Submission on the Special Assignee Relief Programme

July 2019

Dublin Chamber welcomes the opportunity to make this submission to Indecon international economic consultants in respect of the Department of Finance review of the Special Assignee Relief Programme.[1] Dublin Chamber is the largest Chamber of Commerce in Ireland, representing businesses throughout 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 enterprises at various stages in the business life cycle.

The Special Assignee Relief Programme (SARP) is an income tax relief on a portion of income earned by certain employees assigned from abroad to work in the State by their employer or an associated company of the employer. SARP provides for relief from income tax on 30% of the employee's income over €75,000 for a maximum period of five consecutive years.[2] In light of the changing international tax landscape, growing labour market pressures, and the challenges facing Ireland's indigenous business base, the present review is timely and appropriate.

1. The Continuing Relevance of SARP

Ireland's people are its greatest economic resource. A large and skilled labour force will be crucial to maintaining international competitiveness and facilitating business growth in the coming years. As a small open economy, however, 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. In this context, the ability of firms in Ireland to attract skilled staff will be take on an even higher importance.

With a buoyant labour market approaching full employment, the availability of labour is a growing concern for businesses. Whereas almost half (47%) of Dublin Chamber members

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[1] Dept. Finance, Public Consultation on the Review of the Special Assignee Relief Programme (SARP) and the Foreign Earnings Deduction 26 June 2019, https://www.gov.ie/en/consultation/ba4d66-public-consultation-for-the-review-of-the-special-assignee-relief-pr/

[2] Office of the Revenue Commissioners, Tax & Duty Manual Part 34-00-10 Special Assignee Relief Programme (SARP), https://www.revenue.ie/en/tax-professionals/tdm/income-tax-capital-gains-tax-corporation-tax/part-34/34-00-10.pdf

were affected by skills shortages in Q4 2016, this proportion has risen to 60% today.[3] The wide range of affected sectors and business functions includes financial services, ICT, engineering, construction, hospitality, international trading, and sales and marketing. This challenge of access to skilled labour will continue to mount in the context of strong economic growth. The tightening supply of labour is already placing upward pressure on wage costs. As the OECD has noted, high Irish labour costs threaten to slow business growth and undermine economic competitiveness through inflation.[4]

Corporate members report that SARP continues to play a vital role in attracting to Dublin key executive staff who not would otherwise make the move. In the context of Ireland's relatively high personal income tax regime, peripheral geographic location, and substandard urban infrastructure, employers can encounter difficulty in persuading highly skilled workers to relocate here. This is often due to the perception that the high marginal tax rate in Ireland is not compensated for by a high quality of urban life. SARP addresses this and is an important tool in attracting high-value workers to Ireland.

It should be noted that the decision by a potential SARP beneficiary to relocate to Ireland usually has a significant knock-on effect, as such employees are often team leaders who create a boost of high-value local employment by their presence, aiding the scaling of multinational firms here. This must be considered very carefully in the context of any examination of the Exchequer impact of the Programme.

To maintain Ireland's attractiveness as a location for FDI in the context of Brexit, it is vital that SARP remains part of the Irish offering in the years ahead.

2. Levelling the Playing Field for SMEs

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.[5] 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, Dublin Chamber made the case for changes to SARP in our submission on Budget 2019, with the aim of extending the benefit SARP offers to scaling indigenous businesses.[6]

Access to skilled labour in Dublin is a problem affecting firms of all sizes, but SMEs particularly struggle to compete for the talent they require to expand.[7] They face not only a

[3] Dublin Chamber Quarterly Business Trends Survey Q4 2016; Dublin Chamber Business Outlook Survey Q2 2019, http://www.dublinchamber.ie/business-agenda/business-trend-survey/business-trends-survey-q2-2019

[4] E.g. OECD, Ireland Economic Forecast Summary, May 2018, https://www.oecd.org/eco/outlook/economic-forecast-summary-ireland-oecd-economic-outlook.pdf

[5] National Competitiveness Council, Competitiveness Bulletin 18-2: Economic Concentration 2018, http://www.competitiveness.ie/Publications/2018/Concentration-Bulletin.pdf

[6] Dublin Chamber, Submission on Budget 2019, p. 25, http://www.dublinchamber.ie/getattachment/813a45f7-1444-43bc-b00b-9d5436bb3c89/Dublin-Chamber-Pre-Budget-Submission-2019.pdf?lang=en-IE#page=26

[7] While Local Enterprise Offices offer Business Expansion Grants of up to €150,000 in value which may be used to cover salary costs, these are restricted to micro enterprises with 10 employees or

tight labour supply, but intense competition for specialists from multinational firms with a broader international scope and a much greater capacity to offer attractive remuneration. For overseas recruits, moreover, employment by a multinational is often considered a 'safer bet'.

SMEs typically do not have sufficient international presence to allow them to recruit high-skilled staff globally or assign an employee from a foreign business branch. For this reason, SARP for mobile employees is generally not an option available to SMEs, being effectively a tax benefit that is restricted to multinational firms and offering no accompanying benefit to the indigenous sector.

In order to assist SMEs in attracting the skilled staff required for business expansion, the playing field should be levelled between the indigenous and FDI sectors. Dublin Chamber recommends adjusting the SARP by allowing it to apply to new recruits in cases where the firm in question is an SME under the EU Commission definition.

The Chamber notes that this proposal has now been endorsed by the OECD as a key recommendation in its upcoming report on the Review of SME & Entrepreneurship Policy in Ireland, commissioned by the Department of Business Enterprise & Innovation and due for publication in October. Recommendation 10 in the Review's accompanying Roadmap, as outlined at the Irish Government's SME & Entrepreneurship Strategy Conference on 12 July 2019, calls for new hires to be able to apply for SARP.

Dublin Chamber calls for the Department of Finance to heed the abovementioned advice of the OECD and extend the Special Assignee Relief Programme to new recruits for firms that are SMEs by the European Commission definition. The salary requirement would remain the same to restrict the programme to high-skilled employees.

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