

## Tax Incentives/Expenditures

### **Introduction**

1. 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 in its 2009 Report.
2. This paper sets out the Commission recommendations on expenditures that have been implemented to date. It further sets out the potential yield from the implementation of the remaining recommendations. In addition, it identifies costs and yields relating to potential changes to certain other large reliefs in the tax system.

### **Commission on Taxation Report**

3. In the relevant part of the Commission on Taxation report (Part 8), there were 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 six recommendations are general principles and therefore do not have any cost or yield implications.
4. 24 of the recommendations propose the abolition of certain tax expenditures (Annex 1). A further 30 recommendations from the Commission on Taxation in relation to tax expenditures propose changes to the existing tax treatment of certain schemes (Annex 2). The remaining 51 recommendations propose that there be no change in the current tax treatment of the expenditures concerned at the current time (Annex 3).

### **Other Major Reliefs and Allowances**

#### **Pensions**

5. The estimated net cost of tax and various other reliefs on private pension provision can change from year to year, depending on variables such as the levels of individual/employer pension contributions made and the accrued returns on pension fund investment. The latest year for which the most up-to-date estimates are available is 2008 and the net estimated cost for that year amounts to over €2.4 billion.

6. A separate paper on pension taxation (TSG 11/23) has previously been discussed by the Group.

### **Tax Credits - Part of Basic Tax System**

7. As result of recent income tax adjustments, credits and bands have returned to 2006/07 levels. Furthermore, the entry point to taxation has been reduced significantly for all income earners.

8. A separate paper on income tax (TSG 11/04) has already been discussed by the Group.

### **Capital Allowances**

9. Capital allowances on plant and machinery are estimated to have cost the Exchequer approximately €2 billion in 2006. The Commission on Taxations proposals in this area would increase the costs of these reliefs to the Exchequer.

### **Property Based Schemes - Legacy Reliefs**

10. 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.

11. A presentation on legacy property relief issues is being made to the Group today.

### **Other reliefs**

12. Annex 4 sets out a number of major reliefs and allowances and their associated costs that are largely not covered by Annexes 1 to 3.

13. The Tax Strategy Group may wish to discuss the issues raised in this paper.

November, 2011.

## Annex 1

Ref	<b>Commission on Taxation Recommendations - Tax Expenditures for ABOLITION</b>	Yield Estimate €m
8.12	<b>TAX EXPENDITURES - CHILDREN</b> The capital allowances for childcare facilities should be discontinued.	12
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	Estimated yield of €6m. Abolished in Budget 2011
8.16	<b>TAX EXPENDITURES - HOUSING</b> Income tax relief for rent paid for private rented accommodation should be discontinued.	€97m Abolished in Budget 2011 with gradual withdrawal and complete cessation in 2018
8.18	Income tax relief for service charges should be discontinued.	Abolished in FA 2010
8.19	The rent-a-room relief should be discontinued.	6
8.20	The capital gains tax and stamp duty exemptions on the disposal of site to a child should be discontinued.	CGT relief costs €2m; SD relief abolished in Budget 2011
8.26	<b>TAX EXPENDITURES – HEALTH</b> Tax relief for long-term care policies should be discontinued.	-
8.29	The dependent relative tax credit should be discontinued. <ul style="list-style-type: none"> <li>• 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.</li> <li>• The separate entitlement to CGT relief on the disposal of a principal private residence occupied by a dependent relative should be discontinued.</li> </ul>	1

Ref	<b>Commission on Taxation Recommendations - Tax Expenditures for ABOLITION</b>	<b>Yield Estimate €m</b>
8.36	<b>RELATING TO PHILANTHROPY</b> Income tax relief for expenditure on heritage buildings and gardens should be discontinued	3 Modified by FA 2010 to exclude passive investors
8.37	The benefit-in-kind exemption on employer-provided art objects in a heritage building or garden should be discontinued.	-
8.47	<b>TAX EXPENDITURE - ENTERPRISE (INCLUDING FARMING)</b> 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.	50 Abolished FA 2011
8.54	Stock relief for farming businesses should be discontinued.	2 (Extended to 2012 in FA 2011 subject to EU State Aid Approval)
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.	Abolished FA 2011
8.63	The investment allowance for machinery and plant and for exploration expenditure should be discontinued.	<1 Abolished FA 2011
8.76	<b>TAX EXPENDITURES – EMPLOYMENT</b> Income tax relief for trade union subscriptions should be discontinued.	26 Abolished in FA 2011
8.91	The PRSI exemption for employee (unapproved) share options should be discontinued.	20 Employee PRSI and USC charge announced in Budget 2011
8.94	<ul style="list-style-type: none"> <li>• The income tax exemption for approved share option schemes (APSOs) should be discontinued.</li> <li>• 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.</li> </ul>	0.5 Abolished in Budget 2011

