Budget 2021

Family Business Network Ireland: Pre-Budget Submission 2021

Family Business Network Ireland

August 2020

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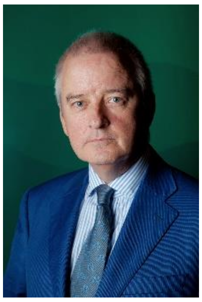
A MESSAGE FROM THE EXECUTIVE DIRECTOR

With the right support family-run businesses can drive the economic recovery.



This Budget takes place in the middle of the toughest challenge the country and its people have faced since independence. Second only to saving lives at this time, saving jobs is fundamental to preserving and strengthening the very fabric of our Nation.

Family businesses are the unrecognised enablers of Ireland's ability to deliver prosperity for all its citizens. Investing locally through bad times and good, employing more than three times as many workers as foreign-owned firms and delivering billions in taxes, the family firms of Ireland span every sector and every town in the country. From food and agribusiness through hospitality to manufacturing and services and whether provincial, rural or urban, more people in Ireland earn their living from family-run enterprises than from FDI or the public service.

Traditionally quiet, they are wide awake, vocal and ready to play their highly positive part in bringing Ireland and our people out of darkness into the brighter prospect of resumed growth, prosperity, stability and wellbeing for all.

Family businesses will be a key delivery partner in the Government's recovery strategy. We have outlined three areas that can enable family-run businesses to drive the economic recovery:

1. Building on the July Stimulus.
2. Laying the Foundations for Growth and Investment.
3. Unleashing the Potential of Irish Family Businesses to Power-Up a Jobs led National Recovery.

If the Government removes barriers and opens up opportunities in these areas, family businesses will drive a jobs led recovery. The following pages detail exactly how.

John McGrane

Executive Director

The Family Business Network

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About the Family Business Network of Ireland (FBN)

The Family Business Network (FBN) was founded in 2013 by leading Irish business families. It represents family businesses throughout the country and has members from a broad variety of sectors, all essential to supporting and driving the Irish economy. Family businesses contribute over 50% of Ireland's GDP, employ nearly a million people across every town and village in the country and provide billions of euros to the exchequer annually.

The Importance of Family Businesses to the Irish Economy

"Family owned businesses all over the country are a critical part of our agricultural, industrial and commercial sectors. Their geographical spread does more to promote balanced regional development than the multinational or big business sector. Any proposed changes to capital taxes and existing reliefs for CGT or CAT should take account of their unique contribution to economic life in the regions."

(The Irish Tax Institute, 'Tax Measures to Reboot the Economy')[1]

- There are **173,000** family businesses in Ireland.
- Irish family businesses employ **938,000 people.**[2]
- Approximately **Seven out of Ten** Irish Businesses are Family owned.
- Irish owned Businesses contributed just under **€19bn** to the Exchequer in 2018. [2]
- Indigenous Irish Businesses **contributed four times** as much to the recovery of economy (2013-2019) in Net National Product as their foreign owned counterparts.

[1] http://taxinstitute.ie/wp-content/uploads/2020/05/Irish-Tax-Institute-Report-Tax-Measures-to-Reboot-the-Economy-Submission-to-the-parties-negotiating-the-formation-of-the-nex.pdf

[2] Source: Revenue, 2020. Corporation Tax 2019 Payments and 2018 Returns. Available at: https://www.revenue.ie/en/corporate/documents/research/ct-analysis-2020.pdf

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The Importance of Family Businesses to the Communities across Ireland

"Family businesses are more likely to support charitable activities than non-family businesses, and their commitment to being philanthropic, socially responsible and good members of the community is genuinely felt, deeply held and more robust[3]."

(Findings of the Family Business Philanthropy and Social Responsibility Inquiry)

- There is a family business **in every town and village** in Ireland.
- Family businesses are **values led**. According to PwC's 'Irish Family Business Report', 80% of Irish Family businesses believe that a clear sense of values and purpose leads to increased revenues and profits[4].
- Irish family businesses support their communities - **74% of Irish family businesses** felt a responsibility to **support community initiatives**.

