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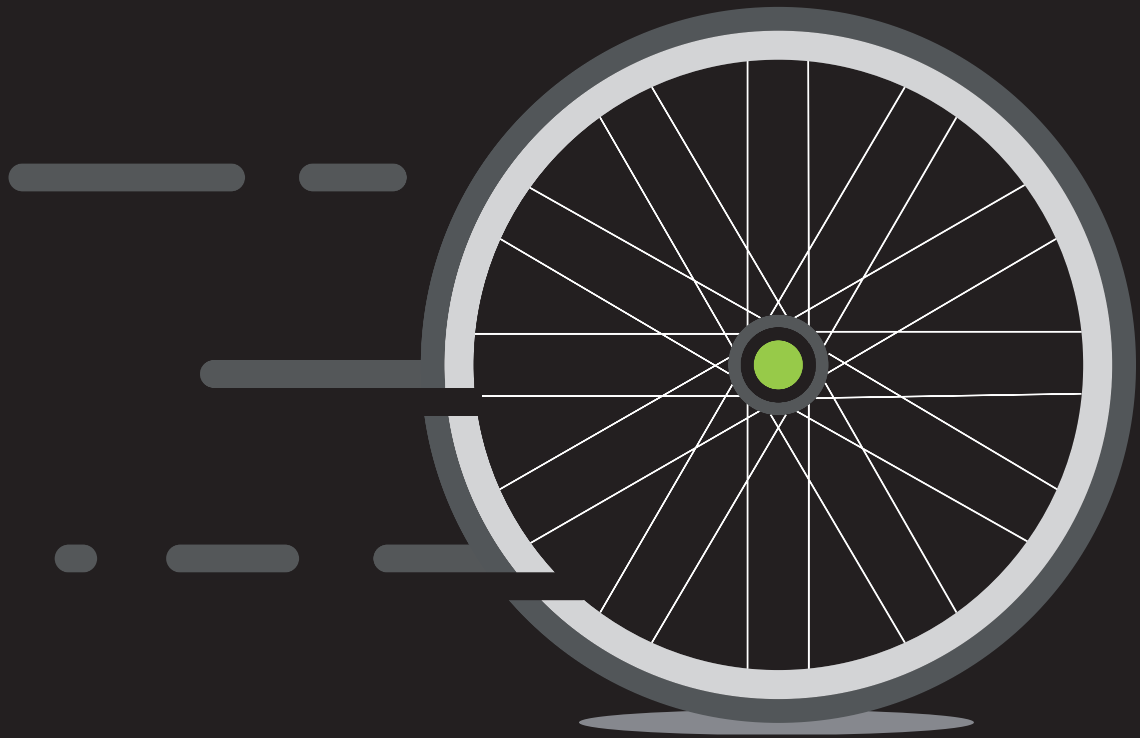

Gaining momentum

Budget 2016

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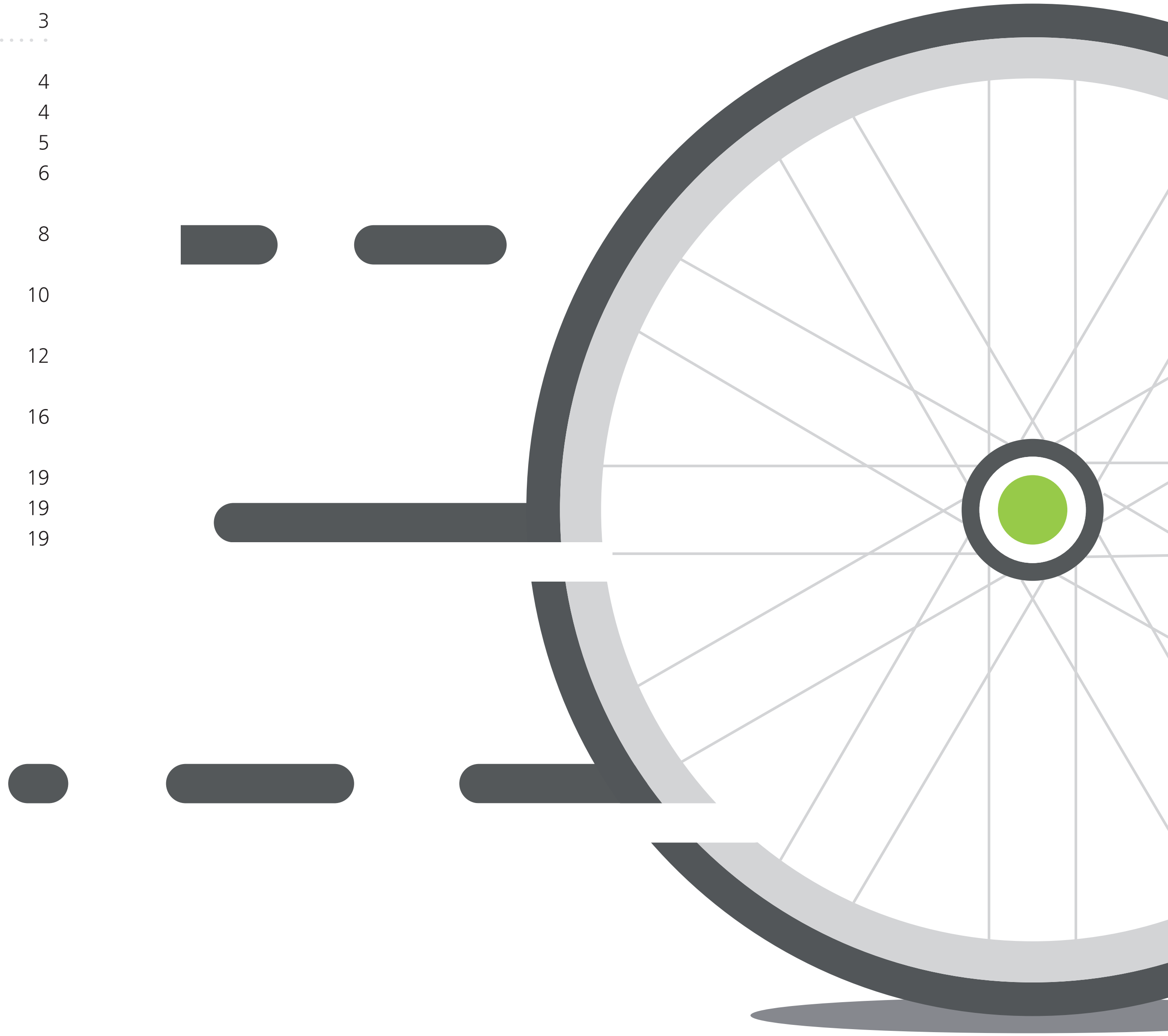

