REPORT ON TAX EXPENDITURES

Incorporating outcomes of Tax Expenditure Reviews completed between October 2014 and September 2015

OCTOBER 2015

An Roinn Airgeadais
Department of Finance

Report on Tax Expenditures

Incorporating outcomes of tax expenditure reviews completed since Budget 2015

October 2015

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Preface >

The Department of Finance's October 2014 "Report on Tax Expenditures" set out new Guidelines for best practice in ex ante and ex post evaluation of tax expenditures. By way of example it included a brief synopsis of some of the more recent tax expenditure reviews.

This new annual Report on Tax Expenditures 2015 builds on the 2014 Tax Expenditure Guidelines and has two interrelated purposes. It outlines the fiscal impact of the range of tax expenditures as required under the new EU Budgetary Framework Directive[1], and also sets out the results of certain tax expenditure reviews that have been completed since the last Budget.

[1] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:ec0021

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1. Introduction and Summary

This report will be an annual publication setting out the tax expenditures that have been in effect since the previous such report (or in the case of this Report, being the first, the previous 12 months). It will also incorporate the results of any reviews of tax expenditures that have been completed since the previous such report. It is intended that this report's publication will take place on or close to the date of the annual Budget each year.

Tax Expenditures

As was set out in the 2014 Report, the definition of a tax expenditure in Irish legislation draws on an OECD definition and describes a tax expenditure as a transfer of public resources that is achieved by:

a) Reducing tax obligations with respect to a benchmark tax rather than by direct expenditure; or
b) Provisions of tax legislation that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to the tax base.

Tax expenditures may take a number of forms such as exemptions, allowances, credits, preferential rates, deferral rules etc. They are general government policy instruments used to promote specific social or economic policies and are closely related to direct spending programmes.

The introduction of an obligation on Member States to publish information on the impact of tax expenditures in the context of the Budgetary Frameworks Directive was driven by the fragmented and un-transparent nature of information about tax expenditures previously available. This was seen as acting to both hinder the effectiveness and efficiency of fiscal policy making by Member States, and to render the identification of possible improvements to fiscal and tax arrangements more difficult.

The tables of Tax Expenditures having effect in the period between October 2014 and September 2015 are in section 3[2] of this report.

Tax Expenditure Reviews

Over the course of each year, a number of reviews of tax expenditures take place, to ensure that the tax expenditures in place remain fit-for-purpose. These are carried out in-house by the Department of Finance (in co-operation with the Office of the Revenue Commissioners and where appropriate other relevant Departments), or through availing of specialised consultants, again with the input of this Department, Revenue and (where appropriate) other relevant Departments.

The opportunity presented by the need to publish this Tax Expenditures Report, is being availed of to include the reports setting out the results of a number of those reviews, either in full, or (in the case

[2] It has not proved possible to include projections for all current tax expenditures in this report, therefore only the most recently available full year data is shown.

of larger reports which might warrant individual publication in due course) in summary form, which have been completed since Budget 2015.

Eight review reports are included in Section 2 of this document, (five in full, and three in summary form).

2. Tax Expenditure Reviews Completed since Budget 2015

Review I: Review of the Single Person Child Carer Credit

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Executive Summary

In the course of debate on Finance Bill 2014, a proposal was tabled to allow for the partial transfer of the Single Person Child Carer Credit (SPCCC) to the non-primary carer parent, subject to certain conditions, where the primary carer cannot utilise the credit in full.

The purpose of this review was to examine the legal, administrative and budgetary aspects of this proposal, and to identify relevant options for consideration, taking into account the intended socio-economic objectives of the credit.

The review of the legal basis for the SPCCC indicates that a linkage between the tax credit and residence of the child is important in ensuring the constitutional validity of such a provision, having regard to the rigorous scrutiny which the Courts have otherwise imposed on provisions which disadvantage those who are married.

Administrative and data protection issues relating to a partially transferable SPCCC were also examined. This identified a number of issues for consideration, such as the creation of a hierarchy of secondary claimants for the credit and increased administrative burdens for both the claimants and Revenue.

A review of the exchequer costs of the SPCCC indicates that the number of claimants to date for 2014 exceeds 87,000, over 84% of the number of claimants for the former One Parent Family Tax Credit in 2013. It is too soon as yet to determine the extent to which these claimants are fully utilising the credit, but it is likely that further extending the current provision for transferability of the credit would have budgetary implications.

The review has identified, and examines in Section 7, three options for consideration with regard to the future of the SPCCC. These are:

1. To maintain the status quo, including the current provision for transfer of the credit in full to a secondary claimant.

2. To provide for a partial transfer of any portion of the SPCCC not used / usable by the primary claimant to the second parent.

3. To remove the SPCCC from the taxation system, with a view to consolidating the provision of employment activation supports via the Social Protection system.

1. Introduction

The Single Person Child Carer Credit (SPCCC) was introduced in Budget 2014, to replace the One-Parent Family Tax Credit (OPFC) with effect from 1 January 2014.

A feature of the OPFC was that it could be claimed by multiple individuals in respect of a single child and it was determined that this exceeded the policy rationale for the credit, which was to assist labour market activation for the primary carer. The SPCCC is more strategically targeted in that it is primarily available to the principal carer of the child only.

A secondary carer may be entitled to claim the SPCCC where the principal carer has elected to relinquish his/her claim to the credit, for example in cases where the principal carer has no tax liability and therefore cannot utilise the credit.

Following discussions at Report Stage of Finance Bill 2014 around proposals to extend the transferability of all or part of the SPCCC to the non-principal carer parent, either automatically or by consent, the Minister for Finance agreed that a review of the proposal would be undertaken.

The review is comprised of:

- A review of the rationale for the replacement of the One-Parent Family Tax Credit with the Single Person Child Carer Credit.
- An outline of proposals relating to the transfer of any unused part of the SPCCC to the non-principal carer parent.
- Consideration of relevant legal issues.
- Consideration of relevant administrative, operational and data protection issues.
- Consideration of relevant budgetary implications.

This report summarises the review of the Single Person Child Carer Credit.

2. Background and policy context to the SPCCC and OPFC

The Single Person Child Carer Credit (SPCCC) was introduced in Budget 2014, to replace the One-Parent Family Tax Credit (OPFC) with effect from 1 January 2014. This took place in the context of a difficult fiscal environment which necessitated the review of all tax reliefs, credits and incentives to ensure that they were properly targeted and achieving the intended socio-economic objectives.

A feature of the OPFC was that it could be claimed by multiple individuals in respect of a single child, resulting in a considerable annual cost of over €141 million by 2013, attributable to over

104,000 claimants[3]. The structure of the OPFC allowed a credit to be claimed even when a child was resident with a claimant for as little as one day per year, leading to significant cost implications.

The 2009 Report of the Commission on Taxation acknowledged the policy rationale for the OPFC, which was to support and incentivise labour market participation of single and widowed parents, but noted also the costs, including inefficiencies and deadweight elements, associated with the allocation of the full credit to both parents. The Report therefore recommended that the OPFC should continue, but that it should be allocated to the principal carer only[4].

The restructured SPCCC tax credit is of the same value as the OPFC, i.e. €1,650 per annum, and it also carries the same entitlement to an additional €4,000 extension to the standard rate band, within which income tax applies at the standard rate only. However, the SPCCC is more strategically targeted in that it is primarily available to the principal carer of the child only.

A secondary carer may be entitled to claim the SPCCC where the principal carer has elected to relinquish his/her claim to the credit. This allows for a secondary carer to benefit from the credit, for example, in cases where a primary carer has no tax liability.

3. Proposals Relating to the Transfer of the SPCCC

During the progress of Finance Bill 2014 through the Houses of the Oireachtas, an amendment to the new SPCCC was tabled proposing that where the primary carer had insufficient income to avail in full of the SPCCC, the other parent would be able to avail of any unused portion of the credit, on condition that any court-ordered maintenance payments had been met.

This proposed amendment therefore envisaged the following changes to the SPCCC:

- Linking the entitlement of the secondary claimant to compliance with a court maintenance order.
- Establishing an order of preference for secondary claimants, in which a second parent would have preference over other possible claimants such as, for example, a grandparent who might actually be providing more care than the second parent.
- Allowing for a transfer of a part of the credit, rather than the whole of the credit.

[3] http://www.revenue.ie/en/about/statistics/costs-tax-expenditures.pdf

[4] Commission on Taxation Report 2009, Part 8.9

A number of concerns relating to the operability of such a proposal were raised, including the following:

- Linking the transfer of all or part of the credit to parentage and to court-ordered maintenance payments could give rise to legal concerns.
- Administrative, operational and data protection issues would arise in the operation of such a proposal.
- The budgetary implications of amending the SPCCC in this manner would also have to be considered.

The Minister for Finance, Mr. Michael Noonan T.D., therefore agreed to review the proposed amendment to the SPCCC to investigate and analyse these issues.

4. Legal Considerations

The Department of Finance sought the opinion of the Attorney General in relation to possible legal issues with regard to both the existing Single Person Child Carer Credit and the proposed amendments to the credit.

Since 1979, an allowance, previously known under various names, including the "one parent family tax credit" has been paid to one-parent families subject to certain conditions. Its constitutionality was upheld, in the context of a challenge by married persons with dependent children, in Mhic Mhathúna v Ireland (1995) 1 IR 484.

In that case, the plaintiffs unsuccessfully challenged the different treatment under the income tax and social welfare codes for married and unmarried parents. In particular they challenged the single parent's tax allowance and the unmarried mother's Social Welfare allowance on the grounds that they, as a married couple, were treated less favourably than unmarried persons in the same circumstances.

The decision of the High Court, subsequently confirmed by the Supreme Court, was that the provision of specific tax and social welfare benefits for single parents was not in breach of the Constitution as there were abundant grounds for distinguishing between the needs and requirements of single parents and those of married parents living and rearing a family together.

In light of the decision in Mhic Mhathúna, it therefore appears that a child-centred credit which is directed by the State to single parents in recognition of the additional burdens and responsibilities imposed on them can be consistent with Article 40.1 and Article 41 of the Constitution.

The amendment to the SPCCC legislation proposed in the course of Finance Bill 2014 would result in the credit being transferable in part to the other parent in certain circumstances, with no specific requirement that the child be resident with this secondary claimant. This proposal

would decouple the entitlement to the credit from the residence of the child and the legal implications of this amendment have been considered.

The legal position is that a linkage as between the tax credit and residence of the child is important in ensuring the constitutional validity of such a provision, having regard to the rigorous scrutiny which the Courts have otherwise imposed on provisions which disadvantage those who are married.

5. Administrative, Operational and Data Protection Issues

The Department of Finance consulted with the Revenue Commissioners to investigate the feasibility of introducing an amendment to the SPCCC which would allow any portion of the credit unused by the primary carer to be transferred to the other parent, either automatically or with the consent of the primary carer parent. Revenue identified a number of administrative issues which would arise from such a proposal:

- If the second parent of the child was to be assumed to be the secondary claimant, as envisaged by this proposal, then this would create a hierarchy of claimants where a more legitimate secondary claimant (such as a grandparent who cares for the child for a greater proportion of the year than the second parent) could potentially be displaced. This could also conflict with the wishes of the primary claimant with regard to the distribution of any unused credit.

- The primary claimant would have to file a tax return to allow for the transfer of any unused portion of the credit, as this is the only way that Revenue would know what amount of the credit is unused taking into account both the PAYE and non-PAYE income of the primary claimant.

- A taxpayer may not know until year-end what their final income (and therefore ability to use the credit) for that year may be, and this would create difficulties if he/she were to be asked at the beginning of a tax year to specify what portion of the credit could be transferred.

- A partial transfer post year-end would require the tax affairs of both individuals to be reviewed, which could be a significant administrative burden for both Revenue and the relevant individuals claiming the credit.

- A transfer of the credit would also provide information to the second parent which the primary claimant may not wish to share. For example, it could indicate that the primary claimant's income is insufficient to claim the credit. Should the credit be withdrawn, it may indicate that the primary claimant has a new partner. This could have data protection implications for Revenue. The Data Protection Acts 1988 and 2003 confer rights on individuals in regard to the privacy of their personal data as well as responsibilities on those persons, including Revenue, who hold and process such

data. Revenue holds data on all taxpayers, and has a comprehensive Code of Practice in place to safeguard taxpayer information.

- It is likely that technological infrastructure changes and human resource issues relating to the mechanisms for transferring the credit would need to be addressed by Revenue in order to administer a partially transferrable credit.

Revenue also identified a number of factors relevant to the case of partial transfer by consent, but which would cause particular difficulties in attempting to operate an automatically transferable SPCCC:

- In some cases the primary claimant of the SPCCC may have more than one former spouse or civil partner and Revenue may not be aware as to which individual would be entitled to the credit.

- Where the second parent is an individual to whom the primary claimant was not married or in a civil partnership, there may be no relationship connection on the Revenue systems which would indicate to whom the automatic transfer should be made.

- In cases where the primary claimant has children with more than one individual, an automatic transfer of unused credit would be complicated by the need to determine a method for allocating the unused portion between the other second parents.

In summary, therefore, it would appear that an automatically transferable credit could only be effectively administered by Revenue with the full co-operation of the primary claimant, as it would require the primary claimant to file a tax return, provide information on the other parent(s) and consent to the release of information to the other parent(s).

In this context it should be noted that the existing SPCCC provides for the transfer by agreement of the credit from the primary claimant to a secondary claimant, albeit the full credit only and not a partial transfer. This is limited to instances where the secondary claimant is also a single person child carer and the child is resident with him/her for not less than 100 days in the year.

6. Budgetary Considerations

Budgetary considerations were a significant factor in the restructuring of the OPFC to the SPCCC from 2014. The structure of the OPFC allowed a credit to be claimed even when a child was resident with a claimant for as little as one day per year, leading to significant cost implications.

The table below illustrates the estimated cost to the Exchequer of the OPFC from 2010 to 2013.

One Parent Family Credit

Year	No of claimants	Cost to the Exchequer
2010	95,500	€142m
2011	104,200	€144m
2012	107,500	€147m
2013	104,100	€142m

It was estimated in Budget 2014 that the replacement of the OPFC with the Single Person Child Carer Credit would yield a saving of €23m in a full year. In assessing the budgetary effect of the new measure, Revenue estimated that the new SPCCC would be availed of by c.13,400 fewer claimants than the OPFC.

Up to December 2014 there were 87,790 claimants for the SPCCC, of which 3,039 were secondary claimants. It should be noted that this figure is subject to change, given that a person has a four-year time-frame in which to claim a refund of tax.

It is not yet possible to gauge the extent to which the SPCCC is fully used by primary claimants. For example, while the number of claims to date for 2014 may be measured, how much of the credit was availed of will not begin to become evident until late 2015 when income tax returns for 2014 (for those liable to submit returns) are due to be filed.

It is likely, however, that any increase in the transferability of the SPCCC could lead to increased budgetary considerations for the exchequer.

7. Options for Consideration

Having regard to the preceding analysis, three possible options for the future of the SPCCC are set out below.

1. **Maintain the status quo**

As the SPCCC has only been in operation since January 2014, it may be premature to consider amending the current legislation before more detailed information becomes available to Revenue on the numbers availing of the credit and the proportion of the credit utilised.

The SPCCC is designed to be an employment activation measure, which was the original intention behind the OPFC. It is designed as a benefit to support the primary carer to take up, or remain in, employment. It should not be considered as a supplementary source of income, on which the financial support of a parent depends.

In this context it is important to note that there is no tax credit available to assist married couples with the costs associated with raising their children. The changes that were

introduced for single person child carers in Budget 2014 were intended to ensure that the benefit of the tax credit goes, in the first instance, only to the person who has the care of the child for the majority of the tax year.

2. **Partial transfer of the SPCCC**

Two potential options for a partially transferable SPCCC have been identified, taking into account the legal and administrative issues identified in sections 4 and 5 of this review.

1. A post-year-end transfer of any portion of the SPCCC unused by the primary claimant. This would require the primary claimant to file a tax return to establish the unused portion of the SPCCC. It would also require the consent of the primary claimant for the implied transfer of information to the second parent resulting from the calculation of the unused SPCCC value.

2. A proportional split of the SPCCC at the commencement of the tax year e.g. allocating 60% of the credit to the primary claimant and 40% to the second parent. This would require the agreement of the primary claimant but would not necessarily divulge information about that person's income to the second claimant. This differs from the existing SPCCC only in that it would allow for a partial transfer of the credit, in addition to the full transfer already permitted.

The issue of transferability of both the tax credit and the increase to the standard rate band would need to be addressed in each scenario, as these may be utilised in different proportions by the primary claimant.

Both of these options would appear to provide limited additional benefit over the system of transferability already in place. They would also give rise to issues around the creation of a hierarchy of claimants based solely on parentage, as distinct from the care of the child, which may give rise to legal concerns as outlined in Section 4.

3. **Removal of the SPCCC from the taxation system**

The stated policy rationale for the SPCCC is to support and incentivise labour market participation of single and widowed parents. This policy objective was recognised by the Commission on Taxation, which recommended that the OPFC (as it was then) should continue, but that it should be allocated to the principal carer only.

In view of the nature of this objective however, it may be appropriate to consider removing the SPCCC from the taxation system altogether, with a view to focusing employment activation supports to single person child carers via the Social Protection system.

Appendix 1: Extract from Report Stage Debate on SPCCC, Finance Bill 2014

Proposed Report Stage Amendment to Finance Bill 2014 by Deputy Michael McGrath – 25 and 26 November 2014

Deputy Michael McGrath: I move amendment No. 6:

> In page 16, between lines 38 and 39, to insert the following:
>
> **"Amendment of section 462B of Principal Act (personal allowances and reliefs)**
>
> **12.** Section 462B of the Principal Act is amended by inserting the following new subsection (2A) after subsection (2)—
>
> "(2A) Where the primary carer has insufficient income to avail in full of the single person childcare credit the other parent may avail of the full or unused amount of the credit, on condition that the other parent has met any court ordered maintenance payments."

One of the most controversial elements of Budget 2014 was the abolition of the one-parent family tax credit and its replacement with a new single person child carer credit which could only be claimed by one of the parents. That resulted in a loss of income for some single parents of up to €2,500 - €1,650 in respect of the actual tax credit and a further €800 or so in respect of the loss of the additional band at the low rate of which they had been availing. That was up to €2,500 net income - most people would have to earn up to €5,000 gross to earn that amount.

An issue has arisen since then. One parent is not allowed to transfer any unused or unclaimed credit to the other parent in the event that the primary carer does not have a sufficient tax liability to absorb the tax credit in full. If that person wishes and is willing to transfer the remainder of that tax credit to the secondary carer, he or she is unable to do so. If the primary carer is not in a position to use any of the tax credit, he or she can sign a Revenue form and transfer the entitlement to the €1,650 credit to the secondary carer in full, but that requires that person's consent and there are a number of conditions that need to be fulfilled in order for that to happen.

I am proposing that if the primary carer has a tax liability but not a sufficient tax liability to use the tax credit in full, he or she should be permitted with his or her consent to transfer the unused credit to the secondary carer so that this person could reduce his or her tax bill accordingly.

Deputy Stephen S. Donnelly: I tabled a similar amendment last year. When we discussed this on Committee Stage, the Minister explained the concern he was addressing, which seemed quite a reasonable concern, that for one child numerous people could claim to be a carer and potentially claim quite a lot for the one child because so many people were involved. When we discussed this last year, the Minister said he was inclined to take a look at it. As it stands, if the single amount cannot be transferred, it is clearly less useful to people on lower incomes than those on higher incomes who can use it. It seems, therefore, like a very sensible amendment. It was a sensible amendment last year and I support Deputy Michael McGrath in proposing it this year.

