TAX AND ENTREPRENEURSHIP REVIEW

OCTOBER 2015

An Roinn Airgeadais
Department of Finance

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1. Introduction

International and Irish research has indicated that younger firms, rather than smaller firms, account for a greater share of new job creation. Accordingly, there has been an increasing focus on the role of entrepreneurship and the establishment of new enterprises in creating employment and expanding output. The publication of the National Policy Statement on Entrepreneurship established a high-level policy objective of increasing the number of new firms, increasing the survival rate of new firms, and improving the growth rate of new firms.

The National Policy Statement identified the business environment, including the tax system, as one of the six key components of a successful ecosystem for entrepreneurship in Ireland. One of the strategic objectives of the National Policy Statement is to create a business environment – including the tax environment – in Ireland where it is easy to start up and grow a business.

There are a range of tax expenditures provided to entrepreneurs and small and medium-sized enterprises through the tax system. Some of these supports are listed in the appendix of this document.

In light of the broader policy focus on entrepreneurship, the Department of Finance conducted a review to examine the effectiveness of the tax system in encouraging entrepreneurship in Ireland, and consequently whether there was scope for changes to the existing tax system and extant tax expenditures, or for the introduction of new tax expenditures.

As part of this review a public consultation, which sought the views of the public and interested parties on a number of general and specific questions, was held between 2 June 2015 and 14 July 2015. Forty-two submissions were received from organisations and individuals. The tax policy issues identified were considered in the context of Budget 2016.

In light of the constrained fiscal space a number of specific measures have been identified and have been introduced in Budget 2016 by the Minister for Finance.

2. Defining and Measuring Entrepreneurship

i) Introduction

The terms 'entrepreneur' and 'entrepreneurship' are widely used in policy discussions. However, those terms are sufficiently nebulous to encompass a wide array of activities and individuals. In terms of tax policy-making, it is important to define, identify, and measure entrepreneurship and entrepreneur to ensure that policy measures are targeted effectively.

Conventionally, an entrepreneur has been defined as an individual or organisation that organises land, labour and capital to produce or supply goods and services. As such, an individual, group of individuals or the State can play this role as owner or owners of a firm. The economist William Baumol has described the entrepreneur as an individual who organises, operates and assumes the risk of creating a new businesses.[1] This definition emphasises the role of the entrepreneur in taking on risk. In turn, entrepreneurs are defined as:

a) 'replicating entrepreneurs', who establish and organise a business firm to mimic the function and processes of firms already in existence, or as

b) 'innovating entrepreneurs', who introduce a change or innovation, whether through the invention of a new good or service, introduction of a new method of production, creation of a new market, discovery of a new source of supply, or re-organization of an industry in such a manner as to improve efficiency.

Different metrics for entrepreneurship follow from these definitions. The definition of the entrepreneur as an individual establishing a new firm or enterprise captures the role of the entrepreneur in establishing a new business. The Global Entrepreneurship Monitor (GEM) collects cross-country data on individuals establishing new ventures. The OECD-Eurostat Entrepreneurship Indicators Programme collects data on new firm creation, and attempts to capture the quantity of enterprises created and destroyed over time. The Central Statistics Office (CSO), as part of their Structural Business Statistics, collects data on the legal form of new enterprises, which determines whether a new enterprise is liable for income tax (as an individual proprietor) or to corporation tax (as an incorporated firm).

Self-employment is often used as a proxy for entrepreneurship, and has the merit of inclusivity and capturing the risk-taking element of entrepreneurship.[2] It is also measurable through

[1] William Baumol (2010), *The Microtheory of Innovative Entrepreneurship,* Princeton University Press: Princeton.
[2] Parker, Simon C. (2009), *The Economics of Entrepreneurship*, Cambridge University Press: Cambridge.

surveys such as the Quarterly National Household Survey (QNHS) carried out by the CSO. In addition, income from self-employment is often subject to different deductions for tax purposes and provision is available for capital allowances in recognition that income from self-employment derives from a trade or profession, while social insurance systems treat self-employed persons differently in terms of contributions and benefits.

Finally, the quantity of SMEs is often associated with the level of entrepreneurship in an economy. While the number of SMEs and proportion of SMEs as a subset of all firms is easily measureable, firm size can be a relatively arbitrary proxy for entrepreneurship, given distribution of SMEs within a particular sector or industry can be specific to the broader structural features of that sector.

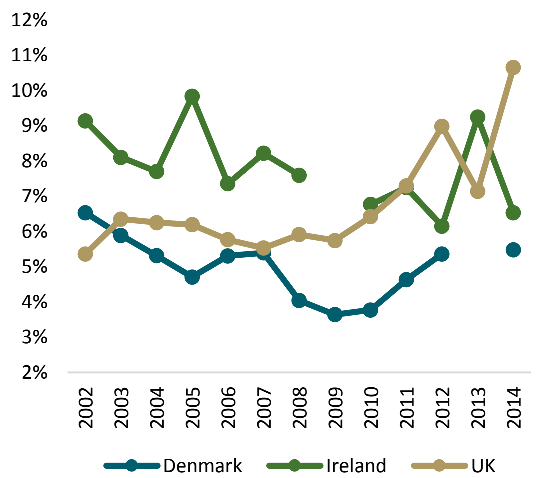
This section elaborates on some of the definitions and metrics above, and provides information on their relevance to the Irish economy.

i) Entrepreneurship as establishing a new enterprise

The National Policy Statement on Entrepreneurship identified entrepreneurship with establishing a new firm or venture. The Global Entrepreneurship Monitor (GEM) provides an empirical measure of this kind of activity through the total early-stage entrepreneurial activity (TEA) metric, which measures the number of individuals aged 18-64 in the process of starting a business and those running a new business less than three and half years old.

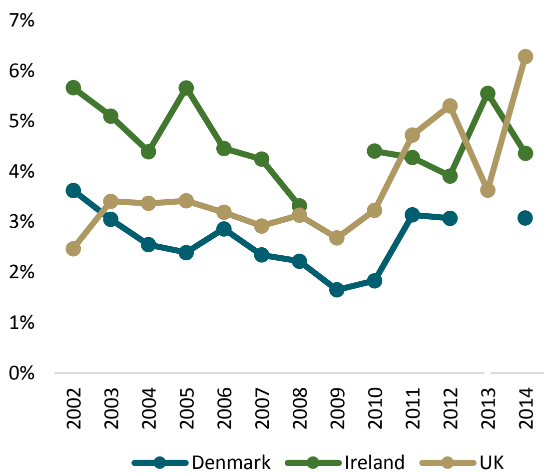
As Graph 1 indicates, TEA, fell in Ireland from 2007 to 2012 before rising sharply in 2013 and subsiding again in 2014. This metric does not distinguish between innovative and replicative entrepreneurs, does not net out the effect of business exits, and the exclusion of firms older than 42 months and therefore leads to significant year-on-year volatility. For purposes of comparison both our nearest neighbour, the United Kingdom, and a Member State of similar size with high productivity and a high employment rate, Denmark, are displayed. The gaps indicate years for which no information is available.