Introduction

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After a year of exceptional growth in the Irish economy and with Ireland likely to become the fastest-growing economy in the EU for the second year in a row, the Government is in a stronger financial position than it has been in quite some time. How the Government divides the spoils, while also applying the restraint needed to ensure we do not return to a cycle of boom and bust, will give an indication of where its priorities lie in a changing world where global competitiveness and reputation needs to be balanced with indigenous economic and social needs. There are pressing business needs to be addressed, such as the stimulation of Irish entrepreneurship and the equalisation of the tax treatment of the self-employed and employees, as well as a number of social priorities, including the housing shortage. Budget 2016 will no doubt give a strong indication of, not only the Government's priorities, but also the direction it – and the parties comprising it – will take into the upcoming election.

Indigenous economy

We have long argued that entrepreneurs – the foundation of our economy and of employment in Ireland – are being unfairly disadvantaged by the tax system, and are cautiously hopeful that the Government has heard this message and intends to rectify it through this year's Budget. This document (and our earlier submission on Tax and Entrepreneurship as part of the government's public consultation on the matter) details some of the steps the Government could take to eliminate this bias against entrepreneurialism.

Foreign Direct Investment

Other countries, and particularly the UK, are taking a good hard look at their corporate tax rates and finding new ways to improve their competitiveness, including the tax treatment of individuals and intellectual property. Ireland has a competitive offering, but the competition for investment and skilled workers is becoming more intense, so we can't rest on our laurels. The Government is under pressure to ensure that Ireland remains an attractive destination for mobile investment, and to do so in a way that serves Ireland's reputation and is compatible with the priorities established under the OECD's Base Erosion and Profit Shifting (BEPS) project. Deloitte contributed to this debate via our submissions to, amongst others, the Knowledge Development Box (KDB) public consultation and the Tax Treatment of Travel and Subsistence Expenses public consultation, and we provide you with selected highlights from those documents in this publication.

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Budget announcements of recent years have contained changes aimed at improving Ireland's tax regime and reputation. Budget 2016 is expected to contain similar changes to help ensure the Irish tax regime remains competitive and our reputation is protected.

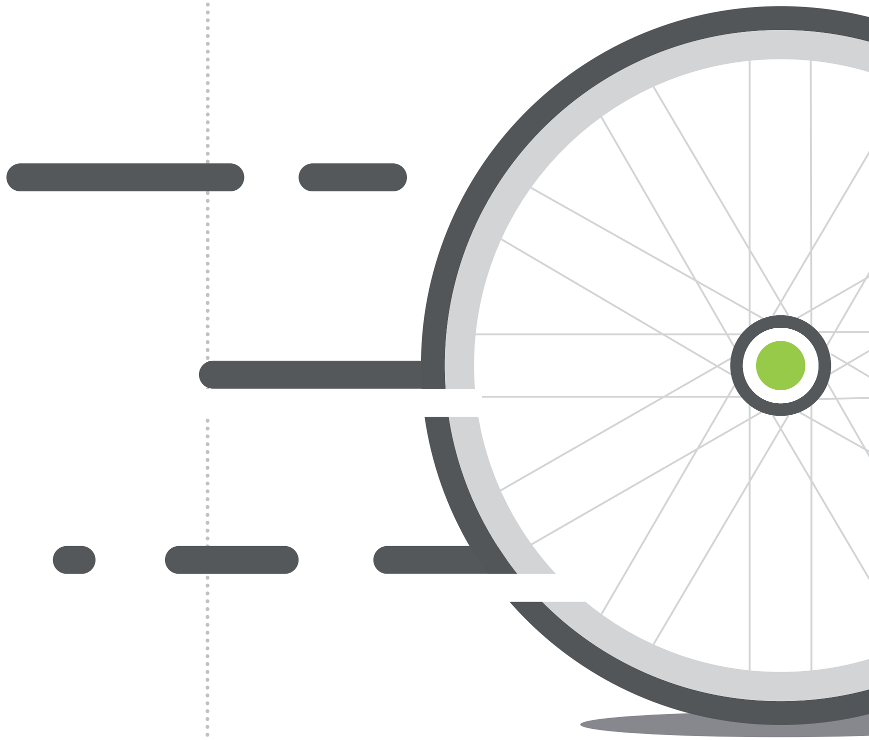
BEPS Impact for Ireland

The Base Erosion and Profit Shifting (BEPS) process being conducted by the OECD continues to dominate the international tax agenda. The commitment is for the overall package of BEPS measures (which aim to tackle situations of double non-taxation and harmful tax practices in particular) to be delivered by the end of 2015, with a number of proposals due to be delivered in October 2015.

All 44 countries that form the OECD and the G20 have approved the BEPS Action Plan and the 2014 BEPS Deliverables. While some of the BEPS Actions will take effect without further action of governments, others will require countries to change their domestic tax law. Indeed a number of BEPS measures will require agreement of a multilateral instrument or negotiation into double taxation treaties.

Over the last year, many countries have continued to emphasise their own views in relation to BEPS. The United States, while not expected to adopt BEPS wholesale in the short term (two to three years), have proposed legislative changes related to various BEPS Actions and have also published a new U.S. Model Treaty. The UK has been seen as an early adopter of BEPS principles through its introduction of the Diverted Profit Tax regime from 6 April 2015.

