Commission on Taxation & Welfare
An Coimisiún um Chánachas ⁊ Leas

Briefing Paper

Supporting SMEs and Entrepreneurship

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Author	Commission on Taxation and Welfare Secretariat
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Key Points

- The terms of reference for the Commission on Taxation and Welfare ask the Commission to review how best the taxation environment for small and medium sized enterprises (SMEs) and entrepreneurs can ensure that Ireland remains an attractive place to sustain and grow an existing business or to start and scale up a new business.
- SMEs are defined by EU rules as companies with a staff headcount of less than 250 individuals and either turnover less than €50 million, or a balance sheet total of less than €43 million.
- SMEs account for 99.8% of all Irish enterprises and they are responsible for employing over two-thirds of Ireland's workforce across multiple sectors.
- In addition to the 12.5% rate of corporation tax on trading profits, a number of targeted tax reliefs and administrative practices are in place to support small businesses and entrepreneurs. These include reliefs to incentivise investment in SMEs such as the Employment Investment Incentive (EII), corporation tax relief at start-up, the Key Employee Engagement Programme (KEEP) for offering share options to employees and a reduced CGT rate on exit under Entrepreneur Relief.
- Various administrative relief measures and support payments were further introduced in 2020 as a result of the Covid-19 pandemic.

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1. Introduction

The terms of reference for the Commission on Taxation and Welfare ask the Commission to review how best the taxation environment for small and medium sized enterprises (SMEs) and entrepreneurs can ensure that Ireland remains an attractive place to sustain and grow an existing business or to start and scale up a new business.

The Covid-19 pandemic has had an unprecedented impact on the economy, affecting employment and businesses across a wide range of sectors. Ireland has a two-tiered economy and the pandemic has exacerbated the gap between domestic and export orientated firms. Government policy is focused on both leveraging and reinforcing the strength of Foreign Direct Investment while also supporting domestic SMEs, which are seen as critical for broad-based, jobs-led economic growth. The National Economic Recovery Plan launched by the Government on 1 June 2021 identifies "re-building sustainable enterprises through targeted supports and policies to make enterprises more resilient and productive" as one of its key pillars in working towards a sustainable jobs-led economic recovery.

The tax regime has a role to play in supporting these objectives and a number of targeted tax reliefs and administrative measures are in place to assist small businesses and entrepreneurs. These include the Employment Investment Incentive (EII), Start-Up Relief for Entrepreneurs (SURE) and Start-up Capital Incentive (SCI) schemes for raising finance, start-up corporation tax relief, the Foreign Earnings Deduction (FED) and Key Employee Engagement Programme (KEEP) incentives available to employees and the revised CGT Entrepreneur relief on sale of a business.

This paper sets out the current landscape for SMEs and entrepreneurs operating in Ireland's domestic economy as follows:

- Section 2 comments on the current environment of SMEs and entrepreneurs as well as providing information on the main sectors they operate in, the role they play in employment and how Ireland ranks internationally in terms of competitiveness.
- Section 3 highlights some of the tax and legal differences between a business operating as a sole trade or company structure.
- Section 4 provides a high level summary of the main tax measures in place for SMEs and entrepreneurs, while Section 5 examines some of the non-tax supports available in the form of grants or subsidies. Section 6 focuses on measures introduced specifically as a result of the Covid-19 pandemic (e.g. Pandemic Unemployment Payment, Employment Wage Subsidy Scheme and Covid Restriction Support Scheme).

- Section 7 lists some of the main recommendations of the Commission on Taxation 2009 in relation to supporting economic activity.

2. Overview of SMEs and entrepreneurs in Ireland

2.1 A breakdown of SMEs in Ireland

Small and medium enterprises (SMEs) are defined by European Union rules. The main factors determining whether an enterprise is a micro, small or medium sized company are 1) staff headcount and 2) either turnover or balance sheet total. These ceilings apply to the figures for individual firms only. A firm that is part of a larger group may need to include staff headcount, turnover or balance sheet data from that group too.

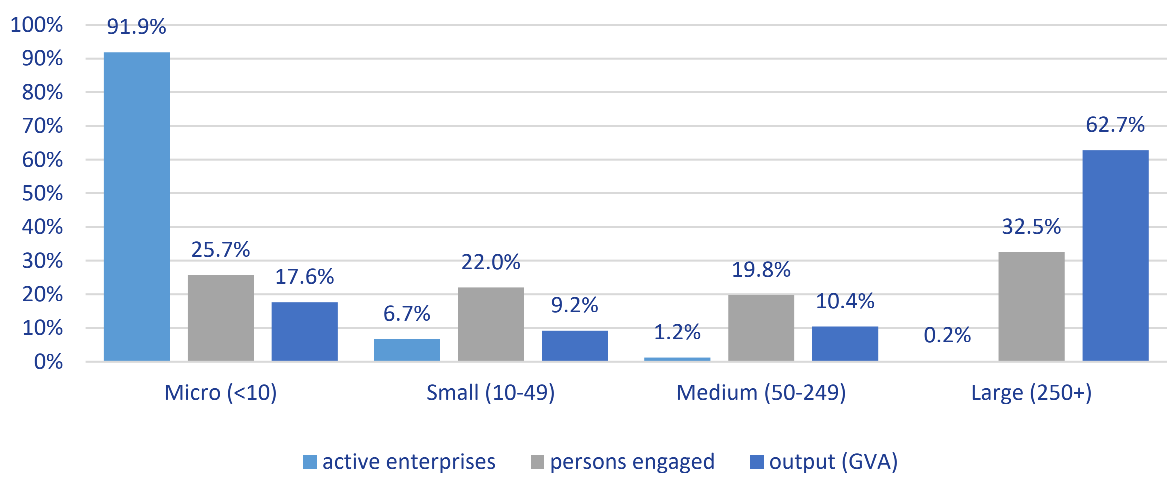
Table 1: Micro, Small and Medium-sized enterprises

Company category	Staff headcount	Turnover or	Balance sheet total
Medium-sized	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

Source: European Commission

Latest data from the CSO[1] shows that SMEs comprised 99.8 per cent of the 270,000 total enterprises in Ireland in 2018. Of these, micro companies employing less than ten individuals accounted for 91.9 per cent of all enterprises.

Figure 1: Micro, small, medium and large enterprises by active enterprise, persons engaged and output (GVA)



Source: CSO

[1] CSO, Business in Ireland 2018, Published October 2020. Figures have been rounded.

Gross Value Added (GVA) is an economic measure of output. It represents the market value of all goods and services produced minus intermediate inputs produced within a country, excluding subsidies and taxes. SMEs generated 37 per cent (€86.5 billion) of GVA and 46 per cent (€339 billion) of total turnover in the Irish business economy in 2018, while employing two thirds (1.09 million persons) of the labour force. In comparison, while large enterprises comprised only 0.2 per cent of total enterprises, they generated 63 per cent of GVA and 54 per cent of turnover with a third of the workforce. This indicates the relatively higher productivity among larger enterprises.

From an international perspective, SMEs represent the same share of total enterprises as the EU-average in 2018. These enterprises account for a larger share of employment in Ireland than the European average – 70.1 per cent in the 'non-financial business economy', as opposed to the EU average of 66.6 per cent.[2] Irish SMEs' share of value added is lower than the EU average. SMEs in the EU account for 56 per cent of output, while Irish SMEs account for just 42 per cent, representing the significant role of large enterprises in contributing to economic growth in Ireland.