Graph 1. Percentage of adult population in process of starting a business or running a new business less than 3 and ½ years old, 2012 - 2014



Source: GEM (2014)

Graph 2. Nascent Entrepreneurs as a percentage of adult population in selected countries, 2002-2014



Source: GEM (2014)

An alternative metric measures nascent entrepreneurs (NE), who are defined as persons who are trying to start up a business, who expect to be the owner or part owner of the new firm, who have been active in trying to start the new firm in the past 12 months and whose start-up has not yet had a positive monthly cash flow that covers expenses and the owner-manager salaries for more than three months. Graph 2 indicates the number of NEs has remained broadly stable between 4% and 6% from 2002 to 2014.

Another associated measure is the number of new enterprise births and the length of enterprise survival associated with each new enterprise. The CSO has been compiling this information since 2006 as part of their Structural Business Statistics. Tables 1 and 2 below indicate the number of enterprise survivals and number of persons engaged in the business economy (NACE sectors B to N) between 2007 and 2012. The tables indicate that, while initially the vast majority of firms only have one person, usually the founder, engaged in the year of enterprise birth, the number of persons engaged rises over time. They also indicate that of the 13,461 new enterprises created in 2007, nearly 86% survived one year in business; 75.7% survived two years in business; 63.4% survived three years in business; 52.9% survived four years in business while 48.4% survived at least five years in business.

Table 1. Number of enterprise survivals, 2007-2012

Year of birth		1 year	2 years	3 years	4 years	5 years
2007	13,461	11,579	10,186	8,529	7,214	6,513
2008	11,954	10,252	9,133	7,295	6,578	
2009	13,810	11,336	9,799	8,651		
2010	11,237	9,387	8,100			
2011	11,847	9,930				
2012	12,551					

Source: CSO (2014)

Table 2. Number of associated persons engaged[3], 2007- 2012

Year of birth		1 year	2 years	3 years	4 years	5 years
2007	14,922	22,321	19,456	17,617	18,060	18,165
2008	13,594	19,133	18,378	20,668	21,899	
2009	12,397	20,295	21,217	23,514		
2010	10,475	22,153	26,132			
2011	10,700	23,267				
2012	11,207					

Source: CSO (2014)

As Table 3 indicates, the number of enterprise births has fallen since 2006, reflecting broader economic conditions such as the fall in domestic demand over those years. Table 3 also indicates the legal form of new firms. It is of note that since 2007 the number of start-ups opting for incorporation has been higher than the number opting for individual proprietorship. From a tax perspective, an individual proprietor is subject to income tax on income arising

[3] Including the proprietor-manager.

from their trade, while an incorporated business is liable to corporation tax and distributes income to its owners in the form of income (where a proprietor is employed by their company) or in the form of dividends.

The decision whether to incorporate may reflect the structures of particular sectors; in 2012 36.6% of new enterprises in the construction (NACE sector F) sector opted for incorporation, while 75.7% of new enterprises in the information and communication (NACE sector J) sector opted for incorporation.

Table 3. Number of new enterprise births by legal form, 2006- 2012

Legal form	2006	2007	2008	2009	2010	2011	2012
Individual proprietorship	51.6%	50.0%	38.9%	46.1%	41.4%	40.8%	41.7%
Limited companies	40.5%	42.8%	51.1%	45.7%	51.1%	52.0%	51.3%
Other	7.9%	7.2%	9.9%	8.2%	7.5%	7.2%	7.0%
Total	16,696	13,461	11,954	13,810	11,237	11,847	12,551

Source: CSO (2014).

The sectoral composition of enterprise births changed dramatically between 2006 and 2012, with the number of new enterprises in the construction sector falling rapidly between 2006 and 2009. The number of new enterprises in the Information and Communication Technology (which includes enterprises in both the broader Industry and Services sectors) area has increased year-on-year both in nominal terms and as a percentage of new enterprises created.

Table 4. Number of enterprise births by sector, 2006 to 2012

Sector	2006	2007	2008	2009	2010	2011	2012
Industry	4.9%	5%	5.4%	5.9%	6.2%	6.1%	6.2%
Construction	34.2%	28.4%	20.8%	16.5%	16.2%	16.7%	15.8%
Distribution	15.3%	16.4%	19.2%	21.8%	21.5%	19.7%	20%
Services	43%	46.6%	51.8%	52.5%	52.9%	54.4%	54.5%
Financial	2.3%	3.6%	2.7%	3.3%	3.3%	3.1%	3.6%
Total	16,696	13,461	11,954	13,810	11,237	11,847	12,551
ICT	4.4%	5.2%	6%	5.6%	7.2%	8%	8.1%

Source: CSO (2014).

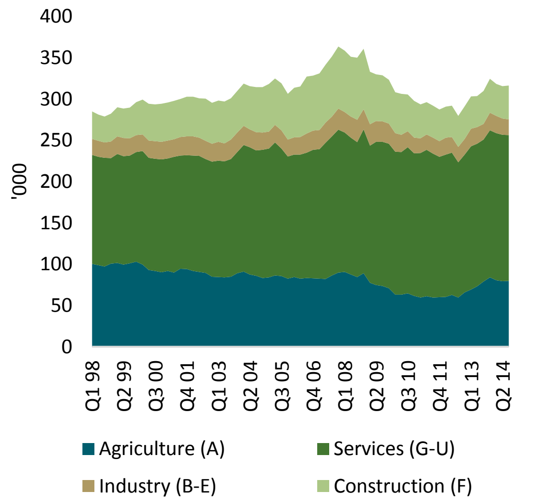
ii) Self-employment as Entrepreneurship

Self-employment is often used as a proxy measure for entrepreneurship. It is useful because it captures individuals who earn their income from a trade or profession that they undertake on their account and at their own risk. Accordingly, many self-employed persons are sole proprietors of unincorporated businesses, and as a result their profits or gains arising from their trade or profession are assessed as income chargeable to income tax under Cases I, II, and III of Schedule D as provided for in Section 18 of the Taxes Consolidation Act 1997.

However, one of the weaknesses of this measure is its broadness, given it may include many individuals who would not be defined as an entrepreneur under other measures. The Quarterly National Household Survey (QNHS) indicates that as of Q2 2015, there were 327,500 self-employed persons, or 16.7% of persons in employment. The self-employed are a heterogeneous group, and reflect the broader structural characteristics of certain sectors.

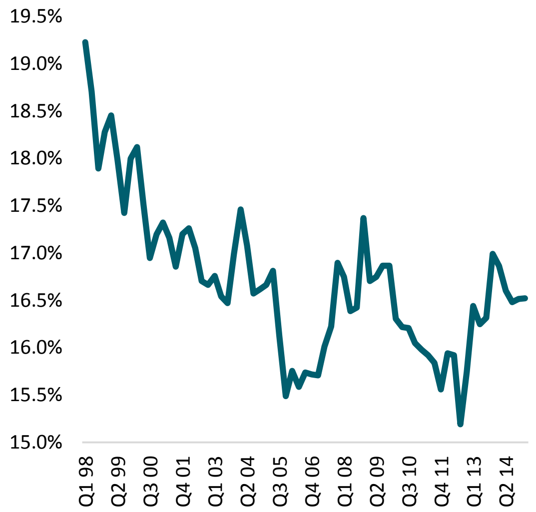
For example, the agricultural sector (NACE sector A) in Ireland is broadly composed of proprietor-managers, with over 74% of persons employed in that sector classified as self-employed. In the industrial sector (NACE sectors B-E), construction section (NACE sector F), and total services sector (NACE sectors G-U), 8.1%, 36.8% and 11.9% of total persons engaged respectively are classified as self-employed. Graph 3 indicates the total number of self-employed persons by NACE sector, while Graph 4 indicates the self-employed as a percentage of total persons in employment.

