TSG 09/20

Tax Incentives/Expenditures

Introduction

1. Papers concerning tax expenditures/incentives and options to broaden the tax base are circulated regularly to the Tax Strategy Group (TSG). The most recent paper was TSG 07/15. This paper is provided to the Group for information.

2. As the Group will be aware, the Commission on Taxation has examined tax expenditures in detail and made a significant number of recommendations in relation to same.

3. The information below sets out the potential yield from the implementation of the Commission on Taxations recommendations on tax expenditures. It further sets out the costs and yields that could be achieved were the Government to change or abolish certain other large reliefs in the tax system.

Commission on Taxation Report – Possible Yield from the Implementation of the Recommendations in Relation to Tax Expenditures

4. In the relevant part of the Commission on Taxation report (Part 8), there are 111 recommendations on tax expenditures (4 others are made in relation to other areas of the tax code, e.g. pensions, capital allowances – see below). The initial 6 recommendations are general principles and therefore do not have any cost or yield implications.

5. 24 of the recommendations propose the abolition of certain tax expenditures (See Annex 1). Using the estimates provided in the Commission on Taxation report, abolition of these expenditures would yield approximately €327 million in a full year.

6. A further 30 recommendations from the Commission on Taxation in relation to tax expenditures propose changes to the existing tax treatment of certain schemes (see Annex 2). In many cases there is no estimate of the amount of revenue that the change proposed would yield or indeed of the possible costs of the proposal. Based on the information available,

however, it seems unlikely that there would be any yield if all the changes were implemented; indeed it is more likely that there would be a significant Exchequer cost. Further work would be required to try to estimate costs and yields if any individual recommendation is to be pursued.

7. The remaining 51 recommendations propose that there be no change in the current tax treatment of the expenditures concerned at the current time (see Annex 3).

Other Major Reliefs and Allowances

Pensions

8. The tax relief currently allowed for private pension provision is estimated to cost the State approximately €2.6 billion net in the 2007 tax year, the latest year for which the most complete data are available. The Commission on Taxation have made a number of recommendations in relation to the tax regime for private pension provision, including auto enrolment which, if implemented, would incur additional Exchequer costs.

9. The renegotiated programme for Government includes a proposal to introduce a single 30% rate for tax relief on private pension provision in the context of the national pensions framework. It is difficult to be definitive about the cost or savings impact of this proposal until the detail of its implementation is worked out (e.g. the extent, if any, of additional relief for PRSI and health levies on pension contributions and the likely behavioural impact of the measure).

10. A separate paper on pensions is provided for discussion at today's meeting.

Tax Credits - Part of Basic Tax System

11. The basic tax credits, such as the personal tax credit for single and married persons, the PAYE tax credit and the home carer's credit, were deemed by the Commission on Taxation as credits that are part and parcel of the tax system. Therefore the Commission did not examine these credits. It is estimated that these tax credits will cost in the region of €7.8 billion in 2010.

12. A separate paper on income tax (TSG 09/03) has already been discussed by the Group.

Capital Allowances

13. Capital allowances on plant and machinery are estimated to have cost the Exchequer approximately €2 billion in 2006, the latest year for which the most complete data are available. The Commission on Taxations proposals in this area would increase the costs of these reliefs to the Exchequer.

Property Based Schemes - Legacy Reliefs

14. The Commission on Taxation did not examine the property-based tax incentive schemes that are closed to new entrants. However, because of the nature of these reliefs, they will continue to impose costs on the Exchequer for the duration of the 'tails' of these schemes. There are significant legal concerns in relation to any amendment or abolition of these schemes, as investors may argue that they had a legitimate expectation that the relief would be available to them over the relevant period at the time that they made their investment. A recent PQ detailing the legacy costs of these schemes is attached at Annex 4.

15. The restriction of reliefs, or horizontal measure, introduced in 2007, is having an impact on those taxpayers that claim a total amount of reliefs above €250,000 per annum. The measure has increased the effective rate for the tax payers concerned to 20% for those affected by the full restriction, by reducing the amount of relief allowed by 50%. A separate paper on the restriction of reliefs measure (TSG 09/13) has already been discussed by the Group.

Conclusion

16. It is clear from the information available, that the implementation of the Commission on Taxations recommendations on tax expenditures, while possibly justified on the grounds of the arguments made by the Commission, would not raise the levels of additional revenue for the Exchequer that is sometimes mentioned in the media.

17. It is important to note that significant analysis of each recommendation of the Commission is required before a decision can be taken as to whether the views of the

Commission on Taxation should translate into future policy. In this regard, any potential yield from the implementation of a specific recommendation should not be considered as automatically accruing to the Exchequer.

18. While amendment of the other major reliefs and allowances could yield significant amounts of Revenue for the Exchequer, any such proposals would raise serious policy issues and would need detailed and careful consideration.