The BEPS actions will start to be implemented by countries from 2016 onwards. Country-by-country



reporting will apply to fiscal years beginning on or after 1 January 2016, with the first reports due to be filed by 31 December 2017. In broad terms, country-by-country reporting will require multinationals with consolidated revenues of €750 million plus to report key information to their parent company's tax authority, resulting in increased tax transparency. Among other things, country-by-country reporting will require multinationals to report on their profits, revenue, taxes paid, and number of employees separately for each country in which they operate. In their recent Finance Bill, the UK confirmed the introduction of country-by-country reporting and provided a timeline for implementation in that country.

While making changes to the Irish corporate tax residence rules in 2013 and 2014, the Irish Government signalled that any further unilateral changes to the Irish tax regime, related to the BEPS project, are not proposed until the outcome of the BEPS Actions have been agreed. However, the implementation of country-by-country reporting may be incorporated into Budget 2016.

Knowledge Development Box

The Government have remained proactive in setting out their tax agenda in the context of the ongoing international tax debate. In order to strengthen Ireland's competitive advantage as a destination of choice for investment, the Department of Finance launched a 12-week consultation process on 14 January 2015 on the introduction of a new corporation tax incentive – the Knowledge Development Box (KDB). We made a submission as part of that consultation process, which can be viewed at www.deloitte.com/ie.

Our submission included a number of key messages, which you will find in the detailed submission, including:

- A recognition that the method of calculating the relief under any preferential IP regime is expected to be based on the modified nexus approach that was agreed at OECD level
- Noting that the modified nexus approach favours countries with large R&D capacity, such as Germany and the UK, which significantly disadvantages smaller countries like Ireland. As such, we recommended that certain adjustments are made to the formula, such as allowing some kind of depreciation of acquired IP, so that income can be allocated in a fairer manner to Irish activity over time, thus ensuring the income qualifying for tax benefits has a direct nexus to the underlying expenditure
- Noting the importance that the KDB applies to the broadest possible base and has a highly competitive rate in order to sustain Ireland's position in the FDI environment.

Subsequent to the consultation process, the Department of Finance released their feedback in connection with the Knowledge Development Box and this included draft legislation in relation to the new IP regime. The Department of Finance confirmed that the modified nexus approach is being adopted, but recognised the concerns raised in relation to this approach and set out possible approaches to deal with the issues raised. However, the Department of Finance noted that they are continuing to engage with the OECD's Forum of Harmful Tax Practices in relation to the KDB so that the KDB meets its key objective of being the most competitive in class, within the agreed international parameters for fair tax competition in this area.

In relation to the current s.291A onshore Irish tax regime for the acquisition of intangible assets (effectively allowing the amortisation of qualifying IP

> A combination of Ireland's R&D tax credit regime and the KDB will help to support increased innovation in Ireland, which in turn will have positive implications for Ireland.

to qualify for tax relief) the Department of Finance confirmed that it is not their intention that the KDB relief and s. 291A relief would be available in respect of the same intangible assets.

The OECD have confirmed that existing preferential intangible regimes must be closed to new entrants from 30 June 2016 and must be phased out by 30 June 2021, which is shortly after grandfathering of certain offshore IP structures in place by 31 December 2014 expires under Irish provisions (further to the changes introduced by *Finance Act 2014*). Therefore, many countries will need to amend their existing IP regimes to ensure that they are compliant with the modified nexus approach. However, we expect that competition will remain strong in this area and, therefore, it is important that feedback as part of the BEPS Consultation Process in 2014 and the KDB Consultation Process in 2015 is taken on board to further enhance Ireland's regime.

Talent Agenda

Attracting and retaining talent is vital to Ireland's competitiveness as a location for FDI and particularly at a time where there is increasing focus from a tax perspective on substance and the location in which real value-added functions and employees are located. While positive changes were introduced in Budget 2015 to enhance the Special Assignee Relief Programme (SARP), Budget 2016 may also contain some additional positive changes in relation to SARP. In particular, in relation to the current requirement that the employer must certify to Revenue that the employee meets the conditions for the relief within 30 days of the employee's arrival in the state. While it is recognised that this requirement will provide real-time information regarding the number of claimants, it creates further reporting obligations and can create practical difficulties for employers.

