REVIEW OF THE FOREIGN EARNINGS DEDUCTION

OCTOBER 2014

An Roinn Airgeadais
Department of Finance

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Foreign Earnings Deduction

Executive Summary

In Budget 2012, the Minister for Finance, Mr Michael Noonan T.D., announced the introduction of the *"Foreign Earnings Deduction" (FED).* A variation on the deduction had been previously introduced in 1994 and later abolished in 2003. The aim of the deduction introduced in 2012 was to support efforts by multinationals and indigenous firms to expand their exports into the growing economies of the "BRICS" countries (Brazil, Russia, India, China and South Africa).

The FED provides a deduction from income for income tax purposes of up €35,000 per year for travel to certain countries. The scheme was introduced for an initial three year period and on its introduction, Minister Noonan committed to a review of the deduction before it was due to end on 31 December 2014.

The review comprised of:

- An analysis of the background and rationale for the deduction;
- An analysis of the data available from the Revenue Commissioners including the cost and take-up of the deduction;
- Examination of the proposals and comments received from the Public Consultation on the FED which ran from 31 March 2014 to 9 May 2014;
- Consideration of discussions held with stakeholders on the deduction;
- Examination of similar type deductions in a number of other jurisdictions; and
- Examination of options for FED after 31 December 2014.

A total of 9 submissions containing 22 proposals for amendments to FED were received from groups including industry representative bodies, government agencies, companies and accountancy firms. In addition, 5 stakeholder meetings were held to discuss the proposals further. While the proposals vary, the consensus among the stakeholders is that export led growth remains critical and that the FED should be retained and enhanced to support SMEs who wish to develop export markets.

A number of options have been considered such as letting FED lapse, allowing it to continue for a further three years with no changes and amending and extending the scheme.

Introduction

1.1 In Budget 2012, the Minister for Finance, Mr Michael Noonan T.D., announced the introduction of the *"Foreign Earnings Deduction" (FED).* A variation on the deduction had been previously introduced in 1994 and later abolished in 2003. The aim of the deduction introduced in 2012 was to support efforts by multinationals and indigenous firms to expand exports into the growing economies of the "BRICS" countries (Brazil, Russia, India, China and South Africa).

1.2 The FED was introduced for an initial three year period. On its introduction, Minister Noonan committed to a review of the deduction before it was due to end on 31 December 2014.

1.3 The Government, in its Medium Term Economic Strategy[1] (December 2013), committed to conduct a regular programme of tax relief reviews using public consultation as appropriate and to publish the results. The commitment to review FED was also restated in the Government's Action Plan for Jobs 2014[2] to "Critically analyse the Foreign Earnings Deduction (FED) with a view to adapting it if necessary to encourage SME's to expand into new foreign markets".

1.4 Delivering on Minister Noonan's commitment and the Government's commitment, the Department of Finance, in consultation with the Office of the Revenue Commissioners, undertook a comprehensive review of the FED in 2014.

1.5 The review comprised of:

- An analysis of the background and rationale for the deduction;
- An analysis of the data available from the Revenue Commissioners including the cost and take-up of the deduction;
- Examination of the proposals and comments received from the Public Consultation on the FED which ran from 31 March 2014 to 9 May 2014;
- Consideration of discussions held with stakeholders on the deduction;
- Examination of similar type deductions in a number of other jurisdictions; and
- Examination of options for FED after 31 December 2014.

1.6 This report summarises the review of the FED and has been prepared to assist the Minister in his consideration of the deduction in the context of Budget 2015.

[1] Medium Term Economic Strategy
[2] Action Plan for Jobs 2014 Action 28

2. Policy Context

2.1 In its Statement of Priorities 2014 - 2016[3] published in July 2014, the Government outlined its economic strategy to grow the economy by 2.1% in 2014; 2.7% in 2015 and 3% by 2016, and return the economy to full employment (2.1 million people) by 2020, replacing all of the jobs lost during the economic crisis. Consistent with these targets, the Action Plan for Jobs aims to add 100,000 jobs to the economy by 2016 compared with 2012.

2.2 Part of the Government's economic strategy is to support export led economic growth.

2.3 Specifically, the Action Plan for Jobs 2014[4] in relation to "Winning Abroad" sets out the following commitments to:

- Target the creation of an additional 10,000 new jobs (6,000 direct and 4,000 indirect) over 5 years through an investment programme which will see the provision of additional resources to IDA Ireland to be deployed overseas including in emerging markets and intensifying FDI employment growth;

- Increase support for companies seeking to trade internationally, through the provision of additional on-the-ground support by Enterprise Ireland in overseas markets including China, South Korea, United Arab Emirates and South Africa. This will also include targeting 650 companies to have significant engagement with the Enterprise Ireland Potential Exporters Division, working with 55 first-time exporters and providing a range of programmes to exporters in 2014;

- Develop the capabilities of Irish enterprises to grow exports through programmes aimed at both existing exporters and potential exporters;

- Promote Ireland's image abroad to drive increased trade, tourism and investment and implement Local Market Plans in priority markets; and

- Undertake targeted initiatives in sectors including international education services, engineering services and cultural services and design.

