

**Irish Taxation Institute launches Five Point Plan to help Ireland's entrepreneurs as major new research shows financial cost of failure the greatest fear to setting up a business in Ireland**

- *ITI'S Tax Week 2010 research by Red C shows 77% of indigenous Irish companies believe the complex and daunting nature of tax affairs is the biggest tax concern for start-up businesses*
- *93% of companies say the fear of financial cost of failure greatest deterrent to starting a business*
- *Irish Taxation Institute launches new Five Point Plan with practical tax-based solutions to drive entrepreneurial activity in Ireland and support small & medium businesses*
- *For the first time a new Starter Tax Pack for new businesses in Ireland*
- *Also new tax measures to unlock cash for small and medium enterprises through loan capital and equity investments*

**Issued Monday 14<sup>th</sup> June, 2010.** The Irish Taxation Institute today presented its Tax Week 2010 Five Point Plan '*Supporting Ireland's Entrepreneurs*' to Minister for Enterprise, Trade and Innovation, Batt O'Keeffe T.D.

The proposal was launched as the Irish Taxation Institute revealed the findings of a major survey of Irish businesses which was carried out by Red C.

Irish Taxation Institute research shows that the cost of setting up a business, the financial cost of failure and the fear of not receiving entitlements or security should a business fail are the greatest inhibitors in getting business started in Ireland today. 93% of indigenous Irish businesses quoted the financial cost of failure as the greatest deterrent.

In addition 77% of indigenous Irish companies believe the complex and daunting nature of tax affairs is the biggest concern for new start-ups in Ireland.

Launching the Irish Taxation Institute's Plan titled "Supporting Ireland's Entrepreneurs" the Institute's President Olivia Lynch said the proposals are intended to remove the fear of starting a business and to encourage an entrepreneurial and job creating culture in Ireland.

The key proposals in the Institute's plan are:

- ✓ A new simplified 'Starter Tax Pack' for all new businesses in Ireland with a turnover of less than €75,000 per annum

- ✓ New tax measures to help unlock cash for small & medium enterprises by way of loan capital and equity investments
- ✓ New rules for the Business Expansion Scheme that would reach beyond manufacturing companies and reflect the modern economy
- ✓ New measures to assist Irish SMEs to attract and retain key skilled workers who are frequently attracted to larger organisations.

The Irish Taxation Institute President said: "Measures that give real encouragement and reassurance to entrepreneurial activity have never been so critical for Ireland's economy and for Irish people. There is widespread acceptance that our future growth will largely come from the indigenous sector. We have over 84,412 SMEs in Ireland, 86% of which are micro businesses and between them they employ almost 620,000 people. Unfortunately Ireland is only at 50% of the EU average when measuring the number of SMEs per 1,000 people in the country. There is a real need for all of us to become more entrepreneurially focused and particularly to support those who can create businesses and jobs."

Speaking about the Institute's five point plan, Minister for Enterprise, Trade and Innovation, Batt O'Keeffe TD said 'I am very encouraged by the Irish Taxation Institute's focus on generating practical tax-based solutions to help the small business sector.

'As the Government focuses on economic recovery and supports the small business sector in creating jobs, I am delighted to consider constructive proposals of this nature.

'I am firmly focused on driving Ireland's competitiveness and productivity by creating the conditions in which enterprise, entrepreneurship and innovation can flourish and high-quality jobs can be sustained and generated.'

Speaking today Ms. Lynch outlined the individual proposals in the plan and explained the rationale behind the details.

## **1. A simple 'Tax Starter Pack' for new businesses**

*The research shows that 77% of indigenous Irish companies believe the complex and daunting nature of tax affairs is the biggest tax concern for start-up businesses.*

*There is a growing need for us to take as much pain out of the tax system here so that businesses can get on with growing their businesses rather than spending time worrying about errors that may have very well been avoidable from the outset.*

Our Tax Starter Pack would simplify the tax system for start-ups. The aim is to address the "mental block" associated with getting started in business. The new Tax Pack would replace all the existing taxes on business i.e. income tax, corporation tax, capital gains tax, VAT, employer PRSI. Some broadening of the VAT registration thresholds will be needed to achieve this but should be possible within EU law.

