



eWorking in Ireland

Fiscal barriers and incentives

A proposal to Government

October 2000



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1 Introduction

1.1 Purpose of report

This is KPMG’s evaluation of the current incentives and principal barriers within the Irish tax system to expanding levels of electronic working (eWorking) in the Irish economy. The purpose of this report is to identify the fiscal barriers to and incentives for eWorking in Ireland, and to consider how the tax system may assist in the movement towards a greater penetration of eWorking in a short time frame.

This evaluation has been carried out for the eWork Action Forum, the Department of Enterprise, Trade and Employment, Enterprise Ireland and the Information Society Commission.

1.2 Importance of eWorking

The potential for eWorking has been widely recognised and is well articulated in the following quote from Noel Treacy, TD, Minister for Science, Technology and Commerce:-

“eWork is a powerful tool which can be exploited, and not just to improve business competitiveness, but also to increase employment opportunities, skills availability, ease pressure on infrastructure and facilitate regional development.”

In this context, a Code of Practice on eWorking has been produced through a collaboration involving the Irish Business and Employers Confederation (IBEC) and the Irish Congress of Trade Unions (ICTU) and endorsed by the Government.

Under this code eWorking is regarded as a method of working using information and communication technologies, in which work is carried out independent of location. eWorking is not a job but a method of working. Ways of eWorking include:

- eWorker - at home full-time/part-time
- Telecommuter - part-time at home or part-time in office
- Mobile - on the move

eWork involves the following:

- Working for substantial periods outside the company’s premises;
- Logging onto a company’s computer remotely, or to the Internet;
- Sending and receiving email, data or files remotely;
- Developing ideas, products and services remotely.

IBEC recognises that eWorking can offer Irish business the potential to develop new business opportunities, improve productivity and maintain competitiveness. ICTU sees the Code of Practice as an important strategy both to develop and safe-guard the position of workers. The eWork Action Forum and the Department of Enterprise, Trade and Employment see the Code of Practice as something that differentiates Ireland from its international competitors.

1.3

Fiscal background

Notwithstanding the aforementioned potential there are currently no tax incentives in Ireland specifically directed towards the promotion of eWorking.

There are, however, a number of fiscal barriers to eWorking. Some of these barriers warrant legislative change while others could be dealt with through a formal Statement of Practice from the Revenue Commissioners on eWorking. The strict tax compliance culture within most respected multinational and Irish corporate groups is such that it would not be sufficient to have all of the issues dealt with solely by means of informal statements or practices by the Revenue Commissioners or individual Inspectors of Taxes. This could lead to uncertainty, a diversion of resources into administration and negotiation, and to inequities of treatment as between different taxpayers.

This report calls upon the Minister for Finance and the Revenue Commissioners to facilitate the promotion of eWorking in Ireland by alleviating the main fiscal barriers to eWorking and introducing focused tax incentives to encourage its development.

2 Executive summary

2.1 Existing fiscal incentives to promote eWorking

Currently there are no Irish fiscal incentives that promote eWorking.

However, the Code of Practice referred to at 1.2 above is something that differentiates Ireland from its international competitors. We consider that focused tax incentives for the promotion of eWorking could stimulate the take up of eWorking in Ireland, and in parallel with the Code of Practice would create an appropriate climate in which eWorking would flourish. We recommend that certain tax incentives be introduced but that their application or availability would depend on the adoption of the Code of Practice.

2.2 Fiscal barriers to eWorking

The tax code contains a number of anomalies stemming from the fact that much of Ireland's tax legislation was drawn up in an era before eWorking was contemplated. The more significant of these barriers are:

- Prospective benefit in kind (BIK) exposures for eWorkers in respect of equipment provided by Employers.
- Potential PAYE obligation on Employers in connection with the reimbursement of capital expenditure incurred directly by eWorkers.
- Potential PAYE and BIK exposures in connection with the reimbursement of ongoing operating expenses borne by eWorkers.
- Prospective restriction of Principal Private Residence Relief from Capital Gains Tax.
- Uncertainty regarding tax treatment of reimbursed travel expenses for eWorkers.
- Irrecoverable Value Added Tax costs where expenses are initially incurred by employees (and reimbursed), or where there is partial private use of equipment or facilities.

