



Submission to the Consultation on the Taxation of Micro Enterprises: Reduction in Compliance Costs

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Introduction

Chambers Ireland is the country’s largest business network, with 50 affiliated chambers in every sector in the country representing businesses locally, regionally and nationally. We are dedicated to promoting competitiveness within the business community. In turn, this competitiveness leads to economic growth and stability, supporting job creation and retention.

We welcome this opportunity to contribute to the Department of Finance’s consultation on what can be done to reduce the administrative burden currently facing micro enterprises in the area of taxation. We share the concerns raised in the consultation paper.

Micro enterprises are vital to Ireland’s future economic sustainability. While it is recognised that Ireland is doing well in the area of Foreign Direct Investment and export led industry, concerns remain that not enough is being done to assist indigenous companies focused on the domestic market. In particular, there is scope for Government to implement policies and

initiatives that will assist and encourage start-ups and micro enterprises to grow into medium-sized companies.

Overview

At the heart of our submission is the need for policies that will allow for job creation and retention. We acknowledge that it is not Government's responsibility to create jobs; however, we contend that it is essential that Government does all that it can to create the conditions and business environment that will lead to job creation.

Job creation is central to Ireland's economic recovery. It is the only way to get the country's finances back on a sustainable footing. Given that over 99% of businesses in Ireland are SMEs and that most employment is located in this sector, it is fair to say that sustainable and meaningful job creation is a function of improved business conditions for micro, small and medium-sized enterprises. This is an opportunity to improve those conditions.

It is essential that the maximum assistance for micro enterprises is achieved with the minimum impact on revenue. As far as possible all policies should be revenue neutral.

That said, it must be remembered that certain measures, which on the surface may appear to reduce revenue, actually produce significant macroeconomic gains to government in the medium to long term. For every person brought into employment by a micro enterprise, there is an immediate gain for the exchequer: there is one less person on the live register and one more person contributing to exchequer revenue streams through taxation. It also has a positive impact on the national business environment by increases in the velocity and circulation of money and the subsequent multiplier effect

As far as possible all restrictions on starting and growing a business should be removed. There are too many conditions attached to existing incentives for starting a business and creating new jobs. It is essential to incentivise this behaviour rather than building barriers to complicate the process.

The new realities of business must be recognised. Many of the provisions within the Companies Acts, orders and regulations, as they apply to start-ups, are simply not applicable to the types of business that must be nurtured if the economy is to grow. Existing rigid structures do not allow for the innovative, dynamic and enterprising approaches necessary in today's business climate.

Finally, it is essential to recognise that taxation is only one area that must be addressed to stimulate the economy. In particular, the issue of funding must be continually reviewed to ensure innovative ideas can grow into sustainable businesses.

Policy Ideas

Simplify Tax Return Systems for all Businesses

While a single standard tax return process for SMEs would, in theory, be very welcome, in reality this would be very hard to calculate. Accountancy practitioners inform us that even a relatively simple business such as a café or restaurant may well have to account for VAT at potentially four different rates depending on the type of sales that have been achieved. Ideally, simplification of the qualification criteria and bands associated with a tax such as VAT should lead to benefits for SMEs and micro enterprises grappling with the time required to achieve tax compliance. All efforts should focus on the need to remove much of the administrative and bureaucratic burden that is currently acting as a barrier to enterprising individuals from taking the first vital steps into business.

Set a Lower CGT Tax for Entrepreneurs

In our view, it seems unfair to apply the same level of Capital Gains Tax to an entrepreneur, who is risking so much to establish an enterprise, as to a citizen who, for example, is investing in shares in the stock market. One involves more risk in terms of the potential for bankruptcy if the investment fails; the other is more passive and speculative in nature.

Accordingly, we believe that CGT should be reduced significantly to 20% for entrepreneurs to incentivise and reward risk taking. It could also grow CGT revenues and enhance opportunities for growth and ‘scalability’ as some entrepreneurs could be further incentivised to crystallise gains via trade sales as they approach retirement to other businesses/entrepreneurs seeking to grow.

Enable Start-ups to Offset Corporation Tax against Other Taxes Due

A company should be able to off-set trading losses against other taxes due in the initial start-up phase for a period of three years. This would assist cash flow for start-up companies, a current obstacle that is a vital ingredient to enable them overcome the most challenging period in the development of the company.

The calculation could be done on a value basis so the Revenue Commissioners do not lose out financially but they “refund” VAT this year in lieu of a Corporation Tax Deduction in future years when profits are made.

In our view a pilot scheme should be undertaken and extended to all business start-ups, not just limited companies.

Broaden Eligibility for the 12.5% Corporation Tax Rate Beyond Incorporated Companies

This would facilitate unincorporated businesses that are profitable to qualify for the reduced rate of 12.5pc on corporation taxes. Significantly, the majority of businesses with a turnover of less than €75,000 are currently unincorporated (apx 174,000) as opposed to

only 23,000 that are incorporated. Allowing them to avail of the 12.5% corporation tax rate would be a considerable boost for these companies, giving them the potential to develop and create new jobs and opportunities for employment.

Broaden the Audit Exemption for Microenterprises

A significant issue for small businesses relates to the late filing of accounts with the Companies Registration Office (CRO). This results in the loss of the Audit Exemption for two years (the year they are late and the following year), resulting in an increase in costs for these businesses as they must then contract an audit from external providers. We believe that there is a case for abolishing the need for an audit if turnover is below a set threshold. This may also act as an incentive for many sole traders to incorporate.

Conclusion

The real question that must be answered to get the Irish economy onto a sustainable footing is how to get the 294,600 people currently unemployed to join the 650,000 already employed by micro and small enterprises.

This will not be achieved through additional regulations and conditions. It will be achieved with an easing of the administrative and regulatory burden which continues to discourage people from starting new businesses and taking the risks necessary to grow existing projects.