Factors explaining SME productivity

The OECD published the *SME and Entrepreneurship Policy in Ireland* in 2019. It gives an on overview of the performance of SMEs relative to their larger counterparts and in an international context. The median Irish firm has experienced a decline in productivity between 2006 and 2014. Similarly, there has been a significant divergence in productivity as represented by the widening gap between the 90th and 10th percentile firms in Ireland, with firms at the frontier becoming increasingly productive[1].

The OECD review gives insight into some of the potential drivers of low productivity growth among Irish SMEs. While Ireland has an above average rate of high-growth firms, above average employees in these firms and a high rate of survival among these start-ups, some issues that may be adversely affecting productivity are:

- Weak management practices – analysis by the World Management Survey show that Ireland has relatively low management skills among SMEs, ranking below the US, Japan, Germany, Italy, France and Northern Ireland.
- Low internationalisation – a below OECD-average share of SMEs export directly to international markets (6 per cent). Evidence suggests that Irish SMEs 'learn by exporting'

[2] European Commission, 2019 Small Business Act Fact Sheet: Ireland. The European Commission data differs from the CSO data as figures for 2018 are estimated based on 2008-2016 figures from Eurostat.

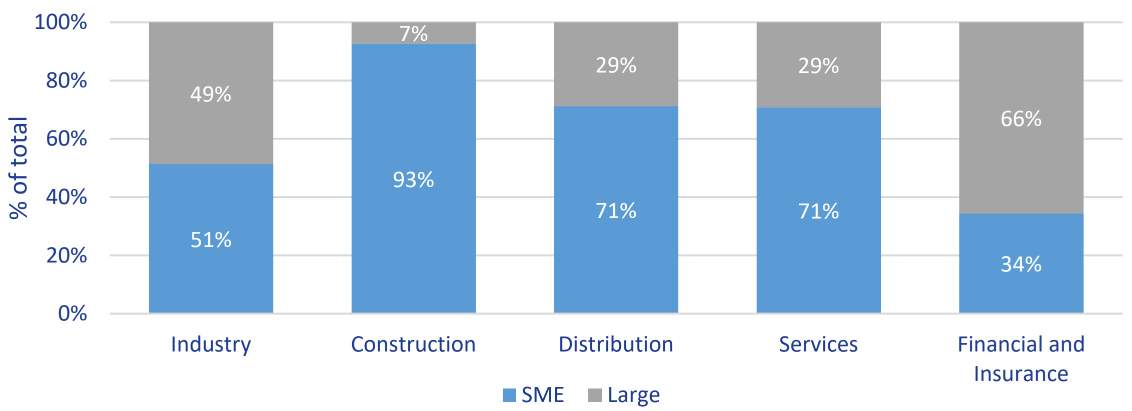
as opposed to becoming productive prior to exporting. As such, policy aimed at increased exporting by SMEs could increase productivity among SMEs.

- Insufficient digital technology adoption – Ireland ranked 22nd out of 30 developed economies relating to Enterprise Resource Planning (ERP) in 2015. ERP is a software that integrates core business processes in real-time. Ireland also has the second lowest density of industrial robots in the EU-15 in 2017.
- Low firm dynamism – Ireland has relatively low business entry and exits rates. This means that there is a high degree of low-productivity firms not exiting the market and low number of potentially innovative firms not entering the market. Facilitating access to finance is cited as a possible route to encouraging more entry.
- Low capital investment rates – low rates of investment in new capital equipment may be constraining productivity growth. A recent study by the ESRI estimated underinvestment of approximately 30 per cent by SMEs, given the current performance of companies generally[2]. It is likely that underinvestment is a feature of risk aversion and lack of appetite to expand (demand side factors) and financial market failures (supply side factors).

[1] IGEES – Patterns of Firm Level Productivity in Ireland (2018)
[2] ESRI – Estimating an SME investment gap and the contribution of financing restrictions (2018)

In terms of sectoral breakdown, CSO data from 2018 shows that over half of all SMEs were in the Services sector. The second highest percentage of SMEs were operating in the Construction sector (21 per cent), followed by the Distribution sector (18 per cent) and Industry sector (7 per cent), with the lowest proportion in the Financial and Insurance sector (3 per cent).

Figure 2: Persons engaged by sector and size (%)



Source: CSO

In terms of persons engaged (including business proprietors, family members, employees and connected subcontractors), SMEs employ 71 per cent (over half a million people) of the Services sector. SMEs in the Distribution sector also employ 71 per cent (267,000 people) of workers in that sector. While SMEs represent 21 per cent of all enterprises in the Construction sector, they employ 93 per cent (134,000 people) of workers in that sector. Of the 250,000 people employed in the Industry sector, 51 per cent are employed by SMEs. The sector with the lowest proportion of workers employed in SMEs is the Financial and Insurance sector, with 34 per cent (36,000 people).

Table 2: Number of active enterprises and persons engaged by sector and size class, 2018

Class size	Industry	Construction	Distribution	Services	Financial and Insurance	Total Business Economy
Active Enterprises						
Micro (<10)	16,117	55,616	41,340	127,351	7,909	**248,333**
Small (10-49)	1,814	1,811	5,575	8,324	553	**18,077**
Medium (50-249)	596	178	765	1,595	143	**3,277**
All SMEs (<250)	**18,527**	**57,605**	**47,680**	**137,270**	**8,605**	**269,687**
Large	176	21	109	286	65	**657**
All sizes	**18,703**	**57,626**	**47,789**	**137,556**	**8,670**	**270,344**
Persons Engaged						
Micro (<10)	28,500	85,502	90,615	198,203	10,256	**413,076**
Small (10-49)	38,272	33,247	108,063	163,546	11,170	**354,298**
Medium (50-249)	62,015	15,183	68,482	157,319	14,863	**317,862**
All SMEs (<250)	**128,787**	**133,932**	**267,160**	**519,068**	**36,289**	**1,085,236**
Large	121,848	10,589	107,808	213,295	69,135	**522,675**
All sizes	**250,635**	**144,521**	**374,968**	**732,363**	**105,424**	**1,607,911**

Source: CSO

In 2017, employment in foreign-owned-MNE-dominated sectors of the economy (sectors such as pharmaceuticals, software and communications) was predominantly in medium and large enterprises. Small and micro enterprises accounted for only 26 per cent of employment in these sectors (48 per cent in the total business economy).[3]

2.2 Churn of SMEs

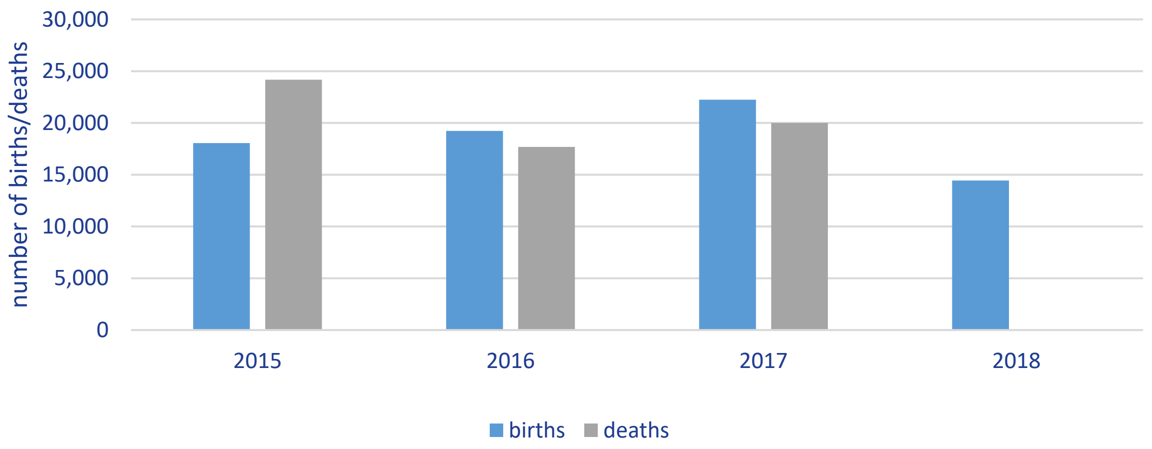
CSO data shows that following a general upward trend in births (new enterprises created) of approximately 15,000 per year from 2015 to 2017, the number of new SMEs fell in 2018 to 14,441