Ref	Commission on Taxation Recommendations - Tax Expenditures for ABOLITION	Yield Estimate €m
8.97	The income tax exemption for new shares purchased on issue by employees should be discontinued.	0.3 Abolished in Budget 2011
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.	8 Annual exemption ceiling of €40,000 applied in Budget 2011
8.100	The seafarer's allowance should be discontinued.	0.3
8.102	The income tax exemption for payments under Scéim na bhFoghlaimoirí Gaeilge should be discontinued	-



Ref	<b>Commission on Taxation Recommendations - Tax Expenditures for AMENDMENT</b>
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. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
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. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
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. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
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. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
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	<b>TAX EXPENDITURE - ENTERPRISE (INCLUDING FARMING)</b> 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.  Abolished FA 2011
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. <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>
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: <ul style="list-style-type: none"> <li>• Where the investment return on a carried interest represents income, it should be taxed at the appropriate marginal rate, and</li> <li>• 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%).</li> </ul>
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. c. €5m if capped at €3m; see also “additional expenditure No. 22” below

Ref	<p style="text-align: center;"><b>Commission on Taxation Recommendations - Tax Expenditures for AMENDMENT</b></p>
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. €12 m for reduction to 75% (cap can't be costed)
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. €18m for reduction to 75% (cap can't be costed)
8.72	Business relief and agricultural relief should be amalgamated into a single relief. Can't be costed (no specific proposal)
8.84	<p><b>TAX EXPENDITURES - EMPLOYMENT</b></p> <p>Income tax relief for <i>ex-gratia</i> 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. Limited to €200k in FA 2011.</p>
8.85	<i>Ex-gratia</i> 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. Limited to €200k in FA 2011.
8.92	Continue the income tax exemption for approved profit-sharing schemes (APSSs) and remove the PRSI, health contribution levy and income levy exemptions. Yield of €14m. Employee PRSI and USC charge announced in Budget 2011.
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. Yield of €1m. Employee PRSI and USC charge announced in Budget 2011.
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	<p>The sportsperson's relief should continue.</p> <ul style="list-style-type: none"> <li>• The total repayment of tax for any 10-year period should be capped at €350,000 as adjusted for inflation.</li> <li>• 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.</li> <li>• The relief should be subject to review after five years of operation under these new arrangements.</li> </ul>
8.101	<p>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.</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>



### Annex 3

Ref	<b>Commission on Taxation Recommendations - Tax Expenditures to CONTINUE</b>	<b>Cost Estimate €m</b>
8.8	<b>TAX EXPENDITURES - CHILDREN</b> The exemption of foster care payments from income tax should continue	30
8.10	The home carer tax credit should continue.	70
8.11	The widowed parent tax credit should continue.	7
8.17	<b>TAX EXPENDITURES - HOUSING</b> The capital gains tax exemption on the disposal of a principal private residence should be continued.	2440 (very hard to cost as most disposals of PPRs don't have to be returned to Revenue)
8.21	<b>TAX EXPENDITURES - HEALTH</b> Medical insurance relief should be continued on a more limited basis.	321
8.22	Relief for health expenses should continue at the standard rate.	145
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.	4
8.27	When direct expenditure support at the appropriate level is in place, the incapacitated child tax credit should be discontinued.	34
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. Yield of €6m. Linked to the rate of relief available for nursing home fees.	
8.30	When direct expenditure support at the appropriate level is in place, the blind person's tax credit should be discontinued.	2
8.38	<b>RELATING TO PHILANTHROPY</b> 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.	-

