

IEA Submission: Budget 2025 Recommendations

Irish Exporters Association submission to the Department of Finance and the Department of Public Expenditure, National Development Plan Delivery and Reform

24th July 2024

IRISH EXPORTERS ASSOCIATION – KEY RECOMMENDATIONS

Capital Gains Tax Retirement Relief

- The planned introduction of the €10 million cap on retirement relief on the intergenerational transfer of businesses next year should be cancelled.

Promoting Employment

- Increase the entry point to the marginal income tax rate and cap the amount of income subject to PRSI.

Supporting Entrepreneurs and SMEs

- Individuals should be encouraged to put some of their savings to productive use, helping SMEs to finance growth, innovation and the creation of new employment opportunities.

Incentives for Employer Developed Accommodation

- Incentivise employers to develop employee accommodation and allow a corresponding BIK exemption where the employee earns less than €50,000.

The Irish Exporters Association

The Irish Exporters Association (IEA) is the leading independent representative body and voice for exporters based in Ireland. The IEA represents exporters and supply chain operators across the country and works at regional, national, and European level, representing its members in front of legislators to create a regulatory and legislative framework that supports, drives, and fosters Irish exports.

We assist our members to grow their exports to world markets and drive the growth and development of all exporting businesses based in Ireland. We provide a set of highly relevant business services and products to assist our members with international trade.

The IEA represents the whole spectrum of companies within the export industry including SME's who are beginning to think about exporting for the first time right through to global multinational companies who are already extensively exporting from Ireland as well as the providers of key services to the sector. The IEA is the connecting force for Irish exporters, providing practical knowledge and support across the Island of Ireland and in foreign markets.

Introduction

Trade plays a crucial role in Ireland's economy, serving as a key driver of growth, employment and prosperity. As a small, open economy, Ireland heavily relies on international trade to fuel its economic development and maintain competitiveness in the global market. The country's goods exports amounted to €197 billion in 2023¹, with service exports equating to €339.6 billion in 2022², and have significantly contributed to Ireland's GDP and have created numerous job opportunities.

As the Government prepares for Budget 2025, ensuring policies that support and promote trade will be imperative to sustaining economic momentum, attracting foreign investment, and fostering economic resilience in the face of uncertainties. By emphasising the importance of trade and supporting businesses in Budget 2025, Ireland can further solidify its position as a thriving hub for global business and innovation.

¹ [CSO – Goods Exports and Imports 2023](#)

² [CSO – International Trade in Services 2022](#)

In recent years, geo-political tensions have given rise to significant challenges, such as conflicts in Ukraine and the Middle East, and rising tension in the Red Sea region. These have had knock-on effects on business environments both at home and abroad. Hence, we must develop policies that best insulate our economy from international shocks, while maintaining our FDI attractiveness and supporting domestic entrepreneurship.

The Irish Exporters Association welcomes the opportunity to submit its recommendations to Government ahead of Budget 2025. The IEA remains open and committed to working with all stakeholders in the interest of Irish exporters, the community of businesses that support the sector and the success of the wider economy. We, as the leading representative body and voice of the export industry remain committed to ensuring international trade continues to flow to the benefit of the State.

Budget 2025 provides the Government with an opportunity to drive home the success of Irish exporters. Continuing to deliver positive outcomes in the interest of trade remains within the national interest. The IEA believe this direction from Government will be tantamount to economic success. We submit our recommendations to ensure that the interests of Irish exporters stay integral to the work of this Government.

The IEA call upon the Minister for Finance, the Minister for Public Expenditure, National Development Plan Delivery and Reform and the Ministers' departments to ensure that Budget 2025 continues to support businesses, especially those who trade internationally and those without whom's services this trade would not be possible. Exporters, importers, and supply chain actors continue to drive and bolster Irish economic activity, but it is not without its challenges, which we will outline in this document.

