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Taxation Disparity

by Declan Lynch

The taxation disparity between self-employed individuals (*Entrepreneurs*) and employees needs to be addressed by Government.

This issue has been highlighted by numerous interest groups and was raised again yesterday at the National Economic Dialogue conference, which is taking place in Dublin over 16-17 July 2015.

Entrepreneurs are expected to be renaissance men and women but the present taxation regime penalises them, instead of rewarding them. Entrepreneurs are at the helm of one of some 200,000 small and medium enterprises in Ireland (the *SME Sector*). The sector accounts for approximately 99.7% of all active business enterprises in Ireland, employs 68% of the workforce and generates just over half the State's annual turnover, according to the Central Statistics Office.

At the moment Entrepreneurs are subject to a USC surcharge of 3% and are not entitled to the PAYE credit of €1,650, even where they pay tax on a PAYE basis (i.e. *proprietary directors*).

"Tax reform is key to unlocking job creation, investment and growth," said SFA Chairman, AJ Noonan at the National Economic Dialogue conference.

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Mr. Noonan also highlighted capital gains tax as another area that needs to be addressed by the Government in the upcoming budget, Budget 2016. With calls being made for a 20% CGT rate, with an attractive, functioning Entrepreneur's Relief, similar to the 10% rate for Entrepreneurs which operates in the UK.

While much focus is placed on attracting multinationals to these shores, which is hugely important for the economy, increased effort needs to be made by Government to support and incentivise Entrepreneurs.

See overleaf for details of some of some of the reliefs which are currently in place.



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Start-up reliefs

Some of the start-up reliefs which are currently in place for new business ventures include the following:

Start-up Refunds for Entrepreneurs (SURE)

SURE is a tax relief incentive scheme. Owners of new start-up companies may be entitled to an income tax refund of up to 41% of the capital that they invest under SURE. Depending on the size of the investment individuals may be entitled to a refund of income tax paid over the 6 years prior to the year in which the investment is made.

The general conditions for SURE are that you must:

- Establish a new company carrying on a qualifying trading activity (see below);
- Have mainly PAYE income in the previous 4 years. This would include a person currently in PAYE type employment, an unemployed person, a person recently made redundant or a retired person;
- Take up full-time employment in the new company either as a Director or an Employee;
- Invest cash into the new company by way of purchase of new shares.



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CGT Relief

Budget 2014 introduced a CGT relief for Entrepreneurs. The relief is aimed at encouraging Entrepreneurs to invest and re-invest in assets used in new productive trading activities or a new trading company.

The relief will apply to a person who has already paid CGT in Ireland on the disposal of assets, and then subsequently makes an investment of at least €10,000 in a new business in the period from 1 January 2014 to 31 December 2018.

The relief applies to the disposal of the new investment, which would be the second disposal of an investment by an Entrepreneur for the purposes of the relief. The second disposal can be no earlier than three years after making that investment.

The CGT payable on the disposal of the new investment, i.e. the asset invested in between 2014 and 2018, will be reduced by the lower of:

1. The CGT payable by the person on a prior disposal of assets which occurred on or after 1 January 2010, and
2. 50% of the CGT due on the disposal of the new investment.



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