[3] IGEES– Spending Review 2020, The Composition of Employment in Small and Large Firms - October 2020

SME births. The level of SME deaths (enterprises that ceased trading) has declined since 2015 when nearly 25,000 deaths occurred, far outweighing births. However, there were approximately 2,000 more births in 2016 and 2017 than deaths[4].

The survival rate of all businesses had been increasing prior to Covid-19. The one-year survival rate (enterprises surviving their first year of activity) increased from 84.7 per cent for enterprises born in 2013 to 86.4 per cent for enterprises born in 2017. Of enterprises created in 2013, 67.3 per cent survived until 2018 at the earliest, with the biggest drop-off of businesses in the first year of activity.

Figure 3: SME births and deaths



Source: CSO
Note: data on 2018 deaths not yet available

2.3 Expenditure on Innovation

Larger enterprises tend to be more engaged in innovation than their smaller counterparts; 47 per cent of large enterprises had innovation expenditure between 2016 and 2018, compared with 36 per cent among SMEs. While small enterprises represent the majority of firms engaged in Research & Development (R&D) (90 per cent), the majority of R&D expenditure is undertaken by large enterprises. In 2019, SMEs accounted for 34 per cent of total R&D expenditure, while large enterprises accounted for 66 per cent, or €2.1 billion. This represents a fall in SMEs share in total R&D expenditure from 37 per cent in 2017. By their nature, SMEs spend less on R&D. Approximately 40 per cent of SMEs engaged in R&D in 2019 spent under €100,000 on R&D, while only 8 per cent spent over €2 million. Of large enterprises performing R&D, 61 per cent spent over €2 million, while 39 per cent spent over €5 million[5].

[4] Note: deaths not available for 2018 as a two year period of inactivity must lapse to be counted as a final death.
[5] CSO - [Business Expenditure on Research and Development, CSO 2021]

2.4 Self-employed

In the months prior to Covid-19, the share of self-employed workers in the total workforce was 14 per cent[6]. Of the 331,600 self-employed workers, 29 per cent had at least one paid employee. A fifth of all self-employed persons work in the Agricultural, Forestry and Fishing sector, and 66 per cent of all workers in this sector are self-employed. The second biggest cohort (19 per cent) of self-employed people work in the Industry sector. Just over 10 per cent of self-employed persons are in the Professional, Scientific and Technical Activities sectors. The number of workers classified as self-employed increased by less than 4 per cent between Q1 2014 and Q1 2020.

2.5 International competitiveness

Ireland is generally considered as being a good country in which to establish and maintain a business. The World Bank's Doing Business Report[7], launched in 2002, is an index measuring the quality of the regulatory environment for businesses across 190 economies. In 2020, Ireland ranks 24th overall, a fall from 23rd in 2019 and 17th in 2018. The 2020 report shows that Ireland ranks 4th in terms of the ease of paying taxes, 23rd in starting a business and 19th in terms of resolving insolvency. Ireland ranks relatively poorly in trading across borders with a 52nd place ranking, based on the time and cost associated with the logistical process of exporting and importing goods.

From an enterprise perspective, Ireland ranks highly out of the 137 participants in the Global Entrepreneurship Index (GEI), which measures the quality of the 'entrepreneurial ecosystem' of a country[8]. In 2019, Ireland ranked 9th, 8th in 2018, and 9th in 2017 in the GEI. Ireland also performs relatively well on the GEI's entrepreneurial abilities sub-index (7th) and on the entrepreneurial aspirations sub-index (14th).

2.6 The impact of Covid-19

The Covid-19 Pandemic has had a severe impact on the Irish economy with SMEs suffering disproportionately. Irish economic output as measured by Gross Domestic Product (GDP) increased

[6] CSO - Labour Force Survey Employment Series Q1 2020, Published June 2020
[7] The World Bank (2020) – Doing Business Index, 2020
[8] GEDI (2020) - Global Entrepreneurship Index, 2019

by 3.4 per cent in 2020, which is remarkable by international standards[9]. Conversely, modified domestic demand, an indication of underlying consumption and investment in the Irish domestic economy and a broad proxy for SME activity contracted by 5.4 per cent. The true impact of the Pandemic on SMEs will differ materially across sectors and will only become clear after restrictions have been lifted in their entirety.

Preliminary data is, however, available. Between March and October 2020 profitability fell dramatically among SMEs. As a whole, these firms experienced a mean profit margin of 24 per cent in 2019, while in 2020, average losses of 9 per cent were incurred. The scale of take up of various government supports by these firms is another indication of the impact the Pandemic has had. Nearly two thirds of SMEs received wage subsidy supports across this period[10]. The impacts of the Pandemic have been borne disproportionately by the accommodation and food and construction sectors. SMEs in the hotels and restaurant sector saw net turnover declines of 95 per cent, while the Agriculture sector saw the smallest declines, approximately 10 per cent. In a European context, Ireland had the most SMEs with declining turnover on net, at 62 per cent[11].

2.7 SME and Entrepreneurship policy going forward

Many challenges exist for Irish SMEs, many of which have been accelerated in light of the Pandemic. The OECD's *SME and Entrepreneurship Policy in Ireland*[12] identifies these issues in an international context. This report by the OECD in October 2019 examines how to strengthen SMEs and entrepreneurship across the Irish economy and also identifies a number of challenges for policy. While attitudes to entrepreneurship and innovation levels among SMEs are relatively high, productivity has remained stagnant in recent years. The OECD review notes that a divergence in productivity levels has taken place between the extremely productive large multinational enterprises and domestic SMEs, and given the exceptional performance of the multinational sector in 2020, this trend is likely to continue, if not accelerate, in the wake of Covid-19. Business entry and exit rates are low and few Irish SMEs are directly engaged in exports. The OECD recommends that policy should be targeted at

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[9] This exceptional increase represents the increases in economic activity in the ICT and Pharmaceutical sectors primarily. These sectors consist of large multinational enterprises predominantly and do not reflect the health of the domestic economy. Modified GNI or GNI* (not yet published for 2020) represents Irish economic activity more accurately as it strips out profits deriving from foreign-owned capital as well as depreciation of R&D imports (intellectual property primarily). For more on the difference between GNI* and GDP, see GDP and Modified GNI' – Explanatory Note, Department of Finance, 2018

[10] ESRI 2021 - New survey evidence on Covid-19 and Irish SMEs

[11] Central Bank of Ireland, SME Market Report 2021: The Impact of Covid-19 on SMEs

[12] OECD, OECD review of SME and Entrepreneurship Policy in Ireland, October 2019

resolving these issues, as well as increasing entrepreneurship among women, youth and migrants who are currently underrepresented.

