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Tax Expenditure Review of Three Year Start-Up Relief (Section 486C)

Tax Expenditure Review of Section 486C (TCA 1997)

Corporation Tax relief for Certain Start-up Companies

September 2018

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Introduction

The Department of Finance has guidelines for the evaluation of tax expenditures - the Tax Expenditure Guidelines 2014.

These guidelines state that tax expenditures should be carefully focused to address a set of clearly identified, measurable objectives and to correct a market failure within the context of limited Exchequer resources.

The guidelines provide for a proportionate approach to evaluations. The level and detail of the analysis that should be undertaken will depend on the cost of the expenditure and should be proportionate to the size and objectives of the tax expenditure.

The guidelines distinguish between two types of evaluations:

(i) Ex-ante Evaluations

Ex-ante evaluations are undertaken prior to the introduction of a new tax expenditure. Ex-ante evaluations ensure that the economic impact of a prospective tax expenditure is identified and the cost calculated.

(ii) Ex-post Evaluations

Ex-post evaluations relate to existing tax expenditures. Ex-post evaluations look at the continued relevance, costs, impacts and efficiencies of the relief to ensure that the best use is being made of limited Exchequer resources.

The Department of Finance regularly reviews various tax expenditures according to these guidelines.

The three year exemption from corporation tax for start-up companies was first introduced by Finance (No. 2) Act 2008. The conditions of the relief were amended twice in 2011 and 2013 and the relief has been extended twice in 2014 and in 2015. Currently, the relief is scheduled to expire on 31 December 2018.

In line with the Tax Expenditure Guidelines, this review will carry out an ex-post evaluation of the relief to assess whether the relief should be extended beyond its current deadline. An ex-post evaluation is primarily concerned with questions around the continuing relevance of the scheme and its impact.

Four key questions should be addressed in ex post evaluations. These are:

1. Is the tax expenditure still relevant?
2. How much does the tax expenditure cost?
3. What is the impact of the tax expenditure?
4. Is it efficient?

These key questions are examined in the Ex-Post Evaluation section.

Background to Three Year Start-Up Relief

Finance (No. 2) Act 2008 introduced Section 486C into the Taxes Consolidation Act 1997 which provides for relief from corporation tax for start-up companies in their first three years of trading. The relief was introduced to provide support to new business ventures in their critical early years of trading, thereby supporting the creation of additional employment and economic activity in the State. The relief is granted by reducing the corporation tax payable on the profits of the new trade and gains on the disposal of any assets used for the purpose of the new trade.

- **Supporting Employment**

The Government recognises that Small and Medium Enterprises (SMEs) are the lifeblood of the Irish economy and play a vital role in the recovery of employment growth in the country. According to the Central Statistics Office (CSO), SMEs make up 99.8% of all active enterprises in Ireland, accounting for 69% of all employees, 39% of Ireland's Gross Value Added (GVA), and 48% of the total value of revenue generated by Irish based businesses.¹

While unemployment rates have significantly decreased since the introduction of the relief, enterprise survival rates from the last five years show that start-up companies continue to struggle to survive. SMEs are essential for job creation and for encouraging growth in employment and economic activity in Ireland.

- **Broadening the Corporation Tax Base²**

A further objective of the relief is to support the survival of new start-up companies, thus leading to a broadening of the corporation tax (CT) base. Almost 50,500 companies were net corporation tax payers in 2017, but it is notable that CT receipts are highly concentrated. The top ten companies accounted for 39% of net CT receipts in 2017, amounting to circa €3.2 billion of the total net CT receipts of €8.2 billion.

However, as Revenue data show increasing trading profits across most sectors, there have been year-on-year increases in the number of companies liable for CT. The number of net payers in 2017 was up over 14% on the number in 2016. Continued future progress in broadening the CT base will improve the resilience of CT revenues into the future.

- **Amendments and Enhancements to Relief**

The relief was amended and enhanced in 2011 and 2013.

Prior to amendments made in the Finance Act 2011, full relief was available where the corporation tax otherwise payable by the company was €40,000 or less. Marginal relief applied where the corporation tax liability was between €40,000 and €60,000.

Finance Act 2011 modified the relief to make it more employment focused, by linking the quantum of corporation tax relief to the amount of Employers' PRSI paid by a company in an accounting

¹ Source: Business in Ireland 2015; Central Statistics Office.