Annex 1

Ref	Commission on Taxation Recommendations - Tax Expenditures for ABOLITION	Yield Estimate[1] €m
8.12	**TAX EXPENDITURES - CHILDREN** The capital allowances for childcare facilities should be discontinued.	6
8.13	The income tax exemption for childcare service providers should be discontinued.	1
8.14	The exemption of employer-provided childcare from the benefit-in-kind charge should be discontinued	6
8.16	**TAX EXPENDITURES - HOUSING** Income tax relief for rent paid for private rented accommodation should be discontinued.	48
8.18	Income tax relief for service charges should be discontinued.	21
8.19	The rent-a-room relief should be discontinued.	4
8.20	The capital gains tax and stamp duty exemptions on the disposal of site to a child should be discontinued.	38
8.26	**TAX EXPENDITURES – HEALTH** Tax relief for long-term care policies should be discontinued.	-
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.	1
8.36	**RELATING TO PHILANTHROPY** Income tax relief for expenditure on heritage buildings and gardens should be discontinued	6
8.37	The benefit-in-kind exemption on employer-provided art objects in a heritage building or garden should be discontinued.	-
8.47	**TAX EXPENDITURE - ENTERPRISE (INCLUDING FARMING)** The restriction of balancing charges on a building to the relevant holding period for that building should be discontinued for future acquisitions.	-
8.50	Tax exemption for patent royalties should be discontinued.	84
8.54	Stock relief for farming businesses should be discontinued.	2

[1] The cost of the relief shown is the latest estimate provided to the Commission on Taxation by the Revenue Commissioners.

Ref	Commission on Taxation Recommendations - Tax Expenditures for ABOLITION	Yield Estimate €m
8.57	The tax relief for the purchase of milk quota should be discontinued.	-
8.59	The tax exemption for payments to National Co-operative Farm Relief Services Ltd. and payments made to its members should be discontinued.	-
8.63	The investment allowance for machinery and plant and for exploration expenditure should be discontinued.	-
8.76	**TAX EXPENDITURES – EMPLOYMENT** Income tax relief for trade union subscriptions should be discontinued.	19
8.91	The PRSI exemption for employee (unapproved) share options should be discontinued.	18
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.	3
8.97	The income tax exemption for new shares purchased on issue by employees should be discontinued.	1
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.	66
8.100	The seafarer's allowance should be discontinued.	1
8.102	The income tax exemption for payments under Scéim na bhFoghlaimeoirí Gaeilge should be discontinued	-

Annex 2

Ref	Commission on Taxation Recommendations - Tax Expenditures for AMENDMENT
8.7	**TAX EXPENDITURES - CHILDREN** 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.
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.
8.15	**TAX EXPENDITURES - HOUSING** 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.
8.31	**TAX EXPENDITURES - HEALTH** 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.
8.32	The Disabled Drivers and Disabled Passengers Scheme should be modified in accordance with the recommendations of the 2002 Interdepartmental Review Group.
8.33	**RELATING TO PHILANTHROPY** 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.
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.
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.
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.
8.40	The relief for individuals under Recommendation 8.39 should be at the standard rate in all cases.
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.
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

Ref	Commission on Taxation Recommendations - Tax Expenditures for AMENDMENT
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.
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.
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.
8.56	**TAX EXPENDITURE - ENTERPRISE (INCLUDING FARMING)** 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.
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.
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%).
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.
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.
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.

Ref	Commission on Taxation Recommendations - Tax Expenditures for AMENDMENT
8.72	Business relief and agricultural relief should be amalgamated into a single relief.
8.84	**TAX EXPENDITURES - EMPLOYMENT** 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.
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
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.
8.92	Continue the income tax exemption for approved profit-sharing schemes (APSSs) and remove the PRSI, health contribution levy and income levy exemptions.
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.
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.
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.
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.

Annex 3

Ref	Commission on Taxation Recommendations - Tax Expenditures to CONTINUE	Cost Estimate[2] €m
8.8	**TAX EXPENDITURES - CHILDREN** The exemption of foster care payments from income tax should continue	30
8.10	The home carer tax credit should continue.	62
8.11	The widowed parent tax credit should continue.	5
8.17	**TAX EXPENDITURES - HOUSING** The capital gains tax exemption on the disposal of a principal private residence should be continued.	2440
8.21	**TAX EXPENDITURES - HEALTH** Medical insurance relief should be continued on a more limited basis.	321
8.22	Relief for health expenses should continue at the standard rate.	167
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.	NA
8.24	The range of treatments contained within the scope of the relief for health expenses should be subject to regular review.	-
8.25	Tax relief for contributions paid to permanent health benefit schemes should continue.	3
8.27	When direct expenditure support at the appropriate level is in place, the incapacitated child tax credit should be discontinued.	16
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.	3
8.30	When direct expenditure support at the appropriate level is in place, the blind person's tax credit should be discontinued.	1
8.38	**RELATING TO PHILANTHROPY** The CAT exemption of heritage property and heritage property of companies should be retained.	1
8.45	Relief for gifts made to the Minister for Finance should continue.	-
8.48	**TAX EXPENDITURE - ENTERPRISE (INCLUDING FARMING)** 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.	
8.49	The tax credit for research and development should continue.	54
8.51	The tax deduction for capital expenditure on scientific research should continue.	

