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Report on Tax Expenditures Incorporating outcomes of certain Tax Expenditure & Tax Related Reviews completed since October 2018

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October 2019

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Preface >

The Department of Finance's October 2014 "Report on Tax Expenditures" set out new Guidelines for best practice in ex ante and ex post evaluation of tax expenditures. By way of example it included a brief synopsis of some of the more recent tax expenditure reviews.

In October 2015, the Department published its first annual Report on Tax Expenditures which built on the 2014 Tax Expenditure Guidelines. It contained a set of tables outlining the fiscal impact of the range of tax expenditures as required under the EU Budgetary Framework Directive[1], and also the results of a number of tax expenditure reviews that have been completed since the last Budget.

This Report, the Report on Tax Expenditures 2018, is the fifth such report, and continues in a largely similar format to the previous ones, in that it includes six tax expenditure/tax related reviews, as well as the tables referred to above.

There is however one change of note in this report when compared to that from 2018. Given the continuing increased focus on tax expenditures as a stand-alone category in the area of tax policy, this year's Report on Tax Expenditures includes some additional analysis of the tax expenditure data contained in Tables A-G.

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1: Introduction and Analysis

This report is the fifth such annual report (previous Reports are available on the Department's website with the documentation for the Budget that was announced that year). It lists the tax expenditures, as per the OECD definition, that that have been in effect since the previous such report (which was published in October 2018) and contains six tax expenditure related reviews.

Tax Expenditures

There has been evaluation on-going of tax expenditures in the Department of Finance since 2006. The 2009 Report of the Commission on Taxation, identified 258 tax expenditures and made recommendations as to their retention, modification or their being discontinued.

The Department of Finance has built on the Commission on Taxation's work with the introduction of the report on tax expenditures incorporating the Department's guidelines for Tax Expenditure Evaluation published in October 2014.

The definition of a tax expenditure in Irish legislation, which is used by the Department of Finance, draws on an OECD definition and describes a tax expenditure as a transfer of public resources that is achieved by:

a) Reducing tax obligations with respect to a benchmark tax rather than by direct expenditure; or

b) Provisions of tax legislation that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to the tax base.

Tax expenditures may take a number of forms such as exemptions, allowances, credits, preferential rates, deferral rules etc. They are general government policy instruments used to promote specific social or economic policies and are closely related to direct spending programmes.

The introduction of an obligation on Member States to publish information on the impact of tax expenditures in the context of the Budgetary Frameworks Directive was driven by the fragmented nature of information about tax expenditures previously available, which gave rise to a lack of transparency. This was seen as acting to hinder the effectiveness and efficiency of fiscal policy making by Member States, and also to render the identification of possible improvements to fiscal and tax arrangements more difficult.

The tables of Tax Expenditures in use between October 2017 and September 2018 of this report[2], showing data for the last two years for which it is available, are in section 3.

Data on the revenue foregone and/or the number of tax payers utilising/availing of each tax expenditure for 76 (43%) of the listed tax expenditures is not available for various reasons. While we continue to seek to reduce the number of tax expenditures on which data is not shown, their existence would make it difficult to draw any definitive conclusions or taking any definitive positions in relation to tax expenditures as a category.

Methodology

Both the Department of Finance and Revenue use the revenue foregone method to estimate the cost of tax expenditures.

[2] It has not proved possible to include projections for all current tax expenditures in this report, therefore only the most recently available data for the preceding two calendar years is provided.

A critical assumption made in the revenue foregone approach is that taxpayers do not change their behaviour in response to the tax expenditure concerned. In reality, behaviour is likely to change if an incentive is withdrawn. This implies that the value of the tax base would change, and the additional revenue received from the measure's withdrawal might be less than projected in the total tax expenditure estimate.

It has therefore been suggested that consideration be given to employing other methods (such as 1 and 2 below), given what is seen as the underlying weakness inherent in the standard revenue foregone method. It is however acknowledged that the complexities of those other approaches mitigates against their use.

1. The final revenue foregone approach incorporates behavioural effects and the interaction of different policy measures.

2. The outlay equivalence method estimates how much direct expenditure would be needed to provide a benefit equivalent to the tax expenditure. This method seeks to measure the value of the same program were it administered as a taxable outlay to recipients.

While the revenue foregone cost of a scheme is relatively simple to estimate, the calculation of behavioural responses are more complex. For this reason, the 2014 Tax Expenditure Guidelines state "for practical reasons the revenue foregone method is likely to be used in the majority of evaluations… In a cost benefit analysis framework an additional adjustment (to revenue foregone) should be made to account for the opportunity cost of public funds."

For this reason, the costing of revenue foregone has been the preferred method for costing tax expenditures, and going beyond that suggests a more analytical approach as opposed to simply ascertaining or estimating the cost of the tax expenditure. There are significant difficulties (data limitations, modelling parameters required, etc.) and additional resources required to produce estimates using the final revenue foregone approach (which would need to incorporate secondary and indirect impacts of the expenditure) or the outlay equivalence method. These are highly complex and data intensive methods, therefore, despite its weaknesses, the Revenue foregone method is by far the most widely employed method internationally.

Reviews – recently completed, ongoing and planned

The Department's 2014 Guidelines which provide a framework for determining the frequency and nature of reviews (summarised in Table 2 on page 3 of that Report) also provides a basis for determining how and when tax expenditures (new and old) are subject to review. However, it should be acknowledged there can be resource or practical constraints which can limit the amount of review work that may be carried out in any one year. Furthermore allowance must be made for more complex reviews and analysis or where a review on occasion might take more than 12 months is also important. Reviews are also being conducted on an ongoing basis, and may not fit neatly into the budgetary timeframe.

In this regard, it should be noted that there are currently a range of reviews planned for 2020, and others will emerge over the course of the Department's work as the year progresses.

Recent developments in the tax expenditures area

Driven by the ever increasing awareness of the important, but previously often overlooked, role played by tax expenditures as a stand-alone category within the tax policy sphere, as part of the 2017 and 2019 Tax Strategy Group (TSG) process, papers entitled "Tax Expenditure Review 2017" and "Tax

Expenditures – Tax Strategy Group – 19/12" were prepared for that Group's consideration when it met in July of the respective years.

The Tax Strategy Group (TSG) is in place since the early 1990s and is chaired by the Department of Finance with membership comprising senior officials and political advisers from a number of Civil Service Departments and Offices. Papers on various options for tax policy changes are prepared annually by officials. It is important to note that the TSG is not a decision-making body and therefore the papers it considers are simply a list of options and issues to be considered during the budgetary process.

The TSG 2019 paper reflects on the current position vis-à-vis tax expenditures in Ireland and the monitoring of them.

It reviews the structure and size of tax expenditures in Ireland, synopsises the recent work of the Oireachtas Committee on Budgetary Oversight (see below) and that of the Parliamentary Budget Office September 2018 paper Tax Expenditures in Ireland: Key Issues for Consideration"[3]which was reflected in the Report on Tax Expenditures 2018, before examining how the Department of Finance (and Revenue, where appropriate) view the main issues pertaining to tax expenditures and how work on tax expenditures can be directed in the medium term.

Both papers were subsequently published and can be found at:

- **2017**- http://www.finance.gov.ie/wp-content/uploads/2017/07/TSG-17-13-Tax-Expenditures-PL.pdf
- **2019** - https://assets.gov.ie/19128/c3533669a4d948e282476b72d79f7785.pdf

The Oireachtas Committee on Budgetary Oversight issued a report on tax expenditures, entitled "Tax Expenditures"[4] in April 2019.

The Committee's report draws four conclusions and makes a number of recommendations.

Conclusions

The four conclusions reached by the Committee are as follows:

(i) *Ireland is not alone in lacking a formal process in place for the parliamentary scrutiny of existing tax expenditures. This is the case in many parliaments across the European Union.*

(ii) *Making international comparisons on the size and scale of tax expenditures can be challenging because of how they are defined.*

(iii) *Since the 2009 Commission on Taxation Report[5], significant progress has been made by the Department of Finance in carrying out regular reviews and evaluations of tax expenditures. However it has been acknowledged by all stakeholders that further work needs to be done.*

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[3] https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2018/2018-09-21_tax-expenditures-in-ireland-key-issues-for-consideration_en.pdf

[4] https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/committee_on_budgetary_oversight/reports/2019/2019-04-08_tax-expenditures_en.pdf

[5] Commission on Taxation (2009), Government Report: https://researchrepository.ucd.ie/bitstream/10197/1447/1/Commission_on_Taxation_Report_2009.pdf

(iv) *The provision by the Department of Finance of a list of all existing tax expenditures including the date of reviews carried out and information on sunset clauses is a positive development and provides a useful starting point for the Committee's work in this area.*

The Minister for Finance has welcomed these conclusions and fully concurs with them. He has also welcomed the Committee's engagement with his Department in its work on tax expenditures.

Recommendations

The eight recommendations made in the Report (separate to the conclusions) relate to the provision of annual updates by the Department of Finance, better alignment of Revenue and Department of Finance reporting formats, provision of further information in relation to reviews, particularly about where and why reviews have not been carried out and the publication of scrutiny of budget measures (ex-ante and ex-post). The report also recommends that that the Department of Finance review its existing guidelines regarding the evaluation of tax expenditures with a view to implementing a rigorous and regular system of reviews for tax expenditure measures.

The Department of Finance broadly supports the perspective and views put forward by the Committee in its report, and in particular shares the view that tax expenditures represent a significant and non-trivial annual cost to the Exchequer. The Department's view is that the direct spending route should be the first port of call where the State wishes to support a particular activity and that tax expenditures should be seen as equivalent to direct public spending.

The Department also supports in principle the view that there is scope for a more in-depth consideration of tax expenditures as part of the wider Budget scrutiny process, and to this end the Department continues to refine its review process and enhance the approach to examining/reviewing tax expenditures.

The Department, with the cooperation of Revenue, will continue to focus on how it can augment and improve the transparency and presentation of annual tax expenditure information, including through publications such as this one.

Analysis of the tax expenditure data contained in tables A-G

Overview of the most significant tax expenditures in Ireland

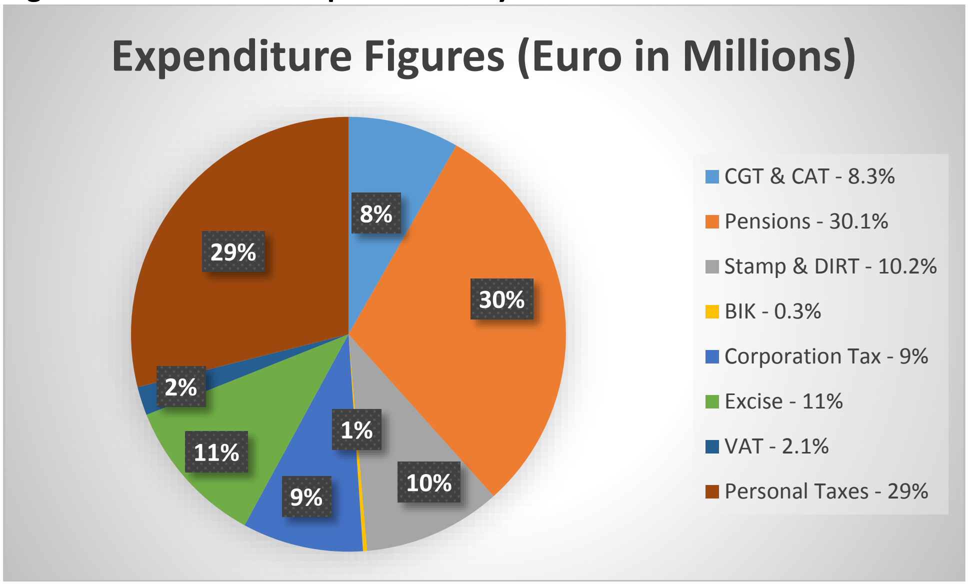
The following figure shows the percentage of the total revenue forgone (€5.3 billion) under nine headings (headings 1 and 2 in the 2019 Report have each been broken into two parts). It should be borne in mind that data for almost 40% (68 of the 176) of the tax expenditures listed is not available, so the €5.3 billion figure does not reflect the full cost of such expenditures. Our analysis shows that a total of 53 Tax Expenditures have increased in revenue forgone since the 2018 Report, 13 remain unchanged and 42 have seen a decrease.

In a small number of cases only pre-2018 figures are available, and these are included in these figures.

Where data is not available (flagged as N/A in the tables at the end of this Report), this can be due to a range of reasons, including:

- Revenue not collecting/costing it (normally where such collection/costing is not required in law);
- Revenue not receiving the background data necessary for them to calculate the revenue foregone;
- Revenue, due to taxpayer confidentiality considerations, feeling that to provide the data might allow the use of the expenditure concerned to be linked to a particular taxpayer or small number of taxpayers; or.
- the revenue foregone figure is below €50,000.

Figure 1: Share of Tax Expenditures by tax head



Note: Figures refer to 2018 or latest year available, and only where revenue foregone figures are available.

Tables 1 and 2 below show the top ten tax expenditures from the 2019 Report in terms of revenue foregone, and the most expensive tax expenditure under each of the 9 categories. The figures are for the most recent year available (2018 unless indicated otherwise), and again it needs to be strongly emphasised that there is no or limited data on almost a quarter (44 out of 176) of the tax expenditures included in the Report, with data on a number of others being estimated.

Table 1: The most expensive Tax Expenditure in each tax category

Top TE by category	Name	€ million
CAT/CGT	CAT business relief	189.9
Pensions	Exemption of employers' contributions from employee BIK	607.3 (2017)
Stamp Duty/DIRT	Certain company reconstructions and amalgamations (stamp duty)	273
Local Property Tax	Exemptions	12.7
Benefits-in-Kind	Small Benefits Exemption	5 (Estimated)
Corporation Tax	Research & Development (R&D) Tax Credit	448 (2017)
Excise Duty	Reduced Rate on Marine Gas Oil (MGO)	411
VAT	VAT refund to flat rate farmers for construction	75.2
Personal Tax Credits	Medical Insurance Relief	350

Note: All figures refer to 2018 unless stated otherwise.

Table 2: The top 10 Tax Expenditures by cost

	Tax Expenditure	Value €m	Tax Category
1	Exemption of employers' contributions from employee BIK	607.3 (2017)	Pensions
2	Employees' contribution to approved superannuation schemes	598.1 (2017)	Pensions
3	Research and Development (R & D) Tax Credit	448 (2017)	Corporation Tax
4	Reduced Rate on Marine Gas Oil (MGO)	411	Excise Duty
5	Medical Insurance Relief	350	Personal Tax Credits
6	Certain company reconstructions and amalgamations	273	Stamp Duty
7	Pension Contribution (Retirement Annuity & PRSA)	229.3 (2017)	Pensions
8	CAT business relief	189.9	CGT/CAT
9	Health Expenses	172.5	Personal Tax Credits
10	Mortgage Interest Relief (being phased out)	171.1 (2017)	Personal Tax Credits
	Total for the Top 10	**3 B**	
	Total for all Tax Expenditures	**4.6 B**	

Note: All figures refer to 2018 unless stated otherwise.

Table 3: The 5 tax expenditures that are most changed in terms of revenue foregone when compared to the previous year.

Tax Expenditure	Latest Figure	Previously Recorded Figure	Difference	Section
Research and Development (R & D) Tax Credit	448 (2017)	670 (2016)	222(Less)	Corporation Tax
Certain company reconstructions and amalgamations	273	425	152 (Less)	Stamp Duty
CAT business relief	189.9	102.5	87.4	CGT/CAT
Revised CGT entrepreneur relief	81.8 (2017)	20.4 (2016)	60.4	CGT/CAT
Film Relief	75.2 (2017)	23 (2016)	52.2(Less)	Corporation Tax

Note: All latest figures refer to 2018, and previously recorded to 2017, unless stated otherwise.

Brief explanation for the increases/decreases reflected in Table 3:

1. **R&D Tax Credit**: The decreased tax cost of R&D tax credit can be attributed to a reduction in the repayable credits and claims in respect of levels of expenditure in 2017. Expenditure on research and development varies from year to year. Detailed analysis of this credit, including information in respect of amounts of repayable credits and reduced current year claims in 2017, is published in the tax expenditures section of the Revenue website at: https://www.revenue.ie/en/corporate/information-about-revenue/statistics/tax-expenditures/r-and-d-tax-credits.aspx

2. **Certain company reconstructions and amalgamations**: Section 80 of Stamp Duty Consolidation Act 1999 provides an exemption from Stamp Duty where there is a scheme of reconstruction or amalgamation. This will normally involve the transfer of shares or an undertaking from one company to another, in return for the issue of shares. Reconstruction or amalgamation activity will vary from year to year. The cost of €425 million includes the cost associated with a small number of very large Stamp Duty transactions. It should be noted that the number of claims is actually higher in 2018 than it was in 2017.

3. **CAT Business Relief:** The number of CAT business relief claims increased in 2018. In addition, the taxable value of the assets involved also increased. The business relief of a 90% reduction of these increased values and the subsequent tax forgone is reflected in the increased cost.

4. **CGT Entrepreneur Relief:** The tax cost of this relief increased in 2017 as a result of the substantial reduction in the tax rate associated with these disposals (from 20% to 10%). Detailed analysis of this tax relief is published in the tax expenditures section of the Revenue website at: https://www.revenue.ie/en/corporate/information-about-revenue/statistics/tax-expenditures/entrepreneur-relief-statistics.aspx

5. **Film relief:** The statistics on this relief published on the Revenue website are flagged as provisional. This is because of the manner in which film relief is claimed (as noted in the table at the end of this document – claims in respect of film credit are generally claimed over time - after the filing date for the CT1 - because of the application process for the credit). The film credit published for 2017 is the amount on the returns approximately 8 months after the last filing dates for that year. It should be noted that this has now increased to €36 million based on returns filed to date for that year. The figure published for 2017 will be revised when the tax expenditures table is updated for all reliefs and credits and will show an increased amount for that year.

2: Tax Expenditure & Tax Related Reviews

Over the course of each year, a number of reviews of tax expenditures and other tax related matters are carried out by, or on behalf of, the Department of Finance. These are intended to ensure that the tax expenditures and taxes they relate to remain fit-for-purpose, to ascertain whether existing tax expenditures and taxes should be amended, continued, extended or ended, or to otherwise review certain taxes (existing and proposed) or groups of taxes. These are carried out in-house by the Department of Finance (in co-operation with the Office of the Revenue Commissioners and where appropriate other relevant Departments), by the Office of the Revenue Commissioners, or through availing of specialised consultants, again with the input of this Department, Revenue and other relevant Departments (where appropriate).

The opportunity presented by the publication of this Tax Expenditures Report, again facilitates the inclusion of a small number of these reports which have been completed in this area since Budget 2018.

This year six reports are included in this document.

I: Review of Section 604B Capital Gains Tax Relief for Farm Restructuring

2019

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1. Introduction

Section 604B TCA, 1997 provides for capital gains tax relief for the purposes of encouraging farm restructuring. This was first introduced by Section 48 of Finance Act 2013 and applies to qualifying transactions from the period commencing 1 January 2013 to 31 December 2019. Capital Gains Tax relief can be claimed where an **i**ndividual disposes of and purchases land and/or exchanges land with another farmer in order to consolidate an existing farm.

As this relief will expire on 31 December 2019 it is therefore timely to carry out an ex post evaluation of the relief and consider the case for any amendment or extension of the relief beyond this date.

This paper will provide a brief overview of the relief, how it operates, and the policy rationale for its implementation. As set out under the Department of Finance Guidelines for Tax Expenditure Evaluation 2014, this paper will also examine the relevance, cost, impact and efficiency of the Relief, before concluding with options on potential amendments to the relief in the context of Budget 2020.

2. Overview of relief

Section 604B TCA 1997 provides for relief from Capital Gains Tax relief where the sale and subsequent purchase, or exchange of farm land occurs.

Thus, full relief from capital gains tax will apply where the price of the land purchased is equal to, or greater than, the price of the land sold. Where the price of the land purchased is less than that of the price of the land sold, the relief is reduced accordingly. The same principles apply in the case of land that is exchanged.

There are a number of conditions set out in the legislation that must be met to qualify for the relief:

- the initial sale or purchase, or the exchange, must occur in the relevant period, currently 1 January 2013 to 31 December 2019, and the subsequent sale or purchase must occur within 24 months of that sale or purchase;
- the land must be situated in the State;
- the land must be agricultural land as defined in Section 604B of TCA 1997 (land which is used for the purposes of farming but does not include buildings on the land);
- Teagasc has certified, through the issue of a Farm Restructuring Certificate, that the sale and purchase, or exchange of agricultural land, was made for farm restructuring purposes;
- the land purchased must be retained for a period of five years by the individual availing of the relief;
- A clawback provision applies where qualifying land, either whole or in part, where relief has been given is disposed of within the five year period.
- A clawback does not apply where the disposal arises under a compulsory purchase order.

3. Farm Restructuring Certificate

A prerequisite of the Relief is that an application for a Farm Restructuring Certificate is made to Teagasc, the Agricultural Food and Development Authority, in respect of any disposal and acquisition of farm land which may potentially qualify for this relief. The farm restructuring certificate is issued by Teagasc where it is satisfied that the lands sold and purchased or exchanged, on the basis of information available at the time of so certifying, complies with the conditions of restructuring set down in the Farm Restructuring Guidelines most recently issued by Teagasc in 2018.

Under section 604B(1)(b), the Minister for Agriculture, Food and the Marine, with the consent of the Minister for Finance, may make and publish the Guidelines relating to the issuance of a Farm Restructuring Certificate. These Guidelines outline the procedure and documentation required for making an application but also the conditions relating to farm restructuring which dictate the form of transactions which, in meeting the objective of farm consolidation, may qualify for relief.

- When applying for farm restructuring relief to the Revenue Commissioners, the farmer must sign a declaration that it is his/her intention for a period of five years from the date of execution of the deed of transfer:
    - To spend not less than 50% of his/ her normal working time farming.
    - To farm the lands purchased.
    - To retain ownership of the lands

4. The Policy Rationale

In Budget 2013 the then Minister of Finance introduced a number of measures as part of the 10 Point Tax Reform Plan designed to assist small business. Capital Gains Tax relief on farm restructuring was identified as a method whereby farmers could be assisted in making their landholdings more efficient by enabling them to restructure their agricultural landholdings without incurring capital gains tax.

The express purpose of the relief introduced in 2013 was to ensure that the sale and purchase of farm land lead to a reduction in the distance between parcels of land making up a farm thereby leading to an improvement in the production efficiency and viability of the consolidated farm.

A primary policy objective of agri-taxation is to increase land mobility and the productive use of land and this was reinforced in the Progress Update of the Implementation of the Agri-Taxation Review published in 2018. The 2014 Agri-Tax review had recommended that CGT relief on farm restructuring be retained, broadened to allow whole-farm replacement and extended beyond the initial qualifying period. Over the course of subsequent Budgets these measures have been implemented.

Given that it continues to be appropriate to encourage farm consolidation, and that the CGT relief encourages that approach, the policy aim which provided the impetus for the introduction of the relief in 2013 continues to be valid.

5. Relevance, Cost, Impact and Efficiency

As set out under the Department of Finance Guidelines for Tax Expenditure Evaluation 2014, for an ex post evaluation the relevance, cost, impact and efficiency of the Relief are set out below.

5.1 Relevance

The total agri-food sector in Ireland is the largest segment in Ireland's indigenous economy. It plays a pivotal role in the fabric of Irish society, particularly in rural areas where employment in agriculture and agriculture related activities is significant. However, a number of challenges exist in the sector such as international competition, more diverse consumer demands, environmental concerns which are increasing the need to maintain and improve cost and operational efficiency. There are also implications for the agricultural sector coming from Brexit due to the importance of the UK market for agricultural products. In this context, measures to reduce costs and increase efficiency for farmers can play a significant role in maintaining and increasing competitiveness.

One way of addressing these issues is to encourage farm consolidation. Farm holdings in Ireland are made up of an average of 3.8 separate parcels of land and this fragmentation can result in both operational inefficiencies and increased costs. Food Wise 2025 has identified that the fragmented structure of Irish family farms is limiting the capacity of the sector to develop sustainable and viable business enterprises.

The relevance of farm consolidation to improve efficiency is echoed by reports on the development of the agri-food economy and agri-taxation in Ireland which recognise that in order to meet the competitive challenges of the future, Irish farms should be operating to the highest standards of efficiency and sustainability; and that a tax policy approach which seeks to encourage farm consolidation to increase efficiency is appropriate. As the relief assists in this process, it is considered to be relevant to helping achieve this objective.

5.2 Cost

The costs associated with the Relief are reflected in Table 1, below, which provides the cost in terms of revenue foregone based on the Farm Restructuring Certificates issued by Teagasc.

Table 1

Year	Certificates Issued	Estimated Cost	Hectares Sold	Hectares Purchased
2013	6	€163,966		
2014	18	€731,785		
2015	32	€1,081,485		
2016	38	€1,112,768	509.60	591.98
2017	43	€1,113,204	509.80	711.30
2018	72	€1,645,132	753.40	914.82
Total	**2019**	**€5,848, 340**	**1772.8**	**2218.10**

The initial uptake on the scheme was initially low, as evidenced by the number of certificates issued. The implementation of the 2014 Agri-Tax Review's proposals to allow for whole farm replacement has helped increase the numbers availing of the relief as has the extension of the relevant times for qualifying for the relief from 31 December 2016 to 31 December 2019.

Budget 2018 changes to stamp duty relief for farmers along with development in the dairy sector over recent years has also contributed to an increase in the numbers availing of the scheme.

The relief claimed in the period 2016 to 2018 relates to sales of 1772.8 hectares and purchases of 2218 hectares of farmland. This is a minute proportion of the approximately 4.5m hectares of agriculture land in Ireland but is nonetheless beneficial both in terms of the efficiency of the farming enterprise and reduced carbon emissions associated with lower usage of machinery on a more consolidated holding.

The cost of the relief remains relatively low averaging under €1 million per annum. In the context of the overall reliefs available to support the development of the agricultural sector, the overall amount is relatively small. Nevertheless, it is likely that if the relief had not been in place there would have been less consolidation activity with limited CGT paid. It is not obvious there is therefore significant deadweight arising from the scheme.

In terms of considering costs one option is to provide a direct grant to farmers involved in such consolidation to fund the CGT costs. Thus, an alternative approach to having a tax expenditure is to have a direct payment which could compensate the farmer for the CGT incurred in the sale of land where a restructuring process occurs. It is not evident that there would be any more benefit from a direct payment compared to the existing tax relief since the same Exchequer resources would be incurred in either case. Additionally, the benefit of the tax relief is the likely reduced administrative cost of administering a tax relief compared to a direct payment.

5.3 Impact

As previously indicated farm holdings in Ireland are made up of an average 3.8 separate parcels of land, and this fragmented structure leads to both operational inefficiencies and increased costs to the industry. The average farm size was 26ha in 1991 and it had increased to 32.3ha by 2007. The average farm size in 2013 was 32.5 ha and in 2016 was 32.4 ha with different size farms depending on specific regions in the State. There is no evidence that the scheme has had an impact on these averages. Given the scale of the scheme it is not likely it would have an impact on average farm size in any event.

We can see from Table 1 that there has been a growth in the amount of land which has been through the process of restructuring. While it may not be as important to all farmers it has significant benefit for the sub-set of farmers who were able to avail of it.

Indeed there are other factors which may restrict the levels of farm consolidation, such as the cost of land, the unavailability of appropriate replacement landholding for consolidation, as well as historic, cultural or familial ties to existing landholdings and the level of leasing (compared to purchasing) of land which can generate an income for the farmer while retaining ownership of their land.

The impact of this Relief, particularly since it was broadened to allow for whole farm replacement, is evidenced by the increasing number of Farm Restructuring Certificates which have been issued by Teagasc. However, while the level of consolidation has been increasing the total cost of the scheme suggests that the amount of land which is the subject of consolidation activity is relatively small compared to the total amount of land owned by farmers.

While motivation for availing of the scheme varies the indication is that some consolidation may be due to non-dairy farms converting over to dairying and seeking to consolidate a larger block around the farm yard. There may also be long term dairy farmers looking to do the same to further increase their number of cows and build greater efficiency in their enterprise.

Consolidated parcels in a livestock farm facilitate better use of rotational grazing practices which results in more efficient use of grass in feeding those stock which suits Irelands grass based product image and facilitates more efficient use of chemical and organic fertilizer.

Furthermore, the scheme has a positive effect on the environment through the carbon emission reduction achieved by farmers spending less time travelling by road drawing slurry, silage, stock etc. on a more consolidated holding.

To the extent that the relief has had an impact it needs to be seen within the context of other reliefs and supports available to encourage a more productive farming environment and it complements these reliefs by allowing for tax free restructuring of land holdings.

5.4 Efficiency

The estimated costs to the exchequer are based on revenue foregone in respect of CGT on the sale of land. However, the relief is designed to encourage farm consolidation where the CGT liability may have discouraged transactions for the purpose of consolidation. It may therefore be the case that these land transactions may not ordinarily have occurred without the relief being available.

It is difficult to argue the counterfactual as to how much consolidation would have occurred in the absence of the relief and indeed how much CGT might have been paid but it is likely that there would have been less consolidation and that little if any CGT may have been paid as a result. In the absence of the relief there would have been less consolidation and the policy aim of increasing the size of landholdings would have been more difficult to achieve. It is therefore suggested that the relief is an efficient and cost-effective tax expenditure given its impact on the sub-set of agricultural holdings where it has a direct impact.

No issues have been raised in respect of the operation of the scheme and it is considered that the scheme as developed operates well, with no issues raised regarding its administration. It continues to be an appropriate vehicle for achieving the policy aim of consolidating farmland and is therefore producing the desired result.

6. Conclusion

There has been an increase in the use of the scheme to provide for consolidation of farms since the scheme was introduced in 2013. The scheme seems to be removing a potential taxation barrier to consolidation of fragmented farm holdings. It is supporting the policy aim of improved efficiency and effectiveness of farming in order to help deal with future competitive challenges. The cost has increased but it is not evident that there is deadweight as it is not clear that there would have been consolidation and significant capital gains tax on the sale of land paid in the absence of the scheme.

Therefore, it is considered that the tax relief approach is appropriate and no alternative approaches such as direct payments are any more effective than the provision of tax relief. On that basis, it seems appropriate that the scheme would be extended for a further three years.

II: Report of the Office of the Revenue Commissioners

Analysis of the Special Assignee Relief Programme (SARP) 2017

1. General

- The 2012 Finance Act introduced section 825C to the Taxes Consolidation Act 1997. This section, as amended, provides income tax relief for certain individuals assigned[6] during any of the tax years 2012 to 2020[7] to work in the State. The relief is commonly known as SARP (Special Assignee Relief Programme).

- The aim of the relief is to reduce the cost to employers of assigning skilled individuals in their companies from abroad to take up positions in the Irish-based operations of their employer or an associated company, thereby facilitating the creation of jobs and the development and expansion of businesses in Ireland.

- SARP provides for relief from income tax on 30% of salary, subject to an upper income threshold, where applicable (see Annex 2).

- There is no exemption from USC and PRSI is payable where the individual is not liable to social insurance contributions in their home country. School fees of up to €5,000 per annum and expenses incurred on one trip home per year, where they are paid for by the employer, are not subject to tax.

A brief summary of the conditions to be satisfied in order to qualify for SARP is included in **Annex 1.** **Annex 2** contains a brief note on the operation of the relief.

2. Outturn for 2017

This report covers the uptake and cost of SARP in respect of the tax year 2017, based on relevant returns received by the Revenue Commissioners as at 31 March 2019. Details are set out in **Annex 3**, including comparison with the tax years 2012 to 2016.

The relevant returns are the SARP 1A Form, which is completed in respect of each SARP employee claiming the relief, and the Annual Employer SARP Return.

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[6] Employees may either be assigned to work for their employer or employed by an associated company of their employer.

[7] Section 15 of Finance Act 2014 extended the relief to include individuals assigned to work in the State during any of the tax years 2015, 2016 and 2017. A number of enhancements were made for those years, including the removal of the upper income threshold of €500,000. Section 10 of Finance Act 2016 further extended the relief to the tax year 2020. Section 15 of Finance Act 2018 inserted an upper income threshold of €1 million.

ANNEX 1

Conditions for relief

The relief can be claimed by an individual who:

(a) arrives in the State in any of the tax years 2012 to 2020, at the request of his or her relevant employer to perform duties of his or her employment for that employer or to take up employment in the State with an associated company of that employer and to perform duties for that company. A relevant employer is a company that is incorporated and tax resident in a country with which the State has a double taxation agreement or a tax information exchange agreement;

(b) immediately before being assigned to work in the State, worked outside the State for a minimum period of 6 months[8] for the relevant employer who assigned him or her to work in the State;

(c) performs duties referred to in (a) above for a minimum period of 12 consecutive months from the date he or she takes up residence in the State;

(d) was not tax resident in the State for the 5 tax years immediately preceding the year of his or her arrival in the State to take up employment;

(e) for each of the tax years in respect of which relief is claimed, was tax resident in the State[9];

(f) earns a minimum basic salary of €75,000 per annum excluding all bonuses, commissions or other similar payments, benefits, or share based remuneration.

Comprehensive guidance notes on SARP can be found on the Revenue website in the Tax and Duty Manual 34-00-10.

[8] In the case of an individual arriving in the State in tax years 2012, 2013 or 2014, a minimum period of 12 months applied.

[9] For the tax years 2012, 2013 and 2014, the individual could not be tax resident elsewhere.

ANNEX 2

Operation of SARP

€75,000 thresholds

For clarification, there are two separate and distinct €75,000 thresholds that must be considered for SARP –

(a) the €75,000 threshold for the purposes of determining eligibility for the relief;

and

(b) the €75,000 threshold used in calculating the tax relief.

Eligibility for relief

Before an individual is eligible to claim the relief, he or she must earn "relevant income" of not less than €75,000 per annum. This means that his or her basic salary before benefits, bonuses, commissions, share based remuneration, etc. must not be less than €75,000.

Calculating the relief

The tax relief is granted by calculating what is known as the "specified amount" and relieving that specified amount from the charge to income tax. The specified amount is determined by reference to the following formula -

Formula: (A-B) x 30%

where -

A: is the amount of the relevant employee's income, profits or gains from his or her employment in the State with a relevant employer or associated company, excluding expenses and amounts not assessed to tax in the State and net of any superannuation contributions. In addition, where the relevant employee is entitled to double taxation relief in relation to part of the income, profits or gains from the employment, that part of the income is also excluded from 'A', and

B: is €75,000.

The specified amount is 30% of the individual's income that exceeds €75,000, subject to the application of an upper income threshold, where applicable.

For the tax years 2012, 2013 and 2014, SARP provides for relief from income tax on 30% of salary between €75,000 and €500,000 (the upper income threshold).

For the tax years 2015 to 2018, the upper income threshold of €500,000 was abolished. Thus, in this instance the specified amount is 30% of the individual's salary that exceeds €75,000.

Finance Act 2018 reinstated an upper income threshold, which is set at €1 million, and applicable when calculating the specified amount in respect of new claimants [10] for the 2019 tax year and for all claimants for the tax year 2020.

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[10] A new claimant refers to an employee who first arrives in the State on or after 1 January 2019 to perform his or her employment duties in the State.

The specified amount is exempt from income tax but is not exempt from USC. In addition, the specified amount is not exempt from PRSI unless the employee is relieved from paying Irish PRSI under either an EU Regulation or under a bilateral agreement with another jurisdiction.

For the purposes of calculating 'A' in the definition of specified amount, all income from the employment is included (e.g. bonuses, commission or other similar payments, benefits in kind and share based remuneration). However, as noted above, any amount on which relief for pension contributions has been obtained is excluded as are amounts paid in respect of expenses. In addition, where an individual is entitled to double taxation relief for foreign tax, that part of the income on which such relief is claimed should be excluded in calculating the specified amount.

ANNEX 3

Table 1: Increase in number of employees, as reported by employers, as a result of the operation of SARP

Increase in number of employees per year					
2012	**2013**	**2014**	**2015**	**2016**	**2017**
6	49	126	591	477	383

Table 2: Number of employees retained, as reported by employers, as a result of the operation of SARP

Number of employees retained per year					
2012	**2013**	**2014**	**2015**	**2016**	**2017**
6	215	708	603	607	839

Table 3: Cost of SARP [11]

Tax cost of SARP per year					
2012	**2013**	**2014**	**2015**	**2016**	**2017**
€0.1 million	€1.9 million	€5.9 million	€9.5 million	€18.1 million	€28.1 million

[11] The cost is calculated based on employer returns submitted to Revenue and therefore represents the maximum cost of all reported individuals to whom the relief is available.

Table 4: Number of employees within various salary bands whose employer made a SARP return

		Number of employees per year					
		2012	**2013**	**2014**	**2015**	**2016**	**2017**
Salary Range	**€75,000 to €150,000**	-	35	88	224	359	453
	€150,001 to €225,000	-	36	79	155	160	215
	€225,001 to €300,000	-	28	63	81	79	155
	€300,001 to €375,000	-	12	29	34	56	80
	€375,001 to €675,000	-	10	33	62	95	114
	€675,001 to €1,000,000	-	-	8	22	26	36
	€1,000,001 to €3,000,000	**-**	**-**	2	8	14	23
	€3,000,001 and above	**-**	**-**	**-**	**-**	4	8
Total		**11**[12]	**121**	**302**	**586**	**793**	**1,084**

Table 5: Sector of employer who made a SARP return

Sector	*Number of employees per year*					
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
IT	-	36	79	167	224	305
Financial Services	-	31	101	168	179	182
Pharma & Medical	-	17	35	50	130	157
Consumer Industrial Products & Services	-	13	9	69	104	148
Other Services	-	13	26	72	130	226
Other	-	11	52	60	26	66
Total	**11**[13]	**121**	**302**	**586**	**793**	**1,084**

[12] In the interests of taxpayer confidentiality, a breakdown is not supplied in respect of the 2012 statistics.

[13] In the interests of taxpayer confidentiality, a breakdown is not supplied in respect of the 2012 statistics.

III: Indecon Review of the Special Assignee Relief Programme (SARP)

Review of SARP

Submitted to

Department of Finance

Prepared by

Indecon International Economic Consultants

Indecon

www.indecon.ie

1st October 2019

Indecon International Economics Consultants (Indecon) is a leading firm of research economists. Indecon was appointed by The Minister for Finance and Public Expenditure and Reform following a competitive tender to undertake an evaluation of the relevance, cost, impact and efficiency of the Special Assignee Relief Programme ('SARP'), as provided for in section 825C of the Taxes Consolidation Act 1997.

SARP is designed to help reduce the cost to employers of assigning skilled individuals in their companies from abroad, to take up positions in the Irish-based operations of their employer or an associated company, thereby facilitating the creation of jobs and the development and expansion of businesses in Ireland.

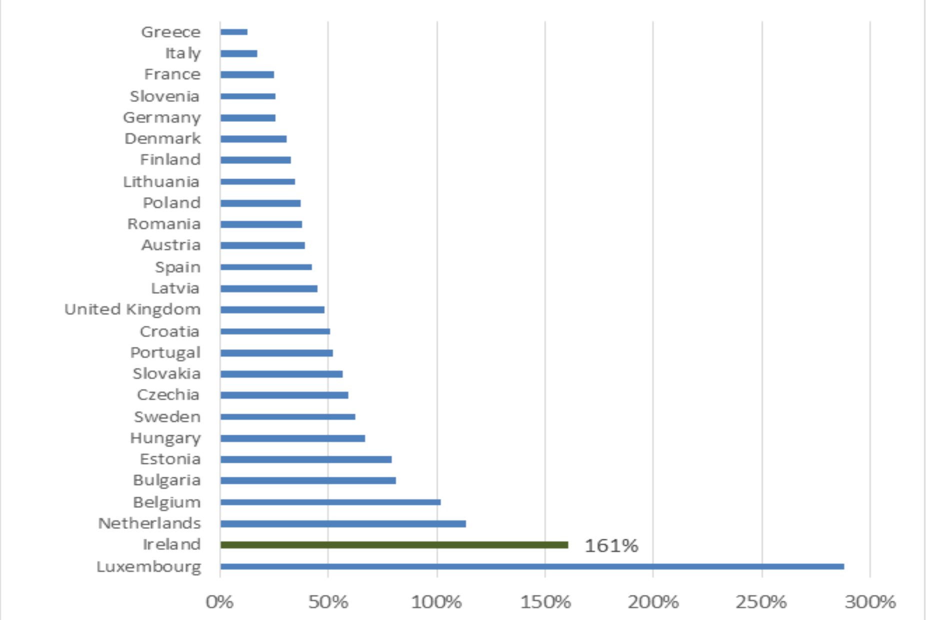
To be eligible for SARP, the assignee must have been employed abroad by the relevant employer for a minimum period of one year, up to a maximum of five years. For the tax years 2012, 2013 and 2014, SARP provided for relief from income tax on 30% of salary between €75,000 and €500,000. In Budget 2015, the €500,000 cap was removed with the objective of increasing up-take and encouraging the growth of high quality Foreign Direct Investment. This led to a significant increase in Exchequer costs and a decision was taken to amend the scheme in the Finance Bill 2018 to re-instate a cap on eligible earnings of €1 million from 2019 for new entrants and from 2020 for existing claimants. As part of our analysis we consider the equity issues with regard to the quantum of relief availed of by a small number of earners prior to the re-instatement of the earnings cap.

Indecon's independent evaluation assesses the continued relevance, cost and impact of the SARP incentive. This is appropriate given the increased Exchequer costs and the need to ensure the best use of scarce Exchequer resources. Our analysis also considers comparable incentives in other countries.

Continued Relevance of SARP

The key policy objective of SARP is to reduce the costs to companies of assigning key senior personnel to the Irish operations of their companies in order to facilitate increased employment and investment in Ireland. The rationale of the measure is that by attracting highly-skilled individuals, additional overseas investment in the Irish operations of the company may be facilitated. This is against the background of the importance of foreign direct investment (FDI) to the Irish economy. As indicated below, Ireland is one of the countries with the highest levels of FDI as a percentage of GDP in Europe.

FDI Stock as a % of GDP – Annual Average – 2005-2018



Note: We exclude Cyprus and Malta from the analysis as both of these countries have FDI stocks that are close to ten times the size of their economies.
Source: UNCTAD, FDI Statistics

The direct employment significance of foreign investment can be seen by the fact that in 2018, around 28% of all new employment in Ireland was created by IDA supported companies. Employment in IDA assisted firms reached nearly 230,000.

Employment in IDA Supported Companies		
	2017	**2018**
Total Employment	215,017	229,057
Full-Time	196,513	208,948
Other	18,504	20,109
Net Change in total employment	11,935	14,040
% Net change in total employment	5.9%	6.5%
Source: IDA		

In reviewing the rationale for SARP it is of note that a skilled labour force is seen as an important factor in the locational choice for foreign firms investing in Ireland. The evidence indicates that foreign firms rated the availability of skilled employees as a strength of locating in Ireland. SARP is likely to have assisted some of these firms in the attraction of skilled employees to Ireland.

Foreign Firms Rating on Labour Force Skills (%)					
	Significant Strength	**Strength**	**Neither Strength nor Weakness**	**Weakness**	**Significant Weakness**
Skilled Employees	34.3	55.6	10.2	0.0	0.0

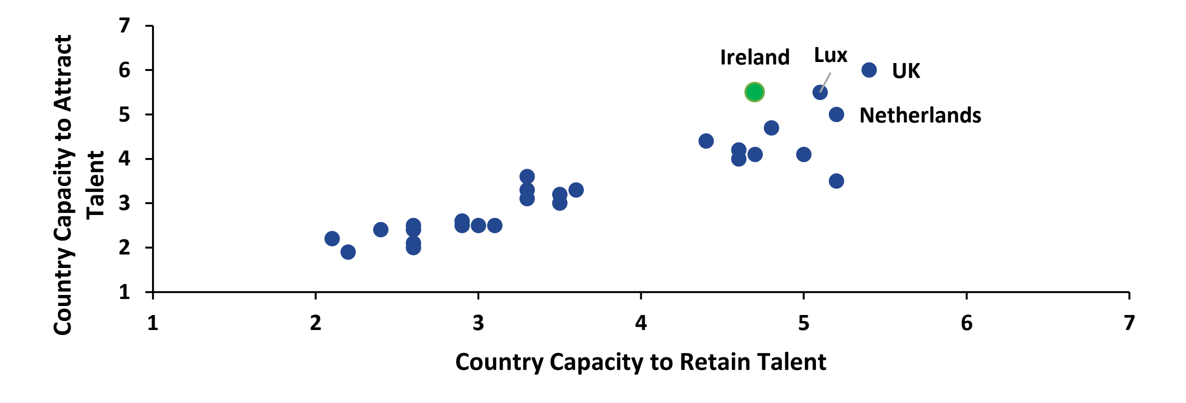
***Source*: Gray, A. W., Swinand, G. P., Batt, W. H., 'Economic Analysis of Ireland's Comparative Advantages for Foreign Investment', (2010), ISBN 978-0-95313181-5**

Indecon's assessment is that the continued rationale for SARP must be considered in terms of whether this is addressing any market failures and the potential benefits compared to the costs and equity issues involved. One potential market failure arises from the distortions caused by incentives or low tax rates in other countries.

Ireland's Comparative Position

Ireland has higher personal tax levels compared to certain competitor countries for FDI but performs well in terms of attracting and retaining talent and the ease of hiring of foreign employees. Other countries with similar characteristics in terms of the attraction for talent include the United Kingdom, The Netherlands and Luxembourg.

Country Capacity to Attract and Retain Talent (1-7) – 2016/17



Source: Global Competitiveness Report 2016/17 - World Economic Forum

A number of competitor countries also have schemes to assist the attraction of key personnel by providing relief from income taxes. Some countries have provided relief via a lower overall flat rate of tax and in many countries, this is not restricted to assignees. A summary of some international schemes is presented in the table below. Indecon's analysis suggests that in a number of cases the schemes to attract skilled employees are more attractive than the Irish SARP incentive.

Overview of Comparable Schemes reviewed in other jurisdictions

Country	Brief description of the scheme
France	"Impatriate Allowance" offers a deduction of between 30-50% of total remuneration with different conditions based on circumstances
Malta	"Highly Qualified Persons" which is designed to attract highly qualified individuals in specific targeted sectors. 15% flat rate of tax on all employment income.
The Netherlands	"30% Ruling" with a minimum threshold of €37,000 gives employees a 30% tax free allowance
Italy	Scheme ("lavoratori impatriati") introduced in 2017 involving 50% Relief. Regional dimension being added in 2019.
Portugal	Created in 2009 with the objective of attracting "qualified non-resident professionals". Involves 30% reduction in income tax rate.

Source: Indecon

Analysis of Companies claiming SARP

In 2017, there were 1,084 SARP claimants across 368 different companies. This represents a 37% increase on the 2016 figures and an 85% increase on the 2015 figures. The figures show that SARP is now used extensively by firms based in Ireland.

Overall Numbers Claiming SARP (2017)	
	2017
No. of SARP Claimants	1,084[1]
No. of Companies Involved	368
Source: Revenue Commissioners	
[1] 2017 data is provisional and subject to change	

SARP is availed of by companies in sectors assisted by the IDA but it is a much broader relief which applies to a wide range of sectors. These include some non-internationally traded sectors. Indecon believes that a higher level of deadweight[14] in encouraging increased investment as a result of SARP is likely to apply to such businesses.

Sectoral Breakdown of Individual Claimants (2017)		
Sector	**No. of Individuals**	**% of Total**
Administrative and support service activities	88	8.1%
Financial and Insurance Activities	230	21.2%
Information and Communication	205	18.9%
Manufacturing	176	16.2%
Professional scientific and technical activities	122	11.3%
Wholesale and retail trade/Repair of motor vehicles and motorcycles	232	21.4%
All other Sectors	31	2.9%
Total	1,084	100%
Source: Indecon analysis of Revenue Commissioners Data		
Data for 2017 is provisional and subject to change		

The importance of SARP to companies varies considerably with the majority of companies only employing 1-2 SARP claimants. A small portion of companies have more than ten SARP claimants employed. It is also worth noting that around 12% of companies use SARP for more than 20% of their employees. This suggests that SARP does not just apply to the top leadership teams.

[14] Deadweight refers to the extent to which the benefit would have incurred without the incentive. See: Gray, A. W., 'A Guide to Evaluation Methods' (1995), Published by Gill and Macmillan, ISBN 0717122425

Share of Total Employees who avail of SARP (2016-2017)	
SARP Claimants As % of Total Employees in Companies	**No. of Companies In Category (2017)**
<1	108
1 > 3	61
3 > 5	16
5 > 10	31
10 > 20	32
20 > 100	35
Total	283[1]

Source: Indecon Analysis of Revenue Commissioners Data
[1] Data for 2017 is provisional and subject to change. Above figures for 2017 were based on the 884 individual SARP cases recorded on SARP Employer Returns for 2017, where matching with Corporation Tax returns for 2017 was possible.

The majority of SARP claimants are on annual salaries of lower than €225,000 but around 3% of SARP claimants are on salaries in excess of €1 million in 2017. The amount of the relief varies considerably depending on the salary of the individual and it should be noted that tax is paid on the part of income below €75,000 and over the upper limit. For example, an individual on a salary of around €100,000 per annum is likely to avail of an additional tax allowance of approximately €3,000.[15] The recent cap on the eligible maximum allowable salary will reduce the level of relief available to those on very high incomes. This will enhance equity by significantly reducing the quantum of Relief availed of by a small number of very high earners.