<https://www.cso.ie/en/releasesandpublications/ep/p-bii/bii2015/ebsd/>

² Source: Corporation Tax 2017 Payments and 2016 Returns; Revenue.

<https://www.revenue.ie/en/corporate/documents/research/ct-analysis-2018.pdf>

period, subject to a maximum of €5,000 per employee and an overall limit of €40,000.

Under the revised arrangements, if the amount of qualifying Employers' PRSI paid by a company in an accounting period is lower than the reduction in corporation tax otherwise applicable, relief will be based on this lower amount. For example, a company with four employees and annual Employers' PRSI payments of €5,000 in respect of each employee will obtain a reduction in corporation tax of up to €20,000 in respect of its taxable profits. The purpose of this restriction is to better target the relief at companies generating employment.

Finance Act 2013 enhanced the relief by allowing a carry-forward of any unused relief arising in the first three years of trading, due to losses or insufficient profits, for use in subsequent years. This provided a significant enhancement to the relief as prior to this amendment the relief operated on a 'use it or lose it basis'. Relief was not available if a company incurred a loss or did not have a sufficient amount of profits and tax payable in any of the first three years of trading to avail of the full potential benefit based on its Employers' PRSI contributions.

These amendments increased the flexibility of the scheme. Any unused relief arising in the first three years of trading, due to losses or insufficient profits, can now be carried forward indefinitely for use in subsequent years. This effectively creates a 'bucket' of credits which can be carried forward for use in each subsequent year, until such conditions arise where they can be utilised. The relief eligible for carry-forward depends on the Employers' PRSI in the relevant year. To ensure that the company availing of the relief must maintain their commitment to employment, the amount of relief allowed in a given year is restricted by reference to the total Employers' PRSI contributions for that year in respect of the company's employees. This provision provides further assistance to new start-up businesses, many of which do not make profits in their early years.

For example, a qualifying company with trading profits of €8,000, liable to corporation tax of €1,000, has annual Employers' PRSI of €9,000. The maximum relief available is €9,000, of which €1,000 is used against the current year corporation tax liability. The balance of €8,000 can be carried forward for use against corporation tax liabilities in future years, again subject to a cap based on Employers' PRSI in those years.

- [Sunset Clause for Relief](#)

The relief, which was due to expire at the end of 2014, was extended in Finance Act 2014 until the end of 2015 to allow for a comprehensive review of the measure in line with the Tax Expenditure Guidelines 2014.

A review of the relief ("Review of Relief from Tax for Certain Start-up Companies – section 486C Taxes Consolidation Act 1997") was published in October 2015 within the document *Report on Tax Expenditures: Incorporating outcomes of Tax Expenditure Reviews completed between October 2014 and September 2015*³. Subsequently, on the recommendations of the review, the relief was extended in Finance Act 2016 until the end of 2018.

The purpose of this new ex-post evaluation of the relief is to determine whether the relief still remains effective, and whether it should be further extended in Budget 2019.

³ Source: Department of Finance, October 2015

Main features of the relief

The main features of Section 486C (Relief from Tax for Certain Start-up Companies) are as follows:

- As a corporation tax relief, it applies to incorporated businesses only – i.e. incorporated companies.
- The initial exemption period is three years from the date of commencement of the new trade.
- Exemption is granted in respect of the profits of a new trade and chargeable gains on the disposal of any assets used for the purposes of a trade.
- The amount of corporation tax relief available is linked to the amount of Employers' PRSI paid by a company in an accounting period, subject to a maximum of €5,000 per employee (equating to an annual salary of over €49,000) and an overall annual limit of €40,000.
- Subject to sufficient Employers' PRSI contributions, full relief applies where the total corporation tax liability does not exceed €40,000 in any of the years of the three year period.
- The exemption is granted by reducing the corporation tax relating to the trade and chargeable gains of the company to nil, subject to sufficient Employers' PRSI contributions.
- Marginal relief is available for companies with a tax liability between €40,000 and €60,000, to ensure new start-up companies with a liability of just over €40,000 do not lose the full value of the relief. Marginal relief operates by allowing relief on a tapering basis so that the closer the company comes to the outer €60,000 limit the less relief it will get.