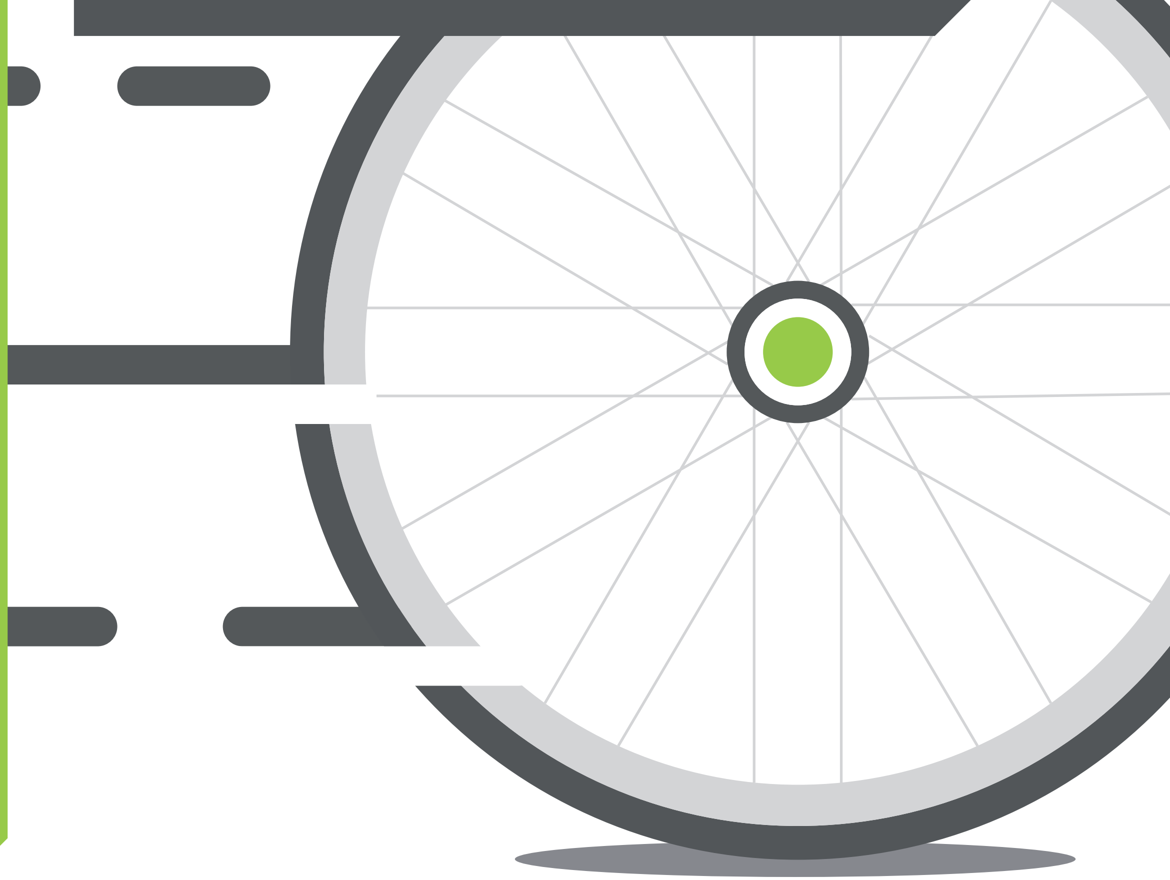
The Department of Finance launched a consultation process on 24 July 2015 on the Tax Treatment of Expenses of Travel and Subsistence for Employees and Office Holders. We made a submission as part of that consultation process which can be viewed at www.deloitte.com/ie and this is discussed in more detail later in this document. Again we made a number of recommendations to the Department of Finance in our submission. From an FDI perspective, one of our key recommendations was that where an individual is travelling from their normal place of work, be it their home or other location, to board meetings on which they are serving as a non-executive director, such expenses of travel should be reimbursed tax free. This should equally apply to both resident and non-resident non-executive directors. For Irish companies to demonstrate that they are implementing the best-in-class standards of corporate governance and regulation, the composition of non-executive directors who sit on Irish corporate boards must also be aligned to this concept of 'best in class'. Therefore, our tax system should recognise this essential function and not deter highly skilled and knowledgeable individuals from sitting on boards.

Our view

- The UK, in particular, have focused on increasing their tax competiveness, reducing their corporate tax rate to 18 per cent by 2020. As the international tax landscape continues to change, in our view it is vital that Budget 2016 seeks to ensure Ireland's competitive tax regime is retained and that Ireland continues to be a location of choice for FDI
- A number of key proposals in relation to BEPS are due to be delivered by the end of 2015. While not all BEPS outcomes will be confirmed before Budget 2016, it is important that the Government consider the potential impact of the outcome of BEPS on Ireland's competitiveness as well as ensuring that any future changes to be introduced in Ireland as a result of BEPS do not put Ireland at a competitive disadvantage
- Government need to consider whether additional resources are required within Irish Revenue to support the outcomes of the BEPS agenda, as we expect Transfer Pricing audit activity to increase further across the globe in the coming years
- Ireland needs to continue to foster an innovative mindset and to enhance development in this area. A combination of Ireland's R&D tax credit regime and the KDB will help to support increased innovation in Ireland, which in turn will have positive implications for Ireland. Our view is that the application of the KDB should be made as wide as possible in order to encourage use of the KDB. However, in the short term, we view the existing section 291A onshore IP allowance regime to be the most favourable regime for inward IP investments, and active consideration should be given to any additional measures which could enhance the application of s.291A further, within the overall framework of the BEPS agenda.

Our prediction

- We expect further details in relation to the KDB, including the rate, to be announced in Budget 2016.



Tax and entrepreneurship

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The Department of Finance recently held a public consultation on Tax and Entrepreneurship, which closed on 14 July 2015, and Deloitte were pleased to provide our insights to the Government on this important topic.

We suggested the following bold moves as part of our recommendations:

- 20 per cent tax rate on certain dividends: A 20 per cent tax rate should be provided on dividends, subject to a €100,000 per annum limit once the business has been in existence for five years, which would: (a) encourage entrepreneurs to grow their business for five years; and (b) retain cash for re-investment in the company during this start-up period
- Capital Gains Tax (CGT) Tapering Relief: With a view to designing a tax system that encourages individuals to stay in business for longer, CGT tapering relief should be introduced for individuals who have worked full time in the business for over five years, as follows:
  – 0 – 5 years – 33 per cent rate of CGT
  – 5 – 10 years – 16.5 per cent rate of CGT
  – 10 years and over – 8.25 per cent rate of CGT

This relief would encourage entrepreneurs to 'stay the course' and scale their business internationally, thus creating a better prospect of replicating the Kerry, CRH and Glanbia success stories

- 100 per cent rollover relief to be provided for entrepreneurs that exit the business earlier, but who re-invest 75 per cent of the proceeds in shares in another trading company, the disposal of which would be within the CGT charge
- Tax-Efficient Financing Arrangement: We recommend that a loan finance arrangement be introduced

> Budget 2016 needs to ensure that entrepreneurs are no longer over taxed and underappreciated.

whereby individuals can lend money to SMEs, provided certain safeguards are in place; for example, market interest rates are applied. Then, the individual will be taxed on the coupon received at the standard rate of income tax (i.e. 20 per cent) as opposed to the marginal rate of income tax (i.e. up to 55 per cent)

- Removal of Employed v Self-employed Disparity: A self-employed person with before-tax profits of less than the industrial wage for the year of assessment (€35,768 for 2014) should be granted a self-employed credit of the same amount as the PAYE credit that the individual would have been entitled to had they been in a PAYE employment.

