



# **Tax Strategy for the Next Government**

Irish Tax Institute Recommendations

# About the Irish Tax Institute

The Irish Tax Institute is the representative and educational body for Ireland's Chartered Tax Advisers (CTA) and is the country's only professional body exclusively dedicated to tax.

The Chartered Tax Adviser (CTA) qualification is the gold standard in tax and the international mark of excellence in tax advice. We benchmark our education programme against the very best in the world. The continued development of our syllabus, delivery model and assessment methods ensure that our CTAs have the skills and knowledge they need to meet the ever-changing needs of their workplaces.

Our membership of over 6,000 is part of the international CTA network which has more than 33,000 members. It includes the Chartered Institute of Taxation UK, the Tax Institute of Australia, the Taxation Institute of Hong Kong and the South African Institute of Taxation. The Institute is also a member of the CFE Tax Advisers Europe (CFE), the European umbrella body for tax professionals.

Our members provide tax services and business expertise to thousands of Irish owned and multinational businesses as well as to individuals in Ireland and internationally. Many also hold senior roles in professional service firms, global companies, Government, Revenue, state bodies and in the European Commission.

The Institute is, first and foremost, an educational body but since its foundation in 1967, it has played an active role in the development of tax administration and tax policy in Ireland. We are deeply committed to playing our part in building an efficient and innovative tax system that serves a successful economy and a fair society. We are also committed to the future of the tax profession, our members and our role in serving the best interests of Ireland's taxpayers in a new international world order.

## Irish Tax Institute - Leading through tax education



## Table of Contents

Introduction	4
Institute Recommendations	6
The Personal Tax System	9
Building Productivity and Innovation in SMEs	12
Competitiveness and Attracting FDI	16
Housing	20
Climate	23
Ageing Population	27

# Introduction



After five years of rolling crises, the Irish economy has emerged in good shape. The population is growing fast and employment is at a historic high of 2.75 million. Exchequer returns continue to outperform expectations across all tax heads with steady growth in income tax and VAT receipts.

Though the cost of living remains high, inflation has fallen faster than expected and is now below the European average. Most forecasters are predicting moderate, steady growth over the next two years as interest rates fall and global trade recovers from last year's decline.

Nonetheless, risks to the success of Ireland's economic model abound. The rise of protectionism in the global economy and worsening geo-political tensions are bad news for small open economies.

Ireland, whose economy has benefitted enormously from globalisation, faces an additional risk from EU proposals to ease State aid rules, enabling larger Member States to subsidise their industries and compete aggressively for inward investment.

In this risk-laden context, Ireland's ability to adapt and compete is critical. The challenge for the next Government is to use all the levers at its disposal to ensure the country remains an attractive location for inward investment.

The main domestic vulnerabilities are Ireland's well-documented reliance on a small number of multinational companies for tax receipts and employment; the increasing cost of doing business; the housing crisis; and a creaking national infrastructure that is constraining economic growth.

These are risks that the State can control. The next Government has the power to diversify activity in the economy by overhauling enterprise tax policy to super-charge innovation and productivity in the SME sector. Thanks to the healthy state of the country's public finances, the new Government will have the means to fix the housing crisis and to invest in a public infrastructure fit for a modern economy. Its big challenge will be delivery.

A long-term structural change that has major implications for the public finances is Ireland's ageing population. The Government has already taken steps to mitigate this risk by putting excess corporation tax receipts into the Future Ireland Fund. But absorbing the cost of Ireland's ageing population will require additional policy responses during the lifetime of the next Government.

Over-arching all the above is climate. Saving the planet from climate change is the defining risk of our time and it knows no borders. Action to mitigate this risk and to meet the decarbonisation targets set by the EU will impact every aspect of government policy and administration into the future with far-reaching implications for the economy and how we live our lives.

Taxation is among the most powerful levers at the disposal of any government. It can be used to strengthen economic growth, to distribute income fairly, to provide better public services, and to effect the behavioural change needed to decarbonise the Irish economy.

In this document, the Irish Tax Institute sets out its tax policy proposals to address the challenges facing the next Government.

## Institute Recommendations



## The Personal Tax System

- > Reduce the marginal personal tax rate (including social insurance contributions) to 50% to make Ireland more attractive for inward investment and strengthen its capacity to compete for highly skilled and mobile labour.
- > Introduce a cap on the level of earnings to which PRSI applies similar to that which exists in other countries.
- > A broader personal tax base, in which all taxpayers contribute according to their means, would be more sustainable.
- > Remove the 3% USC surcharge on self-employed income over €100,000 as a matter of equity.
- > Address the upfront tax cost associated with share-based remuneration for employees so it can be used more effectively to attract and retain talent.
- > Retain the Employer PRSI exemption on shared-based remuneration.

