



Ibec submission on the Special Assignee Relief Programme Consultation

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1. Background and context

1.1. Introduction

Ibec welcomes the opportunity to submit the views of its members on the Special Assignee Relief Programme (SARP) to the Department of Finance. Our 7,500 strong membership includes employers from all sectors of the economy and we have received considerable feedback from both indigenously and foreign owned firms on this important issue. The difficulty faced by firms in attracting and retaining skilled staff has become much more acute over the past 12-18 months and the high level of personal tax in Ireland is regularly cited in this regard. Ibec believes that a competitive personal tax regime is essential in order to create and support employment in Ireland and in a central element of the tax offering for mobile investment, which can be either indigenously or foreign owned.

1.2. Current challenges in the personal tax system

Recent budgets have substantially increased the tax burden on Irish workers and the system as currently structured provides a number of particular challenges for businesses looking to attract skilled workers from abroad.

Competition for mobile skills: The personal income tax burden in Ireland is now much higher than in many of our competitors and large numbers of Ibec members are reporting difficulties in attracting mobile talent to Ireland. The entry point to the marginal rate is the lowest in the OECD and the marginal rate (52% for employees) is one of the highest in countries with which we typically compete with for investment. In addition to the high personal tax burden for skilled staff, changes to tax rules on share benefits in recent years have further damaged the competitiveness of Ireland's personal tax regime. Many companies are also finding it difficult to retain talent and the high personal tax burden is increasingly cited as a reason for staff to move overseas. Multinational companies which are seeking to attract expat workers for a project or placement typically operate tax equalisation models. This has the effect of delivering an agreed net salary to the employee and an adjustment in the gross salary to reflect this. The overall impact of Irish income tax increases in recent years has therefore been to increase the total labour cost for multinational businesses locating positions in Ireland. This means that Ireland is becoming a less attractive location for investment and many direct and ancillary jobs are being lost to competitor jurisdictions with lower personal income tax burdens. This is costing jobs and hurting Exchequer tax revenues.

1.3. International comparison of personal tax rates

A snapshot of the 2014 personal tax burden (Table 1) in some of Ireland's key competitor locations shows that take-home pay levels here are now substantially below the UK and the US in particular. These are currently the two locations which Irish-based employers compete most with for mobile roles and investments. The differentials in take-home between Ireland and these competitors have grown significantly over the past five years or so and it has become increasingly difficult for Irish employers to attract workers to move from these locations without a costly tax equalisation package. An employee earning a gross salary of €100,000 now has take-home pay which is over €8,000 higher in the UK and almost €13,500 higher in the US. At above average salary levels, it is now clear that Ireland's personal tax system is completely out of line with our competitors and represents a significant threat to our future economic prospects.

Table 1: Take-home pay in key competitor countries

Gross salary €	75,000	100,000	200,000
Ireland	46,869	58,869	106,869
US	55,422	72,337	139,563
UK	52,426	66,926	119,301
Difference in take-home pay			
UK-Ireland	+5,557	+8,057	+12,432
US-Ireland	+8,553	+13,468	+32,694

Notes: 1) All calculations based on single person with no additional deductions

2) All calculations are in €, exchange rates used are €1 = £.80, € = \$1.35

3) Taxes based on 2014 tax legislation

Figure 1 summarises the differential in the effective income tax rates (for single workers) at various income levels. From an employer perspective the gap in the effective tax rates equates to the labour cost differential incurred in order to deliver a tax equalisation package for assignees. In instances where Irish-based employers are seeking to attract assignees from the US the labour cost penalty ranges from 12% to 17% (for the salary ranges shown). When competing with the UK, the tax equalisation labour cost is 7%/8% (for the same salaries). Where the employer is looking to locate a relatively large team to Ireland, the total additional labour cost associated with tax equalisation equates to a substantial cost item. Ibec is receiving an increasing volume of feedback from its members that the growing labour cost burden associated with tax equalisation costs are resulting in the loss of investment for Ireland.

