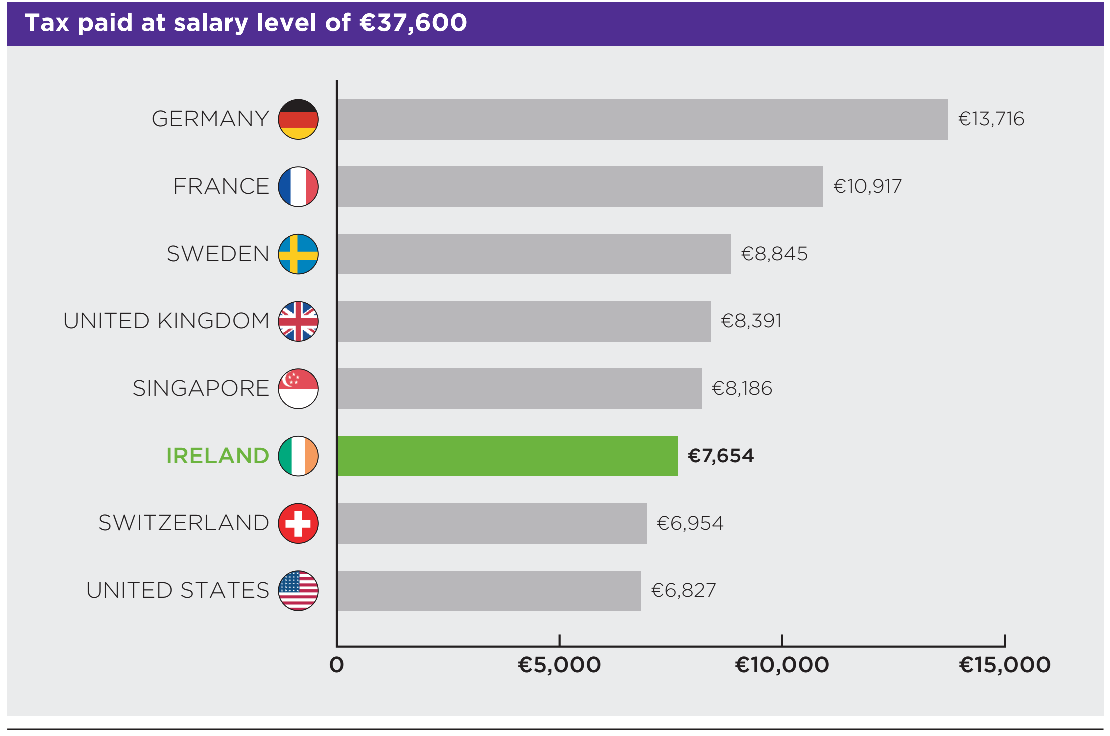
Tax paid at salary level of €18,000



Tax paid at salary level of €37,600



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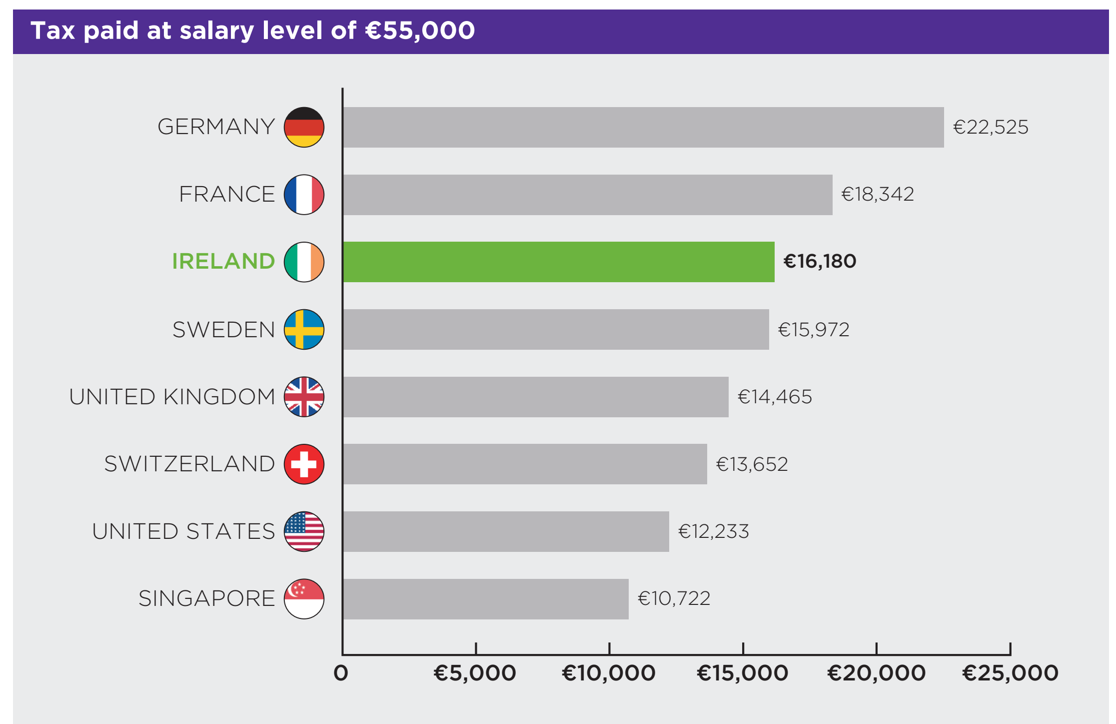
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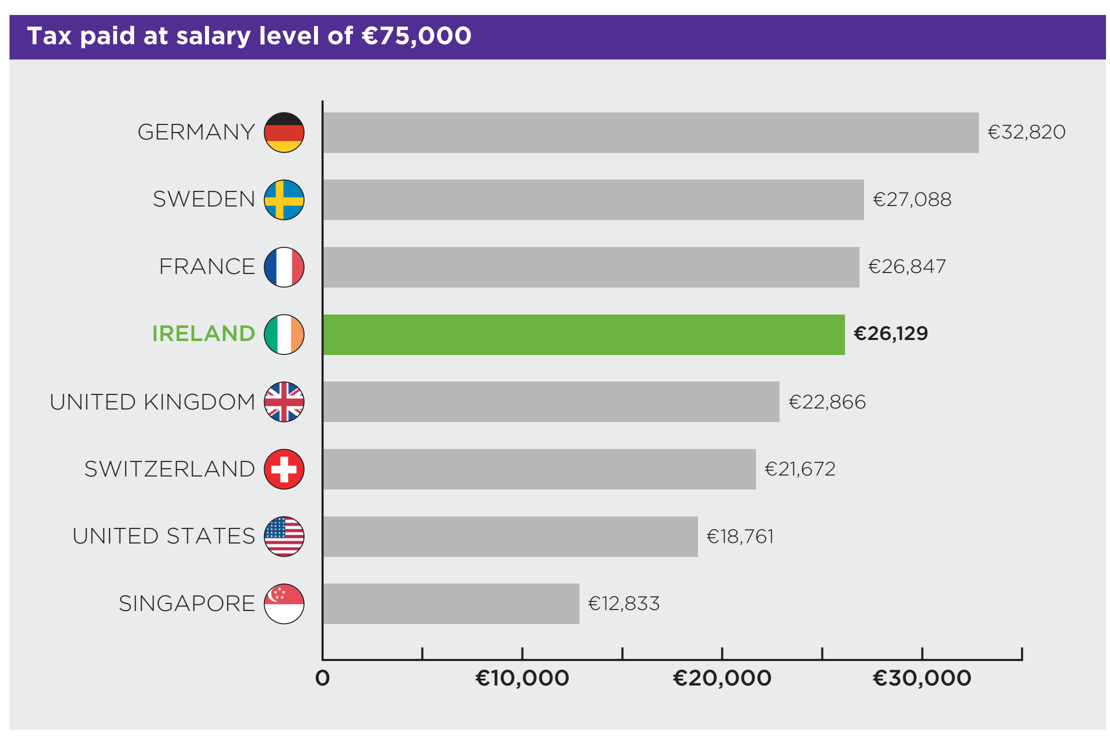
€25,000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UNITED KINGDOM
SWITZERLAND
UNITED STATES
SINGAPORE
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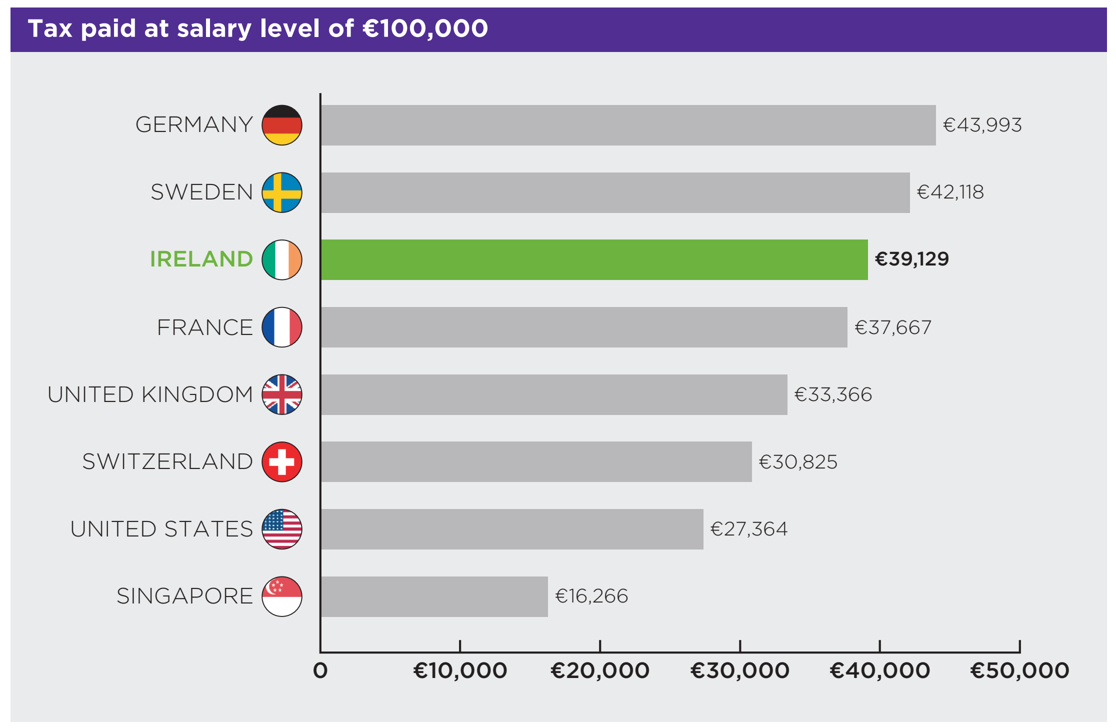
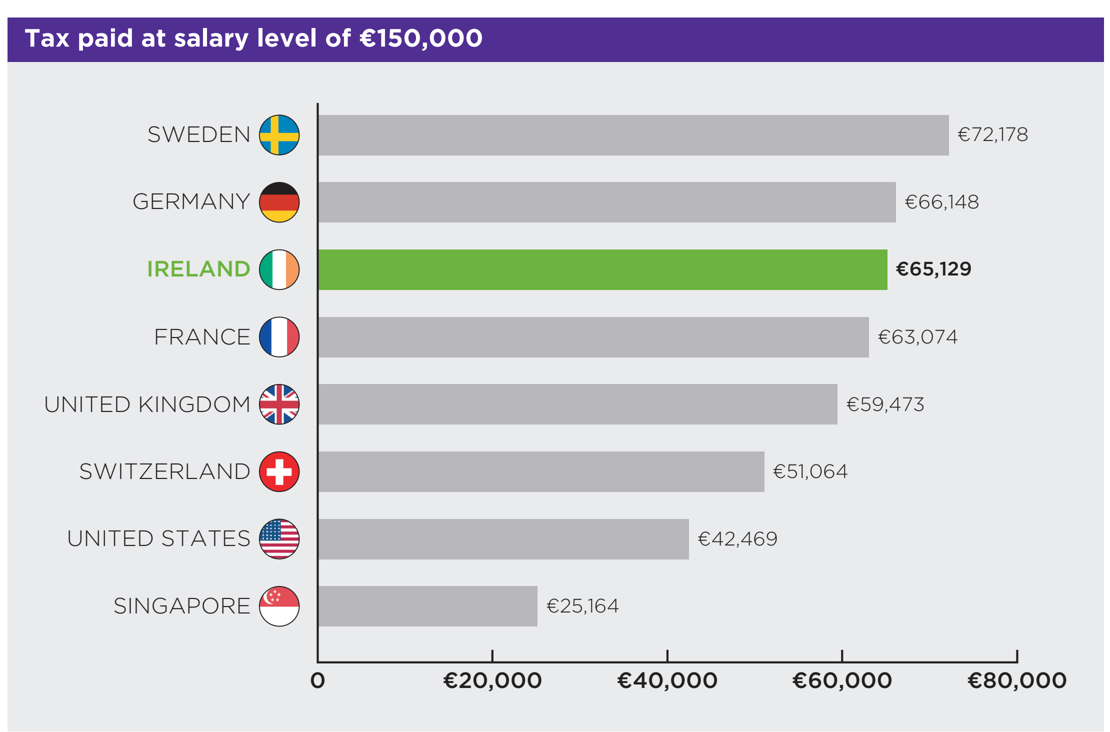
€27,088
€26,847
€26,129
€22,866
€21,672
€18,761
€12,833
0
€10,000
€20,000
€30,000

Tax paid at salary level of €100,000



Tax paid at salary level of €150,000



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Sweden	25%
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Singapore*	7%
US**	1% - 10%

* Standard GST rate in Singapore.

** Sales tax applies in the US at a range of rates depending on the individual State.

Factsheet 7

Export recommendations

The Irish indigenous business agenda — 20 key tax recommendations

Why tax policy is important

The role of tax policy in driving entrepreneurship was clearly outlined by the IMF recently.[1] Tax is a critical topic right now and has major implications for entrepreneurship by reducing the rewards for success. The IMF believes that high taxes can reduce the incentive to innovate and the entrepreneurial spirit; the design of growth friendly tax policy favouring entrepreneurship is something that is required and several governments can do better in this regard.[2]

A New Tax Strategy for the Irish Indigenous Sector

1. It is recognised that a seismic shift in Ireland's exporting strategy is required to grasp new global opportunities and meet global uncertainties and challenges.

The urgency of this issue requires:

a. A tax policy strategy that helps Irish businesses to be ambitious and removes any blockers that prevent this ambition; and

b. That tax policies are implemented and administered in a seamless way that is easy to understand and apply and is barrier free for SMEs.

The new strategy would enshrine the recommendations set out below.

Supported by an extensive Government information campaign

2. An early and extensive information campaign should be rolled out for Irish businesses explaining both the tax policies in the strategy and how they will be administered.