Number of Employees within various Salary Bands whose Employer made a SARP Return				
	2016		**2017**	
Salary Range	**No. of Employees**	**% of Total**	**No. of Employees**	**% of Total**
€75,000 to €150,000	359	45.3%	453	41.8%
€150,001 to €225,000	160	20.2%	215	19.8%
€225,001 to €300,000	79	10.0%	155	14.3%
€300,001 to €375,000	56	7.1%	80	7.4%
€375,001 to €675,000	95	12.0%	114	10.5%
€675,001 to €1,000,000	26	3.3%	36	3.3%
€1,000,001 to €3,000,000	14	1.8%	23	2.1%
€3,000,001 to €10,000,000	4	0.5%	8	0.7%
Total	**793**	100.0%	**1,084**	100.00%

Data for 2017 is provisional and subject to change
Source: Revenue Commissioners

Impact of SARP

[15] Individuals may also be entitled to tax relief on educational expenses and return trips to their country of nationality.

The SARP Tax Relief is likely to impact on internationally traded businesses supported by IDA (Ireland) although as noted earlier, other firms also benefit from the Relief. The views of IDA (Ireland) on the impact of the Relief on their clients are presented in the next table. This highlights the potential benefits in terms of increased FDI investment and increased employment.

Assessment of IDA (Ireland) of Role of SARP
"SARP's objectives is to attract skilled, internationally mobile executives to Ireland. This in turn supports the attraction and retention of Foreign Direct Investment (FDI), high value job creation and the resulting economic benefit for Ireland." *"SARP has been an important component in Ireland's competitive offering following its introduction in Budget 2012. We particularly noticed an increased up-take of SARP by our clients from approximately 2014/15 and have also observed a particular increase in the assignment of senior executives across a range of sectors, including financial services in the lead up to Brexit. The availability of SARP at this critical time has been highly beneficial."* *"In general, the attraction of individuals with advanced skills and leadership experience, by reducing the tax cost of assigning these individuals to Irish-based operations, has been a valuable tool in our engagement with potential FDI target companies."* *"In terms of the profile of the SARP cases we have observed, they can be summarised as senior staff with significant leadership experience and/or niche technical skill sets which are highly valuable to Irish operations."* *"It is our considered opinion that Ireland requires a competitive SARP scheme to remain competitive with our main competitors, who operate similar or more enhanced schemes, or do not apply income tax rates of greater than 50% on earnings in excess of €35,300."*
Source: IDA Submission to Indecon

The role of SARP in retaining or increasing employment was also reflected in the views of companies participating in Indecon's survey research. Companies indicated that SARP is likely to have an important or very important role in the expansion of employment in their Irish operations. For some companies, however, it has only been of minor or no importance in expanding employment.

Companies Evaluation of Impact on Expansion of Employment in Ireland by Your Company				
Very Important	**Important**	**Of Minor Importance**	**Not at All Important**	**Don't Know**
22.2%	27.8%	38.9%	11.1%	0.0%
Source: Indecon survey of Companies who have availed of SARP				

Our analysis suggests that SARP has assisted in the attraction of overseas personnel and nearly 80% of companies indicated that SARP is important or very important in terms of attracting overseas staff to Ireland. A similar percentage of companies suggested that SARP assisted them in attracting highly skilled staff to their Irish operations. Indecon, however, believes that some of these staff would have been attracted to Ireland in the absence of the SARP measure. In our modelling of the costs and benefits, Indecon adjusts our estimate of benefits to take account of this inherent deadweight factor.

Views of SARP Companies on Percentage of SARP Claimants in Company who Would Not Have Been Employed in Ireland in the Absence of SARP	
	Percentage of Respondents
0-25%	55.6%
26-50%	5.6%
51-75%	5.6%
76-100%	22.2%
Don't Know	11.1%
Total	**100%**
Source: Indecon survey of Companies who have availed of SARP	

In examining the employment impacts, new data provided by the Revenue to Indecon shows that the overall employment in companies utilising SARP is significant and it is estimated that over 155,000 persons were employed by these companies.

Wider Impact on Employment (2017 SARP claimant data)	
	2017[2]
Total Number of Recorded Employees in Companies with SARP Employees[1]	155,577
Source: Special Analysis of Data Completed for Indecon by Revenue Commissioners [1]Refers to a sample of 884 SARP claimants where it was possible to match SARP claimants to the Corporation Tax company record. [2] Data for 2017 is provisional and subject to change.	

Also of note is that companies using SARP pay significant corporate and PAYE taxes. The figures show that SARP companies paid over €2.5 billion in corporation tax in 2017. In addition, these companies paid approximately €1.9 billion in PAYE taxes.

Impact on Tax Revenues (2017)	
	2017 - €m
Corporate Tax Paid by Companies with SARP Employees[1]	2,537
PAYE Tax Paid by Companies with SARP Employees	1,908
Source: Special Analysis of Data Completed for Indecon by Revenue Commissioners [1]Refers to the tax paid by companies representing 884 SARP claimants in 2017 where it was possible to match to the Corporation Tax company record. Thus, the figures may reflect an underestimate of the overall tax take. Figures for 2017 are provisional and subject to change.	

Costs and Benefits of SARP Relief

The estimated annual exchequer cost of SARP was €18.1 million in 2016, which represents a 90% increase on the 2015 figure. The preliminary estimate for 2017 is €28.1 million which highlights the continued increase in uptake of the relief. The average exchequer cost per claimant has also increased significantly in 2016 and 2017. However, the re-introduction of the cap in Finance Bill 2018 will reduce the exchequer costs from 2020 onwards compared to what it would be without the cap.

Overall Numbers Claiming SARP (2012-2017)			
Year	**Claimants**	**Exchequer Cost (€m)**	**Cost per claimant (€)**
2012	11	0.1	9,090
2013	121	1.9	15,702
2014	302	5.9	19,536
2015	586	9.5	16,211
2016	793	18.1	22,824
2017	1,084	28.1	25,923
Source: Revenue Commissioners (data for 2017 is provisional and subject to change)			

Our analysis of the costs and benefits of SARP have been estimated using a formal cost-benefit model. This has involved discounting of benefits and costs over a 10-year period at a 4% discount rate. A summary of this analysis is included in the table below. The economic benefits of SARP include some enhanced corporation tax, R&D spillovers, wage benefits of additional employees and the associated PAYE tax paid by those employed. Our estimates take account of the opportunity cost of labour and we apply a shadow price of public funds at 130%. Our modelling also takes account of deadweight in the incentives. While there is inevitable uncertainty on any estimates of what would have occurred in a counterfactual situation without the SARP incentives, our analysis suggests a positive benefit-cost return.

Cost-benefit Analysis of SARP (2017 SARP claimant data)	
Economic Costs:	**€ million (Net Present Value)**
Exchequer Cost	28.1
Exchequer Costs with Shadow Prices	36.5
Economic Benefits:	
Corporation Tax receipts	2.9
R&D Spillovers	1.6
Wage Benefits	21.2
PAYE Tax Benefits	41.4
Total Economic Benefits	67.2
Benefit-Cost Ratio (BCR)	**1.8**
Source: Indecon analysis (2017 data on exchequer costs is provisional and subject to change)	

Conclusions

Indecon's conclusions following our detailed evaluation of SARP are presented in the table below.

Summary of Conclusions	
1.	**Policy objective of the SARP incentive remains valid.**
2.	**Competitor countries also have incentives to attract skilled individuals.**
3.	**In the absence of a cap on earnings a small number of very high earners would secure very significant tax relief.**
4.	**The lower limit on the incentive means that some companies have significant numbers of SARP assisted employees.**
5.	**Ireland is an attractive location for skilled employees and this has been enhanced by SARP.**
6.	**A wide range of sectors benefit from the incentive including non-internationally traded businesses.**
7.	**SARP is not available to indigenous firms unless they have companies overseas.**
8.	**Companies using the incentive account for significant employment and tax revenue in Ireland.**

1. **Policy objective of the SARP incentive remains valid.**

   The policy objective of SARP, which is designed to facilitate the expansion of employment and investment by reducing the costs of assigning key individuals to Irish affiliates, remains valid.

2. **Competitor countries also have incentives to attract skilled individuals.**

   Ireland faces strong competition for foreign investment and competitor countries offer a range of incentives. These include measures which reduce the costs to employers of attracting skilled personnel from other countries. In a number of countries, similar or enhanced incentives to SARP are provided.

3. **In the absence of a cap on earnings a small number of very high earners would secure very significant tax relief.**

   The re-instatement of a cap on earnings will reduce the attractiveness of the incentive. This also means that the Relief will be less competitive than schemes in some other countries. While this will increase the costs for foreign firms in attracting top leadership teams, there are clear equity reasons for a cap on eligible earnings. Without the cap some very high earners are likely to secure very significant tax relief. However, even in this scenario very high income earners would be required to pay significant annual income tax as well as PRSI and USC.

4. **The lower limit on the incentive means that some companies have significant numbers of SARP assisted employees.**

   The fact that the SARP incentive is applicable for individuals earning €75,000 or over means that in many cases the relief is available to a wide range of employees and not simply to the very high earners.

5. **Ireland is an attractive location for skilled employees and this has been enhanced by SARP.**

   Ireland is an attractive location for skilled employees and this is seen by foreign firms as a strength. The SARP incentive by reducing the costs of assigning skilled individuals enhances Ireland's attraction.

6. **A wide range of sectors benefit from the incentive including non-internationally traded businesses.**

   The new sectoral analysis completed for this study highlights the fact that the incentive is used by a very wide range of sectors. An important insight of the data is that these include significant use by non-internationally traded sectors such as retail and wholesale sectors.

7. **SARP is not available to indigenous firms unless they have companies overseas.**

   SARP is only available to employers assigning skilled individuals in their companies from abroad to their Irish operations. This effectively means that this incentive is not available to many indigenous firms.

8. **Companies using the incentive account for significant employment and tax revenue in Ireland.**

   Companies using SARP represent major employers in the Irish economy. These firms also account for over €2.5 billion in annual corporate tax revenues and are major employers in the Irish economy.

Recommendations

Based on the analysis undertaken in this evaluation, Indecon outlines a number of recommendations for consideration by the Government with regards to the future operation of the SARP relief. These are designed to improve the efficiency, equity and cost-benefit impacts of the relief. These recommendations are summarised in the table below and discussed in more detail in the subsequent sections.

Summary of Recommendations	
1.	**SARP should be extended to 2025.**
2.	**Restrict SARP to internationally traded businesses.**
3.	**Consider SARP for new hires for certain areas of skill shortages.**
4.	**Examine feasibility of a differential SARP relief for regions outside of Dublin.**
5.	**Refinement to Information required from claimants should be introduced to facilitate future cost-benefit evaluation.**

1. SARP should be extended to 2025

The rationale for SARP remains valid and the cost-benefit modelling indicates that the scheme is appropriate. However, in order to facilitate longer term investment decisions, certainty on the extension of SARP is needed. We therefore recommend that SARP should be extended to at least 2025. We also support the proposed cap on eligible earnings post 2019/2020. However, in order to remove any potential abuse in extending the scheme, Indecon believes there is merit in restricting the SARP incentive for assignees to companies where there has been no recent redundancies in the relevant divisions of their Irish operations. However, this restriction should not apply to companies where overall employment has increased.

2. Restrict SARP to internationally traded businesses

The analysis in this report suggests that SARP is used extensively by companies in non-internationally traded businesses. In order to ensure that the incentive is focused on the policy objective of expanding employment and investment, there is a strong case to restrict SARP to agency assisted internationally-traded businesses. Indecon believes this would likely require state approval. An alternative option would be to restrict SARP to skills identified in the official listing of critical skills shortages related to employment permits.[16]

3. Consider SARP for new hires for certain areas of skill shortages

The current Relief is structured so that it restricts its usage by indigenous companies who do not have overseas associate companies. Extension of the incentive to all new hires would, however, not be appropriate on equity or economic criteria and would expose the Exchequer to significant costs. Indecon, however, recommends that extending eligibility should be restricted to agency assisted companies and this will require state aid approval. This also should be restricted to companies where redundancies have not occurred over the previous two years. We also recommend that any extension to new hires should be restricted to skills listed on the Government's critical skills occupation list.

[16] See Department of Business, Enterprise and Innovation, Critical Skills Occupation List. This identifies employments which there is a shortage in respect of qualifications, experience or skills which are required for the proper funding of the economy.

4. **Examine feasibility of a differential SARP relief for regions outside of Dublin**

   One aspect that may merit consideration is how SARP could be used to further support regional development. This is a key focus of the IDA strategy. One option would be to provide enhanced SARP incentives for companies based in regional locations. For example, by extending the Relief for 10 years for regional locations or providing a higher level of Relief. Such a regional approach has been introduced in Italy to encourage investment in less economically developed regions. This would assist regions likely to be most impacted by Brexit should be examined. Again, this change would require state aid approval.

5. **Refinement to Information required from claimants should be introduced to facilitate future cost-benefit evaluation.**

   It is difficult to undertake formal cost-benefit reviews with the current data that is available. Enhancements to the data that is provided by companies to the Revenue Commissioners in their annual SARP return would be helpful. This should include details of the skill profile of claimants and data from all claimant companies on the impact on overall employment in their Irish operations.

Acknowledgements and disclaimer

Indecon would like to thank a number of individuals and organisations for their valuable inputs to this review. Particular thanks are due to John Hogan, Patrick Brennan, Joe Cullen and Hazel Ryan in the Department of Finance. We would also like to acknowledge the valuable inputs from other officials in the Revenue Commissioners, including Keith Walsh, Michelle Haward, Therese Bourke, Denise Cunniffe and Philip O’Rourke. We are also appreciative of the inputs from Felix O’Kane in the Department of Business, Enterprise and Innovation, Rowena Dwyer from Enterprise Ireland and Christine Kelly from the IDA. Indecon would also like to thank those state agencies and professional advisory firms who made submissions to the public consultation, as well as leading accountancy and tax advisers and individual claimant companies who took the time to complete the Indecon survey. We would also like to thank IDA (Ireland), Enterprise Ireland, IBEC, American Chamber, Dublin Chamber, Irish Funds, the Irish Tax Institute, Chartered Accountants Ireland, KPMG, Ernst & Young (EY), Deloitte, AerCap, BoComm Aviation Leasing Ireland, CMIG Aviation Capital Holding Ireland DAC and Ping An Aircraft Leasing. **The usual disclaimer applies and the analysis and findings in this independent report are the sole responsibility of Indecon.**

1 Introduction and Background

1.1 Introduction

Indecon International Economics Consultants (Indecon) is a leading firm of research economists. Indecon was appointed by The Minister for Finance and Public Expenditure and Reform following a competitive tender process to undertake an evaluation of the relevance, cost, impact and efficiency of the Special Assignee Relief Programme ('SARP'), as provided for in section 825C of the Taxes Consolidation Act 1997.

Indecon's independent evaluation assesses the continued relevance, cost and impact of the SARP incentive. This is appropriate given the increased Exchequer costs and the need to ensure the best use of scarce Exchequer resources. Indecon's examination has taken account of the following considerations:

- An assessment of the continuing relevance of the Programme;
- An assessment of the performance of the programme in terms of meetings its key objectives in terms of attracting skilled individuals and reducing costs to employers of such assignments;
- A review of features of the Programme including the minimum and maximum caps on income and an analysis of companies claiming SARP;
- An assessment of the annual costs and efficiency of the programme; and
- An assessment of the overall impact of the programme.

Our review also examined similar incentives in other jurisdictions and equity issues with regard to the quantum of relief availed of by a small number of earners prior to the re-instatement of the earnings cap.

1.2 Particular features of the Programme and Income Caps

SARP is designed to help reduce the cost to employers of assigning skilled individuals in their companies from abroad, to take up positions in the Irish-based operations of their company or an associated company, thereby facilitating the creation of jobs and the development and expansion of businesses in Ireland.

The particular features of the Programme require that the assignee must have been employed abroad by the relevant employer for a minimum period of six months, up to a maximum of five years. For the tax years 2012, 2013 and 2014, SARP provided for relief from income tax on 30% of salary between €75,000 and €500,000. In Budget 2015, the €500,000 cap was removed with the objective of increasing up-take and encouraging the growth of high quality Foreign Direct Investment.

Following analysis of data on the cost/uptake of SARP in the years subsequent to the removal of the income cap, a decision was taken to amend the scheme in Finance Bill 2018 due to concern regarding:

- The doubling in the Exchequer cost of the incentive year-on-year (€18.1m in 2016, up from €9.5m in 2015); and
- Equity issues with regard to the quantum of relief availed of by a small number of very high earners (18 individuals claimed SARP in 2016 in respect of salaries ranging between €1m and €10m).

SARP was amended at report stage of the Finance Bill 2018 to re-instate a cap on eligible earnings at a level of €1m, with the change applying from 1 January 2019 for new entrants and 1 January 2020 for existing applicants. The incentive has a sunset clause of 31 December 2020.

There are a number of eligibility requirements associated with claiming SARP. These are briefly summarised as follows:

- Eligibility is restricted to individuals who arrive in Ireland during 2012-2020, at the request of their employer to work in Ireland for that employer;
- Individuals must have worked for a minimum of six months for that employer outside of Ireland;
- Individuals must work for a minimum of 12 consecutive months to avail of the programme;
- Individuals must not be tax resident in Ireland for at least the last five tax years prior to taking up SARP;
- Individuals must be tax resident in Ireland to avail of SARP; and
- The minimum basic salary to avail of SARP is €75,000 per annum.

1.3 Methodological Approach

Indecon has utilised an evidence-based approach to the completion of this evaluation including:

- A detailed analysis of extensive new evidence based on Revenue data for which Indecon are very appreciative;
- Survey of eighteen companies who availed of SARP;
- Survey of four leading tax advisors;
- A review of similar incentives in other selected jurisdictions;
- Detailed review of submissions made as part of a public consultation process;
- Analysis of case studies submitted by KPMG; and
- Formal economic cost-benefit modelling of the Programme.

1.4 Report Structure

The report is structured as follows:

- Chapter 2 assesses the continued relevance of the relief;
- Chapter 3 assesses Ireland's comparative position;
- Chapter 4 presents an analysis of companies claiming SARP;
- Chapter 5 considers the impacts of the Relief;
- Chapter 6 outlines the costs and benefits of the Relief; and
- Chapter 7 presents the conclusions and recommendations.

1.5 Acknowledgements and disclaimer

2 Indecon would like to thank a number of individuals and organisations for their valuable inputs to this review. Particular thanks are due to John Hogan, Patrick Brennan, Joe Cullen and Hazel Ryan in the Department of Finance. We would also like to acknowledge the valuable inputs from other officials in the Revenue Commissioners, including Keith Walsh, Michelle Haward, Therese Bourke, Denise Cunniffe and Philip O'Rourke. We are also appreciative of the inputs from Felix O'Kane in the

2.1 Introduction

This chapter considers the continued relevance of SARP. As noted in the Tax Strategy Group Paper,[17] the key aim of SARP is *"… to reduce the cost to employers of assigning skilled individuals in their companies from abroad to take up positions in the Irish-based operations of their employer or an associated company, thereby facilitating the creation of jobs and the development and expansion of businesses in Ireland."* It is, however, important to consider whether the rationale for SARP is still valid.

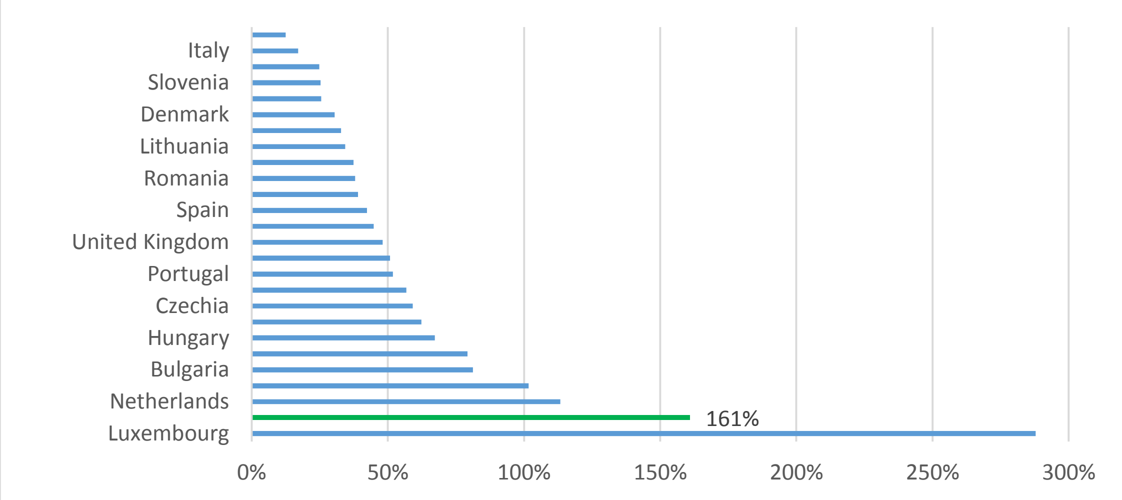
2.2 Objective of Increasing Investment and Employment

By reducing the burden of the Irish income tax system through providing a relief to highly skilled employees, the objective is that Ireland would secure increased foreign investment and help address skill shortages. Without the relief, companies are likely to face higher costs as many operate a tax equalisation policy where their employees are guaranteed a net income irrespective of the location of their employment. This was highlighted by a leading accounting practice in their submission to this review which noted that: *"Multinationals with global assignment policies generally provide a package of relocation costs for assignees as well as equalising their net take home pay to their home jurisdiction. SARP has made a difference in offsetting the higher employment costs for those individuals caused by equalisation payments and Ireland's higher employment tax costs in comparison to many jurisdictions."* A similar point regarding tax equalisation and the subsequent cost for companies was also made by another leading firm of advisers in their submission to the review. The fact that companies generally equalise the net take home pay of senior team members has implications for the consideration of the equity and impact of the Relief. In practice, the individuals benefiting may not receive any benefit from the Relief if they have agreed a net salary. From a personal income distribution perspective, the Relief may therefore not have a negative impact on net incomes. The main benefit of the Relief is likely to have been received by the company and not the individual employee. This potentially enhances the competitiveness of Ireland as a location for investment.

The potential link between SARP and increased FDI was highlighted by IBEC in their submission to the review where they noted that: *"It is clear to our members that SARP has the impact of directly attracting those roles, and also has resulted in additional substantial new investment in capital equipment, business functions, and other staff which report into those roles."* The rationale of the measure to facilitate additional overseas investment in the Irish operations of the company is against the background of the importance of foreign direct investment (FDI) to the Irish economy. This is relevant as Ireland has one of the highest levels of FDI as a percentage of GDP in Europe.

[17] Tax Strategy Group| TSG – 03/19 Income Tax

Figure 2.1: FDI Stock as a % of GDP – Annual Average – 2005-2018



Note: We exclude Cyprus and Malta from the analysis as both of these countries have FDI stocks that are close to ten times the size of their economies.
Source: UNCTAD, FDI Statistics

The direct employment significance of foreign investment can be seen by the fact that in 2018, around 28% of all new employment in Ireland was created by IDA supported companies. Employment in IDA assisted firms reached nearly 230,000.

Table 2.1: Employment in IDA Supported Companies

	2017	2018
Total Employment	215,017	229,057
Full-Time	196,513	208,948
Other	18,504	20,109
Net Change in total employment	11,935	14,040
% Net change in total employment	5.90%	6.5%
Source: IDA		

2.3 Role in enhancing access to skilled employees

The role of SARP in attracting highly skilled and senor individuals whose skills are not available in the local economy was made by the Irish Tax Institute in their submission to this review where it was noted that: *"SARP has been used effectively by many multinationals to attract the necessary senior management from parent locations, like the US, to Ireland."* In reviewing the rationale for SARP it is of note that a skilled labour force is seen as an important factor in the locational choice for foreign firms investing in Ireland. The evidence indicates that foreign firms rated skilled employees as a strength of locating in Ireland. SARP is likely to have assisted some of these firms in the attraction of skilled employees to Ireland.

Table 2.2: Foreign Firms Rating on Labour Force Skills					
	Significant Strength	**Strength**	**Neither Strength nor Weakness**	**Weakness**	**Significant Weakness**
Skilled Employees	34.3	55.6	10.2	0.0	0.0
Source*: *Gray, A. W., Swinand, G. P., Batt, W. H., 'Economic Analysis of Ireland's Comparative Advantages for Foreign Investment', (2010), ISBN 978-0-95313181-5					

2.4 Issue of Market Failures

While SARP has reduced the cost to employers of attracting skilled labour and while this may have increased investment, this does not in itself justify the incentive. Indecon's assessment is that the continued rationale for SARP must be considered in terms of whether this is addressing any market failures and the potential benefits compared to the costs and equity issues involved. One potential market failure arises from the distortions caused by incentives or low taxes in other countries. A number of submissions to the review highlighted the importance of SARP in relation to increasing competitiveness. For example, in a submission by one leading economic practice it was indicated that SARP is *"… an essential part of the tax system to seek to enhance Ireland's competitiveness for investment and inward migration of highly skilled people."* An analysis of Ireland's comparative position in attracting skills and foreign investment is considered in Chapter 3 of this report. Also relevant is that SARP, by facilitating increased foreign investment, may help to secure innovation and other spillover benefits to the economy. Indecon, however, notes the existence of such factors are less applicable as a rationale for use of the incentive by non-internationally traded businesses. The spillover benefits of investment in non-internationally traded sectors is likely to be much lower than would apply to inward investment in exporting high tech firms. The impact of the incentive in increasing investment is also likely to be much lower for firms in non-internationally traded sectors.

2.5 Summary of findings

- The key policy objective of SARP is to reduce the costs to companies of assigning key senior personnel to the Irish operations of their companies in order to facilitate increased employment and investment in Ireland.
- The rationale of the measure is that by reducing the costs to companies of attracting highly-skilled individuals, additional overseas investment in the Irish operations of the company may be facilitated. This is against the background of the importance of foreign direct investment (FDI) to the Irish economy.
- The direct employment significance of foreign investment can be seen by the fact that in 2018, around 28% of all new employment in Ireland was created by IDA supported companies. Employment in IDA assisted firms reached nearly 230,000.
- In reviewing the rationale for SARP, it is of note that a skilled labour force is seen as an important factor in the locational choice for foreign firms investing in Ireland. The evidence indicates that foreign firms rated skilled employees as a strength of locating in Ireland. SARP is likely to have assisted some of these firms in the attraction of skilled employees to Ireland.
- Indecon's assessment is that the continued rationale for SARP must be considered in terms of whether this is addressing any market failures. One potential market failure arises from the distortions caused by incentives or low taxes in other countries.

3 Ireland's Comparative Position

3.1 Introduction

This chapter examines Ireland's comparative position in terms of income tax rates and also reviews similar schemes in other jurisdictions. In evaluating Ireland's comparative position, it is important to note that other factors in addition to Ireland's low corporate tax rate impact on the attractiveness of Ireland for foreign direct investment.

3.2 Comparative Income Tax Rates

The effective personal income tax rates for a number of countries are shown in Table 3.1. This highlights personal income taxes for those on average wages in Ireland are similar to many other European countries but is much higher than in the United States. However, this can be misleading as it does not reflect the levels of salaries in multinationals or the marginal tax rates which apply.

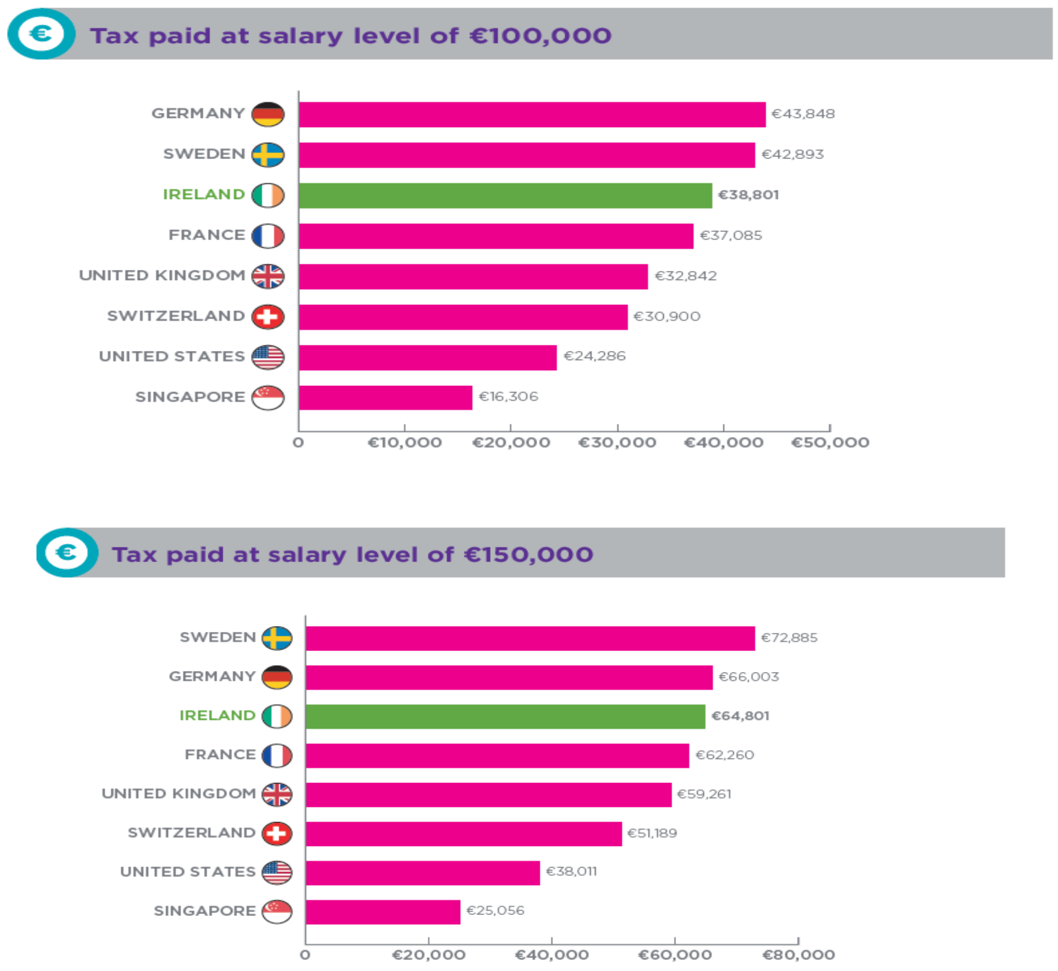
Table 3.1: Effective Personal Income Tax Rate (%) - 2018

Mongolia	30.00%	Slovakia	18.11%
Denmark	29.80%	Portugal	18.02%
Austria	28.82%	Israel	16.89%
Hungary	27.53%	Chile	16.57%
Finland	27.27%	Canada	16.53%
Netherlands	27.10%	Kazakhstan	15.96%
Germany	26.72%	Estonia	14.68%
Romania	26.31%	Mexico	14.09%
Luxembourg	25.96%	Spain	13.92%
Norway	25.82%	USA	13.46%
Slovenia	25.55%	Argentina	13.10%
Poland	25.52%	Peru	12.33%
Belgium	24.73%	Saudi Arabia	12.12%
Sweden	24.35%	Russia	11.95%
Latvia	23.97%	India	11.14%
Italy	23.85%	Switzerland	10.39%
France	22.82%	Malaysia	10.09%
Greece	22.38%	Philippines	9.68%
Australia	21.54%	Korea Republic	9.24%
Iceland	21.32%	Colombia	8.60%
Ireland	21.20%	Brazil	8.47%
Czechia	20.99%	Jordan	7.43%
Turkey	20.77%	Cyprus	7.35%
Lithuania	20.72%	Thailand	6.75%
New Zealand	20.63%	Hong Kong SAR	4.71%
United Kingdom	20.47%	UAE	4.64%
Bulgaria	20.32%	Taiwan, China	4.09%
China	20.14%	Indonesia	1.85%
Singapore	19.79%	South Africa	1.51%
Japan	19.61%	Venezuela	0.98%
Croatia	19.45%	Qatar	0.00%
Ukraine	18.92%		

Source: IMD World Competitiveness Centre Country Profiles 2018

In considering whether there may be market distortions arising from the comparative level of income tax rates in other countries, it is important to consider levels of income tax paid across a selection of countries for those earning €100,000 and €150,000. For those earning either €100,000 or €150,000, very high rates apply in Sweden and Germany but Ireland has a much higher income tax burden compared to the UK, Switzerland and Singapore, all of whom are competitors for foreign investment. Ireland also has much higher income tax rates compared to the US which is a key origin market for Ireland's FDI.

Figure 3.1: Comparison of Ireland's Income Tax System at different high salary levels (2018 Tax rates)



Source: Irish Tax Institute/KPMG Submission to Indecon

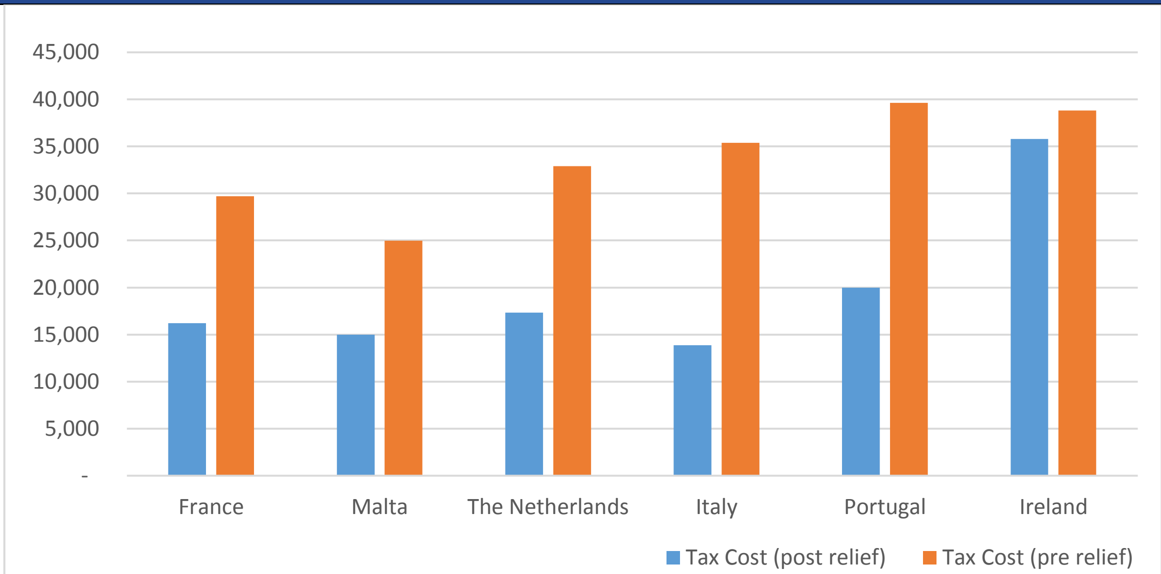
3.3 Incentive Regimes in Other Countries

As part of this review, Indecon has undertaken a review of similar schemes in other jurisdictions. A summary of incentives available to attract skilled employers in a number of countries is shown in Table 3.2. This shows that more attractive incentives are available in other EU Member States.

Table 3.2: Overview of Schemes reviewed in other jurisdictions	
Country	**Details of Incentives**
France	"Impatriate Allowance" offers a deduction of between 30-50% of total remuneration.
Malta	"Highly Qualified Persons" which is designed to attract highly qualified individuals in specific targeted sectors. 15% flat rate of tax on all employment income.
The Netherlands	Minimum threshold of €37,000 provides employees a 30% tax-free allowance.
Italy	Scheme ("Lavoratori Impatriati") introduced in 2017 and provides 50% Relief. New regional incentives introduced in 2019.
Portugal	Created in 2009 with the objective of attracting "qualified non-resident professionals" 30% reduction in income tax rate.
Source: Indecon	

Analysis by Indecon shows how different reliefs impact on the tax paid by executives. Ireland has higher income tax costs for those earning €100,000 compared to France, Malta, The Netherlands and Italy after the Reliefs are applied.

Figure 3.2: Cross- Country Analysis of different relief measures based on a salary of €100,000



Source: Indecon analysis based on Tax Rates published by the OECD

3.4 Comparative Capacity to Attract and Retain Talent

The ability of the country to attract talent is an important factor in sustainable economic growth. Ireland performs well in this regard and is the joint-second highest ranked country in the EU-28 in terms of attracting talent form abroad.

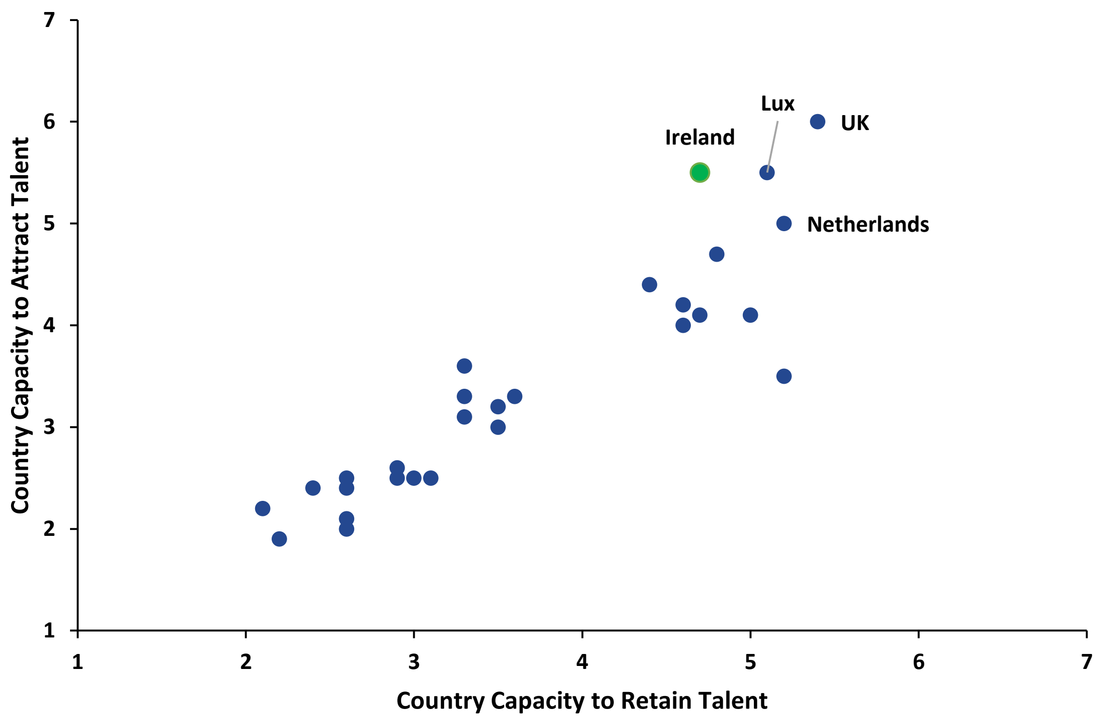
Table 3.3: Country Capacity to Attract Talent (1-7) – 2016/17	
United Kingdom	6.0
Ireland	5.5
Luxembourg	5.5
Netherlands	5.0
Germany	4.7
Malta	4.4
Belgium	4.2
Denmark	4.1
Sweden	4.1
Austria	4.0
France	3.6
Finland	3.5
Czechia	3.3
Estonia	3.3
Portugal	3.2
Spain	3.1
Cyprus	3.0
Italy	2.6
Bulgaria	2.5
Lithuania	2.5
Poland	2.5
Slovenia	2.5
Hungary	2.4
Latvia	2.4
Romania	2.2
Greece	2.1
Slovakia	2.0
Croatia	1.9
Source: Global Competitiveness Report 2016/17 - World Economic Forum	

The capacity of a country to retain talent is an important aspect of maintaining a labour force that is attractive for FDI. Evidence produced by the World Economic Forum indicates that Ireland ranks in the top 30% of EU28 countries in this regard (see Table 3.4).

Table 3.4: Country Capacity to Retain Talent (1-7) – 2016/17	
United Kingdom	5.4
Finland	5.2
Netherlands	5.2
Luxembourg	5.1
Sweden	5.0
Germany	4.8
Denmark	4.7
Ireland	4.7
Austria	4.6
Belgium	4.6
Malta	4.4
Czechia	3.6
Cyprus	3.5
Portugal	3.5
Estonia	3.3
France	3.3
Spain	3.3
Slovenia	3.1
Poland	3.0
Italy	2.9
Lithuania	2.9
Bulgaria	2.6
Greece	2.6
Latvia	2.6
Slovakia	2.6
Hungary	2.4
Croatia	2.2
Romania	2.1
Source: Global Competitiveness Report 2016/17 - World Economic Forum	

Ireland has higher personal tax levels compared to certain competitor countries for FDI but performs well in terms of attracting and retaining talent and the ease of hiring of foreign employees. Other countries with similarly characteristics in terms of the attraction for talent include the United Kingdom, The Netherlands and Luxembourg.

Figure 3.3: Country Capacity to Attract and Retain Talent (1-7) – 2016/17



Source: Global Competitiveness Report 2016/17 - World Economic Forum

3.5 Summary of findings

- Ireland has higher personal tax levels compared to certain competitor countries for FDI but performs well in terms of attracting and retaining talent and the ease of hiring of foreign employees. Other countries with similarly characteristics in terms of the attraction for talent include the United Kingdom, The Netherlands and Luxembourg.
- A number of competitor countries also have schemes to assist the attraction of key personnel by providing relief from income taxes. Some countries have provided relief via a lower overall flat rate of tax and in many countries this is not restricted to assignees.
- Indecon's analysis suggests that in a number of cases the schemes to attract skilled employees are more attractive than the Irish SARP incentive.

4 Analysis of Companies Claiming SARP

4.1 Introduction

One feature of SARP which is important to examine in order to understand the efficiency of the Programme, is what type of companies and individuals are claiming SARP and how the level of uptake has changed. The number of claimants of SARP between 2012 and 2017 is shown in Table 4.1. This indicates the significant year-on-year increase in the uptake of the measure.

Table 4.1: Overall Numbers Claiming SARP (2016)		
Year	**Claimants**	**Year-on-year growth (%)**
2012	11	-
2013	121	1000%
2014	302	150%
2015	586	94%
2016	793	37%
2017	1,084[1]	35%

Source: Revenue
[1] 2017 is provisional and subject to change

In 2017 there were 1,084 individual SARP claims. This represents a 37% increase on the 2016 figures. These individuals were employed by 368 companies as shown in Table 4.2.

Table 4.2: Overall Numbers Claiming SARP (2017)	
	2017
No. of SARP Claimants	1,084[1]
No. of Companies Involved	368

Source: Revenue Commissioners
[1] 2017 is provisional and subject to change

4.2 Sectoral Profile of SARP Claimants

SARP is availed of by companies in sectors assisted by the IDA but it is a much broader relief which applies to a wide range of sectors. These include some non-internationally traded sectors. Indecon believes that a higher level of deadweight[18] in encouraging increased investment as a result of SARP is likely to apply to such businesses.

[18] Deadweight refers to the extent to which the benefit would have incurred without the incentive. See: Gray, A. W., 'A Guide to Evaluation Methods' (1995), Published by Gill and Macmillan, ISBN 0717122425

Table 4.3: Sectoral Breakdown of Individual Claimants (2017)		
Sector	**No. of Individuals**	**% share of total**
Administrative and support service activities	88	8.1%
Financial and Insurance Activities	230	21.2%
Information and Communication	205	18.9%
Manufacturing	176	16.2%
Professional scientific and technical activities	122	11.3%
Wholesale and retail trade/Repair of motor vehicles and motorcycles	232	21.4%
All other Sectors	31	2.9%
Total	1,084	100%
Source: Indecon analysis of Revenue Commissioners, Data for 2017, data provisional and subject to change		

Using a slightly different sectoral composition based on the annual Revenue report on SARP allows analysis of how the sector of SARP companies has varied overtime. The largest percentage increases since 2015 have been in the "Pharma & Medical" sector and the "Other Services" sector. There has only been a small increase in the number of SARP claimants in the Financial Services sector since 2015. These figures are presented in Table 4.4. This may change in 2018 and 2019 arising from the impact of Brexit.

Table 4.4: Sector of employer who made a SARP return						
	Number of employees per year					
Sector	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
IT	-	36	79	167	224	305
Financial Services	-	31	101	168	179	182
Pharma & Medical	-	17	35	50	130	157
Consumer Industrial Products & Services	-	13	9	69	104	148
Other Services	-	13	26	72	130	226
Other	-	11	52	60	26	66
Total	**11[2]**	**121**	**302**	**586**	**793**	**1,084[1]**

Source: Revenue Commissioners

[1] 2017 is provisional and subject to change

[2] In the interests of taxpayer confidentiality, the sector of 2012 SARP claimants is not supplied

4.3 Significance of SARP for individual companies

The importance of SARP varies considerable with the majority of companies only employing 1-2 SARP claimants. A small number of firms have over 11 SARP claimants.

Table 4.5: Number of SARP Claimants per company (2017)	
No. of Employees Claiming SARP	**No. of Companies In Category**
1-2 SARP claimants	259
3-5 SARP claimants	67
6-10 SARP claimants	22
11+ SARP claimants	20
Total	368
Source: Revenue Commissioners, Data for 2017 is provisional and subject to change	

The importance of SARP to companies varies considerably with the majority of companies only employing 1-2 SARP claimants. A small portion of companies have more than ten SARP claimants employed. It is also worth noting that around 12% of companies use SARP for more than 20% of their employees. This suggests that SARP does not only apply to the top leadership teams.

Table 4.6: Share of Total Employees who avail of SARP (2017)	
SARP Claimants As % of Total Employees in Companies	**No. of Companies In Category**
<1	108
1 > 3	61
3 > 5	16
5 > 10	31
10 > 20	32
20 > 100	35
Total	283
Note: Above figures were based on 884 individual SARP cases recorded on SARP Employer Returns for 2017, where matching with Corporation Tax returns for 2017 was possible ***Source: Revenue Commissioners, Data for 2017***	

4.4 Equity Issues and Income Profile of SARP claimants

In considering equity issues and the appropriateness of the present upper and lower limits on the quantum of income that should benefit from the tax relief, it is useful to consider the numbers of claimants and the exchequer cost of different options. The estimated number of claimants and annual Exchequer costs if SARP applied to different specified levels of caps are shown in Table 4.7. In the estimates it has been assumed that the minimum incomes fully replace €75,000 as both the minimum income to claim SARP and the discarded income when calculating the relief. The analysis is based on the observed data in 2017. Increasing the minimum level of income to €500,000 would significantly reduce the level of exchequer costs of the measure but would also greatly reduce the uptake and would mean the Relief was focused on the higher earners.

Increasing the lower limit would also reduce the relevance of the scheme for many companies. While this would have merit in reducing exchequer costs, it would mean a competitive disadvantage compared to schemes in other countries. The analysis also shows the impact of the €1 million cap on exchequer costs and on enhancing equity is significant. Removing the upper cap would enhance the attractiveness of Ireland for certain types of operations, but would not be consistent with the principles of tax equity. The figures in the table show that there were 111 individuals who earned €500,000 or more who availed of the Relief. Without the cap on eligible income, these individuals would, on average, have received a tax reduction of over €79,000 per annum. With the €1 cap this would fall to approximately €33,000. However, as is evident from the analysis below, for those on the very high incomes, the cap means a much greater reduction in the tax relief available.

Table 4.7: Analysis of Impact of changing Thresholds and exchequer costs and uptake

		Assuming Minimum Income of €200,000		**Assuming Minimum Income of €500,000**	
	No cap and existing Minimum Income of €75,000	**With €1m Cap**	**With No Cap**	**With €1m Cap**	**With No Cap**
Annual Exchequer Costs	€28.1m[1]	€12.1m	€17.2m	€3.7m	€8.8m
No. of Claimants	1,084	481	481	111	111

Source: Revenue

[1] Based on 2017 data which is provisional and subject to change

The majority of SARP claimants are on annual salaries of lower than €225,000, but around 3% of SARP claimants are on salaries in excess of €1 million in 2017. The amount of the relief varies considerably depending on the salary of the individual and it should be noted that tax is paid on the part of income below €75,000, and over the upper limit. For example, an individual on a salary of around €100,000 per annum is likely to avail of an additional tax allowance of approximately €3,000. The recent cap on the eligible maximum allowable salary will reduce the level of relief available to those on very high incomes. This will enhance equity by significantly reducing the quantum of Relief availed of by a small number of very high earners.

Table 4.8: Number of Employees within various Salary Bands whose Employer made a SARP Return						
	Number of employees per year					
Salary Range	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
€75,000 to €150,000	-	35	88	224	359	453
€150,001 to €225,000	-	36	79	155	160	215
€225,001 to €300,000	-	28	63	81	79	155
€300,001 to €375,000	-	12	29	34	56	80
€375,001 to €675,000	-	10	33	62	95	114
€675,001 to €1,000,000	-	-	8	22	26	36
€1,000,001-€3,000,000	**-**	**-**	2	8	14	23
€3,000,001-€10,000,000	**-**	**-**	**-**	**-**	4	8
Total	**11**	**121**	**302**	**586**	**793**	**1,084[1]**
Source: Revenue Commissioners						
[1] 2017 is provisional and subject to change						

In evaluating equity issues it is also useful to consider the tax contribution for different salary ranges after taking account of SARP. Analysis based on the impact of SARP on different salary bands is presented in Table 4.8 and highlights the significant differences between the different groups. This analysis assumes that the cap of €1m does not apply. This shows that without the cap individuals on exceptionally high earnings of €6.5 m would be required to pay over €2.5m per annum in income tax, PRSI and USC.