Restrictions on the relief

- A company that takes over an existing trade or part of a trade, which was carried out in the State by another person, will not qualify in respect of income of the trade taken over.
- Relief will cease if part of the trade is transferred to a connected person.
- "Service companies" within Section 441 of the Taxes Consolidation Act 1997 do not qualify for the relief. (Service companies include close companies whose businesses consist of the carrying on of a profession or the provision of professional services, or of exercising an office or employment – for example: solicitors, dentists, accountants. Service companies also include businesses that provide services to professionals.)
- Transfers of part of a trade within the State to another company to keep below the €40,000 limit are prohibited as are transfers of assets into a new company from a connected company for the purpose of benefiting from the exemption. However, a foreign trade moving into the State for the first time may qualify.
- New start-up companies with a corporation tax liability of €60,000 or over in any of its first three years will not receive any relief for that year. The taxable profits of a company in this scenario would be close to a half-million euro (€480,000).
- New companies carrying out activities to which the higher rate of corporation tax (25%) under s.21A TCA applies (dealing in development land, petroleum activities etc.) do not qualify.
- A business cannot avail of an income tax relief for new unincorporated trades and then incorporate to also avail of the three year exemption from corporation tax for start-up companies.

Start Your Own Business relief (for unincorporated businesses)

Individuals who set up an unincorporated business subject to Income Tax may avail of Start Your Own Business relief (Section 472AA TCA 1997). This provides for relief from Income Tax for long term unemployed individuals who start a new business. The scheme provides an exemption from Income Tax up to a maximum of €40,000 in profits per annum for a period of two years to individuals who set up a qualifying business. These individuals must have been unemployed for a period of at least 12 months prior to starting the business to qualify. PRSI and USC remain payable. It runs from 25 October 2013 to 31 December 2018.

A business cannot avail of Start Your Own Business Relief and then incorporate to avail of three year exemption from corporation tax for start-up companies.

A person's own individual circumstances will dictate whether they choose to operate as a limited company or as a sole trader. In addition to the taxation issues to be considered, there are various other practical and legal matters which should be taken into account. It is not intended that the corporation tax relief would be a deciding fact for an entrepreneur on determining whether to operate as a sole trader or to trade through a company.

Section 472AA is also under review in 2018, due to a sunset clause which means the relief is due to expire on 31 December 2018. A separate ex-post evaluation will be published to evaluate the relevancy and efficiency of that relief, making a recommendation as to whether it should be extended in this year's Budget.

Ex Post Evaluation

- Is the tax expenditure still relevant?

The three year start-up relief from corporation tax was introduced to assist start-up companies in their critical early years of trading, by improving cash flow and encouraging additional employment as well as economic activity in the State. It was introduced in Finance (No. 2) Act 2008, during the economic downturn, when unemployment rates were rising sharply and many companies (start-up or otherwise) faced financial difficulty and the threat of liquidation. The economic conditions of the time could be considered a market failure; the relief was introduced as a measure to address this failure in the context of job creation and maintenance in start-up companies.

Since that time, Ireland's economy began to recover, which is reflected in the reduction in unemployment. The rate of unemployment in July 2018 (seasonally adjusted) was 5.1%, versus the equivalent 9.7% recorded in July 2015⁴, when the previous review of this relief was carried out, and the peak of 14.9% in June 2012. This suggests that the economy is now nearing full employment, and that policy interventions may need to focus on increasing participation rates and activation measures. However, notwithstanding this improving employment environment, new businesses still face other survival challenges in their early years.

The following tables show the number of enterprise survivals and the associated persons engaged⁵, 2011 to 2016⁶.

Note that the below data refer to both companies and other businesses (sole traders for example), so the data are an indication of the general trends among new enterprises as opposed to new start-up companies alone.

Year	# of births	# of these enterprises surviving after:				
		1 year	2 years	3 years	4 years	5 years
2011	14,344	12,970	11,943	10,720	10,157	9,535
2012	15,080	13,256	11,692	10,931	10,135	
2013	13,824	11,708	10,938	10,141		
2014	16,257	13,952	12,685			
2015	18,102	15,133				
2016	19,249					

⁴ Source: Central Statistics Office. <https://www.cso.ie/en/statistics/labourmarket/monthlyunemployment/>

⁵ "Persons engaged" include employees, proprietors and family members. Persons engaged are the sum of Employees plus Working Proprietors.