The *SME Entrepreneurship Growth Plan*[13] was published by the Government earlier this year in recognition of these challenges. This report results from the commitment in the 'Programme for Government' to draw up a long-term strategic blueprint for SMEs and entrepreneurs. The report sets out a wide range of recommendations for SME and entrepreneurs, including a number of tax reforms and measures to assist companies to start up, scale up, enhance their digital capabilities and increase export activity. These recommendations will be reviewed and taken forward by an SME and Entrepreneurship Implementation Group in 2021.

3. Operating as a sole trader versus incorporation

SMEs, entrepreneurs and the self-employed are often discussed collectively but it is important to be mindful of some of the differences between operating as a sole trader or as a company from a tax and legal perspective. Whether a sole trader wishes to incorporate or not is a decision for the individual based on his or her particular circumstances and needs.

A company is treated as a separate legal entity to the owner and offers limited liability protection. Companies generally have increased regulation and administrative requirements, such as company law obligations and the obligation to register with the CRO and file annual accounts. A corporate structure can offer additional options for raising capital, for example, via the issue of shares to investors, in addition to bank loans and overdrafts typically used by sole trades.

From a tax perspective, the self-employed can pay up to 55% tax on business profits (in the form of income tax, USC and PRSI) compared with the 12.5% rate of corporation tax on trading income. There is a double tax charge where profits are extracted as the company pays corporation tax on the profits and the shareholders and directors pay income taxes at marginal rates when they extract those profits by way of dividend or salary. The majority of Irish resident firms are close companies[14] and are subject to additional close company tax rules. These include a surcharge on certain undistributed income, the

[13] Department of Enterprise, Trade and Employment (DETE) - Report of the SME Growth Taskforce: National SME and Entrepreneurship Growth Plan - January 2021

[14] A close company is an Irish resident company controlled by the directors, or controlled by five or fewer participators (e.g. shareholders). The tax rules for close companies are intended to discourage companies controlled by a small group of people from accumulating profits rather than distributing those profits to shareholders, which would then be liable to income tax at the higher rate.

treatment of certain benefits-in-kind and excess interest payments as distributions, as well as an additional tax liability on loans to participators in certain circumstances.

Other differences apply regarding the use of losses and what they can be offset against, as well as the availability of reliefs and deductions. For example, only investment in corporates can qualify for EII relief and while companies can take a tax deduction for salaries paid to directors the self-employed cannot take a tax deduction for drawings. The self-employed can claim personal tax credits and the earned income tax credit (which is now equal to the employee tax credit). Pension scheme options available to companies and the self-employed can also differ. The pay and file dates differ for corporation tax and self-assessed income tax but VAT and employer PAYE obligations are generally the same.

4. Overview of tax measures in place for SMEs and entrepreneurs

In recent years, a number of tax policies have sought to incentivise SMEs by helping them to raise share capital, lower tax for start-up businesses, attract key employees, encourage innovation, ease the burden of tax administration and provide tax reliefs for intergenerational transfers. These policy measures were introduced in recognition of the large role of SMEs in job creation and enterprise.

Table 3: Cost of various tax expenditures supporting economic activity

Measure	Year introduced	Cost €m in 2018	Number of claimants in 2018
R&D tax credit	2004	355	1,303
CAT Business relief	1994	189.9	643
CAT Agricultural relief	1976	165.5	1,463
CGT Entrepreneur relief	2014	92.4	875
EII	2011	14.5	1,137
KDB	2016	10.3	15
Start-up CT relief	2008	6	1,171
FED	2012	5.4	817
SURE	2011	0.8	39
CGT Retirement relief	1975	Data not available	1,400

Source: Revenue Commissioners

4.1 Raising finance

There are three different incentives available for equity investment in trading companies: EII, SCI and SURE. Individuals who make qualifying investments in qualifying companies can claim income tax relief on the amount invested.

The **Employment Investment Incentive (EII)** replaced the Business Expansion Scheme in 2011. The main objective of EII is to provide SMEs and start-ups with an alternative risk-based source of funding and to support the creation and retention of employment in SMEs across the economy. All unquoted micro, small and medium companies less than seven years old in qualifying trades may use the incentive, as may certain older companies that are expanding into new products or geographic markets. The EII is subject to EU State aid rules.

Substantial changes were made to the scheme and associated legislation in 2018 and 2019. These included the introduction of a self-assessment administration model; full income tax relief (40%) being provided in the year in which the investment is made (prior to this relief was given in two instalments) and an increase in investment limits. Since 2019, income tax relief of up to 40% is available on investments of up to €250,000 for investment over four years, or €500,000 for investment over seven years (prior to this a limit of €150,000 applied). Individuals interested in EII can invest directly through a private placement or through a designated investment fund. Companies may raise up to €5 million per annum, subject to a lifetime limit of €15 million. Gains realised on the disposal of EII shares are subject to normal capital gains tax (CGT) rules but losses are not generally allowed due to the availability of income tax relief.

The Department of Finance are currently undertaking a review of EII and a public consultation was recently held on possible future enhancements of the scheme. The review is particularly focused on improved support for start-ups, the potential to attract capital from a broader range of investors and the potential to include energy-efficient projects within the remit of the scheme.

The **Start-up Capital Incentive (SCI)** is designed to assist start-up micro companies in raising equity financing and similar conditions to EII apply. The tax relief was introduced for 2019 to 2021 and is available to family members of existing shareholders. It seeks to relax particular conditions for early stage companies that could otherwise prevent founders from raising qualifying started capital for the company from close relatives. The company must be carrying on a brand new venture and none of the shareholders can carry on a similar venture. There is a lifetime limit of €500,000 on the amount that a micro company can raise under SCI.

The **Start-Up Relief for Entrepreneurs (SURE)** scheme, formerly known as the Seed Capital Scheme, provides income tax relief for entrepreneurs who leave an employment to set up their own company. It is targeted at individuals who leave PAYE employment and establish a new company to carry on a qualifying trading activity. The entrepreneur must take up full-time employment in the new SME either as a director or an employee and invest cash into the new company by way of a direct purchase of new shares (a designated investment fund cannot be used). Relief is given to the investor in the form of a refund of income tax paid in the previous six years and in the current year. The maximum investment that can qualify under SURE is €700,000 (€100,000 per annum for the previous six tax years and €100,000 in the current year).

Table 4: Cost of tax expenditures for raising SME finance

Relief	2018		2017		2016		2015	
	Cost €m	Claimants	Cost €m	Claimants	Cost €m	Claimants	Cost €m	Claimants
EII	14.5	1,137	18.6	1,538	31	2,260	28	1,979
SURE	0.8	39	1.6	64	1.9	80	1.8	86

Source: Revenue. Data is not yet available on SCI.

4.2 Relief at start-up

The costs at the start-up phase can be particularly high for many new businesses.

A deduction for corporation tax purposes is available in respect of **pre-trading expenses** which are incurred in the three years before a business commences trading, provided they would have been deductible if the business had already commenced trading.

New or start-up companies may be eligible for **start-up companies' relief**, which takes the form of a reduction in the corporation tax liability in the first three years of trading. Relief can be applied to profits from the new trade and on chargeable gains made on assets used in the trade. Tax relief is available where the corporation tax liability is less than €40,000 (partial relief is available where the liability is between €40,000 and €60,000) and is limited to the total amount of employer's social insurance contribution paid in the period. Employer PRSI contributions must be a maximum of €5,000 per employee and €40,000 overall. Any unused relief from the first three years of trading may be carried forward, subject to restriction by reference to the total employers' social insurance contributions. This corporation tax exemption is not available on the incorporation of a sole trade.

