Irish Association of Investment Managers

Enhancing the Special Assignee Relief Programme

IAIM Submission to Department of Finance – September 2017

Summary

- The Special Assignee Relief Programme is a targeted relief that incentivises the relocation of high-value employment to Ireland.
- Persuading highly-skilled staff to move to Ireland is essential to the growth of high-value businesses here, and personal taxation is a key aspect of this decision.
- While SARP is a valuable part of Ireland's offering, it needs to be improved if it is to be a competitive advantage in attracting highly-skilled personnel.
- SARP improvements would not constitute a reduction in existing tax revenue, and are revenue generating if even a small number of relocations are achieved.
- For the investment management industry and for other financial services firms, this is vital in the context of Brexit, as UK-based firms are considering competing jurisdictions.
- The IMF Staff Report of July 2016 highlighted that Ireland's personal income taxation system 'discourages high-skilled worker migration to Ireland'.
- Entities that move staff to Ireland have almost always done so with a view to increasing employment among currently Irish-resident staff – many of the largest IFS employers started with a small number of senior staff.
- Revenue figures show each SARP position has directly supported at least two/three additional positions, and these estimates are from a period of lower overall employment growth.
- Facilitating senior staff moves helps ensure that sufficient substance exists in Irish operations to satisfy Central Bank of Ireland requirements and to address future BEPS needs.
- Improving SARP supports other high-value industries alongside financial services, including ICT, Pharma and MedTech.
- Allowing SARP to be used for new hires enables indigenous firms and others without large international groups to benefit from SARP and compete effectively for international talent where roles are unlikely to be filled by Irish-resident staff.

Key Recommendations

- Calibrate SARP to give Ireland a competitive advantage in attracting highly-skilled personnel
- Increase exemption level from 30% to 50%
- Apply relief to all income, with a qualifying threshold of €75,000
- Open SARP to new hires to allow talent to be recruited, and not just transferred from groups
- Extend programme to provide certainty for staff and employers
- Provide for tax-free allowance of €30,000 for relocation expenses
- Allow tax-free reimbursement of up to five return trips per year
- Extend the certification window to ease application process

About IAIM

- The Irish Association of Investment Managers represents front-office investment management activity in Ireland
- Investment management is a successful and important part of Ireland's financial services offering, with IAIM member firms managing approximately €295bn in assets for Irish and international clients, and employing around 1000 people

Context

The Special Assignee Relief Programme (SARP) was introduced in 2012 Finance Act, and reduces the cost to employers of transferring skilled individuals to take up positions in Irish operations.

The programme has been further refined in 2014, and subject to certain conditions, the key features are now:

- An eligibility threshold of €75,000
- An exemption from income tax on 30% of salary in excess of €75,000 for employees that are assigned for a minimum of 1 year
- The exemption can be claimed for a maximum of five years
- No exemption exists from PRSI and USC
- The assignee must have been an employee of the company (or more typically a group company) in a country that Ireland has a DTA with for at least 6 months previously

The employer may also bear the cost of one return trip home for employee and their family and school fees up to €5,000 per annum per child in approved schools without it being subject to tax for the employee.

Prior to 2006, the remittance basis applied to income for those who were Irish tax resident but not domiciled here, with income tax only payable on the amount of income that was remitted to Ireland. The remittance basis was abolished in 2006, with a limited relief scheme introduced in 2008.

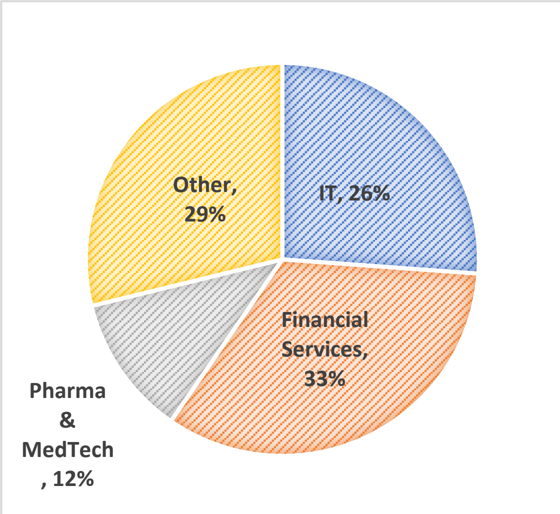
Uptake

Statistics released by Revenue covering 2012-14 provide a picture of the relevance and impact of the existing regime. Initial uptake was relatively limited in 2012-3 with 121 cases in 2013. Following improvements in 2014, there was a significant increase in interest with 302 cases. Data has not been made available for subsequent periods.

