

**OVERVIEW OF THE RECOMMENDATIONS OF THE  
COMMISSION ON TAXATION**

**TABLE OF CONTENTS**

	PAGE
1. INCOME TAX .....	2
2. THE INTERFACE BETWEEN THE TAX AND THE SOCIAL WELFARE SYSTEMS.....	5
3. THE TAXATION OF CAPITAL .....	6
4. CONSUMPTION TAXES.....	7
5. INTERNATIONAL ISSUES.....	8
6. REGULATORY FRAMEWORK .....	9
7. TAX AVOIDANCE .....	11
8. TAXATION OF PROPERTY .....	11
9. CORPORATION TAX.....	12
10. SUPPORTING BUSINESS .....	13
11. SUPPORTING SECTORS AND ACTIVITIES .....	17
12. TAX EXPENDITURES - GENERAL .....	18
13. TAX EXPENDITURES – CHILDREN.....	19
14. TAX EXPENDITURES – HOUSING .....	21
15. TAX EXPENDITURES – HEALTH .....	22
16. RELATING TO PHILANTHROPY .....	25
17. TAX EXPENDITURE - ENTERPRISE (INCLUDING FARMING) .....	27
18. TAX EXPENDITURES – EMPLOYMENT .....	34
19. TAX EXPENDITURES - SAVINGS AND INVESTMENTS .....	41
20. TAX EXPENDITURES - OTHER .....	41
21. TAXING CARBON DIOXIDE EMISSIONS .....	44
22. TAX ON OTHER GREENHOUSE GASES.....	45
23. PRODUCT TAXES .....	45
24. ENERGY EFFICIENCY .....	45
25. TRANSPORT .....	46
26. TAX INCENTIVES FOR RETIREMENT SAVINGS .....	46
27. ANNUAL PROPERTY TAX AS A SOURCE OF LOCAL GOVERNMENT FUNDING.....	50
28. WASTE CHARGES .....	50

## 1. INCOME TAX

### **Recommendation 5.1**

**There should be a single system which collects tax on income.**

### **Recommendation 5.19**

**The health contribution levy should be integrated into the income tax system.**

*Cost: Revenue Neutral*

The Minister has also indicated that he would like to rationalize the income and health levies into the income tax system.

Absorption of the levies into the income tax system could be achieved in a number of ways by adjusting the standard rate and higher rate. Examples are set out below.

<b>Levy</b>	<b>New Income Tax Rates</b>	
Income Levy	Standard Rate (+2%)	22%
	Higher Rate (+5.5%)	46.5%
Health Levy	Standard Rate (+3%)	23%
	Higher Rate (+6.5%)	47.5%
Income Levy and Health Levy	Standard Rate (+6%)	26%
	Higher Rate (+9%)	50%

Absorption of the levies into the income tax system would result generally in a 1%-3% reduction in take home pay across national minimum wage, average industrial wage, 1.67 times the average industrial wage and twice the average industrial wage. This approach would affect married one income earners more than single individuals. The raising of the standard rate would bring the minimum wage into the income tax net. High earners, those earning over €300,000, would actually see a small (0.8%) benefit from this measure.

Marginal rates would increase for most income earners but particularly for the lower paid. Marginal rates for a single income earner on the national minimum wage would increase from 2% to 26%. Marginal rates for the average industrial wage would remain at 30% but marginal rates for twice the AIW would increase from 51% to 54%. Marginal rates for high earners, earning over €175,000, would actually decrease from 52% to 50%.

### **Recommendation 5.2**

**A three-rate income tax structure has merit but should have regard to the need to keep taxation on labour low and marginal rates competitive.**

Practical challenges of the introduction of a third rate of income tax, includes timing, costs and the nature of the income tax structure.

A successful implementation by January 2010 would be unlikely given the short time scale. There would be major timing and cost implications for private sector payroll companies. The Payroll Software Association of Ireland has written to the Department asking for a 12 month notice period for major changes to the income tax structure.

Revenue have been developing the capacity for a third rate of tax. The payroll companies on the other hand could not be expected to make any investment in dealing with a third rate without a clear indication from the Government that a third rate will be introduced.

**Recommendation 5.3**

**As a general principle, the family should continue to be the unit of taxation for all direct taxes.**

General principle

**Recommendation 5.4**

**The present arrangements with regard to band structure and credits which apply to married one-earner and married two-earner couples should remain in place.**

This recommendation relates to individualisation and in particular that the Government should neither advance nor go backwards on individualisation. The aim of the “individualisation” process is to provide each person with their own non-transferable standard rate band. This involves narrowing the gap between the single and married one earner band. At the end of the process, the single band would be the same as the married one-earner band and each spouse in a married couple would have the same non-transferable standard rate band.

Current Band Structure

The current band structure is as follows:

Single	€36,400
Married One Income	€45,400
Married Two Income	€72,800 (with maximum transferability between spouses of €45,400).

To complete individualisation

Completing the process would result in the following structure:

Single	€45,400
Married One Income	€45,400
Married Two Income	€90,800 (i.e. €45,400 for each spouse with no transferability between spouses).

This would be very costly to achieve, given that it would involve increasing the single band and the bands for married two earners. Married one earners would lose out in relative terms. The cost was estimated to be over €300 million in a full year prior to Budget 2009 (this amount would be roughly 20% lower given economic developments).

To reverse individualisation

Reversing individualisation would give the following structure:

Single	€36,400
Married One Income	€72,800
Married Two Income	€72,800 (with full transferability between spouses)

This is even more costly to achieve as it involves a significant increase in the married one earner band. The cost was estimated to be about €900 million in a full year prior to Budget 2009 (this amount would be roughly 20% lower given economic developments).

The above illustrations assume that there are no reductions in the bands and that nobody would lose out other than in relative terms. Progress on individualisation has been slow, given the major costs and the objections raised in relation to those who lose out in relative terms, the married one earners.

The costs involved perhaps explain the Commission’s conclusion.

### **Recommendation 5.5**

**If taxation is applied to child benefit, a child tax credit should be introduced to offset the additional tax payable in respect of child benefit for those in the lower half of the income scale.**

*Refer to recommendation 8.7*

### **Recommendation 5.6**

**The general aim should be to continue to exempt the minimum wage from income tax.**

#### General Principle

The Irish minimum wage level is the second highest in Europe. The minimum wage is currently liable to the income levy at 2%.

### **Recommendation 5.7**

**An earned income credit at a modest level should be phased in over time for proprietary directors and the self-employed.**

The Commission considers the fact that there is an employee tax credit at a high level and no analogous tax credit for the self-employed as being inequitable. The Commission states that while there are considerable advantages to being self-employed in relation to timing of tax payments it does not believe that the disparity in tax credits is justified.

The Commission suggest that rather than differentiating between income from employment and other income, the differentiation could be between earned and un-earned income. An earned income tax credit could be given for earned income by both employed and self-employed and would not apply to un-earned income such as income from investments.

The Commission recognises that there would be a very significant cost (over €50m) in extending the employee tax credit to the self-employed and proprietary directors. The Commission therefore recommends that an earned income credit at a modest level could be phased in over time.

### **Recommendation 5.8**

**A measure to limit the use of specified tax reliefs and exemptions by high earners should remain part of our tax code.**

- **The required effective rate should apply to those earning over €250,000. It should apply on a graduated basis to those earning between €200,000 and €250,000.**
- **This measure should be periodically reviewed, including when economic growth returns to a more stable trend, to determine whether the level of the required effective rate should be increased**

The present restriction on reliefs came into operation on 1 January 2007. Earnings over €500,000 are subject to the restriction, with a graduated application to earnings between €250,000 and €500,000. The desired effective tax rate for high earners using reliefs is 20%.

The Revenue Commissioners' report on the operation of the restriction for the 2007 tax year shows that it has worked well and has brought in approx. €40 million in additional revenue from high income individuals using reliefs.

The Commission's recommendation to lower the income threshold at which the restriction applies at a full and graduated level would increase the yield.

## 2. THE INTERFACE BETWEEN THE TAX AND THE SOCIAL WELFARE SYSTEMS

Recommendations 5.9 to 5.18 and 5.20 are matters relating to PRSI.

### Recommendation 5.19

**The health contribution levy should be integrated into the income tax system.**

*See Recommendation 5.1 above.*

### Recommendation 5.22

**On balance, we do not recommend a move to refundable tax credits at this stage. If there is not an appropriate level of uptake of direct expenditure support through measures like Family Income Supplement payments within a five-year period, the question of refundable tax credits should be considered as a policy option to ensure a more equitable distribution of resources.**

A refundable tax credit, or a non-wastable tax credit, is one where, if an income-earner has insufficient income to use all his/her tax credit, the unused portion of the credit is paid to the taxpayer by means of a cash transfer.

Revenue has recently estimated that the cost of a Universal Refundable Tax Credit System would be roughly €3.5 billion per annum.

### Recommendation 5.23

**As a general rule, all social welfare payments should be subject to taxation.**

- **The statutory provisions which exempt from income tax elements of social welfare payments which are otherwise taxable should be discontinued.**
- **There should be no change in the taxation status of maternity benefit, adoptive benefit and health and safety benefit.**
- **Specific exemptions from income tax should be introduced for Family Income Supplement, the Domiciliary Care Allowance and the Respite Care Grant.**

The current situation in relation to the tax treatment of social welfare payments is set out below.

#### Social Assistance Payments

Jobseeker's Assistance	Not taxable
Pre-Retirement Allowance	Not taxable
Farm Assist	Not taxable
Widow's/Widower's Non Contributory Pension	Taxable
Guardian's Payment Non Contributory	Taxable
Carer's Allowance	Taxable
Supplementary Welfare Allowance	Not taxable
State Pension (Non-Contributory)	Taxable
Blind Pension	Taxable
Disability Allowance	Not taxable
Deserted Wife's Allowance	Taxable
One-Parent Family Payment	Taxable

### Social Insurance Payments

Illness Benefit	Taxable (first six weeks excluded)
Maternity Benefit	Not taxable
Adoptive Benefit	Not taxable
Health and Safety Benefit	Not taxable
Invalidity Pension	Taxable
State Pension (Transition)	Taxable
Jobseeker's Benefit	Taxable (first €13 per week excluded)
Jobseeker's Benefit (paid to systematic short-term workers)	Not taxable
Widow's/Widower's Contributory Pension	Taxable
Guardian's Payment Contributory	Taxable
Deserted Wife's Benefit	Taxable
Carer's Benefit	Taxable
State Pension (Contributory)	Taxable
Disablement Pension	Taxable
Constant Attendance Allowance (payable with Disablement Pension)	Taxable
Injury Benefit	Taxable
Death Benefit Pension	Taxable

### 3. THE TAXATION OF CAPITAL

#### Recommendation 5.25

**Gains attributable to inflation should be excluded from the charge to capital gains tax.**

The recommendation seeks to apply Capital Gains Tax to 'real' gains in asset values by excluding the impact of inflation.

Indexation (excluding gains attributable to inflation) was brought in a number of years after the introduction of Capital Gains Tax in 1975 to take account of high levels of inflation when CGT rates were relatively high. With a marked decline in inflation, it was abolished in 2003 when CGT rates were reduced from 40% to 20%.

#### Recommendation 5.26

**Capital gains tax rollover relief should apply to the gains on disposal of farm land pursuant to a compulsory purchase order where the proceeds are re-invested in farm land.**

Rollover relief was, in effect, a deferral of tax to be paid, where the proceeds of disposal were re-invested into replacement assets. The taxation of these assets would take place following the eventual disposal of the new assets without their replacement. The recommendation seeks to reinstate rollover relief for compensation paid to farmers under compulsory purchase orders provided that the compensation is reinvested in farm land.

Finance Act 2003 abolished rollover relief on all disposals, including disposals as a result of a compulsory purchase order.

The IFA has lobbied that rollover relief be reinstated for farmers who have to sell farmland under a CPO because they have no choice in this disposal and it is felt that where they have to purchase more farmland to compensate for the farmland sold, they should receive some relief via rollover relief in a manner similar to relief from Stamp Duty where farmers consolidate their holdings.

#### 4. CONSUMPTION TAXES

##### **Recommendation 5.27**

**The policy approach to determining the level of excise duty applicable to alcohol and tobacco products should take account of factors such as health outcome, public order issues, cross-border trade and other societal issues.**

These competing considerations are routinely taken into account by the Department of Finance and weighed up against each other as part of the deliberations which take place in the process of drawing up the annual Budget.

##### **Recommendation 5.28**

**A deferral system should be applied in place of the daily payment system that currently applies to excises on mineral oils. However, any change should ensure that there is no cash-flow cost to the Exchequer.**

The current system for mineral oils provides for daily payments of mineral oil tax to be made and lodged into a local Revenue account on the same day the oil leaves the bonded warehouse. This has historically been the collection system in respect of mineral oils and it provides immediate revenue for the Exchequer.