[3] Breeze, Beth (2009) Natural Philanthropists: Findings of the Family Business Philanthropy and Social Responsibility Inquiry. Project report. Institute for Family Business (UK)
[4] https://www.pwc.ie/reports/family-business-report-2019.html

Introduction

FBN welcomes the opportunity to make a submission to the budgetary process in formulating Budget 2021. The recommendations contained within this submission are the culmination of surveys, meetings, and interactions with family businesses throughout the country, supplemented with expert analysis and input from the FBN executive team.

FBN acknowledges the unprecedented challenge facing the Irish Government in addressing the health risks of Covid-19, while simultaneously trying to safeguard the economy from the worst consequences of the rigorous health measures that were necessarily introduced. Family businesses throughout Ireland have prioritised the health and wellbeing of the public and their staff above all other considerations in their response. As an organisation FBN has also played its part, we have highlighted to our members the supports that have been put in place and we will continue to update them as circumstances evolve. Our submission continues our approach of working with the Government to identify the most appropriate ways of protecting family businesses and nearly a million livelihoods that rely upon them. This submission also lays out how with the right support family businesses can drive forward a sustainable economic recovery.

This Submission is designed around 3 Key Pillars:

1. Building on the July Stimulus.
2. Laying the Foundations for Growth and Investment.
3. Unleashing the Potential of Irish Family Businesses to Power-Up a Jobs led National Recovery.

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1. Building on the July Stimulus

In our submission to the July Stimulus and our preceding meetings with Ministers Varadkar, Donohoe and Humphreys, we called on the Government to introduce a wide-ranging stimulus to drive economic growth. To this end, we broadly welcomed the Government's €7.4bn stimulus programme, acknowledging that this is the first time in the history of the State that a Government has responded to an economic crisis with counter cyclical measures. We were happy to see that, following the representations of FBN and others, the Government significantly expanded the remit of the 'Restart Grant' for businesses and we also welcome the extension of the Rates Waiver. These direct supports provide family owned companies with the cash and breathing space to help rebuild their businesses. We are concerned that the decision to replace the Temporary Wage Supplement Scheme with the Employment Wage Subsidy Scheme across all sectors fails to take into adequate account the severity of the challenge facing sectors such as the hospitality and tourism sector. This should be reconsidered within the 2021 Budget. In addition, our members are concerned about the time lag in receiving the subsidy of up to six weeks. This will cause cash flow problems for some family businesses.

Recommendations:

- ✓ Maintain the Temporary Wage Supplement Scheme or equivalent supports for the most impacted sectors such as Tourism and Hospitality.
- ✓ To protect the viability of family businesses in the sector, we call on Government to replicate the UK's decision to reduce VAT for the hospitality and tourism sector to 5%.
- ✓ Ensure employers receive the Employment Wage Subsidy Scheme in a timely manner.
- ✓ The Government should introduce a 'Top Up' Voucher scheme for 'Staycationers'. Under such a scheme, the Government would match up to €200 per adult if they purchase of a staycation voucher for a limited period.

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2. Laying the Foundations for Growth and Investment

"Ensuring the continued growth and prosperity of family businesses is vital to Ireland's economic stability"

(DCU, Centre for Family Business 'Family Businesses - Bedrock of the Economy[5])

The Covid-19 crisis has had an unprecedented impact on our economy, health, and society. It was right for the Government to introduce swift and wide-ranging measures to shore up our economy. As the country slowly reopens, the Government needs to lay out an economic plan that gets family businesses back on their feet so they can do what they do best - innovate, invest and grow to the benefit of their respective communities and the country as a whole. The aim of the National Economic Plan should be to build back an economy that is better, fairer, and more sustainable than before. To achieve this goal, some longstanding structural deficiencies need to be addressed such as:

i. The Planning System
ii. The Cost of Insurance
iii. Local Authority Rates
iv. Infrastructural deficits
V. The need for a National Recovery Forum

