Commission on Taxation & Welfare
An Coimisiún um Chánachas ⁊ Leas

Briefing Paper

Policy objectives for supporting SMEs and entrepreneurs

CONFIDENTAL AND NOT FOR WIDER CIRCULATION For discussion	
Subject	**Policy objectives for supporting SMEs and entrepreneurs**
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Version	Final
Date	1 October 2021

Key Points

The purpose of this paper is to help facilitate a discussion by the Commission members to establish what the Commission's policy objectives should be in relation to supporting economic activity for SMEs and Entrepreneurs via the tax system.

The paper examines the current main tax expenditures aimed at supporting SMEs and entrepreneurship. Each expenditure is examined by identifying the stated policy objective when the measure was first introduced, what market failure was being addressed (if known) and whether the policy rationale has changed over time. This includes a review of who can avail of the relief, the Exchequer cost and identifying the main outcomes of tax expenditure reviews conducted to date, where data is available.

The paper concludes by suggesting areas of tax policy the Commission may wish to focus on in relation to supporting economic activity. It also poses some fundamental questions for the Commission to consider such as:

- What is the appropriate role of taxation in supporting economic activity?
- How well do current supports meet policy objectives for supporting economic activity and how well do they fit with the underlying principles of this Commission?

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1. Introduction

Context: The role of entrepreneurial activity in the Irish economy and the importance of providing a supportive business environment to ensure that small and medium sized enterprises ('SMEs') are encouraged to grow investment and employment has been emphasised in a range of Government policies. In addition to direct expenditures such as grants and subsidies to support this aim, Ireland's tax regime contains a number of expenditures and administrative practices aimed at supporting SMEs and entrepreneurship. The fundamental rationale for this is that SMEs account for 99.8% of all Irish enterprises and they are responsible for employing over two-thirds of Ireland's workforce. Entrepreneurial activity is also responsible for a significant portion of output and turnover in the Irish business economy.

However, the overall productivity of SMEs is generally lower when compared with large companies operating in Ireland. Measures of Ireland's economic performance are often driven by the success of the multinational and FDI sector, which do not necessarily reflect challenges faced by smaller indigenous businesses. In 2019 the OECD published a review of SME and Entrepreneurship policy in Ireland[1]. The OECD found that while Ireland provides a favourable business environment and is a successful generator of high-growth and innovative firms, it found that SME productivity growth is stagnant. Some of the factors explaining low SME productivity when compared with frontier firms (larger multinationals etc.) include low internationalisation, insufficient digital technology adoption, low firm dynamism, weak management practices and low capital investment rates. The OECD recommend an extensive and multi-pronged approach to address the issues raised. Other organisations have also commented on challenges SMEs face in improving productivity. For example, the ESRI noted that intangible assets and staff were the categories with the lowest investment levels by SMEs in 2018. Given the importance of labour skills improvements for productivity growth, the ESRI believe this may be one avenue that could be explored to bridge productivity gaps.[2]

Terms of Reference: The Commission on Taxation and Welfare has been tasked with independently considering how best the tax and welfare systems can support economic activity and promote employment prosperity, while ensuring there are sufficient resources to meet the costs of public services and supports in the medium and longer term. This includes a review of how best the taxation environment for 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 terms of reference

[1] See OECD review of SME and Entrepreneurship Policy in Ireland and Secretariat paper "Supporting SMEs and Entrepreneurship" available on Decision Time

[2] ESRI, SME Investment Report 2019, October 2020

also instruct the Commission to have regard to the principles of taxation and welfare policy outlined within the Programme for Government, including the Government's commitment to a pro-enterprise policy framework and to providing a stable and sustainable regulatory and tax environment. Also relevant is the Commission's requirement to examine the process for reviewing tax measures and expenditures and to make recommendations as to how it can be improved.

The terms of reference are all-encompassing and ambitious. Unlike the 2009 Commission on Tax which was specifically instructed to carry out an economic, social and cost/benefit assessment of all tax expenditures, the current Commission has a far broader remit and more flexibility in terms of how it approaches its work. This work is time-bound and discussions by members to date indicate a preference to clearly define and prioritise areas of focus. To that end, this paper is intended to facilitate a discussion by Commission members to agree what the Commission's policy priorities should be in relation to supporting economic activity via the tax system.

Framing the Commission's discussion

In the context of supporting SMEs and entrepreneurs, and also more generally, the Commission members have highlighted a number of themes and issues it wishes to consider as part of its work. These include base broadening measures, horizontal and vertical equity within the tax system, simplification and the appropriate role of tax levers compared with direct expenditures. This paper outlines some of the main policy objectives being pursued through the tax system for supporting economic activity. There are a number of tax incentives, many of which have been modified over the years following expenditure reviews and public consultations, while others which have not had substantial reform since introduction. Members are asked to reflect, in light of earlier discussions and as they read the material presented in this paper, on the following questions:

- What is the appropriate role of the State in supporting economic activity and to what extent should it intervene?
- What market failures should the State try to correct?
- Is taxation the most efficient and appropriate policy lever to address these failures?
- Does the Commission believe that the current tax expenditures meet the Government's policy objectives for supporting economic activity in this area?
- How compatible are existing tax expenditures with the general principles underlying the work of this Commission e.g. net revenue raising, equity, efficiency, etc.?
- What approach does the Commission wish to pursue in achieving its mandate of supporting economic activity?

2. Overview

This paper examines some of the main tax expenditures within the current regime aimed at supporting economic activity. The analysis identifies the stated objective of each policy measure and the uptake and impact of those reliefs where data is available. The main findings from tax expenditure reviews carried out to date (if any) are included where relevant. These reviews have largely been carried out by the Tax Strategy Group or an external consultant engaged by the Department of Finance. The purpose of this paper is to examine the current approach of policymakers in providing tax expenditures for supporting economic activity, to better inform the Commission in its selection of its own objectives in this area.

The table below summarises the stated policy objectives of the main tax expenditures for supporting economic activity via the tax system. Section 3 onwards looks at each of these measures in turn.

Category	Tax-head	Measure	Aim of measure (as stated by policymakers when introduced)
Incentivising equity-based risk finance	IT	Employment Investment Incentive (EII)	Provide SMEs and start-ups with an alternative risk-based source of funding and support the creation and retention of employment in SMEs
	IT	Start-Up Refunds for Entrepreneurs (SURE)	Assist entrepreneurs in raising seed capital for their new business
	IT	Start-up Capital Incentive (SCI)	To enable micro-sized firms to raise equity finance from connected persons
Incentivising innovation	CT	Research and Development (R&D) tax credit	Encourage increased R&D expenditure, which may otherwise occur at less than optimum levels. Seen as a key part of Ireland's competitive corporation tax (CT) offering.
	CT	Knowledge Development Box (KDB)	Encourage high-value development of intellectual property in Ireland
Supporting start-ups	CT	Start-up CT relief	Reduce financial costs at the start-up phase of new, employment generating businesses
Rewarding entrepreneurs	CGT	Entrepreneur Relief	Encourage entrepreneurs to invest in and establish new firms in Ireland
	CGT	Retirement Relief	Alleviate the impact of tax on the transfer of family businesses and farms and encourage transfers to the younger generation
Enabling business continuation	CAT	Business Relief	Alleviate the impact of tax on the transfer of family businesses and encourage transfers to the younger generation
	CAT	Agricultural Relief	Alleviate the impact of tax on the transfer of farms, encourage transfers to the younger generation and support a productive use of agricultural land

Attracting and retaining employees	IT, USC & Employee PRSI	Key Employee Engagement Programme (KEEP)	Help SMEs recruit and retain talent in a highly competitive labour market
	Employer PRSI	Share-based remuneration	Alleviating the cost of doing business for employers
	IT	Special Assignee Relief Programme (SARP)	Reduce the cost to employers of assigning individuals already employed by them to Ireland
	IT	Foreign Earnings Deduction	Support firms who endeavour to expand their exports into new markets

The following table lists these reliefs in order of cost to the Exchequer (where the cost is known) together with when the measure was introduced, when it is set to expire and the year it was last reviewed in detail by the Department of Finance.

Name of relief	Exchequer cost in 2018 (€ million)	Year introduced	Year of expiry	Year of last review by the Department of Finance
R&D credit	355	2004	No expiry date	2019
CAT Business Relief	190	1994	No expiry date	None
CAT Agricultural Relief	166	1976	No expiry date	2014
CGT Entrepreneur Relief	92	2016	No expiry date	2020
SARP	42	2012	2022	2019
EII	15	2011	2021	2021
KDB	10	2016	2022	2015 (prior to introduction)
Start-up CT relief	6	2009	2021	2018
FED	5	2012	2022	2019
SURE	1	2015	*	2019
KEEP	0	2018	2023	2019
CGT Retirement Relief	Data not available	1975	No expiry date	None
Employer PRSI exemption for shares	Data not available	*	No expiry date	2016
SCI	N/A, launched in 2019	2019	2021	None

** Confirmation of this information has been requested from the Department of Finance*

2.1 Commentary on the use of tax expenditures

The Department of Finance's most recent Stability Programme Update (SPU) notes that "*In the case of the corporate sector, the Government has no role in propping-up firms whose business model is no longer* *viable; instead, Government will continue to maintain the necessary conditions that promote firm-creation and market dynamism*."[3]

Research has indicated that younger firms account for a greater share of new job creation[4] and clear evidence has been shown that it is younger firms, particularly in high-tech or high risk sectors, which also tend to find access to long term capital most difficult.[5] It is for these reasons that there has been an increasing focus on the role of the tax system in supporting entrepreneurship and the establishment of new firms in recent years.

Many submissions have been made to the Government over the years for reform of various tax expenditures to achieve these aims. In general the focus has been on expanding the scope or amount of relief, as well as reducing the level of administration and complexity for smaller businesses. Meanwhile the commentary from the public on reducing or removing such tax reliefs from the system is limited. A range of economic literature is however available.

Tax expenditures affect Exchequer revenues and hence the fiscal position. However, taxpayers can often fail to perceive the full cost of tax expenditures as they can be misconstrued as tax cuts rather than spending increases. The term "fiscal illusion" has been given to this concept, where taxpayers systematically misperceive the tax burden where government revenues are unobserved or not completely perceived by the taxpayers. This information deficit is sometimes used to explain why fiscal decisions may be distorted.[6] Fiscal illusion can lead to a policy bias towards tax expenditures over traditional spending, which can lead to less efficient and larger sized governments.[5] Furthermore, tax expenditures are open to capture by lobby groups. The combination of economic rents with a lack of transparency can render tax expenditures persistent beyond their useful life.[7]

On balance, a number of advantages exist to using tax expenditures but only, as Commission members have highlighted, when they are appropriately designed, targeted and kept under periodic review.

The rest of this paper examines some of the main tax expenditures for supporting economic activity and should be read in the context of the Terms of Reference requests for supporting SMEs and entrepreneurs, together with fiscal sustainability and the review process for tax expenditures in particular.

[3] Department of Finance, Stability Programme Update, April 2021
[4] Lawless, Martina, 'Age or Size? Determinants of Job Creation', Central Bank of Ireland Research Technical Paper, 2013
[5] Burman, Economic, Policy and Budgetary Aspects of Tax Expenditures, Presentation at ECFIN Taxation Workshop "The use of tax expenditures in times of fiscal consolidation", 2013
[6] Black, J., Hashimzade, N. & Myles, G., Dictionary of Economics, 2009
[7] Department of Finance, Report on Tax Expenditures, 2014

3. Incentivising equity-based risk finance (via income tax relief)

The income tax reliefs available for investments in corporate trades are used by trading companies to attract equity-based risk finance from individuals. Individuals who make qualifying investments in qualifying companies can claim income tax relief on the amount invested. There are three different incentives under which companies can raise funds, the main one being the Employment Investment Incentive (EII). The other reliefs are the Start-Up Refunds for Entrepreneurs (SURE), which was a rebranding of the former Seed Capital Scheme in May 2015, and the Start-up Capital Incentive (SCI), which was introduced in 2019 for family members of existing shareholders in start-up micro-sized companies.

3.1 Employment Investment Incentive (EII)

3.1.1 Overview of measure

In 2011 the Employment Investment Incentive (EII) replaced the Business Expansion Scheme (BES) which had been in place since 1984. It provides income tax relief of up to 40% to an individual who invests in shares in qualifying corporate trades. **The way in which EII is claimed has significantly changed for shares issued on or after 1 January 2019**. The maximum relief an investor can claim is:

- €150,000 for years up to and including 2019,
- €250,000 from 2020 onwards where the shares held for at least four years, or
- €500,000 from 2020 onwards if the shares are held for at least seven years.

The minimum investment permitted is €250 in a year. Now investors are given full 40% relief in the year of investment. Relief for investments prior to 9 October 2019 were given on thirty fortieths (30/40) in the year of investment, with a further ten fortieths (10/40) given in the fourth year after the initial investment. Relief is given in the form of a reduction in the investor's earnings for income tax purposes (but not USC or PRSI). **Based on the 40% higher rate of income tax that gives a tax saving of up to €200,000 for a seven year investment, compared to the maximum €60,000 tax saving available prior to 2020.** The EII was removed from the high earners' restriction[8] near the end of 2013.

The EII is available to unquoted micro, small and medium companies less than seven years old in qualifying trades, and certain older companies that are expanding into new products or geographic markets.

[8] This restriction limits the use of tax reliefs and exemptions by high income individuals, who have income equal to or greater than €125,000 and have specified reliefs greater than €80,000.

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. The EII is subject to EU State Aid rules and a number of company and investor conditions.

Self-certification was introduced from 2019, replacing the Revenue pre-approval system previously in place. This was brought in to address a significant problem with the previous design of the scheme relating to delays in the application process. Companies can still seek confirmation from Revenue on EU State Aid compliance, which is seen as a more complex and technical area.

3.1.2 Policy objective

The main objectives of EII are stated by policymakers as follows[9]:

- **To support the creation and retention of employment in SMEs across the economy**. Part of this value-added aim includes a positive impact on Exchequer cashflows such as increased provision of payroll taxes, corporation tax, as well as savings on social protection payments.
- **To help address the market failure in relation to equity capital investment**, which can act as a barrier to sales growth and market development for SMEs.
- **To help the survival of companies** (and their retention in Ireland) beyond the initial development stage.

The company must use the money raised from the share issue for the purpose of carrying on a qualifying trade or, if the company has not yet commenced to trade in incurring expenditure, on research and development and innovation. In addition, the use of the funds must contribute directly to the maintenance or creation of employment in the company (e.g. the money raised can be used to pay the wages of the qualifying employees of the company). Some trades are excluded on the basis that they are purely speculative in nature and unlikely to contribute to the job creation objectives of the incentive in a meaningful way.