Introducing a deferral of on average 60 days as proposed would lead to a once-off cash flow loss to the Exchequer in the year of introduction of over €300m.

##### **Recommendation 5.29**

**Stamp duty on ATM, credit and debit cards should be phased out in the interest of promoting the move towards a cash-free society.**

Since Budget 2008, Stamp Duty rates on ATM, Debit and Combined ATM/Debit cards have been reduced in line with Government policy of encouraging greater use of electronic means of payment and also as a security measure in encouraging less use of cash. The reductions have been balanced by increased Stamp Duty rates on paper transactions such as cheques and Bills of Exchange which are now 50 cent each and the rates for electronic means are as follows:

<b>Item</b>	<b>Annual Rate</b>
ATM (i.e. cash) cards	€2.50
Debit (i.e. laser) cards	€2.50
Combined ATM/Debit cards	€
Credit Cards	€30
Charge Cards	€30

The recommendation agrees with established policy. However, a complete abolition of Duty on cards would cost an estimated €70m.

## 5. INTERNATIONAL ISSUES

### **Recommendation 5.30**

**The 183/280 days test for determining the tax residence of an Irish citizen should be supplemented by additional criteria, which should include a permanent home test and a test based on an individual's centre of vital interests.**

At present, an individual is resident in the State for tax purposes for a particular year in either of the following circumstances:

- if he/she spends 183 days or more in Ireland for any purpose in that tax year; or
- if he/she spends 280 days or more in Ireland for any purpose over a period of two consecutive tax years he/she will be regarded as resident in Ireland for the second tax year.

However, even where an Irish domiciled person establishes non-residence, he remains liable to Irish tax on income arising in Ireland (e.g. income from directorships, a trade or profession, rented properties etc.). The only income which escapes Irish tax for individuals in this category is income arising elsewhere in the world outside Ireland.

The Finance (No 2) Act 2008 tightened the rules (i.e. the 'Cinderella' rule) by providing that an individual is deemed to be present in the State for a day if the individual is present at any time during a day.

The Irish rules are in line with the OECD position generally.

The recommendation is to supplement the existing rules with additional criteria to include a permanent home test and a test based on an individual's centre of vital interests. Any changes would have to ensure that they did not run counter to OECD norms and elements in our Double Taxation Treaties network.

### **Recommendation 5.31**

**The rule that allows an individual, who makes a gift of property to Ireland, to be regarded as neither resident nor ordinarily resident in Ireland, notwithstanding being present in Ireland for significant periods, should be discontinued.**

At present, the 183/280 days test for determining the tax residence of an Irish citizen can be modified in cases where an individual resident (including a spouse if they leave the jurisdiction) outside Ireland makes a gift of property to the State. This can facilitate avoidance of the general rule on Irish tax residence.

### **Recommendation 5.32**

**The remittance basis of taxation for income tax and capital gains tax should be discontinued.**

*This recommendation also relates to Recommendation 7.24 – reintroduction of remittance for income derived from employment in Ireland.*

The recommendation seeks the abolition of the remittance basis of taxation on foreign-sourced income and capital gains on the grounds of equity between different taxpayers.

The remittance basis of taxation is long-established (mainly based on the historical Ireland-UK linkages) under which foreign-sourced income and capital gains are charged to Irish tax only to the extent that they are remitted into Ireland. It relates to individuals resident, but not domiciled in Ireland, and Irish citizens not ordinarily resident in Ireland.



## 6. REGULATORY FRAMEWORK

### **Recommendation 5.33**

**The relationship between the State and the taxpayer should be informed by reasonableness and proportionality through the provision of safeguards to ensure equitable treatment. To the extent that it is practicable, safeguards should be provided on a statutory basis.**

Comprehensive safeguards exist, ranging from customer service complaint procedures, through the facility to request an internal review and ultimately the right to make an appeal under existing statutory provisions (Appeal Commissioners, Ombudsman's Office or the Equality Tribunal).

### **Recommendation 5.34**

**The State's interaction with the taxpayer so as to ensure tax compliance should be proportionate.**  
**a) Access to determinations of the Appeal Commissioners should be simultaneously available to taxpayers and the Revenue Commissioners.**

The Appeal Commissioners are not required to publish determinations but instead may make the determinations they consider appropriate available to the public. In practice very few determinations are made public. This matter is currently under review.

**b) A cost-effective route of appeal should be available to all taxpayers.**  
**c) Other recommendations made in the Reports of the Law Reform Commission and the Revenue Powers Group in relation to the reform, jurisdiction and operation of the appeal system should be implemented.**

The general question of the Office of the Appeal Commissioners, its corporate structure and legal basis is under consideration following reports by the Steering Group on the Revenue Commissioners (2000) and the Public Accounts Committee (Final DIRT Report 2001). The Government decided in June 2001 to proceed with the preparation of draft legislation to provide a new statutory footing for the Revenue Commissioners (a Revenue Bill) and for the Office of the Appeal Commissioners.

However, the remit of the ongoing Moriarty Tribunal of Inquiry includes making findings concerning the independence of Revenue. Therefore, the publication of the Revenue Bill can only be addressed in the context of the availability and timing of the Report of the Tribunal.

### **Recommendation 5.35**

**The interest rate applicable to overdue tax payments should be reviewed each year having regard to the prevailing market rates and the rate should be sufficiently high to discourage taxpayers from deferring tax payments.**

Finance Act 2009 reduced the applicable rates.

### **Recommendation 5.36**

**The Revenue Commissioners should adopt general criteria towards reducing the regulatory burden as outlined in section 7.2.2 of Part 5.**

Revenue continue to work with industry and practice to develop and maintain a balanced regulatory regime - one that achieves its objectives without imposing unnecessary costs. Revenue has a clear customer service ethos with a strong focus on providing low cost accessible services.

**Recommendation 5.37**

**Dividend withholding tax exemption claims by foreign parent companies should not require third party certification.**

Dividends paid by Irish-resident companies to non-resident shareholders may be exempt from Irish tax but this depends upon meeting a number of administrative requirements (third party supporting documentation such as a tax residency certificate from another jurisdiction). These requirements were introduced to ensure the bona fides of persons claiming non-resident because they would otherwise be subject to a dividend withholding tax (at the standard rate) deducted at source by the company paying the dividend. The argument for easing the regulatory burden may require an examination of the existing requirements, but this must be balanced by a need to protect the Irish tax base and revenues from this source.

**Recommendation 5.38**

**Self-assessment should apply to interest and royalty withholding tax exemptions and reductions that are available in tax treaties.**

Irish-resident companies paying interest and royalties to non-resident persons must obtain prior approval from the Revenue Commissioners for a reduction or elimination of withholding tax in accordance with double taxation treaties. The recommendation seeks that an existing self-assessment basis, which does not require prior approval from the Revenue Commissioners, under the EU Interest and Royalties Directive be extended to exemptions and reductions of withholding tax available under double taxation treaties.

The administrative arrangements under the EU Interest and Royalties Directive are very specific and resulted from a long process of development amongst members of the EU which have strong similarities in their treatment of interest and royalties.

This is not the case for all of the jurisdictions with which Ireland has established double taxation treaties.

**Recommendation 5.39**

**The relevant contracts tax rate should be reviewed to ensure that it does not lead to a taxpayer paying tax in excess of final liability.**

It could be reviewed but it should be noted that a strengthening of the legislative provisions around RCT has already been undertaken.

**Recommendation 5.40**

**Flexibility should be given to the Revenue Commissioners to vary the strict application of interest and penalty provisions in *bona fide* situations where relevant contracts tax was not applied but at no loss to the Exchequer.**

**Recommendation 5.41**

**A system should be put in place to permit payments for professional services to be made without deduction of professional services withholding tax to compliant taxpayers with an appropriate certificate from the Revenue Commissioners.**

Such a system could result in a revenue loss to the Exchequer. There already exists a facility for interim refunds to taxpayers in certain circumstances, e.g. where a taxpayer considers that the amount of PSWT deducted from payments is in excess of likely final liability to tax, an application may be made to the

taxpayer's Revenue office for an interim refund of any excess, instead of waiting to have it credited against final liability.

**Recommendation 5.42**

**Where detailed data is required to allow the appropriate evaluation and cost-benefit analysis of tax expenditures, the taxpayers and businesses availing of the tax expenditures should be required to e-file their tax returns.**

Revenue is mindful of the need to minimise any extra costs or complexity imposed on business and individuals and prefers, where possible, to encourage the use of e-filing by means of incentives for taxpayers who use this approach.

## **7. TAX AVOIDANCE**

**Recommendation 5.43**

**Where tax avoidance is identified and demonstrates a weakness in the law, a specific provision in the tax code should be enacted to prevent the avoidance in question.**

Where "avoidance" is identified, immediate action is already taken as a matter of course through the Finance Bill.

**Recommendation 5.44**

**Twenty years after the introduction of the general anti-avoidance provision, it is now opportune to review its effectiveness as a tool to tackle tax avoidance. This should include consideration of a time limit within which the Revenue Commissioners would be required to make a decision on the point at issue.**

Anti-avoidance provisions are continually updated to maintain their effectiveness and significant changes were introduced as recently as the Finance Act 2008.

## **8. TAXATION OF PROPERTY**

**Recommendation 6.2**

**Provide for an annual property tax on all residential housing units with the broad exceptions of local authority and social housing units and some other limited exceptions set out in section 4.2 of Part 6.**

*This Recommendation also relates to Recommendations 6.3 and 11.11.*

Ireland is the only OECD Country without a form of annual property tax, a position which is compounded by what can be perceived by Ireland has some of the most generous tax provisions for owner-occupied housing through the provision of tax relief on rent, mortgage interest payments, capital gains and capital acquisitions.

The Commission's recommendation on the introduction of an annual property tax on all residential housing units has to be considered in the context of its related recommendation (6.3, below) on the discontinuation of Stamp Duty on purchases of principal private residences and its continuance for investors of residential units.

There is a concern that the combined impact of the recommendation for a property tax with the proposal to discontinue Stamp Duty for most residences has a strong potential to create market uncertainty, as has happened in the past, which could impact on the recovery of the private housing market (relating to second hand homes for non first time buyers).

**Recommendation 6.3**

**Stamp duty for purchasers of principal private residences should be zero-rated.**

*See Recommendation 6.2 above*

**Recommendation 6.4**

**Stamp duty should continue to apply to investor purchasers of residential housing units. The rate should be competitive having regard to the transaction tax rates and thresholds that apply across the EU.**

Although recommending the discontinuation of Stamp Duty on purchases of principal private residences, the Commission considers that Stamp Duty remain in place for investors in residential units.

While also recommending that rate should be competitive having regard to the transaction tax rates and thresholds that apply across the EU, it concedes that a comparison of Stamp Duty rates across the EU is difficult because of the interaction of thresholds and rates.

**Recommendation 6.5**

**The windfall gains from increases in land values due to rezoning decisions should be subject to an additional capital gains tax charge.**

This recommendation seeks to tax windfall gains from ‘betterment’ arising from increases in land values due to rezoning decisions – the gains would be taxed under Capital Gains Tax.

**Recommendation 6.6**

**A recurrent property tax on land zoned for development should be introduced.**

*See Recommendation 6.2 above*

## **9. CORPORATION TAX**

**Recommendation 7.1**

**A low stable corporation tax rate should remain a core aspect of Irish tax policy to support economic activity in the long term.**

The Commission’s terms of reference directed it to have: “regard to the commitments on economic competitiveness and on taxation contained in the Programme for Government, in particular, the commitments..... the guarantee that the 12.5% rate of corporation tax will remain”.

## 10. SUPPORTING BUSINESS

### **Recommendation 7.6**

**The ‘corporation tax holiday’ for new business should be extended to companies starting out in 2010 or 2011, and a similar scheme should be introduced for the non-corporate sector (see Recommendation 8.65).**

*This recommendation is already partially covered by Recommendation 8.65.*

The Finance Act (No. 2) 2009 introduced an exemption from Corporation Tax for new businesses established in 2009 up to a limit of €60,000 Corporation Tax payable. It is only available to companies and is awaiting European Commission State Aid approval.

Given that this measure was only introduced this year and EU Commission State Aid approval remains outstanding, the Commission’s recommendation will have to be considered in the context of the terms of any European Commission approval, if forthcoming.

### **Recommendation 7.7**

**An optional arrangement should be made available to new non-corporate businesses to allow them to spread their tax payments over the first three years**

*This recommendation is already partially covered by Recommendation 8.65.*

As noted under Recommendation 7.6, The Finance Act (No. 2) 2009 introduced an exemption from Corporation Tax for new businesses established in 2009 up to a limit of €60,000 Corporation Tax payable. It is only available to companies and is awaiting European Commission State Aid approval.

