

Background Document on 2005 Review of Tax Reliefs and High Earners

Public Consultation Process

Budget 2005 Announcement

1. The Minister for Finance, Mr Brian Cowen, T.D., announced in his Budget 2005 statement on 1 December 2004 that the Department of Finance and the Office of the Revenue Commissioners will undertake a detailed review of certain tax incentive schemes and tax exemptions in 2005.

2. The Minister said *“My aim is to seek to improve the equity of the tax system taking into account the social and economic benefit of reliefs in delivering investment in housing, enterprise, urban and rural renewal, tourism, films and health facilities. Because of the complex nature of this issue, the interaction of such reliefs with economic activity and the unintended consequences that untimely action may have for investment, I want to ensure that I take the time necessary to strike a careful and considered balance in what I do. For the successful operation of such schemes and to achieve the common good, we need to ensure the right balance is achieved between the benefit to the investor and the good of the community.*

I believe the time is now right to conduct a full review of these incentive reliefs, in particular to evaluate in detail their impact and how they are operating in practice. My preference is for a complete and comprehensive reform of the system rather than a piecemeal approach. For this reason, I have directed my Department, together with the Revenue Commissioners, to undertake a thorough evaluation of the effect of all relevant incentive reliefs and exemptions and to bring forward proposals which would achieve the balance I have referred to. I am now making it clear that I intend to include appropriate follow-up measures in next year’s Budget.

Those using this particular group of reliefs, therefore, should realise that the concept of unlimited or unrestricted reliefs is no longer viable or acceptable to the general tax-paying public in current-day economic circumstances. I want to make sure that everyone makes an appropriate contribution to the State.”

3. As outlined in the Budget Summary, this review will evaluate the impact and operation of certain incentive schemes including their economic and social benefits for the different locations and sectors involved and to the wider community. In addition the review will examine the degree to which these schemes allow high-income individuals to reduce their tax liabilities.

4. The review will involve external consultancy work on the evaluation of the following incentive schemes:
 - Urban Renewal Scheme 1999
 - Rural Renewal Scheme

- Town Renewal Scheme
- Living Over the Shop Scheme
- Capital allowances for hotels (accelerated 7 year scheme)
- Capital allowances for holiday cottages
- Capital allowances for private hospitals (including day hospitals)
- Capital allowances for sports injury clinics
- Capital allowances for nursing homes (including convalescent facilities and associated residential units)
- Capital allowances for third level educational buildings
- ‘Section 23’ type relief for student accommodation
- Capital allowances for childcare facilities
- Capital allowances and other reliefs for Park and Ride facilities
- Capital allowances for investment in Multi Storey Car Parks
- Relief for the refurbishment of certain rented residential properties (Countrywide Refurbishment Scheme)

5. The review will also incorporate an examination of data that is due to come to hand in late 2005 in relation to certain exempt income i.e. woodlands, stallions and greyhounds as well as data already available on other exemptions e.g. for artists.

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6. In addition to the above, as well as examining relevant international approaches, the review will include a public consultation process seeking submissions on measures that could be introduced to limit the extent to which reliefs and exemptions can be used by high-earners to reduce or eliminate their tax bill. Accordingly, all interested individuals bodies are invited to make submissions on such measures.

7. In the past, a number of measures have been introduced to limit the extent to which high earners use reliefs to reduce their tax bill. For example, the 1998 Budget put a general ceiling of €31,750 per annum on capital allowances that could be offset against non-rental income. For the purposes of this review and the public consultation process, those interested in making submissions may wish to consider the possibility of a ceiling on all reliefs or limits on the use of reliefs against all income including rental income or other horizontal measures, for example, the introduction of a minimum income tax for high earners or the restriction of reliefs so that no more than a specified percentage of income can be excluded from tax by means of certain tax reliefs.

8. Those interested in making submissions may also find it useful to examine the following discussion documents of the Tax Strategy Group (TSG) which are available on the Department’s website www.finance.gov.ie:

TSG 04/22	Tax Incentives / Expenditures and Broadening of the Tax Base
TSG 03/27	Tax Incentives / Expenditures and Broadening of the Tax Base
TSG 02/28	Tax Incentives / Expenditures

9. In addition, those making submissions may find it useful to examine discussion documents of the TSG on specific incentives and expenditures.

10. The closing date for submissions is **31 March 2005**.
11. The Minister for Finance will consider the outcome of this work and bring forward proposals for the 2006 Budget next December.
12. It should be noted that material in the submissions supplied to this Department in response to the advertisement may be made publicly available.
13. Submissions should be sent to :

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