Table 4.9: Analysis of Likely Tax Relief and Annual Tax contributions by different salary ranges – No Cap				
Gross Salary* **	**Income Tax Payable**	**PRSI***	**USC**	**Total**
112,500	28,748	4,500	6,537	39,785
187,500	49,748	7,500	12,537	69,785
262,500	70,748	10,500	18,537	99,785
337,500	91,748	13,500	24,537	129,785
525,000	144,248	21,000	39,537	204,785
837,500	231,748	33,500	64,537	329,785
1,000,000	277,248	40,000	77,537	394,785
2,500,000	697,248	100,000	197,537	994,785
4,500,000	1,257,248	180,000	357,537	1,794,785
6,500,000	1,817,248	260,000	517,537	2,594,785

*2016 Tax rates and based on the 2016 scheme which did not include an income cap. Note that these are based on average salaries within each band and no not reflect actual data on exact salaries. We assume a pension contribution of 11%.
**SARP claimants will not be liable for PRSI if they don't pay for it in their origin country.
***These salaries are net of any pension contributions
Source: Indecon analysis

An analysis of the tax payable including PRSI and USC with the cap of €1m is presented below. This shows that with the cap, tax payment bey earners of €6.5m would increase to over €3.25m per annum.

Table 4.10: Analysis of Likely Tax Relief and Annual Tax contributions by different salary ranges – Cap

Gross Salary***	Income Tax Payable	PRSI*	USC	Total
112,500	28,748	4,500	6,537	39,785
187,500	49,748	7,500	12,537	69,785
262,500	70,748	10,500	18,537	99,785
337,500	91,748	13,500	24,537	129,785
525,000	144,248	21,000	39,537	204,785
837,500	231,748	33,500	64,537	329,785
1,000,000	277,248	40,000	77,537	394,785
2,500,000	877,248	100,000	197,537	1,174,785
4,500,000	1,677,248	180,000	357,537	2,214,785
6,500,000	2,477,248	260,000	517,537	3,254,785

*2016 Tax rates and based on the 2016 scheme which did not include an income cap. Note that these are based on average salaries within each band and no not reflect actual data on exact salaries. We assume a pension contribution of 11%.
**SARP claimants will not be liable for PRSI if they don't pay for it in their origin country.
***These salaries are net of any pension contributions
Source: Indecon analysis

4.5 Summary

- In 2017, there were 1,084 SARP claimants across the 368 different companies. The number of claimants rose by 37% compared to 2016.
- SARP is availed of by companies in sectors assisted by the IDA but it is a much broader relief which applies to a wide range of sectors. These include some non-internationally traded sectors. Indecon believes that a higher level of deadweight in encouraging increased investment as a result of SARP is likely to apply to such businesses.
- The importance of SARP to companies varies considerably with the majority of companies only employing 1-2 SARP claimants. A small portion of companies have more than ten SARP claimants employed. It is also worth noting that around 12% of companies use SARP for more than 20% of their employees. This suggests that SARP does not only apply to the top leadership teams.
- The majority of SARP claimants are on annual salaries of lower than €225,000, but around 3% of SARP claimants are on salaries in excess of €1 million in 2017. The amount of the relief varies considerably depending on the salary of the individual and it should be noted that tax is paid on the part of income below €75,000 and over the upper limit. For example, an individual on a salary of around €100,000 per annum is likely to avail of an additional tax allowance of around €3,000. The recent cap on the eligible maximum allowable salary will significantly reduce the level of relief available to those on very high incomes. This will enhance equity by significantly reducing the quantum of Relief availed of by a small number of very high earners. This will apply to new entrants from 2019 and existing claimants from 2020.

5 Impacts of SARP Tax Relief

5.1 Introduction

This chapter examines the overall impacts of the SARP Programme.

5.2 Impact of SARP on companies' decision to establish in Ireland

The SARP Tax Relief is likely to impact on internationally-traded businesses supported by IDA (Ireland) although as noted earlier, other firms also benefit from the Relief. The views of IDA (Ireland) on the impact of the Relief on their clients are presented in the table below. This highlights the potential benefits in terms of encouraging companies to establish in Ireland. Indecon would, however, note that this measure is only one part of the wider criteria which are considered by companies in deciding on locations for FDI.

Table 5.1: Assessment of IDA (Ireland) of Role of SARP
"SARP's objectives is to attract skilled, internationally mobile executives to Ireland. This in turn supports the attraction and retention of Foreign Direct Investment (FDI), high value job creation and the resulting economic benefit for Ireland." *"SARP has been an important component in Ireland's competitive offering following its introduction in Budget 2012. We particularly noticed an increased up-take of SARP by our clients from approximately 2014/15 and have also observed a particular increase in the assignment of senior executives across a range of sectors, including financial services in the lead up to Brexit. The availability of SARP at this critical time has been highly beneficial."* *"In general, the attraction of individuals with advanced skills and leadership experience, by reducing the tax cost of assigning these individuals to Irish-based operations, has been a valuable tool in our engagement with potential FDI target companies."* *"In terms of the profile of the SARP cases we have observed, they can be summarised as senior staff with significant leadership experience and/or niche technical skill sets which are highly valuable to Irish operations."* *"It is our considered opinion that Ireland requires a competitive SARP scheme to remain competitive with our main competitors, who operate similar or more enhanced schemes, or do not apply income tax rates of greater than 50% on earnings in excess of €35,300."*
Source: IDA Submission to Indecon

The role of SARP in the establishment of businesses in Ireland was considered in Indecon's survey research. For a minority of companies, SARP was seen as having a very important impact on the establishment of their business in Ireland.

Table 5.2: Companies Evaluation of Impact on Establishment of Your Business in Ireland				
Very Important	**Important**	**Of Minor Importance**	**Not at All Important**	**Don't Know**
27.8%	5.6%	33.3%	27.8%	5.6%
Source: Indecon survey of Companies who have availed of SARP				

In addition to incentivising a minority of companies to establish in Ireland, SARP may have facilitated businesses to expand their operations by adding new mandates or growing existing business lines. A higher percentage of companies suggested that SARP was very important or important in the expansion of their operation in Ireland.

Table 5.3: Evaluation of Impact on Expansion of SARP on Companies Business Operations in Ireland					
	Very Important	**Important**	**Of Minor Importance**	**Not at All Important**	**Don't Know**
Companies	33.3%	22.2%	27.8%	11.1%	5.6%
Source: Indecon survey of Companies/Tax Advisors who have availed of SARP					

5.1 Impact on Employment

In examining the employment impacts, new data provided by the Revenue to Indecon shows that the overall employment in companies utilising SARP is significant and it is estimated that over 155,000 persons were employed by these companies.

Table 5.4: Wider Impact on Employment (2017)	
Total Number of Recorded Employees in Companies with SARP Employees[1]	155,577
Source: Special Analysis of Data Completed for Indecon by Revenue Commissioners [1]Refers to 884 SARP claimants where it was possible to match SARP claimants to the Corporation Tax company records. Data is provisional and subject to change	

As part of their Revenue filing, companies were asked to estimate the number of additional employees attributable to this SARP relief. Of the companies who completed this return in 2017, the evidence indicates that there were around 383 additional jobs created. Indecon notes that only a percentage of companies provided information on this issue and the findings may underestimate the net employment impact. In our cost-benefit modelling in Chapter 6, in order to ensure we do not overestimate the impacts, we use an even lower estimate of 300.

Table 5.5: Increase in number of employees per year	
Year	**Increase in Number of Employees**
2012	6
2013	49
2014	126
2015	591
2016	477
2017	383
Source: Revenue Commissioners (Draft Report on SARP September 2019 – 2017 data subject to change)	

The role of SARP in increasing employment was also reflected in the views of companies participating in Indecon's survey research. For some companies SARP was seen as having an important or very important role in the expansion of employment in their Irish operations.

Table 5.6: Companies Evaluation of Impact of SARP on Expansion of Employment in Ireland by Your Company				
Very Important	**Important**	**Of Minor Importance**	**Not at All Important**	**Don't Know**
22.2%	27.8%	38.9%	11.1%	0.0%
Source: Indecon survey of Companies who have availed of SARP				

Our analysis suggests that SARP has assisted in the attraction of overseas personnel and nearly 80% of companies indicated that SARP is important or very important in terms of attracting overseas staff to Ireland. A similar percentage of companies suggested that SARP assisted them in attracting highly skilled staff to their Irish operations. Indecon, however, believes that some of these staff would have been attracted to Ireland in the absence of the SARP measure.

Table 5.7: Views of SARP Companies on Percentage of SARP Claimants in Company who Would Not Have Been Employed in Ireland in the Absence of SARP	
	Percentage of Respondents
0-25%	55.6%
26-50%	5.6%
51-75%	5.6%
76-100%	22.2%
Don't Know	11.1%
Total	**100%**
Source: Indecon survey of Companies who have availed of SARP	

SARP is also likely to have assisted some companies to retain existing employees. For the firms who reported on this issue in 2017, it was estimated that 839 jobs were retained in Ireland due to SARP. Because of the difficulty of estimating the potential deadweight and the high opportunity cost of skilled labour, we do not include these retained jobs in our formal cost-benefit modelling.

Table 5.8: Number of employees retained per year	
Year	**Number of employees retained per year**
2012	6
2013	215
2014	708
2015	603
2016	607
2017	839
Source: Revenue Commissioners (Draft Report on SARP September 2019 –2017 figures subject to change)	

5.2 Impact on attraction of Skills

An objective of SARP is to attract highly-skilled senior overseas individuals to Ireland. Survey evidence of companies who availed of SARP indicates that nearly 80% of these companies believe that SARP was important or very important at attracting overseas staff to Ireland. Tax advisors responding to Indecon's survey also believed that SARP was an important factor in attracting overseas staff.

Table 5.9: Companies Evaluation of Impact on Attraction of Overseas Staff to Your Company

	Very Important	Important	Of Minor Importance	Not at All Important	Don't Know
Companies	44.4%	33.3%	16.7%	5.6%	0.0%
Tax Advisors	75%	25%	0%	0%	0%

Source: Indecon survey of Companies who have availed of SARP

A potential rationale for SARP is its role in attracting skilled individuals to the Irish labour market. As shown in Table 5.10, companies viewed SARP as being very important or important in terms of attracting highly skilled staff to their companies. Tax Advisors were of similar views. Indecon notes that information currently available does not permit an analysis of the type of skills of SARP claimants or the consistency with identified areas of skill shortages.

Table 5.10: Companies Evaluation of Impact on Attraction of Highly Skilled Staff to Your Company

	Very Important	Important	Of Minor Importance	Not at All Important	Don't Know
Companies	38.9%	38.9%	16.7%	5.6%	0.0%
Tax Advisors	75%	25%	0%	0%	0%

Source: Indecon survey of Companies who have availed of SARP

5.3 Tax Contribution of SARP Companies

In reviewing SARP it is useful to also consider the levels of corporate and PAYE taxes paid by companies employing SARP claimants. New data provided by the Revenue to Indecon involving a matching of SARP returns with other tax returns provides important new insights on the tax revenues generated by SARP companies. Companies availing of SARP paid over €2.5 billion in corporation tax in 2017. In addition, these companies paid nearly €1.9 billion in PAYE tax. This excludes cases where there is no readily available data to match the current extract of Corporation Tax return.[19]

[19] Company structures may be organised in such a way that SARP employees are paid by one company in a group and other employees are paid by a different company in the group.

Table 5.11: Annual Tax Papid by SARP Companies (2017)	
	€m
Corporate Tax Paid by Companies with SARP Employees[1]	2,537
PAYE Tax Paid by Companies with SARP Employees	1,908

Source: Special Analysis of Data Completed for Indecon by Revenue Commissioners
[1]Refers to the tax paid by companies representing 884 SARP claimants in 2017 where it was possible to match to the Corporation Tax company record

A sectoral analysis of tax paid by companies claiming SARP is presented in the table below. This shows that significant tax revenues were paid by companies in internationally traded sectors.

Table 5.12: Analysis of Sectoral Employment in Companies Claiming SARP (2017)		
SECTOR	**CT Tax Liability €m**	**PAYE Tax €m**
Administrative and support service activities	214	121
Financial and Insurance Activities	277	362
Information and Communication	1,082	473
Manufacturing	438	363
Professional scientific and technical activities	231	234
Wholesale and retail trade/Repair of motor vehicles and motorcycles	283	298
All other Sectors	12	58
Total	2,537	1,908

Source: Revenue Commissioners
Refers to the tax paid by companies representing 884 SARP claimants in 2017 where it was possible to match to the Corporation Tax company record

5.4 Summary of findings

- The SARP Tax Relief is likely to impact on internationally-traded businesses supported by IDA (Ireland) although other firms also benefit from the Relief. The views of IDA (Ireland) on the impact of the Relief on their clients highlight the potential benefits in terms of increased FDI investment and increased employment.
- The role of SARP in retaining or increasing employment was also reflected in the views of companies participating in Indecon's survey research. Companies indicated that SARP is likely to have an important or very important role in the expansion of employment in their Irish operations. For some companies, however, it has only been of minor or no importance in expanding employment.
- Indecon's analysis suggests that SARP has assisted in the attraction of overseas personnel and nearly 80% of companies indicated that SARP is important or very important in terms of attracting overseas staff to Ireland. A similar percentage of companies suggested that SARP assisted them in attracting highly skilled staff to their Irish operations. Indecon, however, believes that some of these staff would have been attracted to Ireland in the absence of the SARP measure. Indecon adjusts our estimate of benefits to take account of this inherent deadweight factor.

- In examining the employment impacts, new data provided by the Revenue to Indecon shows that the overall employment in companies utilising SARP is significant and it is likely that over 155,000 persons were employed by these companies.
- Also of note is that companies using SARP pay significant corporate and PAYE taxes. The figures show that SARP companies paid over €2.5 billion in corporation tax in 2017. In addition, these companies paid approximately €1.9 billion in PAYE tax.

6 Costs and Benefits of SARP Relief

6.1 Introduction

This chapter examines the likely costs and benefits of SARP.

6.2 Exchequer costs

The preliminary estimate of annual exchequer cost of SARP for 2017 is €28.1 million which highlights the continued increase in uptake of the Relief. However, the cap introduced in the Financial Bill 2018 will reduce the exchequer costs from 2020 onwards compared to what it would be without the cap.

Table 6.1: Overall Numbers Claiming SARP (2016)

Year	Claimants	Exchequer Cost (€m)	Cost per claimant (€)
2012	11	0.1	9,090
2013	121	1.9	15,702
2014	302	5.9	19,536
2015	586	9.5	16,211
2016	793	18.1	22,824
2017	1,084	28.1	25,923

Source: Revenue Commissioners, 2017 data provisional and subject to change

A sectoral analysis of the exchequer cost is shown in Table 6.2. This shows that there have been significant exchequer costs in providing the incentive to a wide range of sectors including the wholesale and retail sectors and other non-internationally traded businesses.

Table 6.2: Exchequer Costs by Sector		
Sector	**Cost €m**	**No. of Claimants**
Administrative and support service activities	4.2	88
Financial and Insurance Activities	6.0	230
Information and Communication	3.4	205
Manufacturing	4.4	176
Professional scientific and technical activities	4.6	122
Wholesale and retail trade/Repair of motor vehicles and motorcycles	5.1	232
All other Sectors	0.5	31
Total	28.1	1,084
Source: Revenue, 2017 data provisional and subject to change		

6.3 Benefits

Our economic modelling takes account of the estimated additional employment in SARP companies. While companies employing SARP claimants in 2017 account for over 155,000 employees, Indecon believes that most of these individuals would have been employed in Ireland without SARP. Provisional data reported to the Revenue suggested increased employment of 383 in 2017 for those companies with SARP claimants who provided estimates on this factor. SARP is also likely to have led to the retention of 839 employees. However, in order to ensure we do not overestimate the benefits and to take account of potential deadweight/displacement impacts, in our base case modelling, we assume only a net increase in employment of 300. Associated with this increased employment there is likely to be increased investment in the economy. Our estimates suggest an increase in annual investment of approximately €25m.[20]

Based on this estimate of additional investment, we model a range of potential benefits of SARP. This modelling is informed by the latest Indecon guidance for the State enterprise agencies for undertaking cost-benefit analyses of investment decisions. [21] The benefits included in our modelling are comprised of:

- Additional corporation tax receipts;
- Additional PAYE receipts but only where these represent net additions to the labour force;
- R&D spillovers; and
- Wage benefit after taking account of the opportunity costs of labour at 90%.

We assume that the benefits accrue over a ten-year period and are discounted in line with the requirements of the Public Spending Code with a discount rate of 4%. We also assume that the

[20] This is based on average employment investment ratios in the economy of 12 employees for every €1m of investment. In high tech sectors the level is likely to be much higher and our estimates may therefore underestimate the level of investment.

[21] "*Indecon Review of the Enterprise Agencies Economic Appraisal Model in Ireland*", completed for Department of Business, Enterprise and Innovation, 2018. A link to the published version of the report can be found here: https://dbei.gov.ie/en/Publications/Publication-files/Review-of-the-Enterprise-Agencies-Economic-Appraisal-Model.pdf

additional investment will result in annual profits equal to 10% of the total additional investment. Our estimates assume that these profits are subject to an effective corporation tax rate of 9.8%.

We assume that each of these jobs will earn twice the average wage in Ireland, namely €77,800 per person. We subject this additional employment to a 90% shadow price of labour.

Based on the above calculation for additional employment attributable to the Relief, we also estimate the additional PAYE receipts to the Exchequer. We assume that 50% of any new employment represents an expansion of the labour force and, as such, provides additional PAYE taxation to the Exchequer. Based on the average wage of €77,800, we apply a 30% tax rate to these individuals to give an estimate of their additional contribution to the Exchequer. For our modelling, we assume that 20% of total new investments will be in R&D or innovative activities. We then apply a spillover benefit parameter of 3.5% per annum to this value over a 10-year time horizon.

6.4 Estimated Net Costs and Benefits

Our analysis of the costs and benefits has been modelled over a 10-year period at a discount rate of 4% per annum. We assume a 130% shadow price of public funds. Our results are presented in the table below and indicate a benefit-cost ratio of 1.8.

Table 6.3: Cost-benefit Analysis of SARP

Economic Costs:	**€ million (Net Present Value)**
Exchequer Cost	28.1
Exchequer Costs with Shadow Prices	36.5
Economic Benefits:	
Corporation Tax receipts	2.9
R&D Spillovers	1.6
Wage Benefits	21.3
PAYE Tax Benefits	41.4
Total Economic Benefits	67.2
Benefit-Cost Ratio (BCR)	**1.8**
Source: Indecon analysis based on 2017 data	

6.5 Summary of findings

- The provisional estimated annual exchequer cost of SARP was €28.1 million in 2017. The re-introduction of the cap in Finance Bill 2018 will reduce the exchequer costs compared to a position where the cap did not exist.
- Our analysis of the costs and benefits of SARP have been estimated using a formal cost-benefit model involving discounting of benefits over a ten-year appraisal period at a 4% discount rate. The economic benefits of SARP include increased corporation tax, R&D spillovers, wage benefits of additional employees and the associated PAYE tax paid by those employed. Our estimates take account of the opportunity cost of labour and we apply a shadow price of public funds at 130%. Our modelling also takes account of deadweight in the incentives. While there is inevitable uncertainty on any estimates of what would have occurred in a counterfactual situation without the SARP incentives, our analysis suggests a positive benefit-cost return.

7 Summary of Conclusions and Recommendations

7.1 Conclusions

The policy objective of SARP remains valid in the context of the importance of the ability to attract highly skilled individuals. The wider employment benefits are difficult to quantify in the context of a labour market in full employment. It is likely that SARP did not have a significant impact on initial business investment for most companies. The relief appears to have relatively high levels of deadweight but low levels of displacement. As discussed previously, it is difficult to estimate the wider employment impacts of SARP but it is likely that it has a positive economic benefit.

Indecon's conclusions following our detailed evaluation of SARP are presented in the table below.

Table 7.1: Summary of Conclusions	
1.	**Policy objective of the SARP incentive remains valid.**
2.	**Competitor countries also have incentives to attract skilled individuals.**
3.	**In the absence of a cap on earnings a small number of very high earners would secure very significant tax relief**
4.	**The lower limit on the incentive means that some companies have significant numbers of SARP assisted employees.**
5.	**Ireland is an attractive location for skilled employees and this has been enhanced by SARP.**
6.	**A wide range of sectors benefit from the incentive including non-internationally traded businesses.**
7.	**SARP is not available to indigenous firms unless they have companies overseas.**
8.	**Companies using the incentive account for significant employment and tax revenue in Ireland.**

1. **Policy objective of the SARP incentive remain valid.**

The policy objective of SARP, which is designed to facilitate the expansion of employment and investment by reducing the costs of assigning key individuals to Irish affiliates, remains valid.

2. **Competitor countries also have incentives to attract skilled individuals.**

Ireland faces strong competition for foreign investment and competitor countries offer a range of incentives. These include measures which reduce the costs to employers of attracting skilled personnel from other countries. In a number of countries, similar or enhanced incentives to SARP are provided.

3. **In the absence of a cap on earnings a small number of very high earners would secure very high tax relief.**

The re-instatement of a cap on earnings will reduce the attractiveness of the incentive. This also means that the Relief is less competitive than schemes in some other countries. While this will increase the costs for foreign firms in attracting top leadership teams, there are clear equity reasons for a cap on eligible earnings. Without the cap some very high earners are likely to secure very significant tax relief. However, even in this scenario very high income earners would be required to pay significant annual income tax as well as PRSI and USC.

4. **The lower limit on the incentive means that some companies have significant numbers of SARP assisted employees.**

   The fact that SARP incentive is applicable for individuals earning €75,000 or over means that in many cases the relief is available to a wide range of employees and not simply to the very high earners.

5. **Ireland is an attractive location for skilled employees and this has been enhanced by SARP.**

   Ireland is an attractive location for skilled employees and this is seen by foreign firms as a strength. The SARP incentive by reducing the costs of assigning skilled individuals enhances Ireland's attraction.

6. **A wide range of sectors benefit from the incentive including non-internationally traded businesses.**

   The new sectoral analysis completed for this study highlights the fact that the incentive is used by a very wide range of sectors. An important insight of the data is that these include significant use by non-internationally traded sectors such as retail and wholesale sectors.

7. **SARP is not available to indigenous firms unless they have companies overseas.**

   SARP is only available to employers assigning skilled individuals in their companies from abroad to their Irish operations. This effectively means that this incentive is not available to many indigenous firms.

8. **Companies using the incentive account for significant employment and tax revenue in Ireland.**

   Companies using SARP represent major employers in the Irish economy. These firms also account for over €2.5 billion in annual corporate tax revenues and are major employers in the Irish economy.

7.2 Recommendations

Based on the analysis undertaken in this evaluation, Indecon outlines a number of recommendations for consideration by the Government with regards to the future operation of the SARP relief. These are designed to improve the efficiency, equity and cost-benefit impacts of the relief. These recommendations are summarised in the table below and discussed in more detail in the subsequent sections. Indecon believes that the key recommendation on extending the scheme should be implemented as soon as feasible to give certainty for investment. However, we believe that recommendations 2, 3 and 4 will require state aid approval and therefore cannot be implemented immediately.

Table 7.2: Summary of Recommendations	
1.	**SARP should be extended to 2025.**
2.	**Restrict SARP to internationally traded businesses.**
3.	**Consider SARP for new hires for certain areas of skill shortages.**
4.	**Examine feasibility of a differential SARP relief for regions outside of Dublin.**
5.	**Refinement to Information required from claimants should be introduced to facilitate future cost-benefit evaluation.**

1. SARP should be extended to 2025

The rationale for SARP remains valid and the cost-benefit modelling indicates that the scheme is appropriate. However, in order to facilitate longer term investment decisions, certainty on the extension of SARP is needed. We therefore recommend that SARP should be extended to at least 2025. We also support the proposed cap on eligible earnings post 2019/2020. However in order to remove any potential abuse in extending the scheme, Indecon believes there is merit in restricting the SARP incentive for assignees to companies where there has been no recent redundancies in the relevant divisions of their Irish operations. However, this restriction should not apply to companies where overall employment has increased.

2. Restrict SARP to internationally traded businesses

The analysis in this report suggests that SARP is used extensively by companies in non-internationally traded businesses. In order to ensure that the incentive is focused on the policy objective of expanding employment and investment, there is a strong case to restrict SARP to agency assisted internationally-traded businesses. Indecon believes this would likely require state approval. An alternative option would be to restrict SARP to skills identified in the official listing of critical skills shortages related to employment permits.[22]

3. Consider SARP for new hires for certain areas of skill shortages

The current Relief is structured so that it restricts its usage by indigenous companies who do not have overseas associate companies. Extension of the incentive to all new hires would, however, not

[22] See Department of Business, Enterprise and Innovation, Critical Skills Occupation List. This identifies employments which there is a shortage in respect of qualifications, experience or skills which are required for the proper funding of the economy.

be appropriate on equity or economic criteria and would expose the Exchequer to significant costs. Indecon, however, recommends that extending eligibility should be restricted to agency assisted companies and this will require state aid approval. This also should be restricted to companies where redundancies have not occurred over the previous two years. We also recommend that any extension to new hires should be restricted to skills listed on the Government's critical skills occupation list.

4. **Examine feasibility of a differential SARP relief for regions outside of Dublin**

   One aspect that may merit consideration is how SARP could be used to further support regional development. This is a key focus of the IDA strategy. One option would be to provide enhanced SARP incentives for companies based in regional locations. For example, by extending the Relief for 10 years for regional locations or providing a higher level of Relief. Such a regional approach has been introduced in Italy to encourage investment in less economically developed regions. This would assist regions likely to be most impacted by Brexit should be examined. Again, this change would require state aid approval.

5. **Refinement to Information required from claimants should be introduced to facilitate future cost-benefit evaluation.**

   It is difficult to undertake formal cost-benefit reviews with the current data that is available. Enhancements to the data that is provided by companies to the Revenue Commissioners in their annual SARP return would be helpful. This should include details of the skill profile of claimants and data from all claimant companies on the impact on overall employment in their Irish operations.

IV: Review of the Home Carer Tax Credit

Contents

Executive Summary

The Programme for Partnership Government contains a commitment to "*…support parents who choose to stay at home and care for their children (through an increase in the Home Carers Credit)".* It has therefore been increased in the last three budgets and will be increased further in Budget 2020 to €1,600.

This technical review is intended to inform future policy making in relation to the credit and forms part of the Department's on-going commitment to reviewing tax expenditures on a regular basis.

The credit benefits over 80,000 households and the annual cost of the credit is in excess of €83 million. It is ranked 28th highest of 101 tax expenditures for Exchequer cost and 19th out of 102 for numbers benefiting (Revenue list of tax expenditures).

The analysis of the data offers a snapshot of the current beneficiaries of the credit illustrating:

- A relatively small cohort of the overall population benefit from the measure in a given year, though not necessarily the same cohort in each year.
- Most beneficiaries have total household income of between €20,000 and €40,000 per annum although a sizeable number of high earners also benefit.
- Most home carers are females who do not undertake other paid work outside the home.
- This measure mostly benefits families with two children or less.

This review also highlights areas that warrant further attention:

- There may be merit in an updated re-examination of the legal status of non-married couples, as without such broader reform it is unlikely that the credit could be extended to such households.
- A further examination may also be merited into the interaction of the wider sphere of State supports for families with caring responsibilities and a question arises as to whether tax is the best way to target support, given the relatively narrow scope of the tax code.
- There is a broader policy question relating to the balance to be struck between policies that support parents who stay at home to mind children (or other dependents), and policies that maximise the employment capacity of the Irish workforce, in particular secondary earners.
- Given the data show that most carers are female, continued consideration should be given to the impact the credit has on female participation in the workforce in the context of any future changes to the income tax system.

1. Introduction

The Home Carer Credit has been in place in some form since Finance Act 2000.

It provides a targeted income tax credit to married couples or civil partners who are jointly assessed for tax where one spouse or civil partner works primarily in the home to care for children, an elderly person or an incapacitated person.

The Programme for Partnership Government contains a commitment to "*…support parents who choose to stay at home and care for their children (through an increase in the Home Carers Credit)".* It has therefore been increased in the last three budgets and will be increased further in Budget 2020 to €1,600.

The credit was most recently reviewed 10 years ago by the 2009 Commission on Taxation.

In 2018, a commitment was made in the First 5 Strategy: A Whole-of-Government Strategy for Babies, Young Children and their Families, that the Department of Finance would "*undertake research and analysis of the Home Carer Tax Credit scheme, in line with the Tax Expenditure Guidelines. This will include an examination of the beneficiaries of the scheme and an assessment of the extent that it is effective at supporting working families who take care of young children at home*".

The review was also conducted to take account of the commitment in Ambition 4.3 of the 2019 Future Jobs Action Plan to "*consider income tax arrangements for second earners that optimise financial incentive to work, taking account of the impact that the income tax system may have on female participation in the workforce*".

The following report is comprised of an overview of the background and rationale for the credit and an ex post evaluation following the Department of Finance Tax Expenditure Guidelines. This evaluation covers the question of relevance, cost, efficiency and impact and is based on detailed analysis of the tax return data received, for which the authors are particularly grateful to colleagues in Revenue.

This is a technical review that is intended to inform future policy making in relation to the credit and forms part of the Department of Finance's on-going commitment to conduct analysis of the distributional impacts of tax changes along a gender dimension and to reviewing tax expenditures on a regular basis.

2. Background to the Home Carer Credit

2.1 Budget 1999 and Individualisation

The background to the introduction of the Home Carer Credit was in the context of a planned move to full individualisation of the Irish income tax system. This was first announced by the Minister for Finance in Budget 1999.

The intention was to move the Irish income tax system away from assessing and charging tax on the income of the "family unit" to one fully based on the income of the individual instead.

Under a fully individualised system, there is no transferability of tax bands and credits between jointly assessed spouses/civil partners. This means that an individual is liable for the same amount of tax on their income, regardless of whether they are married or single.

Individualisation was progressed to some extent in Budget 2000 but was never fully completed. The result is that we now have a hybrid system, with the standard rate band being partially transferable between jointly assessed spouses – up to €9,000 of the standard rate band can be transferred between spouses in each tax year. The full married personal tax credit can also be allocated to either spouse. As a result, a married single-income jointly assessed couple may pay significantly less income tax than a single individual earning the same income.

The stated objectives of the individualisation announcement was to increase labour force participation among secondary earners and reduce the numbers of single workers (who made up 65% of the workforce at the time) paying the higher rates of income tax with a general increase in the personal standard rate tax band. At the time, it was expected that this would have the largest effect on the numbers of women participating in the labour force.

In tandem with this move towards an individualised tax system, and in order to ensure a balance was maintained between those going out to work and families with caring responsibilities in the home, the Home Carer's tax allowance was introduced for married one-income families where one spouse works primarily in the home caring for children, the aged or incapacitated persons.

This allowance was subsequently converted into the Home Carer Credit (HCC) in Finance Act 2001 as a consequence of Ireland's tax system changing from a tax allowance system to a tax credit system.

2.2 Home Carer Credit and Labour Market Participation of Second Earners

Several studies have examined the effect on labour supply of the move towards individualisation of the Irish tax system, focusing on the impact on the labour market participation of women. It should be noted that the extent to which the Home Carer Credit has been included in the analyses is unclear.

Callan *et al.* (2009) found that there was a small boost to the labour participation of women in Ireland due to the move towards more independent taxation for married couples. Research by Doorley (2018) focused on the ability of tax policy to influence the labour market behaviour of women in Ireland and found that "*the incentive to work increased substantially after the tax reforms enacted in 2000*" and that '"*individualisation of the standard rate band was the driving force behind this change*" (Doorley, 2018).

Some of the reasons for the introduction of the Home Carer Credit have been reported to be to compensate families with dependents for partial individualisation (Commission on Taxation, 2009*)* and in response to public pressure (Doorley, 2018). As pointed out at the time by both the IMF (International Monetary Fund) and NESF (National Economic and Social Forum), the effect of the credit reduces incentives for labour force participation because the withdrawal of the credit increases the tax liability of the couple as a whole with the second earner facing the marginal rate of tax on the first euro they earn.

When discussing the changes to the HCC that were introduced in Budget 2019, the Parliamentary Budget Office Report in 2018 expressed a view that further increases to the HCC risks undermining labour market activation, saying that such increases potentially conflict with the European Commission Country Specific Recommendation to pursue labour market activation policies (Parliamentary Budget Office, 2018)[23].

As the Irish economy edges closer to "full employment" and continues to experience housing supply pressures, policies that reduce labour participation by second earners should perhaps be given renewed analysis in the future. This is consistent with Ambition 4.3 of the Future Jobs Ireland Plan 2019 to "*consider income tax arrangements for second earners that optimise financial incentive to work, taking account of the impact that the income tax system may have on female participation in the workforce*".

However, insofar as those considerations relate to the Home Carer Credit, they should also take account of how the existence of the credit acknowledges that family units may make choices at different times about whether one or both partners should undertake paid work.

2.3 Operation of Home Carer Credit

The legislation that provides for the Home Carer Credit is set out in Section 466A of the Taxes Consolidation Act, 1997.

The credit is available to married couples or civil partners who are jointly assessed for tax where one spouse/partner works primarily in the home to care for children or an elderly or incapacitated person.

The dependent person being cared for must be one of the following:

- a child for whom the claimants receive the Child Benefit payment from the Department of Employment Affairs and Social Protection - this is normally a child aged 16 years and under or 18 if they are in full-time education, training or have a disability and cannot support themselves financially;
- a person aged 65 years or over; or
- a person who is permanently incapacitated due to mental or physical disability.

[23] The Commission drew attention to the fact that in Ireland "*the number of people living in households with low work intensity remains one of the highest in the EU, highlighting the scope for more integrated and targeted activation strategies to support this particular group*" (European Commission, 2019).

The dependent must be related to the couple and reside in the family home, or, if they are not a relative live within 2 kilometres of the family home with a direct communication link (e.g. phone or alarm) with the family home.

The credit is available to couples who are jointly assessed, which means that one spouse or partner is chargeable to tax on the total income of both members of the couple and can avail of the allowances, credits and reliefs available to both individual partners. Jointly assessed spouses can transfer certain tax credits, standard rate bands, losses and tax reliefs between them.

The HCC is claimed by the assessable spouse and serves to reduce the amount of income tax that they would otherwise have to pay on their taxable income. It is not possible to benefit from the HCC if their taxable income is not high enough to absorb the credit. In order to benefit from the Home Carer Credit, the average qualifying family needs to have annual income of at least €24,750 and more than €32,250 to get the full benefit of the credit.[24]

Where the home carer also earns some income in his/her own right, the family has the choice of claiming either the Home Carer Credit or the 'increased standard rate band for two-income couples', whichever is the most favourable to the taxpayer. Revenue will automatically apply the most advantageous option for the family. This means that not all those who submit a claim for the HCC actually avail of it (see later observations on the impact of the HCC).

Ordinarily a claim for the credit must be made by the individual. This can be done online using the Revenue Commissioners' PAYE Anytime service; by completing a claim form; or in the person's annual tax return. In the case of PAYE taxpayers, Revenue has, for a number of years, taken steps to automatically allow the credit without the person having to make a claim, wherever possible. Revenue also pre-populates the annual tax returns of self-assessed taxpayers with the Home Carer Tax Credit where it was claimed in the previous year.

2.4 Home Carer Credit and Part-time Work

A feature that has always been in the design of the Home Carer Credit is that the carer is entitled to earn some income and still retain the benefit of credit. Currently, the home carer is allowed to earn up to an income threshold of €7,200 and still retain full entitlement to the credit (this threshold was increased from €5,080 to €7,200 in Budget 2016). This is approximately the gross annual amount a worker earning the minimum wage (currently €9.80 per hour) would earn working a 14 hour week. This feature can be of particular benefit to lower-income families, due to the manner in which entitlement to the Home Carer Credit is calculated.

Once income exceeds €7,200, the credit is progressively withdrawn – the credit is reduced by €1 for every €2 of income earned in excess of the limit. A home carer earning between €7,200 and €10,200 may be entitled to a partial credit. No credit is available when income exceeds €10,200[25].

A knock-on consequence of the increase to the Home Carer Credit in Budget 2019, from €1,200 to €1,500 was that it resulted in an increase to the level of income the home carer can earn and still

[24] Married 1 Earner, main tax credits only (PAYE credit €1,650 and married tax credit €3,300).

[25] Although it should be noted that a person retains the entitlement to claim the credit if they qualified in a previous year.

retain some part of the credit by €600 to €10,200. This is approximately the annual amount a worker on the national minimum wage would earn working a 20 hour week. A full time job is generally between 35 and 40 hours per week. However, many home carers may be earning more than the minimum wage.

The income distributions of beneficiaries of the HCC[26] show that a substantial number of HCC beneficiaries are earning an income just below the threshold of €7,200 and that the take-up of the option of working and claiming the HCC is strong with around a third of all claims arising to two-income households and over 75% of the secondary earners in those cases reporting an income of less than €7,000.

The report Caring and Unpaid Work in Ireland (Russell *et al.* 2019) found that 45% of women who are regularly providing care are in employment, compared with 72% of men, and that, in Ireland "*combining paid work and caring remains challenging; and policies to encourage men to take on caring responsibilities are underdeveloped*''. Research (Russell and Banks, 2011) has also found evidence that the more children a woman has the more likely she is to engage in part-time work rather than full-time work.

[26] This relates to data from 2016 and 2017.

3. Ex Post Evaluation

The following analysis follows the methodology set out in the 2014 Tax Expenditure Guidelines.

3.1 Is the tax expenditure still relevant?

As discussed in the 2014 Department of Finance Tax Expenditure Guidelines, the primary justification for departing from a neutral tax system is the existence of a market failure and if there is no market failure, interventions such as tax expenditures will lead to inefficiency and deadweight. A market failure is a situation where an imperfection in the market mechanism prevents the achievement of economic efficiency.

Although a technical economic policy rationale for the Home Carer Credit is not entirely clear, from a broader societal perspective the original relevance of the Home Carer Credit is much clearer – it would have been politically unpopular to penalise couples with children and other dependents in the move towards partial individualisation of the income tax system in 2000. At that time in Ireland, it was relatively common that a parent was the primary caregiver of children, most often the mother, and that they undertook no paid work outside the home. This was a result of a number of factors, including historic legal, administrative and social elements and the labour activation of second earners was an issue of concern at the time (though not necessarily the primary concern).

A potential market failure that was to be addressed was the absence of alternative options for childcare in Ireland, noting in particular, that a complex combination of factors influence the timing of when a mother decides to return to work including financial and career reasons (McGinnity *et al*. 2013).

However, it should be noted that the departure from tax neutrality in the HCC also potentially results in a market distortion of its own by acting as a disincentive for secondary earners to engage in paid work outside of the home. To mitigate this effect somewhat, (as discussed above) the HCC is available to those who work part-time. However, the tapered limits that apply means that it begins to disincentivise work at annual incomes above €7,200 and rising until it fully disincentives work at an income of €10,200. It was noted by Russell *et al.* (2019) that these restrictions may still be incentivising carers to limit their working hours outside the home and the data show a significant numbers of secondary earners with incomes of less than €7,000.

The question to be considered is whether the measure is still societally relevant in 2020.

As discussed in a 2018 Social Impact Assessment of Female Labour Force Participation by the Department of Public Expenditure and Reform, there has been an increase in the employment rate for females with children in recent years, although that rate declines significantly for those with two or more children.

Recent reports have also noted the high childcare costs in Ireland (for example, Privalko *et al*. (2019), Russell *et al.* (2018)) so the availability of childcare may still limit options for working outside the home and there is evidence of increasing demand in recent years with limited supply in the market (Department of Children and Youth Affairs and Pobal, 2018).

The question of relevance should also be viewed in light of other (non-tax) measures to support childcare options – for example, the impact of increases to childcare subsidies recently announced by the Minister for Children and Youth Affairs remains to be seen.

Overall, the answer to the question of relevance depends on the balance to be struck between policies that support parents who stay at home to mind children (or other dependents), and policies that maximise the employment capacity of the Irish workforce.

Social Relevance of the Current Eligibility Requirements for the Home Carer Credit

The Department of Finance's commitment to carry out a review of the Home Carer Credit in the Government's First Five Strategy is as follows:

> "*Undertake research and analysis of the Home Carer Tax Credit scheme, in line with the Tax Expenditure Guidelines. This will include an examination of the beneficiaries of the scheme and an assessment of the extent that it is effective at supporting working families who take care of young children at home*".

It was agreed such a review would include consideration of whether the credit could also made available to cohabiting couples, noting changes in societal norms in Ireland, for example, non-traditional family structures becoming more common and a slightly decreasing trend in marriage rates[1].

At present the HCC is only available to jointly assessed couples in a marriage or civil partnership, and is linked to the tax treatment of married couples.

The structure of the current tax treatment of married couples derives from Article 41.3.1° of Bunreacht na hÉireann:

> *"The State pledges itself to guard with special care the institution of Marriage, on which the Family is founded, and to protect it against attack."*

This position was confirmed in *Murphy vs. Attorney General (1980)* when the Supreme Court held that it was contrary to the Constitution for a married couple, both of whom are working, to pay more tax than two single people living together and having the same income.

This decision led to the current income tax treatment of married couples that is in operation today, as announced in the Budget statement of February 1980, whereby married couples (and now civil partners) have the same rate bands as two single persons.

Married couples (and civil partners) who are jointly assessed have also retained the ability to transfer some tax credits, something that is not also available to non-married couples. This is because the Constitutional protection of Article 41.3.1° does not extend to non-married couples.

In the event that the Home Carer Credit was to be extended to cohabiting couples consideration would need to be given to the practicalities that would arise for Revenue if they were to administer such a scheme.

Married couples and civil partners have an independent, verifiable and legally binding confirmation of their marital status, including the dates of commencement and cessation of same. In order to administer a credit for cohabiting couples, Revenue would require a similar standard of verification of their status.

While there is legislation relating to cohabitants, such as the Civil Partnership and Certain Rights and Obligations of Cohabitants Act 2010, this falls short of the independent certification that is given to married couple and civil partners. Further, it would be difficult to accept a self-certification process as a suitable alternative, given that it could be the gateway to a particularly generous tax relief, and it would be difficult, intrusive and time-consuming if Revenue were expected to confirm declarations by individuals that they were actually cohabiting.

Revenue's core function is the administration of the tax code and the collection of taxes and duties so it would not be possible for them to operate without such certification. This turns the focus on to broader changes in Ireland relating to the legal status of cohabiting couples.

Options for changes to the tax treatment of cohabiting couples were looked at in detail by a Working Group who published a report entitled the *Treatment of Married, Co-habiting and One-Parent Families* under the Tax and Social Welfare Codes in 1999. Even though this report pre-dates the introduction of the HCC many issues that this group highlighted are relevant today, for example, a discussion on how cohabitation would be defined and legally enforceable for the purposes of tax relief.

The group's report included a policy option of extending transferability of tax allowances and bands to cohabiting couples with children, however it noted that a key issue with this option was how appropriate it would be to amend tax legislation in advance of changing the general law around cohabiting couples. It also noted that there was an argument to focus tax and social welfare treatment to be more based on the family with children rather than on marriage.

Related to this another earlier Working Group called the Expert Working Group on the Integration of the Tax and Social Welfare Systems published a report in 1996 which recommended that *"consideration should be given to the possibility of allowing for joint taxation of cohabiting couples, in cases where such a couple have a child mainly resident with them, who is maintained wholly or mainly by the couple concerned".* However, the Expert Working Group also noted that there would be a range of issues that would have to be addressed before implementing such a measure.

Given the time lapse since both reports, there would certainly seem to be merit in an updated re-examination of these issues more broadly

Absent such broader changes to the social and legal status of cohabiting couples it is difficult to see how changes to the tax treatment of cohabiting couples could be implemented at this time.

If it was to be pursued, account would also need to be taken of the cost of such an extension, noting that the annual Exchequer cost of the Home Carer Credit is already in excess of €80m per annum (see more below). In order to extend the credit to cohabiting couples, it would also be necessary to allow them to be jointly assessed for tax purposes which would also likely bring additional Exchequer costs.

Building on the discussion of efficiency below, it is worth reflecting on whether this tax credit is the most effective way to provide support to families with young children. Strategic Action 3.1 of the First Five Strategy is to:

> "*… review and develop initiatives to maximise the incomes of families with young children, with a particular focus on children at risk of poverty*"

In this regard, particular attention is drawn to the limitations of a tax credit helping people on the lowest of incomes including families at the highest risk of poverty who may not be in the tax net at all, or have sufficient liability to absorb the full value of the credit.

Further, as noted by the Commission on Taxation (2009), the fundamental role of taxation is to raise revenue to fund the provision of services by the State whereas the social welfare system is the main instrument to distribute income to low-income households.

3.2 How much does it cost?

The cost of the Home Carer Credit was €83.5 million in 2017, the most recent year for which data are available. This is also the highest cost to the Exchequer since it was introduced.

The historic cost, amount and income taper thresholds of the Home Carer Credit since its introduction as a tax credit are set out in the table below:

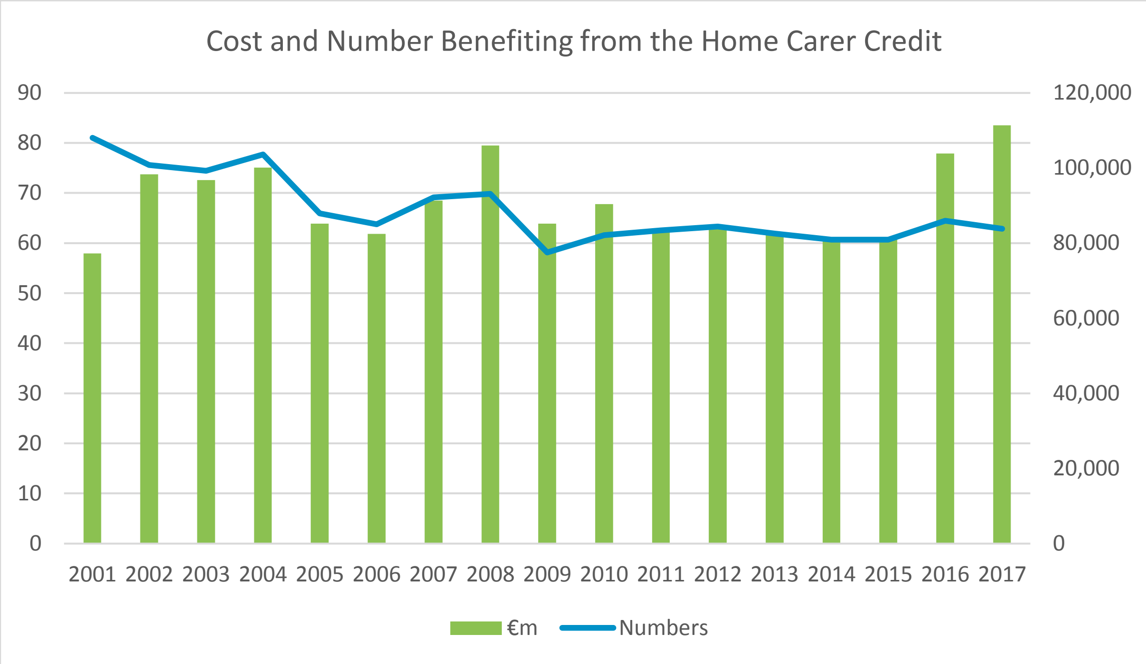
Year	Total Cost €m	Number Benefiting	Maximum Value of Credit €	Average Value per Beneficiary €	Second Earner Income Thresholds for Taper
2001	57.9	108,000	752[27]	536.11	Start: €5,080 End: €6,584
2002	73.7	100,800	770	731.15	Start: €5,080 End: €6,620
2003	72.6	99,200	770	731.85	"
2004	75.1	103,600	770	724.90	"
2005	63.9	87,900	770	726.96	"
2006	61.8	85,000	770	727.06	"
2007	68.5	92,200	770	742.95	"
2008	79.5	93,100	900	853.92	Start: €5,080 End: €6,880
2009	63.9	77,500	900	824.52	"
2010	67.8	82,100	900	825.82	"
2011	62.6	83,400	810	750.60	Start: €5,080 End: €6,700
2012	63.2	84,400	810	748.82	"
2013	61.9	82,500	810	750.30	"
2014	60.9	80,900	810	752.78	"
2015	60.9	80,900	810	752.78	"
2016	77.9	85,900	1000	906.87	Start: €7,200 End: €9,200
2017[28]	83.5	83,800	1100	996.42	Start: €7,200 End:€9,400

Source: Revenue Commissioners Data

[27] This is the pro-rated value as this was a shorter tax year – the actual value was £444 / €564.

[28] 2017 is the most recent year for which data are available for the Home Carer Credit.

The number of beneficiaries and cost of the HCC in each year since its introduction is shown in the below graph.



Source: Revenue Commissioners Data

As illustrated above, the number of beneficiaries has stayed relatively static since 2009.

The value of the credit has been increased by circa 127% since its introduction in 2000, including a reduction in 2009 as was the case for many credits at the time. The largest annual increase in the value of the credit (€300) was introduced in Budget 2019.

The increase in the value of the credit has accelerated in the last four Budgets, nearly doubling from €810 in 2015 to €1,500 in 2019. The proximity of this level to the main single person credit and PAYE credit levels of €1,650 is notable.

The Exchequer cost has also increased in recent years – with the largest annual increase being between 2015 and 2016 (€17 million). It is likely that these cost increases arise from the increase in the value of the credit since 2016, noting that in 2017 the number of beneficiaries actually reduced by around 2,000.