Ireland's capital gains tax (CGT) regime

3. Ireland's 33% CGT rate is the fourth highest rate in the OECD and it is having a negative impact on investment in Irish business. This is a matter of real concern because investment in innovation, talent and equipment is essential if Irish businesses are to increase their level of exports abroad. By contrast, Germany outstrips the rest of the EU with its excellent record of business investment and its export prowess – it has a CGT rate of 25%. As well as hampering investment, the high rate is also dampening business activity in the Irish market and creating reluctant business owners who may hold onto businesses beyond the point where they have the capacity to grow them to the scale required in a new global exporting environment. The CGT rate needs to be reduced to a level that is closer to the median CGT rate amongst OECD countries, currently 23%.

4. Revised entrepreneur relief is tightly restricted to owner managers and locks out much needed external investors from the possibility of a lower CGT rate. This disparity should be removed. The €1m lifetime threshold for entrepreneur relief also needs to be increased to a minimum level of €10m to compete effectively with other countries for international capital.

1 European Commission and the IMF Conference on "Taxation, investment and innovation: a triptych for balanced growth, 17 & 18 November 2016 https://ec.europa.eu/taxation_customs/sites/taxation/files/2016_tax-invest-innov_programme.pdf
2 European Commission and the IMF Conference on "Taxation, investment and innovation: a triptych for balanced growth, 17 & 18 November 2016 https://ec.europa.eu/taxation_customs/sites/taxation/files/2016_tax-invest-innov_programme.pdf

Tax measures for R&D and innovation

5. Limits in the R&D tax credit regime for outsourcing restricts collaboration amongst Irish businesses and crucially between businesses and third level institutions. No outsourcing restriction is required under the OECD Modified Nexus rules for the Knowledge Development Box (KDB) and, since the rules of both regimes should be aligned, the outsourcing restrictions in the R&D tax credit regime should be removed.
6. At a time when all global indicators tell us that growth depends on innovation, every effort should be made to remove administrative blockers for businesses that need to claim the R&D tax credit. Only 1% of all small firms in Ireland consider themselves to be R&D active. If we are to be truly innovative and global we must improve this performance and no stone should be left unturned in supporting SMEs to claim the R&D tax credit. This includes:
    - A new SME friendly guidance campaign supported by dedicated Revenue support lines for SMEs with dedicated Revenue experts.
    - A Revenue Centre of Excellence which deals with all taxpayer issues concerning the R&D tax credit regime.
    - Sectoral specific guidance for each industry sector such as food & drink, ICT, bio-medical etc, all of which engage in very different R&D processes.
    - A Revenue pre-approval process that would bring much needed certainty for taxpayers and subsequently prevent disagreements and costly future audits.
    - Expert checks on the science element of R&D that are grounded in business reality rather than focused on academic concepts of “new to the world”. Regardless of how innovative a food company might be, it is very difficult to invent a food that is completely new to the world.
7. Revenue’s guidelines on the KDB are very comprehensive at 82 pages. However, a separate and less complex set of guidance is needed for SMEs which have much more straightforward operations.

The personal tax environment and talent

8. Ireland’s urgent skills gaps are not matched by our high effective tax rates above the average wage. A phased plan is needed to reform the overall shape of our personal tax system. This includes a review of our high marginal tax rates, the breadth of our tax base and the entry points to income tax, USC and PRSI.
9. A workable share-based employee scheme is also required for SMEs that would enable them to attract and retain the best talent in Irish businesses. The UK Enterprise Management Incentive (EMI) is a good model to consider – capital gains tax is payable by the taxpayer when they sell their shares and have the funds to pay the tax. A simple administrative process for collecting the information and paying the tax due is an important element of any new scheme.
10. Entrepreneurs are the job creators of Ireland and personal tax disparities that require them to pay higher taxes than PAYE taxpayers should be removed. This includes the additional 3% USC rate they pay on income above €100,000 and the €700 lower tax credit they receive.
11. Consideration should be given to developing a new talent regime similar to SARP but targeted at SMEs, so that they can attract the talent and skills they need from outside Ireland to grow their businesses.
12. Uncertainty about the tax treatment of travel expenses is creating concern and cost for many home workers, freelancers, employers with staff sent abroad to build the business and those dealing with the new working patterns of the modern world. Legislation in this area urgently needs to be brought up to date to deal with this issue.

Tax measures to expand export markets

13. The Foreign Earnings Deduction (FED) reduces the income tax bill of employees travelling to develop export markets in 30 countries, including the BRICS, some Middle Eastern, South American, Asian and African countries. With Irish companies needing new export markets more than ever, the range of qualifying countries should be reviewed and broadened.
14. There are also some significant gaps in Ireland's Double Taxation Agreement (DTA) network across Latin America, Africa and southern Asia. These DTAs are critical for cross border trade as they prevent double taxation. Negotiating a DTA requires commitment and cooperation from both countries but, nonetheless, all efforts possible should be applied to addressing these gaps.
15. Irish companies sending employees abroad for short term visits often experience burdensome administrative difficulties when dealing with tax, payroll and double taxation issues. A new streamlined approach to these tax compliance issues is needed, complemented by further specialised Revenue support.

Income tax measures to support investment

16. The Irish market contains a limited number of individuals who have funds to invest in business through the Employment and Investment Incentive (EII). At a time when these businesses need a diverse range of finance, the annual cap of €150,000 per annum for these investors is further limiting the funding available for companies through the scheme. The equivalent UK EIS scheme has a Stg£1miliion investment limit and the limit for the Irish scheme should be increased to an equivalent amount.
17. As well as being capped, the EII income tax relief for investors is also split into two tranches - 30% in the year of investment and an additional 10% after three years, if the company meets certain employment targets. This concept of a split relief has been a feature of the EII relief since it replaced BES in 2011. However, it significantly reduces the attractiveness of EII and should be removed.
18. The EII rules require the investor to hold less than 30% of the company shares, effectively denying relief to the founder shareholder who may want to inject more funding into the business. This restriction does not apply in the UK and should be removed from our regime.
19. The Start-Up Refunds for Entrepreneurs (SURE) scheme should be extended to include new business founders who were previously self-employed and starting up another business (as well as those coming from employment).
20. Dividend income in Ireland is taxed at high marginal personal tax rates of up to 55%, which does not encourage equity investment in Irish business. Most countries internationally tax dividends at a lower or flat rate. We recommend a lower flat rate of taxation on dividend income.

Factsheet 8

Where the money could come from

1. The training levy increase
2. New tax on sugar-sweetened drinks
3. Raise excise on "the old reliables" – alcohol and cigarettes
4. Carbon tax increases
5. Reverse the 9% VAT rate

The training levy increase – €170m approx.

- The National Training Fund Act 2000 requires employers to contribute to training initiatives through a National Training Fund levy of 0.7% on most employees' earnings. The levy forms part of Employers' PRSI and is collected by the Revenue Commissioners, through the PRSI system.
- A Consultation[1] on increasing the National Training Levy was launched in March 2017 by the Minister for Education and Skills and the Minister for Public Expenditure and Reform. The consultation paper proposed an incremental annual increase of 0.1% in the National Training Fund levy to **increase it from 0.7% to 1% in the three-year period to 2020.**
- The levy is used:
  - to raise the skills of those in employment,
  - to provide training to those who wish to acquire skills for the purposes of taking up employment, and
  - to provide information in relation to existing, or likely future, requirements for skills in the economy.
- National Training Levy is only payable on Class A and Class H employments which represents 75% of all insured employees. Other categories of employment such as public-sector employees recruited before 1995 do not pay the levy.
- The Cassells Report[2] recommended employers should make a greater contribution to the future funding for higher education by increasing the National Training Fund levy.
- The proposed increase of the levy, between 2018 and 2020, would see employers pay an extra €100 a year in respect of each worker on a €35,000 salary.
- The potential revenue raised by the time of full implementation of the increased levy in 2020 is estimated at **€170m** based on 2016 figures.

