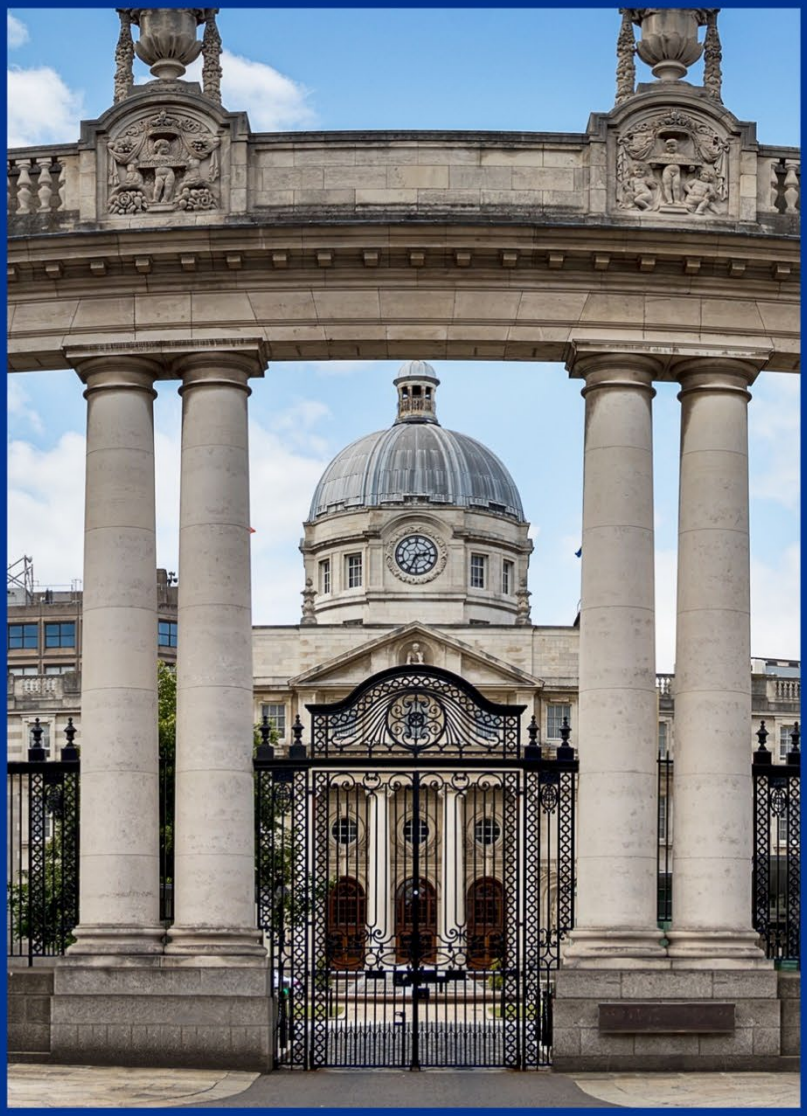
KPMG

Future Enterprise Policy Submission

29 July 2022



Key considerations for Enterprise Policy White Paper

Encouraging and supporting domestic entrepreneurship

A key tenet of Ireland's enterprise policy has to be to support domestic entrepreneurship. Given the uncertain global business landscape, it is more important than ever that indigenous Irish businesses and entrepreneurs are supported.

Entrepreneurs, both domestic and foreign, can and do move location based on the taxation environment. In our view, entrepreneurial investment can be significantly influenced by targeted, pro-growth tax policies including the following:

1. Measures to incentivise the investment of risk capital in SMEs. These include:
    - Enhancing the Employment Investment Incentive Scheme (EIIS)
    - Amending CGT rules to encourage investment in SMEs:
        - Introduction of a 20% rate of CGT for founders, private investors, VCs and other angel investors who invest in SMEs.
        - Enhancement of CGT entrepreneur relief by increasing the lifetime limit to €5 million and allowing passive investors to avail of the relief.
    - Introducing a reduced tax rate for dividends for entrepreneurs who would otherwise qualify for Entrepreneur Relief on a disposal of the underlying shares.
2. Measures to level the playing field for SMEs in attracting and retaining talent by:
    - Reforming the Key Employee Engagement Programme (KEEP).
    - Extending SARP to Irish indigenous businesses.

In addition to the above tax measures, the provision of affordable and accessible childcare is also crucial to supporting domestic entrepreneurship. From a business perspective, expanding our labour force is critical in a growing economy.