The cost and numbers availing of the HCC in 2017 was compared to the other tax expenditures on the published Revenue list[29]. The HCC ranked 28th out of 101 tax expenditures for which there are cost data for and 19th out of 102 for which there are data on the numbers benefiting. These are relatively high rankings considering that the Personal Tax Credits (PAYE and Personal Tax Credits) and Medical Insurance Relief are ranked higher on both lists (with a higher cost but also much higher numbers of beneficiaries).

[29] https://www.revenue.ie/en/corporate/information-about-revenue/statistics/tax-expenditures/costs-expenditures.aspx

3.3 What impact does it have?

It is difficult to identify what would have happened in the absence of the Home Carer Credit (i.e. the counterfactual scenario).

Assuming a no behavior change, it can at least be assumed that higher overall tax liabilities would have arisen for the circa 80,000 couples with one spouse either not engaging in paid work outside the home, or in limited work outside the home. The extent to which the availability of the credit impacted on their decision to undertake such paid work is difficult to quantify, and although there may be a number of factors in such a decision, it is hard to discount the credit as a barrier to full labour force participation.

Taxpayer level data[30] provided by Revenue's Strategy, Evaluation and Reporting Branch give further insights into the types of taxpayers who have benefited from the HCC. These can be summarised as follows:

- A relatively small cohort of the overall population benefit from the measure in a given year, though not necessarily the same cohort in each year.
- The vast majority of households have annual income of under €60,000 with most beneficiaries having a total household annual income of between €20,000 and €40,000.
- Most home carers are females who do not undertake other paid work outside the home.
- Most of those being cared for are children.
- Over half of households supported have two children or less.
- A not insignificant number of households who also have high incomes benefit from the credit (over 11% have annual gross income of over €100,000).

NUMBER OF BENEFICIARIES

The HCC provides a benefit to a relatively limited cohort of people in a given year. The total number of taxpayer units in the State is around 2.7 million while around 80,000 taxpayer units benefit per year from the HCC.

These are not necessarily the same 80,000 households per annum. In 2017, the most common timeframe that beneficiaries availed of the HCC for was one year closely followed by two years. This would suggest that the support given may be temporary in nature, for example, to assist families with one spouse temporarily exiting the workforce to care for children in their early years. The data also show that 11% of beneficiaries were claiming for 11 plus years[31] indicating a long-time caring role for a parent or parents caring for children (and to a much lesser extent, the elderly).

[30] With regard to the Revenue taxpayer data, the total number of beneficiaries of the HCC for 2017 is 80,225 compared to 83,800 in Revenue's published figures which is in the table on page 87. The reason for this is that the published data have been grown up for under coverage. For more details see: https://www.revenue.ie/en/corporate/information-about-revenue/research/technical-papers/index.aspx

[31] These claims are not necessarily consecutive.

When compared with the most recent Census data (from 2016), the numbers of beneficiaries seems low – considering 454,700 people stated their principal economic status to be looking after home/family[32] and the number of married couples with children was 568,317[33]. However, a number of factors can explain this discrepancy – including that the census data do not necessarily capture married one earning couples, that both parents could be at work and children could be over 18 in many of these cases. Another point to note is that the HCC and the increased standard rate band for two income couples (currently a maximum of €70,600) are mutually exclusive. And, as discussed earlier, it is not possible to benefit from the HCC if income is below a certain level.

Awareness of the Home Carer Credit

It has been suggested that the discrepancy between the CSO data and the numbers benefiting from the credit indicates a low level of public awareness of the credit.

However, the level of awareness of the HCC can also be shown by assessing the data on the amount of the credit claimed versus the amount that was actually used or absorbed. This is shown in the following table for the years 2011-2017:

	Amount Claimed €m	Amount Used €m	Amount Unused €m
2017	127	80	47
2016	121	75	46
2015	94	58	37
2014	97	58	39
2013	98	59	39
2012	100	60	40
2011	98	59	38

Source: Revenue Commissioners Data

Each year there was substantially more HCC claimed than was used because there was an inability to absorb the credit or that the Standard Rate Cut-Off Point for dual income couples was more beneficial, for example.

When coupled with the explanations above and that the data sources are different for each data set, this indicates that awareness of the HCC is reasonably high.

32 https://www.cso.ie/en/releasesandpublications/ep/p-wamii/womenandmeninireland2016/socialcohesionandlifestyles/

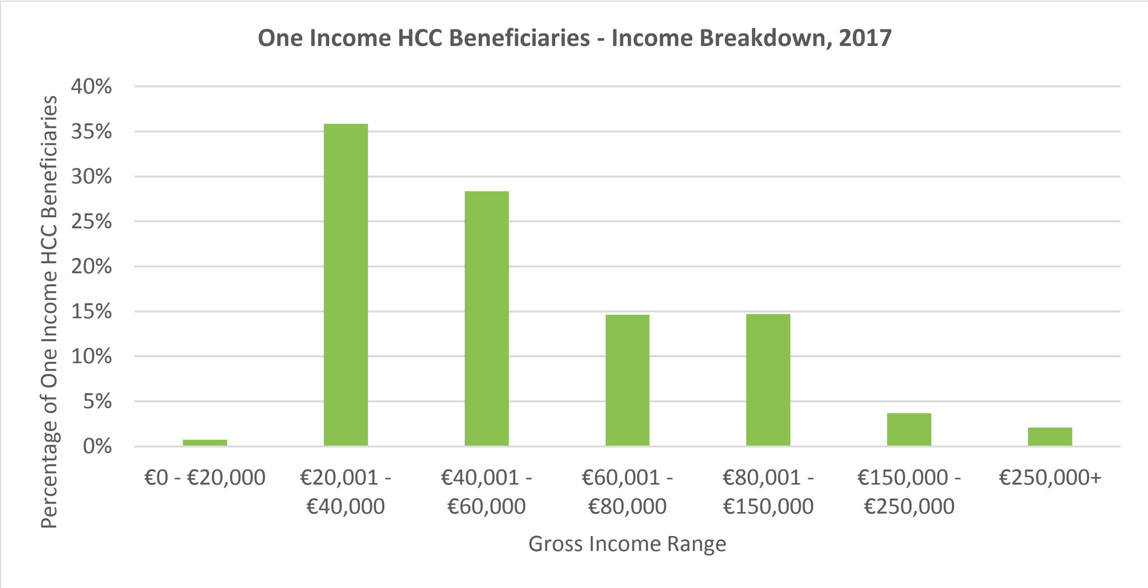
33 https://www.cso.ie/en/releasesandpublications/ep/p-cp4hf/cp4hf/fmls/

HOUSEHOLD INCOME COVERAGE

Most households availing of the HCC have only one income (68% or 54,313 in 2017), so the carer is not undertaking any paid work outside of the home.

The vast majority of households have annual income of less than €60,000, with over a third having income between €20,000 and €40,000.

The income distribution of one income household beneficiaries [34] is shown in the below graph.



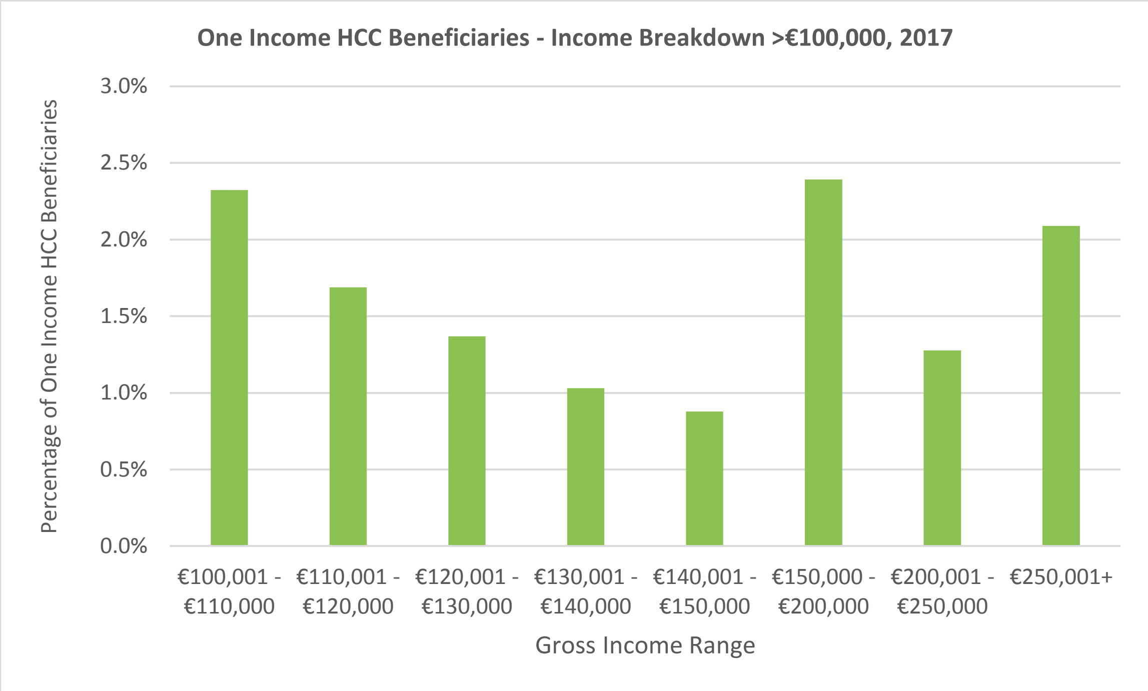
Source: Revenue Commissioners Data

In 2017, 11.8% of all beneficiaries had gross income of over €100,000. This is notable as in 2017, just over 6% of all taxpayer units had income of over €100,000. Even more notable, is that on an individualised basis, only around 3% of all taxpayers had income of over €100,000.

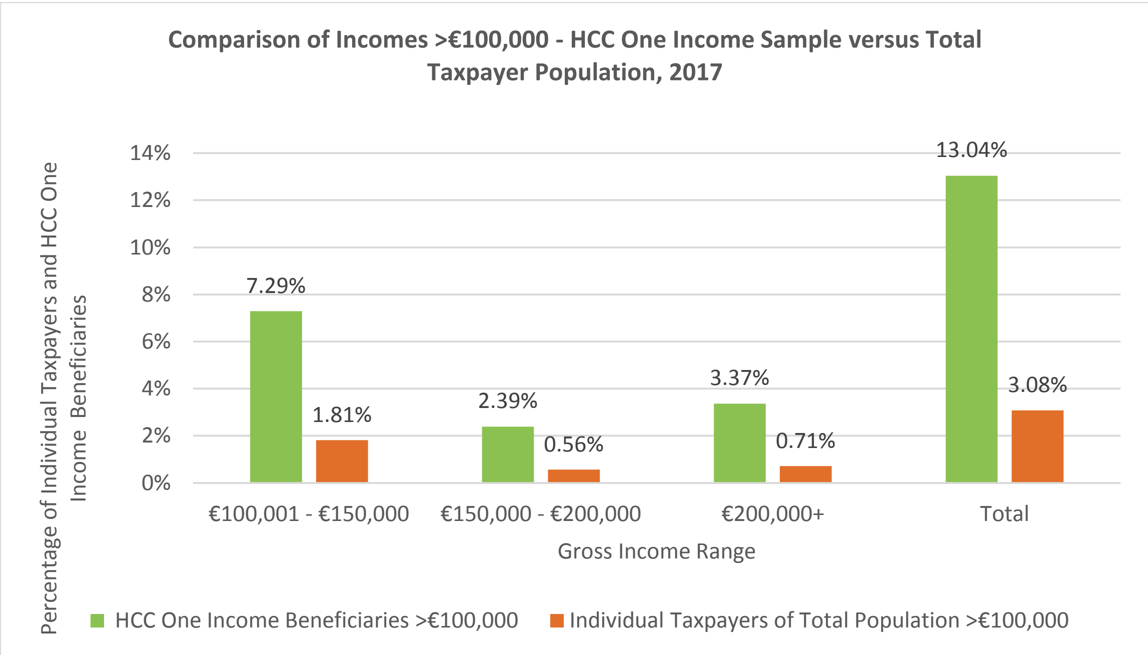
A relatively small cohort of households who also have high incomes benefit from the credit. The following graph shows a subset of one income household beneficiaries with gross income above €100,000 in 2017, followed by another showing the percentage of Home Carer Credit beneficiaries at those incomes compared with the proportion of all taxpayers at those incomes[35].

[34] Who make up 68% of beneficiaries and there is a similar trend for households where the carer works part-time as illustrated in the Appendix.

[35] As these data relate to one income households, the beneficiaries are compared with individualised incomes at these ranges.



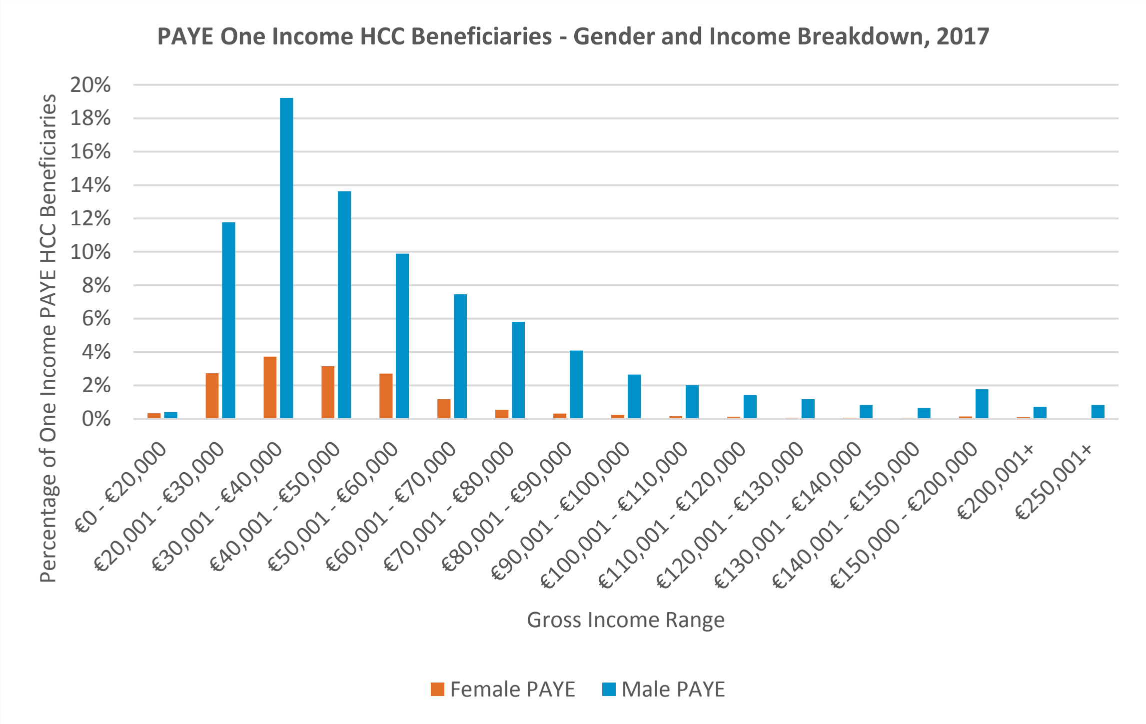
Source: Revenue Commissioners Data



Source: Revenue Commissioners Data

GENDER OF CARER AND INCOME EARNER

The gender breakdown of one-income households[36] benefiting from the credit is shown in the following graph:

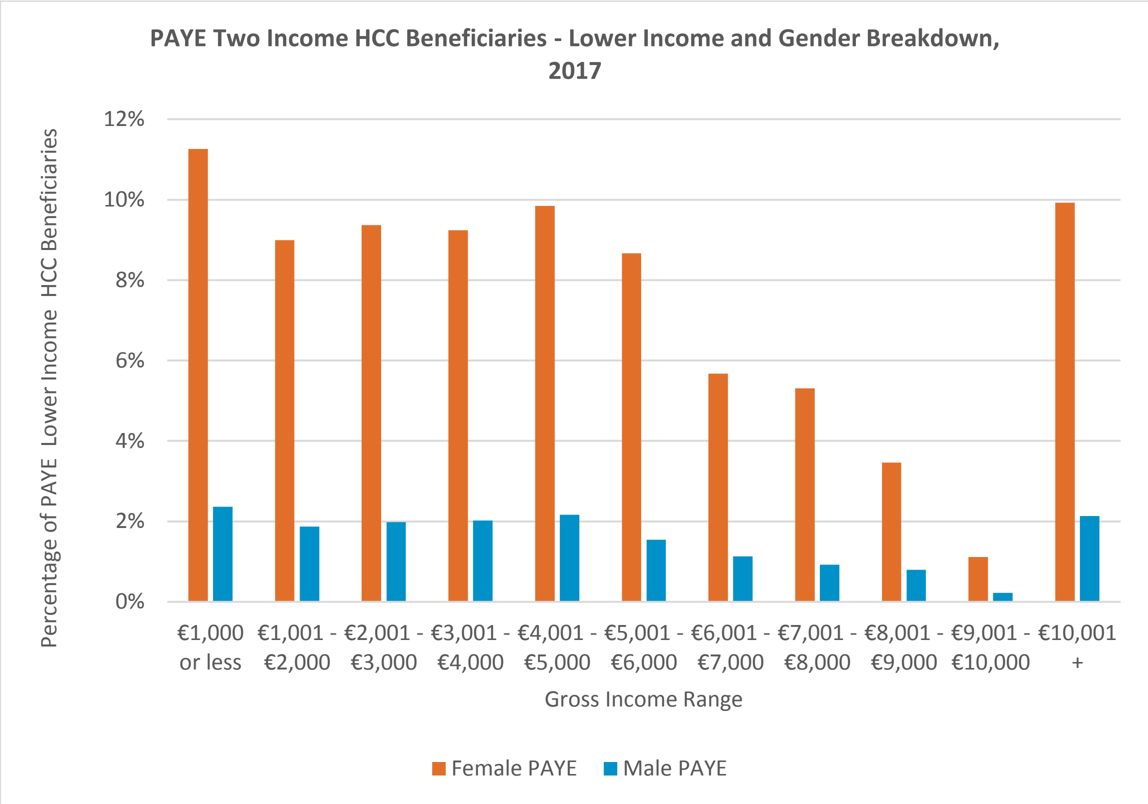


Source: Revenue Commissioners Data

At most income levels, males are at least five times as likely to undertake paid work outside the home and in most cases (36,386) are the sole earner in the household, contrasted with 6,737 women who are the sole earner, the majority of whom earn between €20,000 - €60,000.

Women are five times more likely to be the carer and undertake no paid work outside the home, or if they do undertake paid work are the secondary earner with the lower income. The following graph illustrates the gender breakdown of the secondary earner for two-income households.

[36] The same assumption applies as above, as one-income households make up 68% of beneficiaries and there is a similar trend for households where the carer works part-time as illustrated in the Appendix.



Source: Revenue Commissioners Data

It should be noted that the following additional assumptions apply to the above analysis:

- the gender breakdown of the data was only available for PAYE[37] beneficiaries, but as they represent 73% of total HCC beneficiaries in 2017, it is assumed that the data are representative of all beneficiaries.
- the data collected relate to the assessable spouse and it is assumed that the carer is the opposite gender – this assumption would need to be kept under review, but is based on CSO (Central Statistics Office) data from 2017 which indicate that around 96% of marriages were opposite-sex marriages.

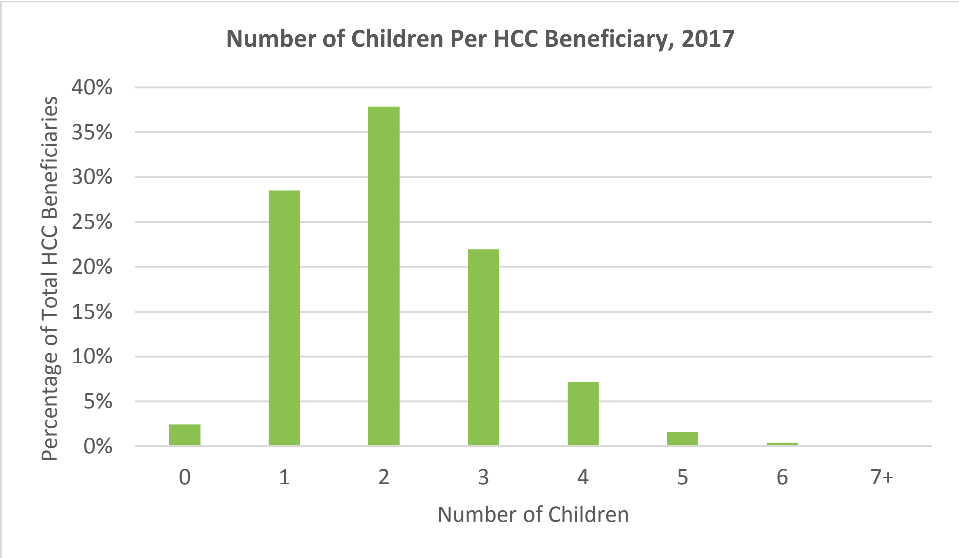
[37] As above, PAYE refers to the fact that these taxpayers are non-Form 11 filers, however the income includes both PAYE income and income declared on Form 12.

TYPE OF DEPENDENT

As explained above, the HCC allows claims for those who care for children, for incapacitated persons and elderly dependents.

Analysis of the data suggests that the vast majority of beneficiaries are looking after children[38], with 6% of beneficiaries potentially relating to incapacitated children (based on claims for other applicable tax credits).

Most households benefiting from the credit have less than 3 children.



Source: Revenue Commissioners Data

[38] 98% of beneficiaries in 2017 had children.

3.4 Is it efficient?

This question relates to the overall value for money of the credit and whether it maximises the allocation of State resources.

The Home Carer Credit has supported an average of 80,000 families with caring responsibilities in the home at a cost of €1,000 per family per annum.

Account should also be taken of the relatively narrow type of family that the measure is able to support:

- As the benefit is given by way of a tax credit, it is of more limited benefit to those on lower incomes as they may not have sufficient tax liabilities to maximise the financial benefit of the credit.
- As discussed above, because of the restrictions of administering via the tax code, it is only available to those who are married, which means that a sizeable proportion of the population are excluded from qualifying.

The above points also raise the question as to whether tax is the most efficient means of delivering support to families with caring responsibilities. There is likely significant overlap between this measure and the availability of other state measures to support working families, including Child Benefit, Working Family Payment, Carer's Allowance, the Age Tax Credit and the various supports that are being developed by the Department of Children and Youth Affairs such as those for affordable childcare.

As noted above, the data suggest that in most cases the support given may be temporary in nature, for example, to assist families when one spouse temporarily exits the workforce to care for children in their early years. The data also show that 11% of beneficiaries were claiming for 11 plus years[39] indicating a long-time caring role for a parent or parents caring for children (and to a much lesser extent, the elderly).

The trajectory of the HCC is that it is increasing in cost every year and in 2017, the most recent year for which data are available, the cost to the Exchequer was at its highest level. The average value of the HCC to a taxpayer stood at almost €1,000 in 2017 compared to approximately €730 per taxpayer in 2002.

[39] These claims are not necessarily consecutive.

4. Conclusion

This review results in a number of key takeaways and areas that warrant further attention.

The first is that, until there is broader reform of the legal status of non-married couples, it is unlikely that this measure could be extended to such households. As discussed above, there may be merit in an updated re-examination of the status of cohabiting couples more broadly.

A question arises as to whether the tax code is the best way to target State support for families with caring responsibilities, given the relatively narrow scope of the tax code. A further examination is merited into how the wider sphere of State supports for parents with children interact, such as childcare subsidy schemes like the Early Childhood Care and Education Scheme (ECCE), Working Family Payment and Child Benefit.

The analysis of the data offers a snapshot of the current beneficiaries of the credit illustrating:

- A relatively small cohort of the overall population benefit from the measure in a given year, though not necessarily the same cohort in each year.
- Most beneficiaries have total household income of between €20,000 and €40,000 per annum although a sizeable number of high earners also benefit.
- Most home carers are females who do not undertake other paid work outside the home.
- This measure mostly benefits families with two children or less.

There is a broader policy question relating to the balance to be struck between policies that support parents who stay at home to mind children (or other dependents), and policies that maximise the employment capacity of the Irish workforce, in particular secondary earners.

The credit provides direct financial support for families where one parent steps out of the labour market to care for children and, the consequence of that position is that the financial support is withdrawn as they re-enter the labour market. Even though the credit is withdrawn on a tapered basis for very low incomes, the data suggest that people may still be limiting their income to keep the full value of the credit. In trying to support unpaid work, the credit may undermine the financial incentives of undertaking paid work.

Given the data show that most carers are female, continued consideration should be given to the impact it has on female participation in the workforce in the context of any future changes to the income tax system. In this regard it is notable that the Home Carer Credit is intertwined with the policy of individualisation, and while the value of the credit has nearly doubled over the past 4 years there has been no further progress on individualisation in nearly 20 years.

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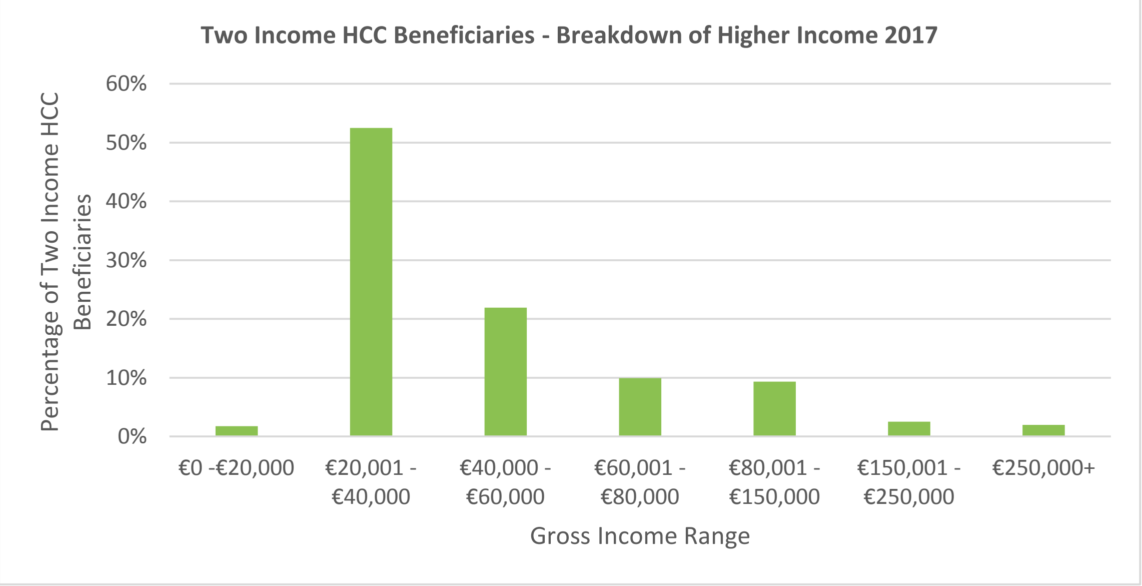
Appendix

HOUSEHOLD INCOME COVERAGE (ADDITIONAL INFORMATION)

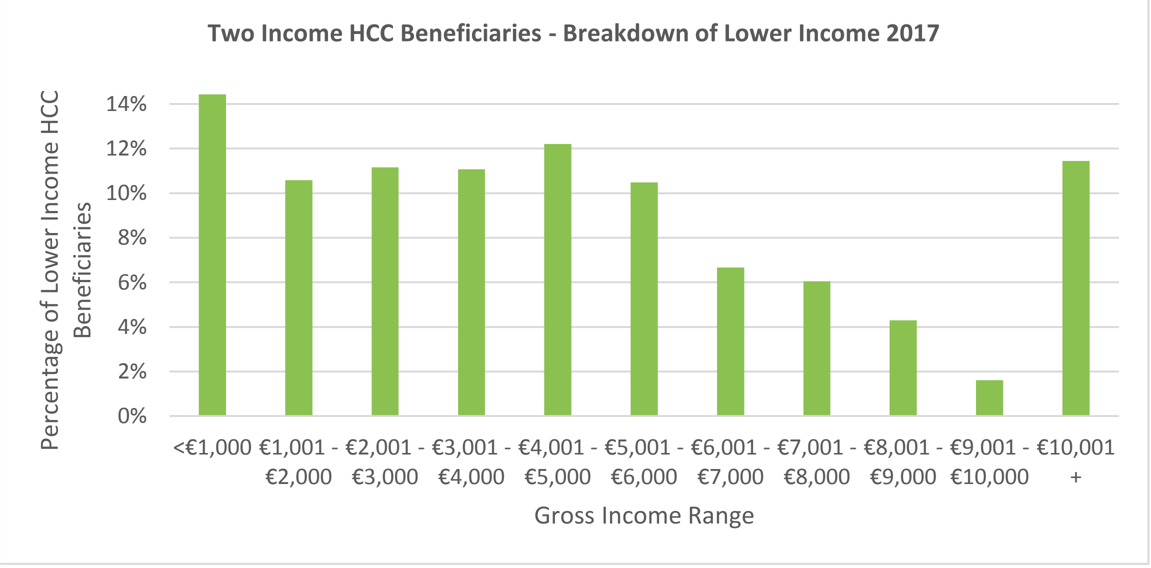
As mentioned above in Section 3.3, the following graphs show the income distribution of two income beneficiaries of the HCC for 2017.

The first chart shows the income distribution of the spouse with the higher income:



Source: Revenue Commissioners Data

The second shows the income distribution of the lower income spouse:

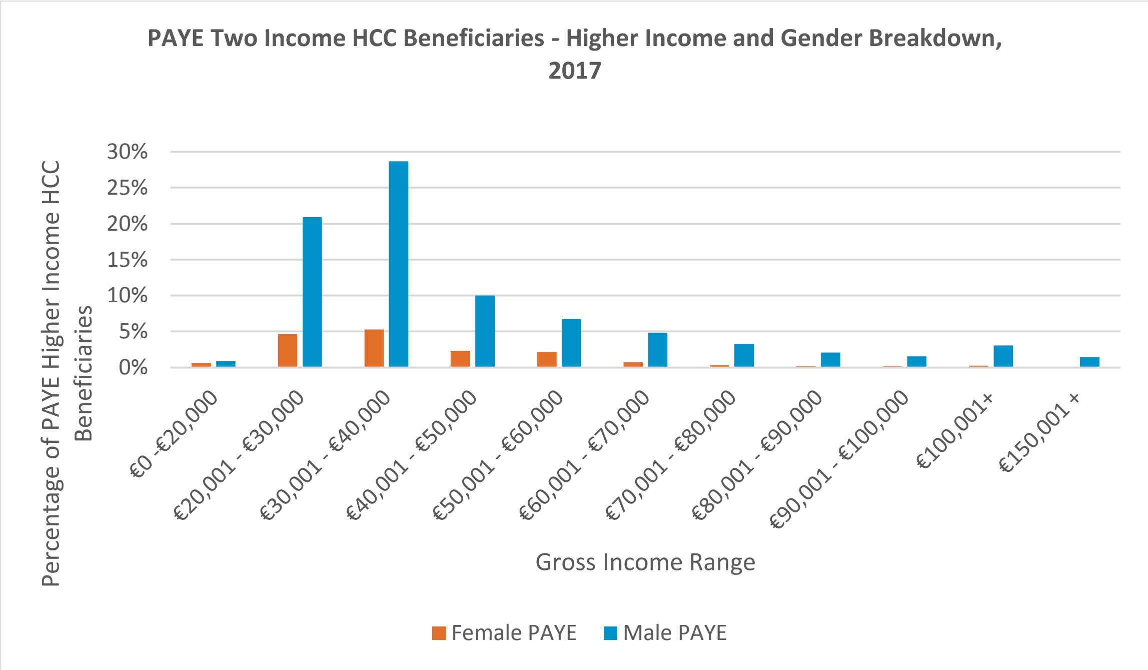


Source: Revenue Commissioners Data

GENDER OF CARER AND INCOME EARNER (ADDITIONAL INFO)

As mentioned in Section 3.3, and with similar caveats to the data[40], the gender breakdown of two income couples also gives insights into caring roles.

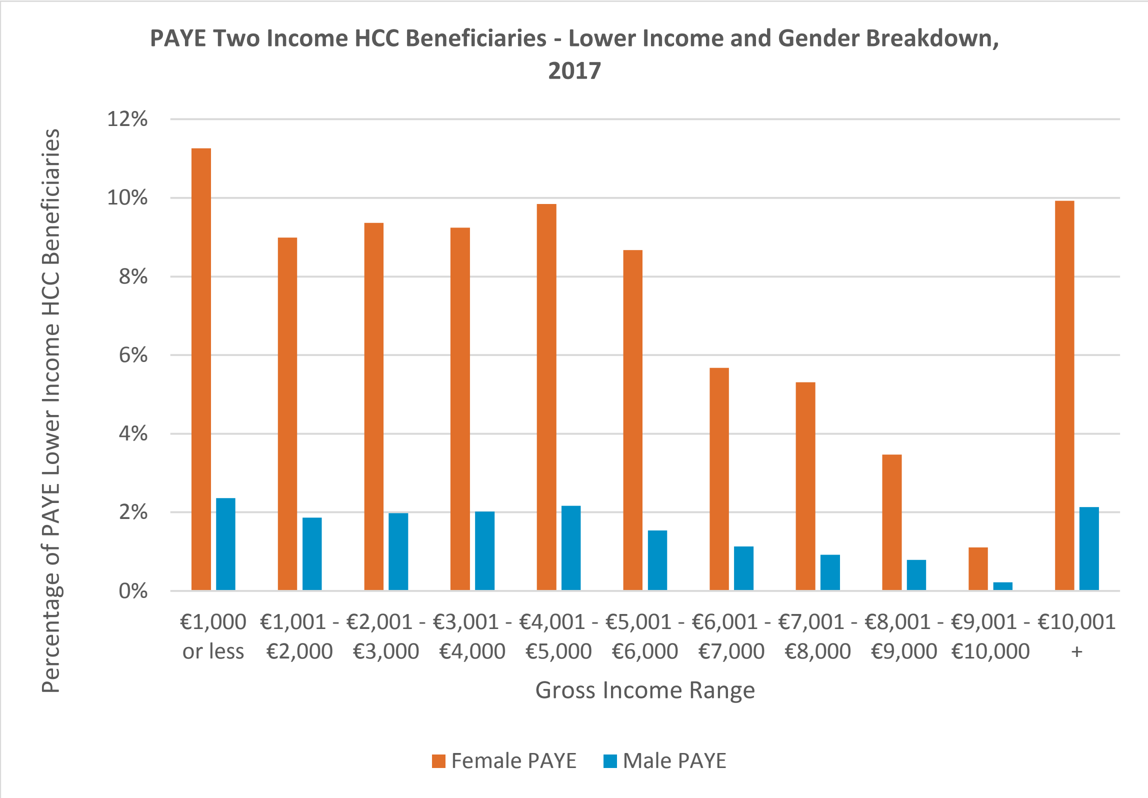
As shown in the following graph, at nearly all incomes it is five times more likely that the higher income earner is male than female (13,209 versus 2,637):



Source: Revenue Commissioners Data

Perhaps unsurprisingly when the gender breakdown is examined for the spouse with the lower income it is almost a mirror image as the pattern for the higher income breakdown -there are almost 5 times more females than males (13,056 females versus 2,699 males). This is shown in the following graph:

[40] PAYE beneficiaries represent 61% of the married two income cohort which is less than the 73% coverage of married one earning couples. Additional caution should be taken when extrapolating these findings to the whole population, but they are still considered fairly representative.



Source: Revenue Commissioners Data

Again, the data suggest that the gender of the carer is female in the vast majority of cases.

V: Indecon Review of the Foreign Earnings Deduction (FED)

Review of the Foreign Earnings Deduction

Report

Submitted to

The Department of Finance

Prepared by

Indecon International Economic Consultants

Indecon

www.indecon.ie

All Data subject to Checking and Revision

1 October 2019

Executive Summary

Introduction

Indecon International Economics Consultants (Indecon) is a leading firm of research economists. Indecon was appointed by The Minister for Finance and Public Expenditure and Reform following a competitive tender process to undertake a review of the Foreign Earnings Deduction (FED).

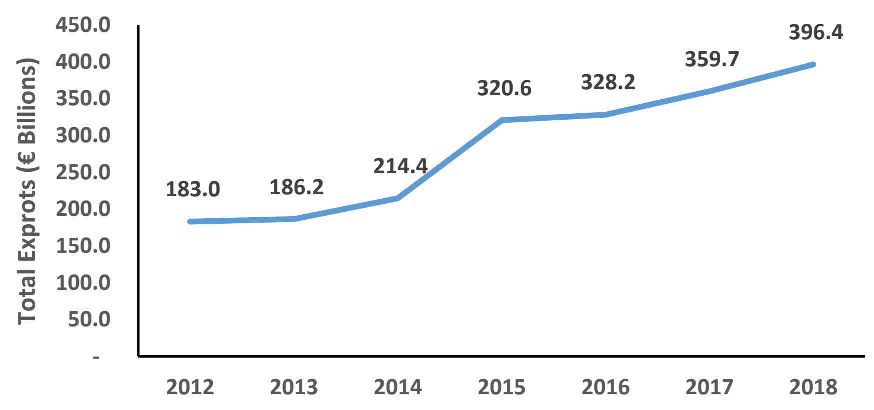
FED is designed to support firms who endeavour to expand their exports into new markets. It provides relief from income tax on up to €35,000 of salary for employees who travel out of State to certain qualifying countries on behalf of their employer. In order to qualify for FED, an employee must spend a minimum of 30 days abroad in a year and each trip must consist of at least three consecutive days in a qualifying country. Individuals must work the number of qualifying days during a tax year or during a continuous 12-month period that spans two tax years.

Our independent evaluation assesses the relevance, cost and impact of the Foreign Earnings Deduction. We also examined the features of the Programme. This review is appropriate in order to examine the continued relevance of the measure in the context of ensuring the best use of scarce exchequer resources. It is also timely given the need to assist firms in Ireland to respond to the challenges of Brexit and the uncertainties in international markets.

Continued Relevance of FED

The goal of the FED is to expand Irish exports to emerging markets. This objective of supporting Irish firms in their attempts to open up new markets and increase Irish exports is aligned with key aspects of the Government's enterprise strategy. As a small open economy, Ireland is very dependent on export markets. The performance of exports have been a key factor in Irish growth and have increased by 117% since 2012. Exports also have wider spill over benefits in terms of innovation as well as supporting employment in the economy. The wider spillover impacts of exports on innovation represent a positive benefit for the Irish economy. The fact that firms are unlikely to not take account of such externalities may represent a cause of market failure. This provides a potential justification for measures designed to increase exports. Measures such as FED are however, only justified if they are effective and if the impacts justify the costs involved.

Total Exports from Ireland 2012-2018



Source: CSO

An analysis of Irish exports indicates that Ireland remains very dependent on export markets which are in close geographical proximity. This is reflected in the scale of exports to the UK market and to other European countries. [Exports to the US are also very significant which is largely due to the exports from multinational companies who have used Ireland as an export platform for both European and US markets.[41]] The dependence on the UK and other European markets is not surprising as it is very challenging, particularly for indigenous firms, to diversify Irish exports to markets which are more distant. This reflects the fact that as noted by the US Nobel Laureate economist, Paul Krugman, for exporters "**distance still matters. Even in manufacturing sectors where transportation costs are negligible compared with the value of the product, firms often find that trying to serve markets from long distance poses problems……It is also true, both for manufacturers and service providers, that really long-range communication is still not as good as closer contact. Seemingly trivial things like differences in time zones, and the inability of managers to make a quick trip to discuss things in person, can add up to a serious impediment to doing business at long range**".[42] Against this background, FED by facilitating personnel to locate in overseas markets, is a potentially important measure to help exporters overcome the problems of geographic distance. This is particularly relevant in the context of the impact of Brexit on one of Ireland's key export markets. A number of studies have been undertaken to assess the potential impact of Brexit).[43] Even in the scenario of Brexit with a deal in place, it is estimated that Irish exports will be 4.6% lower than otherwise would have been the case following Brexit.[44]

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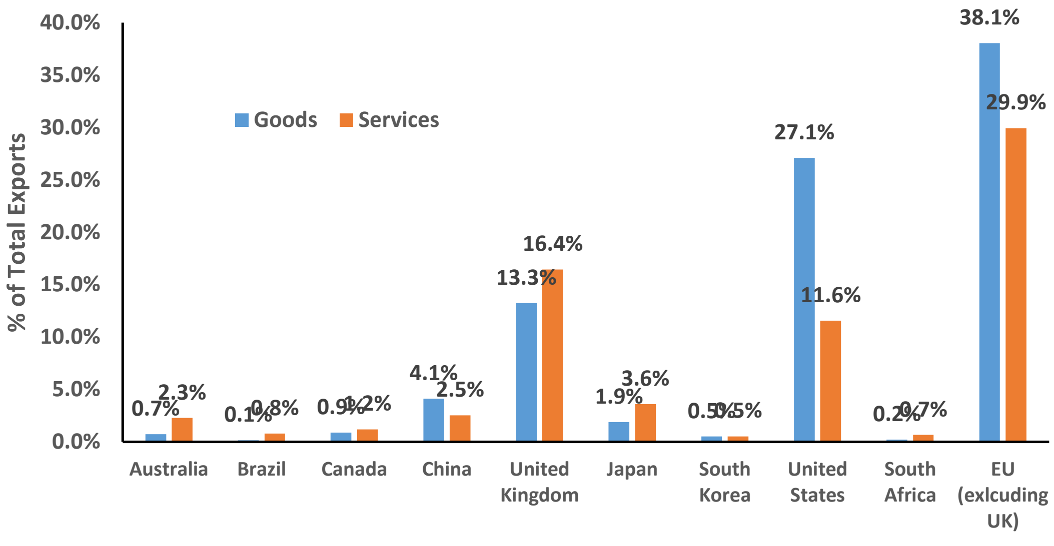
[41] For a discussion of the role of foreign investment and exports to the Irish economy and the significance of access to markets, see Gray, A. W., Swinand, G. P. and Batt, W. H., (2010), '*Economic Analysis of Ireland's Comparative Advantages for Foreign Investment'*, ISBN 978-0-9531318 1-5.

[42] Krugman, P.R. (1997), '*Good News from Ireland: A Geographic Perspective'*, in Gray, A. W., (ed.) '*International Perspectives on the Irish Economy*', ISBN 0953 1318 07

[43] Lawless, Martina, and Edgar LW Morgenroth. "The product and sector level impact of a hard Brexit across the EU." Contemporary Social Science (2019): 1-19

[44] Copenhagen Economics (2018), "Ireland & the impacts of Brexit strategic implications for Ireland arising from changing EU-UK trading relations" report for the Department of Business, Enterprise and Innovation

Irish Goods and Services Exports by Destination



Note: Calculations based on 2017 data
Source: CSO

Analysis of Companies Claiming FED

The following table outlines the utilisation of the Relief since 2012. This highlights the fact that while a significant number of claimants availed of this incentive, the overall exchequer costs remain small. This reflects the limited nature of the tax relief available under this Programme.

Utilisation of the FED		
Year	**Claimants**	**Cost (€ millions)**
2012	108	0.8
2013	135	1.0
2014	144	1.1
2015	472	3.2
2016	413	3.5
2017	591	3.9
Source: Revenue Commissioners		

The following table shows the number of claimants by sector as well as the tax cost of the relief on a sector-by-sector basis. Of note is the number of claimants in non-internationally traded sectors including the wholesale and retail trade. Indecon believes this may be due to the fact that it appears there is no requirement in the legislation that the employee be engaged in export related activity.

Number of Claimants by Sector and Cost - 2017		
	Number of Taxpayer Units	**Tax Cost €m**
Manufacturing	49	0.28
Electricity, gas, steam and air conditioning supply	22	0.12
Construction	17	0.09
Wholesale and retail trade; repair of motor vehicles and motorcycles	59	0.41
Information and communication	61	0.38
Financial and insurance activities	74	0.6
Real estate activities	78	0.58
Professional, scientific and technical activities	82	0.45
Administrative and support service activities	24	0.16
Education	11	0.07
Revenue Specific NACE code	83	0.57
Other	31	0.18
Total	**591**	**3.89**
Note: Data for 2017 ***Source: Revenue Data***		

Also of interest is the number of FED claimants by country. Given the scale of the Chinese market and the relatively large share of total Irish exports for which it accounts, it is unsurprising that the largest number of claimants are based in China and account for 16% of the total claims. Other large markets include the UAE, India, Singapore, South Africa and Saudi Arabia. Indecon notes that while the list of eligible countries has expanded, some emerging markets do not qualify.

Number of Claimants by Country - 2017			
Country	**No. of Claimants**	**Country**	**No. of Claimants**
China	109	Thailand	22
United Arab Emirates	89	Vietnam	22
India	67	Mexico	19
Singapore	55	Brazil	17
South Africa	55	Egypt	14
Saudi Arabia	37	Kenya	13
Malaysia	34	South Korea	13
Bahrain	30	Indonesia	12
Japan	28	Qatar	11
Russia	27	Oman	10

Note: Claimants can claim for several countries; therefore, number of countries will not reconcile with number of claimants. The data provided excludes countries with less than 10 claimants.
Source: Revenue Data

In considering the significance of companies employing individuals who utilise FED it is of note that these businesses accounted for over 88,000 employees. FED claims represented a very small proportion of employees in all sectors.

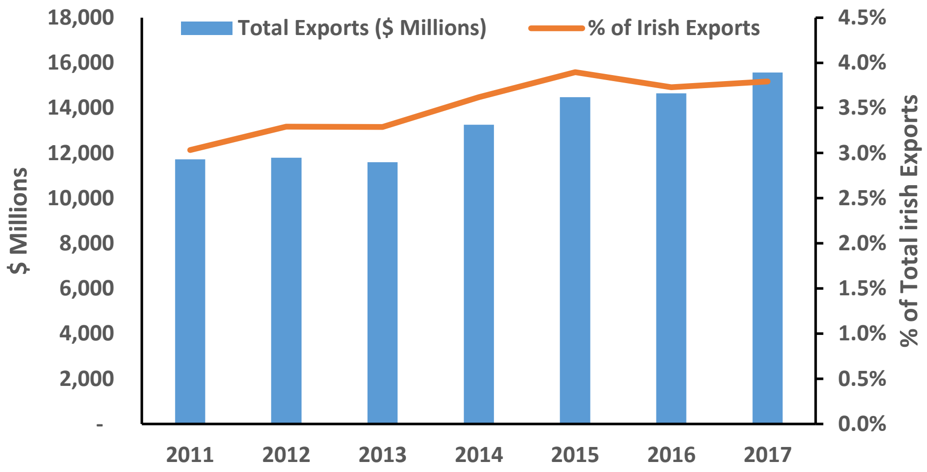
Proportion of Employees Claiming FED - 2017			
	Number of Employees	**Number of Employees claiming FED**	**% of Total Employees**
Manufacturing	21,331	79	0.4%
Wholesale and retail trade; repair of motor vehicles and motorcycles	16,634	47	0.3%
Information and communication	14,316	76	0.5%
Financial and insurance activities	8,790	18	0.2%
Professional, scientific and technical activities	10,840	70	0.6%
Administrative and support service activities	6,573	25	0.4%
Other	9,906	45	0.5%
Total	**88,390**	**360**	0.4%

Note: The data excludes FED cases where the taxpayer is a non-Form 11 filer and where a PPS was on record for both partners (jointly assessed cases), therefore an employer cannot be associated with the FED amount declared. The data also excludes cases where employees have more than 1 employer.
Source: Special Analysis completed for Indecon by Revenue Commissioners

Impact of FED

The following figure shows that the value of exports to FED eligible countries and their share of total Irish exports have been increasing in recent years. In value terms, total exports to FED eligible countries have increased by 33% since 2011. As a share of total Irish exports, FED countries have risen from 3% in 2011 to 3.8% in 2017.

Exports from Ireland to FED Eligible Countries



Source: Indecon analysis of World Bank data

Indecon consultations with a small number of firms who availed of FED, suggested that the Relief was important in their internationalisation efforts. While exports to FED countries have been increasing, Indecon would caution against attributing this only to the FED incentive.

Illustrative Views on Potential Impact of FED

"Improves our competitiveness, as a small firm, in exporting particularly where our larger competitors have bases in target markets".

"It is an added incentive to get staff to travel to customers in the emerging markets that might be reluctant to do so otherwise".

Source: Inputs from Indecon surveys of FED claimants

In order to inform an analysis of FED impacts, Indecon undertook quantitative econometric analysis of trade data to assess what impact, if any, the availability of FED had on aggregate Irish exports to the countries eligible for the relief. As part of our modelling we analysed data on exports from Ireland to FED and other countries. In order to control for other economic factors, we also obtained country specific data from the World Bank Online database, including total value of merchandise trade as a share of GDP. We estimated both OLS and panel regression models to assess the impact of FED. The panel regression model used is presented in the next table. Though subject to data limitations, the models suggest a small potential impact of the FED incentive on Irish exports. The results are likely to reflect the limited scale of the FED incentive and the wide range of other factors influencing exports.