⁶ Source: Business in Ireland 2015; Central Statistics Office. <https://www.cso.ie/en/releasesandpublications/ep/p-bii/bii2015/ebsd/>

# of these same people remaining engaged after:						
Year	# of people involved in new enterprises during their year of birth	1 year	2 years	3 years	4 years	5 years
2011	16,794	15,005	13,715	12,492	11,870	11,212
2012	18,606	15,683	14,800	14,082	10,931	
2013	16,505	14,428	14,102	14,436		
2014	19,383	16,837	15,559			
2015	23,073	19,674				
2016	24,382					

The above data show that there was 14,344 new enterprises birthed in 2011. Of these, 12,970 enterprises (90.4%) survived one year in business; 11,943 (83.3%) survived two years in business; 10,720 (74.7%) survived three years in business; 10,157 (70.8%) survived four years in business and 9,535 (66.5%) survived at least five years in business.

In contrast, the last review noted that, of the enterprises birthed in 2007, only 48.4% survived their fifth year of business. There is a difference of 18.1% between the survival rates for enterprises birthed in 2007 and enterprises birthed in 2011. This is a positive shift in the likelihood of new start-ups surviving their early years of trading. While direct causality has not been established, it is reasonable to assume that the 3 year start up relief may have been a factor in the survival of qualifying businesses since its introduction in 2009.

That said, survival rates have declined somewhat in recent times. For example, the one-year survival rate declined from 90.4% in 2012 (for 2011 births) to 83.6% in 2016 (for 2015 births). The two-year survival rate declined from 83.3% in 2013 (for 2011 births) to 78.0% in 2016 (for 2014 births).

The number of people remaining engaged in the survival of enterprise corresponds to the survival rates of the enterprises themselves. For enterprises birthed in 2011, the number of people engaged in enterprise births was 16,794. The amount of these same people remaining engaged was reduced to 11,212 after five years (66.8%, roughly equivalent to the percentage of 2011 births surviving five years, 66.5%). In the short term, 85.3% of persons engaged in the birth of enterprises in 2015 remained after a year's time (2016).

The following table shows the number of people engaged in new enterprises that have survived into 2016:

New enterprises	Total people engaged in surviving new enterprises in 2016	% total people engaged in 2016 that were also engaged in birth year
2011 births	25,488	43.9%
2012 births	29,668	36.8%
2013 births	31,067	46.5%
2014 births	28,005	55.6%
2015 births	30,897	63.7%

These figures show that, while not all young enterprises will survive their early years of trade, those that do survive go on to engage more people than they did originally. This indicates that new enterprises that survive will engage different people in the future, giving more people an employment opportunity. However, this statistic may also indicate a high turnover of employees in young businesses. The figures do not explain why the people engaged in new enterprises subsequently ended their involvement despite the enterprises' survival. However, it is a sign that there may be limited job stability for the employees in new enterprises.

While the CSO data relate to all enterprises and is not limited to companies, it indicates survival rates for new start-ups are an issue. SMEs are essential for job creation and for encouraging growth in employment and economic activity in Ireland. In 2015, SMEs generated 47.8% of total Turnover in the business economy and almost 39% of Gross Value Added⁷ was attributed to these enterprises⁸. While unemployment rates have significantly decreased since the last review was carried out, enterprise survival rates show that start-up companies continue to struggle to survive in their first five years, even if their chance of survival has significantly increased since the late 2000s. The importance of SMEs to the economy (as well as employment) is noted by the Department.

⁷ Gross Value Added (GVA) represents the value of the goods and services produced, in this case, in the Irish business economy. You calculate GVA by measuring output minus intermediate consumption.

⁸ Source: CSO, Business in Ireland 2015. <https://www.cso.ie/en/releasesandpublications/ep/p-bii/bii2015/>

- How much does the tax expenditure cost?

In terms of the revenue forgone, the estimated tax cost for each year from 2010 to 2016 is as follows⁹:

Tax Year	Estimated Tax Cost €m	Average Claim €
2010	4.6	5,275
2011	6.8	5,296
2012	5.5	4,331
2013	4.9	4,682
2014	4.7	4,774
2015	4.8	5,121
2016*	5.7	5,386

**provisional*

Note that the relief took effect for trades commencing in 2009 but the relevant information was not captured on the 2009 corporation tax return.

- What is the impact of the tax expenditure?