### **Recommendation 7.8**

**Stamp duty on all share transactions should be reduced to zero.**

The conveyance or transfer on sale of any stocks or market securities attracts a Stamp Duty of 1% and the yield from the 1% charge to Stamp Duty on shares in recent years has amounted to between 12% and 28% of the total yield from stamp duty (24% in 2008). The differential of 0.5% between Irish and UK stamp duty renders UK equities slightly more attractive (from a tax point of view) than Irish equities. The cost of implementing this proposal, based on 2008 yield, would be €19m.

### **Recommendation 7.9**

**The tax rate on dividends received by Irish residents should be reduced to the rate applying to deposit interest. The measure should apply to ordinary shares.**

**Safeguards should be included to ensure that the provision operates as intended.**

At present, dividend interest is taxed at an individual’s marginal rate in comparison to rates varying between 25% and 28% for financial deposits and collective funds. The recommendation considers that reduced the rate on dividend interest will encourage enterprise and treat all forms of capital in the same manner.

No evidence is provided that reducing the rate of tax on dividend interest will encourage enterprise. Individuals invest in shares to benefit from capital gains and dividends, the combined impact of which is greater than the return on financial deposits and similar products. Dividend income (in the same manner as rental income) is treated as a flow of income for individuals which is subject to income tax.

**Recommendation 7.10**

**Corporation tax payable on gains on disposal of assets used for trading purposes should be at the rate applicable to trading profits.**

At present, the disposal of assets by companies which are used for reinvestment in business activities are taxed at the Capital Gains Tax Rate of 25% in comparison to the 12.5% Corporation Tax rate which applies to profits which are reinvested. The Commission proposes to equalise the two forms of internal funds for investment by applying a 12.5% rate to asset disposals used for trading purposes.

**Recommendation 7.11**

**All companies should be allowed to adopt a previous year option in relation to the payment of preliminary tax.**

*Recommendation 7.12 is also relevant for this issue.*

All non new-start-up companies pay preliminary Corporation Tax before the end of their accounting period with the balance payable after the end of the tax year. The exact arrangements for the payment of preliminary tax are different for ‘small companies’ (with a liability of less than €200,000) and others above that threshold: ‘large companies’ who have to pay 90% of forecast tax in advance of their end-accounting period. In addition, the arrangements were amended in the Finance (No. 2) Act 2008 which brought forward the payment dates.

The Commission considers that the preliminary tax rules for large companies (approximately 2,500 companies and less than 5% of all companies) “impose a disproportionate compliance burden and cause uncertainty for business” and that the ‘small company’ treatment be extended to all companies.

As these tend to be the largest companies, which also pay most Corporation Tax, any proposed extension of the arrangements will be very costly - this is recognised by the Commission which estimates the cost at circa €460m.

**Recommendation 7.12**

**The recommendation that all companies should be allowed to adopt a previous year option in relation to the payment of preliminary tax should be implemented having regard to the cash-flow costs involved in such a move. In this regard, options might include:**

- **Gradually increasing the small company threshold over a number of years, until all companies are covered.**
- **Allowing large companies the option of using a fixed multiple – say 105% – of the previous year’s figure.**

*Recommendation 7.11 is also relevant for this issue.*

As an alternative to Recommendation 7.11 (immediate introduction of the small company preliminary tax treatment to all companies), the Commission suggested a gradual move towards this goal. This is broadly consistent with the approach taken in recent Finance Bills which has seen the small company threshold increased. However, while a gradual introduction would reduce the immediate impact of the estimated cash flow cost of €460m, this would be the overall cost over the time period set out for the introduction of the measure.

**Recommendation 7.13****The close company surcharge on professional service companies should be removed.**

*Recommendations 7.14, 7.15 and 7.16 are also relevant for this issue.*

Close company (i.e. controlled by five or less shareholders) surcharges were introduced in 1976 as an anti-avoidance measure to ensure that income was not held in a company instead of being distributed to shareholders. There is a separate close company surcharge for companies supplying professional services that does not apply to other companies. Any consideration will have to take account of the requirement to ensure that any relaxation of the close company surcharge does not undermine the Corporation Tax base through avoidance or there are no adverse impacts upon other areas of the Corporation Tax code.

**Recommendation 7.14****The close company surcharge on investment and estate income of companies should be retained. However, the *de minimis* amount before the provisions come into play should be substantially increased in order to ease the regulatory burden for companies in such cases.**

*Recommendations 7.13, 7.15 and 7.16 are also relevant for this issue.*

Close company (i.e. controlled by five or less shareholders) surcharges were introduced in 1976 as an anti-avoidance measure to ensure that income was not held in a company instead of being distributed to shareholders.

The current rules allow for a *de minimis* amount of €35 of investment and estate income to be retained by companies before the close company surcharge comes into operation. In order to ease the regulatory burden on companies, especially SMEs, the Commission has recommended that this minimum amount be increased substantially.

It is noted that the Commission does not recommend any new *de minimis* amount.

**Recommendation 7.15****The Revenue Commissioners should closely monitor the new regime to ensure that it operates as intended.**

*Recommendations 7.13, 7.14 and 7.16 are also relevant for this issue.*

**Recommendation 7.16****The remaining close company surcharge provisions should be examined by the Department of Finance and the Revenue Commissioners to ensure their effectiveness.**

*Recommendations 7.13, 7.14 and 7.15 are also relevant for this issue.*

Any consideration will have to take account of the requirement to ensure that any relaxation of the close company surcharge does not undermine the tax base through avoidance or there are no adverse impacts upon other areas of the tax code.

**Recommendation 7.17**

**A review should be undertaken by Government to assess the effects of the air travel tax on business in general and tourism in particular. This review should be set in the context of the pending inclusion of air travel in the EU Emissions Trading Scheme (EU ETS) from 2012.**

The Commission considers that the air travel tax is not supportive of economic activity because of possible damage to inbound tourism and damage to business – for example, businesses with high numbers of employees regularly travelling between Dublin and London. At €10 the air travel tax is likely to have a minimal or even negligible impact on passenger numbers and that a review may actually support that view; falls in passenger numbers being a function of general economic conditions. The air travel tax has never been signalled as an environmental initiative so the inclusion of air travel in the EU ETS as the context of the review does not seem appropriate.

**Recommendation 7.18**

**Taxable income should be computed for business income (Schedule D, Case I and II) based on the accounting profits of a business, with normal statutory disallowances. In particular, we propose that accounts depreciation for tax purposes should replace the capital allowances regime used in business.**

- **In the case of buildings, the new provision should only apply where the buildings qualify for capital allowances under the existing rules (but see Recommendation 7.19).**
- **Businesses should be permitted to change to the new regime at any time in a five-year transitional period.**
- **Existing special regimes should continue.**

*Recommendation 7.19 is also relevant for this issue.*

This recommendation seeks to replace the existing capital allowances basis for deducting capital expenditure against a company's Corporation Tax liabilities with accounting conventions based on depreciation.

Implementing this recommendation would be very costly as it would significantly reduce the business tax base as recognised by the Commission itself.

This is a very complex and multi-faceted issue which would have to be carefully examined for cost implications, potential evasion of tax liabilities and implications across the overall Corporation Tax code as well as the interplay with tax reliefs.

**Recommendation 7.19**

**The list of buildings that qualify for deductibility for tax purposes should be extended.**

Under the existing capital allowance regime, expenditure on certain items of a capital nature (plant and machinery, motor vehicles and industrial buildings) can be offset against a company's Corporation Tax liabilities.

The recommendation would align the treatment of capital expenditure on buildings with the accounting treatment – this would cover more types of buildings (e.g. shops and offices) which do not currently qualify for capital expenditure.





their income offshore. It allowed an individual who was non-Irish domiciled and worked under a foreign contract of employment to pay tax only on the income that was remitted to the State.

In light of a number of abuses, the scheme was curtailed in the Finance Act 2006 and a restricted form of remittance was re-introduced in the Finance (No. 2) Act 2008.

The Commission has recommended that the current form of remittance be discontinued and replaced with a new scheme – recommendation 7.25. It is felt that it has a limited value in attracting key workers with required skills to locate in Ireland.

**Recommendation 7.25**

**A carefully targeted tax incentive, along the lines indicated in Box 7.13, should be introduced to attract skilled persons into Ireland to meet short-term skills gaps.**

*Recommendation 7.24 is also relevant for this issue.*

The Commission has recommended a new scheme to replace the restricted form of remittance which was introduced in the Finance (No. 2) Act 2008. Apart from an emphasis on ‘skills’ rather than nationality, the proposed new scheme is relatively similar to the existing position.

This is a complex and potentially administratively cumbersome recommendation which would, if accepted, take time to develop in conjunction with other State Agencies and business. The provision of a favourable taxation regime to highly-paid individuals runs counter to the principle of equity which the Commission highlighted as underpinning tax expenditures.

## **12. TAX EXPENDITURES - GENERAL**

**Recommendation 8.5**

**For all future tax expenditures, and reforms of tax expenditures, there should be:**

- **An *ex ante* evaluation process in advance of decisions to implement or extend any tax expenditure, including an assessment of the costs and benefits of proposals and consideration of the alternative of a direct expenditure approach.**
- **Better measurement and data collection on the costs and benefits associated with the introduction or extension of the tax expenditure and the review of its impact.**
- **Publication of an annual tax expenditures report by the Department of Finance as part of the annual budget process and subject to Oireachtas scrutiny.**
- **Spending through the tax system should be controlled by, for example, the imposition of thresholds and ceilings and reductions in the rate at which tax relief is given or in the quantum of a base figure to which tax relief might apply.**

**Recommendation 8.6**

**Transitional arrangements should be put in place where appropriate in relation to tax expenditures which are being discontinued.**

General principles

### 13. TAX EXPENDITURES – CHILDREN

#### **Recommendation 5.5**

**If taxation is applied to child benefit, a child tax credit should be introduced to offset the additional tax payable in respect of child benefit for those in the lower half of the income scale.**

#### **Recommendation 8.7**

**Child benefit should be taxable income.**

- **The taxing of child benefit should be benchmarked against alternatives, including means testing, to ascertain the most effective method of achieving the aims and objectives of the child benefit programme.**
- **If taxation is applied, we recommend the introduction of a child tax credit to offset the additional tax payable in respect of child benefit for those in the lower half of the income scale.**

In the Supplementary Budget 2009 the Minister stated that available resources should be targeted at those most in need, that the Government thought it was not fair to pay the same benefit irrespective of the level of income of the recipient and that for this reason the Government had decided that child benefit would be means tested or taxed in the next Budget.

Child benefit will cost approximately €2.5bn in 2009. This is a very significant burden on the Exchequer in times of reducing revenues. Child benefit has increased significantly since the late 1990s. Rates for the first and second child have increase by well over 300% from 1997 to 2008 while the cost of living has increased by less than 50% in the same period. Child benefit is paid to every recipient in full irrespective of income of the recipient or the total family income. The question of taxing child benefit has been considered a number of times in the past by the Department of Finance.

Since the announcement in the Supplementary Budget 2009 an inter-departmental group comprising representatives of the Department of Finance, the Department of Social and Family Affairs and the Revenue Commissioners has been discussing how best to tax or means test child benefit.

A number of options have been put forward and are being considered. The option to introduce a child tax credit, however, was not one of these options.

#### **Recommendation 8.8**

**The exemption of foster care payments from income tax should continue**

Payments made by the Health Service Executive to foster parents and relatives in respect of children in their care are exempt from income tax. The 2008 rates of payment were €6,588 per annum for a child under 12 years and €17,992 per annum for a child over 12 years. It is estimated that 3,326 foster carers benefited from this scheme in 2007.

Children in foster care are in the care of the State, under the Child Care Act 1991. Foster carers undertake to care for foster children on the State's behalf and as such are a unique group in often difficult circumstances. This cost an estimated €30 million in 2007.

#### **Recommendation 8.9**

**The one-parent family tax credit should continue and the credit should be allocated to the principal carer only and in a similar way to the current arrangements for child benefit.**

The one parent family tax credit is the equivalent of the personal tax credit €1,830. It is estimated that 132,000 people will avail of this credit in 2009. The principle carer may not be in a position to absorb

any or all of the one parent family tax credit, as their entitlement to other tax credits may be sufficient to reduce their liability to tax to nil. The cost of the credit was estimated to be €250 million in 2009.

**Recommendation 8.10**

**The home carer tax credit should continue.**

Introduced in FA 2000, the Home Carer's Tax Credit can be claimed by a married couple where one spouse ('the home carer') cares for one or more dependent persons, i.e. a child for whom child benefit is payable, a person aged 65 or over, a permanently incapacitated person. The credit does not apply to the care of a spouse. The Home Carer is allowed a small income and still retain the home carer tax credit.

The maximum tax credit due per year is €900. The home carer credit is estimated to cost €75m in 2009.

**Recommendation 8.11**

**The widowed parent tax credit should continue.**

The widowed parent tax credit is available on a sliding scale for the first five tax years following the year of bereavement, starting at €4,000 and reducing by €2,000 to €2,000 after five years, after which the credit no longer applies. It is estimated that in 2009 there will be 2,400 people claiming this credit. The widowed parent tax credit is estimated to cost €7.2 million in 2009.

