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Irish Tax Institute Press Release
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New tax strategy focused on Irish indigenous businesses now needed if Government is to meet the ambitions for exports, innovation and growth

Speaking in advance of the National Economic Dialogue the Irish Tax Institute has said that a sharply focused tax strategy for Irish indigenous businesses is now needed if the Government's ambitions to put "resilience" into the Irish economy" and grow exports are to be met.

In a new 140-page report '*A future tax strategy to grow Irish indigenous exports*' the Institute "analyses the global opportunities and challenges for the Irish indigenous sector and the relevant mismatches in tax policies that are hindering efforts to grasp global trade opportunities and meet the challenges Ireland faces".

The report is set against the backdrop of a series of warnings on external risks from the IMF, the European Commission, the ESRI and the Department of Finance. Amongst them, our high level of dependency on the UK and US markets and our high level of dependency on multinationals. Communications Director, Olivia Buckley said "Ireland is depending on international exports to grow its economy and its tax base and a seismic shift in behaviour is needed if Irish-owned companies are to achieve that growth. Talent, innovation and R&D, capital investment & scaling and market diversification are key to the plan. However, in many important respects, Ireland's tax policies are not matching the needs of the indigenous sector and will not drive the shift in behaviour that is required. If we want higher living standards, a broader tax base and an economy that's resilient to external shocks we cannot afford for this to continue."

Director Cora O'Brien said: "While Ireland's 12.5% corporation tax rate is valued by many Irish businesses, we have a pattern of sustained high rates across a range of other taxes that are critical for growth and we have tax reliefs that are either not available or not accessible to Irish SMEs. It is creating challenges".

Ms. O'Brien said: "Global changes such as the digitisation of the world economy and the rapid growth in services as a share of world trade represent opportunities for Ireland, with its small, open economy. However, we need tax policy and tax administration changes if we are to compete in the global market place. International reports on Ireland are telling us that opportunities will be lost if we don't move to take advantage of them".

In its report the Irish Tax Institute outlined the major factors that will help create the step change in Ireland's export strategy and the respective tax challenges that hindering progress:

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1 Scaling and investment in companies vs high capital gains tax rates and 'lock out' of angel investors from entrepreneur relief

The ambition: The national ambition to "increase the number of our Irish-owned companies of scale by 30%" and bring about "structural changes" across the business landscape.

The tax challenge: Yet Ireland has the fourth highest CGT rate in the OECD at 33% - it is 10 percentage points above the median OECD CGT rate. It is dampening business activity and causing stagnation in terms of the necessary scaling, capital investment, and the buying and selling of businesses that are core to the dynamism that the IMF says is necessary, given the global threats we face.

Ireland's special "entrepreneur relief" reduces the high CGT burden on business sales to a limited degree. However, it locks out third-party investors, including the important "angel investors", who are willing to invest money, experience and industry expertise in ambitious young companies, without being involved in their day-to-day running. Business angel investment in Ireland is low compared to other countries such as the UK, Spain, France, Germany and Sweden. In an economy that faces risks and vulnerabilities, the existence or indeed continuation of such a restrictive policy does not speak to the ambition of Irish businesses seeking to scale and expand.
Irish SMEs are more reliant on bank finance than those in other EU Member States and they need to diversify into other equity sources of finance.

2. Need for highly skilled talent against the backdrop of a skills shortage for Irish SMEs vs High personal taxes, no workable share options regime and no international assignee programme accessible to SMEs

Ambition: Talent is the single factor that shows the differences in prosperity between countries – National Competitiveness Council.

The challenges:
High tax rates are also evident in the personal tax landscape, despite the backdrop of skills shortages globally and in Ireland.
Employees in Ireland have some of the highest effective tax bills in the world as salary levels rise above the average wage. 81% of Irish CEOs now believe that the lack of availability of key skills is a top business threat to growth.

Example: ICT is one of the highest growth sectors for Irish indigenous companies. Exports grew 114% between 2008 and 2015. However, there are over 2,800 ICT-related vacancies listed on TechLifeIreland.com, a national website to attract technology talent into the country. Across the EU, 40% of companies recruiting ICT specialists are reporting problems finding candidates with the required skills, an indicator of the challenges facing high-growth sectors in our economy.
Irish SMEs need the best human capital and talent to build strategic management expertise,

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innovation and R&D capability and to drive export-led expansion. But challenges abound here.

Tax challenge: In addition to having high personal tax rates, Ireland does not have a workable share option regime that allows SMEs to attract and reward highly skilled and hard-found talented employees. SMEs must compete with larger companies for talent, and 38% of them do not believe they can compete with larger companies when trying to recruit the best candidates. A new share option scheme that would help them attract the talent to drive and expand their businesses is vital. Another policy tool for attracting talent from abroad is Ireland's Special Assignee Relief Programme (SARP), but it effectively locks out Irish SMEs because it is available only to assignees working within a multinational group. A new regime focused on SMEs should be considered.