## Building Productivity and Innovation in SMEs

- > Introduce further legislative changes to the Employment Investment Incentive (EII) scheme and CGT Entrepreneur Relief to make these reliefs more accessible to SMEs and start-ups.
- > Reduce the Capital Gains Tax (CGT) rate to 25% for active business assets to encourage innovation and productivity and attract foreign investors into Irish indigenous business.
- > Provide clear, principle-based guidance on share valuations, including acceptable methodologies and safe harbours to support companies that offer share-based remuneration to their employees.
- > Impose a more proportionate sanction where Key Employee Engagement Programme (KEEP) share options are granted at an undervalue rather than withdrawing the relief in full.
- > Accelerate the refund of the R&D Tax Credit from the current 3-year payment schedule to 1 year for SMEs.

## Competitiveness and Attracting FDI

- > Enhance Ireland's reputation as a pro-business location with clear and simple corporation tax rules that are easy to operate and comply with.
- > Broaden the geographic scope of the newly introduced participation exemption for foreign dividends and introduce a foreign branch exemption to reduce the administrative burden for Irish companies.

- > Set out a clear timetable for the delivery of legislative reforms that will permit a broad base for deduction of interest against both trading and non-trading income.
- > Retain and continue to benchmark the Special Assignee Relief Programme (SARP) to enable Ireland to compete for talent on a global stage.

## Housing

- > Set out a clear policy position on how the next Government will increase housing supply to restore stability and certainty to the property market.
- > Ensure interventions in the property market are well designed and have regard to their longer-term impact.
- > Review regularly the Local Property Tax (LPT), including the rate, exemptions and deferrals, to ensure it is up to date and reflects current circumstances.
- > The LPT revaluation of properties should take place in 2025, as scheduled.

## Climate

- > Explore opportunities to expand Ireland's existing environmental taxes.
- > Remove the exemption from Electricity Tax for domestic users whilst ensuring lower income households are not disproportionately disadvantaged.
- > Enhance the accelerated capital allowances regime for energy efficient equipment to help businesses reduce their carbon emissions.
- > Introduce targeted measures for green or energy related R&D to assist Ireland in meeting its climate change targets.
- > Amend the EII scheme to encourage investment in high-risk ventures which support green/energy efficient projects.

## Ageing Population

- > Retain tax relief on pension contributions at the saver's marginal income tax rate.
- > An individual's age should not determine the tax relief available on their pension contributions or the tax treatment of their income.
- > Remove the €115,000 relevant earnings limit for pension contributions on a phased basis.
- > Simplify pensions by eliminating inconsistencies in the tax treatment of different retirement arrangements.
- > Any increases in PRSI must factor in the overall impact on the cost of employment in Ireland.

# The Personal Tax System



With the 15% global minimum corporation tax rate now in force for large multinationals based here, the focus of prospective international investors has shifted to other parts of Ireland's tax code including the personal tax system. The cost of employment is a key consideration in investment decisions and over the last two budgets, good progress has been made in reducing the income tax burden on middle-income earners, in particular.

The Institute welcomed those reductions but at 52.1%, the effective marginal rate on salaries of €70,044 and above remains too high. We believe a marginal rate of tax (including social insurance contributions) set at 50% would make Ireland a more attractive location for inward investment and strengthen its capacity to compete for highly skilled and mobile labour.

## PRSI

The Institute acknowledges that increases in tax will be necessary in the coming decades to finance the cost of caring for an [ageing population](#) and to fund the public services to Ireland's fast-growing population.

However, decisions to increase PRSI rates must take account of the impact on the cost of employment. In that context, the Institute recommends the introduction of a cap on the level of earnings to which PRSI would apply. This is practice in several other countries, including Germany.

In general, the PRSI system is convoluted and in need of reform. Notwithstanding the conclusions of the 2019 working group about the difficulties and complexities involved, the case for merging USC and PRSI remains compelling.<sup>1</sup> It will not be easy but the prize of an effective system of social contribution to the provision of public services levied according to income across the population would have far reaching societal and economic benefits. In this context, our recommendation on capping the level of earnings to which PRSI would be applied may not be achievable but it should be borne in mind in the overall determination of a merged rate.

## Broaden the Tax Base

An inherent weakness in the Irish personal tax system is its unusually narrow base. Revenue estimates that 33% of all taxpayer units will pay neither income tax nor USC in 2024. Meanwhile, the top 1% of income earners will contribute just shy of a quarter of all income tax and USC payments. A significant portion of these high earners work for multinational companies.<sup>2</sup>

In 2022, 40% of all income tax and USC receipts came from the multinational sector. Over reliance by the Exchequer on any one group of taxpayers is a risk to the stability of the Irish tax system.

The Institute believes a broader personal tax base, in which all taxpayers contribute according to their means, would be more sustainable. Spreading the burden according to means would

<sup>1</sup> Income Tax, Tax Strategy Group, July 2019

<sup>2</sup> Pre-Budget 2025 Ready Reckoner, Revenue, July 2024

lighten the load on middle-income earners. It would also bring Ireland into line with competitor countries.

## Equitable Treatment of All Taxpayers

As a matter of equity, the Institute believes the 3% USC surcharge on self-employed income over €100,000 should be removed. We agree with the Report of the Commission on Taxation and Welfare which recommended that the tax treatment for all income earners should be aligned.<sup>3</sup>

## Share-based Remuneration

The use of share options to attract or retain employees is becoming more widespread across all sectors of the economy. However, share-based remuneration in Ireland raises some tax issues for employees and in [our response](#) to the Government's Public Consultation last January, we gave a detailed critique of the current schemes.

