Commission on Taxation

Dissecting the detail...

PricewaterhouseCoopers

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Executive summary

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The Global Tax Monitor recognises PricewaterhouseCoopers as one of the leading firms in Ireland for tax advice by reputation.

These results are based on the year-ending Q2 2009 figures, with a sample size of 100 primary buyers of tax advice in Ireland.

Colm Kelly
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Introduction

The long anticipated Commission on Taxation Report 2009 (Report) was published today, 7 September 2009.

The 550 page report covers a huge range of areas, and the over 240 recommendations made by the Commission have a potential impact on every single taxpayer in Ireland, personal or business, individual or corporate. There are major sections dealing with recommendations for the introduction of a new Carbon Tax, a new regime for Personal Pensions, and a Property Tax. Every incentive or relief in the tax code has been reviewed and considered, with a huge number of proposed changes.

Some key elements of our existing tax framework, however, are not only unchanged, but re-inforced. The Commission confirms Ireland's commitment to the 12.5% corporation tax rate, and the report also asserts that any new taxes "should be available to reduce the existing tax burden, particularly the burden on labour". The overall intention is "to propose a new structure for the tax system that can be implemented in a revenue neutral manner" - not an insignificant challenge.

The key issue of course is the extent to which the recommendations get implemented. The Minister has already ruled out the introduction of a Property Tax.

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There are other measures which are likely to be politically sensitive. And it is important to remember that the recommendations are not legislative proposals from Government, as would be the case for example with a Finance Bill. These are recommendations from the Commission for consideration by Government. And this is where the greatest risks lie. There is an expectation that many of the proposals will be accepted and implemented - perhaps as early as in the December Budget and in the 2010 Finance Act. However, it is already inevitable that there will be a piecemeal approach to implementation, and there is a risk that the net effect could result in a system with higher taxes (particularly on labour), higher costs (due to new or increased indirect taxes or service charges), and a less competitive international position (especially if the remittance basis is abolished, as recommended) without any compensating proposals being introduced.

It will be key therefore to ensure that the possible impact of the recommendations is fully considered and understood, and that any concerns are clearly articulated. There is a narrow window of opportunity to stimulate and influence a discussion.

The Report is an exceptional piece of work, supported by a significant depth of research and analysis. It makes a valuable contribution to the debate about Ireland’s tax policies - and there are a number of topics which need to be debated.

We have highlighted overleaf some key recommendations which will have a significant impact on business and individual taxpayers.

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Key recommendations

Business and employment

- Reiteration of commitment to low tax rates on both company profits and labour
- Reform of capital allowance regime with an emphasis on following accounting policies
- Extension of type of buildings qualifying for capital allowances to include modern buildings such as Call Centers
- Zero-rating stamp duty on share transfers
- Lowering rate of taxation of dividends to DIRT rate
- Extension of unilateral credit relief to all companies and allowance of unused credits against Irish tax on other foreign income
- Extension of ability to base current year preliminary tax payments on prior year liability extended to all companies
- Reform of close company surcharge provisions
- Abolition of patent income exemption

Income Tax, Social Welfare & PRSI

- Abolition of remittance basis
- Amendment of tax residence rules to include a permanent home and centre of vital interest test
- Extension of taxation to social welfare payments and child benefit
- Limit of €200,000 on tax free ex gratia termination payment
- Reform of income tax and levy system and introduction of third income tax rate
- Merger of health levy into income tax
- Removal of employee PRSI ceiling and exemption from PRSI on investment income
- Extension of PRSI and health levy to share based remuneration
- Extension of SAYE treatment to ESPPs
- Single rate of PRSI for both employee and self-employed contributions

Pension and retirement planning

- Introduction of SSIA-type pension schemes for people who are not members of a Defined Benefit scheme
- Link between personal pension contributions and tax relief broken, replaced with State contribution

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- Relief for pension contributions to be granted at source (similar to medical insurance) rather than as a reduction in taxable income
- Limit of €200,000 on tax free lump sum receivable on retirement
- Extension of availability of Annual Retirement Funds to all Defined Contribution members

Environmental Tax

- Introduction of carbon tax on fossil fuels
- Carbon tax would not apply to companies which already operate under EU Emissions Trading Scheme
- The carbon tax would be based on consumption with burden falling on end consumer
- The carbon tax would be at a single rate based on emission levels and priced by reference to EU Emissions Trading Scheme
- Introduction of water charges to the domestic sector, and increase in rates charged to non-domestic sector
- All consumers should pay the full cost of disposal of their waste

Property Tax

- Introduction of annual property tax for residential property
- Abolition of stamp duty on acquisition of principal private residence
- Imposition of a higher capital gains tax charge on windfall gains arising from increases in land value due to rezoning decisions
- Introduction of a recurring tax on land zoned for development where the land is not subsequently developed

Other

- Reintroduction of indexation relief for chargeable gains
- Review of general anti-avoidance provisions
- Introduction of specific anti-avoidance measures where a specific avoidance is identified
- Review of relevant contracts tax regime to reduce rate and to provide for flexibility in bona fide cases where tax was not operated and no loss of tax resulted

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Launched in 2000, the Global Tax Monitor (GTM) is a multi-client independent survey conducted by research agency TNS, that examines the competitive position of the top firms in the tax advisory market - globally, regionally, nationally and on an industry basis. It provides a comprehensive measure of firm reputation, client service and brand health, gained currently from just over 3,000 telephone interviews annually with key decision makers (CFOs and Tax Directors) in 31 key markets.

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