Start Your Own Business Relief (SYOB) was introduced in Budget 2014 and provided income tax relief for long-term unemployed individuals who started a new unincorporated business. The relief applies up to a maximum of €40,000 in profit per annum for a period of two years. The scheme expired at the end of 2018.

Table 5: Cost of tax expenditures at start-up

Relief	2018		2017		2016		2015	
	Cost €m	**Claimants**	**Cost €m**	**Claimants**	**Cost €m**	**Claimants**	**Cost €m**	**Claimants**
Start Up Relief	6	1,171	5.8	1,071	5.7	1,051	4.8	936
Start your Own Business Relief	14.2	4,588	18.8	5,451	20	5,473	15.2	3,910

Source: Revenue

4.3 Attracting and retaining talent

Most employment growth over the last decade or so has been in high skilled occupations and knowledge intensive sectors. The ability to complete with larger firms in terms of attracting and retaining talented individuals represents an increasingly key challenge for SMEs. Tax efficient reward mechanisms are important to growing businesses, as they provide a means to attract and retain key personnel.

The **Special Assignee Relief Programme (SARP)** was introduced to alleviate skills shortages by enabling companies to attract foreign talent. Under SARP employees can have a 30% proportion of employment earnings over €75,000 disregarded for income tax purposes. An income limit of €1 million was introduced in 2019. Relief is limited to assignees or intra-group transfers across borders within the same company so the structure of the relief arguably favours multinational enterprises over smaller businesses which do not have foreign direct investment operations. The earnings threshold also means the relief is not relevant to employees whose remuneration is less than €75,000.

The **Foreign Earnings Deduction (FED)** is available to qualifying employees who spend time abroad in relevant jurisdictions. FED was introduced with the aim of supporting efforts by multinationals and indigenous firms to expand their exports into economic growth markets. Employees can reduce their employment earning by up to €35,000 per annum where they spend a minimum of 30 days in a relevant territory. The list of relevant jurisdictions has been expanded and the minimum number of overseas days' requirement has reduced several times in recent years in an effort to encourage uptake of the relief.

Table 6: Cost and number of claimants of SARP and FED expenditures

Relief	2018		2017		2016		2015		2014	
	Cost €m	Claimants	Cost €m	Claimants	Cost €m	Claimants	Cost €m	Claimants	Cost €m	Claimants
SARP	42.4	1481	28.1	1084	18.1	793	9.5	586	5.9	302
FED	5.4	817	3.9	591	3.5	413	3.18	472	1.1	144

Source: Revenue
Note: (for all company sizes, specific information on uptake by SME employees is not separately available)

As an alternative to cash payments such as wages or bonuses, employers often give shares for free or at a discounted price to their employees. Offering **share based remuneration** to employees is an attractive measure in Ireland given the employer PRSI exemption and the various tax efficient schemes available. Issuing shares or options over shares is commonly used by companies to align the interests of employees and shareholders (both want to see the company value and share price rise) and creates an incentive for employees to stay with the company (normally they must wait a period of time for shares to vest).

There is no monetary limit on the **employer PRSI exemption** for share remuneration and this can represent a significant saving for employers compared with cash remuneration (currently a 11.05% rate applies). Relief from the employer social insurance contribution applies regardless of whether the share scheme is relieved from income tax.

There are a number of tax efficient share based remuneration schemes that employers can offer to their employees.

The **Key Employee Engagement Programme (KEEP)** applies to qualifying share options granted between January 2018 and December 2023. KEEP is an incentive to facilitate the use of share-based remuneration by unquoted SME companies to attract key employees. Individuals who exercise KEEP options are exempt from a liability to income tax, USC and PRSI on any gain arising but they pay CGT on disposal of the shares acquired. Several amendments have been made to the incentive since its introduction in order to encourage an increased uptake of the relief. KEEP is subject to EU State aid rules and Finance Act 2019 amendments to the regime are currently awaiting signoff from the European Commission before they can be enacted. These changes will include an extension of the relief to larger group structures and part-time employees, as well as removing the requirement that shares issued under the scheme must be newly issued.

KEEP was introduced in 2018 and requires a minimum twelve month vesting period (the period between when the option is granted and capable of being exercised). Firms however can impose a longer vesting period, meaning that many employees who have been granted options under KEEP have not yet exercised them. Thus, data is not yet available on the tax cost of the KEEP scheme.

Restricted shares are often used for rewarding executives under a tax incentive referred to as the Clog Scheme. Where under a written agreement the employee or director is restricted from disposing of the shares acquired for a specified period, the individual can get a reduction in the value of the shares or option gain chargeable to income tax, USC and PRSI. Shares must be held in a trust established by the employer for the benefit of the employee for at least one year. The abatement can range from 10% to 60% depending on the period of restriction.

The **approved profit sharing (APSS)** and **save as you earn (SAYE)** tax approved share schemes are more commonly used by larger quoted companies rather than SMEs.

Table 7: Cost of APSS and SAYE

Relief	2018		2017		2016		2015	
	Cost €m	Claimants	Cost €m	Claimants	Cost €m	Claimants	Cost €m	Claimants
APSS	55.2	34,800	46	31,100	66.2	41,500	44.7	26,700
SAYE	1.3	1,100	2.3	1,620	1.9	1,420		

Source: Revenue
Note: for all company sizes, specific information on uptake by SME employees is not separately available

Detailed data is not currently available on all the employee share award schemes that exist in Ireland. Revenue recently launched a new employer reporting requirement of all share based remuneration offered to employees in the 2020 tax year. This new return is due to be filed by 31 August 2021 and is expected to significantly improve the data available on the level of share remuneration offered by employers based in Ireland, including the total cost of the employer PRSI exemption and greater visibility of the various reward structures in place.

Other tax incentives employers can offer to staff include the cycle to work scheme, the small benefit exemption (tax-free vouchers or benefits up to a value of €500) and the provision of sports and recreational facilities at work premises without attracting a benefit-in-kind (if the facilities are available to all employees).

4.4 Research, development and innovation

Ireland has an attractive tax regime to encourage innovation and productivity. Tax measures to support research and development (R&D) are viewed as an important feature of Ireland's corporate tax offering, aimed at attracting foreign direct investment, building an innovation-driven domestic enterprise sector and attracting quality employment and investment in R&D. The adaptability, innovation, digitalisation and diversification challenges faced by businesses during the pandemic have underscored the importance of this.

Money spent by a company on research and development activities may qualify for the **R&D tax credit**. The credit is calculated at 25% of qualifying expenditure and is used to reduce a company's corporation tax liability. As an incentive to certain staff, a company may transfer some or all of its R&D credit to 'key employees'. Finance Act 2019 amended the R&D tax credit to enhance the relief for SMEs by increasing the rate of the credit from 25% to 30%, amending the limits on the refundable credit and by introducing a new provision to allow micro and small companies conducting pre-trading R&D to claim the credit before trading commences. These measures are governed by State aid rules and approval from the European Commission is currently pending before the measures can be implemented. As part of the National Economic Recovery Plan it was noted that the level of SME take-up could be improved therefore the feasibility of a pre-approval mechanism for the R&D tax credit for SMEs is currently being examined, to provide SMEs with assurances before embarking on a project.