Deputy Pearse Doherty: I add my support to the amendment. I cannot imagine that the cost to the State would be substantial. Does the Minister have figures for the number of secondary carers who could avail of this provision if the amendment were enacted and the costs associated with it? What Deputy Donnelly said about the Minister's response last year makes sense. Obviously this is in a

controlled space. There is already provision to assign the credit to the other carer so there are measures to ensure it is paid out to those who are caring. A person who fulfils those conditions should be able to avail of the unused credit. I commend the amendment.

Deputy Michael Noonan: As the Deputy will be aware, the single person child carer credit is, in the first instance, only available to the primary carer of the child. In circumstances where the primary carer cannot utilise the credit - for example, because of insufficient taxable income - the primary carer may relinquish the credit and a secondary claimant may claim it. However, the requirement for a primary claimant to relinquish the credit before a claim from a secondary claimant can be considered is necessary, as in the first instance, only one credit is available in respect of a qualifying child or children.

There are many reasons that a primary carer may not wish to relinquish the credit. Only that person can gauge whether their income would be of a sufficient amount over the course of a tax year to be able to utilise the credit. An individual may wish to retain the credit in the expectation that he or she may find employment during the year, for example. In addition, taxpayers are entitled to review their tax affairs over a four-year look back period and, depending on circumstances, an individual might wish to retain the credit in order to offset any tax liability that might arise as a result of a review of their income tax liabilities in any of the years concerned.

I have considered the possible automatic transfer of the credit in cases where a primary carer refuses to relinquish it. However, there are many reasons that this would not be feasible, including logistical, data protection and constitutional concerns.

As regards tax relief for maintenance payments and other costs incurred by separated parents, the position is that maintenance payments in respect of children are not taxable in the hands of the children or the receiving spouse. The effect of this is that the payments are treated in the same way as if the taxpayer was providing for the child out of his or her after tax income. This is in line with the tax treatment of all other parents, where the cost of maintaining their children is not tax deductible.

The Revenue Commissioners inform me that, as of October 2014, there were 86,368 primary claimants and 2,903 secondary claimants of the single person child care credit which suggests to me that the tax credit in its current form is working as intended and I have no plans to change it at this time.

Deputy Michael McGrath: My amendment respects the principle of one credit in respect of a child. We are not talking about a second credit, but the potential sharing of the one credit between both parents. We are taking about the secondary carer making a real and meaningful contribution to the upbringing of the child. Many of these people took a savage hit in last year's budget. They lost €2,500 in many cases. I am suggesting that with the consent of the primary carer who is not in a position to avail in full of the tax credit but does avail of it in part, the remaining balance of the credit would be transferred to the secondary claimant. That is the essence of the proposal.
It is a modest change that respects the principle that the Minister introduced last year of one credit in respect of the child. It deals with the issue of multiple credits being claimed by a number of persons in respect of the care of one child. The reality is that many parents, who are heavily involved in the upbringing of their children, who are paying substantial payments and who are spending as much time as they possibly can with their children, are in difficult circumstances where a relationship has broken down. This is a very modest change to what was introduced last year. It would be practical to do so. I ask the Minister to reconsider the proposal.

Acting Chairman (Deputy Brian Walsh): Deputy Donnelly will have to be brief as very little time remains on the clock.

Deputy Stephen S. Donnelly: I will be very brief. The reasons the Minister gave are technical in nature, as Deputy Michael McGrath said. It seems that a waiver on the unused portion at the end of the given tax year would do away with that. While the Minister has outlined the technical reasons, is he opposed to the principle, which is the sharing, the capping at still one credit's worth, and if he is not, is it something we could explore where a technical solution can be found?

Acting Chairman (Deputy Brian Walsh): The Deputy will have to await his response until tomorrow.

Deputy Stephen S. Donnelly: I await it with bated breath.

Debate adjourned.

Finance Bill 2014: Report Stage (Resumed) – 26 November 2014

Deputy Michael McGrath: Deputy Donnelly had spoken on amendment No. 6 and the Minister was to respond but I will recap briefly. The amendment relates to the single person child care tax credit, which replaced the one parent family tax credit last year. As a result of the change in last year's budget, some parents were out of pocket to the tune of €2,500 - €1,650 by virtue of the loss of the credit and a further €800 by virtue of the loss of the additional band at the lower rate. The essence of this amendment is to allow the primary carer, who does not have a sufficient taxation liability to absorb the tax credit in full, to transfer any unused portion of the tax credit to a qualifying secondary carer.

As I said last night, the principle of there being only one tax credit in respect of the child is honoured, because that was the fundamental shift the Minister made last year, but this recognises the reality that when many relationships break up, there is the primary carer and the secondary carer, who also plays a very important role in the upbringing of the child, who pays maintenance payments in the vast majority of cases and who is heavily involved in the day-to-day upbringing of the child and deserves recognition for that role. It is a very modest proposal and might present some technical difficulties for the Revenue but if the will was there, it would be possible to implement this.

Minister of State at the Department of Finance (Deputy Simon Harris): I thank Deputy McGrath for his contribution. Although I was not here last night, I watched this debate, which was quite constructive in regard to this important matter. The Minister for Finance wants to thank Deputies Michael McGrath, Doherty and Donnelly for their contributions and clarifications on this issue during the debate last night.

The amendment appears to envisage a number of changes to the current system. The first is that entitlement of the secondary claimant would be linked to compliance with the court maintenance order, the second is that a parent will have some preference over the possible secondary claimant, such as a grandparent, and the third is that part of the credit rather than the whole credit could be transferred. It is not clear in the amendment whether the Deputy envisages that the current requirement that the child reside with the secondary claimant for at least 100 days of the year would continue.

Linking the transfer of the credit, or part of the credit, to parentage or court-ordered maintenance payments could raise constitutional concerns. From a practical point of view, it is difficult to see how it would be administered. Disputes about whether maintenance was paid or not would then give rise to disputes about whether the credit tax was due or not. As I said, it is not clear whether the Deputy sees his amendment as giving a parent with whom a child resides for only a minimal period of the year preference over say a grandparent with whom a child resides for more than 100 days of the year.

While the Minister does not propose to accept the amendment at this time, he will on foot of last night's debate ask his officials to seek the advice of the Attorney General's office on this matter. As regards relinquishing a portion of the credit, the Minister will instruct his officials to work with the Revenue Commissioners to investigate the administrative, operational and data protection issues involved. It is worth noting that the relinquishment of a portion of the credit is likely to give rise to significant difficulties in some situations - for example, where the primary claimant has children with more than one partner. There is also likely to be budgetary implications which will have to be considered but we get the thrust of what Deputy McGrath is trying to achieve in the amendment. The Minister has outlined the difficulties and the unanswered questions he sees and has asked his officials to engage with the Attorney General's office on this matter. Once that is done, the Minister will consider the matter further.

Deputy Michael McGrath: I thank the Minister of State for his reply, which was reasonably positive and I accept it in good faith. As he will know, under the existing arrangements, it is possible in certain circumstances for the primary carer to transfer the credit in full to the secondary carer. That would arise if, for example, the primary carer does not have any employment income and has no use for the tax credit as such. The transfer of the full credit requires the consent of the primary carer. That can create difficulties on occasion. When relationships breakdown, it is not always amicable.

In regard to the thrust of my proposal, I accept what the Minister of State has said and I will not press the amendment. I hope the Minister will examine this in good faith to see if it is possible. The idea is that if one parent does not have enough of a tax liability to use all of the credit, the other parent, who meets all of the normal qualifying conditions, can benefit from the reminder of it. That is an objective we should seek to achieve.

Amendment, by leave, withdrawn.

Review II: Review of the Artists' Tax Exemption

Background

Under the tax expenditure guidelines[5], tax expenditures are subject to regular review to examine if a relief is still relevant, examine its cost and impact, and consider whether the scheme delivers value for money.

As part of this process, the artists' exemption is being reviewed to consider if it should be amended, abolished, or continue in its current form. A desk-based analysis has being carried out to conduct an ex-post evaluation of the scheme and take into account the key evaluation questions, and is published as part of Budget 2016.

How the exemption works

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

When announcing the introduction of the scheme in his Budget speech in 1969, the then Minister for Finance, Mr Charles Haughey T.D. said *"As further encouragement to the creative artists in our midst and to help create a sympathetic environment here in which the arts can flourish I will provide in the Finance Bill that painters, sculptors, writers and composers living and working in Ireland will be free of tax on all earnings derived from work of cultural merit."*

Under the provisions of Section 195 of the Taxes Consolidation Act 1997, income earned by writers, composers, visual artists and sculptors from the publication, production or sale of their works is exempt from income tax in certain circumstances. In 2011 a cap of €40,000 was placed on the amount of income which is exempt from tax per annum. From 1 January 2015, the annual maximum threshold has been increased to €50,000.

This scheme is listed as a specified tax relief for the purposes of the high earners' restriction. This restriction limits the amount of tax relief that can be utilised in any one year to €80,000 before the restriction begins to apply. Thus artists with exempt income that claim other specified reliefs can be further restricted in the amount of tax reliefs available to them.

[5] http://www.budget.gov.ie/Budgets/2015/Documents/Tax_Expenditures_Oct14.pdf

As a result, the artists’ exemption is now a more targeted scheme, aimed at supporting artists on low incomes and individuals who, without the exemption, might have to earn their income elsewhere to continue in their artistic field.

The legislation provides that the Revenue Commissioners may make a determination that certain artistic works are original and creative works and generally recognised as having cultural or artistic merit. Earnings derived from such works are exempt from income tax from the year in which the claim is made.

Revised Guidelines were drawn up by the Arts Council and Minister for Arts, Sport and Tourism, with the consent of the Minister for Finance, for determining for the purposes of Section 195 whether a work is an original and creative work and whether it has, or is generally recognised as having, cultural or artistic merit. These new Guidelines apply to all determinations made by the Revenue Commissioners after 30 November 2013.

The scheme provides that the Revenue Commissioners can make determinations in respect of artistic works in the following categories only:

1. a book or other writing;
2. a play;
3. a musical composition;
4. a painting or other like picture;
5. a sculpture

Previously, claimants for the exemption had to be resident in the State or ordinarily resident and domiciled in the State and not resident elsewhere. From 1 January 2015, the exemption is extended to non-resident artists i.e. to individuals resident in another Member State or in another EEA State. The reason behind this change is to ensure the scheme is compatible with EU law. However, this extension removes the potential of the scheme to encourage artists to settle in Ireland.

Current cost of the scheme

The information regarding the annual cost and numbers availing of the Artists' Exemption is set out in Table 1 below for the years 2004 to 2013, the most recent figures available. The fall in the cost of the exemption in recent years reflects both the introduction of an annual cap of €40,000 on the exemption since 2011 and the impact of the economic downturn on the incomes of artists. It is also possible that certain artists changed their tax residency following the introduction of the high earners’ restriction from 2007.

Table 1: Cost and Take-Up of the Artists' Exemption 2004 - 2013

Year	Cost of Artists' Exemption €m	Number of Claimants
2004	32.1	1,970
2005	34.8	2,220
2006	65.9	2,890
2007	27.4	2,650
2008	21.8	2,630
2009	22.1	2,590
2010	9.6	2,350
2011	5.5	2,520
2012	4.8	2,490
2013	5.3	2,580

By comparison, the funding provided by the Arts Council to individual artists over the last few years supports a much smaller number of recipients (less than 260 recipients) at a cost of approximately €3.4m. The majority of this funding is done under the Bursary Awards scheme and the Cnuas scheme, and income from these awards automatically qualifies as exempt income under the artists' exemption. It could be argued that if the artists' exemption was abolished, a much higher level of funding would be necessary to support the same range of recipients.

Options analysis

Option 1: Abolish the scheme

It has often been argued that the artists' exemption should be abolished. In the 2009 report of the Commission on Taxation[6], it was argued that the scheme should be discontinued on equity grounds. The report stated:

"*This exemption is not compatible with the equity principle. In addition, it is likely that the exemption involves a significant deadweight element in that beneficiaries of the relief are likely to engage in the in their creative activities regardless of the existence of the relief. It is of no benefit to artists whose income does not reach the taxable threshold.*

While the tax exemption may have created an environment in which the arts can flourish, considerations of equity and efficiency outweigh this factor and, accordingly, we recommend that the exemption be discontinued. To the extent that there is a need for recognition of income from artistic activity in the tax system, this should focus on those who derive their income solely or predominantly from creative work and in this context, income averaging may have a role to play."

The Department of Finance Internal Review of Certain Tax Schemes[7], published in 2006, also considered abolition but stated that:

"*Abolishing the exemption could make it financially difficult for artists in the lower income ranges to continue in their field and could have a long term impact on the development of the arts in this country. The statistics from 2002, highlighting the fact that the majority of artists are claiming the exemption on less than €50,000, support this view. In the circumstances, it is not recommended that the exemption be abolished.*

However, there is a strong case, on grounds of equity, to restrict the amount of artistic earnings that can be exempted under the scheme given the fact that the statistics highlight that a relatively small number of individuals are claiming an exemption on very significant income."

Abolishing the scheme would broaden the base of the income tax system, and align with the policy objective of simplifying the tax system further. It could be argued that a struggling artist is no more worthy of support from the tax system that any other sector of society which provide other cultural or societal benefits.

An additional argument in favour of abolishing the scheme arises in light of the deadweight cost of the exemption. Deadweight is an economic concept that attempts to capture the amount of activity that would have taken place anyway in the absence of the incentive or scheme. It can be argued that much of the artistic activity which takes place would have taken

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[6] http://www.finance.gov.ie/sites/default/files/Commission%20on%20Taxation%20Report%202009.pdf

[7] http://www.finance.gov.ie/sites/default/files/revtaxreliefsvol3.pdf

place in the absence of the scheme, especially in light of the direct support available to artists through grants and that the artists' exemption only applies to artistic income. It could therefore be argued that the scheme does not encourage new artistic activity, but instead rewards any which further occurs.

The administration and definitional uncertainties around the scheme would support the argument in favour of abolition. The legislation underpinning the artists' exemption provides for a set of Guidelines to be drawn up by the Arts Council and the Minister for Arts, with the consent of the Minister for Finance, to determine whether a work is original and creative and whether it has cultural or artistic merit. The definition of a work of cultural or artist merit has regularly been the subject of appeal to the Tax Appeal Commissioners, and other courts. This means that the original intention of the scheme – that it ought to apply only to individuals who were recognised as artists who produce works of cultural or artistic merit - has been undermined since the exemption has been availed of by works such as biographers of celebrities, politicians and sports persons. Moreover, it has proved impossible to apply the cultural or artistic merit test to fiction with the result that, in practice, all fiction comes within the scope of the scheme regardless of the quality or level of cultural or artistic merit of the work. These aspects of the exemption have given rise to public criticism. The introduction of new guidelines for the scheme in 2013 clarified that all biographies and autobiographical works would qualify. However, the subjective nature of the test required by the legislation means that the exemption continues to attract negative comment.

A further argument in favour of abolishing the scheme is that it is being availed of not just by low income/struggling artists but by those who have income other than that returned under the artists' scheme.

Despite the cutbacks of recent years, the level of financial support for the arts is now significantly higher than in 1969. Furthermore, in 1969, the exemption was as much about signalling a more sympathetic environment for artists in Ireland than anything else. This was in the context of the relaxation of very strict censorship laws of earlier decades which had borne heavily on individuals who subsequently gained recognition as artists who had produced work of genuine merit. No such considerations apply today. Finally, in 1969 when the relief was introduced, Ireland's standard rate of tax was 35% with a surtax of up to 45%. This contrasts with the lower rates which apply today.

By contrast, arguments in favour of the scheme include that the existence of the scheme has:

- Helped create an environment in Ireland in which the arts could flourish;
- Encouraged new artists on lower incomes and individuals who may otherwise have had to earn their income elsewhere, to continue in their field;
- Generated employment in terms of the support industry that has developed around the more successful artists, although this may have diminished in recent years with the capping of the relief at €40,000 per annum;

- Been beneficial for the arts in Ireland from both an economic and cultural perspective; and[8]
- Encouraged small numbers of artists living abroad to come and live in Ireland, although the capping of the relief and the extension of the relief to non-resident artists mean that this may not be significant.

It is, however, difficult to measure any of these benefits and even more difficult to assess the extent to which the exemption, as opposed to other State supports e.g. via the Arts Council, has contributed to a flourishing of the arts.

The scheme is seen to be very valuable to support artists at various stages of their careers, and the Arts Council highlighted that importance with a number of testimonials from artists in October 2005.[9] In addition, during the last review of the artists' exemption in 2006, 40 submissions were received from various interested organisations including many artists' representative bodies and individuals. Almost all of these submissions were in favour of the retention of the exemption. Similarly, at the time of the review, approximately 100 representations were received, mostly from artists, in support of the exemption and over 1,640 representations via the Arts Council's website supporting the retention of the exemption.

With regard to artists' incomes, an all-island study on the Living and Working Conditions of Artists was commissioned by the Arts Council and published in April 2010. This study found that the average income of professional ROI artists from their work as artists was under €15,000 in 2008, with 50% of artists earning €8,000 or less from their work as artists. When income from all sources (including social welfare) is taken into account, the average (mean) income for an ROI artist in 2008 was just over €25,000, with 50% of artists earning €19,832 or less. Further analysis of the data shows that 25% of ROI artists had total personal incomes of €11,475 or less and 75% had total personal incomes of €31,000 or less.[10]

The argument that many artists are on relatively low wages is supported by Revenue statistics which found that the average artistic income of all individuals who returned income under the artists'

[8] With regard to an assessment of the economic impact of the arts in Ireland, Indecon International Economic Consultants conducted an independent assessment on behalf of the Arts Council in 2009. This study found that the wider arts sector provided Gross Value Added of €782 million, with an estimated tax revenue of €382 million. Indecon suggested that the total direct impact of expenditure by Arts Council supported organisations was estimated to have been nearly €187.5m in 2008. These calculations by Indecon took into account the impact of tourism, direct employment and the wider creative industry. The report is available at: http://www.artscouncil.ie/uploadedFiles/Arts_Council_-_Economic_Impact_-_Final_Report.pdf

[9] http://www.artscouncil.ie/uploadedFiles/artists_tax_exemption_testimonials.pdf

[10] http://www.artscouncil.ie/uploadedFiles/LWCA_Study_-_Final_2010.pdf

exemption scheme was €11,014 in 2012 and €11,200 in 2013. (It must be noted that this is based on the figures returned to Revenue as part of tax returns, and due to the cap on income that is permitted to avail of the artists' exemption it is not an average of the artistic income earned.)

On the other hand, there are a number of artists with considerable income that is not covered by the exemption, with either artistic income above the cap or income from other sources. About ten percent of claimants at present under the artists' exemption scheme receive income in excess of €100,000. In the annual report on the HER for the tax year 2013, 12 artists were subject to the restriction, claiming €1.2m in reliefs.[11]

However, over the years a number of changes have been made to the scheme to ensure it is more targeted. The cap on eligible income was introduced in 2011, which aimed to balance the equity arguments put forward by the Commission on Taxation while acknowledging the contribution that artists make to Irish cultural life. It should be noted that if the scheme was abolished, artists would still be eligible for tax credits and allowances which would reduce their taxable income.

The cost of the exemption has fallen considerably following the changes made to the scheme to include it in the High Earners Restriction and to introduce a cap on the amount of eligible income that can be exempted under the scheme. The scheme still supports a similar number of claimants (currently 2580 claimants), but the total cost of the scheme fell from almost €66m in 2006 to €5.3m in 2013. The overall current annual cost of the scheme is relatively modest, and it can be argued that it is a small price to pay for the support that the scheme gives to low paid artists. As mentioned before, the Arts Council provides funding through Bursary Awards and Cnuas grants, but this is for a much smaller number of recipients.

Overall, the balance of arguments would be in favour of retaining the scheme.