Panel Regressions: Value of Irish Exports

VARIABLES	(1) Estimates	(2) Estimates	(3) Estimates	(4) Estimates
lnmerch_imp	0.796***	0.796***	0.796***	0.796***
	(0.0476)	(0.0475)	(0.0475)	(0.0475)
lngdp	0.450***	0.445***	0.445***	0.445***
	(0.0435)	(0.0435)	(0.0435)	(0.0435)
lncpi	0.0838***	0.0863***	0.0861***	0.0863***
	(0.0274)	(0.0274)	(0.0274)	(0.0274)
lnxrate_irl_lcu	0.0711***	0.0724***	0.0724***	0.0724***
	(0.00849)	(0.00849)	(0.00849)	(0.00849)
lnimp	0.0270***	0.0280***	0.0281***	0.0280***
	(0.00664)	(0.00664)	(0.00664)	(0.00664)
year	-0.0474***	-0.0494***	-0.0493***	-0.0494***
	(0.00361)	(0.00366)	(0.00366)	(0.00366)
d_fed		0.501***	169.5	
		(0.157)	(259.5)	
d_fed_year			-0.0838	0.000248***
			(0.129)	(7.81e-05)
Constant	75.29***	79.31***	79.20***	79.31***
	(7.133)	(7.236)	(7.238)	(7.236)
Observations	3,684	3,684	3,684	3,684
R-squared	0.818	0.818	0.818	0.818

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Source: Indecon Analysis

Costs and Benefits of FED

The annual gross costs of FED are €3.9m before accounting for the shadow price of public funds. Given the limited nature of the FED incentive, it is difficult to quantify the impact of the measure. However, using the results of econometric modelling, we believe that FED is likely to have marginally increased exports to FED countries. In our modelling we estimate an increase in exports to these countries of 0.5%.

Our analysis of the costs and benefits of FED have been estimated using a formal cost benefit model involving discounting of benefits over a 10 year period at 4% discount rate. The economic benefits of increased exports include marginal increases in corporation tax, wage benefits of increased employment and associated PAYE tax paid by those employed. Our estimates take account of the opportunity cost of labour and apply a shadow price of public funds at 130%. Our modelling suggests a positive cost return on the measure.

Ex-post Cost Benefit Analysis of FED for 2017

Exchequer Costs	Benefits	Net Benefit	BCR
46.2	102.5	56.3	2.2

Source: Indecon Analysis

Summary of Conclusions

A summary of our conclusions are outlined in the next table.

Summary of Conclusions	
1.	**Policy objectives of Relief remain valid.**
2.	**Exchequer costs of the Relief are very low.**
3.	**Some potential exports markets in Asia, Africa, South America are not eligible for the Relief.**
4.	**The level of Relief provided may be too small to represent a significant incentive for some companies.**
5.	**Exports to FED countries has risen as a share of total exports.**
6.	**The Relief is not restricted to agency-assisted firms and this is not aligned with policy objectives.**

1. **Policy objectives of Relief remain valid.**

   The policy objectives of FED of assisting firms in Ireland to diversify their exports remain valid. Indeed, given the impact of Brexit, this measure is even more relevant to Ireland at this time than when it was introduced.

2. **Exchequer costs of the Relief are very low.**

   Reflecting the very small scale of financial assistance provided the overall costs of the Relief remain low. The estimate of annual gross exchequer costs is €3.9m.

3. **Some potential exports markets in Asia, Africa, South America are not eligible for the Relief.**

   While there are valid reasons in terms of potential deadweight and exchequer costs of excluding the United States and some other countries from the FED Scheme, we do not see any reasons for excluding countries in continents where the presence of Irish exports is very low.

4. **The level of Relief provided may be too small to represent a significant incentive for some companies.**
   The average annual level of incentive provided to claimants is less than €6,600. Given the costs and disruption for individuals in working in emerging overseas markets, we believe the Relief is too small to represent a significant incentive to radically change the diversification of Irish exports.

5. **Exports to FED countries has risen as a share of total exports.**
   Exports to FED countries have risen slightly as a share of total exports. New econometric modelling developed by Indecon suggests a small potential impact of FED. However, we believe the results are not sufficient to demonstrate any significant impact on the diversification of Irish exports of the measure to date.

6. **The Relief is not restricted to agency-assisted firms and this is not aligned with policy objectives.**
   Our analysis suggests that there is no conditionality on companies requiring them to be involved in exports to benefit from the Relief. We note that the Relief is not restricted to agency-assisted firms. The fact that companies in non-internationally traded sectors appear to avail of FED is not aligned with the stated policy objectives.

Recommendations

Based on the analysis undertaken in this review, Indecon outlines a number of recommendations with regards to the future operation of the FED. These recommendations are designed to improve the impact and cost effectiveness of the scheme and are summarised in the below table.

Summary of Recommendations	
1.	**FED should be retained as its policy objectives remain relevant.**
2.	**The countries eligible for FED should be extended.**
3.	**Consideration should be giving to increasing the level of Relief available.**
4.	**Relief should be restricted to agency assisted companies.**
5.	**Additional data should be collected to facilitate future evaluations of the Relief.**

1. FED should be retained as its policy objectives remain relevant.

Based on the analysis undertaken in this review, Indecon recommends that FED should be retained. The costs of the relief to the exchequer are very low and the policy objectives of facilitating Irish exporters and aiding the geographic diversification of Irish export markets remain valid.

2. The countries eligible for FED should be extended.

The current list of eligible countries, while expanded since the reintroduction of the relief in 2012, does not include all potential new export markets. The consultations undertaken for this review suggested that some companies have been impacted from the fact that potential export markets are not included on the list of eligible countries. We note that there would be significant deadweight as well as increased exchequer costs and EU state aid problems associated with extending the relief to EU export markets. Also including major current export markets such as in the USA would significantly increase exchequer costs and would likely be subject to high levels of economic deadweight. Indecon, however, recommends that the FED incentive should apply to all countries in Asia, Africa, South America and Antarctica. This would signal a commitment to support exports to all these markets and would provide certainty for Irish businesses.

3. Consideration should be giving to increasing the level of relief.

The attractiveness of the FED to eligible employees could be improved by increasing the level of relief available. This could be done either by increasing the cap from the current level of €35,000 or extending the relief to include PRSI and USC. As currently designed, the FED is unlikely to provide a sufficient incentive to overcome the significant business and personal costs for many employees of spending time in overseas markets. Additionally, the current cap may not incentivise more senior staff to spend the time abroad to develop new export markets.

4. Relief should be restricted to agency assisted companies.

There are a significant number of FED claimants in sectors such as wholesale and retail. While the stated objective of the initiative was to expand exports, Indecon's interpretation of the relief is that it is available to any employee who travels out of the state to certain countries on behalf of their employer. It would therefore appear to be available to individuals engaged in importing or in any other business activities regardless of whether their company is engaged in exports. In order to minimise the deadweight associated with the FED and improve the targeting of the relief, we recommend that the relief is restricted to agency assisted companies. This would be aligned with the original objectives. Consideration should however be given to whether any state aid issue would arise.

5. Additional data should be collected to facilitate future evaluations of the relief

Indecon recommends that additional data is collected from claimant companies which will facilitate more comprehensive future evaluations of the relief. For example, it would be particularly useful for policy evaluations to collect data on individual claimant firm performance in terms of employment, turnover and exports. A breakdown of total exports by country or country block would also facilitate a more detailed assessment of the impact of FED.

Acknowledgements and Disclaimer

Indecon would like to thank a number of individuals and organisations for their valuable inputs to this evaluation. Particular thanks are due to John Hogan, Joe Cullen, Patrick Brennan and Sorsha Foran in the Department of Finance. We would also like to acknowledge the valuable inputs from other officials in the Revenue Commissioners, including Keith Walsh, Philip O'Rourke, Denise Cunniffe and Therese Bourke. We are also appreciative of the inputs from Felix O'Kane in the Department of Business, Enterprise and Innovation, Rowena Dwyer from Enterprise Ireland and Christine Kelly from the IDA. Indecon would also like to thank those state agencies and professional advisory firms who made submissions to the public consultation including Chartered Accountants Ireland, Deloitte, Enterprise Ireland, IBEC, the Irish Tax Institute, KPMG and the IDA. We are also grateful to those individual claimants who took the time to complete the survey.

The usual disclaimer applies and the analysis and findings in this independent report are the sole responsibility of Indecon.

8 Introduction and Background

8.1 Introduction

Indecon International Economics Consultants (Indecon) is a leading firm of research economists. Indecon was appointed by The Minister for Finance and Public Expenditure and Reform following a competitive tender process to undertake a review of the Foreign Earnings Deduction (FED).

8.2 Background

FED is designed to support firms who endeavour to expand their exports into new markets. It provides relief from income tax on up to €35,000 of salary for employees who travel out of State to certain qualifying countries on behalf of their employer. In order to qualify for FED, an employee must spend a minimum of 30 days abroad in a year and each trip must consist of at least three consecutive days in a qualifying country. Individuals must work the number of qualifying days during a tax year or during a continuous 12-month period that spans two tax years.

A qualifying day is one of at least three consecutive days worked in a relevant state. The time spent travelling is counted as a qualifying day if travel is either:

- from Ireland to a relevant state
- from a relevant state to Ireland
- from one relevant state to another.

Saturdays, Sundays and public holidays can be counted as qualifying days in a relevant state. The qualifying countries, and the dates from which they became qualifying countries are outlined in the following table.

Table 8.1: Eligible Countries

	From 1 January 2013	From 1 January 2015	From 1 January 2017
Brazil	Egypt	Japan	Colombia
Russia	Algeria	Singapore	Pakistan
China	Senegal	Republic of Korea	
India	Tanzania	Saudi Arabia	
South Africa	Kenya	United Arab Emirates	
	Nigeria	Qatar	
	Ghana	Bahrain	
	Democratic Republic of the Congo	Malaysia	
		Indonesia	
		Vietnam	
		Thailand	
		Chile	
		Oman	
		Kuwait	
		Mexico	

Source: Revenue Commissioners

The original FED relief was closed in 2003. It was reintroduced in Budget 2012. The scheme provided a deduction in income tax for those employees temporarily assigned from Ireland as part of their employment to Brazil, Russia, India, China and South Africa (BRICS). It was designed to incentivise employees to undertake trips to the countries involved with a view to increasing Irish exports to these countries. Since 2012, in an effort to incentive exports to other markets, the relief has been made available to those spending time working in a wider range of other countries.

8.3 Scope of Evaluation

This report considers a number of key issues including:

- The continuing relevance of the incentive;
- The annual cost and take-up of the incentive;
- The overall impact and benefits of the incentive including whether the Relief has resulted in growth in export markets;
- The particular features of the Programme including the level of the relief available and the list of eligible countries in the context of government policy priorities.

The scope of the evaluation is aligned with the guidance for tax expenditure evaluations as outlined in the Department of Finance Guidelines for Tax Expenditure Evaluation. The key evaluation questions which we address as per these guidelines are:

- Is the tax expenditure still relevant?
- How much did the tax expenditure cost?
- What was the impact of the tax expenditure?
- Was it efficient?

8.4 Methodological Approach

Indecon's methodological approach to undertaking this review involved a triangulation of evidence from a number of analytical techniques. The key methodological steps included:

- Analysis of all relevant documentation from the Department of Finance and Revenue Commissioners;
- Analysis of detailed data from the Revenue Commissioners;
- Detailed information from four individual beneficiaries and from two leading firms of tax advisers;
- Wider stakeholder engagement with accountancy and business representative bodies as well as relevant state bodies;
- Consideration of whether there are any similar reliefs in other jurisdictions.

8.5 Report Structure

The report is structured as follows:

- Section 2 assesses the continued relevance of the FED;
- Section 3 profiles the nature of the companies claiming FED which is needed to evaluate the efficiency of the measure;
- Section 4 outlines the evidence on the impact of the relief;
- Section 5 undertakes a cost-benefit analysis of the relief;
- Section 6 presents Indecon's key conclusions and policy recommendations.

8.6 Acknowledgements

Indecon would like to thank a number of individuals and organisations for their valuable inputs to this evaluation. Particular thanks are due to John Hogan, Joe Cullen, Patrick Brennan and Sorsha Foran in the Department of Finance. We would also like to acknowledge the valuable inputs from other officials in the Revenue Commissioners, including Keith Walsh, Philip O'Rourke, Denise Cunniffe and Therese Bourke. We are also appreciative of the inputs from Felix O'Kane in the Department of Business, Enterprise and Innovation, Rowena Dwyer from Enterprise Ireland and Christine Kelly from the IDA. Indecon would also like to thank those state agencies and professional advisory firms who made submissions to the public consultation including Chartered Accountants Ireland, Deloitte, Enterprise Ireland, IBEC, the Irish Tax Institute, KPMG and the IDA. We are also grateful to those individual claimants who took the time to complete the survey.

The usual disclaimer applies and the analysis and findings in this independent report are the sole responsibility of Indecon.

9 Continued Relevance of FED

9.1 Policy Objectives of FED

The FED incentive was reintroduced by the Minister for Finance in Budget 2012 with the aim of supporting Irish firms in their efforts to expand exports into emerging markets. When announcing the reintroduction of the relief, the Minister for Finance stated that the objective was: *"to further support our export drive by aiding companies seeking to expand into emerging markets."*

This goal of supporting Irish firms in their attempts to open up new markets is aligned with other key aspects of the government's enterprise support strategy. For example, "*Enterprise 2025: Ireland's National Enterprise Policy 2015-2025"* published by the Department of Business, Enterprise and Innovation set out the Government's longer term aims for enterprise growth and job creation. Export goals included supporting geographic market diversification and increases in exports to non-UK markets.

Maintaining and increasing the internationalisation of Ireland's economy is also a key pillar of the government's '*Global Ireland 2025*' strategy for shaping Ireland's international presence. One of the stated policy objectives is to accelerate the diversification of export markets. In reviewing whether the objectives of FED remain valid, it is useful to examine the role of exports in the Irish economy and the impact of Brexit.

9.2 Market Failures and Role of Exports in the Irish Economy

Exports have played a vital role in Ireland's economic growth. As an open economy with a small domestic market, access to export markets is critical to facilitating economic development. The significance of exports to the Irish economy has been assessed in previous Indecon research undertaken for the Department of Business, Enterprise and Innovation[45]. This research outlined the direct and indirect impacts of exports on the Irish economy in terms of employment as well as R&D and productivity spillovers. The wider spillover impacts of exports on innovation represent a positive benefit for the Irish economy. The fact that firms are unlikely to not take account of such externalities may represent a cause of market failure. This provides a potential justification for measures designed to increase exports. Measures such as FED are however, only justified if they are effective and if the impacts justify the costs involved.

The Indecon findings on the wider spillover benefits of exports are consistent with research undertaken internationally. López[46], for example, argued that, *"…openness to trade increases productivity and growth*". This research found that firms engaged in exports were found to invest more heavily in R&D than their counterparts. Similarly research by Santos et al[47] of the impact of exports suggested that: *"exports should be directed towards the trade partners that exhibit higher potential growth rates: the larger the weighted average growth rate of trading partners, the stronger the leverage effects to economic growth."* Recent research published by InterTrade Ireland[48] has suggested that "*exporting firms have systematically better outcomes across a range of key indicators, including employment and productivity*".

[45] Indecon, "*Assessment of the Economic Impact of Exports on the Irish Economy*" report undertaken for the Department of Business, Enterprise and Innovation, 2015

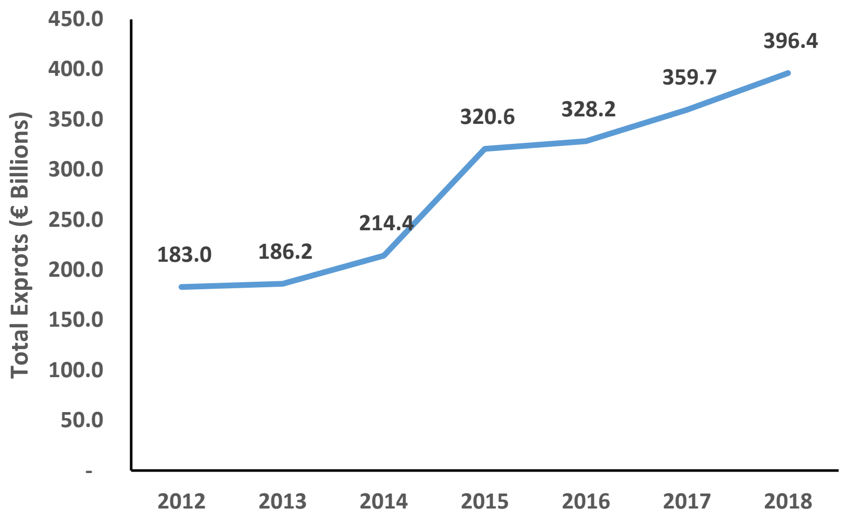
[46] López, R., (2005), "Trade and Growth: Reconciling the Macroeconomic and Microeconomic Evidence," Journal of Economic Surveys, Vol. 19, No. 4, Blackwell Publishing Ltd.

[47] Santos, P., Ribeiro, A., and Carvalho, V., (2013) "Export-Led Growth in Europe: Where and What to Export?" FEP Working Papers no. 479, Jan. 2013, University of Porto.

[48] Intertrade Ireland, "*Export Participation and Performance of firms across the island of Ireland*", 2018

As a small open economy, Ireland is very dependent on export markets. The performance of exports have been a key factor in Irish growth and have increased by 117% since 2012.

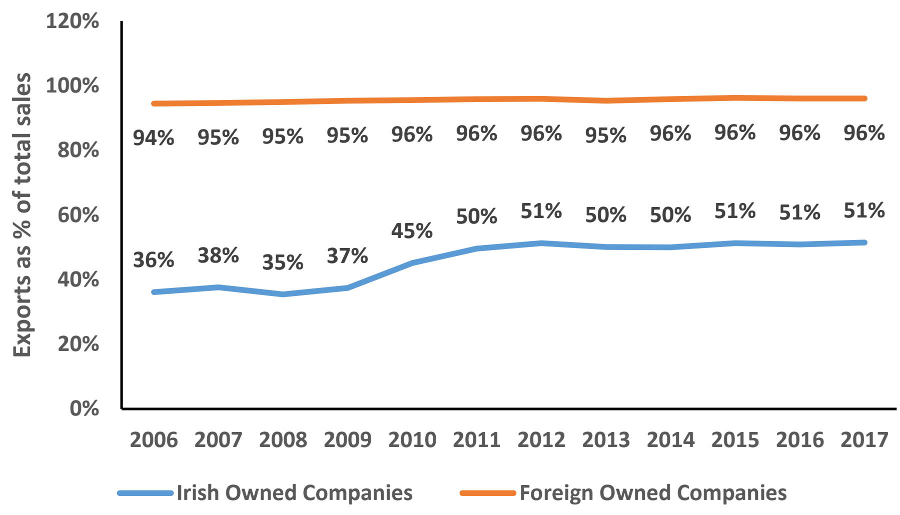
Figure 9.1: Total Exports from Ireland 2012-2018



Source: CSO

Analysis of the data from the Annual Business Survey of Economic Impact (ABSEI) further illustrates the importance of exports to Irish enterprises. The ABSEI data contains information on client companies of the enterprise development agencies (Enterprise Ireland, IDA Ireland and Údarás na Gaeltachta). For Irish owned agency assisted firms, exports have increased in importance from 37% of sales in 2009 to 51% in 2017.

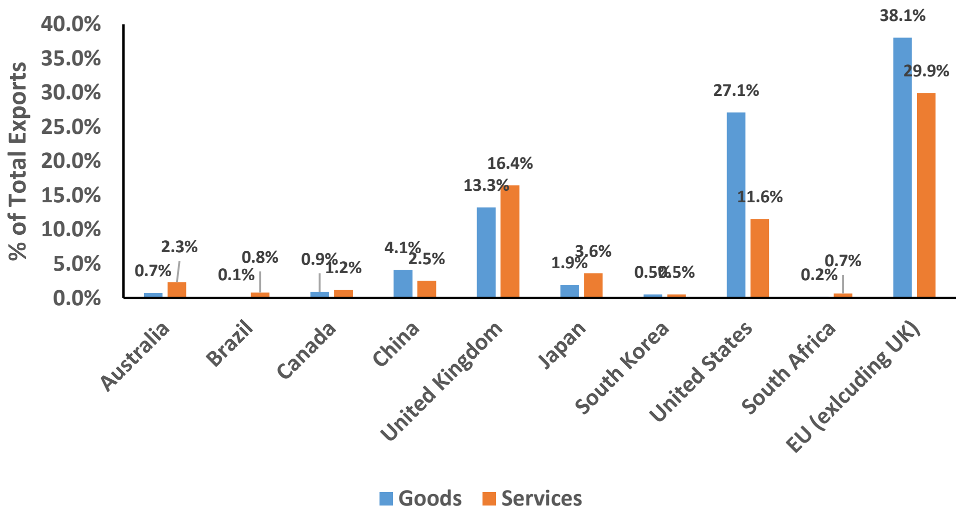
Figure 9.2: Exports as a % of Total Sales – Agency Assisted Firms



Source: ABSEI

An analysis of Irish exports indicates that Ireland remains very dependent on export markets which are in close geographical proximity. This is reflected in the scale of exports to the UK market and to other European countries. [Exports to the US are also very significant which is largely due to the exports from multinational companies who have used Ireland as an export platform for both European and US markets.[49]] The dependence on the UK and other European markets is not surprising as it is very challenging, particularly for indigenous firms, to diversify Irish exports to markets which are more distant. This reflects the fact that, as noted by the US Nobel Laureate economist, Paul Krugman, for exporters "**distance still matters". Even in manufacturing sectors where transportation costs are negligible compared with the value of the product, firms often find that trying to serve markets from long distance poses problems……It is also true, both for manufacturers and service providers, that really long-range communication is still not as good as closer contact. Seemingly trivial things like differences in time zones, and the inability of managers to make a quick trip to discuss things in person, can add up to a serious impediment to doing business at long range**".[50] Against this background, FED by facilitating personnel to travel to and locate for a period in overseas markets, is a potentially important measure to help exporters overcome the problems of geographic distance. This is particularly relevant in the context of the impact of Brexit on one of Ireland's key export markets.

Figure 9.3: Irish Goods and Services Exports by Destination



Note: Calculations based on 2017 data
Source: CSO

[49] For a discussion of the role of foreign investment and exports to the Irish economy and the significance of access to markets, see Gray, A. W., Swinand, G. P. and Batt, W. H., (2010), '*Economic Analysis of Ireland's Comparative Advantages for Foreign Investment'*, ISBN 978-0-9531318 1-5.

[50] Krugman, P.R. (1997), '*Good News from Ireland: A Geographic Perspective'*, in Gray, A. W., (ed.) '*International Perspectives on the Irish Economy*', ISBN 0953 1318 07

A number of studies have been undertaken to assess the potential impact of Brexit.[51] Even in the scenario of Brexit with a deal in place, it is estimated that Irish exports will be 4.6% lower than otherwise would have been the case following Brexit.[52]

Table 9.1: Long-Run Impact of Brexit on Irish Exports – ESRI/Dept. of Finance Research			
	Deal	**No Deal**	**Disorderly**
Exports	-4.6%	-8.1%	-8.3%
Source: Bergin et al. "Ireland and Brexit: modelling the impact of deal and no-deal scenarios", ESRI Quarterly Economic Commentary Special Article, 2019			

The Department of Finance has also published research examining which sectors of the economy are most exposed to reduction in exports to the UK following Brexit[53]. This research concluded "*that eleven of the top fifteen most exposed products to the UK are Irish exports and are predominantly from the Agri-food sector*". The Department also highlighted the exposure of the financial and insurance sector exports. This was also reflected in research by Lawless (2018)[54] which suggested that Irish services exports could experience up to a 45% reduction in exports to the UK post-Brexit.

9.3 Significance of FED Export Markets

The below table shows the percentage of total exports to FED eligible countries accounted for by the largest countries based on 2017 data. China is by far the largest single export market eligible for FED. Other large markets are Japan and Mexico. A number of the FED eligible countries account for a very small percentage of total exports to FED countries. The 21 smallest FED eligible countries in terms of export share account for only 12.5% of total exports to FED eligible countries.

Table 9.2: Breakdown of Total Exports to FED Eligible Countries by Country	
Country	**% of all exports to FED countries**
Brazil	1.3%
Russian Federation	3.6%
China	31.7%
India	2.6%
South Africa	1.8%
Japan	18.7%
Korea, Rep.	4.6%
Mexico	10.3%
Singapore	5.0%
Saudi Arabia	5.1%
United Arab Emirates	2.9%
21 other FED Eligible countries	12.5%
Source: Indecon analysis of World Bank data	

[51] Lawless, Martina, and Edgar LW Morgenroth. "The product and sector level impact of a hard Brexit across the EU." Contemporary Social Science (2019): 1-19

[52] Copenhagen Economics (2018), "Ireland & the impacts of Brexit strategic implications for Ireland arising from changing EU-UK trading relations" report for the Department of Business, Enterprise and Innovation

[53] Department of Finance (2018). UK EU Exit: Trade Exposures of Sectors of the Irish Economy in a European Context, Dublin: Department of Finance

[54] Lawless, Martina. Irish-UK services trade and Brexit. No. 595. ESRI Working Paper, 2018

9.4 FED in an International Context

As part of this review, Indecon undertook a review of whether there were any similar tax incentive regimes in other jurisdictions. We are grateful to the submissions to the public consultations for providing useful material for this international review. Explicit tax relief for periods spent working abroad while in full-time employment is not common internationally. This may in part reflect the fact that very few countries are as dependent on exports as is the case in Ireland.

Generally, other countries have in place a range of policies in place to ease the compliance burden for employers in claiming double tax relief where earnings of employees were potentially taxable in another jurisdiction. However, tax reliefs explicitly aimed at incentivising those working abroad for the purposes of developing export markets are not widely available in other countries. However, there is similar provisions to the FED in the UK via The UK Overseas Workday Relief (OWR). The UK OWR is a scheme for UK tax resident individuals, not domiciled in the UK and claiming the remittance basis of taxation. These individuals can make a claim to relief so that remuneration received in respect of work performed outside the UK is not subject to UK income tax. OWR is available to individuals who have been non-UK resident in three consecutive years in the five years immediately preceding the tax year under consideration. This relief applies to those taxpayers who have recently arrived in the UK or are returning after a significant period of non-residence and the relief applies for a maximum period of three years, i.e. the year of arrival and the following two tax years. In order to benefit from OWR in the applicable period, a qualifying individual is required to spend time physically working outside the UK and be taxable under the remittance basis of taxation; receive income in respect of overseas workdays directly outside the UK; retain the income attributable to the overseas workdays outside the UK, and meet certain conditions in relation to the offshore bank account into which the income eligible for relief is paid.

9.5 Summary of Findings

- The goal of the FED is to expand Irish exports to emerging markets. This objective of supporting Irish firms in their attempts to open up new markets and increase Irish exports is aligned with key aspects of the Government's enterprise strategy. As a small open economy, Ireland is very dependent on export markets. The performance of exports have been a key factor in Irish growth and have increased by 117% since 2012. Exports also have wider spill over benefits in terms of innovation as well as supporting employment in the economy.
- An analysis of Irish exports indicates that Ireland remains very dependent on export markets which are in close geographical proximity. This is reflected in the scale of exports to the UK market and to other European countries. The dependence on the UK and other European markets is not surprising as it is very challenging, particularly for indigenous firms, to diversify Irish exports to markets which are more distant. Against this background, FED by facilitating personnel to locate in overseas markets, is a potentially important measure to help exporters overcome the problems of geographic distance. This is particularly relevant in the context of the impact of Brexit on one of Ireland's key export markets.
- The wider spillover impacts of exports on innovation represent a positive benefit for the Irish economy. The fact that firms are unlikely to not take account of such externalities may represent a cause of market failure. This provides a potential justification for measures designed to increase exports. Measures such as FED are however, only justified if they are effective and if the impacts justify the costs involved.

10 Analysis of Companies Claiming FED

10.1 Utilisation and Scale of the FED Relief

The following table outlines the utilisation of the Relief since 2012. This highlights the fact that while a significant number of claimants availed of this incentive, the overall exchequer costs remain small. This reflects the limited nature of the tax relief available under this Programme.

Table 10.1: Utilisation of the FED		
Year	**Claimants**	**Cost (€ millions)**
2012	108	0.8
2013	135	1.0
2014	144	1.1
2015	472	3.2
2016	413	3.5
2017	591	3.9
Source: Revenue Commissioners		

Table 10.2 shows the number of taxpayer claimants by sector as well as the tax cost of the relief on a sector-by-sector basis. Of note is the number of claimants in non-internationally traded sectors including the wholesale and retail trade. Indecon believes this may be due to the fact that it appears there is no requirement in the legislation that the employee be engaged in export related activity.

Table 10.2: Number of Claimants by Sector and Cost - 2017		
	Number of Taxpayer Units	**Tax Cost €m**
Manufacturing	49	0.28
Electricity, gas, steam and air conditioning supply	22	0.12
Construction	17	0.09
Wholesale and retail trade; repair of motor vehicles and motorcycles	59	0.41
Information and communication	61	0.38
Financial and insurance activities	74	0.6
Real estate activities	78	0.58
Professional, scientific and technical activities	82	0.45
Administrative and support service activities	24	0.16
Education	11	0.07
Revenue Specific NACE code	83	0.57
Other	31	0.18
Total	**591**	**3.89**
Note: Data for 2017 ***Source: Revenue Data***		

10.2 Claimants by Market Area

As part of our analysis Indecon economists have examined the number of FED claimants by country. It should be noted that individuals can claim for several countries. The data provided to us by the Revenue Commissioners excludes countries with less than 10 claimants. Given the scale of the Chinese market and the relatively large share of total Irish exports for which it accounts, it is unsurprising that the largest number of claimants are based in China and account for 16% of the total claims. Other large markets include the UAE, India, Singapore, South Africa and Saudi Arabia.

Table 10.3: Number of Claimants by Country - 2017

Country	**No. of Claimants**
China	109
United Arab Emirates	89
India	67
Singapore	55
South Africa	55
Saudi Arabia	37
Malaysia	34
Bahrain	30
Japan	28
Russia	27
Thailand	22
Vietnam	22
Mexico	19
Brazil	17
Egypt	14
Kenya	13
South Korea	13
Indonesia	12
Qatar	11
Oman	10

Note: Claimants can claim for several countries; therefore, number of countries will not reconcile with number of claimants. The data provided excludes countries with less than 10 claimants.
Source: Revenue Data

The current list of eligible countries, while expanded since the reintroduction of the relief in 2012, does not include all potential emerging export markets. The consultations undertaken for this review suggested that some companies have been impacted from the fact that potential export markets are not included on the list of eligible countries.

Table 10.4: Views of Stakeholders on the List of Eligible Countries
"Broaden the territories which qualify for the relief."
"It is clear from Global Ireland 2025 that there is a global focus not limited to specific regions or countries. The FED should be extended to all countries to align with this policy so as to assist Irish companies looking to expand their exports."
"We believe the relief should be extended to all jurisdictions outside the EEA. If that is too broad, we suggest that, at a minimum, the scope of 'relevant states' eligible for relief should be broadened to include those markets that are aligned with Ireland's national strategy and the export focused targeting plans of Ireland's State agencies."
"The range of qualifying countries for the FED should be reviewed and broadened in line with the Government's Global Ireland 2025 initiative, which aims to accelerate progress on diversifying and growing Irish exports, in response to the challenges posed by Brexit."
"The list of eligible countries for FED has increased in recent years but companies are still experiencing gaps in the list of countries for which they can claim the relief. This is particularly true in the context of Brexit where companies have an acute need to encourage key employees to travel to new markets.... Eligible countries under FED could be amended to include all non-EEA countries."
Source: Inputs from public consultation programme and Indecon surveys of tax advisers and FED claimants

10.3 Significance of FED for individual companies

In considering the significance of companies employing individuals who utilise FED it is of note that these businesses accounted for over 88,000 employees. FED claims represented a very small proportion of employees in all sectors.

Table 10.5: Proportion of Employees Claiming FED - 2017

	Number of Employees	**Number of Employees claiming FED**	**% of Total Employees**
Manufacturing	21,331	79	0.4%
Wholesale and retail trade; repair of motor vehicles and motorcycles	16,634	47	0.3%
Information and communication	14,316	76	0.5%
Financial and insurance activities	8,790	18	0.2%
Professional, scientific and technical activities	10,840	70	0.6%
Administrative and support service activities	6,573	25	0.4%
Other	9,906	45	0.5%
Total	**88,390**	**360**	0.4%

Note: The data excludes FED cases where the taxpayer is a non-Form 11 filer and where a PPS was on record for both partners (jointly assessed cases), ~20% of cases, as it is not possible to determine from the dataset which of the partners is claiming FED, therefore an employer cannot be associated with the FED amount declared. The data also excludes cases where employees have more than 1 employer, as it is not possible to determine from the dataset which employer is the relevant employer with regards to FED.
Source: Revenue Data

The data provided by the Revenue Commissioners also facilitated an analysis of the number of claimants per firm. Table 10.6 shows that the 88% of companies making FED claims had 1-2 employees claiming the relief.

Table 10.6: Number of Claimants per Firm - 2017		
No. of employees claiming fed	**No. of companies in category**	**Total exchequer costs for category**
1 – 2	168	€1.5m
3 – 4	12	€0.7m
5+	11	€0.9m
Source: Revenue Data		

10.4Summary of Findings

- While a significant number of claimants availed of this incentive, the overall exchequer costs remain small. This reflects the limited nature of the tax relief available under this Programme.
- There are a significant number of claimants in non-internationally traded sectors including the wholesale and retail trade. Indecon believes this may be due to the fact that it appears there is no requirement in the legislation that the employee be engaged in export related activity.
- In considering the significance of companies employing individuals who utilise FED it is of note that these businesses accounted for over 88,000 employees. FED claims represented a very small proportion of employees in all sectors.
- Given the scale of the Chinese market and the relatively large share of total Irish exports for which it accounts, it is unsurprising that the largest number of claimants are based in China and account for 16% of the total claims. Other large markets include the UAE, India, Singapore, South Africa and Saudi Arabia. While the list of eligible countries has expanded, some emerging markets do not qualify.

11 Impact of FED

11.1 Analysis of Irish Exports to FED Markets

The following figure shows how the exports to FED eligible countries have changed since 2011. It can be seen that both the absolute value of exports to FED eligible countries and their share of total Irish exports have been increasing in recent years. In value terms, total exports to FED eligible countries have increased by 33% since 2011. As a share of total Irish exports, FED countries have risen from 3% in 2011 to 3.8% in 2017. While this highlights some improvement in performance to these markets, the low overall share of exports to FED countries demonstrates the scale of the challenge in diversifying exports to emerging markets.

Figure 11.1: Exports from Ireland to FED Eligible Countries

Source: Indecon analysis of World Bank data

Indecon consultations with a small number of firms who availed of FED suggested that the Relief was important in their internationalisation efforts. While exports to FED countries have been increasing, Indecon would caution against attributing this only to the FED incentive.

Table 11.1: Illustrative Views on Potential Impact of FED
"Improves our competitiveness, as a small firm, in exporting particularly where our larger competitors have bases in target markets". *"It is an added incentive to get staff to travel to customers in the emerging markets that might be reluctant to do so otherwise".*
Source: Inputs from Indecon surveys of FED claimants

11.2 Econometric Modelling of Impact of FED

In order to inform an analysis of FED impacts, Indecon undertook quantitative econometric analysis of trade data to assess what impact, if any, the availability of FED had on Irish exports to the countries eligible for the relief. As part of our modelling we analysed data on exports from Ireland to FED and other countries. In order to control for other economic factors, we also obtained country specific data from the World Bank Online database, including total value of merchandise trade as a share of GDP. We estimated both OLS and panel regression models to assess the impact of FED. In our modelling we developed a regression model taking account of a time-trend growth rate. We also included a dummy variable interacted with the time trend to allow the trend to be different for the FED economies. In both cases the dummy variable (d_fed_year) is positive and significant.

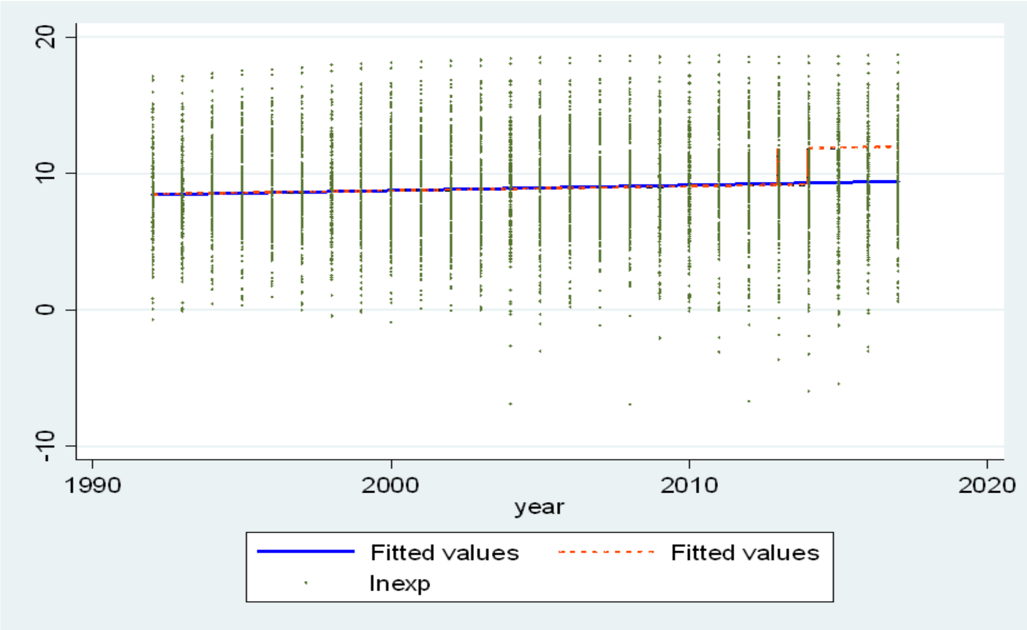
Box 11.1: Impact of including GDP and Time Trend with d_Fed_year variable

```
. reg lnexp year   d_fed_year

   Source |       SS        df       MS      Number of obs  =     5,541
-------------+----------------------------------   F(2, 5538)      =    40.55
    Model |  1042.40896         2  521.20448   Prob > F        =   0.0000
 Residual |  71190.588     5,538  12.8549274   R-squared       =   0.0144
-------------+----------------------------------   Adj R-squared  =   0.0141
    Total |  72232.9969     5,540  13.0384471   Root MSE        =   3.5854

------------------------------------------------------------------------------
    lnexp |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     year |   .0317351   .0065447     4.85   0.000     .0189049    .0445653
d_fed_year |   .0013272   .0002012     6.60   0.000     .0009328    .0017215
    _cons |  -54.70603   13.11906    -4.17   0.000    -80.42454   -28.98753
------------------------------------------------------------------------------

. reg lnexp year lngdp  d_fed_year

   Source |       SS        df       MS      Number of obs  =     4,862
-------------+----------------------------------   F(3, 4858)      =   6971.21
    Model |  47038.0306         3  15679.3435   Prob > F        =   0.0000
 Residual |  10926.4091     4,858  2.24915791   R-squared       =   0.8115
-------------+----------------------------------   Adj R-squared  =   0.8114
    Total |  57964.4397     4,861  11.9243859   Root MSE        =   1.4997

------------------------------------------------------------------------------
    lnexp |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     year |  -.0388349   .0029985   -12.95   0.000    -.0447132   -.0329565
    lngdp |   1.211943    .008461   143.24   0.000     1.195355     1.22853
d_fed_year |    .000232   .0000847     2.74   0.006     .0000661     .000398
    _cons |    58.1854    5.97898     9.73   0.000      46.4639    69.90691
------------------------------------------------------------------------------
```

Source: Indecon

The next figure overleaf shows the graphical depiction of the above regressions without GDP. We see that the data over time have a wide range (as export values to each economy will have country-specific effects, which we take account by explicit modelling later—but the graphical analysis is clearer without this). The orange dashed line with the predicted value given the year trend and the inclusion of the d_fed_year interaction variable. The dependent variable is the log of exports, so a linear trend is a constant growth rate. The linear trend 'shifts' up with the positive-significant coefficient on the d_fed_year variable, as evidenced by the shift/break in the dashed-orange line; the blue line is the prediction without the d_fed_year variable—with positive trend. This initial analysis indicates a positive impact of FED on exports.

Figure 11.2: Impact of FED on trend, simple regression



Source: Indecon analysis of WTO and World Bank data

In order to more comprehensively estimate the potential impact of the FED policy on exports from Ireland, we obtained data on exports from Ireland to all countries in the world over time from the World Bank Trade Statistics online database. This included time-series of total value of exports, imports, and other variables, including number of products. We further created a dummy [0,1] variable which was equal to 1 for each year/country in which the FED reliefs were available for a country, and zero otherwise. A time-trend-year variable was included and data on total imports value in USD was also included. A number of different variables and specifications were tried including using levels and logs, and different measures of macro-economic variables via standard preliminary exploratory analysis.

We started with an equation to estimate of the following form:

Equation 1:

$$lnexp_{it} = \alpha + \beta_1 lnmerch\_imp_{it} + \beta_2 lngdp_{it} + \beta_3 lncpi_{it} + \beta_4 lnxr_{it} + \beta_5 lnimp_{it} + \gamma year + \delta d_{fed} + \theta d_{fe_{year}} + \varepsilon_{it}$$

Where:

α – is a constant parameter to be estimated

β_1 –β_5 - are coefficients to be estimated

γ and δ – are parameters to be estimated

lnexp – is the natural log of exports from Ireland to the partner country (in USD)

lnmerch_imp – is the log of merchandise import’s share in total trade to the country

lngdp – is the log gross domestic product in current USD in the partner country

lncpi – is the log of the consumer price index

lnimp – is the log of total imports value (in USD)

year – the year (a time index)

d_{fed} – an indicator variable equal to 1 if the country had a fed relief in the year

d_{fed_year} – the interaction of the fed indicator with the time trend

 - is a random error term

The model estimation results are shown in the tables below.

Table 11.2 shows four different models each with different variables for the FED relief included. The first model (column 1) does not include a FED indicator variable (d_fed). This gives a baseline of the variables' coefficient estimates and expected signs and significance levels without the FED relief included.

The inclusion of the d_fed variable by itself has a significant and positive impact on exports as evidenced by the coefficient estimates in column 2 (0.501***). The *** indicate statistical significance to the 1% level. The model in column 2 still may or may not fully indicate a so-called 'treatment' effect. The identification of this as a 'treatment' variable requires including both a dummy variable for the fed countries and the interaction of this variable with the time-trend variable (year) (this variable is d_fed_year). Including the interaction also shows a positive and significant coefficient. This is shown in Model 4 of Table 11.2.

In Model 4 the interaction of the fed-country dummy and the time trend (year) is significant and positive. The time trend variable (year) coefficient is -0.0494.

The model as estimated in column 4 is a DID or difference-in-differences model and can be shown to be equivalent to the dummy variable and interaction model as per below. The treatment effect is interpretable as the coefficient on the d_fed_year interaction variable under the common trends assumption.

Table 11.2: OLS Regressions: Dependent Variable: Log of Irish Exports

VARIABLES	(1) Estimates	(2) Estimates	(3) Estimates	(4) Estimates
lnmerch_imp	0.796***	0.796***	0.796***	0.796***
	(0.0476)	(0.0475)	(0.0475)	(0.0475)
lngdp	0.450***	0.445***	0.445***	0.445***
	(0.0435)	(0.0435)	(0.0435)	(0.0435)
lncpi	0.0838***	0.0863***	0.0861***	0.0863***
	(0.0274)	(0.0274)	(0.0274)	(0.0274)
lnxrate_irl_lcu	0.0711***	0.0724***	0.0724***	0.0724***
	(0.00849)	(0.00849)	(0.00849)	(0.00849)
lnimp	0.0270***	0.0280***	0.0281***	0.0280***
	(0.00664)	(0.00664)	(0.00664)	(0.00664)
year	-0.0474***	-0.0494***	-0.0493***	-0.0494***
	(0.00361)	(0.00366)	(0.00366)	(0.00366)
d_fed		0.501***	169.5	
		(0.157)	(259.5)	
d_fed_year			-0.0838	0.000248***
			(0.129)	(7.81e-05)
Constant	75.29***	79.31***	79.20***	79.31***
	(7.133)	(7.236)	(7.238)	(7.236)
Observations	3,684	3,684	3,684	3,684
R-squared	0.818	0.818	0.818	0.818

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Source: Indecon Analysis

We also considered models with the variables in the levels. We started with an equation to estimate of the following form:

$$exp_{it} = \alpha + \beta_1 mimp_{it} + \beta_2 gdp_{it} + \beta_3 cpi_{it} + \beta_4 xr_{it} + \beta_5 imp_{it} + \gamma year + \delta d_{fed} + \theta d_{fe_{year}} + \varepsilon_{it}$$

The results from this estimation are found in the table below. The model overall is not sensitive to the estimation in the levels, as there are significant and expected signs of variables in most cases, however, the key variable, the d_fed_year interaction term, has now become insignificant. Note that the variables are now not scaled by the log (which makes the year variables all having coefficients that can be interpreted as growth rates).

Table 11.3: Panel Regressions: Value of Irish Exports

VARIABLES	(1) Estimates	(2) Estimates	(3) Estimates	(4) Estimates
lnmerch_imp	0.796***	0.796***	0.796***	0.796***
	(0.0476)	(0.0475)	(0.0475)	(0.0475)
lngdp	0.450***	0.445***	0.445***	0.445***
	(0.0435)	(0.0435)	(0.0435)	(0.0435)
lncpi	0.0838***	0.0863***	0.0861***	0.0863***
	(0.0274)	(0.0274)	(0.0274)	(0.0274)
lnxrate_irl_lcu	0.0711***	0.0724***	0.0724***	0.0724***
	(0.00849)	(0.00849)	(0.00849)	(0.00849)
lnimp	0.0270***	0.0280***	0.0281***	0.0280***
	(0.00664)	(0.00664)	(0.00664)	(0.00664)
year	-0.0474***	-0.0494***	-0.0493***	-0.0494***
	(0.00361)	(0.00366)	(0.00366)	(0.00366)
d_fed		0.501***	169.5	
		(0.157)	(259.5)	
d_fed_year			-0.0838	0.000248***
			(0.129)	(7.81e-05)
Constant	75.29***	79.31***	79.20***	79.31***
	(7.133)	(7.236)	(7.238)	(7.236)
Observations	3,684	3,684	3,684	3,684
R-squared	0.818	0.818	0.818	0.818

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Source: Indecon Analysis

The previous regressions provide some preliminary evidence as to the impact of the FED relief. An important factor when conducting regression analysis involving so-called panel datasets (e.g. tracking individual units over time) is to use the panel nature of the data. This enables us to consider any unobserved variables. We therefore estimated similar models with panel data methods, and the results are found in the tables below. The first set of models are all random effects models, which allows variation both within-groups and across groups to impact the coefficient estimates.

In general, the panel models show similar results to Table 11.2. The log of merchandise imports variable (lnmerchand_imports) and GDP (lngdp), CPI (lncpi), and imports (lnimp) and year variables are the same sign, significant, and of a similar magnitude. The exchange rate becomes insignificant, but this may be because some countries have fixed exchange rates over time and the panel effects are capturing these.

Table 11.4: Panel Regressions: Log Value of Irish Exports

VARIABLES	(1) Estimates	(2) Estimates	(3) Estimates	(4) Estimates
lnmerch_imp	0.817***	0.821***	0.824***	0.821***
	(0.0628)	(0.0630)	(0.0630)	(0.0630)
lngdp	0.253***	0.249***	0.249***	0.249***
	(0.0630)	(0.0631)	(0.0631)	(0.0631)
lncpi	0.0646*	0.0650*	0.0647*	0.0650*
	(0.0359)	(0.0358)	(0.0358)	(0.0358)
lnxrate_irl_lcu	0.0509	0.0507	0.0503	0.0507
	(0.0314)	(0.0313)	(0.0313)	(0.0313)
lnimp	0.0303***	0.0301***	0.0300***	0.0301***
	(0.00889)	(0.00889)	(0.00889)	(0.00889)
year	-0.0299***	-0.0305***	-0.0307***	-0.0305***
	(0.00328)	(0.00332)	(0.00332)	(0.00332)
d_fed		0.117	-114.2	
		(0.104)	(160.8)	
d_fed_year			0.0567	5.80e-05
			(0.0798)	(5.16e-05)
Constant	44.26***	45.48***	45.84***	45.48***
	(6.070)	(6.161)	(6.165)	(6.161)
Observations	3,684	3,684	3,684	3,684
Number of country_idx	174	174	174	174

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Source: Indecon Analysis

We also estimated regressions using weighted values. These regressions are using the USD value of GDP for the partner country over total value across all partners as a weight in the regressions. The first column in the table is the non-panel OLS regression but with weights. The second two are weighted models. Column 2 is the weighted regression for the panel model with fixed effects. The third column allows GDP to be endogenous, since total exports for Ireland will be a very large share of GDP; tests of endogeneity support the endogeneity hypothesis. The models in columns 1 and 3 show a significant but small impact for the FED countries.

Table 11.5: GDP-value weighted Regressions

VARIABLES	(1) Log_Value Irish Exports	(2) Log_Value Irish Exports	(3) Log_Value Irish Exports
lnmerch_imp	1.091***	0.705***	0.703***
	(0.0365)	(0.0393)	(0.0395)
lngdp	0.0642**	0.158***	0.161***
	(0.0297)	(0.0579)	(0.0582)
lncpi	0.335***	0.301***	0.299***
	(0.0398)	(0.0641)	(0.0641)
lnxrate_irl_lcu	0.287***	0.359***	0.357***
	(0.00827)	(0.0624)	(0.0624)
lnimp	0.00412	0.0854***	0.0850***
	(0.00496)	(0.00821)	(0.00828)
year	-0.0296***	-0.0276***	-0.0081***
	(0.00244)	(0.00255)	(0.00204)
d_fed_country	0.441***		
	(0.0525)		
d_fed_year	0.000112**	-0.0385	1.28e-05*
	(4.36e-05)	(0.0359)	(1.0e-06)
d_fed		77.72	
		(72.41)	
Constant	41.82***		
	(4.763)		
Observations	3,684	3,576	3,576
R-squared	0.839	0.646	0.646
Number of country_idx		172	172

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Source: Indecon Analysis

11.3 Summary of Findings

- An analysis of exports to FED countries indicates that exports to these countries have been increasing both in absolute terms as a percentage of overall exports.
- The econometric modelling undertaken by Indecon suggests a small but positive impact of the FED incentive on Irish exports to these countries.