2.4 In 2014, the Department of Foreign Affairs and Trade undertook a review of Government Trade, Tourism and Investment Strategy[5]. The key recommendations of the Review were:

- The establishment of a 'new market approach' by disaggregating Ireland's 27 priority markets to ensure that Ireland engages with high-growth markets in Asia, South America and Africa;
- The inclusion, for the first time, of a 2015 target of €900 million for the international education sector in recognition of its growing economic contribution; and

[3] Government Statement of Priorities
[4] Action Plan for Jobs 2014
[5] Government Trade, Tourism and Investment Strategy

- The maintenance of existing targets for the creation of 150,000 new jobs directly associated with exporting enterprises, a 33% increase in exports by State agency-assisted companies and 780 new inward investment projects through IDA Ireland.

2.5 The Review identified a number of numerical targets to be achieved by the end of 2015 across five high level areas; jobs, exports, diversification of exports, tourism, and inward investment. In relation to exports, the targets were to:

• Increase the value of exports by State agency assisted indigenous companies by 33%

• Diversify the destination of indigenous exports as follows:

  - Increase the share of food and drink exports to countries outside the UK, from 56% to 62%;
  - Increase the share of other exports to countries outside the UK, from 57% to 63%; and
  - Increase the share of food and drink exports to Asia, from 4.3% to 7%.

3. History of the Foreign Earnings Deduction

3.1 Section 154 of Finance Act 1994 introduced a Foreign Earnings Deduction providing a deduction from income tax for persons resident in the State who worked outside it for significant periods. Prior to 1994, concessional relief had been available which provided that unremitted earnings were not taxed in the State.

3.2 The 1994 measure applied to persons who worked abroad, other than in the UK, for a least 90 days in a period of 12 months in continuous periods of at least 14 days at a time. The relief was not available to persons whose employments were funded out of the Revenue of the State, such as public servants. The relief was initially unlimited and operated on a proportionate basis related to the amount of time spent abroad in a year. For example, if a person worked abroad for six months the relief was equivalent to half of the person's income for the year. The relief was subsequently limited to £25,000 (€31,750) per annum in Finance Act 2000 as part of an overall policy to reduce the extent to which high earners could lower their taxable income, to limit the overall cost of the deduction and to ensure equity in the tax system.

3.3 The legislation (Section 823 of the Taxes Consolidation Act 1997) providing for the deduction was amended on a number of occasions in order to curtail unintended use of the scheme. These included cases where:

- Individuals were claiming the relief when they were not absent from the State throughout the day, as well as at midnight; and

- Severance payments, share options and benefits-in-kind were being included in the annual income that was being claimed.

3.4 Section 31 of Finance Act 2001 imposed a closing date of 31 December 2003 on the relief.

3.5 In Budget 2012, the Minister for Finance re-introduced the Foreign Earnings Deduction with the aim of supporting efforts by multinationals and indigenous firms to expand their exports into economic growth markets. The scheme provided a deduction for those employees temporarily assigned from Ireland as part of their employment to Brazil, Russia, India, China and South Africa (BRICS). It was designed to incentivise employees to undertake trips to the countries involved with a view to increasing Irish exports to the large populations of those countries. The deduction is limited to a maximum of €35,000 per annum and a minimum of 60 days must be spent in any of the countries concerned before it can be claimed.

3.6 In Budget 2013, in order to further encourage the development of export markets by Irish-based enterprises, particularly enterprises in the agricultural sector, for the tax years 2013 and 2014 the relief was also made available for individuals who spend part of a tax year working in Algeria, the Democratic Republic of the Congo, Egypt, Ghana, Kenya, Nigeria, Senegal or Tanzania.

4. Description of the Foreign Earnings Deduction

4.1 For the tax years 2012, 2013 and 2014, employees who carry out part of the duties of their employment in Brazil, Russia, India, China or South Africa (each of these countries is known as a "relevant state") may claim the Foreign Earnings Deduction.

4.2 The relief is also available for the years of assessment 2013 and 2014 for individuals who spend significant amounts of time working in Egypt, Algeria, Senegal, Tanzania, Kenya, Nigeria, Ghana and the Democratic Republic of the Congo.

4.3 The basic qualifying condition is that, within a period of 12 months (part of which is in the tax year to which the claim relates), the employee has worked in one or more of the relevant states for a minimum period of 60 "qualifying days".

4.4 A "qualifying day" is a day on or after 1 January 2012 that is one of at least 4 consecutive days devoted substantially to carrying out the duties of the relevant employment where, throughout the whole of each such day, the individual is present in a "relevant state".