Option 2: Introduce income averaging

Income averaging has often been sought by artists and artists' representative bodies, and the Commission on Taxation recommended that if the artists' exemption was abolished, consideration should be given to introducing some form of income averaging in the taxation of income from creative work.

The normal basis of arriving at the taxable profit figure for a business is the net profit per accounts adjusted for certain tax rules. Income averaging is an alternative method of arriving at the taxable profit figure for a business, which is currently only available to farmers. The objective is to help to counteract the high volatility in income that is associated with the farming sector.

Representative bodies for artists have regularly argued that some form of income averaging be made available to artists. This is based on the contention that unlike the majority of people, artists have

[11] http://www.finance.gov.ie/sites/default/files/RoR%20Report%202013.pdf

volatile income streams. Therefore facilitating the averaging or smoothing of artists' incomes for tax purposes would have a positive impact. Finally, it is argued that an artist may work on a piece for a number of years, and that the profits arising from a work should accordingly be averaged over a number of years.

While farming can be a hobby, the capital inputs required to farm mean that for most farmers it is a full time occupation. Revenue returns suggest that the vast majority of artists or their spouses have other income sources, meaning that they are not solely financially dependent on artistic income.

The averaging of income for farmers for tax purposes was introduced in recognition of the fact that many farmers are completely at the mercy of the highs and lows of agricultural prices, the weather etc. The 'hog cycle' is a classical economic theory of continuing cyclical fluctuation of supply and prices, which applies to agricultural markets. There is little to suggest that artistic income fluctuates to a comparable degree. Accordingly, the case for income averaging is not as strong.

As persons on very low incomes can effectively be exempted by the Revenue Commissioners from making Income Tax returns for limited periods, there would be practical difficulties with income averaging for these persons, particularly in the verification of records.

There would be considerable complexities if such a scheme was introduced in combination with the cap. The first question to be asked is would the scheme have to be confined to "full-time" artists. In effect there are very few of these as almost all would have other taxable income. If the scheme were not confined to full-time artists it would become more difficult to administer as different sources of income would require different tax treatment. Special provision has been made for farmers as regards income averaging for tax purposes. Extending that facility to artists when a certain portion of their income is already exempt from taxation would be more complex.

Secondly, an issue could arise if an artist left the State or became non-resident. Artists and writers are by nature involved in a profession which can involve high mobility and it is not uncommon for them to leave the State in any given year. In this way they differ considerably from farmers who are unlikely to leave their land. If an artist leaves at the end of a period of income averaging, it would be very difficult for Revenue to conduct the necessary review and issue assessments to recoup any tax due as a consequence of an artist having effectively opted out of averaging. It could also lead to calls from other categories of persons whose income are subject to variations from year to year to be given similar tax treatment.

However, this could be more fully explored next year.

Option 3: Change the level of exempt income

The cap on the level of exempt income under the artists' exemption was introduced in 2011 at a level of €40,000, and increased in Finance Act 2014 to €50,000. This represents a generous level of exempt income. The impact of the cap at a level of €50,000 for a qualifying artist by comparison to an individual PAYE taxpayer is almost €15,000. It is too early to say whether the increase in the cap has set the exemption at an appropriate level, as data will not be available on 2015 income until 2017.

Option 4: Amend the definition of what artistic work is included in the scheme

The legislation underpinning the artists' exemption provides for a set of Guidelines to be drawn up by the Arts Council and the Minister for Arts, with the consent of the Minister for Finance, to determine whether a work is original and creative and whether it has cultural or artistic merit. The definition of a work of cultural or artist merit has been successfully challenged over the years at appeal and a considerable amount of administration is involved in determinations of artistic or cultural work. It has been argued that it is important for the credibility of the artists' exemption that the scheme is clear.

The majority of challenges to eligibility for the scheme was with regard to biographies or autobiographies and whether these works were of artistic or cultural merit. The Guidelines were recently revised in 2013 to include all autobiographies and biographies, and anecdotal evidence from the Revenue Commissioners suggest that this has resulted in more clarity and far less challenges than before. Therefore, it does not seem appropriate to make further changes at this time.

Conclusion

The artists' exemption is considered to be a very valuable support by artists and representative bodies for artists. Due to the changes made to the scheme, the cost of the scheme has fallen, it is more targeted towards lower income artists and the administration of the scheme is clearer. Against this background, no changes to the existing scheme are recommended.

Review III: Report on the Outcome of Public Consultation on the Potential of Taxation Measures to Encourage Development of Zoned and Serviced Land

Preface >

In his 2015 Budget speech, the Minister for Finance made reference to the existence of a view that owners of zoned and serviced land are waiting for higher prices before taking steps to develop their land or sell it to others who will. Following from this, the Department of Finance launched a public consultation on the potential of taxation measures to encourage the development of zoned and serviced land in February 2015.

This Report summarises the main points of the 24 responses received to the consultation, outlines the measures contained in the Minister for the Environment, Community & Local Government's Urban Regeneration and Housing Act 2015, and sets out the Minister's determination on foot of those.

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1. Introduction and Summary

It is provisionally estimated that there are currently in excess of 17,000 hectares of undeveloped residentially zoned land nationally which equates to a capacity for over 400,000 new homes, sufficient to meet projected demand for the next ten years, though less for Dublin, as the possible supply is not located in those areas where the demand for housing is highest.

A separate study from the Dublin Housing Supply Taskforce[12], which was established in June 2014 to examine the issue of housing supply in the Dublin area, indicated that the estimated demand/requirement for housing units in the four Dublin authorities is about 7,500 per annum in total, i.e. there is sufficient zoned land available to meet requirements for approximately 6 years. However the four Dublin local authorities are presently commencing the process of adopting new development plans for their respective areas covering the years 2017-2022 and the likelihood is that further additional lands will be zoned for residential purposes in the revised plans.

With this background, the Minister for Finance decided that in Budget 2015 he would announce his intention to Identify whether a rationale existed for a corrective tax policy intervention in the residential property market as compared with supply-side/regulatory or direct expenditure interventions. In view of this he announced that his Department would engage in a public consultation which would seek views on whether the purported hoarding of zoned and serviced land was in fact happening, and what, if any, corrective tax measures might be introduced to address this practice (if it was found to exist).

The public consultation ran from February to May 2015, and received 24 submissions from private individuals, political parties, local authorities, as well as the construction and ancillary industries, and representative bodies. The responses did not put forward any firm evidence of land hoarding, and offered no clear guidance as to targeted corrective taxation measures to address it.

This Report sets out the background to the public consultation exercise, the contents of the 24 responses to it, the potential effect of the Minister for Environment, Community & Local Government's Urban Regeneration and Housing Act 2015, and the Minister for Finance's decision on this matter.

[12] http://www.environ.ie/en/Publications/DevelopmentandHousing/Planning/FileDownLoad,40631,en.pdf

2. Report on Outcome of Public Consultation

Background:

In his 2015 Budget speech, the Minister for Finance made reference to the existence of a view that owners of zoned and serviced land are waiting for higher prices before taking steps to develop their land or sell it to others who will. Following from this, the Department of Finance launched a public consultation on the potential of taxation measures to encourage the development of zoned and serviced land in February 2015.

The aim of the consultation was:

(1) To examine the validity of the view that owners of zoned and serviced land are waiting for higher prices

(2) To assess the extent to which the taxation system (through corrective measures) can be utilised to encourage the development of such zoned and serviced land to assist in reducing the shortage of residential properties in certain areas.

Commenting on the commencement of the consultation process Minister Noonan stated:

"*I am determined the mistakes of the past will not be repeated, when property based tax reliefs were allowed to continue for too long with no clear rationale behind their maintenance. Lessons such as these must be applied in designing the Irish tax code for the future. In that regard, I want to emphasise that this consultation is not being launched with a view to introducing new property based tax reliefs or tax breaks.*"

The Government's Construction 2020 Strategy published in May 2014 outlined a range of actions aimed at incentivising increased housing construction activity and supply such as:

- Putting in place a National Framework for Housing Supply.
- Concluding the review of Part V requirements.
- Ensuring that developers can avail of reduced development contributions for existing but not activated planning permissions.
- Work with Dublin local authorities in supporting 'kick start' initiative for prime development areas where extensive infrastructure investment has taken place.
- Enable local authorities to require applicants for planning permission for housing projects of scale to indicate the development schedule, and where, in the absence of reasonable justification, this is not met, to modify the duration of the permission
- Examining the possibility of enabling local authorities, should they wish to do so, to adopt new measures to encourage the use and development of vacant sites

These actions are being progressed as a matter of urgency.

The Dublin Housing Supply Co-ordination Task Force has stated that there are currently sufficient planning permissions, with no insurmountable infrastructural deficits, to deliver over 20,000 housing units in four Dublin local authority areas while a further 25,000 new homes are considered permissible on existing lands zoned for residential use if landowners and developers wished to seek those permissions.

The objective of the Government is to facilitate the activation of such permissions with a view to delivering on the associated housing supply to meet demand. The possible introduction of tax measures to incentivise the development of zoned and serviced land has been considered in this overall context.

Outcome of public consultation:

This Department received 24 submissions. A list of the submissions received is at ANNEX 1. This list also provides the key for references to particular submissions made to the public consultation exercise (now closed) on the potential of taxation measures to encourage development of zoned and serviced land throughout this report.

In the public consultation document (copy at ANNEX 2) that provided the framework for this exercise, the Minister for Finance invited interested parties to make submissions regarding 6 consultation issues:

1. Views on the extent of undeveloped zoned and serviced land;
2. Reasons for non-development of such zoned and serviced land;
3. Possible corrective tax measures that could be introduced to encourage development;
4. Basis of calculation of any such corrective measures;
5. Potential interaction of such a tax measure with existing and proposed zoning, planning and building regulations; and
6. Potential impact of such a measure on property acquisition, development and construction decisions.

What follows is a brief examination of the 24 responses received to the public consultation under each of these 6 consultation issues followed by a consideration of the impact the newly enacted Urban Regeneration and Housing Act 2015 on the issues covered in the public consultation process, and a summation based on the overall tenor of the 24 submissions.

No attempt to weight submissions according to the size/nature of the submitter has been made.

1: Views on the extent of undeveloped zoned and serviced land

Twelve of the 24 submissions (No's 1, 7, 9, 11, 12, 13, 16, 17, 18, 19, 20 and 22) made reference to this consultation issue.

Opinion varied across those submissions which addressed this issue, with the four main views set out in Table 1 in ANNEX 3, with the total number of submissions taking each and an indication of the maker of the submissions putting forward each also shown.

The view most commonly cited (8 times) was that while there may be sufficient zoned and serviced land available in Ireland, it is often in the wrong place, has a lower housing density than is possible or indeed required, or is in fact zoned industrial/commercial rather than residential.

2: Reasons for non-development of such zoned and serviced land

Nine principal reasons for the non-development of zoned and serviced land were cited in the 22 submissions which responded on this issue. Relevant details are set out in Table 2 of Annex 3.

Over half (13) of the submissions cited lack of appropriate credit/financing as the main, or a significant contributing factor, to the failure to develop zoned and serviced land. With just under half (11) citing the lack of viability of residential development in light of the charges imposed on developers and the (in the respondent's view) overly stringent building regulations they face.

Only 5, or just over one-fifth, cited the possibility of developers delaying the development of land to earn a higher return when they do decide to develop it, or the owner simply holding the land as an appreciating asset and having no intention to develop it, as reasons.

3: Possible corrective tax measures that could be introduced to encourage development

Eighteen (three-quarters) of the 24 submissions addressed this issue, with many making a number of suggestions. Again a number of core views emerge from the submissions and the 7 of these that were proposed in more than one submission are outlined in Table 3 in ANNEX 3.

Proposals for the introduction of a site value tax, or measures involving the restoration/reform of taxation measures were the most commonly cited measures. The taxation of zoned and serviced land featured in just 5 submissions.

4: Basis of calculation of any such corrective measures

Only 8 (one-third) of the 24 submissions addressed this consultation issue, which is a subsidiary issue to issue 3. Table 4 in ANNEX 3 shows the main responses on this issue (those attracting more than one citing).

No firm conclusion could be drawn in respect of this issue from the consultation process.

5: Potential interaction of such a tax measure with existing and proposed zoning, planning and building regulations

Again this is a subsidiary issue to issue 3, and only 6 (one-quarter) of the 24 submissions addressed it. The views expressed included:

- the importance of any taxation measures introduced working in concert with other policies which impact on development.
- A view that little attention has been paid to the cumulative impact of increased construction standards on both construction costs and time taken, and that any regulatory reform/new taxes should be subject to a clear analysis of their cumulative impact on affordability for the end user.
- that there should be a concentration on specific types of residential development (large rental blocks, student accommodation, living over the shop); that these will help secure urban regeneration in city centre/dockland areas.
- the importance of linking tax measures to the planning system, in that they should aim to discourage one off housing and to provide the appropriate mix of uses in town centres.

Overall there is no clear message from the responses on this issue, but they are indicative of the need for an integrated, multi-faceted approach to encouraging the release of zoned and serviced land for development.

6: Potential impact of such a measure on property acquisition, development and construction decisions.

Eight of the submissions addressed this consultation issue explicitly. Responses tend to reflect either a belief that the measure(s) proposed in the submission concerned will help ease zoned and serviced land into development, or on the other end of the spectrum that there is no real benefit to/chance of success in using taxation measures, or in the view of some any measure, to achieve that end. The most relevant of these are set out in Table 5 in ANNEX 3.

Overall outcome of public consultation

As can be expected from a public consultation exercise, the responses received were from a range of sectoral interests (including local authorities) and interested individuals. Many of the 24 submissions raised interesting and valid points, although some of those are outside the scope of this consultation.

While it is not possible to extract a fully shared position from this exercise, it is possible to draw certain key messages from a number of the submissions which, while they could not be taken as representing a majority viewpoint, could be seen as indicative of the broad leaning of many of the submissions, as reflected in the following points.

- There is a need to agree what is actually meant by “zoned and serviced” land. Land which is not ready for development, is subject to planning/infrastructure blockages (for example due to a phasing requirement), where there is no residential demand, or where development would be uneconomical should not be included in such a classification.
- Before proceeding to introduce new taxation measures it must be ensured that we are well informed, including as to the amount, location and demand for housing at zoned and serviced land at those location[13], so as to ensure that such measures do not result in unintended consequences. These could include increasing the already significant degree of risk and uncertainty associated with property development, and increasing already high development/building costs further.
- A shortage of zoned and serviced land does not appear to be the reason for the lower than required output of residential properties, but nor is hoarding by land owners, of which there is little, if any, evidence.
- In many areas the cost of development significantly exceeds the price that can be asked for the finished property, with taxes, development levies (including infrastructure contributions)

[13] The survey of lands zoned for residential development in local authority development plans and local area plans carried out in 2014 by the Department of the Environment, Community & Local Government, which gives indications as to how much of it there is and where it is, is quantitative, but not qualitative, (it gives no indication as to infrastructure deficits etc.).

and ever more stringent local authority building standards contributing significantly to this, so a blanket tax which further contributes to these costs would be neither equitable nor effective.

- The continuing lack of commercial finance for all but a select few development projects is preventing many, particularly in less in demand (but still in need) locations, getting underway.
- The CGT exemption for property acquired between 7/12/2011 and 31/12/2014[14] if held for 7 years, under which there is no requirement to develop the land in question, has often left the development of such land at a standstill as the owner waits out the 7 years.
- The inability to index development land for taxation purposes on disposal could be an incentive (when mixed with no carry costs) to await maximum market price.
- There may be a role for taxation measures (of both the carrot and stick types) but only as part of a broader suite of measures aimed at addressing the barriers and bottlenecks in the development process.
- The one specific tax measure which featured consistently in the public consultation, albeit with some variations, was that of a value/size related tax:

    - site value tax covering all commercial property as well as zoned and serviced land and replacing commercial rates.
    - site size/value taxes covering all lands, with no exemptions based on ownership or structure.
    - a per square meter charge on all zoned land to sit alongside existing regime (so allowing land owners to opt out of a zoning) with the rate being derived from the local authority funding requirement after rates income and any special grants are deducted, plus a modest site value tax to fund the development of social infrastructure nationally.
    - a site or land value tax as an alternative to targeted corrective taxation measures in order to avoid a patchwork of piecemeal fiscal initiatives such as the vacant site levy in what is now the Urban Regeneration and Housing Bill 2015, which are too complex, have too many exemptions and contain a strong potential for unfairness. The site/land value tax would be assessed nationally, collected centrally (but distributed to the county in which it is collected) and would replace the local property tax. The tax would be calculated using the value of the land at its highest permitted use.
    - a site value tax to be collected by the Revenue Commissioners and then distributed to the local authority of the payers of the tax (also calls for restoration of the 80% windfall tax).
    - a land value tax (akin to that applied in Denmark) would restore to the community, via the exchequer, a portion of the land value which that entire community generates through population and economic growth and public investment. At the outset, it would be an annual tax levied on all land holders at a modest standard rate of 1%, with some partial exemptions for farmed land etc.

[14] Finance Act 2012 (section 64 inserting section 604A into the Taxes Consolidation Act 1997 as amended) as subsequently extended in section 44 of the Finance (No.2) Act 2013.

Urban Regeneration and Housing Act 2015:

The Minister for the Environment and Local Government's Urban Regeneration and Housing Act 2015 (No 33 of 2015) has recently been enacted:

http://www.oireachtas.ie/documents/bills28/acts/2015/a3315.pdf

This Act provides for a vacant site levy of up to 3% of the market value of such sites which exceed 0.05 hectares in area, and which is to be charged on vacant sites in areas zoned as residential or regeneration land by elected members of a planning authority in their local development plan or local area plan. The proposed levy will apply to both private property and state owned property.

The vacant site levy should therefore go a considerable way towards providing the site tax type measure recommended in 6 submissions.

The Act also addresses a number of the issues which were seen as rendering some potential developments uneconomic, in that it provides for a revision to the Part V provisions on social and affordable housing of the Planning and Development Act 2000, as amended. Under this Bill the requirement that the equivalent of up to 20% of "housing units" in a development which is subject of planning permission be made available for social and affordable housing will be reduced to 10% (and until directed by the Minister otherwise, to be for social housing only). The option of developers providing a cash payment, or sites or land elsewhere, in lieu of the Part V obligation will be removed, though the provision of completed homes on land other than the land in question is allowed for.

The Act also provides for the retrospective application of reduced development contributions (including "supplementary" development contributions) for planning permissions that pre-exist recent/ongoing reductions in those contributions.

3. Conclusion

It is accepted that while there may be sufficient zoned land across Ireland, the amount of that land currently being actively developed for residential use is insufficient to meet growing demand.

No evidence has been presented that the hoarding of land to await its appreciation is a major issue preventing the development of that land. There are rather a range of limiting issues, of which land hoarding would only be one. These include difficulties in accessing finance, building standard requirements, planning requirements, and infrastructure deficits.

The Urban Regeneration and Housing Act 2015 (No 33 of 2015) gives Local Authorities new powers to incentivise the development of zoned and serviced land, as well as providing for other measures which are intended to facilitate housing development. This and other developments such as the announcement earlier this year by Dublin City Council that it is considering relaxing its development plan apartment standards, and the progress that has and is being made on implementing Construction 2020 in key areas, indicate that both Government and the Local Authorities are seeking to address these barrier issues to the delivery of housing supply.

Therefore, and on considering the outcome of the public consultation and the enactment of the Urban Regeneration and Housing Act 2015, it is the Minister's determination that:

- no new tax intended to encourage the development of residentially zoned and serviced land be introduced at this time;
- the impact of the provisions of the Urban Regeneration and Housing Act 2015 on the supply of new housing be monitored; and,
- his Department engage with the Department of Environment, Community and Local Government on the scope for the application of the vacant site levy on green-field sites, which fall under the provisions of the Urban Regeneration and Housing Act 2015, in the guidelines they are to issue on the application of the Act (which was Commenced with effect from 1 September 2015).