12 Costs and Benefits of FED

12.1 Introduction

This chapter examines the likely costs and benefits of FED.

12.2 Exchequer costs

The costs to the exchequer of the FED relief in 2017 are outlined in the below table. This table shows that the total costs to the exchequer of the relief amounted to €3.89 million in 2017 before accounting for the shadow price of public funds.

Table 12.1: Number of FED Claimants by Sector and Cost - 2017		
	Number of Taxpayer Units	**Tax Cost €m**
Manufacturing	49	0.28
Electricity, gas, steam and air conditioning supply	22	0.12
Construction	17	0.09
Wholesale and retail trade; repair of motor vehicles and motorcycles	59	0.41
Information and communication	61	0.38
Financial and insurance activities	74	0.6
Real estate activities	78	0.58
Professional, scientific and technical activities	82	0.45
Administrative and support service activities	24	0.16
Education	11	0.07
Revenue Specific NACE code	83	0.57
Other	31	0.18
Total	**591**	**3.89**
Source: Revenue Data		

12.3 Benefits of FED

Given the limited nature of the FED incentive, it is difficult to estimate any definitive measures of the likely benefits. However, using the results of econometric modelling, we believe that FED is likely to have marginally increased exports to FED countries. In our modelling we estimate an increase in exports to these countries of 0.5%.

The estimates of the economic benefits of the FED are undertaken in line with the latest guidance to the State enterprise agencies for undertaking cost-benefit analysis of investment projects. We estimate the likely additional benefits in terms of:

- Additional corporation tax revenue
- Additional PAYE tax revenue
- Additional wage earnings

In our analysis we estimate that the additional exports arising rom FED result in increased economic activity. Based on the estimated 0.5% increase in exports our analysis suggests a marginal increase in annual corporate taxation of €3.4m and additional PAYE tax revenues of €30m.

We also estimate the wage benefits of additional employment due to the FED assuming a 90% shadow price of labour. We estimate additional wage earnings based on the total PAYE tax receipts and an average tax rate of 20%. This suggests an annual increase in wage benefits of approximately €3m arising from the increased exports.

12.4 Cost-Benefit Analysis of FED

Our analysis of the costs and benefits of FED have been estimated using a formal cost benefit model involving discounting of benefits over a 10 year period at 4% discount rate. The economic benefits of increased exports include marginal increases in corporation tax, wage benefits of increased employment and associated PAYE tax paid by those employed. Our estimates take account of the opportunity cost of labour and apply a shadow price of public funds at 130%. Our modelling suggests a small positive cost return on the measure.

Table 12.2: Ex-post Cost Benefit Analysis of FED for 2017

Exchequer Costs	Benefits	Net Benefit	BCR
46.2	102.5	56.3	2.2

Source: Indecon Analysis

12.5 Summary of Findings

- The annual gross costs of FED are €3.9m before accounting for the shadow price of public funds. Given the limited nature of the FED incentive, it is difficult to estimate any definitive measures of the likely benefits. However, using the results of econometric modelling, we believe that FED is likely to have marginally increased exports to FED countries. In our modelling we estimate an increase in exports to these countries of 0.5%.
- Our analysis of the costs and benefits of FED have been estimated using a formal cost benefit model involving discounting of benefits over a 10 year period at 4% discount rate. The economic benefits of increased exports include marginal increases in corporation tax, wage benefits of increased employment and associated PAYE tax paid by those employed. Our estimates take account of the opportunity cost of labour and apply a shadow price of public funds at 130%. Our modelling suggests a positive cost return on the measure.

13 Conclusions and Recommendations

13.1 Introduction

This chapter presents our conclusions and recommendations for consideration in the context of this review of the FED.

13.2 Summary of Conclusions

A summary of our conclusions are outlined in the next table.

Table 13.1: Summary of Conclusions	
1.	**Policy objectives of Relief remain valid.**
2.	**Exchequer costs of the Relief are very low.**
3.	**Some potential exports markets in Asia, Africa, South America are not eligible for the Relief.**
4.	**The level of Relief provided may be too small to represent a significant incentive for some companies.**
5.	**Exports to FED countries has risen as a share of total exports.**
6.	**The Relief is not restricted to agency-assisted firms and this is not aligned with policy objectives.**

1. Policy objectives of Relief remain valid.

The policy objectives of FED of assisting firms in Ireland to diversify their exports remain valid. Indeed given the impact of Brexit, this measure is even more relevant to Ireland at this time than when it was reduced.

2. Exchequer costs of the Relief are very low.

Reflecting the very small sector of financial assistance provided the overall costs of the Relief remain low. The estimate of annual gross exchequer costs is €3.9m.

3. Some potential exports markets in Asia, Africa, South America are not eligible for the Relief.

While there are valid reasons in terms of potential deadweight and exchequer costs of excluding the United States and some other countries from the FED Scheme, we do not see any reasons for excluding countries in continents where the presence of Irish exports is very low.

4. **The level of Relief provided may be too small to represent a significant incentive for some companies.**
   The average annual level of incentive provided to claimants is less than €6,600. Given the costs and disruption for individuals in working in emerging overseas markets, we believe the Relief is too small to represent a significant incentive to radically change the diversification of Irish exports.

5. **Exports to FED countries has risen as a share of total exports.**
   Exports to FED countries have risen slightly as a share of total exports. New econometric modelling developed by Indecon suggests a small potential impact of FED. However, we believe the results are not sufficient to demonstrate any significant impact on the diversification of Irish exports of the measure to date.

6. **The Relief is not restricted to agency-assisted firms and this is not aligned with policy objectives.**
   Our analysis suggests that there is no conditionality on companies requiring them to be involved in exports to benefit from the Relief. We note that the Relief is not restricted to agency-assisted firms. The fact that companies in non-internationally traded sectors appear to avail of FED is not aligned with the stated policy objectives.

13.3 Recommendations

Based on the analysis undertaken in this review, Indecon outlines a number of recommendations with regards to the future operation of the FED. These recommendations are designed to improve the impact and cost effectiveness of the scheme and are summarised in the below table and discussed in more detail in the subsequent sections.

Table 13.2: Summary of Recommendations	
1.	**FED should be retained as its policy objectives remain relevant.**
2.	**The countries eligible for FED should be extended.**
3.	**Consideration should be giving to increasing the level of Relief available.**
4.	**Relief should be restricted to agency assisted companies.**
5.	**Additional data should be collected to facilitate future evaluations of the Relief.**

1. **FED should be retained as its policy objectives remain relevant.**

   Based on the analysis undertaken in this review Indecon recommends that FED should be retained. The costs of the relief to the exchequer are very low and the policy objectives of facilitating Irish exporters and aiding the geographic diversification of Irish export markets remain valid.

2. **The countries eligible for FED should be extended.**

   The current list of eligible countries, while expanded since the reintroduction of the relief in 2012, does not include all potential new export markets. The consultations undertaken for this review suggested that some companies have been impacted from the fact that potential export markets are not included on the list of eligible countries. We note that there would be significant deadweight as well as increased exchequer costs and EU state aid problems associated with extending the relief to EU export markets. Also including major current export markets such as in the USA would significantly increase exchequer costs and would likely be subject to high levels of economic deadweight. Indecon, however, recommends that the FED incentive should apply to all countries in Asia, Africa, South America and Antarctica. This would signal a commitment to support exports to all these markets and would provide certainty for Irish businesses.

3. **Consideration should be giving to increasing the level of relief.**

   The attractiveness of the FED to eligible employees could be improved by increasing the level of relief available. This could be done either by increasing the cap from the current level of €35,000 or extending the relief to include PRSI and USC. As currently designed, the FED is unlikely to provide a sufficient incentive to overcome the significant personal costs for many employees of spending time in overseas markets. Additionally, the current cap may not incentivise more senior staff to spend time abroad to develop new export markets.

4. **Relief should be restricted to agency assisted companies.**

   There are a significant number of FED claimants in sectors such as wholesale and retail. While the stated objective of the initiative was to expand exports, Indecon's interpretation of the relief is that it is available to any employee who travels out of the state to certain countries on behalf of their employer. It would therefore appear to be available to individuals engaged in importing or in any other business activities regardless of whether their company is engaged in exports. In order to minimise the deadweight associated with the FED and improve the targeting of the relief, we recommend that the relief is restricted to agency assisted companies. This would be aligned with the original objectives. Consideration should however be given to whether any state aid issue would arise.

5. **Additional data should be collected to facilitate future evaluations of the relief**

   Indecon recommends that additional data is collected from claimant companies which will facilitate more comprehensive future evaluations of the relief. For example, it would be particularly useful for policy evaluations to collect data on individual claimant firm performance in terms of employment, turnover and exports. A breakdown of total exports by country or country block would also facilitate a more detailed assessment of the impact of FED.

VI: Indecon Evaluation of the Revised (CGT) Entrepreneur Relief

Indecon Evaluation of the Revised Entrepreneur Relief

Submitted to the Department of Finance

By

Indecon

www.indecon.ie

1st October 2019

Executive Summary

Introduction

Indecon International Economic Consultants (Indecon) is a leading firm of research economists. Indecon was appointed by The Minister for Finance and Public Expenditure and Reform following a competitive tender process to undertake an evaluation of the relevance, cost and impact of the Revised Entrepreneur Relief, as provided for in section 597AA of the Taxes Consolidation Act 1997 (subsequently referred to as the Entrepreneur Relief).

The rationale for the Entrepreneur Relief is to improve the environment for entrepreneurs and business people setting up or carrying on productive business activities in the State and in particular to encourage entrepreneurs to invest in the Irish economy. The Entrepreneur Relief was introduced in Budget 2016 and Finance Act 2015. It provided for a rate of 20% of capital gains tax (CGT) to be applied to chargeable gains arising on the disposal by an individual of business assets up to a lifetime limit of €1m. In Budget 2017 and Finance Act 2016, the CGT rate to be applied was reduced to 10%.

Our independent evaluation assesses the relevance, cost and impact of the current Relief. Given the increased costs to the Exchequer following the reduction to a 10% rate, evaluation of the Relief is needed to ensure the best use of scarce Exchequer resources. This is appropriate as from an efficiency and impact perspective, it is essential to understand the type of businesses that have been assisted and the costs to the Exchequer. As part of our evaluation we also completed a comparison with the UK Relief, and considered changes to the current Relief in order to enhance the impact and effectiveness of this tax measure.

Continued Relevance of the Entrepreneur Relief

The Entrepreneur Relief reduces the capital gains tax on the disposal of certain types of business assets. The potential relevance of the Entrepreneur Relief was discussed in the Tax Strategy Group 2018 paper on Capital Gains Tax and Capital Acquisitions Tax (CAT)[55] in the context of the impact of the rate of capital gains tax on business decisions. Specifically, it was suggested that:

"The argument made for reducing the rate of Capital Gains Tax is that it encourages sales and purchases of assets which drives economic growth, potentially increases the Exchequer yield from the tax and encourages more efficient allocation of assets. This in turn can lead to improved productivity across the economy."

The Tax Strategy Group paper outlined how capital gains taxes could result in delays in selling investments that have large unrealised gains. This suggests that a high rate of capital gains tax has the potential to reduce economic growth and prevent the shifting of some resources from lower- to higher-value uses.

In considering the wider rationale for the Relief, Indecon also notes that entrepreneurs as broadly defined (including both commercial and social entrepreneurs) represent an important element of the Irish economy and society. Entrepreneurial activity is responsible for a significant portion of employment and output in the Irish economy.

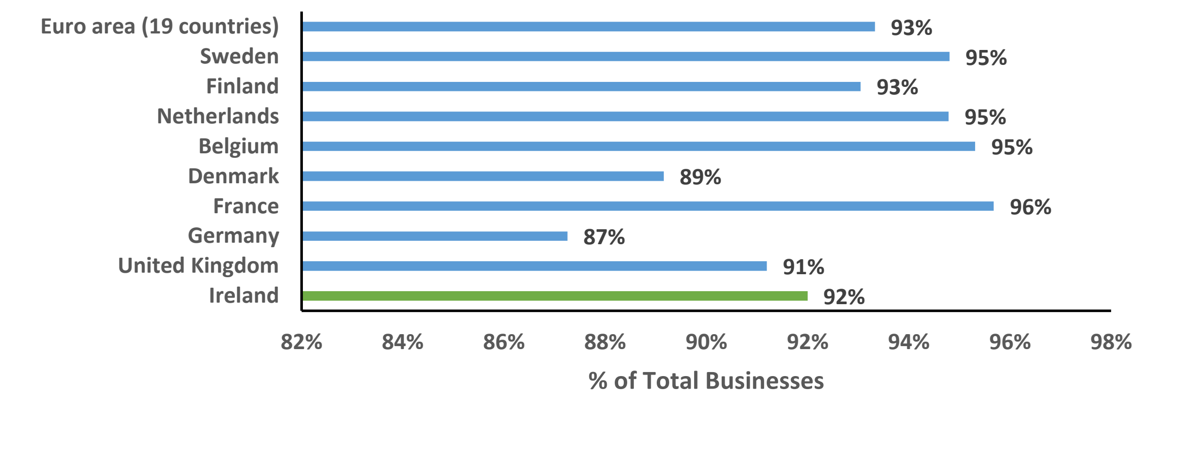
[55] Tax Strategy Group | TSG 18/10 CAPITAL AND SAVINGS TAXES

The role of entrepreneurs in the Irish economy was highlighted by IBEC in their submission to the Department of Finance where they suggested that:

"Entrepreneurs including business owners, managers and the self-employed are a crucial part of Ireland's economic fabric. Firms with fewer than twenty employees make up over 98% of the enterprise base and employ 44% of the workforce."[56]

In a working paper for the OECD, Audretsch and Thurik (2001)[57] suggested that increasing entrepreneurial activity can result in higher growth rates. The importance of entrepreneurs and small enterprises is supported by evidence from Eurostat. The following figure illustrates the proportion of total businesses in the economy which have fewer than 10 employees, which in Ireland is estimated to be 92%.

Proportion of Total Businesses Composed of Businesses with fewer than 10 Employees



Note: Based on data for 2016
Source: Indecon analysis of Eurostat Data

The role of entrepreneurial activity in the Irish economy has been emphasized in a range of Government policies. *The National Policy Statement on Entrepreneurship in Ireland* published by Department of Business, Enterprise and Innovation suggested a link between entrepreneurship and innovation stating that "*maintaining and increasing our capacity for innovation requires fundamental support for entrepreneurship and entrepreneurial innovation.*" This was also highlighted in the Government's *Innovation 2020* strategy document.

In the context of supporting entrepreneurship, it is recognised that such activity involves risk for investors. Indecon, however, accepts the point made in an important submission to this review by Dr. Roantree and Professor O'Dea of the ESRI[58] which stated that the risks associated with entrepreneurship do not in themselves justify favourable tax treatment and there is a need to look at whether a market failure exists.

Indecon's assessment suggests that the provision of the Entrepreneurship Relief may play a role in addressing market failures. Specifically, the Relief may limit any distortionary effects of more favourable capital gains taxation in other countries. In addition, it may enhance R&D and

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[56] IBEC submission to the Department of Finance. 24 May 2019

[57] Audretsch, David B., and Roy Thurik. "Linking entrepreneurship to growth." (2001).

[58] Submission by Dr. Roantree, Research Officer, ESRI and Adjunct Assistant Professor TCD, and Professor Cormac O'Dea, Assistant Professor, Department of Economics, Yale University and Research Officer ESRI.

innovation spillover benefits in the economy. Within Ireland, there may also be distortions to the risk/return arising from the tax treatment on different categories of investment. Other market failures are related to the asymmetric information relating to financing problems for start-ups. Our analysis suggests that while there is a rationale for the Relief, it is necessary to consider the efficiency of the specific measure introduced and whether the likely benefits exceed the Exchequer costs.

Ireland's Comparative Position

Given the link between the rationale for the Relief and international competition for investment, it is necessary to consider Ireland's comparative taxation of entrepreneurial investment. This was highlighted in the Department of Finance's Tax Strategy Group's report[59] where it was suggested that:

"*Capital has become highly mobile and the higher the tax rates on capital, the more possibility that there will be reduced numbers of job-creating investments. Maintaining international competitiveness vis-a-vis other states (inside and outside the EU) is important particularly in retaining competitiveness as a place to invest.*"

This was also highlighted in numerous submissions to this Indecon Review and for example, the Irish Tax Institute argued that:

"CGT is unquestionably the tax that matters most to investors and serial entrepreneurs and influences their behaviour. Ireland's targeted CGT Entrepreneur Relief is targeted at reducing the high CGT burden on the sale of a business in Ireland to a limited extent. Feedback we have received from members and directly from entrepreneurs is that the current design of the Relief is one of the key contributing factors to holding back our indigenous entrepreneurial ecosystem. The existing Relief provides little incentive to grow a business beyond a certain level in Ireland and generate more employment. It is uncompetitive when compared with the UK."[60]

Indecon believes that Ireland's comparative tax position is mainly relevant to internationally mobile investments. It is also important to consider the wider structure of taxation including Ireland's low corporate tax rate. Indecon notes that some countries have different mechanisms for taxing capital gains via standard corporate tax, income tax and other means and, with this in mind, headline capital gains tax rates may not show the full picture. In many countries gains are assessed at the applicable marginal income or corporate tax rate. Indecon has undertaken an analysis of the capital gains tax in a range of comparator countries. The evidence shows that Ireland's prevailing rate of capital gains tax is the second highest of the countries reviewed.

[59] Department of Finance. (2018). *Capital & Savings Taxes – Capital Gains, Capital Acquisitions Taxes, Tax Strategy Group – TSG 18/10*
[60] Submission by Irish Tax Institute to CGT Entrepreneur Relief Public Consultation

Rate of Capital Gains Tax in Other Countries			
State	**Rate %**	**State**	**Rate**
Finland	34	Czech Rep	15
France	30	Albania	15
Ireland	33	Greece	15
Iceland	22	Belarus	18
Sweden	30	Malta	12
Portugal	28	Switzerland	12-24
UK	28/20	Bosnia and Herzegovina	10
Austria	27.5	Slovenia	25
Slovak Rep	25	Moldova	12
Norway	22	Bulgaria	10
Denmark	27	Macedonia	10
Russia	20	Montenegro	9
Serbia	15	Andorra	10
Cyprus	20	Netherlands	1.62
Estonia	20	Romania	10
Luxembourg	17	Turkey	22
Spain	19-23	Croatia	18
Ukraine	18	Italy	24
Lichtenstein	12.5	Germany	25
Hungary	15	Monaco	0
Lithuania	15/20	Belgium	0
Latvia	20	Poland	19
Source: Indecon			

The level of tax on the sale of business assets will also be influenced by capital gains tax reliefs in other countries. Of particular relevance to this review is the Entrepreneur Relief available in the UK. It is clear that the UK is a much more attractive regime, given the higher lifetime limit and greater flexibility around the ownership requirement.

The key comparisons between the Irish Entrepreneur Relief and the Relief available in the UK include:

- The rate of Relief in both schemes is set at 10%. However, the headline CGT rate in the UK of 20% is significantly lower than the headline 33% rate in Ireland;
- The lifetime cap in the UK has been increased from £1 - £10m compared to the current cap of €1 million in the Irish Relief;
- The minimum holding period for shares is two years in the UK scheme compared to three years in the Irish Relief; and
- The UK Relief provides greater flexibility to entrepreneurs whose ownership is diluted below a 5% threshold.

Of particular significance for policymakers in considering the Entrepreneur Relief in the UK is that this has a very high annual tax cost for the Exchequer of around £2.4 billion.

Analysis of Entrepreneur Relief Claims

In examining the efficiency of the Relief, it is useful to analyse what sectors have benefited from the Relief. Indecon has been provided with detailed disaggregated data on the usage of the Entrepreneur Relief by the Revenue Commissioners. This data provides important new insights into the nature of the firms and individuals utilising the Relief, as presented in the next table.

Entrepreneur Relief (Section 597AA) by Sector	
Sector	**Number**
Agriculture Forestry and Fishing:	**91**
Raising of dairy cattle	22
Mixed farming	47
Other	22
Manufacturing	**10**
Construction	**52**
Wholesale and retail trade:	**59**
Dispensing chemist in specialised stores	13
Other	46
Transportation and Storage	**13**
Accommodation and food service activities:	**30**
Restaurants and mobile food service activities	13
Other	17
Information and Communication	**29**
Financial and Insurance Activities:	**26**
Other financial service activities, except insurance and pension funding n.e.c.	15
Others	11
Real Estate Activities	**124**
Professional Scientific and Technical Activities:	**131**
Legal activities	12
Accounting, bookkeeping and auditing activities; tax consultancy	57
Business and other management consultancy activities	22
Engineering activities and related technical consultancy	10
Veterinary activities	12
Other	18
Human health and Social Work activities:	**40**
General medical practice activities:	19
Other	21
Other Activities and Sectors	**40**
Other including individuals with a "director only" code	**230**
Directors	203
Other	27
Total	**875**
Source: Revenue Commissioners	

The analysis indicates that there has been very significant use of the Relief by the non-internationally traded sectors, such as wholesale and retail sector including dispensing chemists, as well as by sectors such as real estate activities, accounting, bookkeeping, auditing, veterinary activities, and medical practices.

It is also useful to consider the distribution of claims across income ranges. The data shows that individuals claiming Relief had annual incomes totalling over €117m in 2017, with an average income of €134,000. The data demonstrates that individuals in a wide range of income tax bands availed of the Relief.

Entrepreneur Relief Distribution of Income - 2017			
Range of Gross Income	**All Cases**		
	Number of cases	**Income**	**Average**
0 20,000	52	546,579	10,511
20,000 30,000	28	703,621	25,129
30,000 40,000	49	1,677,787	34,241
40,000 50,000	55	2,448,132	44,511
50,000 60,000	51	2,828,399	55,459
60,000 70,000	63	4,136,760	65,663
70,000 75,000	32	2,337,001	73,031
75,000 80,000	28	2,176,554	77,734
80,000 90,000	44	3,738,431	84,964
90,000 100,000	38	3,577,642	94,148
100,000 150,000	179	22,407,272	125,180
150,000 200,000	83	14,588,269	175,762
200,000 275,000	86	19,773,414	229,923
Over 275,000	87	36,482,340	419,337
Totals	**875**	**117,422,201**	**134,197**
Source: Indecon analysis of data from the Revenue Commissioners			

Impacts and Benefits of the Relief

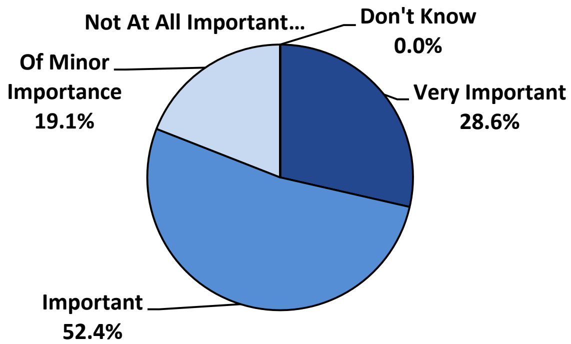
A key issue in evaluating the impact and efficiency of the Revised Entrepreneur Relief is the extent to which the availably of the Relief influenced the investment in the Irish economy of the claimants prior to them undertaking their investment decision. Tax advisers consulted by Indecon and individual entrepreneurs who claimed the Relief suggests that most were not aware of the Relief prior to their initial investment. This is not surprising given the timing of the introduction of Revised Relief but suggests that to date the Relief may not have had a significant impact on investments which have been made. This is consistent with similar research from the UK[61] which concluded that:

"In the majority of cases, Entrepreneur Relief was not the primary motivating factor when making decisions about investing in assets."

[61] "*Capital Gains Tax: Entrepreneurs' Relief: Behaviour sand Motivations*" HMRC Research Report 456, May 2017

While the Relief does not appear to have significantly influenced the initial level of entrepreneurial investment, the Relief appears to have impacted on the decision to sell a business and the timing of asset disposals. 81% of tax advisers suggested that the Relief was either important/very important in their clients' decision to sell their business or asset. This was confirmed by our research with entrepreneurs and over 90% indicated that the Relief was important in their decision to sell their business/asset.

Views of Tax Advisers on the Importance of the Revised Entrepreneur Relief on the Decision of Clients to Sell Their Business/Asset



Source: Indecon analysis of Information Request of Tax Advisers (2019)

Indecon's research also indicates that, in the absence of the Relief, most of entrepreneurs claiming the Relief suggested they would have delayed the sale of the asset. This is not surprising given that the average age profile of those claiming Relief was 52 years and the more attractive tax position of the Retirement Relief, if disposals were delayed.

Views of Entrepreneurs on the Likely Disposal of Shares/Assets in Absence of the Relief

	% of Respondents
Would have proceeded with asset disposal	7.1%
Would have delayed asset disposal	71.4%
Would not have sold asset	14.3%
Other	7.1%
Total	**100%**

Source: Indecon analysis of Confidential Information Request of Entrepreneurs who Availed of Revised Entrepreneur Relief

As part of our investigation we examined whether the funds secured from the Relief have been reinvested in the Irish economy. The survey evidence suggests that, to date, over a third of beneficiaries had used some of the funds to commence a new business. However, many of the entrepreneurs had used the gains for personal expenditure or savings or to pay off existing loans.

Claimants Actions Since Claiming Relief	
	Number of Respondents
Savings	45.5%
Paid off existing mortgages/loans	45.5%
Commenced new start-up business(s)	36.4%
Invested in unquoted company(s)	27.3%
Used funds for retirement/personal expenditures	27.3%
Invested in property	9.1%
Commenced new start-up business(s)	36.4%
Other	36.4%
Source: Indecon analysis of Confidential Information Request of Taxpayers who Availed of Revised Entrepreneur Relief	

Modelling of Costs and Benefits

In evaluating the merits of the continuation of the Relief, it is essential to examine the benefits and costs of the Relief. There is inevitable uncertainty concerning the estimates as one is attempting to measure a counterfactual situation of what would have happened in the absence of Relief. The figures on the Exchequer costs are summarised below. This shows that there was an annual Exchequer tax forgone of €81.8m based on a static measure. We also present an estimate of the net tax forgone of €55.9m based on Indecon's modelling taking account of behavioural impacts whereby many of the entrepreneurs would have delayed the sale of the assets and would therefore not have availed of the Relief. Adjusting for this suggests an annual tax forgone of over €55m. However, this does not include the tax paid by those who would not have sold their assets in the absence of the Relief.

Annual Costs of Revised Entrepreneur Relief 2017	
	€m
Tax Forgone[(1)]	81.8
Tax Forgone after Adjustment for Behavioural Change[(2)]	55.9
Source: [(1)] Revenue Commissioners [(2)] Indecon Modelling	

In addition to examining costs, it is necessary to consider the potential benefits arising from the Revised Entrepreneur Relief. Our estimates suggest that, while the Relief did not significantly influence the initial investment, the Relief resulted in some increased in investment in new businesses. Our estimates suggest that the Relief resulted in increased capital investment in the economy of around €60 million.

The additional investment is likely, over time, to result in increased corporate taxes and capital gains which we evaluate over a 10-year period discounted at 4% per annum. We also estimate potential R&D spillover benefits of the increased investments and additional wage benefits and PAYE benefits to the economy after taking account of the opportunity costs of labour. In our modelling we take account of the opportunity cost of labour, except where there is an addition to the labour force. In our modelling we also take account of the fact that due to the Relief some entrepreneurs sell assets which they would not have done otherwise. This results in increased capital gains on such disposals; namely 10% on assets under €1m lifetime threshold and 33% of the balance. Indecon's indicative estimates of benefits of the Relief are presented below and suggest an overall annual benefit before costs of the Relief of over €95 million.

Indecon Estimates of Benefits from Entrepreneur Relief	
Corporation Tax (€ Millions)	5.3
Capital gains tax (€ Millions)	35.6
R&D spillovers (€ Millions)	3.8
Wage benefit (€ Millions)	25.3
PAYE benefit (€ Millions)	25.3
Total	**95.2**
Source: Indecon analysis	

Our indicative estimates of the costs and benefits of the Relief are presented below. In line with the Public Spending Code we adjusted our estimates for the shadow price of public funds at 130%. While there is considerable uncertainty around the level of deadweight associated with the Relief as well as the level of re-investment of returns in new businesses, our estimates suggest a small positive benefit-cost ratio.

Cost-Benefit Analysis of Entrepreneur Relief		
	No Adjustment for Shadow Cost of Public Funds	**Including Adjustment for Shadow Cost of Public Funds**
Benefits		
Corporation tax income	5.3	6.9
Capital gains tax income	35.6	46.3
R&D spillovers	3.8	3.8
Wage benefit	25.3	25.3
PAYE benefit	25.3	32.8
Total	95.2	115.0
Costs		
CGT revenue lost	55.9	72.7
Net Benefit	39.3	42.4
BCR	1.7	1.6
Source: Indecon analysis * adjusted for behavioural changes		

Conclusions

Indecon's conclusions following our detailed evaluation of the Relief are presented in the table below.

Summary of Conclusions
Policy objectives of Relief remain valid
Level of capital gains tax is much less favourable in Ireland than in many other countries
Relief did not have a significant impact on initial investment decision
Relief has influenced timing of asset disposals
Relief has mainly benefited non-internationally traded businesses
A range of options are available for changes to lifetime limit

1. Policy objectives of Relief remain valid

Indecon's analysis suggests that the policy objectives of the Relief to support entrepreneurship and incentivise investment in the Irish economy remain relevant. Entrepreneurship is an important driver of economic growth and employment in the economy. Support for entrepreneurship is aligned with the wider policy objectives of the Government in terms of supporting innovation and start-up businesses in Ireland. However, Indecon believes that there is a need to target any enhanced incentives in order to increase investment in the economy.

2. Level of capital gains tax is much less favourable in Ireland than in many other countries

Internationally, the level of capital gains tax is higher in Ireland than in many other countries. While the rate of Entrepreneur Relief available in Ireland is competitive with the equivalent UK Relief, the Irish Relief is considerably less attractive in terms of the lifetime limit upon which Relief may be granted. There are other aspects where the Irish Relief is uncompetitive including the issue of flexibility on the requirement to hold 5% of ordinary shares.

3. Relief did not have a significant impact on initial investment decision

The evidence indicates that the Relief has not had a significant impact on initial investment decisions which have been made to date in Ireland. This is not surprising given the timing of the introduction of the Relief and this finding is aligned with the evidence from the UK. However, Indecon accepts there may have been potential investments which were not made in Ireland because the Relief is less attractive than in other countries. This is likely to only apply to internationally mobile investments.

4. **Relief has influenced timing of asset disposals**

The evidence examined indicates that the Relief has influenced the timing of asset disposal. Many entrepreneurs would not have disposed of the assets if the Relief was not available.

5. **Relief has mainly benefited non-internationally traded businesses**

The new evidence on the profile of beneficiaries highlights the extensive usage of the Relief by non-internationally traded sectors of the economy. This is in contrast to the agency-assisted support programmes which are focused on assisting internationally traded business. The focus on international activity in other incentives appropriately reflects the lower levels of deadweight and displacement involved and the need to incentivise such activities taking account of international competition.

6. **Range of available options for changes to lifetime limit**

Indecon notes that there is a range of potential options which could be considered by the Government concerning the lifetime limit for the Relief. In the table below we outline a number of the main potential options and our evaluation of the advantages and disadvantages of each.

Options Concerning Lifetime Limit		
Options	**Advantages**	**Disadvantages**
₹etention of €1m lifetime limit	No additional Exchequer costs	Limit uncompetitive with rates in other countries
?. Increase in lifetime limit with no changes on eligibility	Administrative simplicity Provide an increased Relief to all sectors	Increased Exchequer costs Unlikely to be cost effective as minimal impact on reinvestment
. Increase lifetime limit but restrict to internationally traded agency firms	Provide targeted Relief on high risk internationally traded sectors Low level of economic displacement	Likely to require State-Aid approval Some additional Exchequer costs
. Increase lifetime limit conditional on reinvestment	Reduce competitive disadvantage with other countries Incentivise increased investment	Some additional Exchequer costs
Source: Indecon analysis		

Recommendations

Based on the analysis undertaken in this evaluation, Indecon believes a number of changes are required to the Relief to maximise its efficiency and impact. These are reflected in our recommendations which are summarised in the table below and discussed in more detail in the subsequent sections.

Summary of Recommendations	
1.	**Entrepreneur Relief should be retained.**
2.	**Requirement of 5% ownership should be adjusted to encourage firms to expand.**
3.	**The lifetime cap of €1 million should be significantly increased to €12 million for entrepreneurs who re-invest in a new business.**
4.	**A Review of the merits of an integrated Entrepreneur/Retirement Relief should be undertaken.**
5.	**Information required from claimants should be refined in order to facilitate future evaluations of the Relief.**
6.	**The impact of any changes to the Relief should be subject to an evaluation after 3 years.**

1. **Entrepreneur Relief should be retained.**

   The continued relevance of the policy objectives of the Revised Entrepreneur Relief as well as our indicative cost-benefit modelling suggests that the Relief should be retained. While there is evidence of deadweight associated with the Relief as currently designed, given the international competition for investment, it is important that Ireland retains the Relief at this time.

2. **Requirement of 5% ownership should be adjusted to encourage firms to expand.**
   The requirement for the claimant to hold a minimum of 5% of ordinary shares should be reformed. This requirement represents an arbitrary threshold that may limit the ability of firms to raise sufficient capital to expand to meet the businesses growth potential. Indecon therefore recommends that this restriction is removed providing that claimants had previously held at least 5% of the shares for a continuous period of a minimum of two or three years.

3. **The lifetime cap of €1 million should be significantly increased to €12 million for entrepreneurs who re-invest in a new business.**
   As noted in our conclusions, there is a range of options which could be considered by the Government concerning the lifetime limit. On the balance of the evidence Indecon recommends increasing the cap to €12m for entrepreneurs who reinvest in a new business. This would serve to make the Relief competitive for such investors. Given the evidence on the importance of comparative tax structures in decision making for mobile investment, Indecon believes this change would be justified. In order to ensure that this reform is aligned with the policy objective to increase investments, Indecon recommends that this additional Relief is restricted to the percentage of gains which are reinvested in new start-up businesses within a period of 2-3 years. For entrepreneurs who are not willing to reinvest the gains the Irish Relief would remain uncompetitive with the UK. However, focussing the Relief on re-investment is more aligned with the policy objectives of expanding investment and employment. To ensure that there is no duplication of incentives, this should apply only to businesses which do not avail of EIIS tax incentive. It is also recommended that other sectoral and eligibility criteria of the existing Relief should continue to apply. Indecon accepts that there would be a rationale for targeting any enhanced Relief on internationally traded businesses but that given the need for any such change to potentially require state-aid approval, we believe the recommended approach outlined above is, on balance, the best way to proceed at this time.

4. **A Review of the merits of an integrated Entrepreneur/Retirement Relief should be undertaken.**

   The existing Revised Entrepreneur Relief is one of two reliefs from capital gains for businesses disposing of assets. The other major and indeed more attractive relief, is the Retirement Relief.

There are, however, differences in eligibility criteria and there would be merit in having an integrated Entrepreneur Relief Incentive which would incorporate the Retirement Relief. We therefore recommend that a review of the merits of an integrated Relief rather than the two existing reliefs should be undertaken.

5. **Information required from claimants should be refined in order to facilitate future evaluations of the Relief.**

   Indecon recommends that the data requirements for claimants should be refined in order to facilitate future evaluations of the impact of the Relief. In particular, we recommend that claimants should be required to indicate their shareholding in the business at the time of divestment, the levels of employment in the business at time of divesture and other information.

6. **The impact of any changes to the Relief should be subject to an evaluation after 3 years.**

   Indecon recommends that the costs and benefits of the proposed changes should be undertaken after a period. This would ensure that there is evidence on the impact of the changes and would be aligned with the Guidelines on the Evaluation of Tax Expenditure. This could facilitate further refinements to the incentive if appropriate.

Acknowledgements

Indecon would like to thank a number of individuals and organisations for their valuable inputs to this evaluation. Particular thanks are due to John Hogan, Pat Leahy, Sorsha Foran and other officials in the Department of Finance. We would also like to acknowledge the valuable inputs from officials in the Revenue Commissioners, including Keith Walsh, Philip O'Rourke Denise Cunniffe and Therese Bourke. We are also appreciative of the inputs from Felix O'Kane in the Department of Business, Enterprise and Innovation, Rowena Dwyer from Enterprise Ireland and Christine Kelly from the IDA. In addition, Indecon would also like to thank those state agencies, companies, representative bodies and professional advisory firms who made submissions to the public consultation including; BNRG Renewables, Chambers Ireland, Consultative Committee of Accountancy Bodies, Deloitte Ireland, Dog Patch Labs, Dublin Business Innovation Centre, Dublin Chamber, Effective Software, Family Business Network Ireland, Grant Thornton, HSOC Chartered Accountants, IBEC, Initiafy, Kennelly Tax Advisers, KPMG, Oriel Sea Salt, PWC, Technology Ireland, The British Irish Chamber of Commerce, the Economic and Social Research Institute, the Flat Bread Company, the Irish Farmers Association, the Irish Medtec Association, the Irish Tax Institute, the Irish Venture Capital Association, the Law Society of Ireland and the Small Firms Association. We are also particularly appreciative of the tax advisers and individual claimants who took the time to complete the survey.

The usual disclaimer applies and the analysis and findings in this independent report are the sole responsibility of Indecon.

14 Introduction and Background

14.1 Introduction

Indecon International Economic Consultants (Indecon) is a leading firm of research economists. Indecon was appointed by The Minister for Finance and Public Expenditure and Reform following a competitive tender process to undertake an evaluation of the relevance, cost, impact and efficiency of the Revised Entrepreneur Relief, as provided for in section 597AA of the Taxes Consolidation Act 1997.

14.2 Background

The rationale of the Entrepreneur Relief is to improve the environment for entrepreneurs and business people setting up or carrying on productive business activities in the State and in particular to encourage entrepreneurs to invest in the Irish economy. A revised CGT Entrepreneur Relief was introduced in Budget 2016 and Finance Act 2015. It provided for a rate of 20% to be applied to chargeable gains arising on the disposal by an individual of business assets up to a lifetime limit of €1m. In Budget 2017 and Finance Act 2016, the CGT rate to be applied was reduced to 10%.

The Minister for Finance has from time to time been requested to amend the Entrepreneur Relief, including, but not limited to, increasing the lifetime limit of the Entrepreneur Relief and removing restrictions on those who may qualify. Notably, a frequent argument for expanding Entrepreneur Relief in Ireland is being made by comparing it with the Entrepreneurs Relief scheme which operates in the UK.

Our independent evaluation assesses the effectiveness, cost and impact of the current Relief. Given the increased costs to the Exchequer following the reduction to a 10% rate, evaluation of the Relief is needed to ensure the best use of scarce Exchequer resources. This is appropriate as it is essential to understand the type of businesses that have been assisted and the costs and impact of the Relief As part of our evaluation we also completed a comparison with the UK Relief, and considered changes to the current Relief in order to enhance the impact and effectiveness of Ireland's CGT Entrepreneur Relief.

14.3 Scope of Evaluation

As per the terms of reference for this project, the evaluation aims to assess the four key questions as set out in the Department of Finance Guidelines for Tax Expenditure Evaluation in regards to Ireland's CGT Entrepreneur Relief. These are:

1. Is the tax expenditure still relevant?
2. How much did the tax expenditure cost?
3. What was the impact of the tax expenditure?
4. Was it efficient?

The terms of reference also specified a requirement that the evaluation should also undertake a comparative analysis of the Entrepreneur Relief scheme which operates in the UK and the relevant Irish Relief.

14.4 Methodological Approach

Indecon's methodological approach to undertaking this review involved a triangulation of evidence from a number of analytical techniques. The key methodological steps included:

- Analysis of all relevant documentation from the Department of Finance and Revenue Commissioners;
- Review of international evidence and previous research on similar tax incentives in other jurisdictions;
- Analysis of data from the Revenue Commissioners;
- A survey of both individual beneficiaries and tax advisers. Indecon are grateful to the Revenue Commissioners and other organisations for the assistance in highlighting the opportunity to tax payers to participate in our survey work. Responses from nine leading accounting / tax practices were received as well as from 14 enterprises;
- Wider stakeholder engagement including an open invitation to make submissions which were received from accountancy firms, business representative bodies, individual companies as well as relevant state bodies; and
- A comparison of the Relief in Ireland with similar Reliefs in other jurisdictions, with a particular focus on the comparison with the similar Relief in the UK.

The evidence from each of the preceding methodological steps was then assessed and forms the basis of the policy recommendations made by Indecon in this report.

14.5 Report Structure

The report is structured as follows:

- Chapter 2 assesses the continued relevance of the Relief in terms of its policy objectives, the importance of entrepreneurs in the Irish economy and the market failure which the Relief is seeking to address.
- Chapter 3 assesses Ireland's comparative position with regards to the capital gains tax imposed on entrepreneurs, with a particular focus on the comparisons between the Relief available in Ireland and the Relief regime in the UK.
- Chapter 4 analyses the features of the Entrepreneur Relief as well as the use of the Relief by different claimants. This is of importance in considering the efficiency of the Relief.
- Chapter 5 outlines the evidence on the impacts of the Relief.
- Chapter 6 outlines the costs and benefits of the Relief and undertakes a cost-benefit appraisal.
- Chapter 7 presents the conclusions from the preceding analysis and Indecon's policy recommendations.

14.6 Acknowledgements

Indecon would like to thank a number of individuals and organisations for their valuable inputs to this evaluation. Particular thanks are due to John Hogan, Pat Leahy, Sorsha Foran and other officials in the Department of Finance. We would also like to acknowledge the valuable inputs from officials in the Revenue Commissioners, including Keith Walsh, Philip O'Rourke Denise Cunniffe and Therese Bourke. We are also appreciative of the inputs from Felix O'Kane in the Department of Business, Enterprise and Innovation, Rowena Dwyer from Enterprise Ireland and Christine Kelly from the IDA. In addition, Indecon would also like to thank those state agencies, companies, representative bodies and professional advisory firms who made submissions to the public consultation including; BNRG Renewables, Chambers Ireland, Consultative Committee of Accountancy Bodies, Deloitte Ireland, Dog Patch Labs, Dublin Business Innovation Centre, Dublin Chamber, Effective Software, Family Business Network Ireland, Grant Thornton, HSOC Chartered Accountants, IBEC, Initiafy, Kennelly Tax Advisers, KPMG, Oriel Sea Salt, PWC, Technology Ireland, The British Irish Chamber of Commerce, the Economic and Social Research Institute, the Flat Bread Company, the Irish Farmers Association, the Irish Medtec Association, the Irish Tax Institute, the Irish Venture Capital Association, the Law Society of Ireland and the Small Firms Association. We are also particularly appreciative of the tax advisers and individual claimants who took the time to complete the survey.

The usual disclaimer applies and the analysis and findings in this independent report are the sole responsibility of Indecon.

15 Continued Relevance of Entrepreneur Relief

15.1 Introduction

This chapter outlines the policy objectives of the Relief. This chapter also considers the extent to which the Entrepreneur Relief addresses market failures in the Irish economy.

15.2 Policy Objectives of the Relief

The Revised Entrepreneur Relief reduces the capital gains tax on the dispersal of certain types of business assets. The potential relevance of the Entrepreneur Relief was discussed in the Tax Strategy Group 2018 paper on Capital Gains Tax and Capital Acquisitions Tax (CAT)[62] in the context of the impact of the rate of capital gains tax on business decisions. Specifically, it was suggested that:

"The argument made for reducing the rate of Capital Gains Tax is that it encourages sales and purchases of assets which drives economic growth, potentially increases the Exchequer yield from the tax and encourages more efficient allocation of assets. This in turn can lead to improved productivity across the economy."

The Tax Strategy Group paper outlined how capital gains taxes could result in delays in selling investments that have large unrealised gains. This suggests that a high rate of capital gains tax has the potential to reduce economic growth and prevent the shifting of some resources from lower- to higher-value uses.

15.3 The Role of Entrepreneurs in the Irish Economy

In considering the wider rationale for the Relief, Indecon also notes that entrepreneurs as broadly defined (including both commercial and social entrepreneurs) represent an important element of the Irish economy and society. Entrepreneurial activity is responsible for a significant portion of employment and output in the Irish economy. The role of entrepreneurs in the Irish economy was highlighted by IBEC in their submission to the Department of Finance where they suggested that:

"Entrepreneurs including business owners, managers and the self-employed are a crucial part of Ireland's economic fabric. Firms with fewer than twenty employees make up over 98% of the enterprise base and employ 44% of the workforce."[63]

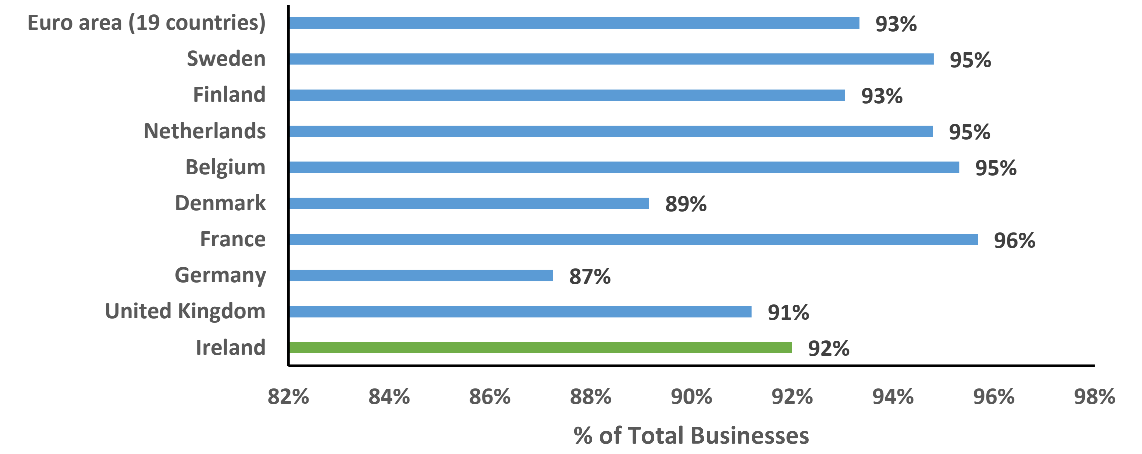
In a working paper for the OECD, Audretsch and Thurik (2001)[64] suggested that increasing entrepreneurial activity can result in higher growth rates and the importance of entrepreneurs and small enterprises is supported by evidence from Eurostat. The following figure illustrates the proportion of total businesses which have fewer than 10 employees which in Ireland is estimated to be 92%.

[62] Tax Strategy Group | TSG 18/10 CAPITAL AND SAVINGS TAXES

[63] IBEC submission to the Department of Finance. 24 May 2019

[64] Audretsch, David B., and Roy Thurik. "Linking entrepreneurship to growth." (2001).

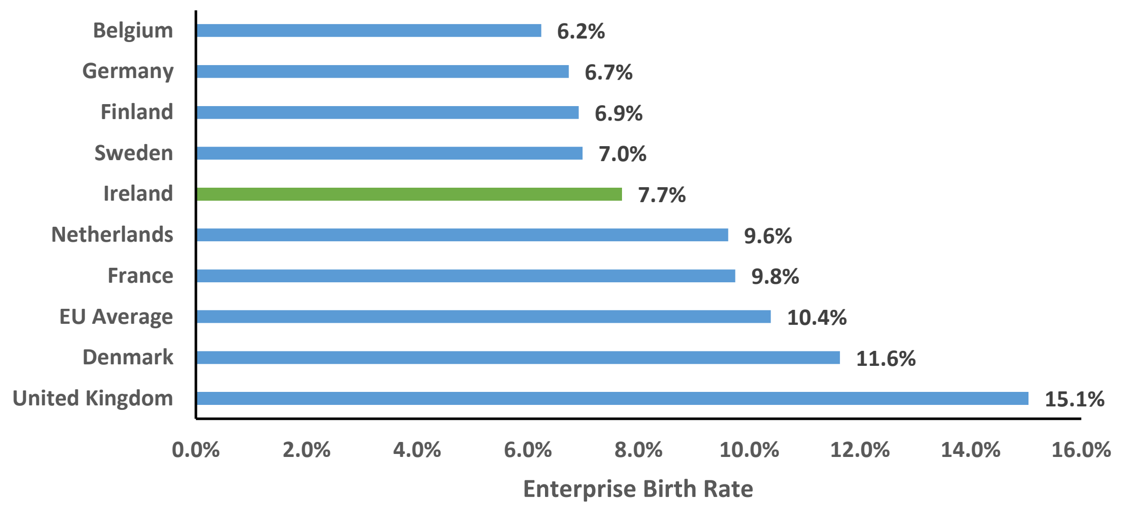
Figure 15.1: Proportion of Total Businesses Composed of Businesses with fewer than 10 Employees



Note: Based on data for 2016
Source: Indecon analysis of Eurostat Data

Entrepreneurs are potentially important to the economy in the context of innovation and generating new businesses. The following figure illustrates the birth rate of firms in Ireland and for a selection of other EU countries. The enterprise birth rate is defined as the number of enterprise births in the reference period divided by the number of enterprises active in the given period. The following figure shows that while Ireland has a lower enterprise birth rate than the EU average, it has a similar rate to a number of countries.