4.5 Saturdays, Sundays and public holidays, throughout the whole of which the individual is present in a "relevant state" and which form an unavoidable part of a business trip to a "relevant state", may be counted as “qualifying days”.

4.6 Days spent travelling to and from a "relevant state" where the individual is not present for the whole of the day in a "relevant state" may not be counted. However, days spent on uninterrupted travel between "relevant states" may be counted as qualifying days.

Exclusions

4.7 The Foreign Earnings Deduction does not apply to employments funded out of the Revenue of the State, such as public servants, nor does it apply to income -

- From an employment to which the remittance basis of taxation applies;
- To which the key employee research and development tax relief applies;
- To which the "split year" residence rules applies;
- To which the cross border worker relief applies; and
- To which relief under the special assignee relief programme (SARP) applies.

Worked Example

The deduction

4.8 The amount of the deduction (i.e. the amount of income from the employment that may be relieved from tax) is the lesser of:

(a) The “specified amount” (see below), or

(b) €35,000.

The specified amount

4.9 The “specified amount” is calculated by using the formula:

$$\underline{D \times E}$$

F

Where:
D is the number of “qualifying days” worked in a “relevant state” in the tax year

E is all of the income from the employment in the tax year (including any taxable share options derived from the employment less any qualifying pension premium but excluding tax deductible expenses payments, benefits-in-kind, termination payments and payments payable under restrictive covenants)

F is the total number of days that the relevant employment is held in the tax year (365 days in a full tax year).

Note: The “specified amount” is reduced by the amount of any income earned on qualifying days in respect of which double taxation relief is available in this State under a Tax Treaty.

Example
Tom is required by his employer to travel to Russia to seek new markets for his employer’s goods. He arrives in Russia at 10 p.m. on 10 January 2012 and works there until he departs on 12 April 2012 at 8 a.m. His salary is €160,000. Tom spends 92 qualifying days in Russia (21 in January, 29 in February, 31 in March and 11 in April). Days of arrival and departure are not counted as qualifying days as he is not present in Russia for the whole of these days.

The specified amount is, therefore, the ***lesser*** of:

(a) €35,000, or

(b) The amount calculated by the formula:

$$\frac{92 \text{ days}}{365 \text{ days}} \times €160{,}000 = €40{,}328$$

As €35,000 is the lesser amount, Tom is entitled to reduce, for tax purposes, his salary from €160,000 to €125,000.

Method of Claiming the Relief
4.10 Since the amount of any deduction depends on the number of qualifying day’s absence in either a tax year or in the period of 12 months straddling two tax years, the deduction is given by way of end of year tax review. Claims to Revenue must be supported by a statement from the employer indicating the dates of departure and return to the State of the employee and the location at which the duties of the office or employment were performed while abroad.

5. Take up of the FED and Quantification of the Cost

5.1 When the FED was reintroduced in 2012, it was estimated that for every 100 individuals that availed of the scheme, the cost to the Exchequer in terms of tax forgone would be just under €1.5 million per annum.

5.2 According to the latest information available from the Office of the Revenue Commissioners, the full year cost to the Exchequer of the FED scheme for the 2012 tax year was €0.6 million in respect of 83 employees. Complete information in relation to 2013 returns is not yet available, as the Form 11 tax returns for 2013 are not due to be filed until later this year. However, tax claims received in the first six months of 2014 for the tax year 2013 for PAYE employees indicate an estimated cost of €0.2 million in respect of 33 employees.

5.3 The following table illustrates the countries visited:

Country Visited	**% of Claims - 2012**	**% Claims – 2013* provisional**
South Africa	27%	29%
Russia	16%	2%
India	10%	19%
Brazil	6%	8%
China	30%	18%
Multiple Countries	11%	24%

*****The 2013 figures are based solely on PAYE returns as self-assessed returns for 2013 are not yet fully processed.

6. Quantification of Benefits

Ireland's export markets

6.1 In 2013, Irish exports of goods and services amounted to €185 billion, up 0.8% on 2012. Services exports reached a record level of €92 billion with computer services being the largest value category of services exports at €39 billion in 2013.[6]

6.2 Table 1 below summarises Ireland's main trading partners in terms of the total value of goods and services exports in 2012:

Table 1 – Ireland's Main Trading Partners 2012

Top 10 countries to which Ireland exports goods and services in 2012			
Rank	**Country**	**Exports €m**	**% of Total Irish exports**
1	United Kingdom	32,579	17.9%
2	USA	26,110	14.3%
3	Germany	15,558	8.5%
4	Belgium	15,368	8.4%
5	France	10,021	5.5%
6	Italy	8,067	4.4%
7	Netherlands	7,248	4.0%
8	Switzerland	7,216	4.0%
9	Spain	5,433	3.0%
10	Japan	4,814	2.6%

6.3 The top 10 countries continue to be dominated by the traditional export markets of the UK, US, European countries and Japan.

