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Making Ireland’s tax system more attractive to entrepreneurs

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The following article by International Tax Partner Cormac Kelleher first appeared in the Irish Independent on Tuesday 6 August 2024.

With an exchequer surplus of €3.1bn for the first half of 2024, Finance Minister Jack Chambers has the capacity and opportunity to provide employers and small businesses with much-needed relief. Given Budget 2025 is now scheduled for October 1, the minister has the opportunity to introduce measures to help offset the over-reliance on multinationals and nurture indigenous Irish business.

This is particularly important given the double threat of continued international tax reform and all the global political change 2025 is likely to bring. The high concentration and temporary nature of corporate tax receipts has been mainstream news over the last 12 months. We have been conditioned not to view them as a source of funding for daily exchequer expenditure.

While this is the prudent approach to adopt, we have not nurtured an alternative offsetting source of receipts.

Ireland should make itself an attractive location for entrepreneurs. Such individuals will drive creativity, develop employment and create an ecosystem that will attract future investment. While there is a capital gains tax entrepreneurs’ relief currently in place, it does not go far enough.

Relative to European counterparts, we are not as attractive as we could be. The current regime should be overhauled. Entrepreneurs who exit a qualifying company and realise a gain should be given a capital gains tax (CGT) “rollover” relief, where they reinvest 80% of the gain in another qualifying Irish business within a 24-month period.

While this is a tax deferral, serial entrepreneurs will be incentivised to remain in Ireland and to continue to develop indigenous business, thereby supporting employment and creating a talented ecosystem. Rolled gains would eventually be taxed when the entrepreneur does not make any further investments.

Domestic Irish enterprise is considered vital to reduce the over-reliance on international groups and exposure to economic shocks. Last year, a significant change to capital gains tax retirement relief was announced. From January 1, there is to be a €10m market value limit on assets that qualify for CGT retirement relief. The measure as implemented has the potential to prevent inter-generational transfers.

Businesses will only transfer on death. This will prevent younger family members getting involved and driving the business, its growth and impact on employment creation. This measure should be paused.

Small businesses are devoting more time to compliance. This year, employers are required to report details of all benefits provided to employees. What constitutes a benefit is much broader than many employers realise. The Easter egg or selection box needs to be reported to Revenue.

For small businesses trying to operate the provisions, this can be challenging and time-consuming. While there is an annual small-benefit exemption of €1,000, this covers a maximum of two benefits.

The small-benefit exemption amount of €1,000 should be repositioned. This should be a cumulative annual amount for each employee, irrespective of the number of small benefits received (for example, staff drinks). This would ease the burden for employers considerably.

Social insurance reform is on the way, most likely in the form of higher rates. While a reform of the regime would be welcomed, it should not become a crippling cost to employers. The cost of employment is constantly being cited as a challenge for family businesses. The true cost of rising rates of pay is compounded by employer PRSI contributions.

Where an employee is earning approximately €23,000 per annum, employer PRSI of 11.15% applies. This equates to over €2,550 of additional employer cost. The current regime does not have a graduated rate or a cap on contribution ceiling.

Consideration should be given to the introduction of a reduced employer-contribution rate for income up to €35,000.

Affordable home delivery is a key issue for the Government. Purchasers of newly constructed homes are, unbeknownst to them, paying VAT at 13.5%. This is a significant cost component, often being the deciding factor between whether a person will be in a position to purchase or not.

To improve affordability and to reduce the average home price, consideration should be given to the introduction of a temporary VAT rate of 7%. This would be for a two-year period. A mechanism would need to be put in place to try to ensure that the VAT reduction would not be “baked in” to the existing prices and not passed on to purchasers.

Amid shifting economic landscapes around the globe, there is no silver bullet to ensure Ireland is safeguarded from instability and decline. But by adopting some of the innovative measures above, Mr Chambers can set a robust foundation ahead of a general election which is just around the corner.

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