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Submitted to Your Vision, Our Future
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Organisation:
Small Firms Association (SFA)

Chapter 1 - General Questions

1 What elements of the taxation and welfare systems do you feel are working well?

Please elaborate below::

For many years the Irish tax system has been very successful in supporting, the overall economy through the phenomenal success of our foreign direct investment (FDI) model. To build on the State's success
in attracting FDI and take concrete steps to grow our small business base the SFA continues to call for
improvements in our tax system. We need to maximize the potential of schemes and introduce reform of our SME tax incentives.

2 What elements of the taxation and welfare systems do you feel are not working well?

Please elaborate below::

There is general feeling among small business that the taxation systems is confusing and unclear in many of its elements. Particularly hard to navigate for smaller and micro companies. We believe that section 960GA TCA 1997 is unfair and has tipped the balance in the appeals process to the detriment of the taxpayer. If a taxpayer disputes an assessment, they must pay the tax liability in full or face a potential interest liability at annualised rates of 8% or 10% per annum while their appeal is pending. Meanwhile, there is no obligation on Revenue to pay interest in the event of a successful appeal by the taxpayer. In our view, in the interest of fairness in the tax system, section 960GA should be repealed as it penalises taxpayers who appeal Revenue assessments and therefore undermines the effectiveness of the appeals process.

3 Good quality public services, welfare provision and infrastructure are financed mainly from taxation and PRSI. What are the features that you think our taxation and welfare systems should have in order to meet these needs?

Please specify::

One of the most transformative changes in PRSI in recent years was the self employed tax credit, this has allowed people who are self employed to avail of welfare. This has allowed many people to become entrepreneurs, set up their own business with a more degree of certainty. further legislative amendments are needed to improve the feasibility of the KEEP scheme. In our view, the policy intention of KEEP, to help SMEs attract and retain key employees, can only be achieved if these limitations are addressed

4 In your view, what main reforms are necessary so that the Irish taxation and welfare systems can embrace the opportunities and meet the challenges that Ireland may face over the next 10-15 years?

Please outline your views::

Various countries in the OECD have introduced tax policies to promote entrepreneurship and to support
small businesses.
There are several Irish tax reliefs to promote the above such as:
• Capital Gains Tax Entrepreneur Relief
• Research and Development (R&D) Tax Credit
• Employment Incentive and Investment Scheme (EIIS)

We are of the view that amendments to these existing reliefs are required in addition to new tax reliefs inorder to assist small firms in the development of their companies, both within Ireland and abroad. In addition, we would recommend amendments to certain areas in the administration of the tax system that can be burdensome and costly for taxpayers.

Chapter 2 - Fiscal Sustainability

1 What reforms to the taxation and welfare systems should be considered to ensure the system is sustainable and resilient and that there are sufficient resources available to meet the costs of public services in the medium and longer term?

Please specify taxation reforms you consider important::

Sreamlining the tax system for small business will be vital in the years ahead, the MyROS system for the Revenue Commissioners is a great too, but there are many aspects of the Tax Code that are not online or are not intuitive such as the Revenue Appeals process as mentioned above.

Please specify welfare reforms you consider important::

2 Rate each issue below in terms of strategic importance to the taxation and welfare system over the next 10-15 years (1 being least important and 5 being most important):

importance options - Achieving good public health outcomes for our people:

importance options - Addressing the climate crisis:

importance options - Adequate social transfers and benefits:

importance options - Growing employment:

importance options - Sustainability of public finances:

importance options - Sustained economic growth:

3 Given approaching demographic pressures and future uncertainties, future funding of public services is a critical issue. In order to meet these challenges, what is the appropriate balance between the taxation of a) earned income, b) consumption e.g. VAT and c) wealth e.g. capital acquisitions tax?

Please outline your views::

1: Earned Income
2: Consumption
3: Capital

Chapter 3 - Promoting Employment

1 What reforms to the taxation and welfare system should be considered to ensure that taxation and welfare work in tandem to support economic activity and promote employment while also supporting those most vulnerable in an equitable way?

Please outline what reforms should be considered::

2 Does Ireland’s taxation and welfare system strike the right balance between maintaining the incentive to increase earnings and alleviating some of the risks of low income (poverty and deprivation)?

