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Report on Tax Expenditures Incorporating outcomes of certain Tax Expenditure & Tax Related Reviews completed since October 2019

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Report on Tax Expenditures

Incorporating outcomes of certain tax expenditure & tax related reviews completed since October 2019

October 2020

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Preface >

The Department of Finance's October 2014 "Report on Tax Expenditures" set out new Guidelines for best practice in ex-ante and ex-post evaluation of tax expenditures. By way of example it included a brief synopsis of some of the more recent tax expenditure reviews.

In October 2015, the Department published its first annual Report on Tax Expenditures which built on the 2014 Tax Expenditure Guidelines. It contained a set of tables outlining the fiscal impact of the range of tax expenditures as required under the EU Budgetary Framework Directive[1], and also the results of a number of tax expenditure reviews that have been completed since the last Budget.

This Report, the Report on Tax Expenditures 2020, is the sixth such report, and continues in a largely similar format to the previous ones, in that it includes five tax expenditure/tax related reviews, as well as the tables referred to above.

As was the case last year, we have also included some preliminary analysis of the tax expenditure data contained in Tables A-G. While it is our intention to incrementally develop the level of analysis provided in these reports each passing, it has not proved possible to do so this year.

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1: Introduction and Analysis

This report is the sixth such annual report (previous reports are available on the Department's website with the documentation for the Budget that was announced that year). It lists the tax expenditures, as per the OECD definition, that that have been in effect since the previous such report (which was published in October 2019) and contains five tax expenditure related reviews.

Tax Expenditures

There has been evaluation on-going of tax expenditures in the Department of Finance since 2006. The 2009 Report of the Commission on Taxation, identified 258 tax expenditures and made recommendations as to their retention, modification or their being discontinued.

The Department of Finance has built on the Commission on Taxation's work with the introduction of the report on tax expenditures incorporating the Department's guidelines for Tax Expenditure Evaluation published in October 2014.

The definition of a tax expenditure in Irish legislation, which is used by the Department of Finance, draws on an OECD definition and describes a tax expenditure as a transfer of public resources that is achieved by:

a) Reducing tax obligations with respect to a benchmark tax rather than by direct expenditure; or

b) Provisions of tax legislation that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to the tax base.

Tax expenditures may take a number of forms such as exemptions, allowances, credits, preferential rates, deferral rules etc. They are general government policy instruments used to promote specific social or economic policies and are closely related to direct spending programmes.

The introduction of an obligation on Member States to publish information on the impact of tax expenditures in the context of the Budgetary Frameworks Directive was driven by the fragmented nature of information about tax expenditures previously available, which gave rise to a lack of transparency. This was seen as acting to hinder the effectiveness and efficiency of fiscal policy making by Member States, and also to render the identification of possible improvements to fiscal and tax arrangements more difficult.

The tables of Tax Expenditures in use between October 2019 and September 2020[2], showing data for the last two years for which it is available, are set out in section 3 of this report.

Data on the revenue foregone and/or the number of tax payers utilising/availing of each tax expenditure for 19 (11%) of the 179 listed tax expenditures is not available for various reasons. This figure is down considerably on the 2019 report, and while we continue to seek to reduce the number of tax expenditures on which data is not shown further, their existence continues to make it difficult (should we wish to do so) to draw any definitive conclusions or to take any definitive positions in relation to tax expenditures as an overall category.

[2] It has not proved possible to include projections for all current tax expenditures in this report, therefore only the most recently available data for the preceding two calendar years is provided where available.

Methodology

Both the Department of Finance and Revenue use the revenue foregone method to estimate the cost of tax expenditures.

A critical assumption made in the revenue foregone approach is that taxpayers do not change their behaviour in response to the tax expenditure concerned. In reality, behaviour is likely to change if an incentive is withdrawn. This implies that the value of the tax base would change, and the additional revenue received from the measure's withdrawal might be less than projected in the total tax expenditure estimate.

It has therefore been suggested that consideration be given to employing other methods (such as 1 and 2 below), given what is seen as the underlying weakness inherent in the standard revenue foregone method. It is however acknowledged that the complexities of those other approaches mitigates against their use.

1. The final revenue foregone approach incorporates behavioural effects and the interaction of different policy measures.

2. The outlay equivalence method estimates how much direct expenditure would be needed to provide a benefit equivalent to the tax expenditure. This method seeks to measure the value of the same program were it administered as a taxable outlay to recipients.

While the revenue foregone cost of a scheme is relatively simple to estimate, the calculation of behavioural responses are more complex. For this reason, the 2014 Tax Expenditure Guidelines state "for practical reasons the revenue foregone method is likely to be used in the majority of evaluations. In a cost benefit analysis framework an additional adjustment (to revenue foregone) should be made to account for the opportunity cost of public funds."

As a result, the revenue foregone approach has been the preferred method for costing tax expenditures, and going beyond that suggests a more analytical approach as opposed to simply ascertaining or estimating the cost of tax expenditures. There are significant difficulties (data limitations, modelling parameters required, etc.) as well as additional resources required to produce estimates using the final revenue foregone approach (which would need to incorporate secondary and indirect impacts of the expenditure) or the outlay equivalence method. These are highly complex and data intensive methods, therefore, despite its recognised weaknesses, the revenue foregone method is by far the most widely employed method internationally.

Reviews – recently completed, ongoing and planned

The Department's 2014 Guidelines which provide a framework for determining the frequency and nature of reviews (summarised in Table 2 on page 3 of that Report) also provides a basis for determining how and when tax expenditures (new and old) are subject to review. However, it should be acknowledged there can be resource and/or practical constraints which can limit the amount of review work that may be carried out by, or on behalf of, the Department in any one year. Furthermore allowance must be made for more complex reviews and analysis or where a review on occasion might take more than 12 months. Reviews are also being conducted on an ongoing basis, and may not fit neatly into the budgetary timeframe.

In this regard, it should be noted that there are currently a range of reviews planned for 2021, and others will emerge over the course of the Department's work as the year progresses.

Recent developments in the tax expenditures area

Driven by the ever increasing awareness of the important, but previously often overlooked, role played by tax expenditures as a stand-alone category within the tax policy sphere, as part of the 2017 and 2019 Tax Strategy Group (TSG) process, papers entitled "Tax Expenditure Review 2017" and "Tax Expenditures – Tax Strategy Group – 19/12" were prepared for that Group's consideration when it met in July of the respective years. Both papers are available on the Departments website[3].

Work has also been done in the area of tax expenditures by both the Parliamentary Budget Office in recent years (September 2018[4] and April 2019[5]) and the Committee on Budgetary Oversight (April 2018[6]), and interest in the area continues to grow.

[3] https://www.gov.ie/en/collection/a4b60f-tas-strategy-group-papers/?referrer=/what-we-do/tax/the-tax-strategy-group/

[4] https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2018/2018-09-21_tax-expenditures-in-ireland-key-issues-for-consideration_en.pdf

[5] https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2019/2019-04-02_scrutiny-processes-for-existing-tax-expenditures-in-selected-european-parliaments_en.pdf

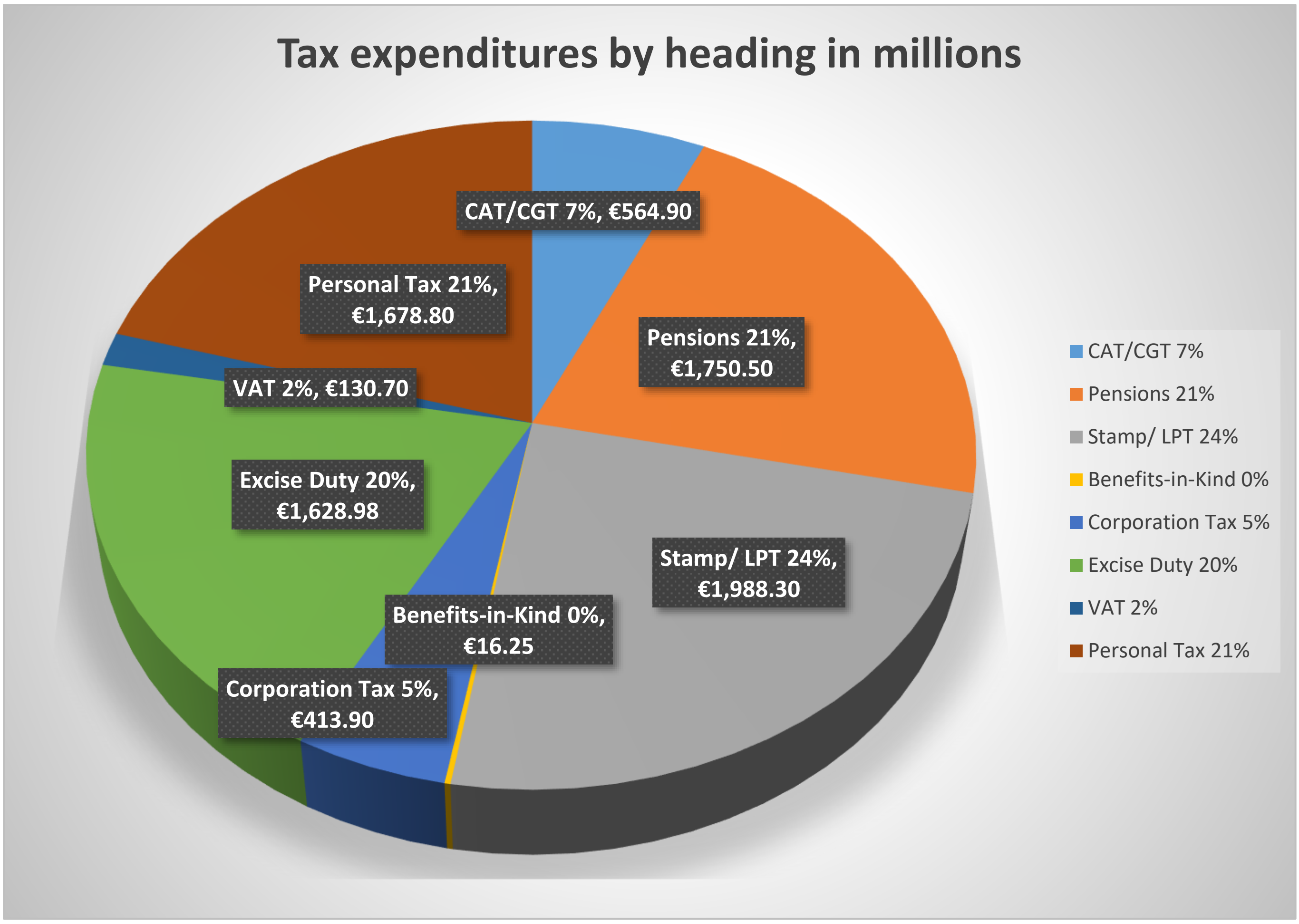
[6] https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/committee_on_budgetary_oversight/reports/2019/2019-04-08_tax-expenditures_en.pdf

Analysis of the tax expenditure data contained in tables A-G

Overview of the most significant tax expenditures in Ireland

The following figure shows the percentage of the total revenue forgone (€8 billion) under eight headings. It should again be noted that data for over 10% of the tax expenditures listed is not available, so the €8 billion does not reflect the full amount of such expenditure. Also in a small number of cases only pre-2017 figures are available, and these are included in this total.

Figure 1.1



Source: 2020 Tax Expenditures Report. Figures refer to 2019 or latest year available, and only where revenue foregone figures are available.

The following two tables show the top ten tax expenditures from the 2020 Report in terms of revenue foregone, and the most expensive tax expenditure under each of the 8 categories. The figures are for the most recent year available (2019 unless indicated otherwise), and again it needs to be strongly emphasised that there is no or limited data on 10% (19 out of 179) of the tax expenditures included in this Report, with data on a number of others being estimated.

Table 1: The most expensive Tax Expenditure in each tax category

Top TE by category	Name	€ million
CAT/CGT	CAT business relief	200.4
Pensions	Employees' contribution to approved superannuation schemes	677.7
Stamp Duty/LPT	Certain company reconstructions and amalgamations	1.7 (billion)
Local Property Tax	Exemptions	13.7
Benefits-in-Kind	Small Benefits Exemption	5 (Estimated)
Corporation Tax	Research & Development (R&D) Tax Credit	355
Excise Duty	Excise Rate on Kerosene	578.7
VAT	VAT refund to flat rate farmers for construction	83.1
Personal Tax Credits	Medical Insurance Relief	355.7

Source: 2020 Tax Expenditures Report. Figures refer to 2019 or latest year available.

Table 2: The top 10 Tax Expenditures by cost

	Tax Expenditure	Value €m	Tax Category
1	Certain company reconstructions and amalgamations	1,708	Stamp Duty
2	Employees' contribution to approved superannuation schemes	677.7	Pensions
3	Exemption of employers' contributions from employee BIK	658.3	Pensions
4	Excise Rate on Kerosene	578.7	Excise Duty
5	Reduced Rate on Marine Gas Oil (MGO)	473	Excise Duty
6	Excise Rate on Auto-diesel	422.8	Excise Duty
7	Medical Insurance Relief	355.7	Personal Tax Credits
8	Research & Development (R&D) Tax Credit	355	Corporation Tax
9	Pension Contribution (Retirement Annuity and PRSA	241.3	Pensions
10	CAT Business Relief	200.4	CGT/CAT
	Total for the Top 10	**5.67(Billion)**	
	Total for all Tax Expenditures	**8 (Billion)**	

Source: 2020 Tax Expenditures Report. Figures refer to 2019 or latest year available.

Table 3: The 5 tax expenditures that are most changed in terms of revenue foregone when compared to the previous year.

Tax Expenditure	Latest Figure	Previously Recorded Figure	Difference	Section
Certain company reconstructions and amalgamations	1,708m (2019)	273m (2018)	1,435m	Stamp Duty
Research & Development (R&D) Tax Credit	355m (2018)	448m (2017)	93m (Less)	Corporation Tax
Employees' contribution to approved superannuation schemes	677.7m (2018)	598.1m (2017)	79.6m	Pensions
Mortgage Interest Relief	107.3	171.1	63.8m (Less)	Personal Tax Credits
Transfers between spouses/civil partners	85.4m (2019)	21.9m (2018)	63.5m	Stamp Duty

Note: All latest figures refer to 2019, and previously recorded to 2018, unless stated otherwise.

Brief explanation for the increases/decreases reflected in Table 3:

1. **Certain company reconstructions and amalgamations**: Section 80 of Stamp Duty Consolidation Act 1999 provides an exemption from Stamp Duty where there is a scheme of reconstruction or amalgamation. This will normally involve the transfer of shares or an undertaking from one company to another, in return for the issue of shares. Reconstruction or amalgamation activity will vary from year to year.

   The increase in the figure for company reconstructions in 2019 appears to be spread across a number of transactions rather than a small number of very large transactions. Revenue are currently working on further analysis of the composition of the take up of this relief.

2. **R&D Tax Credit:** The decreased tax cost of R&D tax credit can be attributed to a reduction in the levels of qualifying expenditure in 2017 and 2018. Expenditure on research and development fluctuates from year to year due to the project-driven nature of R&D activities.

   Detailed analysis of this credit, including information in respect of amounts of repayable credits and reduced current year claims in 2018, is published in the tax expenditures section of the Revenue website at: https://www.revenue.ie/en/corporate/information-about-revenue/statistics/tax-expenditures/r-and-d-tax-credits.aspx.

3. **Employees' contribution to approved superannuation schemes:** Income Tax relief is available against earnings from employment for pension contributions (including Additional Voluntary Contributions (AVCs)) subject to various limits.

This covers pension contributions to these types of pension plans:

- Occupational pension schemes
- Personal Retirement Savings Accounts (PRSAs)
- Retirement Annuity Contracts (RACs)
- Qualifying overseas plans.

The increase tax cost for employees' contribution to approved superannuation schemes relates to an increased number of individuals making a contribution (up from 614,200 in 2017 to 663,900 in 2018), as well as an increase in the average value of contributions being made. This is likely driven by the increase in average annual earnings and overall economic growth over the period in question.

4. **Mortgage interest relief:** This relief applies to persons with a qualifying mortgage loans on a principal private residence taken out between 2004 and 2012. The relief is being withdrawn on a phased basis and will cease to apply from 31 December 2020.

   The continued reduction in the revenue foregone to Mortgage Interest Relief is in line with the phased withdrawal of the relief applying in 2018.

5. **Transfers between spouses/civil partners:** Stamp duty is not payable on an instrument that transfers property between one spouse and the other. This exemption can be claimed even if the spouses are separated. Stamp duty is not payable on an instrument that transfers property between civil partners. These exemptions cannot be claimed if the transfer involves a third party or sub-sale.

   Revenue are unsure as to the reason behind the substantial increase between 2018 and 2019 in the revenue foregone under this relief but suspect that it may be due to a small number of large transactions having taken place last year.

2: Tax Expenditure & Tax Related Reviews

Over the course of each year, a number of reviews of tax expenditures and other tax related matters are carried out by, or on behalf of, the Department of Finance. These are intended to ensure that the tax expenditures and taxes they relate to remain fit-for-purpose, to ascertain whether existing tax expenditures and taxes should be amended, continued, extended or ended, or to otherwise review certain taxes (existing and proposed) or groups of taxes. These are carried out in-house by the Department of Finance (in co-operation with the Office of the Revenue Commissioners and where appropriate other relevant Departments), by the Office of the Revenue Commissioners, or, on occasion through availing of specialised consultants, again with the input of this Department, Revenue and other relevant Departments (where appropriate).

The opportunity presented by the publication of this Tax Expenditures Report, again facilitates the inclusion of a small number of these reports which have been completed in this area since Budget 2020.

This year five reports are included in this document:

I. Review of the Accelerated Capital Allowance scheme for Energy Efficient Equipment
II. Review of stamp duty Consanguinity Relief
III. Analysis of High-Income Individuals' Restriction 2018 (Revenue)
IV. Review of Residential Development (stamp duty) Refund Scheme
V. Review of stamp duty Farm Consolidation Relief

I: Review of the Accelerated Capital Allowance scheme for Energy Efficient Equipment

Contents

1. Executive Summary

The primary aim of this review is to set out the context and rationale for the scheme of Accelerated Capital Allowances for Energy Efficient Equipment, to evaluate its overall effectiveness to date and to make recommendations regarding its continuation and / or revision.

The scheme provides a tax incentive for businesses who invest in highly EEE by allowing taxpayers to deduct the full cost of expenditure on eligible equipment from taxable profits in the year of purchase. The scheme was introduced initially for a three year period. It was extended by a further three years in Finance Act 2011, Finance Act 2014 and Finance Act 2017. The operation of the scheme is described, including the SEAI's role in administering the scheme and the process of claiming the ACA through self-assessment provisions.

The context for the scheme is provided in Chapter 3, outlining how it is in accordance with both European and domestic energy efficiency targets. The rationale for the scheme is provided in Chapter 4, specifying several market failures which are addressed through the scheme, including a lack of awareness of product efficiencies, short-sighted consumer behaviour and low market demand for EEE resulting in a lack of supply of innovative EEE.

Chapter 5 lists the benefits associated with ACA scheme, together with issues considered by officials during the preparation of this review. Negative externalities occur if certain energy efficient products are not included in the scheme or if products no longer seen to be as efficient continue to qualify. It is also noted that currently there is difficulty in assessing the energy savings resulting from the scheme and that this limits the contribution of the scheme to the achievement of certain targets as the Energy Efficiency Directive requires that energy savings claimed towards Article 7 target must be validated.

Data provided by the Revenue Commissioners is analysed in Chapter 6. Claims figures from 2009 – 2018 summarizes the number of claims for ACA and the value of capital allowances claimed. Using 2017 and 2018 data from the Revenue Commissioners, the levels of profit and turnover of sole traders availing of the scheme, and the sector in which they operate are briefly examined. This data indicates that the scheme has seen a particular increase in uptake from small and micro businesses in recent years. Chapter 7 sets out similar schemes designed to promote energy efficiency in other countries.

The conclusions of the review are set out in Chapter 8. The recommendations of the review are as follows:

1. That the scheme is extended to 31st of December 2023.
2. That further consultation be undertaken to establish how the energy savings achieved as a result of the scheme can be accurately quantified, having due regard to the level of detail required to validate energy savings and balancing this against the administrative burden for the taxpayer and Revenue and/or SEAI of collecting and processing the relevant data.
3. That SEAI conduct a review of the classes of technology included in Schedule 4A and the existing energy efficiency qualifying criteria, with a view to determining if existing classes need to be amended and/or new classes added as a result of technological developments.

2. Overview of Relief

Finance Act 2008 introduced the Accelerated Capital Allowance (ACA) scheme for Energy Efficient Equipment (EEE). Finance Act 2016 extended the scheme to other businesses carrying on a trade (e.g. sole traders and partnerships). The scheme provides a tax incentive for businesses who invest in highly EEE. The purpose of the scheme is to improve the overall energy efficiency of Irish businesses, and thereby to aid Ireland in meeting our national targets and binding and non-binding EU targets on energy savings and the reduction of carbon emissions.

The ACA scheme is based on the existing and long-standing approach to the treatment of capital allowances for plant and machinery (also referred to as wear & tear allowances), whereby wear and tear can be taken into account as a deduction for tax purposes. In general, such capital allowances are claimed at a rate of 12.5% annually, over eight years. However, the ACA scheme allows taxpayers to deduct the full cost of expenditure on eligible equipment from taxable profits in the year of purchase. The benefit to the taxpayers is thus from a cash flow perspective, incentivising businesses to choose a qualifying energy efficient option when purchasing equipment.

The ACA scheme was introduced initially for a three year period. This was extended by a further three years on three subsequent occasions, in Finance Act 2011, Finance Act 2014 and Finance Act 2017; the latter extending the scheme until 31 December 2020.

When introduced in 2008, the ACA included three classes of equipment. A further four classes were added in Finance Act 2008 (No.2) and another three classes were added as a result of the Finance Act 2010. The 10 classes of technology currently within scope of the regime are listed below:

- Motors and Drives
- Lighting
- Building Energy Management Systems
- Information and Communication Technology
- Heating and Electricity Provision
- Process and Heating, Ventilation and Air-Conditioning Control Systems
- Electric and Alternative Fuel Vehicles
- Refrigeration and Cooling Systems
- Electro-mechanical Systems
- Catering and Hospitality Equipment

The ACA scheme does not represent tax foregone by the State over the longer term, as capital expenditure on plant and machinery used for the purposes of the trade is already eligible for standard capital allowances over an eight year period. However, under the ACA scheme the tax relief is provided 'up-front' in the first year, providing a cash-flow benefit to the claimant. A worked example is provided in Appendix 1 to illustrate the point. Thus in the normal course of events the net effect is one of adjusted cash flow in respect of taxes collected by the State.

The scheme is provided for under section 285A(4) of the Taxes Consolidation Act, 1997 (TCA). Equipment must fall within one of the 10 classes of technology specified in Schedule 4A of the TCA, outlined above. This Schedule also lists the minimum expenditure requirements to qualify for the scheme. In order for equipment in these classes of technology to qualify for the scheme it must also meet detailed energy efficiency criteria as set by the Sustainable Energy Authority of Ireland (SEAI). Products which meet these criteria are listed on the SEAI's Triple E Register, which provides a benchmark register of best in class energy efficient products. There are now over 31,000 eligible products on the register across all 10 categories.

In addition to its relevance to the ACA EEE relief, this register is also used to fulfil requirements the European Communities (Energy Efficient Public Procurement) Regulations (S.I. No. 151 of 2011) and European Union (Energy Efficiency) (Amendment) Regulations ((S.I. 646 of 2016, Reg 5). These regulations oblige public bodies, when purchasing or leasing categories of products that are listed on the Triple E Register, to procure only products that meet SEAI's energy efficiency criteria.

The ACA scheme is legislated for in the TCA. Overall responsibility for the scheme lies with the Department of Finance and claims for the relief are administered by the Revenue Commissioners. However the Department of Environment, Climate and Communications (DECC) also oversees elements of the administration and operation of the scheme in conjunction with the SEAI. The SEAI is the body responsible for setting the eligibility criteria and maintaining the register of eligible products for which the incentive can be claimed.

Finance Act 2018 made administrative amendments to the scheme. Section 17 of the Act removed the necessity for the SEAI's detailed list of eligible products to be updated by statutory instrument (SI) every 6 months. Instead, the broad qualifying criteria is specified in legislation (the TCA), through the list of the ten classes of technologies set out above. This amendment reduced the significant administrative burden of the previous approach. An SI is required to update the detailed energy efficiency qualifying criteria, retaining effective oversight of the scheme. The SEAI amend the eligible product list as appropriate, within the qualifying criteria, and publish the list on their website.

In order to qualify for the scheme certain restrictions apply:

- The scheme is only available to businesses who have incurred expenditure on approved energy efficient equipment which is owned by the business in question and is used in carrying on a trade. The equipment must be in use for the purposes of the trade at the end of the period for which the allowance is being claimed.
- The equipment must be new and included in the list of energy-efficient equipment maintained and published by the SEAI. In order to qualify for this list the equipment must meet specified energy efficient criteria.
- The taxpayer must incur a minimum amount of expenditure on the equipment. The minimum amounts vary between technologies and are listed in Schedule 4A TCA 1997.

The ACA scheme is designed such that:

- It is open to all companies paying corporation tax and businesses paying income tax.
- The qualifying energy efficient products are very clearly defined and simply differentiated.
- There are transparent and objective qualification criteria to define the list of eligible products.

2.1. The SEAI's role in operating the scheme

A statutory instrument by order of the then Minister for Communications, Energy and Natural Resources, with the approval of the Minister for Finance, sets the legal basis for the detailed energy efficiency qualifying criteria. The qualifying criteria must fall within one of the ten classes of technology listed in Schedule 4A of the TCA 1997. The Triple E register is maintained by the SEAI, who ensure that the equipment meets the energy efficiency standards prior to inclusion on the register. Qualifying equipment is required to meet both quantitative and qualitative requirements and standards, thereby ensuring greater consumer confidence in the products listed. The ACA eligibility criteria and standards are reviewed on an on-going basis to ensure that the products listed are more efficient than non-qualifying products. Awareness of the benefits of the scheme has increased as the ACA eligible categories has expanded, resulting in additional opportunities for investment in energy-efficient equipment across many sectors of the economy. The scheme offers further potential for companies to achieve far-reaching energy savings and contribute to the green economy.