i. The Planning System

Delivering a planning system that balances the needs of the risk-taking investor with the environmental, economic and social interests of the local community are some of the essential components in delivering a planning system that is fit for purpose. Our members have given various examples where they have wanted to expand and develop their business but have been unduly frustrated with inefficiencies within the planning system. If Ireland is to overcome the bottlenecks in our infrastructure in areas such as water, cycling, housing, and public transport, then Ireland's planning consent and appeals system needs reforming. FBN welcomes the numerous commitments within the Programme for Government for planning reform such as the proposal to reform the Judicial Review process and the establishment of a dedicated Environmental and Planning Law Court.

FBN members feel that the threshold for bringing a Judicial Review for a planning decision is too low, because very few cases brought to the High Court are successful.

[5] https://www.dcu.ie/sites/default/files/centre_for_family_business/Family%20Business%20-%20bedrock%20of%20the%20economy.pdf

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In contrast to other European countries, anyone in Ireland regardless of whether they have a direct interest in the application can make a submission, observation or objection via a Judicial Review at the High Court. An obscure objection has the potential to significantly delay a project beyond its viability. Reforming the Judicial Review process should ensure that there is a more balanced approach between a Project Instigator and an Objector.

We also feel that the creation of the new Planning and Environment Court should result in more expeditious decision making. These two commitments if delivered upon have the potential to modernise Ireland's planning system, which in turn will free up much needed capacity to deliver critical infrastructural projects.

Recommendations:

- ✓ Enact the Housing, Planning and Development Bill 2019. This law will ensure that if an objector wishes to challenge a decision of a planning authority, they will be required to firstly appeal the decision to an Bord Pleanala.
- ✓ Prioritise the Creation of the new Planning and Environment Court.
- ✓ Commit to ensuring that the Office of the Planning Regulator and Ireland's Courts are adequately resourced.

ii. The Cost of Insurance

The insurance market has become prohibitively expensive for thousands of family businesses throughout the country, it has put tens of thousands of jobs at risk and has been exacerbated by the Covid-19 crisis. FBN Ireland is a proactive member of the *Alliance for Insurance Reform*, which recently published its survey results on Covid-19 and Insurance. The following were the findings of the survey:

- **63%** of business interruption claims have already been refused by insurers.
- **55%** of policyholders are concerned about COVID19 related personal injury claims.
- **18%** of cases insurers have denied forbearance, while a further **12%** have given a concession by way of credit on renewal.

Even before the Covid-19 crisis, rising insurance premiums were putting thousands of jobs across the country in family-run businesses at risk.

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Last year's *Alliance for Insurance Reform* Survey illustrated the scale of the insurance crisis facing businesses throughout the country. Headlines figures from the research include:

- Respondents' insurance cost has risen by **204%** in the last 5 years.
- Insurance now accounts for **10%** of charities' expenditure.
- **63%** of respondents have been hit with increased excesses or new exclusions to their policy.
- **49%** of respondents say rising insurance costs are threatening the future of the organisation.
- **95%** say Government is not doing enough to address the issue of insurance costs.

Chris Harmon, Spokesperson on Insurance at the Family Business Network, said:

"Covid-19 has put a spotlight on an industry that has not been fit for purpose for some time. The cost of insurance is determined primarily by the cost of claims and Ireland's Book of Quantum is out of sync with international norms which is fuelling our claims culture. Insurance reform that leads to real reductions in premiums will save jobs and improve competitiveness of family businesses throughout the country".

FBN acknowledges the commitment within the Programme for Government to "*to prioritise reform of the insurance sector*" and we welcome the various pledges contained within the Programme for Government, most notably to recognise the work of the Personal Injuries Guidelines Committee, enhance the role of the Personal Injuries Assessment Board and to tackle insurance fraud.