The difficulties faced by employees in funding the upfront tax cost arising on the exercise of a share option or receipt of a share award needs to be addressed. We recommend the upfront tax cost should be deferred until the employee is permitted to dispose of the shares, as is the practice in other EU Member States.

Alternatively, where employers provide a loan to employees to discharge the upfront tax cost, such loans should be exempt from Benefit-In-Kind (BIK) or the 13.5% per annum preferential rate of interest should be reduced to reflect a commercial interest rate, as recommended by Indecon and similar to the practice in other jurisdictions.<sup>4</sup>

The Institute believes addressing the upfront cost would enable greater uptake of share-based remuneration in small businesses where share options can play a key role in attracting and retaining highly skilled workers.

Given the high cost of employment in Ireland, it is essential that the Employer PRSI exemption on share-based remuneration is retained.

## Conclusion

Income tax and USC are consistently the largest source of revenue collected by the Exchequer. It is essential, therefore, that the personal tax system is robust and sustainable. Historically, this efficient and reliable tax source has been used to replenish flagging Exchequer coffers, despite ample evidence of the economic damage of this approach.

The Institute firmly believes that future governments should tilt the balance in taxation policy away from economically regressive labour taxes in favour of taxes such as VAT, property taxes and environmental charges.

<sup>3</sup> Commission on Taxation and Welfare Report, page 285, September 2022

<sup>4</sup> Review of Taxation on Share-Based Remuneration, page 68, Indecon, July 2024

# Building Productivity and Innovation in SMEs



Effective tax measures for SMEs have a significant role to play in developing a productive and sustainable indigenous sector which, by common consent, is essential for the diversification of Ireland's economic base.

Over the last decade, successive governments have recognised this reality by introducing a suite of tax reliefs and incentives aimed at building innovation, encouraging investment and supporting business founders who take the risk of starting a small business.

It is fair to say that despite the best intentions of the administrations which introduced and subsequently enhanced them, these measures continue to fall short of their intended impact on the indigenous sector.

The Institute has consistently called for legislative changes to make the reliefs less restrictive and more accessible to SMEs and start-ups. Most recently, [our Pre-Budget 2025 Submission](#) sets out in detail changes we believe would release the potential of these tax measures to build a vibrant enterprise ecosystem that could rebalance the productive base of Ireland's economy.

Below, we list a selection of our recommendations.

## Employment Investment Incentive

Holding company structures should qualify under the Employment Investment Incentive (EII). Founder holding companies, which are commonplace in early-stage businesses, are set up for sound commercial reasons before raising EII finance is even a consideration. Disqualifying businesses with such structures defeats the stated purpose of this critical incentive which is to provide an essential source of funding for early stage and small businesses that have limited financing options.

## CGT Revised Entrepreneur Relief

As with the EII, the restrictions in this tax relief for entrepreneurs exclude many common holding company structures that evolve during the life cycle of businesses, including where a subsidiary company has become dormant over time. The restrictions need to be eased to reflect the realities of how businesses develop in a modern economy so that entrepreneurs can be incentivised to develop and build productive businesses in Ireland.

## Capital Gains Tax Rate

Ultimately, the tax that matters most to entrepreneurs is Capital Gains Tax (CGT). The Institute has been pointing out for the last decade that at 33%, Ireland's headline rate is among the highest in Europe and has remained unchanged since it was increased during the financial crisis.

A high CGT rate can result in delays in selling investments that have large unrealised gains. A reduced rate can encourage entrepreneurship because the capital gain payoff from a successful start-up is improved.

Ireland's high CGT rate is further compounded by the fact that indexation relief, which sought to limit CGT to real gains in asset values by excluding the impact of inflation, was abolished in 2002.

The Institute believes that this high CGT rate is restricting external investment in Irish business. It is also creating reluctant business owners who may hold onto their firms beyond the point where they have capacity to grow them and expand into export markets.

This dampening effect is, in our view, evidenced by the low level of CGT receipts in recent years, which fell further in 2023 compared with the previous two years. We know from previous experience that reducing the CGT rate can stimulate activity and increase the yield to the Exchequer.

It is our firm view that a reduced CGT rate of 25% applying to active business assets would encourage innovation and productivity, and attract foreign investors into Irish indigenous business.

## Key Employee Engagement Programme

The Institute welcomed the amendments to the Key Employee Engagement Programme (KEEP) which were commenced in November 2023. However, obtaining certainty over the valuation of KEEP shares remains a key concern for companies.

If share options are not granted for market value, they do not qualify as KEEP options and consequently tax relief is not applied on exercise. This penal sanction poses a risk SMEs cannot afford to take.

The Institute has put forward a more appropriate sanction: where options are granted at an undervalue within a given percentage of the Revenue determined value (for example, 75%), a charge to income tax arising on the exercise of the options should be levied on the difference between the market value at the date of grant and the option price.