The SEAI administers the Triple E register of ACA-eligible equipment and the associated qualifying criteria on behalf of DECC. Products that are eligible for the ACA are listed on the Triple E Product Register. This is a benchmark register of best in class EEE, it acts as a reference for companies who wish to invest in such equipment. In addition, the register is the basis for public procurement of energy consuming products.

The SEAI are responsible for:

- Defining and publishing the eligibility criteria for the register.
- Maintaining and reviewing the list of eligible products.
- Managing the IT systems which facilitate self-submission by product providers.
- Managing the review of applications and audits / spot checks of submissions.
- Promotion of the scheme to stakeholders and users. This includes a range of promotional activities to suppliers, manufacturers, specifiers, buyers and financial experts.

The following key elements form the basis of the SEAI's administration of the scheme:

- An automated online IT system facilitates submissions of products by providers on an ongoing basis.
- Product submissions are made by product suppliers who have a secure login for this system.
- Submissions are reviewed by SEAI to validate that product performance meets published criteria.
- Product suppliers are updated on the status of their submissions throughout the process.
- The SEAI may engage directly with providers to resolve data or technical issues as required.
- All eligible products are searchable through the online Triple E register, supporting ACA claimants and public procurement requirements.

2.2. How to claim the ACA

ACA on EEE is claimed through the normal self-assessment provisions, there is no requirement to obtain prior approval for capital expenditure on the equipment. Once all the required conditions set out above are met, the allowance can be claimed for the accounting period in which the equipment was first provided and used wholly and exclusively for the purposes of the trade. The allowance should be claimed on the person's return of income, the Form CT1 for a company or Form 11 for a sole trader or member of a partnership. Both the CT1 and Form 11 include a separate line for claims made under section 285A, allowing claimants to separately claim wear and tear allowances for other plant and machinery.

3. Context of Energy Plan

In simple terms, energy efficiency means using less energy to perform the same task, thereby eliminating energy waste. More efficient use of energy results in a variety of benefits including reductions in the damage done to our planet, improving the lives of its inhabitants as a result. Increased energy efficiency also reduces costs on individual households and on businesses as inefficiencies are minimised.

Improving energy efficiency is an immediate way to save energy, reduce carbon emissions and combat climate change. There are enormous opportunities for efficiency improvements in every sector of the economy through technological advances, however changes in human behaviour are required to ensure we achieve improved energy efficiency. The ACA scheme aims to contribute toward these behavioural changes by offering a cash flow incentive to those who invest in EEE.

3.1. European Policy Context

Modern energy policy is focused on three main objectives:

- Competitiveness
- Secure Supply
- Sustainability

Energy efficiency is a key focus in achieving these objectives. The Energy Efficiency Directive 2012/27/EU of the European Parliament and of the Council (2012) (EED), approved in 2012, was the legislative result of the Energy Efficiency Plan that was published in March 2011. The EED is intended is to help citizens, public authorities and businesses to better manage their energy consumption, by linking existing national measures with EU targets. It established a set of binding measures on Member States, which were designed to help the EU reach its 20% energy efficiency target for 2020. The informally termed '20-20-20' targets strive towards a 20% reduction in greenhouse gas emissions and a 20% increase in the share of energy consumption produced from renewable resources by 2020. This represents a unified approach to climate and energy policy which will strive to tackle climate change, strengthen EU energy security, and enhance competitiveness.

While the Energy Efficiency Directive includes some specific targets which are legally binding on EU Member States, the overall 2020 targets, which include a 20% primary energy savings target, are not. However, if these high-level energy efficiency goals are not achieved, increasing levels of energy demand ordinarily associated with economic growth would make the renewable energy targets (based on percentage of energy demand) more difficult and expensive to realise. Further, energy efficiency is widely accepted as the most cost effective way to achieve emissions reductions, therefore such actions are critical in meeting 2020, 2030 and long-term decarbonisation goals.

In November 2016 the European Commission proposed to update the EED. In 2018 a new amending Directive on Energy Efficiency (2018/2002) was agreed to update the policy framework to 2030 and beyond. The key element of the amended Directive is a headline energy efficiency target for 2030 of at least 32.5%. The target, to be achieved collectively across the EU, is set relative to the 2007 modelling projections for 2030. Should costs reduce substantially due to economic and or technological developments, the Directive allows for a possible upward revision in the target in 2023. It also includes an extension to the energy savings obligation in end use, introduced in Article 7 the

2012 Directive. Under Article 7 of the amending Directive, EU countries will have to achieve new energy savings of 0.8% each year of final energy consumption for the 2021-2030 period.

Ireland is due to submit the final report to the Commission on achievement of the 2020 targets by 30 April 2022. SEAI anticipates that approximately 16 percentage points of the national energy efficiency target of 20% by 2020 will be achieved. SEAI is currently expecting to meet the Article 7 energy savings obligation in end use target[7], although the COVID-19 crisis could have an impact on this.

In the period from 2014 to 2020, Ireland implemented[8] Article 7 of the EED in the form of an Energy Efficiency Obligation Scheme (EEOS) and a series of alternative policy measures. ACA was notified as one of the alternative measures with total expected savings of 674 GWh over the 7 years. This would achieve just under 9% of the total Article 7 savings requirement.

Data collected by the Revenue Commissioners provided a high-level understanding of activity under the scheme that has extended in 2018 to circa 600 transactions with a tax-deductible value of circa €3.5 million (from investment in energy efficient equipment of circa €23 million). However, as there is currently a lack of specific data regarding the energy savings as a result of the scheme, it has not been possible to validate energy savings under the scheme to date. (This issue is set out in further detail in Chapter 5.) It is a requirement under Annex V of the Energy Efficiency Directive that energy savings claimed towards the Article 7 target are validated. However, for the higher level 20% 2020 target, Ireland's achievement will be determined based on national final energy consumption figures, so all mechanisms which help to reduce demand will naturally contribute to the target, including ACA.

Nonetheless, the data available to date provides a positive signal of market behaviour, particularly in respect of microbusinesses availing of the relief and an overall increasing level of applications over the last number of years since 2017.

International ambition on climate action is increasing. The EU Green Deal will extend current Member State level targets for emissions reductions beyond those addressed by the recent Climate Action Plan for 2030. This will extend the crucial role for energy savings through increased energy efficiency.

2030 climate and energy targets were addressed by Government in its Climate Action Plan. 2030 targets will be further impacted by the EU Green Deal. Once agreed, it is anticipated that it will require an increased level of ambition in terms of policy actions to drive emissions reductions through increased energy efficiency and renewable energy technology deployment.

3.2. National Energy Efficiency Action Plan

Improving Ireland's energy efficiency is a fundamental part of Ireland's energy policy. The National Energy Efficiency Action Plan (NEEAP) outlines Ireland's commitment to improving our energy efficiency and specifies the actions we are taking towards meeting our energy efficiency targets. As part of this plan, the Government committed itself to achieving a 20% reduction in energy demand across the whole of the economy by 2020 through energy efficiency measures. In order to act as a leader in energy efficiency, the public sector was set a more challenging target of improving its energy

[7] Note that the share of the Article 7 target to be met through the Energy Efficiency Obligation scheme increased from 550 GWh per year to 625 GWh and then 700 GWh following a consultation by DCCAE in 2016. Further information is available at: https://www.dccae.gov.ie/en-ie/energy/consultations/Pages/Energy-Efficiency-Obligation-Scheme-Consultation-on-the-2017-2019-Phase-of-Operation.aspx#Default=%7B%22k%22%3A%22%22%2C%22s%22%3A21%7D#d95551b5-0105-4ca0-9bfa-43fb1f4cb05f=%7B%22k%22%3A%22%22%7D

[8] https://ec.europa.eu/energy/sites/ener/files/documents/article7_en_ireland.pdf

efficiency by 33% by 2020. The SEAI Annual Report 2019 on Public Sector Energy Efficiency Performance shows that, by the end of 2018, collectively the public sector was 27% more energy efficient and on course to achieve its 33% energy efficiency target by the end of 2020.

The 2020 Programme for Government has increased this target to 50% by 2030, set a new public sector decarbonisation target of at least 50%, and has committed to a new Public Sector Decarbonisation Strategy for 2030. SEAI's analysis also shows that public bodies have made €1.3 billion in energy savings and avoided 4.6 million tonnes of CO2 emissions since 2009.

Article 24 of the EU Energy Efficiency Directive requires Member States to submit a National Energy Efficiency Action Plan (NEEAP) every three years. Ireland's 4th NEEAP was produced in early 2017. It provides a comprehensive overview on:

- The progress made towards the above targets
- The measures in place to ensure the targets are met.
- The strategies and policies in place across the residential, commercial, transport and public sector.

Figures reported in 2019, relating to the year 2017, indicate that these measures have already helped Ireland achieve 12% of its national target.

3.3. National Energy and Climate Plan

The EU has committed itself to a clean energy transition, which will contribute to fulfilling the goals of the Paris Agreement on climate change and provide clean energy to all. The 2030 climate and energy framework includes EU-wide targets and policy objectives for the period from 2021 to 2030.

Key EU targets for 2030 include:

- At least 40% cuts in greenhouse gas emissions (from 1990 levels)
- At least 32% share for renewable energy
- At least 32.5% improvement in energy efficiency

To meet the EU's energy and climate targets for 2030, EU Member States need to establish a 10-year integrated national energy and climate plan (NECP) for the period from 2021 to 2030. The NECP provides an overview of the national energy system and policy situation and puts forward the Member State's proposed contribution towards achieving the EU wide targets. The national plans outline how the EU Member States intend to address:

- energy efficiency
- renewables
- greenhouse gas
- emissions reductions
- interconnections
- research and innovation

Considerable work has been undertaken for the preparation of Ireland's NECP, which fully incorporates the significantly raised ambition and additional policies as set out in our recent national Climate Action Plan. Ireland formally submitted its NECP to the European Commission on 4th August 2020. A copy of the Plan is available on the DECC website at the following link:

https://www.dccae.gov.ie/en-ie/energy/publications/Pages/National-Energy--Climate-Plan-(NECP)-2021-2030.aspx

3.4. Ireland's Strategies to meet NEEAP Targets

There are a number of policy and strategy documents that are relevant to and which complement the NEEAP.

The National Mitigation Plan (NMP) sets out how Ireland will transition to a low carbon, climate resilient and environmentally sustainable economy. The NMP, which will be revised every 5 years, focuses on climate action and emissions reduction and outlines policies and measures in place and under consideration to reach national climate goals. Energy Efficiency has a key role to play in the NMP and its chapter on "Energy Efficiency in the Built Environment" focuses on the importance of energy efficiency measures to achieving a low carbon economy and society.

Progress on the NMP is reported on by Government annually in its Annual Transition Statement and a copy of the latest Statement is available on the DECC's website.[9]

It was recognised that, in order to achieve the NEEAP and climate related emissions targets, an intensification of efforts and additional investment would be required. Consequently Ireland brought forward a number of new initiatives. Ireland's first Public Sector Energy Efficiency Strategy, published in early 2017, provides the framework to build on the progress already made across the public sector. It identifies where potential for further savings exist, puts in place a new governance structure and provides for enhanced project development assistance to better enable public sector bodies to identify and develop larger scale energy efficiency projects.

This first National Mitigation Plan represents an initial step to set us on a pathway to achieve improved levels of decarbonisation. In this context, the plan not only contains measures to address this challenge to 2020, but also begins the process of development of medium to long term options to ensure that we are well positioned to take the necessary actions in the next and future decades. This plan is a continuous work in progress reflecting the reality of where we are in our decarbonisation transition, it is updated as ongoing analysis, dialogue and technological innovation generate more cost-effective sectoral mitigation options.

The Programme for Government commits to a 7% average yearly reduction in overall greenhouse gas emissions over the next decade, and to achieving net zero emissions by 2050.

The Government has published the draft text of the Climate Action and Low Carbon Development (Amendment) Bill 2020. The Bill will set the country on course to become climate neutral by 2050. The key features of the Bill are:

[9] https://www.dccae.gov.ie/en-ie/climate-action/topics/climate-action-at-a-national-level/climate-action-and-low-carbon-development-act-/annual-transition-statements/Pages/Annual-transition-statement.aspx

- putting our 2050 climate target in law
- carbon budgets including a provision for setting sectoral targets
- an annually-revised Climate Action Plan
- a strengthened role for Climate Change Advisory Council
- new oversight and accountability by Oireachtas

The Climate Action Bill is intended to provide a clear and important signal to the economy and to our communities that climate action will drive investment, to allow Ireland to reach our climate targets, stimulate job creation and provide a safer and healthier environment for all.

4. Rationale for the scheme

The ACA scheme seeks to address significant market failures for businesses who may, under beneficial conditions, wish to invest in energy efficient products or technologies. A market failure exists in a situation in which goods and services allocated through the free market are not Pareto efficient. This means that the individual's pursuit of pure self-interest leads towards outcomes which are not efficient from a societal point of view. This could be considered a particular problem from an environmental perspective, as individual users of inefficient or environmentally harmful products or technologies often do not individually suffer from these harmful or inefficient products under ordinary market conditions.

In seeking to address these concerns, the ACA scheme for EEE works in tandem with the ACA scheme for Natural Gas powered vehicles and refuelling equipment, to encourage and support taxpayers in choosing a more environmentally friendly option.

The market failures that the ACA scheme seeks to address are outlined below:

- Inefficient products result in greater negative externalities such as increased carbon emissions.
- Short–sightedness or lack of information with regards to differences in energy efficient products can result in a consumer purchasing a product which may be cheaper up-front, but which is less cost effective in the long-term due to higher operating costs.
- A consumer's product choice may be influenced by financial constraints as EEE is usually more expensive than less efficient equipment, especially if the EEE is new to the market.
- Low market demand resulting from this may provide a lack of incentive for innovators and manufacturers to bring new products to the market. For similar reasons, innovators and manufacturers might find it difficult to access capital or credit.
- Limited existing knowledge in EEE. Investment in such EEE may expand research and development among innovators and manufacturers.

The ACA scheme can contribute to addressing these market failures by providing a clear incentive for choosing the energy efficient option when compared to a market without intervention. Furthermore, the scheme sets minimum criteria that products are required to meet to be eligible. As such procuring against this register provides an assurance to companies that they are purchasing a product of very high efficiency.

4.1. Intersecting Mechanisms

Whereas ACA incentivises capital investment in energy efficient products, there are some other programmes active in challenging business or public sector purchasing decisions to avoid simple like-for-like product replacements, instead exploring opportunities for redesign of an asset or a process to make more substantive and ongoing reductions. Some examples are set out below:

- ISO 50001 Energy Management System[10]. This is a certification standard that provides structured energy management across an organisation, implementing its energy policy and establishing a framework for continuous improvement of energy performance.
- IS 399 & SEAI EXEED Certified programme[11]. IS 399 is an Irish Management System standard for energy efficient design management. EXEED Certified is an SEAI project-based asset certification standard with an accompanying grant programme. These standards provide a process that seeks to determine the optimum investment choice of an asset owner during the design or re-design of an asset in order to minimum lifecycle impacts.
- Energy Service Company (ESCo) and Energy Performance Contracts. These provide a model for companies to purchase an energy service, rather than making direct upfront investments in energy efficiency and clean energy technologies.
- Energy Supplier Obligations. Under Article 7 of the Energy Efficiency Directive, Ireland has established an Energy Efficiency Obligation Scheme[12] (EEOS), whereby the largest energy companies in Ireland are set legally binding energy efficiency targets. They can achieve them by supporting energy efficiency upgrades in homes and businesses in Ireland. The significant scale of the targets means that obligated parties have an incentive to support deep reductions in energy consumption

[10] Further details available at: https://www.iso.org/iso-50001-energy-management.html

[11] Further details available at: https://www.seai.ie/business-and-public-sector/standards/exeed-certified-program/

[12] Further details available at: https://www.seai.ie/business-and-public-sector/business-grants-and-supports/energy-efficiency-obligation-scheme/

5. Policy Considerations

5.1. Benefits of the ACA scheme

The ACA scheme offers a number of benefits, from a micro and macro-economic perspective and a wider societal standpoint. These include:

- Contribution to Ireland's binding and non-binding EU energy efficiency targets.
- Improved consumer confidence through empowering taxpayers to make informed decisions by providing them with an awareness of energy efficiency standards in products, equipment and technologies. This is provided as the Triple E Register outlines clearly qualifying EEE products.
- Improved cash flow for taxpayers, through writing down of investment costs against profits in the first year, rather than over eight years. This could be particularly significant for small businesses who may rely on such cash flow savings to support the cost of investing in highly EEE.
- Taxpayers also gain an additional, recurring financial benefit arising from reduced energy costs through the use of more energy efficient equipment.
- Reduction in Ireland's contribution to climate change also results in positive outcomes for its citizens. By promoting the use of EEE, the scheme contributes to improvements in the quality of life for those living in the State by reducing energy consumption and emissions.
- The SEAI's Triple E Register is used to fulfil the requirements of the European Communities (Energy Efficient Public Procurement) Regulations (S.I. No. 151 of 2011) and European Union (Energy Efficiency) (Amendment) Regulation 2016. These Regulations oblige public bodies, when purchasing or leasing categories of products that are listed on the Register, to procure only products that meet SEAI's energy efficiency criteria

5.2. Issues for Consideration

While the scheme has definite benefits, these must be weighed against the costs and other considerations resulting from the operation of the scheme, including:

5.2.1 Exchequer and tax administration

- The potential to make the tax code more complex. Complexity can act as an impediment to the uptake of a relief or add to the burden of complying with tax obligations more generally, and is an important element to consider when examining the costs and benefits of tax reliefs.
- Tax receipts are affected from a cash flow perspective in the current year, as taxpayers claim the full cost of the equipment in the year of purchase, rather than over 8 years under the standard capital allowance regime.
- Potential for deadweight, as certain businesses may have chosen to purchase EEE even in the absence of the ACA scheme.

5.2.2 Negative externalities

- Negative externalities occur if certain energy efficient products are not captured or if products no longer seen to be as efficient continue to qualify for the scheme. As technology develops, the ACA scheme must also progress accordingly to ensure products and equipment listed remain "best in class". As stated previously, a statutory instrument sets the legal basis for the energy efficiency qualifying criteria. These qualifying criteria should be reviewed to ensure that products which qualify are highly energy efficient, taking account of recent technological developments. This will also guarantee that products which are no longer considered highly energy efficient are removed from the register.
- The Programme for Government sets out a commitment to achieve an average 7% per annum reduction in overall greenhouse gas emissions from 2021 to 2030 (a 51% reduction over the decade) and to achieving net zero emissions by 2050. The ACA scheme currently supports some technologies that may not be considered in keeping with achieving net zero emissions by 2050. Examples of such technologies could include those based on fossil fuels. It will therefore be necessary to review the types of technologies supported by the ACA to ensure they align with wider government policy. This is will require examination of the technologies currently supported and of emerging new technologies, to determine what amendments would be required to the qualifying criteria for the ACA scheme.
- There are currently 10 classes of technology included on Schedule 4A of the TCA and within the scope of the ACA regime. When introduced in 2008, the ACA included three classes of technology. No additional classes of technology have been added to the Schedule since 2010. It is possible that recent technological innovation has led to new classes of technology achieving high levels of energy efficiency, these classes of technology may not be included in Schedule 4A of the TCA and therefore would not qualify for ACA.
- Ensuring Schedule 4A and the qualifying criteria reflect recent technological developments is vital to ensure the scheme achieves its full potential. Discussion has taken place between DECC, SEAI, Revenue and the Department of Finance to address this issue. Further consultation is required to guarantee any amendments reflect recent technological advances.

5.2.3 Verifying Energy Savings

- Currently there is difficulty in assessing the energy savings resulting from the scheme. As itemised details of each individual energy efficient product and the energy savings associated with that product are not required to claim ACA, it is not currently possible to validate energy savings under the scheme to date. It is a requirement under Annex V of the Energy Efficiency Directive that energy savings claimed towards Article 7 target are validated.
- To achieve verifiable end-use energy savings a range of information would be beneficial to DECC and SEAI. This includes product codes detailing the energy efficiency of the equipment, the estimated annual hours of use for the EEE and the equipment which would have been used had no incentive to use EEE been in place. The ability to validate and report these energy efficiency savings would avoid the cost of delivering equivalent energy savings through alternative mechanisms.

- However, validating the energy savings associated with the ACA scheme is a significant administrative challenge. Accelerated Capital Allowances are claimed via a person's return of income, Revenue do not require a breakdown of each individual energy efficient product which form the ACA claim, or the energy savings associated with each of those products. If this information were to be required to claim ACA it may have a detrimental impact on the uptake of the scheme. Complexity plays a role in the uptake of any relief scheme, particularly for small and micro businesses such as those that have benefitted from the extension of the ACA EEE scheme to unincorporated businesses in Finance Act 2016.
- Consideration must also be given to the variety of products included on the ACA register. An ACA claim may include many low-value products, such as LED lamps for example, or a single high-value product such as one wind turbine. The administrative burden of accurately keeping track of the energy savings associated with many low-value products is significantly greater than that in respect of a single, high-value product. Further analysis is required to determine if it is possible to collect the data necessary to verify the energy savings resulting from the scheme, while also balancing the administrative burden to both claimants and Revenue / SEAI.
- It is important to note that Revenue are subject to strict legislative requirements relating to taxpayer confidentiality. Revenue cannot share taxpayer information with third parties (such as government departments or agencies) unless permitted by legislation. Revenue must process personal data in accordance with the General Data Protection Regulation (GDPR), Section 851A of the Taxes Consolidation Act 1997 and the Data Protection Act 2018. Given that the SEAI are responsible for administering the Triple E register of ACA-eligible equipment and the associated qualifying criteria, it may be an option for detailed returns in respect of the ACA to be made directly to the SEAI rather than to Revenue, so that SEAI could collect the necessary energy-savings data. However there are significant factors which must be considered concerning such a proposal, including the manner in which the summary information necessary for the tax relief claim would be communicated to Revenue.
- Officials recognise that there is an incentive for Ireland to develop systems necessary to collect the additional information required to validate energy savings at the earliest date possible. This is because, under Article 7, energy savings achieved by a Member State in 2021 can be counted for each of the 10 years of the target (2021-2030) (subject to conditions), whereas energy savings achieved in 2025, for example, can only be counted for the 6 remaining years of the target (2025-2030). This means that 1 GWh of energy savings achieved in 2021 can count 10 GWh towards the 2030 target, whereas 1 GWh achieved in 2025 would only count 6 GWh towards the 2030 target. Verifiable energy savings that are achieved earlier in this 10 year period offer better value to Ireland.

Each of these issues require further consideration if the ACA scheme for EEE is to improve the overall energy efficiency of Irish businesses.

5.3. Stakeholder Representations

DECC receives representations and parliamentary questions predominantly in relation to grant funding for Electric Vehicles (EVs), and the Department's response to such queries includes reference to the relief available under the ACA scheme. The Triple-E register contains 274 products in the category of 'Electric and Alternative Fuel Vehicles'. Changes to building regulations requiring an increase in EV charging points, and the rules in relation to Benefit in Kind on company EVs, can explain the increase in representations to DECC on the supports available for EVs such as the ACA.

A stakeholder research exercise was carried out on behalf of SEAI in 2016, which concluded:

- There is a desire within the lighting industry for self-regulation for streamlined access to Triple E listing. Although SEAI has engaged with lighting industry bodies to explore this possibility, it is a very complicated proposal and would require very careful consideration and development in order to be effective without undermining the goals of the ACA scheme.
- Targeting of the finance function, such as a continual professional development modules and highlighting the above the line financial benefit, so that key purchasers are aware of the relief. SEAI have recently developed the SEAI Energy Academy, which is a platform used for delivering online training modules in energy-related areas. It is the intention to create a module on ACA, which should help address this suggestion.
- There is potential room for expansion of the categories and technologies included under ACA. The recommendations section sets out potential additions to the scheme.

6. Economic Analysis of the Scheme

The following chapter focuses on the economic rationale of the scheme, ultimately seeking to assess whether it is achieving its stated objectives at a cost to the State that provides value for money. While a full cost benefit analysis is currently unfeasible due to data limitations, a number of alternative econometric techniques were explored as methods to conduct such an analysis. However, having regard to current data limitations and the overall cost of the relief, it was considered appropriate to focus on an evaluation using descriptive statistics which profile the annual exchequer cost and claim numbers along with the size, sector and profitability of claimants. While energy savings associated with the scheme cannot be measured, claims for the ACA EEE are shown to have increased considerably in 2017 and 2018. Another key finding from the data also shows that micro, small and medium enterprises are using the scheme to a greater extent than larger enterprises.

In evaluating the merits of a tax expenditure, the extent to which the tax expenditure is correcting for a market failure needs to be estimated. This requires an attempt to measure the impact the scheme has had over and above what would have been observed in the absence of the scheme, referred to as the additionality of the scheme. In this instance, the additional uptake in energy efficient equipment (input additionality) and the associated additional energy savings and wider positive externalities (output additionality) would need to be estimated in order to assess the broad benefits to the scheme and the associated value-for-money.

In order to estimate the input additionality, an administrative tax dataset combining corporation tax data as well as income tax data (for sole traders) is required. This dataset would give rich information on the profile of claimants and non-claimants including, inter alia, the number of employees, profitability and ownership across years. While surveys are a source of data, use of such data in measuring the impact of a scheme against a counterfactual should be interpreted with a considerable degree of caution. Survey respondents have no incentive to report accurately the degree to which the allowance is responsible for their investment in energy efficient equipment, therefore, any associated measures of additionality are likely to be biased upwards. It is also unreasonable to assume that the respondent has knowledge of what actions they would or would not have taken in the absence of the scheme.

There are a number of suitable techniques at the disposal of the econometrician including, inter alia, difference-in-difference and propensity score matching. A randomised control trial is not a suitable approach as participation in the ACA is dependent on an agent’s opting-in i.e. participation in the programme is likely to be systematic and non-random.