The **Knowledge Development Box (KDB)** is an intellectual property regime introduced in 2016 that provides for an effective 6.25% rate of corporation tax on income arising from qualifying assets. It supports businesses in retaining and exploiting certain assets, such as patents and copyrighted software, developed through R&D activities carried out in Ireland. Budget 2021 extended the KDB by two years to 31 December 2022.

Table 8: Cost of tax expenditures for RD&I

Relief	2019		2018		2017		2016		2015	
	Cost €m	**Claimants**	**Cost €m**	**Claimants**	**Cost €m**	**Claimants**	**Cost €m**	**Claimants**	**Cost €m**	**Claimants**
R&D credit			355	1,303	448	1,505	670	1,506	707.9	1,535
KDB	12.2	15	10.3	15	12.2	16	6.1	10	N/A	

Source: Revenue
Note: for all company sizes, specific information on SMEs is not separately available

Companies can claim **capital allowances for intangible assets** where they incur capital expenditure on specified intangible assets such as patents, copyrights, trademarks and know-how. These are available for offset against income generated from exploiting the assets or as a result of the sale of goods or services, where the use of those assets contributes to the value of such goods or services. The deduction for tax purposes can either match the amortisation/depreciation charge on the intellectual property included in the accounts, or, the a company can elect to claim the allowances over 15 years at a fixed rate of 7% per annum and 2% in the final year.

As part of a wider set of measures to stimulate economic activity, Finance Act 2013 amended the treatment of **carried interest.** The measure aims to facilitate investment via venture capital funds in start-up SMEs engaged in research, development and innovation. Carried interest is the proportion of an investment's gains that a venture capital manager takes as a return. Tax legislation provides that certain carried interest is treated as a chargeable gain subject to CGT at a reduced rate of 15% if received by an individual or a partnership and 12.5% if received by a company. This applies where the share of profits is received for managing a relevant investment in the unquoted shares or securities of a private trading company carrying on a research, development or innovation business. Carried interest excludes profits attributable to investors by reference to an initial rate of return and it cannot exceed 20% of the total profits of the relevant investment.

4.5 Administration

Cash flow management is a key issue for SMEs and the timing of tax payments can be an important consideration. The frequency, level and ease of reporting is also relevant, with businesses obliged to manage their own tax affairs and act as collection agents on behalf of the State in many cases (for example VAT and payroll tax withholding).

All companies must **file an annual corporation tax return** (Form CT1) and pay any balance of tax due on or before the 23rd of the ninth month after the end of the accounting period.

There are two **rates of corporation tax**: 12.5% for trading income and 25% for non-trading income such as rental and investment income. Profits from excepted trades (e.g. dealing in and developing land) are also subject to the 25% rate. Tax is charged on the profits in a company's accounting period, which cannot be longer than 12 months.

Companies must make a payment on account, known as **preliminary tax**, of their annual corporation tax liability. New or start-up companies do not have to pay preliminary tax for their first accounting period if they have a liability that is less than €200,000. Instead, they must pay their final corporation tax charge for the first accounting period when submitting their corporation tax return. Small companies pay their preliminary corporation tax in one instalment if they had a corporation tax liability of less than €200,000 in their previous accounting period. This must be paid 31 days before the end of their accounting period, and before the 23rd of that month. In comparison, large companies pay their preliminary tax in two instalments. Interest is due at a daily rate of 0.0219% on late payments or payments that are not made in full.

Value-Added Tax (VAT) registration is obligatory when turnover exceeds or is likely to exceed the VAT thresholds in any continuous 12 month period. The turnover threshold is €37,500 for supplies of services and €75,000 for goods. Business who supply taxable products or services can elect to register for VAT if turnover is less than the relevant threshold. Business registered for VAT generally file **VAT returns** every two months, however in certain cases monthly, four monthly, biannual or annual returns may be submitted (typically where there is a low VAT payment liability).

The normal **method of accounting for VAT** is the invoice basis, where traders account for VAT when an invoice is issued to a customer irrespective of when payment is received. Certain businesses can opt to account for VAT on the money received basis, where the trader accounts for VAT when cash is actually received from the customer. The cash basis is available where either turnover does not or is not likely to exceed €2 million in any continuous 12 month period, or, where the business almost exclusively supplies to customers who are not registered for VAT or not entitled to claim a full deduction of VAT. In practice this second condition applies mainly to retailers, pubs, restaurants and similar businesses selling mainly to private individuals.

The introduction of PAYE modernisation in 2019 has facilitated the streamlining of the administration of payroll operation for businesses. Businesses may also be obliged to operate **other types of withholding taxes** on certain payments, for example, dividend withholding tax (DWT) on payment of dividends, relevant contracts tax (RCT) on payments to subcontractors in construction, meat-processing or forestry sectors and professional services withholding tax (PSWT) on the supply of certain services to State bodies.

4.6 Business succession / Exit

Capital Gains Tax (CGT) is payable at a rate of 33% on the disposal (e.g. sale or gift) of chargeable assets such as shares and property. Companies normally pay corporation tax rather than CGT on chargeable gains. Individuals are entitled to an annual exemption of up to €1,270 of gains and can transfer assets at no gain/no loss to spouses and civil partners.

CGT Retirement Relief allows individuals aged 55 or over to transfer business or farming assets without attracting a CGT liability where those assets were both owned and used in the ten years prior to disposal. Despite its name, the individual does not actually have to retire from the business or farming in order to qualify.

- The operation of the relief differs between the disposal of a business or farm to a child and disposals to anyone other than to a child. For the purposes of the relief, a child includes a stepchild or child of a civil partner, an adopted child, a child of a deceased child, a niece or nephew who has worked full time in the business or farm for at least five years, and a foster child of at least five years before the age of 18. The operation of the relief also differs between persons aged 55 to 65 years and persons aged 66 years and over.
- Since 2014 if the person is between 55 and 65 years of age and the disposal is to a child, the full relief may be claimed. If the person is 66 years of age or older the relief is restricted to €3 million. If the child disposes of the asset within six years, the relief will be withdrawn and they must pay the full amount of CGT on the original disposal and the subsequent disposal.
- In the case of a disposal of a business or a farm to someone other than a child, the full relief may be claimed when the market value at the time of disposal does not exceed a threshold of €750,000 if the person is under 66 years of age. The threshold is €500,000 if the person is 66 years of age and older.
- These thresholds are lifetime limits and if they are exceeded the relief is withdrawn and CGT is payable on the gains on all disposals. Marginal relief may apply to gains that exceed the thresholds limiting CGT to half of the difference between the sale price or market value and the threshold.

CGT Entrepreneur Relief provides for a reduced CGT rate of 10% (rather than 33%) on gains from the disposal of qualifying business assets by qualifying individuals. There is a lifetime limit of €1 million in chargeable gains.

- A qualifying business is 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.
- Qualifying business assets must be owned by a sole trader and used in their trade, for a continuous period of three years in the five years immediately prior to the disposal.
- Qualifying business assets also include ordinary shares held by an individual in a trading company. At least 5% of the ordinary shares must have been owned for a continuous period of three years at any time prior to the disposal (prior to 2021 this three-year holding period had to occur in the five years immediately preceding the disposal).
- The individual must have spent at least 50% of their time working in the business as a director or employee for three out of the five years immediately prior to the disposal.