FBN echoes the call from *the Alliance for Insurance Reform* that focus should be on the reforms that will have a meaningful impact quickly, such as:

Recommendations:

- ✓ Cut unfair general damages to reflect international norms and ensure that legitimate minor injuries attract modest damages. We urge that general damages for minor injuries will be dramatically reduced.
- ✓ Urgently review and re-balance the "common duty of care" so that occupiers are required to take a duty of care that is reasonable, practical and proportionate but not absolute, ignoring personal responsibility
- ✓ Ensure that An Garda Síochána has the resources necessary to pursue insurance fraud to its fullest extent and do so as a matter of urgency.
- ✓ Get commitments from insurers to a schedule of cost reductions following the delivery of all the reforms listed above and in the Programme for Government.

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iii. Review and Replace Commercial Rates

Commercial Rates are a relic from the Victorian times and are no longer appropriate in the digital age. The Commercial Rates which a local Family Business pays are effectively based on the 'Retail' valuation of its property multiplied by the 'Annual Rate on Valuation', as agreed by the local County Council at its annual budget meeting. This system fails to effectively consider what the actual revenue is for the business or whether it has turned a profit or not. Local Authorities are reliant on revenue from Commercial Rates to fund their local services such as public parks and libraries. Conversely services which businesses rely on such as Water and Refuse are frequently additional costs to be borne by the businesses. Last year, approximately 30% (€1.5bn) of all revenue from Local Authorities across the country came from Commercial Rates.

The current system puts town centres and local family businesses at a competitive disadvantage to out of town retail centres and online stores such as Amazon. This comparison was well made by Senator Malcom Byrne, in his recent Opinion Piece in the Sunday Business Post, 'It's time to abolish archaic commercial rates system for good'[6]:

"In the digital age, the main-street retailer continues to face a rates bill based on the size of their floor space. The charge has no regard to turnover or profitability. This store, which will also be contributing to its local community in other ways through sponsorships and local employment, is in the market against online competitors that don't face those responsibilities and are not subjected to the same rates bill".

FBN welcomed the decision by the Government to introduce a commercial rates waiver for impacted businesses because of the Covid-19 crisis with the national exchequer compensating local authorities. But even before the Coronavirus outbreak, commercial rates have become a prohibitive tax for thousands of small and family businesses throughout the country. Despite revenues falling due to reduced footfall and increased competition from online retailers, some County Councils increased their Commercial Rates on local businesses while simultaneously reducing the local property tax on residential homes by the maximum discount of 15%. Given the impact that Covid-19 has had on retail sales and footfalls across towns and city centres, coupled with the news from the WHO that the virus may still be with us for another two years, It is now become apparent that Ireland's Commercial Rates

[6] https://www.businesspost.ie/columnists/comment-its-time-to-abolish-archaic-commercial-rates-system-for-good-6e42cf4e

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regime in its current form is no longer viable and, unless reformed will lead to local businesses closing and job losses in every constituency.

Recent Developments in England

While there are subtle differences, the Business Rates System adopted in England has similar traits and challenges as its Irish equivalent. In October 2019, the UK House of Commons Treasury Committee reviewed the 'Impact of Business Rates on Business'. It concluded that "*Given the changing nature of the economy, and with high streets on the decline, the Government needs to be proactive and creative in exploring alternative options to such an important source of Government revenue. We recommend that the Government prepares a consultation in time for the next Spring Statement to identify potential alternatives to the current system of business rates and form the basis for a subsequent detailed evaluation of viable options.*"

Subsequently, in announcing his Spring Budget, the UK Chancellor of the Exchequer, Rishi Sunak announced that he was asking HM Treasury to conduct a fundamental review into the Business Rates regime in England. The Treasury's review will focus on:

1. Improvements that could be made from April 2021,
2. Reforms to the current system to make the tax more sustainable,
3. The administration of the rates, and
4. Exploring possible alternatives.

Potential Alternatives to the existing Commercial Rates Regime

There are varying options that could be considered by the Government including:

- Abolish Commercial Rates and compensate Local Authorities with a block grant equivalent from the Central Exchequer.
- An Online Sales Levy which would be levied on the online sale of physical goods. This revenue should be ringfenced to reduce Commercial Rates.
- Sales or turnover tax which could be levied on a service or item at point of sale. This could be incorporated into the VAT regime.
- Hybrid System: Such a system would incorporate the exiting property model (to a reduced degree) and factor in net income.