[2] Figures provided are the latest estimates provided by Revenue to the Commission on Taxation

Ref	Commission on Taxation Recommendations - Tax Expenditures to CONTINUE	Cost Estimate €m
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.	31
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.	18
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.	27
8.58	The restructuring aid for sugar beet growers should continue	10
8.60	The accelerated capital allowances for energy efficient equipment should continue.	-
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.	-
8.62	The Mid-Shannon corridor scheme should not be continued beyond its current expiry date.	-
8.64	The tax treatment of the decommissioning of fishing vessels should continue.	-
8.67	The tonnage tax regime should be continued.	-
8.69	Capital gains tax relief for disposal of a business or a farm on retirement should continue.	-
8.73	Stamp duty relief for transfers of land to young trained farmers should continue.	71
8.74	The stamp duty exemption relating to the sale or transfer of EU Single Farm Payment Entitlements should be continued.	-
8.75	The tax incentives relating to forestry should be continued.	5
8.77	**TAX EXPENDITURES - EMPLOYMENT** 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.	-
8.78	The relief for benefit-in-kind and PRSI exemption for employer-provided public transport travel passes should continue.	-
8.79	The relief for benefit-in-kind and PRSI exemption on employer-provided bicycles and related safety equipment should continue.	2
8.80	The income tax exemption for scholarships should continue.	1

Ref	Commission on Taxation Recommendations - Tax Expenditures to CONTINUE	Cost Estimate €m
8.81	The income tax relief for fees paid for third-level education should continue.	16
8.82	Income tax relief for fees paid for training courses should continue.	-
8.83	The exemption from income tax of statutory redundancy payments should continue.	78
8.87	The exemption from income tax for retraining on redundancy should continue.	-
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.	2
8.89	Income tax relief for long-term unemployed and double deduction in respect of payroll costs should continue.	1
8.90	Income tax relief for employees on payments related to compensation for loss of future earnings should continue.	-
8.93	The tax treatment which applies to employee share ownership trusts (ESOTs) should continue	6
8.103	**TAX EXPENDITURES - SAVINGS AND INVESTMENTS** Tax exemption for the income of credit unions should be continued.	-
8.104	The annual exemptions for interest and dividends on special term accounts and special term share accounts should be continued.	-
8.105	**TAX EXPENDITURES - OTHER** The age tax credit should continue.	28
8.106	The age exemption and marginal relief should continue.	62
8.107	The tax relief for income under dispositions for short periods (deeds of covenant) should continue.	-
8.108	The tax relief available to Veterans of the War of Independence should continue.	1
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.	2
8.110	The exemption from income tax of profits from lotteries should continue.	-
8.111	Consanguinity relief within the stamp duty code should continue.	51

Annex 4

FINAL ANSWER
DÁIL QUESTION
DAIL WEBSITE

To ask the Minister for Finance the cost to the Exchequer from commercial property tax exemptions in 2006, 2007 and 2008; and if he will make a statement on the matter.

- Thomas P. Broughan.

For WRITTEN answer on Thursday, 24th September 2009.
Ref No: **32811/09**

REPLY

50. Minister for Finance (Deputy Brian Lenihan):

I am informed by the Revenue Commissioners that the relevant information available relates to the cost to the Exchequer of tax relief in respect of a range of property-based incentives derived from personal income tax returns filed by non-PAYE taxpayers and corporation tax returns filed by companies for 2006 and 2007. The information on estimated costs is set out on an itemised basis in the following table:

Scheme	***Tax Cost 2006***	***Tax Cost 2007***
	€m	€m
Urban Renewal	140.5	109.3
Town Renewal	38.7	34.6
Seaside Resorts	6.4	8.0
Rural Renewal	38.0	48.5
Multi-storey car parks	16.6	9.6
Living over the shop	2.7	3.0
Enterprise Areas	3.0	2.8
Park and Ride	2.8	1.4
Holiday Cottages	9.5	12.4
Hotels	106.6	118.0
Nursing Homes	14.7	18.3
Housing for the Elderly/Infirm	1.4	2.6
Hostels	0.82	0.72
Guest houses	0.08	0.02
Convalescent Homes	1.7	0.5

Scheme	*Tax Cost 2006*	*Tax Cost 2007*
Qualifying (Private) Hospitals	10.6	12.0
Qualifying sports injury clinics	0.0	1.8
Buildings used for Childcare	6.0	9.8
Purposes		
Psychiatric Hospitals*		0.1
Student Accommodation	64.3	42.0
Total	464.4	435.4

*New addition for 2007.

I am advised by the Revenue Commissioners that they are not in a position to provide data for 2008 as the tax returns for that year are not yet due. The estimated relief claimed has assumed tax foregone at the 42% rate for 2006 and 41% for 2007 in the case of individuals and 12.5% in the case of companies for both years. The figures shown correspond to the maximum Exchequer cost in terms of income tax and corporation tax.

It should be noted that any corresponding data returned by PAYE taxpayers in the income tax return form 12 is not captured in the Revenue computer system. However, any PAYE taxpayer with non-PAYE income greater than €3,174 is required to complete an income tax return form 11.