

BES good for jobs and economy

Debates about tax incentives can often lead to strong views. Advocates of innovative tax policies believe incentives remain central to future economic and social development. Others believe the opposite – that incentives are merely a cost on the taxpayer and are a risk free, tax avoidance vehicle for the wealthy.

How can such differing views of tax incentives exist, especially among people with a shared goal of economic and social advancement? The answer to this question can be determined by establishing one pivotal factor – who benefits from tax incentives?

This week, we have seen compelling evidence that the benefits from tax incentives are widespread. New and expanding companies, job creation, improved products and services, increasing exports and R&D development were just some of the benefits attributed to the Business Expansion Scheme (BES) in a Government review.

The review surveyed companies who have used BES, an incentive which helps start-up companies get up and running through providing them with finance.

Those surveyed came from a variety of sectors including manufacturing, financial services and tourism. Of the companies surveyed, over 60% employed less than 15 staff and in two thirds of cases, their annual sales were less than €1million. Over 70% of these companies are in their infancy, being set up in the past ten years. Export sales represented 56% of output for all firms surveyed.

So how did BES influence the behaviour of these companies?

52% said BES made them more ambitious to grow. 47% attributed the launch of new or improved products and services to BES. Tellingly, 40% said BES encouraged them to increase their workforce. 34% availed of BES for R&D investment, with close to 20% saying BES helped them reduce debts.

These findings are indisputable evidence that taxation remains at the apex of the Irish economy. BES is making a real economic and social contribution, particularly for the small business sector. Over 97% of businesses operating in Ireland today are classified as small, representing approximately a quarter of a million individual small businesses. These businesses collectively employ close on 800,000 people – 800,000 people contributing economically and socially in their communities. In circumstances where workers have received payments on being made redundant, BES has helped them realise their dream of starting their own business.

Another factor often forgotten when considering BES is the risk attached for the investor. Investors using BES do so at their own risk. If their investment fails, they are at a loss. But if the investment succeeds, both the investor and the State gain – the investor in the form of a return, the State through increased corporation, income and VAT tax receipts.

The recent report of the Small Business Forum calculated that the tax contribution made by small business is substantial - €4 billion or 37% of the total income taxes is directly from small business employees. In addition, €530million is paid by small businesses in corporation tax with a further €4billion paid in VAT receipts on services every year.

The future of tax incentives, including BES, must continue to be shaped by economic and social needs. Innovative tax policy has proven to be an effective tool in shaping society and our economy for the better.

Major improvements to third level facilities, nationwide urban and rural regeneration and Ireland's international reputation in financial services – all major social and economic advancements brought about through innovative tax policies.

At this juncture in our economic development, innovative tax policy is more important than ever before. Our national needs are changing. Alternative energy sources, investment in transport infrastructure, delivery of a nationwide broadband network are just some of the measures needed if we are to remain competitive.

Our national taxation policies will be one factor in determining the pace at which these national needs are realised. In the recent Budget, the decision to expand the criteria within which BES investments qualify was a positive development. By raising the BES limits for investors and companies, Minister Cowen has given a major boost to small business.

But we need to go further. The forthcoming Finance Bill affords Government the opportunity to do so. If we are serious about addressing deficiencies, then the BES initiative must be expanded to positive effect and include national need activities like energy and infrastructure.

If the push for greater competitiveness is to be realised, if we are to meet the stated objective of achieving a high value economy, then these types of tax policy measures remain key.

ENDS

By Mark Redmond, Chief Executive, Irish Taxation Institute