Annex 1: List of 24 Submissions Received[15]

No.	Submission from:
1	Private Individual
2	National Competitiveness Council
3	Private Individual
4	KPMG
5	The Consultative Committee of Accountancy Bodies-Ireland
6	Irish Mortgage Brokers
7	Institute of Professional Auctioneers and Valuers
8	Airspace Investments Limited
9	Private Individual
10	Property Industry Ireland
11	Renua Ireland
12	Cork County Council
13	Irish Planning Institute
14	Chambers Ireland
15	Dùn Laoghaire-Rathdown County Council
16	Green Party
17	Cork City Council
18	Society of Chartered Surveyors Ireland
19	Construction Industry Federation
20	Royal Town Planning Institute (RTPI) Ireland
21	Private Individual
22	Irish Council for Social Housing
23	DNG
24	Offaly County Council (Planning Department)

[15] Copies of these submissions can be found on the Department of Finance's website at http://www.finance.gov.ie/what-we-do/tax-policy/consultations/submissions-department-finance%E2%80%99s-public-consultation-potential#overlay-context=&overlay=node/5236/edit

Annex 2: Public Consultation Document

Public Consultation Paper:

The potential of taxation measures to encourage development of zoned and serviced land

Department of Finance

February 2015

Tax Policy Division
Department of Finance
Government Buildings, Upper Merrion Street, Dublin 2
Ireland

E-mail: zoned&servicedland@finance.gov.ie

Website: www.finance.gov.ie

Contents

1. Objective

The aim of this consultation is to assess the extent to which the taxation system can be utilised to encourage the development of zoned and serviced land.

2. Introduction

In his Budget 2015 speech, the Minister for Finance, Mr Michael Noonan T.D., made reference to the existence of a view that owners of zoned and serviced land are waiting for higher prices before taking steps to develop their land or sell it to others who will. The Minister announced his intention to launch a public consultation on this issue with a view to examining what taxation measures might be taken to encourage land owners to develop land that is already zoned and serviced.

The aim of the consultation will be:

(3) to examine the validity of this contention; and

(4) to assess the extent to which the taxation system (through corrective measures) can be utilised to encourage the development of such zoned and serviced land to assist in reducing the shortage of residential properties in certain areas.

The consultation is in the context of looking at the potential of the tax code to encourage efficient use and development of land in general. We must learn from the mistakes of the past as we prepare for the future. Property based tax reliefs were allowed to continue for too long with no clear rationale behind their maintenance. Lessons such as these must be applied in designing the Irish tax code for the future. In this regard this consultation is not being launched with a view to introducing new property based tax reliefs or tax breaks.

It should be noted that the Minister for the Environment, Community and Local Government is separately developing proposals in a specific planning related context to underpin the development of priority areas identified in local authority city and county development plans. The legislation being proposed by the Department of the Environment, Community and Local

Government relates to a process of identification of priority development areas by local authorities in the context of their statutory development plans coupled to liability for an annual levy at a rate of 3% of the market value of any site where the owner fails to develop the site.

3. Context

The Government's Construction 2020 Strategy published in May 2014 outlined a range of actions aimed at incentivising increased housing construction activity and supply. These actions are being progressed as a matter of urgency, including measures incorporated in the forthcoming Planning and Development No. 1 Bill , for example the revision of the Part V social housing obligations on developers, retrospective application of reduced development contributions, the introduction of the vacant site levy and "use it or lose it" arrangements in relation to planning permissions.

In addition, further to the Construction 2020 Strategy, a Dublin Housing Supply Co-ordination Task Force was established in June 2014 to examine the issue of housing supply in the Dublin area. It has reported that there are currently sufficient planning permissions, with no insurmountable infrastructural deficits, to deliver over 20,000 housing units in four Dublin local authority areas while a further 25,000 new homes are considered permissible on existing lands zoned for residential use if landowners and developers wished to seek those permissions. The objective of the Government now is to facilitate the activation of such permissions with a view to delivering on the associated housing supply to meet demand.

The Housing Land Availability Survey (HLAS) is an annual survey undertaken by the Department of the Environment, Community and Local Government seeking information from local authorities to inform the publication of the amount of zoned residential land in their area that is currently serviced. In 2013, the Department of the Environment, Community and Local Government reviewed the HLAS approach taking account of the advent of www.myplan.ie and the need to reduce and rationalise the data gathering requirements placed on local authorities. A new internet based approach called the Residential Land Availability Survey (RLAS) is being finalised in conjunction with local authorities which will produce robust datasets mapped to individual land parcels across all local authorities. This will include the compilation of tables on national and by local authority summaries of the lands zoned for housing and immediately available. The results of the RLAS are expected to be available shortly.

In this regard, it is provisionally estimated that there is currently in excess of 17,000 hectares of undeveloped residentially zoned land nationally which equates to a capacity for over 400,000 new homes (based on a national average of 24 units per hectare). This capacity is considered to be sufficient to meet the overall housing requirements nationally for approximately the next 10 years, but for a lesser period in the Dublin area having regard to the priority lands identified for residential use in the development plans of the four Dublin local authorities.

4. Consultation Issues

The Minister for Finance invites interested parties to make submissions regarding:

1. Views on the extent of undeveloped zoned and serviced land;
2. Reasons for non-development of such zoned and serviced land;
3. Possible corrective tax measures that could be introduced to encourage development;
4. Basis of calculation of any such corrective measures;
5. Potential interaction of such a tax measure with existing and proposed zoning, planning and building regulations; and
6. Potential impact of such a measure on property acquisition, development and construction decisions.

In responding to this consultation you are invited to:

- Give your views on the specific points set out above. You don't have to address every point – you may choose to address any or all of the points.
- Provide details of relevant issues not covered in this paper.
- Comment on the general direction in which you would like to see tax policy in this area develop.

Your views are important as they may help influence the taxation treatment and policy to be applied in the future.

5. The Consultation Process

Consultation Period

This public consultation process will run from 16 February 2015 to 8 May 2015, a period of 12 weeks.

Any submissions received after this date may not be considered.

How to Respond (*Now closed to further submissions*)

The preferred means of response is by email to zoned&servicedland@finance.gov.ie

Alternatively, you may respond by post to:

Zoned and Serviced Land Public Consultation
Tax Policy Division
Department of Finance
Government Buildings
Upper Merrion Street
Dublin 2

Please include contact details if you are responding by post.

Freedom of Information

Responses to this consultation are subject to the provisions of the Freedom of Information Acts. The Department may receive requests for any or all information supplied as part of this process. Any information which would be considered commercially sensitive should be highlighted as appropriate. Parties should also note that responses to the consultation may be published on the website of the Department of Finance.

Meetings with key stakeholders

The Department of Finance may also invite key stakeholders to meet with them, including representative bodies, tax professionals and other interested groups or individuals.

Annex 3: Tables setting out responses to questions asked in public consultation document

Table 1: Views on the extent of undeveloped zoned and serviced land

No.	View	Number of submissions citing	Cited by*
1	**Sufficient zoned and serviced land, but it's not in the right place(s), has too low a density projected for it or is wrongly zoned**	8	1, 7, 11, 16, 17, 18, 20, 22
2	**Too few sites available and those for sale are expensive**	2	9, 12
3	**Too much zoned and serviced land**	1	11
4	**No reliable data available**	2	12, 19,

*See number reference at Annex 1

Table 2: Reasons for non-development of such zoned and serviced land

No.	Reason	Number of submissions citing	Cited by*
1	**Legal** (land title, receivers in place etc.)	4	1, 13, 18, 23
2	**Financing/Credit** (lack thereof)	13	2, 4, 5, 7, 8, 10, 13, 14, 18, 19, 20, 21, 23
3	**Uneconomical/not commercially viable** (includes development levy, Part V provision, impact of planning requirements)	11	3, 4, 6, 7, 10, 13, 14, 17, 18, 19, 22
4	**Delaying development for higher price/to maximise profits**	4	6, 9, 11, 12
5	**Planning permission/other consents** (may not be forthcoming or phasing means can't develop lands)	5	10, 13, 14, 18, 20
6	**VAT on residential development/CGT rates** (too high)	2	6, 14

7	**Wealth accumulation** (value in land, no intent to develop)	1	16
8	**Lack of suitable infrastructure**	3	12, 19, 20
9	**Lack of demand** (for housing where the zoned and serviced land is)	2	18, 20

*See number reference at Annex 1

Table 3: Possible corrective tax measures that could be introduced to encourage development

No.	Measure	Number of submissions citing	Cited by*
1	**Do nothing** at all or for now	3	1, 12, 13,
2	**Introduce site value/size tax**	6	2, 6, 11, 13, 16, 21
3	**Restore/reform reliefs** (Rollover and/or Indexation)/ **CGT** - **reduce stamp duty** on zoned land – **remove or reduce DIRT** for REIT funds used to provide development finance	5	4, 5, 13, 17, 19,
4	**Reduce VAT** on residential developments	6	4, 5, 10, 13, 18, 19,
5	**Tax zoned & serviced land/derelict buildings**	5	6, 11, 14, 16, 20
6	**Escalator & de-escalator clauses** on levies and/or taxes	2	12, 20
7	**Compulsory purchase orders** (not strictly a taxation measure)	2	16, 21

*See number reference at Annex 1

Table 4: Basis of calculation of any such corrective measures

No.	Measure	Number of submissions citing	Cited by*
1	**Any levy/tax on unused sites should apply to all sites, irrespective of ownership**	2	6, 11

2	**Levy/tax should not apply if property is developed or put on market and sold in a given timeframe**	2	6, 7

*See number reference at Annex 1

Table 5: Potential impact of such a measure on property acquisition, development and construction decisions.

No.	Impact	Number of submissions citing	Cited by*
1	**No/limited benefit** to be had by using levies	3	1, 21, 24
2	**A site value tax could incentivise development** of underutilised land/property	2	2, 11
3	**Escalator clauses could incentivise development** of underutilised land/property	1	12
4	**Measure encourages new type of developer** seeking long term secure income	1	17

*See number reference at Annex 1

Review IV: Review of Relief from Tax for Certain Start-up Companies – section 486C Taxes Consolidation Act 1997

Contents

1. Introduction

In *A Strategy for Growth, Medium-Term Economic Strategy 2014-2020*, the Government committed that it will:

- Support economic growth by ensuring any tax increases be effected in the first instance by base broadening through the elimination or curtailment of overly-generous, poorly targeted or otherwise unaffordable tax reliefs.
- Use the tax system in limited circumstances where there are demonstrable market failures and where a tax-based incentive is more efficient than a direct expenditure intervention.
- Time-limit all tax expenditures and subject those with higher costs to ex ante evaluation.
- Conduct a regular programme of tax relief reviews using public consultation as appropriate and publish the results.

Consequently the Department of Finance has drawn up guidelines for the evaluation of tax expenditures - *Tax Expenditure Guidelines 2014*

Tax expenditures should be carefully focused to address a set of clearly identified, measurable objectives and to correct a market failure within the context of limited Exchequer resources.

The scope of evaluation should be proportionate to the size and objectives of the tax expenditure. The guidelines provide for a proportionate approach to evaluations. The level and detail of the analysis that should be undertaken will depend on the cost of the expenditure.

The guidelines distinguish between two types of evaluations:

(i) Ex-ante Evaluations

Ex-ante evaluations are undertaken prior to the introduction of a new tax expenditure. Ex-ante evaluations ensure that the economic impact of a prospective tax expenditure is identified and the cost calculated.

(ii) Ex post Evaluations

Ex post evaluations relate to existing tax expenditures. Ex-post evaluations look at the continued relevance, costs, impacts and efficiencies of the relief to ensure that the best use is being made of limited Exchequer resources.

The Department of Finance regularly reviews various tax expenditures according to these guidelines.

The three year exemption from corporation tax for start-up companies was first introduced by Finance (No. 2) Act 2008. It has been amended in 2011 and 2013 and further extended in

2014 until the end of 2015. As it is due to expire and in line with the guidelines, it is timely that an ex-post evaluation of the relief be carried out. An Ex post evaluation is primarily concerned with questions around the continuing relevance of the scheme and its impact.

Four key questions should be addressed in ex post evaluations. These are:

1. Is the tax expenditure still relevant?
2. How much does the tax expenditure cost?
3. What is the impact of the tax expenditure?
4. Is it efficient?

These key questions are looked at in section 4 (Ex Post Evaluation).

2. Background to three year start-up relief

Finance (No. 2) Act 2008 introduced a new Section 486C into the Taxes Consolidation Act 1997 which provides for relief from corporation tax for start-up companies in their first three years of trading. The relief was introduced to provide support to new business ventures in their critical early years of trading, thereby creating additional employment and economic activity in the State. The relief is granted by reducing the corporation tax payable on the profits of the new trade and gains on the disposal of any assets used for the purpose of the new trade.

The relief was further amended and enhanced in 2011 and 2013.

Prior to amendments made in the Finance Act 2011, full relief was available where the corporation tax otherwise payable by the company was €40,000 or less. Marginal relief applied where the corporation tax liability was between €40,000 and €60,000.

Finance Act 2011 modified the relief by linking the quantum of corporation tax relief to the amount of Employers' PRSI paid by a company in an accounting period, subject to a maximum of €5,000 per employee and an overall limit of €40,000.

The purposes of the 2011 amendments were to make the relief more employment focussed by linking the amount of tax relief to the amount of employers' PSRI paid by a company in an accounting period. Credit is also given for employers' PRSI exempted under the Employer Job (PRSI) Incentive Scheme in determining the amount of employers' PRSI on which corporation tax relief is granted. Where a company avails of a PRSI exemption under the Employer Job (PRSI) Incentive Scheme, the amount of PRSI which would have otherwise been payable is taken into account in calculating corporation tax relief under s486C TCA 1997.

Under the revised arrangements, if the amount of qualifying employers' PRSI paid by a company in an accounting period is lower than the reduction in corporation tax otherwise applicable, relief will be based on this lower amount. For example, a company with four employees and annual employers' PSRI payments of €5,000 in respect of each employee will obtain a reduction in corporation tax of up to €20,000 in respect of its taxable profits. The purpose of this restriction is to better target the relief at companies generating employment.

Finance Act 2013 enhanced the relief by allowing a carry-forward of any unused relief arising in the first three years of trading, due to losses or insufficient profits, for use in subsequent years.

The purpose of the 2013 amendments were to provide a significant enhancement to the relief. Previous to these amendments the relief operated on a 'use it or lose it basis'. Relief was not available if a company incurred a loss or did not have a sufficient amount of profits and tax payable in any of the first 3 years of trading to avail of the full benefit related to its employer PRSI contributions.

These amendments increased the flexibility of the scheme. Any unused relief arising in the first 3 years of trading, due to losses or insufficient profits, can now be carried forward for use in subsequent years indefinitely. This effectively creates a 'bucket' of credits which can be carried forward for use in each subsequent year, until such conditions arise where they can be utilised. The relief eligible for carry-forward depends on the Employer PRSI in the relevant year. To ensure that the company availing of the relief must maintain their commitment to employment, the amount of relief allowed in a given year is restricted by reference to the total Employers' PRSI contributions for that year in respect of the company's employees.

This provision provides further assistance to new start-up businesses, many of which do not make profits in their early years.

The relief, which was due to expire at the end of 2014, was extended in Finance Act 2014 until the end of 2015 to allow for a comprehensive review of the measure in 2015 in line with the *Tax Expenditure Guidelines 2014*.

The main features of the relief are as follows:

- As it is a corporation tax relief, it applies to incorporated businesses only – i.e. incorporated companies.
- The initial exemption period is three years from the date of commencement of the new trade.
- Exemption is granted in respect of the profits of a new trade and chargeable gains on the disposal of any assets used for the purposes of a trade.
- Subject to sufficient PRSI contributions, full relief applies where the total corporation tax liability does not exceed €40,000 in any of the years of the three year period.
- The original exemption was granted by reducing the corporation tax relating to the trade and chargeable gains of the company to nil. Since 2011, this has been modified and the reduction available is now linked to PRSI contributions in the given year.
- Marginal relief will apply between €40,000 and €60,000 to ensure new start-up companies with a liability of just over €40,000 do not have to pay the full amount. Marginal relief operates by allowing for relief on a tapering basis so that the closer the company comes to the outer €60,000 limit the less relief it will get.
- A company that takes over an existing trade or part of a trade, which was carried out in the State by another person, will not qualify in respect of income of the trade taken over.
- Relief will cease if part of the trade is transferred to a connected person.

- "Service companies" within Section 441 of the Taxes Consolidation Act 1997 do not qualify for the relief. (Service companies include close companies[16] whose businesses consist of the carrying on of a profession or the provision of professional services, or of exercising an office or employment. E.g. solicitors, dentists, accountants. Service companies also include businesses that provide services to professionals.)
- Transfers of part of a trade within the State to another company to keep below the €40,000 limit is prohibited as are transfers of assets into a new company from a connected company for the purpose of benefiting from the exemption. However, a foreign trade moving into the State for the first time will qualify.
- New start-up companies with a corporation tax liability of €60,000 or over in any of its first three years will not receive any relief for that year. The taxable profits of a company in this scenario would be close to a half-million euros (€480,000).
- New companies carrying out activities to which the higher rate of corporation tax (25%) under s.21A TCA applies (dealing in development land, petroleum activities etc.) do not qualify.

For unincorporated businesses, Start Your Own Business relief is available and provides for relief from Income Tax for long term unemployed individuals who start a new business. The scheme provides an exemption from Income Tax up to a maximum of €40,000 in profits per annum for a period of two years to individuals who set up a qualifying business; having been unemployed for a period of at least 12 months prior to starting the business. PRSI and USC remain payable. It runs from 25 October 2013 to 31 December 2016.

A business cannot avail of Start Your Own Business Relief and then incorporate to avail of three year exemption from corporation tax for start-up companies.

A person's own individual circumstances will dictate whether they should operate as a limited company or as a sole trader. In addition to the taxation issues to be considered, there are various other practical and legal matters which should be taken into account. It is not intended that the corporation tax relief would be a deciding fact for an entrepreneur on deciding whether to operate as a sole trader or to trade through a company.

[16] A close company is a company that is controlled by five or fewer participators or is controlled by any number of participators who are directors.

3. Public Consultation

The three year corporation tax relief for start-up companies is being considered in the wider context of the Tax and Entrepreneurship Review. The Minister for Finance, Mr Michael Noonan T.D., is considering how the tax system affects entrepreneurship generally as well as reviewing the tax expenditures currently available to entrepreneurs. The purpose of the review is to assess what is and is not working effectively as well as considering options for change to better incentivise entrepreneurship.

The objective of the tax and entrepreneurship review is:

(i) to assess the effectiveness of the tax system overall in terms of the ease of starting up and expanding a new business,
(ii) to review the effectiveness of current tax expenditures aimed at entrepreneurs,
(iii) to examine whether changes to existing tax expenditures and/or new measures could be introduced to incentivise entrepreneurial activity.

As part of the public consultation on Tax and Entrepreneurship, the Department of Finance invited views from the public and interested parties on the use and effectiveness of s486C TCA 1997.

The Department invited detailed submissions from interested parties in respect of Section 486C, and included the following questions:

a) Has the relief led to an increase in employment and economic activity?
b) How many jobs have been supported by this relief?
c) What types of companies are using the relief?
d) What has been the impact of the carry-forward provisions introduced in Finance Act 2013?
e) What role does the relief play in decisions by start-up businesses on whether or not to incorporate?
f) Are there specific elements of 486C that should be considered as part of the review?

This review takes account of consultation responses while examining the continued relevance, costs, impacts and efficiencies of the relief.

Responses to the consultation

Approximately 29% of responses to the consultation addressed the three year start-up relief. Out of those responses, very few addressed the individual questions put forward in the consultation document. However respondents commented more generally on the relief.