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Recommendations:

- ✓ FBN is calling on the Irish Government to initiate a wide ranging **review of the current Commercial Rates regime**, to engage with stakeholders including FBN and to recommend a new regime that has due regard for the changing nature of the retail sector.

- ✓ As an interim measure while the economy adjusts to life with Covid-19, the **waiver of Commercial Rates should be expanded to the end of 2021**. In such time a new structure should be implemented that is fit for purpose in the 21st century.

iv. Infrastructural Deficits:

During the last recession, the first expenditure to be cut was capital expenditure. However, these cuts left Ireland with a long-lasting infrastructural deficit. FBN acknowledges that there is no desire from this Government to revert to the mistakes of the past. The quickest way to stimulate economic growth at a time of depressed consumer confidence is to engage in a wide-ranging infrastructural programme as laid out in Project Ireland 2040.

Recommendation:

- ✓ Where possible, national infrastructural projects should be brought forward to act as an immediate stimulus for the economy.

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v. **Establish a National Recovery Forum**: The Programme for Government commits to the "*Establishment of sectoral taskforces, comprising Government, independent experts and stakeholders and chaired by line ministers to focus on the specific needs of sectors and to bring forward plans in the context of the National Economic Plan*". In our Programme for Government submission we suggested that a National Recovery Forum, that brings together stakeholders from across all sectors, should be established to assist in formulating an economic plan for the decade ahead. We believe the remit of the sectoral taskforces established for the short term should be expanded to develop a ten-year plan for the economy. Representing the employers of most jobs in Ireland, FBN stands ready and able to assist in such an endeavour.

Recommendation:

- ✓ The National Economic Plan should commit to establishing a National Recovery Forum tasked with plotting a course for the new economy for the decade ahead.

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3. Unleashing the Potential of Irish Family Businesses to Power-Up a Jobs led National Recovery.

"From the Covid-19 crisis and the UK's exit from the EU, to vulnerabilities in our FDI offering and corporate tax revenues, challenges are everywhere. Ireland needs to match its ambition with FDI with a desire to develop indigenous family businesses of scale and ambition. However, to achieve this, we need a tax system that incentivises investment and encourages growth"

(Michael Walsh, President of the Family Business Network)

Ireland's Foreign Direct Investment strategy has been one of the great success stories for the Irish economy over the last six decades. However, Irish family businesses employ more workers than the FDI sector and family businesses contributed four times as much to the last economic recovery as their foreign owned counterparts. If given the right environment to operate under, Irish family businesses will lead the economic recovery this time as well.

According to our National Family Business Sentiment Survey which was conducted between July and August 2020:

- **66% of FBN members** said they are likely to create new jobs in the next 12 months **if there is a supportive political and economic environment.**
- **70% of FBN members** are either very concerned or extremely concerned about the tax environment in the country.
- **85% of FBN members** stated that stimulating the economy was the best approach for funding the additional costs associated with Covid-19.

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Measures typically suggested by our Members to incentivise growth for family businesses include:

"Introduce a much reduced and fairer Capital Acquisitions Tax"

"Reduce various Taxes that impact on the business and on succession"

"Going forward, Inheritance Tax must be looked at"

"Improve the Tax Regime for employers"

"Reduce Taxes - Help us to grow"

"Broaden the Tax Base"

We believe the following four areas need to be addressed:

i. Establishing the Commission on Welfare and Taxation
ii. Cutting the current rate of Capital Gains Tax (CGT) to Drive Investment and Increase Exchequer Receipts
iii. Reform the Capital Acquisitions Tax (CAT)
iv. Enabling Family Businesses to deliver Growth through the Generations.

i. Commission on Welfare and Taxation

In our Programme for Government submission we specifically called for the establishment of a Commission on Taxation that will evaluate the Irish tax system on the basis of fairness and the potential to incentivise economic growth. We therefore welcome the decision by the Government to establish a Commission for Welfare and Taxation. Such a Commission should ensure the tax system encourages economic activity and consider the unique position of family businesses within the economy.

