Tax Policy Area – Major Issues in the coming year

Direct taxes

Big issues in the coming year in relation to direct taxes will include

- Consideration of appropriate stance of income tax policy in the short and medium term
- Treatment of high earners XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
- Dealing with the issue of cohabitation, in particular the Gilligan and Zappone case
- Response to partnership talks
- Response to developing pensions issues

Review of tax reliefs

In 2005/06, we conducted, with Revenue and other Departments and using in-house and external expertise, a very large exercise in the assessment of tax reliefs and their utility. This process heavily influenced Budget 06. We need to ensure the ongoing management of recommendations arising from the review of tax reliefs, including further definition of information requirements in relation to tax incentives and of assessment mechanisms where new reliefs are being considered. Consideration is also being given to further reviews which should be carried out in the coming year and subsequently. These include (i) residential units with nursing homes, (ii) film relief, (iii) R&D reliefs, (iv) BES and seed capital schemes. Various other candidates for review are also being considered.

Other taxes

As regards indirect taxes, there is a number of areas to which the Minister and the wider public are likely to give added focus this year. Stamp duty on houses is an area that requires to be kept under review, including the impact of current SD rates on behaviours. Green tax issues, such as biofuels, are also likely to be a significant interest this year. Developments on Energy taxes at EU level will also have to be considered in the coming year. As regards VAT, where national discretion is limited, there are no major initiatives planned, though the area is very active at a technical level, and issues such as VAT on conferences [and on nursing care] will have to be dealt with. However, Revenue are carrying out a major review of VAT on property, in which D/Finance is involved, and this may give rise to policy issues and changes later in the year. On excise, the question of whether there should be any increases this year, after several years of effective freezing of rates, will arise. ECJ developments in relation to cross border movement of goods may have to be addressed.

Financial Services and international issues

A new post-IFSC strategy for financial services is being developed and the Department, as part of its contribution, has identified a number of areas of the tax code which it is prepared, with the assistance of Revenue, to examine to assist in development of an efficient sector. In the post-IFSC environment, we are naturally anxious to ensure that EU rules – and Ireland's reputation – are fully respected. This may give rise to disagreement with sections of industry, but we are committed to working towards solutions to any problems which may arise.

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EU issues

Our policy and legal relationship with the EU is a growing key risk area, which requires to be managed:

(1) In the short-term, we need to anticipate and deal with EU State Aid and 'Freedoms' decisions. There are a number of these on which work is very active at the moment, including decisions in relation to state aid to Aughinish Alumina (we are challenging the Commission in the ECJ), Stallions, Patents exemption, Charities' reliefs, remittance basis, VAT on local authority services, and so forth. ECJ decisions can also have a very significant impact, and we seek to influence these by making a national submission when cases arise.

(2) EU Tax Policy – we monitor and develop strategic response to an increasing number of EU initiatives, including in relation to common consolidated tax base, VAT, excise and so forth, to ensure Ireland is appropriately represented and Irish interests protected. Issues include

a. EU harmonization agenda generally
b. CCCTB in particular
c. Various proposals/ideas for new taxes/euro taxes, e.g. tax on texts, flights etc.

(3) Communication of the Irish position on all of these issues is important, in particular in influencing other Member States to support the most sensible line.

Revenue Powers/Administrative Issues

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Various issues have arisen in relation to tax administration in the past year. These give rise to requests for comment from Minister for Finance. It is important that tax policy development takes account of administrative issues and resource/structural constraints where they exist. There may also be demands for simplification measures to ease administrative burdens.

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