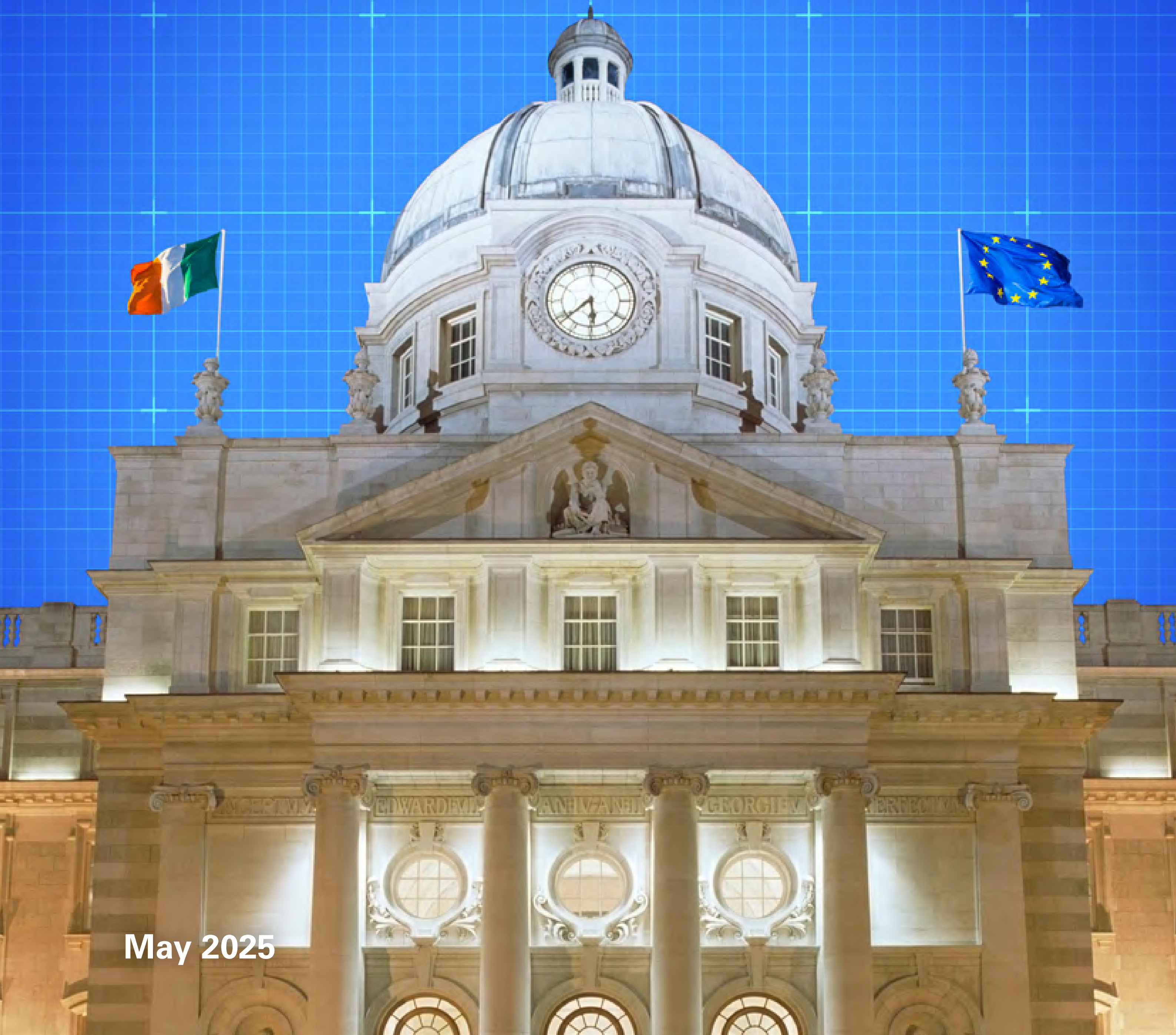
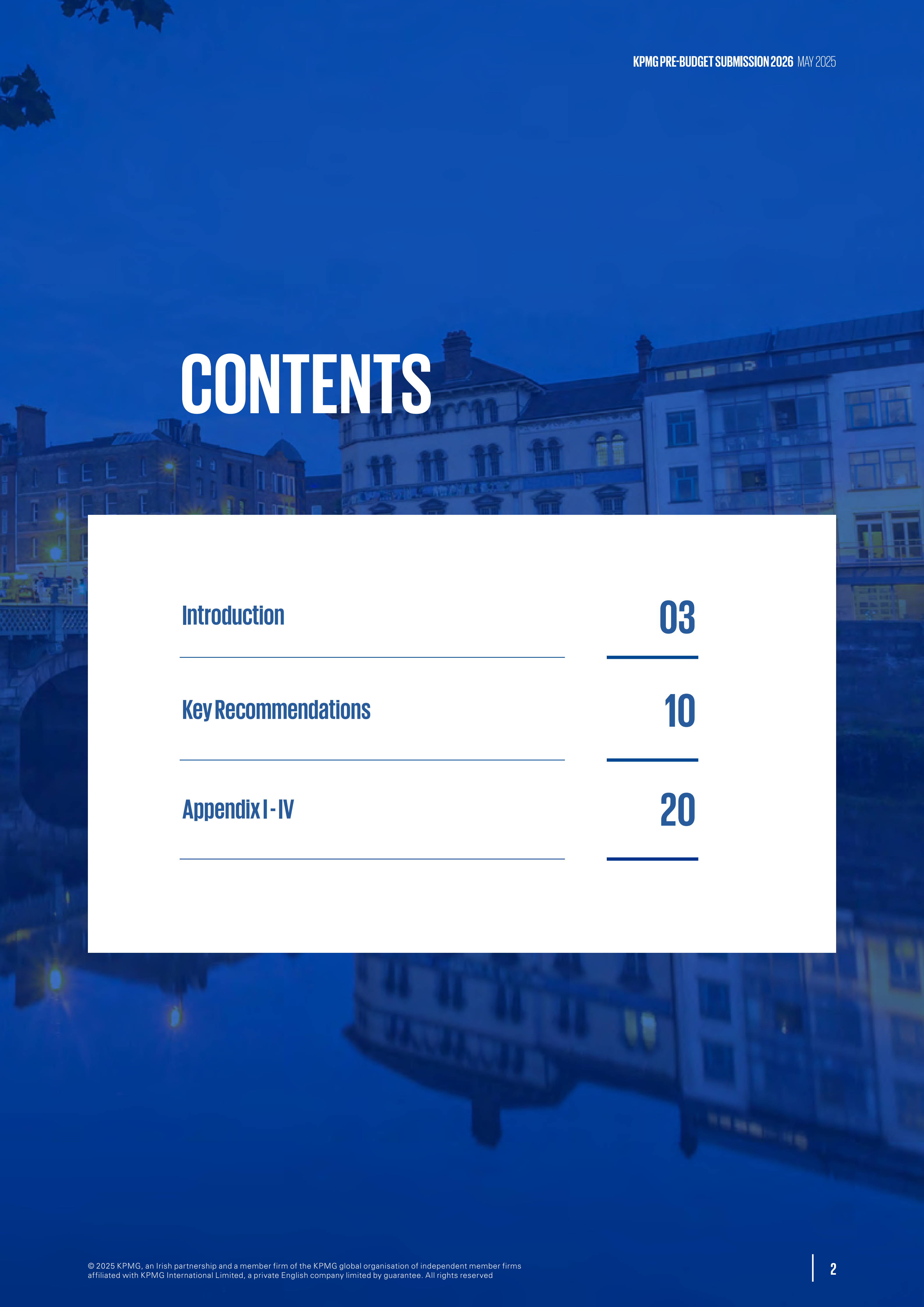
Pre-Budget 2026 Submission

Charting Ireland's future in a changing world: Competitiveness, Innovation, and Resilience



May 2025



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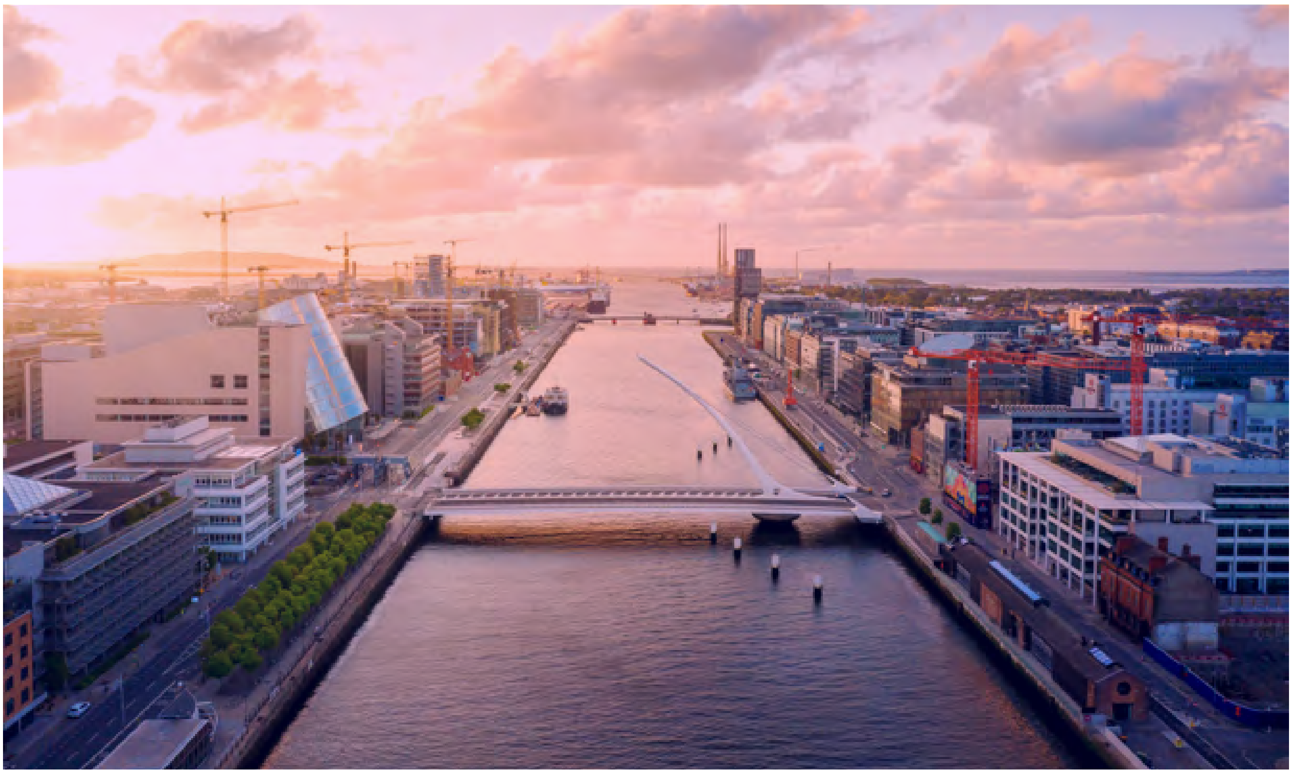
Introduction

Ireland stands at a pivotal juncture, facing a rapidly changing geopolitical and tax landscape. This rapidly evolving global landscape presents both challenges and opportunities for our country which will demand a careful strategic response. As we navigate this new environment, it will be essential to reinforce Ireland's position as a premier destination for business.

Over recent years, Ireland's competitive edge has been underpinned by its favourable corporate tax regime, skilled workforce, and strategic location within the EU. Recent geopolitical tensions and global tax reform are reshaping the international playing field and Ireland must adapt its tax policy to maintain and enhance its global position. Removal of unnecessary complexity from our tax regime and reducing the cost of doing business are necessary steps in that direction.

As a small open economy, with a successful history of attracting and retaining businesses with global operations, Ireland may be impacted by the ongoing economic uncertainties to a greater extent than other countries. Therefore, it will be crucial that Ireland's interests are appropriately represented in the formation of any EU response to the US trade tariffs and concerns regarding the BEPS project. Unlike many other EU countries, Ireland's economy is heavily reliant on trade with the US, particularly in sectors like pharmaceuticals and technology. While other EU countries might be indifferent to certain options available in these negotiations, the choices made could have profound implications for Ireland's economic future. Ireland will need to have a strong voice to safeguard its position.

These uncertainties re-emphasise the need to cultivate a resilient domestic economy. Ireland must match its ambition and success in the FDI sector with a dynamic and successful domestic SME sector. Ireland must also encourage innovation to sustain long-term economic growth and development. By fostering a culture of innovation, Ireland can stay ahead of its competitor jurisdictions. This will involve not only investing in technological advancements and talent but also rewarding entrepreneurial risk appropriately.



Key recommendations:

Enhance Ireland's competitiveness

Reduce the administrative burden and cost of doing business in Ireland by simplifying the tax code, introducing a territorial regime and reducing compliance costs

Position Ireland as an innovation hub

Increase the general R&D Tax Credit to 35% and introduce a 50% R&D Tax Credit for innovation in green technologies. Incentivise top researchers to relocate to Ireland

Reduce the cost of employment

Increase the entry point to the marginal income tax rate to align with the average wage. Cap the amount of income subject to PRSI to €75,000 for employees' PRSI and €100,000 for employers' PRSI

Stimulate growth in SMEs

Improve access to finance by enhancing and simplifying EIIS and introducing measures to encourage individuals to invest in domestic enterprises.