In addition, the Commission should evaluate the current process and the structure of the 'Tax Appeals Commission' to engage with aggrieved taxpayers. Having over 6,000 Appeals Cases awaiting adjudication by the Revenue Commissioners is serving nobody and is choking both public and private resources.

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ii. Cut Capital Gains Tax (CGT) to Drive Investment and Increase Exchequer Receipts

Setting the Context

In 2008, Ireland's capital gains tax rate was 20% but today the Irish rate of 33% is the 3rd highest in the OECD (Table 1). This places Irish family businesses at a distinct disadvantage as compared to their peers. While Ireland's Foreign Direct Investment (FDI) strategy has a low corporate tax rate as its cornerstone, conversely Ireland's Capital Gains Tax Rate 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.

The OECD Report on 'SME and Entrepreneurship Policy in Ireland' stated the following about Ireland's CGT rate:

"The Irish Capital Gains Tax rate of 33% is high compared to the OECD mean, which may discourage investment and entrepreneurship".

Table 1: Ireland's CGT Rate in a Global Context

State	*Rate %*	*State*	*Rate%*
Finland	34	Czech Rep	15
France	*33*	*Albania*	*15*
Ireland	*33*	*Greece*	*15*
Iceland	*31.8*	*Belarus*	*15*
Sweden	*30*	*Malta*	*12*
Portugal	*28*	*Switzerland*	*11.5*
UK	*28/20*	*Bosnia and H*	*10*
Austria	*27.5*	*Slovenia*	*10*
Slovak Rep	*25*	*Moldova*	*10*
Norway	*24*	*Bulgaria*	*10*
Denmark	*24*	*Macedonia*	*10*
Russia	*20*	*Montenegro*	*9*
Serbia	*20*	*Andorra*	*6*
Cyprus	*20*	*Netherlands*	*1.62*

Estonia	*20*	*Romania*	*0*
Luxembourg	*19.48*	*Turkey*	*0*
Spain	*19*	*Croatia*	*0*
Ukraine	*18*	*Italy*	*0*
Lichtenstein	*17.01*	*Germany*	*0*
Hungary	*15*	*Monaco*	*0*
Lithuania	*15*	*Belgium*	*0*
Latvia	*15*	*Poland*	*0*

In 2018, then Taoiseach Leo Varadkar said there is evidence that the 33% rate of capital gains tax is affecting the current movement of assets in the economy[7]: He went on to say:

"We'll also, over the next couple of years, have to examine taxes like capital gains, for example, which was increased to raise revenue during the austerity years but one that perhaps now is reducing the frequency of turnover in assets and is having this negative effect."

In his evidence to the Covid-19 Oireachtas Committee Professor Stephen Kinsella suggested that a temporary cut in CGT and inheritance tax would increase revenue for the exchequer this year:

"Decreasing taxes on capital gains to stimulate transactions (and so increase taxes paid this year), reducing inheritance taxes on a one-off basis, introducing a 7th VAT period in November/December, and settlement of existing tax appeals, will all bring in much needed revenue, without impacting the productive sectors of the economy overly".

[7] https://www.irishtimes.com/news/ireland/irish-news/cuts-to-rate-of-capital-gains-tax-on-way-in-coming-years-suggests-taoiseach-1.3707495