Graph 3. Total number of self-employed by NACE Sector, QHNS Q1 1998 – Q1 2015



Source: CSO (2015).

Graph 4. Self-employed as a percentage of total persons in employment, Q1 1998 – Q1 2015



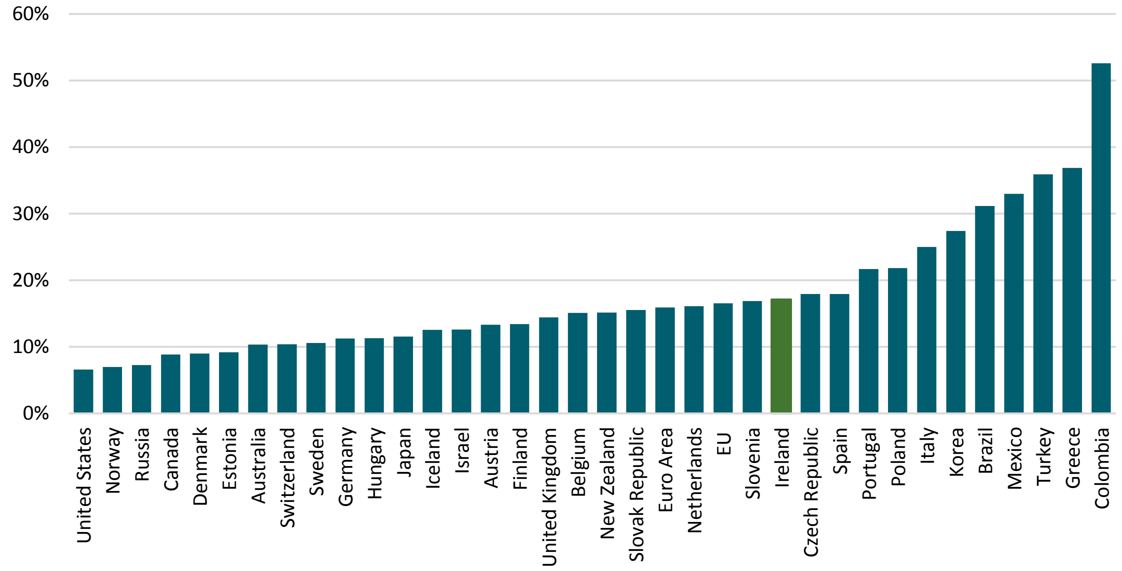
Source: CSO (2015).

The Advisory Group on Tax and Social Welfare has indicated that the move towards greater flexibility and casualisation in the labour force has led to some workers being incorrectly classified as self-employed, particularly in the construction sector, which has significant impacts on workers when it comes to social insurance. While Ireland is close to the EU average of self-employed persons accounting for 16.5% of total employment, Greece and Italy are outliers with self-employed persons accounting for 36.9% and 25% of total employment respectively (see Graph 5 below).

It should be noted the QNHS uses the International Labour Organisation (ILO) definition of self-employment, which describes those jobs where the remuneration is directly dependent upon the profits (or the potential for profits) derived from the goods or services produced (where own consumption is considered to be part of the profits). This includes both own-account workers, and employers who hold self-employment jobs (i.e. whose remuneration depends directly on profits, or the expectation of profits derived from the goods and services produced).

From a tax perspective, workers may receive Case I and Case II income (through a trade or profession) in addition to PAYE income, as they may be both self-employed workers and employees. Of the estimated 242,200 individuals in receipt of Case I and Case II income in 2013, approximately 159,400 were also in receipt of PAYE income. In addition, proprietary directors, who are persons who control more than 15% of the incorporated firm from which they receive a salary, are taxed at source under the PAYE system income.

Graph 5. Self-employment as a percentage of total employment in the OECD, 2013



Source: OECD (2015).

iii) Entrepreneurship as owning an SME

SMEs are another proxy often used to measure entrepreneurship. The European Commission defines the category of SMEs as made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million.[4] The table below indicates the categories used by the Commission to distinguish categories of SMEs:

Table 5. European Commission definition of SMEs

	Employees	Turnover
Micro enterprise	Less than 10	Less than €2m
Small enterprise	10 to 49	Less than €10m
Medium enterprise	50 to 249	Less than €50m

Source: European Commission.

The table below indicates the number of active enterprises in the business economy (NACE sectors B to N) in 2012 by employee numbers.[5] While 90.7% of active enterprises are categorised as micro-enterprises they account for just 20.3% of employment. Nearly 96% of all proprietors and family members engaged in the business economy are engaged in micro-enterprises. In contrast, just 0.26% of active enterprises can be categorised as large by

[4] Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC).

[5] The business economy is categorised as including NACE sectors B-N (inc. R92, R93, S95, S86 and ex. 642).

employee size, with nearly 35% of employees engaged in the business economy engaged in firms of this size.

In aggregate, in the business economy (NACE sectors B to N) SMEs account for 99.7% of active enterprises, 68% of persons engaged, 50.3% of turnover and 46.2% of gross value added (GVA).[6] SMEs are more important in domestic facing sectors, with 96% of persons engaged in the construction sector working in SMEs, and 73.1%, 55% and 30.3% of persons engaged in the services, industry and financial & insurance sectors respectively working in SMEs.

Table 6. Number of active enterprises, persons engaged net of employees, and employees by size of firm in absolute numbers and by percentage of total in each category in the business economy (NACE sectors B to N), 2012

Firm Size	Numbers Employed	Active Enterprises	Proprietors/Family Members	Employees
Micro	Under 10	168,281	96,094	227,408
Small	10 to 19	9,294	2,639	121,491
	20 - 49	5,067	761	150,011
Medium	50 - 249	2,407	492	230,149
Large	250 and over	481	269	390,540
Total		185,530	100,255	1,119,599

Source: CSO (2014).

The CSO also compiles data on the legal form of firms. As can be seen below, nearly 74,505, or 40.2% of active enterprises, are categorised as individual proprietorships, which are personally owned firms with no limit to personal liability. As noted, the profits of such proprietorships are assessed for income tax under Schedule D. In contrast, the taxable income of public and private limited companies is liable to corporation tax, and proprietary directors – in the tax system a director who controls 15% or more of a company - will generally opt to be paid an income from their incorporated business.