6.4 Currently, markets in emerging Asia, Latin America and Africa account for a considerable hare of global import growth. Irish exports have a relatively low penetration rate in these markets. Some examples are:

- China (2.5% of total Irish exports)
- India (0.9% of total Irish exports)
- Brazil (0.3% of total Irish exports)
- Mexico (0.4% of total Irish exports)

6.5 As outlined in the Forfás report "Ireland's Competitiveness Performance 2013"[7], Ireland has a low level of exports to emerging economies relative to the euro area average. It is projected that 90% of world economic growth will be generated outside of Europe by 2015[8].

[6] CSO Balance of International Payments Q1 2014 CSO International Trade in Services 2012
[7] Forfás Report "Ireland's Competitiveness Performance 2013
[8] EU Commission (2012) Commission Staff Working Document External Sources of Growth. Progress Report on EU Trade and Investment Relationships with Key Economic Partners. July 17, 2012.

Therefore, there is considerable potential for Ireland to increase exports to these emerging markets.

6.6 The re-introduction of the FED in 2012 could not have given rise to an immediate increase in Irish export figures to targeted markets. Given that the FED in its first year in 2012 was taken up by just 83 employees and the time required for companies to establish themselves in those markets, the benefit of the deduction may not be apparent in export figures for some years. Stakeholders have advised that the availability of the deduction is an important support for SMEs trying to develop export markets into these emerging markets. Stakeholders believe however, the low take up of the deduction could be due to the current conditions and restrictions that apply to the deduction and that amendments should be considered. Stakeholder's views are discussed in greater detail in section 8.

7. International Comparisons

7.1 While there are no directly equivalent schemes to FED provided by other countries, the following jurisdictions were examined as they provide schemes for foreign earnings:

United Kingdom

7.2 Generally everyone who is resident in the UK will normally pay UK tax on all their earned income, wherever it arises. However, seafarers are entitled to a deduction of 100% with respect to their earnings abroad, if their work has kept them out of the UK for a certain minimum period of time. This 'foreign earnings deduction' was introduced in the mid-1970s and extended to all UK residents working overseas. Prior to 1998, UK residents who left to work abroad, but did not leave for an entire UK tax year (April 6 to April 5) and so remained UK tax resident were able to claim a 100% deduction from their overseas earnings, provided that they met with certain rules. In 1998, the foreign earnings deduction was restricted to seafarers only and was renamed the 'seafarers' earnings deduction'.

Belgium

7.3 Belgium operates a foreign workday tax relief by invoking the provisions of a double tax treaty, as opposed to domestic tax relief. This means that the relief is available only where the foreign workdays are exercised in tax treaty countries. Under a system of exemption with progression, the income related to foreign workdays itself is not taxed in Belgium but is aggregated with other taxable income to determine the marginal tax rate that applies to other taxable income. For example, an employee earning €100,000 with 20% eligible foreign workdays would be liable to income tax on €80,000 but the marginal tax rate applicable to the taxed income is determined based upon a threshold of €100,000.

Singapore

7.4 A deduction from gross income linked to the level of foreign workdays in the tax year is available. It applies only to certain employees who are not Singaporean citizens and do not hold permanent residency permits. To qualify the individual must be resident but not ordinarily resident, earn at least $160,000 annually and perform a minimum of 90 workdays outside Singapore per annum.

USA

7.5 US citizens are liable to US taxation on worldwide income even if the individual has no physical presence in the US during a tax year. It is possible to claim a Foreign Earned Income Exclusion which provides a tax deduction from gross employment income of $92,900 (for 2011, $95,100 for 2012 and $97,600 for 2013). To qualify the individual must spend at least 330 days outside the US in the tax year and be considered a bona fide overseas resident.

8. Public Consultation

8.1 On 31 March 2014, the Minister for Finance, Mr Michael Noonan T.D., announced the commencement of a public consultation process on FED in addition to a number of other tax schemes. The public consultation on FED ran for six weeks and closed on 9 May 2014. Analysis of the proposals received is set out below. Following the public consultation period, officials from the Department of Finance and the Office of the Revenue Commissioners engaged in a series of meetings with key stakeholders to further discuss their proposals and views on the deduction. The views and experience on FED that the stakeholders have shared with the Department and Revenue during the consultation process has been an important contribution to the review of FED and the Department wishes to express its appreciation for these contributions.

Analysis of proposals received

8.2 A total of 9 submissions containing 22 proposals for amendments to FED were received from groups including industry representative bodies, government agencies, companies and accountancy firms. In addition, 5 stakeholder meetings were held to discuss the proposals further. While the proposals vary, the consensus among the stakeholders is that export led growth remains critical and that the FED should be retained and enhanced to support SMEs who wish to develop export markets.

