TAX

Summer Economic Statement 2024 – Reaction

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The Minister for Finance, Jack Chambers, and the Minister for Public Expenditure, Paschal Donohoe, today published the government's Summer Economic Statement 2024 outlining the fiscal parameters within which discussions will take place ahead of Budget 2025.

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Budget 2025 will provide for an overall package of more than €8.3 billion comprising taxation measures of €1.4 billion and an increase in public spending of €6.9 billion – significantly higher than the 5 per cent spending rule.

The taxation package is €300 million greater than last year with many competing measures seeking to benefit from this.

Maintaining Ireland's position as a best-in-class FDI location while promoting and fostering the indigenous business sector are critical considerations for Budget 2025. Finding solutions to the ongoing housing crisis and meeting our climate commitments also loom large on the list of current priorities.

In this context, some of the key aspects that we would like to see the Government focus on come 1 October include:

Reform of the personal tax system

The marginal personal tax rate (income tax, PRSI and USC) has increased by 9% since the economic crash. These high tax rates, coupled with the complexity of the system (up to 5 USC rates and bands; 11 different classes of PRSI) make it difficult to maintain and attract an increasingly internationally mobile workforce and re-inforce Ireland’s position as a location of choice for FDI as well as an arena to foster indigenous business and employment growth.

A commitment to decrease our uncompetitive marginal tax rates from 52%/55% to 50% along with a €50,000 entry point to the higher income tax bracket would be useful first steps in creating a more sustainable employment environment. Merging USC and PRSI while capping the amounts on which they apply would help alleviate the complexity issue.

Financial services

We look forward to the findings of the Fund Sector 2030 Review and hope that there is a renewed focus on promoting Ireland as a destination for alternative asset classes. While acknowledging Ireland’s position as a leading funds domicile, it is imperative that the requisite supports from a tax and regulatory perspective are put in place to ensure that Ireland remains competitive and resilient.

Competitive products for alternative assets are instrumental in driving sectoral growth, consolidating our position in the global market and creating sustained employment growth.

Participation exemption

We hope that the promised legislation on a participation exemption for foreign dividends is on track to be delivered in Finance Act 2024. Extension of the participation exemption to foreign branch profits should also be carefully considered.

These measures would help to reduce complexity and help maintain Ireland’s competitive position in a global FDI landscape that the IDA has described as “increasingly challenging and complex”.

Housing and climate – VAT assistance

The dearth of housing is having a direct impact on the economy as the limited supply and burgeoning costs become barriers to attracting and maintaining critical employees while ushering some of our most talented young workers towards the exit door. Meanwhile, Ireland is facing an uphill battle to meet climate commitments.

There are no magic wands in relation to either issue but measures that would help with these goals could include:

- Introducing a 0% VAT rate on the construction of new housing (similar to the UK).
- VAT rate reduction on costs incurred on the expenditure of energy saving incentives, such as smart-thermostats, home electric charging points and solar panels. This could substantially reduce the costs of such upgrades, leading to an increased number of private individuals and businesses investing in more energy efficient properties.
- Reduction in VAT on bicycles and e-bikes from 23% to 13.5% or 9% to encourage the purchase and use of bicycles and e-bikes. This provides the additional benefit of supporting the climate action challenge and promoting a healthy lifestyle while utilising the bike infrastructure expansion that has taken place nationwide.

Supporting indigenous business growth

SMEs are the lifeblood of the Irish economy accounting for the overwhelming majority of enterprises and employing 70% of all workers.

Budget 2025 measures should focus on enhancing the attractiveness of the sector in terms of encouraging new business ventures and incentivising growth and expansion for current SME and family owned businesses. Measures to enable this would include;

- Enhancements to Entrepreneur and Retirement reliefs (including rowing back on the proposed €10 million lifetime cap on transfers of family businesses).
- A reduced CGT rate of 28% to encourage entrepreneurship and increase

the overall tax yield.
- Abolition of the close company surcharge – a relic of a bygone era and an unnecessary additional layer of complexity for the SME sector.
- Limiting any extension of Enhanced Reporting Requirements until at least 2026.
- Enhancements to the KEEP scheme and the deferral of income tax on share option exercise.

Next steps

These measures are indicative of the policies that can consolidate and grow Ireland as a location for thriving international and domestic businesses, boost skilled employment rates and meet crucial housing and climate targets.

The current healthy position of the public finances offer a unique opportunity in Budget 2025 to sustain and drive the Irish economy in the coming years during a period of global uncertainty.