Enhance the CGT regime to encourage investment and reward entrepreneurial risk.

Introduce a tax incentive for recruiting top tech talent to Ireland, extend KEEP beyond 2025 and SARP to Irish indigenous businesses

Incentives for employer developed accommodation

Incentivise employers to develop employee accommodation and allow a corresponding BIK exemption where the employee earns less than €50,000

Safeguard Ireland's interests at an EU/OECD level

It will be crucial that Ireland's interests are appropriately represented in the formation of any EU response to the US concerns on BEPS and the US trade tariffs

Re-introduce "Section 23" style relief

A controlled and targeted relief would encourage conversion of commercial properties for residential use and incentivise individuals to finance the development of new residential units for letting

Encourage sustainable behaviour

Introduce a super deduction for expenditure on green technology and buildings.

Increase the tax-free lump sum payable on retirement where some or all of the lump sum is derived from approved ESG funds

In this submission, we have also made a broad range of other recommendations for inclusion in Budget 2026 and Finance Bill 2025, focused on the areas set out below. These recommendations are summarised on pages 10 to 17 with further detail set out in the Appendices.

Maintaining Ireland's competitive edge

Ireland's success over the last few decades can be attributed, in significant measure, to the focused execution of a coherent purpose driven tax policy. However, recent geopolitical tensions have created uncertainty.

As a small open economy, that has been successful in attracting FDI, Ireland is disproportionately exposed to any EU/OECD response to the concerns raised by the US with respect to the operation of the BEPS Pillar Two rules and international trade. We are exposed both to the risk of no solution being found, resulting in potential US retaliatory actions, and the risk that a solution is implemented that is unfavourable to our national interests.

We strongly support the Government proactively advocating for Ireland's interests at an EU and OECD level in the formation of any response to the US concerns on BEPS and the US trade tariffs. Our interests may not be aligned with those of other EU countries that are less dependent on international trade or have other priorities. It will therefore be important that we have a strong voice.

Ireland should also continue to actively participate and take a leadership role in the EU's simplification agenda. Successful execution of that agenda will reduce the administrative burden faced by businesses, enhance competitiveness, and support growth and innovation.

The ongoing uncertainties in the international tax landscape underscores the need for Ireland to ensure that the other parts of its value offerings, such as the R&D Tax Credit, are enhanced to ensure that they are best-in-class.

It is also critical that the cost of doing business in Ireland is minimised and that the administrative burden on businesses is low. We would like to see steps taken to streamline the corporation tax regime through the removal of obsolete tax measures, the simplification of tax forms, the introduction of the ability to file a group return and the adoption of a territorial regime.

Supporting enterprise and the green transition

The contribution of FDI to the Irish economy cannot be overstated. However, the development of a dynamic and successful domestic SME sector has never been more important. SMEs and family businesses are the bedrock of the Irish economy, accounting for 68% of private sector employment.

We welcome the commitment made in the Programme for Government to make Ireland the most supportive environment for indigenous businesses and the most attractive location for start-ups. Access to risk finance and talent are significant constraints for SMEs and entrepreneurs in building businesses of scale. Incentivising and supporting domestic entrepreneurship must be a key focus for Irish tax policy, both as a means of stimulating economic growth and also to maintain Ireland's reputation as an international hub for innovation and collaboration.

Domestic businesses and the FDI sector require high performing employees for their businesses to thrive. Ireland has made a virtue of having available a deep pool of highly skilled workers with an excellent work ethic. We have made several recommendations that we believe would assist companies in recruiting and retaining highly skilled individuals.

Tax policy can promote sustainable behaviour. As Ireland works to limit climate change and achieve ambitious emissions goals, it is crucial to use all available tools. We have identified tax measures which we believe should be introduced to mobilise private finance for green investment and incentivise the development and use of green technology and transport.

In addition, supports for investments that create supply and reduce demand on our energy infrastructure are also important. Concerns in relation to our energy capacity are adversely impacting investment decisions.

Housing

Ireland's housing crisis continues to pose significant challenges both for Irish society and the business community. Affordability issues and a limited supply of suitable residential homes continue to be a pressing issue for many.

The shortage of affordable housing is contributing to a demographic shift, with an increased number of skilled young people feeling the need to emigrate. This will impact Ireland's ability to maintain a competitive and highly skilled workforce.

The lack of availability of accommodation at affordable prices also adversely impacts the attractiveness of the country as an investment location. Our housing crisis may well become the primary factor which will prevent certain workers and businesses from locating here or attracting talent to move to Ireland.

In this submission, we outline several proposals aimed at encouraging investment in residential development. We also suggest measures to increase supply, address affordability issues, and support the rental sector.

Maintaining Ireland's competitive edge

Ireland's competitive edge has been underpinned by its favourable corporate tax regime, skilled workforce, and strategic location within the EU. However, recent global tax reforms have reshaped the international tax environment. It is now more important than ever that we refocus on ensuring that the other features (beyond the 12.5% tax rate) that make Ireland attractive for investment are best-in-class. These features will become more significant and influential for future investment decisions.

In this submission, we have proposed measures to simplify the tax system with a view to making it more efficient to conduct business in Ireland.

We have also proposed enhancements to the corporation tax and personal tax regimes to help maintain Ireland's position as a location of choice for businesses and highly skilled individuals.

Simplification of Ireland's Tax Code

The implementation of the measures under the OECD BEPS Action Plan and Pillar One and Pillar Two projects added significant complexity to the Irish corporation tax rules. At the same time, those initiatives have led to the availability of the 12.5% rate of corporation tax becoming less valuable as a point of differentiation.

It is therefore very important that every effort be taken to enhance our general offering to businesses. In particular, we need to streamline and simplify the Irish corporation tax system to maintain Ireland's attractiveness as a location of choice for global businesses.

Going forward, it will be crucial that Ireland remains agile and ready to take the necessary steps to protect its attractiveness as a location of choice.

We have identified several steps which we believe should be taken to remove redundancy and cut complexity in the tax code:

- Remove obsolete measures. In particular, we would welcome a substantial simplification of the interest rules as a response to the recent interest consultation
- Establish an Office of Tax Simplification
- Remove unnecessary complexity from tax forms – for example, 43 pages have been added to the corporation tax return over the last 12 years
- Improve taxpayer certainty. For example, the UK is considering the introduction of pre-clearances for large / complex transactions
- Enhance the participation exemption for foreign dividends by extending its geographical scope and making the other simplifications set out in Appendix I
- Introduce a foreign branch exemption
- Simplify the operation of the foreign tax credit rules in Schedule 24, TCA 1997
- Remove Section 840A, TCA 1997 in its entirety, should that not be possible, the exclusions in Section 840A should be broadened
- Amend the recently introduced rules for financing companies in Section 76E, TCA 1997 to ensure the rules operate as intended
- Simplify the taxation of the funds sector in line with our recommendations to the funds review consultation, set out in Appendix I
- Apply the 12.5% tax rate to capital gains arising on the disposal of assets used or held for a trade
- Introduce an option for corporate groups to file consolidated corporation tax returns

- Extend the Dividend Withholding Tax (DWT) treatment applied to American depositary receipts (ADRs) under Section 172F(3)(d), TCA 1997 to shares held via the Depository Trust Company (DTC)
- Amend Section 138, TCA 1997 dealing with preference dividends in line with our recommendations set out in Appendix I
- Simplify the corporation tax and VAT compliance process for SMEs
- Disapply Ireland's transfer pricing regime for transactions between domestic taxpayers
- Continue to exempt SMEs from transfer pricing
- Remove the 1% stamp duty on share transfers
- Reform the taxation of personal investments
- Improve the fairness of the tax appeal process
- Introduce an alternative mediation process for tax disputes

Additional details on these recommendations are contained in Appendix I.

Position Ireland as an innovation hub

As outlined earlier, Ireland must adapt its corporation tax regime to maintain and enhance its ability to attract global businesses. In this regard, the R&D Tax Credit (RDTC) should be a key area of focus.

Ensuring Ireland's incentive offerings are best-in-class should encourage global businesses to establish substantial operations here with a highly skilled workforce. This, in turn, would create a knowledge spillover to Irish indigenous businesses and should also create a positive feedback loop when seeking to attract further operations here.

There are a number of steps which should be taken to achieve this goal:

- Improve the RDTC by increasing the rate of relief to 35%, and 50% in the case of green technologies. Furthermore, the range of qualifying fields should be expanded to take account of artificial intelligence, blockchain and other emerging areas
- Introduce a tax incentive to encourage recruitment of top researchers from abroad
- Allow greater flexibility in respect of capital allowance claims
- Restructure the Knowledge Development Box (KDB) as a refundable tax credit to be compatible with BEPS Pillar Two
- In line with the European Chips Act, increase support for businesses in the semiconductor industry

Additional details on these recommendations are contained in Appendix I.

Enhancements to the personal tax regime

Tax policy can play a crucial role in attracting highly skilled individuals, especially in an era where professionals are increasingly seeking flexibility and opportunities for growth.

In a post-BEPS 2.0 environment, Ireland's attractiveness for foreign investment will be impacted by our ability to attract and retain talent and executives from across the globe. As a result, our success at attracting business will be closely tied with how successful we are in attracting individuals to relocate and work here. Therefore, we need a personal tax regime which compares favourably to our competitors.

We have made a number of recommendations to enhance the attractiveness of the regime:

- Reduce tax on employment by:
  - Increasing the entry point to the marginal income tax rate
  - Capping the amount of income subject to PRSI
- Simplify the taxation of share-based remuneration
- Reform the taxation of carried interest in Ireland to apply the 15% tax rate to a broader range of scenarios
- Enhance tax relief for personal pension provision, as set out in Appendix I
- Enhance and extend the Special Assignee relief Programme (SARP) regime
- Extend the Foreign Earnings Deduction (FED) beyond the end of 2025
- Address the anomaly in the definition of "employer limit" in the BIK exemption for employer contributions to Personal Retirement Savings Account (PRSA) and Pan-European Pension Product (PEPPs) to include share-based remuneration
- Introduce a single pay and file date for CGT to reduce unnecessary administrative burden

Additional details on these recommendations are contained in Appendix I.

Encourage a greater level of philanthropic activity

Philanthropic organisations can, and do, fill funding gaps in areas that the State is unable to fill for various reasons, including budgetary constraints. Some of these areas include, research and development, higher education and health, which have a positive impact on economic growth. Given the capacity for philanthropic activity to have a significant impact, it is important that meaningful steps are taken to put a framework, including tax legislation, in place to support the establishment of more philanthropic organisations in Ireland. In this regard, we recommend:

- Introduction of a tax relief for donations made out of capital gains
- Allow beneficiaries to redirect inheritances to approved bodies on a tax-free basis
- Clarify the treatment of in-kind donations under S848A

Additional details on these recommendations are contained in Appendix I.

> **Our success at attracting business will be closely tied with how successful we are in attracting individuals to relocate and work here**

Housing

Ireland's ongoing housing crisis creates substantial challenges for Irish society and business, and its timely resolution is a matter of the utmost importance.

While we welcome the reported decrease in the residential property vacancy rate and the increase in the number of residential buildings under construction, it remains critically important that Ireland pursues a housing policy that will meet the housing needs of its citizens and not discourage investors and skilled workers from locating here.

In this submission, we have proposed measures to help with affordability issues, increase supply and support the rental sector.

Measures to help with affordability

The purchase of a home remains unaffordable and out of reach for many. The ESRI noted in July 2023 that the gap in home-ownership rates in Ireland between those aged over 40 and those aged under 40 is one of the largest in Western Europe. In 2005, the average age of a first-time home buyer was 29. By 2024, it had increased to 37[1]. In addition, the average house price for Q1 2025 was 11.6% higher than the previous year.

This affordability challenge is not confined to home ownership. In Q4 of 2024, average rents in new tenancies increased nationally by 6.4% year-on-year[2].

As a result, we believe that the following additional tax measures are required to make housing more affordable:

- Extend mortgage interest relief to the 2025 and 2026 tax years
- Remove or defer the rent credit sunset at the end of 2025
- Introduce a BIK exemption for employer provided accommodation for staff with income of less than €50,000

Additional details on these recommendations are contained in Appendix II.

1 https://www.cso.ie/en/csolatestnews/featurearticles/2024/whatthestatisticstellusaboutyoungpeoplesexperienceoflivingathomewiththeirparents/

2 RTB_Rent_Index_Q3_2024_Final.pdf

3 Ireland Living Sectors Market Report 2025 - Knight Frank - https://www.knightfrank.ie/

> It remains critically important that Ireland pursues a housing policy that will meet the housing needs of its citizens and not discourage investors and skilled workers from locating here

Measures to increase supply

Constraints in the supply of residential property have fuelled the housing crisis. Recent research by Knight Frank[3] suggests that 61,500 new homes will be required each year to 2030 to meet demand. This number far exceeds the 30,330 units that commenced construction during 2024.