Our view

In our view, Budget 2016 needs to ensure that entrepreneurs are no longer over taxed and underappreciated. Our recommendations to the Department of Finance are designed to enable Ireland to offer entrepreneurs a truly competitive tax environment in which they can expand and contribute to a strong indigenous Irish sector. Budget 2016 is the opportunity to act on these recommendations.

Our prediction

The Government will likely make modest progress in improving the climate for entrepreneurship in Ireland, in line with its improving fiscal outlook.

Individuals

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In the Spring Statement, the Government reiterated its commitment to a growth-friendly tax system. As part of this, it acknowledged that payroll and corporate taxes can have a significant impact on economic growth.

The reduction in the marginal rate of income tax from 41 per cent to 40 per cent and the adjustments to the Universal Social Charge in last year's Budget was welcome in addressing the high rates of tax paid by Irish employees and the self-employed.

However, we would like to see the Government do more in this area. At present, Irish-resident individuals pay a top rate of tax of 52 per cent. Individuals in Ireland become subject to the higher marginal rate of tax at a much lower level of income than other countries. Self-employed individuals also pay an additional three per cent Universal Social Charge on income in excess of €100,000.

These high rates of tax/entry into the higher rate bands have a negative impact on both Irish employees and the self-employed. In addition, the high rates of personal tax also act as a disincentive to overseas mobile workers to relocate to Ireland.

Minister Noonan previously acknowledged that he intended to continue to reduce the tax burden on low- and middle-income earners. We would like to see the Minister outline a road map for reductions in tax for individuals based in Ireland to less than 50 per cent and to align the application of the Universal Social Charge between the employed and self-employed.

The rates of capital gains tax and capital acquisitions tax (both at 33 per cent) were left untouched in Budget 2015. We would welcome a reduction in the rate of CGT for investment in Irish businesses/Irish trading assets to encourage further investment in our domestic base.

The tax-free threshold for gifts or inheritances from parent to child is currently €225,000. With the increase in property values, even modest estates are likely to be liable to CAT. We would like to see a review of the thresholds with a view to increasing them upwards, as well as some consideration of the headline rate of CAT.

While the marginal rate of income tax was reduced to 40 per cent in 2015, Irish individuals who invest in certain investment products (Irish and overseas funds)

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are subject to income tax on both income and gains from these funds at a rate of 41 per cent. Where individuals invest in certain funds for periods in excess of eight years, a tax charge arises on the increase in the value of that investment regardless of the fact that the investment has not been realised. This charge does not arise for non-resident investors, nor is there any loss relief where the value of the investment has fallen over the eight-year period. We would like to see the Minister review the taxation of investment funds for Irish-resident investors.

We would also welcome a review of Local Property Taxes particularly in the greater Dublin area, which has seen increases in property values. With high demand for rental properties, an ability to deduct LPT for tax purposes may also provide some relief for under-pressure owners in the buy-to-let market who are currently paying income tax on taxable rental profits that are in excess of the cash profit from renting out their property.

Finally, the cost of childcare in Ireland remains among the highest in the EU, with many Irish parents paying more than 40 per cent of their incomes for child care. We would recommend a review of the childcare sector in general to determine the feasibility of providing tax relief for childcare costs to encourage participation by all of the potential workforce.

Our view

We would like to see the Government do more to improve the tax competitiveness of Ireland for all people working here compared to other countries.

Our prediction

We believe the Government will offer additional income-tax reductions for middle-earners.

Pensions

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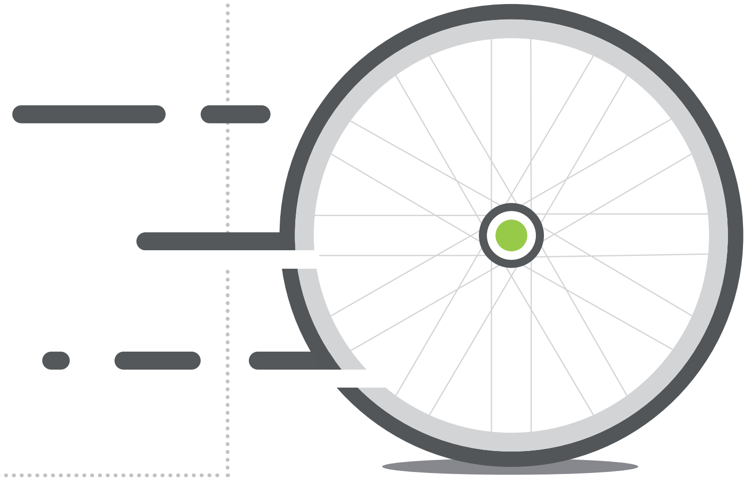
The Government has an opportunity to take a further step towards making the Irish pension system equitable for all pension savers in the upcoming Budget. Currently, the system has a range of inequalities that are punitive towards some cohorts, such as the self-employed, compared to others.

In the previous Budget, it was confirmed the pensions levy would be abolished following the last payment in 2015. Our view is the pensions levy was unfair and places an unbalanced burden on some pension savers who are attempting to prudently save for an income in retirement. It also works to discourage further pension provision at a time when there is a considerable gap between individuals' expected income in retirement and the actual income in retirement pensioners are realistically likely to receive. This will ultimately lead to a heavier reliance on the Irish State to fund retirement incomes and needs to be addressed, such as some other countries have done, before it is too late.

At a macro level, and while unclear if it will form part of the upcoming Budget, the Government may wish to follow the UK lead and clarify what strategic reforms they will make to the Irish pension system to improve pension equality and utilisation. While the Irish Government have already indicated that they are keen to reform the Irish pensions system, with auto-enrollment being one option considered, nothing tangible has been produced to date. In contrast, as part of the UK's Summer Budget, the Chancellor announced a consultation on the best way to reform the UK's pensions system with a key consideration being when funds will be taxed (i.e. at the point of investment or at retirement).

The consultation may lead to pensions being treated more like UK Individual Savings Accounts (ISAs), where there is no tax relief on contributions, but no tax on withdrawals. ISAs have proven very popular in the UK as they are simple and flexible compared to pensions. Indeed, a comparison between the inflexible UK pension model and the Irish pensions system could be made. For example, where an Irish employee makes a contribution to a pension at 25 years of age, typically they may not benefit from the contribution for 40 years.

