Small companies cheer sought-after tax cut to employee share options

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Gill Brennan, CEO of IPSA.

Gretchen Friemann

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Finance Minister Paschal Donohoe unveiled a drastic cut in the tax levied on share options to employees of smaller, often riskier companies - alleviating a persistent bugbear in the sector.

The new Key Employee Engagement Programme (Keep) would "support small and medium enterprises in their efforts to attract and retain key employees in a competitive international labour market, by providing for an advantageous tax treatment on share options," Mr Donohoe said yesterday.

The measure is designed to help smaller firms recruit talented staff without draining the balance sheet, enabling them to offer potentially lucrative share options in lieu of a generous salary.

Under the existing laws, employees pay punitive rates of income tax on share awards and share options - but they are then hit with a capital gains charge if they go on to sell the shares.

Gill Brennan, CEO of industry lobby group the Irish ProShare Association (IPSA), had described the exiting legislation as "bonkers" and warned that without a tax reduction, smaller firms faced a "brain drain", particularly from multinationals such as Google, Facebook and Apple.

The Department of Finance set out how the new scheme will work in the final pages of Budget 2018.

A hypothetical scenario set out by the department illustrated the scale of the tax saving in the new scheme.

It showed that if an employee was provided the opportunity to purchase €10,000 worth of shares in April next year at a price of €1 per share, but did not exercise the option for three years - by which time the shares have increased in value to €3 per share - that would deliver a €20,000 discount to the employee to the shares' market value.

If the same individual then sold the shares a year later, when the stock's value has risen to €40,000, the employee must then pay capital gains tax at 33pc on the total €30,000 gain - delivering a 15.75pc tax saving on the initial discount.

Lobby groups and accountancy firms immediately welcomed Mr Donohoe's announcement, with Ibec characterising it as "very positive".

Senior economist at the organisation Gerard Brady said that Ibec had campaigned for the tax reduction for years, but stressed its impact could be assessed only when the details of the scheme were released in the upcoming Finance Bill.

John Murphy, a tax specialist at accountancy firm PwC, said the new scheme reduced the tax bill on share options by close to 20pc and noted that the incentive would be relevant for share options granted from January 1, 2018, to December 31, 2023.

The Keep scheme is also expected to be embraced by the tech, fintech and vulture capital sectors.

Peter Oakes, of Fintech Ireland, an advocacy group for technology companies in the financial services sector, pointed out the ability of small firms to pay out attractive salaries without handing out large sums of cash was "essential in a small, open economy like Ireland".

While he acknowledged that cash-strapped start-ups in the fintech space faced a tough battle recruiting talented staff, he stressed the venture capital stake holders of these companies were equally interested in ensuring staff were offered attractive pay, perks and options.

Daryl Hanberry, a tax partner at Deloitte, applauded the long campaign for the introduction of the Keep scheme, arguing it would provide a "tax-effective way of remunerating employees".

Irish Independent

Paschal Donohoe at Budget 2018 presented by INM and sponsored by KPMG. Photo: Kyran O'Brien

Donohoe dashes hopes of cut to exit tax for investors

Charlie Weston Finance Minister Paschal Donohoe has confirmed that he will not include any provision in the Finance Bill to cut the exit tax on investments.

Stay-at-home parent Pauline O'Reilly with her children Finn (10) and Cara (6) and Snowdrop the hen at home in Galway. Photo: Andrew Downes

'€100 put on home carer's tax credit doesn't come close to alleviating pressure'

Dean Gray Stay-at-home parent Pauline O'Reilly believes her choice to care for her children at home is not valued, with a meagre €100 increase in her home carer's tax credit.

Dr Michelle O'Connor says many mothers are concerned about childcare issues. Photo: Liam Burke

'I'm worried health funding will vanish down a black hole'

Ryan O'Rourke Dr Michelle O'Connor lives in the small Co Limerick town of Abbeyfeale with her husband and two young sons aged nine and five.