Not Answered

Please explain your view::

3 Are income supports equitable in terms of how they treat people of working age?

Not Answered

How is this balanced with the requirement to meet differing needs?:

4 What changes to the social insurance system should be considered to ensure sustainability into the medium to longer term? (Please note the recommendations of the Pensions Commission and NESC Report 151 on the future of the Irish social welfare system)

Please specify changes to be considered?:

Chapter 4 - Climate

1 As Ireland moves to a low carbon economy, what should be the role of the taxation and welfare system in:

a) taking advantage of opportunities? :

Small business are keen to play their part in advancing the low carbon economy but are concerned with the already growing cost of doing business. this would be compounded by increased in carbon taxation that does very little to incentivise small business to embrace the green measures espoused. Placing ever grater tax burdens on small business is not the way forward in this space but greater access to resources, training, and incentives.

b) mitigating the risks? :

c) in meeting Ireland's emissions targets?:

2 Are there existing taxation and welfare measures that are counter-productive to Ireland's climate change commitments?

Not Answered

If yes, please specify::

As mentioned above the ever increasing rate of carbon taxation does very little for small businesses other than to penalise them further. Water levy's and further levies on SUPs, refuse collections etc can be a burden for many small businesses. We in the SFA believe that by making access to training and resources easier many small businesses will embrace the change very rapidly

To what extent are these justified in the Irish context and are any reforms necessary?:

3 What changes should be made to the taxation system to ensure longer term fiscal sustainability given the expected impact of the continued decarbonisation of the Irish economy, in particular the impact of reducing tax revenues from energy, carbon and motor taxes?

Please detail the changes::

As mentioned above while we recognise the need for Government to raise revenue from low carbon measures, there needs to be a greater investment from any taxation collected from green taxes funneled towards the funding of training and resources for small business to incentivise the switch to a low carbon business model

Chapter 5 - Housing

1 Taking into account previous taxation related interventions in the housing market, what role do you think the taxation and welfare systems have to play in contributing to the long-term supply of housing?

Please outline your views::

2 Should the taxation system have a role in supporting or promoting any specific form of housing tenure (e.g. home ownership, rental), or should it remain neutral?

Not Answered

Please elaborate further::

3 What in your view is the role that taxation should play in housing affordability?

Please outline your views::

4 Following the introduction and recent amendments to the Local Property Tax (LPT) and the commitment in Housing for All to introduce a new taxation measure to activate vacant land for residential purposes, do you consider there is a role for a Site Value Tax in Ireland?

Not Answered

Please elaborate further::

Chapter 6 - Supporting Economic Activity

1 How can Ireland maintain a clear, competitive, sustainable, and stable taxation policy with regard to its attractiveness to Foreign Direct Investment (FDI) in light of the rapidly changing global environment?

Please outline your views::

1. Drive a competitive business environment for small firms and entrepreneurs
2. Sustain investment and entrepreneurship through the tax system
3. Support employment and upskilling in small firms
4. Support the transition to the Green Economy and Digitalisation

Given the all-consuming nature of Covid-19, Ireland's economy can no longer accommodate the long-standing barriers facing business-owners. Budget 2022 must take decisive action to stop the discrimination in the tax system against the self-employed and Proprietary Directors. To assist the recovery and make Ireland a better country for entrepreneurship capital gains tax should be reduced from the current penal rate of 33% to 20% and increase the

lifetime limit for CGT Entrepreneur Relief to €15 million

2 How can the taxation environment support indigenous enterprise, particularly small and medium sized enterprises (SMEs) to be productive, to innovate and be competitive internationally?

Please specify::

3 With regard to starting, scaling or growing a business in Ireland:

a) what features of the current taxation system work well?:

b) what features do not work well and how can these be improved?:

Chapter 7 - Tax Expenditures

1 How do you think the process of reviewing taxation measures and taxation expenditures is currently functioning?

Please outline your views::

How well defined do you think the benchmark taxation system is in Ireland?:

2 How do you think the process of taxation expenditure review could be improved?

Please specify::

3 Please give examples of taxation expenditures that you believe run counter to public policy/are badly designed?

Please specify::

Please explain your rationale? :

4 Please provide examples of taxation expenditures that you believe work well, either in Ireland or internationally?

Please specify::

Chapter 8 - Public Health

1 How well do the taxation and welfare systems support good public health outcomes, addressing health challenges including but not limited to those caused by or related to tobacco and alcohol use, obesity, poverty and/or environmental issues?

Please outline your views::

2 What changes would you like to see to better promote the goal of good public health?

Please specify::

Chapter 9 - Administration

1 How can modernisation of the taxation and/or welfare administrations evolve to best meet customer needs in a satisfactory manner while respecting data rights and ensuring secure and reliable tax collection?

