Presentation by the Irish Tax Institute to the Oireachtas Budgetary Oversight Committee
Wednesday, 11 September 2019

Chairman, members of the Committee, thank you for giving us the opportunity to contribute to your work on tax expenditures. As you said in your Report, these measures are an important part of the tax system and the Institute hopes your scrutiny of these reliefs will enhance their operation and evaluation.

In recent years, the Department of Finance has been putting existing tax expenditures out for public consultation. The Institute welcomes this development and we have been enthusiastic participants. A recent consultation to which we contributed was a review of the Special Assignee Relief Programme (SARP), a tax measure on which the Committee is currently focusing its attention.

Special Assignee Relief Programme (SARP)

SARP provides income tax relief to highly skilled executives, who are assigned from overseas by multinational companies to work in their Irish-based operations. Introduced in 2012, it is due to end in 2020. The purpose of SARP is to attract talented, internationally mobile executives to support business expansion and job creation in Ireland.
It has been a critical element of our foreign direct investment (FDI) offering over the last 7 years and has operated very effectively in a range of sectors, such as IT, financial services, pharmaceutical and medical, consumer and industrial products and services. The latest statistics show that almost 800 individuals are availing of the programme.[1]

These are highly paid executives making a significant contribution to the Exchequer and to the economy. Other countries with similar assignee reliefs, such as the Netherlands, Luxembourg, Belgium and Spain, are actively competing for UK business that is expected to seek new locations within the EU following the departure of the UK. Post-Brexit, we can also expect the UK to sharpen its suite of incentives to enhance its capacity to retain and attract global investment.

And overarching all of this, changes to the international tax framework have increased the focus on where multinationals locate their value-added activities and key decision makers in support of their substantive operations.

SARP has enabled multinationals to attract the necessary senior management personnel from parent locations like the US, to help support and sustain substance and value creation in Ireland. SARP has helped generate profitability in the FDI sector following the implementation of BEPS reforms in Ireland and internationally.

We believe SARP should be retained and extended beyond 2020. We also believe consideration should be given to extending the relief to new hires. As members will know, an individual must have worked with the parent company for at least six months before arriving in Ireland to qualify under the current programme. This stipulation was introduced to prevent the risk of job displacement in

[1] Analysis of Special Assignee Relief Programme 2016, Revenue Commissioners, August 2018

the Irish labour market, as SARP could have made it less costly for an employer to hire a foreign-based worker than an Irish worker.

But Ireland is now almost at full employment and significant skill shortages in a number of sectors mean businesses have no option but to recruit from abroad for key specialised roles. To allay concerns about the impact on Irish jobs, new hires could be confined to sectors with acute skill shortages. These skills gaps could be identified with input from the Expert Group on Future Skills Needs. Combining a skills requirement with a minimum salary level could also be considered. But given our tight labour market, the Institute believes it is timely to consider dropping the exclusion of new hires.

Research & Development (R&D) Tax Credit

The Committee has also asked us to comment on the R&D Tax Credit. This measure was first introduced in 2004 and has been updated and improved in the intervening years. Its cost to the State is very significant: €448m in 2017 (€670m in 2016).[2] In our view, regular evaluation is essential to ensure the tax credit is meeting its objectives for our economy.

Innovation plays a central role in driving productivity and fostering competitiveness in economies. And the consensus among international bodies is that governments must support research and development activity because the costs and risks for business are so high, but the benefits for the economy are proven and long term. In Ireland, the competitiveness of our economy depends on innovation.

The Institute recently conducted a survey which found that the R&D Tax Credit was the second most important factor in the decision of companies to base their R&D activity in Ireland, the first being the availability of specialist skilled workers. In addition, all the businesses surveyed reported an increase in staff recruitment as a result of their R&D, with nearly a quarter saying they had hired more than 50 employees.

One aspect of the R&D Tax Credit that has been criticised is its restriction on outsourcing. It flies in the face of international best practice, which promotes collaboration between industry and third level institutions. The exchange of knowledge and ideas is the very essence of innovation. The Institute believes the outsourcing restriction should be removed in line with government policy to foster collaboration between third level institutions and private business.

While the R&D Tax Credit works well for multinationals, who account for almost three quarters of the relief claimed, it has been of limited benefit to Irish companies. Recent research by the ESRI in 2016 found that only 7% of Irish owned companies had invested in innovation and research and development

Our own members say that administrative blockers and the cost of claims are effectively excluding small indigenous companies from claiming the Credit. And, in our recent survey, the majority of respondents who had undertaken R&D but hadn't made a claim, cited anxiety that Revenue might subsequently challenge claims as their main reason for not claiming. Others cited the costs involved in preparing a claim.

[2] Corporation Tax 2018 Payments and 2017 Returns, Revenue Commissioners, p.17.

Asked what measures would help to improve their take up of the credit, the majority said a pre-approval process for first-time R&D Tax Credit claims with simplified documentation, would greatly increase their likelihood of availing of the relief.

Every authoritative advisory body - nationally and internationally- recommends raising productivity in our indigenous businesses, through increased investment in R&D and innovation from the public and the private sector. With Brexit fast approaching our shores, the Institute believes we need an innovation incentive that is tailored for Irish companies, so that they can grow their productivity and compete for new markets in a post Brexit world.

Film Tax Relief

Film Tax relief is available to productions companies on eligible expenditure on qualifying films and is a key factor in attracting projects to Ireland.
The Institute welcomes the move to self-certification following Finance Act 2018.
Clear Revenue guidance is needed to define eligible expenditure that qualifies for film relief. The Institute is actively participating in discussions with Revenue at the Tax Administration Liaison Committee (TALC) to agree such guidance.

Pre-Budget 2020 Submission

Chairman, our Pre-Budget Submission, this year, as in previous years, focussed on the SME sector. We called for:

- a more generous CGT relief for entrepreneurs to make Ireland more competitive with the UK.
- changes to allow highly prized angel investors to avail of the relief.
- changes to make the Employment and Investment Incentive (EII) more effective
- and the Start-Up Relief for Entrepreneurs (SURE) income tax refund scheme to be extended to the self-employed.

We also repeated recommendations on the Key Employee Engagement Programme (KEEP) share scheme. Just 38 employees in 10 companies have availed of KEEP since it was introduced in 2018 to address the urgent matter of key skill shortages in SMEs. These include management skills, which were highlighted by the OECD as a significant constraint on productivity in this sector. A recent consultation paper from the Department of Finance on KEEP largely reflects our recommendations of last year. We are now hopeful they will be enacted in the budget.

Chairman, we welcome the practice of putting existing tax measures out for public consultation and we value the stakeholder events that have taken place as part of the consultation process this year. Discussion is healthy and listening to each other can only be productive.

But, in the meantime, businesses are waiting for change. More consultation at the design stage of tax measures would be helpful. The system needs to be more responsive. There is no point in having measures that are not effective. The resilience of our economy, at a time of growing uncertainty and risk, depends on our SMEs. They need the best support we can give them.

Thank you for your attention. We are happy to answer any questions.