The relief was introduced to provide support to new business ventures in their critical early years of trading, thereby creating additional employment and economic activity in the State.

Identifying the impact of the relief is difficult where the situation that would have prevailed in the absence of the relief is unknown. Furthermore other (non-tax) factors would also have significant impacts on new business ventures, so isolating the impact of the relief on improvements or deteriorations of survivorship of new companies, changes in employment creation and economic activity is not possible.

However, the following details on companies availing of the relief provide an insight into its use.

⁹ Source: Revenue Commissioners

Number of companies availing of the relief¹⁰

The number of claimants and costs for each of the years from 2010 to 2016 are as follows:

Tax Year	Number of Claims	Estimated Tax Cost €m
2010	872	4.6
2011	1,284	6.8
2012	1,270	5.5
2013	1,038	4.9
2014	977	4.7
2015	936	4.8
2016*	1,051	5.7

*provisional

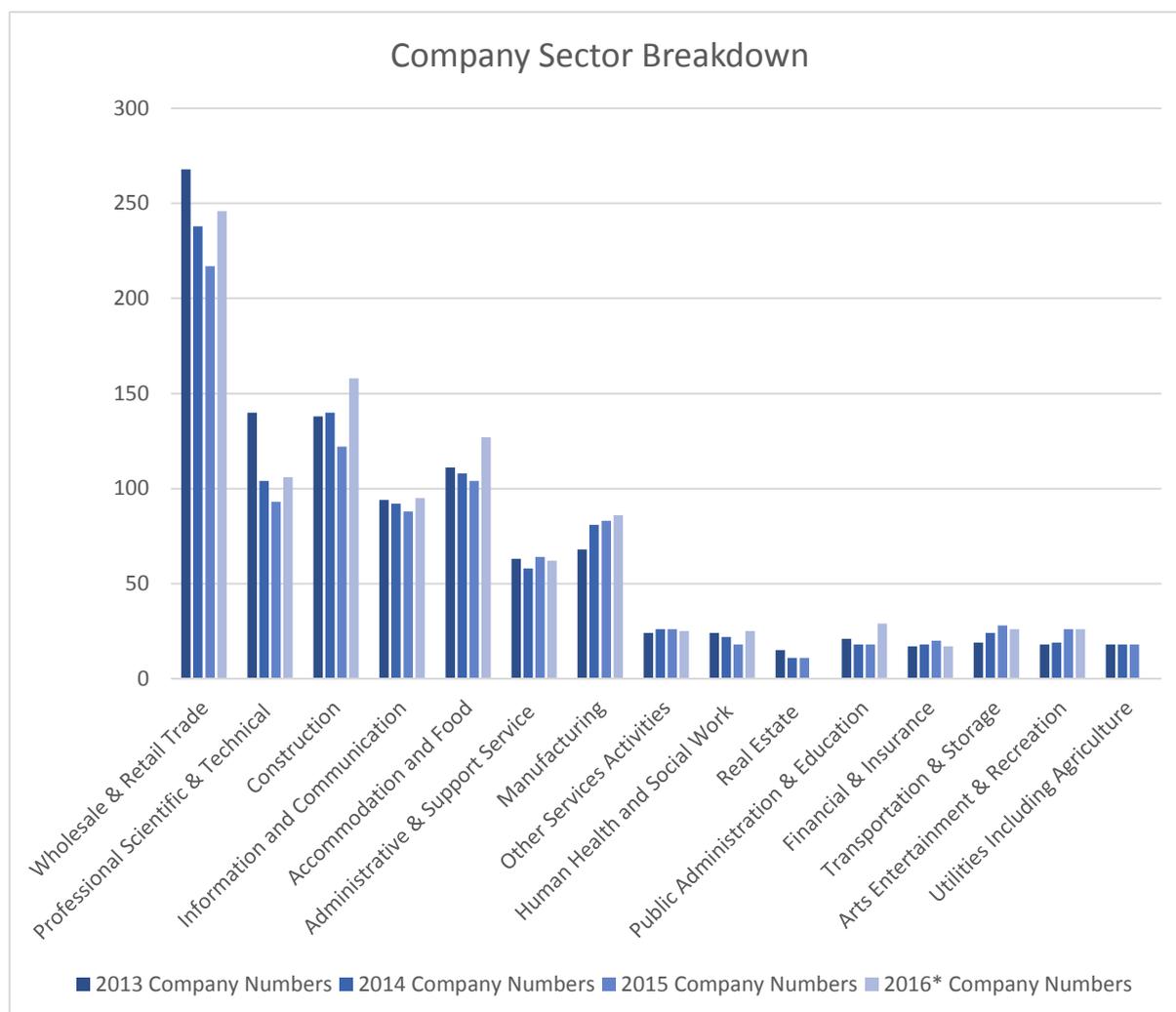
For the year 2013, 1,038 companies claimed €4.9 million in relief. Of these 1,038 companies, only 438 companies claimed the relief again for the year 2014 at a cost of €2.8m. Of these 438 companies, 209 companies claimed €1.4m relief again for the year 2015. Provisionally, of these 209 companies, 96 claimed €0.7m in relief in 2016.