New Tax on Sugar-Sweetened Drinks – €40m approx.

Former Minister for Finance, Michael Noonan, T.D. confirmed in his Budget 2017 speech that *"...it would be prudent to align the Irish sugar-sweetened drinks tax with the UK's tax proposal, in terms of time-frame and structure. Therefore, I intend to introduce this tax to coincide with the introduction of its UK counterpart, in April 2018."*

1 Proposed Exchequer - Employer Investment Mechanism for Higher Education and Further Education & Training, 10 March 2017.
2 Investing in National Ambition: A Strategy for Funding Higher Education, Report of the Expert Group on Future Funding for Higher Education, March 2016, p. 8.

- The Government intends to introduce a tax on sugar sweetened drinks in April 2018.
- The Department of Finance held a public consultation on the proposed new tax from 11 October 2016 to 30 January 2017 and received 30 submissions from interested parties.
- The Government is proposing that the sugar-sweetened drinks tax should apply to water-based and juice-based drinks which have an added sugar content of 5grams/100ml and above. Most soft drinks and energy drinks have an added sugar content of circa 10-11 grams of sugar per 100ml.
- It is proposed that that the tax will be structured as an excise duty, imposed at a volumetric rate at a specific amount per hectolitre (hl).
- A similar mechanism operated from 1916 until 1992 as an excise duty on "table water." This was the equivalent of 2.2p on a 33cl can of cola. This duty was abolished in 1992 as part of an overall reform of the tax code in advance of the full application of single market rules on 1 January 1993.
- The proposal only applies to pre-packaged drinks and it excludes:
    - pure fruit juices with natural sugar content of over 5grams/100ml;
    - soft drinks, energy drinks and sports drinks that have a sugar content lower than 5grams/100ml, e.g. diet drinks and
    - all dairy-based sugar-sweetened drinks with both naturally occurring sugar and with added sugar, irrespective of the level their sugar content.
- It is estimated that half of the 685.4m litres of the total soft drinks sold in Ireland will be subject to the tax.
- Tax on sugar sweetened beverages, levied at 10c on a 330ml can, would yield in the region of **€40m** in a full year.[3]
- The UK Office of Budget Responsibility, which produces forecasts for the UK's economy, predicts that a can of Coke could be set to rise by 8p following the introduction of the tax on sugar-sweetened drinks in the UK in April 2018, while a two-litre bottle of the drink could increase by 48p.
- It is intended that the new tax will be collected at first point of import or production.
- However, the structure, scope and rate of the new tax has not yet been finalised and so, the above estimates are preliminary and subject to change.[4]
- Further details relating to the tax will be announced as part of Budget 2018.[5]

Raise excise on "the old reliables": alcohol and cigarettes – €138m approx.

Tax on tobacco products

- As of June 2017, Ireland has the highest rates of duty on tobacco products in the EU.[6]
- This reflects a long-standing policy of levying high rates of excise duty on tobacco products.
- The price of a pack of 20 cigarettes in the most popular price category now stands at €11.30, €8.95 of which is tax (i.e. €6.84 of excise duty and €2.11 in VAT).[7]

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3 Minister for Finance, Public Expenditure and Reform, Paschal Donohoe, T.D. written response to Parliamentary Question [36334/17], 26 July 2017.

4 Minister for Finance, Public Expenditure and Reform, Paschal Donohoe, T.D. written response to Parliamentary Question [36334/17], 26 July 2017.

5 Minister for Finance, Public Expenditure and Reform, Paschal Donohoe, T.D. written response to Parliamentary Question [32665/17], 11 July 2017.

6 Tax Strategy Group – TSG, 17/07, 25 July 2017, p.5.

7 Tax Strategy Group – TSG, 17/07, 25 July 2017, p.5.

- According to the Tax Strategy Group, a duty increase in duty of 50c on a pack of 20 cigarettes could yield **€63.8m** for the Exchequer.[8]

Budget 2018 Option – Increase duty on cigarettes	
Increase pack of 20 cigarettes by	**Exchequer Yield**
50c	**€63.8m**

Tax on alcohol products

- As of June 2017, Ireland has the highest rates of duty on wine and sparkling wine, the second highest rates of duty on beer and the third highest rates of duty on spirits in the EU.[9]
- Again, Ireland has a long-standing policy of levying high rates of excise duty on alcohol products.
- Excise duty is now 30% of the price of an average bottle of wine (i.e. average priced bottle of €10.50).[10]
- According to the Tax Strategy Group, a 10c duty increase on a pint of beer, half a glass of spirits and a pint of cider could yield a total of **€110.5m** for the Exchequer.[11]
- A duty increase of 50c on a bottle of wine could yield **€27.8m** for the Exchequer.

Budget 2018 Option 1 – Increase duty on beer, spirits and cider				
Increase duty by 10c on	**Beer (per pint)**	**Spirits (per ½ glass)**	**Cider (per pint)**	**Total**
Exchequer Yield	€65.5m	€36.4m	€8.6m	**€110.5m**

Budget 2018 Option 2 – Increase duty on a bottle of wine	
Increase duty by 50c on a bottle of wine	**Total**
Exchequer Yield	**€27.8m**

Carbon tax increases – €110.4m approx.

- Carbon tax was introduced in Ireland in 2010 as a tax on carbon emissions from energy products released for consumption in Ireland.
- Carbon tax applies to kerosene, marked gas oil, liquid petroleum gas, fuel oil, natural gas and solid fuels.
- Energy taxes are derived from the underlying charge of €20 per tonne of CO_2 that has been applied to fuels generally.

8 Tax Strategy Group – TSG, 17/07, 25 July 2017, p.16.
9 Tax Strategy Group – TSG, 17/07, 25 July 2017, p.18.
10 Tax Strategy Group – TSG, 17/07, 25 July 2017, p.30.
11 Tax Strategy Group – TSG, 17/07, 25 July 2017, p.30.

Energy/Carbon Taxes	Type of Products	Rates
Electricity Tax	• Excise duty on supplies of electricity	• €0.50 per unit per megawatt hour for electricity supplied for business use. • €1 per unit per megawatt hour for electricity supplied for non-business use, excluding domestic use.
Natural Gas Carbon Tax	• Supplies of natural gas to consumers	• €4.10 per megawatt hour
Solid Fuel Carbon Tax	• Coal • Peat briquettes • Milled peat • Other peat	• €52.67 per tonne • €36.67 per tonne • €17.99 per tonne • €27.25 per tonne
Mineral Oil Tax Carbon Charge	• Mineral oils – petrol and diesel • Non-auto oils – marked oil (MGO), kerosene, fuel oil (industrial) and liquified petroleum gas (LPG) • Aviation gasoline • Heavy oil used for recreational flying and boating	See table in Appendix 1

Carbon tax yield

History of Ireland's Carbon Tax Yield		
Year	**Rate Per Tonne**	**Yield**
2010	€15	€223m
2011	€15	€298m
2012	€20	€354m
2013	€20	€388m
2014	€20	€385m
2015	€20	€419m
2016	€20	€430m
2017*	€20	€445m

- According to the Tax Strategy Group, an increase in the rate of the carbon tax by €5 per tonne of CO_2 emitted would raise in the region of **€110.4m**.[12]