Farm Restructuring Relief is available where an individual disposes of or exchanges farmland in order to consolidate an existing holding. Full relief from CGT is available when the purchase price exceeds the sales price and there is partial CGT relief when the purchase price is lower than the sale price. To qualify, the first sale or purchase must occur between 1 January 2013 and 31 December 2022. The next sale or purchase must occur within 24 months of the first. This relief is set to expire on 31 December 2022. The purchaser of the new parcel of land may also be eligible for stamp duty relief.

Individuals who receive a gift or inheritance of a business property may be eligible for **Capital Acquisitions Tax (CAT) Business Relief**, which reduces the taxable value of the business property by 90%. Subject to a number of qualifying conditions, relief applies to the transfer of a business or shares in a company carrying on a business. A gift or inheritance of agricultural property to a farmer may qualify for **CAT Agricultural Relief**, which reduces the market value of the property, including land, by 90%.

If CGT and CAT are due on the same event and on the same property the recipient may be reduce their CAT liability with a credit for CGT paid by the disponer.

Table 9: Cost of tax expenditures for business succession

Relief	2019		2018		2017		2016		2015	
	Cost €m	Claimants	Cost €m	Claimants	Cost €m	Claimants	Cost €m	Claimants	Cost €m	Claimants
CGT										
Retirement Relief*				1,400		1,421		1,357		1,229
Entrepreneur Relief			92.4	875	81.8	875	20.4	406		
Farm Restructuring			0.5	15						
CAT										
Business Relief	200.4	648	189.9	643	102.5	584	85.1	483	86.9	461
Agricultural Relief	158.6	1,413	165.5	1,463	140.5	1,472	114.6	1,263	215	2,024

Source: Revenue
Note: for all company sizes, specific information on SMEs is not separately available
**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.*

5. Other supports in place

The following section gives a brief overview of some of some of the direct supports for Irish SMEs, as well as those available for Foreign Direct Investment. It should be noted that it is not within the scope of the Terms of Reference of the Commission to make recommendations on direct supports however they are discussed here for completeness. Direct financial subsidies often have a strong policy rationale as they can be targeted at firms with particular needs. Tax expenditures tend to be less easy to target and can be more regressive in that they apply largely to those who have sufficient taxable profits.[15] Reliefs targeted at particular sectors or businesses are also subject to EU State Aid rules.

There are 31 **Local Enterprise Offices**[16] across Ireland that offer funding, information and training to micro and small enterprises in Ireland. Their aim is to promote entrepreneurship, foster business start-ups and develop existing micro and small businesses to drive job creation, as well as providing them with appropriate skills and funding to be innovative and to export. Some of the financial supports include feasibility study grants, priming grants, business expansion grants and Brexit supports.

Enterprise Ireland is a government organisation responsible for developing and growing Irish enterprises in global markets. The table below shows some of the grants categories at start-up and growth phases for SMEs.

Table 10: Enterprise Ireland grant categories for SMEs[17]

High-potential start-up (HPSU)	Established SME funding for enterprise with 10-250 employees, not in HPSU stage, international traded sectors
Feasibility grants – aimed at developing the business idea/proposal to the point where it is investor ready.	Market Research and Internationalisation Supports
Investor-ready grants – for start-ups with a well-developed business plan, needing to raise investment. Includes the Competitive Start Fund (a €50k equity investment) and the Innovate HPSU fund.	Supports for Product, Process or Services Development (including RD&I funding). Includes Business Innovation Grant (up to €150,000) for costs associated with implementing new production, delivery or organisational methods. Includes agile innovation fund (for projects less than €300,000) and the RD&I fund (greater than €300,000).
Post investment supports – focused on exploring new international opportunities and continued development of the management team	Supports to Enhance and Develop your Management team

[15] Department of Finance, Report on Tax Expenditures, October 2014
[16] Further information on specific LEO supports is available at https://www.localenterprise.ie/
[17] For more detail see – Enterprise Ireland funding supports

	Productivity and Business Process Improvements Supports. Includes the Capital Investment Initiative Fund (grant support up to €250,000) for acquisition of new capital equipment and technology to improve competitiveness.
	Company expansion packages. Includes the Job Expansion Fund which grants supports up to a maximum of €150,000 towards the recruitment of new employees.

Note: for details and full list of grants available to all businesses see Enterprise Ireland funding

The role of the **Industrial Development Agency Ireland (IDA)** is to attract foreign direct investment to Ireland and help operations established here to scale-up. It offers a wide range of supports from training grants and business asset grants to research, development and innovation grants and international marketing expertise supports.

In 2019, the Department of Enterprise Trade and Employment carried out an assessment of direct capital, capital employment and training supports between 2005 and 2018. The main findings are summarised below to give a sense of the value and take-up of these grants.[18] Enterprise Ireland approved nearly 13,000 grants (to approximately 6,000 unique firms) to the value of €780 million worth of capital, employment and training supports (CET) between 2006 and 2018; averaging €60 million a year[19]. The latest year (2018) represented the highest value of approvals over this timeframe, totalling approximately €100 million. Capital supports represented the highest share in 2018, accounting for approximately 60 per cent of approvals, while employment supports represent 20 per cent and training, the remainder. Across the 2006 to 2018 period, tailored company expansion

[18] DETE (2019) - Focused Policy Assessment of Capital, Employment, and Training Supports: 2005/2006 – 2018, Spending Review 2019

[19] Capital supports are aimed at supporting firms to invest in or to leverage infrastructure or technology with a view to building capacity aimed at expanding firm size, type of activity, or to increase productivity. Employment supports are aimed at supporting firms to build capability through: support for identification and recruitment of key employees, support for employing new expertise; support for growing employment as part of an expansion based on existing or new activities. Training supports are aimed at: training of management to implement growth plans based on new or existing activities; training to support firms in maximizing opportunities arising from technology, such as internet and e-marketing; training in how to evaluate new markets; training to help optimise performance across the entire business from procurement through to distribution and changing market needs.

packages accounted for the largest share of the value of capital approvals (60 per cent) while Productivity and Business Process Improvement accounted for 25 per cent of the total value.

In 2018, the number of approvals totalled just under 1,000, a number which has remained relatively stable between 2006 and 2018. The average value of approval varies by firm size over the period with large enterprises. The table below presents average CET approvals by size over the period 2006 to 2018.

Table 11: Enterprise Ireland - average value of approval by firm size and grant type (€)

	Capital	Employment	Training
Large	1,378,444	157,315	111,292
Medium	405,566	95,062	40,947
Small	183,264	65,250	19,896
Micro	161,313	40,305	4,589

Source: Department of Enterprise Trade and Employment

The total value of approved IDA grants for CET amounted to €1.07 billion between 2005 and 2018. In 2005 and 2006, total grants amounted to €160 million and €180 million respectively. From 2007 onwards, grants averaged approximately €60 million – owing to a change in State Aid rules in 2007. In 2018, capital, employment and training accounted for equal shares of total approvals. Between 2005 and 2018, 1,269 CET supports were approved and granted to 651 unique firms. The average value of CET supports approvals by size and grant type is represented below over the period 2005-2018.