Some common issues raised in the responses include:

- *The relevance of the relief for new companies who are typically loss making in the early years*

Some respondents to the consultation put forward the view that in the initial years, start-ups are generally loss-making, and therefore a corporation tax exemption is of little or no assistance to such companies. The relief was introduced to assist start-ups in their initial phase by removing the burden of corporation tax for a period of three years. This would only assist such companies that would otherwise be paying corporation tax.

It is acknowledged it is of limited immediate benefit to those companies with little or no corporation tax liabilities. However the changes brought in in 2013 introducing the carry-forward provisions will benefit loss making start-ups in later years when they become profitable. The job creation incentive is maintained through the requirement to have sufficient PRSI contributions in year of use to match the relief being claimed.

- *Restriction of relief due to link to employees*

Many respondents raised the issue of the link to PRSI contributions and suggested that this was hindering the take-up of the relief as start-ups don't have sufficient employees to be able to avail of the full relief.

The 2011 changes were introduced to target the relief at employment generating companies. While responses to the consultation have indicated that this has restricted the use and effectiveness of the relief, the Department's view is that it is appropriate that the relief be targeted at employment generating companies.

- *Refundable tax credit*

Some respondents suggested that a form of refundable tax credit be available for start-ups. While the relief was intended to assist start-ups in their initial phase by removing a corporation tax burden, it was not intended to be a source of funding for such companies.

Start-up companies face many challenges in their initial phase which may include funding/cash-flow difficulties. Where a company is not paying corporation tax due to lack of profits then corporation tax cannot be contributing to these cash-flow difficulties. The tax system should not always be looked to in the first instance for solutions to non-tax problems.

Refundable tax credits would be costly. The carry-forward provisions introduced in 2013 already assist start-up companies with their corporation tax liabilities when corporation tax becomes relevant for such companies.

The Government has committed that it will use the tax system in limited circumstances where there is a demonstrable market failure and where a tax-based incentive is more efficient than a direct expenditure intervention.

It is not thought that refundable tax credit are the most efficient method of addressing funding and cash-flow difficulties that may be faced by start-up companies. Other measures such as grants may be more appropriate to such companies In this regard, the Government has maintained a strong focus on providing a wide range of supports to encourage the growth of small and medium sized enterprises (SMEs) across the country. A selection of these SME supports which are having a positive impact on the sector include the Credit Review Office, the Strategic Banking Corporation of Ireland, the Microfinance Loan Fund and the Credit Guarantee Scheme.

- *Transparent/look through for three years*

One respondent suggested that the start-up company be regarded as transparent for tax purposes for the first three years with the losses available to the shareholders to use against their gross income at their marginal rates. This would be subject to the condition that the cash benefit realised through the utilisation of losses generated be re-invested in the company to fund future growth.

Sole traders who are loss-making are entitled to use such losses against their total income, thereby reducing their income tax liability. Those who carry out a trade through a company, which is a separate legal entity to its owner, cannot use the corporate losses against their total income to reduce their personal income tax liability.

Allowing transparency in the initial three years would be more relevant for companies that expect to be loss-making initially. Individuals setting up a new trade may prefer to incorporate but may choose not to do so (for tax purposes) so that any losses can be used against total income, reducing their income tax liability. Transparency would allow such individuals to incorporate and still use the losses against total income.

Any such measure would be a major departure from the concept of separate legal personality and would need to be considered in the context of the broader consideration of the merits of incorporating versus not incorporating.

4. Ex Post Evaluation

a. Is the tax expenditure still relevant?

A neutral tax system is one that does not adversely influence taxpayer behaviour such that decisions by economic agents are based on preferences before tax considerations are taken into account. By definition, tax expenditures depart from neutrality. The primary justification for departing from neutrality is the existence of a market failure. Market failure refers to a situation where an imperfection in the market mechanism prevents the achievement of economic efficiency[17] . In the absence of a market failure, interventions will lead to inefficiency and deadweight.[18]

The three year start-up relief from corporation tax was introduced to assist the survival of start-up companies by providing support to new business ventures in their critical early years of trading, thereby creating additional employment and economic activity in the State.

The following table shows the number of enterprise survivals and associated persons engaged, 2007 to 2012.[19]

Number of enterprise survivals and associated persons engaged, 2007 to 2012

	Enterprise survivals							Persons engaged in enterprise survivals					
		Survived							*Survived*				
Year of birth		*1 year*	*2 years*	*3 years*	*4 years*	*5 years*	Year of birth		*1 year*	*2 years*	*3 years*	*4 years*	*5 years*
2007	13,461	*11,579*	*10,186*	*8,529*	*7,124*	*6,513*	**2007**	14,922	*22,321*	*19,456*	*17,617*	*18,060*	*18,165*
2008	11,954	*10,252*	*9,133*	*7,295*	*6,578*		**2008**	13,594	*19,133*	*18,378*	*20,668*	*21,899*	
2009	13,810	*11,336*	*9,799*	*8,651*			**2009**	12,397	*20,295*	*21,217*	*23,514*		
2010	11,237	*9,387*	*8,100*				**2010**	10,475	*22,153*	*26,132*			
2011	11,847	*9,930*					**2011**	10,700	*23,267*				
2012	12,551						**2012**	11,207					

Source: CSO Business Demography

[17] HM Treasury, 2011

[18] Tax Expenditure Guidelines 2014

[19] http://www.cso.ie/en/media/csoie/releasespublications/documents/multisectoral/2012/businessinireland2012.pdf

Central Statistics Office data show that there were almost 13,500 new enterprises birthed in 2007. Of these, nearly 11,600 enterprises (86.0%) survived one year in business; almost 10,200 (75.7%) survived two years in business; over 8,500 (63.4%) survived three years in business; just over 7,100 (52.9%) survived four years in business and around 6,500 (48.4%) survived at least five years in business. Over this period, the survival rates have declined somewhat. For example, the one-year survival rate declined from 86.0% in 2008 (for 2007 births) to 83.8% in 2012 (for 2011 births). The two-year survival rate declined from 75.7% in 2009 (for 2007 births) to 72.1% in 2012 (for 2010 births).[20]

On a more positive note, although the survival rates significantly declined, the persons engaged in these enterprises birthed in 2007 increased by over 20% from year of birth to year five.

While Ireland is now enjoying the strongest annual growth levels since 2007 and unemployment has fallen from a high of 15.1% at the peak of the crisis to 9.4% in September 2015, focus remains on reducing this rate further. The Government aims to achieve full employment by 2018. It has a target of an additional 40,000 new jobs this year, and every year until it reaches its goal of 2.1m jobs in the economy by 2018, two years ahead of its original goal of 2020.

SMEs are essential for growth in employment and economic activity in Ireland. SMEs are key for the creation of new jobs: 67 per cent of all new job-creation in Ireland comes from businesses in the first five years of existence[21].

While the CSO data relates to all enterprises[22] and is not limited to companies, it indicates survival rates for new start-ups are an issue.

The unemployment rates and enterprise survival rates show that the relief is still relevant today. However the relief should be reviewed if/when full employment is reached.

b. How much did it cost?

In terms of Revenue foregone, the estimated tax cost for each year from 2010 to 2013 is as follows[23]:

[20] http://www.cso.ie/en/media/csoie/releasespublications/documents/multisectoral/2012/businessinireland2012.pdf

[21] https://www.centralbank.ie/publications/Documents/02RT13.pdf

[22] Enterprises are counted as active if they satisfy at least one of the following conditions: Pay VAT, Have employees, File a Corporation Tax return or File an Income Tax return with turnover of over €50,000

[23] Source: Revenue Commissioners

Tax Year	Estimated Tax Cost (€m)	Average Claim (€)
2010	4.6	5,275
2011	6.8	5,296
2012	5.5	4,331
2013*	4.9	4,721

**provisional*

The relief took effect for trades commencing in 2009 but the relevant information was not captured on the 2009 corporation tax return.

c. What impact did it have?

The relief was introduced to provide support to new business ventures in their critical early years of trading, thereby creating additional employment and economic activity in the State. Identifying the impact of the relief is difficult where the situation that would have prevailed in the absence of the relief is unknown. Furthermore other (non-tax) factors would also have significant impacts on new business ventures so isolating the impact of the relief on improvements or deteriorations of survivorship of new companies, changes in employment creation and economic activity is not possible.

However, the following details on companies availing of the relief are insightful into its use.

<u>Number of companies availing of the relief</u>[24].

The number of claimants and costs for each of the years from 2010 to 2013 are as follows:

Tax Year	Number of Claims	Estimated Tax Cost (€m)
2010	872	4.6
2011	1,284	6.8
2012	1,270	5.5
2013	1,038	4.9*

*provisional

[24] Source: Revenue Commissioners

For the year 2010, 872 companies claimed €4.6 million in relief. Of these 872 companies, 394 companies claimed €2.5m relief again for the year 2011. Of these 394 companies, 235 companies claimed €1.4m relief again for the year 2012.

The average year one claim for companies that first claimed in 2010 was €5,275. Although the number of companies claiming in year two decreased, the average year two claim increased by approx. 20% (to €6,345). The number of claimants decreased further in year three, with the average claim also decreasing by 6% (to €5,957). This was an increase of approx. 13% from year one.

The total cost over the three years associated with companies that first claimed for the year 2010 was €8.5m.

For the year 2011, 890 companies claimed €4.3m relief. Of these 890 companies, 407 companies claimed €2.1m relief for the year 2012.

The average year one claim for companies that first claimed in 2011 was €4,831. Although the number of companies claiming in year two decreased, the average year two claim increased by approx. 7% (to €5,160).

The total cost over the two years associated with companies that first claimed for the year 2011 was €6.4m.

For the year 2012, 628 companies claimed €2m relief for the first time. The average claim was €3,185. The average claim for all companies in 2012 was €4,331.

Going forward this data will be monitored and analysed to ascertain if there any emerging trends. Further analysis is being carried out on the companies that claimed relief in year one but not year two and/or three. Reasons could include becoming too profitable to claim the relief, lack of sufficient profits to claim relief, cessation of trading and mergers with other companies.

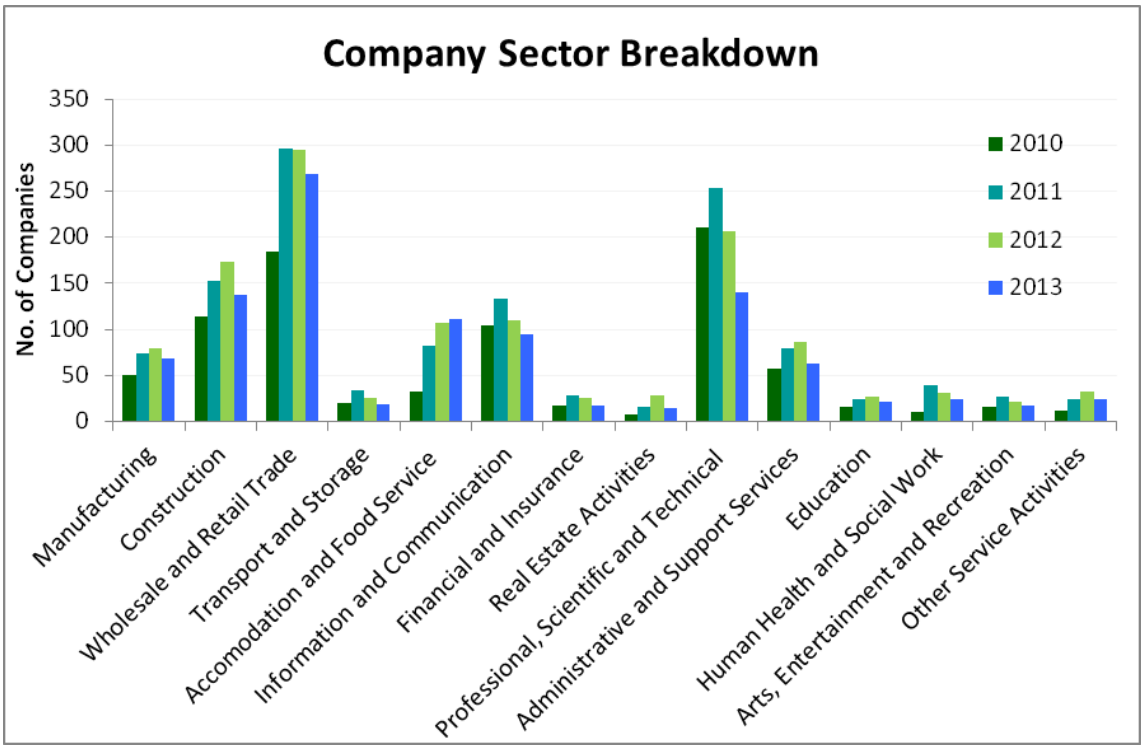
Sectoral breakdown of companies availing of the relief[25]

With regard to the number of companies availing of the relief, in 2010 the largest take up was in the Professional[26], Scientific and Technical sector, followed by Wholesale and Retail Trade and Construction. In subsequent years the largest take up was in the Wholesale & Retail Trade sector followed closely by, Professional, Scientific & Technical activities and Construction. The Wholesale and Retail Trade sector accounted for over 23% of claimant

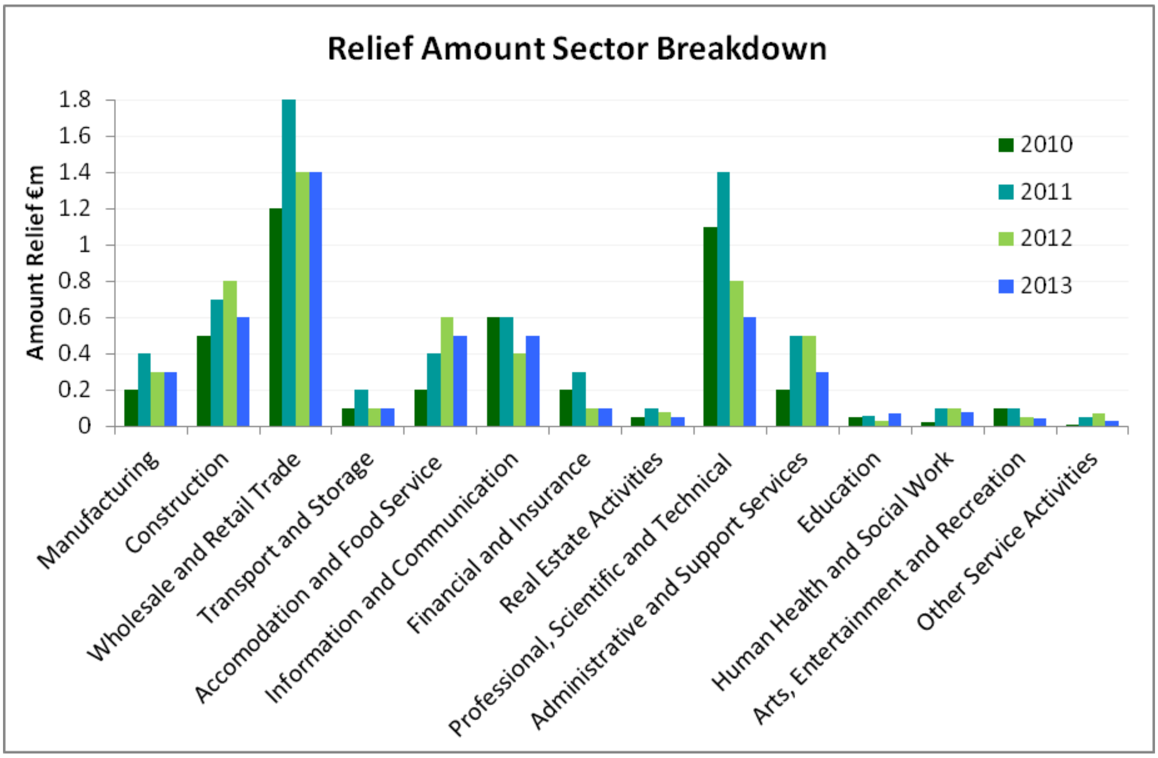
[25] Source: Revenue Commissioners

[26] Breakdown is by NACE code. "Service companies" within Section 441 of the Taxes Consolidation Act 1997 do not qualify for the relief

companies in 2012 and almost 26% in 2013. The Professional, Scientific and Technical sector accounted for 16% of all claimant companies in 2012 and 13% in 2013.



With regard to the amount of relief claimed, over the four years from 2010 to 2013, the greatest amount of relief used was in the Wholesale & Retail Trade, Professional, Scientific & Technical activities and Construction.



Levels of employment in companies availing of the relief (available for 2012 and 2013 only)[27]

In 2012, the tax credit supported 1,270 companies that, between them, employ 13,295 people. In 2013, the tax credit supported 1,038 companies that between them employ 11,750 employees.

Year	Number of companies	Estimated Number of employees
2012	1270	13,295
2013	1038	11750

Employee numbers are not available for the years prior to 2012.

[27] Source: Revenue Commissioners

The following table gives a breakdown by NACE of employees and their associated companies[28]:

NACE		Number Companies		Number employees (Average per company)		% Total Employees	
		2012	2013	2012	2013	2012	2013
4511-4799	Wholesale & Retail Trade	295	268	2386 (8)	2526 (9)	17.9	21.5
6910-7500	Professional, Scientific & Technical	207	140	1413 (7)	1430 (10)	10.6	12.2
4100-4399	Construction	174	138	1882 (11)	915 (7)	14.2	7.8
5811-6399	Information & Communication	110	94	469 (4)	418 (4)	3.5	3.6
5510-5630	Accommodation & Food	107	111	2773 (26)	2819 (25)	20.9	24
7711-8299	Administrative & Support Services	86	63	2534 (29)	1775 (28)	19.1	15.1
1011-3320	Manufacturing	79	68	469 (6)	500 (7)	3.5	4.3
9411-9609	Other Service Activities	32	24	149 (5)	129 (5)	1.1	1.1
8610-8899	Human Health & Social Work	31	24	518 (17)	428 (18)	3.9	3.6
6810-6832	Real Estate	28	15	128 (5)	72 (5)	1	0.6
8411-8560	Public Administration & Education	27	21	181 (7)	191 (9)	1.4	1.6
6411-6630	Financial & Insurance	26	17	85 (3)	100 (6)	0.6	0.9
4910-5320	Transportation & Storage	25	19	103 (4)	187 (10)	0.8	1.6
9001-9329	Arts, Entertainment & Recreation	22	18	140 (6)	146 (8)	1.1	1.2
3511-3900	Utilities	12	10	30 (3)	79 (8)	0.2	0.7
0111-0322	Agriculture, Forestry & Fishing	9	8	35 (4)	35 (4)	0.3	0.3
All Sectors		1,270	1,038	13,295	11,750	100	100

[28] Source: Revenue Commissioners

The sectors with the highest number of employees are Accommodation and Food, Administrative and Support Services and Wholesale and Retail Trade accounting for almost 58% of employees in 2012 and over 60% in 2013. The highest average numbers of employees per claimant company are in the Administrative and Support Services sector, followed by the Accommodation and Food and Human Health and Social Work sectors, accounting for almost 44% of employees in 2012 and 43% in 2013.

The average number of employees per claimant company was 10 in 2012 increasing to 11 in 2013.

The sectors with the lowest number of employees in 2012 are Utilities, Agriculture, Forestry and Fishing and Financial and Insurance. The sectors with the lowest number of employees in 2013 are Agriculture, Forestry and Fishing, Real Estate and Utilities.

The sectors with the lowest average number of employees per claimant company in 2012 are Utilities, Financial and Insurance and Agriculture, Forestry and Fishing. The sectors with the lowest average number of employees per claimant company in 2013 are Agriculture, Forestry and Fishing, Information and Communication and Real Estate.