We have suggested below a range of measures aimed at encouraging landowners to undertake residential development projects and/or release land to others who will:

- Introduce tax relief for residential accommodation constructed by employers and rented to employees
- Reform Section 83D SDCA 1999
- Permit developments subject to forward funding arrangements to qualify for the 12.5% tax rate
- Reform and reinstate CGT rollover relief
- Reform Residential Zoned Land Tax (RZLT)
- Amend the interest limitation rules to address the treatment of capitalised interest
- Support apprenticeships and training in the construction sector

Additional details on these recommendations are contained in Appendix II.

Measures to support the rental market

The challenges in the housing market extend to the rental sector where there is a lack of properties available for rent, with many landlords choosing to exit the sector. According to the Daft.ie Rental Price Report for Q4 2024, in February 2025, across the country, there were fewer than 2,300 homes available to rent – down almost 60% on the late 2010s average[4]. In addition, average rents increased by 5.7% nationally last year[5]. Our recommendations to help the rental market include:

- Reform the taxation of rental income
- Eliminate the close company surcharge for active residential landlords
- Extend CAT Business Property Relief (BPR) to active property rental businesses
- Extend the share buyback provisions to rental businesses
- Reintroduce a controlled and targeted Section 23 style relief with appropriate safeguards with respect to the size, type, quality and location of property which would qualify. It should be a straight forward matter to implement robust safeguards to avoid reoccurrence of the issues that arose with the relief when it was last in place

Additional details on these recommendations are contained in Appendix II.

4 Irish Rental Report Q4 2024 | Daft.ie - https://ww1.daft.ie/
5 2024-Q4-rentalprice-daftreport.pdf

Supporting Enterprise and the Green Transition

Encouraging and supporting domestic entrepreneurship should be a key focus of Irish tax policy. The adoption of targeted pro-growth tax policies would assist domestic enterprises to scale and grow, thereby fostering growth in the economy.

Ireland should complement that approach with tax policies focused on the reduction of our carbon footprint. This should have the added benefit of making Ireland an attractive location for businesses and individuals striving to improve their carbon profiles.

It is also vital that Ireland in the years ahead matches its ambition for continued FDI expansion with a focus on strengthening the domestic enterprise sector.

Developing a vibrant and dynamic domestic enterprise sector and achieving Ireland's climate goals through the development of green technologies should help Ireland cultivate a resilient domestic economy that can better absorb the impact of any shocks from current and future geopolitical uncertainties.

We have proposed measures below to support domestic entrepreneurship, promote employment, reduce the compliance burden for business and encourage sustainable behaviour.

Supporting domestic entrepreneurship

Increasing challenges in the international tax landscape serve to highlight the importance of having a strong and vibrant indigenous sector.

One of the barriers to SMEs scaling their businesses is access to finance, particularly risk finance. Incentives have been introduced over the years to assist SMEs in this regard. However, there is more that can be done:

- Enhance and simplify the Employment Investment Incentive Scheme (EIIS) to increase its uptake
- Remove the 3% USC surcharge on self-employed individuals
- Introduce changes to Ireland's CGT rules to encourage investment in SMEs by:
    - Amending the new relief for angel investment in innovative enterprises to align the rules with commercial structures typically used by SMEs
    - Introducing CGT rollover relief for investments in innovative enterprises
    - Enhancing CGT Revised Entrepreneur Relief
- Limit taxation of dividends paid by active SMEs
- Enhance CGT retirement relief by:
    - introducing a tapering of the clawback that arises after year 6;
    - allowing for subsequent inter-generational transfers during the 12-year retention period, and
    - amending the CAT/CGT credit offset provisions in circumstances where there is a clawback of the deferred CGT outside the normal time limit for making tax refund claims.

Additional details on these recommendations are contained in Appendix III.

Promoting employment

Domestic businesses and the FDI sector require the services of high performing employees for their businesses to thrive. Ireland must continue to retain and attract these critical workers.

Irish domestic firms need to be supported in recruiting and retaining highly skilled employees and Ireland's income tax system must continue to encourage individuals to upskill and reskill. In this regard, we recommend:

- Reform of the key employee engagement programme (KEEP) and extend the scheme beyond its sunset of 31 December 2025
- Extension of SARP to Irish indigenous businesses
- A transition to monthly reporting for Enhanced Reporting Requirements (ERR)
- Introduction of a tax incentive to encourage recruitment of top tech talent in Ireland

Additional details on these recommendations are contained in Appendix III.

Supporting the Green Transition

Ireland has set itself ambitious climate goals which will undoubtedly present challenges and opportunities for individuals, communities, and businesses. While the achievement of these targets is imperative to combat climate change, it also presents an opportunity to foster innovation, making Ireland a more attractive location for businesses and individuals striving to reduce their carbon profiles. By incentivising the development of cutting-edge technologies and sustainable practices, Ireland can lead the way in green innovation.

We have set out some measures which we believe should be introduced to encourage sustainable behaviour.

Mobilise private finance for green investment

There is an opportunity for Ireland to become a global hub for climate innovation by providing incentives and support for innovators and investors in the green economy. One of the primary challenges encountered by early-stage and growing enterprises is securing risk capital. To address this, we propose the following measures:

- Increase the tax-free lump sum payable on retirement where some or all of the lump sum is derived from approved ESG funds
- Attract senior ESG fund managers to locate in Ireland by broadening the relief for carried interest provided for in Section 541C, TCA 1997
- Reintroduce relief under Section 486B, TCA 1997
- Introduce a tax exemption for interest earned by individuals on "green" bonds
- Enhance EIIS and CGT Entrepreneur Relief for investments in green economy enterprises

Additional details on these recommendations are contained in Appendix III.

Incentivise the development and use of green technology

Irish tax policy should promote innovation in green technologies to meet climate targets, aiming to establish Ireland as an international hub for R&D activities in the areas of sustainability and carbon emissions reduction. To date, Ireland has failed to attract substantial research investment in these areas. The measures which we propose are as follows:

- Introduce a super deduction for expenditure on green technology and green buildings and/or provide grants to assist in the purchase of green technology
- Increase the RDTC rate to 50% for R&D carried out on green technologies
- Extend the qualifying period for pre-trading expenses in Section 82, TCA 1997
- Allow the deduction of debt issuance costs where the debt term extends beyond 12 years
- Simplify the RCT rules for non-resident subcontractors

Additional details on these recommendations are contained in Appendix III.

Supporting green agriculture

The agriculture sector presents some of the biggest challenges and opportunities for climate action in Ireland, with the sector accounting for 37.8% of Ireland's greenhouse gas emissions according to the Environmental Protection Agency (EPA). Irish farmers (particularly those nearing retirement) should be supported where they decide to adapt their businesses and land in ways that contribute to Ireland's sustainability goals. Measures that merit consideration include:

- Enhancements to CGT retirement relief to ensure relief remains available in circumstances where a farmer makes their land available to deliver renewable energy
- Removal of the restriction on the proportion of agricultural land on which solar panels can be installed while remaining eligible for CAT agricultural relief

Additional details on these recommendations are contained in Appendix III.

Accelerate the transition to sustainable transport

Fuel combustion emissions from transport accounted for 21.4% of total greenhouse gas emissions in 2023, with the sector experiencing its largest emission increase in 2023[6]. As such, reducing emissions in this area will be key to achieving the Ireland's broader climate goals. In this regard, we propose the following:

- Introduce a partial income tax credit for EV charging costs
- Applying a reduced rate of VAT to bicycles and electric bicycles as allowed under the new VAT Directive approved in April 2022
- Delay the phasing out of the BIK exemption on electric vehicles to 2030

Additional details on these recommendations are contained in Appendix III.

6 Latest emissions data | Environmental Protection Agency - https://www.epa.ie/

Development of tax policy

We appreciate the opportunities to engage with the Department of Finance, via our responses to public consultations on a number of important tax policy matters over the past year. However, most tax legislation remains unavailable for public comment prior to its initiation in the Dáil. While we acknowledge that it is not practicable to engage in a pre-legislative consultation process in all cases, appropriate time should be built into the legislative process to allow an opportunity for taxpayers to provide meaningful input.

Public consultations

We welcome the expanded use of public consultations by the Department of Finance with respect to various tax matters. These consultations are an important mechanism for ensuring that newly implemented tax measures operate in the manner intended, with improved ease of application for taxpayers and practitioners as a result. However, most tax legislation remains unavailable for public comment prior to its initiation in the Dáil. In addition, the window between the publication date of the Bill and the deadline for submission of proposed technical amendments for consideration at Committee and Report Stages is far too short. It is important that appropriate time is built into the legislative process to allow an opportunity for taxpayers to provide meaningful input, fostering transparency and greater certainty for taxpayers.

Dynamic modelling

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.

Currently, the costing of tax expenditures is estimated based on the tax foregone. 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 on the Irish economy and provide the Government with valuable information needed to make informed tax policy decisions. There are several ways in which one could do this. One could look at changes in a narrow sense, such as only looking at the behavioural changes of those directly affected by the taxation law change, or one could look more broadly at all the changes in the economy resulting from the taxation law change.

For example, SARP is intended to attract employees and businesses of substance to Ireland which may not otherwise have arisen without the regime. To apply a static analysis in determining the value of the relief would be to entirely ignore that some of the individuals availing of the relief would not have come to Ireland without the regime, the additional allocation of profits to their Irish employer as a result of their employment in Ireland, the Irish jobs created by the individuals, the income tax collected as a result of these employments and the increase in Exchequer income tax, PRSI and VAT yields and so on. Ignoring the broad and dynamic impact of tax expenditures runs the risk of one completely underestimating the benefits of the expenditure.

Similarly, the myriad of benefits arising from our R&D tax credit regime, both in terms of attracting and retaining valuable R&D investment in Ireland, as well as promoting innovation in businesses based in Ireland, may not be captured in a review of the regime using just static modelling. Rather, any meaningful review of the regime would need to include dynamic modelling in order to reflect the substantial benefits delivered to the broader economy under the relief with higher skilled jobs and the opportunity to attract new projects and create new businesses, including any related downstream manufacturing and supply businesses, with resultant increases in corporate, income and consumption taxes.

Appendix I:
Maintaining Ireland's competitive edge

Simplification of Ireland's Tax Code

Remove obsolete measures

The Irish tax code has undergone significant change over the last number of years arising from the implementation of the measures under BEPS and the EU Anti-Tax Avoidance Directive. This has rendered many tax provisions unnecessary or obsolete.

It is important that the Irish tax code is free from undue complexity to safeguard Ireland's attractiveness as a location for investment. Early progress in simplifying the tax code could result in a significant competitive advantage for Ireland, as the EU works to declutter its direct tax rules.

An area where significant simplification is needed is in respect of the extraordinarily complex interest deductibility rules. In this regard, we welcome the recent consultation on the tax treatment of interest in Ireland. In our January 2025 response[7] we have made extensive recommendations aimed at simplifying the tax treatment of interest:

- Apply the 12.5% rate of corporation tax to passive interest income
- Simplify the treatment of interest income ancillary to a trade
- Retain but substantially simplify and streamline the relief afforded for interest as a charge on income under Section 247, TCA 1997. In addition, the recovery of capital rules in Section 249, TCA 1997 require significant simplification
- Remove the cliff-edge effect when applying the de minimis exception under the Interest Limitation Rules (ILR)
- Remove Section 840A, TCA 1997 in its entirety, should that not be possible, Section 840A(7), which requires the lender to be "solely" engaged in on-lending to that borrower is unworkable and needs to be broadened. An additional exclusion should also be provided where the connected lender carries on a business which includes the lending of money

It is important that legislation to simplify the interest deductibility rules is introduced in Finance Act 2025, or 2026, at the latest.

Further detail can be found in our submission to the Department of Finance.

Establish an Office of Tax Simplification

It is essential for both FDI and indigenous business that Ireland is a leader in maintaining a simple, clear and efficient tax system.

We welcome the establishment of the Business Tax Stakeholder Forum (BTSF), which allows stakeholders to engage with the Department of Finance on direct taxation matters. However, there is a need to establish a body with a specific remit to consider how the Irish tax code can be simplified.

We propose the establishment of a broader Office of Tax Simplification that would consider other areas of the tax code that require simplification. The UK's Office of Tax Simplification streamlined areas such as inheritance tax; employee benefits and expenses; CGT; and everyday tax for small businesses.

Improve taxpayer certainty

The implementation BEPS Action Plan and BEPS Pillar One and Pillar Two have added complexity to the Irish corporation tax rules. This has increased the administrative and compliance costs for corporate taxpayers. In a global tax environment where the implementation of Pillar Two has restricted the ability of countries to compete on tax rates and incentives, tax certainty will become an area of increasing global competition.

A number of other countries, including the UK, have focused on this issue as an area of potential differentiation.

We recommend that consideration be given to expansion of the existing RTS opinion process, to allow taxpayers to seek statutory certainty in relation to the application of Irish tax rules to transactions of significant value and importance.

7 KPMG response to the consultation submitted on 30 January 2025

Engagement on draft legislation

The Department of Finance has substantially expanded its public consultation on tax matters. We welcome this approach and believe that it has resulted in better law where it has been used.