Access to funding should also be a key focus of future enterprise policy in Ireland. While the pillar Irish banks are active and offer competitive rates which are comparable to UK/German markets, there is a distinct lack of breadth in the lenders available in the Irish market. In our view, a high yielding solution to this issue lies with enabling cheaper costs of funds via alternative lending platforms. Therefore, providing alternative lenders with lower cost and more permanent capital should be a key focus in Ireland's future enterprise policy.

Limited competition in the market for both venture capital and private equity ("PE") is also a key issue which results in business plans being unfunded, entrepreneurs being under-incentivised and similar term sheets being offered to businesses by venture capital firms participating in Ireland.

Local PE firms are becoming less competitive when compared with other UK/European funders due to the generalist nature of Irish PE funds versus the sector specialist nature of UK/European firms. As this sector-specialist capital becomes less available to Irish business, the ability to scale jobs and expand internationally is hindered and the risk that Irish entrepreneurs sell businesses earlier is heightened. Therefore, focus should be placed on attracting more venture capital funds to Ireland, as well as more specialist private equity funds. For example, a mechanism used in the past for this purpose was the Irish Strategic Investment Fund becoming a limited partner in such funds. Consideration should be given to developing a fund with the sole focus of investing in the highest caliber Irish businesses in order to drive jobs and exports whilst, importantly,

also providing these entrepreneurs with the best possible liquidity options available (such as the proposed amendments to the CGT entrepreneur relief noted above).

Sustainability and the climate agenda

The geopolitical issues that have emerged from the Ukrainian war have brought to the fore the county's overreliance on imported sources of energy and our need for food security.

These issues have emerged at a time when Ireland is striving to meet ambitious targets to limit climate change and achieve a goal of net zero emissions by 2050.

Ensuring that enterprises are powered by renewable energy sources is one of the most important and effective actions that the State can encourage in order to assist them in their decarbonisation journey.

The original Climate Action Plan 2019 included a target that 15% of electricity demand be delivered by renewable energy corporate power purchase agreements ("CPPAs"). Commercial procurement of low carbon solutions by large energy users, including through the use of CPPAs with renewable generators, can reduce risks and save money and carbon for companies, and can also contribute to accelerating decarbonisation and reducing costs for the wider economy.

The level of uptake of CPPAs would increase dramatically if policy was introduced to enable direct private wire connections, including legislation to permit connections from generation assets to corporates oversailing third party lands which is common in many other European countries.

The decarbonisation of enterprise requires investment in new and innovative renewable technologies across all sectors which will require new skills in order to implement the change required. To achieve this, Ireland needs to ensure that our national skills and training mix is sufficient to support businesses in implementing this change – including but not limited to energy efficiency, renewable energy procurement, as well as ensuring enterprises both understand and are positioned to address the broader ESG agenda.

Tax policy can also be a powerful tool to promote sustainable behaviour by businesses and consumers. We recommend tax measures are introduced to encourage sustainable behaviour:

- Mobilise private finance for green investment.
- Incentivise the development and use of green technology.
- Support the adoption of more sustainable farming practices.
- Support investment in sustainable buildings.
- Accelerate the transition to sustainable transport.

We would be happy to elaborate on the mechanics that could achieve the above.

Increased global competition

The OECD BEPS 2.0 Pillar Two GloBE rules will fundamentally reshape the global tax landscape for the world's largest businesses. Ireland, as a small, open economy with a successful history of attracting and retaining substantial operations of many of these businesses, may be impacted by these measures to a greater extent than many other countries.

For Ireland to maintain its competitive position in the global tax landscape, it is necessary that Ireland's enterprise policy, supported by the tax system, continues to attract and retain multi-national business to be based here. In this context, we propose that the following tax measures be considered to make Ireland more attractive for mobile talent:

- Reduce the tax on employment (by capping the income subject to PRSI).
- Enhance SARP by removing the earnings cap, increasing the value of the relief, and extending the period during which non-Irish domiciled employees can avail of SARP and complementary reliefs.
- Simplify the taxation of share-based compensation.

While the availability of the 12.5% rate of corporation tax is an important feature of the Irish tax regime, there are also other tax factors that will influence businesses' decisions to set-up

operations and remain in Ireland, such as the ease and related cost of compliance.

In this regard, a key consideration of future enterprise policy should be introducing tax measures to simplify the tax regime to make it easier and less costly to conduct business in Ireland. Such tax measures may includes:

- Simplify the corporation tax regime by:
  - Adopting a territorial regime
  - Introducing a foreign dividend participation exemption and a foreign branch exemption
  - Applying the 12.5% tax rate to gains arising on the disposal of trading assets
- Adopt the minimum standard in transposing the Public Country-by-Country Reporting Directive
- Establish an Office of Tax Simplification.
- Remove obsolete tax measures.