8.3 The most frequently cited proposals for amendments to FED are broken down as follows:

1. Extend the scheme to all countries highlighted in the Government's Integrated Plan for Trade, Tourism and Investment/all non-EU countries;
2. Include travel days in the minimum qualifying days;
3. Reduce the minimum qualifying days from 60 to 20/25/30/40;
4. Remove/Increase the cap on the amount of income that can be deducted; and
5. Provide the relief through the PAYE system.

Proposal 1: Extend to all countries highlighted in the Integrated Plan for Trade, Tourism and Investment/all non-EU Countries

8.4 When introduced, the FED provided for a deduction from income for travel to Brazil, Russia, India, China or South Africa. In Budget 2013 the qualifying countries were extended to include travel to Egypt, Algeria, Senegal, Tanzania, Kenya, Nigeria, Ghana and the Democratic Republic of the Congo.

8.5 A total of 6 submissions sought this amendment, which equates to 67% support for this proposal. Fig 1 below shows the breakdown of the support for this proposal:

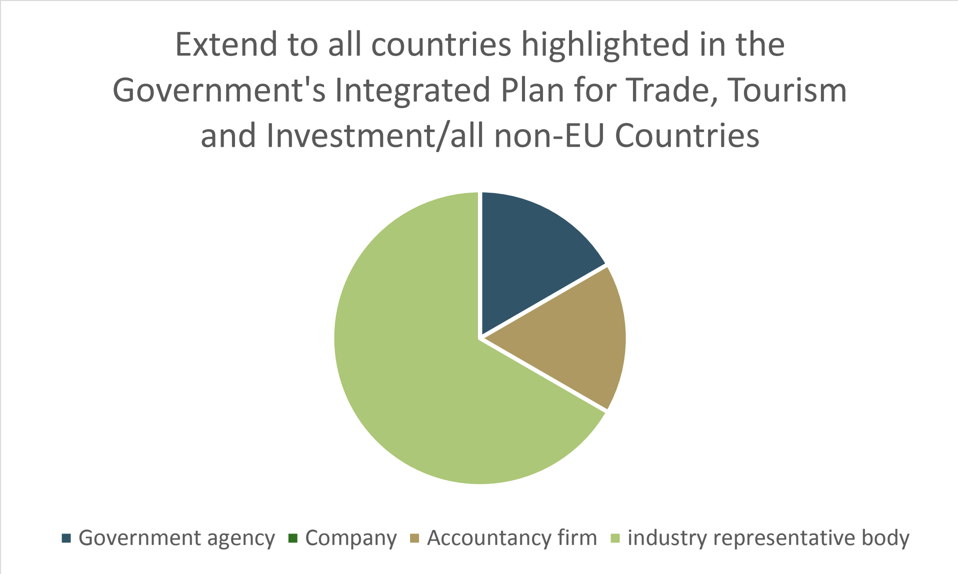

Fig 1: Breakdown of submissions in relation to Proposal 1

8.6 A sample of comments made in support of extending the list of qualifying countries is set out below:

"The further expansion of the list of countries to align with the Government's Trade, Tourism and Investment Strategy 2010-2015. Such an alignment would expand the selected countries to include Japan, Australia, Singapore, South Korea, Saudi Arabia, UAE, Malaysia, Turkey, Indonesia, Mexico, Vietnam, Thailand and Chile."

"The rationale for extending the foreign earnings deduction in Budget 2013 was sound; however, the list of countries announced was arbitrary. This initiative should be extended to all countries highlighted in the Integrated Plan for trade, Tourism and Investment, including Japan and the Gulf States."

"The initiative should be extended to all countries highlighted in the Integrated Plan for Trade, Tourism and Investment, including Japan and the Gulf States."

"In order to assist Irish companies in their efforts to internationalise their operations and realise their export potential we would welcome some consideration being given to extension of the scope of the FED beyond the currently applicable countries, perhaps to all non-EU countries."

"Our suggestion is to confine the relief to non EEA locations which we believe represents a balance between the potentially higher cost to the Exchequer of extending the relief to EEA markets and the greater distance and effort associated with conducting business outside the EEA."

Observations on Proposal 1

- The Government's Integrated Plan for Trade, Tourism and Investment identifies strategic priority markets, mainly in Asia and the Middle East. Some of the identified countries are already included in the scheme, while some would be ineligible due to their location in the EU. As regards some others, there is the risk of deadweight due to Ireland's existing strong exports to these markets. However, there may be merit in considering the extension of the scheme to some of the identified countries.
- Extending to all non-EU countries could greatly increase the cost of the scheme and include countries where Ireland already has mature trade relationships.

Proposal 2: Include travel days in the qualifying days

8.7 Under the current scheme, days spent travelling to and from a qualifying country where the individual is not present in that country for the whole of the day are not included as a qualifying day abroad.