RECOMMENDATIONS

Promoting Employment

Indigenous businesses and the FDI sector require highly skilled employees for their businesses to thrive. It is paramount that Ireland continues to attract such talent. Irish companies need to be supported in recruiting and retaining critical workers. Ireland's income tax system must be attractive for an increasingly mobile workforce. The State's competitiveness will be determined by our ability to attract and retain talent from across the globe. This success is interwoven with how successful the State is at getting

workers to relocate to Ireland. A favourable personal tax regime will make this country stand out from competitors. Hence, the IEA believe the Government should increase the entry point to the marginal income tax rate.

The personal tax system in Ireland places a significant personal tax burden on employees. Although the dual-rate income tax system contributes to making Ireland have one of the most progressive income tax structures in the EU and OECD, the threshold for entering the 40% income tax bracket, set at a level lower than the average wage³, poses challenges for employers looking to attract top talent to relocate to Ireland. Furthermore, it discourages individuals from pursuing upskilling opportunities and higher-paying jobs.

The IEA recommend that in order to address the issue of high marginal tax rates for employees and lower the cost of employment for employers, the Government should introduce income limits for PRSI.

- Several countries achieve a competitive advantage in their marginal rate of tax for higher earners by capping the earnings base subject to social security⁴. The IEA recommend that an earnings contribution cap of €75,000 be reintroduced for employees' PRSI,
- Many countries also reduce the cost of employment for employers by capping the employer's contribution. We recommend that an earnings contribution cap of €100,000 be reintroduced for employers' PRSI.

Tax Relief for Personal Pension Provision

It is important that the personal income tax system continues to support individuals in making provision for their retirement. According to the CSO, in the third quarter of 2023, 32% of employed individuals did not have any pension plans⁵. Among those without pensions, nearly 59% relied solely on the State pension for retirement income. Insufficient supplementary pension coverage could result in heavy reliance on State pensions and welfare benefits.

³ Based on average weekly income of €921.81 in Q4 of 2023 and the standard rate cut off of €42,000: CSO: Earnings and Labour Costs Q3 2023 (Final) Q4 2023

⁴ Austria, Canada, Germany, Greece, Luxembourg, and the Netherlands apply a monetary cap on contributions.

⁵ [CSO – Pension Coverage 2023](#).

The planned Government Auto-Enrolment Retirement Savings Scheme aims to enhance pension coverage. However, current restrictions on tax relief for personal pension contributions hinder the ability to secure a substantial supplementary pension for retirement. To address this, we have outlined recommendations to boost pension provision:

- Implement a "whole of life approach" to the pension contribution limit. The existing non-cumulative system is rigid and fails to consider the varied working patterns and financial commitments individuals face throughout their careers. We propose allowing unused pension relief capacity to be carried forward, adopting a more flexible approach that spans one's entire working life,
- Adjust the pension earnings limit to reflect wage inflation and socio-economic changes since 2011, the date of the last reduction. This adjustment would raise the tax-free earnings limit to approximately €200,000.
- Introduce tax relief for spousal contributions. Currently, individuals receive income tax relief only for contributions to their own pension schemes. To expand pension coverage, tax relief should be extended to contributions made to a spouse's or spousal equivalent's pension scheme. For instance, if the spouse's annual income does not exceed €33,000, the contributing spouse should be eligible for tax relief on those contributions⁶.

Capital Gains Tax Retirement Relief

CGT retirement relief is available where an individual aged 55 or over disposes of a business. The level of relief available varies depending on the age of the individual making the disposal and their relationship to the acquirer. The availability of CGT retirement relief is vital to the longevity and development of Irish domestic and family-owned businesses. These businesses act as the bedrock of the Irish economy, amounting to 70% of private sector employment in Ireland⁷.

⁶ The current amount a married individual that is jointly assessed will have to earn to be entitled to the full standard rate band of €84,000.