Employee Number Breakdown for Start-up Relief[29]										
	2012					2013				
No. of employees	**no. of claims**	**% claims**	**Cost (€m)**	**% of cost**	**Taxable Income (€m)**	**no. of claims**	**% claims**	**Cost (€m)**	**% of cost**	**Taxable Income (€m)**
No Entry*	202	16	0.7	13	5.7	116	11	0.4	8	4
01 to 10	793	62	2.4	44	32.6	650	63	1.8	37	27
01-02	363	29	0.8	15	11.3	247	24	0.4	8	6.4
03-04	176	14	0.5	9	6.9	157	15	0.4	8	6.4
05-06	121	10	0.4	7	5.7	121	12	0.5	10	6.8
07-08	79	6	0.4	7	4.8	76	7	0.3	6	4.3
09-10	54	4	0.3	5	3.9	49	5	0.2	4	3.1
11 to 20	142	11	1	18	10.3	136	13	1.1	23	11.9
11-15	86	7	0.6	11	6.5	76	7	0.6	12	6.7
16-20	56	4	0.4	7	3.8	60	6	0.5	10	5.2
21 to 30	52	4	0.4	7	3.3	62	6	0.7	14	7.7
31 to 40	28	2	0.3	5	2.5	18	2	0.2	4	1.8
41 to 50	15	1	0.1	2	1.2	18	2	0.2	4	2
51 to 70	13	1	0.2	4	1.8	11	1	0.1	2	1.2
71 to 110	10	1	0.1	2	0.8	16	2	0.3	6	3
>110	15	1	0.3	5	2.8	11	1	0.0	1	0.4
Total	**1270**	**100**	**5.5**	**100**	**61**	**1038**	**100**	**4.84**	**100**	**59**

* where employee numbers are not available

[29] Source: Revenue Commissioners

The majority of the companies claiming the relief have between one and twenty employees. These companies account for approx. 73% of claims and 62% of the cost in 2012 and approx. 76% of claims and 60% of the cost in 2013. Companies with between one and ten employees accounted for approx. 62% of claims and approx. 44% of costs in 2012 and approx. 63% of claims and approx. 37% of costs in 2013. In 2012, approx. 9% of claimant companies had between 21 and 110 employees accounting for approx. 20% of costs. In 2013 approx. 13% of claimants companies had between 21 and 110 employees accounting for approx. 30% of costs. It was somewhat surprising that there were companies with greater than 110 employees claiming the relief, however these accounted for just 1% of claims in 2012 and 2013. Further analysis of these companies is recommended.

Taxable income of companies availing of the relief[30]

The following table shows the taxable income and average corporation tax liability of companies using the relief:

Year	No. of claimants	Taxable Income (before relief is given) (€m)	Average taxable income per claimant company (€)	Average corporation tax liability (ignoring all reliefs) (€)
2010	872	38	43,578	5,447
2011	1,284	64	49,844	6,230
2012	1,270	61	48,031	6,004
2013	1,038	59	56,840	7,105

Impact of 2011 amendments

The purpose of the 2011 amendments was to focus the relief on employment generating companies by linking the quantum of relief to employer PRSI contributions. The number of claimants have reduced slightly since 2011. More significantly the costs of the relief have reduced from €6.8m in 2011 to €4.9m in 2013. This is in line with the consultation responses that the 2011 changes have impacted on the ability of companies to claim maximum relief due to insufficient number of employees (lack of PRSI). However, this link to PRSI contributions is important in creating an incentive for job creation.

[30] Source: Revenue Commissioners

Impact of 2013 amendments

It is not possible to determine the impact of the 2013 amendments, which allowed for carry forward of relief, at this stage. However, based on consultation responses, these amendments enhance the relief and are welcome.

d. Was it efficient?

As it is not possible to directly link the relief to the number of jobs created or increase in economic activity, the efficiency of this relief in comparison to other methods of supporting job-creation and economic activity cannot be accurately measured. However, we can estimate the cost of the relief per job supported.

Estimated average cost per job supported

Tax Year	Estimated Tax Cost (€m)	Number of Claims	Employee numbers	Estimated Average Cost per job supported (€)
2010	4.6	872	n/a	n/a
2011	6.8	1,284	n/a	n/a
2012	5.5	1,270	13,295	361**
2013	4.9*	1,038	11,750	381**

*provisional

** excludes costs associated with companies where employee numbers aren't available

In 2012, at a cost of €5.5m, the tax relief supported 1,270 companies that, between them, employ approx. 13,295 people. The average cost per job supported was €361. In 2013, at a cost of €4.9m the tax relief supported 1,038 companies that between them employ approx. 11,750 people. The average cost per job supported was €381. Many of these employees would themselves be paying income taxes, thereby reducing the net cost to the Exchequer.

5. Conclusion

- Three year start-up relief is beneficial to start-ups which are profit making in their early years.
- The changes introduced in 2013 allowing a carry-forward enhance the relief and are welcome.
- The relief is of limited immediate value to non-profit making start-ups in their early years.
- Limitations of the relief due to link with PRSI are acknowledged but it is important that tax reliefs are effectively targeted in limited fiscal space - in this instance the intended target is employment generating companies.

6. Recommendations

Following the review, the following are recommended:

- that the relief be extended for a further three years until 2018, at which time it should re-assessed,
- that the link to PRSI contributions remain to maintain an incentive for job-creation,
- that a refundable tax credit should not be introduced, and
- that the Revenue Commissioners carry out further analysis of claimant companies, in particular those with larger numbers of employees.

Review V: Knowledge Development Box

Contents

1. Introduction

In the *Road Map for Ireland's Tax Competitiveness*[31] from Budget 2015, the Minister for Finance announced that an income based tax regime for intellectual property would be introduced in Ireland and known as the Knowledge Development Box ('KDB').

This is a new tax expenditure that will provide a 6.25% rate of tax to income that arises to certain intangible assets that are the result of qualifying R&D activities in Ireland.

In 2013 the Government committed to carry out an ex ante evaluation of new tax expenditures[32]. Subsequently, guidelines were published by the Department of Finance in 2014[33] setting out the framework for such evaluations. The purpose of ex-ante evaluations (which are undertaken prior to the introduction of a new tax expenditure) is to ensure that the proposed tax expenditure addresses a clear market failure and that a tax expenditure represents the best approach to tackling the market failure in question. The evaluation should also assess the likely economic impact of the tax expenditure and its costs.

Given the estimated Exchequer cost of the KDB[34], the appropriate scope of the evaluation of the KDB is "Level 2". This requires an up-front economic assessment of the measure including a scenario based assessment of the range of net benefits and costs that might arise and a statement of the proposed methods and data requirements for a full ex-post cost-benefit analysis. Following these guidelines, the KDB contains a review clause to ensure that the ex post evaluation is carried out within the required time line.

The following document therefore contains the following:

- Ex Ante Evaluation;
- A scenario-based analysis of the range of benefits and costs that might arise; and
- Terms of reference for the future evaluation of the KDB.

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[31] http://budget.gov.ie/Budgets/2015/Documents/Competing_Changing_World_Tax_Road_Map_final.pdf

[32] A Strategy for Growth, Medium-Term Economic Strategy 2014-2020: http://mtes2020.finance.gov.ie/wp-content/uploads/2013/12/MTES.pdf

[33] Tax Expenditure Guidelines 2014: http://www.budget.gov.ie/Budgets/2015/Documents/Tax_Expenditures_Oct14.pdf

[34] €31m in 2016 and €50m in a full year (see more later in Section 3e)

2. Background to the Knowledge Development Box

The main purpose of the KDB is to encourage companies to develop certain types of intellectual property ('IP') in Ireland and thereby engage in substantive operations that have a high value add for the Irish economy.

This follows on from the research that was carried out by the Department of Finance in 2014[35] which supported the maintenance of a competitive corporation tax environment in Ireland. The KDB is one of a package of measures in the Budget 2015 *Road Map for Ireland's Tax Competitiveness*, which also included enhancements to the R&D tax credit and the tax regime for intangible assets.

The focus on intangible assets for tax purposes recognises that long-term growth in OECD economies is increasingly driven by investment in intangible assets, so putting in place an attractive IP tax offering is important for growth in the Irish economy.

The KDB will provide a rate of tax that is below the normal headline rate, in order to encourage companies to locate high-value jobs that are associated with the development of IP assets in Ireland, both in the FDI and indigenous sector.

International Context

While new to Ireland, "patent box" measures have existed for many years in other countries, but will be changing to take account of updated OECD tax rules that will determine what will be acceptable for the taxation of IP.

The OECD has now finalised these rules, which follow a principle that is commonly referred to as the 'modified nexus'.

These detailed rules have been published[36] and broadly have established that a tax regime for intellectual property is harmful unless:

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[35] http://www.budget.gov.ie/Budgets/2015/Documents/EIA_Summary_Conclusions.pdf

[36] OECD Base Erosion and Profit Shift Action 5 deals with countering harmful tax practices and contains the rules that relate to tax regimes for intangible assets. The full report is available at: http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/countering-harmful-tax-practices-more-effectively-taking-into-account-transparency-and-substance-action-5-2015-final-report_9789264241190-en#page1

- it is confined only to certain qualifying assets (broadly speaking patents and copyrighted software)
- it is granted only where the assets are the result of qualifying Research and Development ('R&D') activities that have been carried out by the entity claiming the tax benefit (with some allowance for outsourced and acquisition costs);
- the income which receives the benefit is directly related to the qualifying assets.

The Government has committed that the KDB will comply with these standards.

Consultation 2015 & Feedback Statement

In order to gather views on the design of the KDB from as broad a spectrum as possible, the Department of Finance launched a public consultation between January 2015 and April[37] 2015.

Alongside the Revenue Commissioners, this consultation involved active engagement with various interested parties:
- nearly 40 written submissions were received
- the Department met with nearly 100 companies
- other Government agencies and Departments were consulted including the Department of Jobs, Enterprise and Innovation and Enterprise Ireland.

Following the process, the Department published a Feedback Statement[38] in July 2015 to provide an update on the progress of the developing policy. The purpose of the feedback statement was also to get engagement on the technical elements of the KDB, and therefore it included a preliminary draft of how the implementing legislation could be framed in order to ensure the smooth introduction of the legislation, once the final policy is settled and agreed by the Government.

Key design elements of the KDB

The key features of the KDB are:

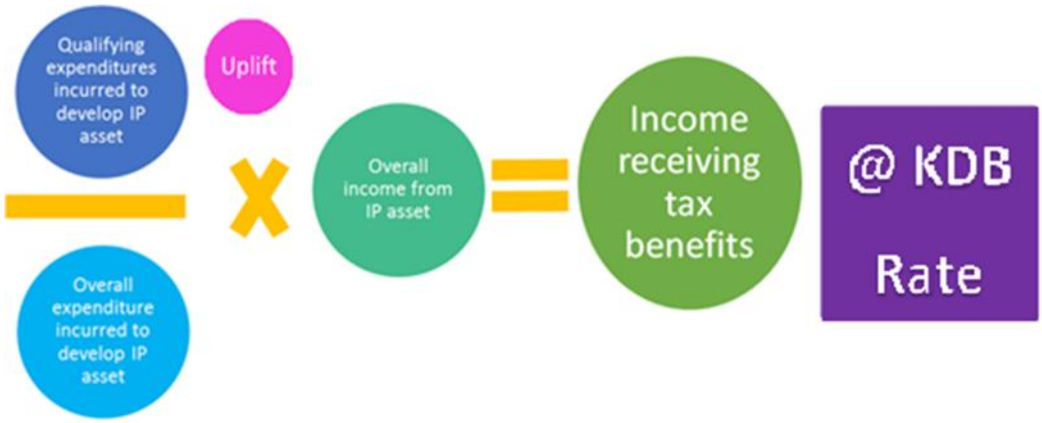
- the KDB will apply a **6.25%** rate to the qualifying income;
- the main qualifying assets are **patents** and **copyrighted software**; and

37 http://www.finance.gov.ie/sites/default/files/Knowledge_Development_Box_%20DFinance_consultation_final web%20cover.pdf

38 http://www.finance.gov.ie/sites/default/files/Knowledge%20Development%20Box%20%20Feedback%20Statement.pdf

- the definition of qualifying R&D expenditure is broadly the same as the definition used for the R&D tax credit, but:
    - excluding expenditure on R&D outsourced to related parties, the cost of acquired IP and expenditure on buildings and
    - including expenditure on R&D outsourced to unrelated parties. An additional 'uplift' provides that qualifying expenditure may be increased by up to a maximum of 30% to compensate for the exclusion of related-party outsourcing and acquisition costs.

- Qualifying income is determined as follows:



As set out earlier, the purpose of the nexus approach is to grant benefits only to income that arises from qualifying IP assets where the actual R&D activity was undertaken by thetax paying unit itself. This goal is achieved by defining "qualifying expenditures" in such a way that they effectively prevent mere capital contribution or expenditures for substantial R&D activity by parties other than the taxpayer from qualifying for the subsequent income for benefits under an IP regime.

As the above fraction shows, the higher the proportion of R&D (qualifying expenditure) that takes place in the Irish entity, the greater the proportion of income that may qualify for the KDB rate. This is the central purpose of the nexus approach, and is consistent with overall Irish Corporation Tax policy which is to encourage substantive activity in Ireland.

3. Ex Ante Evaluation

a. What objective does the tax expenditure aim to achieve?

It is widely recognised that long-term growth in mature economies that are close to the technology frontier is increasingly driven by investment in intangible or knowledge-based capital[39].

The main purpose of the KDB is to encourage companies to develop certain types of intellectual property in Ireland and thereby engage in high value, knowledge-based economic activity.

The KDB complements the other innovation tax incentives in Ireland, targeting different stages of a company's intellectual property development:

- the R&D tax credit is intended to support firms at the time they are undertaking the actual R&D and reduces the net costs of undertaking this activity;
- section 291A reduces the after tax cost to companies who are investing in and exploiting certain intangible assets and using them in respect of their Irish trade; and
- the KDB is aimed at the future income that is generated from the results of the R&D activity (namely the income arising from the intellectual property that is developed by the R&D).

b. What market failure is being addressed?

In 2015, research was carried out by the Department of Finance (see Appendix I) on the economic rationale behind interventions to support research and development. As this research highlights, it is accepted that technological progress or innovation and increases in human capital are key drivers of productivity improvements and in turn economic growth in the long run.

[39] http://www.oecd.org/sti/inno/newsourcesofgrowthknowledge-basedcapital.htm

Despite this, private investment in R&D is often less than what is considered to be a societal optimum due to the presence of a number of market failures. This provides a rationale for the State to remedy the market failure and directly intervene to encourage R&D[40].

There is some research that suggests that the economic justification for an income-based tax incentive for IP has not yet been fully established[41]. Some reports have questioned whether patent boxes are sufficiently targeted as the beneficial tax rate only assists the firm when income is earned which may not be for a long period of time after the project's inception; does not support research that is commercially unsuccessful; and that will provide the greatest benefit to more profitable innovations, which do not necessarily have the biggest spill-overs.

However, such concerns are based on existing patent box regimes which pre-date the new OECD 'modified-nexus' approach which requires a direct link between the IP income benefitting from the preferential rate and the R&D that gave rise to that IP income. As the KDB follows the modified-nexus approach and links the amount that a company can benefit from the lower rate of tax with the proportion of R&D activities that generated the asset, this should address many of these concerns.

In this way, it should encourage companies to carry out more R&D, as that will increase the amount of income that can qualify for the KDB rate.

c. Is a tax expenditure the best approach to address the market failure?

Tax incentives are a market-orientated means of delivering an increase in private R&D expenditure. The support offered by using the tax code should give the KDB flexibility to respond to market demand. The proposed KDB will complement the existing suite of tax and grant-based R&D supports.

Though the KDB is targeted at certain assets, it is not necessarily targeted at certain firms or taxpayers so giving the State support via the tax system should facilitate a greater range of taxpayer choice, while also keeping the cost of administering the relief at a minimum from a State perspective.

It should be noted that, in theory, using the tax system to subsidise activity does result in entirely demand-led schemes without the possibility of capping the total amount of relief,

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[40] See also:
http://budget.gov.ie/Budgets/2014/Documents/Department%20of%20Finance%20Review%20of%20R&D%20Tax%20Credit%202013.pdf

[41] For example see Griffith et al (2014) and Evers et al (2015)

which is not optimum from an Exchequer management perspective. This makes it difficult to accurately determine up-front how much tax will be foregone as a result of the KDB (see more below). Thus, the evaluation proposed at Section 4 below is extremely important and the uptake and use of the KDB should be monitored on a regular basis.

d. What economic impact is the tax expenditure likely to have?

As already discussed, the KDB is intended to incentivise more R&D being carried out in Ireland and result in additional knowledge-intensive, high-value economic activity here in terms of additional employment and investment. The 12.5% rate of corporation tax is a cornerstone of Ireland's corporation tax policy. In an era when many other jurisdictions are competing to attract high-value, mobile, IP-based industries, it is important that the Irish corporation tax regime remains competitive – hence the introduction of the KDB.

[It is unclear to what extent the KDB will result in additional corporation tax being paid in Ireland. There is some evidence regarding pre-modified nexus boxes that found that while a lower rate of tax on patent income may attract new patents, the additional direct tax that may arise to such patents profits is less than what is required to offset the lower tax rate in the first place. This analysis however, did not take account of the impact on employment, productivity or exporting activity of the firms, or the substance requirements of the new OECD modified nexus model. The KDB has been specifically designed to ensure that the tax benefits will only be available in respect of IP income that has been developed by the qualifying taxpayer and this design feature should improve the efficiency of the incentive.

e. How much is it expected to cost?

The annual costs of the KDB in terms of tax foregone from 2016 forward have been estimated. This focused on companies who, up until 2015, had corporate profits that were taxable in Ireland at the standard 12.5% corporation tax rate and who, from 2016, may have profits that are taxable at the KDB rate of 6.25%.

On the basis of the analysis carried out in the 2013 Review of the R&D Tax Credit, the majority of Irish firms who carry out R&D in Ireland are claiming the R&D tax credit so it is assumed that companies who would be able to qualify for the KDB rate are captured by this data (as reported to the Revenue Commissioners).

On the basis of the most recent data available, the Revenue Commissioners have advised that in 2013 the total CT liability of all such firms was €1.4bn. This is the outer limit of tax that could be reduced by the KDB rate.

In reality the number of companies who will be able to immediately avail of the KDB will be much lower as it is only the proportion of income that is attributable to qualifying assets (patents or copyrighted software) that can qualify. Unfortunately, there is no data currently

required to be reported to the Revenue Commissioners that could identify taxpayers with such assets.

The amount of income that could qualify for the KDB rate is the proportion of expenditure on qualifying R&D in Ireland over the total amount of worldwide R&D that was carried out to generate the IP assets. However, there is no data collected that could identify the amount of world-wide R&D that is carried out by such firms to be able to estimate the proportion of income that could qualify.

Instead, based on the analysis carried out in 2014 as part of the *Economic Impact Assessment of Ireland's Corporation Tax Policy*[42] we are aware that CT receipts are highly concentrated. The Revenue Commissioners have examined the top 20 CT payers who also claim the R&D tax credit, and have a confirmed that these taxpayers account for €1.2bn of the €1.4bn potential tax at stake. Having undertaken a manual examination of the files and tax paid by such companies, they have confirmed that none of their current CT profits will be able to avail of the KDB rate.

On the basis of the above, in terms of finding a "best estimate", the remaining €200m is the maximum amount of corporation tax that could be reduced by the KDB rate.

On a reasonable assumption of a 50% uptake, the estimation of the full cost of a KDB rate of 6.25% rate in terms of tax forgone is €50m.

As the legislation provides that the KDB will arise in respect of accounting periods commencing on or after 1 January 2016, the cost in 2016 can be further refined to €31m on the basis of the payment dates for preliminary tax which fall due in 2016.