Measures to counteract inflation

Rising inflation has and will continue to hinder the ability of businesses to provide employment and contribute to the general prosperity of the country. In particular, inflation poses a significant challenge for many businesses who are unable to pass on the full cost of inflation to their customers. Even for those that can, such price increases will only prompt further inflation.

The tax regime has a role to play in helping to shield individuals and businesses from the full impact of rising inflation. We therefore recommend that a statutory mechanism be introduced to provide for an automatic increase in tax reliefs, bands and credits. By maintaining the "real" value of tax reliefs, bands and credits, businesses will be under less pressure to deliver pay increases to both attract and retain talent.

More broadly, the fiscal drag caused by inflation should be reversed by reintroducing indexation for capital gains tax purposes and increasing tax thresholds and exemptions to take account of inflation.

It is important that the costing of tax expenditures takes into account the broader impact on the economy to facilitate informed tax policy decision-making by the Government.

In addition to the above tax measures, the following options should also be considered by government to relieve inflationary pressure and mitigate wage spirals:

- Widen the scope and eligibility of the HSE GP visit card.
- Increase universal childcare subsidy.
- Make reductions to public transport fares permanent. In addition, the feasibility of free public transport at commuting times should be explored.
- Energy bills scheme whereby a credit is provided to businesses facing high energy costs, to be paid back over 5 years (similar in UK).
- Inflation-crisis loan scheme whereby low interest rates are provided for businesses to support them through the current period.

Housing and Infrastructure

Housing

The housing crisis continues to be a defining challenge for the country, as it continues to adversely impact Irish communities and those living here. In addition, the availability of appropriate and adequate accommodation for mobile talent is an extremely important non-tax factor which affects the attractiveness of a location for businesses. In this regard, the following tax policy measures, which are aimed at increasing the supply of houses and reducing the cost of housing for people living here, should be considered:

- The VAT cost associated with the supply of housing be reduced.
- Various reliefs (indexation relief and CGT rollover relief) be re-introduced and reinstated to incentivise the use of land for residential purposes.
- The taxation of professional landlords be reformed to give Irish property investors a platform to participate in the Irish market, to help drive supply.

- Section 83D SDCA 1999 which provides for a repayment of stamp duty on land used for residential purposes should be extended beyond the end of 2022. In addition, the time allowed under that provision for the completion of residential units should be lengthened in recognition of resource constraints in the construction industry.
- The Help to Buy scheme should be extended beyond 31 December 2022.

Infrastructure

Continued investment in our national infrastructure is of pivotal importance to our future Enterprise Policy. As well as being required in order to ensure our attractiveness as a place of doing business, infrastructure spend can also act as a counter cyclical hedge.

We must give contractors clear visibility on the pipeline of infrastructure projects to allow them to plan ahead and assume the risk of taking on new resources in a scarce labour market.

One of the cornerstones of Ireland's success in attracting investment has been the effective marketing of Ireland abroad. This must also be prioritised from an infrastructure perspective, as the marketplace for infrastructure capability in respect of large, complex and capital-intensive projects is global.

In addition to the provision of national broadband to rural Ireland, workable and livable towns and cities are crucial to ensure that the regions are attractive to the mobile entrepreneurs who create businesses.

Our National Planning Framework ("NPF"), Ireland 2040, speaks of the importance of:

- Identifying locations where enterprises can access competitively priced development lands, utilities and commercial properties to the highest standards available internationally; and
- A holistic consideration of locations for new enterprises, based on the extent to which they are people intensive (i.e. employees/markets), space extensive (i.e. land), reliant on resources, dependent on the availability of different types of infrastructure, or dependent on skills availability.

Therefore, reforms in the Irish planning system must forward plan and facilitate the efficient realisation of this ambition for enterprise, thereby accommodating strategic employment growth at regional, metropolitan and local level.

General comment on costing of tax expenditures

This submission makes recommendations in relation to a number of tax expenditures.

Currently, the costing of tax expenditures is estimated based on the tax foregone[1]. This method of costing and reviewing the impact of tax expenditures does not take into consideration the behavioural changes associated with these tax expenditures i.e., this costing and review process uses static, rather than dynamic, modelling.

We believe that using a dynamic model which takes into account these behavioural changes would provide a better picture of the impact of tax expenditures to the Irish economy and provide the Government with valuable information needed to make informed tax policy decisions.

[1] Cost of Tax Expenditures as prepared by Revenue: https://www.revenue.ie/en/corporate/documents/statistics/tax-expenditures/costs-tax-expendituresnotes.pdf

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