Figure 1: Effective income tax rates in key competitor countries at various salaries (€)

1.4. Economic rationale for an effective assignee tax relief scheme

The Netherlands operates a simple and effective expatriate tax relief for assignees for a period of up to 10 years. The relief is targeted at skilled workers (based on an earnings test) and can be applied to workers either moving location with an existing employer or to new hires. The Dutch income tax system is fairly similar to that in Ireland in terms of effective tax rates at various earnings levels. The '30% relief', however, provides a significant benefit to workers relocating to the Netherlands in recognition of the additional costs they incur

Table 2: Impact of Dutch '30% relief' for expats on take-home pay

Gross salary €	75,000	100,000
'Normal' take-home	42,782	54,782
30% relief take-home	54,079	70,382
Difference	11,297	15,600

The Dutch model is a simple and easy to understand scheme which delivers a meaningful benefit to expat workers and provides sufficient compensation for the additional costs associated with relocation.

From an Irish perspective, the relative competitiveness of our personal tax regime will become even more significant over the coming years. The OECD BEPS initiative on the taxation of multinational corporations is likely to result in some changes in how the profits of international business are taxed. It is likely that the post-BEPS international tax model will incentivise the transfer of IP and other investment and activity to locations with significant substance in R&D, manufacturing and employment. The post-BEPS landscape therefore presents extensive opportunities for Ireland but in order to remain competitive against developments in other jurisdictions such as the UK, we urgently need to ensure that our tax offering is 'best in class' across a number of areas. These key aspects of our international tax offering are summarised in Figure 2.

Figure 2: Key aspects of competitive tax regime for post-BEPS

The Minister for Finance stated in his Budget 2014 speech that he wants 'Ireland to play to win' in relation to the tax offering for mobile investment. While we have performed strongly over recent years in this area, it is likely that the seeds of even our most recent success were sown many years ago, due to the considerable time lags associated with investment decisions. Given the enhancements in the tax offerings of competitors in recent years, Ireland is now very much on the back-foot in relation to the four areas identified above. The business community is strongly of the view that any post-BEPS tax strategy for Ireland must give considerable weighting to the personal tax regime and in particular to a fit-for-purpose assignee relief programme.

In addition to the need to have a competitive assignee programme for FDI purposes, the cost-benefit analysis for the Exchequer provides a strong rationale for such a scheme. Table 3 below uses a stylised example from a typical Irish firm to demonstrate at a micro level the very significant net benefit to the State from an expat relief scheme. The example used is typical of the type of project which many Irish-based firms bid for, in that they are competing for the investment with multiple other corporate locations. The project would involve the relocation of 10 specialist R&D staff. In the absence of an effective assignee relief programme, the Irish site would be

uncompetitive from a labour cost perspective and the project would be located elsewhere. An effective assignee scheme would result in lower total labour costs and hence help the Irish site to secure the project. In this example, a tax relief 'cost' of just €160,000 would deliver a net tax benefit to the Exchequer of at least €1.8 million. From a cost-benefit perspective therefore it is clear that there is very strong evidence for the policy rationale for assignee tax relief schemes. Macro analysis also supports this micro example. Ibec has examined a number of international literature sources which conclude that income taxes, and in particular the marginal income tax rate, have a significant impact on skilled immigration¹.