3. R&D and Innovation

Ambition: Innovation is one of the four pillars in a new exporting strategy '*Building Scale, Expanding Reach & Delivering Global Ambition'* announced by Enterprise Ireland in May 2017. It is key to deepening "resilience" in our enterprise base.

Challenge: Only 1% of small firms and 16% of medium firms consider themselves to be R&D active. Older companies are driving the recent increases in R&D activity, but innovation in younger companies has flatlined since 2009.
Overall, R&D expenditure in Ireland still falls some way short of the EU average and well short of countries such as Sweden, Germany and France. It is largely carried out by foreign multinationals. Without the innovation expenditure of the foreign-owned sector, Ireland would be the lowest overall performer in the EU in terms of share of GDP.

The Tax Challenge: Ireland has an attractive R&D tax credit regime, but administration barriers are weighing heavily on its success in terms of the low take-up among SMEs.
Irish Tax Institute research shows that 75% of Irish companies are aware of the R&D tax credit and 20% have availed of it. However, of those that availed of it, 47% said that the process was difficult to prepare for and administer.

Of real concern is the fact that the R&D tax credit regime restricts outsourcing and collaboration, a condition that is at odds with the best-practice models internationally. These models actively promote outsourcing and collaboration with the university sector. We know that such collaboration is critically important to the export-focused modern manufacturing sector, as well as many other businesses in Ireland.

Ireland needs an 'SME' focused campaign and Centre of Excellence within the Revenue Commissioners similar to the extensive and specialised R&D Tax Credit supports available in the UK.

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4. Market Expansion & Diversification

Ambition: Market diversification in light of Ireland's dependency on a small number of markets. Diversification is one of the four pillars in a new exporting strategy '*Building Scale, Expanding Reach & Delivering Global Ambition'* announced by Enterprise Ireland in May 2017.

Challenges:

- As a business expands and begins to export into new markets, it will often want to send an employee to that new market to get the business off the ground there. The Foreign Earnings Deduction (FED) is an income tax relief available to employees who temporarily carry out their duties overseas in specific countries earmarked by the Government as potential export markets.
- The FED is available to Irish-resident employees who work in any of these listed countries for at least 30 qualifying days in a continuous 12-month period. A day can be counted only if the employee spends that whole day working in one of the FED listed countries and that day is one of three consecutive days spent working in that country. After a change in 2014, weekends and travel days from Ireland can now be included to meet the test.
- The amount of relief that can be claimed under the FED depends on the individual's salary and the number of days spent working abroad in FED listed countries in a year. The relief does not apply to USC and PRSI.

Tax Challenge: The Foreign Earnings Deduction (FED) reduces the income tax bill of employees travelling to develop export markets in 30 countries, including the BRICS, some Middle Eastern, South American, Asian and African countries. With Irish companies needing new export markets more than ever, the range of qualifying countries should be reviewed and broadened.

Irish Tax Institute / Behaviour & Attitudes Research

The need for the seismic shift in behaviour is evident in the new research carried out by the Institute amongst Irish companies:

Exporting Behaviour – Focus on home market takes precedence

- 61% of companies export some products or services to some destinations.
- Over half (56%) of companies export some products and services to the UK, while just under half (45%) export some products or services beyond the UK.
- Yet, growing business closer to home is the priority focus for companies and takes precedence over growing new customers in export markets.

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Export Ambitions – those not already exporting do not seem likely to do so in the near future

- Just over half of companies export to the UK – most of those who don't export to the UK do not see themselves exporting any products or services there in the next 18 months.
- The challenges of Brexit seem to be reflected in the fact that exporters to the UK see little growth in the export activity in the future.
- 45% of companies export beyond the UK and two-thirds of them expect their exporting business to be higher in 18 months' time. Of concern, is the fact that almost all companies who don't export beyond the UK at the moment do not see themselves doing so in the next 18 months or so.

R&D Tax Credit and Innovation – half found it difficult to prepare and administer

- 75% of companies surveyed were aware of the R&D tax credit and 20% had claimed it.
- Of those who availed of the R&D tax credit, almost half found it difficult to prepare and administer.
- Only 35% of all companies surveyed intend to avail of the R&D tax credit in the next 18 months.
- Over 60% of companies surveyed would consider using the R&D tax credit if there was more clarity around the criteria for qualification.

ENDS

Read the report in full here: http://bit.ly/ExportsTaxStrategy17
We also have a summary edition available: http://bit.ly/SummaryTaxStrategy17

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