In line with the approach proposed by Indecon<sup>5</sup>, we recommend that clear, principle-based guidance on share valuations, including acceptable methodologies and safe harbours, should be provided to support companies that offer share-based remuneration to their employees.



<sup>5</sup> Review of the Taxation of Share-Based Remuneration, pages 65 - 67, Indecon, July 2024

## R&D Tax Credit

Increasing high-value-added R&D activity is critical to driving innovation and productivity in the Irish SME sector. We welcome the decision in Budget 2025 to increase to €75,000 the amount of an R&D Tax Credit claim to be paid in the first year.

However, we remain of the view that the current 3-year payment schedule should be condensed into one year for all businesses, but at the very least, for SMEs. Accelerating the refund would provide valuable assistance to smaller companies that tend to be cash constrained.

## Make SME Supports More Accessible

The complexity and the administration involved in the SME tax measures deter business owners from pursuing their intended benefits. By way of example, Revenue guidance notes on the EII now run to over 100 pages. Few founders have either the time or the skills to navigate the application process and the cost of professional advice can put the scheme beyond the budget of a start-up.

Most of the measures impose severe penalties for any error in the convoluted qualifying or claiming processes. For example, the tax relieved can be clawed back in full for errors in availing of EII. The risks involved in negotiating what can be a procedural minefield are prohibitive for most start-up businesses.

The eligibility criteria for some of the measures fail to recognise the reality of business structures in evolving start-up companies in which holding or dormant companies are formed for sound commercial reasons at certain stages of their development.

## Conclusion

After more than a decade of reviews and consultation processes some progress has been made but it is frustratingly slow. The Institute's view is that the approach to the legislative design of enterprise supports is overly defensive and ultimately undermines their policy objective. We fully acknowledge and support the responsibility of public officials to protect taxpayers' money, but the Department of Finance also has a responsibility to ensure that tax policy fosters economic growth.

Ireland's overdependence on its multinational companies for corporation tax and employment taxes is a top risk to the economy. There is an obvious way to mitigate that risk and now is the time to do it. We need urgently to start bridging the productivity and innovation gap between Ireland's remarkably resilient and profitable MNE sector and its comparatively underperforming domestic sector.

But, in our view, there must first be a shift to a more supportive mindset across government that will enable decision-makers, official and political, to engage positively with business and to understand that risk is an integral part of any enterprise and that those who take it must be rewarded.

Finding ways to shift that mindset should be high on the agenda of the next Government.

# Competitiveness and Attracting FDI



The Institute is disappointed with the lack of ambition in Budget 2025 on the reform of the corporate tax code. In our view, a comprehensive roadmap of legislative change with detailed dates for delivery would have gone some way to assuage the concerns of large multinational companies who must now pay the new 15% global minimum effective corporate tax rate which is now part of Ireland's tax code.

The country's creaking public infrastructure and the shortage of housing top the list of challenges facing the next Government, and rightly so. These are tangible constraints that impact the lives of all who live and work here, and they are damaging Ireland's reputation as a destination for investment.

But it is critical that policymakers do not lose sight of the reality that tax is a key consideration for prospective investors in any economy. It is also one of the few variables that the Government can shape and control in a small, open economy like Ireland. The clarity and simplicity of Ireland's iconic 12.5% corporation tax rate forgave much in the code that has become increasingly complex over the last decade.

## Simplification of the Tax Code

In a post-Pillar Two world, it is critical that the current tax offering is reshaped into a simplified, transparent, innovative and competitive package of measures that sets Ireland up to compete for the next wave of foreign direct investment (FDI).

In this regard, the first priority for a new Government must be a well-resourced and thorough simplification project. Since the launch of the BEPS process in 2013, international tax has become enormously complex. Compliance is more onerous and costly, and tax certainty for business has been greatly eroded.

Revenue authorities around the world are also struggling under the weight of the unprecedented rate of change in global tax rules. The OECD, itself, is now recommending simplification to Member States. Early progress on a simplification project would be a significant competitive advantage for Ireland.

But the first item on the tax agenda of the next Minister for Finance must be to complete the task of updating those parts of the corporate tax code, outlined below, that currently put Ireland at a competitive disadvantage with other jurisdictions.

## Participation Exemption

The move to a territorial system for the taxation of foreign source income of multinational companies was recommended in the Coffey Report in 2017.<sup>6</sup> The legislation to allow an exemption for foreign dividends will come into effect from the beginning of next year. The Institute welcomes this hard-won progress, but seven years is a long time to wait for the delivery of a measure that does not even bestow any competitive advantage. It is simply a step towards putting the Irish code on a level footing with competitor jurisdictions that have well-established participation exemption regimes.

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<sup>6</sup> [Review of Ireland's Corporation Tax Code, September 2017](#)

It is critical that the next Government broadens the geographic scope of the new exemption beyond dividends received by Irish companies from their subsidiaries resident in the EU/EEA and tax treaty jurisdictions. Otherwise, dividends received from companies resident in some key emerging economies, such as Brazil, Argentina and Indonesia, will not qualify for this simplification measure.