The Revenue data highlights three important points:

- **SARP is valuable for multiple sectors** – the breakdown by sector for 2014 shows that financial services, ICT and Pharma/MedTech have been the primary users of the relief (with 71% of cases), but that it has also been availed of in other sectors.
- **The uptake of the relief is still relatively small** – by comparison, the Dutch programme has an average of over 13,000 applications per annum. The increased SARP uptake in 2014 (from 121 in 2013) also highlights that demand does exist if a sufficiently compelling proposition can be created.
- **The potential for job creation -** employer data gathered by to Revenue for 2014 shows that 126 jobs were created and 708 positions retained by SARP, or slightly under three positions per assignee. While this is a limited snapshot during a much less favourable job creation period and does not take into account the wider impact in the respective company and broader economy, it does illustrate the value that these assignees bring.

SARP uptake by sector in 2014



Source: Revenue Commissioners

Exchequer Impact Analysis

The total cost in terms of tax foregone through SARP was €5.9m in 2014, at an average of €19,500 per assignee. Based on this level of relief, however, a reasonably conservative estimate is that the direct additional Exchequer yield from payroll taxes arising from the assignees is €35m (see notes for calculation), before any consideration of indirect yield (through VAT, CT etc.) and downstream economic impact.

Accordingly, even if only 17% of SARP usage was 'additional' – i.e. the relocation of the assignee would not have occurred had the programme not existed, it still has a positive direct Exchequer impact. When indirect effects are taken into account, the threshold of what proportion of the uptake must be additional to generate a benefit for the Exchequer reduces even further.

Importance

The availability of high-end skills is fundamental to the development of key industries in Ireland – across financial services, ICT, pharmaceuticals and medical technology. Ireland's educational system is rightly lauded for the quality of its graduates, and Ireland's young workforce is a key competitive advantage. Nonetheless, bringing new business and growing existing ones often requires attracting top international talent.

Department of Finance SARP Review 2014

"International investment has become increasingly mobile. This development has been mirrored by an increased mobility of highly-skilled workers in areas of economic activity where they can generally command high salaries and associated benefits."

OECD Report on Taxation and Employment 2011

"Tax systems often impose high tax burdens on high-skilled workers, and estimates of taxable income elasticities suggest that high income recipients are more responsive than most taxpayers to tax rates." (cited in D/Finance SARP Review 2014, above)

Attracting key mobile international talent is also a challenge for indigenous firms. This is particularly true for firms in the technology sector and those looking to expand and to compete abroad. Recent changes proposed to Ireland's work permit system have recognised Ireland's skill shortage in ICT and other sectors and broadened the range of highly skilled people who can qualify for permits to work in Ireland. The tax cost of locating here should not discourage these workers from coming to Ireland.

Fórfas – Benefits of Assignees

"When an assignee in a global role is based in Ireland, this signals that Ireland is becoming or will continue to be a key location for an MNC.

These assignees can exert a positive influence in securing substance based investments with the related jobs and economic benefits for Ireland.

The nature of the Irish operation in turn can evolve through securing more investments which integrates Ireland deeper into the group's international supply chain and creates additional jobs.

The assignee's global role then requires additional middle management supporting roles within the Irish operation and the cascading effect results in promotions, which improve the existing Irish employees' skill sets and draws in additional employees to fill new roles."

The Department of Finance noted that staff incentivised to move to Ireland tend to be instrumental in the development of businesses here:

Department of Finance SARP Review 2014

"[Relocating] individuals are traditionally assigned to assist the Irish operations to pursue new projects or open new lines of business, thus leading to increased competitiveness and employment. The attraction of such individuals and the additional employment and investment that they bring has become a global business."

The IMF Staff Report of July 2016 highlights that Ireland's personal income taxation system 'discourages high-skilled worker migration to Ireland'. This is a major concern in a globally competitive market for talent, with a once in a generation redistribution of commercial activities about to commence post Brexit.

