

**British Irish Chamber of Commerce Submission to the
Consultation Process on the Capital Gains Tax (CGT)
Entrepreneur Relief**



May 2019

Background and Context:

The British Irish Chamber of Commerce (the Chamber), the only organisation representing business activities with interests across the two islands of Britain and Ireland, welcomes the opportunity to make a submission to the Consultation Process on the Capital Gains Tax (CGT) Entrepreneur Relief¹.

The raison d'être of the British Irish Chamber of Commerce is to champion, protect, promote and grow the trade between the UK and Ireland. That trade is now worth over €70bn per annum and supports 400,000 jobs evenly spread between the two islands. The Chamber strives to ensure that issues such as differences in incentives, taxation and policy which have the potential to hinder potential future trade are overcome.

Since the referendum result, the Chamber has set out to identify key policy areas that need to be addressed by the UK and Irish governments to sustain UK - Ireland trade. One of the key policy levers governments can use in order to incentivise and support indigenous business is taxation. The SME sector in Ireland accounts for over 92% of Irish enterprises and represents 70% of private sector employment in the country and is therefore the backbone of the Irish economy. It is also acutely exposed to 'Brexit' with small and micro businesses accounting for 85% of all Irish enterprises exporting to the UK, with SMEs accounting for over half of all Irish firms exporting to the UK.

The Chamber has repeatedly stated that Ireland needs to be strategic in developing a tax environment that can effectively respond to the opportunities and challenges that will emerge post-Brexit. One of the recommendations that the Chamber has consistently advocated for is the need for the CGT Entrepreneur Relief cap to be lifted to €15 million and for it to cover external investors. This submission is primarily drawn from the Chamber's ICT Paper 'Brexit: Turning a Challenge into an Opportunity'², the Chamber's SME Paper 'Supporting SMEs – Delivering for the Sector'³, and the Chamber's 2019 Pre-Budget Submission⁴.

¹ The British Irish Chamber of Commerce is happy to contribute to any future Consultations on this issue.

² <https://www.britishirishchamber.com/wp-content/uploads/2017/09/British-Irish-Chamber-of-Commerce-ICT-Policy-Paper-Sep2017.pdf>

³ <https://www.britishirishchamber.com/wp-content/uploads/2017/09/BICC-SME-Pre-Budget-Submission.pdf>

⁴ <https://www.britishirishchamber.com/wp-content/uploads/2018/08/Budget-2019-WEB-Version-1.pdf>

Capital Gains Tax (CGT) Entrepreneur Relief:

In 2008, Ireland's capital gains tax rate was 20%, today the Irish rate of 33% is the 3rd highest in the OECD and places Ireland at a distinct disadvantage. Ireland's low corporate tax rate has been a central pillar in Ireland's FDI offering, conversely Ireland's CGT acts as a disincentive to investment in indigenous enterprises. This disparity occurs at a time when there is widespread acknowledgement that Ireland is overly reliant on corporate tax revenue. Given the volatility of this tax and increased external pressure, Ireland must look to incentivise potential entrepreneurs to found, operate and sell their business here.

Lifting the Lifetime Cap on the Relief:

The Chamber welcomed the introduction of the Entrepreneur relief on CGT which allows entrepreneurs to apply a CGT rate of 10% on chargeable gains arising on the disposals of qualifying business assets by entrepreneurs up to a lifetime limit of €1m. However, this relief falls far short of the UK equivalent of £10m lifetime limit. An Irish entrepreneur selling their assets for €10m over their lifetime would be liable for a tax bill of €3,070,000 in comparison to the UK entrepreneur who would be liable to pay £1m in tax. For a comparatively minimal cost (table 1) the Irish exchequer could lift the cap on the entrepreneur relief to the equivalent of that of the UK or beyond and send a very positive signal to potential Irish entrepreneurs.

Table 1: Entrepreneurial Relief on Capital Gains Tax

CGT	First Year €m	Full Year €m
Entrepreneur Relief		
Increase limit taxed at 10% to €5m	45	49
Increase limit taxed at 10% to €10m	50	54
Increase limit taxed at 10% to €15m	52	56

Source: Department of Finance Press Office

In his final Budget (2017), Michael Noonan promised to "review the €1 million lifetime limit in future budgets" subsequent to that budget there has been no changes to the relief. In addition, the Programme for Government sets out a commitment to "reduce the rate of Capital Gains Tax for new start-ups to 10% from 2017 (held for five years and subject to a €10million cap on gains)." Stakeholders have called for this change, the Government has promised it, it should now be implemented.

- ✓ **Recommendation:** The Chamber reiterates its call that the CGT Entrepreneur Relief be expanded to a lifetime limit of €15m.

Changes to the Criteria applied:

Current stipulations such as that the individual must own at least 5% of the ordinary share capital of the company and that the individual must have spent not less than 50% of their working time in the service of that company ensures that “third party” investors such as ‘angel investors’ are excluded from the relief. These criteria curtail the ability of entrepreneurs to attract liquidity and support from their ventures.

- ✓ **Recommendation:** The Chamber reiterates its call that external investors should be granted access to the relief.