News Release

High Capital Gains Tax is major barrier to creating indigenous jobs and entrepreneurs – IVCA pre-Budget submission

- Ireland now “seriously uncompetitive” compared to UK and US for risk takers

Dublin, Friday, 19th September, 2014: The Government’s stated goal of making Ireland a great country for entrepreneurs is being seriously undermined by an uncompetitive Capital Gains Tax rate. This is stated in the pre-Budget submission by the Irish Venture Capital Association.

“The sad reality is that Ireland has undergone a significant loss of competitiveness in attracting and supporting entrepreneurship,” commented Regina Breheny, Director General, IVCA. “More favourable tax rates and incentives in the UK, including N Ireland, now represent a serious threat to the creation of indigenous jobs and an entrepreneurial society. Irish entrepreneurs are becoming increasingly aware of the benefits of setting up in the UK or across the border in N. Ireland.”

The IVCA submission points out that CGT in Ireland is charged at 33% while in the United States, capital gains on assets held for more than 12 months are taxed at a maximum rate of 20%. Closer to home, the rate in the UK is between 18% and 28% but Entrepreneurs’ Relief reduces this to 10%.

“In Ireland there is no distinction made between entrepreneurial gains and purely speculative, non-productive gains. No account is taken in either the income tax or capital gains tax codes of the reality that many entrepreneurs might have paid themselves a subsistence salary, or nothing at all, for several years in order to build their business,” added John Flynn, Chairman, IVCA .

The IVCA suggests that a lower CGT rate of 12.5% or 15% be linked to innovation activities as defined under existing tax legislation. A higher rate could be maintained for speculative non productive gains such as property investment. It says that a reduction in CGT should result in no cost to the State for the next five years as it

takes at least that to develop a company to the stage where an exit or sale is feasible.

“The funding crisis for SMEs is a direct result of an historic over dependence on debt which is currently in short supply. These companies should be encouraged to raise equity and the tax system should incentivise this approach instead of disproportionately rewarding investment in property,” states the report submitted to the Minister for Finance.

The IVCA says that the current rate of CGT is also a serious impediment to not only new but serial entrepreneurs in Ireland who would be better rewarded in the UK where the real rate is 10%.

“Irish relief for entrepreneurs who re invest in new start ups is extremely limited,” commented John Flynn, Chairman, IVCA. “As it stands it will do nothing to increase the number of aspiring entrepreneurs, encourage new start up businesses or improve the funding environment for SMEs.”

He added, “The fact is that Ireland has become seriously uncompetitive in terms of taxation. The tax environment for productive investment has steadily deteriorated over the last five years. Unless action is taken, then the Government’s aim of making this a great country in which to start and grow a business lacks credibility. More worryingly, lack of action threatens the incentive to build businesses and create jobs in Ireland.”

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