Prior to its introduction and based on an assumed 20% increase in uptake of Business Expansion Scheme levels, the estimated full year Exchequer cost was €22.4 million[10], which was close to the actual cost of the scheme in its first few years.

Average funds per qualifying company increased to nearly €1.3million in 2018 compared with €683,000 in 2017, driven by fall in number of companies availing of investment via the incentive. **Only**

[9] Department of Finance, EII Ex-Ante Economic Impact Analysis, March 2011
[10] Department of Finance, EII Ex-Ante Economic Impact Analysis, March 2011

37 companies received EII investment in 2018 compared with a peak of 296 companies in 2014. Data is not yet available on the impact of 2019 changes to the operation of the scheme.

Figure 1 Exchequer cost of EII

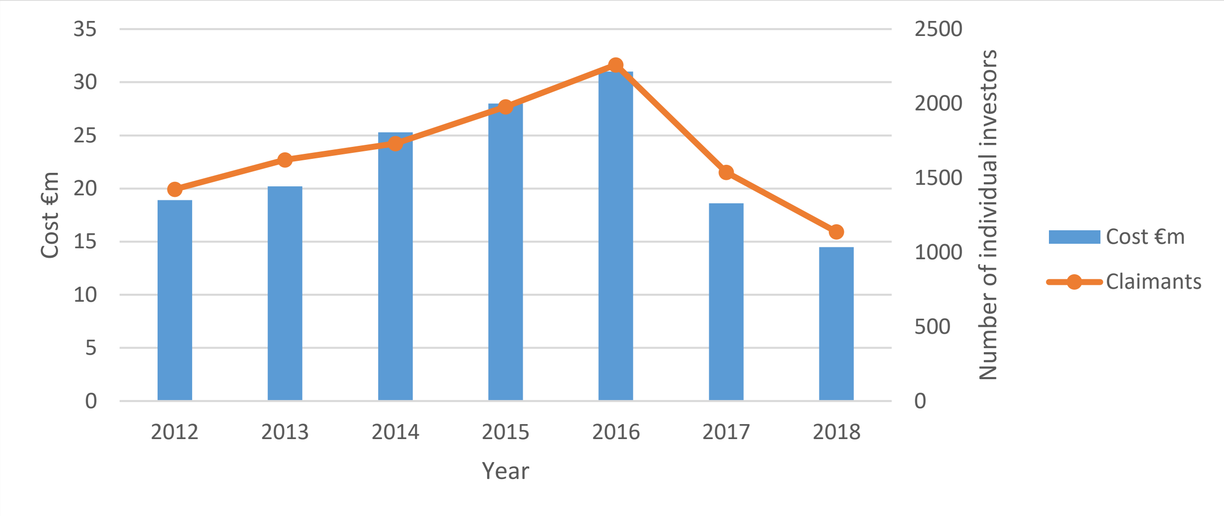
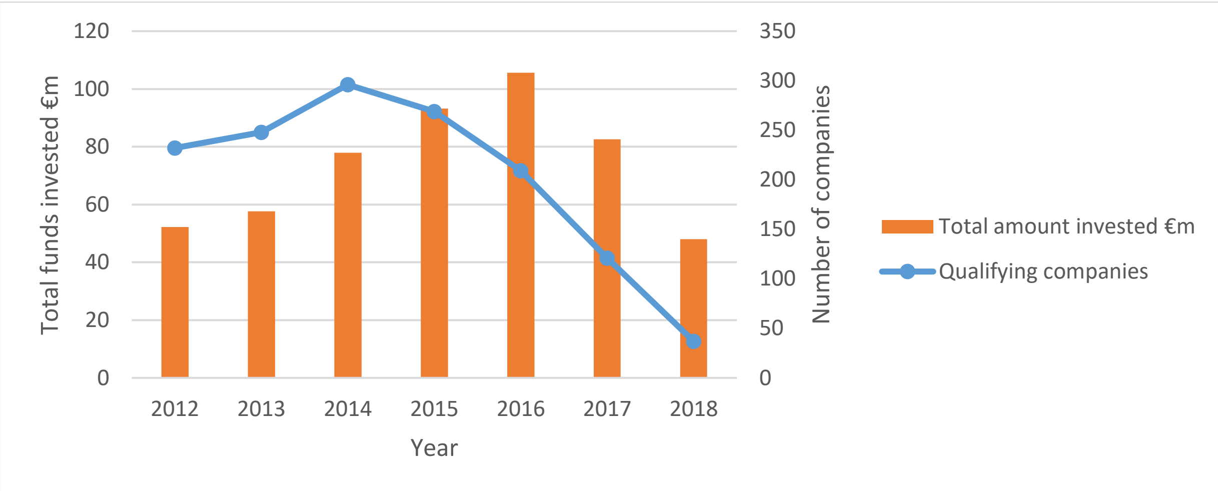


Figure 2 Breakdown of funds invested and qualifying companies for EII



Source: Revenue Statistics on EII (latest figures from February 2020)[11]

3.1.3 Reviews of the relief

There have been several tax expenditure reviews and public consultations on EII over the years.

The Department of Finance's review of EII in 2014[12] stated that a market failure in the provision of non-institutional equity in SMEs remained an issue. The EII was regarded as a still relevant incentive

[11] Unless otherwise stated, all cost figures in this paper are sourced from Revenue's statistics website page
[12] Department of Finance, Review of EII and SCS, October 2014

for companies to raise medium-term equity capital, as those companies would otherwise find it difficult to raise such funding. It was further noted that alternative debt funding such as loan financing was difficult for SMEs to obtain at the time as a result of the financial crisis, particularly in the early start-up phase. **Consensus among stakeholders in a 2014 public consultation was that the EII is an important source of finance for companies** and that the scheme should be enhanced.

The full amount of tax relief under EII is now available in the year of investment. The historical rationale for giving tax relief in two instalments was so that relief would only be given for the second tranche where it was proven employment levels at the qualifying company had increased, or that the company incurred expenditure on R&D. Data collected by Revenue showed a strong overall growth in employment in firms who received EII in the three years after the share issue. Public consultation feedback included proposals for full income tax relief upfront. According to the Tax Strategy Group in 2016 this was resisted by policymakers at the time on the basis that, while it may improve the attractiveness of the scheme to investors and therefore lead to increased equity financing for SMEs, such a structure may undermine the policy objective of increasing employment and incentivising spending on R&D.[13] The optimum minimum holding period was also a matter of debate, with some arguing a three or four-year holding period as being too short a time-frame to expand at a sufficient level to repay investors, while other submissions sought a holding period lower than three years, believing that an extended holding period may deter investors. The minimum holding period was five years under BES. It is noted that the three year period is a minimum term but that there was no requirement for the company to actually return the investment at that time.

An external review of the relief by Indecon in 2018 included the following comments:[14]

- Providing a tax incentive to firms who have no capital shortage is likely to represent a waste of scarce public expenditure. **The majority of surveyed firms who received EII indicated their judgement that there is either a very significant or significant gap in the availability of equity funding for SMEs in Ireland**. **Indecon's independent review of the overall market for the provision of finance for enterprises suggested that while there had been a significant improvement in funding channels in recent years, market gaps continued to exist for early stage start-ups and for higher risk SMEs**.
- Indecon's analysis indicated that the objective of EII in providing funding for small firms and start-ups remained valid although **the related objective of creating additional employment was less relevant** in the context of the current labour market. It is not possible to identify the

[13] Tax Strategy Group, 15/12 Tax and Entrepreneurship Review, 2016
[14] Indecon, Evaluation of EII and SURE, September 2018

exact number of additional jobs created by EII however the review indicates overall growth in employment of firms who received the relief. The review showed that most of the EII firms availed of the R&D tax credit. It also showed that **some of the firms assisted were in lower risk sectors and Indecon suggested there was merit in considering whether the scheme could be focused on firms in most need of finance**.

- In relation to deadweight and additionality, around half of enterprises surveyed indicated that they believed that their business would still have developed but on a smaller scale or at a slower pace without any EII investment. A small percentage of enterprises indicated they would have obtained investment from other sources. **This suggests some level of economic deadweight in the scheme** and the existence of deadweight is consistent with Indecon's judgement based on reviewing the type of firms who were assisted by the relief.
- Indecon supported continuation of EII and made a number of recommendations for amending the scheme. Many of these were adopted in Finance Act 2018 together with suggestions for enhancement contained in a 2019 public consultation.

The Department of Finance are currently undertaking another review of EII and a public consultation was recently held (in 2021) 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 results of this stakeholder engagement are not yet known, although reference is made in the Tax Strategy Group papers for Budget 2022 that a number of public consultation responses sought the introduction of CGT loss relief on failed or loss-making EII scheme investments.[15]

The EII is set to expire at the end of 2021 however given this recent stakeholder engagement it is likely being considered for extension.

3.2 Start-Up Refunds for Entrepreneurs (SURE)

3.2.1 Overview of measure

The Start-Up Refunds for Entrepreneurs (SURE) inventive provides an income tax refund to individuals who set up their own new trading company. The SME must be a new venture and cannot have taken over an existing trade. The business must be in the form of an unquoted company.

[15] Tax Strategy Group, Capital & Savings Taxes 21/13, September 2021

The maximum investment that can qualify under SURE is €100,000 in the current year and €100,000 per annum for the previous six tax years (i.e. €700,000 in total). The investment can be used to offset taxable income and relief is given to the investor in the form of a refund of income tax paid in the current year and previous six years. If an individual has invested more than €100,000 per year or does not have enough income to absorb the full relief in a year, then the unused amount may be carried forward for offset against total income in future years.

The entrepreneur must have had mainly PAYE income in the previous four years, which includes a person currently in PAYE type employment or a person recently unemployed, made redundant or retired. The individual must take up full-time employment in the new SME either as a director or an employee. That person must invest cash in the new company by purchasing new shares (at least 15% of the ordinary shares) and keep those shares for at least four years.

The Exchequer cost of SURE has been relatively modest, at less than €2 million per annum regularly and a drop to €0.8 million in 2018 due to a decrease in claimants (only 39 claimants in 2018, reduced from 86 in 2015).

3.2.2 Policy objective

The objective for the SURE scheme is to act as a platform to source finance for new businesses who find it difficult to source seed capital, which will further lead to people starting their own businesses that will help create jobs in the economy.

SURE is not targeted at the self-employed and contains the condition regarding PAYE income over concerns that individuals might establish a business in order to claim the income tax refund and fold it shortly afterwards.[16]

3.2.3 Reviews of the relief

Indecon also considered SURE as part of its review of EII in 2018[17], commenting that **the difficulties SMEs face in accessing finance are equally applicable to SURE as they are for EII**. A survey of claimants showed positive feedback on the scheme and its impact on securing finance which would not have otherwise been available. The review showed that a limited number of 137 companies raised €11.9 million through the SURE scheme. Available data suggests there had been some increase in the level of employment of companies availing of the relief. Indecon also commented that there may be merit in assisting the self-employed to fund the establishment of new businesses but that this may be more

[16] Tax Strategy Group, 15/12 Tax and Entrepreneurship Review, 2016
[17] Indecon, Evaluation of EII and SURE, September 2018

appropriately dealt with as part of EII. SURE was also considered as part of the public consultation on EII in 2019.

3.3 Start-up Capital Incentive (SCI)

3.3.1 Overview of measure

Under the Start-up Capital Incentive (SCI), new micro-sized companies[18] can raise up to €500,000 from investors who are connected with current shareholders. The tax relief was introduced for 2019 to 2021 and is available to family members of existing shareholders. The company must carry on a brand new business, and not one that was acquired, in whole or in part, from anyone else. It must also be a stand-alone business (the founders must not have other similar businesses) and be less than seven years old. Similar to EII, relief is given to the investor in the form of a deduction from total income for income tax purposes (but not USC or PRSI).

Data is not yet available on the cost or number of claimants of SCI to date. It is also unknown what the estimated cost of the relief was when introduced in Finance Act 2018.

3.3.2 Policy objective

SCI is designed to assist start-up micro companies in raising equity financing. **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**. **Such associates are likely to be one of the few sources for initial small scale capital of micro firms.** By targeting the relief at micro firms it can avail of reduced connected person restrictions under EU State Aid rules that otherwise apply to larger SMEs.

3.3.3 Reviews of the relief

SCI was introduced following submissions received for several years calling for an Irish version of the UK's Seed Enterprise Investment Scheme (SEIS). A direct copy of SEIS was resisted by policy makers for some time and it was noted in the Tax Strategy Group papers that such a scheme would impose a cost to the Exchequer, may contain deadweight costs, and may actually transfer investments that would otherwise have been made under EII.[19] **As 2019 was the first year of the relief a tax**

[18] A micro-sized enterprise is an enterprise that has ten or fewer employees and has an annual turnover and/or annual balance sheet total not exceeding €2 million. In 2018 there were just under 250,000 micro enterprises in Ireland according to the CSO.

[19] Tax Strategy Group, 15/12 Tax and Entrepreneurship Review, 2016

expenditure review has not been carried out yet to assess the impact of SCI, nor is data publicly available yet from Revenue on uptake of the scheme.

Recap of Section 3

This section outlines three income tax reliefs used by SMEs to attract private investors. Tax support has been given for equity investment, as opposed to debt financing, due to a market failure in providing sufficient investment funds for smaller and/or riskier firms. A review of EII has indicated some inherent deadweight, in that some firms benefiting from the incentive may have been able to raise funding through other means in the absence of tax relief. Feedback from users of these schemes is generally positive, with many calls for enhancement and extension of the reliefs.

4. Schemes to incentivise innovation

A number of corporation tax incentives are focused on encouraging research and development (R&D) activities in Ireland, which it is believed would happen at less than socially optimal levels in the private market in the absence of State intervention. It is believed that R&D creates spillovers that, themselves spur further innovation. **The overall goal is to promote high value, knowledge-based economic activity which can further drive employment and economic growth.**

Ireland's tax regime targets different stages of a company's intellectual property development. The R&D tax credit is intended to support firms at the time they are undertaking the actual R&D and reduces the net costs of undertaking this activity. Section 291A (capital allowances for intangible assets) reduces the after-tax cost to companies who are investing in and exploiting certain intangible assets and using them in respect of their Irish trade. The Knowledge Development Box (KDB) is aimed at the future income that is generated from the results of the R&D activity (namely the income arising from the intellectual property that is developed by the R&D).[20]

The R&D tax credit and KDB are discussed below. Section 291A is also relevant to innovation but not covered in this paper. Not all tax expenditures have been considered in this paper however specific reliefs can be examined in future papers in more detail if the Commission wish.