The publication of the draft legislation ahead of the introduction of the participation exemption for foreign dividends and outbound payments defensive measures rules was very beneficial. It facilitated a more efficient process, allowing taxpayers and practitioners to provide feedback on the draft legislation before its initiation in the Dáil. This type of engagement minimises the need for subsequent legislative amendments and ensures that regimes operate as intended from the outset. This process also provided certainty for taxpayers, which will become increasingly important given the tensions in the international tax environment.

Additionally, the window between the publication date of the Finance Bill and the deadline for submission of proposed technical amendments for consideration at Committee and Report Stages is far too short. While we acknowledge that it is not always feasible to engage in a pre-legislative consultation process, appropriate time should be built into the legislative process to allow taxpayers to provide meaningful input.

Enhance the participation exemption for foreign dividends

We welcome the introduction of the participation exemption for foreign dividends by Finance Act 2024. This is an important milestone in simplifying the Irish corporation tax landscape.

We believe that there are further steps which should be taken to simplify the operation of the exemption and to ensure that it is competitive. We believe that it is essential for both FDI and indigenous businesses that Ireland is a leader in applying a simple, clear and efficient tax system that reduces the administrative burden on taxpayers to the greatest extent possible. In line with our submissions to the Department of Finance we propose:

- Broadening the geographical scope of the exemption to include jurisdictions that are not resident in the EU/EEA or a treaty jurisdiction
- Amending the definition of "relevant subsidiary" to ensure that mergers and acquisitions do not prevent a subsidiary from qualifying where it involves an Irish businesses and business assets transfers, or where the business and assets being transferred are immaterial to the acquiror's business
- Amending the rules to allow the ownership requirements to be satisfied through ownership of membership interests and other equity ownership interests equivalent to ordinary share capital
- Applying the exemption on a dividend-by-dividend basis
- Expanding the scope of the exemption to include Section 110 companies
- Clarifying the legislation so that distributions paid out of profits do not have to also satisfy the Section 626B, TCA 1997 requirements
- Amending the rules to include jurisdictions that are relevant territories but have no domestic law concept of corporate tax residence, such as Hong Kong and the United States
- Removing the targeted anti-avoidance measure. This is unnecessary as the Taxes Consolidation Act 1997 already incorporates adequate measures to deter inappropriate use of the participation exemption.

It is important that the Department continues to engage with practitioners and stakeholders on these issues to ensure that the exemption is best-in-class and operates as intended. Further detail can be found in our submissions to the Department of Finance.

We also believe that it is timely to review the eligibility criteria for the existing capital gains tax substantial shareholding exemption under Section 626B, TCA 1997. Unfortunately, the existing regime is not as competitive as the regimes on offer in the UK and a number of key EU countries.

Introduce a branch exemption

In addition to the exemption for foreign dividends, many of our international peers have already introduced a foreign branch exemption. Implementing a foreign branch exemption would significantly reduce the existing complexity associated with operating a branch structure by an Irish company. Therefore, we strongly advocate for the swift introduction of a foreign branch exemption following on from the participation exemption for foreign dividends.

Detail on the interaction of a foreign branch exemption with the current Irish corporation tax rules is contained in our December 2023 submission to the public consultation on the introduction of a participation exemption to the Irish corporation tax system.

Simplify Schedule 24, TCA 1997

Schedule 24, TCA 1997 contains the rules for administrating foreign tax credits on doubly taxed foreign income.

The foreign dividend exemption and the adoption of the branch exemption should greatly simplify the Irish tax system for international companies with foreign operations. Nonetheless, the foreign tax credit system remains important as a backstop for companies that elect not to avail of the exemptions or do not qualify for the exemption as well as taxpayers in receipt of royalties, interest, lease rental income, gains etc. Therefore, we recommend streamlining Schedule 24, TCA 1997 in order to further simplify our corporation tax regime in order to boost Ireland's competitiveness internationally.

Detail on how Schedule 24 can be simplified is contained in our December 2023 submission to the public consultation on the introduction of a participation exemption to the Irish corporation tax system.

Simplify taxation of the funds

We note that the Department of Finance is conducting a wide-ranging review of the funds sector. In our response to the consultation paper, we highlighted the following tax issues which should be addressed in any legislative response:

IREF regime

IREFs in their present form play an important role in supporting housing policy objectives and have contributed to attracting foreign investment into Irish real estate. Further adverse changes to Ireland's tax and investment environment would be very damaging to the attractiveness of Ireland as an investment location for international real estate investors.

We recommend that the leverage limits that apply under the IREF regime be aligned with the Central Bank's macroprudential rules.

Simplify the REIT regime

REITs play a significant role in the ownership, supply and proper running of efficient rental markets. The changes to the REIT regime introduced in 2019 with regard to: (i) the capital reinvestment conditions and (ii) the exit rules, fundamentally damaged the attractiveness of the Irish REIT regime and has led to the de-REITing of all but one REIT. If Ireland wishes to have a vibrant, functioning REIT system, we recommend that these Finance Act 2019 changes be reversed.

Section 110 regime

The Section 110 regime is a very important feature of the Irish tax regime and Section 110 SPVs play a vital role across a wide range of sectors.

We believe that the rules as presently drafted, while complex, are generally well understood by businesses and practitioners. The current rules also strike a reasonable balance between facilitating the necessary flexibility in the regime to support the commercial requirements of its users, while also preventing the misuse of the regime. However, there are opportunities for improvements to be made to the Section 110 regime that would improve its effectiveness for its users.

We recommend the following refinements to the Section 110 regime:

i. Removal of the anti-avoidance provisions introduced by Finance Act 2011. The introduction of the anti-hybrid and interest limitation rules has rendered these rules redundant

ii. Clarify the application of Section 452, TCA 1997 to Section 110 companies. Section 110 companies compute their taxable profits using trading principles and it has been the longstanding practice that this permits such companies to make a Section 452 election. However, recently there has been uncertainty regarding the appropriateness of this interpretation where the Section 110 company is not carrying on a trade. We do not think this more limited interpretation was intended and we believe the uncertainty should be resolved by making it clear in Section 452, that an election can also be made by a company required to compute its profits under the provisions applicable to Schedule D Case I

iii. Extend the franked investment income exemption to the dividend income of a Section 110 company. Given that there is no apparent policy rationale for such a differentiation, we recommend that a technical amendment be made to ensure that the franked investment income exemption also applies to Section 110 SPVs

iv. Extension of the 8-week election deadline for the submission of an election to be treated as a qualifying Section 110 company. This short timeframe is arbitrary and needlessly punitive in scenarios where human error results in notifications being submitted beyond this date. We recommend that the deadline for submission of the election be aligned with the filing deadline for the company's corporation tax return for the first period to which the election relates

Reform the taxation of personal investments

The complexity of Ireland's taxation system for personal investment has been raised as a negative by individual investors and is a significant deterrent for skilled individuals considering relocating Ireland. Currently, each investment product must be individually assessed to determine its tax status. This intricate process adds considerably to the compliance burden for taxpayers.

Ireland is a leading global domicile for investment products, particularly European Exchange Traded Funds (ETFs)[8]. Notwithstanding Ireland's premier position in the international investment funds industry, we have relatively low levels of domestic participation in capital markets compared to other countries[9]. Building an investment culture is crucial to encourage individuals to save for retirement and other financial needs throughout the various stages of life. Additionally, the Government has already committed "to unlocking retail investment and opportunities to grow the sector in Ireland[10].

Therefore, in line with our response to the public consultation[11] on the Funds Sector 2030: A Framework for Open, Resilient and Developing Markets, we recommend the following:

- Loss relief should be introduced for losses that arise on the disposal of investment products.
- Simplification of the taxation of investment products for Irish retail investors by:
  - Option A: Maintain the existing distinction between capital and income, a fundamental and longstanding principle in Irish taxation. In this scenario, all income should be taxed as a single source of income under Case III and all capital items, whether gains or losses, should be subject to the general capital gains tax regime
  - Option B: Tax all of the realised income and gains annually from investment products as a single source of income under Schedule D, Case III. For example, this would allow for the taxation of net income and gains after allowance for losses
- Application of the self-assessment basis of taxation for investment products where all income is taxed at a person's marginal rate. Withholding tax at source, while playing its part in simplifying collection, should not be applied as a final tax
- There should, at a minimum, be an alignment of rates applied to returns of collective investment products and direct holdings. Consideration should be given to reducing the rates further to stimulate investment in diversified investment products in an effort to move investors away from overconcentration / non-diversification of investment risk

Further details on these recommendations can be found in our September 2023 response[12] to the public consultation on the Funds Sector 2030 and our January 2025 response to the tax treatment of interest in Ireland.

Apply the 12.5% tax rate to gains arising on the disposal of assets used or held for a trade

Currently, corporate trading profits are taxed at a rate of 12.5% while gains arising to companies on the disposal of capital assets employed in a trade are taxable at an effective rate of 33%. Simplifying the corporation tax regime by applying the 12.5% rate to such gains would streamline operations.

Filing of consolidated corporation tax returns

Significant complexity and uncertainty can arise in relation to the trading treatment of certain entities within groups. For banking and security reasons in the main, groups are often required to hold assets or conduct business in separate entities. This can also increase intragroup activity.

The separation of the business in this way can create uncertainty as to whether each company is considered trading even though the combined activity would be trading. The consequences of a company being considered non-trading are very material and have a very negative impact on the attractiveness of Ireland for investment. While there were some changes made in Finance (No.2) Act 2023 to address the trading treatment of certain non-trading finance companies, they are of limited application.

A feature of tax systems in other countries, such as the US, France and Germany, is the ability for companies to elect to be treated as a consolidated filing group. We already have this for VAT and interest limitation grouping. It is also a feature in Pillar Two calculations. We therefore recommend that consideration be given to allowing companies within a tax group the option to elect into a consolidated filing group with other group entities. Intragroup transactions would be disregarded for corporation tax purposes, allowing entities to aggregate their activities in determining whether they are trading.

8 At end 2023, 71% of all European ETFs were domiciled in Ireland - EFAMA report

9 Less than 5% of Irish household's financial assets are held in investment funds, debt securities and listed shares. This is compared to Italy (33%),Spain (29%), and Germany (21%) - EFAMA report

10 Programme for Government 2025

11 KPMG response to the consultation submitted on 15 September 2023

12 KPMG response to the consultation submitted on 15 September 2023

Amend Section 138, TCA 1997

It is essential that the Irish tax system does not unduly restrict the ability of companies to raise capital.

Generally, dividends received by an Irish resident company from another Irish resident company benefit from the franked investment income exemption. While the exemption does not extend to certain preference dividends, there is an exception for dividends paid on shares which carry rights comparable to fixed rate preference shares quoted on a stock exchange in the State.

Given that many of the Irish public companies which previously served as comparators have transferred their listings to exchanges located outside of Ireland, a technical amendment should be made to the definition of preference shares in Section 138, TCA 1997 to reference "fixed-rate preference shares quoted on a recognised stock exchange".

Simplify the corporation tax and VAT compliance process for SMEs

The corporation tax compliance process has become significantly more complex in recent years. This is clearly illustrated by the expansion of the corporation tax return (Form CT1), which has grown from 24 pages in 2012 to 67 pages in 2024.

Simplification has become a core priority at the EU level. Additionally, the Programme for Government[13] includes a number of measures aimed at minimising the compliance and administrative burden on businesses, particularly SMEs. These include:

- Establishing a Cost of Business Advisory Forum – which includes a review of all business taxes.
- Identifying redundant regulations and removing red tape.
- Examining the regularity of reporting and filing requirements.

These measures should be implemented without delay.

Minimising compliance costs and the administrative burden of tax compliance on businesses, particularly SMEs, should be a key focus in the years ahead. T his should enhance our international competitiveness and place Ireland at the forefront of the EU simplification agenda.

Regarding VAT compliance, greater flexibility should be afforded to businesses to reduce the VAT compliance burden. This should include raising the thresholds that determine how often businesses must report and pay VAT, allowing them to do so less frequently than the default bi-monthly periods.

13 Programme for Government 2025

14 Programme for Government 2025

Disapply Ireland's transfer pricing regime to transactions between domestic taxpayers

The imposition of transfer pricing on certain transactions (including trading transactions) between related parties in Ireland creates an unnecessary administrative burden and cost. As some other EU countries, such as Germany, do not impose this burden on domestic transactions, we recommend simplifying the Irish transfer pricing regime by excluding domestic transactions from its scope.

Continue to exempt SMEs from Transfer Pricing

We firmly believe that the provisions introduced in Finance Act 2019 extending the scope of transfer pricing to SMEs should never be commenced. Ireland is not obligated to do so under EU law or commitments to the OECD. Implementing these provisions would impose costly compliance burdens on largely domestic businesses with limited (if any) additional revenue to the Exchequer. Also, this would contradicts the Government's commitment to alleviating regulatory burdens and reducing costs for SMEs[14].

Remove the 1% stamp duty on share transfers

The application of stamp duty to the transfer of shares in Irish incorporated companies traded on Euronext Dublin has adversely impacted the attractiveness of such shares to investors and the attractiveness of maintaining a local stock market listing.

Given the importance of maintaining access to a vibrant local stock market for high potential Irish companies, we recommend that transfers of shares in listed companies be exempt from the charge to Irish stamp duty.