The fall-off rate in claims, which is greater than the non-survival rates indicated by tables, could indicate that some businesses are becoming sufficiently profitable in the three year period to “out-grow” qualification for the relief.

The average year one claim for companies that first claimed in 2013 was €4,721. Although the number of companies claiming in year two decreased, the average year two claim increased by 35.4% (to €6,393). The number of claimants decreased further in year three, with the average claim increasing more modestly by 4.8% (to €6,699). This is an increase of 41.9% from year one.

The total cost over the three years associated with companies that first claimed for the year 2013 was €9.1m. To compare this to the total cost over the three years associated with companies that first claimed for the year 2010 of €8.5m, there is an increase of €0.6m, or approximately 7%.

¹⁰ Source: Revenue Commissioners



*2016 figures are provisional

In 2013 the largest concentration of companies availing of Section 486C relief was by companies in the “Wholesale and Retail Trade” sector, followed by those in the “Professional, Scientific and Technical” sector and then in “Construction”. In subsequent years (2014 to 2016) the sector with the greatest amount of companies claiming the relief remained the Wholesale and Retail Trade sector by a significant margin, followed by the Construction and the Accommodation and Food sectors. The Wholesale and Retail Trade sector accounted for 25.8% of claimant companies in 2013; approximately 24% in 2014, and approximately 23% in 2015. Provisional 2016 figures show that the sector’s share of relief uptake was 23.4% of the total. While this is a decrease from 2013, this nonetheless represents an increase in the number of claimant companies from this sector compared

¹¹ Breakdown is by NACE code. “Service companies” within Section 441 of the Taxes Consolidation Act 1997 do not qualify for the relief

¹² Source: Revenue Commissioners

¹³ For confidentiality reasons, no 2016 data are available for “Real Estate” or “Utilities Including Agriculture” because of the low numbers of cases. The reasoning for this is outlined in Revenue’s Statistical Disclosure Control Protocol. <https://www.revenue.ie/en/corporate/documents/statistics/about/statistical-disclosure-control.pdf>

to the previous year.

The Professional, Scientific and Technical sector accounted for 13.5% of all claimant companies in 2013, almost 11% in 2014 and approximately 10% in 2015. In 2016 the amount of claimant companies in this sector was 10.1% of the total number of companies claiming.

Notable is the gradual increase in the share of relief uptake by the Construction sector (with the exception of 2015). In 2013, that sector's uptake of the relief was approximately 13%; in 2014, Construction passed the Professional, Scientific and Technical sector with approximately 14% of the take up. In 2015 Construction represented 13% of the total companies claiming the relief.

Provisional take up figures for 2016 indicate that the Construction sector accounted for 15% of all claimant companies in that year.

These data (above and overleaf) show that the distribution of claimant companies has slowly shifted across a broader range of sectors: for example, between 2013 and 2016 there was a net increase in the percentage of claimant companies in eight sectors. This is matched by a slight decline in the percentage of claimant companies in the Wholesale and Retail Trade and the Professional, Scientific and Technical sectors, sectors which had the greatest percentage of claimant companies in 2013.