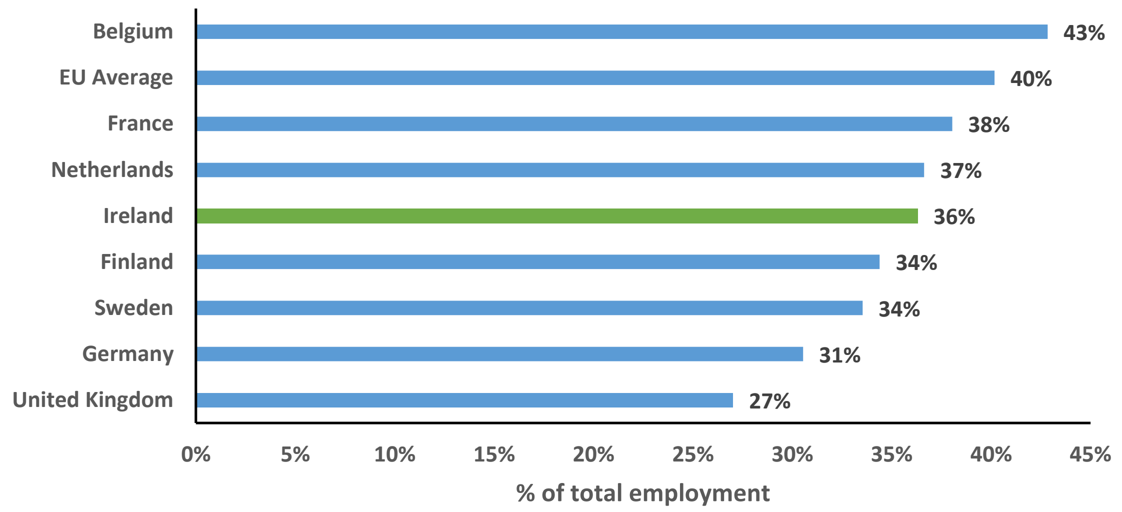
Figure 15.2: Enterprise Birth Rate



Note: Based on 2016 data. EU average based on average for all EU countries for which data was available.
Source: Indecon analysis of Eurostat Data

The following figure further illustrates the role of entrepreneurs in the Irish economy by outlining the proportion of total employment accounted for by firms with fewer than 20 employees. 36% of employment in Ireland is in firms with fewer than 20 employees. This is lower than the EU average but higher than the rate in a number of countries, including the UK.

Figure 15.3: Proportion of Total Employment in Businesses with fewer than 20 Employees



Note: Based on 2016 data. Data for Ireland from the CSO. EU average based on average for all EU countries for which data was available.
Source: Indecon analysis of Eurostat and CSO data

The role of entrepreneurial activity in the Irish economy has been emphasized in a range of government initiatives aimed at improving the environment for entrepreneurs in Ireland. *The National Policy Statement on Entrepreneurship in Ireland* was published the by Department of Business, Enterprise and Innovation in 2014. This policy statement set out a range of goals which aim to improve the environment for entrepreneurs in Ireland. The document notes that, historically, two thirds of new jobs in Ireland have been created by companies in their first five years. The National

Policy Statement suggested a link between entrepreneurship and innovation stating that "*maintaining and increasing our capacity for innovation requires fundamental support for entrepreneurship and entrepreneurial innovation.*"

The link between entrepreneurship and innovation is further highlighted in the Government's *Innovation 2020* strategy document. This emphasises the importance of improving the entrepreneurial environment in Ireland in making Ireland a global innovation leader and suggested that *"Entrepreneurship and innovation go hand in hand: entrepreneurs need access to innovative ideas, products, processes and services, and, equally, innovative products, processes and services need entrepreneurs who are prepared to take risks and develop appropriate business strategies to bring them to market."* Indecon would, however, point out that not all entrepreneurial investment leads to high levels of innovation.

15.4 Potential Market Failure and Continued Relevance of Relief

In the context of supporting entrepreneurship, it is recognised that such activity involves risk for investors. Indecon, however, accepts the point made in an important submission to this review by Dr. Roantree and Professor O'Dea of the ESRI[65] that the risks associated with entrepreneurship do not in themselves justify favourable tax treatment and there is a need to look at whether market failure exists.

Indecon's assessment suggests that the provision of the Entrepreneurship Relief may play a role in addressing market failures. Specifically, the Relief may limit any distortionary effects of more favourable capital gains taxation in other countries. Within Ireland, there may also be distortions to the risk/return arising from the tax treatment on different categories of investment.

The issue of the relative returns to the traded and non-internationally traded sectors in the Irish economy has been recognised by economists for a number of decades. For example, as far back as 1992 it was suggested that "**there needs to be a decisive shift in the balance of incentives between traded and non-traded sectors of the economy. The risk returns ratios after taxation of investment in the internationally traded sectors of the economy are too low compared to alternative investments.**"[66]

A similar point was made in IBEC submission to the Department of Finance as highlighted in the box below.

Table 15.1: Business Views on Relative Returns for Investment in Different Sectors
"As it stands, even with Entrepreneur Relief, there is more favourable tax treatment for investing in a large primary dwelling house or risk-free Government debt than there is for a high risk-activity such as investing in companies."
Source: IBEC Submission to the Department of Finance: Review of SME Taxation, 24 May 2019

In assessing the nature of the market failure which the Entrepreneur Relief may address, it is of note that a market failure is an imperfection in the market mechanism that prevents economic efficiency.

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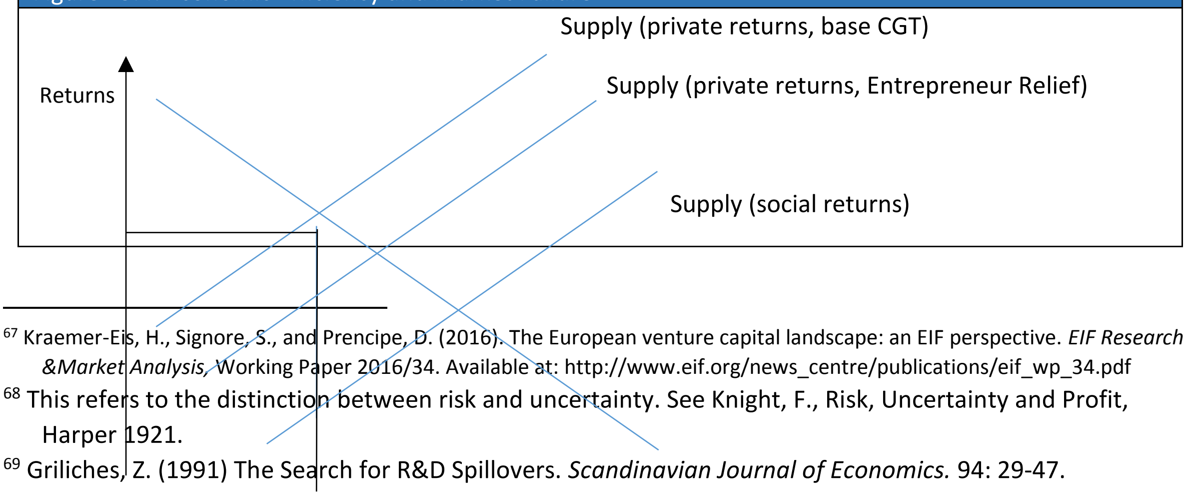
[65] Submission by Dr. Roantree, Research Officer, ESRI and Adjunct Assistant Professor TCD, and Professor Cormac O'Dea, Assistant Professor, Department of Economics, Yale University and Research Officer ESRI.

[66] See Gray, A. W., (1992), in Gray, A. W. (Indecon), Kennedy, K. A. (ESRI), McAleese, D. F (TCD) and Walsh, B. M (UCD), Responses to Irish Unemployment, p.30.

In evaluating whether there is market failure in the financing of SMEs, Kraemer-Eis, Signore and Prencipe (2016) outline in an EIF Working Paper[67] some of the main sources of market failure, including the "*disproportionality between the cost of assessing a relatively small company's need for finance and the potential financial return*", as well as asymmetric information and externalities. There is also the issue of Knightian[68] uncertainty at the start-up phase. Market failure in the provision of finance for SMEs may also be due to wider economic externalities including the social returns to innovation and the problems of capturing knowledge spill-overs (Griliches, 1991[69]). The information asymmetry leads start-ups to require initial investment from less risk-averse sources including founding entrepreneurs and other investors including angel investors and venture capitalists. In general, it is best that market failures are addressed directly and while the Revised Entrepreneur Relief does not address information asymmetries, it could assist in overcoming some aspects of the financing problems facing start-up businesses, if it impacts on the willingness of entrepreneurs to invest in new businesses.

In reviewing the Revised Entrepreneur Relief, it is also useful to consider the potential market failure due to the distortionary effect of more favourable capital gains tax rates in other countries and lower rates of tax on other types of investment. Figure 15.4 graphically shows the effect of market failures on investment levels. In the absence of intervention, economic inefficiency may result in a lower amount of investment undertaken than would be socially optimum. The deadweight loss[70] in this example is represented as the blue area in the figure; the additional loss to society due to externalities is depicted by the red area. Such externalities, however, only arise if there are constraints on investment supply due to market failures. Even in such cases, one has to carefully evaluate the effectiveness and impact of any government interventions such as the Entrepreneur Relief. The top supply curve represents the supply of investment in a scenario in which investors are only concerned with private investment returns but in which the rate of CGT makes the expected return to investment less than that required for private investors to invest at the socially optimum level. All else equal, should the rate of GCT be decreased and consequently the expected returns to investment increase but investors remain only focused on private returns, the supply curve would shift to the right and there would be an increase in private investment. This is the case in the middle supply cure in the following figure. However, if positive externalities are associated with entrepreneurial investments then the level of investment required to maximise social returns may not in this cased be achieved.

Figure 15.4: Economic Efficiency and Market Failure

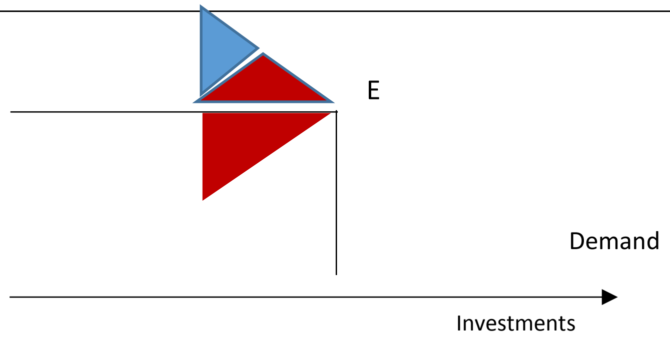


[67] Kraemer-Eis, H., Signore, S., and Prencipe, D. (2016). The European venture capital landscape: an EIF perspective. *EIF Research &Market Analysis,* Working Paper 2016/34. Available at: http://www.eif.org/news_centre/publications/eif_wp_34.pdf

[68] This refers to the distinction between risk and uncertainty. See Knight, F., Risk, Uncertainty and Profit, Harper 1921.

[69] Griliches, Z. (1991) The Search for R&D Spillovers. *Scandinavian Journal of Economics.* 94: 29-47.

[70] Deadweight loss is the cost to society of market inefficiency. Deadweight loss can be defined as any loss of economic welfare caused by an inefficient allocation of resources.



Source: Indecon

15.5 Summary of Findings

This chapter has assessed the continued relevance of the Entrepreneur Relief. The key findings from this chapter include:

- The objectives of the Relief are to support entrepreneurship and to encourage entrepreneurs to invest in the Irish economy remain relevant;
- Entrepreneurship is a key driver of employment and economic activity both internationally and in Ireland, as well as being an important driver of innovation;
- Supporting entrepreneurship via tax Relief is consistent with wider government strategies and policy objectives including *The National Policy Statement on Entrepreneurship in Ireland* and *Innovation 2020;* and
- The provision of the Entrepreneurship Relief may play a role in addressing market failures which prevent the attainment of the optimum level of entrepreneur investment in the economy.

16 Ireland's Comparative Position

16.1 Introduction

This chapter outlines Ireland's position in terms of capital gains taxation from an international perspective. While there are a range of factors influencing investment decisions by firms and entrepreneurs, the level of taxation is a relevant factor.

16.2 Tax Competition for Investment

Given the link between the rationale for the Relief and international competition for investment, it is necessary to consider Ireland's comparative taxation of entrepreneurial investment. This was highlighted in the Department of Finance's Tax Strategy Group's report[71] where it was suggested that:

"*Capital has become highly mobile and the higher the tax rates on capital, the more possibility that there will be reduced numbers of job-creating investments. Maintaining international competitiveness vis-a-vis other states (inside and outside the EU) is important particularly in retaining competitiveness as a place to invest.*"

This was also highlighted in numerous submissions to this Indecon Review and for example, the Irish Tax Institute argued that:

"CGT is unquestionably the tax that matters most to investors and serial entrepreneurs and influences their behaviour. Ireland's targeted CGT Entrepreneur Relief is targeted at reducing the high CGT burden on the sale of a business in Ireland to a limited extent. Feedback we have received from members and directly from entrepreneurs is that the current design of the Relief is one of the key contributing factors to holding back our indigenous entrepreneurial ecosystem. The existing Relief provides little incentive to grow a business beyond a certain level in Ireland and generate more employment. It is uncompetitive when compared with the UK."[72]

Indecon believes that Ireland's comparative tax position is mainly relevant to internationally mobile investments and it is also important to consider the wider structure of taxation including Ireland's low corporate tax rate. Indecon notes that some countries have different mechanisms for taxing capital gains via standard corporate tax, income tax and other means and, with this in mind, the headline capital gains tax rate may not tell the full picture. In many countries gains are assessed at the applicable marginal income or corporate tax rate. It is also important to recognise that many other factors influencing investment decisions including expectations on exchange rate fluctuations. An analysis of the capital gains tax in a range of competitor countries presented in the Tax Strategy Group Report, suggests that Ireland's prevailing rate of capital gains tax is the second highest of the countries reviewed and is much higher than in some other countries.

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[71] Department of Finance. (2018). *Capital & Savings Taxes – Capital Gains, Capital Acquisitions Taxes, Tax Strategy Group – TSG 18/10*

[72] Submission by Irish Tax Institute to CGT Entrepreneur Relief Public Consultation

Table 16.1: Top Rate of Capital Gains Tax in Other Countries			
State	**Rate %**	**State**	**Rate**
Finland	34	Czech Rep	15
France	33	Albania	15
Ireland	**33**	Greece	15
Iceland	31.8	Belarus	15
Sweden	30	Malta	12
Portugal	28	Switzerland	11.5
UK	28/20	Bosnia and Herzegovina	10
Austria	27.5	Slovenia	10
Slovak Rep	25	Moldova	10
Norway	24	Bulgaria	10
Denmark	24	Macedonia	10
Russia	20	Montenegro	9
Serbia	20	Andorra	6
Cyprus	20	Netherlands	1.62
Estonia	20	Romania	0
Luxembourg	19.48	Turkey	0
Spain	19	Croatia	0
Ukraine	18	Italy	0
Lichtenstein	17.01	Germany	0
Hungary	15	Monaco	0
Lithuania	15	Belgium	0
Latvia	15	Poland	0
Source: Tax Strategy Group 18/10			

Some alternative estimates of the highest prevailing rates taking account of recent changes and the fact that, in some countries, capital gains are taxed in line with corporate or income tax rates, are presented in the following table. The figures show that Ireland's prevailing rate of capital gains tax remains the second highest of the countries reviewed.

Table 16.2: Top Rate of Capital Gains Tax in Other Countries			
State	**Rate %**	**State**	**Rate**
Finland	34	Czech Rep	15
France	30	Albania	15
Ireland	33	Greece	15
Iceland	22	Belarus	18
Sweden	30	Malta	12
Portugal	28	Switzerland	12-24
UK	28/20	Bosnia and Herzegovina	10
Austria	27.5	Slovenia	25
Slovak Rep	25	Moldova	12
Norway	22	Bulgaria	10
Denmark	27	Macedonia	10
Russia	20	Montenegro	9
Serbia	15	Andorra	10
Cyprus	20	Netherlands	1.62
Estonia	20	Romania	10
Luxembourg	17	Turkey	22
Spain	19-23	Croatia	18
Ukraine	18	Italy	24
Lichtenstein	12.5	Germany	25
Hungary	15	Monaco	0
Lithuania	15/20	Belgium	0
Latvia	20	Poland	19
Source: Indecon Analysis			

In examining capital gains taxes, it is also important to consider specific reliefs in place to reduce capital gains paid by entrepreneurs. This particularly applies to the UK. Of note is that there is a high level of awareness in Ireland of reliefs in other countries, as is evident from the table below.

Table 16.3: Views of Taxpayers on Whether They Were Aware of Entrepreneur Reliefs in Other Countries	
	Percentage of Respondents
Yes	71.4%
No	28.6%
Total	**100%**
Source: Indecon analysis of Confidential Information Request of Taxpayers who Availed of Revised Entrepreneur Relief	

16.3The Incentive Regime in the United Kingdom

The Entrepreneur Relief in the UK reduces the level of Capital Gains Tax (CGT) paid by qualifying individuals/trustees on the disposal of qualifying business assets since April 6th, 2008. For those entitled to Entrepreneurs' Relief, their qualifying gains are charged Capital Gains Tax at the rate of 10%, subject to being below the lifetime limit applying at the time of the disposal. Should the individual or trustee have reached the lifetime limit for Entrepreneur Relief, then the excess of their capital gains will be taxable at the normal rate of Capital Gains Tax at the time of the accrual of the gains.

Relief can be claimed on the disposal of the following assets, subject to meeting the qualifying criteria throughout a period of a year:

- *assets (with the exception, in some circumstances, of goodwill) used in the business comprised in a disposal of the whole or part of your business, whether you carried on the business on your own or in partnership– qualifying business assets include business premises – not included within this category are shares and securities and any other assets held as investments;*
- *assets that were in use for your business, or a partnership of which you were a member, and were disposed of within the period of 3 years after the time the business ceased – again, this category excludes shares and securities and any other assets of the business held as investments;*
- *one or more assets consisting of shares in, or securities of, your 'personal company' – the shares must be disposed of either;*

  (i) while the company is a trading company or, where you hold shares in a holding company of a group, the group of companies is a trading group or;

  (ii) within 3 years from the date it ceased to be either a trading company or a member of a trading group; and

- *assets owned by you personally but used in a business carried on by either*

  (i) a partnership of which you are a member, or

  (ii) by your personal trading company (or by a company in a trading group, the holding company of which is your 'personal company') – the disposal will only qualify as long as it's associated with a qualifying disposal of either your interest in the partnership or of shares/securities in the company (qualifying disposals which fall into this category are referred to as 'associated disposals').

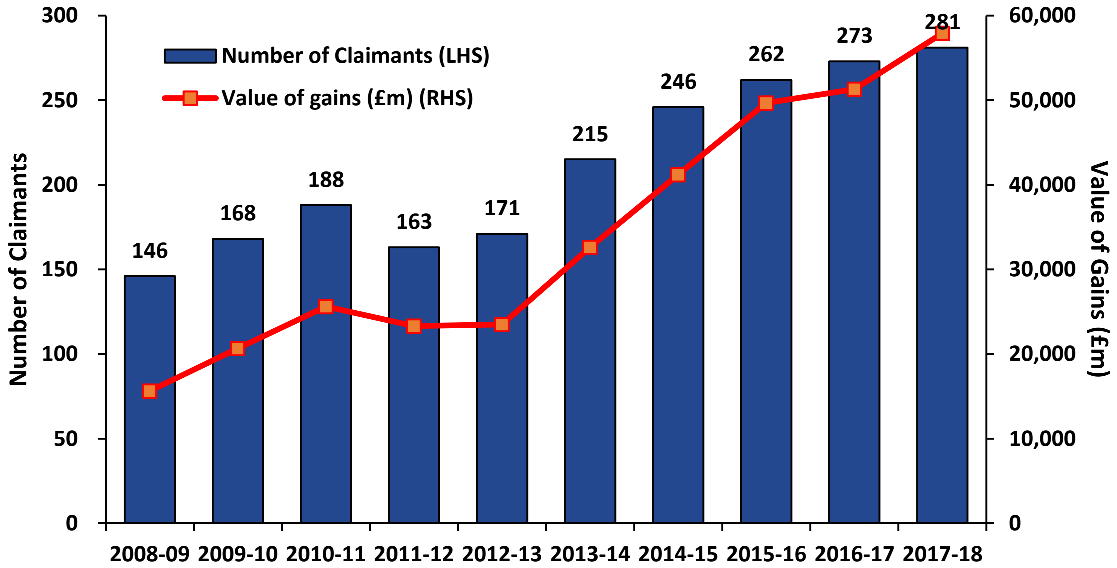
The qualifying conditions for individuals depend on the type of disposal made. For example, for disposal of the whole or part of a business to qualifying the individual must have owned the business directly or it must have been owned by a partnership in which the individual was a member. Further, "*Entrepreneurs' Relief is not available on the disposal of assets of a continuing business unless they're comprised in a disposal of a part of the business*." Qualifying conditions vary for disposal of goodwill, disposal of assets following cessation of the individual's business, disposal of shares or securities of the individual's personal company, and disposal by trustees of settlements.

There were a number of changes to the UK Entrepreneur Relief between 2008 and 2011 in relation to the lifetime limit for qualifying capital gains for each individual. Qualifying capital gains for each individual are subject to the following lifetime limits depending on when they were disposed:[73]

- *for disposals on or after 6 April 2008 to 5 April 2010 - £1 million*
- *for disposals on or after 6 April 2010 to 22 June 2010 - £2 million*
- *for disposals on or after 23 June 2010 to 5 April 2011 - £5 million*
- *for disposals on or after 6 April 2011 - £10 million*

As can be seen in the following figure, the number of individuals/trusts claiming Entrepreneur Relief has almost doubled since 2008, whilst the value of the gains has increased from approximately £15.6 billion in 2008/09 to £57.9 billion in 2017/18. Of particular significance is that the Entrepreneur Relief in the UK has a very high tax cost for the Exchequer. This has been estimated to be around £2.4 billion in 2018/2019.

Figure 16.1: Take Up of Entrepreneur Relief in UK (2008-2018)

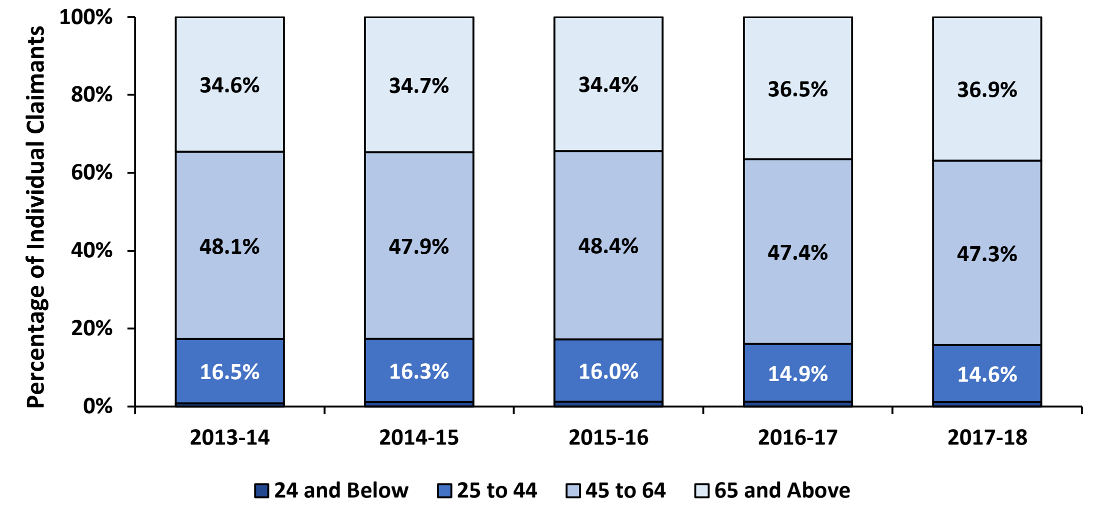


Source: HM Revenue and Customs
Note: Data from 2012 onwards is provisional and subject to change due to late filings.

Just over one-third of Entrepreneur Relief Claimants in the UK are aged 65 and over, with this proportion increasing slightly in recent years. In this context it is noteworthy that Ireland has a separate incentive known as Retirement Relief.

[73] Ibid.

Figure 16.2: Age Profile of Claimants of Entrepreneur Relief in UK (2013-2018)



Source: Indecon analysis of HM Revenue and Customs data
Note: Data is provisional and subject to change due to late filings.

As part of the stakeholder consultation process for this review, tax advisers consulted by Indecon suggested the tax relief available in the UK was a key consideration for their clients when considering setting up a business in, or moving a business to Ireland. The advisers cited the higher lifetime limit for the Relief in the UK as a key differentiating factor between the Irish and UK regimes while also highlighting certain other operational advantages of the UK Relief in terms of the holding period and flexibility around the ownership requirement. Some inputs from the tax advisers are presented in Table 16.5. Indecon's independent analysis has confirmed that the UK offers a much more attractive regime for entrepreneurs in terms of capital gains Relief. As discussed in Chapter 5, the existing Entrepreneur Relief does not appear to have had significant impact on investment decisions which have been made by investors in Ireland. Indecon, however, accepts that there may have been some investments which were not made because the Relief is less attractive than in other countries. This is likely to apply to internationally mobile investments.

Table 16.4: Views of Tax Advisers on Reliefs on Comparative Position with the UK
"Entrepreneur Relief has been available in the UK since 2008. While in broad terms the scheme is similar to the Irish version, the UK version is superior in a number of ways, notably: *- The cap at Stg£10m is much higher, which means it plays a far bigger role with investment decisions.* *- The holding period for the shares, at two years, is shorter.* *- There is also greater flexibility with the UK scheme; for example, it allows in certain cases for the Relief to be preserved where a shareholder is diluted below 5% as a result of a new investor investing in the company."* *"Businesses are very mobile as are individuals and if there is an alignment between market opportunities in the UK and shareholder exit matters, investment will move. Further there are a lot of Irish people in the UK who may contemplate a move home and an expansion of Irish operations as a consequence of such a move - if an exit is anticipated and the CGT landscape is not attractive, investors will stay in the UK."* *"In 2016, the UK introduced a sister Relief, Investor Relief, which allows for a 10% rate of CGT to apply to passive investors who do not work in the business. While the shares must be retained for a longer 3-year period there is no minimum shareholding required. This is a very useful Relief, as it opens up another attractive fundraising option for businesses."* *"The UK Relief is way ahead of Ireland, limit £10m."* *"The limit of €1m is far too small."* *"We are way behind internationally."*
Source: Indecon analysis of results of Indecon Survey from Tax Advisers

While the comparative disadvantages in the Relief available in the UK may not have impacted significantly on those investments which have been made, Indecon accepts that some internationally traded investments may have lost where there is an option on their location. This is reflected in inputs from a leading tax advisory firm to the stakeholder engagement process who outlined a number of case studies on clients whose businesses decisions were influenced by the differential tax rates as summarised in Table 16.5.

Table 16.5: Views of Tax Advisers on Impact of International Tax Competition
"We were introduced by Enterprise Ireland to two entrepreneurs from the UK a few year ago who they hoped would move to Ireland as part of their programme to attract foreigners to establish their business in Ireland. We evaluated the post-tax returns in various scenarios including the rate of tax on exit and the scope to raise additional capital under the Ireland's EII Relief. They got a big fright when they saw the CGT differential (Entrepreneurs Relief and general CGT rate), and were not particularly impressed with the EII regime and how it compared to the UK EIIS regime. Neither invested here." *"One of our clients is Irish and has grown a number of businesses over the years. He chooses to live in UK and runs his business from there rather than Ireland because of the UK tax regime. The difference in tax rate (33% v 10%) is important given the scale of his investment and the gains he has made over the years."* *"One of my US MNC clients bought an Irish tech company here owned by an Irish guy. When we got into the detail, we found he was living in the UK. He had strategically decided to set his life up in the UK so that on exit from the tech business he set up he qualified for the UK Entrepreneurs' Relief rather than effectively pay 33% CGT in Ireland."*
Source: Indecon analysis of Submission by a leading firm of Tax Advisers

16.4 Summary of Findings

The key findings of this chapter include:

- While there are a range of factors influencing investment decisions by firms and entrepreneurs, the level of taxation is important for internationally mobile forms of investment;
- Ireland has high rates of capital gains tax compared to key competitors for foreign investment including the UK, Netherlands, Luxembourg and other countries;
- The headline CGT rate in the UK of 20% is significantly lower than the headline 33% rate in Ireland;
- The lifetime cap of £10 million for Entrepreneur Relief in the UK compares to a cap of €1 million in the Irish Relief; and
- The UK Relief provides greater flexibility to entrepreneurs whose ownership is diluted below a 5% threshold.

17 Analysis of Entrepreneur Relief Claims

17.1 Introduction

This chapter analyses the features of the Revised Entrepreneur Relief in Ireland. An examination of the use of the Relief to date in terms of the type of firms utilising the Relief is also undertaken. We also consider the interaction of the Entrepreneur Relief with the Retirement Relief.

17.2 Features of the Relief

The Entrepreneur Relief originally provided that a 20% rate of CGT applies in respect of a chargeable gain or chargeable gains on a disposal of qualifying business assets up to a lifetime limit of €1m. The 20% rate was reduced to 10% by Section 26 Finance Act 2016 in the case of disposals made on or after 1 January 2017. A qualifying business is defined as a business other than the holding of securities or other assets as investments, the holding of development land or the development or letting of land. The Relief applies to individuals only.

Relief is provided on disposals of a very wide range of business assets although it does not apply to the following assets:

- shares, securities or other assets held as investments;
- development land;
- assets on the disposal of which no chargeable gain would arise;
- assets personally owned outside a company, even where such assets are used by the company;
- goodwill which is disposed of to a connected company; and
- shares or securities in a company where the individual remains connected with the company following the disposal

There is a range of conditions which must be satisfied in order for an individual to be eligible to claim Relief. The qualifying business assets must have been owned by that individual for a continuous period of three years in the five years immediately prior to the disposal of those assets. Individuals seeking to qualify for the Relief must own at least 5% of the ordinary shares in the qualifying company.

The individual must have been a director or employee of the qualifying company who is or was required to spend at least 50% of his or her time in the service of the company or companies in a managerial or technical capacity and has served in that capacity for a continuous period of three years in the five years immediately prior to the disposal of the chargeable business assets.

Also important to note, is that in addition to Entrepreneur Relief, there is Retirement Relief for those aged 55 or over for assets owned and used for the previous 10 years.

17.3 Use of Relief by Firm Type and Asset Class

In examining the efficiency of the Relief, it is useful to analyse what sectors have benefited from the Relief. Indecon has been provided with detailed disaggregate data on the usage of the Entrepreneur Relief by the Revenue Commissioners. This data provides important new insights insight into the nature of the firms and individuals utilising the Relief.

Table 17.1: Entrepreneur Relief (Section 597AA) by Sector

Sector	Number
Agriculture Forestry and Fishing:	**91**
Raising of dairy cattle	22
Mixed farming	47
Other	22
Manufacturing	**10**
Construction	**52**
Wholesale and retail trade:	**59**
Dispensing chemist in specialised stores	13
Other	46
Transportation and Storage	**13**
Accommodation and food service activities:	**30**
Restaurants and mobile food service activities	13
Other	17
Information and Communication	**29**
Financial and Insurance Activities:	**26**
Other financial service activities, except insurance and pension funding n.e.c.	15
Others	11
Real Estate Activities	**124**
Professional Scientific and Technical Activities:	**131**
Legal activities	12
Accounting, bookkeeping and auditing activities; tax consultancy	57
Business and other management consultancy activities	22
Engineering activities and related technical consultancy	10
Veterinary activities	12
Other	18
Human health and Social Work activities:	**40**
General medical practice activities	19
Other	21
Other Activities and Sectors	**40**
Other including individuals with a "director only" code	**230**
Directors	203
Other	27
Total	**875**

Source: Revenue Commissioners

The analysis indicates that there has been very significant use of the Relief by non-internationally traded sectors, such as wholesale and retail sector including dispensing chemists, as well as by sectors such as real estate activities, accounting, bookkeeping, auditing, veterinary activities and medical practices. Survey evidence confirms the non-internationally traded focus of the Relief and most of respondents suggested their business had no export earnings.

Table 17.2: Percentage of Revenue of Business Claimed Under Entrepreneur Relief Generated Through Exports	
	Percentage of Revenue (%)
Average	20.7%
Source: Indecon analysis of Confidential Information Request of Taxpayers who Availed of Revised Entrepreneur Relief	

Analysis of the data provided by the Revenue Commissioners to Indecon for the purposes of this evaluation provides an insight into the type of assets against which Relief is being claimed. The majority of assets are unquoted shares. Interestingly, some of the assets sold relate to property and there were also a significant number of claimants who had quoted shares in public companies.

Table 17.3: Entrepreneur Relief by Asset Type	
Asset Type	**Number of Claimants**
Shares Quoted	54
Shares Unquoted	354
Agricultural Land/buildings	53
Commercial Premises	10
Residential Premises	<10
Shares or Securities	<10
Other Assets	222
Source: Indecon analysis of data from the Revenue Commissioners	

17.4 Use of Relief by Claimant Profile

Data was also analysed on the profile of individual claimants. The following table outlines the range of incomes and the distributions of claims across these income ranges for 2017. The data shows that individuals claiming the Relief had annual incomes totalling over €117m in 2017, with an average income of €134,000. The data demonstrates that individuals in a very wide range of income tax bands availed of the Relief.

Table 17.4: Entrepreneur Relief Distribution of Income 2017			
Range of Gross Income	**All Cases**		
	Number of cases	**Income**	**Average**
0 20,000	52	546,579	10,511
20,000 30,000	28	703,621	25,129
30,000 40,000	49	1,677,787	34,241
40,000 50,000	55	2,448,132	44,511
50,000 60,000	51	2,828,399	55,459
60,000 70,000	63	4,136,760	65,663
70,000 75,000	32	2,337,001	73,031
75,000 80,000	28	2,176,554	77,734
80,000 90,000	44	3,738,431	84,964
90,000 100,000	38	3,577,642	94,148
100,000 150,000	179	22,407,272	125,180
150,000 200,000	83	14,588,269	175,762
200,000 275,000	86	19,773,414	229,923
Over 275,000	87	36,482,340	419,337
Totals	**875**	**117,422,201**	**134,197**
Source: Indecon analysis of data from the Revenue Commissioners			

Revenue data shows that the majority of claims were made by married couples with one earner, as illustrated in the following table.

Table 17.5: Relief Claimants by Marital Status	
Single males	121
Single females	42
Married couples 1 earner	514
Married couples 2 earner	182
Source: Indecon analysis of data from the Revenue Commissioners	

The Indecon survey of taxpayers who availed of the Relief also provides some insights into the profile of claimants. The average age of taxpayers surveyed who claimed Relief was 52 years. This is likely to explain why many of those claiming Relief did not utilise the more attractive Retirement Relief provision. This is important as if the entrepreneurs delayed the sale of the assets, they may have been able to avail of a higher level of tax relief.

Table 17.6: Age Profile of Claimants	
Average	52
Median	50
Source: Indecon analysis of Confidential Information Request of Taxpayers who Availed of Revised Entrepreneur Relief	

All of the taxpayers surveyed who claimed Relief indicated that they were currently employed or self-employed.

Table 17.7: Employment Status of Claimants	
	Percentage of Respondents
Employed	42.9%
Self-Employed	57.1%
Retired	0.0%
Unemployed	0.0%
Other	0.0%
Total	**100%**
Source: Indecon analysis of Confidential Information Request of Taxpayers who Availed of Revised Entrepreneur Relief	

17.5 Interaction of Relief with Retirement Relief

One issue examined as part of this study is how the Revised Entrepreneur Relief currently interacts with the Retirement Relief available. This reflects the fact as highlighted in a submission to the consultation process for this review, that:

"It is difficult to look at Entrepreneur Relief in isolation because within the family business context, this Relief is often utilised alongside Retirement Relief in succession planning."

Retirement Relief applies if an individual is 55 or older, and it allows for eligible individuals to claim CGT relief when disposing of any part of their business or farming assets. Although this is referred to as Retirement Relief, an eligible claimant does not need to retire from the business or farming in order to qualify.

There are certain circumstances in which an individual may qualify for this relief before they are 55. These circumstances are where:

- An individual is unable to continue farming due to ill health; or
- An individual reaches the age of 55 within 12 months of the disposal.

Since 2014, eligible claimants can claim full relief when the market value at the time of disposal does not exceed €750,000. The threshold is reduced to €500,000 if the disposal takes place on or after 1 January 2014 **and** the claimant is 66 or older.

Eligible assets for the relief include:

- Chargeable business assets owned for at least 10 years;
- Shares or securities held for at least 10 years;
- Payment entitlements; and
- Land and machinery or plant owned for a least 10 years.

If the market value is more than the above defined threshold, marginal relief may apply. This limits the CGT to half the difference between the market value and the threshold. The threshold of €750,000 (€500,000 after 1 January 2014 for persons aged 66 or older) is a lifetime limit. If an individual exceeds this threshold, relief given on earlier disposals will be withdrawn.

Retirement relief also allows eligible individuals to dispose of all or part of a business or farming assets to their child. A child can include:

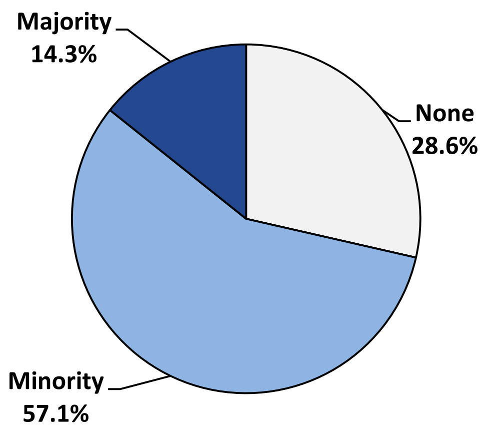
- a child of your deceased child;

- your niece or nephew who has worked full time in the business or farm for at least five years; and
- your foster child whom you have maintained for at least five years.

The amount of relief that can be claimed depends on the age of the claimant at the time of disposal. From 1 January 2014, full relief may be claimed if the claimant is aged between 55 and 65. If 66 or older, the relief is restricted to €3 million. If the child disposes of the asset within six years, the relief will be withdrawn.

Evidence from the survey of tax advisers indicated that only a minority of their clients who availed of the Entrepreneur Relief also availed of Retirement Relief.

Figure 17.1: Views of Tax Advisers on Whether Their Clients who Availed of Entrepreneur Relief Also Availed of CGT Retirement Relief



Source: Indecon analysis of Confidential Information Request of Tax Advisers (2019)

The small percentage of Entrepreneur Relief claimants who utilise Retirement Relief was reflected in responses to the survey of taxpayers who availed of the Entrepreneur Relief.

Table 17.8: Proportion of Entrepreneur Relief Claimants Who Also Claimed Retirement Relief

	Percentage of Respondents
Yes	14.3%
No	85.7%
Total	**100%**

Source: Indecon analysis of Confidential Information Request of Taxpayers who Availed of Revised Entrepreneur Relief

Our analysis and stakeholder inputs suggest that the reasons for the low rate of usage of Retirement Relief by those entrepreneurs availing of the Entrepreneur Relief included:

- Claimants being ineligible for the Retirement Relief on age grounds;
- Claimants being ineligible for Retirement Relief due to the proceeds from the sale exceeding the threshold limit for Retirement Relief;
- Claimants failing to satisfy the 10-year holding requirement for Retirement Relief;
- Claimants failing to satisfy the family company requirement for Retirement Relief; and
- Claimants did not hold a sufficient shareholding in the company to qualify for Retirement Relief.

The differences in the Retirement Relief and the Entrepreneur Relief was highlighted in a submission from a leading accountancy and tax practice who suggested that:

"CGT Retirement Relief is required to foster the timely transfer of family businesses from one generation to the next and from one entrepreneur to the next, when the transferor is approaching retirement age. In contrast, CGT Entrepreneur Relief recognises the importance of encouraging and developing Irish high-growth companies. It is a key incentive to embolden entrepreneurs to invest, sell, move on and to re-invest in new business ventures and create employment. In the majority of cases, the sale or part-sale of a company is a positive decision. The business does not stop with the sale, it simply continues with new funding and under new ownership and governance structure."

It is, however, clear that there are some interactions between the Retirement Relief provisions and the Entrepreneur Relief. It may be useful to investigate the merits of an integrated Entrepreneur Relief which would incorporate some of the provisions of the Retirement Relief. This is particularly relevant given that we understand it is not necessary to retire to avail of the Retirement Relief and integrating both could highlight more clearly the range of capital gains reliefs available to entrepreneurs.

17.6 Summary of Findings

The key findings from this chapter include:

- The analysis indicates that there has been very significant use of the Relief by non-internationally traded sectors, such as wholesale and retail sector including dispensing chemists, as well as by sectors such as real estate activities, accounting, bookkeeping, auditing, veterinary activities, and medical practices.
- Analysis of revenue data shows that individuals claiming Relief had annual incomes totalling over €117m in 2017, with an average income of €134,000.
- Evidence from the Indecon survey of taxpayers who claimed the Relief indicated that the average age of claimants was 52 years.

18 Impacts and Benefits of Relief

18.1 Introduction

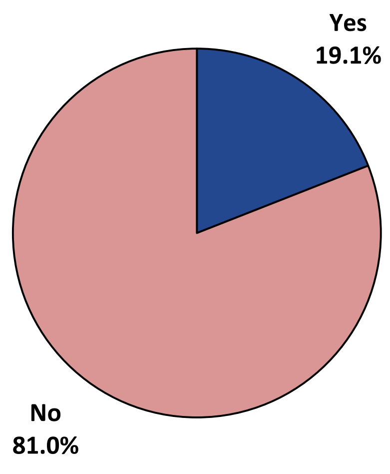
This chapter examines the impact and benefits of the Relief to date. An assessment of the impact of the Relief on investment decisions is also considered.

18.2 Awareness of Entrepreneur Relief Prior to Initial Investment

An important element of appraising the benefits of the Entrepreneur Relief is the extent to which the availability of the Relief influenced the decision-making process of claimants prior to their investment decision. If claimants were unaware of the availability of the Relief prior to making their investment, then it is clear that the investment would have taken place in the absence of the Relief. Indecon has used evidence from both the survey of tax advisers and taxpayers who availed of the Relief to inform consideration of this issue. Tax advisers suggested that most of their clients were not aware of the Relief prior to their initial investment. As pointed out in a number of submissions, this finding may reflect the timing of the introduction of the Relief. The finding is, however, consistent with similar research from the UK[74] which concluded that:

"In the majority of cases, ER was not the primary motivating factor when customers were making decisions about investing in assets."

Figure 18.1: Views of Tax Advisers on Whether Clients Were Aware of Scheme Prior to Their Initial Investment



Source: Indecon analysis of Confidential Information Request of Tax Advisers (2019)

[74] "*Capital Gains Tax: Entrepreneurs' Relief: Behaviour sand Motivations*" HMRC Research Report 456, May 2017

The survey of taxpayers who availed of the Relief also confirms that taxpayer survey respondents were not aware of the Relief prior to their initial investment.

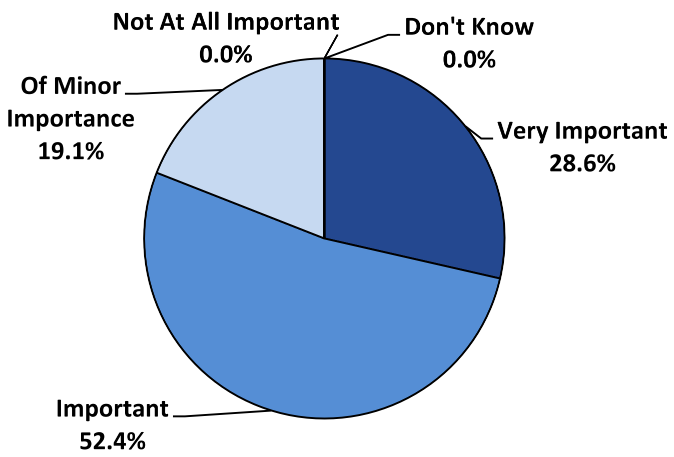
Table 18.1: Views of Taxpayers on Whether They Were Aware of Entrepreneur Relief Prior to Initial Investment		
	Number of Respondents	**Percentage of Respondents**
Yes	0	0%
No	14	100%
Total	**14**	**100%**
Source: Indecon analysis of Confidential Information Request of Taxpayers who Availed of Revised Entrepreneur Relief		

The available evidence suggests that most of the investment undertaken since the introduction of the Relief would have proceeded in the absence of the Relief.

18.3 Impact on Decision and Timing of Asset Disposal

The available evidence indicates that the Relief is likely to have had a significant impact on the decision to sell a business and the timing of this sale. For example, the majority of tax advisers who responded to the Indecon survey indicated their belief that the Relief was very important/important in influencing decisions to sell businesses or assets. 81% of tax advisers responded that the Relief was either important or very important in their clients' decision to sell their business or asset.

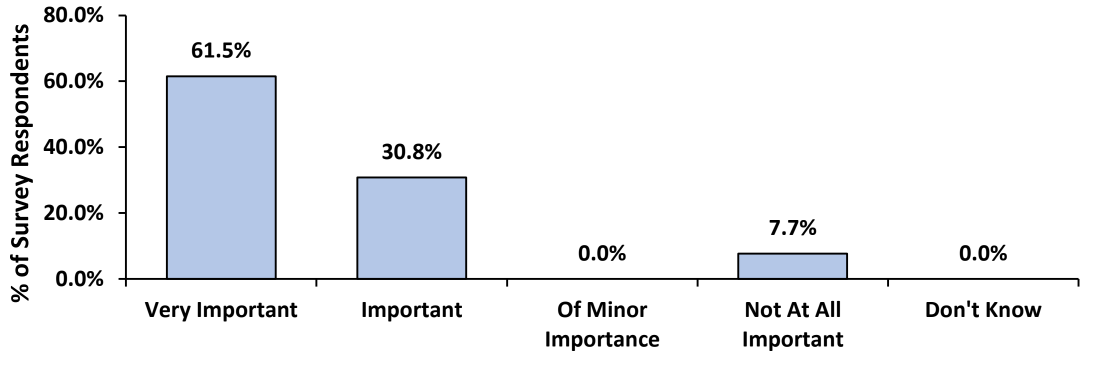
Figure 18.2: Views of Tax Advisers on the Importance of the Revised Entrepreneur Relief on the Decision of Clients to Sell Their Business/Asset



Source: Indecon analysis of Confidential Information Request of Tax Advisers (2019)

The following figure presents the findings from the survey of taxpayers who availed of the Relief. This suggests that over 90% of respondents stated their belief that the Relief played an important or very important role in their decision to sell their business/asset.

FIGURE 18.3: VIEWS OF TAXPAYERS ON THE IMPORTANCE OF THE REVISED ENTREPRENEUR RELIEF ON THE DECISION TO SELL THEIR BUSINESS/ASSET



Source: Indecon analysis of Confidential Information Request of Tax Advisers (2019)

Both the tax advisers and tax payers also indicated that the availability of the Relief was an important factor influencing the timing of the disposal of their shares/assets. This is illustrated in the following table.

Table 18.2: Views of Tax Advisers on the Importance of the Revised Entrepreneur Relief on the Timing of the Disposal of Shares/Assets

	Very Important	Important	Of Minor Importance	Not at All Important	Don't Know
Survey of Tax Advisers	38.1%	52.4%	9.5%	0.0%	0.0%
Survey of Taxpayers	57.1%	21.4%	7.1%	14.3%	0.0%

Source: Indecon analysis of Confidential Information Request of Tax Advisers and Confidential Information Request of Taxpayers who Availed of Revised Entrepreneur Relief

In our survey of taxpayers and tax advisers, Indecon also asked respondents what they would have done with regards to the disposal of their asset in the absence of the Relief. The following table illustrates the findings that 85% of taxpayers indicated that they would have either delayed the sale of the asset or would not have sold the asset.

Table 18.3: Views of Taxpayers on the Likely Disposal of Shares/Assets in Absence of the Relief

	% of Respondents	
	Taxpayers	**Tax advisers**
Would have proceeded with asset disposal	7.1%	23.8%
Would have delayed asset disposal	71.4%	47.6%
Would not have sold asset	14.3%	19.1%
Other	7.1%	9.5%
Total	**100%**	**100%**

Source: Indecon analysis of Confidential Information Request of Tax Advisers and Confidential Information Request of Taxpayers who Availed of Revised Entrepreneur Relief

In considering the behavioural response of entrepreneurs in Ireland to changes in the Revised Entrepreneur Relief, it is useful to examine the differential claims made under the Relief in 2016 and 2017 following the rate change from 20% to 10% from January 2017. Table 18.4 shows that the value of claims increased by 300% between 2016 and 2017 and the number of claims more than doubled. This may, in part, be indicative of the responsiveness of entrepreneurs in the timing of asset disposals to changes in rate of tax, but may also reflect other factors.