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Background

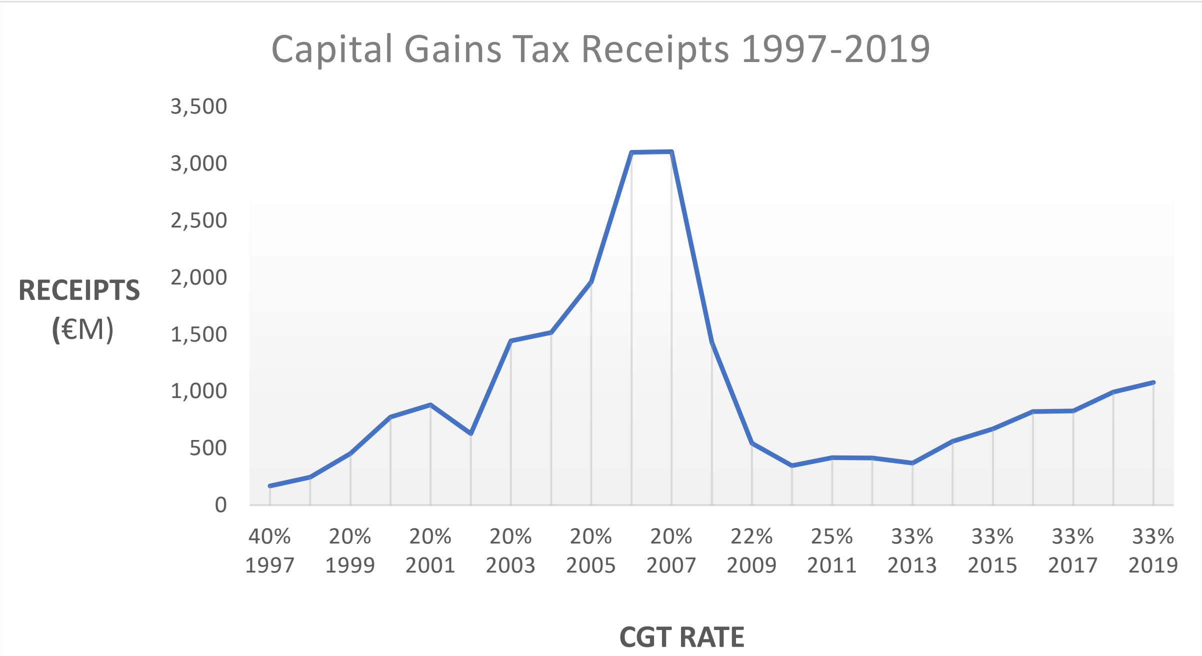
In Budget 1998, the then Minister for Finance Charles McCreevy cut the standard Capital Gains Tax rate from 40% to 20% and he said at the time:

"For a considerable period of time I have been of the strong view that a reduction in capital gains tax will release pent up investment funds and create an incentive for the acquisition of further capital assets. This will encourage investment and growth in the future".

As Table 2 illustrates there was a significant growth in tax revenues immediately after the rate was halved (far beyond the Department for Finance's projections) with strong growth in general non-housing related investments after the rate was initially reduced.

From 2009, successive Governments increased the CGT rate {20% -22% -25%-30%-33%}. In recent years, CGT revenue with a rate applied of 33% has failed to return the high yields of the last decade despite asset values recovering.

Table 2: Capital Gains Tax Rates and Receipts 1997 -2019[8]



[8]CGT rates taken from: O'Hanlon Tax (http://www.ohanlontax.ie/downloads/CGTRatesPostBudget2013.pdf
2019 taken from Revenue: Net receipts by taxhead (https://www.revenue.ie/en/corporate/documents/statistics/receipts/net-receipts.pdf)
1999-2018 taken from 'Finance Accounts' (e.g. https://assets.gov.ie/22544/6e396749aa3145f5bb5b08b92c83c7b1.pdf)
1997-1999 taken from Statistical Report of the Revenue Commissioners for the y/e 31 Dec 2000 (https://www.revenue.ie/en/corporate/documents/statistics/archive/statistical-report-2000.pdf)

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Making a Case for Cutting the Capital Gains Tax (CGT) Rate

1. With household deposits increasing by over €5bn in the last four months, while businesses investment has fallen sharply, a reduction in CGT will likely encourage sales and purchases of assets, driving economic growth and in turn increasing the exchequer's revenue. Both the Irish Tax Institute[9] and the Tax Strategy Group believe that a reduction in the overall CGT rate could increase transactions and exchequer returns.
2. A reduction in CGT would send a very powerful message to businesses across the country and beyond that Ireland is a great place to invest, grow and scale up.
3. Capital Gains Tax accounted for only 1.8% of total exchequer receipts in 2019 from a high of just under 7% in 2006. The risk to the exchequer from any reduction in CGT revenue is very low. Whereas the likely increase in exchequer receipts from a rate cut will help deliver Ireland's much needed recovery.