4.1 R&D tax credit

4.1.1 Policy objective

The research and development (R&D) tax credit scheme was introduced in 2004 as an incentive to foreign owned multinational companies to increase investment in R&D in Ireland and to encourage indigenous companies to increase the level of spending on R&D. R&D expenditure is viewed as contributing to higher innovation and productivity. **The relief was introduced in the context of low levels of R&D intensity in high technology manufacturing sectors and an identified need to increase the overall level of business expenditure on R&D**.[21] Originally designed to give relief for incremental expenditure above levels in the year 2003, as a way to incentivise an increase in R&D activity, the scheme was gradually changed to a volume basis and in 2015 the base year was removed such that all

[20] Department of Finance, Report on Tax Expenditures, October 2015
[21] Department of Finance, Report on Tax Expenditures – Chapter 16, July 2010

qualifying expenditure on R&D now counts toward the credit. The R&D tax credit scheme does not have a termination date and **has been a main feature of the Irish corporate tax regime since 2004**.

4.1.2 Overview of measure

Relief is given in the form of a tax credit for offset against a company's corporation tax liability, calculated at 25% of expenditure on certain R&D activities. This is in addition to the normal trading deduction for R&D expenditure at 12.5% and gives in effect an overall corporate tax deduction of 37.5%. The R&D credit can be used to generate a tax refund through an offset against current year corporation tax and a carry-back against prior year corporation tax. The rate of relief increased from 20% to 25% in 2009. Detailed worked examples of the various elements of the R&D tax credit are set out in the Revenue's guidelines (link).

Repayment for excess credits has been available since 2009, over the course of a three-year cycle. Tax credits available as cash refunds are seen as particularly attractive to start-up companies or SMEs which are not making profits as **the credit can effectively part-fund the R&D activity and acts as a valuable source of cash-flow**.

The repayable credit is shown as an 'above the line' item in the accounting treatment, which can improve financial indicators for firms seeking investment. **The repayable credit has increasingly become a larger proportion of the total cost of the scheme** and can be claimed even if it is higher than a firm's corporate tax liability.

The incentive is directed towards in-house R&D activities and as such there are outsourcing limits for subcontracted R&D costs. This limit has been increased over the years to the greater of 15% of eligible R&D expenditure incurred by the company itself or €100,000. A 5% limit currently applies to qualifying R&D costs sub-contracted to third-level institutes.

In 2012 a provision was introduced to allow the company to transfer the R&D credit to "key employees" provided certain conditions are satisfied, effectively allowing the credit to be converted to tax efficient bonuses for the R&D team. There has been relatively low uptake of this, with less than 10 individuals claiming the relief in 2013, 2015 and 2017 at an annual cost of less than €0.05 million. For 2014 there were 25 individuals with an average claim of €2,721. For 2016 there were 11 individuals with an average claim of €4,438.[22]

Finance Act 2019 announced changes to the R&D tax credit regime for micro and small companies, which are companies with fewer than 50 employees and an annual turnover and/ or balance sheet

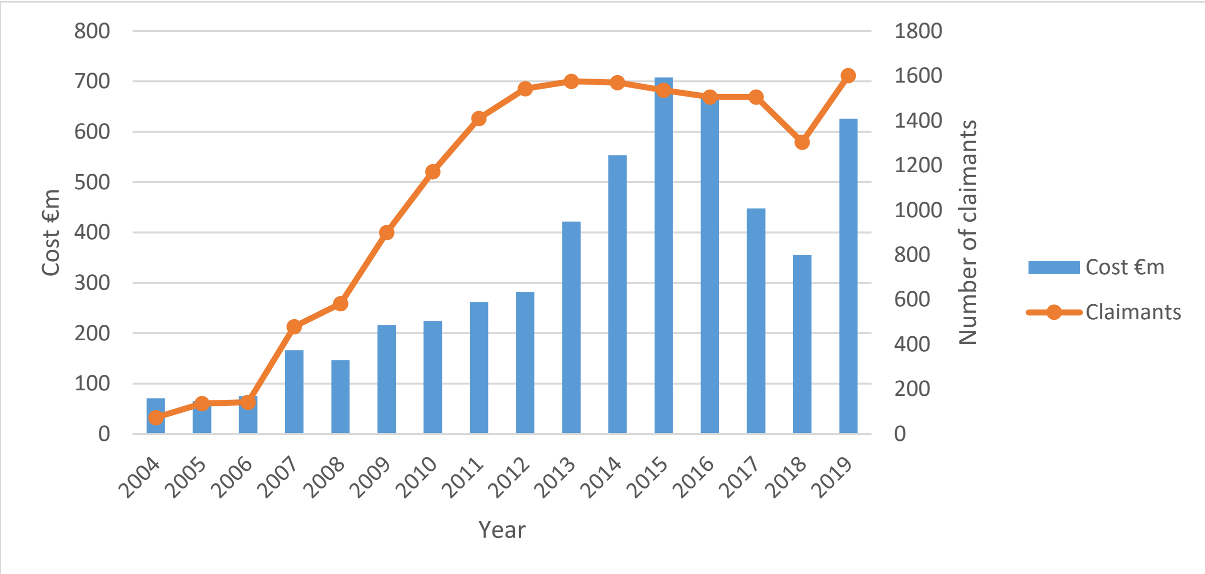
[22] Parliamentary question 30309/19, 10 July 2019

not exceeding €10 million. These changes are subject to a Ministerial Commencement Order that has not been made to date as State Aid approval from the European Commission is still pending. The changes for micro and small sized enterprises include an increase in the R&D tax credit rate from 25% to 30%, an increase in the limit applied in calculating the payable credit based on twice the current year payroll liabilities and a provision permitting a certain amount of pre-trading R&D expenditure to qualify. More general changes to the operation of the credit include an increase from 5% to 15% for the third-level outsourcing limit.

4.1.3 Cost and usage

The R&D tax credit is one of the most significant tax expenditures, having cost the Exchequer nearly €5.3 billion since its introduction. It is second only to double taxation relief in terms of corporation tax expenditures. It reached a €708 million high in 2015, when the base year was removed, with subsequent decreases starting to climb again in 2019. The repayable credit is also expected to be a significant cost in future years. The number of claimants has risen from 73 in the year of introduction to 1,601 corporates in 2019.

Figure 3 R&D tax credit – Exchequer cost and number of claimants



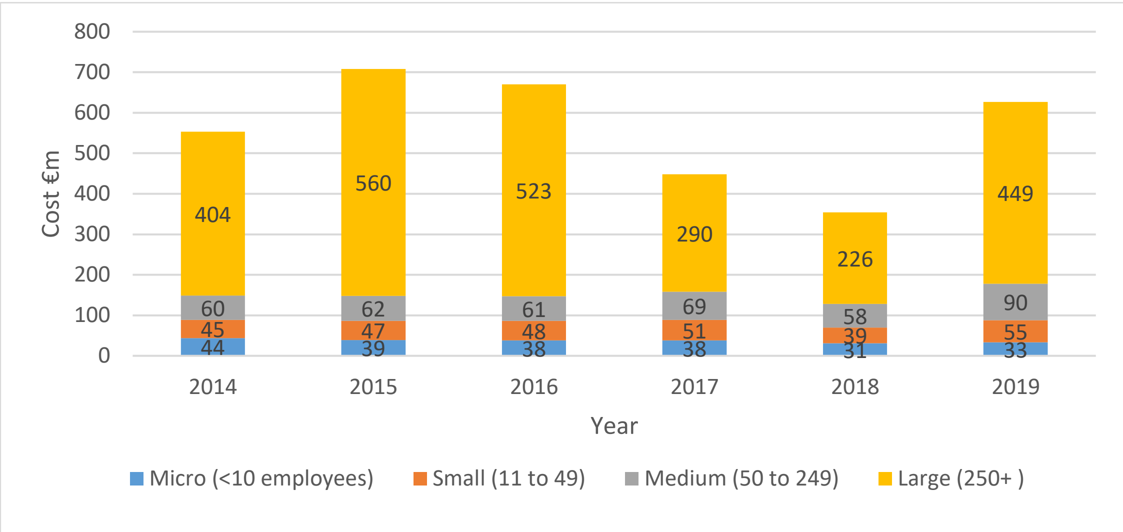
A review of corporation tax revenues for the period 2004 to 2018[23] shows **it is the largest companies which consistently make most use of the R&D tax credit**. The top contributors to the corporate tax take generally claim the credit. In 2018, 83% of the top 1% of companies in terms of taxable income used the R&D credit to reduce their gross tax liability. The credit reduced the aggregate gross tax

[23] Revenue/IGEES, A Review of 15 Years of Corporation Tax Returns 2004 to 2018, 2021

liability (of all companies who availed of it) by 3% on average over 2009 to 2018, in addition to the repayable element which in effect gave a reduction of 2.3% on average.

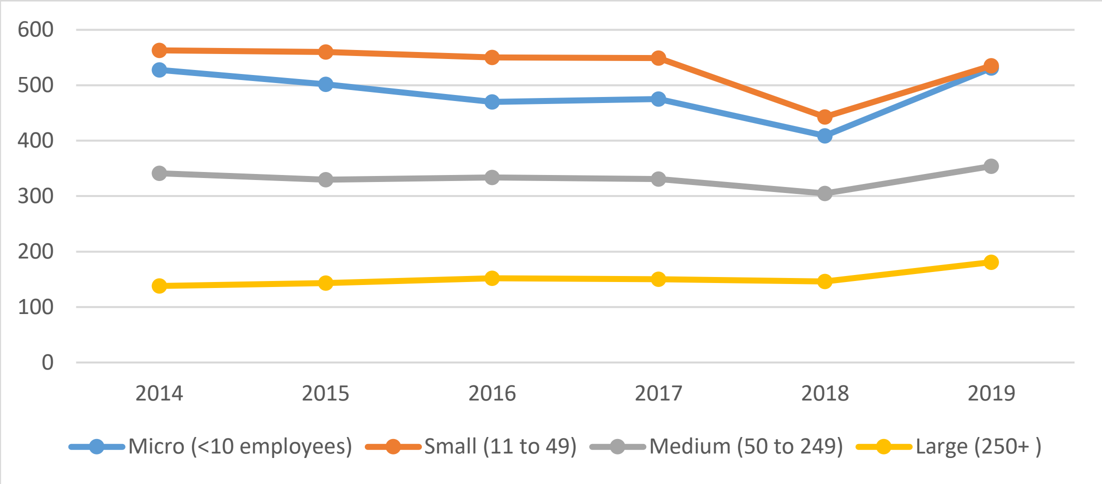
R&D expenditure by small and medium sized enterprises accounted for 31% of total business expenditure in 2019 (€2.6 billion total), compared with a peak share of 45% in 2018, having risen from 25% in 2014. More small-sized companies (with between 11 and 49 employees) claim the credit, with the second lowest overall cost to the Exchequer after micro-sized companies (less than 10 employees). This data is compiled based on registered employees within a company and does not factor in employees in associated group companies. **While a lower number of large-sized companies claim the credit relative to SMEs, they regularly account for two-thirds (and upwards) of the annual Exchequer cost.**[24]

Figure 4 Breakdown of the cost of the R&D credit by claimant size (based on employee numbers)



[24] Revenue, Statistics on R&D tax credit, April 2021

Figure 5 The number of companies claiming the R&D credit (based on employee numbers)



The Manufacturing sector (which includes manufacturers of computers and pharmaceuticals) is the main user of the R&D tax credit, regularly accounting for well above half of the Exchequer cost. This is followed by the Information and Communication sector and the Wholesale and Retail Trade sector. The Manufacturing sector returned to pre-2008 gross profit trading levels in 2011 and since 2015 has observed a large growth while accounting for just over 40% of profits in Ireland on average. This particular sector has shown a slight but notable downward trend in its share of the tax base (measured as taxable income) over time, but has consistently contributed 24% to 30% of the overall corporation tax take in the period 2013 to 2018.

4.1.4 Reviews of the relief

The Department of Finance carried out a review of the credit in 2013, which included an economic literature review, public consultation and engagement of an independent consultant to survey R&D active companies.[25]

- **The economic literature review identified two main forms of market failures which exist around firm investment in R&D**. These are positive externalities (where a less than socially optimal level of investment in R&D would occur if R&D decisions were left solely to private firms) and the presence of asymmetric information (between R&D performers and financiers, which limits financing of R&D projects). Addressing these issues was seen as justification for State intervention.

[25] Department of Finance, Review of Ireland's Research and Development Tax Credit, 2013
Crowe Horwath, Final Report in respect of a Survey of R&D Active Companies, October 2013

- The importance of the credit in attracting mobile Foreign Direct Investment (FDI) into Ireland was highlighted extensively in the public consultation. Overall the report found that **Ireland's R&D tax credit regime performed very strongly compared to R&D incentives adopted in comparable international jurisdictions, and it was judged to be 'best in class' internationally**.
- A large share of survey respondents who had claimed the R&D tax credit were also in receipt or had previously been in receipt of R&D grants, such as those provided from Enterprise Ireland and the IDA. **The survey also indicated a very high level of export activity among firms active in R&D.**
- While the findings were significantly positive, the report recommended some changes to the scheme, such as the phasing out and removal of the base year and enhancements to the outsourcing limits, both of which were subsequently implemented.

A second economic evaluation of the credit was carried out by the Department of Finance in 2016.[26]

- The review assessed the value for money of the tax credit to the Irish taxpayer and found that on average **for every €1 of tax revenue forgone, an additional €2.40 is spent on R&D by companies that claim the credit**. This was viewed at the higher end of values in the existing literature.
- It was estimated that 60% of R&D expenditure by firms who claimed the credit since 2009 would not have occurred in the absence of the tax credit policy. This also means that **deadweight is a noteworthy 40% of R&D expenditure, where this proportion of expenditure would have happened anyway among claiming firms in the absence of the credit. This deadweight estimate indicates partial crowding out, with firms replacing their own financing with public financing.**
- Analysis of firm characteristics show that **it is mainly older, larger and non-Irish firms who derive financial benefit from the scheme, although it is typically Irish firms who benefit more from the repayable credit element** of the scheme.
- The review also noted that 68% of R&D claims in 2014 came from firms with less than €1 million in net income, while 18% of claimants had net income between €1 and €5 million and **a notable 14% of claims came from firms with negative or no income**.
- Since it was introduced, **the repayable credit element of the R&D tax regime has been the primary method of public support for business expenditure on R&D**, in 2014 making up 51% of the more than €600 million cost of the repayable credit, tax credit, and grants provided by the IDA and Enterprise Ireland.

[26] Department of Finance, Economic Evaluation of the R&D Tax Credit, October 2016

Another public consultation and tax expenditure review was carried out in 2019 by the Department of Finance, however the results of this review have not yet been published. Preliminary results were mentioned in the Tax Strategy Group paper on SMEs in 2019.[27] **Feedback from stakeholders cite the long administration process, the risk of an extended audit on claims and the upfront time and resource cost as barriers to claiming the credit.** The Tax Strategy Group noted that the administration process appears to be a factor that particularly affects smaller companies, which may not have the capacity to absorb time and resource costs required to avail of the credit in the way larger companies can.

