Pre Budget 2015: Dublin Chamber’s Proposals

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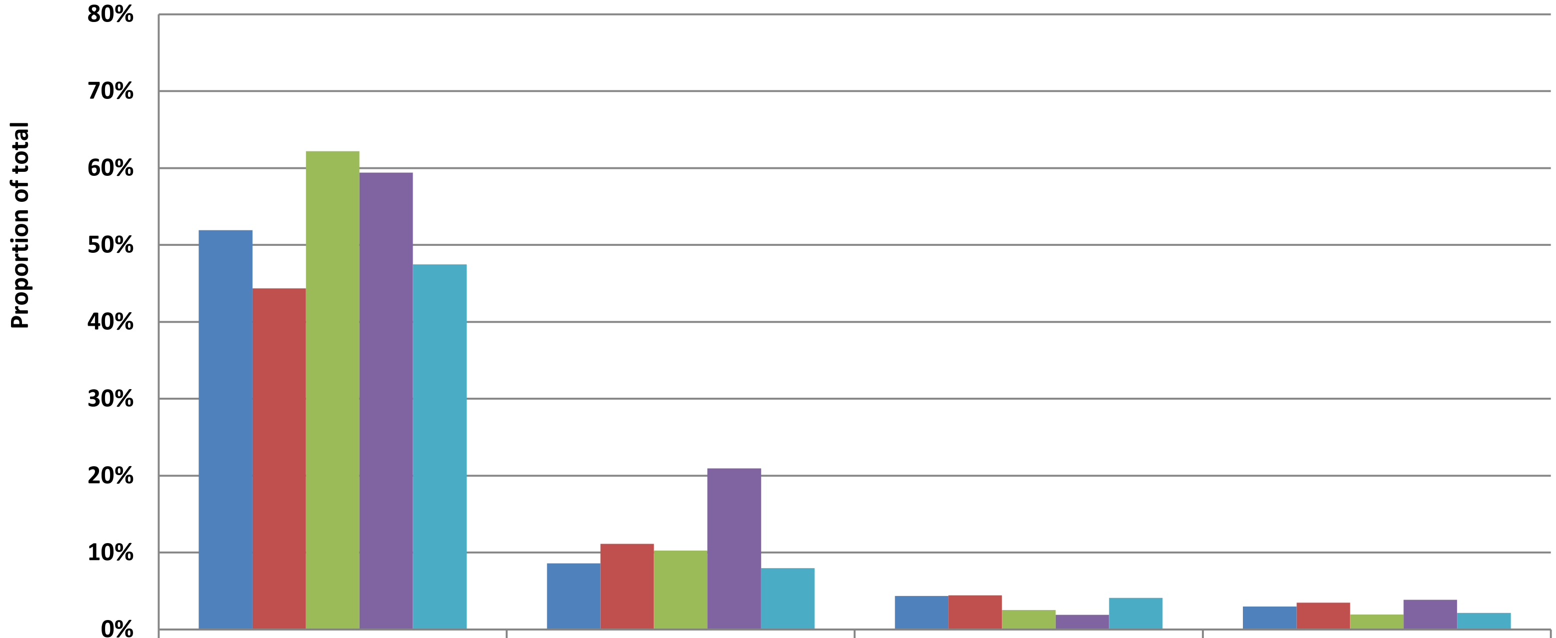
24 September 2014