Table 12: IDA - average value of approval by firm size and grant type (€)

	Capital	Employment	Training
Large	1,984,321	1,921,414	671,833
Medium	324,500	889,667	202,951
Small & micro	578,619	816,632	119,661

Source: Department of Enterprise Trade and Employment

6. Relief measures introduced as a result of Covid-19

As part of the national response to the COVID-19 pandemic, a number of temporary measures were introduced to assist taxpayers experiencing a range of difficulties caused by the impact of Covid-19. These include the following measures[20]:

[20] Source: Revenue Annual Report 2020

- The **Temporary Wage Subsidy Scheme (TWSS)** provided more than €2.8 billion in support to 66,600 employers in respect of over 664,500 employees between 26 March and 31 August 2020.
- The **Employment Wage Subsidy Scheme (EWSS)** replaced the TWSS from 1 September 2020 and to the end of quarter 1 of 2021, over €2.6 billion has been paid under the scheme to over 48,400 eligible employers in respect of 546,300 employees. EWSS payments to eligible employers are based on a flat-rate subsidy structure based on employees' gross weekly wage. A reduced rate of employer's PRSI of 0.5% is charged on wages paid which are eligible for the subsidy payment. The scheme is expected to end on 31 December 2021.
- Since the **Covid Restriction Support Scheme (CRSS)** commenced in November 2020 a total of €423 million payments have been paid to 21,800 businesses in respect of 24,100 business premises as of 1 April 2021. Under the CRSS, a qualifying person who carries on a business activity that is impacted by COVID-19 related public health restrictions, such that the business is required to prohibit or considerably restrict customers from accessing its premises, can make a claim to Revenue for a payment, subject to a maximum of €5,000, for each week that it is affected by the restrictions. The scheme has recently been extended until the end of 2021.
- In March 2020, Revenue suspended the application of interest on late payments of VAT and PAYE (Employers) liabilities. These liabilities were subsequently incorporated into the **Debt Warehousing Scheme**, which enables businesses to defer VAT, payroll and self-assessed income tax debt as well as TWSS overpayments. As at 31 March 2021, €2.3 billion of tax debt was warehoused for over 80,000 businesses.
- **Accelerated Loss Relief** of €61 million in interim claims was paid to 180 companies and 320 self-employed individuals carrying on a trade.
- **Debt enforcement activity was temporarily suspended** to assist businesses experiencing trading difficulties.
- In addition to the wide range of supports administered on behalf of the Government during 2020, Revenue also implemented **a suite of concessional measures** across an extensive range of tax related matters. These include: extended pay and file deadlines, extended timeframes for SME's seeking to avail of relief under the Employment Investment Incentive (EII) to meet certain conditions, early access to Research and Development (R&D) payable credits, the availability of a significantly reduced interest rate of 3% in respect of pre-COVID tax debt for a limited time, concessional measures regarding the application and calculation of Benefit-In-Kind (BIK) and the acceleration of Professional Services Withholding Tax (PSWT) interim refunds.

- The Department of Social Protection is responsible for issuing the **Pandemic Unemployment Payment (PUP)**, which is a social welfare payment for employees and self-employed people who have lost their job or ceased trading due to the pandemic. As of 25 May 2021 the overall cost of the PUP since its introduction in March 2020 is over €7.7 billion, supporting over 860,000 people. The scheme was extended beyond 30 June 2021 for existing claimants but is closed to new applicants from July 2021 onwards. A special Enterprise Support Grant of €1,000 is available for self-employed people returning to work to assist sole traders leaving PUP to meet re-start costs.
- Complementary supports include the **Small Business Assistance Scheme for COVID-19 (SBASC)**, which was introduced to help businesses not eligible for CRSS or other direct sectoral grant schemes. This grant aims to help businesses with their fixed costs, for example, rent, utility bills, security.

7. Commission on Taxation 2009

The terms of reference for the Commission on Taxation 2009[21] asked the members to consider how best the tax system can support economic activity while providing the resources necessary to meet the cost of public services and other Government outlays in the medium and longer term. As part of this the Commission examined the tax expenditures in place in relation to enterprise (including farming) and made recommendations as to whether each tax expenditure should be continued, discontinued or modified.

The table below lists some of the recommendations in relation to supporting economic activity, of which over 50 proposals were made in Parts 7 and 8 of the 2009 report. The rationale for each specific proposal is discussed in further detail in the report. Overall the assessment was based on the economic and social benefits the measures deliver and whether the continuation of these was justifiable on cost/benefit grounds.

[21] A copy of the 2009 report is available to Commission members on Decision Time.

Table 23: Summary of tax recommendations

Commission on Taxation 2009 Recommendation	Recommendation adopted ✓ - Yes ✗ - No
A low stable corporation tax rate should remain a core aspect of Irish tax policy to support economic activity in the long term	✓
Continue the R&D tax credit • Companies should have the option to offset their R&D tax credit against their employer PRSI costs	✓ ✗
Continue the tax deduction for capital expenditure on scientific research	✓
Continue accelerated capital allowances for energy efficient equipment	✓
Continue relief for investment in renewable energy generation	✗
Discontinue the tax exemption for patent royalties	✓
Continue Film Relief (subject to regular review)	✓
Continue the Business Expansion and Seed Capital Schemes (up to their 2013 deadline, subject to review before any further extension and with a review of the administrative requirements)	✓
Continue CGT Retirement relief (but limited to asset values up to €3 million for family transfers)	✓
CAT Business relief and Agricultural relief should be amalgamated into a single relief • The reduction in the taxable value for both reliefs should be reduced from 90% to 75% • The reduction should be subject to an overall monetary limit of €3 million	✗
Continue relief from corporation tax for start-up companies • In addition, the exclusion for service companies should be removed • A similar scheme should be introduced for the non-corporate sector	✓ ✗ ✗
Corporation tax payable on gains on disposal of assets used for trading purposes should be at the rate applicable to trading profits (i.e. reduced from the 25% CGT rate at the time to 12.5%)	✗
The tax rate on dividends from ordinary shares received by Irish residents should be reduced to the rate applying to deposit interest (i.e. reduced from 41% to the 25% DIRT rate at the time)	✗
Stamp duty on all share transactions should be reduced to zero	✗

Venture capital fund managers who are individuals should be taxed on carried interest at marginal rates when the investment return represents income and at the normal CGT rate when it is a capital gain.	✕
Continue the close company surcharge on investment and estate income of companies (with an increase in the entry threshold)	✓
Discontinue the close company surcharge on professional service companies	✕
An optional arrangement should be made available to new non-corporate businesses to allow them to spread their tax payments over the first three years	✕
Large companies should be allowed to adopt a previous year option in relation to the payment of preliminary tax (another option proposed was to gradually increase the small company threshold until all companies are covered)	✕

Source: Commission on Taxation Report 2009

8. Proposals for the Commission – forward looking

As part of the next phase of work, the following topics are areas the Commission may wish to focus on:

- The treatment of capital versus income. Does the tax regime encourage you to sell a business rather than help it grow further? Is there a more favourable CGT regime on disposal of a business compared with high income tax rates on dividends, drawing a salary, profit extraction, etc.?
- What are the challenges for SMEs to scale up their businesses and what role can the tax system play?
- Is Entrepreneur tax support appropriately targeted- in start-ups that generate jobs or in high value start-ups? Does it matter from an equity point of view, or from a policy objective?
- Making existing tax incentives more SME friendly. Are there streamlining efforts that could make existing tax measures more accessible for SMEs and start-ups, e.g. KEEP, R&D, SARP, Knowledge Box?
- What role does the tax system have in increasing productivity in the SME sector and is this the most appropriate way of addressing productivity?
- What role should the tax system play in increasing entrepreneur access to venture capital?
- What role could or should the social welfare system play in supporting SMEs and entrepreneurship?