Difference-in-difference is a quasi-experimental technique that exploits changes in incentives (induced by a policy change in this case) for a certain group within the data from one period to the next to estimate a treatment effect. The theory underpinning this technique lies in the assumption that the change in the level of uptake in a scheme between the period preceding the policy’s introduction and the succeeding period is due to the scheme having been made attractive to a group of claimants that previously did not have the means to avail of the scheme. The control group consists of those who did not opt in to the scheme following the policy change, while the treatment group constitutes those who opted in to the scheme in the period following the policy change. The reliability of the results from this approach lie in assumptions made around the decision for those in the treatment group to have opted in to a scheme; the assumption that the policy change has provided the treatment group with the increased means to, in this case, invest in energy efficient equipment that the baseline policy did not. Crucially, a difference-in-difference approach can only be utilised in the advent of a policy change that fits the criteria mentioned above. The change which allowed other businesses to claim the ACA in 2017 is a policy change, but it has not changed the incentives of those who could already claim the scheme in its absence i.e. corporate claimants. Thus, a difference-in-difference approach would not be suitable in this instance.

Propensity score matching (PSM) is an approach that mimics randomised control trials that are used in clinical trials. The treatment group consists of those who have opted into the scheme. The control group is artificially constructed and inclusion in the group is based on how similar a given firm is to a firm in the treatment group. This matching process continues until there is a similar control firm for every treatment firm. The theory is that control firms differ from treatment firms in one characteristic only – they have not claimed the tax expenditure. However, this is based on the often strong assumption that the data captures all relevant firm characteristics. The suitability of PSM would be subject to diagnostics tests and robustness checks.

Ideally, an appropriate approach would be adopted using administrative data from the Revenue Commissioners to measure the degree to which investment in EEE has increased due to the ACA EEE. There are, however, two reasons why this is not necessary for the purposes of this review. Firstly, it would require a degree of research and evaluation that is incommensurate with the currently relatively low annual exchequer cost of the scheme[13]. Secondly, the annual exchequer cost of the scheme is equivalent to the sum of what would be, in the absence of the scheme, claimed in 8 years by a firm. Hence, there is no additional tax revenue foregone from claims made, but merely a cash-flow cost to the State[14]. The primary cost of the scheme is the recurring annual administrative cost borne by the SEAI. These administrative costs consist chiefly of a technical review of products, outsourced resourcing costs and IT costs.

Other potential benefits of the scheme arise from the positive externalities associated with firms investing in EEE. The most apparent positive externality, and indeed one of the chief policy rationales behind the scheme, is the energy reductions that derive from increased investment in EEE by enterprises. However, obstacles exist in calculating the additional energy savings from this scheme.

[13] *Report on Tax Expenditures,* Department of Finance, 2014 - Schemes costing between €1 million and €10 million annually require an evaluation of key criteria such as the relevance, cost, impact and efficiency of the tax expenditure rather than a rigorous quantitative evaluation.

[14] Under a full cost-benefit analysis, a discount rate would be applied to the annual cost. This accounts for the relatively higher value attached to nominal amounts in the present versus the future.

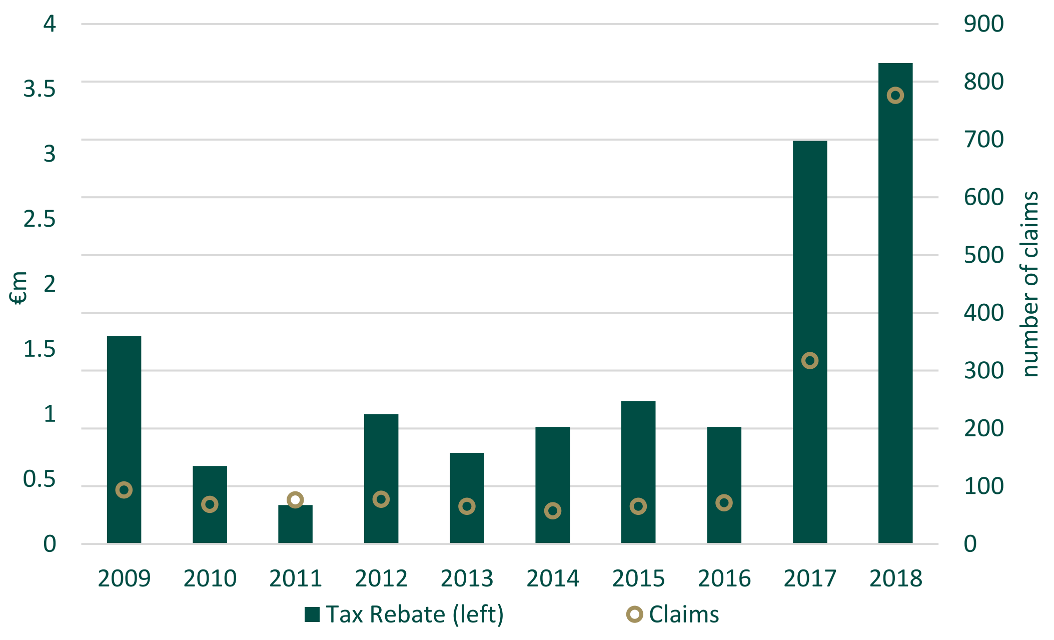
Without an estimate of input additionality, it is not possible to estimate the additional energy savings that are a bi-product of this investment. While a claimant's decision to utilise the ACA and thus reduce energy saving might be based on the availability of the scheme, it cannot be deduced that this energy saving would not have otherwise occurred in the absence of the scheme.

It is also not possible to quantify the energy savings deriving from the equipment purchased under the scheme, as details of each individual energy efficient product and the energy savings associated with that product is not requested by either the SEAI or Revenue in order to qualify for eligibility. Data would be needed on the energy savings across firms, coupled with an estimate of the increased investment in EEE that has occurred as a result of the scheme, in order to estimate the energy savings that have occurred as a direct result of the scheme.

While an estimation of the effectiveness of the scheme in achieving its objectives is not available for the reasons outlined above, uptake of the scheme over time, the annual exchequer cost and the profile of claimants can be evaluated.

Analysis of the most recently available data indicates that the aggregate number of claims and annual exchequer cost associated with the scheme increased considerably in 2017 and 2018 as shown in Figure 1. The preceding period from 2009 to 2016 saw a relatively stagnant uptake in the number of annual claims, albeit the annual exchequer cost varied to a slightly greater degree across those years.

Figure 1: Annual exchequer cost (tax rebates) and claims from ACA EEE

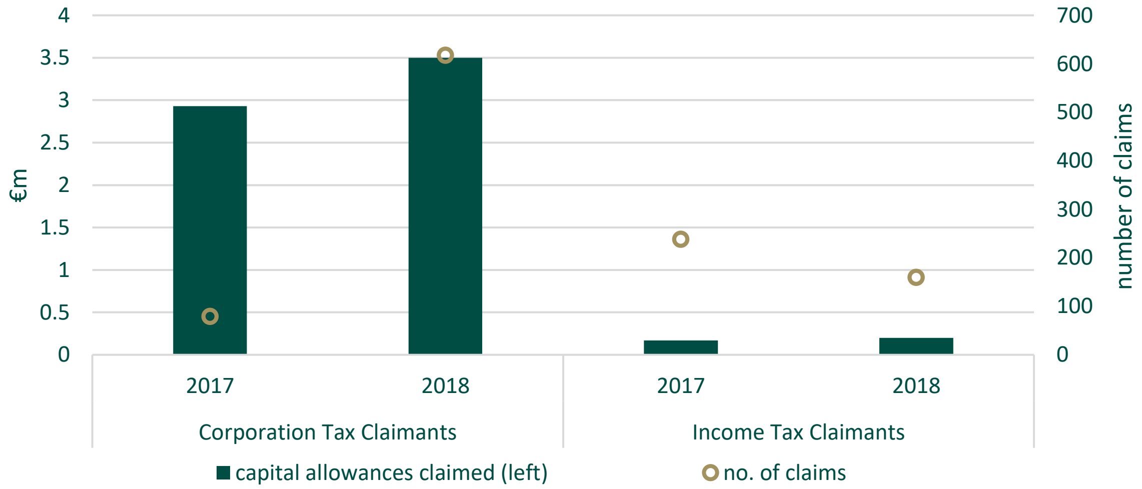


Source: Revenue Commissioners

Finance Act 2016 extended the scheme to un-incorporated businesses with effect from 1 January 2017. This amendment meant that sole-traders could now avail of the ACA scheme. Figure 2 demonstrates that the majority of 2017 claimants were non-corporates, however corporate claimants account for the significant majority of the relief by value, indicating a greater investment in EEE by corporate entities. In 2017, 238 sole traders claimed the ACA for EEE which accounts for 75% of total number of claims, while the total exchequer cost of claims from sole traders amounted to €0.17 million, or 6% of the total value of claims in 2017. Total investment in EEE associated with the scheme amounted to €0.57 million for sole traders. The average gross trading profit across sole traders was €59,470 while no claimant had a turnover greater than €900,000. This means that all sole traders who claimed the EEE for ACA in 2017 were micro enterprises[15], which tend, on average, to be more credit constrained than their larger counterparts[16].

2018 saw an increase in the total value of investment in EEE by non-corporates, despite a decrease in the number of claims by these taxpayers. Corporation tax claimants had a substantial increase in claim numbers in 2018, from 79 in 2017 to 617 in 2018. The ACA claimed by these taxpayers also increased from €2.9 million to €3.5 million. While this is a rise in cost, it is not proportionate to the increase in claim numbers, indicating a significant increase in the number of lower-value claims from corporate entities. The considerable buy-in from both un-incorporated businesses and companies in terms of the number of claims indicates that the scheme has been beneficial to these claimants.

Figure 2: Company and non-corporate ACA EEE claims, 2017 & 2018



Source: Revenue Commissioners

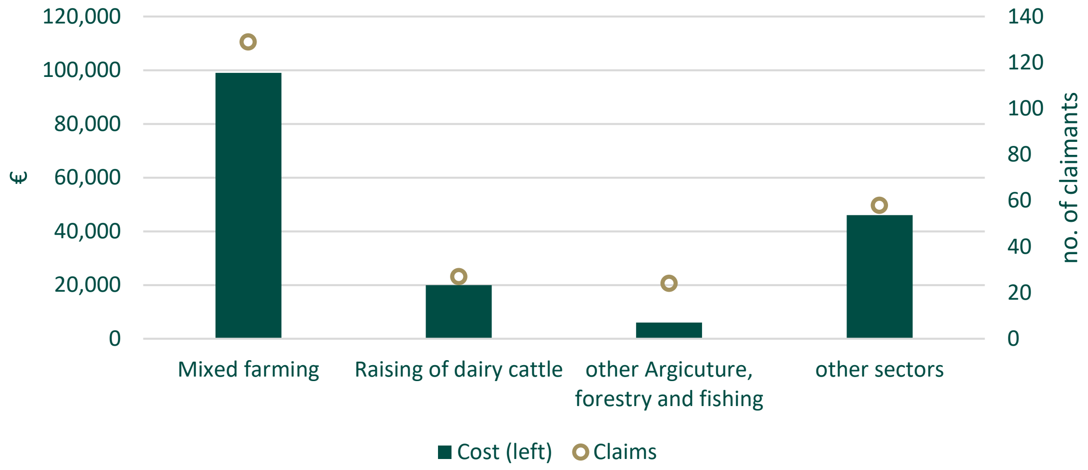
Figure 3 shows the breakdown of sole trader claimants in 2017 by sector. Of note is that over 75% of sole trader claimants are in the *Agriculture, forestry and fishing sector*. The sub-sector *Mixed farming* accounted for the majority of claims and claim exchequer costs at 129 claims, totalling €99,000. A total

[15] A Micro enterprise is an enterprise that consists of fewer than 10 employees, or that has an annual turnover of less than €2 million – European Commission definition.

[16] *SME access to finance in Europe: structural change and the legacy of the crisis* – John McQuinn, 2019. Central bank of Ireland Research Technical Paper.

of 58 claimants outside of the farming and agriculture sectors accounted for claims to the value of €46,000.

Figure 3: Sole trader claims and exchequer cost by sector, 2017

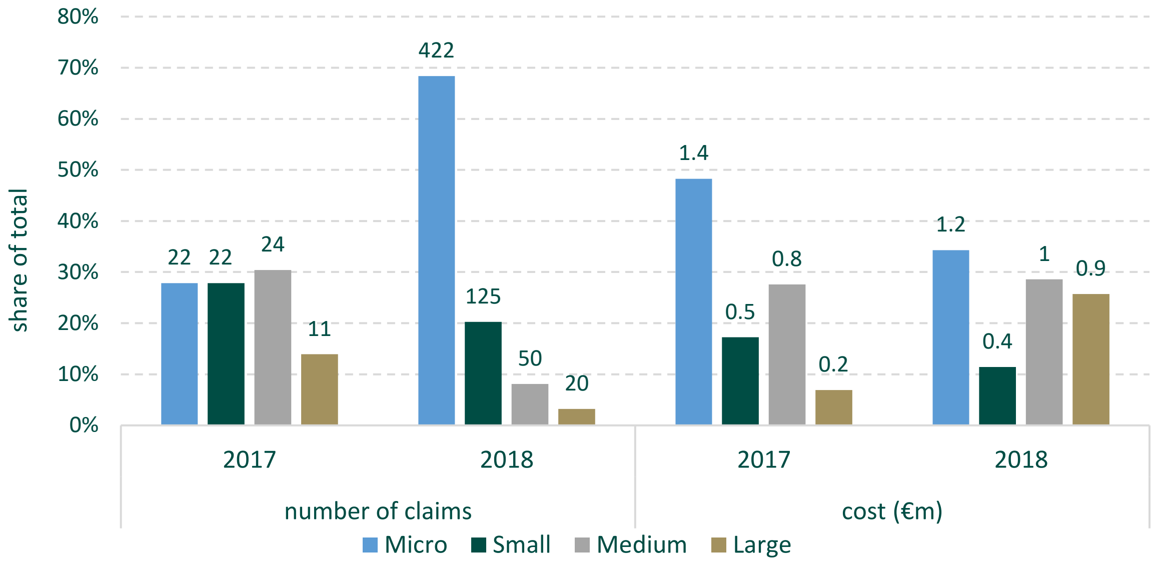


Source: Revenue Commissioners

Note: due to reasons of confidentiality 'other sectors' cannot be broken down as there are less than 10 claimants in each sector within.

The previous section on income tax payer data for 2017 indicated that the vast majority of claimants were non-corporates in that year. However, the latest data indicates a sevenfold increase in the number of CT claimants, from 79 claimants in 2017 to 617 in 2018. The increase in associated exchequer cost has been relatively small, from €2.9 million to €3.5 million across the same period, representing a substantial decrease in the average tax rebate per claimant from €37,000 to €5,700. Figure 4 below depicts the breakdown of claim and cost in shares as a percentage of respective totals for CT payer claimants in the last two years of available data by size of enterprise. Of note is a large increase in the number of claims from corporate micro enterprises across 2017 and 2018 from 22 to 422, with a large increase in the proportion of claims from corporate micro-enterprises from 28% to 68%. The number of claims from small and medium enterprises also increased across this period, although their proportion of the total number of claims decreased). Micro enterprises account for the largest share of total exchequer cost in both years at just under half (€1.4 million) and 35% (€1.2 million) of total exchequer cost in 2017 and 2018. The exchequer cost from large enterprise claimants increased from €0.2 million to €0.9 million over the period, while the number of large enterprise claimants increased from 11 to 20.

Figure 4: Corporation tax payer claims and exchequer cost (tax rebate) by size, 2017 and 2018



Source: Revenue Commissioners

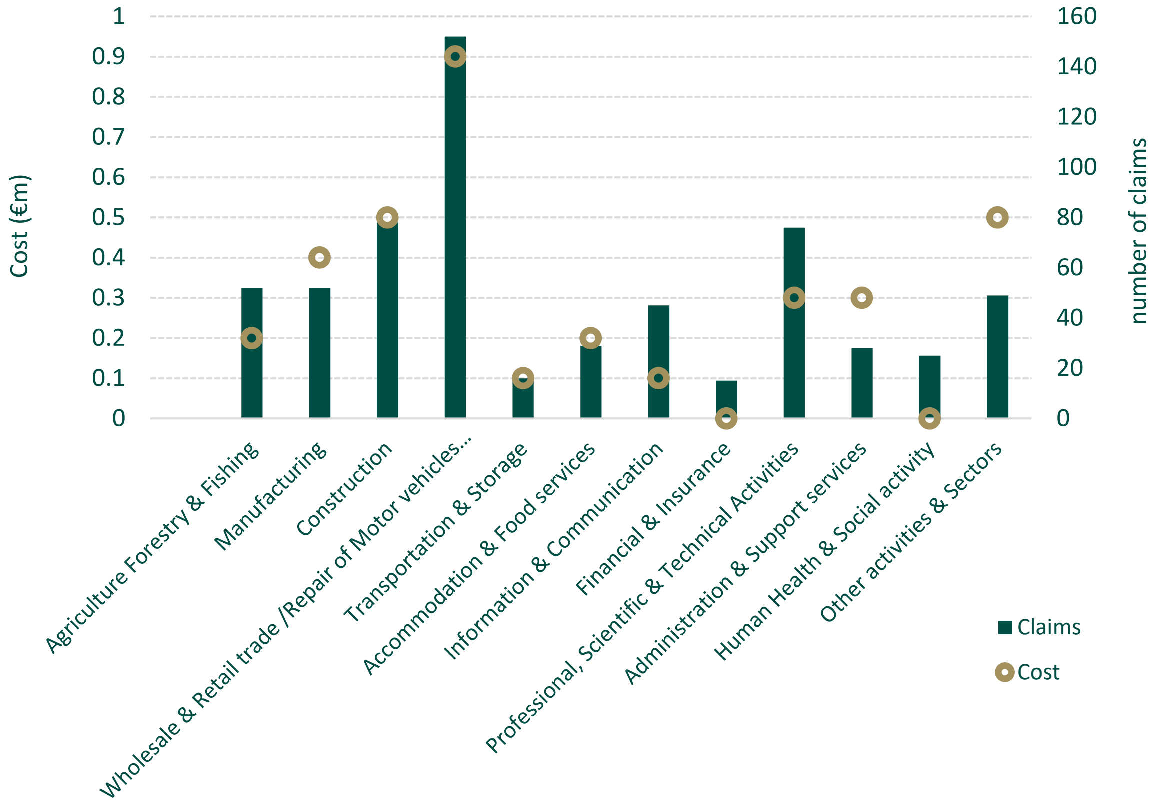
Micro, Small, Medium and Large enterprises consist of enterprises with <10, <50, <250 and greater or equal to 250 persons engaged, respectively (European Commission definitions)

Note: As company structures are sometimes organised in such a way that employees are paid by one company in a group, it may appear that a company has no employees when the employees are actually paid by a different company within a group.

Figure 5 represents the breakdown of claims and exchequer cost by sector for corporate claimants in 2018. *Wholesale & retail trade and repair of motor vehicles* is the sector with the highest number of claimants (152) and the highest associated cost (€0.9 million) followed by *Construction* with 78 claims and an exchequer cost of €0.5 million. In 2017, the single sector with the highest number of claims was *Wholesale & retail trade and repair of motor vehicles* with 29 and an associated exchequer cost of €0.2 million*. Other activities and sectors* accounted €2.9 million and 50 claims.

The average gross trading profit reported by CT claimants was €12.4 million in 2017 and €3.3 million in 2018.

Figure 5: Corporation tax payer claims and exchequer cost (tax rebate) by sector, 2018



Source: Revenue Commissioners

Note: Activities and sectors with less than ten claimants are combined in '*Other activities and sectors'* in line with statistical disclosure protocol.

Annual Investment in EEE can be seen in Table 1 below along with the associated number of claims and tax rebates (exchequer cost). The total value of investment in EEE for CT claimants is calculated as the value of tax rebates re-grossed by reference to the 12.5% statutory CT tax rate. As there are different rates at which each individual income tax payer pays tax, the value of investment in qualifying equipment by income taxpayers was estimated using an indicative re-grossing factor of 30%. This aggregated tax rate is a mid-point between the standard rate of income tax (20%) and the marginal rate of income tax (40%).

Table 1: ACA for EEE, 2009 – 2018

Year	Accelerated capital allowance claimed (exchequer cost) €m		No. of Claims		Investment in qualifying ACA equipment €m	
	CT	IT	CT	IT	CT	IT
2009	1.6	-[17]	93	-	13.4	-
2010	0.6	-	68	-	5	-
2011	1.3	-	76	-	11.3	-
2012	1	-	77	-	8	-
2013	0.7	-	65	-	5.6	-
2014	0.9	-	57	-	7.2	-
2015	1.1	-	65	-	8.8	-
2016	0.9	-	71	-	7.2	-
2017	2.9	0.17	79	238	23.2	0.57
2018	3.5	0.2	617	159	28	0.67

Source: Revenue Commissioners

While this chapter has not been able to establish the degree of additional investment in EEE associated with the scheme (i.e. the level over and above what might have taken place in the absence of the scheme) and any associated energy savings, the considerable buy-in from micro and small enterprises, particularly in recent years, indicates that the scheme has been beneficial to these enterprises. Micro, small and medium enterprises tend to be more credit constrained than their larger counterparts, on average. A scheme that reduces the fixed cost of capital for credit constrained enterprises while providing equipment that is likely to reduce future variable costs, should, in theory, positively affect the viability of these enterprises. Overall, there has been a significant uptake in the scheme over the past two years, which suggests that the scheme is beneficial to claimants while not incurring any considerable additional nominal cost to the exchequer.

[17] Finance Act 2016 extended the scheme to un-incorporated businesses with effect from 1 January 2017.

7. International Comparisons

Tax incentives are available to promote energy efficiency in many countries. These incentives take the form of additional tax credits, tax exemptions or reductions, or indirect tax incentives through VAT, customs duties or excise taxes. Schemes involving enhanced capital allowances or accelerated depreciation for energy efficient equipment are also available in several other countries. While these schemes are not identical to the ACA EEE scheme, they can be analysed to inform policy decisions in relation to the ACA EEE scheme. Some of these schemes are outlined in this section.

7.1. The Netherlands – Environment Investment Allowance (MIA) and Accelerated Depreciation of Environmental Investment Measures (VAMIL)

In 2000, the Netherlands introduced the Accelerated Depreciation of Environmental Investment Measures (VAMIL) and the Environmental Investment Allowance (MIA) as a tax incentive to stimulate market penetration of environmentally friendly technologies. Through the MIA, claimants may deduct up to 36% of the investment costs for an environmentally friendly investment on top of regular investment tax deductions. The VAMIL allows the purchaser to determine the rate of depreciation to allow a more rapid write-down of the investment in earlier years. These two schemes can often be applied simultaneously. The eligible products for both are contained on the Environmental Technology List, which is updated annually.

VAMIL allows up to 75% of the cost of investment in qualifying technology to be depreciated at an arbitrary moment, the remaining 25% is depreciated normally. The MIA deduction from corporation tax is available at levels of 13.5%; 27%; or 36% (depending on the ministerial classification of the assets) of the annual amount. The minimum investment amount per asset is €2,500, while the maximum is €25 million. VAMIL and MIA can be combined to further reduce the overall cost of the investment. The level of deduction is determined on a product-by-product basis and is determined by the following criteria:

- The environmental performance of the product;
- The level of technological innovation it represents; and
- The level of additional cost in comparison to a conventional alternative.

In 2013, an ex-post evaluation of VAMIL/MIA was carried out by Ecorys for the period 2005-2010[18]. The evaluation scrutinised the effectiveness of the scheme with respect to motivating the investment behaviour of participating companies and focused on the quality of the technology list. In the period examined, there were 57,937 investments made under the scheme, which resulted in a total investment of €8.5 billion and claims of just under €1 billion. The overall cost, with respect to reduced tax revenues, was found to be in the region of €715 million. The study also found that 9% of businesses would have made the same investment without the incentive schemes, indicating a loss of €64 million from tax revenues annually through the 'free-rider' effect.

[18] https://zoek.officielebekendmakingen.nl/blg-251648.pdf

7.2. United Kingdom – Enhanced Capital Allowance (ECA)

The ECA schemes for energy saving and water saving technologies were introduced by the UK Government in 2001 and 2003 respectively and have been updated annually. The energy saving scheme operates similarly to the ACA scheme and is an element of the Government's plans to tackle climate change. The ECA schemes provide a 100% first year allowance on qualifying technologies. This effectively allows businesses to write off the entire cost of new plant or machinery purchases against their taxable profits in the year of purchase. The list for qualifying products, referred to as the Energy Technology Product List (ETPL) allows 16 categories of products to qualify, with thousands of specified qualifying products.

An analysis of the ECA was carried out in 2008 by Experian on behalf of HM Revenue and Customs which took the form of an impact assessment[19]. This looked at how effective the scheme was at influencing company purchases of energy saving equipment. This survey focused on those companies which availed of the scheme in the four main categories (lighting, motors and drives, boiler, and refrigerator equipment) which account for 80% of qualifying expenditure on an annual basis. The analysis found that there was a significant difference in the expenditure patterns of those previously aware of the ACA scheme against those who were unaware of the scheme. This would suggest that the scheme has had an impact on the purchasing decisions of companies. The total amount of CO_2 saved by purchases of all technologies covered by the ECA scheme was an estimated 1,700kT in the first year, with lifetime savings of 9,450kT.

In 2016 there were revisions to the energy-saving scheme in order to revise the qualifying criteria for the ten existing technologies. Overall, these measures were anticipated to save £5 million on an annual basis.

Budget 2018 provided that the Enhanced Capital Allowance (ECA) for energy and water efficient plant and machinery was to end in April 2020. The Energy Technology Product List continues to function as a source of information for organisations seeking independently verified energy efficient equipment.