12 Tax Strategy Group – TSG 17/09, 25 July 2017, p.31.

Ireland's Climate Change Targets

- Ireland signed the Paris Climate Conference (COP21) in December 2015 which sets out a global action plan to by limit global warming to well below 2°C.
- The Programme for Partnership Government provides for Ireland's first statutory National Low Carbon Transition and Mitigation Plan. The Climate Action and Low Carbon Development Act 2015l has since been enacted which provides for the National Mitigation Plan.
- Ireland's national policy position is to reduce CO_2 emissions by at least 80% (compared to 1990 levels) by 2050 across the electricity generation, built environment and transport sectors, and an approach to carbon neutrality in the agriculture and land-use sector.
- Europe 2020[13] climate targets for Ireland are:
  - 20% reduction in greenhouse gas emissions on 2005 levels
  - 16% of energy to come from renewable sources
  - 20% improvement in energy efficiency
- The European Commission Proposal for Effort Sharing Regulation (2021 to 2030) includes a target for Ireland to reduce greenhouse gas emissions by 30% in 2030 compared to 2005, the final figure to be determined by EU legislation.
- The Environmental Protection Agency (epa) estimates that Ireland's greenhouse gas emissions will be 11% below 2005 levels by 2020, compared to the 20% reduction target. In fact, emissions from agriculture and transport are projected to increase in the period to 2020.[14]

Revert the 9% VAT rate – €491m approx.

- The 9% VAT rate was introduced with effect from 1 July 2011, as part of the Government's Jobs Initiative.
- The rate of VAT of 9% applies to the following a range of goods and services:
  - ✓ Hotel and holiday accommodation
  - ✓ Tour guide services
  - ✓ Hotel and restaurant meals
  - ✓ Admissions to cinemas, cabaret, certain live theatrical and musical performances and to certain exhibitions
  - ✓ Admissions to open farms
  - ✓ Use of commercial sporting facilities
  - ✓ Use of sporting facilities provided by the state and public bodies in certain circumstances
  - ✓ Certain green fees
  - ✓ Brochure, periodicals and newspapers
  - ✓ Cooked food purchased at take away, supermarket, garage or other outlet
  - ✓ Hairdressing
  - ✓ Supply of race horses and other horses (not intended for use in farming/agriculture production or for use in the preparation of food stuffs).

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13 Tax Strategy Group – TSG 17/09, 25 July 2017, p.4.
14 epa Bulletin, Greenhouse Gas Emissions Projections to 2020 – An update, 2016.

- The policy was initially designed as a temporary measure, and was due to expire at the end of 2013. However, the Government has extended the lifetime of the 9% rate as part of successive Budgets since then.
- The Department of Finance published a review[15] of the 9% rate in November 2012. The Department's report concluded that 9% reduced VAT rate appeared to have had the desired impact both in terms of price pass through and by contributing to employment gains.
- The reduced rate of 9% applies to 11% of the activity in the economy and represents 7% of the VAT receipts.[16]
- The estimated cost to exchequer of the reduced 9% VAT rate since its introduction in 2011 to the end of 2016 is €2.2bn.[17]
- The most recent estimate for reverting the reduced 9% VAT rate back to 13.5% is that it would result in extra revenue in the region of **€491m**.[18]

Appendix 1

Mineral Oil Tax

The table below contains the current rates Mineral Oil tax (€ per 1,000 litres):

	Description of Oil	Non-Carbon Charge component "A"	Carbon Charge component "B"	Total Rate ("A"+"B")
Light Oil	Petrol	€541.84	€45.87	€587.71
	Aviation gasoline	€541.84	€45.87	€587.71
Heavy Oil	Used as a propellant	€425.72	€53.30	€479.02
	Used for air navigation	€425.72	€53.30	€479.02
	Used for private pleasure navigation	€425.72	€53.30	€479.02
	Kerosene used other than as a propellant	€0	€50.73	€50.73
	Fuel oil	€14.78	€61.75	€76.53
	Other heavy oil (including MGO)	€47.36	€54.92	€102.28
Liquefied Petroleum Gas	Used as a propellant	€63.59	€32.86	€96.45
	Other liquefied petroleum gas	€0	€32.86	€32.86
Substitute Fuel	Used as a propellant instead of unleaded petrol	€541.84	€45.87	€587.71
	Used as a propellant instead of diesel	€425.72	€53.30	€479.02
	Used other than as a propellant	€47.36	€54.92	€102.28

15 "Measuring the impact of the Jobs Initiative: Was the VAT reduction passed on and were jobs created?", Brendan O'Connor, Economics Division, Department of Finance, November 2012.
16 Revenue Ready reckoner – Pre-Budget 2018, July 2017, p.25.
17 Tax Strategy Group, TSG 17/06, July 2017, p. 5.
18 Minister for Finance, Public Expenditure and Reform, Paschal Donohoe, T.D. written response to Parliamentary Question [36333/17], 26 July 2017.

Appendix 1

Personal Tax System: Entry Points, Bands, Rates and Credits 2017

Ireland has a very complex personal tax regime consisting of three different personal taxes – income tax, USC and PRSI. Each of these three taxes has different:

- Entry points
- Rates and bands
- Credits

Entry points

Each of the three taxes has different **entry points**, meaning that you only pay that particular tax where your income exceeds certain euro thresholds.

- **Income tax**

  The impact of the two main income tax credits which are available to all PAYE workers (the Personal Tax Credit and the PAYE Tax Credit), means that employees do not pay income tax until their income exceeds **€16,500**.

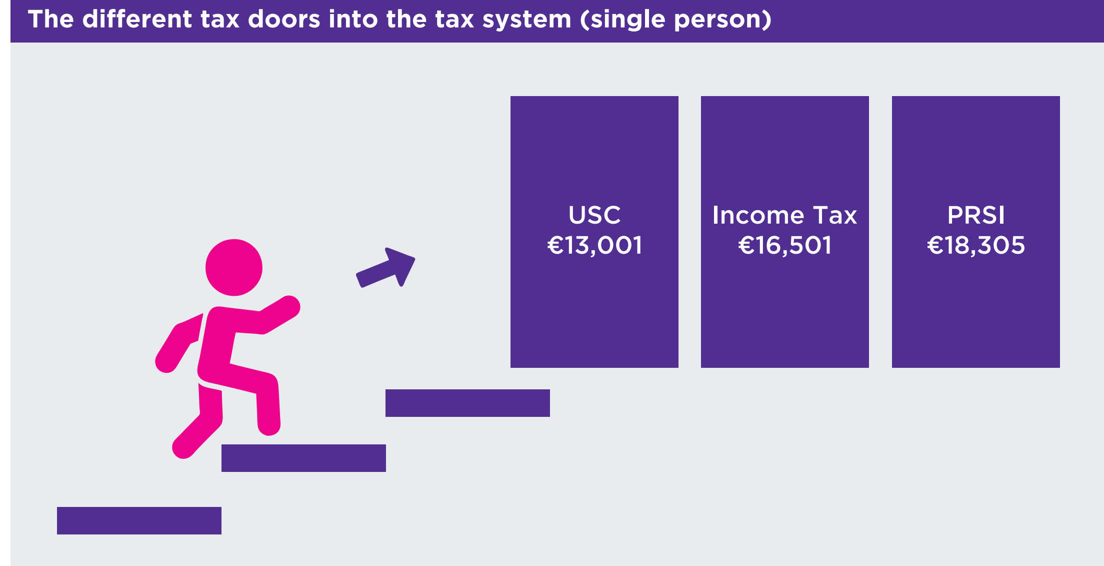
- **USC**

  An individual is exempt from USC up to the point where they earn **€13,001**.

- **PRSI**

  An employee is exempt from PRSI until they earn more than **€18,304**. (Note: For a self-employed person, the PRSI exemption is only €5,000. Once earnings exceed this amount, PRSI is paid on all income and a minimum of €500 must be paid in any year.)