In October 2019 the OECD published a review of SME and Entrepreneurship policy in Ireland, making several recommendations, including ones for improving the take-up of the R&D tax credit by SMEs through design changes and awareness raising.[28] **The OECD commended Ireland for its extensive R&D support and suggested increasing SME take up of R&D incentives as a policy initiative to increase SME productivity growth.** It suggested simplifying the eligibility and approval procedures for the credit, noting that SME involvement may be held back by difficulties in understanding how to use the scheme and the costs of preparing, filing and defending claims. In addition, it noted restrictions on credits for expenditure on third party subcontractors or universities are likely to affect SME involvement. To address this the OECD suggested adapting the credit "to encourage innovation collaborations by SMEs by increasing the share of subsidies that flow to smaller firms involved in outsourcing R&D tasks to research and technology organisations, and considering shifting resources to large firms for R&D undertaken with SMEs and Irish technology centres".

4.2 Knowledge Development Box (KDB)

4.2.1 Overview of measure

The Knowledge Development Box (KDB) is an intellectual property (IP) regime introduced in 2016 that provides for an effective 6.25% rate of corporation tax on income arising from qualifying assets. **It was designed to support businesses in retaining and exploiting certain assets, such as patents and copyrighted software, developed through R&D activities carried out in Ireland**. Smaller firms[29] can

[27] Tax Strategy Group, Tax Incentives for SMEs 19/05, July 2019

[28] OECD, SME and Entrepreneurship Policy in Ireland, October 2019

[29] Eligible SMEs are those with income arising from intellectual property of less than €7.5m and with global turnover of less than €50m where the profits result from R&D

also claim relief on income from other IP which is certified as being similar to an invention that could be patented, where the invention is novel, non-obvious and useful.

4.2.2 Policy objective

The regime was intended to enhance Ireland's corporate tax offering and complement the 12.5% headline rate, R&D tax credit and intangible asset regime. **The policy objective is to encourage companies to develop intellectual property in Ireland and thereby engage in substantive operations that have a high 'value-add' for the Irish economy.** By reducing the corporation tax rate, the KDB aims to encourage companies to locate high high-value jobs that are associated with the development of IP assets in Ireland, both in the FDI and indigenous sector.

The KDB follows "patent box" measures which existed for many years in other countries, but changed to take account of updated OECD tax rules determining what is acceptable for the taxation of IP. The number of European countries with patent box regimes increased from 3 in 2005 to 12 in 2015. The OECD rules follow a principle referred to as the "modified nexus" approach, which requires a direct link between the IP income benefitting from the preferential tax rate and the R&D expenditure/activity that gives rise to that IP income. The formula for calculating KDB relief means the higher the proportion of R&D that takes places in Ireland, the greater the proportion of income that may qualify for the reduced KDB rate. The technical criteria for inclusion of expenditure under the R&D tax credit and the KDB are linked.

4.2.3 Reviews of the relief

Prior to its launch, a public consultation and ex-ante evaluation were carried out by the Department of Finance (DFIN) in 2015.[30] **The view was that there was an economic rationale for the tax intervention because long-term growth in mature economies is increasingly driven by investment in intangible assets and because a less than socially optimum level of private investment was being made at the time in R&D**, due to the presence of a number of market failures. The DFIN review did name a number of reports that questioned whether patent box tax regimes are sufficiently targeted, noting **they only assist firms when income is earned** (which may not be for a long period of time, or ever if the research is commercially unsuccessful) and that they provide the greatest benefit to more profitable innovations (which do not necessarily have the biggest spill-overs).

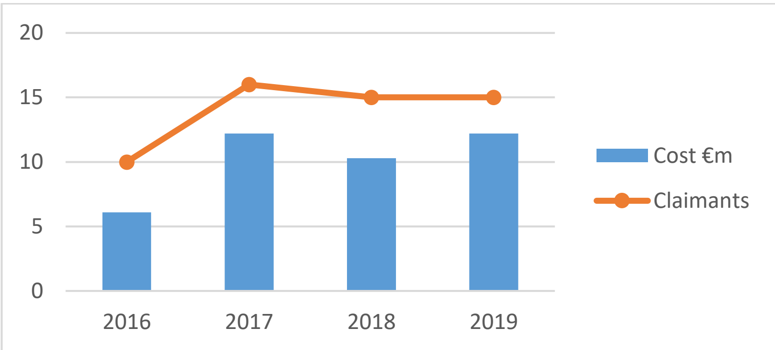
It was also unclear prior to its introduction to what extent the KDB will result in additional corporation tax being paid in Ireland. Evidence at the time suggested that while older patent box tax

[30] Department of Finance, Report on Tax Expenditures, October 2015

regimes attracted new patents, the additional direct tax that may arise to such patents profits is less than what is required to offset the lower tax rate in the first place. This analysis did not take account of the impact on employment, productivity or exporting activity of the firms, or the substance requirements of the new OECD modified nexus model.

The DFIN 2015 report further noted that using the tax system rather than direct expenditure means the total cost of the relief to the State is driven by demand and uptake, which is not optimum from an Exchequer management perspective and making it difficult to accurately estimate up-front how much tax would be foregone. When the relief was first announced the estimated cost for a full year was €50 million[31]. Due to low uptake so far however the cost per annum has actually been between €10.3 and €12.2 million. **There were 16 claimants in 2017 and only 15 claimants in 2018 and 2019**. The Tax Strategy Group consideration of the relief in September 2020 cites the restrictive requirements of the relief, required in order to meet the OECD modified nexus standard, as part of the reason for the low uptake.[32]

Figure 6 Knowledge Development Box – Exchequer cost and number of claimants



The Department of Finance's tax expenditure guidelines recommend ex-post reviews within five years to assess a scheme's relevancy, cost, impact and efficiency. Companies must claim the KDB relief within 24 months of the end of the accounting period, which somewhat delays the availability of data on uptake of the relief. For confidentiality reasons, Revenue can provide only limited statistical information in respect of claims and claimants to date without a breakdown on the size of companies claiming the relief. The Tax Strategy Group states that due to these data constraints, low uptake of the relief as well as the diversion of resources to Covid-19 and Brexit related measures, an ex-post review of the KDB in 2020 would be limited in terms of the statistical and detailed analysis that could be

[31] Government of Ireland, Summary of Budget 2016 Taxation Measures

[32] Tax Strategy Group, 20_03 Corporation Tax, September 2020

done. It expects a review will be conducted in 2022 when complete data for four years (2016 to 2019) and partial data for a fifth year (2020) should be available.

Originally intended to expire at the end of 2020, the relief was extended in Finance Act 2020 by two years to the end of 2022. The estimated Exchequer cost for a full year was revised to €14 million.[33]

Recap of Section 4

Corporate tax reliefs for R&D were introduced to address a market failure in providing adequate levels of private investment. Ireland's R&D credit is a significant cost to the Exchequer, but is seen as "best in class" internationally and a key aspect of our corporate tax offering for FDI. Legislative changes were made to improve the uptake by SMEs, but these cannot be implemented yet due to an extended delay in receiving EU State Aid approval. The KDB is intended to supplement the R&D credit but uptake has been low so far, likely due to the stringent qualifying conditions attached under OECD requirements.

[33] Government of Ireland, Summary of 2021 Budget Measures

5. Supporting start-ups

Section 3 outlined the income tax reliefs for equity investors while Section 4 examined the corporate tax reliefs for R&D firms. This section looks at the **start-up relief** for corporates that was introduced to provide support to new business ventures, who may otherwise have financing difficulties in their early years of trading.

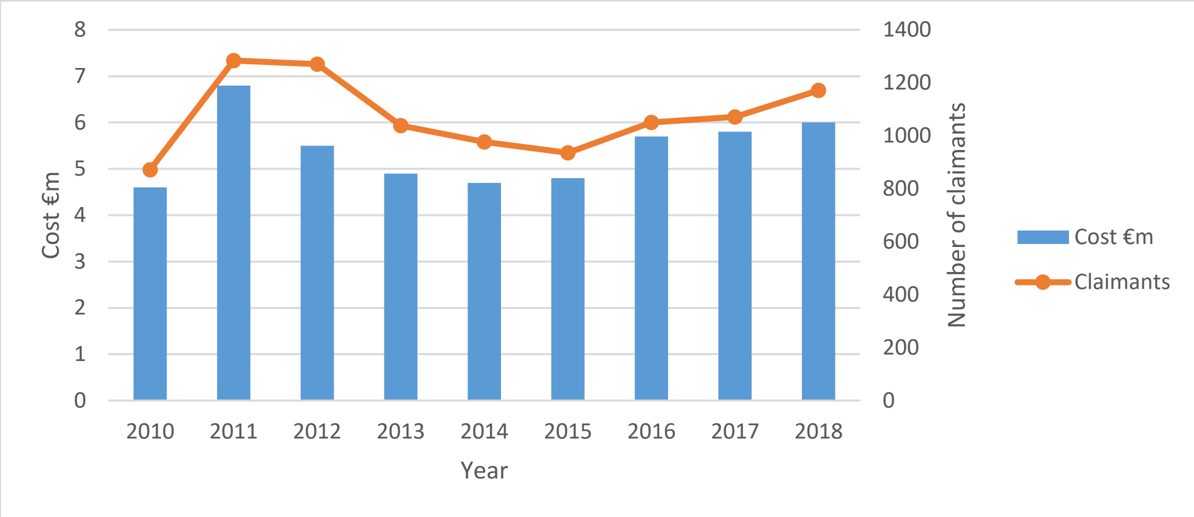
5.1 Start-up relief for corporates

5.1.1 Overview of measure

The relief from corporation tax for start-up companies was first introduced in 2009 during a difficult economic environment, as a support to encourage new business development and sustain employment in newly created companies. Originally intended to apply to companies that commenced a new trade in 2009 only, the scheme has been extended by six subsequent Finance Acts and now applies to companies that commence a new trade up until the end of 2021. Under the scheme, a tax exemption applies to profits of a new trade and chargeable gains on the disposal of any assets used for the purposes of the qualifying trade. Relief applies for the first three years of trading. The exemption is granted by reducing the corporation tax relating to the trade and chargeable gains to nil. Tax relief is available where the corporation tax liability is less than €40,000, with marginal relief where the liability is between €40,000 and €60,000. **This means new businesses can make profits of €320,000 per annum before paying tax** (with marginal relief on profits up to €480,000). **The scheme was modified in 2011 so that the value of relief was linked to the amount of employer PRSI paid**. The relief was expanded in 2013 by allowing any unused relief arising in the first three years of trading, due to losses or insufficient profits, to be carried forward for use in a subsequent year. Prior to this the relief operated on a 'use it or lose it' basis.

The cost of the scheme is relatively low compared to other tax expenditures, ranging from €4.6 to €6.8 million per annum since its introduction. When the scheme was extended a further three years in Budget 2016, the estimated full year cost of €6 million was an accurate estimate of the actual cost of the scheme (€5.7m, €5.8m and €6m in 2016, 2017 and 2018 respectively). The most recent data available shows there were 1,171 claimant companies in 2018, marginally down from a high of 1,284 claimants in 2011.

Figure 7 Start-up relief – Exchequer cost and number of claimants



5.1.2 Policy objective

The scheme is aimed at encouraging new business creation by providing financial support in the early stages of business development, where money that would otherwise be paid in tax can be used to help secure the business over the start-up phase. The intention is that this incentive will encourage new entrepreneurial activities in the productive sectors of the economy and provide opportunities for increased employment in those sectors.[34] **The rationale for the restriction based on employer PRSI contributions is so the relief is targeted at employment generating companies**.

The scheme is focused on new business activities and is not available in respect of the income of a trade that has been taken over by a company from another person. **This is intended to lead to a broader corporate tax base**. Service companies[35] and trades liable to the higher 25% rate of corporation tax (e.g. dealing in development land, petroleum activities) are also excluded.

5.1.3 Reviews of the relief

The 2009 Commission on Taxation recommended that a similar scheme should be made available to new non-corporate businesses and that the exclusion for service companies should be removed. Proposals to extend the relief to sole traders and non-corporates were not accepted at the time on the grounds that it would not be possible to control the incentive in an appropriate way and ensure the re- investment of the tax savings in the business if the scheme was extended to the non-corporate

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[34] Department of Finance, Report on Tax Expenditures, July 2010

[35] A service company is defined by reference to corporation tax close company rules, and includes companies whose businesses consist of the carrying on of a profession or the provision of professional services (e.g. in law, medicine, accountancy), or of exercising an office or employment.

business sector[36]. It was not intended that the corporation tax relief would be a deciding factor for an entrepreneur in determining whether to operate as a sole trader or to trade through a company structure. Start Your Own Business relief was however subsequently made available for long-term unemployed individuals who started a new unincorporated business. That relief provided an exemption from income tax (but not USC or PRSI) up to a maximum of €40,000 in profits (as opposed to a €40,000 tax liability as is the case for the corporation tax relief) per annum for a period of two years and the scheme ran from October 2013 to December 2018.

The Department of Finance carried out tax expenditure reviews of this relief in both 2015 and 2018 and subsequently decided to extend the relief on both occasions. [37] Reference was made to the fact that **while economic conditions had improved since the time the relief was first introduced, CSO data on new enterprise births and survival rates showed that other survival challenges still existed for start-ups**. **It was noted that reliefs which assist businesses with cash flow in their early years of trading allow them to focus on surviving, expanding and generating employment**. The reviews showed that the largest concentration of companies availing of the relief was by companies in the Wholesale and Retail Trade sector (based on NACE codes), followed by those in the Professional, Scientific and Technical, Accommodation and Food and Construction sectors. While the total number of companies claiming the relief declined over the period 2011 to 2015, it was found that the estimated number of employees in claimant companies had steadily increased. There were approximately 13,295 employees of 1,270 claimant companies at a cost of €5.5 million in 2012, compared with 15,597 employees of 1,051 claimant companies at a cost of €5.7 million in 2016. The estimated average annual cost per job supported by the relief was €352 in 2016, which was less than two weeks of Jobseeker's Benefit payments**. The 2018 review concluded that the relief supported job creation and employment at minimal cost to the Exchequer** and recommended extending the relief by a further three years (with a further cost-benefit analysis in 2021).

Recap of Section 5

The start-up relief for corporates is focused on providing financial support in the challenging start-up phase of carrying out new business activities. The amount of relief is linked to the amount of employer PRSI paid in order to target the relief at employment generating firms. The relief has been extended on numerous occasions on the basis of its relatively low Exchequer cost and the increasing level of employment in claimant companies.