⁷ [Ibec Submission – Sustaining SMEs / July Stimulus Plan 2020](#)

To the detriment of family business, the Finance Act 2023 introduced significant changes to retirement relief which will have a very damaging impact for the intergenerational transfer of companies from 1st January 2025. These include:

- A limit of €10 million will apply to the market value assets that qualify for relief where a business is passed down from parent to child where the parent is aged between 55 and 69; and,
- A €3 million cap will apply from age 70 onwards (instead of 66).

The IEA believe the introduction of a €10 million lifetime cap will operate as a substantial barrier to the intergenerational transfer of businesses. Many business owners will be reluctant to negatively impact the sustainability of their businesses by burdening them with capital gains tax liabilities.

Innovation will be hampered by a potential reduction in investment by family businesses as the company attempts to pay off the CGT tax bill. Family businesses operate in a low margin and capital-intensive industries, a bill of this scale will be an unaffordable one from their own resources alone.

As a further consequence of this CGT change, affected businesses will now be deprived of the potential entrepreneurial vision that arises when a younger generation takes over a business. It might also present as too much of a financial burden to family members resulting in them questioning the commitment required to make the business succeed.

The introduction of this €10 million cap is contrary to the Government's White Paper on Enterprise, and only hinders the development and growth of the domestic economy and Irish business⁸. By introducing this CGT change, the State will undermine potential growth of Irish businesses. It will also severely restrict the capacity of the Irish economy to develop businesses to global scale. Accordingly, the Irish Exporters Association believe the introduction of the €10 million cap on the intergenerational transfer of family businesses should be abandoned!

⁸ [Department of Enterprise, Trade & Employment – White Paper on Enterprise 2022-2030](#)

Entrepreneur Relief

The CGT Entrepreneur Relief allows gains from the disposal of “chargeable business assets” by individuals to be taxed at a reduced CGT rate of 10%, up to a lifetime limit of €1 million. Gains exceeding this limit are taxed at the standard CGT rate of 33%. To qualify for the 10% rate, the shareholder must have owned the “chargeable business assets” for at least 3 years prior to disposal. The relief covers most business activities, excluding the holding of assets as investments, holding development land, or the development or letting of land.

A Cost Benefit Analysis of the Revised Entrepreneur Relief⁹, published as part of Budget 2024, advised that any modifications to the eligibility criteria or scope of the relief should be carefully assessed in terms of its potential impact on the exchequer¹⁰. Considering this, we advocate for increasing the current €1 million lifetime limit. The existing rules provide limited incentive for entrepreneurs to stay in Ireland and scale their businesses beyond a value of €1 million.

Increasing the lifetime limit would mitigate the risk of Irish entrepreneurs relocating abroad in our highly mobile world. This move would help retain innovation and revenue within the country, maintaining domestic employment levels and positively impacting the exchequer. Entrepreneur Relief should also continue to be available as an alternative to CGT Tapering relief, ensuring maximum flexibility for business decisions made by entrepreneurs in Ireland.

CGT Rate – Tapering Relief

The current CGT rate of 33% is among the highest in Europe, ranking 6th among European OECD countries¹¹. To remain competitive, consideration should be given to reducing the CGT for entrepreneurs who remain actively involved in scaling their businesses, while maintaining the headline tax rate of 33%. It is generally beneficial for enterprises when entrepreneurs stay actively involved for as long as possible. Historically, reliefs such as CGT tapering relief have incentivized this involvement. We propose introducing a similar relief now.

⁹ Department of Finance, [Budget 2024: A Cost Benefit Analysis of the Revised Entrepreneur Relief](#)

¹⁰ Department of Finance, [National Economic Dialogue 2022](#)

¹¹ Tax Foundation, [Capital Gains Tax Rates in Europe 2024](#)

A new tapered tax relief could reduce the applicable CGT rate on a pro rata basis, depending on the length of asset ownership by the entrepreneur. This form of relief would stimulate growth in the Irish entrepreneurial landscape by rewarding long-term commitment, signalling that Ireland is an excellent place for entrepreneurship, and encouraging direct domestic investment and employment. The design of this tapering relief should incentivize founding entrepreneurs to maintain long-term ownership, thereby driving the value of their businesses. Specifically, the CGT rate for entrepreneurs could decrease over time based on their period of ownership and active involvement in the business. Therefore, with this policy objective in mind of rewarding the ‘genuine entrepreneur’, we should look to the approach adopted in the 1970s and should introduce a ‘fundamental change’ in our CGT rate structure for entrepreneurs that encourages a strong entrepreneurial spirit in our domestic economy that is aligned to economic success.