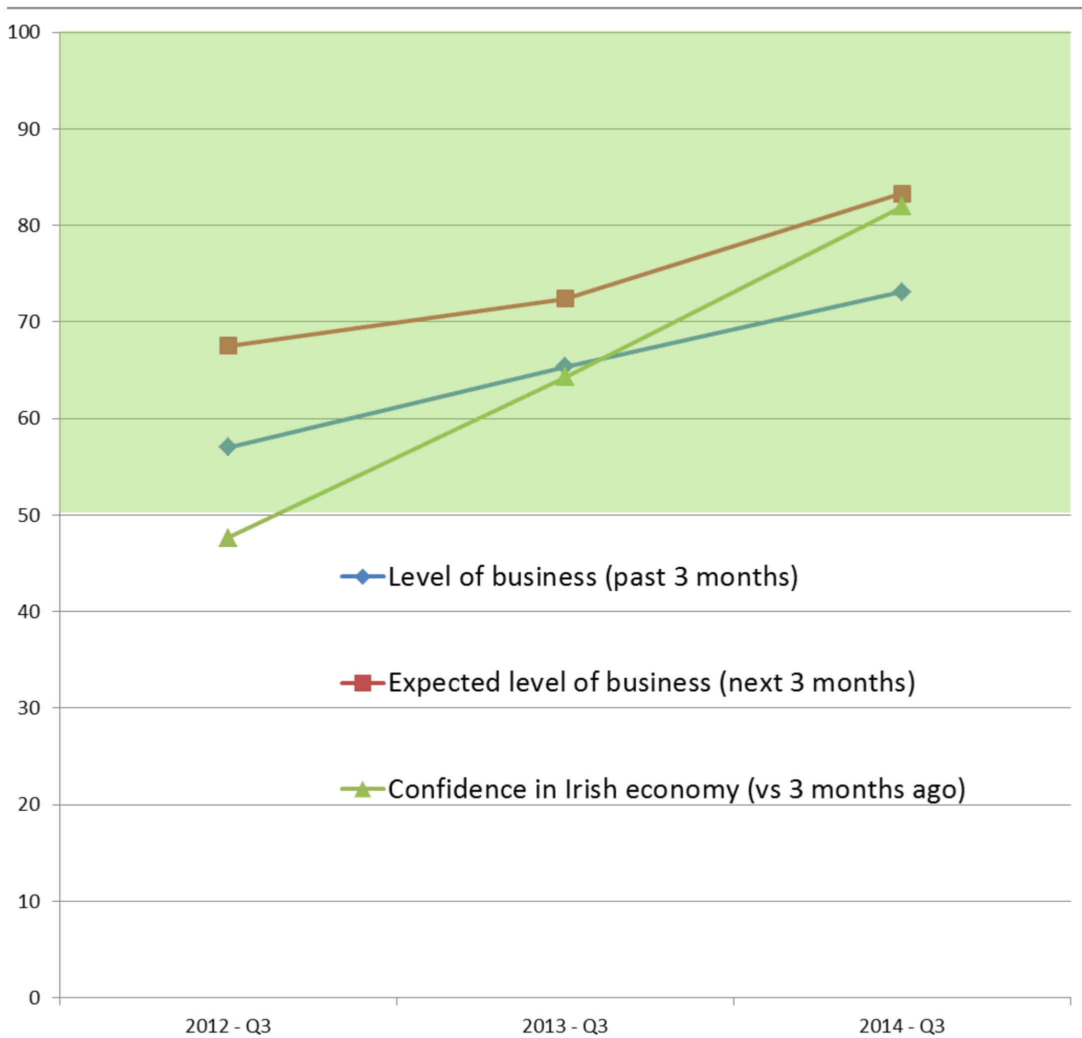
Dublin Tax Importance

Regional Tax Breakdown (2011)



	Dublin	Cork	Galway	Limerick
Income Tax PAYE*	51.93%	8.60%	4.34%	2.99%
Income Tax non-PAYE*	44.34%	11.13%	4.43%	3.48%
VAT (domestic)	62.19%	10.24%	2.51%	1.93%
Corporation tax	59.39%	20.95%	1.92%	3.84%
Capital Gains tax	47.49%	7.99%	4.10%	2.17%

Business Trends



Dublin Business Index

Index questions	**2012**	**2013**	**2014**
Level of business (past 3 months)	57	65	73
Expected level of business (next 3 months)	68	72	83
Confidence in Irish economy (vs 3 months ago)	48	64	82
Average selling price per unit willl be…	45	48	53
Operational costs will be…	54	53	59
Profitability will be…	49	53	63
Employment will be…	56	52	66