The Institute had called for a foreign branch exemption (the second part of a territorial system) to be introduced in tandem with the foreign dividend exemption. Again, this is not groundbreaking: many EU Member States and other competitor jurisdictions permit an exemption for foreign branch income. Although further consultation had been promised, it has yet to take place and there appears to be no sense of urgency about delivering the measure.

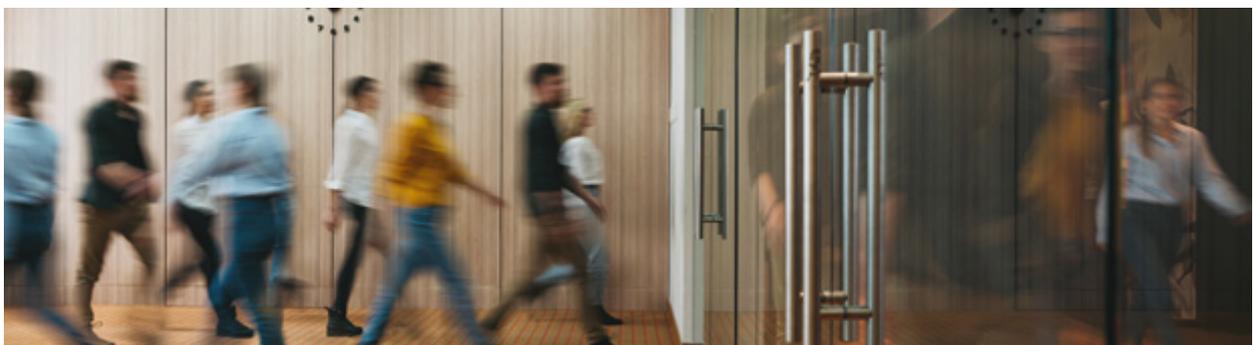
## Interest Deductibility

Ireland has one of the most complicated interest deductibility regimes within the EU. The ATAD Interest Limitation Rule (i.e. 30% of EBITDA ratio rule), introduced in Finance Act 2021, was simply layered on top of existing, already comprehensive interest deductibility provisions. Compliance with this tangled web of rules is fiendishly difficult and costly for businesses based here. In the Institute's view, it represents a reputational risk.

The Institute welcomes the recent launch of the consultation on the tax treatment of interest in Ireland by the Department of Finance and looks forward to taking part in the consultation process.<sup>7</sup>

To give certainty to businesses, a new Government should, as a matter of urgency, set out a clear timetable for the delivery of legislative reforms that will permit a broad base for deduction of interest against both trading and non-trading income. The ATAD Interest Limitation Rule is in the code to protect against base erosion risks. This would bring Ireland's interest deductibility rules in line with the measures contained in the corporate tax systems of European counterparts.

We accept that simplification is a big project that will require significant resources for Revenue. But the case for this investment is compelling. Clear and simple corporation tax rules that are easy to operate and comply with would significantly enhance Ireland's reputation as a pro-business location. Government has the power and the means to deliver simplification. The system must provide the will to do so.



<sup>7</sup> Public Consultation on the Tax Treatment of Interest in Ireland, Department of Finance, September 2024

## Special Assignee Relief Programme

The Special Assignee Relief Programme (SARP) is a critical part of Ireland's competitive offering to attract FDI and the relocation of high-value employment to the State. The global demand for top talent is intense and given Ireland's high rates of personal taxation and cost of living, persuading highly skilled individuals and senior decision-makers to move here is challenging.

Retaining SARP and continually benchmarking the Irish regime against key competitor countries is essential to enable Ireland to compete for talent on a global stage. Failure by an employer to submit the required notice to Revenue, within 90 days of the employee's arrival in Ireland, can result in the refusal of SARP relief to the employee who would otherwise meet the qualifying conditions. This 'penalty' is entirely disproportionate and the requirement should be removed as a qualifying condition for the relief.

## Conclusion

The Institute knows from its members that there is growing disenchantment in the corporate sector about Ireland's commitment to simplify the tax code for business. The narrative in multinational tax circles is that Ireland has become complacent and is taking the continuation of a steady stream of inward investment for granted. As the battle for FDI intensifies around the world Ireland cannot afford to rest on its laurels.

As a small open economy, inward investment will continue to be at the core of the Irish economic model. And as larger countries with deeper pockets in the EU and beyond enter the fray, the battle for FDI has just become a whole lot more difficult.

Competitiveness is key and there is no room for complacency.

# Housing



There have been many tax policy interventions in the Irish property market since the financial crash. Initially, the objective was to attract private investment to recapitalise and resuscitate the market. As the economy began to recover, institutional investment became the driving force behind a significant increase in the supply of new high-quality apartments.<sup>8</sup>

However, as demand continued to outstrip supply and the housing crisis deepened, significant rule changes were made to tax measures. By and large, these changes were reactive, and were introduced to address specific developments in the supply crunch, without any consideration of their possible long-term market impacts or unintended consequences.

