

5 Point Plan for Tax Week

1. A simple “tax starter pack”



We know from the experience of our members that many potential entrepreneurs feel daunted by the prospect of starting their own business. The administration required to get started and then to comply with your tax and legal requirements, can be very off-putting. If we truly want to create an entrepreneurial culture, we have to make it as easy as possible for viable businesses to get started and then to stay compliant.

To help create an environment of entrepreneurship, we need to promote a simple tax system and simple administration for those who want to set up their own business. The aim is to address the “mental block” associated with getting started in business; be it tax, legal issues etc. People with redundancy payments and other funding should be encouraged to set up their own viable business.

ITI is suggesting the introduction of a very simple tax system for micro businesses with a turnover less than €75,000 per annum. One business tax 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.

South Africa recently developed a similar simple tax model for micro-businesses with a turnover limit similar to that above. The amount of tax they pay is based on a percentage of “cash” turnover received, with several relatively straightforward adjustments. There is one return filed at the end of the tax year and a number of interim payments paid during the year (to cover all taxes) which provides funds for the South African Exchequer. The cash basis for calculating tax is somewhat similar to our own VAT cash receipts basis and ensures that new fledgling businesses do not have to pay tax until they themselves have been paid by their customers – very important

in the current cash-strapped economy. The South Africa Revenue also engages in various outreach initiatives offering free tax education workshops to the public.

As well as a simple underlying system, we need to tackle the amount of administration and red tape required to set up and register a business and keep it going throughout the early years. There are currently dozens of separate tax compliance obligations to be undertaken every month/second month/quarter/year, depending on your circumstances. What is needed is:

- ➔ A simple registration form, which can be used for tax and legal purposes,
- ➔ A simple tax return to be filed after the end of the year (on the current filing deadline of 31 October)
- ➔ 1 or 2 interim tax payments (to cover all relevant tax heads) could be made on account during the year to support the flow of funding to the Exchequer
- ➔ A dedicated government website with all information on the essentials of starting a business, hiring staff etc. In Northern Ireland the Department of Enterprise, Trade and Investment has launched a website www.investni.com which provides information on starting and growing a business in Northern Ireland and have produced detailed user – friendly guides for example the “No Nonsense Guide” to rules and regulations in starting a business <http://www.investni.com/nng.pdf>

The Australia Tax Office also provides straightforward advice on tax and other start-up matters for small business on their website <http://www.ato.gov.au/businesses/content.asp?doc=/content/00241056.htm>

- ➔ Public information fora and small business support/mentoring initiated by Government to explain the basic rules and regulations on tax and legal issues. Enterprise Ireland runs workshops on developing a business and a market and on the supports available. The various County and City Enterprise Boards also provide advice locally to start-ups. These workshops should be extended to cover dealing with tax matters on start-up.

The UK has done a lot of work in this area of simplification in recent years. The standard income tax return form in the UK is 7 pages long, supplementary pages are available for other non-core income. The UK has also launched a short version of the income tax return. This is 4 pages long and can be used by the smallest of businesses who have a turnover of less than Stg£30,000. A further recent initiative has been rolled out called the “3 line account”. This applies to a wider base of business; those who are beneath the VAT registration threshold (currently Stg£68,000). These businesses are not required to provide a detailed breakdown of their business expenses on the return form, the total expenses figure will suffice.

In contrast our standard income tax return, the Form 11 is 22 pages long. A simpler version of the Form 11 has been developed, the Form 11E which is 18 pages long. Even our Form 12, a return that employees or pensioners may complete, is 16 pages long. We would like to see the standard return form reduced to 2-4 pages of core information for all businesses which could then be supplemented by additional information for more complex businesses if relevant, e.g. foreign income, rental income etc.

2. SME Loan Finance

The experience of our members suggests that there are considerable amounts of cash/savings currently building up which could be channelled into business start-ups. 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 cash investors.

In order to compete with other forms of investment such as bank/long term deposits, the returns on these loan investments should be treated in the same manner and only subject to tax at the 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



Halve the capital gains tax rate 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 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.

The EU definition of a small business could be applied i.e. less than 50 employees and an annual turnover and/or annual balance sheet total of under €10m.