7.3. Canada – Accelerated Cost Capital Allowance

The following schemes are designed to encourage Canadian taxpayers to make investments in qualifying clean energy generation and energy conservation projects:

- an accelerated capital cost allowance (CCA) for investments in clean energy generation and energy conservation equipment;
- a first-year enhanced CCA for investments in clean energy generation and energy conservation equipment. This scheme allows a deduction for capital cost of eligible properties in the first year they are available for use by the taxpayer.

Certain capital costs of systems that produce energy by using renewable energy sources or fuels from waste, or conserve energy by using fuel more efficiently are eligible for accelerated capital cost allowance. The equipment must be included in Class 43.1 or 43.2 to be eligible for these schemes. Qualifying requirements for these classes of equipment are extensive, and the equipment must be in

[19] *Evaluation of Enhanced Capital Allowance (ECA) for Energy Saving Technologies.* Experian 2008.

https://webarchive.nationalarchives.gov.uk/20140207042401/http://www.hmrc.gov.uk/research/report-54.pdf compliance with these eligibility requirements on an annual basis. A variety of renewable energy production equipment are included in Class 43.1 and 43.2, including:

- co-generation and specified waste-fuelled electrical and heat generation systems;
- wind turbines;
- electrical generating equipment that uses only geothermal energy;
- small hydroelectric facilities;
- stationary fuel cells;
- photovoltaics and "active" solar equipment used to heat a liquid or gas;
- equipment powered by certain waste fuels (e.g. wood waste, municipal waste, biogas from a sewage treatment facility);
- equipment that recovers biogas from a landfill; and
- equipment used to convert biomass into bio-oil.

Equipment included in Class 43.1 has a 30% CCA rate on a declining balance basis. Class 43.2 has a 50% CCA rate on a declining balance basis. Most of the equipment that is described in Class 43.1 will qualify for the 50% CCA rate under Class 43.2 when the property is acquired before 2025.

An additional scheme, the first-year enhanced CCA, entitles taxpayers to fully deduct the capital cost of eligible Class 43.1 or 43.2 equipment in the first year the equipment becomes available for use. This measure applies to equipment acquired after November 20, 2018. The scheme will be phased out starting in 2024 and will no longer be in effect for equipment that become available for use after 2027.

The CCA cannot be deducted to the extent that it would create or increase a loss from all such equipment owned by the taxpayer. The amount of CCA that may be claimed on a specified energy equipment is limited to the income earned from that equipment and certain other similar energy conservation equipment. Therefore the CCA deduction cannot be used to shelter the taxpayer's other sources of income.

Responsibility for administering these tax incentives is shared between the Canada Revenue Agency (CRA) and Natural Resources Canada (NRCan).

7.4. United States of America – Section 179D Commercial Buildings Energy-Efficiency Tax Deduction

The Section 179D commercial buildings energy efficiency tax deduction incentivises improvement in energy efficiency by allowing building owners to claim a tax deduction for the installation of energy saving equipment or technology.

Claimants receive a maximum tax deduction of $1.80 per square foot of new or existing buildings if they install technology relating to a building's lighting system; heating, cooling, ventilation or hot water system; or the buildings overall envelope. The deduction is a bonus depreciation, providing an immediate tax benefit. The scheme allows an immediate tax write-off, rather than being deducted over the productive life of the equipment. However the cost of the property, in which the energy efficient technology is being installed, is reduced for depreciation purposes going forward by the cost of the investment in that equipment. To incentivise the designing of energy efficient government properties, designers of energy systems may claim the deduction if the building is owned by federal, state or local government.

The technology must reduce the buildings total energy and power cost by 50% in comparison to a similar building that meets energy efficiency criteria as set by the American Society of Heating, Refrigerating and Air Conditioning Engineers (ASHRAE). Improvements which do not meet the 50% reduction in energy costs requirement may qualify for a lesser deduction. The savings must be certified by qualified engineers attributable to the system for which the energy is being saved.

Section 179D is a temporary provision of the US tax code, originally included in the Energy Policy Act of 2005, providing a deduction for the following two years. The scheme has been extended several times. It is an effective tool for reducing energy consumption in both the public and private sector. Analysis conducted in 2017 by Regional Economic Modelling Inc.[20] found that the scheme achieves its goal of increased energy efficiency but is also an engine of economic and employment growth.

However, as the deduction is renewed on a temporary, short term basis, and given that these improvement works often take years to complete, designers and builders face uncertainty as to whether the deduction will be available when the improvement work is completed. It has been noted that renewing the deduction on a temporary, short-term basis can somewhat negate the incentive and benefits of the scheme.

[20] https://www.remi.com/wp-content/uploads/2019/09/611-Analysis-of-Proposals-to-Enhance-and-Extend-the-Section-179D-Energy-Efficient-Commercial-Buildings-Tax-Deduction.pdf

8. Conclusions and Recommendations for the scheme

In 2017 the Department of Environment, Climate and Communications (DECC) recommended that the ACA scheme should be continued until 2020 (with a further review to be undertaken in 2019/2020). The basis for the continuation of the ACA scheme was that there was evidence to suggest that the ACA scheme has been positive in respect of developing a market for sustainable technologies; improving competiveness and cash flow for participating businesses; and reducing energy usage and associated emissions.

This further review, completed in 2020, indicates the continuation of these benefits, while also providing evidence of increased uptake of the relief among micro and small businesses in recent years. However it as also identified some limitations in the ability of the scheme to deliver verifiable energy savings for the purposes of energy savings targets. It is also noted that energy efficiency is an area of ongoing technological development. Having regard to these factors, this review makes the following three recommendations:

Recommendation 1: It is recommended that the ACA scheme should be continued until 2023 (with a further review to be undertaken in 2023).

The policy objective of the ACA for EEE scheme remains valid. Energy efficiency and the reduction of carbon emissions continue to be major objectives at both European and national levels. The ACA scheme contributes to these objectives by encouraging businesses to invest in EEE. The scheme improves awareness and confidence in EEE. The increase in claimants demonstrates that there is increased awareness, and will also result in reduced energy usage and the associated energy emissions in future. Increases in uptake of the scheme in recent years will lead to cash flow benefits for the claimant taxpayers, in particular for small and micro businesses which have benefitted from the extension of the scheme to other businesses in Finance Act 2016. The SEAI's Product Register has increased from 10,500 products in 2014 to an estimated 31,000 products in 2020. This increase indicates that the market for sustainable energy technologies has developed significantly. The increase brings additional competiveness and awareness, enabling taxpayers to make more informed decisions when purchasing EEE.

Recommendation 2: It is recommended that consultation be undertaken between Revenue, SEAI / DECC and taxpayer representatives to determine if the mechanism for claiming the relief can be adapted to allow the energy savings achieved as a result of the scheme to be accurately quantified without creating an excessive administrative burden for claimants.

As outlined in this review, it is not currently possible to accurately quantify the energy savings derived from the equipment purchased under the scheme, as details of each individual energy efficient product and the energy savings associated with that product are not required when claiming ACA on the tax return. End-use energy savings claimed must be verifiable as a requirement under Annex V of the Energy Efficiency Directive.

Several issues must be addressed in attempting to develop such revisions to the claim system. The requirement for additional information when claiming ACA could act as a disincentive for potential claimants, particularly for small and micro businesses which have benefitted from the extension of the scheme to unincorporated businesses in Finance Act 2016. The administrative burden could also impact claimants unequally, as recording the energy savings associated with a high volume of low-value equipment will be more onerous than recording the energy-savings associated with a lesser amount of high value equipment. Discussion is also required regarding the avenue most appropriate for claiming the ACA. For example, as the primary purpose would be the recording of energy savings data, should the SEAI receive ACA for EEE claims directly? As the relief operates through the tax system, should Revenue collect the additional information and provide it to the SEAI and what confidentiality and data protection issues would need to be addressed? Further consideration is required in this regard to ensure the confidentiality of taxpayer information is protected.

The issues outlined above need to be examined in further detail by officials in the Department of Finance, Revenue, DECC and SEAI to ensure any amendments are effective in quantifying the energy savings achieved as a result of the scheme. In addition, consultation with external stakeholders is recommended to ensure any amendments reflect the needs of those utilizing the scheme and do not create a disproportionate administrative burden.

It is intended to commence this consultation process in January 2021, with a view to reaching conclusions by June 2021.

Recommendation 3: It is recommended that the classes of technology included in Schedule 4A and the existing energy efficiency qualifying criteria in statutory instrument be reviewed with the intention of amending the scheme to ensure it is up to date with recent technological advances and in line with the commitment in the Programme for Government of achieving net zero emissions by 2050.

Currently Schedule 4A includes 10 classes of equipment which qualify for ACA, provided they meet the energy efficiency criteria as specified by the SEAI. The Schedule lists broad classes of technology and qualifying minimum spend thresholds. It was last updated in 2018, however the most recent addition of a new class of technology was in 2010. As technology advances, new classes of technology not included in Schedule 4A may now be achieving high levels of energy efficiency. Furthermore, the detailed energy efficiency qualifying criteria set by statutory instrument may no longer reflect best in class energy efficiency standards due to advances in technology in recent years, or may also not be in line with the commitment in the Programme for Government of achieving net zero emissions by 2050.

Discussion has taken place between the Department of Finance, DECC, SEAI and Revenue regarding the classes of technology included in Schedule 4A. Further analysis is required to evaluate whether classes of technology should be removed or additional classes of technology should be added and, should it be recommended that Schedule 4A be expanded, it would also be necessary to specify detailed energy efficiency qualifying criteria to introduced via statutory instrument. This is a technically complex undertaking which requires input from a panel of technical experts and consultation with industry. This joint review process will commence in January 2021, with a view to advising on potential amendments to Schedule 4A in advance of Finance Bill 2021.

In addition, it is noted that SEAI will continue to review the energy efficiency qualifying criteria and update the Triple E Product Register on an ongoing basis.

These processes will ensure that the qualifying criteria and Triple E Product Register remain up to date with ongoing technological developments.

Appendix 1 – Worked Example of ACA for EEE

The ACA scheme allows companies and sole-traders to claim accelerated capital allowances of 100% of the capital expenditure incurred on energy efficient equipment, provided the equipment is included in the list of energy-efficient equipment maintained and published by the Sustainable Energy Authority of Ireland (SEAI).

The following worked example illustrates the benefit to claimants of the ACA scheme.

A company based in Dublin requires a new refrigeration and cooling system, to be used wholly and exclusively for the purposes of its trade. The company sources suitable equipment from the SEAI's Triple E Product Register costing €30,000. The company purchases the equipment, which is then installed and in use at the end of the accounting period for which the allowance is to be claimed. The equipment is more energy efficient than another product they were considering purchasing, which is not on the SEAI's Triple E Product Register. The company earns profit of €200,000 for this accounting period before deduction of capital allowances.

	Accelerated Capital Allowances	Standard Capital Allowances
Profit	€200,000	€200,000
Cost of equipment	€30,000	€30,000
Capital Allowance allowable	€30,000 (100% of cost)	€3,750 (12.5% of cost)
Taxable Profit	€170,000	€196,250

The accelerated capital allowance scheme for energy efficient equipment therefore has a cash flow benefit in the current period of €26,250 (€196,250 - €170,000). This is not a tax saving, as the company would be entitled to capital allowances on the equipment not listed on the SEAI's Triple E Product Register, however they would not get the full benefit of these capital allowances for another 7 years. The company also benefits from savings in energy costs, as they are using equipment that's more efficient than the alternative product they considered. This saving can increase the productivity or profitability of the Irish business.

II: Review of stamp duty Consanguinity Relief

Consanguinity Relief: Schedule 1 of the Stamp Duties Consolidation Act (SDCA) 1999

"Consanguinity" is defined as being a "*relationship by descent from a common ancestor*".

1. Introduction

The consanguinity stamp duty relief (the relief) as it currently operates (as set out in Schedule 1 (under Conveyance or Transfer) of the Stamp Duties Consolidation Act 1999) is due to expire on 31 December 2020.

It is therefore timely to carry out an ex-post evaluation of the relief and consider the case for any amendment or extension of the relief beyond this date.

This paper will provide a brief overview of the relief and how it operates, as well as the policy rationale for its implementation. As set out under the Department of Finance Guidelines for Tax Expenditure Evaluation 2014, this paper will also examine the relevance, cost, impact and efficiency of the Relief, before concluding with options on potential amendments to/extension of the relief in the context of Budget 2021/Finance Bill 2020.

2. How Consanguinity Relief currently operates

The consanguinity stamp duty relief, as currently constituted, provides, under certain conditions, for a 1% rate of stamp duty to be applicable where a transfer of agricultural land (by sale/purchase, exchange or gift) is made to certain close relations, such as mother to son or uncle to niece.

The relevant relationships for this relief include:

- Lineal descendent (child, step-child, grandchild etc.)
- Parent, step-parent and grandparent
- Husband, wife and civil partners
- Brother, sister, step-brother and step-sister
- Aunt and uncle
- Nephew and niece

Consanguinity relief applies to instruments executed:

- on or after 1/1/2015 and before 1/1/2016 in respect of transfers or conveyances of land by a person of any age subject to the conditions set out later in this paper;

- on or after 1/1/2016 and before 25/12/2017 in relation to transfers or conveyances of land but only where the individual transferring/conveying the land had not reached the age of 67 at the date of conveyance/transfer and subject to the conditions set out later in this paper.

- on or after 25/12/2017, subject to the conditions set out later in this paper.

Consanguinity relief ceased to apply to residential property as of 8 December 2010 (section 66(d) of Finance Act 2011). It then ceased to apply to all non-residential property except farmland from 1 January 2015 (section 77(1)(a)(i) of Finance Act 2014) and now only applies to agricultural land, as the conditions that must be met in order to qualify for it (see below) now require that the land concerned must be farmed.

Therefore, the relief does not apply to a farmhouse situated on the land being transferred. Consanguinity relief applies only to non-residential property that is suitable for farming and farm buildings of a character appropriate to the farmland. However, as the 1% residential rate that applies to residential property, including farmhouses (of a value below €1 million) is currently the same as the consanguinity relief rate there is no practical effect on the amount of stamp duty involved in the majority of cases (a rate of 2% applies on any value of a residential property in excess of €1 million).

Conditions currently applying to consanguinity relief

The individual to whom the land is conveyed or transferred must, from the date of execution of the conveyance or transfer:

- farm the land for a period of not less than 6 years, or
- lease it for a period of not less than 6 years to an individual who will farm the land.

  The person who farms the land must:

- be the holder of (or, within a period of 4 years from the date of the conveyance or transfer, become the holder of a relevant agricultural qualification[21], or
- spend not less than 50% of the individual's normal working time farming land (including the land conveyed or transferred).

  Where the land is leased, the person to whom the land is leased must:

[21] An educational qualification amongst those set out in Schedule 2, 2A or 2B to the SCDA 1999

- be the holder of, or within a period of 4 years from the date of the conveyance or transfer become the holder of, a relevant agricultural qualification, or,
- spend not less than 50% of the individual's normal working time farming land (including the land conveyed or transferred).

Revenue allows the relief where the land is leased-

- to a partnership or to a company whose main shareholder and working director farms the land on behalf of the company, and
- to a company that is owned equally by an individual and that individual's spouse or civil partner, and at least one of them satisfies the working director and the farming requirements.

Where the person who farms the land (including the partners or working director in the case of a company), or the person to whom the land is leased is not the holder of a relevant agricultural qualification at the date of the conveyance or transfer but is going to become the holder of such a qualification within a period of 4 years from that date, the relief may be claimed on the stamp duty return. However, if that person does not become the holder of a qualification within a period of 4 years from the date of the conveyance or transfer, the relief no longer applies and interest is due from the date of the conveyance or transfer.

Alternatively, the accountable person may pay the stamp duty and provided the person concerned becomes the holder of a specified qualification within a period of 4 years from the date of the conveyance or transfer they may claim a repayment.

Revenue will not make a repayment unless a valid claim is received within four years from the date the conveyance or transfer is stamped.

3. Rationale for the scheme

Historically consanguinity relief was a means of allowing the transfer of land (as opposed to the broader category “property” to which stamp duty normally applies), either residential or non-residential, on an intra-familial basis while being relieved of half of the applicable rate of stamp duty (i.e. if full rate was 6%, those qualifying for and availing of the relief paid 3%).

With effect from 8 December 2010, and as provided for in Finance Act 2011 (No.6 of 2011) residential property was removed from within the scope of this relief. This coincided with the reform of Stamp Duty on property transactions aimed at stimulating the property market. Thereafter, consanguinity relief, as noted previously, was confined to non-residential property until 1 January 2015 and farmland thereafter as part of a package of measures designed to encourage the intergenerational transfer of such land.

Boosting the rate of intergenerational transfer of farms has long been a policy objective of both the Government and the EU. In the majority of EU countries, the average age of farmers is increasing, while the number of farmers under 40 years of age is decreasing. There is growing concern that this demographic trend may have negative impacts on the agricultural industry because it is younger and not older farmers who are associated with more efficient and effective production practices[22].

4. Current context/uptake of the Relief

Consanguinity is only one of an extensive and generous suite of reliefs from stamp duty and other taxes that are available only to the farming community[23].

In its 2014 Agri-taxation review[24], Indecon estimated that the direct annual exchequer costs of agri-taxation measures amounted to nearly €340 million (this includes some expenditure on measures not exclusively available to the agriculture sector). When administration and other imputed costs were included, the total economic cost of the agri-taxation measures was estimated at €681 million per annum.

From 1 January 2016 until the enactment of Finance Act, 2017 on 25 December 2017, in order to qualify for consanguinity relief, the owner or transferor of the lands had to be under 67 years of age, for the relief to apply. The 2017 Act abolished the age limit for the transferor.

The 67 age limit was intended to help encourage farmers approaching old age to transfer their land to a younger generation of their family, rather than their waiting to do so much later in life. The age limit for transferors was removed in Finance Act 2017 (Section 60) with the intention of sheltering all intergenerational farm transfers from the increased rate of stamp duty that had been introduced in Budget 2018.

Revenue Forgone and Number of Successful Claims (Source: Revenue)

	Cost €m	Number of successful claims
2016	2.9	1,406
2017	3.81	1,018
2018	22*	1,647
2019	28.76*	1,777

* The significant increase in revenue foregone in 2018 and 2019 is linked to the increase in the stamp duty rate on non-residential property to 6% in Budget 2018 (it was again increased to 7.5% in Budget 2020), and (potentially) the removal of the age cap of 67 for transferors in Finance Act 2017.

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22 "Policy drivers of farm succession and inheritance" Leonard, Kinsella et al, Land Use & Policy, February 2017 https://doi.org/10.1016/j.landusepol.2016.09.006

23 Indicative List of Agri-Tax Measures – post Budget 2015 – DAFM: https://www.agriculture.gov.ie/agri-foodindustry/agri-foodandtheeconomy/agri-foodbusiness/agri-taxation/indicativelistofagri-taxmeasures/f

24 https://igees.gov.ie/wp-content/uploads/2014/10/Agritaxation_-Review-_Final_web-pub.pdf

5. Views of Farming Bodies and DAFM

A letter (copy attached at Annex I) was sent to the Irish Farmers' Association (IFA), the Irish Creamery Milk Suppliers Association (ICMSA) and Macra na Feirme seeking their views as to the efficacy of the relief, whether it should be extended, and, if it were to be further extended, whether they would suggest that the opportunity be taken to introduce any particular change(s), and on other related matters. This letter also covered farm consolidation stamp duty relief, which is also due to lapse at the end of this year. A separate report has been prepared on that relief.

Copies of the responses received from each body are attached at Annexes II, III and IV, and their views on consanguinity relief can be summarised as follows:

All three representative bodies stress the importance of this relief and support its extension beyond the end on 2020, and largely support the continued application of the existing conditions. Their views on other aspects of the relief can be summarised as follows:

- Macra na Feirme note that this relief is critical in promoting intergenerational renewal which they note is "*one of the nine objectives under the Common Agricultural Policy*". They also request that this relief be extended for 5 years (i.e. to end 2025) to provide more certainty with regard to its medium-term availability in light of the state aid limits that have been placed on certain other farming tax reliefs.

- The ICMSA believe that the stamp duty rate applicable under the relief should be no more than the current 1%, as this provides certainty and allows for long term planning, and that any change to that rate would put farm succession plans in real doubt, so "*undermining the much valued family farm structure in Ireland and its benefits to the wider rural economy*". The also see the application of an age limit to the transferor as inhibiting the movement of land within families.

- The IFA supports all the current criteria for access to this relief, and see the (now removed) age limit of 67 for the transferor as a barrier which prevented older farmers availing of it. They also state that "*the removal of this relief would result in delays in transfers, as Stamp Duty is not liable on an estate after death*."

The views of the Department of Agriculture, Food and the Marine (DAFM) were also sought. They are strongly supportive of the relief and of its continuation. They also identify some potential merit in the reintroduction of an age limit for transferors in order to better focus the relief on its core goal of encouraging intergenerational farm transfer. However, given the current uncertainty surrounding the Covid-19 pandemic, as well as the potential shape of the proposed revisions to CAP and relevant regulations at EU level, they felt it best that consideration of this matter be deferred, and that it might be considered next year in the context of Budget 2022/Finance Bill 2021. The likely outcome of the CAP negotiations and the direction of EU policy should be clearer next year.

6. Equality Considerations

Consanguinity relief is available to all taxpayers irrespective of gender, civil/family status, sexual orientation, religion, race/ethnicity (including to members of the Traveller Community) and level of physical and/or mental ability.

The former age requirement that a transferor had to be below the age of 67 at the time that he or she transferred the land is relevant in terms of the policy objective of the measure to help facilitate and encourage intergenerational transfer of farms.

Therefore, given the purpose of the relief, the age limit that previously formed part of the relief's rules, and also the requirement that one must acquire agricultural land from a family member in order to be eligible to benefit from it, are not unnecessarily exclusionary or inequitable.

7. Finance Bill 2020 Options

Based on the foregoing, and particularly the views of the farming bodies and DAFM, a limited number of possible options are examined for the future direction of this relief:

1. Not extending the relief after the end of 2020.

<u>Advantages</u> – the revenue foregone under this relief (€28.76 million in 2019) would be gained for the exchequer. It should however be noted that the removal of this relief could potentially lead to a reduction in the number of intergenerational farm transfers, so the revenue gain might not be commensurate with the revenue foregone in previous years.

<u>Drawbacks</u> – the loss of a valuable incentive for elderly farmers to pass their farms on to subsequent generations of younger trained farmers, who may bring more modern productive farming practices into with them, so potentially increasing the quality and quantity of the output of the land concerned.

This is a popular relief with 1,647 successful claims in 2018 and 1,777 in 2019.
While it is accepted that inter-generational farm transfers would still occur in the absence of this long-standing relief, its removal could result in a significant reduction in the level of such transfers for a number of years. Also, the sooner farmers pass farmland over to their successors (by sale or transfer), the younger the farmer taking over the land will be. This in turn helps increase the likelihood of the recipient, particularly given the condition regarding educational qualifications that applies to this relief, being in possession of more up to date farming knowledge/skills, with the recognised benefits that stem from the application of these.

Such a move likely to be strongly opposed by farming groups. Both the ICMSA and the IFA in their submissions on this relief refer to the removal of the age limit, with the IFA noting that its removal "*means there is no longer a barrier for older farmers availing of this relief and it acts as an incentive to the lifetime transfer of land*", while the ICMSA note that the age limit "*inhibited the movement of land within families*". Macra na Feirme, while making no direct reference to the age limit in their submission, do note that "*in many Member State generational renewal and young people's access to agricultural land is hindered by late succession*".

2. **Extend the relief:**

   In order to provide certainty for the farming sector, an extension by a further three years (i.e. to 31 December 2023) could be considered. Three years is the normal timeframe for which tax reliefs are extended before further review.

   Also, a review of the CAP and ABER is currently underway, with an outcome expected in 2021, and any consideration of a further renewal of this relief that would take place in 2023 should aim, if possible, to encompass the outcome of these reviews.

   An extension of five years, as proposed by Macra na Feirme would run contrary to the normal three-year term for such reliefs. Three years is considered to provide a suitable balance between delivering a degree of medium-term certainty in respect of the availability of a relief and the need for the relief to be reviewed regularly by the Department of Finance to ensure it remains fit-for-purpose

   <u>Advantages</u> – continues to incentivise and support intergenerational farm transfers, which is recognised as driving increased farm efficiency and productivity, as well as bringing more environmentally friendly farming practices, in line with Government, EU and global goals, into operation earlier than might otherwise be the case.

   <u>Drawbacks</u> – as shown in the table earlier in this report, use of the consanguinity relief is growing giving rise to a considerable and increasing cost.

3. **If extended, to :**

- **restore previous age cap of 67 for transferors removed in Finance Act 2017, or introduce a new one (lower or higher than 67)**

  By reintroducing a cap, the principal objective of this relief, to encourage the early intergenerational transfer of agricultural land, would be reinforced.

  Setting a lower transferor age cap might be expected to strengthen the incentive to transfer, at a younger age. However, there is also a strong risk that setting an arbitrarily low cap would make the incentive to forego the relief stronger, at least on the part of the transferor, as he or she would not feel they had reached a suitably advanced age at which to retire. Also, while, as is the case with all stamp duties, the liability falls on the transferee, so it is he or she who is the beneficiary of this relief, given that the transfer involved is intra-family, the transferor is likely to play a major role in the decision on if/when to avail of this relief.

The higher the age at the transferor cap is set, say at 70 years of age, the less beneficial any intergenerational transfer incentive is likely to be, while the saving to the exchequer (given that there is currently no transferor age cap in place) would be minimal at best.

The reintroduction of an age limit for transferors might also encourage younger members of farming families who would be in line to receive the land concerned, to gain at least one from the list of required qualifications, and to become involved in farming as a career, as they can hope to receive the farmland at an earlier age than might otherwise be the case.

Reinstating the legislative provision which removes the relief where the transferor is over the age of 67 may disincentivise transfers by farmers over that age, who are instead likely to wait to transfer the land as part of their estate on death, so allowing the farmer inheriting the land to avail of Capital Acquisitions Tax (CAT) agricultural relief[25].