## Stamp Duty

Consider, for example, the higher rate of stamp duty on acquisitions of more than 10 “own door” residential units. First introduced in May 2021 at 10%, this change was a response to public disquiet about the bulk purchase of houses by large investment companies operating in the residential rental property market.

On its own terms, the increase has been highly effective. In the three years since its introduction, investor activity in the family-home rental market has dwindled. Last year, according to CSO data, less than 2% of all new houses were sold to buy to let investors.<sup>9</sup> For renters, this is hardly a desirable outcome.

All of which begs the question why, three years after its introduction, the stamp duty rate was increased by 5% in Budget 2025. This was the fifth change in seven years to stamp duty in commercial and residential property. Feedback from our members indicates that real estate investors are no longer considering Ireland as a primary place to invest.

## Attracting International Investment

There is a consensus that Ireland will need 50,000 houses each year for the next five years to meet current high levels of population growth. Notwithstanding the significant increase in public funding, access to finance continues to be a constraint in the residential sector. The construction of apartment blocks, which has all but stalled, will require international investment according to property experts.

A paper written by the Department of Finance for this year’s National Economic Dialogue said, “*tens of billions of euro of private sector investment will be needed to meet the supply of housing required over the coming decade.*”<sup>10</sup>

Just before he resigned as Minister for Finance in early July, Michael McGrath TD, was more specific. In a speech at a BPFJ conference reported in the media, he said Ireland needed to be grown up and welcoming to private capital: “*If we are to build around 50,000 units a year, then you need approximately €20 billion. The State can provide a share of that, but the banking sector, the non-banking sector, and international capital will all have to play a role.*”<sup>11</sup>

<sup>8</sup> Institutional Investment in the Housing Market, Department of Finance, February 2019

<sup>9</sup> Residential Property Transactions by Non-Households 2023, CSO, July 2024

<sup>10</sup> Building for the Future: Maintaining progress in a challenging environment, National Economic Dialogue, 2024

<sup>11</sup> State must be ‘welcoming’ to foreign investors to meet €20bn housing cost, Minister says, The Irish Times, June 2024

The next Government has work to do to make Ireland a “welcoming home” for institutional investors. It should start by setting out a clear and settled policy position on how it plans to increase supply. Changes to the taxation of Irish property structures and products such as the REIT and IREF regimes have reduced the confidence of institutional investors in the products available.

The final report by the Department of Finance on the funds sector acknowledges that the current REIT regime is not meeting all of its objectives.<sup>12</sup> It concludes that investors have moved away from IREFs due to recent changes in the IREF regime, uncertainty over its future tax treatment, and the cost and governance burden of maintaining a regulated entity. The report recommends a public consultation on further tax changes to IREFs.<sup>13</sup>

The Institute has set out its recommendations for restoring certainty and competitiveness to both these tax measures in [our response](#) to the Department of Finance Consultation: Funds Sector 2030.

## Domestic Investment Construction Fund

Consideration could also be given to the introduction of a domestic funding model to encourage the development of housing. Given the unprecedentedly high level of personal savings, taxpayers could be incentivised through an investment model, drawing on elements from the EII scheme, to participate in suitable development projects.

## Local Property Tax

The yield from the Local Property Tax (LPT) has increased steadily since it was amended in 2021. This tax is now a well-established, sustainable and regular source of funding for the Exchequer.

The next Government should ensure that yield is maintained to make sure that Ireland’s overall tax base remains as broad as possible.

All features of the LPT regime, including the rate, exemptions and the rules around deferrals, should be reviewed at regular intervals to ensure they are up to date and reflect current circumstances. Crucially, the revaluation of properties which is required by law to take place every four years, should take place next year as scheduled.

## Conclusion

Whatever strategies to increase supply are adopted by the next Government, it is essential that the interventions are well designed and have regard to their longer-term impact. It is also important that there are no reactive changes. Stability and certainty are key to attracting inward investment. Lessons must be learnt from the danger of unintended consequences.

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<sup>12</sup> Funds Sector 2030, A Framework for Open, Resilient and Developing Markets, Final Report October 2024, page 92

<sup>13</sup> Funds Sector 2030, A Framework for Open, Resilient and Developing Markets, Final Report, October 2024, page 93

# Climate



Among the many challenges facing the next Government, most pressing will be the legal requirement to achieve a 51% reduction in greenhouse gas emissions by 2030 compared to 2018 levels.

With a mandate to govern until the end of the decade, a new administration will be keen to avoid paying out up to €8 billion in penalties just as its term of office ends. But the task that lies ahead is daunting.<sup>14</sup>

Despite the news that greenhouse gas emissions had fallen by 6.8% in 2023, the Environmental Protection Agency warned that the country remained “well off track” to meet EU and national 2030 targets. According to the Agency’s latest projections the reduction will be as low as 29% - more than a fifth short of the 51% target enshrined in the Climate Act legislation that became law in 2021.<sup>15</sup>

Getting back on track will require serious acceleration and full implementation of existing actions set out in the Climate Action Plan 2021 and the adoption and effective implementation of further policies to deliver emission reductions.