Table 18.4: Capital Gains Tax – Entrepreneur Relief Statistics January 2019

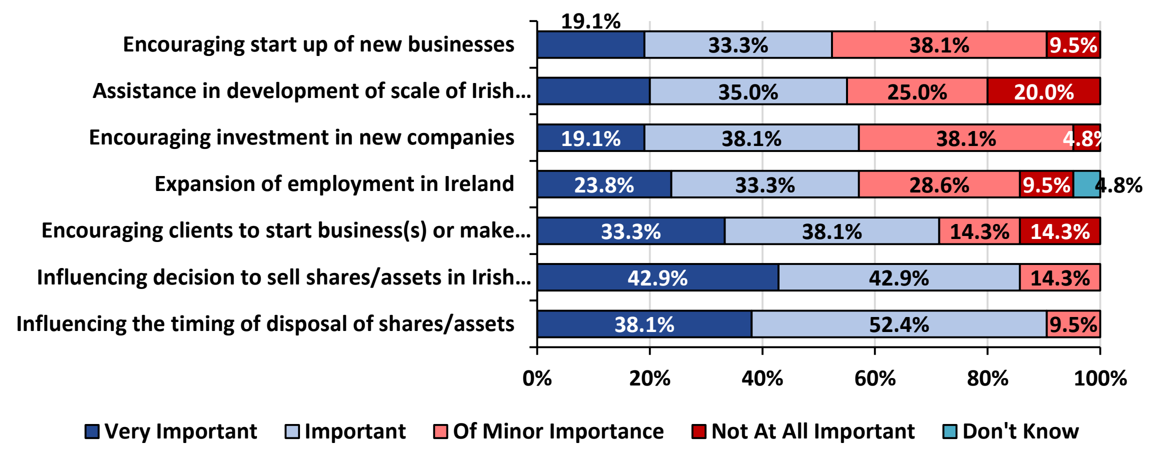
Year	Amount €m	Number of Tax Units	Number of Claims
2016	20.4	406	412
2017	81.8	875	873

Source: Revenue Commissioners, Capital Gains Tax – Entrepreneur Relief Statistics June 2019

18.4 Impact on Future Investments and Wider Economic Development

A policy objective of the Entrepreneur Relief is to encourage entrepreneurs to reinvest in new businesses to encourage further economic activity and employment growth. Tax advisers indicated their belief that the Relief was important in encouraging investment in new companies, encouraging the start-up of new businesses and in encouraging clients to start businesses or make investments in Irish companies.

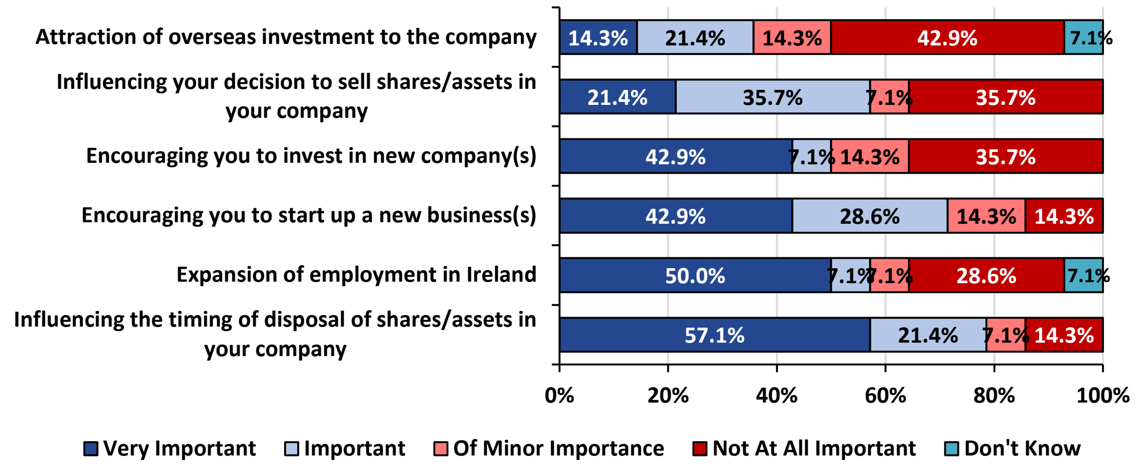
Figure 18.4: Views of Tax Advisers on the Importance of the Revised Entrepreneur Relief to Future Investment Decisions



Source: Indecon analysis of Confidential Information Request of Tax Advisers (2019)

The perceived importance of the Relief on future investment was reflected in views of taxpayers surveyed, as illustrated in Figure 18.5, although some respondents indicated that the Relief was not important in encouraging them to invest in a new company.

FIGURE 18.5: VIEWS OF TAXPAYERS ON THE IMPORTANCE OF THE RELIEF TO FUTURE INVESTMENT DECISIONS



Source: Indecon analysis of Confidential Information Request of Tax Advisers (2019)

The survey of taxpayers provided insights into the extent to which claimants of the Relief have reinvested their gains in new businesses. While 36.4% of respondents indicated they had used some funds in new start-up businesses, many have used the funds for personal expenditure or savings or to pay off existing loans. Indecon notes that there is currently no conditionality on beneficiaries to invest in new enterprises.

Table 18.5: Respondents Actions Since Claiming Relief

	Number of Respondents
Savings	45.5%
Paid off existing mortgages/loans	45.5%
Commenced new start-up business(s)	36.4%
Invested in unquoted company(s)	27.3%
Used funds for retirement/personal expenditures	27.3%
Invested in property	9.1%
Commenced new start-up business(s)	36.4%
Other	36.4%

Source: Indecon analysis of Confidential Information Request of Taxpayers who Availed of Revised Entrepreneur Relief

In considering the wider impact of the Entrepreneur Relief, Indecon notes that in their submission, Dr. Barra Roantree and Prof. Cormac O'Dea of the ESRI suggested the Relief adds complexity to the tax system and induces economic distortion in relation to businesses retaining profits and maintaining individual employees' 5% ownership threshold.

18.5 Summary of Findings

The key findings from this chapter include:

- Entrepreneurs benefitting from the Relief were not aware of Relief prior to their initial investment. This finding may reflect the timing of the introduction of Relief but is consistent with similar research from the UK.
- The evidence suggests that the Relief was important in influencing the decision to sell business or assets.
- While some entrepreneurs have used the capital gains to invest some funds in a new start-up business, many had used the funds for personal expenditure or savings or to pay off existing loans.
- Indecon notes that there is currently no conditionality on beneficiaries to invest in new enterprises.

19 Modelling of Costs and Benefits

19.1 Introduction

In evaluating the merits of the continuation of the Relief, it is essential to examine the benefits and costs of the Relief although there is inevitable uncertainty concerning the estimates as one is attempting to measure a counterfactual situation of what would have happened in the absence of Relief.

19.2 Exchequer Costs

The Revenue Commissioners have provided estimates of the tax costs of Entrepreneur Relief assuming no behavioural changes from the incentive. The following table illustrates the estimates of the annual exchequer costs of the Relief in 2016 and 2017. The total costs amounted to approximately €81.2m in 2017 which represented a significant increase on 2016. This in part reflects the reduction in rate of Relief from 20% to 10%. However, there was also a significantly larger number of claims in 2017 relative to 2016.

Table 19.1: Capital Gains Tax – Entrepreneur Relief Statistics January 2019

Year	Tax Forgone €m	Number of Tax Units	Number of Claims
2016	20.4	406	412
2017	81.8	875	873

Source: Revenue Commissioners, Capital Gains Tax – Entrepreneur Relief Statistics June 2019

Data from the Revenue Commissioners also facilitates an analysis of the 'tax forgone' costs of the Relief by sector. In both 2016 and 2017 the largest sectors in terms of cost were real estate activities and professional scientific and technical activities.

Table 19.2: Exchequer Costs by Sector

Sector	Number of Cases - 2016	2016 Claim Amount €m	Cost Amount – 2016 €m	Number of Cases – 2017	2017 Claim Amount €m	Cost Amount – 2017, €m
Agriculture Forestry and Fishing	42	6.1	0.8	91	15.2	3.5
Manufacturing	<10	1.3	0.2	10	2.3	0.5
Construction	20	5.1	0.7	52	10.1	2.3
Wholesale and Retail Trade	18	3.9	0.5	59	24.4	5.6
Transportation and Storage	<10	0.3	0.0	13	0.9	0.2
Accommodation and Food Service Activities	16	5.7	0.7	30	10.8	2.5
Information and Communication	<10	1.4	0.2	29	12.5	2.9
Financial and Insurance Activities	17	10.0	1.3	26	12.6	2.9
Real Estate Activities	46	25.7	3.3	124	75.6	17.4
Professional Scientific and Technical Activities	64	19.0	2.5	131	44.1	10.1
Human Health and Social Work Activities	22	7.5	1.0	40	13.6	3.1
Other Activities and Sectors	19	5.2	0.7	40	9.2	2.1
Other including individuals with a "Director Only" Code	122	65.8	8.5	230	124.7	28.7
TOTAL	406	156.6	20.4	875	355.8	81.8

Source: Revenue Commissioners, Capital Gains Tax – Entrepreneur Relief Statistics June 2019

A more detailed and updated analysis shows that within professional scientific and technical activities, accounting and business consulting were largest sectors. Real Estate Activities were the sector with largest overall exchequer costs.

Table 19.3: Exchequer Costs by Sub-Sector	
Sector	**Sub-Sector Cost Amount - €m 2017**
Agriculture Forestry and Fishing:	**3.5**
Raising of dairy cattle	1.2
Mixed farming	1.6
Other	0.7
Manufacturing	**0.5**
Construction	**2.3**
Wholesale and retail trade:	**5.6**
Dispensing chemist in specialised stores	2.7
Other	2.9
Transportation and Storage	**0.2**
Accommodation and food service activities:	**2.5**
Restaurants and mobile food service activities	1.1
Other	1.4
Information and Communication	**2.9**
Financial and Insurance Activities:	**2.9**
Other financial service activities, except insurance and pension funding n.e.c.	2
Others	0.9
Real Estate Activities	**17.4**
Professional Scientific and Technical Activities:	**10.1**
Legal activities	0.7
Accounting, bookkeeping and auditing activities; tax consultancy	3.9
Business and other management consultancy activities	3.0
Engineering activities and related technical consultancy	0.7
Veterinary activities	0.8
Other	1.0
Human health and Social Work activities:	**3.1**
General medical practice activities:	1.5
Other	1.6
Other Activities and Sectors	2.1
Other including individuals with a "director only" code	**28.7**
Directors	25.2
Other	3.5
Total	**81.8**
Source: Revenue Commissioners	

There is a very wide distribution in the amount of Relief claimed by individuals. As illustrated in the following table, only 153 out of 875 cases (17.5% of claims) involved amounts in excess of €1 million. 34% of claims in 2017 were for less than €100,000.

Table 19.4: Entrepreneur Relief by Amount Claimed				
	2016		2017	
Amount of Relief Claimed	**Number of Cases**	**Amount €m**	**Number of Cases**	**Amount €m**
€1 to €20,000	48	0.5	65	0.7
€20,001 to €40,000	34	1.0	82	2.5
€40,001 to €60,000	27	1.4	68	3.4
€60,001 to €80,000	20	1.4	42	3.0
€80,001 to €100,000	24	2.2	38	3.5
€100,001 to €200,000	53	8.4	136	20.4
€200,001 to €500,000	78	25.7	152	48.7
€500,001 to €999,999	43	31.3	139	107.5
€1.000,000+	79	84.8	153	166.2
All	406	156.6	875	355.8
Source: Revenue Commissioners, Capital Gains Tax – Entrepreneur Relief Statistics June 2019				

It is also useful to examine the costs to the exchequer by type of asset against which the Relief has been claimed. The following table shows that sale of shares/securities in unquoted companies represented the largest asset class, representing 67% of the value of claims in 2017. 6.6% of the value of claims was made up of agricultural land/buildings, commercial premises and residential premises in 2017.

Table 19.5: Assets and Aggregate Consideration for Tax Payers who Claimed Entrepreneur Relief		
	Aggregate Consideration Declared Amount Claimed	
Description of Assets	**2016 €m**	**2017 €m**
Shares/Securities – Quoted	41.4	87.9
Shares/Securities – Unquoted	298.6	683.1
Agricultural Land/Buildings	9.1	28.0
Development Land	6.3	0
Commercial Premises	25.5	25.8
Residential Premises	6.3	12.9
Shares or Securities exchanged (S.913(5))	0.4	96.1
Other Assets	30.1	81.9
Total Considerations	418.1	1,015.7
Source: Revenue Commissioners, Capital Gains Tax – Entrepreneur Relief Statistics June 2019		

In examining costs to use in our modelling, Indecon notes that the Revenue estimates of revenue forgone may not represent the best estimates to use in the cost-benefit analysis as we need to take account of potential behavioural changes in a counterfactual situation where the Relief was withdrawn.

In examining potential behavioural change in a counterfactual situation, we have utilised our survey evidence on the percentage of assets which would not have been sold without the Relief. The taxpayer survey results suggest that only 24% of assets would have been sold without the Relief. However, in order to ensure that we do not underestimate the Exchequer costs in a counterfactual situation, we assume double this level, namely, that 48% of sales would have proceeded. In our modelling we use this percentage and we take account of what would have been the higher levels of tax paid in the absence of the Relief, in other words, the difference between 10% and 33% for those investors who would have sold their assets. We also deduct the estimated Exchequer return at 10% for the 52% who would not have proceeded with the sale.

The figures on the Exchequer costs are summarised below. This shows that there was an annual Exchequer tax forgone of €81.8m based on a static measure. We also present an estimate of the net tax forgone of €55.9m based on Indecon's modelling taking account of behavioural impacts whereby many of the entrepreneurs would have delayed the sale of the assets and would therefore not have availed of the Relief. Adjusting for this suggests an annual tax forgone of over €55m. However, this does not include the tax paid by those who would not have sold their assets in the absence of the Relief.

Table 19.6: Annual Costs of Revised Entrepreneur Relief 2017

	€m
Tax Forgone(1)	81.8
Tax Forgone after Adjustment for Behavioural Change(2)	55.9

Source: (1) Revenue Commissioners (2) Indecon Modelling

19.3 Estimated Potential Benefits Adjusted for Economic Deadweight

In addition to examining costs, it is necessary to consider the potential benefits arising from the Revised Entrepreneur Relief. Our estimates suggest that while the Relief did not significantly influence the initial investment the Relief resulted in some increased in investment in new businesses. Our estimates suggest that the Relief resulted in increased capital investment in the economy of around €60 million per annum.

This estimate is based on an assumption that 32% of the gains secured are reinvested in the economy. Indecon notes that approximately 64% of those surveyed indicated they had invested in new businesses or in unquoted companies. (36.4% had invested into new businesses and an additional 27.3% in unquoted companies.)

While 64% of claimants indicated they had made investments, it is likely that only a percentage of funds were reinvested and we assume 50% of this which provides our indicative estimate of the percentage of capital gains which are reinvested in the Irish economy. The Indecon modelling suggests an indicative level of increased annual investment of €59m.

Table 19.7: Indecon Estimates of Additional Investment Attributable to Entrepreneur Relief	
	Scenario 2
Levels of Capital Gains €m	355.8
Estimated Deadweight	48%
Gains attributable to ER €m	186.0
Propensity to reinvest	32%
Additional Investment €m	59.0
Source: Indecon analysis	

This estimated additional investment attributable is likely to have led to increased employment and output growth, relative to the counterfactual in which the Relief was not available. Based on this estimate of additional investment, we model a range of potential benefits of the Relief. This modelling is informed by the latest Indecon guidance for the State enterprise agencies for undertaking cost benefit analyses of investment decisions.[75] The benefits included in our modelling are comprised of:

- Additional CGT receipts;
- Corporation tax receipts;
- Additional PAYE receipts for additions to the labour force;
- R&D spillovers; and
- Wage benefit after taking account of the opportunity costs of labour at 90%.

We assume that the benefits accrue over a ten-year period and are discounted in line with the requirements of the Public Spending Code with a discount rate of 4%.

Table 19.8 overleaf presents estimates of the additional CGT receipts arising from Relief for disposals which would not have taken place otherwise. These were estimated to be €35.6 million. We also assume that the additional investment will result in annual profits equal to 10% of the total additional investment. We assume that these profits are subject to an effective corporation tax rate of 9.8%.

Based on inputs from the Indecon survey of claimants, we estimate that each million euro invested will lead to 12 full-time equivalent jobs in the Irish economy. We assume that each of these jobs will earn the average wage in Ireland of circa €38,900 per annum. We subject this additional employment to a 90% shadow price of labour.

Based on the above calculation for additional employment attributable to the Relief, we also estimate the additional PAYE receipts to the Exchequer. We assume that 50% of any new employment represents an expansion of the labour force and, as such, provides additional PAYE taxation to the Exchequer. Based on the average wage of €38,900, we apply a 20% tax rate to these individuals to give an estimate of their additional contribution to the Exchequer. PAYE payments for existing employees of the labour force arising from the additional investments, are valued at zero.

For our modelling, we assume that 20% of total new investments will be in R&D or innovative activities. We then apply a spillover benefit parameter of 3.5% per annum to this value over a 10-year time horizon. Indecon's indicative estimates of benefits of the Relief are presented below.

[75] "*Indecon Review of the Enterprise Agencies Economic Appraisal Model in Ireland*", completed for Department of Business, Enterprise and Innovation, 2018. A link to the published version of the report can be found here: https://dbei.gov.ie/en/Publications/Publication-files/Review-of-the-Enterprise-Agencies-Economic-Appraisal-Model.pdf

Table 19.8: Indecon Estimates of Benefits from Entrepreneur Relief	
Corporation Tax (€ Millions)	5.3
Capital gains tax (€ Millions)	35.6
R&D spillovers (€ Millions)	3.8
Wage benefit (€ Millions)	25.3
PAYE benefit (€ Millions)	25.3
Total	**95.2**
Source: Indecon analysis	

Our estimates of the costs and benefits of the Relief are presented below.

Table 19.9: Cost-Benefit Analysis of Entrepreneur Relief

	No Adjustment for Shadow Cost of Public Funds	Including Adjustment for Shadow Cost of Public Funds
Benefits		
Corporation tax income	5.3	6.9
Capital gains tax income	35.6	46.3
R&D spillovers	3.8	3.8
Wage benefit	25.3	25.3
PAYE benefit	25.3	32.8
Total	95.2	115.0
Costs		
CGT revenue lost	55.9	72.7
Net Benefit	39.3	42.4
BCR	1.7	1.6
Source: Indecon analysis		

19.4 Summary of Findings

The key findings of the chapter include:

- The annual revenue forgone of the Relief is estimated to be €81.8 million.
- In line with the latest guidance for the State enterprise agencies, we have estimated the benefits of the Relief in terms of additional CGT receipts, additional corporation tax receipts, additional PAYE receipts, additional wage income and R&D spillover benefits.
- Indecon’s cost-benefit appraisal finds that the Relief is likely to have a small positive benefit-cost ratio.

20 Conclusions and Recommendations

20.1 Conclusions

Indecon's conclusions following our detailed evaluation of the Relief are presented in the table below.

Table 20.1: Summary of Conclusions
Policy objectives of Relief remain valid
Level of capital gains tax is much less favourable in Ireland than in many other countries
Relief did not have a significant impact on initial investment decision
Relief has influenced timing of asset disposals
Relief has mainly benefited non-internationally traded businesses
Range of available options for changes to lifetime limit

1. **Policy objectives of Relief remain valid**

   Indecon's analysis suggests that the policy objectives of the Relief to support entrepreneurship and incentivise investment in the Irish economy remain relevant. Entrepreneurship is an important driver of economic growth and employment in the economy. Support for entrepreneurship is also aligned with the wider policy objectives of the government in terms of supporting innovation and start-up businesses in Ireland. However, Indecon believes that there is a need to target any enhanced incentives in order to increase investment in the economy.

2. **Level of capital gains tax is much less favourable in Ireland than in many other countries**

   Internationally, the level of capital gains tax is higher in Ireland than in many other countries. While the rate of Entrepreneur Relief available in Ireland is competitive with the equivalent UK Relief, the Irish Relief is considerably less attractive in terms of the lifetime limit upon which Relief may be granted. There are other aspects where the Irish Relief is uncompetitive including the issue of flexibility on the requirement to hold 5% of ordinary shares.

3. **Relief did not have a significant impact on initial investment decision**

   The evidence indicates that the Relief has not had a significant impact on the investment decisions which have been made to date in Ireland. This is not surprising given the timing of the introduction of the Relief and this funding is aligned with the evidence from the UK. However, Indecon accepts there may have been potential investments which were not made in Ireland because the Relief is less attractive than in other countries. This is likely to only apply to internationally mobile investments.

4. Relief has influenced timing of asset disposals

The evidence examined indicates that the Relief has influenced the timing of asset disposal. Many entrepreneurs would not have disposed of the assets if the Relief was not available.

5. Relief has mainly benefited non-internationally traded businesses

The new evidence on the profile of beneficiaries highlight the extensive usage of the Relief by non-internationally traded sectors of the economy. This is in contrast to the agency-assisted support programmes which are focused on assisting internationally traded business. The focus on international activity in other incentives appropriately reflects the lower levels of deadweight and displacement involved and the need to incentivise such activities taking account of international competition.

6. Range of available options for changes to lifetime limit

Indecon notes that there are many potential options which could be considered by the Government concerning the lifetime limit for the Relief. In the table below we outline a number of the main potential options and our account of the advantages and disadvantages of each.

Table 20.2: Options Concerning Lifetime Limit

Options	Advantages	Disadvantages
Retention of €1m lifetime limit	No additional Exchequer costs	Limit uncompetitive with rates in other countries
Increase in lifetime limit with no other changes	Administrative simplicity Provide an increased Relief to all sectors	Increased Exchequer costs Unlikely to be cost effective as minimal impact on reinvestment
Provide new enhanced lifetime limit but restrict to internationally traded agency firms	Provide targeted Relief on high risk internationally traded sectors Low level of economic displacement	Likely to require State-Aid approval Some additional Exchequer costs
Provide increased lifetime limit conditional on reinvestment	Reduce competitive disadvantage with other countries Incentivise increased investment	Some additional Exchequer costs

Source: Indecon analysis

20.2 Recommendations

Based on the analysis undertaken in this evaluation, Indecon believes a number of changes are required to the Relief to maximise its efficiency and impact. These are reflected in our recommendations which are summarised in the table below and discussed in more detail in the subsequent sections.

Table 20.3: Summary of Recommendations	
1.	**Entrepreneur Relief should be retained.**
2.	**Requirement of 5% ownership should be adjusted to encourage firms to expand.**
3.	**The lifetime cap of €1 million should be significantly increased to €12 million for entrepreneurs who re-invest in a new business.**
4.	**A Review of the merits of an integrated Entrepreneur/Retirement Relief should be undertaken.**
5.	**Information required from claimants should be refined in order to facilitate future evaluations of the Relief.**
6.	**The impact of any changes to the Relief should be subject to an evaluation after 3 years.**

1. **Entrepreneur Relief should be retained.**

The continued relevance of the policy objectives of the Revised Entrepreneur Relief as well as our indicative cost-benefit modelling suggests that the Relief should be retained. While there is evidence of deadweight associated with the Relief as currently designed, given the international competition for investment, it is important that Ireland retains the Relief at this time.

2. **Requirement of 5% ownership should be adjusted to encourage firms to expand.**

The requirement for the claimant to hold a minimum of 5% of ordinary shares should be reformed. This requirement represents an arbitrary threshold that may limit the ability of firms to raise sufficient capital to grow to meet the businesses growth potential. Indecon therefore recommends that this restriction is removed providing that claimants had previously held at least 5% of the shares for a continuous period of a minimum of two or three years.

3. **The lifetime cap of €1 million should be significantly increased to €12 million for entrepreneurs who re-invest in a new business.**

As noted in our conclusions, there is a range of options which could be considered by the Government concerning the lifetime limit. On the balance of the evidence Indecon recommends increasing the cap to €12m for entrepreneurs who reinvest in a new business. This would serve to make the Relief competitive for such investors. Given the evidence on the importance of comparative tax structures in decision making for mobile investment, Indecon believes this change would be justified. In order to ensure that this reform is aligned with the policy objective to increase investments, Indecon recommends that this additional Relief is restricted to the percentage of gains which are reinvested in new start-up businesses within a period of 2-3 years. For entrepreneurs who are not willing to reinvest the gains the Irish Relief would remain uncompetitive with the UK. However, focussing the Relief on re-investment is more aligned with the policy objectives of expanding investment and employment. To ensure that there is no duplication of incentives, this should apply only to businesses which do not avail of EIIS tax incentive. It is also recommended that other sectoral and eligibility criteria of the existing Relief should continue to apply. Indecon accepts that there would be a rationale for targeting any enhanced Relief on internationally traded businesses but that given the need for any such change to potentially require state-aid approval, we believe the recommended approach outlined above is on balance, the best way to proceed at this time.

4. A Review of the merits of an integrated Entrepreneur/Retirement Relief should be undertaken.

The existing Revised Entrepreneur Relief is one of two reliefs from capital gains for businesses disposing of assets. The other major and indeed more attractive relief, is the Retirement Relief. There are, however, differences in eligibility criteria and there would be merit in having an integrated Entrepreneur Relief Incentive which would incorporate the Retirement Relief. We therefore recommend that a review of the merits of an integrated Relief rather than the two existing reliefs should be undertaken.

5. Information required from claimants should be refined in order to facilitate future evaluations of the Relief.

Indecon recommends that the data requirements for claimants should be refined in order to facilitate future evaluations of the impact of the Relief. In particular, we recommend that claimants should be required to indicate their shareholding in the business at the time of divestment, levels of employment in the business at time of divesture and other information.

6. The impact of any changes to the Relief should be subject to an evaluation after three years.

Indecon recommends that the costs and benefits of the proposed changes should be undertaken after a period of three years. This would ensure that there is evidence on the impact of the changes and would be aligned with the Guidelines on the Evaluation of Tax Expenditure. This could facilitate further refinements to the incentive if appropriate.

3. Tables of Tax Expenditures in use between October 2018 and September 2019[76]

Table A: Capital Gains Tax (CGT)/Capital Acquisitions Tax (CAT)/Pensions

Type	Description	Further Information	No. Utilising or No. of Claims in most recent year for which information is available	Revenue Foregone in most recent year for which information is available (€ millions)	No. Utilising / No. of Claims in previous year*	Revenue Foregone in previous year (€ millions)*
CGT	CGT Retirement Relief	Provides relief for disposals of business and farming assets.	1,421 (in 2017)	Tax cost is not available as the only information in respect of this relief is the disposal consideration rather than the actual taxable gain foregone.	1,357 (in 2016)	Tax cost is not available as the only information in respect of this relief is the disposal consideration rather than the actual taxable gain foregone.
	CGT entrepreneur relief	Provides relief for disposals of business assets.	N/A	N/A	N/A.	N/A
	Revised CGT entrepreneur relief	Provides relief for disposals of business assets.	875	81.8 (at reduced 10% rate in 2017)	406.	20.4 (at reduced 20% rate in 2016)
	CGT principal private residence relief	Provides relief for disposal of main residence.	N/A	N/A	N/A	N/A
	CGT Farm consolidation relief	Provides relief for disposals of land in order to consolidate	N/A for 2017 but will be available from 2018 on. The	N/A	N/A	N/A

[76] All references to N/A in these 7 tables means "Not Available" unless otherwise indicated

		farm holdings.	information was not previously sought by Revenue.			
	CGT relief for venture fund managers	Provides relief in respect of carried interest earned by venture fund managers.	N/A	N/A	N/A	N/A
	CGT exemption on disposal of site to a child	Provides relief for parents transferring a site to their children in order to build a house.	95 (in 2017)	Tax cost is not available as the only information in respect of this relief is the disposal consideratio n rather than the actual taxable gain foregone.	84 (in 2016)	Tax cost is not available as the only information in respect of this relief is the disposal consideratio n rather than the actual taxable gain foregone.
	CGT relief on works of art loaned for public display	Provides relief for disposals of works of art loaned for public display.	N/A	N/A	N/A	N/A
CAT	CAT business relief	Relief for transfers of businesses (90% reduction in market value for tax purposes)	643	189.9	584	102.5
	CAT agricultural relief	Relief for transfer of farms (90% reduction in market value for tax purposes)	1,463	165.5	1,472	140.5
	CAT exemption	Exemption from tax for	Indicative information	Exact figures are	Indicative information	Exact figures are

	of heritage property	transfers of heritage houses and objects	suggests the number using this exemption is negligible	not available, but thought to not be significant	suggests the number using this exemption is negligible	not available, but thought to not be significant
Pensions	Employees' contribution to approved superannuation schemes	Contributions are allowable as an expense in computing Schedule E income (Sections 774 & 776)	614,200 (2017)	598.1 (2017)	599,200 (2016)	582.4 (2016)
	Employers' contributions to approved superannuation schemes	Contributions are allowable as an expense in computing Schedule D Case I or Case II income (Section 774)	366,700 (2017)	159.8 (2017)	345,500 (2016)	158.4 (2016)
	Exemption of investment income and gains of approved superannuation funds	Exempts the investment income of a fund held or maintained for the purpose of a scheme (Section 774 – Approved Fund, Section 785 – RSA, Section 787I – PRSA)	N/A	N/A	N/A	N/A
	Tax Relief on "tax free" lump sums	From 1 January 2011, the lifetime tax-free limit on the aggregate of all retirement lump sums paid to an individual on or after 7 December	N/A	N/A	N/A	N/A

		2005 is €200,000 (Section 790AA)				
	Pension Contribution (Retirement Annuity and PRSA)	Figures in this field are a total for RAC's and PRSA's which are not available individually	93,600 (2017)	229.3 (2017)	95,900 (2016)	221.3 (2016)
	Exemption of employers' contributions from employee BIK	Sums paid by an employer into an approved, statutory or foreign government employee retirement scheme are not chargeable to tax in the hands of the employee (Section 778)	366,700 (2017)	607.3 (2017)	345,500 (2016)	601.9 (2016)

* All figures for 2018 (most recent year) & 2017 (previous year) unless stated otherwise.

** Figures for later years not yet available.

Table B: Stamp Duty/Deposit Interest Retention Tax (DIRT)/Local Property Tax (LPT)

Type	Description	Further Information	No. Utilising or No. of Claims in most recent year for which information is available	Revenue Foregone in most recent year for which information is available (€ millions)	No. Utilising/No. of Claims in previous year*	Revenue Foregone in previous year (€ millions)*
Stamp Duty	Consanguinity relief		4,647	22.0	1,018	3.81
	Conveyances and transfers of property between associated bodies corporate	Section 79 of SDCA 1999	1,561	12.55	1,389	16.81
	Certain company reconstructions and amalgamations	Section 80 of SDCA 1999	935	273	750	425
	Demutualisation of insurance companies	Section 80A of SDCA 1999	<10	N/A	<10	N/A
	Young Trained Farmer Relief	Section 81AA of SDCA 1999	1,056	16.8	845	4.6
	Farm Consolidation Relief	Section 81C of SDCA 1999	45	0.3	Nil	Nil
	Relief for certain leases of farmland	Section 81D of SDCA 1999	21	0.03	Nil	Nil
	Charities – conveyance/ transfer/lease of land	Section 82 of SDCA 1999	1,471	9.6	1,350	6.26
	Donations to approved bodies	Section 82A of SDCA 1999	Nil	Nil	<10	N/A
	Approved Sports Bodies - conveyance/ transfer/lease of land	Section 82B of SDCA 1999	94	0.5	71	0.11

	Pension schemes and charities	Section 82C of SDCA 1999	50	0.1	31	1.11
	Certain family farm transfers	Section 83B of SDCA 1999	18	0.3	19	0.2
	Residential Development Refund Scheme	Section 83D of SDCA 1999 (Introduced in Budget 2018)	N/A	N/A	Nil	Nil
	Repayment of stamp duty on certain transfers of shares	Section 84 of SDCA 1999	Nil	Nil	Nil	Nil
	Certain loan capital and securities	Section 85 of SDCA 1999	Nil	Nil	<10	N/A
	Certain Loan Stock	Section 86 of SDCA 1999	Nil	Nil	<10	N/A
	Enterprise Securities Market[77]	Section 86A of SDCA 1999	N/A	N/A	N/A	N/A
	Stock borrowing	Section 87 of SDCA 1999	Nil	Nil	Nil	Nil
	Stock repo	Section 87A of SDCA 1999	Nil	Nil	Nil	Nil
	Merger of companies	Section 87B of SDCA 1999	<10	N/A	Nil	Nil
	Certain stocks and marketable securities	Section 88 of SDCA 1999	<10	N/A	Nil	Nil
	Reorganisation of undertakings for collective investment	Section 88A of SDCA 1999	Nil	Nil	<10	N/A
	Funds: reorganisation	Section 88B of SDCA 1999	<10	59.04	Nil	Nil

[77] A costing for this relief is not currently available as the relief is not claimed. Revenue are currently looking at how they might cost it, and hope to have an estimate at a later date.

	Reconstructions or amalgamations of certain common contractual funds	Section 88C of SDCA 1999	Nil	Nil	Nil	Nil
	Reconstructions or amalgamations of certain investment undertakings	Section 88D of SDCA 1999	32	17.59	<10	N/A
	Transfer of assets within unit trusts	Section 88E of SDCA 1999	18	0.1	17	0.6
	Reconstruction or amalgamation of offshore funds	Section 88F of SDCA 1999	Nil	Nil	Nil	Nil
	Amalgamation of unit trusts	Section 88G of SDCA 1999	<10	N/A	<10	N/A
	Foreign Government Securities	Section 89 of SDCA 1999	Nil	Nil	Nil	Nil
	Certain financial services instruments	Section 90 of SDCA 1999	Nil	Nil	Nil	Nil
	Greenhouse gas emissions allowance	Section 90A of SDCA 1999	Nil	Nil	Nil	Nil
	Houses acquired from industrial and provident societies	Section 93 of SDCA 1999	Nil	Nil	Nil	Nil
	Approved voluntary body	Section 93A of SDCA 1999	652	2.7	366	0.8
	Purchased of land from Land Commission	Section 94 of SDCA 1999	Nil	Nil	Nil	Nil
	Commercial woodland – duty not chargeable on the value of the trees	Section 95 of SDCA 1999	190	66.0	193	39.4

	growing on the land					
	Transfers between spouses/civil partners	Section 96 of SDCA 1999	4,445	21.9	3,991	14.1
	Certain transfers following a dissolution of marriage	Section 97 of SDCA 1999	542	1.0	572	1.1
	Certain transfers by cohabitants	Section 97A of SDCA 1999	<10	N/A	<10	N/A
	Foreign immovable property	Section 98 of SDCA 1999	<10	N/A	N/A	N/A
	Dublin Docklands Development Authority	Section 99 of SDCA 1999	Nil	Nil	Nil	Nil
	Courts Service	Section 99A of SDCA 1999	<10	N/A	<10	N/A
	Sport Ireland.	Section 99B of SDCA 1999	<10	N/A	<10	N/A
	Harbours Act 2015	Section 99C of SDCA 1999	Nil	Nil	Nil	Nil
	Temple Bar Properties Limited	Section 100 of SDCA 1999	Nil	Nil	<10	N/A
	Intellectual Property	Section 101 of SDCA 1999	<10	N/A	N/A	N/A
	Single Farm Payment entitlement	Section 101A of SDCA 1999	<10	N/A	Nil	Nil
	The Alfred Beit Foundation	Section 102 of SDCA 1999	<10	N/A	Nil	Nil
	Shared ownership leases	Section 103 of SDCA 1999	<10	N/A	15	N/A
	Licences and leases granted under Petroleum and Other	Section 104 of SDCA 1999	Nil	Nil	Nil	Nil

	Mineral Development Act, 1960, etc.					
	Securitisation agreements	Section 105 of SDCA 1999	Nil	Nil	Nil	Nil
	Housing Finance Agency	Section 106 of SDCA 1999	Nil	Nil	Nil	Nil
	Housing Finance Agency Limited	Section 106A of SDCA 1999	<10	N/A	<10	N/A
	Housing Authorities and Affordable Homes Partnership	Section 106B of SDCA 1999	2,365	5.9	1,499	2.5
	Grangegor-man Development Agency	Section 106C of SDCA 1999	Nil	Nil	Nil	Nil
	National Concert Hall	Section 106D of SDCA 1999	Nil	Nil	Nil	Nil
	National Development Finance Agency, etc. (expired 27.01.15)	Section 108A of SDCA 1999	Nil	Nil	Nil	Nil
	Strategic Banking Corporation of Ireland	Section 108AA of SDCA 1999	Nil	Nil	Nil	Nil
	National Asset Management Agency (NAMA)	Section 108B of SDCA 1999	Nil	Nil	Nil	Nil
	Ireland Strategic Investment Fund	Section 108C of SDCA 1999	Nil	Nil	Nil	Nil
	Certain instruments made in anticipation of an informal insurance policy	Section 109 of SDCA 1999	Nil	Nil	Nil	Nil

	Certain Health Insurance Contracts	Section 110 of SDCA 1999	Nil	Nil	Nil	Nil
	Certain policies of insurance	Section 110A of SDCA 1999	Nil	Nil	Nil	Nil
	Oireachtas Funds	Section 111 of SDCA 1999	821	8.6	844	2.1
	Certificates of indebtedness, etc.	Section 112 of SDCA 1999	Nil	Nil	Nil	Nil
	Miscellaneous instruments	Section 113 of SDCA 1999	42	2.6	36	0.2
DIRT	Deposit Interest Retention Tax Reliefs	Age 65 or over/total income under €18,000 (single)/€36,000 (couple)	N/A	N/A	N/A	N/A
	Deposit Interest Retention Tax Reliefs	Permanently incapacitated (Subject to certain limits and conditions)	N/A	N/A	N/A	N/A
LPT	Exemptions		49,000	12.7	48,000	12.5
	Deferrals	LPT Deferrals, although foregone in a particular year, are still owed to the Exchequer at a later date	58,000	9.9	62,000	10.5

* All figures for 2018 (most recent year) & 2017 (previous year) unless stated otherwise.

Table C: Benefit-in-Kind

Type	Description	Further Information	No. Utilising or No. of Claims in most recent year for which information is available	Revenue Foregone in most recent year for which information is available (€ millions)	No. Utilising/No. of Claims in previous year*	Revenue Foregone in previous year (€ millions)*
Benefit-in-Kind	Cycle to Work Scheme	Tax relief on the purchase of a bicycle for commuting purposes	20,000**	4.0**	20,000**	4.0**
	TaxSaver Travel Scheme	Tax relief on commuter tickets	35,000**	3.5**	35,000**	3.5**
	Professional subscriptions relief	Tax relief on the payment of certain professional subscription s.	150,000**	3.75**	150,000**	3.75**
	Small Benefits Exemption	Tax relief where employer provides an employee/d irector with one annual benefit, he value not exceeding €500	70,000**	5.0**	70,000**	5.0**

* All figures for 2018 (most recent year) & 2017 (previous year) unless stated otherwise.

** Estimates, as separate returns are not required under these headings.

Table D: Corporation Tax

Type	Description	Further Information	No. Utilising or No. of Claims in most recent year for which information is available	Revenue Foregone in most recent year for which information is available (€ millions)	No. Utilising/No. of Claims in previous year*	Revenue Foregone in previous year (€ millions)*
Corporation Tax	Research & Development (R&D) Tax Credit	Provides a tax credit for expenditure on certain R&D activities (Sections 766, 766A & 766B of the Taxes Consolidation Act 1997)	1,505 (2017)	448 (2017)	1,506 (2016)	670 (2016)
	Corporation Tax Relief for start-up Relief companies	Provides relief from corporation tax for start-up companies for the first 3 years of trading up to €40,000 per annum (Section 468C of the Taxes Consolidation Act 1997)	1,071 (2017)	5.8 (2017)	1,051 (2016)	5.7 (2016)
	Film Relief	Note- this has previously been listed under "Personal Tax Credits"	23** (2017)	23 (2017)	55** (2016)	75.2** (2016)

* All figures for 2018 (most recent year) & 2017 (previous year) unless stated otherwise.

** Estimated and provision as additional returns are received over time.

Table E: Excise Duty

Type	Description	Further Information	No. Utilising or No. of Claims in most recent year for which information is available	Revenue Foregone in most recent year for which information is available (€ millions)	No. Utilising/No of Claims in previous year*	Revenue Foregone in previous year (€ millions)*
Alcohol Product Tax (APT)	Repayment of excise duty	Section 78A of the Finance Act 2003	90	5.79	86	5.66
Vehicle Registration Tax (VRT)	Relief of VRT for leased cars	Section 134(7) of the Finance Act 1992	N/A	22.3	N/A	20.7
	Remissions/ repayments of VRT	Disabled Drivers and Disabled Passengers Scheme	6,420 (unique cars)	33.0	6,042	30.5
	Exemptions from VRT	Section 134 of the Finance Act 1992	3,229	10.3	3,216	10.4
	VRT Export Repayment Scheme	Section 135D of the Finance Act 1992	1,271	6.0	1,142	6.1
	Relief from VRT	VRT relief for hybrid, plug-in hybrid, and electric cars (extended in Budget 2014)	15,712	27.9	8,787	15.6
Mineral Oil Tax	Diesel Rebate Scheme	Partial repayment of excise duty to qualifying road transport operators (Section 51 of the Finance Act 2013)	713 (number of claims paid)	3.4	442 (number of claims paid)	0.8

	Reduced Rate on Marine Gas Oil (MGO)**	Reduced rate applied to Marine Gas Oil (MGO) used in home heating, agriculture, marine and rail sectors (Sections 94-109 Finance Act 1999)	N/A (no means to determine the number availing)	411	N/A (no means to determine the number availing)	399
	Exemption on Kerosene***	Exemption for Kerosene used as a non-propellant (Sections 94-109 Finance Act 1999)	N/A (no means to determine the number availing)	54	N/A (no means to determine the number availing)	52
	Fuel Relief Grant	Section 81 of Finance Act 2015	17,639	10.3	16,770	9.5

* All figures for 2018 (most recent year) & 2017 (previous year) unless stated otherwise.

** The non-carbon excise rate on auto-diesel is used as the benchmark for MGO.

*** The non-carbon excise rate for substitute fuel used other than as a propellant is used as the benchmark for Kerosene.

Table F: Value Added Tax (VAT)

Type	Description	Further Information	No. Utilising or No. of Claims in most recent year for which information is available*	Revenue Foregone in most recent year for which information is available (€ millions)*	No. Utilising/ No. of Claims in previous year*	Revenue Foregone in previous year (€ millions)*
VAT Refund Orders	Disabled Drivers & Passengers Scheme. Repayment of VAT to disabled drivers and disabled passengers and/or organisations on the purchase of specially constructed or adapted vehicles, which are used for the transport of persons with disabilities.	Disabled Drivers and Disabled Passengers (Tax Concessions) Regulations, 1994 (S.I. 353 of 1994)	6,429	28.9	6,183	24.7
	Disabled Equipment – a refund of VAT is available on certain aids and appliances purchased by disabled persons.	Value Added Tax (Refund of Tax) (No.15) Order 1981 (S.I. 428 of 1981)	11	0.012	5,779	4.8
	Touring Coaches - VAT repayment may be claimed by persons engaged in the carriage of tourists for reward by road, on the	Value-Added Tax (Refund of Tax) (Touring Coaches) Order 2012 (S.I. 266 of 2012)	214	8.5	214	9.6

	purchase, lease/hire of touring coaches					
	Farm construction. A refund of VAT is available to flat-rate farmers on the construction of farm buildings, fencing, drainage, reclamation of farm land, and on micro-generation equipment	Value Added Tax (Refund of Tax) (No.25) Order, 1993 (SI No.266 of 1993)	21,769	75.2	20,367	59
	Charities VAT Compensation Scheme	Value-Added Tax (Refund of Tax) (Charities Compensation Scheme) Order, 2018 (SI No. 580 of 2018)	First payments made in 2019	First payments made in 2019	First payments made in 2019	First payments made in 2019

* All figures for 2018 (most recent year) & 2017 (previous year) unless stated otherwise.

Table G: Personal Tax Credits

Type	Description	Further Information	No. Utilising or No. of Claims in most recent year for which information is available	Revenue Foregone in most recent year for which information is available (€ millions)	No. Utilising/No of Claims in previous year*	Revenue Foregone in previous year (€ millions)*
Personal Tax Credits	Age Tax Credit		195,500	72.1	180,700	66.6
	Blind Person's or Civil Partners Credit (incl. Guide Dog Allowance)		1,630	2.2	1,600	2.2
	Dependent Relative Tax Credit		21,000	2.2	23,900	2.4
	Home Carer's Tax Credit		83,800	83.5	85,900	77.9
	Incapacitated Child Tax Credit		27,700	82.1	25,000	75.5
	Single Person Child Carer Credit		67,400	93.9	65,700	90.3
	Approved Profit Sharing Schemes		32,240	47.7	43,030	68.6
	Approved Training Courses/ Third Level Fees		29,000	15.2	26,000	13.9
	Employment and Investment Scheme		1,538	18.6	2,260	31.0
	Donation of Heritage Items		N/A	2.8	N/A	4.0
	Donation of Heritage Property to the Irish Heritage Trust	2008 figures – last year in which expenditure recorded prior to 2015	Nil	Nil	Nil	Nil
	Donations to Approved Bodies		175,400	43.3	170,500	37.7

	Donations to Approved Sporting Bodies		1,170	0.3	1,110	0.3
	Employee Share Ownership Trusts		N/A	N/A	N/A	N/A
	Employing a Carer		1,650	7	1,850	7.8
	Exemption of Income arising from the Provision of Childcare Services		700	1.6	690	1.5
	Exempt Income – Rent-a-Room		8,160	12.0	7,350	9.3
	Exemption of Certain Earnings of Writers, Composers and Artists		3,110	12.7	3,000	11.3
	Exempt Income – Foster-Care Payments		4,380	30.1	4,540	31.1
	Home Renovation Incentive	Introduced in 2013, expired 2018	12,600	22.4	15,500	28.5
	Health Expenses	General & Nursing Home	486,200	172.5	458,300	164.1
	Medical Insurance Relief	Risk equalisation credits are not given through the tax system effective from 1 January 2013	1,271,400	350	1,189,200	329.0
	Special Assignee Relief	2015 figures – latest year for which	2017 figures due shortly	2017 figures due shortly	793 (2016)	18.1 (2016)

	Programme (SARP)	full data available				
	Save as You Earn Scheme (savings related share options)		1,680	2.4	1,480	1.9
	Seafarer's Allowance		160	0.3	160	0.3
	Start-Up Refunds for Entrepreneurs	Formerly Seed Capital Scheme	64	1.6	80	1.9
	Significant Buildings and Gardens Relief		150	1.9	150	1.9
	Retirement relief for certain sports persons		31	0.4	45	0.6
	Start Your Own Business	From Oct. 2013	5,451	18.8	5,473	20.0
	Woodlands Profits & Distributions	Section 140	N/A	N/A	N/A	N/A
	Woodlands	Section 232	9,160 (2017)	29.4 (2017)	8,858 (2016)	30.6
	Exemption of Income of Charities, Colleges, Hospitals, Schools Friendly Societies etc.	2013 figures – last year for which full data available	N/A	N/A	N/A	N/A
	General Stock Relief	Section 666	10,130	6.3	11,020	6.4
	Stock Relief for Young Trained Farmer	Section 667B	530	1.5	500	1.4
	Stock Relief for Registered Farm Partnerships	Section 667C	370	0.6	360	0.5
	Living City Initiative	Commenced in 2015	20	0.1	15	0.2

	Dispositions (Including Maintenance Payments made to Separated Spouses)		7,900	18.9	6,870	17.1
	Allowable Expenses		600,600	100	545,600	85.0
	Foreign Earnings Deduction		591	3.9	413	3.5
	100% Mortgage Interest Relief for Landlords of Social Housing Tenants	Commenced in 2016	N/A	N/A	N/A	N/A
	Rental Deductions – leasing of farm land		9,790	23.7	8,490	19.4
Ceased or currently being phased out Items	Urban Renewal		1,124	22.8	1,421	28.5
	Town Renewal		401	5.1	485	7.7
	Seaside Resorts		69	0.8	93	1.0
	Rural Renewal		786	8.5	1,170	11.3
	Multi-storey Car Parks		11	0.3	18	0.4
	Living Over The Shop		29	0.3	28	0.4
	Enterprise Areas		14	0.2	18	0.2
	Park & Ride		N/A	0.3	N/A	0.4
	Holiday Cottages		52	0.5	130	1.5
	Hotels		45	1.0	73	3.3
	Nursing Homes		53	1.2	93	3.3
	Housing for the Elderly/ Infirm		N/A	0.2	N/A	0.2

	Hostels		N/A	N/A	N/A	N/A
	Guest Houses		N/A	0.1	N/A	0.1
	Convalescent Homes		Nil	Nil	N/A	0.2
	Qualifying Private Hospitals		29	0.5	169	3.3
	Qualifying Sports Injury Clinics		Nil	Nil	Nil	Nil
	Buildings Used for Certain Childcare Purposes		39	0.5	52	1.2
	Qualifying Hospitals		Nil	Nil	Nil	Nil
	Qualifying Mental Health Centres		Nil	Nil	Nil	Nil
	Student Accommoda-tion		246	8.8	292	9
	Caravan Camps		N/A	0.1	N/A	0.1
	Mid-Shannon Corridor Tourism Infrastructure		N/A	0.2	N/A	N/A
	Revenue Job Assist		120	N/A	230	0.1
	Rent Tax Credit		117,100	6.3	126,300	13.7
	"Other" Relief on Interest on Loans	Acquisition of interest in a company or partnership	70	0.01	600	1.3
	Mortgage Interest Relief		414,300 (2017)	171.1 (2017)	445,600 (2016)	186.5 (2016)

* All figures for 2018 (most recent year) & 2017 (previous year) unless stated otherwise.