At a micro level, the UK Chancellor also announced that the pension annual allowance (i.e. the quantum of tax-efficient contributions an individual can make)



will be reduced where their income is in excess of £150,000. The annual UK allowance for the 2015/16 tax year is £40,000, and from April 2016 the allowance will be reduced by £1 for each £2 of income between £150,000 and £210,000. The minimum annual allowance for those earning in excess of £210,000 will be £10,000. Where there are unused annual allowances from the previous three tax years, they can be carried forward.

The Irish pension system already places a cap on the level of personal contributions that can be made to a pension vehicle. This cap is based on an age-related percentage of up to a maximum salary of €115,000. For example, the maximum personal contribution a 60-year-old can make in Ireland is €46,000 (€115,000*40 per cent). This reduces, for younger individuals, so that the maximum contribution a 25-year old individual can make is currently set at €17,250 (€115,000*15 per cent).

Rather than restricting pension contributions, the Government should be seeking to encourage an increase in contributions. The continued eradication of the pensions levy should be one of the first steps in making the Irish pensions system more even handed and attractive to all. It is hoped that the Irish Government would consider the following additional key measures:

1.Ease connected-party investment rules

It could be argued that the Government relaxed connected-party rules for itself as the assets of the National Pensions Reserve Fund (NPRF) become assets of the Ireland Strategic Investment Fund (ISIF) with a statutory mandate to invest on a commercial basis, in a manner designed to support economic activity and employment in the Irish State. Unfortunately, the Government did not deem it appropriate to extend the same level of flexibility to normal pension savers.

Irish pension funds are restricted from investing in assets which the pension policy holder is directly or indirectly connected to. If this restrictive policy were relaxed to allow pension scheme-holders to invest in connected-party assets, it would free up much-needed capital for investment in Irish-based companies and property. A move of this nature by the Irish Government would help to stimulate the Irish economy and also increase the attractiveness of pension saving for individuals. Any risk that the asset price could be manipulated could be mitigated by the onus of achieving fair market value being placed on the parties involved, as is the case for non-pension transactions between connected parties.

2. Allow Approved Retirement Fund (ARF) access for Defined Benefit (DB) Buy Out Bonds/Personal Retirement Bonds (BOBs/PRBs)

Under existing pension rules BOB/PRB holders whose transfer value was received from a Defined Benefit scheme are not permitted to access an ARF at retirement. Instead, they are required to purchase an annuity; this is despite the fact that they are no longer in a DB scheme and their fund is governed by Defined Contribution (DC) principles (i.e. the investment risk is with the member and not with the employer or trustees). This inequality is unfair for members who wish to avail of the ARF option, as they take on all the investment risk of a DC scheme but do not get the same flexible retirement options. This lack of access to an ARF may also prove costly for the policyholder, as annuities are currently relatively expensive due to a low-yield bond environment. By allowing holders of DB BOBs/PRBs access to the ARF regime, it would enhance the range of options available to individuals when they reach retirement, adding to the overall attractiveness of pension saving for individuals.

3. Allow more flexible access to pension funds

A significant number of individuals in Ireland still find themselves in financial difficulty or would appreciate having access to savings to pay for unexpected events (i.e. a 'rainy day' fund). In many of these cases, the individual may have substantial retirement assets accumulated in pension funds. However, these funds cannot generally be accessed until an individual reaches retirement, by which stage it may be too late. This lack of flexibility and illiquidity is one of the main drawbacks of investing in a pension. As a result of this illiquidity, many individuals choose not to invest in a pension. While the Government attempted to address this problem in 2013 by introducing the early access of Additional Voluntary Contributions (AVCs) scheme, it is our view that it has not gone far enough in granting access to pension assets for individuals. This is because the majority of pension assets are denominated as employee or employer contributions and hence cannot be accessed under this scheme. A further drawback of the early AVC access scheme is the access period is for a

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limited period only and is due to lapse in 2016.

The Government should consider allowing members to access their total pension fund above a certain threshold. This threshold could be measured as a percentage of the overall fund or a minimum value. This change would increase the attractiveness of investing in a pension, which in turn should increase the number of people contributing to a pension.

4. Employer contributions to PRSA contracts should receive the same tax treatment as employer contributions to Occupational Pension Schemes

Where an employer contributes to an occupational pension scheme, the employee is not subject to Income tax, PRSI or USC. In contrast, an employer contribution to a PRSA creates a USC liability for the employee. In our view, this anomaly should be removed and an employer's contribution to a PRSA should not create a USC liability for the employee.

5. Self-employed pension funding capability should be increased

The level of pension funding a self-employed individual can make is restricted by an age-related percentage of their salary, with a salary cap of €115,000. Unlike an employee, it is not possible for a self-employed individual to make employer contributions. Therefore, the volume of pension funding they can make over their working life when compared with an employee is significantly reduced. This is an area that clearly requires consideration at a policy level to ensure the treatment of employees versus the self-employed is more equitable.

6. The Standard Fund Threshold (SFT) and Personal Fund Thresholds (PFTs) should be increased in line with inflation

Individuals who have planned for the financial future of themselves and their family, by saving through a pension, are now being penalised for their prudence. The Government have significantly shifted the goalposts in recent years so the maximum fund an individual can accumulate in their pension has fallen to €2 million. This may seem like a significant amount; however, under current rules an individual in a defined benefit scheme who accumulates their full benefits after 2014, retires at 60 and receives a pension of €63,500 per annum and a lump sum of €100,000 would be above this threshold. This threshold should be indexed in line with the rate of inflation to provide some level of respite to pension savers.

Our view

If the Government is serious about defusing the pensions time bomb created by an ageing population and also encouraging entrepreneurship in Ireland, then steps need to be taken urgently both to make saving for retirement more attractive, and also to level the playing field between all employees and the self-employed.