## Fossil Fuel Subsidies

A key action in the Climate Action Plan 2021 was to develop a roadmap to transition away from fossil fuel tax subsidies by 2024. Progress in this endeavour has been hindered by temporary reductions in fuel excise duties, introduced in response to rampant energy inflation following the outbreak of war in Ukraine.

A promised review of existing fossil subsidies in the transport sector was completed by the Department of Finance in 2023.<sup>16</sup> The next Government faces the difficult but essential task of phasing out subsidies that have built up over decades to assist certain sectors of the economy.

This should be done in tandem with support measures to incentivise a transition to greener fuels and technology. Appropriate policy design will be vital to ensure that poorer households and impacted sectors of the economy are not disproportionately disadvantaged by this necessary change in our energy tax regime.

## Environmental Tax Measures

One of the commitments contained in the 2021 Climate Act is an annual review and reform of current environmental taxes. The Institute strongly supports this commitment and believes opportunities to expand the country’s existing environmental taxes need to be explored.

New tax measures will also be needed to replace lost revenues arising from the decarbonisation of the Irish economy. Ensuring stakeholder and consumer acceptance will be central to their successful implementation.

<sup>14</sup> Estimating the Potential Cost of Compliance with 2030 Climate & Energy Targets, February 2023

<sup>15</sup> Ireland’s greenhouse gas emissions in 2023 lowest in three decades, CSO, July 2024

<sup>16</sup> Review of Existing Fossil Tax Subsidies in the Transport Sector, Department of Finance, July 2023



One stable source of revenue that will not be eroded as the economy decarbonises is the tax on electricity. In 2023, Electricity Tax contributed just €4.2 million to the Exchequer. The low level of receipts is due to the low tax rate and the wide range of reliefs available, including a full relief for domestic usage as well as for electricity produced from renewable sources.

As renewable energy sources continue to grow, the argument for its exemption from tax weakens. In addition, proposed changes to the EU's Energy Tax Directive include a gradual removal of the current exemption for residential electricity users with an optional exemption for vulnerable households.

The rate of electricity tax charged in Ireland at €1 per Mwh is amongst the lowest in the EU. As the share of electricity generated by renewables increases, so does the cost of reliefs available, reducing the overall yield.

The Institute supports the removal of the exemption from Electricity Tax for domestic use. However, given Ireland has higher electricity prices than most EU countries, appropriate policy design is vital to ensure its removal does not disproportionately disadvantage lower income households.

## Incentivising Decarbonisation of Business

Many jurisdictions are using tax incentives to support businesses in reducing their carbon emissions and to encourage investment in green/energy efficient projects.

Most large multinational groups are now bound by ambitious environmental, social and governance (ESG) frameworks. As a result, robust climate action policies, including supports for green initiatives, have become key considerations for investors when choosing locations for their business. And, in our view, Ireland's current offering is uncompetitive.

We firmly believe that tax measures which support businesses in reducing their carbon emissions should be on the table as the country seeks to attract and retain inward investment. Such measures would also aid Ireland in achieving its climate change targets.

Ireland's natural advantages in the production of wind energy could be maximised by incentivising business to build green energy infrastructure to exploit this renewable energy

source. This would assist Ireland in becoming energy self-sufficient and potentially an exporter of green energy.

In this regard, we recommend enhancing the existing accelerated capital allowances regime for energy efficient equipment and introducing targeted measures for green or energy related R&D. Other EU Members States have already improved their offerings in these areas. The next Government needs to act speedily to ensure Ireland grasps the opportunity.

## **Green Enhancements to the Employment Investment Incentive**

The Institute believes that the EII scheme could assist Ireland in achieving its Climate Act commitments by helping to ensure businesses become energy neutral. The EII scheme could also be used as a policy lever to encourage investment in high-risk ventures which support green/energy efficient projects. A number of amendments to the scheme would be required and we have set out the details of the changes in [our Submission to the Commission on Taxation and Welfare](#).

## **Conclusion**

The tax system is a powerful lever that the next Government should use more extensively to incentivise businesses and individuals to reduce their carbon emissions. It should also be used to ensure Ireland is in the forefront of climate innovation and the development of green technology.

# Ageing Populaton



Of all the structural, long-term challenges facing Ireland, the most certain and fiscally substantial is the impact of population ageing. As life expectancy increases and the birth rate falls, an ageing population will have significant implications for the economy and the public finances.

In its triennial assessment of budgetary costs associated with demographic change, the Department of Finance predicts that the number of working age adults to every retiree will decrease from around 4 in 2024, to just over 2 in 2050.<sup>17</sup>

The assessment predicts that age-related expenditure will increase by 6 percentage points of national income over the next three decades. This is primarily driven by a substantial increase in pension expenditure which is projected to increase from 7% Gross National Income (GNI) in 2022 to 11% in 2050.

## Encouraging Workers to Save for Retirement

Given the demographic context, it is critical that the personal tax system continues to incentivise individuals to set aside income to provide for an adequate pension in their increasingly long retirement years.