- **adjust the 1% rate of stamp duty applicable under the relief on farmland valued at over €1 million**

As previously noted, the rate of stamp duty applicable to residential property is currently 1% on values up to €1 million, and 2% on any value above that. These rates also apply to farmhouses (though not to farm buildings of a character appropriate to the farmland). Farmland, as non-residential land, is subject to stamp duty at 7.5% on acquisition, where no reliefs apply.

While continuing to treat farmland as non-residential property, it may still be possible under this relief to apply the 2% rate on any value above €1 million which forms part of a transfer, in line with the treatment of residential property.

Revenue have provided an **estimate** of the cost and number of cases claiming consanguinity relief for land with a market value in excess of €1m.

[25] Subject to conditions this provides a 90% reduction in the market value of the agricultural property which means that only 10% of the market value is liable to CAT at 33%, i.e. a rate of 3.3% of the full value of the agricultural land.

Note: These estimates were arrived at by re-grossing the stamp duty paid and therefore may not be entirely accurate.

Year	Number of cases (representing X% of total cases)	Cost (€m)
2016	42 (3%)	0.3
2017	30 (3%)	0.2[26]
2018	96 (6%)	5[27]
2019	111 (6%)	3.5[28]

Advantages – if the effective rate of stamp rate were to be increased to 2% on farmland valued at over €1 million, and based on the figures in the table above, some additional stamp duty revenue would be received by the exchequer, though not a considerable amount (between €0.5 and €0.75 million in 2019). This would reduce the revenue foregone under the relief, while still allowing the transfer of the average farm to avail of the current 1% rate. It would also match the stepped rate currently paid on residential property, including farmhouses (though the farmland and the farmhouse would continue to be valued separately for stamp duty purposes). This separation would ensure that even were the farmland and the farmhouse to have a combined value of over €1 million, so long as each on its own was valued at below €1 million (and the transfer of the farmland qualified for consanguinity relief), each would be subject to stamp duty at 1%.

Drawbacks – as indicated by the above table, the number of transactions that would be subject to any 2% rate is likely to be small, as would any associated boost in exchequer receipts, while a stepped rate could encourage avoidance practices which may result in less efficient farm transfers. There is also likely to be strong resistance from the farming community who are unlikely to welcome any change to the relief that they might perceive as eroding the overall benefit of the measure to the farming sector.

[26] The full rate of stamp duty on agricultural land in all of 2016 and in 2017 to midnight on October 10th was 2%, and 6% thereafter (though transitional arrangements applied)

[27] The full rate of stamp duty on agricultural land in 2018 was 6%

[28] The full rate of stamp duty in 2019 was 6% to midnight on 8th October, and 7.5% thereafter though transitional arrangements applied)

8. Conclusion and Recommendations

The benefits of intergenerational farm transfer are widely recognised and a desire to encourage and facilitate it is shared by the Government, the EU and the farming bodies.

The important role that this popular relief plays in helping to deliver those benefits is also widely recognised.

In the absence of consanguinity relief, CAT agricultural relief, which operates by reducing the market value of “agricultural property” by 90%, so that CAT on a gift or inheritance is calculated on an amount, known as the “agricultural value”, which is substantially less than the market value, could act to incentivise the deferral of intra-family transfer of farms. It is therefore important that a stamp duty relief is in place in order to act as a counterweight, to help encourage and support the transfer of farmland to younger generations of farmers.

As a result the following actions are recommended:

Extend: In light of this relief’s important role in facilitating intergenerational farm transfers, it is recommended that it be extended by a further three years to 31 December 2023, and that this be provided for in Finance Bill 2020.

Examine age limit for transferors: The case for reintroducing an age limit (formerly 67) for transferors should be examined jointly by the Department of Agriculture Food and the Marine and the Department of Finance (with Revenue input) in 2021, with a view to any amendments arising from the findings of that examination being provided for in Finance Bill 2021.

ANNEX I

14 February 2020

Name of Farm Body
Address
Address
Address

Re: Farm consolidation relief (Section 81C of the Stamp Duties Consolidation Act 1999) & consanguinity relief (Schedule 1 of the Stamp Duties Consolidation Act 1999)

Dear XXX,

As you may already be aware, the stamp duty relief for farm consolidation, which was reintroduced in an amended form in Finance Act 2017 (Section 68), and is provided for in Section 81C of the Stamp Duties Consolidation Act 1999, is due to lapse at the end of this year (31 December 2020).

The policy objective of consolidation relief is to encourage the consolidation of farm holdings, to reduce fragmentation and to improve the operation and viability of farms.

Consanguinity relief, which is provided for in Schedule 1(5) of the Stamp Duties Consolidation Act 1999, and which was last amended in Finance Act 2017 (Section 60(1)(ii)) is also due to lapse at the end of this year (the legislation currently states that in order to avail of the relief instruments must be executed before 1 January 2021).

The domestic and EU policy objective of consanguinity relief is to encourage inter-family and inter-generational transfers of agricultural land.

This Department has therefore begun work on separate ex-post evaluations of both reliefs which will examine whether their extension should be proposed to the Minister for Finance later this year as he or she considers what measures should be contained in Finance Bill 2020. The findings and recommendations of the review will be published later this year.

As part of this process we have decided to canvass the views of the main farming representative bodies in Ireland in order to ascertain their views as to the future direction of both reliefs.

We would therefore invite views from your organisation on the two mentioned reliefs, including their operation and qualifying criteria, their contribution to the policy objectives and any other observations you may wish to provide.

We would also ask you to note that this review exercise concerns the above stamp duty reliefs only, and will not address wider agricultural taxation matters. However, should you have any broader proposals concerning the stamp duty treatment of agricultural land, we would of course be happy to receive them.

The views of the Department of Agriculture, Food and the Marine and Revenue are also being sought as part of this exercise.

As we hope to complete our work on these evaluations as soon as possible, we would ask that you supply any views or proposals you may have to us by 16 March 2020. If your input is received after this date, it may not be possible to reflect it in the report(s) setting out the findings and recommendations of the reviews.

Best regards

XXX
Tax Division

T +353 (0)1 XXX XXXX (ext. XXXX)
www.finance.gov.ie

IFA submission to the Department of Finance

re. Consolidation Relief and Consanguinity Relief

The Irish Farm Centre Bluebell Dublin 12

March 2020

IFA, Ireland's largest farming representative organisation, welcomes the invitation to contribute to the examination of the extension of the consanguinity relief and the consolidation stamp duty relief, both of which are due to expire on 31 December 2020.

Agriculture is a low margin, highly capital-intensive business, with the primary asset requiring large amounts of investment being land. Primary agriculture faces many structural challenges, the greatest of which are low levels of land mobility, late transfer of farms and farm fragmentation.

Consolidation Stamp Duty Relief

IFA welcomed Government's support in Budget 2020 to encourage farm consolidation by its extension of the Capital Gains Tax farm restructuring relief to 2022. Similarly, the Consolidation relief for Stamp Duty, resulting in a reduction from the 7.5% to 1% rate, must be retained to assist with decreasing farm fragmentation in Ireland. According to the last CSO Farm Structure Survey[29] in 2016, 27% of all farmers were fragmented into three or more parcels, with 42% of farms being less than 20ha. Farm fragmentation is a key structural issue for Irish farming, adding to costs and decreasing efficiency. When farming separate parcels of land, it causes issues with time management, extra labour, as well as stock / machinery movement and monitoring.

The criteria necessary to avail of this relief is supported in the main by IFA. The duration to complete the transactions of 24 months is fair. IFA concurs with the requirement that the farmer availing of the relief must retain the land for agricultural use for a set number of years (5 years for this relief). However, the necessity of having to obtain a farm restructuring cert issued by Teagasc is believed to be a barrier to farmers availing of this relief and restructuring their farms.

IFA believes that this relief is critical to incentivise farmers to reduce the number of parcels of land in their farm or to decrease the distance between them, with the net result of making their farm businesses more efficient and profitable. The agricultural sector has key targets set in Food Wise 2025 and this relief encourages maximum operational efficiency and viability, which are needed to try and meet these goals.

IFA proposes that the certification process is simplified and streamlined by the adoption of a self-certification process, as already utilised in the payment of Stamp Duty.

Consanguinity Stamp Duty Relief

Ireland has a high level of owner-occupancy of farms, and the sustainability and viability of the sector requires that the family farm can be transferred between generations with the minimum of administrative complexities, legal costs and tax exposure. The reduction from the rate of 7.5% to 1% of Stamp Duty, which the consanguinity relief allows, promotes intergenerational farm family lifetime transfers.

[29] https://www.cso.ie/en/releasesandpublications/ep/p-fss/farmstructuresurvey2016/

IFA supports all the criteria for access to the relief. The previous removal of the age restriction of 67 for the transferor means there is no longer a barrier for older farmers availing of this relief and it acts as an incentive to the lifetime transfer of land. IFA does promote early farm transfer, however, delays are sometimes a necessity as it is not viable for some farmers who have had their state pension age deferred and where the farm is not able to sustain two incomes. The requirement to farm the land or lease it to be farmed for a minimum of 6 years ensures that this relief is available for genuine farmers. Whilst the allocation of 50% of working time on the farm (equating to 20 hours/week) allows for part-time farmers to also utilise the relief, which is essential as the average farm income in 2018 was cited as €23,483 in 2018[2], resulting in some farmers having to work off-site. The alternative of having a specific qualification or obtaining one within four years of getting the land, gives further opportunity to those who want to farm it. Lastly, the option of leasing out to a farmer who fulfils the working time or qualification specification, allows for agricultural land to be released, which is critical for all farmers, particularly young farmers. IFA believes the criteria required prevents potential abuse of the relief in terms of transference of wealth by non-farmers.

To encourage the transfer of family farms of a sufficient scale to support a viable farm enterprise for the next generation, IFA believes it is essential that the consanguinity stamp duty relief be retained on all qualifying transfers and purchases. Those entering farming must not be faced with a significant tax liability, which could necessitate the breakup of family farms or selling of assets. Due to the definition of 'commercial' currently including agricultural land, resulting in the higher Stamp Duty rate of 7.5% being applied to farmers, the extension of this relief is critical to this low return sector's sustainability. IFA is also concerned that the removal of this relief would result in delays in transfers, as Stamp Duty is not liable on an estate after death.

OTHER STAMP DUTY TREATMENTS OF AGRICULTURAL LAND

Removal of agricultural land from the commercial definition

When Stamp Duty rates for property were significantly reduced in Budget 2011 from 6% to 1% for residential and from 6% to 2% for commercial, one of the rationales of this reform was to stimulate the property market. In 2018[30], the negativity around the agricultural land market could be seen with the decrease of 11% from the previous year in the amount of land being offered on the market. This was further emphasised with 32,000ac actually being sold, down from 33,100ac in 2017, a reduction of 6.4%. Other reliefs from Revenue reflect the recognition of the high prices of agricultural land; but aligning agricultural Stamp Duty with commercial in Budget 2018, resulting in the two increases (from 2% to 6% and then in Budget 2020 to the 7.5% rate) is penal.

The increase from 6% to 7.5% for commercial property in Budget 2020 will also have even more of an impact on young farmers, who have been significantly restricted with the introduction of State Aid limits on their reliefs. Lowering the Stamp Duty needs to be considered in regard to the €70,000 limit that was imposed on Young Trained Farmers in October 2018's Finance Bill.

IFA believes a reduction in Stamp Duty rates for agricultural land would increase the levels of transactions in the market and promote life-time transfers. Farmland should be in line with residential property rates. It would also assist Young Trained Farmers whose reliefs have now been restricted with the enforced ceiling.

[30] Agricultural Land Price Report 2018, Irish Farmers Journal, March 2019

Forestry and Young Trained Farmer / Consanguinity Stamp Duty Reliefs

The promotion of farm forestry is key for Ireland to achieve its environmental goals in terms of climate change and the renewable energy targets. When farmers enter into forestry, it is a long-term commitment of land-use. Although there is precedence with the treatment of forestry for Capital Acquisitions Tax (CAT) Agricultural Relief, where land with trees growing is defined as being agricultural, with Stamp Duty, land with woodlands on a commercial basis does not qualify for reliefs and is subject to the 7.5% rate. Currently the differing definitions cause unnecessary complications and complexities and are a barrier to investing in, transferring or selling forestry.

IFA proposes that farm forestry is treated in a similar manner in relation to the consanguinity and young farmers stamp duty reliefs as it is with CAT agricultural relief, where it is defined as agricultural land.

As proposed in IFA's Pre-Budget 2020 submission, adequate timing should be provided for in the year reliefs are due for renewal, to support smooth intergenerational transfer, decrease farm fragmentation and reduce uncertainty for farmers. IFA would welcome the opportunity to meet with the Department of Finance in the coming weeks to discuss this submission further.

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[2] https://www.teagasc.ie/news--events/news/2019/teagasc-national-farm-sur.php

ICMSA Submission

to the

Department of Finance on

Farm Consolation Relief

and

Consanguinity Relief.

March 2020.

Background

The ICMSA is a farm representative body that represents all farmers particularly dairy and livestock farmers. ICMSA places special emphasis on preserving the family farm structure and defending the rights and incomes of farm families. ICMSA seek to influence Government policy with a view to enhancing farm families economically, socially and environmentally. This must all be achieved in the environs of a sustainable economy.

The Irish economy had performed well in early 2020 with strong economic growth and employment levels. However, the macroeconomic shock that will be facing the Irish economy due to the outbreak of the Covid-19 virus will result in a lot of uncertainty. A budgetary surplus was predicted for 2020 but due to the very welcome response to Covid-19 from the Government including for example welfare allowances for illness benefit, it is now certain that Ireland will run a budget deficit. Food security has come to the fore in recent weeks and it is absolutely essential that the taxation system ensures the sustainable development of the Agri-food sector and supports generational renewal.

As is well known, the Agri-food sector has played a hugely important part in the growth of the Irish economy over the last number of years with Agri-Food exports to the fore. Irish Agri-food and drink exports increased by 7 percent to approximately €13 billion in 2019 supporting 7.7% of total employment in our economy. It is essential not only for rural Ireland and farm families but also for the wider national economy that taxation reforms recognise the importance of the agriculture sector, the importance of which is particularly recognised during periods of recession and must also recognise the exposure of Irish agriculture to the negative impacts of Brexit.

This Submission sets out the policies that ICMSA believe should be implemented in Budget 2021 in the context of farm consolation relief and consanguinity relief.

Consanguinity Relief

This relief is hugely important for farm succession and ICMSA believe that it must be retained as a priority. Many young trained farmers avail of the full Stamp Duty Relief before they reach 35 years of age and it is important that these two reliefs work in conjunction with each other. Individual family situations vary and some farmers are not in the position to inherit the farm as a young trained farmer and consanguinity relief allows them to inherit their “tools” or assets at time that suits the family and not pay the full rate of stamp duty which currently stands at 7.5%. It is more important than ever that the rate of 1% is retained to allow the new entrant to enter farming without a significant Stamp Duty bill which would hinder their future development. ICMSA believes that the rate should be no higher than 1%, this rate gives certainty and allows for long term planning and any change to this rate or the Young Trained Farmer Relief would put farm succession plans in real doubt undermining the much valued family farm structure in Ireland and its benefits to the wider rural economy.

In terms of conditions attached to claiming the relief:

Condition 1

- *The inheritor must be Related to the transferor and farm the land for at least six years* ***or*** *lease it for a minimum of six years to someone who will farm it.*

    - ICMSA have happy to retain this condition on the assumption that the six years is not increased.

Condition 2

- *If you are farming the land, you must hold a specified qualification or obtain one within a period of four years from the date you get the land* ***or*** *spend at least 50% of your time farming land (including this land transfer).*

    - Again, ICMSA are content with this condition as it ensures that land will be used by active farmers in the production of essential goods just like the previous condition. It is important that the "or" conditions in these reliefs are retained.

Condition 3

- *If, instead of farming the land yourself, you lease it to someone else to farm, that person must hold a specified qualification or obtain one within a period of four years from the date you got the land* ***or*** *spend at least 50% of their time farming land (including this land transfer).*

    - Once again, this condition ensures that active farmers are more likely to the land and farm or be available to farmers who are willing to farm the land.
    - It is essential that there is no change to these conditions such as increasing the percentage of time spent farming or time to obtain the correct qualification.
    - The former condition of an age limit on the transferor of under 67 years at the date of transfer should not be re-introduced as it again inhibited the movement of land within families.

Farm Consolidation Relief

Farm Consolidation relief is not used as often as other agricultural reliefs but is vital for those farmers that avail of it. Irish farms traditionally are fragmented and with many farmers trying to increase scale in the last number of years, this relief has been vital in terms of reducing inefficiencies on their farms. Many farmers spend large parts of their days transporting cattle, slurry or fertilizers long distances and this relief means that farmers are not disincentivied to buy land closer to their "home" block which also has climate benefits. This why it is vital to retain this relief and encourage the purchase of land closer to the farmers hub.

In terms of conditions attached to claiming the relief:

Condition 1

- *You must be a farmer who is an individual who spends 50% or more of your normal working time farming.* ○ ICMSA fully supports this condition.

Condition 2

- *If you are purchasing as a joint owner, only one of you must be a farmer.*
  - ICMSA fully supports this condition

Condition 3

- *You pay Stamp Duty on the difference between the price for which you sold land and price for which you bought other land*
  - This condition should stay.

Other Conditions:

You must:

- *sell land and buy other land to consolidate your holding*
- *sell and buy within 24 months*
- *have a consolidation certificate issued by Teagasc.*
- *retain ownership of the land* ***and*** *use the land for farming for a period of at least five years from the date you claim the relief.*
  - ICMSA supports these conditions except for the time period of 24 months. We feel that this should be increased to at least 36 months.

Conclusion

ICMSA believes that these reliefs are hugely important to the future of the family farm structure in Ireland and must continue as they have incentivised succession and efficiencies on farms over the last number of years. The Irish Agri-food sector is central to the rural economy and also plays a hugely important role in net foreign earnings and as a country, we must continue to support farm succession bringing young people into the industry to develop modern and sustainable farms.

Macra na Feirme Consanguinity and Consolidation Relief Submissions

Macra na Feirme welcomes the opportunity to make a submission on the review of both consanguinity relief and farm consolidation relief.

Consanguinity Relief

To encourage the transfer of family farms to the next generation, Macra na Feirme believes that consanguinity relief for non-residential property is critical and should be retained at the current rate of 1% on all qualifying transfers after the 31st December 2020.

Macra na Feirme seeks an extension of 5 years for consanguinity relief to be proposed to the Minister for Finance in the 2020 Finance Bill. Since the introduction of the €70,000 lifetime limit in 2018 for young farmer taxation reliefs under state aids rules covering (Young Farmer Stamp Duty Relief, Young Farmer Stock Relief and Farm Succession partnerships) consanguinity relief at 1% is critical to allow young farmers avail of the three reliefs. Any change to consanguinity relief would result in a backsliding of the reliefs available to young farmer and have an negative impact on generational renewal. Generational renewal is one of the nine objectives under the Common Agricultural Policy.

Context

Young people who express an interest in taking up farming face a number of challenges such as access to land, finance, knowledge and training. Less than 7% of all farm holdings in the European Union (EU) are run by farmers under the age of 35. If we are to continue to encourage young people into agriculture then consanguinity relief is critical for generational renewal. This relief was brought in to encourage life transfers, inter-family and inter-generational transfers on agricultural land but if this relief is abolished then there will be a significant drop in the number of transfers made. According to the Irish Independent (2020), over €22 million in stamp duty was claimed by farmers in 2018 under the consanguinity relief mechanism". If abolished this would potentially affect "up to held of the lifetime transfer in 2021 according to accountant and farm taxation consultant Kieran Coughlan (Irish Independent, 2020).

One of the nine Specific Objectives of CAP post-2020 is attracting young farmers and facilitating business development in rural areas. Each Members States will develop a strategic plan on how it will deliver on the nine objectives incorporating both CAP and non-CAP supports and including taxation measures. Achieving Generational Renewal requires taxation reliefs to help attract and support more young people into agriculture and any reduction in these existing measures would be deemed as backsliding of supports for young farmers. In a public consultation on modernising and simplifying the CAP, the top three ways in which the CAP can better help young farmers are as follows: Supporting business start-up (20%), Supporting knowledge transfer, advice and vocational training (16%) and incentivising the transfer of farms (14%). This third method should not be taken in isolation or for granted, but be considered when creating or amending national policies corning retirement, taxation and institutional arrangements that enable or hinder passing farms on to younger generations according to the recommendations of the 2018 EP report on the implementation of CAP young farmers' tools in the EU after the 2013 reform.

Results of the European Parliament's study for the Agri Committee (2017) suggested that in many Member States generational renewal and young people's access to agricultural land is hindered by late succession. Consanguinity relief is a method in which earlier succession can be encouraged. The removal of it, would likely lead to a reduction in succession land transfers. Macra na Feirme feel that the abolishment of consanguinity relief would be a backword step towards generational renewal and would affect many farmers as they would use up their €70,000 threshold allowance.

Macra na Feirme request a meeting in person to further discuss the organisations concerns with the consideration of removing consanguinity relief and farm consolidation relief.

Farm Consolidation Relief

To encourage a reduction in farm fragmentation, Macra na Feirme believes that farm consolidation relief is important to allow farmers sell parcels of land that are a distance from their main holdings and purchase parcels that are a joining or in close proximity to their own holdings without being liable for capital taxes. This relief should be retained and extended after the 31st December 2020.

Consolidation can not only affect a farmers finances it can also improve the farmers environmental footprint and operational efficiency, as the farmer will not have to travel as far to tend to and transport their animals and machinery. It also impacts time spent farming, because when you remove the travel time a farmer can be much more productive with their working day.

The challenge - Farm fragmentation – the average farm has approximately 3.8 different parcels of land creating huge inefficiencies. Sales account for only .5% of total land undermining restructuring and consolidation of farms.

Food Wise 2025 set out strong challenges for the industry but one such obstacle in the way of achieving these goals is farm fragmentation. In 2010 the Central Statistics Office (CSO) approximately 80,000 farms had three or more separate land parcels. The number of land parcels per farm in Ireland actually increased from 3.1 in 2000 to 3.8 in 2010 (CSO, 2012). Macra na Feirme feel that this relief is vital to reduction in farm fragmentation and will lead to more productivity throughout the sector.

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III: Analysis of High-Income Individuals' Restriction 2018 (Revenue)

ANALYSIS OF HIGH-INCOME INDIVIDUALS' RESTRICTION 2018

August 2020

These statistics should be considered as provisional and may be revised.

More detailed information and guidance regarding the Restriction is available on the Revenue website. Any queries of a statistical nature in relation to Restriction should be directed to statistics@revenue.ie.

Introduction

The 2006 and 2007 Finance Acts introduced, with effect from 1 January 2007, measures to limit the use of certain tax reliefs and exemptions (known as "specified reliefs") by high-income individuals who, by means of the cumulative use of various tax incentives, had in previous years the potential to substantially reduce their tax liabilities.

The overall objective is to ensure that, from 2007, individuals with an adjusted income of €500,000 or more (where the full restriction applied) pay an effective rate of Income Tax of approximately 20 per cent on a combination of adjusted income and ring-fenced income.[31] The restriction began to apply where an individual's adjusted income exceeded €250,000 and the full restriction applied where an individual had adjusted income of €500,000 or more.

The 2010 Finance Act introduced further limitations on the use of specified reliefs, with effect from 1 January 2010. These limitations are designed to ensure that individuals with an adjusted income level of €400,000 or more (where the full restriction applies) pay an effective rate of Income Tax of approximately 30 per cent on a combination of adjusted income and ring-fenced income. In addition, the adjusted income on which the restriction begins to apply was reduced to €125,000.

This report relates to the use of specified reliefs by high-income individuals who are subject to the restriction in the tax year 2018 (the most recent year for which data are currently available). Reports relating to previous years, as well as statistics on the tax paid by all individuals, are available on the Revenue website.[32] Reports for later tax years will be published at the same location, once returns are filed and the analysis undertaken.

[31] Adjusted income for a tax year is the sum of an individual's taxable income before the restriction is applied plus the aggregate amount of specified reliefs used in the year, less ring-fenced income (income which is normally liable to tax at specific rates regardless of the amounts involved or the individual's marginal rate of tax, e.g., interest from which DIRT is deducted).

[32] Prior year reports are published at https://www.revenue.ie/en/corporate/information-about-revenue/research/statistical-reports/high-income-earners-reports.aspx and report tables are published in open data formats at https://www.revenue.ie/en/corporate/information-about-revenue/statistics/other-datasets/index.aspx.

Results for 2018

Analysis of the application of the high-income individuals' restriction for the tax year 2018 shows that the objective of achieving an effective rate of Income Tax of approximately 30 per cent for individuals with an adjusted income of €400,000 or more is achieved.

Where adjusted income is less than €400,000, a tapering approach ensured that there is a graduated application of the restriction, with the effective rate of Income Tax increasing towards 30 per cent as adjusted income increases towards €400,000.

A summary of how the restriction operated for the tax year 2018, and the specified tax reliefs covered by the restriction, is included in Annex 1.

A breakdown of the 2018 results showing the effect of the restriction in its eleventh year of operation is set out in Annex 2. These results are based on actual returns received. A comparison of the outcome for 2007 through to 2018 is set out below.

Year	Total Number of Individuals	Estimated Additional Income Tax €m
2018	358	26.40
2017	439	33.10
2016	521	38.51
2015	625	47.21
2014	779	54.73
2013	904	60.43
2012	1,050	63.21
2011	1,143	63.60
2010	1,544	80.18
2009	452	38.86
2008	423	39.68
2007	439	39.99

The results for 2018 show that the overall number of individuals who are subject to the restriction is 358 and that the estimated additional Income Tax yield is €26.4m. Compared to 2017, this represents a decrease of 81 in the number of individuals and a decrease of €6.7m in the additional yield from the measure.

Cases where Full Restriction applies – Adjusted Income of €400,000 or more

Table 1A (Annex 2) shows that the 97 high-income individuals with an adjusted income of €400,000 or more (i.e., where the full restriction applied) pay an average effective Income Tax rate of 29.9% on the combination of adjusted income and ring-fenced income. These individuals pay on average 40.3% tax inclusive of Universal Social Charge (USC).

