



## Submission on the Review of Capital Gains Tax Entrepreneur Relief

May 2019

*CGT Entrepreneur Relief provides for disposals of qualifying business assets by entrepreneurs to be charged at a lower 10% CGT rate up to a lifetime limit on chargeable gains.<sup>1</sup> To qualify, among other conditions, an individual must own at least 5% of the business and have spent a certain proportion of their time working in the business as a director or employee for three out of the previous five years, prior to disposal.*

Dublin Chamber welcomes this opportunity to make a submission to the Department of Finance in respect of its public consultation on the Revised Capital Gains Tax Entrepreneur Relief, introduced in Budget 2016 and brought into law by the Finance Act 2015.<sup>1</sup>

Dublin Chamber is the largest Chamber of Commerce in Ireland, representing businesses across the Greater Dublin Area. Our cross-sectoral membership base, spanning the spectrum from small start-ups to major multinationals, gives the Chamber a keen insight into the issues facing commercial enterprises at various stages in the business life cycle. Dublin Chamber has a longstanding interest in public policy on entrepreneurship and enterprise support, including CGT Entrepreneur Relief. The Chamber made the case for the introduction of CGT Entrepreneur Relief in 2015, and for the reduction of the Relief rate from 20% to 10% which took place in Budget 2017.

In light of the changing international tax landscape and the pressures facing Ireland's indigenous business base, the present review of Entrepreneur Relief is timely and appropriate. As a small open economy, Ireland is highly vulnerable to fluctuations in the international market, or even to restructuring by a small number of multinational firms. Meanwhile, US tax reforms have already blunted the competitive edge of Ireland's offering to FDI. While Ireland must maintain its attractiveness to international investors, it must also take decisive action to avoid excessive reliance upon a narrow number of highly mobile businesses.<sup>2</sup> This will require the strengthening of Ireland's indigenous business base, both to increase the size of the overall economy and to increase the proportion of it accounted for by Irish firms. With this in mind, Ireland must take a broader view of industrial policy that places greater priority on welcoming and rewarding entrepreneurs.

<sup>1</sup> Dept. Finance, Public Consultation Paper, CGT Entrepreneur Relief, <https://assets.gov.ie/8471/cc2cc16aa915406395950a6eb72c3448.pdf>.

<sup>2</sup> National Competitiveness Council, Competitiveness Bulletin 18-2: Economic Concentration 2018, <http://www.competitiveness.ie/Publications/2018/Concentration-Bulletin.pdf>

The stated aim of the CGT Entrepreneur Relief is ‘to improve the environment for entrepreneurs and business people setting up or carrying on productive business activities in the State.’<sup>3</sup> In practice, the competitiveness of the Irish environment to that of other jurisdictions is central to this. But as Dublin Chamber has outlined in its recent pre-Budget submissions, Ireland’s business tax environment now compares negatively with that of its nearest neighbour in numerous respects.<sup>4</sup>

The Government’s own enterprise development policy, *Enterprise 2025 Renewed*, acknowledges that while some progress has been made towards updating Ireland’s tax regime in recent years, ‘we need to take account of our comparative position relative to the offerings of our main competitors, and the reality that Irish enterprises are mobile too.’<sup>5</sup> For precisely this reason, the Chamber’s consistent position has been that Ireland should match or exceed the UK offering on Entrepreneur Relief.

The Department of Finance has acknowledged the importance of international tax comparison by noting that ‘retention [of the Entrepreneur Relief] is important in the context of possible Brexit impacts and other issues than may arise as the UK exits the EU.’<sup>6</sup> As things stand, however, Ireland’s offering to entrepreneurs under the scheme remains starkly uncompetitive in relation to that of the UK. The UK offers a lifetime cap of £10m (c. €11.4m at current market prices) on qualifying gains for Entrepreneur Relief. By comparison, Ireland only allows a lifetime cap of €1m.

For highly mobile entrepreneurs who wish to achieve significant business scale before contemplating divestment, this is simply not a compelling proposition when the alternatives are considered. It is important to note in this context that the greater the pre-existing financial means and level of ambition that an entrepreneur has, the more mobile he or she will likely be. To encourage entrepreneurs to found, scale, and dispose of their enterprises in Ireland, as opposed to elsewhere, a higher limit will be required.