Please outline your views::

The scaling up and passing on of businesses in the SME sector continues to be hindered by the anti-avoidance provision contained in section 135 (3A) TCA 1997. Unlike other anti-avoidance provisions in Irish tax legislation, section 135 TCA 1997 does not include a bona fide test. In many cases, the uncertainty regarding the tax consequences means a business owner will be unwilling to proceed with a proposed sale of their business. In our view, inserting an exclusion for bona fide commercial transactions into section 135 TCA 1997 is essential, to provide the necessary level of certainty to taxpayers and their advisers, when implementing transactions involving the disposal of shares in a company with cash on its balance sheet

What do you see as the implications of modernisation for taxpayers either positive or negative?:

2 What improvements in service quality and delivery could be achieved by integrating (elements of) the taxation and welfare administrations?

Please specify::

Are there any risks arising from such integration? :

Chapter 10 - Submit Your Ideas

1 Taking into account the Terms of Reference, submit any other thoughts, ideas or feedback on taxation and welfare in Ireland:

Please outline your views::

Small firms were severely affected by the Covid 19 Pandemic. The state stimulus packages such as the EWSS, the CRSS and the Small Business Assistance Scheme for COVID, and programmes such as tax warehousing was a much-needed lifeline for small business. Now as business reopens the realities of the cost of doing business is as stark as ever, with this continuing to rise at an alarming rate.
A vital dimension of Ireland's competitiveness is its relative attractiveness as a location to start a business, attract expertise and investment to grow into a global company, and create attractive conditions to sell a business and reinvest. As we head towards 2022 the best way to combat unease is to take concrete measures to provide certainty and innovative improvements to the economic regime we have. In the first instance, the Government must deal with the investment and taxation policies which are causing continued concern for Irish indigenous businesses.
Changes to taxation are the most effective measures the Government can make to encourage more people to go into business for themselves. Tax changes can create incentives and mitigate risks, making entrepreneurship attractive. The benefits of a true entrepreneurial culture include job creation, greater levels of innovation, increased tax revenues and more vibrant local economies.
• Reduce CGT to 20% across the board: To make investing in a business in Ireland more attractive. Analysis by the Irish Tax Institute shows that CGT represents only 1% of the Government's tax revenue. In this context there is very little to lose by reducing the rate, and the benefits could be significant. International evidence (from Australia in the early 2000s, for example) as well as Irish data from the last two decades, has demonstrated that when CGT rates are reduced, revenue to the Exchequer increases, as economic activity and investment transactions are stimulated.
• Send a signal of intent to serial entrepreneurs by radically improving the CGT entrepreneurs' relief: Increase the lifetime limit for CGT Entrepreneur Relief to €15 million and broaden the tax relief of the statutory capital gains tax (revised entrepreneur relief) by making third party equity investors eligible.
• Streamline the Tax Appeals process: section 960GA of the Tax Consolidation Act 1997 is unfair and has tipped the balance in the appeals process to the detriment of the taxpayer. If a taxpayer disputes an assessment, they must pay the tax liability in full or face a potential interest liability at annualised rates of 8% or 10% per annum while their appeal is pending. Meanwhile, there is no obligation on Revenue to pay interest in the event of a successful appeal by the taxpayer. In our view, in the interest of fairness in the tax system, section 960GA should be repealed as it penalises taxpayers.
• Allow PAYE Tax Credit for certain company directors while being warehoused: An issue has arisen due to the interaction of warehousing Employer PAYE debts under the Debt Warehousing Scheme with section 997A Taxes Consolidation Act (TCA) 1997 (Credit in respect of tax deducted from emoluments of certain directors) which merits examination due to its unintended consequences for some directors (and employees) who are working in family businesses, where they at present cannot avail of a tax credit while debts are being warehoused. This is an anomaly that is unfair to small family businesses
• Improve the effectiveness of the Employment and Investment Incentive (EII): The Employment and Investment Incentive (EII) scheme is a very important source of
finance for early stage and small businesses that often have limited funding options available to them. Improvements to this scheme can be made by streamlining the administrative process, committing additional resources to dealing with the application procedure, cutting down on wait times and by allowing the offset of capital losses.
• Produce an SME tax roadmap: Good practice in recent years has seen the Department provide roadmaps and feedback statements of great value on the direction of Corporate Taxation both broadly and specifically. Consideration should be given for SME taxation outlining a series of changes over a three-year time period to include changes in CGT, EIIS and other tax measures