[36] Department of Finance, Report on Tax Expenditures, July 2010

[37] Department of Finance, Report on Tax Expenditures October 2015 and Tax Expenditure Review of Three Year Start-Up Relief (Section 486C) October 2018

6. Rewarding entrepreneurs

The rate of Capital Gains Tax (CGT) has been 33% since 2013 and applies to chargeable gains arising on the disposal of assets. Ireland has one of the highest headline CGT rates compared to key competitors for foreign investment, including the UK, Netherlands, Luxembourg and other countries.[38] Headline rates are not however always directly comparable e.g. due to different reliefs, rules and rates applying to different taxpayers within a jurisdiction. There are many arguments for and against reducing the overall tax cost of transferring assets, discussed regularly by the Tax Strategy Group[39] and outside the scope of this particular paper. Suffice it to say, Government tax policy has led to two tax measures targeted at reducing the CGT cost of transferring a business, Entrepreneur Relief and Retirement Relief, which are discussed below.

6.1 CGT Entrepreneur Relief

6.1.1 Overview of measure

A capital gains tax (CGT) relief for entrepreneurs that applied in 2014 and 2015 was replaced in 2016 with a revised Entrepreneur Relief. The original CGT relief was viewed as restrictive and administratively complex, had a poor uptake and it was decided to replace the relief with one modelled on the UK's CGT Entrepreneur Relief. Under the revised scheme the tax relief is available on first-time business asset disposals, as opposed to on a second gain on asset disposals under the old regime. **The revised scheme works by reducing the CGT rate from 33% to 10% on the disposal in whole or in part of a business, up to an overall limit of €1 million in chargeable gains**. The relief rate of CGT was reduced from 20% to 10% in 2017. In monetary terms this can reduce an individual's CGT liability by up to €230,000 (i.e. €1m x (33%-10%)).

When the relief was first introduced in 2016 at a 20% CGT rate, the estimated cost of a full year of the relief was €27 million. **When the amount of relief was revised to a 10% rate in 2017, the estimated cost of the relief was €13 million.[40] However, the actual cost to the Exchequer for the years 2016, 2017 and 2018 was €20.4, €81.8 and €92.4 million respectively**. The number of claimants more than doubled from 406 individuals in 2016 to 875 in both 2017 and 2018. Data is not yet available for

[38] Indecon, Evaluation of the Revised Entrepreneur Relief (pages 139 – 194), October 2019.
[39] For example, see discussions in TSG papers on Capital and Savings Taxes TSG 18/10, 20/10 and 21/13
[40] Government of Ireland, Summary of Budget Measures 2016 and 2017

subsequent years. For 2016, it is estimated that the entrepreneur rate accounted for less than 10% of CGT collected.[41]

The relief is available to the individual owners of a trade or business (owners/founders of private unquoted companies, sole traders and farmers) in respect of the disposal of all or a discrete part of that trade or business which they have owned for at least three years. The qualifying business assets must have been used in the trade at least three years and ordinary shares held by an individual in a trading company (or holding company of a qualifying group) can also qualify. The individual must have spent at least 50% of his/her time working in the business in a managerial or technical capacity as a director or employee for three out of the five years immediately prior to the disposal. The relief is not available to companies.

6.1.2 Policy objective

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 Tax Strategy Group noted in 2017 that the relief was introduced and amended to help influence the decision by individuals to found, locate and dispose of businesses in the State rather than establish outside and in particular in the UK. They advocated at the time that retention is important in the context of possible Brexit impacts and other issues than may arise as the UK exits the European Union.[42]

6.1.3 Comparison with UK equivalent relief

The revised CGT Entrepreneur Relief in Ireland was modelled on the UK's CGT Entrepreneur Relief. The UK's equivalent relief operates by applying a 10% rate of CGT to chargeable gains arising on disposals of assets consisting of the whole or part of a business. The relief was renamed as Business Asset Disposal (BAD) Relief in 2020. The UK used this relief to replace its version of CGT Retirement Relief, unlike in Ireland where both reliefs continue to co-exist.

From April 2011 to March 2020 there was a lifetime limit of £10 million, which was increased over several years from the £1 million limit on introduction of the relief in 2008. The high lifetime limit in the UK was regularly used to argue the case for a higher limit in the Irish system (€1 million) the last

[41] Revenue, Profile and Distribution of Capital Taxes, April 2018
[42] Tax Strategy Group, Capital and Savings Taxes 17/11, July 2017

number of years. **The Irish limit was not set at this same level on its introduction due to the estimated Exchequer cost and a concern over treating capital gains so much more favourably than remuneration taken as wages or dividends**. **Significantly, the UK decided to lower the lifetime limit to £1 million** with effect from March 2020. A review of the UK relief by the Institute for Fiscal Studies noted a cost of on average £2.4 billion per annum. **It suggested that the relief did not incentivise entrepreneurial activity.** The IFS research indicated that, in the UK, owner-managers of small companies enjoy significant tax savings by retaining income in their companies, often for long periods and until liquidation, in order to access Entrepreneur Relief. **No evidence was found that tax-motivated retention of profits translates into more investment in business capital**. [43]

6.1.4 Reviews of the relief

Entrepreneur Relief was included as part of a formal consultation process carried out by the Department of Finance on a range of tax based SME supports in 2019. Indecon were engaged to carry out an external review and supported its retention in its conclusions.[44] Points of interest from Indecon's review include the following:

- **Indecon's assessment suggests that the relief may play a role in addressing market failures that prevent the attainment of the optimum level of entrepreneur investment in the economy**. This includes potentially limiting distortionary effects of more favourable capital gains taxation in other countries and enhancing R&D and innovation spillover benefits in the economy. Other issues identified were potential distortions in Ireland to the risk/return arising from the tax treatment on different categories of investment and the asymmetric information relating to financing problems for start-ups.
- Based on a review of 2017 data from Revenue, Indecon's 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.
- **There is evidence of deadweight associated with the relief as currently designed**, **but given the international competition for investment Indecon advocated that it is important that Ireland retains the relief at this time.**

[43] Tax Strategy Group 20/10 TSG 20-10 Capital and Savings Taxes, September 2020
[44] Indecon, Evaluation of the Revised Entrepreneur Relief (pages 139 – 194), October 2019

- When considering 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. Over 20% of the 875 claimants in 2017 had gross income between €100,000 and €150,000, while 29% of claimants had income of above €150,000.
- Feedback from tax consultants and entrepreneurs consulted by Indecon, as well as research conducted by HMRC on the UK scheme, suggest **the relief was not the primary motivating factor when making decisions about investing in assets. It was however a factor in considering whether to sell a business/asset and the timing of same**. 85% of taxpayers surveyed indicated that they would have either delayed the sale of the asset or would not have sold the asset in the absence of the relief.
- The average age profile of those claiming relief was 52 years (individuals not yet eligible for Retirement Relief).
- The majority of assets against which relief is being claimed are unquoted shares.
- **Survey evidence suggests that over a third of beneficiaries had used some of the funds to commence a new business. However, more of the entrepreneurs had used the gains for personal expenditure or savings or to pay off existing loans**. Indecon recommended significantly increasing the lifetime limit for entrepreneurs who re-invest in a new business, to better align with the policy objectives of expanding investment and employment.

Following the 2019 public consultation and Indecon review, the Tax Strategy Group (TSG) review in 2020 listed a number of policy options for reforming the scheme, as well as examining arguments for and against abolishing the relief entirely[45]. Among these it was noted:

- In relation to the suggestion of reforming the conditions to require reinvestment of sale proceeds in a new business activity, the TSG was cautious given the previous administration difficulties and complexities of the old Entrepreneur Relief which had this requirement, as well as potential tax planning opportunities that could arise. The revised relief can still be used by serial or repeat investors notwithstanding that the current limit of €1 million is a lifetime limit and reinvestment is not a condition of the relief.
- **There are ongoing doubts about the merits of broad based reliefs such as this one in terms of cost-benefits to the taxpayer**. The relief has benefited businesses which were in operation prior to its introduction so it was not a determining factor when they were established. It has also benefitted some sellers who were unlikely to need CGT relief for the sale of their

[45] Tax Strategy Group 20/10 TSG 20-10 Capital and Savings Taxes, September 2020

business. **The average claimant age of 52 years suggests the relief is becoming in effect an early retirement scheme**.

- Abolishing the scheme could free up Exchequer funding for other tax expenditures and measures. Sellers have the potential to benefit from other tax expenditures such as CGT Retirement Relief and other expenditure related supports for SMEs.
- **Arguments against abolition include the international competition for investment, the expectation of the continuation of the relief (e.g. for businesses who established themselves in Ireland expecting to ultimately benefit from the relief) and the potential impact on the development of small businesses who are already dealing with external challenges** such as Brexit and the Covid-19 pandemic.

In the OECD's 2019 review of SME and Entrepreneurship policy in Ireland, [46] it recommended broadening the relief by making third party equity investors eligible, noting the relief is aimed at entrepreneurs and that business angel investors cannot benefit.

6.1.5 Interaction between Entrepreneur Relief and Retirement Relief

The existing Entrepreneur Relief is one of two CGT reliefs for businesses disposing of assets. Whereas the UK replaced its version of Retirement Relief with Entrepreneur Relief, both schemes continue to exist in Ireland. The Tax Strategy Group noted from the consultation process that **Entrepreneur Relief as currently in place in legislation is free from significant complexity** and in this sense is considered more favourable compared to Retirement Relief.[47] However, in monetary terms Retirement Relief is more attractive to taxpayers. **In its review of Entrepreneur Relief in 2019, Indecon recommended a review of the merits of an integrated Entrepreneur/Retirement Relief**.

Gains that have been exempted under Retirement Relief are included in the calculation of the €1million lifetime limit for Entrepreneur Relief. Both reliefs can apply to the disposal of the same asset so generally the system can encourage businesses to plan the timing and structure of disposals so that they avail of Entrepreneur Relief first, before disposing of other assets that could be eligible for Retirement Relief.

Both tax reliefs are similar in many respects but also contain differences, some of which are highlighted in the following table:

[46] OECD, SME and Entrepreneurship Policy in Ireland, October 2019
[47] Tax Strategy Group, Tax Incentives for SMEs 19/05, July 2019

	Entrepreneur Relief	Retirement Relief
Aim of measure	To incentivise the development and maintenance of business activity	To incentivise viable intergenerational transfer of businesses and farms
How is relief provided?	CGT rate reduced to 10%, subject to €1million lifetime limit on qualifying gains	Disposal is exempt from CGT, subject to a lifetime limit on consideration depending on age and who the benefit is given to
Clawback provision	No	Yes, if child disposes of assets within six years
Minimum shareholding required	5%	25% (or with 75% plus shares held within the family)
Minimum shareholding for qualifying subsidiaries	51%	75%
Minimum period of ownership of assets	3 years (cannot aggregate spouse's period of ownership)	10 years (can aggregate spouse's period of ownership)
Working period requirement for shareholder	50% of time as a working director or employee in 3 out of 5 years prior to disposal	A working director for at least 10 years prior to disposal, including at least 5 years full-time
Example of qualifying business assets	Assets owned by a sole trader and used in the trade Shares held by an individual in a trading company	Assets owned by a sole trader and used in the trade Shares held by an individual in a trading company Assets held by a shareholder and let to the trading company, if sold with the shares Other (relating to CPOs, farming, etc)

6.2 CGT Retirement Relief

6.2.1 Overview of measure

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.

Since 2014 if the person is between 55 and 65 years of age and the disposal is to a child, an exemption from CGT applies irrespective of the value of the assets disposed of. Otherwise, full relief is only available where the market value of assets is below a threshold, which varies depending on the age of the person making the disposal and whether it is to a child or another person. These thresholds are lifetime limits and if they are exceeded the relief is withdrawn and CGT is payable on the gains on all disposals. Relief is also withdrawn if the child disposes of the asset within six years. The child must then pay CGT on the original disposal in addition to any CGT on their own disposal. 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.

	Aged 55 to 65 years	Aged over 65 years
Disposal to a child[48]	Full relief, no limit	€3 million threshold
Disposal to a person other than a child	€750,000 threshold	€500,000 threshold

Sufficient data is not currently requested on taxpayer returns in order to provide an estimated Exchequer cost of this relief.[49] The number of claimants and the consideration received from disposals where the relief was claimed is shown in the table below. Taking 2019 consideration of €579 million as an example, the maximum possible amount of CGT foregone is €191 million (assuming 100% profit). This ignores the original cost of the business assets, which is deductible in computing the chargeable gain liable to CGT. Therefore the actual tax foregone figure is definitely much lower. The yield from the abolition of this relief would depend on future disposals of the relevant assets and any behavioural change of those impacted. Data is also collected by Revenue on farmers who avail of the relief, who consistently represent over 50% of claimants and approximately 40% of consideration received.[50]

Year	2013	2014	2015	2016	2017	2018	2019
Number of claimants	1023	1318	1229	1357	1421	1400	
Consideration on disposal of qualifying assets €m		441	607	443	560	656	579

Source: Revenue statistics

6.2.2 Policy objective

The aim of Retirement Relief is to encourage the intergenerational transfer of businesses and farms and to maintain the viability of such businesses and farms without incurring a tax cost arising from intergenerational transfers.[51]

[48] 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.

[49] The Form 11 tax return requests the total consideration received on disposals of different categories of assets, including where Retirement Relief is claimed, but not the base cost or gain per individual asset. Where there are multiple asset disposals reported on a return only the total chargeable gain is reported such that it is not possible to determine the gain per asset disposal and subsequently the tax foregone.

[50] Revenue, The Farming Sector in Ireland: A Profile from Revenue Data, August 2020

[51] Tax Strategy Group, 18/10 Capital and Savings Taxes

The changes for individuals aged 66 years and over came into effect from 1 January 2014, having been announced in Budget 2012 in order to encourage transfers by individuals, particularly in farming, who were already aged 66 years or who would reach that age before 1 January 2014.[52] **The step-effect of the €3 million cap at age 66 encourages the transfer of assets to family members at retirement age**. The Tax Strategy Group believes that removing or amending the various age restrictions or amending the existing thresholds would severely lessen the incentive for business people and farmers to transfer their assets at an earlier age than they might otherwise have done. It may also require the sale of assets to pay a CGT charge if it was imposed.[51]

6.2.3 Reviews of the relief

The 1980s Commission on Taxation report[53] identified that the case for the concession rests on the need to encourage on economic grounds the earlier transfer of property to children. They described how the need for such concessions is apparent when regard is had to the favourable treatment of assets passing on death. However, they recommended that the relief be terminated if their other recommendation on changes in the treatment of assets passing on death were adopted, which would leave concessions on assets transferred during life as unnecessary.