Table 7. Number of active enterprises, persons engaged net of employees, and employees by legal form of firm in absolute numbers and by percentage of total in each category, 2012

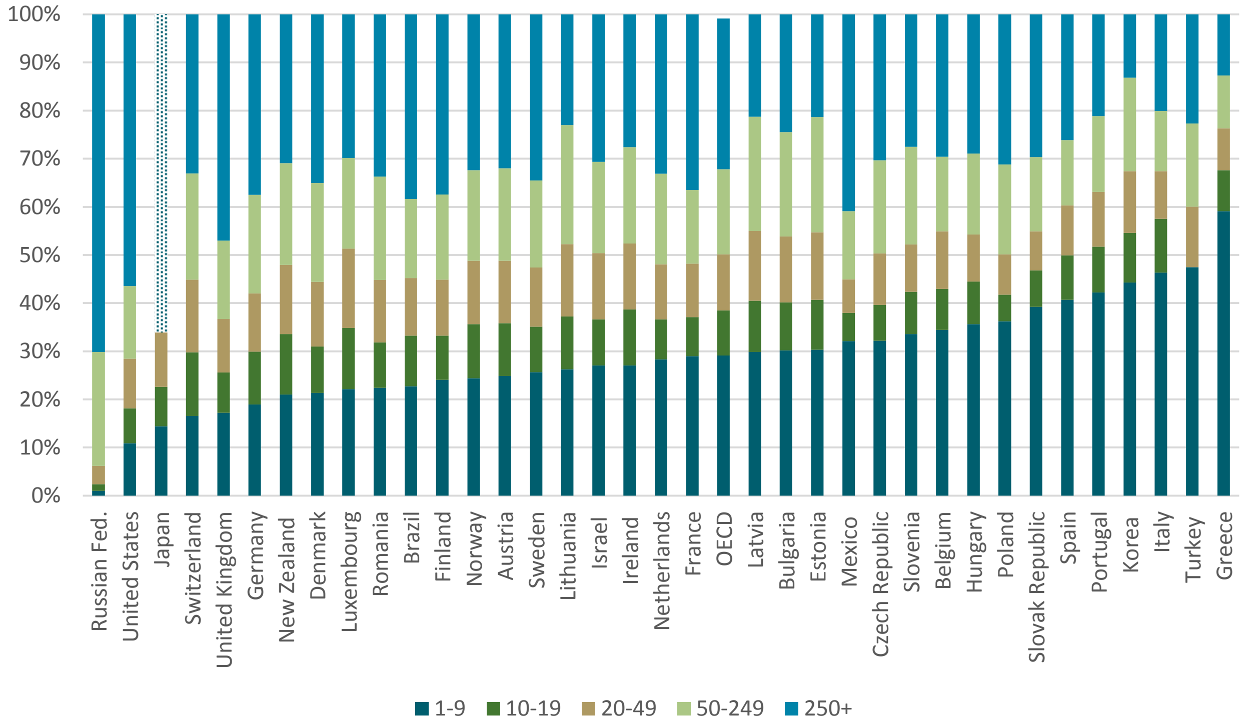
Legal Form of Firm	Active Enterprises	Proprietors/Family Members	Employees
Individual proprietorship	74,505	74,897	69,496
Other legal forms of ownership	16,304	25,135	148,869
Public and private limited companies	94,721	223	901,234
Total	185,530	100,255	1,119,599

Source: CSO (2014).

[6] Active enterprises are counted as active if they satisfy one of the following: pay VAT; have employees; file a Corporation Tax return; file an Income Tax return with turnover of over €50,000.

There are a number of difficulties in using the number of SMEs in the economy as a proxy for entrepreneurship. The majority of SMEs are companies older than 5 years and could not be described as new firms. While new firms will necessarily be small in their first years, firm size is sector and country specific. For example, employment in the manufacturing sector in Ireland is concentrated in large firms, given the presence of multinationals in Ireland, so that the 47% of persons employed in the manufacturing sector in Ireland are employed in large firms. In contrast the Irish construction sector tends to include a large number of smaller firms, and employment is concentrated in SMEs rather than large firms, so that only 7% of persons employed in the construction sector are employed in large firms. Graph 6 shows the distribution of persons employed by enterprise size in the business economy across the OECD.

Graph 6. Persons employed by enterprise size, total business economy, 2012[7]



Source: OECD (2014).

iv) Conclusion

The definitions of the entrepreneur and entrepreneurship used in this section are not exhaustive, nor are they necessarily competing. It may be useful for policymakers to consider them as complementary, notwithstanding the limitations of each of the measurements described. From a tax policy perspective, the choice of a definition can play a role in determining the appropriate tax measure.

[7] There are some discrepancies in the data collected by Member States. For example, the category 1-9 refers to 1-19 for Turkey.

For example, if self-employment is used as a proxy for entrepreneurship, and if the policy objective is to increase the supply of entrepreneurs, it may be appropriate to take measures to reduce income tax on earned income from a trade or profession, or on income earned as a salary from a company of which an entrepreneur is a proprietary director. If incentivising the establishment of a newly incorporated enterprise is the policy objective, it may be appropriate to provide incentives to incorporated businesses in their early years.

3. Role of the Tax system in Encouraging Entrepreneurship

i) Introduction

Irish industrial policy from 1932 to 1956 focused on the creation of a domestic manufacturing sector behind tariff walls, while from 1956 industrial policy prioritised attracting foreign direct investment (FDI) to establish export-oriented firms with concessions for tax arising from income, initially through the Export Sales Relief, for goods exporters playing a key role in this strategy.[8] Though less emphasis was placed on industrial development through FDI than is popularly thought, the 1958 Programme for Economic Expansion signalled that Government would welcome and facilitate FDI. In concert with export oriented tax concessions, grant-giving industrial agencies ('enterprise agencies'), the largest of which was the Industrial Development Authority (later the Industrial Development Agency and IDA Ireland), established in 1949, played an important role in attracting new FDI in key sectors, particularly from the 1960s.

In 1981, an effective corporation tax rate of 10% was introduced for trading manufacturing profits with a higher rate of corporation tax (50% between 1982 and 1988) chargeable on other trading profits. Through the Finance Act 1984 manufacturing activities were extended to encompass data processing services and software development services, and through Finance Act 1987 to activities carried out in the Irish Financial Services Centre (IFSC).

The European Commission believed that the reduced 10% rate was incompatible with EU State Aid rules and in response it was decided to merge both the higher rate and reduced rate to a standard rate of 12.5% over time. Accordingly, following Budget 1998 the rate of corporation tax on trading profits for all companies was reduced annually from 32% in 1998 to 12.5% in 2003. However, given that most firms tend to be loss-making in their early years, and given most SMEs post limited taxable trading income, the low rate of corporation tax has a limited impact on the SME sector and on start-up firms.

ii) Role of the Broader Tax System

One of the key questions regarding a country's tax system is the incentive structure it provides towards the establishment, form and growth of new firms. The tax treatment of profits and loss may favour smaller or larger firms, the tax treatment of debt and equity may incentivise

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[8] Barry, Frank & Daly, Mary E. (2011), 'Mr. Whitaker and Industry: Setting the Record Straight', *Economic and Social Review*, Vol. 42, No. 2, 159-168.

certain capital structures, the tax system may encourage or discourage self-employment, and the tax treatment of income and capital gains may incentivise owner-proprietors and firm owners towards certain types of economic behaviour. The OECD has noted that tax systems in OECD member states often create an incentive to incorporate, and to distribute income in the form of capital.[9]

SMEs and entrepreneurs may face higher compliance costs due to their smaller size. In Ireland, the Revenue Commissioners have taken steps to ensure that compliance with tax and duty obligations is as easy as possible. The Revenue Commissioners have been participating in the High Level Group on Business Regulation, which seeks to identify and reduce administrative burdens across a range of regulatory areas including taxation, since its foundation in 2007. At present the tax code provides some specific supports to SMEs to reduce the compliance burden and assist cash-flow including less frequent filing and payment arrangements for certain taxes, exemption from the requirement to register for VAT where turnover does not exceed certain thresholds, use of the cash basis of accounting for VAT, and deferral of the preliminary tax due date.