This meets the objective set out for the measure. The estimated additional Income Tax involved is €17.0 million, representing a 229% increase on the tax that would otherwise have been paid if the restriction had not applied. Furthermore, of those 97 individuals, 33 who would not otherwise have paid Income Tax in 2017 are brought into the tax net.

Table 1B (Annex 2) summarises the distribution of the effective tax rates for the 97 cases with adjusted income of €400,000 or more. It shows that the majority of high-income individuals within this category fall into the effective Income Tax rate bands of 30% to 35% (50 cases).

Cases where Restriction partly applies – Adjusted Income of up to €400,000

Table 2A (Annex 2) shows that the 261 high-income individuals with an adjusted income of up to €400,000 (i.e., where the restriction applies on a graduated basis) pay an average effective Income Tax rate of 19.6% on the combination of adjusted income and ring-fenced income. These individuals pay on average 29.0% tax inclusive of USC.

The estimated additional Income Tax involved is €9.4 million, representing a 241 per cent increase on the tax that would otherwise have been paid if the restriction had not applied. Furthermore, of those 261 individuals, 130 individuals who would not otherwise have paid Income Tax in 2017 are brought into the tax net.

Table 2B (Annex 2) summarises the distribution of the effective Income Tax rates for the 261 cases with adjusted income of up to €400,000. The spread reflects the graduated nature of the application of the restriction for cases in this category.

Schedule of Declared Use of Reliefs

Table 3 (Annex 2), in relation to each specified relief, shows:

- The overall number of individuals subject to the restriction, who declared that they used the relief; and
- The total combined amount of the relief declared as used by those individuals.

Annex 1

Operation of the Restriction in the tax year 2018

The restriction works by limiting the total amount of "specified reliefs" that a high-income individual can use to reduce his or her tax liability in any one tax year.

In the tax year 2018, the overall objective is to ensure that individuals with an adjusted income of €400,000 or more would pay an effective rate of tax of approximately 30 per cent on a combination of adjusted income and ring-fenced income. A graduated application of the restriction below an adjusted income level of €400,000 would ensure that the effective rate of tax increases towards 30 per cent as adjusted income increased towards €400,000.

For the tax year 2018, the restriction applies to an individual where all of the following criteria applied:

- The adjusted income of the individual for the tax year is equal to or greater than an Income Threshold Amount which is, in general, €125,000 but is less if the individual has ring-fenced income (e.g., deposit interest);
- The aggregate of specified reliefs used by the individual for the tax year is equal to or greater than a Relief Threshold Amount, which is set at €80,000; and
- The aggregate of specified reliefs used by the individual for the tax year is greater than 20% of the individual's adjusted income.

In the case of married couples and civil partners who are jointly assessed, application of the restriction to each spouse or civil partner is determined separately. Therefore, in 2018, the restriction applies to each individual spouse or civil partner only where the three circumstances above apply to that spouse or civil partner for that tax year.

Specified Reliefs

Broadly speaking, the reliefs that are restricted include:

- The various sectoral and area-based property tax incentives;
- Certain exemptions (e.g., relating to artists' income and dividends and distributions out of certain exempt income);
- Relief for investment on significant buildings and gardens; and
- Relief for interest paid on loans used to acquire an interest in a partnership.

Normal business-related expenses, deductions for capital allowances on plant and machinery, business-related trading losses and losses from a rental activity that do not arise from the use of specified reliefs are not restricted. In addition, personal tax credits are not affected by the restriction.

Annex 2

Table 1A: Cases with Adjusted Income of €400,000 or more

Range of Adjusted Income	Number of Cases	Estimated Income Tax *before* Restriction	Income Tax *after* Restriction	Estimated Additional Income Tax *after* application of Restriction	Estimated Average Effective Rate *before* application of Restriction	Average Effective Rate *after* application of Restriction	Tax including USC payable *after* Restriction	Average Effective Rate (including USC) *after* application of Restriction
€		Amount €m	Amount €m	Amount €m	Rate %	Rate %	Amount €m	Rate %
400,000 to 500,000	33	1.64	4.35	2.70	16.5%	29.5%	5.80	39.4%
500,001 to 650,000	24	1.08	4.03	2.95	13.6%	30.0%	5.43	40.4%
650,001 to 800,000	11	0.58	2.36	1.79	16.7%	30.3%	3.10	39.7%
800,001 to 1,000,000	9	1.22	2.44	1.22	20.1%	30.7%	3.37	42.3%
1,000,001 to 1,500,000	11	1.32	4.00	2.67	10.6%	29.9%	5.61	41.9%
1,500,001 to 2,000,000	<10	0.97	2.04	1.07	18.2%	28.2%	2.68	37.4%
Over 2,000,000	<10	0.63	5.21	4.58	5.1%	31.6%	7.13	42.7%
Totals	**97**	**7.43**	**24.42**	**16.99**	**14.9%**	**29.9%**	**33.12**	**40.3%**

Table 1B: Effective Income Tax Rates after restriction – cases with Adjusted Income of €400,000 or more

Effective Rate	Number of Cases	% of all Cases
≤20%	<10	N/A
>20% ≤25%	<10	N/A
>25% ≤30%	45	46.4%
>30% ≤35%	50	51.5%
Above 35%	0	0.0%
Totals	**97**	**100%**

Table 1C: Effective Tax Rates after restriction – inclusive of USC – cases with Adjusted Income of €400,000 or more

Effective Rate (Including USC)	Number of Cases	% of all Cases
≤30%	<10	N/A
>30% ≤35%	0	0.0%
>35% ≤40%	43	44.3%
>40% ≤45%	44	45.4%
>45% ≤50%	<10	N/A
Above 50%	0	0.0%
Totals	**97**	**100%**

Note: Certain items are deductible when arriving at adjusted income (e.g., pension contributions, certain rental capital allowances on plant and machinery, trading losses against other income, etc.) that are not deductible against income on which USC is chargeable. These differences can give rise to taxpayers having effective USC inclusive tax rates on their adjusted income in excess of the top rate of tax plus the top rate of USC.

Table 2A: Cases with Adjusted Income of up to €400,000

Range of Adjusted Income	Number of Cases	Estimated Income Tax *before* Restriction	Income Tax *after* Restriction	Estimated Additional Income Tax *after* application of Restriction	Estimated Average Effective Rate *before* application of Restriction	Average Effective Rate *after* application of Restriction	Tax including USC payable *after* Restriction	Average Effective Rate (including USC) *after* application of Restriction
		Amount	**Amount**	**Amount**	**Rate**	**Rate**	**Amount**	**Rate**
€		**€m**	**€m**	**€m**	**%**	**%**	**€m**	**%**
Under 160,000	58	0.17	0.92	0.75	4.7%	10.4%	1.73	20.2%
160,001 to 200,000	53	0.36	1.56	1.21	7.3%	16.1%	2.40	24.8%
200,001 to 250,000	54	0.76	2.57	1.81	10.8%	20.9%	3.66	29.8%
250,001 to 325,000	51	1.23	3.65	2.42	13.5%	24.8%	4.95	33.8%
325,001 to 399,999	45	1.39	4.64	3.25	16.2%	28.2%	6.38	38.9%
Totals	**261**	**3.91**	**13.34**	**9.43**	**10.9%**	**19.6%**	**19.13**	**29.0%**

Table 2B: Effective Income Tax Rates after restriction – cases with Adjusted Income of up to €400,000

Effective Rate	Number of Cases	% of all Cases
≤10%	29	11.1%
>10% ≤15%	44	16.9%
>15% ≤20%	53	20.3%
>20% ≤25%	64	24.5%
Above 25%	71	27.2%
Totals	**261**	**100%**

Table 2C: Effective Tax Rates after restriction – inclusive of USC – Adjusted Income of up to €400,000

Effective Rate (Including USC)	Number of Cases	% of all Cases
>0% ≤15%	15	5.7%
>15% ≤20%	23	8.8%
>20% ≤25%	42	16.1%
>25% ≤30%	60	23.0%
>30% ≤35%	58	22.2%
>35% ≤40%	51	19.5%
Above 40%	12	4.6%
Totals	**261**	**100%**

Note: Certain items are deductible when arriving at adjusted income (e.g., pension contributions, certain rental capital allowances on plant and machinery, trading losses against other income, etc.) that are not deductible against income on which USC is chargeable. These differences can give rise to taxpayers having effective USC inclusive tax rates on their adjusted income in excess of the top rate of tax plus the top rate of USC.

Table 3 – Schedule of Declared Use of Different Reliefs in accordance with Schedule 25B of the Taxes Consolidation Act, 1997

Ref Number	Specified Relief	Number of Cases	Amounts of Reliefs declared in 2018 by those affected by the Restriction, prior to application of the restriction €m
1/2/3/4	Sect 140, 141, 142 and 143 – dividends and distributions out of exempt income from stallion fees, stud greyhounds, woodlands, patents, certain mines and other mining operations	<10	0.02
5	Sect 195 – Exempt income, profits or gains of artists, writers or composers	<10	0.15
6	Sect 231 – Exempt stallion fees	N/A	
7	Sect 232 – Exempt woodland income	N/A	
8	Sect 233 – Exempt stud greyhound fees	N/A	
9	Sect 234 – Exempt patent royalty income	N/A	
10/11	Sect 248 and 250 – relief for interest paid on loans to acquire an interest in a company	N/A	
12	Sect 253 – relief for interest paid on loans to acquire an interest in a partnership	N/A	
13	Sect 272 – writing down allowances in respect of capital expenditure on:		
	• hotels and holiday camps/cottages	12	6.07
	• nursing homes, residential units attached to nursing homes and convalescent homes	10	1.47
	• hospitals, sports injury clinics and mental health centres	11	1.44
14	Sect 273 – accelerated writing down allowances in respect of certain industrial buildings or structures	N/A	
15	Sect 274 – balancing allowances in respect of capital expenditure on:		
	• hotels and holiday camps/cottages	<10	0.52
	• nursing homes, residential units attached to nursing homes and convalescent homes	<10	0.11
	• hospitals, sports injury clinics and mental health centres	<10	0.00
15A	Sect 304(4) – Carry forward of capital allowances (relating to specified reliefs) in trading situations	N/A	
15B	Sect 305(1) – Set off and carry forward of capital allowances (relating to specified reliefs) in rental situations	<10	1.00
15C	Sect 284 (subject to section 485C(1B) – wear & tear allowances on plant and machinery claimed by a passive trader when leasing the plant and machinery to a manufacturing trade.	N/A	
15D	288 (subject to section 485C(1B) – balancing allowances on plant and machinery claimed by a passive trader when leasing the plant and machinery to a manufacturing trade	N/A	
16/17	Sect 323 and 324 – Custom House Docks Area: capital allowances for commercial premises and double rent allowance in respect of rent paid for certain business premises	<10	0.20
18/19/20	Sect 331, 332 and 333 – Temple Bar Area: capital allowances for industrial buildings, commercial premises and double rent allowance in respect of rent paid for certain business premises	N/A	
21	Sect 341 – Urban Renewal Scheme: capital allowances for industrial buildings	<10	1.31
22	Sect 342 – Urban Renewal Scheme: capital allowances for commercial buildings	<10	0.46
23	Sect 343 – Enterprise Area: capital allowances for certain buildings	<10	0.41
24	Sect 344 – Multi Story Car Park capital allowances	<10	0.18

Ref Number	Specified Relief	Number of Cases	Amounts of Reliefs declared in 2018 by those affected by the Restriction, prior to application of the restriction €m
25	Sect 345 - Urban Renewal, Enterprise Area, Multi Story Car Park: double rent allowance in respect of rent paid for certain business premises	<10	0.09
26	Sect 352 – Qualifying Resort Area: capital allowances for certain industrial buildings	<10	0.01
27	Sect 353 – Qualifying Resort Area: capital allowances for certain commercial buildings	<10	0.00
28	Sect 354 – Qualifying Resort Area: double rent allowance in respect of rent paid for certain business premises	N/A	
29	Sect 372C – Qualifying (Urban) Areas: capital allowances for certain industrial buildings	<10	0.64
30	Sect 372D – Qualifying (Urban) Area and Living over the shop scheme: capital allowances for certain commercial buildings	<10	0.76
31/32	Sect 372M and Sect 372N – Qualifying Rural Areas: capital allowances for certain industrial and commercial buildings	<10	0.38
33/34	Sect 372V and 372W – Park and Ride Scheme: Capital allowances for Park and Ride Facilities and for certain commercial buildings	N/A	
35	Sect 372AC – Town Renewal Area: capital allowances for certain industrial buildings	<10	0.48
36	Sect 372AD – Town Renewal Area: capital allowances for certain commercial buildings	<10	0.70
36A/36B	Sect 372AX and 372AY – Mid Shannon Corridor Tourism Scheme: capital allowances for certain registered holiday camps and tourism infrastructure facilities	N/A	
37/38	Sect 372AP and Sect 372AU(1) – Relief for lessors of residential premises ("section 23" type relief, including old schemes)	33	4.03
38A	Sect 372AAC - Living City Initiative: capital allowances in relation to conversion or refurbishment of certain commercial premises	N/A	
39	Sect 381 – Repayment of tax due to losses (arising from use of specified reliefs)	N/A	
40	Sect 381 – Repayment of tax due to losses (arising from use of specified reliefs), as extended by Sect 392	<10	0.01
41	Sect 382 – Carry forward of losses (arising from use of specified reliefs) to future years	<10	0.36
42/43/44	Sect 383, Sect 384 and Sect 385 – Relief (arising from use of specified reliefs) for losses under Case IV and Case V and for Terminal losses	26	3.56
45	Sect 481 – Relief for investment in Films	N/A	
46	Sect 482 – Relief for investment on significant buildings and gardens	<10	0.19
47	Sect 485F – Carry forward of excess relief	224	73.27
47A	Sect 489(2)(a) – Employment and Investment Incentive Scheme [33]	37	2.32
48	Sect 489(3) – BES relief	N/A	
48A	Sect 823A - Deduction for income earned in certain foreign states	N/A	
49	Sect 843 – Capital allowances for buildings used for third level education purposes	<10	0.46
50	Sect 843A – Capital allowances for certain child-care facilities	<10	0.13
51	Sect 847A – Donations to certain sports bodies	N/A	
52	Sec. 848A - Donations to approved bodies[34]	N/A	

[33] The combination of section 16 Finance (No. 2) Act 2013 and section 20 Finance Act 2016 mean that an investment made after 15 October 2013 in the EII Scheme is not a specified relief.

[34] Relief under section 848A in respect of contributions to "approved bodies" was discontinued for donations made on/after 1 January 2013

Ref Number	Specified Relief	Number of Cases	Amounts of Reliefs declared in 2018 by those affected by the Restriction, prior to application of the restriction €m
53	Paragraph 11 of Schedule 32, Urban Renewal Scheme 1986: Capital allowances for certain commercial premises in designated areas	<10	0.48
54	Paragraph 13 of Schedule 32, Urban Renewal Scheme 1986: Double rent allowances in relation to certain premises in designated areas	<10	0.52
	Totals	**435**	**101.74**

Notes: for publication purposes some categories have been amalgamated; where the number of cases is marked "<10", this indicates the number is less than 10 but the exact figure is not shown to protect taxpayer confidentiality; "N/A" indicates that the Specified Relief is either unavailable or has not been availed of in the period under review.

IV: Review of Residential Development (stamp duty) Refund Scheme

Repayment of stamp duty used for residential development: Section 83D of the Stamp Duties Consolidation Act (SDCA) 1999

Introduction:

Section 61 of the Finance Act 2017 introduced a new Section 83D of the Stamp Duties Consolidation Act (SDCA) 1999 entitled “Repayment of stamp duty used for residential development”. This section provides the legislative basis for a refund scheme for a portion of the Stamp Duty paid on the acquisition of non-residential land where that land is subsequently developed for residential purposes. This is of course subject to a number of conditions, including ones relating to the portion of the land involved given over to housing and the time taken to commence and complete the construction of the residential units involved.

This measure was introduced in Budget 2018/Finance Act 2017 to provide a mechanism whereby non-residential land that is subject to the new higher stamp duty rate of 6% (subsequently increased to 7.5% in Budget 2020/Finance Act 2019), and which is subsequently developed for residential purposes, can secure a refund of the stamp duty paid so as to bring the effective rate down to a minimum of 2%.

The person seeking a refund can seek what was originally up to two-thirds of the stamp duty paid back (i.e.4% of the 6% paid), once the building of any dwellings or units which would be eligible for the scheme has been commenced. With the increase in the rate of stamp duty on non-residential property in Budget 2020/Finance Act 2019 from 6% to 7.5%, this was changed in Section 57(1)(a)(ii) by substituting “11/15” for “2/3” in section 83D(6)(a) of SDCA 1999 so that where the maximum refund is made, the minimum net stamp duty paid continues to equate to 2% of the acquisition value of the land concerned.

The refund scheme applies to both one-off houses and to multi-unit housing developments, and, as also noted above, has a number of conditions attached to it that are designed to ensure that only those builders and developers who provide completed housing units within a reasonable period of time can qualify for a refund.

The refund scheme was designed to ensure that the increased rate of stamp duty on non-residential property that was announced in Budget 2018 (and further increased in Budget 2020) would not contribute to house price inflation through the increased cost of acquiring land for housing development being passed on to those purchasing housing units. The scheme is also designed to provide a stimulus to the timely delivery of badly needed new residential accommodation, of a type appropriate to addressing the need for quality affordable homes.

Conditions of the Scheme:

In the case of multi-unit developments, there is a requirement for the efficient use of the site in that a specified proportion of that site must be developed for housing. It is possible to develop a site for mixed use with an element used for non-residential purposes, as long as this does not compromise the required amount of residential development.

As the refund is available relatively early in the construction process, developers must have submitted a commencement notice to a local authority as required by the planning regulations, the local authority must have acknowledged the commencement notice and then construction operations must be commenced within the period of 30 months immediately following the acquisition of the land, so as to ensure that the development is delivered within a reasonable period of time.

Where a large development is being carried out in a number of phases, a refund can only be claimed in respect of a phase where construction of the houses in the particular phase has actually commenced.

To ensure the efficient use of sites for residential development, a certain proportion of a site must be developed for housing. There are two alternative tests to be satisfied in this respect for multi-unit developments. Either at least 75% of the area of a site must be occupied by housing or the gross floor space of the housing units constructed must account for at least 75% of the area of a site. These alternative tests seek to ensure that both low-rise and multi-story apartment buildings can be accommodated. The appropriate test must be applied in relation to the part of a site being developed in each phase of a multi-phase development. In the case of one-off houses constructed on a site that exceeds one acre, the refund only applies to the stamp duty attributable to an acre.

The principal goal of these tests, particularly in respect of multi-unit developments, is to ensure that the land is used in an efficient way, with a suitably high density of housing being provided. The refund scheme is not designed to assist in the development of low density detached/semi-detached housing schemes where each unit has a large front and back garden relative to the size of the unit itself, of the type that have in the past been so common in the suburban landscapes of Irish towns and cities.

Following the commencement of construction and the making of a refund, a further condition must be satisfied. This is that the development, or a phase of a development, must be completed within two years of being commenced. When development is not completed within this two year timeframe, or where the relevant 75% 'substance' test is not satisfied, a developer must repay the refunded stamp duty to Revenue together with interest calculated from the date on which the refund was made.

A further measure designed to ensure the earliest possible delivery of much needed housing is that the refund scheme is time-bound. As things currently stand, to be eligible for a refund, construction must commence on a one-off house, on a housing development or on a phase of a housing development before the end of 2021 and be completed within two years of commencement. This means that the latest date for the completion of development is currently the end of 2023.

The refund scheme is administered by Revenue on a self-assessment basis. However, as happens in relation to the administration of the general tax assessment and collection system, Revenue can carry out compliance checks to ensure that refunds have been correctly claimed and that any follow-up conditions for the relief have been satisfied. Standard interest and penalty provisions will be applied in the case of incorrectly claimed refunds and false declarations.

Take-up:

Since its introduction in late 2017, and up until 29 September 2020, the number of successful applications (which should not be confused with the number of dwelling units involved, as only one application is required for a multi-unit development) under the residential development stamp duty refund scheme is 1,984, while the total amount of stamp duty that has been refunded to that date is €17.2 million.

Annualised data to 30 Sept. 2020:

Year	Refund Amount	Number
2018	€1.2m	166
2019	€9.1m	954
2020	€6.9m	864
Total	**€17.2m**	**1,984**

Source: Revenue

As per the table below, as at 29 September 2020 most applications, 1,833 [92%], were in relation to single dwelling units i.e. the construction of one-off dwelling houses. The remainder of the applications, 151 [8% of overall total], were in relation to multiple development units.

Type of Application	Count	Percentage of Total Applications	Refund Value	Percentage of Total Refunded
Single Dwelling Unit	**1833**	**92%**	**€4,275,411.30**	**25%**
Multiple Dwelling Unit	**151**	**8%**	**€12,908,556.69**	**75%**
Total	**1,984**	**100%**	**€17,183,967.99**	**100%**

Source: Revenue

In relation to applications relating to multiple development units, Revenue records confirm that a total of 8,579 units were planned and had been claimed for and refunded up to 29 September 2020. It is also worth noting that the 8% of applications that relate to multiple unit developments have accounted for 75% of the stamp duty refunded.

Issues that have arisen in terms of the application of the refund scheme:

Developers, institutional investors and others have raised concerns on their part as to the viability of both the density requirements for, and the timeframes applicable to, the delivery of housing units under the current rules applying to the refund scheme.

They identify the 2-year window within which construction of residential property must be completed as being a very short timeframe for the completion of large single-phase developments completed under a single commencement notice. They argue that this time frame means the refund scheme is not available in many cases where the criteria would otherwise be met. In addition, they see it as a serious constraint for multi-phase developments where, although each phase may be completed under a separate commencement notice, there can be cases where more than one phase is built upon a single podium or underground car park, and they feel there is uncertainty over whether all phases must be completed within 2 years of the commencement of construction of the podium or car park. In most cases, they say, it would not be possible for all phases to be completed within the 2 year timeframe allowed. In this regard, in a number of submissions, the IIP (Irish

Institutional Property, a body representing institutionally financed investors) has requested that the 2-year completion window is extended to 4 years, to provide what they see as a more reasonable timeframe for developments to be completed.

Another issue that has been identified by the construction industry in respect of the refund scheme is the 75% test which must be satisfied when development has completed. They note that the 75% floor area test can generally be easily satisfied in the context of multi-unit developments, which are constructed over a number of floors so that the area of each floor can be counted in determining if at least 75% of the surface area of the site has been occupied by residential property. However, they stress that the test is more difficult to satisfy in the context of more traditional housing estate developments, where green areas, roads, footpaths, etc. can take up a significant amount of space.

The Irish Tax Institute has also called for the alignment of the scheme with Local Area Plans as they believe this would encourage residential development in certain areas by reducing the costs of construction of residential units on that land.

The IIP have also requested that Section 83D SDCA be amended such that the 75% test is only measured by reference to the site area less the area covered by roads, footpaths, parking bays, and green areas.

The full effect of the almost two-month Covid-19 related close down of construction sites (which formally commenced on 28 March 2020, and ended on 18 May 2020), the impact of the ceasing of construction related activities (site acquisition, planning, site preparation, sales etc.), and of the public health restrictions put in place both before the closure of sites and since their reopening, is not yet quantifiable. However, the shutdown will undoubtedly have caused delays which will impact the ability of developers to meet conditions of the stamp duty refund scheme.

For instance, the Construction Industry Federation indicated in mid-May that the time required to build a house could rise from 15 weeks to 25 weeks (approximately two-and-a-half months)[35] as a result of the measures introduced on sites in response to Covid-19.

However, it is noted that the construction industry has fared better than other sectors in terms of rehiring staff. According to the data published by the CSO[36], as of 20 July two-thirds of construction workers who were in receipt of the Pandemic Unemployment Payment (PUP) have been re-employed, and by 27 September this number had increased to over 80%. This

[35] RTE News 19/05/2020 - https://www.rte.ie/news/ireland/2020/0519/1139398-construction-coronavirus/

[36] https://www.cso.ie/en/statistics/labourmarket/liveregister/detailedcovid-19incomesupportandliveregistertables/

is more than any other sector and shows the potential for the industry to restart developments.

In its pre-Budget 2021 submission the IIP has also called for the scheme to be extended to include construction operations commencing before 31 December 2023 and completing before 31 December 2027. As well as noting the impact of the Covid-19 related shutdown of construction for “a significant amount of time” and the delay’s in construction work due to the ensuing mitigation measures, they also note that the current deadline of 31 December 2021 for commencement of construction operations was always a concern for a number of members that are considering multi-phase developments, where some phases were not scheduled to commence before 31 December 2021. They state that the certainty provided by an extension to the deadline would be a positive development in terms of providing stability to the regime.

Views of the Department of Housing, Planning & Local Government

The views of the Department of Housing, Local Government and Heritage (DHLG&H) were sought as part of this review.

Their views can be summarised as follows:

- They noted that much of the practical difficulty in meeting the current 2 year construction deadline appears to relate to apartment building. Taking note of the need to incentivise early delivery of homes, they suggested that any extension of the construction timeframe be limited to apartment developments. This is in view of apartment’s inherent complexity in delivery, the difficulty in phasing such developments (i.e. in urban areas an apartment development comprised of a number of blocks is often built on a podium over shared car-parking/services and the development concerned will not bet deemed complete until all the blocks are finished, unlike traditional housing that can more easily phased into terraces etc.) and that this format of development meets more directly with the efficient use of land consideration.

- They also noted that the longer the extension of the operation of scheme, the more time there would be to spread the supply of housing units benefiting from it.

- They felt it might be worth exploring if there are mechanisms to further tailor this scheme (and possibly others) in order to incentivise development in brownfield (sites within existing urban areas) and those locations identified as urban centres in the National Planning framework and the three Regional Spatial Economic strategies. For clarity this means developments within existing urban settlements. The refund would not be given in respect of one-off housing. They accepted that this adds some complexity to the refund scheme but wished to raise it for consideration.