Rollover Relief

In addition, 100% rollover relief should be allowed for persons who exit the business earlier but who then re-invest 75% or more of the sales proceeds in another company which is itself subject to CGT on a future disposal of that investment.

Housing

Ireland's ongoing housing crisis poses significant challenges for society and business, making its timely resolution critically important. The shortage of affordable housing risks causing a brain drain, as young professionals may feel compelled to emigrate. This lack of affordable accommodation also undermines the country's attractiveness as an investment location. Consequently, the housing crisis could become a key deterrent for workers and businesses considering relocation to Ireland.

The purchase of a home remains unaffordable and out of reach for many. The ESRI noted in July 2023 that the gap in home-ownership rates in Ireland between those aged over 40 and those aged under 40 is one of the largest in Western Europe¹². In 2005, the average age of a first-time home buyer was 29. By 2023, it had increased to 35. This affordability challenge is not confined to home ownership. In Q3 of 2023, average rents in new tenancies increased

¹² ESRI: [Housing Affordability: Ireland in a Cross Country Context](#)

nationally by 11% year-on-year¹³. We believe that additional tax measures are required to make housing more affordable:

- Introduce a BIK exemption for employer-provided accommodation for staff with income of less than €50,000,
- Introduce capital allowances for residential accommodation constructed by employers and rented to employees,
- Reform and reinstate CGT rollover relief.

Artificial Intelligence in Business Growth

Artificial intelligence (“AI”) is progressing rapidly, with many businesses spending substantial resources on developing and implementing generalist AI systems that can now act autonomously. Despite this, uptake of AI in many Irish businesses remains low. Less than one in ten businesses in Ireland use any form of AI, according to the CSO in 2023¹⁴. More than one-third (37%) of large enterprises used AI technology, compared with 18% of medium and 5% of small sized enterprises.

Businesses face a constant challenge of staying ahead of their competitors and continually innovating to ensure survival and growth. AI presents an opportunity for business innovation and accelerated growth. The IEA urge the Government to:

- Assess the current spectrum of AI resources available to industry from Government to inform actions to maximise the potential of existing infrastructure,
- Raise awareness among businesses of all sizes of the resources available to help with AI adoption.
- Developing a targeted funding model for businesses to help with AI adoption, in particular for SMEs

However, we acknowledge that businesses remain uncertain about AI safety, and this only hinders increased uptake. It is not surprising that lack of trust related to safety, quality and reliability remains a major barrier to large-scale Generative AI adoption and deployment by many businesses. Addressing these risks through research should be encouraged and incentivised in

¹³ Residential Tenancies Board: Rent Index Q3 2023

¹⁴ CSO: Information Society Statistics – [Artificial Intelligence](#)

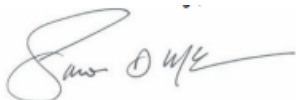
Budget 2025. To address risks associated with the development, implementation and use of AI, we would recommend introducing a new enhanced R&D credit. Furthermore, we feel the list of qualifying fields for R&D credits should be considerably expanded beyond the traditional science and technology categories to include research into technologies such as artificial intelligence, machine learning, blockchain and other emerging areas.

Conclusion

We would like to thank the Minister for Finance, Minister for Public Expenditure, National Development Plan Delivery and Reform and the relevant departments for their continued support to the Irish exporting community and for the opportunity to submit the key recommendations of members of the Irish Exporters Association to Budget 2024. We remain available to work with the Minister's and their respective departments in their important work.

On behalf of the IEA,

Simon McKeever



Chief Executive

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