Ibec Budget Submission 2016

"The personal income tax burden in Ireland for high skilled workers is now much higher than in most of our competitors and large numbers of Ibec members are reporting difficulties in being able to attract skilled talent to Ireland."

While Ireland ranks 16^{th} overall in the 2016 INSEAD Global Talent Competitiveness Index report, on the taxation indicator it sank to 66th position from 34th in 2013. Germany, Luxembourg, the Netherlands, US and UK all ranked above Ireland on both overall attractiveness to talent and on taxation. Marginal and effective taxation rates (as well as caps on social security contributions) on SARP level salaries in all five countries are lower than Ireland. In a comparative sample, only France has higher rates than Ireland, and it applies a very generous regime for expatriates and assignees.

From Revenue figures, the average SARP salary in 2014 was approximately €238,000. In 2016, the marginal tax rate on such a salary was 52%, and the effective tax rate in 2016 was 47%, comparing unfavourably with international competitors.

Illustrative net income and effective tax rates on a €250,000 salary		
Ireland	€132,518	46.99%
UK	€145,102	41.96%
Germany	€139,647	44.14%
Luxembourg	€141,217	43.51%
US (NYC)	€145,091	41.96%
France	€132,407	47.04%

(See end-notes for sources)

International Comparators

Targeted assignee regimes exist in several countries. Details of the Dutch and French schemes are included below in more detail, while other schemes include:

- Luxembourg: payment of certain benefits and allowances can be made to assignees tax-free for up to 5 years to cover e.g. housing costs, living costs, schools etc.
- Belgium: certain relocation allowances can be paid tax-free. Where time is spent working outside Belgium, this can reduce the amount of employment income taxed in Belgium.
- Sweden: 25% of an assignee's salary and benefits can be exempt from tax and social security for up to 3 years. Relocation expenses can also be paid tax-free.

The Netherlands

The Netherlands operates a tax relief for expatriates which allows the employer to pay a qualifying employee a tax-free amount of up to 30% of his/her total remuneration for a maximum period of 8 years.

This scheme includes a nominal 'skills criteria', requiring the employee to have specific expertise which is scarce or not available on the Dutch labour market. This requirement will typically be met once the employee meets a minimum salary level (€51,969 in most cases).

While a like-for-like comparison with SARP is not appropriate, as noted by the Department of Finance below, uptake is nonetheless considerably higher, with 13,581 users in 2012.

Department of Finance Observations on Dutch Model

"While the Dutch scheme has been repeatedly cited as an example of a preferred scheme to consider in place of SARP, the Dutch model is much broader (in terms of targeting more than just key employees) and more generous than SARP in terms of the quantum of tax relief offered. Furthermore, it applies to new entrants whereby the assignee is not required to have worked for the parent company before being assigned to the company operations in the Netherlands. (S. 11.11)"

France

The French regime operates similarly to Dutch '30% ruling regime' in that the employee can be paid a tax-free amount equal to approximately 30 percent of their total remuneration for a maximum period of up to 5 years. The French regime does not impose a skills requirement.

In addition to allowing an exemption from tax on 30% of total remuneration, the regime also provides for tax exemptions in respect of all assignment related allowances and benefits in kind (e.g. housing), cost of living allowances and tax equalisation payments.

The individual's taxable remuneration after consideration of the exemptions cannot be less than 'normal' remuneration paid to other French employees, performing similar functions within the company or the group or similar company.

Department of Finance Observations on French Model

"For example, an individual is assigned to France on a salary of €200,000, including an expatriation bonus of €50,000 and €33,000 for work undertaken abroad. If the individual chooses the 50% exemption on all remuneration, they can receive an exemption of €83,000. This equates to an exemption from tax of 41.5% of income."

Recommendations

SARP can be calibrated to be a crucial competitive advantage to encourage companies to locate their operations in Ireland, and to move the staff that will ensure that those operations have substance and a long-term attachment to Ireland.

The IAIM is proposing the following key changes to SARP that would realise this objective by making it competitively best-in-class, easy to explain and simple to implement.

1. Increase exemption level from 30% to 50% - *so that half of income is subject to tax relief at the marginal personal income tax rate of 40%.*

For an assignee under the present SARP, 30% of their eligible income over €75,000 is subject to tax relief at the current marginal personal income tax rate of 40%. No relief is provided from USC and PRSI. For an assignee on a salary of €250,000 this reduces their effective tax rate from 47% to 39%. Increasing the exemption level to 50% reduces the effective tax rate to 33%. All eligible income is still liable to USC and PRSI, ensuring the integrity of a broad base is retained. This ensures a highly competitive relief and matches the French proposals.