**Recommendation 8.12**

**The capital allowances for childcare facilities should be discontinued.**

The Supplementary Budget of April 2009 terminated all existing schemes of property-related accelerated capital allowance schemes with the exception of three, including the scheme for childcare facilities.

In this regard, the Minister for Finance noted in his Supplementary Budget: "it is the Government intention to continue to remove unnecessary reliefs and shelters from the tax system in successive budgets".

**Recommendation 8.13**

**The income tax exemption for childcare service providers should be discontinued.**

This exemption applies to childminding income of up to €15,000 per annum where an individual minds up to three children, who are not his/her own, in the minder's own home.

There does not seem to have been a big take-up of the exemption - most small scale childminders are not registering with the County Childcare Committee. The yield from abolition would be negligible.

**Recommendation 8.14**

**The exemption of employer-provided childcare from the benefit-in-kind charge should be discontinued**

This scheme was brought in to encourage employers to invest in childcare facilities and thus increase the overall supply of childcare places. The BIK exemption is only allowed for the subsidised element of the scheme – i.e. the difference between the standard price of a child care place and the reduced price now available as a result of the employers capital investment. The Commission cite equity as a reason for the abolition of the scheme and say that only large employers would have the ability to make the necessary investments. However, the scheme was amended to permit smaller employers to come together in the provision of childcare facilities. Abolition of the BIK exemption could be controversial

given that it could increase the childcare costs of those currently availing of it. In addition, assessment of the amount of any subsidy going to the employee could impose an additional administrative burden on the employer.

#### **14. TAX EXPENDITURES – HOUSING**

##### **Recommendation 8.15**

**Mortgage interest relief should be continued in the case of first-time buyers and discontinued for those who are outside this category. The current step down arrangements for first-time buyers regarding the rate at which relief is given should continue to apply.**

Mortgage interest relief has been modified considerably in recent budgets. In Budget 2009 it was increased to 25% for years 1 and 2 and 22.5% for years 3, 4 and 5. For non-first time buyers mortgage interest relief was reduced to 15%. In Supplementary Budget 2009 mortgage interest relief was limited to the first 7 years of a mortgage.

##### **Recommendation 8.16**

**Income tax relief for rent paid for private rented accommodation should be discontinued.**

The discontinuation of income tax relief for rent paid could be difficult, especially in the context of a situation where mortgage interest relief for first time buyers was retained. The cost of this relief was estimated to be €48 million for 2005.

##### **Recommendation 8.17**

**The capital gains tax exemption on the disposal of a principal private residence should be continued.**

There is an exemption from Capital Gains Tax on the disposal of a principal private residence which the Commission recommends should continue given its proposal to introduce an annual property tax.

##### **Recommendation 8.18**

**Income tax relief for service charges should be discontinued.**

*Yield: €23m*

##### **Recommendation 8.19**

**The rent-a-room relief should be discontinued.**

Introduced in FA 2001, the rent-a-room scheme is an exemption from income tax in respect of rent received, where a person rents out a room or rooms in his/her principal private residence, and the rent does not exceed €10,000 per year. The cost was estimated to be about €3 million for 2005.

##### **Recommendation 8.20**

**The capital gains tax and stamp duty exemptions on the disposal of site to a child should be discontinued.**

The transfer of a site from a parent to a child is exempt from Capital Gains Tax if the transfer is used for the construction of the child's principal private residence and the market value of the site does not exceed €500,000. There is a corresponding exemption from Stamp Duty for such transfers.

While implementation of this recommendation would improve equity, widen the tax base, and improve CGT/Stamp Duty yields, it can be argued that it undermines individuals seeking to live in close proximity to their parents which was the original rationale for its existence.

## 15. TAX EXPENDITURES – HEALTH

### **Recommendation 8.21**

**Medical insurance relief should be continued on a more limited basis.**

Consideration of this recommendation would have to take account of the temporary measures put in place by the Health Insurance (Miscellaneous Provisions) Act, 2009, to provide for a tax-based scheme to protect the principle of community rating, following the Supreme Court's decision in *BUPA Ireland v the Health Insurance Authority* that the previous arrangements were unconstitutional.

The new Act provides that the health insurance companies must pay a levy of €160 per adult and €53 per child named on a health insurance policy. Policyholders aged 50 years and over are entitled to an increased age-related tax credit in respect of their private health insurance. As with the normal standard rated tax relief at source (TRS) on health insurance premiums, the age related tax credit is paid by Revenue to the health insurance companies.

The intention is that the scheme will be broadly Revenue neutral but this may be affected by a declining take up of health insurance and a possible shortfall between the levy collected and the TRS paid to insurance companies.

The scheme has been put in place from 1 January 2009 to 31 December 2011, pending the development by the Department of Health and Children of a long-term response to the *BUPA Ireland* court decision.

At the end of this period, this recommendation will be revisited.

### **Recommendation 8.22**

**Relief for health expenses should continue at the standard rate.**

In Budget 2009 Health expenses relief was standard rated with the exception of expenses for nursing homes which continued to be available at the marginal rate.

### **Recommendation 8.23**

**Once the Fair Deal system for nursing home care has been implemented, removal of the tax relief for nursing home expenses should be considered.**

The Nursing Homes Support Scheme Act (The Fair Deal) was passed on 1 July 2009.

The Scheme is designed to remove real financial hardship from many individuals and their families who, under the current system of Nursing Home Subvention, have to sell or re-mortgage homes to pay for the cost of nursing home care.

Under A Fair Deal:

- Each person will make a contribution to care costs, based on means. The State will pay all the balance, in both public and private nursing homes.
- The State will continue to pay for the majority of care costs overall.
- Family members will not have to provide cash from their own incomes to pay for care.

- A spouse or dependent child will never have to sell the home to pay for care.
- Individuals will never have to sell their home to pay for care.
- No person currently in long term care will be disadvantaged by the changes proposed under the Fair Deal.

The recommendation by the Commission would standard rate all health expenses.

**Recommendation 8.24**

**The range of treatments contained within the scope of the relief for health expenses should be subject to regular review.**

Treatments contained within the scope of health expenses relief are already kept under review by Revenue.

**Recommendation 8.25**

**Tax relief for contributions paid to permanent health benefit schemes should continue.**

Tax relief at the marginal rate (and PRSI) relief is available on the full cost of contributions to permanent health benefit (income continuance) schemes subject to the contribution not exceeding 10% of total income. The schemes provide for regular payments to individuals in the event of loss or diminution of income as a result of ill- health. All benefits from these schemes are liable for tax. Approximately 21,600 income earners availed of this relief in 2005. *Cost: Estimated cost of €2.8 million in 2005 (21,600)*

**Recommendation 8.26**

**Tax relief for long-term care policies should be discontinued.**

This relief, introduced in 2001, is available in respect of premiums paid on qualifying insurance policies designed to cover in whole or in part the future needs of individuals who are unable to perform at least two activities of daily living or who are suffering from severe cognitive impairment. The relief is standard-rated and is given under a tax relief at source system. Qualifying policies must be approved by the Revenue Commissioners and benefits payable are not taxable.

Despite this relief being in place since 2001, no products are available and there have been no claimants under the scheme.

**Recommendation 8.27**

**When direct expenditure support at the appropriate level is in place, the incapacitated child tax credit should be discontinued.**

The incapacitated child tax credit is a long-standing personal tax relief which is available to a parent or guardian of a child who is permanently incapacitated from maintaining himself or herself and had become so before reaching 21 years of age or finishing full time education or training. The credit has been increased significantly in recent years; in fact since 2002 the credit has increased by 632%. The credit is worth €3,660 per annum in respect of each incapacitated child, equivalent to the married personal credit. It is estimated that approximately 12,100 individuals will claim this credit in 2009. *Cost: Estimated cost of €49 million in 2009*

**Recommendation 8.28**

**The allowance for employing a carer for an incapacitated individual should continue. However, the rate of relief should be the same as that available under health expenses relief.**

A tax allowance at the marginal rate for expenses of up to €50,000 (increased from €30,000 in FA 2006) in the employment of a person to care for an incapacitated individual. Recommendation is that relief should be at the same level as health expenses relief, i.e. the standard rate of 20%. This relief could be seen as analogous to health expenses relief for nursing homes which is still applicable at the marginal rate.

**Recommendation 8.29**

**The dependent relative tax credit should be discontinued.**

- **The entitlement to mortgage interest relief that is derived from entitlement to the credit in relation to a principal private residence occupied by a dependent relative should continue. A person should be able to avail of first-time buyer levels of relief once in respect of himself or herself and once in respect of a dependent relative who has not claimed for himself or herself.**
- **The separate entitlement to CGT relief on the disposal of a principal private residence occupied by a dependent relative should be discontinued.**

An individual who, at his or her own expense, maintains a relative, who is incapacitated owing to age or infirmity, or a widowed parent of the claimant or the claimant's spouse, may claim an annual credit of €80. This credit has not been increased since Budget 2006. In 2005, 15,200 people claimed the credit at a cost of approximately €1 million. The credit is not payable if the dependent relative has income exceeding €13,873 in the current tax year.

The question of abolishing the credit was examined before Budget 2007 in the context of an increase in the home carer credit. However, the proposal was not proceeded with because not everyone who benefits from the dependant relative credit would be in a position to claim the home carer credit. Furthermore, receipt of the credit is necessary in law in order to avail of mortgage interest relief on resident premises provided by the claimant for such a dependent relative.

**Recommendation 8.30**

**When direct expenditure support at the appropriate level is in place, the blind person's tax credit should be discontinued.**

The blind person's tax credit is available to persons who are severely visually impaired and is equivalent to the value of the main personal tax credit of €1,830 single/ €3,660 married where both spouses are blind. Tax relief is also available under the heading of health expenses relief in respect of the cost of maintaining a guide dog. The incapacitated child tax credit may be claimed in respect of a blind child. The most recent data available from the Revenue Commissioners indicate that it cost €0.8m in 2005 and that 890 people claimed the credit. *Cost: estimated cost of €0.8 million in 2005*

**Recommendation 8.31**

**The arrangements for the scheme of accelerated capital allowances for palliative care units should be modified by the introduction of a termination date for the scheme.**

The scheme of capital allowances for specialist palliative care units was introduced in Finance Act 2008. The scheme has yet to be commenced pending clearance from the EU Commission from a State-aid perspective.



The proposed scheme of capital allowances was introduced to help with the planned development of necessary palliative care facilities in the State in order to bridge the gap between supply and demand for these facilities in certain parts of the country.

At the time of its introduction it was stated that the scheme will be kept under review to ensure that it delivers on its objectives. This review will include consideration of a termination date which can be addressed once the EU Commission gives State Aid approval.

**Recommendation 8.32**

**The Disabled Drivers and Disabled Passengers Scheme should be modified in accordance with the recommendations of the 2002 Interdepartmental Review Group.**

Implementation of the key recommendations made by the Interdepartmental Review Group would fundamentally change the structure and nature of the scheme and would involve significant extra cost (taking into account the proposed relaxing of the medical criteria).

## 16. RELATING TO PHILANTHROPY

**Recommendation 8.33**

**The scheme for payment of tax by means of donation of heritage items should be retained but should be modified so that the tax relief is limited to 50% of the value of the item donated.**

Tax relief on donation of heritage items to any of the national cultural institutions was reduced in Budget 2009 from 100% to 80% of the donated item's value. The Commission is recommending a further reduction to 50%.

**Recommendation 8.34**

**The scheme for payment of tax by means of donation of heritage property should be retained but should be modified so that the tax relief is limited to 50% of the value of the property donated.**

This relief also was reduced in Budget 2009 from 100% to 80% of the donated property's value. The Commission is recommending a further reduction to 50%.

**Recommendation 8.35**

**The capital gains tax exemption on works of art loaned for public display should be retained but the exemption should only apply to the gain accruing in the period for which the work of art has been so loaned.**

There is an exemption from Capital Gains Tax on the disposal of a work of art valued at least €31,740 that has been previously been loaned to an approved gallery or museum for at least 10 years.

The recommendation maintains the rationale behind this measure when first introduced (i.e. enable galleries and museums to enhance their collections and allow the public enjoy works of art that would otherwise not be on display) while striking a balance by limiting the exemption to the period of the loan.

**Recommendation 8.36**

**Income tax relief for expenditure on heritage buildings and gardens should be discontinued.**

This scheme provides income tax relief on expenditure incurred on the restoration or maintenance of significant buildings and gardens. It cost €3.3 million in 2005.

**Recommendation 8.37**

**The benefit-in-kind exemption on employer-provided art objects in a heritage building or garden should be discontinued.**

**Recommendation 8.38**

**The CAT exemption of heritage property and heritage property of companies should be retained.**

There is an exemption from Capital Acquisitions Tax for a gift/inheritance of objects of national, scientific, historical or aesthetic interest; there is a similar exemption for a heritage house or garden.