The population of SMEs is heterogeneous, containing both high-growth, high-productivity firms, and older, more established low-productivity firms. There may be compelling policy reasons for supporting and encouraging the establishment of high-productivity, high-innovation firms, rather than essentially replicative firms. However, tax measures may not be the most efficient tools to support such firms directly, as a change in the broader tax environment would assist all firms. Due to State Aid requirements, it can also be difficult to target tax expenditures at specific sectors. Accordingly, direct grants or equity investments such as those provided by Enterprise Ireland (EI) may be more effective in identifying high-potential start-up firms engaged in introducing an innovative new product or service to international markets.

iii) Comparison of the Irish tax system with the UK, USA and Germany

The Department of Finance carried out an review of the tax treatment of entrepreneurs and SMEs in the UK, US, and Germany, and the tax expenditures utilised in each country. Given all three countries have different legal and tax systems it is relatively complex to make direct comparisons across jurisdictions. Notwithstanding, a high level overview of the taxation systems in the UK, the US and Germany as they would apply to entrepreneurs and SMEs is set out in this section.

It is interesting to note that Germany operates few specific tax expenditures for SMEs and imposes high rates of employer social insurance. However, Germany has a highly successfully SME sector: the 'Mittelstand' has become a commonly used term to refer to family-owned, family-run, export-oriented German SMEs producing high-quality, high value-added products which often dominate niche markets. The structure of Germany's financial markets and firms,

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[9] OECD (2015), *Taxation of SMEs*, OECD: Paris.

Germany's highly co-ordinated industrial relations, education and training systems and inter-firm relations all have played a key role in creating the 'Mittelstand'. This suggests that a range of complementary factors are required for the development of innovative, highly productive SMEs and entrepreneurs.

a) General corporate, income and capital gains tax regimes in the UK, the US, and Germany

The UK

The UK levies income tax at three rates, 20%, 40% and 45% which take effect at various thresholds, similar to the Irish system.

Social security is levied on the self-employed at a rate of 9% of annual earnings between £8,060 and £42,385 and at 2% above £42,385. Employers are required to pay social security at a rate of 13.8% of employees' earnings over £156 per week.

For standard rate income taxpayers, capital gains tax is levied at a rate of 18% on gains up to £31,725 and at a rate of 28% on gains in excess of that limit. For 40% rate income taxpayers, capital gains tax is levied at a rate of 28%.

The corporate tax rate in the UK is currently 20%. This is expected to decrease to 18% by 2020.

The US

Federal income tax is levied at rates from 10% up to 39.6% which apply at various thresholds of income. In addition, income tax is imposed by most states. For tax years beginning in 2013 and later, a 3.8% Net Investment Income Tax applies to individuals that have net investment income above applicable threshold amounts.

The self-employed must pay social security comprised of old age, survivors and disability insurance tax at a rate of 12.4% of net earnings from self-employment up to $118,500 and hospital insurance tax at a rate of 2.9% on all income. Employers are required to pay half of the above amounts for employees (and the other half is deducted from employees' wages).

Gains on assets held for more than one year are subject to reduced rates of tax (0% / 15% / 20%) compared to the income tax rates set out above.

Federal corporate tax is levied at rates varying from 15% to 35% depending on the level of profits.

Germany

Germany imposes income tax at progressive rates from 14% to 45% depending on the level of income. A solidarity surcharge of 5.5% is also levied on tax due. Income from private capital investment is taxed by way of a final flat withholding tax of 25% (increased to 26.375% by the solidarity surcharge). Business income from investment in shares is taxed under a partial-income system whereby only 60% of the dividend income is taxable. A church tax of

approximately 8 – 9% of an individual's annual income tax charge is imposed on members of the Catholic, Protestant and Jewish faiths.

In total, the employer's share of social insurance contributions amounts to approximately 21% of the employees gross wage. This represents approximately half of the payments to the various elements of the German social security system, the other half is paid by the employee.

The self-employed are not covered by the state-funded social security system and so need to organise private insurance plans for healthcare, life insurance, unemployment and pension. Rates are fixed by the insurance company. Health insurance is obligatory and would cost between €300 and €600 per month. Some freelancers, including teachers, crafts people, care workers, journalists and certain other occupations are obliged to pay around 19% of their income into the German state pension scheme. In 2013, the German government were minded to ensure that all freelancers were under this obligation. However, this proposal was met with resistance with many stating that it would have negative effects on entrepreneurship.

In general, capital gains are subject to tax at income tax rates. However, if an individual held a direct or indirect position of 1% or more within the preceding 5 years, 60% of the capital gain from the sale is taxable at the rate of 25% (26.375% including surcharge). In addition, for gains on shares, rollover relief is available with a ceiling of €500,000.

Federal corporate tax is levied at 15% (increased to 15.83% by the solidarity surcharge). An additional municipal trade tax between 14% and 17% is also levied.

Each of the jurisdictions examined operate different and varying levels of tax incentives. An overview of some of the incentives in operation in the three jurisdictions is set out in the follow subsection. It is important to note that the comments made in this section are very high level in nature and a full list of the qualifying conditions which are required to be met in each case is not included.

b) Specific tax expenditures related to capital gains, income and corporate tax

The UK

UK tax law provides for a reduced capital gains tax ('CGT') rate of 10% on the disposal of qualifying business assets (sole trade, shares in a company where the seller held at least 5% of the shares and voting rights, and assets lent to a business or personal company) where certain conditions are met. There is a lifetime limit of £10 million on gains which may qualify for the reduced rate.

The UK also provides a number of tax advantages for investors in the equity of certain types of company. The UK Enterprise Investment Scheme ('EIS') provides for a 30% income tax relief for amounts invested in unquoted trading companies which meet certain detailed criteria up to a maximum investment of £1 million. The shares must be held by the individual for at least three years. No CGT is charged on a gain arising on the disposal of EIS shares after the three

year period. In addition, CGT on other gains can be deferred where the capital proceeds are invested in EIS shares.

The Seed Enterprise Investment Scheme ('SEIS') provides for a 50% income tax relief for investments in the shares of small, early stage companies up to a maximum of £100,000 where conditions are met (including that investors may not hold more than 30% of the shares in the investee company and that the shares be held for a minimum of three years). It is designed to help small, early stage companies raise equity finance by offering tax reliefs to individual investors who purchase new shares in those companies. There is a £150,000 limit on the amount of investment qualifying for SEIS (or any other de minimis State aid) that any one company can receive, the investee company must be small (as defined in legislation) and may not have existed for more than two years prior to the investment.

The UK Venture Capital Trust ('VCT') scheme is designed to encourage investment in small unquoted companies which carry out qualifying trades. Individuals can obtain income tax relief at 30% for amounts up to £200,000 invested in VCTs which in turn invest in a spread of small unquoted companies. The shares in the VCT must be held for at least five years. Ordinary dividends received by such individuals from qualifying investments are exempt from income tax and any gains arising on the disposal of such shares are exempt from CGT. A VCT must be approved by HMRC and there are size restrictions on the types of companies the VCT can invest in.