The 2009 Commission on Taxation recommend continuing Retirement Relief, but did suggest the introduction of the €3 million limit for family transfers, which was uncapped at the time. **In that Commission's view there was a case on both economic and social grounds to support the transfer of smaller (but not larger) farms or businesses within families.** They advocated a need for structural reform as regards the viable scale and efficiency of farm units and to facilitate succession within farming. With regards to disposals outside of the family, which was already capped at €750,000, **the Commission's view was that the relief encourages the timely and efficient transfer of businesses and farms to new owners and may provide an income in retirement to those who may not otherwise have made pension provision**. On this basis they recommended that it be continued.

Although Retirement Relief has been available since the introduction of CGT in 1975, there does not appear to have been a detailed review of the scheme carried out by the Tax Strategy Group or under the Department of Finance's tax expenditure review guidelines. Some anti-avoidance measures were introduced to Retirement Relief and Entrepreneur Relief in 2018 to target disposals of shares to connected parties in certain circumstances or where incorporation relief has been claimed.

[52] Tax Strategy Group, 15/13 Capital and Savings Taxation Issues
[53] First Report of the Commission on Taxation Reports, Direct Taxation – July 1982, page 216

Recap of Section 6

Two significant reliefs from CGT co-exist in order to incentivise the transfer of business assets. Broadly the same assets qualify for both reliefs (with additional farming related assets and leases only qualifying for Retirement Relief), however the policy objectives and qualifying conditions differ in many respects. The aim of Entrepreneur Relief is to improve Ireland's competitiveness and attract entrepreneurial investment while Retirement Relief was designed to encourage intergenerational transfers. The Exchequer cost of Entrepreneur Relief is quite high, while insufficient data collection means no estimate is available on the cost of Retirement Relief. No major tax expenditure review has been carried out on Retirement Relief since its introduction in the 1970s. Reviews of the Entrepreneur Relief, in both an Irish and UK context, suggest some divergence between the intended and actual use of the scheme.

7. Enabling business continuation

7.1 CAT Business Relief and Agricultural Relief

7.1.1 Overview of measures

Beneficiaries of gifts and inheritances are liable to capital acquisition tax (CAT) at a rate of 33% on the value of the benefit received. **Business Relief and Agricultural Relief are broadly similar reliefs from CAT given in the form of a 90% reduction in the value of the benefit gifted or inherited**[54]. The reduced value is then liable to CAT at 33%. The benefit must consist of relevant business property (such as unincorporated businesses and shares in certain family companies) or agricultural property (such as agricultural land, livestock and machinery) to qualify. Interestingly a farmhouse or dwelling can also qualify as agricultural property if transferred with the farmland. Since Finance Act 2000 if agricultural property fails to qualify for Agricultural Relief, it may qualify for Business Relief provided it satisfies the requirements for that relief.

Agricultural Relief and Business Relief were introduced in 1976 and 1994 respectively and were largely based on the existing UK equivalent reliefs from UK inheritance tax[55]. There is no expiry date set for either relief and they are longstanding features of the Irish tax regime for gifts and inheritances.

When Business Relief was first introduced in 1994 the first £250,000 acquired by a beneficiary was reduced in value by 50%, while amounts in excess of £250,000 received a 25% reduction. The threshold was removed the following year with all business asset values qualifying for a 50% rate of relief. The rate of reduction subsequently increased to 75% relief in 1996. The thresholds and rate of reduction for Agricultural Relief have been significantly modified on several occasions since its introduction in the 1970s, with different levels of relief available depending on the type of farming asset and whether it was a gift or inheritance. Since 1997 both reliefs are given via a 90% reduction to all qualifying property values, with no thresholds or monetary limits. **This means that based on the current Group A threshold a parent can transfer business assets to a child with a value of €3.35 million without CAT being applied.**[56]

[54] Business Relief reduces the taxable value whereas Agricultural Relief reduces the market value of the qualifying assets.

[55] Unlike Irish CAT which is an acquisitions tax on the person receiving the benefit by way of gift or inheritance, the UK's inheritance tax is charged on the deceased person's estate i.e. on the person giving away the wealth, or rather their personal representative. It can also be charged upon a gift or transfer of an asset in certain circumstances. Subject to certain reliefs, UK inheritance tax is currently levied at a rate of 40% tax on any excess value of an estate above £325,000. The UK's version of Business Relief and Agricultural Relief give either a 100% or 50% reduction in the taxable value depending on the circumstances.

[56] Market value of assets €3,350,000 reduced by 90% is €335,000, the current Group A CAT threshold. This ignores aggregation of prior benefits, or any deductible liabilities, expenses, etc. so higher values could be transferred with no liability.

The total cost of Agricultural Relief over the period 2011 to 2019 has been approximately €1.5 billion, higher than the €1.4 billion cost for Business Relief**. The number of claimants for Agricultural Relief is usually double or three times more than the number for Business Relief, meaning the average cost per claimant is much lower for Agricultural Relief**. In 2019 there were 1,413 claimants of Agricultural Relief compared with 648 for Business Relief.

Figure 8 **Total Exchequer cost of Agricultural Relief and Business Relief (€m)**

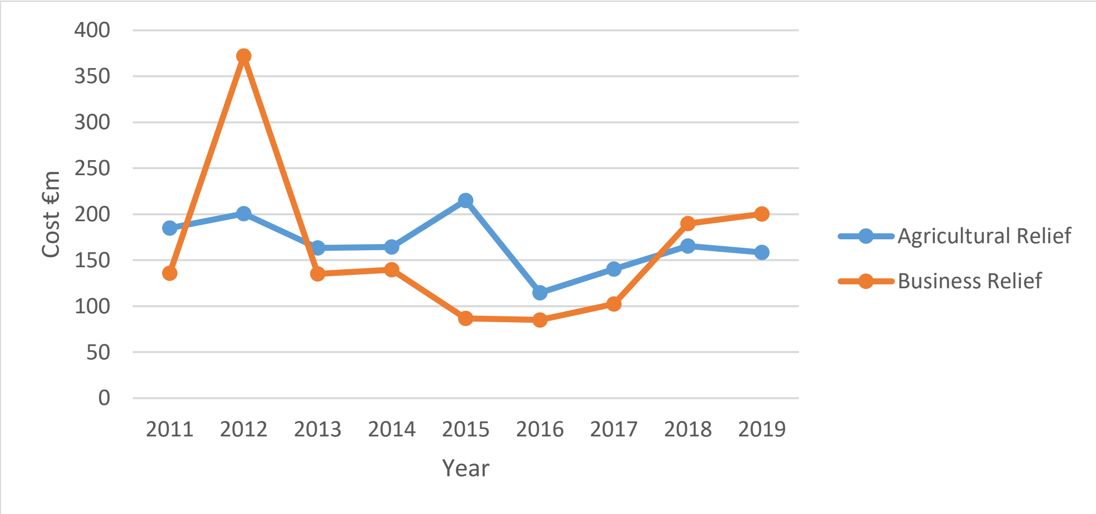
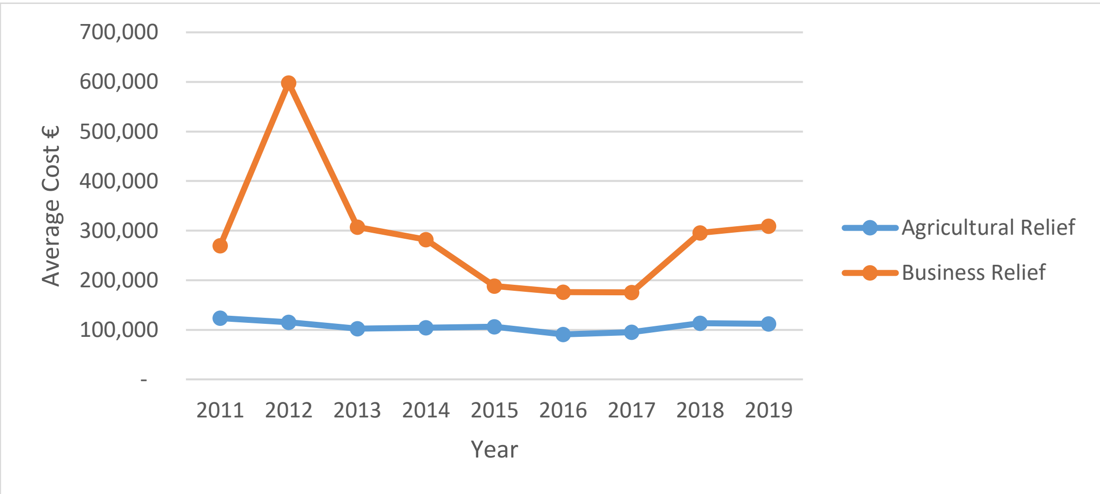


Figure 9 **Average Exchequer cost per claimant (€)**



Agricultural relief for CAT is one of a number of tax reliefs and specific rules within the tax code supporting the agricultural sector. These include; income averaging for farmers, stock relief for farming trades, the succession farm partnership tax credit, the income tax exemption for long-term farm land leasing, relief for increase in carbon tax on farm diesel, farm restructuring CGT relief, the VAT flat-rate addition and stamp duty reliefs such as consanguinity relief, young trained farmer relief, farm consolidation relief and relief for leases of farmland.

7.1.2 Policy objective

The stated objectives of the CAT reliefs are to improve the tax environment for transfers of businesses and farms and to encourage the transfer of assets to the younger generation.

The Minister for Finance at the time explained that Business Relief was being introduced via the 1994 Finance Bill as a complement to existing reliefs which assist the transfer of businesses from one generation to another, including the generous CAT exemption threshold for transfers from parent to child and the CGT Retirement Relief. **The relief was designed to have a wide scope**, covering all business activities other than those dealing or investing in land, buildings and certain financial assets. The stated intention of the relief was to alleviate the impact of CAT on the transfer of family businesses and to promote enterprise and business development.[57]

The purpose of Agricultural Relief is to encourage the productive use of agricultural land and to prevent the sale or break-up of farms in order to pay the CAT liability. Agricultural property such as farmland has benefitted from tax relief since the introduction of CAT in 1976.

7.1.3 Reviews of the reliefs

The 2009 Commission on Taxation recommended reducing the rates of relief from 90% to 75% and introducing an overall monetary limit of €3 million in order to focus the relief on supporting smaller sized businesses and farms. Amalgamating the reliefs was also suggested however these measures were not adopted.

The most recent estimated yield to the Exchequer from reducing the rate of relief from 90% to 70% is €20 million from Agricultural Relief and €38 million from Business Relief in a full year. A reduction to 50% is estimated to reduce public expenditure by €53 million for Agricultural Relief and €82 million for Business Relief.[58] Based on the 2020 net CAT receipts to the Exchequer of €505 million[59], this would represent an overall increase in the yield from CAT of either 11% (if both reliefs were reduced to 70%) or 26% (if both reliefs were reduced to 50%). **The Tax Strategy Group has repeatedly opined that reducing the rate of relief could be a useful measure in terms of base-broadening and ensuring equity for different classes of taxpayers, but that it could have a negative impact on the development and growth of family businesses**.[60]

[57] Minister for Finance, Dáil debate Second Stage Finance Bill 1994
[58] Revenue Ready Reckoner Post Budget 2021, published November 2020
[59] Revenue Annual Report 2020, published April 2021
[60] Tax Strategy Group, 15/13 Capital and Savings Taxation Issues, TSG 18/10, TSG 20/10

Reduction in Relief from 90%	To 80%	To 70%	To 60%	To 50%
Impact on Agricultural Relief	8	20	36	53
Impact on Business Relief	18	38	60	82
Total	**26**	**58**	**96**	**85**

Totals in € million for a full year, Source: Revenue Ready Reckoner

The 2014 Agri-Taxation Review[61] recommended retaining Agricultural Relief as "a vital measure to ensure the ongoing viability of farming businesses that pass from one generation to another". The report identified an ageing Irish farmer profile and succession management as a challenge for farmers, and noted that **a central part of agri-taxation policy to date had been assisting succession and the transfer of farms, especially earlier lifetime transfers**. The relief was seen as important to cases where the income from the farm could not sustain major tax charges, even if the farming businesses was asset rich. **As part of the review Indecon showed a positive cost-benefit analysis for the relief, stating that the relief is critical but only where the land concerned is actively farmed**. Up until 2014 the recipient had to show that at least 80% of the value of his/her assets after taking the benefit was made up of agricultural assets. Concerns were raised that this test was not sufficiently robust to ensure that this relief was only being availed of by active, productive farmers. There were also suggestions that the relief was being used as tax efficient inter-generational wealth transfer mechanism for non-family farms. **From 2015 onwards a new "active farmer" requirement was introduced in addition to the 80% asset test**. The beneficiary must now either farm the land as an active farmer, be a qualified farmer and farm the land, or, lease the land to an active farmer or to a qualified farmer. **The policy objective behind this was to increase the mobility and productive use of land.**

There does not appear to have been any tax expenditure review conducted on Business Relief to date and a breakdown of data on users of the relief is not publicly available.

Recap of Section 7

Agricultural Relief and Business Relief significantly reduce the taxation of gifts and inheritances on the transfer of farms and businesses. They were designed in particular to promote inter-generational transfers with the stated aim of preventing the sale or break-up of businesses and farms in order to pay a CAT liability. Agricultural Relief was modified in 2015 in order to encourage more productive use of farmland following concerns over unintended use of the incentive. There has been no major review of Business Relief since its introduction in 1994. Other options, apart from tax relief could be considered to achieve the stated objectives of these measures.

[61] Department of Finance and Department of Agriculture, Food and the Marine, Report of the Agri-taxation Working Group, 2014

8. Attracting and retaining key employees

Ireland's marginal rate of income tax is 40% and combined with a top rate of USC of 8% and 4% PRSI it means employees can face up to 52% of their wages being deducted in tax. Several income tax incentives feature in the Irish tax system to assist certain employers in attracting and retaining employees to their business. These include KEEP, SARP and FED.

8.1 KEEP

8.1.1 Overview of measure

The Key Employee Engagement Programme (KEEP) has been available since 2018 to unquoted SMEs who grant share options to their full-time employees and directors. KEEP is based on the UK's Enterprise Management Incentive (EMI).

The individuals who exercise the KEEP options are exempt from income tax on any gain arising at exercise. Unlike most other tax incentives there is also an exemption from USC and PRSI. CGT is paid on any gain arising on disposal of the shares, using the option price as the base cost. This means **any increase in value from grant to exercise is captured for tax purposes at the lower CGT rate, representing an employee tax saving of up to 19% compared to standard share options**. The option price given to employees cannot be less than the market value of the underlying shares at the date of grant.

The scheme is subject to EU State Aid rules and a number of qualifying conditions exist in relation to the companies that are eligible, the share options and employees. The company must be carrying on a qualifying trade and the total market value of issued but unexercised share options cannot exceed €3 million. Limits apply to the market value of all shares subject to the option that can be granted to any employee in a year (€100,000) and across all years (€300,000). **Share options are not intended to completely replace cash remuneration provided to employees, so the value of the shares under option cannot exceed 100% of the value of the employee's other emoluments in a year**. This was increased from a 50% cap in 2019.