In recent years the UK in recent years launched a short tax return which is 4 pages long and can be used by the smallest of businesses with a turnover of less than Stg£30,000. By contrast, our income tax return for the self employed is now 24 pages long. We would like to see this reduced to 2-4 pages for all businesses which could then be supplemented by additional information for more complex businesses if relevant.

## **2. SME Loan Finance**

*The severity of Ireland's liquidity problem has had serious repercussions for small and medium businesses across all sectors.*

*The fact that over 70% of small and medium businesses feel that not enough is being done to encourage investors/savers to invest in Irish business at present reflects the severe credit flow pressure that businesses are presently under and the strains being felt by those struggling to keep their doors open. While that opinion is held most strongly by small businesses at 73%, it is also a major issue for medium and large companies.*

*85% of businesses believe that tax incentives for investors would offer the much needed encouragement to the thousands of investors and savers who have cash available for investment.*

Tax relief for loans to the active SME sector might encourage a release of these funds. In certain cases, loan investment may be the only attractive option in a family business that is reluctant to dilute the share ownership. It can also represent a much more flexible option for potential investors with cash.

In order to compete with other forms of investment such as bank/long term deposits, the returns on these loan investments should be subject to tax limited to DIRT rates. A ceiling could be set to ensure that the relief was directed at smaller businesses carrying on active undertakings and creating jobs. To be attractive for investors, the scope of the restricted reliefs for high earners would have to be considered".

## **3. Encourage equity investment in SMEs**

We are proposing that the capital gains tax rate be halved to 12 ½ % for disposals of investments, where investment was made between 1 September 2010 and 31 December 2011. Some restrictions could be placed on the holding period to ensure that the capital was available to the small business for at least a period of say 5 years.

The reduced CGT rate provides certainty to investors that they can exit their investment at the end of the term at a minimum cost. This will encourage them to provide badly needed cash now to SMEs. In order to make the market for these shares more attractive, it may be necessary to allow for a share buy-back by the company at the end of the period, with capital gains treatment provided.

To ensure that the funds from these investments are used for job related active purposes, there could be conditions attached to the use of the funds – e.g. for productive activities within the SME.

While that opinion is held most strongly by small businesses at 73%, it is also a major issue for medium and large companies.

#### **4. Reduce the administration associated with BES relief**

*In the absence of bank and private lending to businesses, Ireland's Business Expansion Scheme should also provide a means of investment for good Irish businesses with growth potential.*

*The ITI Tax Week poll shows that only 15% of SMEs in Ireland have considered or availed of the BES Scheme, with almost 60% believing that it is difficult to actually obtain funds through the scheme.*

A reduction in the current administrative complexity and cost would make BES a much more attractive option for investors. We also recommend expanding the range of business activities that would qualify for BES so they reflect the modern economy.

#### **5. Assist SMEs hire and retain key workers**

*There can be intense competition for critical roles within a business. Family companies can suffer in this environment as key workers would often have to take greater risks to join an SME than a larger organisation.*

An attractive tax regime (such as CGT treatment) for share options granted by SMEs would greatly assist them to attract key workers, keep them and motivate them to perform. Thresholds can be set to focus the benefits on the SME sector, thus controlling the cost to the Exchequer.

Concluding the Irish Taxation Institute President said that Ireland was an export nation and stressed that everything must be done when it comes to supporting start-ups and scaling them ultimately into thriving global exporters. "Great work has been done, in particular by those in key state bodies and organisations. However an honest assessment of the merits and the shortcomings in both our policies and our business culture can only serve our economy well. We need to be honest enough to recognise where improvement is needed and accept that we have some way to go if we are to create the sort of entrepreneurial culture that is required by one of the most export dependent countries in the world", she added.

**- Ends -**

For further information contact:  
Olivia Buckley  
Head of Communications  
Irish Taxation Institute  
Tel: 01 6631706 / 087 6298113

Nuala Buttner  
Q4 Public Relations  
Tel: 01 4751444 / 085 1744275