Green = Higher

Yellow = Same

Red = Lower

Chamber Approach

- Budget deficit to 3% of GDP in 2015
- Highly aware of cost and cash flow impact
- Aim to maximise job creation to Exchequer cost ratio

- SME ability to achieve potential core to approach
  - SMEs struggling to grow due to finance and working capital
- All businesses in Dublin need a competitive tax system, infrastructure and support structures

- ‘Incremental Change’ vs ‘Disruptive Change’

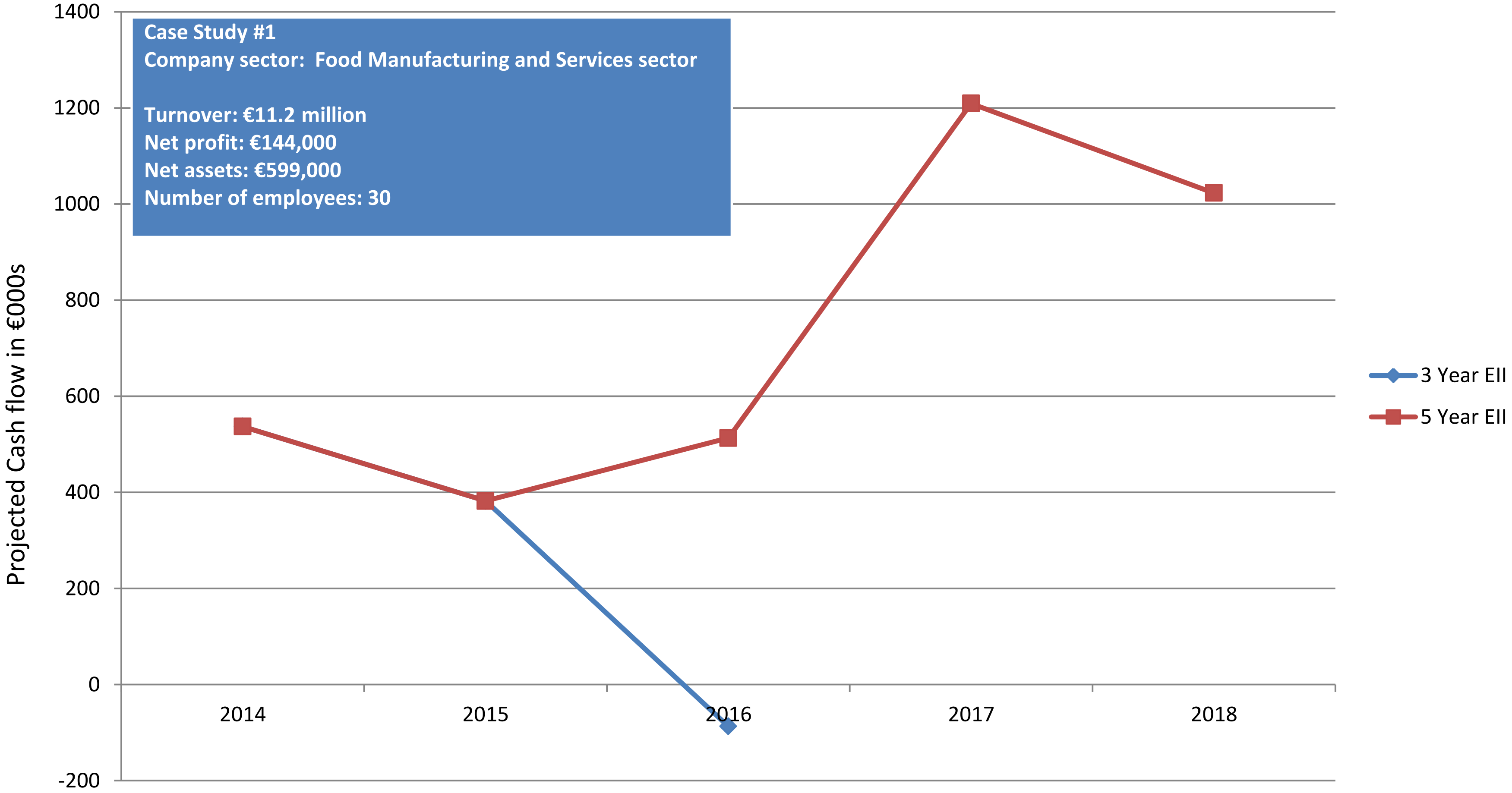
Summary of Recommendations

	Disruptive Change	Incremental Change
Facilitating Finance for SMEs	2 Early access to pension lump sums for SME investment 3 Personal loans to SMEs ▪ Personal equity investment by entrepreneurs	1 Revise Employment & Investment Incentive Scheme
Boosting Competitiveness	▪ Provide alternative to existing income taxation system 4 Improve Special Assignees Relief Programme	▪ Ensure competitive tax environment ▪ Maintain & extend tourism rate of VAT ▪ Revise Foreign Earnings Deduction
Maximising the city's economic contribution	▪ Promote office development in Dublin ▪ Increase capital expenditure and maximise economic return	▪ Promote Public Private Partnerships
Cash Position of SMEs		▪ Increase cash basis threshold for VAT ▪ Abolish professional services withholding tax ▪ Increase close company surcharge ▪ Open-up Public Procurement for SMEs