Improve the fairness of the tax appeal process

A fair and efficient dispute resolution process is crucial for fostering confidence in the tax system. Finance Act 2020 introduced two amendments to the appeal process which are unbalanced and manifestly unfair to taxpayers:

i. Interest on tax refunds

Section 960GA, TCA 1997 introduced by Finance Act 2020, denies the payment of interest on the refund of tax where a taxpayer successfully appeals an assessment having paid the disputed tax to Revenue. Conversely, if a taxpayer loses an appeal without paying the disputed tax, they are subject to interest at a rate of approximately 8% per annum on the amount of the underpayment. A fairer approach would be to apply the same rate of interest to both Revenue and taxpayers.

ii. An Appeal Commissioner's power to dismiss an appeal

Finance Act 2020 amended Section 949AV, TCA 1997 to permit an Appeal Commissioner to dismiss an appeal where either party to the appeal fails to comply with a direction for a Statement of Case or an Outline of Arguments.

While affording the Appeal Commissioners such powers where the taxpayer has failed to comply with a relevant direction is reasonable, where a case is dismissed due to Revenue's inaction, the taxpayer will still have to pay the tax assessed. As this provision lacks balance, we recommend that Section 949AV be amended to empower an Appeal Commissioner to uphold an appeal where Revenue fails to comply with a relevant direction.

Introduce an alternative mediation process for tax disputes

We support the comments made by the Chairperson of the Tax Appeals Commission, Ms. Marie-Claire Maney, regarding the creation of a mediation and alternative dispute resolution process for disputes between Revenue and taxpayers[15]. We agree with Ms. Maney's comments that such a process could only assist and facilitate in bringing more appeals to a conclusion at an earlier stage. In this regard, we would welcome further consideration of the proposal by Government.

Position Ireland as a hub for innovation

Improve the R&D Tax Credit

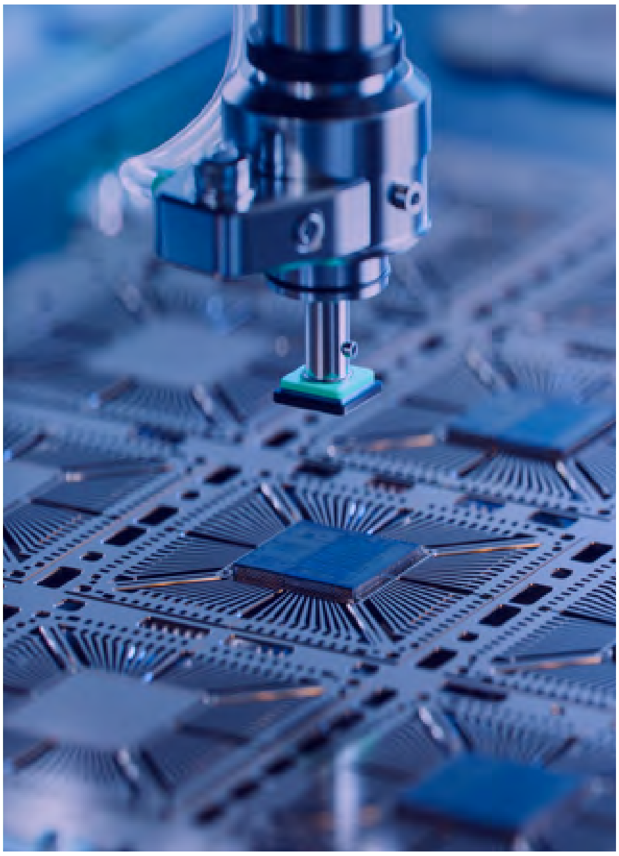
Enhancement of the R&D tax credit is essential to ensuring that Ireland remains an attractive location for both domestic and inward investment.

It is vital that Ireland attracts the next wave of innovative companies, fosters cutting-edge technologies, and creates high-quality jobs. This is particularly relevant in a post-Pillar Two environment. Ireland must ensure that all other features of our offering, beyond the corporation tax rate, are best-in-class.

We welcome the enhancements made to the R&D tax credit in recent Finance Acts and the launch of the Department of Finance's public consultation on the R&D tax credit. However, if Ireland is to be considered an "innovation leader", similar to the likes of Denmark and Sweden[16], further enhancements to the R&D tax credit (RDTC) will be required.

In this regard, we recommend the following amendments to the credit:

- To achieve Ireland's Enterprise Policy goal of doubling business expenditure on R&D by 2030[17], we recommend that the rate be increased to 35%
- Increase the RDTC rate to 50% for R&D carried out on green technologies
- Introduce an automatic refund of cash claims by compliant taxpayers for claim amounts below a de minimis threshold of, say, €300,000. This would particularly benefit SMEs, who are most vulnerable to cashflow challenges
- Increase the limit on the amount of allowable expenditure on outsourced activities to third parties to the greater of 25% of a company's non-outsourced R&D expenditure or €250,000
- Expand the list of qualifying fields beyond the traditional science and technology categories to include research into technologies such as artificial intelligence, machine learning, blockchain and other emerging areas.



15 Committee of Public Accounts debate, Thursday, 8 July 2021

16 Ireland currently rated as a "strong innovator" according to the European Innovation Scoreboard 2024: European Innovation Scoreboard is published by the European Commission and provides a comparative analysis of innovation performance in EU countries and regional neighbours

17 White Paper on Enterprise

- A technical amendment is required to Section 766(1)(a), TCA 1997 to insert: “wholly and exclusively for the purposes of R&D activities”, in place of: “wholly and exclusively in the carrying on by it of R&D activities”. This amendment is required to align the definition of “expenditure on R&D” with the original policy intention. This amendment would also provide greater clarity and certainty to claimants with respect to qualifying costs.
- Simplify the process for claiming the tax credit to improve take up by SMEs[18]

Introduction of a tax incentive to encourage recruitment of top researchers to Ireland

Highly skilled talent is essential to establish the knowledge base required to secure Ireland’s position as an innovation hub. Accordingly, we recommend that consideration be given to the introduction of a tax incentive to encourage researchers and professors to relocate to Ireland.

Allow greater flexibility in respect of capital allowance claims

Encouraging businesses to invest in capital equipment is crucial for driving productivity in the Irish economy. Therefore, the capital allowance regime should offer flexibility for Multinational Enterprise (MNE) Groups affected by the Pillar Two GloBE rules. Such optionality aligns with the EU Minimum Tax Directive and the GloBE Rules, ensuring that in-scope MNE Groups pay an effective tax rate of at least 15%. Thus, Ireland should facilitate in-scope MNE Groups which have a preference to pay more domestic corporation tax rather than a Qualified Domestic Top-up Tax (QDTT).

The reasons for these preferences include simplifying administration, providing certainty, and the ability to obtain a credit under the foreign CFC regime for domestic corporation tax payable in Ireland. Providing this flexibility should not alter the aggregate amount of tax paid by these groups but may help Ireland remain attractive and competitive compared to jurisdictions with higher corporation tax rates that do not impose a QDTT[19].

In terms of how an in-scope MNE Group may decide to pay more tax by way of corporation tax, a possible approach would be for it to choose not to claim (all of the) capital allowances to which it is entitled. This option is already available under existing law (discussed below) but may require minor legislative modifications to ensure the desired flexibility is achieved.

We recommend that an amendment to Section 288, TCA 1997 is enacted permitting taxpayers who disclaim capital allowances to elect (if they so choose) to disapply the saving provision in the balancing charge rules. The effect of this is that they would be subject to tax on the amount by which the consideration exceeds the tax depreciated value of the asset, even where this amount is greater than the allowances actually claimed[20].

Amendments to the Knowledge Development Box

The Knowledge Development Box (KDB) was introduced by Finance Act 2015 to incentivise companies to commercially exploit intellectual property developed from R&D activity in Ireland.

With the advent of the Pillar Two Rules, the KDB relief needs to be restructured to remain relevant to MNE groups. Consideration should be given to restructuring the benefit of KDB to be a refundable tax credit (similar to the R&D tax credit).

Furthermore, taxpayers in scope of the Pillar Two regime should be able to elect out of the KDB regime. As the KDB election is currently an irrevocable election, businesses in scope of both Pillar Two and the KDB regime have increased administration with no tax benefit.

Increase support for businesses in the semiconductor industry

Ireland already has significant prominence in the European semiconductor industry[21]; and is well positioned to capitalise on the opportunities presented by the EU Chips Act and the EU’s ambition to double its market share in the global semiconductor industry by 2030[22].

The EU Chips Act, which aims to bolster Europe’s competitiveness and resilience in semiconductor technologies, allows for public support for microchip manufacturing facilities under State aid rules. Italy, Germany and France[23] have already initiated significant collaborations with global leaders in the semiconductor industry. It is imperative that Ireland strongly considers embarking on similar projects in order to maintain our competitive advantage in this area.

18 Ireland performs below the EU average on percentage of SMEs introducing product and business process innovations.

19 As in-scope MNE Groups operating in those jurisdictions would pay corporation tax at a 15%+ effective tax rate

20 We have included suggested legislative wording in Appendix IV

21 Tyndall_Irelands_Role_in_the_Global_Semiconductor_Industry.pdf

22 Europe’s Digital Decade: Commission sets the course towards a digitally empowered Europe by 2030

23 France, Germany and Italy have all obtained approval for State aid measures to support the semiconductor industry

Enhancements to the personal tax regime

Reduce the tax on employment

The Irish personal tax system imposes a high personal tax burden on employees. Although our dual rate income tax system is one of the most progressive in the EU and OECD[24], the entry point to the higher 40% income tax band is set below the average wage[25]. This damages our competitiveness by creating challenges for employers trying to attract high-value talent to Ireland and discourages individuals from upskilling and pursuing higher-paying jobs.

Consequently, we recommend that steps be taken to reduce the marginal rate of tax borne by employees and the cost of employment for employers by implementing income caps for PRSI:

- Many countries achieve a more competitive marginal rate of tax for higher earners by capping the earnings base subject to social security[26]. We recommend that an earnings contribution cap of €75,000 be reintroduced for employees' PRSI
- Many countries also reduce the cost of employment for employers by capping the employer's contribution. We recommend that an earnings contribution cap of €100,000 be reintroduced for employers' PRSI

Simplify the taxation of share-based remuneration

Share-based remuneration is proven to aid the attraction and retention of key talent. Therefore, to attract inward investment, it is essential that our tax regime for share-based renumeration is best in class. Share-based remuneration also plays an important role for SMEs and privately owned companies in recruiting the talent needed to grow and scale.

In our response[27] to the consultation on share-based remuneration, we made a number of recommendations aimed at increasing the effectiveness of, and accessibility to share-based remuneration for a broader cohort of employers across all business sectors. The key recommendations include:

- Measures to maximise the use of existing share schemes, such as extending the definition of "restricted share" in Section 128D, TCA 1997 to include notional shares and expanding the CGT Entrepreneur's Relief to all shares acquired under KEEP, APSS and SAYE by removing the 5% shareholding requirement
- Measures to make the use of share-based remuneration more accessible and attractive to privately owned companies
- Measures to reduce the costs and administrative burdens associated with share-based remuneration
- Retain the employer PRSI exemption for share-based renumeration. The relatively high marginal rate of income tax acts as a barrier to attracting highly skilled individuals to Ireland. The limitation or removal of the employers PRSI exemption could dimmish the attractiveness of Ireland as a location for employment

Reform the taxation of carried interest in Ireland

Ireland should capitalise on the growth of private assets and position itself as a location of choice for private asset focused funds. This could be done by incentivising senior fund managers to relocate to Ireland and establish Irish products. This would have the added benefit of stimulating a transfer of further expertise and knowledge into the Irish fund management ecosystem, in addition to creating jobs.

Carried interest is a common feature of the private asset fund industry and is designed to align the interests of managers with the performance of funds under management. It is now a standard feature of many private asset funds. The receipt of carried interest by an individual is currently taxed as employment income and, therefore, is subject to income tax, PRSI and USC at marginal rates. There is a very limited exception to the above which applies CGT treatment (at a rate of 15%) to carried interest for certain venture fund managers of qualifying venture capital funds structured as partnerships and which invest in certain R&D companies.

We recommend that this relief is broadened to apply to carried interest earned by Irish tax resident employees of a regulated Irish tax resident fund management company in respect of qualifying funds (which could, for example, be confined to either (i) Irish vehicles – therefore stimulating further growth in the funds industry which currently employs almost 20,000 people or (ii) an appropriate scheme of ESG taxonomies or an ESG labelling or rating system, to complement the growth of Ireland as a jurisdiction for ESG compliant funds).

24 Beyond GDP - Quality of Life Assessment

25 Based on average weekly income of €979.71 in Q4 of 2024 and the standard rate cut off of €44,000: CSO: Earnings and Labour Costs Q3 2023 (Final) Q4 2024

26 Austria, Canada, Germany, Greece, Luxembourg, and the Netherlands apply a monetary cap on contributions.

27 KPMG response to the consultation submitted on 22 January 2024

Enhance tax relief for personal pension provision

It is important that the personal income tax system continues to support individuals in making provision for their retirement.

The CSO found that 33% of persons in employment in Q3 of 2024 had no pension arrangements in place[28]. Of persons with no pension coverage, over half (52%) cited the State pension as the main source of income on retirement. If individuals fail to achieve adequate levels of supplementary pension coverage, this will inevitably lead to overdependence on the State pension and welfare provision.