The Department of Finance has noted the specific issues faced by some apartment developments in being able to avail of the ability to commence each phase separately under the scheme where they are constructed on a shared podium. However, it is not proposed to limit the scheme solely to apartment developments at this time, as the provision of housing is not solely an urban issue, and the ring-fencing of the relief in the way suggested would introduce unnecessary complexity to the legislation and administration of the scheme. As such it is recommended that the scheme should continue to apply to all forms of housing, including once off houses.

Any increase in the time allowed between commencement and completion would primarily be intended to address Covid 19 related delays (not only those delays caused by the shut down earlier this year, but also due to the significant changes to work practices due to social distancing requirements), as well as to allow more time for those developments that do not lend themselves to being built on a phased basis under the scheme, to be constructed.

Recommendations:

Given the impact of the Covid 19 shutdown, the issues raised by the construction industry, DHLG&H and others, as well as the looming approach of the cut-off date for the commencement of developments that would expect to benefit under the refund scheme, the following measures are recommended for consideration by the Minister for Finance for inclusion in Finance Bill 2020.

1. The current requirement that no more than two years (24 months) can elapse between commencement and completion of an eligible construction should be extended to 2.5 years (30 months) both as a response to the once-off delays imposed by the Covid 19 shutdown, the effect of the revised work practices (e.g. physical distancing and hygiene requirements) on the pace of construction, the issues with phased construction raised by the industry and DHLG&H, and also to allow for a more generous timeframe for the completion of physical building work, which can be subject to considerable unforeseen delays.

2. The stamp duty residential refund scheme should be extended to include construction operations commencing before 31 December 2022 and completing before 30 June 2025 (i.e. 2.5 years after commencement in line with recommendation 1).

The current deadline of 31 December 2021 for commencement of construction operations is already a concern for those developers planning to engage in large multi-phase developments, where some phases may not be scheduled to commence before that deadline. Extending it to 31 December 2022, and announcing that extension over a year before the existing commencement deadline is due to expire, would provide greater and welcome certainty to the residential construction sector. It would also be a further indication that the Government is seeking to, where possible, address issues for Irish industry arising from the Covid-19 pandemic.

It is however advised that no changes be made to the time allowed between acquisition and commencement under the scheme. There is no evidence that the meeting the 30 months allowed has become more challenging in light of the Covid-19 pandemic, and nor has it been highlighted as an issue of particular concern in the various submissions made to the Department of Finance on the scheme.

It is also advised that no change be made to the 75% tests set out is section 83D(3)(c)(ii) of SDCA 1999 as the efficient use of land remains a key objective of the refund scheme.

Developers who struggle to meet the 75% requirement due to problems regarding planning issues and/or Local Area Plans are advised to seek to resolve them with the relevant local authority and/or the Department of Housing, Local Government and Heritage.

It is expected that the easing of the construction to completion timing requirement will have little if any negative impact on the pace of delivery of new housing units, as developers will be keen to deliver units into what continues to be a strong market. The requirement for a commencement notice to be supplied before receiving the refund, together with the clawback provisions that apply should the requirements under the scheme not be met, should continue to incentivise efficient use of land in the provision of residential properties.

Revenue impact of recommended measures:

The amount of additional revenue that may be foregone as a result of the measures recommended in this report cannot be readily estimated.

As the scheme is intended to encourage the acquisition of land for the development of new housing units through providing for a stamp duty refund, any extension will result, after those refunds are made, in revenue being foregone on such acquisitions. It is however uncertain as to what portion of those acquisitions would have proceeded at the full stamp duty rate of 7.5%, and also what form any housing development on the land concerned would have taken, in the absence of the refund scheme. By introducing and sustaining this scheme, the Government helps encourage the construction of lower cost, higher density housing, which is in line with its housing policy.

Conclusion:

Since its introduction, the purpose of this rebate scheme has been to encourage the prompt and efficient use of suitable non-residential land for higher density housing. This is to encourage the maximum possible increase in urgently needed new housing supply, which is a core Government policy goal. It was never intended to be a measure of general application in respect of all types of housing development.

As the data above shows, this has been a successful scheme, which has (to 29 September 2020) contributed to the delivery of 8,579 new housing units. While there may be some unavoidable deadweight effect, it is clear that it has made, and continues to make, an important contribution to the increased supply of new housing units. It continues to play a valuable role in supporting the Government's housing policy, and as such should be extended at this time. Doing so, and also adjusting the timeframe for completion of developments availing of the relief as recommended, will provide much needed certainty for the housing industry, particularly in light of the ongoing impact of the Covid-19 pandemic on the housebuilding sector and the economy in general.

In this regard the conditions relating to floor space are the more relevant ones, in that multi-unit mid or high-rise developments with smaller footprints, but a greater amount of floor space, can meet both the 75% test and the local authority imposed requirements cited by the house building industry and others. These could be apartments, but equally they could be modern three-story terraced houses. The floor space requirement should not be diluted in any way.

The Department with support from Revenue, will continue to monitor the operation of the scheme and will continue to liaise with the Department of Housing, Local Government and Heritage with regard to the contribution of the measure in complementing the Government's housing policy goals.

V: Review of stamp duty Farm Consolidation Relief

Farm Consolidation Relief: Section 81C of the Stamp Duties Consolidation Act 1999 (SDCA 1999)

"Consolidation" is defined as "*the action or process of making something stronger or more solid*" or "*the action or process of combining a number of things into a single more effective or coherent whole*."[37]

1. Introduction

Farm consolidation stamp duty relief (as provided under section 81C of the Stamp Duties Consolidation Act 1999 (SDCA 1999)) provides that a 1% rate of stamp duty (as opposed to the general rate on non-residential property of 7.5%) can apply to the instruments giving effect to acquisitions and disposals of agricultural land[38] where the instruments are executed (signed, sealed or both) in the period 1 January 2018 to 31 December 2020, and where the land transactions qualify for a 'Farm Restructuring Certificate' from Teagasc.

As it is due to lapse at the end of 2020, it is timely to carry out an ex-post evaluation of the relief and to consider the case for an extension of the relief beyond this date, as well as whether it requires any amendment(s). This paper will therefore provide a brief overview of the relief, how it operates, and the policy rationale for its implementation. It will also examine the relevance, cost, impact and efficiency of the relief, before concluding with options on potential amendments to the relief in the context of Budget 2021. This is in line with the approach set out by the Department of Finance's 2014 Guidelines for Tax Expenditure Evaluation[39].

The relief, in its current form, was reintroduced in Finance Act 2017. A similar relief had expired on 30 June 2009.

The relief was restored in order to mitigate the impact of the increase in the rate of non-residential stamp duty from 2% to 6% which was introduced in Budget 2018 on the farming

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[37] Google definition:
https://www.google.com/search?q=definition+of+consolidation&oq=definition+of+&aqs=chrome.0.69i59j69i57j0l6.4902j1j8&sourceid=chrome&ie=UTF-8

[38] As defined in Section 604B of the Taxes Consolidation Act 1997

[39] Report on Tax Expenditures - Incorporating Department of Finance Guidelines for Tax Expenditure Evaluation (October 2014) – Department of
http://www.budget.gov.ie/Budgets/2015/Documents/Tax_Expenditures_Oct14.pdf

sector. The rate of stamp duty on the acquisition of non-residential property was increased further to 7.5% in Budget 2020.

2. What is Farm Consolidation Relief?

The purpose of consolidation relief is to encourage the consolidation of farm holdings, in order to reduce farm fragmentation and so improve the operation and viability of farms. As a condition of the relief, Teagasc, as the competent body, is required to certify that purchases, sales and transfers of land are being carried out for genuine consolidation purposes, by issuing a 'Farm Restructuring Certificate'. The relief also constitutes an EU State aid and must therefore comply with State aid rules.

The first farm consolidation relief (section 81B of SDCA 1999) applied to exchanges of farmland effected in the period 1 July 2005 to 30 June 2007. Full relief from stamp duty applied where the parcels of land being exchanged were equal in value. Otherwise, stamp duty at the usual rate applied to the excess of the value of the land that was acquired over the value of the land disposed of. A revised form of the relief (section 81C) applied to the purchase of farmland in the period 1 July 2007 to 30 June 2009 where the purchase and sale took place within an 18-month period of each other. Again, stamp duty at the usual rate applied to the excess of the value of the land purchased over the value of the land sold.

Section 81C was amended by Finance Act 2017 (section 68[40]) to revive and revise the operation of the relief. Relief is now available where farm holdings are consolidated by way of linked sales and purchases of land and also where land is transferred as a gift or by way of exchange. Stamp duty at a reduced rate of 1% (usual rate is 7.5%) is applied to the excess of the value of the land acquired over the value of the land disposed of, where the acquisition and disposal take place within a 24-month period of each other.

In order to ensure that the relief was compatible with EU state aid rules, section 81C of Finance Act 2017 was made subject to a Commencement Order. Upon receipt of confirmation from the European Commission, the Minister for Finance signed such an order (S.I. No. 238 of 2018) on 3rd July 2018 commencing the relief on 1st August 2018 (with effect from 1 January 2018.

Consolidation relief in respect of capital gains tax (CGT) is also available under section 604B of the Taxes Consolidation Act 1997. This relief was extended to 31 December2022 by section 35 of Finance Act 2019.

The CGT relief provides (in summary):

[40] http://www.irishstatutebook.ie/eli/2017/act/41/section/68/enacted/en/html#sec68

- full relief from CGT when the purchase price of the parcel of agricultural land being acquired/swapped in as part of a consolidation exceeds the sales price of the parcel being sold/swapped out; or
- partial relief on CGT when the purchase price is lower than the sale price. (Relief is given in proportion to the amount of the sale proceeds reinvested in purchasing a new parcel of farm land.)

3. Rationale for the Relief

The total agri-food sector in Ireland is the largest segment in Ireland's indigenous economy. It plays a pivotal role in the fabric of Irish society, particularly in rural areas where employment in agriculture and agriculture related activities is significant. However, a number of challenges for the sector exist such as international competition, more diverse consumer demands, and environmental concerns, which are increasing the need to maintain and improve cost and operational efficiency. There are also implications for the agricultural sector coming from Brexit due to the importance of the UK market for agricultural products. The full extent of the impact of the COVID-19 pandemic on the Irish agri-food sector is difficult to anticipate, but is expected to be significant. In this context, measures to reduce costs and increase efficiency for farmers can play a significant role in maintaining and increasing the sector's competitiveness.

One way of addressing these issues is to encourage farm consolidation. Farm holdings in Ireland are made up of an average 3.8 separate parcels of land and this fragmentation can result in both operational inefficiencies and increased costs. Food Wise 2025[41] has identified that the fragmented structure of Irish family farms is limiting the capacity of the sector to develop sustainable and viable business enterprises.

The relevance of farm consolidation to improved efficiency is echoed by reports on the development of the agri-food economy and agri-taxation in Ireland which recognise that in order to meet the competitive challenges of the future Irish farms should be operating to the highest standards of efficiency and sustainability; and that a tax policy approach which seeks to encourage farm consolidation to increase efficiency is appropriate[42]. As the relief assists in this process, it is considered to be relevant to helping achieve this objective.

Consolidated parcels in a livestock farm facilitate better use of rotational grazing practices which results in more efficient use of grass in feeding those stock which suits Irelands grass based product image and facilitates more efficient use of chemical and organic fertiliser.

[41] https://www.agriculture.gov.ie/foodwise2025/

[42] Agri-Taxation Review 2014 (https://igees.gov.ie/publications/economic-analysis/agriculture/agri-taxation-review/) - *Recommendations to improve farm efficiency and restructuring*

Furthermore, the scheme has a positive effect on the environment through the carbon emission reduction achieved by farmers spending less time travelling by road drawing slurry, silage, stock etc. on a more consolidated holding.

4. How the scheme currently operates

For the farm consolidation relief to operate, there must be both a sale and a purchase of farmland within a period of 24 months of each other. Where other qualifying conditions are satisfied, stamp duty will be paid only to the extent that the value of the land that is purchased exceeds the value of the land that is sold. A reduced rate of 1% will be charged on the excess, if any, of the purchase value. If the sale takes place before the purchase, then relief will be given at the time of purchase. However, if the purchase takes place first, then stamp duty will have to be paid but can subsequently be refunded when the sale takes place.

A prerequisite of the Relief is that an application for a '**Farm Restructuring Certificate'** is made to Teagasc, the Agricultural Food and Development Authority, in respect of any disposal and acquisition of farm land which may potentially qualify for this relief. The farm restructuring certificate is issued by Teagasc where it is satisfied that the lands sold and purchased or exchanged, on the basis of information available at the time of so certifying, complies with the conditions of restructuring set down in the Farm Restructuring Guidelines. This certificate is also issued for the purposes of the Capital Gains Tax Relief on Farm Restructuring, but it is possible (though unlikely) that a farmer could seek a certificate in respect of only one of the two reliefs.

Under section 81C(1)(b) of SDCA 1999, the Minister for Agriculture, Food and the Marine, with the consent of the Minister for Finance, may make and publish the Guidelines relating to the issuance of a Farm Restructuring Certificate. These Guidelines outline the procedure and documentation required for making an application but also the conditions relating to farm restructuring which dictate the form of transactions which, in meeting the objective of farm consolidation, may qualify for relief. The most recent version of the guidelines was published in 2018[43].

When applying for farm restructuring relief to the Revenue Commissioners, the farmer must sign a declaration that it is his/her intention for a period of five years from the date of execution of the deed of transfer:

- To spend not less than 50% of his/ her normal working time farming.
- To farm the lands purchased.
- To retain ownership of the lands.

[43] https://www.agriculture.gov.ie/media/migration/foodindustrydevelopmenttrademarkets/agri-foodandtheeconomy/CapitalGainsTaxStampDutyReliefGuidelines270718.pdf

As outlined above, the purchaser of farmland must retain ownership of the land for a period of five years and must use the land for farming. Where any part of the land is disposed of before the end of this five-year holding period, the stamp duty relieved can subsequently be recovered by Revenue, or partly recovered, as appropriate. A similar condition applies to the CGT relief for farm consolidation (Section 604B(4) of the Taxes Consolidation Act 1997).

The stamp duty relief applies to all transactions which took place after on or after 1 January 2018 and on or before 31 December 2020.

5. Uptake of the Relief

As noted by the ICMSA in their submission on this relief, farm consolidation "*is not used as often as other agricultural reliefs but is vital for those farmers that avail of it*". Similarly the IFA believe that "*this relief is critical to incentivise farmers to reduce the number of parcels of land in their farm or to decrease the distance between them, with the net result of making their farm businesses more efficient and profitable.*" Farm consolidation is not commonplace owing to the complexity of the transactions concerned, though the data below (provided by Revenue) covering the two years that the current relief has been in effect appears to indicate that it is being increasingly availed of.

Revenue Forgone and Number of Successful Claims (Source: Revenue)

	2018	**2019**
Cost €m	0.3	0.63
Number of successful claims	45	85

Data for the equivalent CGT relief[44], going back to 2013 when it was first introduced, also indicates an increase from six Teagasc certificates issued in 2013 to 72 issued in 2018. Revenue have advised that they believe that any discrepancy between the numbers of claims for each of the two reliefs is likely to be a timing issue and they expect that the figures should roughly correspond over the duration of the schemes.

In considering the appropriateness of a tax relief, it is useful to consider the use of other means to further the same policy objective. For instance, the making of direct payments, as

[44] A review of that relief was carried out in 2019 for the purpose of considering its extension beyond the end of that year -see pages 13-20 of the Department of Finance's Budget 2020 "Report on Tax Expenditures"

http://www.budget.gov.ie/Budgets/2020/Documents/Budget/Report%20on%20Tax%20Expenditures%20Incorporating%20the%20Outcomes%20of%20Certain%20Tax%20Expenditure%20and%20Tax%20Related%20Reviews%20completed%20since%20c.pdf opposed to the use of a tax relief, to encourage similar outcomes is likely to give rise to considerable and additional administrative burdens for all stakeholders, as Revenue's experience, powers and authority help ensure that the terms and conditions are observed so ensuring a high compliance level. In the absence of Revenue's involvement, this would be administratively difficult to recreate and monitor. The use of a tax relief to encourage farm consolidation is therefore the optimal structure, with stamp duty (being a capital tax on asset purchases) as the logical means of implementation.

6. Views of Farming Bodies, DAFM and Teagasc

A letter (copy attached at Annex 1) was sent to the Irish Farmers' Association (IFA), the Irish Creamery Milk Suppliers Association (ICMSA) and Macra na Feirme seeking their views as to the efficacy of the relief, whether it should be extended, and, if it were to be further extended, whether they would suggest that the opportunity be taken to introduce any particular change(s), and on other related matters. This letter also covered consanguinity stamp duty relief, which is also due to lapse at the end of this year, and is the subject of a separate report.

Copies of the responses received from each body are attached at Annexes 2, 3 and 4, and their views on farm consolidation relief can be summarised as follows:

All three bodies stress the importance of this relief and support its extension beyond the end on 2020, and largely support the continued application of the existing conditions.

The ICMSA note that with Irish farms being traditionally fragmented, Irish farmers have been trying to increase scale over the last number of years, with this relief being vital in terms of purchasing land closer to the farm hub and so reducing inefficiencies on farms.

The IFA notes that the CSO's 2016 Farm Structure Survey shows that 27% of all farms are fragmented into 3 or more parcels of land. They cite farm fragmentation as "*a key structural issue for Irish farming, adding to costs and decreasing efficiency. When farming separate parcels of land, it causes issues with time management, extra labour, as well as stock/machinery movement and monitoring*".

Macra na Feirme, note that, according to CSO figures, in 2010 the average farm was divided into approximately 3.8 parcels of land, an increase from 3.1 in 2000, so generating increasing inefficiencies. They also note that farm consolidation can not only have a positive effect on a farmer's finances, but can also improve her or his environmental footprint and operational efficiency.

Two of the submissions ask that amendments also be made to the way the relief is currently structured as follows:

The views of the Department of Agriculture, Food and the Marine (DAFM) were also sought, and these can be summarised as follows:

- a strong support for the continuation of the relief;
- that Teagasc's administrative and advisory role in the process are critical to the efficient and effective operation of the relief, so should be retained; and,
- the period for the sale and purchase of land to be completed should be increased from 24 months to 36 months.

7. State Aid Considerations

As has already been noted, the commencement of the new version of this relief, as introduced in Finance Act 2017, was made subject of a commencement order in order to confirm with the European Commission that it is a compatible state aid.

The Commission deemed the relief to be a permissible state aid under Article 107(3)(c) of the Treaty on the Functioning of the European Union (TFEU) as it is deemed by them to be "*aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest*" and also under the Agricultural Block Exemption Regulation (ABER) [45].

It was subsequently commenced on 1 August 2018, but with any eligible transactions occurring after 1 January 2018 qualifying for the relief.

Should a decision be made to extend the relief beyond the end of 2020, a further request for state aid approval may need to be submitted to the Commission by the Department of Agriculture, Food and the Marine.

8. Equality Considerations

Farm consolidation relief is available to all taxpayers irrespective of gender, age, civil/family status, sexual orientation, religion, race/ethnicity (including to members of the Traveller Community) and level of physical and/or mental ability.

The requirement that one must both sell and acquire agricultural land in order to be eligible to benefit from this relief is not, as and of itself, unnecessarily exclusionary or inequitable, as the principal purpose of the relief is to encourage farm consolidation in order to support more efficient farming and other desirable outcomes.

[45] https://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_50909

9. Finance Bill 2020 Options

Based on the foregoing, and particularly the views of the farming bodies and DAFM, we have decided to limit the options considered to four:

1. **Extend the relief for a further three years**

   Advantages – maintains a consistency of approach to the renewal of such reliefs, where three year extensions are the norm, so allowing those planning to avail of it a degree of certainty for the next three years.

   Drawbacks – the equivalent CGT relief would continue to lapse when the stamp duty relief still had a year to run. Assuming both reliefs continued be renewed for three years at a time, the added certainty referred to above would not materialise. It also potentially means that the first opportunity to adjust the consolidation relief to take account of any changes to the CAP and subsequently the ABER arising out of the ongoing CAP renegotiations may be a year later than that available to the CGT relief.

2. **Extend the relief for two years, i.e. to 31 December 2022**

   Advantages – bringing the expiry date for the relief into line with the equivalent CGT relief, such that both would be due to expire at the end of 2022, would allow them to be reviewed in future in a more coordinated fashion than is currently the case.

   This would avoid a situation where the continuation of the CGT relief for another two years beyond the expiry of the stamp duty relief in itself becomes a factor in any decision as to whether to renew or amend the stamp duty relief (equally the stamp duty relief would have another year in place when renewal of the CGT relief is being considered).

   It would also contribute to providing farmers with a greater degree of certainty as to the future availability of both reliefs, at any given point in time.

   As previously noted work on the revision of the CAP that has an end-2021 completion target is underway, and the ABER has therefore been extended by the European Commission to end-2021. The ABER which provides the competition rules for the agriculture sector, will need to be revised to ensure continuity with the CAP, which provides the policy and legal framework. The timing of the EU work means that Finance Bill 2022 may be the first opportunity to reflect any changes at EU level in our tax code.

   The option to extend the expiry date by 5 years to 31 December 2025, as proposed by ICMSA, was also considered. While this also has the potential to provide greater certainty to the sector and eventually result in the matching of the operational timeframe for both reliefs, it would require an extension of the stamp duty relief beyond the normal 3 year sunset clause for such reliefs; and assumes the CGT relief will be extended for a further 3 years from end-2022. It was therefore considered not appropriate to pursue that option.

Drawbacks – a two year extension might be interpreted by some, albeit incorrectly, as indicating that this relief is more likely to be withdrawn at the end of the two years.

Also, the work on the revised CAP and/or any ensuing changes to the ABER may not be completed by end-2021 as currently planned, so an end-2022 expiry date for this relief may not allow for a revised CAP/ABER to be factored into any consideration of a further extension.

3. Do not extend the relief

Advantages – potential additional stamp duty revenue (assuming that farm consolidations continue to take place at the current, or even a reduced, rate in the absence of this relief). However, given the relatively low take up of this relief, and the lack of any reason to expect that farm consolidation, or indeed agricultural land purchases for other reasons, will increase substantially in its absence (they may fall), any benefit for the exchequer is not likely to be significant.

Drawbacks – the withdrawal of this relief would have a negative impact on the attractiveness of farm consolidation activity, and would therefore be detrimental to efforts to boost farm efficiency and to reduce the environmental impact of farming.

The withdrawal of this relief after the rate of stamp duty on non-residential property has risen to 7.5% could be interpreted by some as indicating a lack of support for the agricultural community and by extension for rural Ireland. It was introduced in Budget 2018 to help alleviate the impact of the 2017 increase in the rate non-residential stamp duty from 2% to 6%, and therefore, given the subsequent further increase in that rate to 7.5% could be seen as being even more necessary now than it was in late-2017.

If this relief were not to be extended, this would give rise to understandable concern for the future of the equivalent CGT relief, and would appear to run contrary to the decision taken in advance of Budget 2020 to extend that relief by a further 3 years to end-2022.

4. **Farming body recommendations**

- the IFA would prefer that self-certification regarding eligibility for this relief be introduced rather than the current requirement to receive a Teagasc 'farm restructuring certificate' so as to provide a simplified application process; and,
- the ICMSA would wish to see the 24 month period in which the sale and purchase of land must take place extended to 36 months.

In relation to the IFA's proposal, the view of DAFM, shared by the Department , is that the role of Teagasc in this process, both in terms of the administrative element reflected by the ‘farm restructuring certificates’ and its traditional advisory role, is critical to the efficient and effective operation of the relief. Teagasc’s advisory role, while informal (i.e. it is not a requirement for farmers to seek their advice on consolidation planning), alongside it’s certification role, helps limit the number of invalid applications, so potentially avoiding much unnecessary administrative work for Revenue.

The ICMSA’s proposal, which has also been suggested by DAFM, calls for an increase to 36 months for the timeline for completion of farm consolidation. This is seen as providing much needed additional time for the purchase of land to satisfy the eligibility requirements. The sale and purchase of land is complex with opportunities arising infrequently in Ireland. For instance, the Annual SCSI/Teagasc Agricultural Land Market Review & Outlook 2020 reports that in particular, there can often be long legal delays in probate sales. There is also evidence that Brexit is impacting on confidence in the market for land, deterring sellers and buyers.

This view is supported by the Land Price Report 2019 published by the Irish Farmers Journal, which outlines that the main observation from 2019 is not the price, but the level of supply on the market. There were 1,662 agricultural properties recorded on the market in Ireland last year, down 20% on 2018. The report indicates this drop in supply arises from concerns about Brexit and beef prices from sellers who held off on putting their land on the market. Long-term leasing has also become a popular option for landowners and this in turn impacts on supply of land for sale. The Covid-19 pandemic has resulted in an unprecedented economic shock for all sectors in the economy and internationally, the full impact of which is not yet known. This has resulted in increased uncertainty for the agricultural sector and the viability of farm enterprises.

The proposal to allow additional time to complete sale and purchase for the purpose of farm consolidation may therefore have merit and it is proposed to consider this further in conjunction with the similar conditions for CGT relief in advance of Finance Bill 2022.

10. Conclusion & Recommendations

Alongside the CGT relief scheme, the stamp duty relief scheme appears to be contributing to the removal of a potential taxation barrier to consolidation of fragmented farm holdings. It supports the policy aim of improved efficiency and effectiveness of farming in order to help deal with current and future competitiveness challenges. The cost has increased from its first year of operation to its second, but it is not evident that there is deadweight as it is not clear that there would have been consolidation, and so significant stamp duty on the sale of land for consolidation purposes paid, in the absence of the scheme (in conjunction with the similar CGT relief).

Therefore, it is considered that the tax relief approach is appropriate and no alternative approaches such as direct payments are any more effective than the provision of tax relief.

On that basis, it seems appropriate, and is hereby recommended, that the scheme should be extended for a further two years from the end of 2020 to the end of 2022 to bring it into line with the equivalent CGT relief and also to allow for any changes that may arise from the ABER review to be included at the earliest possible date.

