

Speech by Irish Taxation Institute President ITI Annual Dinner,
Burlington Hotel
Friday 26th February 2010

Opening Remarks

Minister, Ladies and Gentlemen, and our special guests, I am delighted to welcome you all here tonight.

We are joined by leading figures from the political world, the corporate sector, the tax profession and the state sector.

I know I reflect the views of everyone, when I say that the warmest welcome of all tonight, is for the Minister for Finance.

Minister - we are honoured to have you here.

I would also like to welcome Deputy Richard Bruton, Senator Dan Boyle, His Excellency, Robert De-Vreese, Ambassador of Belgium and our guests from the UK – Andrew Hubbard, President of the Chartered Institute of Taxation and David Steadman, President of the Association of Tax Technicians.

General Economic Overview

We are all working in a tough economic environment and the challenges for all of us, and for our country, have never been greater.

However, there is recognition internationally that Ireland is in control of its public finances and that tough decisions have been taken to stabilise the economy and put us on the road to economic recovery.

That stability is due in large part to the courage and decisiveness of the Minister for Finance.

The increased confidence in the international bond markets and our positive international press commentary is a tribute to the leadership approach he has adopted, in his role as Finance Minister. It is also a tribute to his outstanding ability to communicate on Ireland's behalf, and to do so with conviction.

And at home, both his leadership and conviction has garnered broad acceptance, that we are on a long and difficult path to economic recovery, a path that we must take in order to have a future.

However, as one of the most open economies in the world, our future economic growth will depend on our ability to be competitive, agile and innovative, while enhancing our global reputation.

Only imaginative thinking will help our recovery, not least in the crucial area of taxation policy.

We must ensure that our tax strategies, attract high value jobs and multinational companies into the country, and also encourage the growth of strong Irish business, capable of creating new and innovative products, for markets worldwide.

The expansion of our tax treaty network, the introduction of tax information exchange agreements and a new transfer pricing regime in the Finance Bill, have all served to enhance Ireland's global reputation, and it is fair to say that we have demonstrated good citizenship internationally. Our commitment to changes that enhanced our position, means we can be emboldened, to pursue the necessary tax policies that will drive innovation and job creation.

The Government's unwavering commitment to our 12 and a half percent corporate tax rate is very welcome, and it is clearly the centre piece of Brand Ireland. However as we experience increasing global competition, we must ensure it is supported by a package of other innovative tax measures.

Certainty

Underpinning those measures must be strong tax laws, that guarantee certainty and confidence.

We have seen other countries bruised in recent months, as a result of the perceived uncertainty of their future tax policies.

Building a leading reputation takes precious time, but it can so easily be lost

It is critical therefore, that Irish tax law is firm and enduring, to instil the confidence that is essential, to turn a potential investment into a real commitment.

We have already shared our views with the Minister around changes to tax law, in this and previous Finance Bills, which risk undermining the principle of certainty, and so undermining long term investment decisions, made in good faith. We cannot afford uncertainty; we cannot change the goalposts half way.

The Irish Taxation Institute, has always argued, that a consultative process around proposed tax legislation, provides the best means by which we can deliver robust and enduring law. We believe more than ever, that this approach should be adopted.

This week, has seen proposed Anti-Avoidance measures brought forward at Committee Stage of the Finance Bill. The level of uncertainty, already caused by Ireland's extensive general anti avoidance provisions, could be further exacerbated if these new measures become law. The Institute believes that a number of changes are needed to the combined measures so as not to discourage commercial transactions and also, importantly, to offer taxpayers certainty as to the timeframe in which Revenue can use these provisions.

We will be a strong voice in consulting with the Revenue on the proposed Regulations to ensure that the legislation is applied in a fair and reasonable manner.

Clarity around the future direction of our social contribution and income tax regime, is also critical in terms of our reputation, and the major reform of both in the coming year is a significant undertaking by the Minister.

Our multinational sector has been clear about the importance, of a globally competitive personal tax regime, and international research, including research by the OECD, demonstrates the damage that can be done to a country's competitiveness, when the tax burden on income increases.