The Institute agrees with the conclusion by the Commission on Taxation and Welfare (CoTW) that tax relief on pension contributions at the saver's marginal income tax rate is appropriate. As it points out in its Report, taxation on pension contributions is deferred rather than relieved indefinitely, as tax is paid upon drawdown of pension savings in retirement.

In addition to the Standard Fund Threshold which sets a lifetime limit on tax-relieved pension contributions, annual limits apply to the tax relief available based on an individual's age and an earnings limit of €115,000. Both the CoTW and the report on the Examination of the Standard Fund Threshold<sup>18</sup> recommended the removal of the age-related limits and also the removal of the earnings limit on a phased basis.

We also agree with the CoTW that inconsistencies in the tax treatment of different retirement arrangements should be addressed. Any further restriction on pension tax relief must be balanced against the tax treatment of unfunded public sector pensions.

## Equitable Tax Treatment Across All Pension Arrangements

Under the present system, those with fluctuating income pay more than those whose income accrues more evenly. From this perspective, the relief for pension contributions can be viewed as a form of income averaging rather than a tax relief.

In this context, the Institute is disappointed with the changes to PRSAs included in Finance Bill 2024, specifically the curtailment of the BIK exemption on employer contributions to 100% of the employee's salary in the year of assessment.

<sup>17</sup> Population Ageing and The Public Finances in Ireland - Changing Demographics, June 2024

<sup>18</sup> Examination of the Standard Fund Threshold - Dr. Donal de Buitléir, September 2024.

This change appears to address concerns about a small number of cases where relatives of the business owner being employed on artificially low wages are benefiting from large tax-free PRSA employer contributions. However, it severely limits the retirement savings options of business owners who often award themselves modest pay in favour of reinvestment of available funds in the early stages of their businesses' development. As these business owners approach retirement, they are more likely to make larger contributions to build up savings they were unable to put aside at leaner stages in the business. The changes in the Finance Bill now rule out that option and that is unfair.

The whole idea of abolishing BIK on employer contributions was to level the playing field with occupational pension schemes. Now, PRSA holders are being disadvantaged because the funding rules for an occupational scheme, which are based on the employee's age, salary and years of service, are a lot less restrictive.

The change to PRSAs is also in direct contravention of the CoTW's recommendation that savers should be allowed the flexibility to contribute to their retirement as and when they can afford to do so. This reflected the Commission's view that *"the taxation system should be responsive and capable of adapting to the changing nature of work and the economic environment"*.<sup>19</sup>

The amendment adds further complication to the pensions landscape and goes against the objective of simplification recommended by the Interdepartmental Group on Pensions Reform and Taxation.<sup>20</sup> We strongly support simplification of pensions and the CoTW's recommendation that anomalies in the tax treatment of different retirement arrangements should be eliminated, as far as possible.



## Funding a Sustainable State Pension

The Report of the Commission on Pensions, published in October 2021, examined issues relating to eligibility for the State Pension and the sustainability of the Social Insurance Fund in the context of a rapidly ageing population.

<sup>19</sup> Commission on Taxation and Welfare Report, pg 159

<sup>20</sup> Report of the Interdepartmental Pensions Reform and Taxation Group, November 2020, pg 33

The Report set out four options for the consideration of Government, each of which recommended that PRSI for the self-employed would increase from 4% to 10% by 2030 and thereafter to the higher rate of Class A Employer PRSI (currently 11.15%).

The Institute agrees with the Commission that the most feasible of the proposed routes forward is phased increases to the PRSI rates for the self-employed, employers and employees, and a gradual increase in the State Pension age.

However, we would strongly advise that any increases in PRSI must factor in the overall impact on the cost of employment in Ireland.

## The Sustainability of the Current Tax Treatment of Retirees

Over time, pensioners have benefited from an accumulation of tax exemptions, reduced rates and credits on the basis of their age and income level.

For example:

- > Those aged 65 and over are exempt from income tax if their annual income is less than €18,001 (single) and €36,001 (married couple).
- > In addition to their personal credits, over 65s can claim an annual Age Tax Credit of €245 for a single person or €490 for a married couple.
- > From the age of 70, pensioners are exempt from PRSI on all income.
- > The State Pension, like all welfare payments, is exempt from USC.
- > From the age of 70, pensioners pay a maximum USC rate of 2% provided their total income is not more than €60,000 per year. This income cap excludes the State Pension which is exempt from USC.

In its report, the CoTW described this as an arbitrary approach. Individuals who earn the same income from the same sources and are otherwise identical are subject to different income tax, USC and PRSI charges. In the Commission's view, this approach offends against horizontal and intergenerational equity as well as contributing to the narrowing of the tax base.

The Institute agrees. We would furthermore point out that the determination of an individual's tax treatment based on age is not fiscally sustainable given Ireland's demographic profile.

## Conclusion

The Future Ireland Fund and the Infrastructure, Climate and Nature Fund will save some of the current corporation tax receipts to help offset the costs of long-term structural challenges, including an ageing population.

Nevertheless, the costs of an ageing population will require additional policy responses, and most likely, changes to the tax system. If they are to be effective, such changes must be fair and equitable across all sectors of the economy and within all age and income groups of the population.

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