2. Apply relief to all income, with a qualifying threshold of €75,000 – *independent of the level of relief, it should apply to all eligible income, once the assignee qualifies.*

Applying relief to all income simplifies application and makes the programme easier to communicate. It also aligns with international competitors and reduces administrative complexity. The eligibility threshold of €75,000 ensures that labour market displacement is limited, and that the programme remains targeted at high-value assignees.

3. Open SARP to new hires to allow talent to be recruited – *so that indigenous firms can recruit the talent they need if they can't source it here.*

To qualify for SARP currently an individual must be employed by their company for six months. This restricts the availability of the relief to companies with international operations, and limits the ability of both indigenous companies and MNCs to attract new talent to Ireland. Removing this condition also will bring Ireland into line with competitors.

At the eligibility threshold of €75,000, Ireland has virtually full employment and a shortage of available talent in highly skilled and executive positions. The roles that will be recruited or created in Ireland for assignees will be new positions that would otherwise not exist.

Opening SARP to new hires will also remove the restraint on indigenous business without a foreign office who currently benefit from SARP to compete for global talent. It will also aid domestic exporters and start-ups who may be seeking to hire expert skills not available locally to navigate the uncertainty of Brexit, achieve access to new markets and maintain their status in the UK.

4. Extend the programme and lengthen the certification window – *to ease operation and give certainty to staff and employers*.

Amendments to SARP in Finance Act 2014 introduced a 30-day certification period from the date of arrival of the assignee. This increases the administrative burden for companies and the individual to ensure that their tax affairs are in order in their first month in Ireland. Relocating to a new country is disruptive for the employee and can be a period of change in a business. Extending the certification window to 90 days reduces the burden on companies, while maintaining appropriate compliance requirements.

5. Provide for a tax-free allowance of €30,000 for relocation expenses – *to improve the attractiveness of the programme and simplify existing reliefs.*

There is already provision under Revenue rules for tax-free vouched removal and relocation expenses paid by the employer. For ease of communication, we propose that a tax-free lump sum of up to €30,000 be provided for new assignees and hires under SARP, with any amount in excess subject to full vouching. This will ease compliance and benefit direct comparison of the Irish offering.

6. Allow tax-free reimbursement of up to five return trips per year – *to provide for realistic travel commitments.*

Currently, SARP provides for an employer to reimburse a relevant employee for the costs associated with one return trip for their family to their previous country of residence or nationality. In general, families will often travel in summer and in the Christmas period, and often at mid-term breaks. In the first years of an assignment a spouse and children may remain in their previous residence for academic and personal reasons. SARP rules should ensure Ireland's offering is competitive and reflective of the complex arrangements involved in moving country.

Conclusion

The inclusion of these key changes in Budget 2018 this autumn position Ireland to benefit from firms considering relocation of high-value activities. Effectively calibrating SARP to be a competitive advantage through targeted reforms will act as a strong signal of Ireland's ambition in attracting skills, investment and substantive operations.

Notes and References

- Calculation of estimated tax contribution: A cost of €5.9 million for 302 employees indicates average relief of €19,536, and an average relevant income of €238,000. In 2014, the total payroll and income taxes for a single person claiming no additional reliefs would be USC €15,965, Employee PRSI €9,513, PAYE €87,311, and Employer PRSI €25,564. This is an Exchequer yield of €138,353 per assignee. For 302 employees, this equates to €41.2 million less the €5.9 million cost.

- Department of Finance SARP review available at http://www.budget.gov.ie/Budgets/2015/Documents/Report_on_SARP_final.pdf

- Revenue analysis of 2012-2014 SARP returns available at http://opac.oireachtas.ie/AWData/Library3/SARP_Report_2014_103139.pdf

- The Fórfas note on assignee benefits is quoted from that agency's submission to the Department of Finance 2014 SARP review.

- Comparative tax rates estimated from salaryaftertax.com (UK), parmentier.de (Germany), PWC (France), taxiom.com (US) and IAIM calculations (Luxembourg).