The Commission recommends the continuation of this exemption to promote and enhance the cultural heritage of Ireland and promote tourism by enabling public access to such items and giving an incentive for not disposing of them abroad.

**Recommendation 8.39**

**The threshold on the eligibility of individual donations to charities and approved bodies to attract tax relief should be reduced from €250 to €100.**

At present, the minimum donation for relief purposes is €250 and the relief is given at the marginal rate. There is no upper limit. In the case of PAYE taxpayers, the relief is claimed by the charity; in the case of self-assessed taxpayers, the relief is claimed by the self-assessed individual; in the case of companies, the donation is treated as if it were a trading expense. The Commission is recommending a reduction in the minimum donation for relief from €250 to €100.

**Recommendation 8.40**

**The relief for individuals under Recommendation 8.39 should be at the standard rate in all cases.**

At present, tax relief under the donations scheme is at the marginal rate.

**Recommendation 8.41**

**An upper limit of €500,000 per person on the annual value of donations which may attract tax relief is recommended. This limit should be enforced using the principles of self-assessment and audit.**

No upper limit for donations relief at present.

**Recommendation 8.42**

**The self-employed should be treated in the same way as PAYE earners under the scheme with the tax relief being paid to the charity or approved body.**

At present, self-assessed taxpayers claim the relief on donations themselves. In the case of PAYE donors, the charity claims the relief.

**Recommendation 8.43**

**In relation to donations from companies, the amount that would attract tax relief should be the same as for individuals, i.e. a maximum of €500,000 per annum. The rate of tax relief on corporate donations should be the corporate tax rate and, as with donations from individuals, the tax relief should be paid to the charity or approved body.**

At present, there is no upper limit on donations relief for companies, relief is at the marginal rate, and the company treats the donation as a trading expense.

**Recommendation 8.44**

**The tax relief scheme available on donations to sports bodies should be modified. The tax relief regime that is recommended in respect of donations to charities and other approved bodies should also apply in relation to relief for donations to sports bodies and aggregate limits should apply to both reliefs.**

This tax relief applies to donations to approved sports bodies for approved capital projects costing up to €40 million. Other provisions are the same as for donations to charities and other approved bodies (8.39 above): minimum donation for relief purposes is €250; no upper limit; marginal rating applies; different treatment for PAYE, self-assessed, and companies.

The Commission recommends an upper limit of €500,000, standard rating of the relief, and that the relief would go to the sports body (rather than to the donor) as in the case of their recommendations for charities and other approved bodies (8.39 – 8.43).

**Recommendation 8.45**

**Relief for gifts made to the Minister for Finance should continue.**

Under section 483 TCA, relief is available for gifts of money made to the Minister for Finance for use for any purpose for or towards the cost of which public moneys are provided and which are accepted by the Minister.

**Recommendation 8.46**

**The tax-exempt status of philanthropic and sports bodies should continue. However, the capital gains tax exemption should be discontinued where development land is disposed of.**

The recommendation is to abolish the CGT exemption on disposal of development land by charities and sports bodies.

**17. TAX EXPENDITURE - ENTERPRISE (INCLUDING FARMING)****Recommendation 8.47**

**The restriction of balancing charges on a building to the relevant holding period for that building should be discontinued for future acquisitions.**

Balancing charges arise on the disposal of a building under certain circumstances where capital expenditure has been incurred but these are restricted in some cases.

The Commission considers that where capital allowances are available, the tax system should compensate the owner of a building for depreciation rather than potentially over or under-compensating by using balancing charges. It is recommended that the discontinuation on balancing charges should occur for future acquisitions of buildings.

**Recommendation 8.48**

**Grants to meet revenue expenditure should be taken into account in calculating taxable trading income and capital allowances should be available on expenditure net of capital grants. However, in the case of employment related grants, there may be a case for postponing the approach we suggest until more favourable labour market conditions apply.**

At present, a number of Government grants made to businesses to meet certain items of expenditure can be disregarded for tax purposes. The Commission is recommending that all grants such be regarded as income that is subject to taxation and that capital allowances should be available on expenditure net of grants. However, this recommendation can be postponed for employment-related grants until more favourable labour markets prevail.

**Recommendation 8.49**

**The tax credit for research and development should continue.**

*Recommendation 7.20 is also relevant for this issue.*

Companies incurring certain expenditure on research and development activities can claim a credit for this expenditure against their Corporation Tax.

**Recommendation 8.50**

**Tax exemption for patent royalties should be discontinued.**

Royalty income derived from qualifying patents is exempt from Income and Corporation Taxes subject to an annual limit of €m. The patent income tax exemption scheme dates back over 30 years when exemptions from income tax and corporation tax for patent income were introduced in the mid 1970's with the rationale of encouraging R&D activity and entrepreneurial innovation in Ireland.

A review of the scheme was undertaken by independent consultants, Goodbody Economic Consultants, in 2007, at the request of the Department of Finance, to examine the efficiency and effectiveness of the scheme.

The review found that the scheme has been a valuable incentive, in particular for the indigenous sector and has helped maintain Ireland's competitive position by incentivising R&D in Ireland. Without the patent income exemption, the review considered that Irish incentives for R&D would have lagged behind the R&D incentives of other EU Member States. A survey conducted by the consultants found that 45% of respondent R&D firms use the income exemption scheme and indigenous firms represented close to 70% of respondent firms who take up the scheme.

**Recommendation 8.51**

**The tax deduction for capital expenditure on scientific research should continue.**

Companies incurring certain capital expenditure on scientific research can secure a deduction for this expenditure against their Corporation Tax.

The availability of a tax deduction for capital expenditure on scientific research is closely linked with the R&D tax credit scheme and together they are important elements in ensuring that Ireland can develop knowledge-based industries through which Ireland can maintain a competitive advantage against other States.

**Recommendation 8.52**

**Film relief should be continued but should be subject to regular review in accordance with our principles as set out in Section 5 of this Part.**

Tax Relief for investment in films was first introduced in 1984 as part of the Business Expansion Scheme (BES). In 1987 the Film Board was abolished and a new relief for corporate investment in films was introduced.

The relief was reviewed by Indecon International Economic Consultants in 2007. Based on a consideration of the report it was accepted that the film relief is making a positive contribution to the development of the Irish Film Industry and decided that it should be extended until the end of 2012. The report contained a detailed analysis of the operation of the film relief scheme and made a number of recommendations for changes. In Budget 2008 it was announced that the relief would be extended for a further 4 years until 2012 and any adjustments to the relief would depend on the outcome of the Indecon study.

The Finance Act 2008 provided for the 4 year time extension and also increase from €35m to €50m the amount of section 481 funding that can be raised for an individual film production. Finance (No.2) Act 2008 increased the amount that an investor may deduct from his or her total income from 80% to 100% of relevant investments and increased the limit on the amount that can be invested under the section 481 scheme by an individual, in a year of assessment, from €31,750 to €50,000.

**Recommendation 8.53**

**The Business Expansion and Seed Capital schemes should remain in place up to their 2013 deadline.**

**The schemes should be reviewed to evaluate their effectiveness and the extent to which market failure exists in advance of any further extension beyond 2013**

**The administrative burden placed on companies seeking to benefit from the schemes is onerous and should be reviewed.**

The BES (and related SCS) is a tax relief for investors who invest in qualifying companies operating in certain sectors of the economy and which would otherwise find it difficult to raise funds.

Measures have already been taken to ease the administrative burden for companies and this aspect is kept under review having regard to the need for adequate control mechanisms to be in place.

**Recommendation 8.54**

**Stock relief for farming businesses should be discontinued.**

This relief gives farmers a deduction from trading profits of 25% and certain young trained farmers a reduction of 100% of the increase in value of trading stock in an accounting period. This relief is a long standing one and was originally introduced for all sectors in the mid to late 1970s, when inflation was running at up to 20% per annum which resulted in industry and farming having to fund the increasing cost of maintaining normal stock levels.

When inflation dropped to single figures in the mid 1980s, stock relief for industry was withdrawn but allowed continue for the farming sector. In 1993 this relief was reduced from 100% to 25%, however the 100% was retained for certain young trained farmers whereby they can avail of the 100% rate instead of the usual 25% rate for a four year period. The retention of this relief was viewed as a concession to farmers and it has never been open ended. It has been the practice to extend the relief by either one or two years and review the position regarding its continuation in the run up to the termination date. The relief is due to terminate at the end of 2010.

**Recommendation 8.55**

**Income tax relief for farm land leasing income should be continued. However, the measure should be reviewed in 2012 in accordance with our principles as set out in Section 5 of this Part.**

This type of relief is available to individuals aged 40 years or older, or individuals who are permanently incapacitated from carrying on a trade of farming. Where such individuals receive rental income from

farmland let under a qualifying lease the first €12,000 of their annual income is exempt from income tax where the lease period is at least 5 years duration. The amount of annual exempt income is increased to €15,000 in cases where the lease period is at least 7 years. An additional tier of relief up to €20,000 was introduced in Finance Act 2007 for leases of 10 years or more. The retired farmer letting the land must be unconnected to the lessee of the farmland.

**Recommendation 8.56**

**The accelerated allowance for capital expenditure on farm buildings for pollution control should not be continued when it expires in 2010. For subsequent years, normal capital allowances should apply.**

The scheme of capital allowances for expenditure on certain pollution control measures was introduced in 1997 for a 3 year period. This scheme provides for accelerated tax relief for the construction of certain building and structures aimed at preventing pollution by farm waste. It has been extended and improved on a number of occasions since its inception, chiefly in Finance Act 2005 when the writing-down period of 7 years for qualifying expenditure was shortened to 3 years in respect of expenditure incurred after 1 January 2005, and the scheme's 31 December 2006 deadline was extended for a further 2 years until 31 December 2008.

The schemes deadline was extended by an additional 2 years until the end of 2010 in Budget 2009. *Cost: In Budget 2009 the cost of this measure was estimated at €10m in 2009 and in a full year.*

**Recommendation 8.57**

**The tax relief for the purchase of milk quota should be discontinued.**

The relief takes the form of capital allowances for the purchase cost of milk quota provided over 7 years. The relief is open ended with no termination date having been introduced in 2000 when leasing of milk quotas was effectively put to an end by the introduction of a milk quota restructuring scheme. Farmers wishing to expand milk production no longer had the option of leasing in quota (with tax relief for the leasing cost) and instead had to purchase quota. While the bulk of the quota previously leased has been transferred under the restructuring schemes there is still some ongoing transfer of milk quota. There is no firm data on the cost of this measure.

**Recommendation 8.58**

**The restructuring aid for sugar beet growers should continue**

This is a tax relief for payments, made in 2007 and in 2008 to certain sugar beet growers, under the EU Restructuring and Diversification Aid for the sugar industry.

These payments to abandon sugar beet production are based on an estimate of lost income streams extending up to 12 years into the future and although the payments are correctly chargeable to income tax some growers could be pushed into the higher rate bands in the year these payments are made. This relief ensures that the payments can be averaged over 6 years, beginning in the year in which the payment is made. The beet grower makes an election for the averaging tax treatment with his/her tax return for that year. Once the grower has opted in they cannot subsequently opt out. This is to ensure that all the income received will eventually be taxed.

**Recommendation 8.59**

**The tax exemption for payments to National Co-operative Farm Relief Services Ltd. and payments made to its members should be discontinued.**

**Recommendation 8.60****The accelerated capital allowances for energy efficient equipment should continue.**

*This recommendation is also partially covered by Recommendation 9.5.*

Companies incurring certain capital expenditure on specified energy efficient equipment can secure a deduction for this expenditure against their Corporation Tax. This measure was introduced in the Finance Act 2008 and enhanced in the Finance Act (no. 2) Act 2008.

**Recommendation 8.61****Relief for investment in renewable energy generation should continue. Any extension should adhere to our general principles as set out in Section 5 of this Part.**

Relief against Corporation Tax is provided to a company which invests in another company engaged in renewable energy generation.

**Recommendation 8.62****The Mid-Shannon corridor scheme should not be continued beyond its current expiry date.****Recommendation 8.63****The investment allowance for machinery and plant and for exploration expenditure should be discontinued.**

An additional investment allowance of 20% of expenditure is available to companies incurring expenditure on mining exploration and for new machinery and plant used in a mine. This was introduced to encourage mining activities.

It is possible that there could be implications for mining companies who have recently invested in mining exploration or new machinery/plant. The recommendation may also impact upon mining companies currently contemplating such investments in the future.

**Recommendation 8.64****The tax treatment of the decommissioning of fishing vessels should continue.**

In accordance with EU rules, Ireland has to reduce its fishing resources to provide a match between the available demersal (white fish) stocks and the fishing fleet. To support the take-up of this scheme, Finance Act 2008 introduced tax changes whereby an individual retiring from business can avail of “retirement relief”, which applies a full exemption from CGT where the consideration does not exceed €750,000. Where the consideration exceeds €750,000, the tax liability is restricted to 50% of the payment that exceeds €750,000. To be eligible for this relief, the individual must be at least 45 years of age and must have owned and used the vessel for 6 years.