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 options can be exercised between one and ten years after the grant date. The year 2019 was the first year options could be exercised however companies may have imposed longer vesting periods so data is not yet available on the Exchequer cost of this scheme. The estimated full year cost when the relief was introduced in Budget 2018 was €10 million.[62]

8.1.2 Policy objective

KEEP is intended to help SMEs recruit and retain talent in a highly competitive labour market. The relief is targeted at smaller companies who wish to provide key employees with a financial incentive linked to the success of the company. Unlike APSS and SAYE share remuneration schemes which must be made available to all eligible employees, KEEP can be offered by employers to selected individuals. This may allow employers to persuade a worker to join a company, even if the cash salary is less than that on offer from larger companies, if they see potential for realising a tax-efficient profit through sale of shares. Overall the scheme is aimed at improving the attractiveness of the SME employment offer, recognising that improved competitiveness of companies supports the creation and maintenance of employment, which in turn supports economic growth.

8.1.3 Reviews of the relief

A public consultation was held in 2018 and due to lower than anticipated take-up for the scheme increased remuneration limits were announced in that year's Budget. **Issues identified through the stakeholder engagement [63] include the difficulty SMEs face in valuing their shares and the risk of relief being denied if the initial share valuation used was subsequently found to be incorrect**. The 1:2 proportion of options to salary was also highlighted as an issue, with the Tax Strategy Group responding that removing this limit could give rise to tax equity concerns. **Requests were also made to allow employer buy-back of shares, as this was seen as an obstacle in providing assured liquidity for the shares.** Another public consultation on the scheme was held in 2019, resulting in further amendments under Finance Act 2019 that have yet to be implemented due to delays in receiving State Aid approval from the European Commission.

8.2 Share-based remuneration

As an alternative to giving cash payments, employers can remunerate their employees by giving them company shares, or an option to acquire shares, either for free or at a discounted price. Common

[62] Government of Ireland, Budget 2018 Tax Policy Changes, October 2019
[63] Tax Strategy Group, Tax Incentives for SMEs 19/05, 2019

share schemes in Ireland include the use of restricted stock units (RSUs) and share options. The prevalence of share-based remuneration in Ireland is believed to be extensive, however exact data on this is not readily available. **It is hoped that the new employer reporting requirement to Revenue for share-based remuneration in 2021 will improve the quantity and quality of information collected**. As of now, there is no data available on the cost of tax reliefs such as the restricted shares scheme ("Clog scheme") or employer PRSI exemption for shares given to employees. The Secretariat has requested summary data from the new Revenue employer return, once it is available, in order to brief the Commission at a later period.

The Department of Finance's stated policy rationale for encouraging employee financial participation is based on research that it can be effective in fostering partnership and increasing competitiveness and helping companies to attract and retain staff in a competitive international labour market. Improved competiveness of companies supports the creation and maintenance of employment, which in turn supports economic growth which benefits the economy as a whole. [64]

A significant change to the treatment of share-based remuneration occurred in 2011, when most share awards (excluding share options) were brought within the PAYE system of tax deduction. A charge to USC and employee PRSI was also introduced. An employer PRSI charge was briefly mandated, but soon reversed such that share awards continued to be exempt from employer PRSI. **The basis at the time for the employer PRSI exemption was that it would needlessly increase the cost to employers of doing business in Ireland, which would have the potential to negatively affect employment levels and investment decisions**. It was considered unwise to increase the costs of businesses in the economic climate at the time and that the potential loss to the economy from the measure would far outweigh the potential yield to the Exchequer.[65]

A public consultation was held in 2016 on share-based remuneration and asked whether the employer PRSI exemption was an efficient use of the State's resources, or if the expenditure could be more profitably employed in other forms of support for employment and/ or enterprise. It was noted that retention of the employer PRSI exemption was strongly supported in the responses received, although the report on the public consultation does not elaborate on the reasons given by stakeholders.[66]

[64] Department of Finance, Public consultation paper on taxation of share based remuneration, 2016

[65] Statement of the Minister for Finance, Jobs Initiative, May 2011

[66] Department of Finance, Review of Taxation of Share Based Remuneration, October 2016

A tentative “back of the envelope” estimate by the Secretariat of the employer PRSI foregone in the year 2020 from unapproved share options alone is approximately €40.8 million.[67] This is before other common share awards are even considered.

A very rough estimate for employer PRSI foregone in 2018 is €41.5 million, based on tax data from unapproved share options and awards under the approved profit sharing scheme (APSS) and save-as-you-earn (SAYE) share option scheme. Again, this estimate does not take account of other common share awards such as RSUs, which suggests the actual PRSI foregone is higher.

8.3 Special Assignee Relief Programme (SARP)

8.3.1 Overview of measure

The Special Assignee Relief Programme (SARP) was first introduced in 2012 as a measure to provide income tax relief to certain employees who are assigned by their employers to work in Ireland from abroad. Initially intended to apply for a three year period ending in 2014, the scheme has been extended and amended several times and is now set to run until 2022.

The relief is available to employees earning a minimum basic annual salary of €75,000 who have been assigned to work and take up residence in Ireland and perform duties for at least 12 months. The person cannot have been Irish tax resident for the five years prior to arrival and must have been working abroad for their employer for at least six months (this condition was reduced from 12 months in 2015). Individuals can claim the relief for up to five tax years.

Relief is given by having a proportion of employment income disregarded for income tax purposes (but not USC or PRSI). Originally 30% of income between €75,000 and €500,000 was exempted. The cap was removed from 2015 so that 30% of all employment income above €75,000 was disregarded. This led to a significant increase in Exchequer costs and an upper threshold was subsequently reintroduced so that 30% of income between €75,000 and €1 million is exempted from 2019 for new

[67] Relevant tax on share options (RTSO) collected in 2020 was €192million (Source: Revenue), a much higher than usual figure. Making the simplifying assumption that this represents tax at either 28.5% or 52% of the share option gain this tentatively suggests total taxable gains of min €369m to max €679.6m. At 11.05% that’s Employer PRSI foregone of €40.8m to €75.1 million from share options alone in one year. €40.8 million is more likely as generally RTSO is paid at the higher rate of income tax and USC. The €75million figure assumes all share options were only taxed at the lower rate, but this is unlikely. The estimate also does not take account of the fact that individuals who exercise options that are taxable here may not be socially insured here (many internationally mobile employees may have gains partially taxable here), or that Irish workers abroad may not be taxed on the gain while abroad but are retained in the Irish PRSI system while on assignment.

entrants and from 2020 for all claimants. Individuals are also entitled to receive travel expenses for one return trip home per year and school fees up to a limit of €5,000 on a tax-free basis.

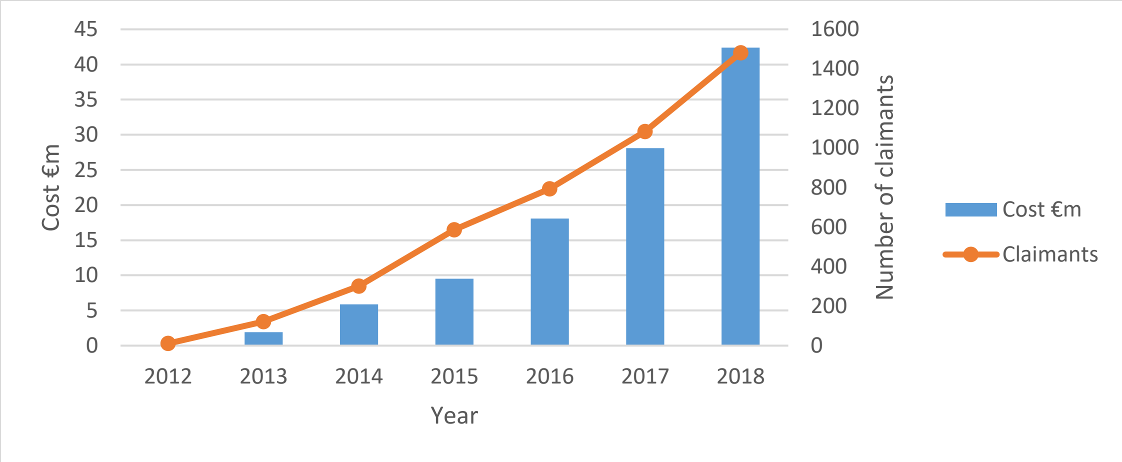
The original estimated Exchequer cost of SARP was €3 million for 2012 and €5 million for a full year.[68] **The actual costs and number of claimants has risen steadily, with 1,481 employees of 449 employers availing of the relief at a cost of €42.4 million in 2018**.[69] Of this cost, €0.2m and €0.4m were in relation to travel and school fees respectively.

Data from 2018 on the country of residence prior to arrival in Ireland shows that 33% of claimants were assigned from the US, 17% from the UK and less than 6% from India, Germany and France each. Employers of 28% of SARP claimants reported that they operated the claimant's payroll on a tax equalisation basis, meaning the Irish tax saving from SARP went to the employer rather than the individual. Tax equalisation[70] is commonly used by multinationals with international assignees, whereby the employee is paid the same net after-tax wages from the home country while on assignment and the employer pays local taxes on their behalf in the country of assignment.

Revenue also collects data on the salary levels of claimants, for which 45 claimants in 2018 had income between €1 million and €3 million and there were 10 claimants with income above €3 million who had a portion of their employment income disregarded for tax purposes (meaning an income tax saving of at least €351,000[71] each). The majority of SARP claimants are on annual salaries between €75,000 and €225,000.

[68] Government of Ireland, Summary of 2012 Budget and Estimates Measures, 2011
[69] Revenue, Statistics on SARP 2018, July 2020
[70] Tax equalisation broadly means that an employee pays no more and no less tax while on international assignment than he would have paid had he remained in his home country. The company bears all the actual home and host country tax due. The employee's contribution to the tax burden is the hypothetical tax he would have paid had he not gone on assignment. If the actual tax due is higher than the hypothetical tax withheld, the employer pays the difference. If the actual tax due is lower than the hypothetical tax, the employer retains the difference.
[71] 30% x (3,000,000 – 75,000) x 40%

Figure 10 SARP – Exchequer Cost and number of claimants



8.3.2 Policy objective

SARP was introduced in 2012 to reduce the costs to businesses of attracting key individuals from abroad to work in the Irish-based operations of their employer, or an associated company. The relief is designed to help firms which wish to assign employees from other parts of their company to come to Ireland to expand or develop their Irish operations, which should help retain or increase employment in Ireland.[72] 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.

SMEs are not prohibited from offering the relief to employees, however the very nature of the relief and conditions attached mean it is more relevant to larger firms with overseas operations and who offer higher salaries. SARP is viewed as a part of Ireland's offering in terms of attracting Foreign Direct Investment by reducing the costs for employers, to avoid losing out on potentially significant investment decisions.[73]

8.3.3 Reviews of the relief

The predecessor to SARP was section 825B relief ('Repayment of tax where earnings not remitted'), which gave an income tax reduction to certain individuals assigned to Ireland to carry out the duties of a foreign employment. **The 2009 Commission on Taxation recommended replacing this relief with a tax incentive targeted to attract skilled persons** into Ireland to meet short-term skills gaps. This approach was not adopted by policymakers, who advised that **keeping an up to date statutory provision for specific skills would create administrative difficulties and bring a range of inflexibilities.**

[72] Minister for Finance, Finance Bill 2012 Second Stage Dáil debate, February 2012
[73] Tax Strategy Group, 14/10 Taxation Reviews, 2014

The use of an income-based approach was considered a more durable and straight-forward method to achieve the policy objective.[74] It was further noted by the Department of Finance that **while income tax rates are less important than corporation tax rates in attracting international investment, they still influence investment location decisions, particularly headquarter locations**. SARP was subsequently introduced and geared more towards attracting decision makers rather than specific skills, although the relief is not restricted to just senior management.

A number of tax expenditure reviews and public consultations have been carried out on SARP, including a Department of Finance review in 2014[75] and an external review by Indecon more recently in 2019 [76].

Of interest from the 2014 review is the response to criticism of the relief being targeted at higher paid executives, which is arguably a policy at odds with the need to broaden the tax base, remove unnecessary tax reliefs from the system and to ensure overall tax equity. The report comments that these arguments need to be balanced against the Government's priorities to improve Ireland's competitiveness and increase FDI and employment. **It is argued that many of the assignees would not likely have come to Ireland in the absence of such a scheme so that there are net gains to the Exchequer in terms of tax revenue, in addition to further investment and employment created as a result of the assignment.**

Stakeholder feedback from the 2016 Tax and Entrepreneurship review included suggestions for either extending SARP, or, providing a similar scheme to new hires that would result in a reduced rate of income tax being available to highly skilled mobile workers or for self-employed individuals. The Department of Finance's response was that such a scheme would not be in keeping with the purpose of SARP which is to reduce the cost to employers of assigning individuals already employed by them to Ireland.[77]

Ireland has higher personal tax levels compared to certain other countries competing for FDI and skilled employees. **Indecon's review in 2019 commented that some of the similar income tax reliefs in competitor jurisdictions to attract skilled workers are more attractive than SARP. Indecon also believes that some of the overseas staff would have been attracted to Ireland in the absence of the SARP measure, indicating some inherent deadweight**. **The review found that companies using SARP typically pay significant corporate taxes and PAYE.** Overall taking this into account, together with

[74] Department of Finance, Report on Tax Expenditures, July 2010
[75] Department of Finance, Review of SARP, October 2014
[76] Indecon, Review of SARP, October 2019
[77] Department of Finance, Tax and Entrepreneurship Review, October 2015

R&D and employment spillover effects, the external review concluded that the benefits outweighed the cost of the scheme and that the scheme should be extended. Indecon did raise horizontal equity concerns regarding the fact that this relief is not available to indigenous firms without overseas operations and noted that vertical equity concerns were addressed somewhat with the reintroduction of an upper cap on salaries.

8.4 Foreign earnings deduction (FED)

8.4.1 Overview of measure

The Foreign Earnings Deduction (FED) is an income tax relief available to employees where they spend a minimum of 30 days working overseas in a relevant territory. **The individual can reduce their taxable employment earnings by up to €35,000 per annum, giving an income tax saving of up to €14,000**.

