

ANNEX D

SUPPORTING THE SME SECTOR

1. SUMMARY OF 10 POINT TAX REFORM PLAN TO HELP SMALL BUSINESS

In the November Medium Term Fiscal Statement, the Department of Finance published a paper on the importance of small business to the Irish economy. This paper highlighted that small and medium sized businesses make up over 99% of businesses in Ireland and account for almost 70% of people employed.

Despite Ireland's reputation as one of the world's most globalised economies, 64% of private sector workers are employed by indigenous non-exporting firms, with 56% working for indigenous, non-exporting small businesses.

These numbers highlight the importance of domestic demand for sustaining and generating employment in Ireland, and suggest that our recovery strategy needs to give some additional support to small businesses.

To that end, the 10 Point Tax Reform Plan contains measures to assist small business in a number of ways by:

- Helping their cash flow position;
- Helping them access funding;
- Reducing the costs associated with the administrative burden of tax compliance;
- Boosting demand for their products in new markets; and
- Incentivising them to create jobs.

The measures are as follows:

1. Reforming the *3 Year Corporation Tax Relief for Start Up Companies* to allow unused credits to be carried forward to help create jobs and improve cash flow
2. Amending the *Close Company Surcharge* by increasing the *de minimis* level to €2,000 to reduce the administrative burden and assist cash flow
3. Increasing the amount of expenditure eligible for the *R&D Tax Credit* on a full volume basis (without reference to the 2003 base year) to €200,000 to encourage innovation and help cash flow
4. Increasing the *VAT cash receipts basis* accounting threshold from €1m to €1.25m to help cash flow
5. Extending the *Foreign Earnings Deduction* for work related travel to Algeria, Democratic Republic of Congo, Egypt, Ghana, Kenya, Nigeria, Senegal & Tanzania to help boost demand for Irish goods and services abroad
6. Extending the *Employment and Investment Incentive* scheme to 2020 to help companies access funding
7. Extending the general rate and Young Trained Farmers *rate of stock relief*, and amendments to the definition of *registered partnerships* for stock relief, to give a targeted assistance to the farming sector

8. Introducing a *Capital Gains Tax relief for Farmers for land restructuring* to give a targeted assistance to the farming sector
9. Reviewing the *'carried interest' provision* in the tax code to help small businesses to access funding
10. Announcing a joint Revenue and Department of Finance public consultation: *'Taxation of Micro Enterprises: Reduction in Compliance Costs'* to identify ways to ease the administrative burden

Further details of these measures are contained in the Summary of Budget Measures

2. ADDITIONAL COMPLEMENTARY MEASURES FOR SME SECTOR

A. National Pensions Reserve Fund

- ***SME support Funds to provide equity as well as credit finance to the sector.***

The NPRF Commission has substantially progressed the development of a suite of investment funds in the SME sector covering:

- *equity investment,*
- *credit provision and*
- *restructuring / recovery investment.*

Investment by the NPRF will be on a commercial basis and the proposed funds will be offered and managed by third party investment managers and will incorporate third party investment alongside the NPRF.

The funds are expected to initially range in size from €100 million to €400 million and will invest in, or offer credit to, SMEs across all sectors of the economy with the exception of property/real estate.

Within the suite currently under development there are equity funds targeting investment of €5 million upwards and credit funds focused on lending to the full range of SME companies that may be looking to borrow from €50,000 to €50 million.

Third party investors into these funds are being sought on a phased basis, with the NPRF acting as an initial cornerstone investor. Having a cornerstone investor in place and visibility from initial operations as to the types of investment transactions each fund will enter into are the key elements required to market these investment opportunities to third party investors, both domestic and international. These funds, once operational, will have capital ready for immediate deployment. It is intended that a number of the funds will be operational in the first and second quarter of 2013.

B. Approval to the Credit Review Office to extend the team of reviewers so that SMEs seeking assistance from the CRO receive a considered and timely response to their application.

An independent assessment of the Credit Review Office was published on the Department of Finance website last week. The Minister called for suggestions from members of the public on what more the Credit Review Office can do to ensure SMEs are getting the support on bank lending they require <http://www.finance.gov.ie/viewdoc.asp?DocID=7433> .

Sanction has issued to the CRO to increase the number of reviewers by an initial six reviewers pending the outcome of the public consultation process on the assessment of the CRO.

C. Publication by the Credit Review Office of guidance for SMEs.

This is available on the CRO website at <http://www.creditreview.ie>. It provides advice for SMEs on how to deal with their banks and their rights in various dealings with the banks.