As this measure was introduced to assist in maximising the take up of decommissioning payments, it is a time-bound, tax expenditure relating to a specific purpose and a limited group.

**Recommendation 8.65**

The relief from tax for start-up companies should be continued. However, the scheme should be modified so that companies who begin trading in 2010 or 2011 would benefit from the exemption for two-years or one-year, respectively, within the existing three-year timeframe for the relief. In addition, the exclusion which applies to service companies should be removed.

- A new scheme for unincorporated businesses should be established which would have its own three-year time cycle in line with the approach we recommend for the existing scheme.
- Both the existing scheme and the proposed new one for unincorporated business should be subject to review in accordance with our general principles as set out in Section 5 of this Part after a reasonable period of time.

*This recommendation is already partially covered by Recommendations 7.6 and 7.7.*

The Finance Act (No. 2) 2009 introduced an exemption from Corporation Tax for new businesses established in 2009 up to a limit of €60,000 Corporation Tax payable. It is only available to companies and is awaiting EU Commission State Aid approval.

**Recommendation 8.66**

The tax treatment of venture fund managers should be modified such that in the case of an individual who is a venture capital fund manager:

- Where the investment return on a carried interest represents income, it should be taxed at the appropriate marginal rate, and
- Where the investment return on a carried interest is a capital gain, it should be subject to capital gains tax at the normal rate (25%).

In order to encourage venture capital investments in new start-ups in research, development and innovation activities, a reduced rate of tax applies to the share of profits that a venture capital manager receives for managing the investment. The tax treatment was significantly modified by the Finance Act (No.2) 2008.

**Recommendation 8.67**

**The tonnage tax regime should be continued.**

The Tonnage tax regime is not a tax but rather a method for calculating the shipping related profits of a company for corporation tax purposes. The profits are calculated by reference to the tonnage of the ships used in a company's shipping trade and once calculated, using the tonnage tax method, are subject to the 12½% Corporation Tax rate.

This will ensure that Ireland's shipping industry will remain in a position to compete against the industries of other EU States, especially in maintaining Ireland's competitive advantage as an operational base for the main Irish shipping companies.

**Recommendation 8.68**

The capital gains tax relief for family transfers should be continued but limited so that it applies to asset values up to €3 million. Where the value of the asset transferred exceeds €3 million, only the part of the gain that is attributable to the excess over €3 million should be charged to tax.

This recommendation relates to the provision of an exemption from Capital Gains Tax where business or farming assets are disposed within a family. There is no limit on the relief apart from a requirement that the assets must be held for a minimum of 6 years, otherwise full CGT will arise.



The imposition of a €3m limit on larger businesses and farms on the grounds of greater equity will increase CGT yields but it may result in adverse implications for the transfer of farms/businesses within families.

**Recommendation 8.69**

**Capital gains tax relief for disposal of a business or a farm on retirement should continue.**

Retirement relief provides that business or farming assets are relieved from CGT on disposal where the person disposing of the assets is aged 55 or over and had owned/used the asset for the ten years prior to disposal. The relief applies to assets valued up to €750,000 but there is no limit where the disposal is made to a child or favourite niece/nephew.

The Commission notes that this exemption facilitates the timely and efficient transfer of businesses/farms to new owners.

**Recommendation 8.70**

**For business relief for CAT, a reduction of no more than 75% of the value of the business should be allowed before tax is calculated. The reduction should be subject to an overall monetary limit of €3 million.**

*This recommendation is also related to Recommendations 8.71 and 8.72.*

Provision is made for relief at 90% from Capital Acquisition Tax (CAT) for business property acquired by gift or inheritance or on the termination of a life interest.

The recommendation proposes reducing the relief to 75% which was the level in 1996 and limiting it to €3 million similar to its proposal for the Capital Gains Tax relief for family transfers of businesses/farms (recommendation 8.68).

**Recommendation 8.71**

**For agricultural relief for CAT, a reduction of no more than 75% of the value of the property should be allowed before tax is calculated. The reduction should be subject to an overall monetary limit of €3 million. A condition of the relief should be that a farm asset is owned and operated as a farm for a period of six years after the transfer.**

*This recommendation is also related to Recommendations 8.70 and 8.72.*

Provision is made for relief at 90% from Capital Acquisition Tax (CAT) for farms acquired by gift or inheritance or on the termination of a life interest.

The recommendation proposes reducing the relief to 75% which was the level in 1996 and limiting it to €3 million similar to its proposal for the Capital Gains Tax relief for family transfers of businesses/farms (recommendation 8.68).

**Recommendation 8.72**

**Business relief and agricultural relief should be amalgamated into a single relief.**

*This recommendation is also related to Recommendations 8.70 and 8.71.*

As this recommendation is somewhat unclear, it is assumed that it would follow the reduction from the existing level of 90% for both business and agricultural relief covered in recommendations 8.70 and 8.71.

**Recommendation 8.73****Stamp duty relief for transfers of land to young trained farmers should continue.**

Relief from Stamp Duty on the conveyance of farm land is currently available under section 81A of the Stamp Duties Consolidation Act 1999.

The main conditions for granting this relief are that on the date of transfer the young trained farmer must be (a) under 35 years of age, and (b) the holder of a specified qualification. In addition, the young trained farmer must declare that s/he will retain and farm the land for a period of 5 years from this date. The third level courses that qualify under this scheme are listed in Schedule 2A to the Stamp Duties Consolidation Act 1999.

This relief has been extended for a further 4 years and the relief will now apply in respect of instruments executed no later than 31 December 2012. The cost of this relief in 2009 is estimated at €3m.

**Recommendation 8.74****The stamp duty exemption relating to the sale or transfer of EU Single Farm Payment Entitlements should be continued.**

There is an exemption from Stamp Duty on the transfer of an EU Single Farm Payment Entitlement.

The exemption encourages the transfer of entitlements along with the eligible land in order to promote viable land holdings and promote a more productive use of land.

**Recommendation 8.75****The tax incentives relating to forestry should be continued.**

The current tax package for forestry provides that income from woodlands is exempt from income tax and corporation tax. In addition, gains arising to individuals and certain trusts on the disposal of felled timber are not chargeable to capital gains tax. Forestry is regarded for VAT purposes as an agricultural activity. As regards stamp duty, there is an exemption on the value of trees where it can be certified that the land being transferred contains commercial woodlands on a substantial part of those lands.

The tax treatment of forestry investment is based on the premise that such investment is long term in nature. The tax treatment of investment in and profit from forestry is derived from the unique features associated with the activity where significant levels of investment are generally required at an early stage with the returns on such investment not arising for some considerable time.

**18. TAX EXPENDITURES – EMPLOYMENT****Recommendation 8.76****Income tax relief for trade union subscriptions should be discontinued.**

Introduced in 2001 and now given as a tax credit in respect of the cost of trade union subscriptions. At present the tax credit is worth €70 per annum to union members.

**Recommendation 8.77**

**The relief for benefit-in-kind for employer-provided personal security assets and services should continue to apply where arrangements are made for all employees at risk.**

**Recommendation 8.78**

**The relief for benefit-in-kind and PRSI exemption for employer-provided public transport travel passes should continue.**

**Recommendation 8.79**

**The relief for benefit-in-kind and PRSI exemption on employer-provided bicycles and related safety equipment should continue.**

Introduced in Finance (No.2) Act 2008, an employer may provide an employee with a bicycle/cycle safety equipment without the employee being liable to BIK taxation. The relief also applies in the context of a salary sacrifice arrangement between employer and employee.

Together with the related Travel Pass Scheme, the Cycle to Work Scheme incentivises commuters to leave their car at home and use public transport or cycle to work.

As the Cycle to Work Scheme has only recently been introduced, it is still being rolled out in many employments.

**Recommendation 8.80**

**The income tax exemption for scholarships should continue.**

Section 193 of the TCA exempts from income tax certain scholarship payments received by individuals receiving full-time instruction at a university, college, school or other educational establishment.

**Recommendation 8.81**

**The income tax relief for fees paid for third-level education should continue.**

Third level fees relief at the standard rate is available for undergraduate and postgraduate fees up to a maximum limit of €5,000. The relief is limited to fees and is not available for the registration charge or for maintenance expenses.

This relief cost €14.3m in 2005.

**Recommendation 8.82**

**Income tax relief for fees paid for training courses should continue.**

Tax relief at the standard rate is available for fees paid by individuals for training courses in the areas of IT and foreign languages (section 476 TCA). The training courses which can be up to two years duration must be approved by FÁS. The relief is available for fees of up to €1,270, subject to a minimum amount of €15.

**Recommendation 8.83**

**The exemption from income tax of statutory redundancy payments should continue.**

Statutory redundancy payments made under the Redundancy Payments Acts 1967 to 1991 are exempt from income tax.

Statutory redundancy payments amount to 2 weeks pay per year of service plus a bonus week subject to a maximum payment of €600 per week.

**Recommendation 8.84**

**Income tax relief for ex-gratia termination payments should continue but the quantum of the exempt payment should be limited to €200,000 and the reliefs for Standard Capital Superannuation Benefit and top-slicing relief should be simplified.**

Ex gratia termination payments are payments made by the employer over and above the statutory redundancy payment. They are taxable but there are a number of exemptions which reduce the amount charged to tax and a further relief which reduces the tax chargeable.

The Standard Capital Superannuation Benefit (SCSB) is one of the tax exemptions on ex gratia termination payments which is available to all employees.

‘Top slicing relief’ is another way of reducing the tax charged on ex gratia termination payments. There is a formula for calculating the relief, the effect of which is to reduce the tax rate on the ex gratia payment to the individual’s average rate of tax for the previous three tax years.

**Recommendation 8.85**

**Ex-gratia termination payments related to death or disability should be subject to a limit in relation to the tax-free amount permissible.**

These are payments made in connection with the termination of employment (or holding of an office) on the death of the employee (or office holder) or on account of injury or disability. These payments are exempt from income tax and must be reported to the Revenue Commissioners.

The Commission recommends a limit to the tax-free amount of payment permissible.

**Recommendation 8.86**

**Income tax relief for termination payments where an employment involves foreign service should continue. However, it should be subject to an overall monetary cap of €200,000 in line with our recommendation for termination payments in excess of the statutory redundancy amount.**

Where a termination payment is made in respect of an office or employment in which an individual’s service includes a period of Foreign Service, full relief from income tax is available:

- Where the Foreign Service comprised three-quarters of the whole period of service
- Where the period of service up to the termination date exceeded 10 years, the whole of the last 10 years, or
- Where the period of service up to termination date exceeded 20 years, half of that period, including any 10 of the last 20 years.

Partial relief is available where an individual does not qualify in full for the Foreign Service exemption. In this case, taxable amount is determined by time apportionment by reference to the time of Foreign Service.

**Recommendation 8.87****The exemption from income tax for retraining on redundancy should continue.**

The retraining must be part of a redundancy package and must be completed within six months of the employee being made redundant. The scheme exempts from tax the first €5,000 of the cost of retraining an eligible employee. The exemption is not available if an employee receives the cash or money's worth in lieu of the retraining.

**Recommendation 8.88****There are grounds for discontinuing the systematic short-time relief for equity reasons. However, discontinuation should not be implemented until more favourable labour market conditions apply.**

Systematic short-time working arises where short-time working is introduced on a temporary basis for persons who are working full-time. The Commission points out that for a single person earning €34,000 who goes on a systematic three-day working week and gets jobseeker's benefit for the other two-days, the tax relief is worth about €20 over a full year or just under €7 per week. However, a single person on the minimum wage whose circumstances similarly change will derive no income tax benefit because his or her income is outside the tax net both before and after the short-time arrangements are put in place.

It is estimated that approximately 1,865 individuals will avail of this relief in 2009.

*Cost: Estimated cost of €1.7 million in 2009.*

**Recommendation 8.89****Income tax relief for long-term unemployed and double deduction in respect of payroll costs should continue.**

The Revenue Job Assist scheme provides additional tax relief for a person who has been unemployed for more than 12 months and who returns to the workforce. The employer also receives a double deduction in respect of the salary of the worker and the employers PRSI contribution for a period of 36 months.

**Recommendation 8.90****Income tax relief for employees on payments related to compensation for loss of future earnings should continue.**

This relief applies in the case of a lump sum compensation for a reduction in future remuneration arising from a reorganisation of the business or change in work procedures, work methods or a change of place where the duties of the office or employment are performed. The relief serves to protect low paid employees from possible substantial liability to the higher rate of income tax on their lump sum payments.

**Recommendation 8.91****The PRSI exemption for employee (unapproved) share options should be discontinued.**

An exemption from PRSI (for employer and employee) and health levy applies to gains arising from the exercise of stock options.