Sectors	% of total claimant companies in 2013	% of total claimant companies in 2016*	Change in percentage
Wholesale & Retail Trade	25.8%	23.4%	-2.4%
Professional Scientific & Technical	13.5%	10.1%	-3.4%
Construction	13.2%	15.0%	+1.8
Information and Communication	9.1%	9.0%	-0.1%
Accommodation and Food	10.7%	12.1%	+1.4%
Administrative & Support Service	6.1%	5.8%	-0.3%
Manufacturing	6.6%	8.2%	+1.6%
Other Services Activities	2.3%	2.4%	+0.1%
Human Health and Social Work	2.3%	2.4%	+0.1%
Real Estate	1.4%	N/Av	N/Av
Public Administration & Education	2.0%	2.8%	+0.8%
Financial & Insurance	1.6%	1.6%	No change
Transportation & Storage	1.8%	2.5%	+0.7%
Arts Entertainment & Recreation	1.7%	2.5%	+0.8%
Utilities Including Agriculture	1.7%	N/Av	N/Av

*2016 figures are provisional

**no 2016 data are available for "Real Estate" or "Utilities Including Agriculture" because of the low numbers of cases

Levels of employment in companies availing of the relief¹⁴

In 2013, the tax credit supported 1,038 companies that between them employed 11,750 employees. In the subsequent years (2014, 2015, 2016), while the number of total companies claiming the relief has decreased overall, the estimated number of employees in claimant companies has steadily increased. In 2015, the tax relief supported 936 companies that between them employ 12,948 employees. In provisional figures for 2016, the tax relief supported 1,051 companies that between them employ 15,597 employees. There is a 32.7% increase in the amount of employees employed by companies claiming the relief in 2016 from the amount of employees employed by 2013 claimant companies.

Year	Number of claimant companies	Estimated number of employees	Average number of employees per company
2012*	1270	13,295	10.5
2013	1038	11,750	11.3
2014	977	12,735	13.0
2015	936	12,948	13.8
2016**	1,051	15,597	14.8

*Employee numbers are not available for the years prior to 2012.

**2016 figures are provisional.

¹⁴ Source: Revenue Commissioners

The following table gives a breakdown by NACE of employees and their associated companies availing of the relief for the years 2015 and 2016:

Economic Sector	2015		2016**	
	# of Companies	# of Employees	# of Companies	# of Employees
Wholesale & Retail Trade	217	2,421	246	3,198
Professional Scientific & Technical	93	778	106	1,120
Construction	122	1,240	158	1,924
Information and Communication	88	636	95	850
Accommodation and Food	104	2,790	127	3,193
Administrative & Support Service	64	2,019	62	2,050
Manufacturing	83	677	86	833
Other Services Activities	26	316	25	206
Human Health and Social Work	18	666	25	906
Real Estate	11	79	N/Av*	82
Public Administration & Education	18	376	29	399
Financial & Insurance	20	236	17	100
Transportation & Storage	28	318	26	246
Arts Entertainment & Recreation	26	319	26	422
Utilities Including Agriculture	18	77	N/Av*	68
All Sectors	936	12,948	1,051	15,597

*no 2016 data are available for "Real Estate" or "Utilities Including Agriculture" because of the low numbers of cases

**2016 figures are provisional

This table provides the average number of employees per claimant company:

Sector	2015	2016**
Wholesale & Retail Trade	11.2	13.0
Professional Scientific & Technical	8.4	10.6
Construction	10.2	12.2
Information and Communication	7.2	8.9
Accommodation and Food	26.8	25.1
Administrative & Support Service	31.6	33.1
Manufacturing	8.2	9.7
Other Services Activities	12.2	8.2
Human Health and Social Work	37	34.8
Real Estate	7.2	N/Av*
Public Administration & Education	20.9	13.8
Financial & Insurance	11.8	5.9
Transportation & Storage	11.4	10.2
Arts Entertainment & Recreation	12.3	16.2
Utilities Including Agriculture	4.3	N/Av*
All Sectors	13.8	14.8

*no 2016 data are available for "Real Estate" or "Utilities Including Agriculture" because of the low numbers of cases

**2016 figures are provisional

Focusing on the most recent data, the sectors with the highest total number of employees working for claimant companies in 2016 are Wholesale and Retail Trade, Accommodation and Food and Administrative and Support Services.

These three sectors account for 54.1% of employees working in claimant companies in 2016. The overall average number of employees per claimant company was 14.8 in 2016.

The sectors with the lowest number of employees in 2016 in companies claiming the relief are Utilities Including Agriculture; Real Estate; and Financial and Insurance.