Although the Government Auto-Enrolment Retirement Savings Scheme is expected to increase the level of pension coverage, the current limitations on tax relief for personal pension contributions make it difficult to achieve a meaningful supplementary pension in retirement.

We have made a number of recommendations below that should increase pension provision:

- Adopt a "whole of life approach" to the pension contribution limit. The current non-cumulative basis for pensions contributions is very inflexible. It does not take account of non-linear working patterns and the financial commitments of individuals over their career, for example self-employed individuals can have significant variation in income from year-to-year. We recommend a whole of working life approach by permitting unused pension relief capacity to be carried forward
- Increase the pension earnings limit to account for wage inflation and socio-economic developments since 2011 (the date of the most recent reduction in the earnings limit). This would see the earnings limit increasing to approximately €200,000. It is difficult to see the need for annual limits on pension contributions where an overall Standard Fund Threshold (SFT) limit is in place
- Introduce tax relief for spousal contributions. At present, an individual is only entitled to income tax relief in respect of pension contributions made to their own pension scheme or arrangement. To increase pension coverage, consideration should be given to the introduction of tax relief for contributions made by an individual to the pension scheme or arrangement of their spouse or spousal equivalent. For example, where the annual income of the spouse (or spousal equivalent) does not exceed €35,000[29], it should be possible for the other spouse to obtain tax relief for pension contributions made on their behalf

Amend the calculation of prior benefit crystallisation events with respect to the Standard Fund Threshold

We welcome the increases to the SFT, which were included in Finance Act 2024. This is an important step in increasing the level of private pension provision in Ireland and consequently reducing future overreliance on the State pension.

However, as currently drafted, the legislation will result in inequitable and distortive outcomes for individuals that have benefit crystallisation events (BCEs) before these increases take effect. We do not believe this was the intended policy outcome.

Therefore, Paragraph 5 of Schedule 23B, TCA 1997 should be amended to provide that any prior BCE will be indexed to take account of the intervening increase in average wages, in a similar manner to the way in which the SFT will be inflated after 2030. This ensures that individuals with prior BCE are not unduly penalised.

Additionally, further work should be undertaken to equalise the treatment of private sector with public sector taxpayers. We recommend that the opportunities afforded to public sector taxpayers to avoid a chargeable excess though partial encashment, and the spreading of the BCE charge should be extended to all taxpayers.

Further detail on these recommendations can be found in our February 2024 response to the Department of Finance consultation on the examination of the SFT[30].

28 CSO - pension coverage 2024

29 The current amount a married individual that is jointly assessed will have to earn to be entitled to the full standard rate band of €88,000.

30 KPMG response to the consultation submitted on 12 February 2024

Enhancement and extension of the SARP regime

Highly skilled and internationally mobile executives play a crucial role in job creation and economic growth in Ireland. However, the high personal tax burden may deter individuals from relocating here. SARP has been very effective in attracting and retaining global talent[31], demonstrating its success as employees hired through SARP are highly sought after and in demand worldwide.

Therefore, it is essential that the Government extend SARP beyond the current sunset date of 2025. Not to do so would adversely impact Ireland's competitiveness, especially in the current international tax environment where there is intense competition for FDI. As the Minister Donohoe has highlighted in 2022, if SARP was removed from our tax code it would result in a loss of jobs and investment within our economy[32]. By continuing SARP, Ireland can ensure it remains a leading hub for international business and skilled professionals, driving long-term economic growth.

Additionally, we believe that aspects of the relief need to be enhanced:

- Remove the €1 million cap on the amount of income that can benefit from the relief. Currently, this is limiting the effectiveness of the regime in attracting senior executives to live in Ireland, relative to other locations
- For non-Irish domiciled individuals, SARP relief should be extended to include USC and PRSI, as well as income tax. These individuals are significantly less likely to substantially avail of Ireland's social welfare, health or free education benefits
- Increase the qualifying period from 5 years to 8 years for non-Irish domiciled individuals. In addition, the CAT exclusion for non-Irish domiciled individuals should be extended to 8 years to ensure coordination between the reliefs
- Extend the deadline to notify Revenue of an employee's intention to claim SARP relief. The deadline is currently within 90 days of their arrival in Ireland. This is unnecessarily restrictive and should be increased

We also recommend that the sunset date for the foreign earnings deduction (FED) be extended beyond 2025. The relief plays a significant role in promoting export-led growth, which in turn is key to Ireland's continued economic development.

Amend the BIK exemption for employer contributions to PRSAs and PEPPs to include share-based renumeration

Finance Act 2024 amended Section 118, TCA 1997 to specify that the exemption from a BIK charge for expenses incurred in the making of any contribution to a Personal Retirement Savings Account (PRSA) and Pan-European Pension Product (PEPP) will only apply to contributions up to an 'employer limit' which is equal to 100% of an employee's salary in the year of assessment.

It appears that there has been an unintentional exclusion of other forms of employee remuneration, including share-based remuneration, from the calculation of the "employer limit".

This is having an unintended adverse impact on many start-ups and SMEs who need to reward employees with shares instead of cash remuneration in order to maintain cash-flow. A failure to address this anomaly in the definition of the 'employer limit' will impose an unnecessary burden on smaller companies, hindering their ability to compete for talent with better-resourced firms.

Therefore, we believe Section 118, TCA 1997 needs to be amended to allow for share-based remuneration to be taken into account.

Introduce a single pay-and-file date for CGT

Since 2009, the due date for payment of CGT is determined by the date of disposal of the asset. Where a disposal occurs between 1 January and 30 November, any CGT arising must be paid by 15 December in the same year. Where a disposal occurs in December, the tax must be paid by 31 January in the following year.

The requirement to prepare two sets of calculations for each year and to make two separate payments gives rise to a needless tax compliance burden for taxpayers. We understand that the cash flow benefits for the Exchequer of the two-payment approach are marginal relative to a single payment. Accordingly, we recommend that a single pay and file date be re-introduced for CGT purposes.

31 In 2022, there was 1,569 employees retained as a result of the operation of SARP

32 Finance Bill 2022: Committee Stage – Seanad Éireann (26th Seanad) – Wednesday, 7 Dec 2022 – Houses of the Oireachtas

Encourage a greater level of philanthropic activity

Introduce tax relief for donations made out of capital gains

Currently, a CGT exemption is available on the disposal of an asset where it is gifted to the State, a charity or certain designated bodies, under Section 611, TCA 1997. However, no tax relief is available where the proceeds of a disposal are donated to one of those bodies, unless the donor has otherwise paid income tax such that the body can avail of a repayment of tax under Section 848A, TCA 1997. In many cases, a donor who has incurred material capital gains tax liabilities may not necessarily have incurred sufficient income tax liabilities for income tax relief to be of meaningful benefit to the body that receives a donation.

To encourage those who realise capital gains to engage in philanthropic activity, consideration should be given to introducing a new provision which would grant relief for donations out of capital gains equivalent to that which applies to donations out of income under Section 848A, TCA 1997. This would enable approved bodies to obtain a tax repayment equal to 33% of the donation, after it has been grossed up at a rate of 33%.

Allow beneficiaries to redirect inheritances to approved bodies on a tax-free basis

A gift or inheritance which is taken for charitable purposes is exempt from CAT under Section 76, CATCA 2003. Currently, a beneficiary is unable to redirect the benefit in favour of approved charities / philanthropic bodies without incurring CAT on the disposition.

Consideration should be given to amending Section 12, CATCA 2003, which deals with disclaimers, to permit a beneficiary to partially or fully disclaim an inheritance in favour of an approved body without incurring a CAT charge.

Clarify the treatment of in-kind donations under Section 848A, TCA 1997

The section provides tax relief for relevant donations, being donations in sums of money or securities. Where the relevant donation is made by a company, the amount of the donation is treated as a deductible trading expense or an expense of management. However, the section does not provide relief in respect of in-kind donations. We recommend that Section 848A, TCA 1997 be amended to make clear that in-kind donations made by companies meet the definition of “relevant donation”.

Appendix II: Housing

Measures to help with affordability

Extension of mortgage interest relief beyond 2024

We recommend that consideration be given to extending the Mortgage Interest Tax Credit to the 2025 and 2026 tax years.

Remove the rent credit sunset date of 2025

The high cost of rent remains a significant burden for many households. In line with the Programme for Government, we suggest that the rent tax credit introduced in Finance Act 2022 be made available on an indefinite basis by removing the current sunset at the end of 2025.

Introduce a BIK exemption for employer provided accommodation for staff with income of less than €50,000

Given the current issues within the housing sector, some employers have found it necessary to make subsidised accommodation available for their employees. We suggest that an exemption from BIK be introduced in respect of employer provided accommodation for staff with income of €50,000 or less, where it is provided free of charge or subsidised.

Consideration could be given to broadening the scope of the relief in the future.

Measures to increase supply

Introduce tax relief for residential accommodation constructed or purchased by employers and rented to employees

Consideration should be given to incentivising employers to develop housing for occupation by their employees by allowing industrial building allowances (IBAs) at an annual rate of 10% on the development cost.

Reform of Section 83D SDCA 1999

The refund mechanism provided for in Section 83D, Stamp Duties Consolidation Act (SDCA) 1999 currently serves as a barrier to the acquisition of land for smaller professional landlords to undertake residential development.

We suggest that the 2% stamp duty rate be reinstated to avoid the unnecessary funding requirement. A clawback could be applied if the land is not subsequently developed into residential property within five years of purchase. At a minimum, additional time should be allowed under Section 83D, SDCA 1999 for the completion of the residential units, in recognition of resource constraints in the construction industry.

Permit developments subject to forward funding arrangements to qualify for the 12.5% corporation tax rate

Section 21A, TCA 1997 provides that the higher rate of corporation tax (25%) applies to sales of undeveloped land in the course of a trade. However, where land is fully developed and sold, the standard 12.5% rate of corporation tax may apply.

Forward funding arrangements are becoming an increasingly common feature of the Irish property market. Typically, a developer will enter into an agreement to sell unfinished development land to an investor, while also entering into an agreement to develop units on the land after the sale is completed for the new owner. Commercially, such transactions result in the same outcome as a sale of the land after its development has been completed but are structured as forward funding arrangements to address financing constraints which would otherwise make many such developments unviable for the developer.

However, unlike the sale of fully developed land, a corporate developer who completes a sale of land prior to its development under a forward funding arrangement will have the profits arising on the land sale taxed at the higher corporation tax rate of 25%. This seems unfair and is not aligned with the Government's policy in this area.

To resolve this anomaly, we suggest that the definition of "excepted operations" in Section 21A(1)(a) be amended by the addition of a new subparagraph (iii) which would provide that a sale of land as part of a "forward funding arrangement" will not be treated as an excepted operation. For this purpose, a "forward funding arrangement" would be defined by reference to a transaction where the parties intend that the vendor of the land (or a connected party) will fully develop the land on behalf of the purchaser within five years of the sale. In the event that the development requirement is not met, a clawback could be applied.

Reform and reinstate CGT rollover relief

CGT rollover relief should be available to businesses when they dispose of real estate and re-invest the disposal proceeds in a replacement property to be used in the trade of the enterprise.

Not only would this free up prime land in city centre locations, ideal for residential development, it would also enable businesses to move to more suitable locations.

Reform Residential Zoned Land Tax

RZLT as currently enacted poses challenges for many residential developments, undermining the policy objective behind the measure.

Homebuilders continue to face significant delays within the planning system and unprecedented challenges with respect to the viability of residential developments, particularly new medium and high-density developments.

While the Finance Act 2024 changes are a step in the right direction, we believe the amendments to RZLT are likely to fall short of the changes required to ensure the regime effectively meets its policy objectives of incentivising land activation and improving supply of quality affordable housing. We believe additional changes should be considered to ensure RZLT is not inappropriately applied where, for example, genuine impediments to development exist.

Amend the interest limitation rules to address the treatment of capitalised interest

Property developers typically capitalise interest incurred on building projects on their balance sheet throughout the course of the project, with the capitalised interest subsequently unwound to the income statement when the project is completed. Under the interest limitation rules, where the unwind of the interest expense exceeds €3 million in that accounting period, a restriction may apply to the amount of deductible interest expense notwithstanding that not all of the interest was incurred in that accounting period.

We believe that the rules should therefore be amended to provide that the deduction of such interest will not be restricted by the ILR in the year of unwind to the extent that the restriction would not have applied in the accounting period during which the interest was capitalised.

Support apprenticeships and training in the construction sector

We strongly support proposals to provide additional incentives and supports to assist in training and apprenticeships in the construction sector.

Measures to help the rental market

Reform the taxation of rental income

We recommend the following reforms to taxation of residential landlords:

(i) Apply Schedule D, Case I principles to the taxation of professional landlords

This would allow corporate landlords to deduct a broader range of rental expenses than is currently provided for under Section 97, TCA 1997 (including Local Property Tax)

(ii) Amend the new landlord relief to ensure it operates as intended

We welcome the introduction of the new relief for individual landlords in Finance (No. 2) Act 2023 and the amendments to the relief by Finance Act 2024. However, under the legislation as currently drafted, where a claimant transfers the property to their spouse or civil partner, the relief is clawed back.