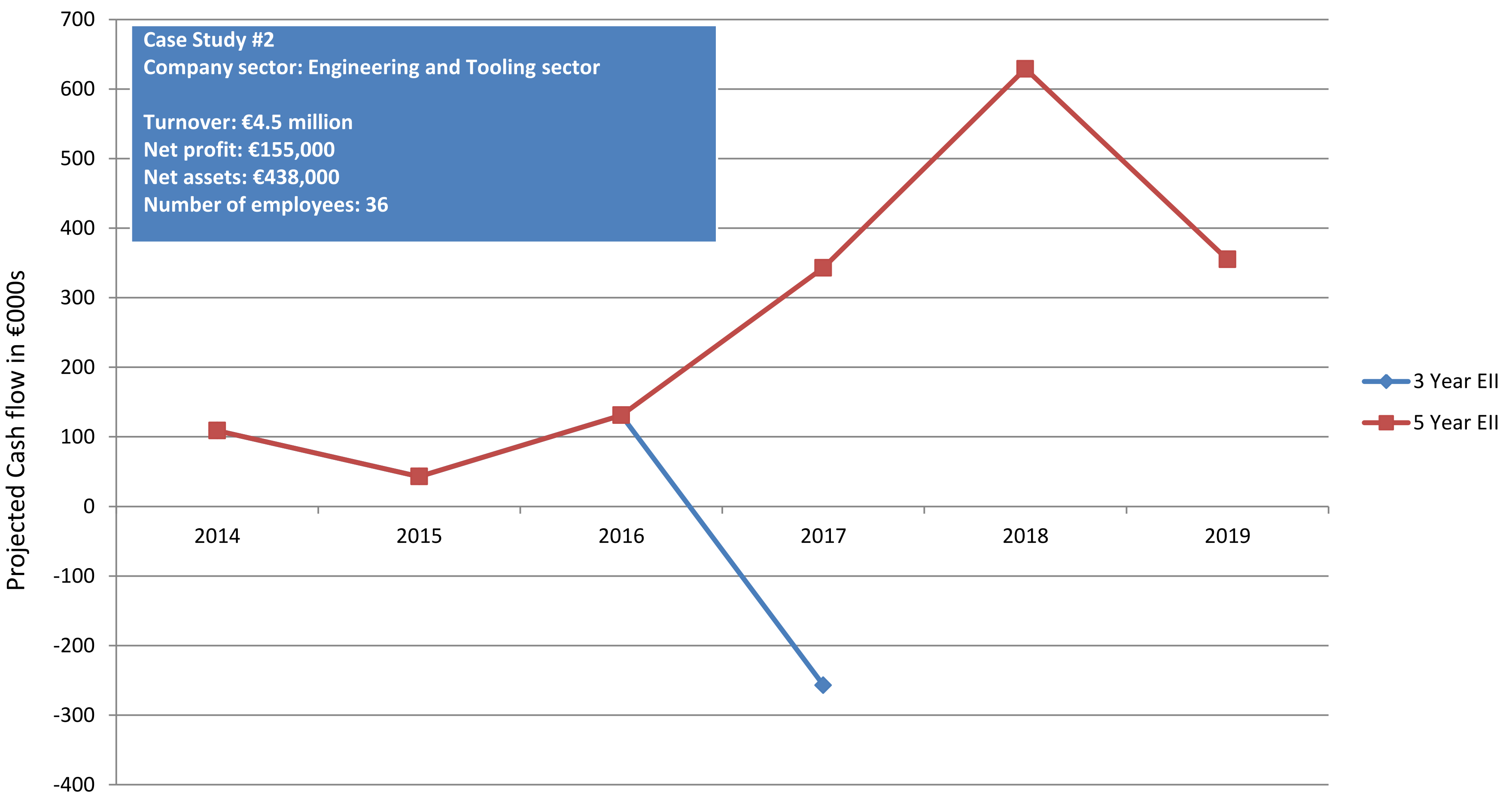
Employment & Investment Incentive

- EII welcomed broadening Business Expansion Scheme (BES)
- Poor take up of EII : ~€40m in 2013
- Partly due to economy
- Opportunity to significantly increase to peak levels
- Recommendations:
  - Increase investment period from 3 to 5 years
  - Remove non-assisted area restrictions
  - Remove phased nature of the relief
  - Address the complexity of the EII legislation
  - Allow subsidiaries in a group to apply for EII