Our prediction

As in the UK, a strategic reform of the Irish pensions system is needed. The Government has stated that it intends reforming the Irish pensions system, but what guise this reform will take and when it will be implemented needs to be clarified. The upcoming Budget represents an opportunity for the Government to deliver a roadmap for reform of the Irish pensions system. Time will tell whether they take that opportunity.

Real Estate

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While activity levels in the commercial property market continue at a strong pace, particularly in the Dublin region, there remains a serious under-supply of housing stock in certain urban areas and within particular sectors, such as social housing and student accommodation. There is an awareness that houses need to be built, but there are blockages in the system and particularly around financing, both for developers and end purchasers, and the Government may or may not decide to introduce some tax changes to alleviate matters. That said, we feel the following measures would be of benefit to the sector and to the economy as a whole:

1. VAT reduction on new residential property

As referred to above, certain housing sectors are significantly undersupplied and indeed the term 'crisis' has been used to describe the current situation. The sale of new properties attracts a VAT rate of 13.5 per cent and consideration should be given to reducing the rate to nine per cent for a period of three years. Such a measure was introduced for the tourism industry very successfully some time ago. This should assist with affordability and would likely be self-financing, given the additional jobs and activity that should result. Any concerns that house prices will not fall, but rather would increase the developers' profits, can be allayed if a VAT rebate system is introduced whereby the end user would directly receive the rebate and not the developers.

2. Reduction in the 'Development Contribution'

The Local Property Tax is now generating a constant and steady revenue stream, consequently the Exchequer should be less dependent on the one-off capital development contributions that developers have to make when building housing estates. Although, these contributions were reduced a few years ago from the boom-time levels, they still represent a sizeable sum in the total development cost of a unit. In addition to the standard Section 48 Development Contributions, some Local Authorities are imposing Section 49 Development Contributions. We suggest that overall Development Contributions should be capped at a sustainable level, which is lower than the current level. We also suggest that housing within certain sectors, such as social housing and student accommodation, should be exempt for a three-year period until such time as

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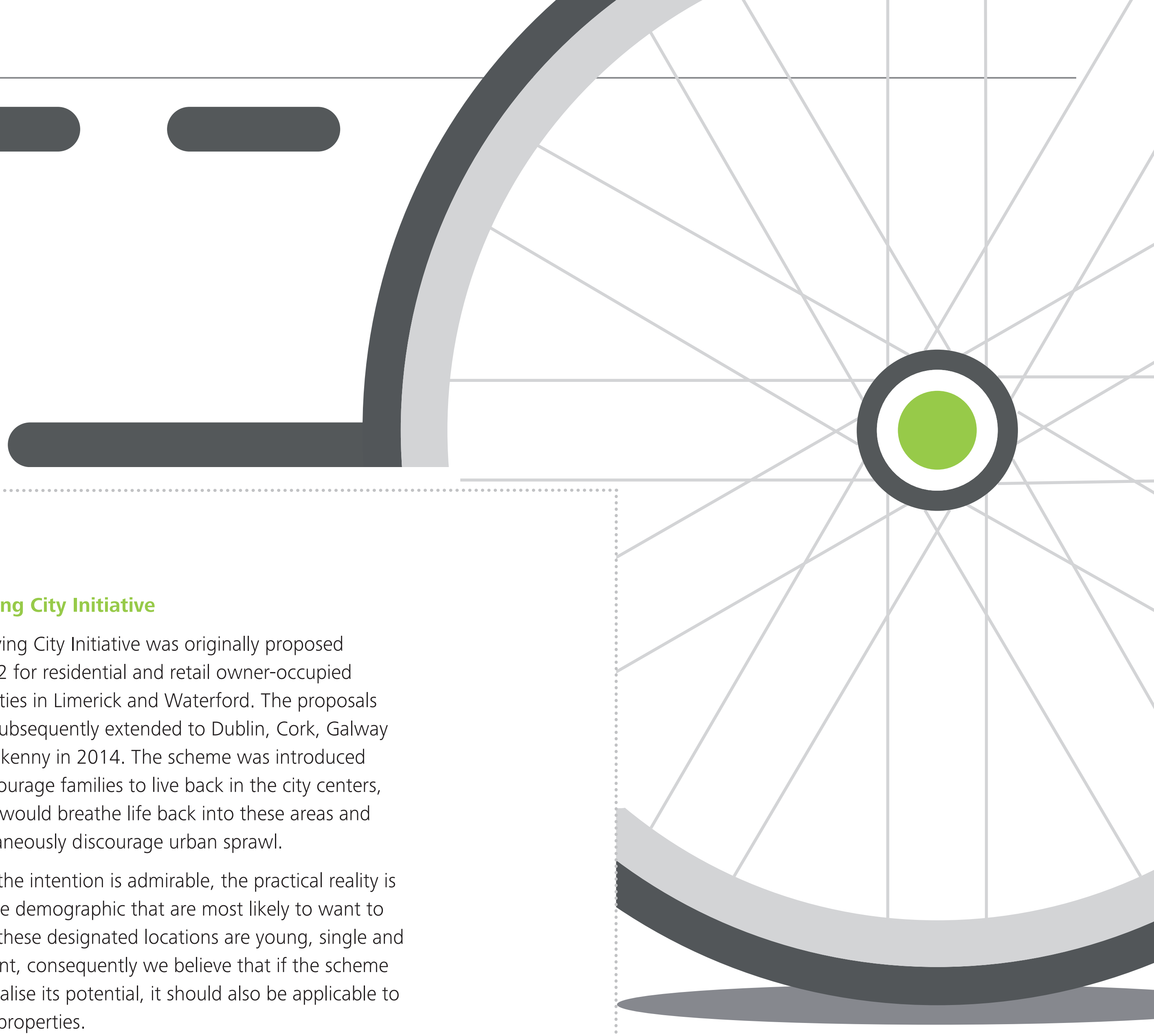

additional units are constructed to meet current needs.