The different tax doors into the tax system (single person)



Rates and Bands

Income Tax

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.

The amount of income subject to the standard rate can vary depending on the status of the taxpayer.

Personal income tax rates	20% on income up to	40% on
Single person pays	€33,800	Balance
Married couple (one income)	€42,800	Balance
Married couple (two incomes)	€67,600[1]	Balance
One parent/widowed parent	€37,800	Balance

USC

Unlike income tax, if you earn over €13,000 you pay USC on all your income at the rates below:

Rate	Band
0.5%	All income up to €12,012
2.5%	€12,013 to €18,772
5%	€18,773 to €70,044
8%	€70,045 and above
11%	Non-PAYE income that exceeds €100,000

The USC "Step Effect"

- An individual does not pay USC unless they earn over €13,000.
- However, once an individual earns more than €13,000, they pay USC on all of their income from the first Euro.
- This creates a "step effect" of almost €85 per annum i.e. earning €1 over the exemption limit (€13,000) creates a USC charge of €85.

How the USC "Step Effect" Arises	
Person earning €13,000	€
Total USC	Nil
Person earning €13,001	€
0.5% on first €12,012	60
2.5% on balance of €989	25
Total USC	85

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

PRSI

Again, unlike income tax, if you earn over €18,304 you pay PRSI on all your income at the rates below:

PRSI Rates	Income	%
Employee (Class A)	All income	4%
Self-Employed (Class S)[2]	All income	4%

PRSI Tapered Credit

- In Budget 2016, a tapered PRSI Credit was introduced to help alleviate the "step effect" for those entering the PRSI rate on foot of wage increases.
- There is a sliding scale of PRSI relief on income between €18,304 and €22,048 (subject to a maximum credit of €624 annually).
- Once a person earns more than €22,048, they pay PRSI on their entire earnings at 4%.

Total Personal Tax Marginal Rate

The marginal tax rate is the rate at which each additional Euro earned is taxed. The marginal rate comprises three different elements – Income Tax, USC and PRSI.

We are unique by international standards, in that the marginal tax rate in Ireland varies depending on whether and individual is employed or self-employed.

Components of the marginal rate	Employed	Self-Employed (over €100,000)
Income Tax	40%	40%
USC	8%	11%[3]
PRSI	4%	4%
Total marginal rate	52%	55%

Credits

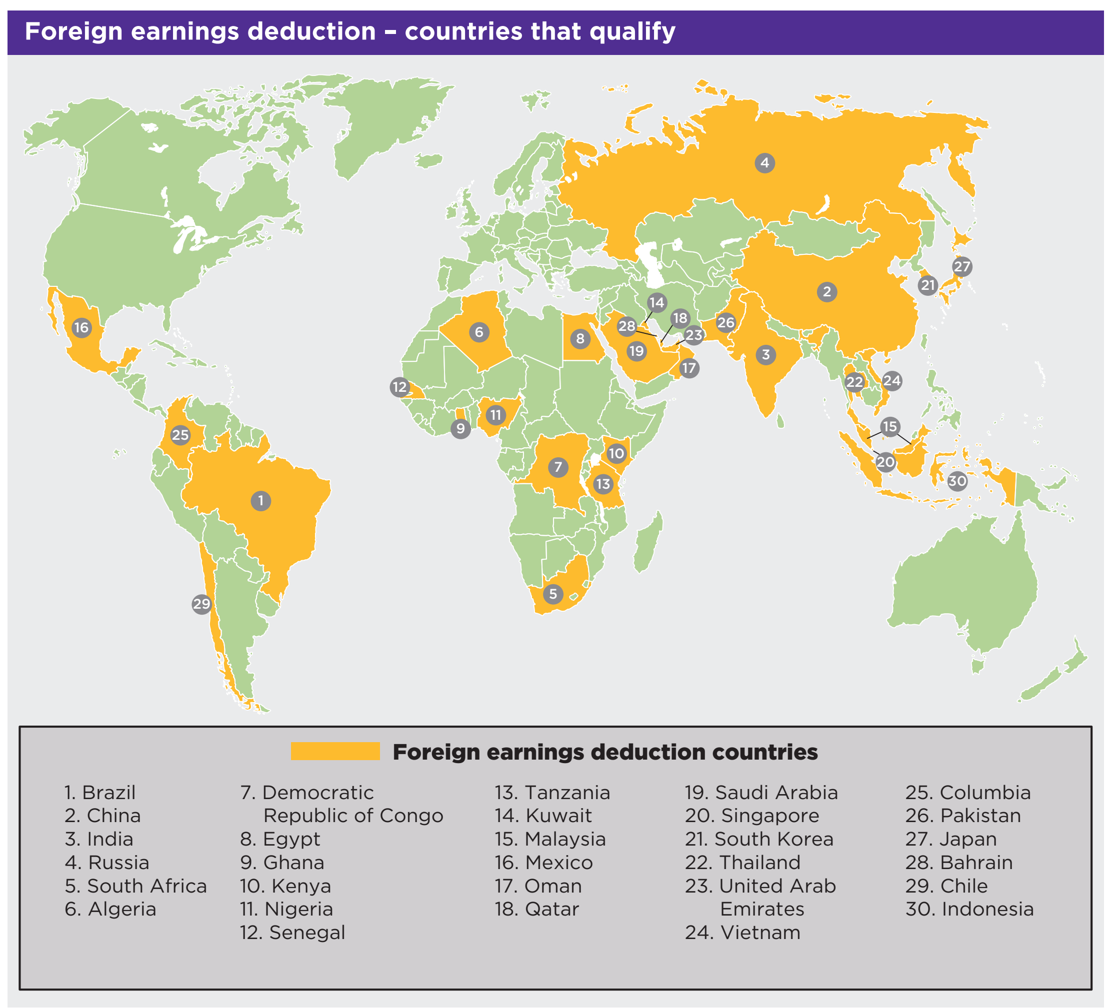
Income Tax – Most Common Credits	
Single Person Credit	€1,650
Employee PAYE Credit	€1,650
Earned Income Credit	€950
Married Couple/ Civil Partnership	€3,300
Widowed Person Credit	€1,650
Home Carer Credit	€1,100

2 Self-employed earning less than €5,000 per year are exempt from PRSI. Minimum payment of €500.
3 The 11% rate applies to self-employed income over €100,000.

Appendix 2

Foreign Earnings Deduction (FED)

As a business expands and begins to export into new markets, it will often want to send an employee to that new market to get the business off the ground there. The FED is an income tax relief available to employees who temporarily carry out their duties overseas in specific countries earmarked by the Government as potential export markets.



As you can see from the map there are currently 30 countries that qualify for the FED, including the "BRICS", and certain Middle Eastern, South American, Asian and African countries.

The FED is available to Irish-resident employees who work in any of these listed countries for at least 30 qualifying days in a continuous 12-month period. A day can be counted only if the employee spends that whole day working in one of the FED listed countries and that day is one of three consecutive days spent working in that country. After a change in 2014, weekends and travel days from Ireland can now be included to meet the test.

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

How the FED amount is calculated

Take an example of a full-time employee who earns €125,000 in a year and spends 95 qualifying days working in FED listed countries. The tax refund due to the employee would be calculated as follows:

- FED amount: €125,000 x 95/365 = €32,534
- Employee's tax refund: €32,534 x 40% = €13,014

There were 144 FED claims in 2014[1], with a cost to the Exchequer of €1.1m. Since 2014 the minimum number of eligible days needed to claim the FED has changed, but no more data on claims is yet available.