One other way to encourage equity investment in the SME sector would be to reduce the current marginal income tax rate on dividend income to, say, the DIRT rate of tax on interest. This ensures that there is no tax distinction made between the two types of return on capital.

The recent report of the Innovation Taskforce recognised the funding issues innovative business start-ups currently face. They suggested that venture capital for such companies should be made available through a national portfolio of Business Angel funds. In the interim they proposed that temporary State intervention in the form of a new Seed Capital scheme is required. We support such ideas and we believe that funding should be made available beyond the innovation sector.

The Taskforce also identified a number of tax proposals to encourage the location of innovative businesses in Ireland including a further deduction for intellectual property, enhancement of the R&D regime and pooling of withholding tax credits for royalties.

4. Reduce the administration associated with BES relief

Business Expansion Scheme relief is not the answer to all SME funding needs and on its own will not resolve current funding deficits. However, a reduction in the current administrative complexity and cost would make it BES a much more attractive option for investors.

The Ireland of today is very different to the one that existed in 1984. When BES relief was introduced, Ireland had a significant manufacturing base. This is not the case today so it would be beneficial for the economy if the scope of activities that qualify for BES relief were widened to include businesses that are critical to the next phase of Ireland's economic development. Such activities should be concentrated around areas where value can be added in Ireland.

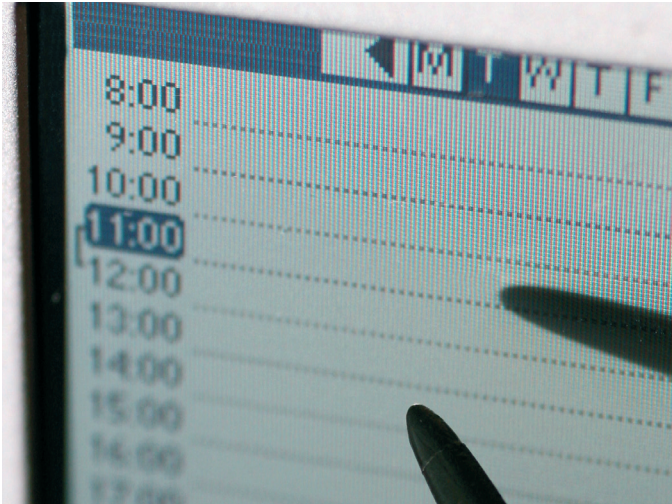
While an attempt was made to target BES relief to the renewable energy sector in accordance with S486B TCA 1997, this relief applies to investments made by companies only. This relief for investment in renewable energy generation should be extended to investments made by individuals.

Investment cap

There may also be benefits in looking at investment thresholds in the context of some sectors of investment. A capital investment of €2m may not be appropriate in many circumstances.

Making a claim

The administrative burden in making a claim must be minimized. If a BES company carries on or intends to carry on certain trades, a claim for relief must be accompanied by a certificate from the relevant



Minister or agency. To obtain this certification, detailed business plans and other documentation can be required. This process should be simplified and streamlined. We would recommend that

all claims for all qualifying trades be certified centrally by a single Government body or agency and where such certification is required, applications for certification should be processed within 4 weeks of their submission.

Simpler legislation

The tax legislation giving effect to BES relief in Part 16 of the Taxes Consolidation Act is very complex. This can act as a barrier to seeking the relief. While we are conscious of the constraints imposed by EU membership, we believe it would be of great benefit if the legislation could be rewritten and simplified.

Promoting the re-branded relief

If a revamp of the relief is to proceed, perhaps the relief should be renamed and promoted as part of a new marketing initiative to encourage investors to invest in qualifying activities?

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.

A relaxation of the conditions of the current share option schemes is necessary so there is a less complex and bureaucratic option open to SME's to assist them to attract key workers, keep them and motivate them to perform.

For SME's wishing to reward employees with equity in the business the existing owners can find themselves liable to Capital Gains Tax

(CGT) on any transfer or allotment of shares. To encourage this form of reward there should be relief from CGT for the disposal or issue of shares in the company by the owner. Specifically, there should be exemption from CGT on the disposal of shares of a family company where an approved share scheme or option plan is in place, so that shares transferring to an employee can transfer without a CGT liability arising on the family members who are giving up part of their shareholding.