8.8 A total of 5 submissions sought this amendment, which equates to 56% support for this proposal. Fig 2 below shows the breakdown of the support for this proposal:

Fig 2: Breakdown of submissions with regard to Proposal 2

8.9 A sample of comments made on the inclusion of days spent travelling is set out below:

"The exclusion of 'days spent travelling to and from a relevant state where the individual is not present for the whole of the day in a relevant state' appears not to align with the policy rationale in Budget 2013 'to compensate employees for travel to locations which were difficult to access from a distance perspective and due to language barriers'."

"The definition of the qualifying days should also include travel to and from the country as for many of these locations require much longer than normal business travel to reach."

"The days of travel should be included when counting the number of qualifying days."

Observations on Proposal 2

- This proposal could result in an individual getting credit for the whole of the day while also being resident and working in Ireland on that day.
- The exclusion of travel time could be preventing individuals from availing of the scheme, as they may not spend 4 consecutive days in a country, but the overall trip length when travel time is included could be 4 days or more.

Proposal 3: Reduce the minimum qualifying days from 60 to 20/25/30/40

8.10 In order to qualify for FED the employee must have worked in one or more of the qualifying countries for a minimum of 60 days in a year.

8.11 A total of 5 submissions sought this amendment, which equates to 56% support for this proposal. Fig 3 below shows the breakdown of the support for this proposal:

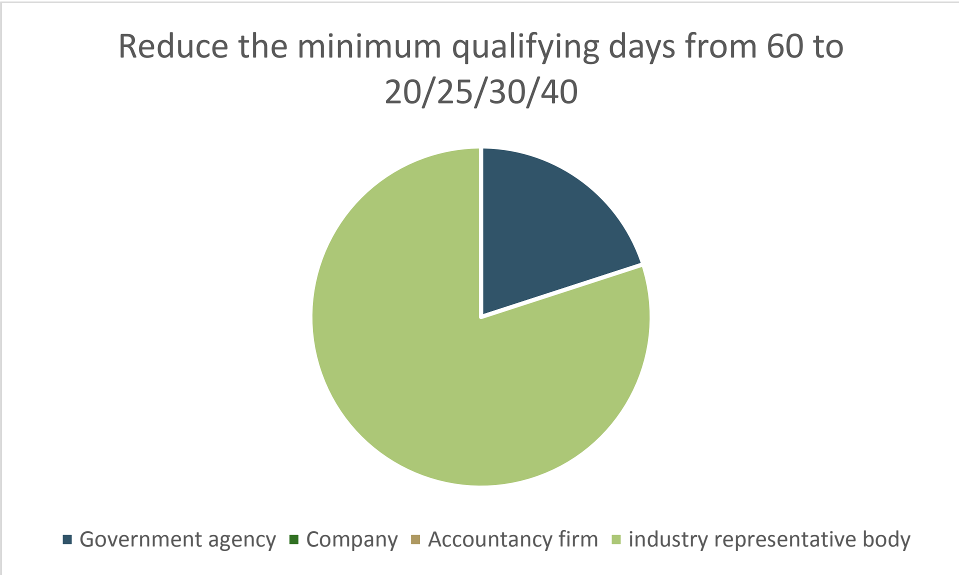

Fig 3: Breakdown of submissions with regard to Proposal 3

8.12 A sample of comments made in support of the reduction of the minimum number of days is set out below:

"The number of days should be less than 60 for small and medium enterprises to take account of economic and business realities. The minimum period for qualifying days should be reduced to approximately 20 days, to make this relief SME friendly."

"To improve the take-up of the relief by SMEs the minimum period for qualifying days should be reduced to approximately 20 days."

"This 60 day rule is a high bar for smaller firms – particularly owner-managers of a small business that have personal responsibility for overseas marketing. On the positive, this targets the income tax relief to those individuals spending significant time in the qualifying countries; e.g. mini-assignments. On the negative, it is a considerable period, particularly where day of departure and return are excluded and such duration could be a barrier to take-up for SMEs with limited workforce."

Observations on Proposal 3

- The current 60 day threshold could be considered overly high for small businesses with just a few employees who cannot afford to have a staff member absent on trade missions for two months of the year.