Ref	Commission on Taxation Recommendations - Tax Expenditures to CONTINUE	Cost Estimate €m
8.48	<p><b>TAX EXPENDITURE - ENTERPRISE (INCLUDING FARMING)</b></p> <p>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.</p>	
8.49	The tax credit for research and development should continue.	215
8.51	The tax deduction for capital expenditure on scientific research should continue.	
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.	65 (Extended to 2015 in FA 2011)
8.53	<p>The Business Expansion and Seed Capital schemes should remain in place up to their 2013 deadline.</p> <p>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</p> <p>The administrative burden placed on companies seeking to benefit from the schemes is onerous and should be reviewed.</p> <p>BES to be replaced by EII which will see a significant reduction in the administrative burden for companies.</p>	45
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.	5
8.58	The restructuring aid for sugar beet growers should continue	10
8.60	The accelerated capital allowances for energy efficient equipment should continue.	2
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.	1
8.62	The Mid-Shannon corridor scheme should not be continued beyond its current expiry date.	7
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.	-

<b>Ref</b>	<b>Commission on Taxation Recommendations - Tax Expenditures to CONTINUE</b>	<b>Cost Estimate €m</b>
8.75	The tax incentives relating to forestry should be continued.	13.6
8.77	<b>TAX EXPENDITURES - EMPLOYMENT</b> 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.	7.5
8.80	The income tax exemption for scholarships should continue.	1
8.81	The income tax relief for fees paid for third-level education should continue.	13
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.	85
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.	0.3
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	<b>TAX EXPENDITURES - SAVINGS AND INVESTMENTS</b> 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	<b>TAX EXPENDITURES - OTHER</b> The age tax credit should continue.	33
8.106	The age exemption and marginal relief should continue.	77
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

Ref	Commission on Taxation Recommendations - Tax Expenditures to CONTINUE	Cost Estimate €m
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.	€14m (abolished for residential property in Budget 2011)

## Annex 4 Other Tax Expenditures

Reference	Measure/Recommendation	Yield if Abolished ( + €m)
1	Payments made by the HSE to foster parents and relatives in respect of children in their care are exempt from income tax: Rates of up to €17,992 per annum per child.	€29m
2	Permanent health benefit schemes tax relief	€3.1m
3	Mortgage Interest Relief	€400m
4	One-Parent Family Tax Credit (Limit to one-parent or Abolish altogether)	€145m (abolish) €60m (limit)
5	Single Persons Tax Credit	€2,142m
6	Married Persons Tax Credit	€2,478m
7	Widows Persons Tax Credit	€156.8m
8	Widowed Parent Tax Credit	€7.2m
9	PAYE Tax Credit	€2,698m
10	Age Credit	€28.3m
11	Age Exemptions	€77m
12	Flat Rate Expenses	€71m
13	Income Levy lower exemption threshold (reduce or remove)	N/A - replaced by USC in FA2011
14	Removal of Income levy age exemption	N/A - replaced by USC in FA2011
15	Removal of Income levy medical card exemption	N/A - replaced by USC in FA2011
16	Health levy entry point (reducing threshold by €500)	N/A - replaced by USC in FA2011
17	Remove medical card exemption from Health Levy	N/A - replaced by USC in FA2011
18	Abolish Cycle to Work scheme	€7.5m
19	Abolish deeds of covenant for incapacitated individuals	€20m
20	Abolish tax relief on commuter tickets	€12m
21	Increase on preferential loans rates (0.5% mortgage & 2.0% others)	€3m
22	CGT retirement relief for transfers outside the family (The Commission in Taxation recommendation 8.68 only refers to "retirement relief" on transfers within the family) - reduce €750 k consideration limit	Requires further analysis; c. €3m outside family if restricted to €400k;
23	CGT retirement relief on transfers within and outside family - interaction with 10.9 lump sums taken on retirement, and 8.84, termination payments and income tax - provide that an individual can avail of either the CGT relief or the IT relief but not both	
24	CGT loss relief - restrict	
25	CGT annual exemption - reduce/abolish	€4m yield if abolished
26	CAT tax free thresholds - reduce	5% reduction yields €8m in full year
27	Stamp Duty - First Time Buyer relief	Abolished by Finance Act 2011
28	Stamp Duty - Consanguinity relief	€14m (abolished for residential property in

		Budget 2011)
29	Stamp Duty - New houses under 125 sq m	Abolished by Finance Act 2011
30	Stamp Duty - Minimum valuation threshold (houses under €127k)	Abolished by Finance Act 2011
31	Remove the income tax exemption on the first 6 weeks payment of Illness/Occupational Injury Benefit.	Approx €13m