Taxable income of companies availing of the relief

The following table shows the taxable income and average corporation tax liability of companies using the relief:

Year	Number of Claimants	Taxable Income €m	Average Taxable Income per claimant €	Average CT Liability (Before Reliefs etc.) €
2013	1,038	59	56,826	7,142
2014	977	63	64,549	8,109
2015	936	65	69,842	8,760
2016*	1,051	74	70,052	8,782

* Provisional

- **Is it efficient?**

As it is not possible to directly link the relief to the number of jobs created or increase in economic activity, the efficiency of this relief in comparison to other methods of supporting job-creation and economic activity cannot be accurately measured. However, we can estimate the cost of the relief per job supported.

The estimated annual average cost per job supported is shown below:

Year	Number of Claimants	Estimated Tax Cost €m	Employee Numbers	Estimated Average Cost per job supported**
2013	1,038	4.9	11,750	381
2014	977	4.7	12,735	348
2015	936	4.8	12,948	364
2016*	1,051	5.7	15,597	352

* Provisional

** Excludes costs associated with companies where employee numbers aren't available

In 2015, at a cost of €4.8m, the tax relief supported 936 companies that, between them, employed approximately 12,948 people. The average cost per job supported was €364. Provisional figures for 2016 indicate that, at a cost of €5.7m the tax relief supported 1,051 companies that between them employ approximately 15,597 people. The average cost per job supported was €352. Many of these employees would themselves be paying income taxes, thereby reducing the net cost to the Exchequer.

Conclusions

At the time of its introduction in Finance Act (No.2) 2008, Section 486C Relief from Tax for Certain Start-up Companies addressed a market failure by supporting profit-making start-up companies in the midst of an economic recession. Objectives of the scheme also include supporting employment and broadening the corporation tax base.

The relief was amended in 2011 so that it exclusively supports profit-making start-up companies that create and maintain jobs, by restricting the relief available to a company by reference to its Employers' PRSI payments. This was in line with the Government's mandate to encourage both the job market and economic activity.

The relief was amended once more in 2013 so that unused relief could be carried forward (indefinitely) where a company qualifies for the relief during its first three years of trading, but does not make enough profit in those years to fully utilise the relief. This amendment helps young companies who made losses in their early years by allowing the relief when their enterprise becomes profitable in the future. This in turn supports the survival of those companies as they enter into profitability and encourages the creation and retention of jobs.

Ireland's economy and its employment rates have improved since the introduction of the relief in 2009. However notwithstanding economic improvements, as employment policy measures shift from reducing unemployment to increasing participation, a start-up relief linked to employment costs continues to have relevance.

New start-up companies continue to struggle in their early years of trading. According to present data, less than 70% of new SMEs can expect to remain in business after five years of trading. Reliefs that assist these businesses with cash flow in their early years of trading allow them to focus on surviving, expanding and generating employment.

The largest sectoral concentration of companies availing of Section 486C relief has consistently been by companies in the "Wholesale and Retail Trade" sector. Over the period of operation the distribution of claimant companies has slowly shifted across a broader range of sectors: for example, between 2013 and 2016 there was a net increase in the percentage of claimant companies in eight sectors, and a corresponding decrease in the concentration in the "Wholesale and Retail Trade" and the "Professional, Scientific and Technical" sectors, sectors which had the greatest percentage of claimant companies in 2013.

The current average annual cost per job supported by the relief is €352. At current rates, this is less than two weeks of Jobseeker's Benefit payments¹⁵. The relief supports job creation and employment at minimal cost to the Exchequer when contrasted to the potential cost of unemployment support for the employees of the enterprises claiming this relief.

¹⁵ Source: The Department of Employment Affairs and Social Protection. Based on an adult aged 26 or over, qualifying for the full personal rate of Jobseeker's Benefit - €198 per week.
<http://www.welfare.ie/en/Pages/Jobseeker's-Benefit.aspx>

Recommendations

- As a result of the findings of this report, the Department recommends extending Section 486C relief a further three years until the end of 2021.
- Another ex-post evaluation should be carried out in 2021 prior to that year's Finance Bill to assess the continued suitability of the relief.
- The link between the relief and the amount of Employers' PRSI should remain as this measure serves to encourage start-up companies to retain employees.
- This report also recommends that additional methods to track claimant companies year-to-year should be considered, so as to improve the data available for the next review of this relief in 2021.