The UK tax system also provides for tax advantaged share options in respect of small firms in certain sectors through the Enterprise Management Incentive ('EMI'). Shares with a market value of up to £250,000 may be granted to a qualifying employee of a qualifying company, subject to EMI options over a total share value of £3 million being granted to all employees. The grant of the option is tax-free and there will generally be no tax or National Insurance contributions for the employee to pay when the option is exercised. There will normally be no National Insurance contributions charge for the employer. The granting company must meet certain conditions in relation to the value of its gross assets and the type of trade it carries out. CGT may be charged on the gain related to the sale of the shares.

Business Property Relief (BPR) provides relief from Inheritance Tax on the transfer of relevant business assets at a rate of 50% or 100% depending on the nature of the relevant business property where conditions are met.

The US

Qualified dividends are tax-free for those in the 10% and 15% income tax brackets to the extent qualified dividend income remains within those brackets, taxed at a 15% rate for those in the 25% to 35% income tax brackets and taxed at a 20% rate for higher income taxpayers whose income surpasses the 35% income tax bracket provided certain holding periods are met. Dividends paid in respect of all common and some preferred stock of US corporations and by certain non-US corporations are considered to be qualified dividends.

Similarly, the above reduced rates of tax apply to gains realised on the sale of shares which have been held for more than twelve months.

The Qualified Small Business Stock Exemption provides an exemption (sometimes in whole and sometimes in part) for gains on certain small business stock sales by taxpayers other than corporations where the stock was held for at least five years.

Where a stock option meets certain requirements such that it may be classified as an Incentive Stock Option ("ISO"), no income is recognised upon grant or exercise of the option. Where the sale of the ISO stock takes place at least two years after the grant date and one year after the options were exercised, the gain is taxed at the long term capital gains tax rates (maximum 20% as set out above) on the difference between the selling price and the exercise price.

Germany

As set out above, the success of the Mittelstand is not generally attributed to tax factors. There is a special inheritance tax regime in operation in the Mittelstand whereby recipients of business assets are exempt from inheritance tax if the owners do not cut jobs or wages for seven years following acquisition of the business. However, in December 2014, Germany's Constitutional Court stated that this tax privilege was unconstitutional, on the basis that it violated the constitution principal of fair taxation when such preferential treatment was extended to all companies, including large corporations, without case-by-case checks being performed as to whether an exemption was economically justified. The Court also stated the inheritance law gives an unfair advantage to family-owned businesses over individuals passing on non-company assets.

Where a shareholding was less than 1% in a company, the entire capital gain on disposal of the shares is subject to tax at a flat 25% (26.375% including surcharge) regardless of how long the holding period was. If the individual held a direct or indirect position of 1% or more within the last five years, 60% of the capital gain from the sale is taxable at the normal rates of 25% (26.375% including surcharge). The remainder is tax-free (i.e. there is a 40% participation exemption).

Business income of individuals from investment in shares is taxed under a partial-income system whereby only 60% of the dividend income is taxable where conditions are met. Income from private capital investment is taxed separately by way of a final flat withholding tax at a rate of 25%, increased to 26.38% by the solidarity surcharge.

For gains on shares realised by individuals, rollover relief is available with a ceiling of €500,000. The relief may be used to reduce the acquisition or manufacturing cost of qualifying replacement assets acquired or manufactured after the gain was realised. Qualifying replacement assets are (i) shares and other depreciable movable assets acquired within the next two years and (ii) buildings acquired within the next four years.

A number of other tax reliefs such as an exemption from the liability to trade tax for venture capital companies, an exception to the rules which limit loss deductibility for venture capital

companies and a business angel capital gains tax benefit which were once contained in German tax law were found to be incompatible with EU law and were removed.

4. Public Consultation on Tax and Entrepreneurship

i) Introduction

The public consultation held between 2 June 2015 and 14 July 2015 attracted forty-two responses, from a variety of individuals and organisations. 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.

ii) Summary of responses

Some submissions responded to the four general questions, while others did not respond directly to those questions but provided more thematic responses. The majority of submissions assumed that entrepreneurs were highly mobile, and their choice of firm location depended partly on the tax liability on income and capital gains that would arise from locating their firm in a particular tax jurisdiction. It was posited that such entrepreneurs were proficient at creating firms and expanding employment. While many of the submissions did not outline explicit causal links, or a specific transmission mechanism, between their proposals and enhanced output and employment, the underlying theoretical assumptions were those which underline those which apply to FDI. That is, that there is a limited stock of highly-skilled entrepreneurs and that the tax regime for income and capital gains is a key mechanism for attracting highly-skilled entrepreneurs, thereby expanding output, creating employment, and increasing tax revenue.

Many of the submissions also proposed changes to Income Tax and USC on the grounds of equity. In particular, it was argued that an Earned Income Tax Credit should be introduced for self-employed taxpayers, and that the USC surcharge of 3% on non-PAYE income of over €100,000 should be removed.

A number of the submissions, particularly those from the representative bodies for SMEs, proposed that self-employed PRSI contributors (Class S contributors) should have the option to be insured to receive those social insurance benefits to which they are currently not entitled. It was proposed that such an opt-in would be financed by a voluntary additional PRSI contribution on the part of those Class S contributors who wish to be insured for the additional social insurance benefits.

Submissions proposed a large range of measures, ranging from the reduction of tax imposed on dividends, to specific proposals around extending existing tax expenditures. Ten of the most popular proposals are outlined in broad terms below. It should be noted that details on the implementation of such proposals varied from submission to submission. However, for concision, proposals are treated thematically.

Table 8. 10 most popular proposals to the public consultation

Tax measure	% of submissions
CGT entrepreneur relief	76%
Earned Income Tax Credit	57%
Marginal Rate/USC surcharge	57%
EII or similar scheme	57%
Extend tax relief on share options/awards	48%
R&D tax credit	31%
PRSI Reduction	29%
Social Insurance System	29%
3-year start-up relief	29%
SARP style scheme	17%

a) Capital Gains Tax Entrepreneur Relief (Section 597A)

The current CGT entrepreneur relief introduced in Budget 2014 and provided for by section 597A of the Taxes Consolidation Act 1997 is viewed as restrictive and administratively complex. The current entrepreneur relief is a targeted, time-bound relief aimed at encouraging reinvestment in further productive activity by successful entrepreneurs. It is, however, a restricted measure. Submissions to the public consultation made the point that as the current relief applies only after an entrepreneur has made a second successful gain on asset disposals, it may not appear attractive and may not free up capital for reinvestment.

b) Capital Gains Tax Entrepreneur Relief (UK Model)

Proposals to amend or replace the existing CGT entrepreneur relief with a CGT relief similar to that operating in the UK, were the most common suggestion among the submissions made in response to the consultation.

The UK operates a CGT relief for disposals of assets consisting of the whole or part of a business by individuals or trusts. The relief operates by applying a 10% rate of CGT to the chargeable gains arising on such disposals up to a lifetime value of £10 million, among other conditions. This limit was set at £1 million on the introduction of the relief in 2008 and increased over subsequent years.

Supporters of the introduction of a UK-type relief argue that its significant advantages compared to the existing relief here are that it targets first-time disposals of business assets (the relief is given upfront), it applies a specified lower rate of tax to gains within limits and

that it is a simpler relief to claim and to understand. In general, the submissions did not provide a convincing economic rationale for the scale of relief being proposed in many cases.