42 http://budget.gov.ie/Budgets/2015/Documents/Corporation_Tax_Context_Concentration_Corporation_Tax_Payments_Revenue.pdf

4. Outline Terms of Reference for Ex Post Evaluation

The evaluation of the KDB would need to be carried out well in advance of Finance Bill 2020, as it is not intended that the KDB would expire before the review would be carried out. Based on the current budgetary cycle, it therefore would be expected that the evaluation should take place in Q1 and be completed by end of Q2 2020[43].

By that time the CT returns will have been filed by KDB claimants for the period 2016 to 2018, so it is proposed that the following data from said returns should be examined:

Tax Paid

The amount of taxes paid by companies who have claimed the KDB including:

- the amount of Corporation Tax paid by KDB claimants (depending on the uptake and numbers of companies); and
- the amount of other taxes paid by KDB claimants including payrolls taxes.

Composition of KDB Claimants

The breakdown/composition of KDB claimants over the time, including by sector, firm size, number of employees.

Interaction with other reliefs

Whether KDB claimants also claimed other reliefs, including the R&D tax credit and s.291A.

Increased amount of R&D

Whether or not the introduction of the KDB has led to an increased in the amount of R&D performed in the State including analysis of the profile of the CSO Business Expenditure on R&D data.

Other

Depending on the uptake, consideration should also be given to whether there would be merit in conducting a survey of firms who use or are interested in the KDB, or a case study analysis.

[43] It should be noted that the Tax Expenditure Guidelines also call for an interim review after 3 years in the event that the annual costs of a "Level 2" relief exceed €25m.

In the interest of carrying out a full Cost Benefit Analysis in 2020 further consideration should also be given to how to identify any additional benefits (e.g. positive spill-overs), costs (such as deadweight) and displacements.

Appendix I

Knowledge Development Box Literature Review

Scope

The purpose of this literature review is to discuss the economics underlying the knowledge development box and identify issues that need to be considered when designing a preferential tax rates regime for income from intellectual property.

Introduction

The use of the tax system as a policy tool to promote R&D and innovation has gained a more prominent role in many countries over the last two decades. For instance, a recent study of R&D tax incentives undertaken by CPB (2015) identified over 80 tax incentives in the 33 countries surveyed.

R&D tax credit schemes are one of the more prevalent R&D tax incentives used across advanced countries. However, a more recent development has been the emergence of tax policy supports that provide preferential tax rates to income from Intellectual Property (IP). Over the last ten years, the number of European countries with regimes of this nature has increased from 3 in 2005 to 12 in 2015.

In recent years, concerns have been raised regarding a number of these preferential tax rate schemes and their potential to facilitate "harmful" tax competition. In response, the OECD and the European Commission have recently proposed a "modified nexus" criteria which will seek to address the concerns in relation to tax competition by strengthening the link between preferential tax rates on IP and investment in real innovative activity.[44]

Ireland's tax system had previously provided a patent royalty exemption but this was abolished in Finance Act 2011 on foot of a recommendation from the 2009 Commission on Taxation.[45] Unlike the regimes that have been introduced internationally in recent years, the relief applied mostly to the income received by individual taxpayers as opposed to corporate income. The relief was primarily

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44 The final OECD agreement on the "modified nexus" from October 2015 is available at: http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/countering-harmful-tax-practices-more-effectively-taking-into-account-transparency-and-substance-action-5-2015-final-report_9789264241190-en#page28

45 The Commission on Taxation Report 2009 can be viewed here: http://researchrepository.ucd.ie/bitstream/handle/10197/1447/Commission_on_Taxation_Report_2009.pdf?sequence=1

aimed at Irish developed patents as opposed to multinational companies. However, a review of the exemption found it was ineffective and the scheme was discontinued.

In line with international developments to encourage and to stimulate inventive activity through the provision of preferential tax rates for IP, the Minister for Finance announced in Budget 2015 the Government's intention to introduce a Knowledge Development Box ('KDB'). This will provide for a preferential tax rate on the portion of income from patent and copyright software that is attributed to R&D carried out in this jurisdiction.

As part of the process in informing the design of the KDB, this section reviews the economics underlying the tax supports for intellectual property, primarily focusing on preferential taxes rates, with the purpose of identifying issues that need to be borne in mind when establishing the KDB.

1. Economic rationale behind tax policy interventions

There are a number of reasons why governments may introduce a preferential tax rates for income earned from intellectual property. First, such a tax incentive could be used to attract (or retain) internationally mobile investment in domestic innovative activities which in turn could also help support high-skilled jobs. Second, from a tax efficiency perspective, the application of varying tax rates based on the mobility (elasticity) of the underlying capital could facilitate the retention of and/or increase overall corporate tax revenue.[46]

Support for innovative investment

Economists accept that technological progress or innovation and increases in human capital are key drivers of productivity improvements and in turn economic growth in the long run. Moreover, recent evidence indicates that such innovation-led growth supported by investment in Knowledge Based Capital (KBC) is becoming an increasingly important driver of economic growth in advanced countries (including Ireland), OECD (2013).[47] A finding in the report, which is based on studies for the European Union and US, shows that investment in KBC by business has contributed between 20% to 34% of average labour productivity growth.

While innovation is an important contributor to economic growth, private investment in innovative activity is often less than what is considered to be the optimum from a societal perspective due to the presence of a number of market failures. It is these market failures that provide a rationale for Government to directly intervene to support innovative activity.

[46] For recent summary refer to Evers et al (2015).

[47] When people think of knowledge based capital they most likely consider R&D investment but in fact KBC is more broadly defined to include other human capital, databases, design, brands, patents and other types of intellectual property.

Market Failures

Firm innovation activity often produces positive externalities that benefit or spill-over to other agents which the firm itself cannot capture through higher profits. Innovative output is often characterised as being a partially non-excludable good. This means that when an idea or innovation is introduced to the market other firms have the potential to absorb the knowledge and innovate further without restriction by the original innovating firm. The original innovating firm's inability to capture these benefits means the private incentive for investment in innovation is less than what is socially optimal.

A second market failure relates to the underinvestment in innovation due to the presence of asymmetric information. Given the risky and intangible nature of innovation activity it can often be a challenge for firms to access finance. Investors need to determine the true value of a project before investing. However, such an assessment can often be difficult for reasons including the intangible nature of the project and the reluctance of firms to share information in order to protect the secrecy of their invention, Himmelberg and Petersen (1994). As a consequence, many projects fail to access funding and do not proceed as investors cannot establish the quality of the project, Hall (2002).

In the presence of such market failures, (which may justify government intervention if the return exceeds the cost of intervention), there are many mechanisms through which government policies attempt to better align private and social benefits from innovation such as, *inter alia,* regulation, patents, direct subsidies, and taxation.[48] This review primarily focuses on the role of tax policy to incentivise innovation.

Role of Preferential Tax Rate to address Market Failures

There are two main tax policies instruments utilised by governments in this regard: R&D tax credits and preferential tax on income. For our purposes, the focus is primarily directed towards a review of the literature on the efficacy of preferential tax rates. An extensive review of Irish R&D tax credits system was completed in 2013 which the interested reader can access on the Department's website.

The preferential tax has the effect of rate increasing after tax income arising from a research project. By constrast, the R&D credits/allowances enables firms to offset some of the R&D input costs. In principle, by reducing the cost of R&D or increasing the potential after tax income that the firm can receive, both incentives can increase the net present value of potential research projects.

However, there are a number of issues regarding how effective a preferential tax rate is likely to be compared with R&D tax credits in addressing the market failures outlined above and incentivising additional R&D investment. Unlike R&D tax credits which are front ended and provided when R&D costs have been incurred, a preferential tax rate regime only benefits the firm when income is earned which may not be for a long period of time after the projects inception. Although a lower tax rate improves the net rate of return on an investment, it does not directly target the asymmetric information difficulties firms' face in accessing the necessary start-up finance for risky and intangible innovation projects, Griffith at al (2010).

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[48] A full discussion of such polices is beyond the scope of this review.

A preferential tax rate can encourage the development of an innovation into a commercial product and in the process this can create new knowledge that generates external spillovers, OECD (2013). However, it is argued that such spillovers are generally not expected to be as large as those that emanate from the underlying research activity. A further important point to note is that a preferential tax rate on IP does not support research which is commercially unsuccessful but creates large spillovers, (Evers *et al* 2015, Griffith *et al* 2010).

In a similar vein, it is important to take into consideration that a preferential tax rate will benefit more profitable innovations. However, as discussed in Evers *et al* (2015), it is not apparent that the most profitable innovations create the greatest spillovers. As well as the quality of the innovation (i.e. innovation with high spillovers) its profitibilty also depends on the market power the firm can exert over the innovation. By their nature patents and copyright bestow a firm with significant control over its intellectual property, in turn increasing its potential to maximise profitability but also potentially constraining external spillovers. From the perspective of creating a more innovative economy, the cost of a preferential tax incentive for patented and copyrighted intellectual property may be weakly related to the size and scope of the spillovers from the associated research.

Another important issue is that some innovation projects would take place even in the absence of a preferential tax rate. It is important that potential deadweight losses are minimised. In this regard, it could be argued that large deadweight losses will arise if income from current patent and acquired intellectual property qualifies for inclusion under the scope of the preferential tax rate.

The introduction of preferential tax rate measure distorts the incentives to invest in one type of capital over another and reflects a departure from the theory in the optimal taxation literature that a tax should be neutral regarding an agent's investment decision. However, as outlined in the Mirrlees Review (2011), R&D tax incentives were identified as one area where such a departure is merited due to the presence of externalities associated with private sector investment in R&D. An important aspect of the "modified nexus" approach is the linking of the preferential tax rate to the underlying research. This should help improve the targeting of the preferential tax rate towards encouraging greater innovative activity.

At present, the preferential tax rate would apply to patents and copyright software. While this distorts investment away from other types of intellectual property, it is likely the potential patent and copyright software spillovers are greater than for other types of intellectual property such as marketing intellectual property, Evers *et al* (2015).

A separate argument has been made that patents and copyrights should provide a sufficient incentive to support investment in innovative activity as the monopoly rights given to the inventor should enable them to achieve the required rate of return on the invention.

Firm fragmentation and preferential tax rates

Increased international integration in recent decades attributable to the continued removal of trade and capital barriers, the fall in transport costs and better communication technology has supported significant improvements in capital and labour mobility.[49] These developments have contributed to

[49] D**avid and Sollie (2007)**

the capabilities of multinational firms to geographically fragment their production processes including the level of R&D activity they conduct abroad, OECD (2008). This has brought with it many positive opportunities for economies including greater access to knowledge based capital which is an increasingly important factor of production. But it also presents countries with significant challenges in the form of increased international competition in retaining and attracting such inputs for innovative activity.

As part of their approach to meet this challenge, it would appear countries have chosen to introduce a preferential tax regime in order to attract intellectual property (e.g. patents, software, and other intellectual property). Such interventions could also encourage the spatial concentration of innovative activities which is found to be important in increasing spillovers that emanate from sharing of tacit knowledge through closer interaction, Jaffe *et al* (1993).

However, as part of a firm's tax planning strategy to minimise total tax liabilities the location of ownership of the intellectual property can be separated from the location of the underlying innovative activity. (See Markusen (1995); Dischinger and Riedel (2011)). A consequence of this is that a preferential tax may attract the ownership of intellectual property to a country but not necessarily the underlying research activity. However, the "modified nexus" approach tackles this issue to some degree as it stipulates that qualifying income from patent and copyrighted software to which the preferential rate applies will be proportional to the level of research activity undertaken in the country. In this way, it can strengthen the link between preferential taxes rates on IP and investment in real innovative activity.

Tax competition

Another rationale identified in the literature for the application of a preferential tax rate on intellectual property is that it can improve the efficiency in the taxation of income from capital. In principle, the corporate tax rate can create distortions in the location and intensity of investment which likely to differ according how mobile the investment is. A country is faced with an optimisation problem when choosing its standard corporate tax rate. In selecting its corporate tax rate, a country faces the trade-off of maximising tax revenue from immobile activities on the one hand while attempting to retain and attract internationally mobile capital on the other. With continued international integration this balancing act has become more challenging over time and countries have been faced with increased pressure to lower their corporate tax rate to attract mobile capital. (Wilson 1999; Fuest *et al* 2005; Devereux *et al* 2008)

In principle, one way to overcome this challenge could be to introduce a separate preferential tax rate in favour of highly mobile activities. As noted in Mirrlees *et al* (2011) a lower rate on the economic profits of mobile activities would reduce firms' motivation to locate in another country while enabling a higher rate to be applied to income of less mobile activities. This could lead to an increase government revenue.

The theoretical literature has shown that various conditions need to be taken into account when determining the desirability of adopting a preferential corporate tax regimes relative to a non-preferential regime. Keen (2001) develops a model in which two identical regions compete over two tax bases which vary in their degree of mobility. The author shows that by isolating tax competition to the mobile tax base the use of a preferential tax can lead to an increase in revenue. However, Haupt and Peters (2005) extend this model and show that when a preference for investing in the home

country is accounted for, preferential tax regimes can lower tax revenue. Janeba and Peters (1999) in their model show that a preferential tax regime leads to a zero tax on mobile income and lower revenues for all governments. Findings such as this have raised concerns that R&D tax competition maybe a zero sum game.

Janeba and Smart (2003) analyse a more general model and examine the conditions under which regimes generate higher revenue. Their paper provides some interesting insight into the complexity of assessing the potential impact of changes to the corporate tax regime. The paper brings to the fore the importance of understanding the role of tax base elasticities, cross countries differences and how countries strategically compete.

2. Empirical Findings

Determinants of location of intellectual property ownership

To date there is very limited research on the economic impacts of preferential tax rates on intellectual property. This is largely due to the relatively short period for which they are been in operation and the limited data that is available. One of the areas which has received some attention is the effect of patent boxes (i.e. preferential tax rate on IP) on the location of IP ownership. One of the findings emerging from this literature is that the higher a country's corporate tax rate the lower the probablility that a firm locates their intangible assets and patents there. Dischinger and Riedal (2011) find that compared with the location of European firms tangible assets, their intangible assets are more likely to be located in subsidies in low tax jurisdictions. Karkinsky and Riedal (2012) find that an increase in the corporate tax rate by one percentage point reduces patent applications by approximately 3.5%.

Bohm *et al* (2015) find that firms located in countries with high patent income taxes are more likely to relocate ownership of patents to low tax jurisdictions and the relationship is stronger for patents with a higher earnings potential. Their analysis is based on corporate patent applications by European based inventors to European Patent Offices over the period 1990-2007. Interestingly, controlled foreign company laws are found to decrease the probability of the ownership of a patent being located in a tax haven country.

Ernst *et al* (2013) analyse the impact of R&D tax credits/allowance and corporate tax rates on patent quality. Using EPO patent data between 1995 and 2007 and focusing on the sample of firms where the invention and the patenting owner are located in the same countries, they find that a reduction in the corporate tax rate on patent income by 10 percentage points leads to a 1-5% rise in average patent quality. Interestingly, R&D tax credits/allowances are found to have a negative impact on patent quality.[50]

[50] The patent quality index used in the paper constructed using data on three patent characteristics; number of forward citations, family size and number of industry classes stated on the patent.

Griffith *et al* (2014) analyse the effect of preferential tax regimes on the location of patents and on government income. Using their firm level location choice model, they find that preferential tax on patent income is negatively related to patent ownership location probability. There is some evidence to indicate that the effects are likely to differ across sectors. They show that electrical and engineering industries are more sensitive to changes in corporate tax than the chemical industry. They also find that patent ownership is more likely to be located in the same location where the firm undertakes the associated research activity. However, they are unable to identify if this result is due to conditionality rules attached to the various preferential tax regimes or to potential externalities that arise from co-location. The authors also undertake an ex ante analysis of the introduction of preferential patent income tax in the Benelux countries and the UK and find it reduces the revenue raised by governments from patents. While a preferential tax rate on patent income is found to attract new patents, the additional revenue gained is less than what is required to offset the lower tax rate. It is important to note that the analysis undertaken was static in nature and did not account for possible related changes in, for example, employment, productivity, or exporting activity and the effects they would have on profitability and in turn corporate tax revenue.

Alstadsaeter *et al* (2015) provide important new insight into the effects of preferential tax regimes on the location of patents and local inventorship. Their analysis uses firm-level data of the global top 2,000 corporate R&D investors over the period 2000-2011. Improving upon the approach in Griffith *et al* (2014), the empirical analysis accounts for both the tax and non-tax features of the various preferential tax regimes. They find that countries with preferential tax rates are more likely to attract patents, with the relationship being relatively stronger for high-quality patents. The effect of preferential tax rate on patent location varies across the three industries analysed. Focusing on how patent boxes relate to real activity, their results indicate that the tax advantage of the patent box deters local inventorship. However, this negative relationship appears to be counteracted when conditionality clauses linking the tax incentives to underlying research activity are incorporated into a the preferential tax regime. In the context of strengthening the link between preferential tax rates on IP and investment in real innovative activity, this finding provides some preliminary support in favour of the “modified nexus” approach.

Interaction of preferential tax rate with other tax incentives

Evers *et al* (2015) make an important contribution to the discussion around the design of preferential tax rates. In their paper, they demonstrate the importance of taking into account how patent boxes interact with other tax policy measures targeted at supporting firm investment in R&D and innovation. More specifically, they examine the variation in IP Box regimes in Europe in 2014 and calculate the effective average tax burden on an investment in a self-developed patents. Their approach builds on the methodology of Devereux and Griffith (2003). They show that the IP Box tax rate, the treatment of related expenses and how the tax base is defined are key factors affecting the effective tax burden of patents investments. For instance, generous treatment of expenses may result in a negative effective average tax rate and thus provide a subsidy to unprofitable projects. Their findings emphasise the importance of a thorough analysis of the potential costs of IP Box.

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Review VI: Marine Tax Review (Summary)

In Budget 2014 the Minister for Finance announced that in conjunction with the Marine Co-ordination Group, a review of the financial and taxation supports available to the Marine Sector would be carried out to examine strategic measures that could be introduced to help Ireland as an island nation to fulfil its potential in the marine area. The Government has prioritised the marine sector as an area with potential for further growth under the Harnessing Our Ocean Wealth Strategy, with a target of doubling the value of Ireland's blue economy by 2030.

Phase 1 of this review involved an examination of the taxation supports available for certain sub sectors of marine, namely fishing, ports and shipping. The overall objective of this review is to ensure that there is a supportive financial environment underpinning the marine sector. Following a tender process, Indecon International Economic Consultants were engaged to carry out the review under the aegis of a steering group comprising of representatives from the Department of Agriculture, Food and the Marine, the Department of Tourism, Transport and Sport, the Department of Jobs, Enterprise and Innovation and the Department of Finance.

The scope of the review included:

- A consultation process with the Marine Co-ordination Group and with key stakeholders;
- A review of the tax supports available to the marine sector in Ireland, in order to structure the tax system in a way that supports the development of the sector;
- A review of maritime tax-related policy measures in a number of other countries;
- An analysis of the benefits available to the sector and the wider economy versus the Exchequer costs of existing measures;
- The development of suggestions for any improvements that can be made to better achieve existing stated Government policy goals; and
- The formulation of recommendations, if appropriate, for changes that could be made to enhance or maximise the value for money to the taxpayer, taking EU state aid considerations into account.

It is important to note that extensive government supports are already provided for the marine sector, particularly for the fishing and seafood processing are via expenditure measures which are outside the scope of this review. The Marine Taxation Review is part of a wider suite of initiatives and research which is being undertaken to develop the sector.

It should be borne in mind that the European Commission have many restrictions in place in the shipping and fishing sector and any measures that might be considered would have to be evaluated to ensure they would comply with State Aid rules. While State Aid rules provide a constraint on new incentives for all sectors, these are particularly noteworthy in the marine sector as more restrictive State Aid provisions apply. Similar to the

agriculture sector, separate State Aid guidelines are applicable for the marine sector including 'Guidelines for the examination of State Aid to the Fishery and Aquaculture Sector' and the '2011 Framework on State Aid to Shipbuilding.'