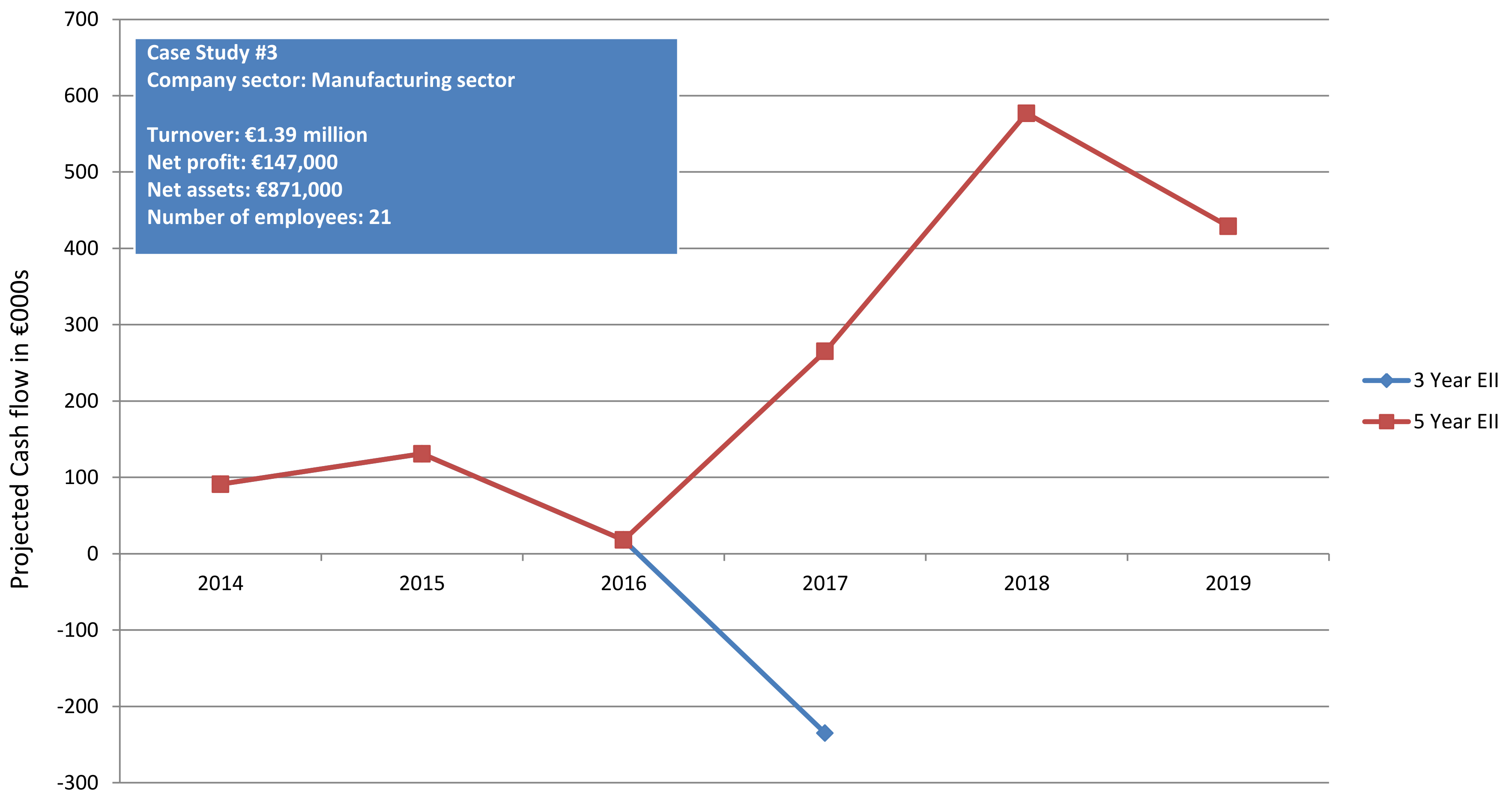
Employment & Investment Incentive



Employment & Investment Incentive



Employment & Investment Incentive



Early Access to Pension

- Potential
  - Source of non-bank finance
    - €80bn in Irish Pension Funds
    - Of which €30bn is individual or defined contribution
  - At drawdown no tax payable on 25% of pension funds (to a maximum of €200,000).
  - However, it is not possible to access any part of the pension fund prior to age 60.
- If €7.5bn raised, €45m Exchequer cost

Early Access to Pension

- Proposal:
  - Allow to make use of an individual's lifetime tax-free lump sum.
  - Withdrawals of tax free cash from pension funds should be deducted from the overall lifetime tax-free lump sum limit.
- Conditions:
  - SME or Startup and a capital expenditure
  - Create an 'investment capital trust' into which the tax free funds would be released

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Personal Loans to SMEs

- Peer-to-peer situation
  - Ireland = € 5 m
  - UK = £ hundreds of millions
- Improve direct financing options
- Amend personal tax code to allow individuals to earn tax-free interest from SME loans
  - UK's Individual Savings Account (no- or low-tax).