The Commission felt that, while acknowledging there would be administrative difficulties, employer and employee PRSI should be payable so as to preserve the PRSI base. The Commission has therefore recommended discontinuing this PRSI exemption.

**Recommendation 8.92**

**Continue the income tax exemption for approved profit-sharing schemes (APSSs) and remove the PRSI, health contribution levy and income levy exemptions.**

Under a profit sharing scheme approved by the Revenue Commissioners, an employee may receive from his/her employer up to €12,700 worth of shares per annum tax free. To benefit from the relief, the shares must be held for at least three years. At present, on disposal of the shares, CGT is chargeable at 25%.

The Commission recommends that PRSI (both employer and employee), Health and Income levy should be charged on the award of shares under these schemes.

**Recommendation 8.93**

**The tax treatment which applies to employee share ownership trusts (ESOTs) should continue**

Employee Share Ownership Trusts operate in conjunction with Approved Profit Sharing Schemes (APSS) in order to maintain shares on behalf of employees and to allocate them to employees via the APSS, with the attendant tax benefits.

**Recommendation 8.94**

- **The income tax exemption for approved share option schemes (APSOs) should be discontinued.**
- **The taxable value of option gains should also be liable to both employer and employee PRSI and to the health contribution levy and the income levy.**

Under an Approved Share Option scheme, the options must be available to all employees on similar terms and must be held for at least three years. However, key employees can be awarded up to 30% of the options without reference to the similar terms rule. At present, no income tax applies on exercise of the share option. CGT at 25% applies to any gain on disposal.

This recommendation relates to 8.91 as the schemes would effectively become unapproved and subject to the appropriate tax treatment for standard share options. Abolition of the scheme could reduce the incentive for employers to allocate share options to all staff members rather than solely to them for directors and other highly paid employees.

**Recommendation 8.95**

**Continue the income tax exemption for the save as you earn (SAYE) schemes and remove the PRSI, health contribution levy and income levy exemptions.**

**Recommendation 8.96**

**Extend the SAYE rules to permit a broader range of employee stock purchase plans (offered to all employees on similar terms and subject to an overall share purchase limit) to be eligible for income tax relief.**

Under a SAYE scheme, employees can save between €12 and €500 per month over a three or five year period and can then choose to use the savings to purchase shares in the employer company. At present, interest on the savings is tax free. Also, shares can be purchased at a discount of 25% of their market value with no charge to income tax, PRSI, health levy or income levy. Shares purchased under the scheme can be disposed of immediately, with any gain liable to CGT.

The Commission recommendation is to broaden the range of employee stock purchase plans (e.g. allow shorter savings periods) to be eligible for income tax relief but to remove the exemption for PRSI, Health and income levies.

**Recommendation 8.97**

**The income tax exemption for new shares purchased on issue by employees should be discontinued.**

Employees/directors may be granted deductions for income tax purposes in respect of the cost of new ordinary shares issued by their employer company. To get the relief the shares must be retained for three years.

The Commission recommend its abolition in view of the low level of participation.

**Recommendation 8.98**

**The artist's exemption should be discontinued; consideration should be given to introducing income averaging in the taxation of income from creative work**

At present, artists do not pay tax on income earned from the sale of their creative work. The exemption was, however, modified following review in 2005 for high earning artists by the restriction of reliefs measure.

The artists exemption was introduced in 1969 with a view to supporting the artistic community and aimed to attract artists to settle in Ireland.

*Cost of the Scheme: €66m (2006)*

**Recommendation 8.99**

**The sportsperson's relief should continue.**

- **The total repayment of tax for any 10-year period should be capped at €350,000 as adjusted for inflation.**
- **The sportsperson can only select a block of 10 consecutive years for which to claim the relief as opposed to the best 10 non-continuous years.**
- **The relief should be subject to review after five years of operation under these new arrangements.**

This relief was introduced in the Finance Act 2002 and provides tax relief on retirement for certain income of certain sportspersons. The sportspersons concerned are: athlete, badminton player, boxer, cyclist, footballer, golfer, jockey, motor racing driver, rugby player, squash player, swimmer and tennis player. The relief takes the form of a deduction from earnings equal to 40 per cent of those earnings for up to any 10 years of assessment back to and including the tax year 1990/91 for which the sportsperson was resident in the State. The earnings to which the relief applies are earnings deriving directly from actual participation in the sport concerned such as prize money, performance fees etc, but not other earnings such as sponsorship fees, advertisement income or income from endorsements etc.

The relief costs the Exchequer in the region €m per annum.

The changes proposed by the Commission are not onerous. However, the existence of this relief has been cited as a factor in some Irish sportspersons basing themselves in the State rather than moving abroad. The short earning career of some sportspersons will be put forward as an argument for the retention of the status quo. The imposition of a cap of €350,000 could be viewed by some high earning sportspersons as overly restrictive. However it should be noted that in addition to this relief such individuals can avail also of the general provisions in the tax code to promote saving for retirement.

**Recommendation 8.100****The seafarer's allowance should be discontinued.**

This is an allowance of €350 at the marginal tax rate (equivalent to a tax credit of approx. €600) for seafarers who are at sea for 161 days in total in a tax year. The allowance does not apply to the fishing industry or to state employees, e.g. navy personnel. *Cost: €0.4m (2005)*

**Recommendation 8.101****The expenses of members of the Oireachtas should be treated in the same way under the tax code as expenses paid to employees and office holders generally.**

- **A monetary limit should be put in place on the dual abode allowance and the flat rate element of the relief which applies in relation to hotel and guesthouse accommodation should be discontinued.**

Dual Abode Allowance: Section 836 of the Taxes Consolidation Act provides for a tax deduction under section 114 of the Taxes Consolidation Act 1997 in respect of the cost of maintaining a second residence where, arising out of the performance of his or her duties, a Minister or a Minister of State holder is obliged to maintain that second residence in addition to his or her main residence.

The estimated costs of such tax deductions in terms of tax foregone for the tax years 2002 to 2007, the most recent year for which statistics are available, are set out as follows:

<b>Year</b>	<b>Number of claimants</b>	<b>Cost</b>
2002	18	€5,051
2003	19	€109,540
2004	13	€63,448
2005	18	€105,112
2006	15	€1,750
2007	16	€8,335

Allowances for Expenses: At present TDs and Senators receive a range of Oireachtas expense allowances. Section 836 of the Taxes Consolidation Act 1997 exempts from income tax, allowances payable under Section 3 of the Oireachtas (Allowances to Members) and Ministerial and Parliamentary Offices (Amendment) Act 1992.

***Allowances for Members of the Oireachtas***

- Travelling facilities (travel to Leinster House or daily travel allowance for TDs/Senators who live within 15 miles of Leinster House )
- Overnight Allowance (only payable to those living more than 15 miles from Leinster House)
- Miscellaneous expense allowance
- Constituency Travel allowance (TDs only)
- Constituency Telephone allowance
- Constituency Office Accommodation Allowance (TDs only)
- Mobile phone allowance

The recommendation of the Commission may specifically affect the allowances for travelling to Leinster House of the members of the Oireachtas as this may be deemed travel to work which is not normally tax exempt under the general tax legislation.

**Recent Developments**

The Minister for Finance announced in his Supplementary Budget in April 2009 that the Government had decided, inter alia that “expense allowances will be reduced by 10% other than mileage rates which have already been reduced by 25% in line with the reduction in civil service rates”.



The following allowances were cut by 10% recently; the daily travel allowance, overnight allowance, constituency office allowances, constituency travel allowances, miscellaneous expense allowances and telephone allowances.

The new parliamentary standard allowance provided for in section 3 of the Oireachtas (Allowances to Members) and Ministerial and Parliamentary Offices Act, 2009, which effectively allows the Ministers to amalgamate all or some of existing Oireachtas expense allowances into a single allowance has not yet been acted upon as the Minister wishes to consider the matter further.

**Recommendation 8.102**

**The income tax exemption for payments under Scéim na bhFoghlaimoirí Gaeilge should be discontinued**

There is an exemption from income tax for income received by persons in Gaeltacht areas in providing board and lodging to students attending Irish colleges under this scheme.

The Commission felt that, in the interests of equity, this tax exemption should not continue.

## **19. TAX EXPENDITURES - SAVINGS AND INVESTMENTS**

**Recommendation 8.103**

**Tax exemption for the income of credit unions should be continued.**

The Commission recommends that the current exemption of credit unions from Corporation Tax should continue because of their non-profit community-based/work-based status.

**Recommendation 8.104**

**The annual exemptions for interest and dividends on special term accounts and special term share accounts should be continued.**

Finance Act 2002 provided for the introduction of special term accounts which attract favourable tax treatment. These accounts are deposit based and cannot be linked in any way to stocks, shares, debentures, listed or unlisted securities.

The tax treatment of these accounts differs according to the terms of the investment. An exemption from Deposit Interest Retention Tax (DIRT) applies to the first €480 per annum of interest earned in a three-year account and to the first €635 per annum of interest earned in relation to a five year account.

However, all interest earned is included in computing total income for the purposes of the Tax Acts.

## **20. TAX EXPENDITURES - OTHER**

**Recommendation 8.105**

**The age tax credit should continue.**

The Age tax credit is a special tax credit for those aged 65 and over. This credit is additional to the basic personal tax credit and the employee (PAYE) tax credit. The Age credit currently stands at €325 single and €50 married. In the past few years the general policy has been to focus available resources

for the elderly on increases in the Age exemption limits. This is because they help those on lower incomes, and remove low income earners from the tax net entirely. Approximately 68,800 income earners claimed the Age credit in 2005. *Cost: Estimated cost of €20 million in 2005*

#### **Recommendation 8.106**

**The age exemption and marginal relief should continue.**

The current income tax exemption limits for those aged 65 and over are €20,000 single/€40,000 married per annum. Thus, no elderly person on annual income of this amount or less is subject to income tax at all. In terms of relieving income from tax, the limits are of greater value than the basic personal credits (basic personal tax credit, employee credit and age tax credit) for both single and married earners are as follows:

	<b>Combined value of basic personal credits including age tax credit (2009)</b>	<b>Income relieved of tax by the credits (2009)</b>	<b>Exemption limit (2009)</b>
	€	€	€
<b>Single</b>	3,985	19,925	20,000
<b>Married one-earner</b>	6,140	30,700	40,000
<b>Married two-earner</b>	7,970	39,850	40,000

Approximately 43,700 income earners avail of the age exemption limits. In the last 19 years, the age exemption limits have been increased every year except for Budgets 1994, 2009 and supplementary Budget 2009. In the last nine Budgets, the limits were increased by almost 85%. *Cost: Estimated cost of €75 million in 2009*

#### **Recommendation 8.107**

**The tax relief for income under dispositions for short periods (deeds of covenant) should continue.**

Tax relief is available for deeds of covenant in favour of individuals in the followings categories (section 792 TCA):

- Unrestricted tax relief on covenants in favour of minors who are permanently incapacitated, other than from parents to their own minor incapacitated children
- Unrestricted tax relief on covenants in favour of adults who are permanently incapacitated due to mental or physical infirmity
- Tax relief, not exceeding 5% of the covenanter's total income, on covenants in favour of adults aged over 65.

#### **Recommendation 8.108**

**The tax relief available to Veterans of the War of Independence should continue.**

This tax expenditure exempts from income tax any pension, allowance, benefits or gratuities insofar as it related to relevant military service of a Veteran of the War of Independence or to an event which happened during or in consequence of such relevant military service and which is paid under the relevant legislation. The exemption covers payments to veterans, their widows and dependants. Any such pension, allowance, benefit or gratuity is ignored in computing the recipient's total income for the purposes of the Income Tax Acts. According to Revenue statistics, approximately 640 widows and dependants of veterans availed of this relief in 2007. *Cost: Estimated cost of €0.08 million in 2007*

**Recommendation 8.109**

**The relief from income tax of military and other pensions, gratuities and allowances should continue. In future, the tax treatment of military service gratuities should be consistent with the tax treatment of lump sum payments in other public service employments.**

The Commission found that this tax relief recognised the personal contribution to the State made by members of the defence forces and for this reason it should remain exempt. However, the Commission recommended that in future the tax treatment of military service gratuities should be consistent with the tax treatment of lump sum payments in other public service employments.

**Recommendation 8.110**

**The exemption from income tax of profits from lotteries should continue.**

The income of lotteries licensed under Part IV of the Gambling and Lotteries Act, 1956 is exempt from income tax as provided by section 216 of the Taxes Consolidation Act 1997. This refers to the income of those who organise the lotteries and not the gains which may arise to individuals from winning a relevant lottery. The National Lottery is exempt from the provisions of this Act and the relief is concerned with the income of lotteries licensed under the Gaming and Lotteries Act 1956, which may have a maximum prize in any one week of no more than €10,000. That Act also stipulates that the licensee “shall derive no personal profit” from the lottery.