We believe this to be an unfair and unintended outcome. Accordingly, we recommend that the law be amended to provide that a property will retain its status as a "qualifying premises" in the event that it is transferred to a spouse or civil partner, provided that the property remains rented or available to rent

(iii) Simplify the treatment of pre-letting expenses

Section 105, TCA 1997 restricts the deductibility of expenses, including interest (otherwise deductible under Section 97(2)(e)) where the interest is incurred prior to the first occupation of the premises by the lessee for the purposes of a trade or undertaking or for use as a residence. There is some relaxation of this rule in the case of certain vacant premises provided for in Section 97A, TCA 1997.

We believe that a broader relaxation than that provided for in Section 97A is required. We recommend that pre-letting interest should be allowed as a deduction against rental income, in a similar manner to pre-trading interest under Section 82, TCA 1997

We also included the following recommendations for reform of the rules for deductibility of interest against rental income in our January 2025 response to the public consultation on the tax treatment of interest:

- Legislate for the deductibility of interest on borrowings to fund rental expenses
- Legislate for the deductibility of interest on replacement loans
- Clarify the tax treatment of interest equivalents

Eliminate the close company surcharge for active residential landlords

The application of the close company surcharge to rental profits incentivises corporate landlords to distribute such profits. As a result, the surcharge discourages corporate landlords from reinvesting profits in the acquisition of additional rental units.

We recommend that the close company surcharge be disapplied for rental income arising to active residential landlords.

Extend CAT Business Property Relief (BPR) to active property rental businesses

The scope of CAT Business Property Relief (BPR) should be extended to include active property rental businesses. This would enable the creation of multi-generational rental businesses and encourage families to remain invested in the sector over a longer period. This change should bring additional stability to the rental sector.

Extend the share buyback provisions to rental businesses

Generally, the redemption, repayment or purchase by an unquoted company of its own shares is treated as giving rise to a distribution (similar to a dividend) in the hands of the shareholder, which is subject to income tax where the shareholder is an individual. However, where the provisions of Section 176, TCA 1997 are met by a trading company or the holding company of a trading group, the transaction is treated as a capital disposal liable to CGT. To encourage the development of sustainable multi-generational property rental business, we recommend that Section 176 be extended to apply to active rental companies and holding companies of active rental companies.

Reintroduce a controlled and targeted Section 23 style relief

We recommend a Section 23 style relief be reintroduced for expenditure incurred on projects involving the conversion of commercial buildings for residential use. This would permit landlords to claim relief for expenditure incurred on the purchase, construction, conversion or refurbishment of a qualifying rental property against the rent received from that property and other Irish rental income.

This could be particularly attractive to stimulate the conversion of properties above shops into residential units and the construction of apartments, particularly as the number of apartments completed in 2024 was down 24.1% from 2023[33]

Appropriate safeguards should be introduced with respect to the size, type, quality and location of property which would qualify. These safeguards would ensure that the relief is specifically directed towards projects that contribute positively to resolving the housing crisis.

It should be a straight forward matter to implement robust safeguards to avoid reoccurrence of the issues that arose with the previous iteration of the scheme.

33 The number of apartments completed in 2024 fell by 24% compared to 2023

Appendix III: Supporting Enterprise and the Green Transition

Supporting domestic entrepreneurship

Enhance and simplify the Employment Investment Incentive Scheme (EIIS) to increase its uptake

At present, the EIIS provisions are highly complex for SMEs seeking to raise capital and the penalties for getting it wrong are material. Improving certainty for participating companies could substantially increase uptake of the relief. In this regard, we recommend that:

- The EIIS provisions be amended so that where a company has provided correct and complete information to Revenue, a confirmation that it is eligible for EIIS can be issued to the company. This would be similar to the operation of the equivalent UK EIS (Enterprise Investment Scheme) rules
- The holding company rules should be amended to allow subsidiary companies in a group to avail of the relief. This would enable groups to attract minority investors into specific subsidiaries that form part of a wider group
- The connected party rules should be relaxed (in line with the UK approach) so that they only apply where the individual holds a 30% interest in the EIIS company. This would ensure that Ireland remains competitive in this space and help ensure that individuals are not prevented from availing of EIIS due to unduly strict rules

Additional reforms are required to make the scheme more attractive to investors. In this regard, we support the recommended enhancements to EIIS suggested in the Report of the SME Taskforce, including:

- Allowing CGT losses for loss making EIIS investments[34]. This is permitted under Article 21(4) of the General Block Exemption Regulation (GBER)
- Offering full CGT relief on gains from the disposal of EIIS investments[35]. This is permitted under Article 21(4) of GBER

Remove the 3% USC surcharge on self-employed individuals

The 3% USC surcharge that applies to non-PAYE income above €100,000 should be abolished. This recommendation is particularly important as Ireland aims to retain its reputation as a premier destination for conducting business while strengthening the resilience of the domestic sector.

The surcharge unfairly penalises entrepreneurs and self-employed individuals who have assumed the risks associated with starting businesses that contribute 352,300 jobs to the Irish economy[36]. Retention of the surcharge is at variance with the Government's enterprise policy.

Introduce changes to Ireland's CGT rules to encourage investment in SMEs

Ireland needs to strengthen its SME sector to ensure long-term economic resilience. The Irish CGT regime plays a vital role in achieving this goal by appropriately rewarding risk and encouraging the re-investment of entrepreneurial capital. In this regard, the Irish CGT rules as they apply to SMEs should be enhanced. In particular, we recommend:

Amending the new relief for angel investment in innovative enterprises

We welcome the commencement of the new CGT relief for investment in innovative enterprises. The aim of the relief is to encourage angel investment in innovative startups by applying a reduced CGT rate on gains arising on the disposal of qualifying shares.

34 Report of the SME Taskforce – Action 1.6.1
35 Report of the SME Taskforce – Action 1.6.2
36 According to the CSO Labour Force Survey Quarter 4 2024 self-employed individuals with employees accounted for 352,300 of the total employment

However, the rules as currently drafted are unduly complex and difficult for SMEs to comprehend. Simplification is required, as the complexity involved and the associated penalties for getting it wrong have deterred many investors. Furthermore, many of the qualifying conditions are not aligned with the commercial structures typically used by start-ups and SMEs.

We recommend that the rules be amended as follows:

i. Extend the definition of "qualifying subsidiary" to include a subsidiary where less than 51 per cent is held by the qualifying company. Otherwise, groups that have entered into joint ventures would be disqualified

ii. A "qualifying subsidiary" should include a subsidiary that is resident in a jurisdiction with which Ireland has a tax treaty

iii. The connected party rules should be amended to extend the relief to allow an individual that already holds an interest in the company, e.g., a loan, to qualify. Given the goal of the relief is to encourage investment in start-ups, the stringent connected party rules could act as a barrier to further investment by such individuals

iv. Remove the "wholly" test that applies to holding companies. To align the relief with the commercial structures typically used by start-ups and SMEs, it is necessary to amend the holding company definition to allow such companies to carry on other activities other than the holding of shares in or lending to "qualifying subsidiaries". For example, holding companies may be in receipt of some interest income where monies are put on deposit for short periods of time prior to use within the business. Where this is the case, the rules as currently drafted mean that a holding company cannot raise funds using the relief

Introducing CGT rollover relief for investments in innovative enterprises

To encourage investment in SMEs, angel investors who reinvest capital gains in innovative SMEs should not be subject to CGT on the amount reinvested.

France has already introduced a similar regime, the 'SME Innovation Account', in 2017 to increase funding to innovative entrepreneurs and SMEs.

Enhancing CGT Revised Entrepreneur Relief

The following enhancements should be made to entrepreneur relief:

i. Increase the lifetime limit: We believe that increasing the lifetime limit to €5 million would reduce the risk of Irish entrepreneurs locating themselves and their businesses abroad

ii. Permit passive investors to qualify for relief: Extending availability of the relief to passive investors would, in our view, incentivise private investors to invest capital in start-ups, enable entrepreneurship and support growth in Ireland's SME sector

Limit taxation of dividends paid by active SMEs

Currently, an individual is subject to tax (including USC and PRSI) at a marginal rate of up to 55% on dividend income. At a time when Ireland is striving to bolster its domestic sector and position itself as a hub for entrepreneurs, such a high marginal tax rate on dividends fails to adequately reward risk-taking

In many cases, promoters of SMEs have invested their life savings in their company. Often, long before the company has reached its full potential, a financial need arises for the promoter to take some money off the table, whether to buy a home or for other personal reasons.

Where a gain arises on an exit event involving a share disposal, the entrepreneur relief rules ensure that a 10% rate of CGT would apply. The differential between this CGT rate and the marginal rate of tax often tips the scales towards a sale. As a result, SMEs are often sold before they maximise their potential. This issue is also holding back the indigenous SME sector from producing more companies of international scale. To address these issues, we recommend that:

- a flat income tax rate of 20% be applied to dividends received from SMEs that exist wholly or mainly to carry on a trade; and
- a special reduced tax rate of 10% be introduced for dividends received by shareholders of SME companies who would otherwise qualify for Revised Entrepreneur Relief on a sale of their shares. On a subsequent sale of the shares, the amount of the gain qualifying for Revised Entrepreneur Relief could be reduced by the amount of dividends received by the individual that qualified for the 10% rate.

Enhance CGT retirement relief

CGT retirement relief is available where an individual aged 55 or over disposes of business or farming assets. The level of relief available varies depending on the age of the individual making the disposal and their relationship (if any) to the acquirer.

Retirement relief is vital for the Irish economy, as it encourages the growth of Irish domestic and family-owned businesses, thereby enhancing pour economic resilience and stability. SMEs are the bedrock of the Irish economy accounting for 68% of private sector employment in Ireland[37].

Finance Act 2024 introduced several amendments to retirement relief; however, we believe a number of amendments are necessary to optimise the effectiveness of the relief:

- Introduce a tapering of the clawback for disposals between 6-12 years. Given the long retention period of 12 years, the clawback should be tapered where the event occurs more than 6 years after the disposal giving rise to the relief
- Amend to allow for subsequent inter-generational transfers during the retention period. Currently, if a child receives qualifying assets and then disposes of these qualifying assets to their child within 12 years of the first disposal, they will be subject to a clawback of the amounts previously deferred. This is the case even when the second disposal would be relieved under Section 599, TCA 1997. An exemption should apply for second disposals as we do not believe that this is in line with the policy intention to facilitate the inter-generational transfer of business/farming assets within a family
- CAT/CGT offset - the CAT refund provisions should be amended to ensure the fair operation of the CAT/CGT credit offset provisions in circumstances where there is a clawback of the deferred CGT outside the normal time limit for making tax refund claims

Promoting employment

Extend and reform of the key employee engagement programme (KEEP)

KEEP is a focused share option programme intended to help SMEs attract and retain talent in a highly competitive labour market. One of KEEP's aims is to help level the playing field between small and large enterprises in terms of the hiring and retention of staff. It is vital that KEEP fulfils its policy goal, as the availability of skilled staff is a primary concern for Irish SMEs[38]. As currently drafted, KEEP does not properly reflect the commercial structures used by SMEs or the working arrangements of their employees.

The sunset date for the relief is 31 December 2025. In light of the importance of the relief to SMEs seeking to recruit and retain highly skilled individuals, we recommend that the relief be extended to 2030.

It is also crucial that the relief is simplified. The current complexity of the relief in terms of administrative burden and filing requirements requires a lot of time to understand and is leading to the low take up of the scheme.

In our submission to the consultation on share-based remuneration in January 2024[39], we set out a number of recommendations which we believe would improve the effectiveness of KEEP. These include:

- Provide that a disposal of KEEP shares would qualify for Revised Entrepreneur Relief
- Remove the annual limits that apply to KEEP options and increase the lifetime limit from the current limit of €300,000

37 CSO - Business in Ireland 2022

38 European Central Bank - survey on the access to finance of enterprises (SAFE) Q1 2024

39 KPMG response to the consultation submitted on 22 January 2024

- Remove the non-trading requirement for holding companies
- Introduce safe harbour provisions in relation to valuations of KEEP shares. The current burden and uncertainty surrounding these valuations are negatively impacting the scheme's uptake. Implementing safe harbour arrangements, similar to those in the US and the UK, would alleviate these issues and encourage greater participation

Extension of SARP to Irish indigenous businesses

Ireland has the potential to become a hub for global talent across a wide range of fields. We believe that the SARP regime offers employers a powerful tool to attract talent to Ireland.

However, the SARP regime is currently inaccessible to many Irish indigenous businesses as it does not apply to new hires. Unlike other countries' equivalent programs[40], SARP is more restrictive, being the only EU nation that limits its scheme to assignees who have previously been employed in another jurisdiction by the same employer or a related company[41]. Unlike multinationals, SMEs are generally unable to source talent internally from other international offices.

We strongly agree with the recommendation in the Report of the SME Taskforce that the SARP regime be opened to new hires[42].

Further recommendations to extend and enhance the SARP regime are included on page 29.

Transition to monthly reporting for Enhanced Reporting Requirements

Section 897C, TCA 1997 requires employers to report certain non-taxable benefits and payments made to employees and directors. The disclosure must be made "on or before" the provision of the benefit. This places an undue administrative burden on employers, particularly SMEs. As such, we recommend periodic reporting to allow employers make payments between payroll cycles with monthly reporting under the Enhanced Reporting Requirements.