The Programme for Government

We note that the Programme for Government stated that:

"*We will review Capital Gains Tax in each Budget over the next five-years, in particular with the objective of supporting innovation driven enterprises that will help us transition to a low-carbon economy*".

FBN welcomes this commitment and encourages the Government to act boldly and drive investment into the Irish economy.

Recommendation:

We recommend that the Government cut the standard rate of the Capital Gains Tax from 33% to 20% as a strong foundation to build the recovery.

[9] https://taxinstitute.ie/wp-content/uploads/2020/01/Election-2020-Tax-Briefing-Papers_Final.pdf

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iii. Reform the Capital Acquisitions Tax (CAT)

The CAT is a tax on gifts and inheritances. The standard rate of CAT is 33% and is applied after a threshold allowance which is dependent on the relationship between the disponer and the beneficiary. The 'Group A' threshold (where the beneficiary is the child) of just over €300,000 is low by international standards. Although there is a relief of 90% for the transfer of business assets from one generation to the next, this only applies where control of the business is transferred at the same time. This is not always desirable or appropriate.

When the Tax Strategy Group examined the impact of reducing the relief from 90% to 75% they acknowledged that such a course of action would *"have a negative impact on the growth and development of family businesses."* In contrast, FBN asserts that allowing full relief from CAT under Business Relief will encourage family businesses to reinvest locally as opposed to being forced to sell assets to pay CAT now.

Recommendation:

- ✓ Reform the Capital Acquisitions Tax (CAT).

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iv. Enabling Family Businesses to Power Growth through the Generations

"Family businesses throughout the country embed themselves in their local areas, when they grow, local people get jobs, regions get much needed investment and communities are strengthened. If supported, family businesses can drive growth through the generations".

(John McGrane, Executive Director, Family Business Network)

For family businesses, smart succession planning is key to sustaining the business in the future and to keeping it flourishing. Taxation policy can determine when and how succession takes place. It has never been as important to amend our tax system as to ensure an efficient transition to the next generation within a family business. FBN members support the recommendations contained within PwC's Pre-Budget Submission 'Protecting & Restarting Irish SMEs in Budget 2021' which will help alleviate some of the issues surrounding family business succession and transition.

Recommendations as outlined in the PwC Report Protecting & Restarting Irish SMEs

- ✓ Remove anomalies from how CGT Retirement Relief is calculated to avoid confusion and to ensure that it operates on a consistent basis with Capital Acquisitions Tax ("CAT") Business Relief.
- ✓ Introduce a 'future use' test to ensure that any business assets (including cash) which are considered essential for the future success of the business, are not excluded from Business Relief on the transition of a business to the next generation.
- ✓ Remove the 90% cap to provide full relief from CAT under Business Relief, similar to the equivalent relief in the UK.
- ✓ Remove the arbitrary €3m cap on the value which can qualify for Retirement Relief on the transfer of shares for those aged 66 years of age and older for a period of two years with a further review to take place at that time.
- ✓ Disposal of Businesses - Introduction of a bona fide test in the anti-avoidance legislation introduced in Finance Act 2017 into Section 135(3A), Taxes Consolidation Act 1997 to facilitate genuine commercial transactions.
- ✓ Capital Gains Tax Rollover Relief - Section 591, Taxes Consolidation Act 1997 was repealed in Finance Act 2003 - its reintroduction, in a targeted manner, would allow the shareholder defer the incidence of CGT if they reinvest the sales proceeds into a new business.

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