BUDGET 2015

Irish Exporters Association

Key Priorities and Recommendations

Executive Summary

Export led growth will be the main driver of faster growth in real GDP which will in turn determine our success in reducing unemployment and elimination Ireland's fiscal deficit and reducing the national debt to GDP ratio.

Prospects for Irish exports in 2014 and beyond have improved largely as a result of the diminishing impact of the patent cliff effect and the continued success of Irish food and agricultural related exports. However, the export sector is struggling on a number of fronts. Budget 2015 must support the development of a stronger export drive by adopting measures that address a number of urgent issues and implement specific policy measures identified by Irish exporters as critical to their efforts to expand their businesses.

To stimulate the development of the Irish export sector, which will be vital to the sustainable recover in the Irish economy in 2014 and beyond, the Irish Exporters Association recommends that the Government in framing Budget 2015 should:

- Increase the entry point to the income tax rate from €32,800 by 10%.
- Reduce the marginal tax rate in income tax by 1%.
- Reduce the rate of employer PRSI on lower paid workers to the pre- 2014 levels of 4.25%.
- Reduce the top rate of USC by 1%.
- Extend Foreign Earnings Deduction Scheme beyond 2014. Expand number of qualifying countries and increase maximum deduction to gross deduction of € 50,000 p.a.
- Expand R&D benefits and decrease the period required to obtain R&D tax benefits.
- Introduce 100% tax relief in the year of investment in Investment Incentive Scheme and reset investment period should at 5 years.
- Maintain current 12.5% corporate tax rate.
- Allow carry forward unused withholding tax credits to future periods and make available for off-set against future tax liabilities.
- Give corporation tax benefits to companies generating IP in Ireland.
- Expand schemes such as the Internet and innovation voucher programs for SMS's.
- Guarantee first time export grant to be spend on export related supports.
- Ensure that more long-term loan capital is made available to mid-sized companies.

Economic Background

Irish exports of goods and services were over €184 billion in 2013, equivalent to over 105% of nominal GDP. They are a key driver of economic recovery in Ireland.

The economy is recovering but risks and uncertainties persist both domestically and internationally.

Prospects for Irish exports in 2014 and beyond have improved. However, the sector faces a number of challenges in achieving a broader based sustainable performance:

◊ The impact of the patent cliff effect on overall exports highlights the need for greater product diversification.

◊ There is an overreliance on traditional European markets.

◊ Irish exports have made little inroad into Asian and other emerging markets.

◊ Too few indigenous Irish companies are breaking into export markets or sustaining a breakthrough in those markets. This reflects a number of factors:

- The domestic cost base is too high.
- The IEA is very concerned about the short-term risk to higher costs and labour market flexibility arising from the surge in property prices.
- Lack of internal financial resources, access to skilled labour and lack of appropriately skilled management are barriers to exporting from Ireland.
- More support for exports in foreign markets is required.
- Access to finance is a major issue, particularly longer term debt finance.

Budget Recommendations

Income Taxation

The IEA acknowledges that pursuing the fiscal targets as originally agreed is paramount to the restoration of Ireland's economic and political reputation both domestically and abroad, but in achieving such fiscal balance, the IEA feels that excess reliance has been placed on raising levels of taxation. Targeted measures are called for that improve the growth potential of the economy, particularly in the export sector.

The IEA recommends that the budget measures should:

- *Increase the entry point to the top income tax rate from €32,800 by 10%.*
- *Reduce the marginal income tax rate by 1%.*
- *Reduce the rate of employer PRSI on lower paid workers to the pre- 2014 levels of 4.25% (down from the current rate of 8.5%).*
- *Reduce the top rate of USC by 1%.*

Taxation relating to the Export Sector

Foreign Earnings Deduction (FED) Scheme

This scheme provides a limited tax deduction for individuals temporarily working in the BRICS countries and certain African countries. It is scheduled to expire at the end of 2014.