Indecon have found that while the wider marine sector provided employment of 18,480 full time equivalents and a gross value added of approx. €1.4 billion in 2014, the number of tax reliefs aimed specifically at this area are few and the annual tax revenue is less than €50m (this excludes taxation from marine tourism).

A summary of Indecon's recommendations for taxation in the marine sector are set out in the table below. The recommendations are not presented in any order of priority but are grouped by the main sectors covered.

Ports

1. Extension of dock undertaking capital allowance for ports to cover wider range of activities
2. Widening of definition of port related plant and machinery operations eligible for tax allowances

Shipping

3. Introduction of enhanced trust certificates to promote Ireland as an international ship leasing centre
4. Consideration to some amendments to the tonnage tax regime including the widening the definition of shipping income subject to EU State Aids approval
5. Consideration of the extension of VAT rebate scheme to commercial ships registered in EU

Fishing, Aquaculture, Sea Food Processing

6. Application and promotion of EII and SURE Scheme to aquaculture, seafood processing and sea fishing enterprises sectors
7. Introduction of seafarers' tax allowances to sea fisheries
8. Extension to fishing sector of Agricultural Relief from CAT
9. Exemption of certain income from leasing of privately owned fisheries and related land for use by commercial fisheries or seafood sector
10. Appropriate tax treatment to support proposed decommissioning scheme

All Marine Sectors

11. Enhanced marine tax measures for capital investment in marine energy efficiency equipment
12. Consideration of expanded measures to assist marine sector including pilot initiatives to support marine tourism

Other

13. On-going monitoring of costs and benefits

Any recommendations made will be considered for Budget 2016 and subsequent Budgets.

Review VII: ESRI Report: Tax Breaks and the Residential Property Market (Summary)

The ESRI report provides a brief review of previous studies on property related tax incentives and the rationale for their introduction before considering the current situation and what the impact might be of introducing tax incentives to encourage developers to build more housing units. Demand-side interventions are also considered.

The study highlights a number of broad themes in relation to the findings of previous studies of property related tax incentives. In particular, previous schemes were found to be successful in encouraging economic regeneration and employment. However the schemes were often extended beyond their optimum duration resulting in oversupply and contributing to significant deadweight losses.

In relation to the current situation, the paper develops a simple model of the Irish housing market and demonstrates that, in contrast to previous interventions, any tax incentives aimed at developers are likely to have little effect on supply due to a number of existing factors which appear to be inhibiting the operation of the market.

The study identifies access to finance, stringent planning regulations, infrastructural constraints, and building costs as possible factors which may be affecting house and apartment building. In the presence of such constraints, the introduction of any tax incentive would simply lead to a transfer of tax revenue from the state to developers without any significant effect on supply. The study does note that if building costs are the main reason for the slow pace of new property construction then a tax incentive could have an effect on output. However, to the extent that building costs are due to stringent regulations any such tax incentive would implicitly amount to one arm of the State covering the cost of strict regulations introduced by another.

The report concludes that “tax incentives aimed at stimulating house and apartment building should be avoided until (a) it can be conclusively shown that the “market failure” to be corrected will yield positive results without excessive unintended transfers to developers and (b) the impacts of regulations are properly understood in addition to the effects of any tax breaks in the context of costly regulations”.

Review VIII: Tax and Entrepreneurship Review (Summary)

The Minister for Finance launched a public consultation, which ran between 2 June and 14 July 2015 on the role that the tax system can play in encouraging entrepreneurship. The public consultation asked four general questions regarding the role the tax system should play in encouraging entrepreneurship, what barriers currently exist in the tax system to establishing enterprises, and what existing tax expenditures were effective and ineffective.

The public consultation also asked specific questions regarding (i) the scope for further alignment between self-assessed and PAYE taxpayers, (ii) the Capital Gains Tax entrepreneur relief introduced in Budget 2014, and (iii) the 3 year corporation tax exemption for start-up companies.

On foot of the public consultation and in the context of the constrained fiscal space, a number of measures were identified as appropriate to implement in the context of Budget 2016. A Tax and Entrepreneurship Review has been published as part of the Budget 2016 documentation. The submissions received as part of the public consultation also contributed to the evaluation of the 3 year corporation tax exemption set out in Review IV of this Report.'

4. Tables of Tax Expenditures having effect between October 2014 and September 2015[51]

Table 1: Capital Gains Tax (CGT)/Capital Acquisitions Tax (CAT)/Pensions*

Type	Description	Further Information	No. Utilising/No. of Claims	Revenue Foregone in most recent year for which information is available (€ millions)
CGT	CGT Retirement Relief	Provides relief for disposals of business and farming assets.	1,064 (in 2013)	Tax cost is not available as the only information in respect of this relief is the disposal consideration rather than the actual taxable gain foregone.
	CGT entrepreneur relief	Provides relief for disposals of business assets.	This is a new relief (2014) and data will not be available for a few years.	N/A
	CGT principal private residence relief	Provides relief for disposal of main residence.	N/A	N/A
	CGT Farm consolidation relief	Provides relief for disposals of land in order to consolidate farm holdings.	Not separately identified on tax return	Not separately identified on tax return
	CGT relief for venture fund managers	Provides relief in respect of carried interest earned by venture fund managers.	Not separately identified on tax return	Not separately identified on tax return
	CGT exemption on disposal of site to a child	Provides relief for parents transferring a site to their children. in order to build a house.	36 (in 2013)	Tax cost is not available as the only information in respect of this relief is the disposal consideration rather than the actual taxable gain foregone.

[51] All references to N/A in these 7 tables means "Not Available"

	CGT relief on works of art loaned for public display	Provides relief for disposals of works of art loaned for public display.	Not separately identified on tax return	Not separately identified on tax return
CAT	CAT business relief	Relief for transfers of businesses (90% reduction in market value for tax purposes)	495	139.7
	CAT agricultural relief	Relief for transfer of farms (90% reduction in market value for tax purposes)	1,581	164.4
	CAT exemption of heritage property	Exemption from tax for transfers of heritage houses and objects	Indicative information suggests the numbers using is negligible	Exact figures are not available, but thought to not be significant
Pensions	Employees' contribution to approved superannuation schemes	Contributions are allowable as an expense in computing Schedule E income (Sections 774 & 776)	592,700	551.9 (in 2013)
	Employers' contributions to approved superannuation schemes	Contributions are allowable as an expense in computing Schedule D Case I or Case II income (Section 774)	311,600	132 (in 2013)
	Exemption of investment income and gains of approved superannuation funds	Exempts the investment income of a fund held/maintained for the purpose of a scheme (Section 774 – Approved Fund, Section 785 – RSA, Section 787I – PRSA)	N/A	865 (in 2013)

	Tax Relief on "tax free" lump sums	From 1 January 2011, the lifetime tax-free limit on the aggregate of all retirement lump sums paid to an individual on or after 7 December 2005 is €200,000 (Section 790AA)	N/A	134 (in 2013)
	Retirement annuity premium	Combined with PRSA with effect from 2013 – see Personal Pensions Contribution entry following (Section 787)	N/A	N/A
	Personal retirement savings accounts	Combined with RAC with effect from 2013 - see Personal Pensions Contribution entry following (Section 787C/E)	N/A	N/A
	Pension Contribution	Figures in this field are a total for RAC's and PRSA's which are not available individually	99,800	211 (in 2013)
	Exemption of employers' contributions from employee BIK	Sums paid by an employer into an approved, statutory or foreign government employee retirement scheme are not chargeable to tax in the hands of the employee (Section 778)	311,600	497 (in 2013)

* All figures for 2014 unless stated otherwise

Table 2: Stamp Duty/Deposit interest Retention Tax (DIRT)/Local Property Tax (LPT)*

Type	Description	Further Information	No. Utilising/No. of Claims	Revenue Foregone in most recent year for which information is available (€ millions)
Stamp Duty	Consanguinity relief		3,973	6.9
	Young Trained Farmer Relief	Section 81AA	722	4.7
	Certain company reconstructions and amalgamations	Section 80	993	88.8
	Charities – conveyance/transfer/lease of land	Section 82	589	3.5
	Donations to approved bodies	Section 82A	<10	N/A
	Approved Sports Bodies - conveyance/transfer/lease of land	Section 82B	65	0.2
	Pension schemes and charities	Section 82C	13	1.3
	Certain family farm transfers	Section 83B	25	0.15
	Certain loan capital and securities	Section 85	<10	N/A
	Stock borrowing	Section 87	N/A	N/A
	Stock repo	Section 87A	N/A	N/A
	Merger of companies	Section 87B	<10	N/A
	Certain stocks and marketable securities	Section 88	<10	N/A
	Reorganisation of undertakings for collective investment	Section 88A	N/A	N/A
	Funds: reorganisation	Section 88B	N/A	N/A
	Reconstructions or amalgamations of certain common contractual funds	Section 88C	N/A	N/A
	Reconstructions or amalgamations of certain investment undertakings	Section 88D	<10	N/A
	Transfer of assets within unit trusts	Section 88E	<10	N/A

	Reconstruction or amalgamation of offshore funds	Section 88F	N/A	N/A
	Amalgamation of unit trusts	Section 88G	N/A	N/A
	Foreign Government Securities	Section 89	N/A	N/A
	Certain financial services instruments	Section 90	N/A	N/A
	Greenhouse gas emissions allowance	Section 90A	N/A	N/A
	Houses acquired from industrial and provident societies	Section 93	N/A	N/A
	Approved voluntary body	Section 93A	45	0.08
	Purchased of land from Land Commission	Section 94	N/A	N/A
	Commercial woodland – duty not chargeable on the value of the trees growing on the land	Section 95	108	12
	Transfers between spouses/civil partners	Section 96	3,579	9.1
	Foreign immovable property	Section 98	N/A	N/A
	Dublin Docklands Development Authority	Section 99	<10	N/A
	Courts Service	Section 99A	<10	N/A
	Sport Ireland. This exemption was provided for in the Sport Ireland Act 2015. Sport Ireland has yet to be established.	Section 99B	N/A	N/A
	Temple Bar Properties Limited	Section 100	N/A	N/A
	Intellectual Property	Section 101	<10	N/A
	Single Farm Payment entitlement	Section 101A	<10	N/A
	The Alfred Beit Foundation	Section 102	<10	N/A
	Shared ownership leases	Section 103	<10	N/A
	Licences and leases granted under Petroleum and Other Mineral Development Act, 1960, etc.	Section 104	11	0.01

	Securitisation agreements	Section 105	N/A	N/A
	Housing Finance Agency	Section 106	N/A	N/A
	Housing Finance Agency Limited	Section 106A	N/A	N/A
	Housing Authorities and Affordable Homes Partnership	Section 106B	599	0.7
	Grangegorman Development Agency	Section 106C	N/A	N/A
	National Development Finance Agency, etc. (expired 27.01.15)	Section 108A	<10	N/A
	Strategic Banking Corporation of Ireland	Section 108AA	N/A	N/A
	National Asset Management Agency (NAMA)	Section 108B	N/A	N/A
	Ireland Strategic Investment Fund	Section 108C	N/A	N/A
	Certain instruments made in anticipation of an informal insurance policy	Section 109	N/A	N/A
	Certain Health Insurance Contracts	Section 110	N/A	N/A
	Certain policies of insurance	Section 110A	N/A	N/A
	Oireachtas Funds	Section 111	758	3.2
	Certificates of indebtedness, etc.	Section 112	N/A	N/A
	Miscellaneous instruments	Section 113	38	1.3
DIRT	Deposit Interest Retention Tax Reliefs	Age 65 or over/total income under €18,000 (single)/€36,000 (couple)	N/A	N/A
	Deposit Interest Retention Tax Reliefs	Permanently incapacitated/total income under €18,000 (single)/€36,000 (couple)	N/A	N/A
LPT	Exemptions		41,789	12
	Deferrals	LPT Deferrals, although foregone in a particular year, are still owed to the Exchequer at a later date	27,400	8

* All figures for 2014 unless stated otherwise

Table 3: Benefit-in-Kind*

Type	Description	Further Information	No. Utilising/No. of Claims	Revenue Foregone in most recent year for which information is available (€ millions)
Benefit-in-Kind	Cycle to Work Scheme	Tax relief on the purchase of a bicycle for commuting purposes	20,000**	4.0**
	TaxSaver Travel Scheme	Tax relief on commuter tickets	35,000**	3.5**
	Professional subscriptions relief	Tax relief on the payment of certain professional subscriptions.	150,000**	3.75**

* All figures for 2014 unless stated otherwise

** Estimates

Table 4: Corporation Tax*

Type	Description	Further Information	No. Utilising/No. of Claims	Revenue Foregone in most recent year for which information is available (€ millions)
Corporation Tax	Research & Development Tax Credit		1,576	421.4
	Corporation Tax Relief for start-up Relief companies		1,038	4.9

* All figures for 2013 unless stated otherwise

Table 5: Excise Duty*

Type	Description	Further Information	No. Utilising/No. of Claims	Revenue Foregone in most recent year for which information is available (€ millions)
Alcohol Product Tax (APT)	Repayment of excise duty	Section 78A of the Finance Act 2003	52	2.3
Vehicle Registration Tax (VRT)	Relief of VRT for leased cars	Section 134(7) of the Finance Act 1992	N/A	14.7
	Remissions/repayments of VRT	Disabled Drivers and Disabled Passengers Scheme	4,936	23.6
	Exemptions from VRT	Section 134 of the Finance Act 1992	2,669	7.6
	VRT Export Repayment Scheme	Section 135D of the Finance Act 1992	1,456	9.1
	Relief from VRT	VRT relief for hybrid, plug-in hybrid, and electric cars (extended in Budget 2014)	1,660	3.2
Mineral Oil Tax (MOT)	Repayment of excise duty	Disabled Drivers and Disabled Passengers Scheme (Abolished as of 31/12/14; replaced with fuel grant from 1/1/15)	12,338	7.6
	Diesel Rebate Scheme	Partial repayment of excise duty to qualifying road transport operators (Section 51 of the Finance Act 2013)	2,139	21.1

* All figures for 2014 unless stated otherwise

Table 6: Value Added Tax (VAT)*

Type	Description	Further Information	No. Utilising/No. of Claims	Revenue Foregone in most recent year for which information is available (€ millions)
VAT Concession	Repayment of VAT	Disabled Drivers and Disabled Passengers Scheme (Contained in S.I. 353 of 1994, will be expanded in 2015 and placed on new footing)	4,936	18.4
VAT Refund Orders	Disabled Equipment	A refund is allowed on certain aids and appliances purchased by disabled persons (S.I. 428 of 1981)	4,322	3
	Touring Coaches	VAT repayment may be claimed by persons engaged in the carriage for tourists of reward by road, on the purchase, lease/hire of touring coaches (S.I. 266 of 2012)	118	5.5
Unreg VAT Repayments	Farmers	Value Added Tax (Refund of Tax) (No. 24) Order, 1993 (SI No. 266 of 1993)	21,014	50.4

* All figures for 2014 unless stated otherwise

Table 7: Personal Tax Credits*

Type	Description	Further Information	No. Utilising/No. of Claims	Revenue Foregone in most recent year for which information is available (€ millions)
Personal Tax Credits	Age Tax Credit		149,600	55.3
	Blind Person's Tax Credit	General & Guide Dog Allowance	1,540	2.2
	Dependent Relative Tax Credit		18,000	1.8
	Home Carer's Tax Credit		82,500	61.9
	Incapacitated Child Tax Credit		17,700	51
	Single Person Child Carer Credit	New, in effect from 1 January 2014	N/A	N/A
	One Parent Family Tax Credit	Ceased end 2013	104,100	141.6
	Approved Profit Sharing Schemes	2011 figures – latest year for which full data available	34,500 (in 2011)	25.1 (in 2011)
	Approved Training Courses/Third Level Fees		23,600	12.5
	Employment and Investment Scheme		1,028	12.7
	Donation of Heritage Items		1	0.3
	Donation of Heritage Property to Irish Heritage Trust/OPW	2008 figures – last year in which expenditure recorded	4 (in 2008)	3.8 (in 2008)
	Donations to Approved Bodies		135,200	45
	Donations to Approved Sporting Bodies		2,430	0.5
	Employee Share Ownership Trusts		25,200	1
	Employing a Carer		1,900	7.4

	Exempt Income – Child-minding Exemption		590	1
	Exempt Income – Rent-a-Room		4,370	5.9
	Exempt Income- Artist's Exemption		2,580	5.3
	Exempt Income – Foster-Care Payments		4,325	32.4
	Film Relief	Note- this has been amended to a Corporation Tax relief	4,217	73.1
	Home Renovation Incentive	Introduced 2013, first cost incurred in 2015	N/A	N/A
	Health Expenses	General & Nursing Home	399,400	151.1
	Medical Insurance Relief		1,118,400	575.8
	Special Assignee Relief Programme (SARP)	2012 figures – latest year for which full data available	12 (in 2012)	0.1 (in 2012)
	Save as You Earn Scheme (savings related share options)		1,920	3.5
	Seafarer's Allowance		190	0.4
	Start-Up Refunds for Entrepreneurs	New	N/A	N/A
	Significant Buildings and Gardens Relief		120	2.1
	Sportsperson's Relief		46	0.3
	Start Your Own Business	From 2014	N/A	N/A
	Woodlands Profits & Distributions		N/A	N/A
	Exemption of Income of Charities, Colleges, Hospitals, Schools Friendly Societies etc.	2012 figures – last year for which full data available	N/A	29.7

	Exemption for Veterans of the War of Independence, their Widows or Dependents	2005 figures – last year for which full data available	900	0.1
	Investment Seed Capital		60	1.3
	General Stock Relief (Section 666)		8,950	5.2
	Stock Relief for Young Trained Farmer (Section 667B)		310	1.1
	Stock Relief for Registered Farm Partnerships (Section 667C)		30	0.1
	Living City Initiative	Commenced in 2015	N/A	N/A
	Deduction for Maintenance Payments	Dispositions including maintenance payments to separated spouses	6,780	17.5
	Flat Rate Expenses		571,000	70.9
	Foreign Earnings Deduction	From 2012	119	0.9
	Gifts to the Minister		N/A	N/A
	Rental Deductions – leasing of farm land		4,370	7.3
Ceased/Phasing Out Items	Urban Renewal		2,618	115
	Town Renewal		739	26.2
	Seaside Resorts		272	5.1
	Rural Renewal		2,098	43.8
	Multi-storey Car Parks		57	7.5
	Living Over The Shop		43	1.3
	Enterprise Areas		104	4.7
	Park & Ride		19	1.7
	Holiday Cottages		572	27.1
	Hotels		1,015	92.7

	Nursing Homes		411	28.7
	Housing for the Elderly/Infirm		98	3.5
	Hostels		5	0.5
	Guest Houses		6	0.2
	Convalescent Homes		12	1.3
	Qualifying Private Hospitals		357	22.4
	Qualifying Sports Injury Clinics		81	3.4
	Woodlands		6,647	75.2
	Buildings Used for Certain Childcare Purposes		296	10.4
	Qualifying Hospitals		0	0
	Qualifying Mental Health Centres		1	0.1
	Student Accommodation		522	30.3
	Caravan Camps		3	0.2
	Mid-Shannon Corridor Tourism Infrastructure		4	0.5
	Top slicing Relief		4,260	48
	SARP Predecessor	Ended 2011 with 5yr Grandfathering	N/A	N/A
	Revenue Job Assist		2,030	1.5
	Rent Relief		153,100	37.9
	"Other" Relief on Interest on Loans	Acquisition of interest in a company or partnership	2,900	15.2
	Mortgage Interest Relief		498,000	353
	Employee Share Purchase Scheme		N/A	N/A

* All figures for 2013 unless stated otherwise

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