Introduction of a tax incentive to encourage recruitment of top tech talent in Ireland

To complement the Tech/Life Ireland[43] initiative, we recommend the introduction of a new incentive (for example a super deduction for payroll costs) for Irish indigenous companies hiring tech experts. This initiative would not only level the playing field for smaller Irish companies but also bolster economic resilience and foster innovation within the domestic sector, ensuring sustainable growth and competitiveness. Also, additional grant aid could be provided to such companies to assist with the cost of employment.

Supporting the Green Transition

Mobilise private finance for green investment

Increase the tax-free lump sum payable on retirement where some or all of the lump sum is derived from approved ESG funds

Pension funds have the potential to exert significant influence on the businesses that they invest in.

Therefore, we recommend increasing the tax-free lump sum payable on retirement where some or all of the lump sum is derived from approved ESG funds.

This would provide a strong incentive for scheme members and managers to include ESG funds in their portfolios.

Reintroduce relief under Section 486B, TCA 1997

Relief under Section 486B, TCA 1997 (which provides tax relief for companies that invest in qualifying renewable energy projects) should be reintroduced and targeted at the renewable energy sector and other important green economy sectors. We note that the EU Commission recently provided State aid approval for a similar scheme in Finland[44].

Introduce a tax exemption for interest earned by individuals on "green" bonds

This should apply to "green" bonds issued by enterprises to fund initiatives which contribute to meeting Ireland's ambitious carbon emissions targets.

Enhance EIIS and CGT Entrepreneur Relief for investments in green economy enterprises

Ireland's existing tax reliefs for investors, principally EIIS and CGT Entrepreneur Relief, should be enhanced for investments made in enterprises in the green economy. At a minimum, CGT Revised Entrepreneur Relief should be extended to allow passive investors in qualifying green projects to avail of the relief.

40 France, Malta, Portugal, the Netherlands and Italy all have similar programmes available
41 Select Committee on Finance, Public Expenditure and Reform, and Taoiseach debate - Tuesday, 15 Nov 2022
42 SME Taskforce Report Action 2.6.4
43 Tech/Life Ireland | Where tech and life come together
44 Commission approves Finnish State aid scheme - https://ec.europa.eu/

In addition, the rate of EIIS relief available for qualifying green investments should be increased. The EU State aid rules allow for enhanced relief where certain conditions are met, for example, where the investment is made in certain regions of the country.

Incentivise the development and use of green technology

Introduce a super deduction for expenditure on green technology and green buildings and/ or provide grants to assist in the purchase of green technology

This could extend to expenditure on plant and machinery used to develop and improve the energy efficiency of a building, expenditure on IT equipment for remote working, expenditure on commercial hybrid and electric vehicles and charging stations, etc.

Increase the RDTC rate to 50% for R&D carried out on green technologies

This could include activities undertaken in relation to solar, wind, hydro, or biomass energy technologies, as well as other green technologies.

Extend the qualifying period for pre-trading expenses in Section 82, TCA 1997

Features of the renewable energy sector typically include large upfront costs over an extended period of time prior to trading. To facilitate this unique feature of the renewable energy sector, we recommend that expenses occurred in the 10-year period prior to the trade commencing be treated as a pre trading loss under Section 82, TCA 1997.

Allow the deduction of debt issuance costs where the debt term extends beyond 12 years

The Irish Revenue regard borrowings where the life of the debt is expected to be 12 years or less as revenue in nature. Accordingly, costs associated with the issue of debt with a term in excess of 12 years are not typically viewed as deductible in computing taxable income as they are viewed as capital, rather than revenue, in nature.

These costs are typically material for renewable energy project companies and, as the life of the projects are typically 30 years, the term of the debt facilities tends to be in excess of 15 years. We would recommend that debt issuance costs should be confirmed as being tax deductible even where the debt term extends beyond the 12-year term. The additional tax deduction provided would enhance the financial viability of the projects.

Simplify the RCT rules for non-resident subcontractors

Relevant Contracts Tax (RCT) currently applies to all payments by wind and solar farm SPVs to contractors who they pay to carry out construction work on installing equipment (such as turbines etc) onsite. This is due to the definition of principal contractor which includes any "electricity undertaking". Although other businesses who engage contractors to build structures for their own use (such as services businesses, manufacturing businesses) are exempt from the application of RCT, energy businesses are not. This is not aligned with the position in other jurisdictions, such as the UK, who operate a very similar Construction Industry Scheme regime.

The administrative burden placed on wind farm and solar farm developers by these rules is significant. In particular, where non-resident contractors are engaged to carry out specialist work on site, more commonly than not they are subject to high rates of withholding (up to 35%) because they do not have the compliance record to justify a 0% withholding rate (being non-resident). This withholding is refundable but causes significant cash flow issues.

We would suggest that electricity undertakings be removed from the definition of "Principal" in S530A, TCA 1997 as there is no clear policy reason for distinguishing between companies who operate electricity undertakings and those who operate other manufacturing or distribution businesses.

Supporting green agriculture

Enhancements to CGT retirement relief to ensure relief remains available in circumstances where a farmer makes their land available to deliver renewable energy

This should include where a farmer makes their land available to deliver renewable energy through solar, wind or anaerobic digestion, or re-wilds their land, increases wetlands or plants native trees.

Removal of the restriction on the proportion of agricultural land on which solar panels can be installed while remaining eligible for CAT agricultural relief

At present, Section 89(1B)(d)(i), CATCA 2003 provides that land will not be regarded as "agricultural land" where solar panels are installed on more than half the total area. This obstacle to adapting land usage to the production of renewable energy should be removed.

Accelerate the transition to sustainable transport

Introduce a partial income tax credit for EV charging costs

The transition of Ireland's existing transport fleet to EVs could be incentivised by offering a partial income tax credit for EV charging costs.

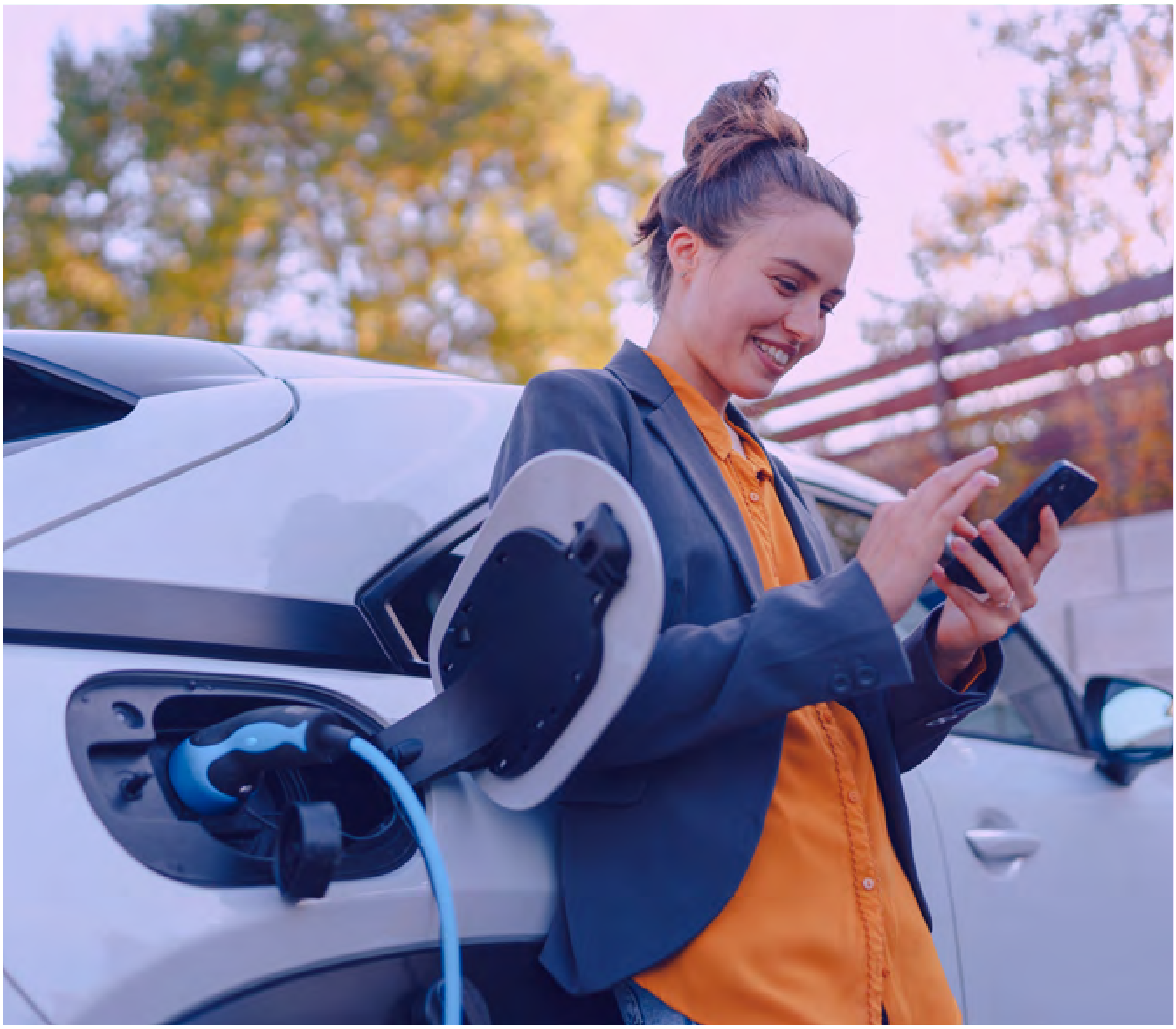
Applying a reduced rate of VAT to bicycles and electric bicycles as allowed under the new VAT Directive approved in April 2022

A reduced rate of VAT should be applied to bicycles and electric bicycles, as permitted by the new VAT Directive approved in April 2022.

Delay the phasing out of the BIK exemption on electric vehicles to 2030

Finance (No.2) Act 2023 made provision for the phasing out of the partial BIK exemption for employer provided electric vehicles by 31 December 2027.

Given Ireland's ambitious climate goals, the BIK exemption should be maintained at the current level and the sunset deferred until 2030 to align with the deadline to halve Ireland's emissions. In January 2025, the Society of the Irish Motor Trader reported a 23.6% decline of in EV sales in 2024 compared to 2023[45]. This demonstrates the continued need for incentives to support the transition to EVs.



45 121,195 New Car Registrations in 2024; Electric Cars Reach 17,459 | SIMI - https://www.simi.ie/

Appendix IV: Section 288, Taxes Consolidation Act 1997 should be amended by the insertion of a new subsection

(7)

a) Where a person elects to disclaim wear and tear allowances, balancing allowances, or initial allowances in respect of any item of machinery or plant under this subsection, then notwithstanding subsection (4)(b), the amount on which a balancing allowance or charge is to be made on that person in respect of an event or occurrence to which subsection (1) applies, may exceed the amounts of allowances referred to in subsection (4)(b) insofar as those amounts relate to wear and tear allowances, balancing allowances or initial allowances disclaimed under this subsection.

b) An election under this section may be made by a person during the chargeable period or basis period concerned or as part of the filing of its income tax return or corporation tax return, as applicable, in respect of that chargeable period or basis period.

c) An election to disclaim wear and tear allowances, balancing allowances, or initial allowances under this subsection may be made –

   (i) in respect of a monetary amount, or

   (ii) on the basis of a methodology or computational basis

   specified in the election. In the case of an election to which (ii) applies, the election shall specify whether it is to apply only in respect of the first chargeable period or basis period to which the election applies or to that chargeable period or basis period and all subsequent chargeable periods or basis periods until such time as the election may be withdrawn.

   In addition to the above change, while the current legislation and existing case law allow for a taxpayer to disclaim capital allowances on expenditure, it is not explicitly clear that a taxpayer has the flexibility to partially claim allowances on individual items of expenditure. While it is arguable that they can, it would be beneficial to eliminate any uncertainty by amending the relevant legislation to confirm that a taxpayer can claim up to the full allowance that they would be entitled to in a given year. This could be readily achieved by modifying Section 284(2)(ad) TCA 1997 as follows:

Notwithstanding any other provision of this subsection but subject to subsection (4), where capital expenditure is incurred on or after 4 December 2002 on the provision of machinery or plant, the amount of the wear and tear allowance to be made shall be an amount equal of up to 12.5 per cent of the actual cost of the machinery or plant, including in that actual cost any expenditure in the nature of capital expenditure on the machinery or plant by means of renewal, improvement or reinstatement; but this paragraph shall not apply in the case of—

(i) imachinery or plant to which subsection (3A) relates,

(ii) imachinery or plant which consists of a car within the meaning of section 286, used for qualifying purposes, within the meaning of that section, or

(iii) imachinery or plant provided under the terms of a binding contract evidenced in writing before 4 December 2002 and in respect of the provision of which capital expenditure is incurred on or before 31 January 2003.

We believe that providing this flexibility to in-scope MNE Groups will help ensure that Ireland remains competitive as an investment jurisdiction for those groups while adhering to the principles and spirit of the EU Minimum Tax Directive.

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