**Recommendation 8.111**

**Consanguinity relief within the stamp duty code should continue.**

Transfers of land between certain blood relatives qualifies for Consanguinity Relief under which the Stamp Duty payable is restricted to 50% of the duty that would otherwise be payable. A person is related to another if s/he is a lineal descendant or is a lineal descendant of a parent, husband, wife, brother or sister.

## 21. TAXING CARBON DIOXIDE EMISSIONS

### Recommendation 9.1

A carbon tax on fossil fuels should be introduced.

9.1.1 The carbon tax should be based on a standardised measure of CO<sub>2</sub> content of the energy product. Measurement factors used should accord with international norms.

9.1.2 The carbon tax should apply to energy products released for consumption in Ireland.

9.1.3 The tax rate should approximate the ETS price of carbon.

- The price should be established annually, on a recognised market place for trading carbon credits.
- A floor price for carbon should be set.

9.1.4 Any phasing in of the tax rate should depend on the scale of the price.

9.1.5 - The carbon tax should be collected at the earliest practical point of supply and linked into the existing mineral oils tax system where appropriate.

- The carbon tax should be clearly visible at the point of final consumption to ensure it is not seen as 'just another tax'.

- Working capital problems caused to small distributors/suppliers with slow stock turnover by the imposition of a tax at the earliest point of supply should be accommodated where practicable.

9.1.6 In general, there should not be preferential rates of carbon tax.

Binding action-based and/or target-based monitored agreements to reduce emissions should be accommodated under the carbon tax design.

9.1.7 Carbon tax should not apply to ETS participants.

Tax should not be imposed at this time on ETS participants in order to capture the gains they made from the free allocation of permits; the issue should be monitored and taxation may be appropriate in the future.

9.1.8 Administrative rules for the carbon tax should fit in with existing tax provisions where practicable.

In practical terms, a carbon tax would be applied according to the carbon content of fossil fuels. The greater the amount of CO<sub>2</sub> emitted, the higher the tax. The main fuels concerned are petrol, diesel, home-heating oils (kerosene and marked gas oil), LPG, peat, coal, and natural gas. While these fuels produce different amounts of CO<sub>2</sub>, they can be compared fairly by converting them into a common unit, the TOE or 'tonne of oil equivalent' an international standard measure of energy value. For indicative purposes, the impact of a carbon tax set at a rate of €20 per tonne, on the price of fuels is set out in the table below:

Fuel Type	Unit	Carbon Tax @ €20 – Impact on price per unit
		€
Peat Briquette	Bale	0.52
Coal (Standard)	40kg	2.39
Gasoil (heating)	Litre	0.06
Kerosene (heating)	Litre	0.05
Diesel	Litre	0.06
Petrol	Litre	0.05
LPG	Litre	0.03
Natural Gas (Standard)	Kwh	0.004

The Commission based on estimates from the ESRI suggest that a carbon tax of €20 per tonne would raise revenues of some €500m in 2012 (We think this is closer to €450m in a full year).

## 22. TAX ON OTHER GREENHOUSE GASES

### **Recommendation 9.2**

**Research into measures to reduce agricultural emissions – such as alternative technologies and feeding systems – should continue and be intensified.**

### **Recommendation 9.3**

**If methane and nitrous oxide emissions from agriculture become capable of being monitored, reported and verified with sufficient accuracy, their exclusion from the carbon tax should be reconsidered.**

## 23. PRODUCT TAXES

### **Recommendation 9.4**

**Environmental product taxes should be considered where voluntary initiatives are unsuccessful. If such taxes are to be considered, the criteria developed by us (see Box 9.8) should be met.**

## 24. ENERGY EFFICIENCY

### **Recommendation 9.5**

**Continue the Accelerated Capital Allowance for energy-efficient equipment scheme for its current term; evaluate the potential for expanding the scheme to incentivise innovation (based, for example, on the Dutch model).**

*This recommendation is also partially covered by Recommendation 8.6.*

Companies incurring certain capital expenditure on specified energy efficient equipment can secure a deduction for this expenditure against their Corporation Tax. This measure was introduced in the Finance Act 2008 and enhanced in the Finance Act (no. 2) Act 2008.

### **Recommendation 9.6**

**Ireland should support amendments to the EU VAT Directive that would allow the implementation of lower VAT rates for energy-efficient goods and services.**

The EU Commission recently undertook a study of the possibility of using reduced VAT rates as a tool to support the climate change agenda. Ireland expressed support for such a study. However, at a recent Council of Finance Ministers meeting, the Ministers noted that reduced VAT rates as a tool for achieving environmental policy objectives are relevant only to a certain extent.

### **Recommendation 9.7**

**Businesses that are not in the emissions trading scheme should be given a rebate on their carbon tax payments if they participate in an approved mandatory energy reduction programme.**

## 25. TRANSPORT

### **Recommendation 9.8**

**The VRT system should be replaced by a system based on car usage, in the longer term. Such a system should be introduced over a 10 year period in order to minimise adverse impacts (in relation, for example, to the existing fleet of tax-paid vehicles).**

VRT has traditionally been an important source of revenue for the Exchequer, yielding €1.4bn in 2007, and over €1.1bn in 2008. Most of the VRT yield is derived from passenger cars. Rebalancing VRT with increases in excise on petrol and diesel would, for example, require increases of around 30 cent per litre on the basis of current historically low receipts in 2009. This would have serious cross-border price implications.

### **Recommendation 9.9**

**A focussed scrappage scheme, targeted at encouraging a switch to the purchase of electric and very low carbon emitting vehicles, should be considered.**

While the benefits of introducing a car scrappage scheme are questionable, such a scheme could be considered.

## 26. TAX INCENTIVES FOR RETIREMENT SAVINGS

### **Recommendation 10.1**

**The regime for non-funded pensions should be examined to identify the implicit tax cost to the Exchequer in the context of an equitable distribution of the tax expenditure on pensions.**

The Report identifies a ‘non-funded pension’ as one where the employer does not contribute to a fund, but pays the pension out of its income during the employee’s retirement. It is indicated that they are mainly in the public sector XXXXXXXXXX but where an employee accrues an entitlement to a pension over time matched by the employer accruing a liability to make a pension payment in the future.

The recommendation considers that the regime for non-funded pensions be examined to identify the implicit tax cost to the Exchequer in the context of an equitable distribution of the tax expenditure on pensions.

Notwithstanding the fact that this recommendation ignores the fact that the majority of public servants (i.e. those recruited after 6<sup>th</sup> April 1995) make an explicit contribution to their pensions and all public servants are also subject to the Public Service Pension Levy which was introduced earlier this year, it is recognised that given the passage of time since the completion, the costings used in the Green Paper on Pensions are now out-of-date.

### **Recommendation 10.2**

**The current tax relief for personal retirement provision should in the medium to long-term be replaced by a matching Exchequer contribution of €1 for each €1.60 contributed by the taxpayer.**

The draft Pensions Framework, which has been developed by the Department of Social and Family Affairs (currently awaiting consideration by Government), proposes a similar scheme and it is likely that the Commission’s recommendation on this issue will also be covered as part of this process.

It should be noted that this recommendation would be very costly and there is a major concern over the ability of Exchequer to make long-term commitment to potentially sizeable contributions given the

long-term sustainability challenges. Up-front exchequer contributions may lead to the expectation that level of pension or investment performance is guaranteed or underwritten by the State. There is also a difficulty of administering the matching contribution system for DC alongside tax reliefs for Defined Benefit (DB) schemes.

**Recommendation 10.3**

**The matching contribution approach should be accompanied by a kick-start provision involving a contribution of €1 for each €1 contributed by the taxpayer in the first, say, five years of pension provision by an individual.**

The draft Pensions Framework, which has been developed by the Department of Social and Family Affairs (currently awaiting consideration by Government), does not contain a similar kick-start incentive which is covered by this recommendation. However, it does contain a proposal for a matching contribution from employers and the Exchequer – see recommendation 10.2, above).

It is considered that this proposal will significantly add to the cost of the proposal. An incentive may not be required if auto-enrolment is to be a feature (see soft mandatory suggestion under recommendation 10.5). In addition, there would be an inevitable pressure to retain higher level of matching contribution for a longer period than was first envisaged.

**Recommendation 10.4**

**The matching contribution should apply where an individual has relevant earnings including where, because of the level of his or her earnings, the individual is not liable to tax.**

The draft Pensions Framework, which has been developed by the Department of Social and Family Affairs (currently awaiting consideration by Government), proposes a similar scheme and it is likely that the Commission's recommendation on this issue will also be covered as part of this process.

Draft Pensions Framework proposal for matching contributions would similarly apply irrespective of the individual's tax liability.

**Recommendation 10.5**

**A soft-mandatory approach could make a significant contribution to increasing pension coverage and should be considered.**

The draft Pensions Framework, which has been developed by the Department of Social and Family Affairs (currently awaiting consideration by Government), proposes a soft mandatory approach with facility to opt-out and periodic automatic re-enrolment - it is likely that the Commission's recommendation on this issue will also be covered as part of this process.

The recommendation possibly overstates extent to which inertia rather than affordability impacts on choice to set up a pension. There is also a potential administrative cost for employers if they are to be made responsible for the auto-enrolment.

**Recommendation 10.6**

**An employee's payslip should show the amounts contributed by the Exchequer to the employee's retirement savings.**

This would help an individual understand the various components which constitute their pension while also making the Exchequer contribution transparent.

However, there are potential added compliance/administrative burdens for employers.

**Recommendation 10.7**

**A retirement savings scheme along the lines of the former SSIA scheme, that is easily understood and which involves an Exchequer contribution, should be introduced – the scheme is outlined in Box 10.16 of Part 10.**

The draft Pensions Framework, which has been developed by the Department of Social and Family Affairs (currently awaiting consideration by Government), proposes a similar auto-enrolment scheme with matching contributions and it is likely that the Commission’s recommendation on this issue will also be covered as part of this process.

However, there are potential added payroll and administrative costs for employers coupled with the possible development of unrealistic expectations about value or security of pension benefit.

**Recommendation 10.8**

- **As the annual earnings limit does not apply to employer contributions, there is a need to retain the standard fund threshold.**
- **There should be a correlation between the annual earnings limit and the standard fund threshold, and the reduction in the annual earnings limit suggests that there should be a corresponding reduction in the standard fund threshold.**

XX  
XX  
XX  
XX

**Recommendation 10.9**

**A lump sum taken on retirement should be liable to tax as follows:  
An amount of up to €200,000 should be tax free.  
The balance of the lump sum should be subject to tax at the standard rate of income tax.**

The recommendation means that only lump sums greater than €200,000 should be taxed at the 20% rate of income tax.

**Recommendation 10.10**

**The current tax relief rules should be reviewed to ensure that contributions and remuneration levels cannot be manipulated close to retirement to allow individuals to take advantage of unintended and inappropriate benefits.**

This recommendation covers the making of excessive contributions to pensions by individuals close to retirement. The Commission considers that a system which allows such arrangements is not appropriate and it is recommended that the law be changed to prevent their use.

**Recommendation 10.11**

**Age-related limits on the amount of an individual’s relevant earnings should continue.**

The age-related percentage limits of annual earnings act, in conjunction with, the annual earnings cap to put a ceiling on the annual amount of tax relief an individual taxpayer can obtain on pension contributions.





## 27. ANNUAL PROPERTY TAX AS A SOURCE OF LOCAL GOVERNMENT FUNDING

### **Recommendation 11.11**

**The proposed annual property tax system should be established and operated as a national property tax system for a short initial period:**

- **Its revenues should then be hypothecated for local government financing as soon as is feasible – once the tax has become established, and**
- **By no later than the next local elections (June 2014), rate-setting powers should be devolved to local government subject to the considerations set out at section 5.3 of Part 11.**

*This Recommendation also relates to Recommendations 6.2 and 6.3.*

This is one of the most controversial proposals from the Commission and one which has already received considerable coverage in the media.

Ireland is the only OECD Country without a form of annual property tax, a position which is compounded by what can be perceived by Ireland has some of the most generous tax provisions for owner-occupied housing through the provision of tax relief on rent, mortgage interest payments, capital gains and capital acquisitions.

The Commission's recommendation (6.2) on the introduction of an annual property tax on all residential housing units has to be considered in the context of its related recommendation (6.3, below) on the discontinuation of Stamp Duty on purchases of principal private residences and its continuance for investors of residential units. This consideration also has to take on board the key elements of recommendation 11.11 (i.e. transforming a national property tax into a hypothecated tax for Local Government financing by June 2014 at the latest, including the devolution of rate-setting powers to Local Government.

The question of transforming a national property tax into a hypothecated tax for Local Government financing is a very complex and multi-faceted issue which merits careful consideration as it could potentially impact upon other sources of revenue for the Exchequer.

## 28. WASTE CHARGES

### **Recommendation 11.26**

**Tax relief on service charges should be abolished.**

*See Recommendation 8.18*