An early and public commitment, to reduce the combined marginal rate of income tax and social insurance, to below 50% by 2012, would be a very welcome move. Of course, we appreciate that our public finances demand a responsible approach, and that such a decision would have to be made in the context of other fiscal measures.

Minister, we welcome your pledge to consult on this major tax reform, and I can assure you that our profession and our Institute, will work with Government and Revenue to achieve the best result for taxpayers and the economy.

The Innovation Island

As we look to the future, there is a consensus that our greatest prospects lie in the creation of an innovation island.

But the race for innovation has become intensely competitive, and narrow margins separate the winners from the runners up.

A highly skilled labour force, R&D led industries, and specialisation in innovation intensive sectors, are recognised as essential ingredients for success.

On the human capital side, the Minister addressed the Special Assignment Relief in the Finance Bill, and his moves to broaden the relief are very welcome.

But despite the changes, our programme remains uncompetitive compared to countries like France and the Netherlands.

Highly skilled jobs are already exiting other countries, as a result of the threat of high income tax burdens,

But Ireland will be unable to capitalise on this development, unless we quickly address the weaknesses in our own measures.

We also need to improve the reliefs around intangible assets, an area with increasing potential for Ireland. A strong package of measures, has allowed us to secure a place on the shortlist in corporate boardrooms, but amendments to our tax packages are needed now, if we are to successfully clinch the deals.

R&D is the area in which we have made the greatest progress. Our corporate and tax laws are closely aligned with the needs of global enterprises, resulting in a level of inward investment that is 5 times greater than the OECD average. Over 40% of that inward investment is now related specifically, to R&D.

But more is required. Ireland needs to improve the flexibility of the regime; allowing companies to offset R&D Tax Credits against payroll taxes, and moving to a volume basis.

We must also encourage innovation in Ireland's small and medium enterprises. Only 6% of small companies have ever claimed the credit, a poor participation rate for a country so dependant, on export markets for its economic future. We must take steps to increase participation, and nurture an innovative culture in Irish enterprise.

However, SMEs are facing more immediate problems which need to be addressed, if they are to continue employing over 50% of our working population.

The severity of Ireland's liquidity problem, is undoubtedly their single biggest challenge.

A survey this week revealed, that 40% expect less access to credit in 2010.

I believe we need additional measures to release cash for investment in companies, who want to create or maintain jobs in the small and medium sector.

Measures such as a more attractive income tax rate on dividends, and expanding tax reliefs to inject cash in companies by way of loans, have the potential to improve liquidity flows.

Conclusion – The Business Innovation Forum

Despite the obstacles that need to be overcome on both the economic and tax policy front; history has shown us that our knowledge and experience, when combined, can bring about success.

We have competed in markets, and sectors that are generally the preserve of economies far greater than ours.

We have repeatedly secured significant international investments, in the face of stiff international competition, and we have secured a global reputation that surpasses our size, and our scale.

But the challenges that I have spoken about tonight emphasise the need to re-invent our game-plan. The need not just for creative thinking, but collaborative thinking.

Major investment decisions are being taken in boardrooms every day, and Ireland's proposition must be compelling, and clear, if we are to seize the opportunities.

It is in this context, that the Irish Taxation Institute, is calling for a National Business Forum to be established, to initiate tax policy ideas. A forum similar in concept and principle to the respected Clearing House Group, that has served the IFSC and Ireland so well.

A Forum that would deliver collaboration amongst business leaders from Ireland and abroad, Government, the key state bodies, and the tax profession.

We must continuously have new thinking on tax strategy, ensuring we are ahead of the game, and not left following the policies of our competitors.

There is no doubt that we have made strides. And we are proud of our many achievements.

At times we have surpassed our own expectations.

But only when the brightest, and the best were brought together.

And only when we had the courage to do things differently - without deference to the past.

Now we need to do it again. Not just because we want to – but because we have to.

It is a new world, and Ireland must adapt or get left behind.

If we are to be the island of innovation - then we must be the island of imagination.

And that choice, is now firmly in our own hands.

Thank You.

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