The IEA therefore recommend that:

- *The scheme should be extended beyond 2014 and enhanced to encourage the opening up of new markets for exporters.*
- *The number of qualifying countries should be extended, to include, at a minimum, Malaysia, Singapore, Japan, Korea, Vietnam, the Middle East.*
- *The maximum deduction should be increased to gross deduction of €50,000 p.a. and it should also apply in reducing PRSI and USC. Currently, the maximum tax relief is €14,350.*

R&D Tax Credits – Accelerated Refunds

Many companies in the early years of their existence are loss making, incurring significant amounts of R&D expenditure and struggle to obtain sufficient start-up funding. At the same time, it can take almost three years to receive a full tax refund for the value of R&D, from the time the expenditure is incurred. Government could better support companies that are carrying out R&D and incurring significant costs by allowing them to claim a tax Rebate (as opposed to a credit) such that instead of 'drip feeding' the R&D Tax Rebate over 3 years, that they give it in one payment in the first year. This would have the effect of making 'finance' available to R&D start-ups, who can't really get finance by other means.

To enable companies to fund their R&D activities and encourage more R&D the IEA recommends the following:

- *Decrease the period required to obtain R&D tax benefits by granting a tax rebate in the year the qualifying expenditure is incurred.*
- *Expand R&D benefits to enable market research into new markets to qualify as R&D expenditure.*

Employment and Investment Incentive Scheme (EIIS)

The taxation benefits associated with the BES scheme were replaced by the EIIS. To date there has been very limited take-up or investment through this scheme.

The scheme has therefore failed to deliver the hoped for results. To reverse this trend, improvements are necessary which will increase its attractiveness for both the investor and the investee company.

The IEA recommends that:

- *In order to encourage further investment by individuals in small and medium sized companies, the Minister should provide for 100% tax relief to be available in the year of investment.*
- *The investment period should be reset at 5 years.*

Other taxation measures

Corporation tax

The IEA consider that the current 12.5% corporate tax rate should be maintained and no measures should be taken to increase the base corporate tax rate. Any impact on the 12.5% rate would reduce Ireland's competitiveness as a place to conduct corporate activity.

Withholding tax

For exporters who are subject to Withholding Tax in foreign countries and cannot offset it in the current year on their Irish taxes, *the IEA recommends that changes be introduced such that unused withholding tax credits can be carried forward to future periods and available for off-set against future corporate tax liabilities.*

Corporate tax and IP

The IEA considers that Ireland as a location for companies creating, developing or holding IP is less attractive than many of our European neighbors.

Accordingly, the IEA recommends that measures are introduced to give corporation tax benefits/credits to companies generating IP in Ireland where it can be shown that the IP creation leads to the creation of new employment. This would help to build FDI in high research high value jobs and strengthen our jobs pipeline.

Capital acquisitions tax / succession planning for family owned export businesses

Currently when a business owner of a private company considers how to pass it on to the next generation if they have an interest they are faced with requirements that are very onerous to avail of business relief, including a requirement to pass on interests in the family business prior to the age of 66. Increasingly, people are having children later in life, and an age restriction of 66 to avail of the retirement relief often means that the next generations are not of sufficient age or experience to take over the family business within the timeframe allowed by the relief.

Accordingly, the IEA recommends that business relief is reviewed and the age limited eliminated as a specific requirement to avail of the relief.

Encouraging more first time exporters

To encourage more first time exporters the IEA recommend that the Government should:

- *Expand schemes such as the Internet and innovation voucher programs for SME's such that the maximum benefit is increased from €5,000 to €10,000*
- *First Time Export grant to spend on Export related supports. These supports should be extended to include an approved list of private sector providers outside the remit of EI. This*

would both broaden the scope of companies receiving support as well as help strengthen the companies providing the support service – thus widening the Export support ecosystem.

Finance

It is imperative that more funds are available to the SME sector. *The Government must ensure that more long-term loan capital is made available particularly for mid-sized companies in Ireland.* The lack of State Backed Export Guarantees puts Irish exporters at a competitive disadvantage to other countries such as the UK, France and the US who do have them.

The IEA recommends that the Government needs to urgently look at reintroducing a scheme, which could be run by the private sector to restore our competitiveness in this area.