Institute Recommendations on the FED

- The Foreign Earnings Deduction (FED) reduces the income tax bill of employees travelling to develop export markets in 30 countries, including the BRICS, some Middle Eastern, South American, Asian and African countries. With Irish companies needing new export markets more than ever, the range of qualifying countries should be reviewed and broadened.
- Relief available under the FED should be extended to include USC and PRSI.

1 Revenue, Costs of Tax Expenditures (Credits, Allowances and Reliefs).

Appendix 3

Employment Investment Incentive (EII)

The EII is the main income tax incentive available to individuals investing in Irish business. It is aimed mainly at supporting early-stage business and is a very important relief that can mitigate risk for investors in these businesses, including family, friends and angel investors.

These businesses often have great difficulty in obtaining bank finance, and so this tax measure is a very important element of Government support for this sector, which is so critical to Ireland's future growth.

EII Relief – The Investor Perspective

- The EII entitles individuals buying shares in certain types of trading companies to claim income tax relief up to 40% of the value of their investment.
- However, the relief is split into two tranches: 30% is granted in the year of investment, and a further 10% is granted after three years.
- The maximum EII investment is €150,000 in any one year.
- No relief is granted for USC or PRSI under the EII, even though USC has become a very fixed feature of the personal tax system (giving high marginal rates of 52%/55%) against which taxpayers do not receive any additional benefits.

Benefit of the EII to the Irish business receiving the funds

- The target company can raise a maximum of €5m EII funding a year, subject to a lifetime limit of €15m.
- Most trading activities qualify for funding, except once-off speculative transactions; financing activities, including dealing in commodities, securities etc.; dealing in and developing land; forestry; film production; operations in the coal, steel and shipbuilding sectors; and professional services.
- The investor must not be connected to the company or own more than 30% of it. However, there is an exception to this rule for an individual investing in his/her own company where the total capital of the company does not exceed €500,000 after investment.

The success of the EII

EII v BES

The EII replaced a previous incentive known as the Business Expansion Scheme (BES) in 2011. The EII is broader in scope than the BES was, so that a wider variety of trading activities can avail of the funding.

However, the tax relief available under the EII is lower than that under the BES. The BES provided for tax relief at the investor's highest rate of income tax in year 1, whereas EII income tax relief is split into two tranches over three years.

- Although the economic environment has been challenging in recent years compared to the peak year for BES investment, it is nonetheless true that just over half the number are using EII compared to BES when it was most successful.

EII and BES investments compared, 2008 and 2016		
	No. of investors	**Cost to the Exchequer**
BES in 2008 (peak)	3,200	€135.7m[1]
EII in 2016	1,768	€32.5m[2]
Drop from peak	(1,432)	(€103.2m)

- At the time of writing, companies that are seeking follow on EII investment which is sought after seven years in business are encountering difficulties getting outline Revenue approval for the funding. This issue has arisen because of restrictions within the General Block Exemption from EU State Aid.

Institute Recommendations that would increase EII investment

In light of the low levels of EII investment currently being made, a number of enhancements to the regime are urgently required to broaden its appeal to investors.

(i) Raise the €150,000 annual investment limit

The Irish market contains a limited number of individuals who have funds to invest in business through the EII. At a time when these businesses need a diverse range of finance, the annual cap of €150,000 per annum for these investors is further limiting the funding available for companies through the scheme. The equivalent UK EIS scheme has an annual Stg£1m investment limit and the limit for the Irish scheme should be increased to an equivalent amount.

(ii) Provide full EII relief in year 1

As well as being capped, the EII income tax relief for investors is also split into two tranches - 30% in the year of investment and an additional 10% after three years, if the company meets certain employment targets. This concept of a split relief has been a feature of the EII relief since it replaced BES in 2011. However, it significantly reduces the attractiveness of EII and should be removed.

(iii) Extend EII relief to USC and PRSI

Currently, EII relief is available only against income tax and not either USC or PRSI. This reduces the relief available to 40%, when the investor's marginal tax rate may be as high as 55%.

(iv) Extend EII to include the founder shareholder

The EII rules require the investor to hold less than 30% of the company shares, effectively denying relief to the founder shareholder who may want to inject more funding into the business. This restriction does not apply in the UK and should be removed from our regime.

1 Parliamentary question of April 2014, PQ 16419/14.
2 Revenue, Employment and Investment Incentive (EII) Statistics 2012–2016, p. 5.

Appendix 4

Share-Based Remuneration

SMEs cannot compete with larger companies for highly skilled people in knowledge intensive services and highly skilled modern manufacturing, sectors critical to an export growth plan.

We know from Irish Tax Institute research that skills are the priority issue from the strength of feeling among Irish businesses.

Share-based remuneration can play an important role in attracting and rewarding key employees at all stages of a business's development. Incentivising staff with equity can significantly reduce fixed labour costs and free up business cash-flow.

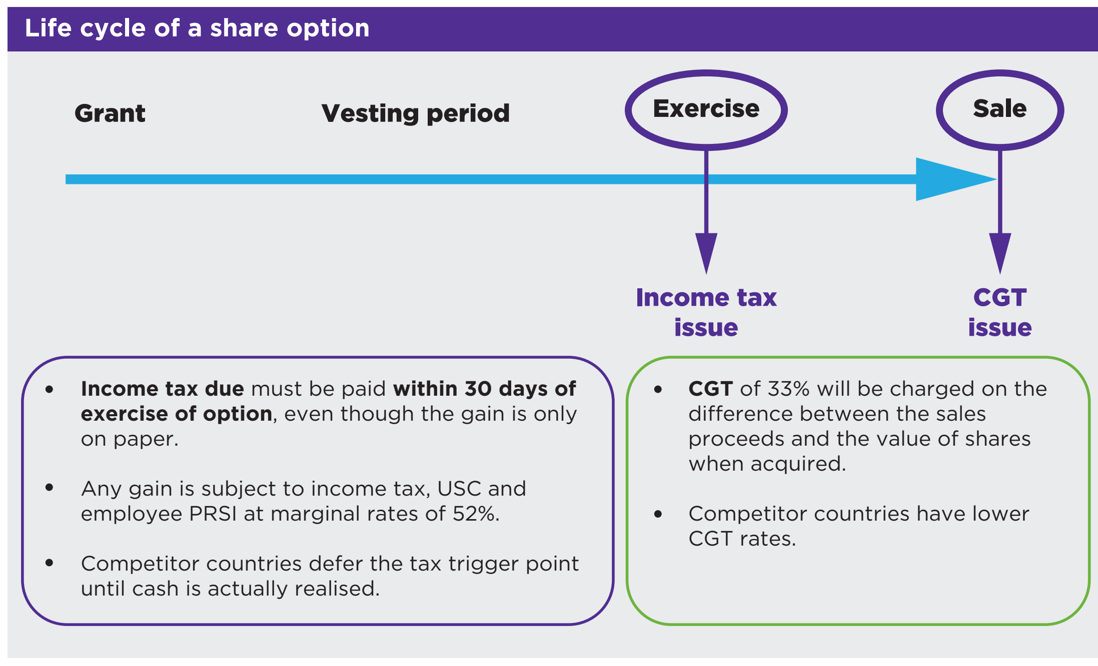
Research has shown that employee share ownership can be a key contributor to profitability, productivity and employment creation, with the resulting positive impact on economic growth and Exchequer yield.[1]

There are currently three types of Revenue-approved share schemes in Ireland, but they are very limited in practice:

- Approved Profit Sharing Schemes (APSS).
- Employee Share Option Trusts (ESOT).
- Savings Related Share Option (SAYE) schemes.

