



Ibec submission on the Foreign Earnings Deduction Scheme

May 2014

Ibec welcomes the opportunity to present its views and recommendations on the Foreign Earnings Deduction (FED) to the Department of Finance.

Description:

The Foreign Earnings Deduction (FED) scheme was introduced in the Budget 2012 to encourage the development of trade to non-traditional markets for Irish goods and services. It provides relief from taxation for individuals who perform the duties of their office or employment in the BRICS countries (i.e. Brazil, Russia, India, China and South Africa) as well as eight African countries (Algeria, Egypt, the Democratic Republic of the Congo, Ghana, Kenya, Nigeria, Senegal and Tanzania). FED operates by granting a tax deduction against the individual's income tax liability. The maximum deduction allowed on an annual basis is €35,000. The deduction is available if the employee has worked in one or more of the relevant countries for at least 60 days in a tax year. The 60 qualifying days must include periods of at least four consecutive days per trip.

Assessment:

Ireland is a small and open economy and therefore relies more than other countries on a functioning and well diversified export industry. In this respect the intention of FED to encourage trade to emerging markets is positive. However, the tax relief scheme is not working. A clear sign for this is the low take-up. According to the Department of Finance the full year estimated cost to the Exchequer of FED for the 2012 tax year was €0.6 million in respect of 83 employees. Complete information in relation to 2013 returns is not yet available as the Form 11 tax returns for 2013 are not due to be filed until later this year. However, tax claims received to date for PAYE employees indicate an estimated cost of €50,000 in respect of eight employees.

The reasons for the low take-up are the FED's very restrictive terms and conditions. The number of countries for which tax relief can be claimed is limited to the BRICS countries and eight African states. According to the 'Direction Of Trade Statistics' of the International Monetary Fund (IMF DOTS) exports to these countries accounted for roughly 3 ½ % of total Irish exports in the last three years. This selection is arbitrary and it excludes a vast range of high potential emerging and developing markets.

The other conditions that are outlined in the tax relief scheme such as the number of qualifying days and especially the period of consecutive days per trip spent in the relevant countries are also excessively restrictive. The latest statistics on outbound travel by Irish residents reveal that the average length of stay for business in 2012 and 2013 was less than four nights. Individuals on business will spend as little time as possible abroad to minimise costs for their companies. The current limit of days per trip in this context means that a large proportion of otherwise qualifying overseas travel will not qualify for the deduction. Indeed, the limit as currently conceived creates a trade-off where individuals will be incentivised to stay on overseas trips for unnecessary durations in order to gain from the tax credit. This will result either in a loss of productivity and welfare or lack of take-up for the scheme.

Recommendations:

FED has the potential to increase Ireland's trade with emerging and developing economies. To improve FED Ibec makes the following suggestions:

1. Ibec recommends including all the countries that are classified as emerging and developing economies by the IMF into the scheme. According to IMF DOTS the share of exports to these countries amounted to 9 ½ % of total Irish exports in 2013 and the share of imports was roughly 11%. This would support trade to countries and regions that are expected to grow faster than those in Ireland's traditional trading partners such as the UK and the USA, generating wide ranging export opportunities.
2. Ibec advises that the number of qualifying days spent in the relevant countries within a tax year is reduced from 60 to 40 days. Business trips are costly and therefore companies try to keep them at a minimum level. Moreover, to minimise costs much of day-to-day business between different countries is done online which helps to reduce the number of business trips.
3. Ibec suggests that the days spent travelling to and from a relevant state are also counted as qualifying days.

Ibec Head Office

84/86 Lower Baggot Street
Dublin 2
T: + 353 1 605 1500
E: membership@ibec.ie
W: www.ibec.ie/membership

Galway

Ross House
Victoria Place
Galway
T: + 353 91 561109
E: west@ibec.ie
W: www.ibec.ie/west

Cork

Knockrea House
Douglas Road
Cork
T: + 353 21 4295511
E: cork@ibec.ie
W: www.ibec.ie/cork

Ibec Europe

Avenue de Cortenbergh
89, Box 2
B-1000 Brussels
BELGIUM
T: + 32 (0)2 512.33.33
F: + 32 (0)2 512.13.53
E: europe@ibec.ie
W: www.ibec.ie/europe

Limerick

Gardner House Bank Place
Charlotte Quay Limerick
T: + 353 61 410411
E: midwest@ibec.ie
W: www.ibec.ie/midwest

Donegal

3rd Floor, Pier One Quay Street
Donegal Town Donegal
T: + 353 74 9722474
E: northwest@ibec.ie
W: www.ibec.ie/northwest

Waterford

Business Park Cork Road
Waterford
T: + 353 51 331260
E: southeast@ibec.ie
W: www.ibec.ie/southeast