Proposal 4: Remove/Increase the cap on the amount of income that can be deducted

8.13 The maximum amount of income that can be deducted under the scheme is €35,000 per annum.

8.14 A total of 3 submissions sought this amendment, which equates to 33% support for this proposal. Fig 4 below shows the breakdown of the support for this proposal:

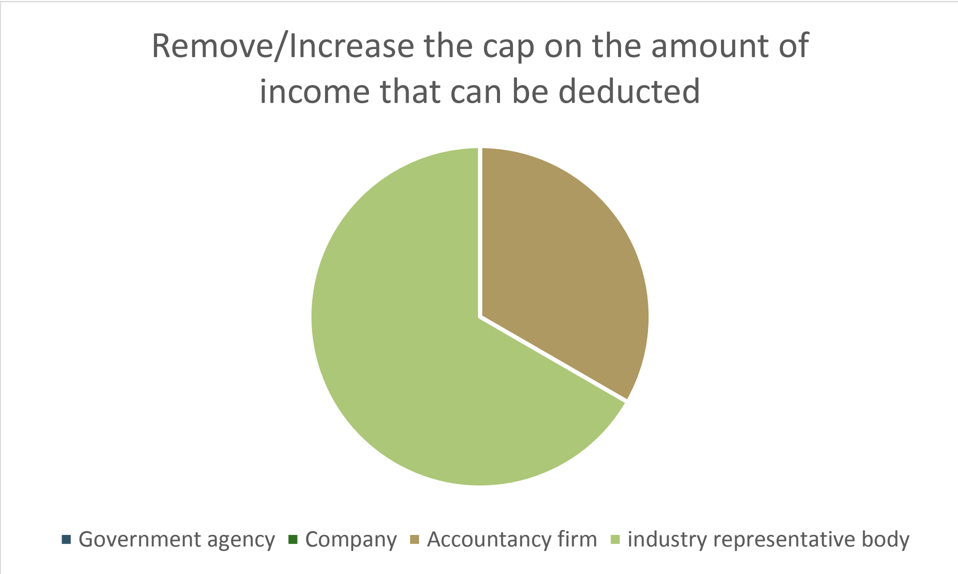

Fig 4: Breakdown of submissions with regard to Proposal 4

8.15 A sample of comments made in support of the removal of the income cap is set out below:

“The €35,000 cap should be increased.”

“Being capped at €35,000, the relief is too limited.”

“We suggest that the amount of taxable income eligible for the relief should be calculated as a percentage of taxable earnings based on the portion of working days for the year that are qualifying days – without capping the relief.

Observations on Proposal 4

- This proposal could lead to abuse of the scheme where earnings could be incorrectly attributed to periods when the employee was abroad. The imposition of a cap provides a measure of protection to the Exchequer.
- Removal of the cap has only been sought or suggested by a small number of submissions.

Proposal 5: Provide the relief through the PAYE system

8.15 The amount of income that may be deducted depends on the number of qualifying days the individual is absent in a year. The deduction is currently given by way of end of year review.

8.16 A total of 2 submissions sought this amendment, which equates to 22% support for this proposal. Fig 5 below shows the breakdown of the support for this proposal:

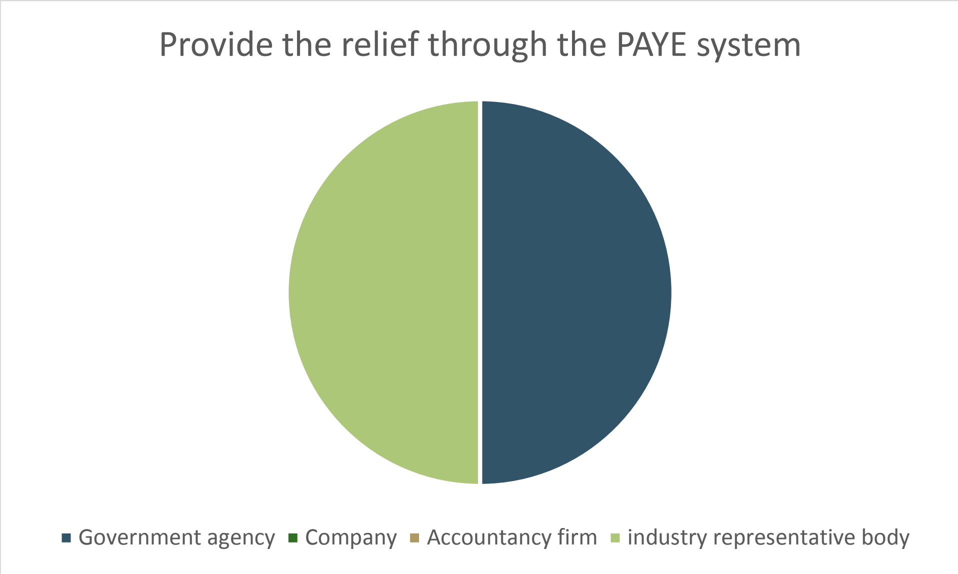

Fig 5: Breakdown of submissions in relation to Proposal 5

8.17 A sample of comments made in support of providing the relief through the PAYE system is set out below:

"For SME's in particular, it would be very positive if the employer could provide this reward directly to the employee close to year end. We suggest that there would be merits in looking at the mechanism currently operational under SARP to grant relief in the PAYE system, ideally with that information being retained on payroll files to reduce the administration burden on Revenue reflecting the self-assessment nature of the Irish tax system."