As the intention of the two year extension to end-2022 is to align the renewal date for the Stamp Duty relief to its CGT equivalent, it would run contrary to that intention to misalign the timeframe for completion of transactions, i.e. if the time allowable to complete the transactions were to be increased from the current 24 months at this time, while that for the CGT relief remains at 24 months. It is, therefore, recommended that the extension to 36 months (from the existing 24 months) of the period for the both sales and purchases of the land to be completed, as recommended by DAFM and the ICMSA, be considered for both the stamp duty and CGT reliefs in advance of Finance Bill 2022, when both will next be due to be considered for further renewal.

See Annexe’s I-IV in the Review on Stamp Duty Consanguinity Relief for:

I: Letter to farming bodies seeking their view on the Consanguinity and Farm Consolidation Stamp Duty Reliefs

II: IFA Submission on both reliefs

III: ICMSA Submission on both reliefs

IV: Macra na Feirme Submission on both reliefs

3. Tables of Tax Expenditures in use between October 2019 and September 2020[46]

Table A: Capital Gains Tax (CGT)/Capital Acquisitions Tax (CAT)/Pensions

Type	Description	Further Information	No. Utilising or No. of Claims in most recent year for which information is available	Revenue Foregone in most recent year for which information is available (€ millions)	No. Utilising / No. of Claims in previous year*	Revenue Foregone in previous year (€ millions)*
CGT	CGT Retirement Relief	Provides relief for disposals of business and farming assets.	1,400 (in 2018)	Tax cost is not available as the only information in respect of this relief is the disposal consideration rather than the actual taxable gain foregone.	1,421 (in 2017)	Tax cost is not available as the only information in respect of this relief is the disposal consideration rather than the actual taxable gain foregone.
	CGT entrepreneur relief	Provides relief for disposals of business assets.	N/A	N/A	N/A	N/A
	Revised CGT entrepreneur relief	Provides relief for disposals of business assets.	875 (2018)	92.4 (at reduced 10% rate in 2018)	875 (2018)	81.8 (at reduced 10% rate in 2017)
	CGT principal private residence relief	Provides relief for disposal of main residence.	N/A	N/A	N/A	N/A
	CGT Farm consolidation relief	Provides relief for disposals of land in order to consolidate	15 (2018)	0.5 (2018)	N/A for 2017. Available from 2018 on. The information was not	N/A for 2017. Available from 2018 on. The information was not previously

[46] All references to N/A in these 7 tables means "Not Available" unless otherwise indicated

		farm holdings.			previously sought by Revenue.	sought by Revenue.
	CGT relief on disposal of certain land or buildings	Section 604A	632 (2018)	113(2018)	N/A	N/A
	CGT relief for venture fund managers	Provides relief in respect of carried interest earned by venture fund managers	N/A	N/A	N/A	N/A
	CGT exemption on disposal of site to a child	Provides relief for parents transferring a site to their children in order to build a house.	104 (in 2018)	Tax cost is not available as the only information in respect of this relief is the disposal consideration rather than the actual taxable gain foregone.	95 (in 2017)	Tax cost is not available as the only information in respect of this relief is the disposal consideration rather than the actual taxable gain foregone.
	CGT relief on works of art loaned for public display	Provides relief for disposals of works of art loaned for public display.	N/A	N/A	N/A	N/A
CAT	CAT business relief	Relief for transfers of businesses (90% reduction in market value for tax purposes)	648	200.4	643	189.9
	CAT agricultural relief	Relief for transfer of farms (90% reduction in market value for tax purposes)	1,413	158.6	1,463	165.5
	CAT exemption	Exemption from tax for transfers of heritage	Indicative information suggests the number	Exact figures are not available, but	Indicative information suggests the number	Exact figures are not available, but thought to

	of heritage property	houses and objects	using this exemption is negligible	thought to not be significant	using this exemption is negligible	not be significant
Pensions	Employees' contribution to approved superannuation schemes	Contributions are allowable as an expense in computing Schedule E income (Sections 774 & 776)	663,900 (2018)	677.7 (2018)	614,200 (2017)	598.1 (2017)
	Employers' contributions to approved superannuation schemes	Contributions are allowable as an expense in computing Schedule D Case I or Case II income (Section 774)	413,000 (2018)	173.2 (2018)	366,700 (2017)	159.8 (2017)
	Exemption of investment income and gains of approved superannuation funds	Exempts the investment income of a fund held or maintained for the purpose of a scheme (Section 774 – Approved Fund, Section 785 – RSA, Section 787I – PRSA)	N/A	N/A	N/A	N/A
	Tax Relief on "tax free" lump sums	From 1 January 2011, the lifetime tax-free limit on the aggregate of all retirement lump sums paid to an individual on or after 7 December 2005 is €200,000 (Section 790AA)	N/A	N/A	N/A	N/A

	Pension Contribution (Retirement Annuity and PRSA)	Figures in this field are a total for RAC's and PRSA's which are not available individually	98,300 (2018)	241.3 (2018)	93,600 (2017)	229.3 (2017)
	Exemption of employers' contributions from employee BIK	Sums paid by an employer into an approved, statutory or foreign government employee retirement scheme are not chargeable to tax in the hands of the employee (Section 778)	413,000 (2018)	658.3 (2018)	366,700 (2017)	607.3 (2017)

* All figures for 2019 (most recent year) & 2018 (previous year) unless stated otherwise.
** Figures for later years not yet available.

Table B: Stamp Duty/Local Property Tax (LPT)

Type	Description	Further Information	No. Utilising or No. of Claims in most recent year for which information is available*	Revenue Foregone in most recent year for which information is available (€ millions)*	No. Utilising/No. of Claims in previous year*	Revenue Foregone in previous year (€ millions)*
Stamp Duty	Consanguinity relief		1,780	29.0	1,647	22.0
	Certain company reconstructions and amalgamations	Section 80 of SDCA 1999	928	1,708	935	273
	Demutualisation of insurance companies	Section 80A of SDCA 1999	<10	N/A	<10	N/A
	Young Trained Farmer Relief	Section 81AA of SDCA 1999	1,128	14.6	1,056	16.8
	Farm Consolidation Relief	Section 81C of SDCA 1999	90	0.6	45	0.3
	Relief for certain leases of farmland	Section 81D of SDCA 1999	272	0.1	23	0.03
	Charities – conveyance/ transfer/lease of land	Section 82 of SDCA 1999	1,763	13.0	1,471	9.6
	Donations to approved bodies	Section 82A of SDCA 1999	Nil	Nil	Nil	Nil
	Approved Sports Bodies - conveyance/ transfer/lease of land	Section 82B of SDCA 1999	66	0.5	94	0.5
	Pension schemes and charities	Section 82C of SDCA 1999	79	0.2	50	0.1
	Certain family farm transfers	Section 83B of SDCA 1999	24	0.4	18	0.3
	Residential Development Refund Scheme	Section 83D of SDCA 1999 (Introduced in Budget 2018)	954	9.1	166	1.2

	Repayment of stamp duty on certain transfers of shares	Section 84 of SDCA 1999	Nil	Nil	Nil	Nil
	Certain loan capital and securities	Section 85 of SDCA 1999	Nil	Nil	Nil	Nil
	Certain Loan Stock	Section 86 of SDCA 1999	Nil	Nil	Nil	Nil
	Enterprise Securities Market[47]	Section 86A of SDCA 1999	N/A	N/A	N/A	N/A
	Stock borrowing	Section 87 of SDCA 1999	Nil	Nil	Nil	Nil
	Stock repo	Section 87A of SDCA 1999	Nil	Nil	Nil	Nil
	Merger of companies	Section 87B of SDCA 1999	<10	N/A	<10	N/A
	Certain stocks and marketable securities	Section 88 of SDCA 1999	14	0.4	<10	N/A
	Reorganisation of undertakings for collective investment	Section 88A of SDCA 1999	Nil	Nil	Nil	Nil
	Funds: reorganisation	Section 88B of SDCA 1999	Nil	Nil	<10	59.04
	Reconstructions or amalgamations of certain common contractual funds	Section 88C of SDCA 1999	Nil	Nil	Nil	Nil
	Reconstructions or amalgamations of certain investment undertakings	Section 88D of SDCA 1999	<10	N/A	32	17.59
	Transfer of assets within unit trusts	Section 88E of SDCA 1999	23	0.12	18	0.1
	Reconstruction or amalgamation of offshore funds	Section 88F of SDCA 1999	Nil	Nil	Nil	Nil
	Amalgamation of unit trusts	Section 88G of SDCA 1999	<10	N/A	<10	N/A
	Foreign Government Securities	Section 89 of SDCA 1999	Nil	Nil	Nil	Nil

[47] A costing for this relief is not currently available as the relief is not claimed. Revenue are currently looking at how they might cost it, and hope to have an estimate at a later date.

	Certain financial services instruments	Section 90 of SDCA 1999	Nil	Nil	Nil	Nil
	Greenhouse gas emissions allowance	Section 90A of SDCA 1999	Nil	Nil	Nil	Nil
	Houses acquired from industrial and provident societies	Section 93 of SDCA 1999	Nil	Nil	Nil	Nil
	Approved voluntary body	Section 93A of SDCA 1999	907	4.1	652	2.7
	Purchased of land from Land Commission	Section 94 of SDCA 1999	Nil	Nil	Nil	Nil
	Commercial woodland – duty not chargeable on the value of the trees growing on the land	Section 95 of SDCA 1999	189	77.0	190	66.0
	Transfers between spouses/civil partners	Section 96 of SDCA 1999	4,860	85.4	4,445	21.9
	Certain transfers following a dissolution of marriage	Section 97 of SDCA 1999	702	2.1	542	1.0
	Certain transfers by cohabitants	Section 97A of SDCA 1999	15	N/A	<10	N/A
	Foreign immovable property	Section 98 of SDCA 1999	Nil	Nil	<10	N/A
	Dublin Docklands Development Authority	Section 99 of SDCA 1999	Nil	Nil	Nil	Nil
	Courts Service	Section 99A of SDCA 1999	<10	N/A	<10	N/A
	Sport Ireland.	Section 99B of SDCA 1999	<10	N/A	<10	N/A
	Harbours Act 2015	Section 99C of SDCA 1999	Nil	Nil	Nil	Nil
	Temple Bar Properties Limited	Section 100 of SDCA 1999	Nil	Nil	Nil	Nil

	Intellectual Property	Section 101 of SDCA 1999	Nil	Nil	<10	N/A
	Single Farm Payment entitlement	Section 101A of SDCA 1999	<10	N/A	<10	N/A
	The Alfred Beit Foundation	Section 102 of SDCA 1999	Nil	Nil	<10	N/A
	Shared ownership leases	Section 103 of SDCA 1999	23	N/A	<10	N/A
	Licences and leases granted under Petroleum and Other Mineral Development Act, 1960, etc.	Section 104 of SDCA 1999	Nil	Nil	Nil	Nil
	Securitisation agreements	Section 105 of SDCA 1999	Nil	Nil	Nil	Nil
	Housing Finance Agency	Section 106 of SDCA 1999	Nil	Nil	Nil	Nil
	Housing Finance Agency Limited	Section 106A of SDCA 1999	Nil	Nil	<10	N/A
	Housing Authorities and Affordable Homes Partnership	Section 106B of SDCA 1999	2,892	7.6	2,365	5.9
	Grangegor-man Development Agency	Section 106C of SDCA 1999	Nil	Nil	Nil	Nil
	National Concert Hall	Section 106D of SDCA 1999	Nil	Nil	Nil	Nil
	National Development Finance Agency, etc. (expired 27.01.15)	Section 108A of SDCA 1999	Nil	Nil	Nil	Nil
	Strategic Banking Corporation of Ireland	Section 108AA of SDCA 1999	Nil	Nil	Nil	Nil
	National Asset Management Agency (NAMA)	Section 108B of SDCA 1999	Nil	Nil	Nil	Nil
	Ireland Strategic Investment Fund	Section 108C of SDCA 1999	15	0.1	Nil	Nil
	Certain instruments made in anticipation of	Section 109 of SDCA 1999	Nil	Nil	Nil	Nil

	an informal insurance policy					
	Certain Health Insurance Contracts	Section 110 of SDCA 1999	Nil	Nil	Nil	Nil
	Certain policies of insurance	Section 110A of SDCA 1999	Nil	Nil	Nil	Nil
	Oireachtas Funds	Section 111 of SDCA 1999	874	8.3	821	8.6
	Certificates of indebtedness, etc.	Section 112 of SDCA 1999	Nil	Nil	Nil	Nil
	Miscellaneous instruments	Section 113 of SDCA 1999	31	2.3	42	2.6
LPT	Exemptions		49,000	13.7	49,000	12.7
	Deferrals	LPT deferrals, although foregone in a particular year, are still owed to the Exchequer at a later date.	50,000	11.7	58,000	9.9

* All figures for 2019 (most recent year) & 2018 (previous year) unless stated otherwise.

Table C: Benefit-in-Kind

Type	**Description**	**Further Information**	**No. Utilising or No. of Claims in most recent year for which information is available**	**Revenue Foregone in most recent year for which information is available (€ millions)**	**No. Utilising/No. of Claims in previous year***	**Revenue Foregone in previous year (€ millions)***
Benefit-in-Kind	Cycle to Work Scheme***	Tax relief on the purchase of a bicycle for commuting purposes	20,000**	4.0**	20,000**	4.0**
	TaxSaver Travel Scheme	Tax relief on commuter tickets	35,000**	3.5**	35,000**	3.5**
	Professional subscriptions relief	Tax relief on the payment of certain	150,000	3.75**	150,000**	3.75**

		professional subscriptions.				
	Small Benefits Exemption	Tax relief where employer provides an employee/director with one annual benefit, he value not exceeding €500	70,000**	5.0**	70,000**	5.0**

* All figures for 2019 (most recent year) & 2018 (previous year) unless stated otherwise.

** Estimates, as separate returns are not required under these headings.

Table D: Corporation Tax

Type	Description	Further Information	No. Utilising or No. of Claims in most recent year for which information is available*	Revenue Foregone in most recent year for which information is available (€ millions)*	No. Utilising/No. of Claims in previous year*	Revenue Foregone in previous year (€ millions)*
Corporation Tax	Research & Development (R&D) Tax Credit	Provides a tax credit for expenditure on certain R&D activities (Sections 766, 766A & 766B of the Taxes Consolidation Act 1997)	1,303 (2018)	355 (2018)	1,505 (2017)	448 (2017)
	Corporation Tax Relief for start-up Relief companies	Provides relief from corporation tax for start-up companies for the first 3 years of trading up to €40,000 per annum (Section 468C of the Taxes Consolidation Act 1997)	1,171 (2018)	6.0 (2018)	1,071 (2017)	5.8 (2017)
	Film Relief	Note- this has previously	82** (2018)	49.2** (2018)	105** (2017)	99.65** (2017)

		been listed under "Personal Tax Credits"				
	Accelerated Capital Allowance scheme for Energy Efficient Equipment	Finance Act 2016 extended the scheme to un-incorporated businesses with effect from 1 January 2017. Therefore this represents both Corporation Tax and Income Tax relief.	776 (2018)	3.7 (2018)	317 (2017)	3.1 (2017)

* All figures for 2019 (most recent year) & 2018 (previous year) unless stated otherwise.
** Estimated and provisional as additional returns are received over time.

Table E: Excise Duty

Type	Description	Further Information	No. Utilising or No. of Claims in most recent year for which information is available	Revenue Foregone in most recent year for which information is available (€ millions)	No. Utilising/No of Claims in previous year*	Revenue Foregone in previous year (€ millions)*
Alcohol Product Tax (APT)	Repayment of excise duty	Section 78A of the Finance Act 2003	N/A	6.1	90	5.79
Vehicle Registration Tax (VRT)	Relief of VRT for leased cars	Section 134(7) of the Finance Act 1992	N/A	0.1	N/A	22.3
	Remissions/repayments of VRT	Disabled Drivers and Disabled Passengers Scheme	6,374	35.4	6,420 (unique cars)	33.0
	Exemptions from VRT	Section 134 of the Finance Act 1992	3,380	11.1	3,229	10.3

	VRT Export Repayment Scheme	Section 135D of the Finance Act 1992	1,175	5.8	1,271	6.0
	Relief from VRT	VRT relief for hybrid, plug-in hybrid, and electric cars	24,112	47.9	15,712	27.9
Mineral Oil Tax	Excise Rate on Auto-diesel**	Finance Act 2011, Section 42	N/A ((no means to determine the number availing)	422.8	N/A (no means to determine the number availing)	414.8
	Diesel Rebate Scheme	Partial repayment of excise duty to qualifying road transport operators (Section 51 of the Finance Act 2013)	830 (number of claims paid)	10.2	713 (number of claims paid)	3.4
	Reduced Rate on Marine Gas Oil (MGO)**	Reduced rate applied to Marine Gas Oil (MGO) used in home heating, agriculture, marine and rail sectors (Sections 94-109 Finance Act 1999)	N/A (no means to determine the number availing)	473	N/A (no means to determine the number availing)	454.9
	Excise Rate on Kerosene**	Excise Rate applied to Kerosene (Sections 94-109 Finance Act 1999)	N/A (no means to determine the number availing)	578.7	N/A (no means to determine the number availing)	622.5
	Excise Rate on Fuel Oil**	Excise Rate applied to Fuel Oil (Sections 94-109 Finance Act 1999)	N/A (no means to determine the number availing)	24.7	N/A (no means to determine the number availing)	27.1

	Commercial Sea Navigation	Repayment of Mineral Oil Tax (MOT) on tax-paid mineral oil used for the purpose of commercial sea navigation, including sea-fishing. Section 100 (2)(a) of Finance Act 1999.	N/A (no means to determine the number availing)	10.5	N/A (no means to determine the number availing)	9.8
	Marine Diesel Scheme	Repayment of MOT on tax-paid mineral oil used for the purpose of commercial sea navigation, including sea-fishing. Section 100 (2)(a) of Finance Act 1999.	N/A (no means to determine the number availing)	2.7	N/A (no means to determine the number availing)	3.2
	Horticulture Excise Duty Repayment	Partial Repayment of MOT paid on heavy oil and LPG used in the horticultural production and cultivation of mushrooms (Section 98 of Finance Act 1999)	Partial Repayment of MOT paid on heavy oil and LPG used in the horticultural production and cultivation of mushrooms (Section 98 of Finance Act 1999)	0.08	Partial Repayment of MOT paid on heavy oil and LPG used in the horticultural production and cultivation of mushrooms (Section 98 of Finance Act 1999)	0.05

* All figures for 2019 (most recent year) & 2018 (previous year) unless stated otherwise.
** The benchmark for these fuels is the excise rate for unleaded petrol.

Table F: Value Added Tax (VAT)

Type	Description	Further Information	No. Utilising or No. of Claims in most recent year for which information is available*	Revenue Foregone in most recent year for which information is available (€ millions)*	No. Utilising/ No. of Claims in previous year*	Revenue Foregone in previous year (€ millions)*
VAT Refund Orders	Disabled Drivers & Passengers Scheme. Repayment of VAT to disabled drivers and disabled passengers and/or organisations on the purchase of specially constructed or adapted vehicles, which are used for the transport of persons with disabilities.	Disabled Drivers and Disabled Passengers (Tax Concessions) Regulations, 1994 (S.I. 353 of 1994)	6,408	28.8	6,429	28.9
	Disabled Equipment – a refund of VAT is available on certain aids and appliances purchased by disabled persons.	Value Added Tax (Refund of Tax) (No.15) Order 1981 (S.I. 428 of 1981)	6,268	5.5	11	0.012
	Touring Coaches - VAT repayment may be claimed by persons engaged in the carriage of tourists for reward by road, on the purchase, lease/hire of touring coaches	Value-Added Tax (Refund of Tax) (Touring Coaches) Order 2012 (S.I. 266 of 2012)	162	8.3	214	8.5

	Farm construction. A refund of VAT is available to flat-rate farmers on the construction of farm buildings, fencing, drainage, reclamation of farm land, and on micro-generation equipment	Value Added Tax (Refund of Tax) (No.25) Order, 1993 (SI No.266 of 1993)	36,750	83.1	21,769	75.2
	Charities VAT Compensation Scheme	Value-Added Tax (Refund of Tax) (Charities Compensation Scheme) Order, 2018 (SI No. 580 of 2018)	900	5.0	First payments made in 2019	First payments made in 2019

* All figures for 2019 (most recent year) & 2018 (previous year) unless stated otherwise.

Table G: Personal Tax Credits

Type	Description	Further Information	No. Utilising or No. of Claims in most recent year for which information is available	Revenue Foregone in most recent year for which information is available (€ millions)	No. Utilising/No of Claims in previous year*	Revenue Foregone in previous year (€ millions)*
Personal Tax Credits	Age Tax Credit		209,900	77.5	195,500)	72.1
	Blind Person's or Civil Partners Credit (incl. Guide Dog Allowance)		1,700	2.3	1,630	2.2
	Dependent Relative Tax Credit		24,300	2.7	21,000	2.2
	Home Carer's Tax Credit		83,100	90.0	83,800	83.5
	Incapacitated Child Tax Credit		30,700	92.7	27,700	82.1
	Single Person Child Carer Credit		70,500	99.1	67,400	93.9
	Approved Profit Sharing Schemes		34,800	55.2	32,240	47.7
	Approved Training Courses/ Third Level Fees		33,200	17.2	29,000	15.2
	Employment and Investment Scheme		1,137	14.5	1,538	18.6
	Donation of Heritage Items		10	0.4	5	2.8
	Donation of Heritage Property to the Irish Heritage Trust	2015 was last year in which expenditure recorded	Nil	Nil	Nil	Nil
	Donations to Approved Bodies		182,438	43.5	175,400	43.3

	Donations to Approved Sporting Bodies		1,240	0.3	1,170	0.3
	Employee Share Ownership Trusts		11,900	0.1	10,600	0.2
	Employing a Carer		1,600	6.6	1,650	7
	Exemption of Income arising from the Provision of Childcare Services		690	1.6	700	1.6
	Exempt Income – Rent-a-Room		9,240	19.7	8,160	12.0
	Exemption of Certain Earnings of Writers, Composers and Artists		3,270	10.0	3,110	12.7
	Exempt Income – Foster-Care Payments		4,320	29.6	4,380	30.1
	Home Renovation Incentive	Introduced in 2013, expired 2018	14,850	30.9	12,600	22.4
	Health Expenses	General & Nursing Home	527,100	190.1	486,200	172.5
	Medical Insurance Relief	Risk equalisation credits are not given through the tax system effective from 1 January 2013	1,258,100	355.7	1,271,400	350
	Special Assignee Relief		1,084 (2017)	28.1 (2017)	793 (2016)	18.1 (2016)

	Programme (SARP)					
	Save as You Earn Scheme (savings related share options)		1,680 (2017)	2.4 (2017)	1,680 (2016)	2.4 (2016)
	Seafarer's Allowance		140	0.3	160	0.3
	Start-Up Refunds for Entrepreneurs	Formerly Seed Capital Scheme	39	0.8	64	1.6
	Significant Buildings and Gardens Relief		160	1.9	150)	1.9
	Retirement relief for certain sports persons		31	0.3	31	0.4
	Start Your Own Business	From Oct. 2013	4,588	16.0	5,451	18.8
	Woodlands Profits & Distributions	Section 140	N/A	N/A	N/A	N/A
	Woodlands	Section 232	9,192	33.7	9,160	29.4)
	Exemption of Income of Charities, Colleges, Hospitals, Schools Friendly Societies etc.	No figures available since 2013	N/A	N/A	N/A	N/A
	General Stock Relief	Section 666	9,090	4.9	10,130	6.3
	Stock Relief for Young Trained Farmer	Section 667B	420	1.2	530	1.5
	Stock Relief for Registered Farm Partnerships	Section 667C	210	0.3	370	0.6
	Living City Initiative	Commenced in 2015	27	0.2	20	0.1
	Dispositions (Including		7,530	18.4	7,900	18.9

	Maintenance Payments made to Separated Spouses)					
	Allowable Expenses		680,100	115.4	600,600	100
	Foreign Earnings Deduction		817	5.4	591	3.9
	100% Mortgage Interest Relief for Landlords of Social Housing Tenants	Commenced in 2016	N/A	N/A	N/A	N/A
	Rental Deductions – leasing of farm land		10,820	27.2	9,790	23.7
Ceased or currently being phased out Items	Urban Renewal		889	14.9	1,124	22.8
	Town Renewal		317	4.8	401	5.1
	Seaside Resorts		38	0.5	69	0.8
	Rural Renewal		599	6.8	786	8.5
	Multi-storey Car Parks		N/A	0.1	11	0.3
	Living Over The Shop		22	0.2	29	0.3
	Enterprise Areas		11	0.2	14	0.2
	Park & Ride		N/A	0.3	N/A	0.3
	Holiday Cottages		28	0.3	52	0.5
	Hotels		33	0.8	45	1.0
	Nursing Homes		29	0.6	53	1.2
	Housing for the Elderly/ Infirm		N/A	0.1	N/A	0.2
	Hostels		Nil	Nil	N/A	N/A
	Guest Houses		N/A	Nil	N/A	0.1

	Convalescent Homes		Nil	Nil	Nil	Nil
	Qualifying Private Hospitals		15	0.2	29	0.5
	Qualifying Sports Injury Clinics		N/A	0.1	Nil	Nil
	Buildings Used for Certain Childcare Purposes		30	0.9	39	0.5
	Qualifying Hospitals		Nil	Nil	Nil	Nil
	Qualifying Mental Health Centres		Nil	Nil	Nil	Nil
	Student Accommoda-tion		194	7.5	246	8.8
	Caravan Camps		Nil	Nil	N/A	0.1
	Mid-Shannon Corridor Tourism Infrastructure		N/A	0.2	N/A	0.2
	Revenue Job Assist		100	N/A	120	N/A
	Rent Tax Credit		117,100	6.3	126,300	13.7
	"Other" Relief on Interest on Loans	Acquisition of interest in a company or partnership	48	0.04	70	0.1
	Mortgage Interest Relief		400,000	107.3	414,300	171.1

* All figures for **2018 (most recent year) & 2017 (previous year)** unless stated otherwise.

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