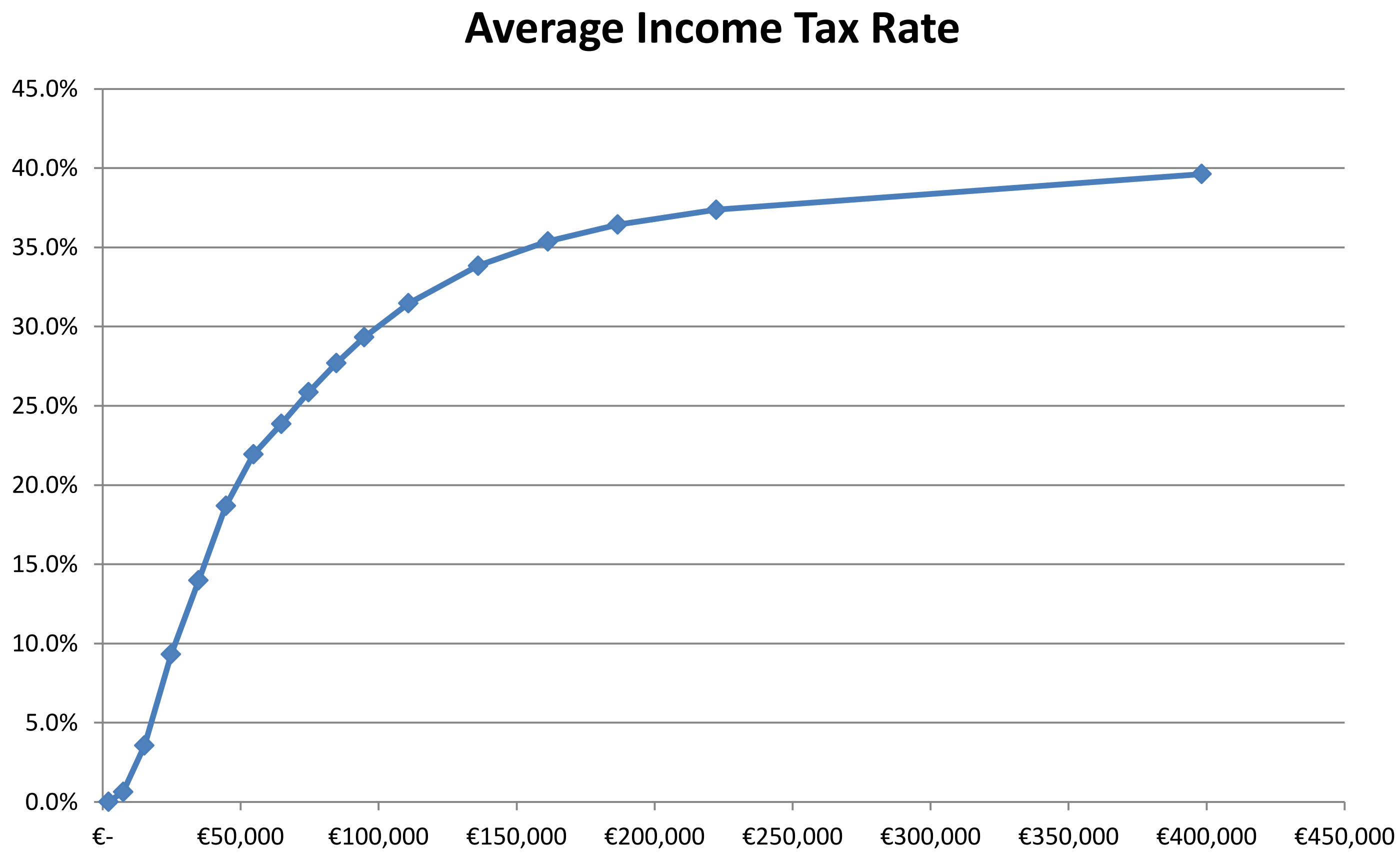
Personal Loans to SMEs

- Two approaches proposed:
  - An annual tax-free allowance on interest earnings
    - Approach similar to the rent-a-room scheme
    - An amount of €10,000 pa for same
  - An annual investment allowance
    - Limit on amount lent via personal loans to SMEs
    - Interest on any income gained would be perpetually tax-free

Problems of a High Headline Rate

- Attracting skilled overseas workers and executives
- Headline rate of income tax at 52% major deterrent
- SARP poor performance:
  - Ireland had 6 applications (2012)
  - Netherlands had 12,000 applications (2009)

Problems of a High Headline Rate



- However, effective rate paid by these typically no higher than 40%

Source: http://www.revenue.ie/en/about/publications/statistical/archive/2011/income-distribution-statistics.pdf

Problems of a High Headline Rate

- Optional flat rate of tax at 40% with all bands and allowances eliminated.

- Simplified system more appealing headline rate of tax, with minimal loss in tax revenue for the State.

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Thanks to Taskforce

- Brendan Foster (Chair)
- Peter Cross, Trasna Consulting
- Bernard Doherty, GrantThornton
- Joe Tynan, PwC
- Edel Carter, GrantThornton
- Ray Browne, Fujistu
- Paul Hallam, PM Group
- Ciaran Blackall, Blackall Financial
- Michele Connolly, KPMG
- John Healy, KBC
- Dermot Clohessy, IDA
- Margaret Flemming, JLL
- Joe Redmond, Fexco
- Aebhric McGibney
- Orlaith Delargy

Thank you for your time & interest

www.dubchamber.ie/docs/budget-submission-2015