"As claims already require the statement of the employer, it would speed up the relief process for the individuals with minimum impact on employers to allow the relief to be awarded through the PAYE system. The objective of helping business looking to expand trade & investment with strategic countries is only boosted when cash flow impact is realised by the employee more promptly than the current system allows."

Observations on Proposal 5

- Providing the relief accurately through the PAYE system would prove problematic as it would not be known how many days an employee will be abroad for until the end of the year.
- Providing the relief on the basis of estimated days of absence could lead to employees having the relief clawed back if it subsequently arose that they were abroad for less days than estimated.

Summary of Other Proposals Received

8.18 A summary of the other proposals received are set out in Table 2 below:

Table 2 – Summary of other proposals received

Proposal	**Observations**
Include travel to the UK and Europe	To include EU countries would in all likelihood constitute State Aid and therefore would be unlikely to receive approval from the European Commission
Introduce a complimentary scaled down scheme for micro enterprises and start-ups	The scheme, although available to all, is particularly targeted at SMEs
Make FED an "above the line" deduction (i.e. deducted from income before tax is calculated)	This could result in an exemption from USC and PRSI being provided. The USC has been applied on a broad base with very few exceptions. To provide an exemption from USC or PRSI would inevitably lead to calls for other reliefs to be similarly exempted
Remove the double tax relief provision (s823(5))	This could result in the provision of double relief as an employee would get relief on income earned in the foreign state as well as a deduction from Irish tax on the same income for travelling to the State
Revenue leaflet IT34 should highlight the need to ensure that the work abroad does not give rise to a permanent establishment which might cause foreign taxation to arise	The question of what constitutes a permanent establishment is generally set out in Double Taxation Agreements and differs from jurisdiction to jurisdiction
Remove from the High Earners' Restriction	If the FED was removed from the restriction it would inevitably lead to calls for other reliefs to be similarly delisted. In any event, if FED is the only specified relief claimed by the individual then the provisions of the HER would not come into play
Proposal	**Observations**
Include all countries classified by the IMF as emerging and developing countries	This list of countries is very large. To allow for this would essentially permit travel to all countries, including some in the EU

9. Options Analysis

9.1 Three options have been considered:

1. To allow FED to run its course until the end of the year at which time it would lapse with no replacement.
2. To extend the current scheme for a further three years.
3. To extend the scheme, subject to some amendments, for a further three years.

Option 1 - To allow FED to run its course until the end of the year at which time it would lapse with no replacement.

9.2 This would involve letting the current scheme lapse at the end of the year. FED has cost about a third of what was forecast in 2012, and been taken up by less than a hundred people based on the latest figures from Revenue. As the cost of the relief is low, allowing it to lapse would not create considerable savings. However, this would reduce the support for small and medium enterprises in expanding their exports and hinder the development of enterprise in Ireland. This is particularly important in the context of current low growth levels in the Eurozone in general.

Option 2 - To extend the current scheme for a further three years.

9.3 Extending the scheme as currently structured would allow more time to compile better hard data on the operation of the scheme. However, given the very low take-up of the scheme, it would not be prudent to ignore the potential to improve the working of the scheme and its contribution to increasing Irish exports potential by addressing the issues identified in its operation.

Option 3 - To extend the scheme, subject to some amendments, for a further three years.

9.4 No stakeholder suggested letting the scheme lapse, or that it merely be extended in its current form. Instead, all suggested reforms to the scheme. The main proposals fell into two camps – to extend the scheme to take in more countries, and to reform the requirements around travelling days. Extending the scheme to add more countries would enhance the application of FED and provide more assistance to SMEs to increase their exports. Reforming the requirements around the number of qualifying days, either to include travelling days or to reduce the total number of days needed to qualify would lower the barriers to taking up the scheme.

10. Conclusions

10.1 While it cannot be definitively stated that the existence of FED has led to an increase in exports to the qualifying countries, there is a consensus among stakeholders that the FED should be extended and enhanced to support SMEs trying to expand their exports into emerging markets.

10.2 Export-led growth is critical to Ireland's economic recovery and therefore the continuation of FED can be defended as being an important incentive to encourage further growth in exports.

10.3 Extending the qualifying countries to include those in the Government's Integrated Plan for Trade, Tourism and Investment would align with Government's approach to support efforts to encourage business to expand into new markets.

10.4 Reforming the requirements around the number of days, either to include travelling days or to reduce the number of days needed to qualify would lower the current barriers to availing of the deduction.

Annex 1 – List of Submissions Received

Irish Business and Employers' Confederation
Small Firms Association
Irish Taxation Institute
Chambers Ireland
Dublin Chamber of Commerce
Limerick Chamber
KPMG
Consultative Committee of Accountancy Bodies - Ireland
Forfás