3. VAT Rebate Scheme for Home Renovation

The VAT rebate scheme was introduced in Finance Act 2013 and is due to expire at the end of 2015. The scheme has proved a success in that it has succeeded in stimulating this sector somewhat (i.e. tradesmen and local builders).

We would suggest that the term of the scheme should be extended. We also suggest that the current threshold of €4,405 to €30,000 should be increased so that the upper limit is increased to €75,000. This may encourage property owners to renovate their existing homes rather than seeking alternative accommodation, which is already under supply pressure.

Another not-inconsequential benefit of this scheme is that it has reduced the so-called ‘black economy’ that has traditionally been long associated with this sector, given the online registration requirements of all parties.

4. Living City Initiative

The Living City Initiative was originally proposed in 2012 for residential and retail owner-occupied properties in Limerick and Waterford. The proposals were subsequently extended to Dublin, Cork, Galway and Kilkenny in 2014. The scheme was introduced to encourage families to live back in the city centers, which would breathe life back into these areas and simultaneously discourage urban sprawl.

While the intention is admirable, the practical reality is that the demographic that are most likely to want to live in these designated locations are young, single and transient, consequently we believe that if the scheme is to realise its potential, it should also be applicable to rental properties.

5. Interest deduction on rental properties

During the economic crisis, the Government restricted the allowable interest deduction on residential rental properties to 75 per cent. We believe that there are strong grounds for reversing this policy. Despite significant bank restructuring over the past 12 months, in particular, there are still many 'buy to let' mortgages in difficulty. Reversing this policy will provide some relief to a section of society which, despite the recent economic recovery, is still suffering from the financial crisis. It would also assist landlords in perhaps limiting rent increases.

Our view

The Government has considerable work to do to encourage the real estate sector to create the much-needed housing that the growing population and economy desperately need. There are some practical solutions that the Government could take in Budget 2016 to promote residential development, which would pay dividends in terms of increased economic activity, less pressure on rents, and improving the attractiveness of Ireland as a country to relocate to.

Our prediction

The Government will make some efforts in this Budget to be seen to be promoting an increase in the supply of housing, which is a hot-ticket issue in advance of the next election.

Tax treatment of travel and subsistence expenses

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We would expect some changes in relation to the taxation of travel and subsistence expenses following on from the recent Department of Finance consultation. The following are the key areas we would like to see addressed.

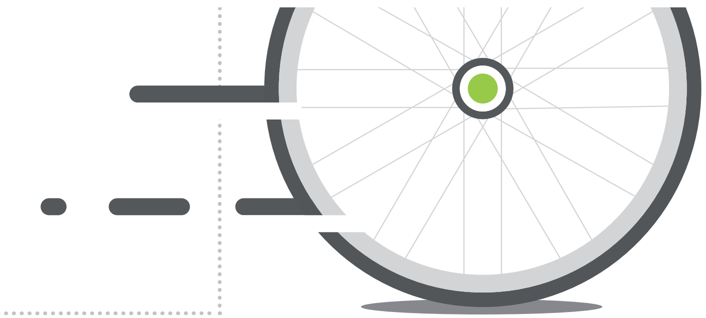
Normal Place of Work

The concept of the "normal place of work" is the bedrock of our tax system in relation to travel and subsistence expenses. Employees can receive travel and subsistence tax free where they work away from their normal place of work. It is universally accepted that expenses in respect of travel from home to work and work to home are taxable if reimbursed or paid by an employer. Having said this, the "normal place of work" should be determined based on the facts rather than on the outdated view that generally an individual's home cannot be their normal place of work. Due to improved technologies, coupled with the requirements of modern business operations, there are situations where an individual's home may be their normal place of work. The normal place of work should be the place where the employee or office holder performs most of the duties of their employment irrespective of whether that is their home or an employer's office/workspace.

Non-Executive Directors

Non-Executive Directors (NEDs) serve a vital function on the boards of Irish companies in respect of enhancing and maintaining good corporate governance and regulation. It is important that our tax code does not deter experienced individuals from assuming these critical corporate positions. Irish companies need to be able to attract high-calibre NEDS with experience and knowledge in the international business arena. The NED talent pool in Ireland is not sufficient to meet the needs of companies and foreign-based NEDs often sit on Irish boards. This group increase the expertise, independence and objectivity of Irish corporate boards. The role of the NED is not confined to attendance at board meetings,

> "The taxation of travel and subsistence expenses should not hinder domestic growth.



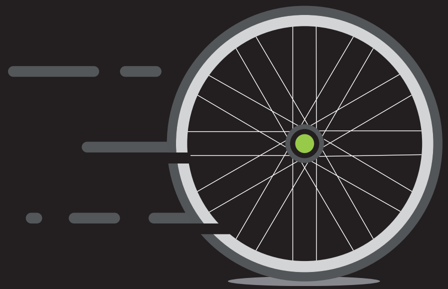
with all directors expected to allocate sufficient time to discharge their fiduciary responsibilities effectively. In addition to meeting attendance, NEDs spend a significant amount of time reviewing briefing documentation, keeping abreast of the latest news/developments relevant to their directorship, attending other committee meetings and informing themselves around board activity in advance of board meetings. Given the modern concept of normal place of work, we believe that in most cases the NEDs' normal place of work will be their home. In line with the proposal in relation to the general concept of the normal place of work, we believe that in situations where a NED undertakes necessary work in advance of board meetings from his/her home or other location the travel and subsistence expenses relating to travel to board meetings should be tax free.

Our view

There is an opportunity for the concept of normal place of work to be brought into the 21st century and thereby reflect the modern reality. This can be achieved by adopting a simple approach of treating the place where an individual performs most of their duties of the employment as the normal place of work. In instances where this is less clear, the individual could make an election to determine their normal place of work. Adopting this approach would also allow NEDs who perform work outside of board meetings to have this properly recognised and allow their travel and subsistence expenses to travel to board meetings to be paid tax free.

Our prediction

Although we wouldn't necessarily expect it to be announced in the Budget, we would expect the Government to provide some additional clarification around the issue of the tax treatment of travel and subsistence expenses through the medium of the Finance Bill.



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