Although these provide some tax benefits to employees, their use is very limited in practice. Most SMEs and start-up businesses that want to reward employees using shares need the flexibility to make these awards to key staff on a selective basis. They cannot afford to award equity to all employees on similar terms, and that is what is required with the Revenue-approved share schemes above.

As a result, most companies have to use unapproved share schemes to reward employees, and these schemes result in high tax costs for those employees and a very unusual "income tax bill upfront," even though the employees own the shares only on paper.



1 "Sharing Success: The Nuttall Review of Employee Ownership" (July 2012).

Employees are liable to income tax, USC and employee PRSI at their full marginal rate (up to 52%), immediately on the receipt of a share award or on the exercise of a share option. The employee is also liable to CGT at 33% on any subsequent disposal of the shares.

The combination of this double charge to tax (both at high tax rates) makes equity less attractive to employees by significantly reducing the value of their share awards.

Start-ups and SMEs therefore face five major challenges in promoting share ownership:

- There may be no market for their shares.
- Calculating the tax due can be difficult due to problems in valuing the shares in the absence of a ready market.
- Employees must pay tax on the receipt of shares or on the exercise of share options. They may have to fund this tax on a "paper gain" from their own resources or from borrowings.
- A repurchase of shares (buy-back) by the employer can give rise to an income tax liability for the employee on disposal of the shares (rather than CGT), due to the legislative rules on share buy-backs.
- Income tax due on the exercise of a share option must be paid within 30 days through the self-assessment system, rather than payroll. Complying with this tight reporting and payment deadline can be difficult, especially for individuals who are used to paying their income tax liability through the PAYE system.

Targeted share-based remuneration schemes for SMEs and start-ups

Countries such as the UK have identified that SMEs and start-ups are at a disadvantage in offering share-based remuneration and need greater supports. The UK has designed a share scheme specifically targeted at helping SMEs and start-ups to attract key staff.

Spotlight on the UK's Enterprise Management Incentive (EMI)

The UK's EMI is designed to help small companies and start-ups to attract and retain key employees. It is commonly used in the technology sector. It affords companies a high level of flexibility in choosing how the terms of the options will operate.

Share options with a market value of up to Stg£250,000 can be granted tax-free to employees of independent trading companies that have fewer than 250 employees and gross assets not exceeding Stg£30m. Certain requirements on working time must be met, and the employee cannot control 30% or more of the shares in the company.

There is no charge to income tax and National Insurance Contributions on the exercise of an EMI option, provided it is granted at market value. CGT is payable once the shares are ultimately sold. However, the UK's entrepreneurs' relief, which allows for a CGT rate of 10%, is available on the sale of EMI shares (subject to the lifetime limit on gains of Stg£10m).

New Swedish Share Scheme

On 26 June 2017[2], the European Commission granted EU state aid approval for a new Swedish share scheme to reduce the taxation of employee share options.

The new scheme eliminates income tax on employee stock options in small start-up companies. Employees will benefit from income tax relief in Sweden when exercising their share options and employers will pay lower social security contributions.

In order to avail of the tax relief under the Swedish share scheme, companies must be:

- less than 10 years old,
- have fewer than 50 employees and
- have revenue of less than 80 million kronor (€8.3 million).

Recommendations on employee share schemes

A workable share-based employee scheme is also required for SMEs that would enable them to attract and retain the best talent. The UK's EMI is a good model to consider – capital gains tax is payable by taxpayers when they sell their shares and have the funds to pay the tax. A simple administrative process for collecting the information and paying the tax due is an important element of any new scheme.

2 European Commission press release – 26 June 2017 http://europa.eu/rapid/press-release_IP-17-1794_en.htm.

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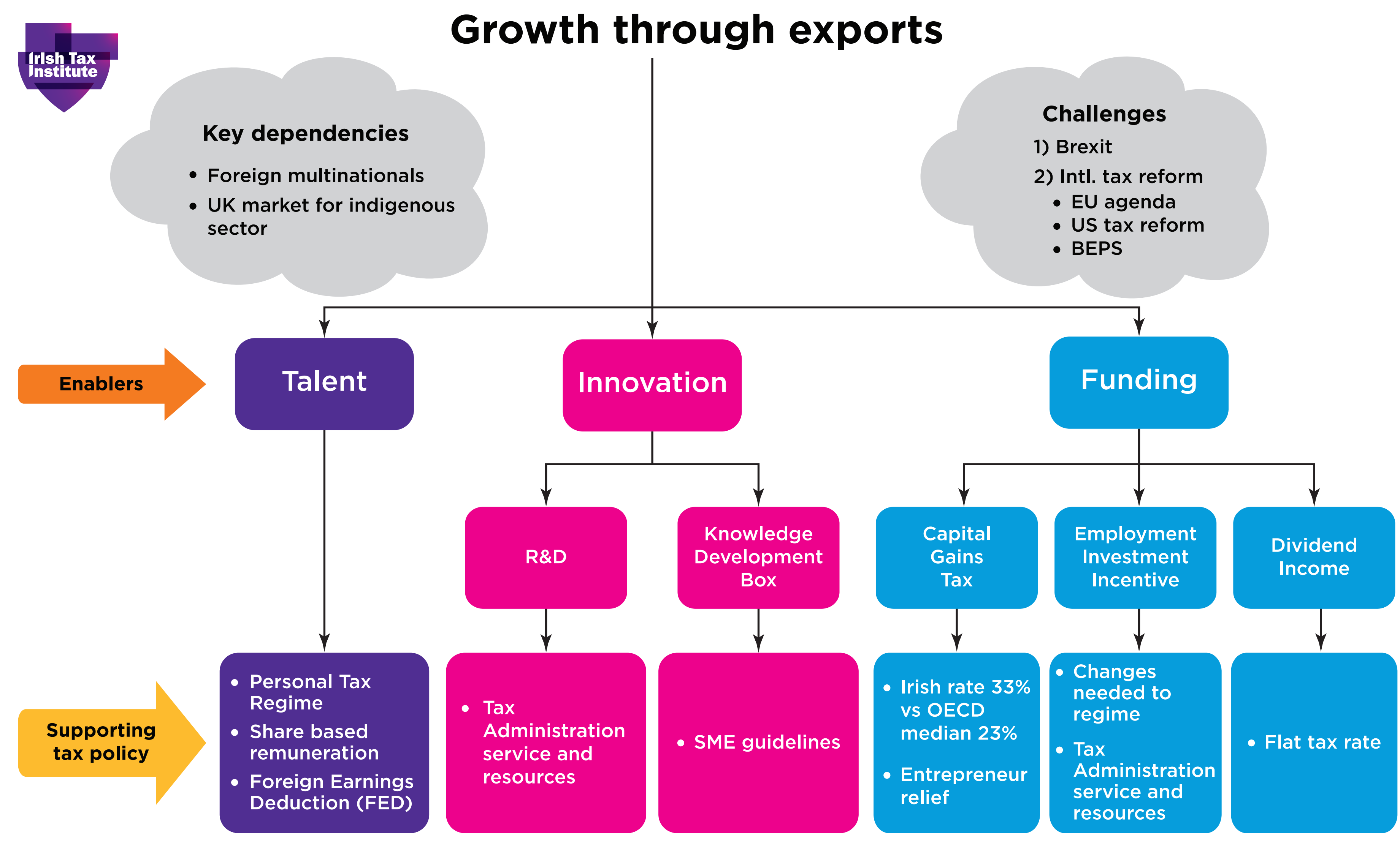
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• Irish rate 33% vs OECD median 23%
• Entrepreneur relief
• Changes needed to regime
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