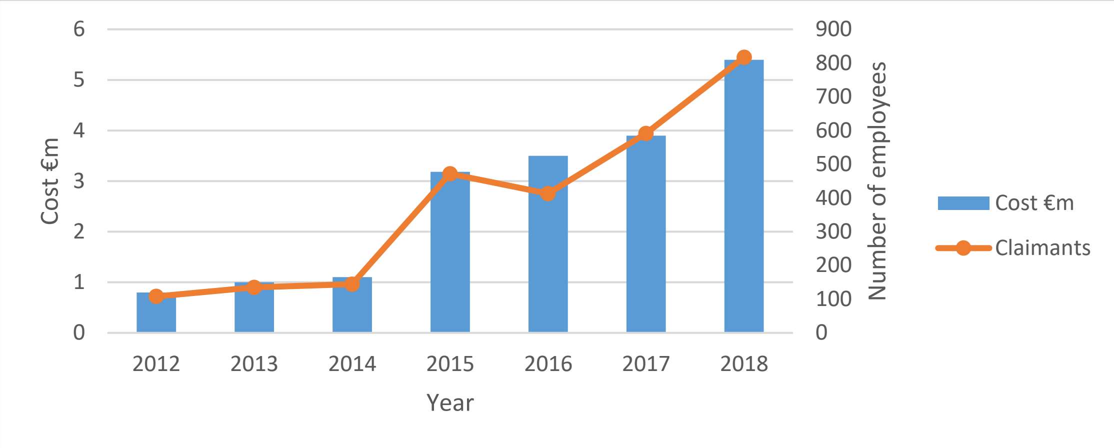
A variation on the deduction had been previously introduced in 1994 and later abolished in 2003. The relief in its current form was first introduced in 2012, has been extended by several Finance Acts and is due to finish in 2022. The list of relevant jurisdictions has been expanded several times (from 5 BRICS[78] countries originally to 30 currently) and the minimum number of overseas days' requirement has reduced (from 60 days originally, to 40 days in 2015 and 30 in 2017) in an effort to encourage uptake of the relief. The number of qualifying days can occur within a calendar year or in a continuous twelve month period that spans two years. Multiple trips can be made provided there is a minimum of three consecutive days spent working in the relevant jurisdiction on each trip, including travel days. Originally travel days between qualifying and non-qualifying countries did not count, and a minimum of four consecutive days per trip was required. These conditions were relaxed in 2015.

The estimated cost of FED when it was introduced was €1.5million for a full year.[79] **The expansion of qualifying countries and reduction in qualifying days in 2015 led to increases in the uptake of the relief and associated cost, however overall the tax expenditure is modest compared to other schemes**.

[78] Brazil, Russia, India, China and South Africa. See here for a list of all relevant territories.

[79] Government of Ireland, Summary of 2012 Budget and Estimates Measures

Figure 11 **Foreign Earnings Deduction – Exchequer cost and number of claimants**



Revenue data from 2018 [80] shows that more trips are taken by claimants to China (119 claimants) and the United Arab Emirates (111) in particular, followed by India (83). Individuals can claim for trips to more than one country in a year. There is no particular sector that dominates in terms of Exchequer cost or number of claimants, with a fairly even spread across different sectors.

8.4.2 Policy objective

FED was introduced with the aim of supporting efforts by multinationals and indigenous firms to expand their exports into economic growth markets. It was originally designed to incentivise employees to undertake marketing trips to BRICS countries, with a view to increasing Irish exports to the large populations of those countries.[81] The relief does not specify the type of work that must be carried out abroad and is not limited to particular sectors. The scheme, although available to all, is particularly targeted at SMEs.

8.4.3 Reviews of the relief

A review of FED and public consultation was held in 2014[82]. **While it cannot be definitively stated that the existence of FED led to an increase in exports to qualifying countries, the consensus among stakeholders was that export led growth remains critical and that FED should be retained and enhanced to support SMEs who wish to develop exports into emerging markets**. As part of this proposals were made to expand the qualifying countries under FED to EU Member States and countries identified as priority markets, including those under the Government's Trade, Tourism and Investment Strategy (TTIS). FED was extended in 2014 to some countries identified under TTIS

[80] Revenue, FED statistics 2018, September 2020
[81] Minister for Finance, Finance Bill 2012 Dáil Second Stage debate, February 2012
[82] Department of Finance, Review of the Foreign Earnings Deduction, October 2014

however it was noted by the Tax Strategy Group that further extension of FED could carry significant deadweight risks due to Ireland's already existing strong export trade with certain countries.[83] Further, to include EU countries would in all likelihood constitute State Aid which would be unlikely to receive approval from the European Commission. Proposals were also made to relax the rules for qualifying days, which were adopted from 2015 onwards.

An external review was carried out by Indecon in 2019.[84] **The importance of Irish exports in growth, as well as the spill-over benefits in innovation and employment, were noted as a potential justification for measures designed to increase exports. By facilitating personnel to locate in overseas markets, Indecon commented that FED is a potentially important measure to help exporters overcome the problems of geographic distance and that the FED policy objectives remain valid**. When examining the claimants of the relief, **the review highlighted that a number of claimants were in non-internationally traded sectors including the wholesale and retail trade, possibly reflective of the fact there is no legislative requirement that the employee be engaged in export related activity**. Noting that exports to FED countries increased from 3% of total Irish exports in 2011 to 3.8% in 2017, the external review could not definitively quantify the impact the availability of FED had on increasing exports. However, it did estimate that it had some positive impact and that there was a positive cost return on the measure. Recommendations for improvement of the relief included extending the list of qualifying countries, increasing the level of tax relief to incentivise uptake and restricting the relief to agency assisted companies (in keeping with the objective of expanding exports).

8.5 Foreign language and Information Technology (IT) courses

Given the comments above (in relation to SARP) on incentivising certain skills in the Irish labour market, for completeness it is of note there is a tax credit for IT and foreign language training course fees[85]. The course fees must be between €315 and €1,270, giving a tax credit for 20% of the fee. The course must be registered on Revenue's official list, which is not known to be regularly updated. Limited data on the cost and uptake is available as this is included in the general tuition fees credit figures. Individuals claim the credit and relief is not available if the employer pays for the course. So

[83] Tax Strategy Group, 15/12 Tax and Entrepreneurship Review, 2016
[84] Indecon, Review of the Foreign Earnings Deduction, October 2019
[85] Revenue, Foreign language and Information Technology (IT) courses

while this is not an incentive employers can offer to reward employees, it does give an example of using tax to incentivise specific skills.

Recap of Section 8

A commonly cited challenge faced by SMEs is their ability to attract and retain high skilled workers in a competitive labour market. A selection of tax reliefs aim to improve the remuneration package that can be offered by businesses to employees.

- The KEEP share option relief is particularly targeted at SMEs and has been modified several times since its introduction in 2018 to encourage uptake. Finance Act 2019 enhancements to KEEP cannot yet be implemented due to delays in receiving State Aid approval.
- Share-based remuneration is exempt from employer PRSI due to a concern over increasing the costs of employers. The exemption is believed to have a significant cost to the State and the Secretariat hopes to obtain more insight from a new employer reporting requirement to Revenue for the 2020 tax year.
- SARP is designed to reduce the cost to employers of assigning key employees from abroad to Ireland. The policy rationale is that by attracting highly-skilled individuals, additional overseas investment and employment can be facilitated. SARP is more relevant to larger sized firms.
- FED is aimed at supporting SMEs in increasing their exports, although the conditions of the scheme do not require the employer to be an SME or engaged in export activity. The relative cost and uptake of FED have been modest, although changes to the conditions have encouraged an increased use of the scheme.

9. Conclusion - Potential areas of focus within a pro-enterprise policy framework

In summary, this paper outlines some of the main policy objectives being pursued through the tax system for supporting economic activity. There are a number of tax incentives, many of which have been modified over the years following expenditure reviews, while others which have not had substantial reform since introduction. The next step for the Commission is to decide how it wishes to approach its mandate of supporting SMEs and entrepreneurs and the policy objectives it wishes to pursue.

ToR and the Commission's work: The COTW terms of reference instruct the Commission to consider how the tax environment can best support the economic activity of SMEs and entrepreneurs. As illustrated in this paper there are a number of ways this can be achieved, with a range of existing and historical tax related supports already utilised in order to support many businesses in addressing a wide range of challenges. This section of the paper suggests policy areas the Commission may wish to concentrate on. The list is not exhaustive nor are the options mutually exclusive.

Thinking about Reform: As with all policy considerations, any measures to change the tax system are of course subject to constraints, as Members have raised in earlier discussions. For example, broad based tax measures can sometimes be inefficient as they assist all firms, resulting in deadweight, however targeting measures at a particular cohort of taxpayers or sector can give rise to State Aid issues. Accordingly, direct expenditure may be a more efficient tool in some circumstances, an area which is not within the scope of the Commission's remit (although the Commission may choose to highlight where the tax system is limited in what it can achieve). The funding and sustainability of a tax expenditure is also a factor to consider in any policy review. Further, policy decisions by the Commission may have to be made in the absence of complete data or evidence, due to limitations on what information is available or capable of being collected. Therefore a principles based approach may be appropriate. It is also important to recognise that taxation based measures are only part of the broader Government support bases for small business, the provision of which is led through the Department of Enterprise, Trade and Employment in conjunction with its development agencies, offices and other Government Departments[86].

The Context: As previously indicated, the OECD and others have raised concerns in relation to the productivity of Irish SMEs particularly when compared with larger and multinational firms. While the

[86] For further information on these non-tax supports, see Department of Enterprise, Trade and Employment, Government Supports for Indigenous Business, July 2019

broader business environment for SMEs is considered positive, research has shown that business dynamism is low and the start-up rate for new businesses is below average. There are a wide range of factors to explain these low levels of productivity including limited activity in international markets, insufficient digital technology adoption, low firm dynamism, weak management practices and low capital investment rates. Given this backdrop, and in light of the ToR, consideration needs to be given as to what role the tax system has to play in addressing some or any of these issues.

In terms of next steps, the Commission may wish to consider specific reforms or modifications to existing tax expenditures in this area with a view to addressing some of these challenges. To that end, the following list identifies areas the Commission may wish to consider in framing its approach to SMEs and entrepreneurship. Members are asked to reflect on these and whether these are policy areas the Commission should prioritise in its recommendations for reform of the tax system, or, if non-tax supports may be more efficient in achieving these objectives:

(1) Supporting high-value, productive and/or employment generating businesses

The population of SMEs in Ireland contains both high-growth, high productivity firms, and older, more established low-productivity firms. There are compelling reasons for encouraging productive and innovative firms. On balance, there is also a need to support more “replicative” firms that, while less innovative, can provide other benefits such as services in rural areas, employment, etc.

Conversely, consideration could also be given to the extent to which tax supports are provided, potentially inefficiently, to companies with low levels of economic activity or employment generation and how any related costs could be mitigated.

(2) Measures to help businesses scale-up

A lack of scale-up capacity can hinder SMEs’ ability to grow. Many businesses may not, for example, be able to supply at the global level and scale-up sufficiently. Capacity also needs to be built so that SMEs can handle spill-overs from larger businesses. Improving exports by Irish SMEs has been identified as an area of weakness by the OECD which if supported by public policy could increase productivity.[87] Current tax measures aimed at improving exports, such as the Foreign Earnings Deduction, have arguably not had the intended impact.

The Commission may accordingly wish to consider whether the tax system could play a role in facilitating the integration of smaller businesses into the supply chain of multinationals, or improving

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

the participation of SMEs in public sector procurement. This would need to acknowledge capacity issues at the micro organisation level, such as a limited number of staff, meaning businesses cannot scale up in all respects, plus the fact that not all businesses want to scale-up. It could also consider international competitiveness as another factor and whether indigenous firms should be prioritised for support, or whether measures should also target external foreign-owned enterprises. Do members agree that the tax system has a role in supporting the scale up of business and, if so, how should such supports be targeted?

(3) Supporting SMEs to attract key personnel

As the Commission has noted, a strong skills base is central to the post-Covid recovery. Smaller businesses can, however, struggle to compete with larger firms as regards skilled personnel, particularly in terms of financial offerings to high skilled workers. Policy discussions in recent years have focused on the use of SARP and KEEP type tax schemes. Some income tax reliefs may not, however, be equitable in terms of who can avail of them, and the generally more tax efficient (and employer PRSI free) share-based remuneration may not always be a feasible method of rewarding employees of small firms with no market for their shares.

Do members agree that tax based measures should continue to have a role in supporting businesses to attract key personnel? If so, how should these measures be targeted?

(4) Leveraging the digital transformation

The shift towards online sales, automation and technological advancements provides a number of opportunities e.g. for increased efficiencies and potential regional rebalancing. The digital transformation has also identified a need for skills in IT, cybersecurity and procurement in particular. The Commission may wish to consider whether the tax system has any role to play in this area or if businesses should be supported via direct expenditure measures.

(5) Debt and/or equity financing

The type of financing used by businesses differs throughout the various stages of the corporate life cycle. In general, corporate tax deductibility is given for debt financing via relief for interest paid, whereas no such equivalent deductions are allowable for equity finance costs. Income tax reliefs for equity investors of SMEs are provided in limited circumstances. The Commission may wish to consider what role the tax system could or should play in increasing entrepreneur access to debt or equity funding.

(6) Inter-generational transfers

Many of the capital tax related reliefs are focused on reducing the tax burden for inter-generational transfers of assets e.g. Retirement Relief, CAT Business Relief and Agricultural Relief. The Commission may wish to consider whether or not these incentives are having the desired effect of increasing economic activity. Members may also explore what the appropriate balance is between foregone tax revenues and promoting intergenerational transfers of businesses and farms.

<u>(7) Options for review or modification of tax expenditures supporting business activity</u>

This paper examined some of the main tax expenditures within the current system in order to advise the Commission of the current policies adopted by Government and their intended objectives. Following consideration of what the Commission believes should be the overarching policy objectives of tax measures in this area further work could be carried out to consider the implications for existing reliefs in this area.

In particular, and reflecting discussions the Commission has had on fiscal sustainability/broadening the tax base, further work could be done to examine options to restrict the scope or value of tax expenditures where there are inefficiencies, deadweight or inappropriately targeted measures. This could involve a review of tax rates, exemption or relief thresholds and the tax base in general. There are clearly benefits to the Exchequer from such measures, however behavioural, social and other potential outcomes would also need to be considered in any analysis.

A decision on which policy objectives should be pursued will guide the work of this Commission in this area and ultimately determine the scope and nature of recommendations it proposes for reform. The Secretariat invites a discussion from the Commission on what policy areas it believes should be the focus of tax measures in this area and suggests the following questions be considered as part of that discussion.

- What is the appropriate role of the State in supporting economic activity and to what extent should it intervene?
- What market failures should the State try to correct?
- Is taxation the most efficient and appropriate policy lever?
- Does the Commission believe that the current tax expenditures meet the Government's policy objectives for supporting economic activity?

- How compatible are existing tax expenditures with the general principles underlying the work of this Commission e.g. net revenue raising, equity, efficiency, etc.?
- What approach does the Commission wish to pursue in achieving its mandate of supporting economic activity?