Table 3: Stylised example of net gain to Exchequer from assignee relief scheme

Example	Ireland with assignee tax scheme	Tax benefit	Ireland without scheme
Irish based company bids for R&D project which seeks locate 10 specialist researchers in project location	10 senior researchers move to Ireland on a gross salary of €100,000 each	= Income tax paid on total salaries of €1 million under new assignee scheme = €250,000. Tax cost of relief =€160,000	Project goes to Netherlands and Irish Exchequer gets no benefit
	+	+	
	20 further R&D role recruited domestically to support senior researchers	= 20 roles @€70,000 = gross salary of €1.4 million = income tax to Exchequer of €520,000	
	+	+	
	5 additional support and ancillary staff are directly hired	= 5 roles @€35,000 = gross salary of €175,000 = income tax to Exchequer =€36,500	
	+	+	
	35 new roles in total deliver significant employer PRSI revenues to the State	= Employer PRSI benefit of €169,000	
	+	+	
	Multiplier effect supports additional jobs and spending across the indigenous economy	= Total additional salary bill of €2.7 million yields tax revenue of circa €1 million in VAT, excise and other income taxes	
	+		
	Additional activity in Ireland results in higher revenue at the Irish operation and a growth in corporation tax revenue.		
Total net gain to the Exchequer		Tax relief cost of just €160,000 yields a gross additional tax yield of €1,975,500 and a net gain to the Exchequer of €1,805,500	

¹ Numerous OECD research papers support this view as does CESIFO WORKING PAPER NO. 2462 'The Influence of Labor Taxes on the Migration of Skilled Workers'.

2. SARP shortcomings and recommendations for enhancement

Shortcomings of the existing SARP

- the exceptionally low uptake demonstrates that the current SARP is clearly not fit for purpose (just 8 employers availed of the scheme in 2012). Rather than tinkering with this ineffectual scheme, it should cease and be replaced with an entirely new income tax regime for expat workers
- the rationale for such a scheme in Ireland is very strong and we need to have a scheme which works for employers and assignees. The clear objective of any reform of the scheme must be to see a substantial increase in take-up over the coming years. It is incredibly frustrating for the business community to see new policy introduced to address an identified business challenge and for the resulting scheme to be rendered ineffectual due to excessively restrictive terms and conditions
- the current scheme is only available to the FDI sector but indigenous firms also face considerable skills deficits and policy measures are required in order help Irish-owned firms to attract and retain specialist skills from overseas
- a strong attractiveness for FDI is core to the national economic strategy and the medium-term plan. Ireland is one of the most open and globalised economies and Irish-based firms need to continuously attract mobile and specialist talent. In the post-BEPS environment, the personal tax regime for mobile talent will be a more important factor in deciding business location
- many of our competitors have targeted expat income tax schemes and it is becoming increasingly difficult for Irish-based employers to compete with these locations in the absence of such a scheme
- if the scheme is working effectively and helping to attract additional new roles into Ireland and supporting new ancillary roles in the economy, there will be significant revenue gains for the Exchequer. An effective measure will support employment prospects for a whole range of jobseekers across the economy and will ultimately provide the tax revenues needed to reduce the tax burden for all workers.

Recommendations

- Ibec believes it is essential that Ireland has an effective and successful assignee tax relief scheme which supports our open and globalised economic model. A new scheme should therefore be delivered in Budget 2015

A new assignee scheme should have the following features:

- it should be simple and easy to understand by employers, international investors and potential assignees
- it should be 'best in class' from an international competitiveness perspective
- the relief should be made available to all assignees once they become tax resident in Ireland and should apply to the entire period for which they are tax resident
- the relief should provide an exemption from all tax on work – and should therefore include both the USC and PRSI
- it is vital the relief is available to all new hires as the current restriction has greatly limited the usefulness of SARP in rapidly growing sectors and in those sectors facing skills shortages at an international level. Indigenous firms should also be able to avail of the scheme in order to address their skill shortages
- the scheme should be simple to administer and reporting requirements should not be excessive
- the existing income thresholds for SARP should be amended to include commission and bonus payments. The current minimum threshold of €75,000 excludes such income and therefore fails to address the skills challenges faced by sectors such as technical sales where remuneration largely consists of bonus and commission payments and basic salaries are comparatively low
- the tax exemption benefit should be increased to 35% in order to place Ireland as 'best in class' e.g. the Dutch system current operates what is known as a '30% ruling'
- the new regime should not include tax liability for other world-wide income, such as capital gains, for non-domiciled individuals based in Ireland

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