In the context of the UK’s planned exit from the European Union, the task of improving Ireland’s environment for entrepreneurship and SME growth takes on a greater urgency. While Brexit represents a potential threat to Ireland’s competitive position, it could also be an opportunity for Ireland to send strong signal that it intends to compete with the UK.

The abovementioned concerns have been acknowledged at Government level. The current Programme for Government promises ‘We will reduce the rate of Capital Gains Tax for new

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<sup>3</sup> Dept. Finance, Public Consultation Paper, CGT Entrepreneur Relief, <https://assets.gov.ie/8471/cc2cc16aa915406395950a6eb72c3448.pdf>.

<sup>4</sup> E.g. Dublin Chamber Submission on Budget 2019, p. 17, <http://www.dublinchamber.ie/getattachment/813a45f7-1444-43bc-b00b-9d5436bb3c89/Dublin-Chamber-Pre-Budget-Submission-2019.pdf?lang=en-IE#page=18>

<sup>5</sup> Enterprise 2025 Renewed: Building resilience in the face of global challenges, p. 13, <https://dbei.gov.ie/en/Publications/Publication-files/Enterprise-2025-Renewed.pdf#page=29>

<sup>6</sup> It has previously been argued that Ireland’s less generous scheme is compensated for by the existence of Retirement Relief, which can be claimed to values ranging from €500,000 to €3 million. However, this ignores the reality of successful serial entrepreneurship today, which often takes place well before retirement age. Moreover, the combined value of the current reliefs is still substantially lower than the UK equivalent. Department of Finance Tax Strategy Group – TSG 17/11, Capital & Savings Taxes, 25 July 2017, p. 5

start-ups to 10% from 2017 (held for five years and subject to a €10 million cap on gains).<sup>7</sup> Dublin Chamber welcomes progress achieved to date on the CGT rate and looks forward to full implementation of this political commitment during the term of the present administration.

While Dublin Chamber supports fiscal prudence and acknowledges the rationale for adherence to a static costing model for new 'tax expenditures', it would be ill-considered to ignore past experience with respect to the revenues generated through changes in Capital Gains Tax. Previous reductions in CGT have had a stimulatory effect on economic activity and a positive exchequer impact. This should not be entirely discounted in the context of the present policy review.

However, the cost of bringing Ireland's lifetime limit up to the nominal UK equivalent of €10 million, as indicated in the Programme for Government, has been estimated at €54 million using the non-dynamic costing model employed by the Department of Finance. It is important to note that according to the same model a further increase in the limit to €15 million would incur an added annual cost to the exchequer of just €2 million (total: €56m).<sup>8</sup> With this minimal additional cost, Ireland would be positioned at a very clear competitive advantage to the UK, offering a lifetime cap on qualifying gains of c. £13.1m at current market prices.

Dublin Chamber strongly supports upgrading CGT Entrepreneur Relief to surpass the UK and build a reputation for Ireland as a country that welcomes and rewards enterprise.

### **Recommendations**

- ✓ Raise the lifetime cap on qualifying gains for Entrepreneur Relief from €1 million to €15 million to send a strong signal that Ireland intends to compete with the UK ahead of Brexit. Cost: €56 million.
- ✓ Consideration may also be given to amending the 5% share requirement to refer to the point of investment, ensuring that entrepreneurs who retain their initial investment are not penalised if subsequent external investment is received.

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<sup>7</sup> Programme for a Partnership Government, p.37, [https://merrionstreet.ie/MerrionStreet/en/ImageLibrary/Programme for Partnership Government.pdf#page=38](https://merrionstreet.ie/MerrionStreet/en/ImageLibrary/Programme%20for%20Partnership%20Government.pdf#page=38)

<sup>8</sup> Department of Finance Tax Strategy Group – TSG 18/10, Capital & Savings Taxes, 10 July 2018, p.11, <https://www.finance.gov.ie/wp-content/uploads/2018/07/TSG-18-10-Capital-and-Savings-Taxes-PL.pdf#page=11>