Introducing a 10% CGT rate applying to the capital gains made by individuals of up to €10 million on business asset disposals (as in the UK) would be costly to the Exchequer. The scale of such a relief would, for example, raise questions as to why returns to entrepreneurs taken in the form of capital gains should be treated so much more favourably than remuneration taken as wages or dividends.

c) Introduce an Earned Income Tax Credit

The majority of submissions called for the introduction of an Earned Income Credit (EIC) for self-employed taxpayers, which would be similar to the PAYE income tax credit. An EIC has been introduced in this year's Budget and is described in the Measures Introduced section below.

d) Reduce the 3% USC surcharge

The charge to USC applies equally to all up to an income level of €100,000. An 11% rate is charged on self-assessed income above this level, which compares with an 8% rate which is charged on PAYE incomes above that level.

When USC was first introduced in 2011 the PRSI ceiling on income over €75,000 was also removed for all PAYE employees. This meant that those on PAYE incomes of over €75,000 became liable to an additional 4% charge on that portion of their income. At the same time PRSI for self-assessed income earners was increased by 1% from 3% to 4%.

It was therefore decided to introduce an additional USC surcharge of 3% on self-assessed income over €100,000. This measure preserved the existing differential as, in the absence of the surcharge, the removal of the PRSI ceiling would have caused a disproportionate loss of income to employees as compared to the self-employed as a result of the Budget 2011 measures. On the basis of fairness, this could not have been countenanced at the time.

However, as mentioned in section 5(i) there are other aspects to how the self-assessed are taxed which can be beneficial to them. For instance, there are significant timing benefits, depending on the accounting period used by the taxpayer, which are available to the self-assessed but which are not available to PAYE workers. In addition, the expenses regime for self-assessed taxpayers remains somewhat more liberal than that afforded to employees and therefore the self-employed can actually pay less tax when compared to a PAYE worker on the same income.

e) Proposed changes to the Enterprise and Investment Incentive

Many submissions proposed changes to the Employment and Investment Incentive (EII), including provision of full Income Tax relief upfront, and the inclusion of a CGT exemption or reduced rate of CGT on any gains arising from an EII investment. A number of submissions proposed a similar scheme to the UK Seed Enterprise Investment Scheme (SEIS), which

provides Income Tax relief of 50% and CGT relief for investments in small enterprises up to a certain limit, with a view to incentivising equity investments in smaller companies.

A comprehensive review of the EII was carried out in 2014. This review included a public consultation and meetings with stakeholders. A report on the review was published on Budget day in October 2014 and a number of changes were made to the scheme. The majority of the issues raised in submissions to the public consultation mirror those received and considered as part of the EII review. A commitment was made to further review the EII in 2016, at which time more data will be available on the levels of take up and the numbers of investors who received the additional relief available.

f) Introduce preferential tax treatment for share options and awards

A number of submissions made suggestions regarding improving incentives for share-based remuneration. There are a number of existing schemes to encourage employees to take a share in their employing companies, including provisions relating to Share Options, Restricted Shares, and Employee Share Ownership Trusts (ESOTs). On foot of changes in recent years, a charge to Employee and Employer PRSI and USC applies in respect of most forms of share based remuneration.

In 2014 officials from the Department of Finance took part in a European-wide project on ‘Promotion of Employee Ownership and Participation’. During the course of the project it was identified that Ireland compares very favourably with other European countries in terms of the schemes it offers to encourage employee financial involvement. It is important for schemes to be reviewed to evaluate their usefulness in a changing economic environment, and to ensure that they are achieving the objective of supporting employee retention and business stability and development.

g) SARP style scheme

A number of proposals raised the possibility of extending the Special Assignee Relief Programme (SARP), or of providing a similar scheme to new hires that would result in a reduced rate of income tax being available to highly skilled mobile workers, such as those on the Highly Skilled Eligible Occupations list, who come to Ireland to work for SMEs and who would be paid above a certain income threshold. One such suggestion was for a flat tax of 30% of taxable remuneration of workers with designated skills who come into to Ireland to work. This would reduce the net cost of hiring such employees to employers. It was also suggested such a scheme should apply to self-employed individuals, and to specific Research Professors identified by Science Foundation Ireland. To introduce such a scheme would not be in keeping with the purpose of SARP, which is to reduce the cost to employers of assigning individuals already employed by them to Ireland.

h) 3 Year Corporation Tax Start-up Relief

The 3 year Start-up relief 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 New Guidelines for the Evaluation of Tax Expenditures. As part of the public consultation, the Department invited

views from the public and interested parties on the use and effectiveness of this relief. Some issues and requests raised by respondents to the consultation include: start-up companies are generally loss making in the initial years and the relief is of no benefit to loss making companies; the limitations on the qualification for relief following the changes in 2011 which introduced a link to the amount of Employers' PRSI paid by the company; and requests for a form of refundable tax credit.

i) Incentivise the debt financing of SMEs by non-financial sector institutions

A number of submissions proposed tax expenditures targeted at incentivising the provision of debt finance to SMEs by non-financial sector institutions. There were several suggestions in this category, ranging from interest deductions for business owners who lend to their own business, tax credits for individuals who loan to SMEs, tax relief at varying levels depending on the amount of loan capital a company secures, exemptions from USC and CGT to incentives for peer to peer lending.

A number of submissions proposed the re-introduction of tax relief on interest charged on loans to invest in companies. This scheme was abolished in Budget 2011 as the majority of companies benefiting from the relief were not operating in sectors that were being actively supported by the State through Enterprise Ireland, and the majority of individuals availing the relief were earning in excess of €200,000. Budget 2011 estimated the full year saving from the abolition at €49 million.

From a broader policy perspective, it may not be appropriate to use tax expenditures to incentive the provision of non-bank debt finance to SMEs. The State has already taken significant steps to improve credit provision to the SME sector through the SBCI, CRO, Microenterprise Loan Fund, and Credit Guarantee Scheme and the financial sector may be the most appropriate mechanism to provide debt finance. Tax expenditures aimed at encouraging equity finance, such as the EII, Startup Refunds for Entrepreneurs (SURE), and the CGT Entrepreneur Relief may be more appropriate fiscal instruments.

j) Extend R&D Tax Credits

The R&D tax credit is open to all corporate taxpayers in the State who perform qualifying R&D activities. There is no restriction on the size of the firm or the sector in which they operate. There are a number of elements of the R&D tax credit that are of a particular benefit to small companies, such as the "key employee" provision and the "repayable" element of the tax credit.

The repayable element of the tax credit is particularly generous, but it is an important element of the R&D tax credit. For large companies, it helps Irish locations stay cost-competitive and for small innovative firms it provides a valuable source of cash-flow. It is important that the repayments are spread out over 3 years in order to manage the impact on the Exchequer.

5. Measures introduced in Budget 2016

In light of the constrained fiscal space, the following measures were identified as having the greatest potential to encourage entrepreneurship and support entrepreneurs.

i) Earned Income Tax Credit

Budget 2016 introduces an Earned Income Credit (EIC) of €550 to be available to taxpayers earning self-employed trading or professional income and to business owner/managers who are ineligible for a PAYE credit on their salary income. The credit is aimed at active rather than passive income.

In considering whether to introduce an EIC, the differences between the tax treatment of PAYE workers and self-assessed taxpayers was taken into account. Employees in the PAYE system benefit from a PAYE income tax credit worth €1,650 per annum, to which the self-assessed are not entitled. The PAYE allowance, as it was then, was introduced in 1980 to improve the tax progression of PAYE taxpayers and to take account of the fact that the self-employed generally then had the advantage of paying tax on a preceding year basis. The argument was also made at the time that the general scheme of allowances for expenses discriminated against employees and in favour of other taxpayers.

There have been some changes since 1980. For example, the self-employed now pay tax on a current year basis. In addition, the PAYE allowance has become a tax credit and has grown in value. The PAYE allowance originally provided for a deduction of IR£400 (approximately €508) from emoluments, which effectively sheltered IR£400 (€508) from income tax at the person's marginal rate - income tax rates at the time ranged from 25% to 60%. The credit now stands at €1,650 which means that an individual can shelter €8,250 from tax at the 20% income tax rate with the PAYE credit.

However, there are other aspects to how the self-assessed are taxed which can be beneficial to them. For instance, there are significant timing benefits, depending on the accounting period used by the taxpayer, which are available to the self-assessed but which are not available to PAYE workers. A self-employed person is assessed to tax on the profits of a 12-month accounting period ending any time within the tax year, and pays preliminary tax in October/November of the tax year. The self-employed person then files his/her tax return in October/November of the following year, and pays any remaining balance of tax due at that time. In contrast, a PAYE earner’s income tax is deducted from his/her salary at the time of payment.

In addition, the expenses regime for self-assessed taxpayers remains somewhat more liberal than that afforded to employees. A self-assessed taxpayer is entitled to claim a deduction in respect of expenses incurred wholly and exclusively in the performance of his/her duties whereas the PAYE worker's expenses must be incurred wholly, exclusively and necessarily in

the performance of his/her duties. In practice this means that it is rare for an employee to be able to claim a deduction for any expenses they incur personally.

In recognition of this differential in the expenses regimes, a PAYE worker may be entitled to claim flat-rate expenses from a list agreed by Revenue, which allows employees in certain trades or professions to claim a set flat-rate expenses deduction.

From weighing up the differences in the tax treatment of PAYE workers and self-assessed taxpayers it was considered appropriate to introduce an EIC of €550. While self-assessed taxpayers do have some benefits compared to PAYE workers in terms of the timing of when they pay their tax and a somewhat more liberal expenses regime, their lack of an equivalent to the PAYE tax credit is a significant difference. Furthermore, the EIC is targeted at active self-assessed income and so would be intended to support and encourage entrepreneurship.

ii) Extension of 3 year Corporation Tax Start-up Relief

Section 486C of the Taxes Consolidation Act 1997 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 a new trade and gains on the disposal of any assets used for the purpose of that new trade.

Prior to amendments made in 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. 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 relief was extended in 2014 for a further year to allow for a full review of the relief to be carried out.

As part of the public consultation on Tax and Entrepreneurship, views were invited from the public and interested parties on the use and effectiveness of s486C TCA 1997. The review takes account of consultation responses and data from the Revenue Commissioners and the CSO, while examining the continued relevance, costs, impacts and efficiencies of the relief.

Some of the issues and requests raised by respondents to the consultation are as follows:

- start-up companies are generally loss making in the initial years so the relief is of no immediate relevance to loss making companies;
- the impacts of the changes in 2011 which linked the quantum of corporation tax relief to the amount of Employers' PRSI paid by a company in an accounting period; and

- requests for a form of refundable tax credit.

An analysis of the data showed that in 2012, at a cost of €5.5m, the tax relief supported 1,270 companies that, between them, employ approximately 13,295 people. The average cost per job supported was €361.[10] In 2013, at a cost of €4.9m, the tax relief supported 1,038 companies that between them employ approximately 11,750 people. The average cost per job supported was €381.[11]

While unemployment rates are decreasing, the latest QNHS unemployment statistics show an unemployment rate of 9.4% as of September 2015. Therefore, incentives for job creation are still relevant today. Limitations of the relief due to the link with PRSI are acknowledged but in limited fiscal space it is important that tax reliefs are effectively targeted - in this instance the intended target is employment generating companies.

Following from the review, it was recommended that the relief be extended for a further three years until the end of 2018. It was also recommended that the link to PRSI contributions remain to maintain an incentive for job-creation. It was not recommended that a refundable tax credit be introduced. Further details on the full review are available in the Report on Tax Expenditures 2015.

Following from the recommendations of the review, the decision made in Budget 2016 is to extend this relief for another 3 years.

iii) Revised CGT Entrepreneur's Relief

Budget 2016 and the subsequent Finance Bill will introduce a revised CGT relief for entrepreneurs which will represent a simplified and upfront benefit for individuals who propose to sell their business.

A lower CGT rate of 20% will apply to the net chargeable gains arising on disposals of assets comprising the whole or a discrete part of a trade or business, subject to a lifetime limit of €1 million on such gains, with effect from 1 January 2016. The relief will be available to the individual owners of a trade or business (owners/founders of private unquoted companies, sole traders and farmers) in respect of the disposal of all or a discrete part of that trade or business which they have owned for at least 3 years. The relief will not be available to companies in respect of business asset disposals by such entities.

Further details of the revised relief will be included in the forthcoming Finance Bill.

[10] Excludes costs associated with companies where employee numbers aren't available.
[11] Excludes costs associated with companies where employee numbers aren't available.

6. Appendix – Selected Tax Measures that Support Entrepreneurship

Measure	Tax Head	Aim of Measure
CGT Entrepreneur's Relief	Capital Gains Tax	Encourage serial entrepreneurs to establish new firms.
3 Year Corporation Tax Relief for Start-up Companies	Corporation Tax	Improve cash flow for start-up business and encourage job creation and economic activity in the State.
R&D Tax Credit	Corporation Tax	Encourage innovative activity in businesses.
Micro-brewery excise duty relief	Excise Duty	Encourage development of small independent breweries.
Foreign Earnings Deduction (FED)	Income Tax	Encourage business to expand to emerging markets.
Employment and Investment Incentive (EII)	Income Tax	Improve access to funding for business.
Start Your Own Business (SYOB)	Income Tax	Incentivise long-term unemployed individuals to take up self-employment and establish their own businesses.
StartUp Refunds for Entrepreneurs (SURE) - formally Seed Capital Scheme	Income Tax	Encourage individuals to establish new businesses.
Home Renovation Incentive (HRI)	Income Tax	Encourage small construction companies and tackle the shadow economy in the sector.
Restricted Shares	Income Tax	The scheme is designed to assist entrepreneurs in recruiting and retaining skilled employees.
Employer PRSI exemption from share-based remuneration	PRSI	Reduce cost to employer of share based remuneration.
Low rate of employer social contributions based on international comparisons	PRSI	Reduces cost of employing staff to employers.
Exemption for transfers of shares listed on Enterprise Securities Market of the Irish Stock Exchange	Stamp Duty	Improve access to non-bank funding for SMEs.
VAT thresholds for cash basis and registration extended	VAT	Improve cash flow for SMEs.
9% rate of VAT for tourism related goods and services	VAT	Reduce the cost of tourism related goods and services to increase tourist numbers.

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