2.3 International experience

Having reviewed the experience of our main trading partners, we have not become aware of any significant actions to date on the part of overseas Tax Authorities to untap the potential of eWorking. Current practice differs between different territories and some of their practices may highlight opportunities for Ireland.

Overall, however, international experience highlights an opportunity for Ireland to lead the way with regard to creating a fiscal environment in which eWorking can easily flourish.

2.4

Action required of Government/Revenue Commissioners

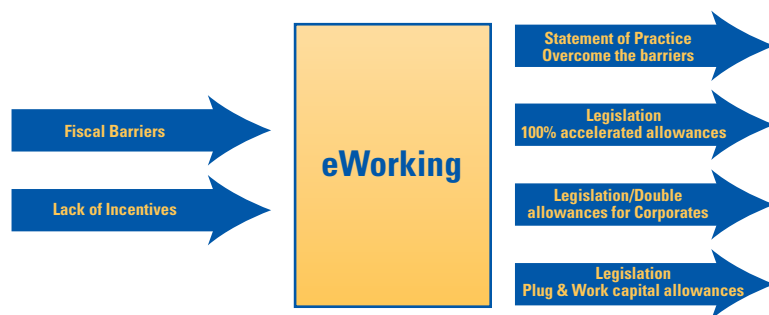
We consider that the significant barriers to eWorking can satisfactorily be dealt with through the issuance by the Revenue Commissioners of a formal Statement of Practice in relation to the tax treatment of eWorkers. The recommended practices should apply to “qualifying eWorkers” to be defined by reference to criteria drawn from the Code of Practice on eWorking.

As well as eliminating many of the anomalies emanating from existing legislation we propose that the Statement of Practice should enable an annualised tax free expense reimbursement of up to IR£1,000 to be made to each qualifying eWorker.

A related Statement of Practice in relation to VAT should facilitate the recovery by employers of VAT input credits incurred in the performance of their duties by eWorkers.

Finally, in order to encourage rapid acceptance of eWorking and the Code of Practice thereon, the report recommends the introduction of targeted fiscal incentives as follows:

- 100% accelerated capital allowances for certain equipment used by eWorkers or to facilitate eWorking.
- 200% accelerated capital allowances for corporate Employers for similar equipment used by eWorkers or to facilitate eWorking.
- 100% industrial buildings allowance for construction and refurbishment expenditure in developing approved Plug and Work Facilities.



We recommend that these incentives be introduced for a three year period, to encourage the immediate take up of eWorking.

3 Fiscal barriers to eWorking

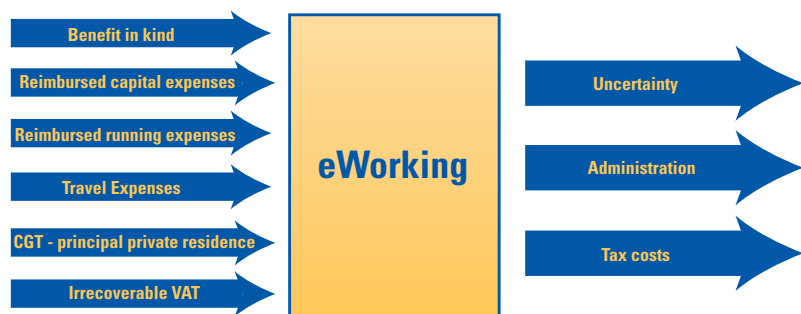
3.1

To accommodate eWorking, the eWorker and/or his or her Employer is generally required to incur expenditure, both to set up and thereafter to run an eWork station.

Initial expenditure is typically required to procure computer and communications equipment (ie PC, printers, modems, fax and telephone lines), furniture and lighting, meeting health and safety requirements, and on alterations to premises to change from solely domestic use and to meet security and storage requirements.

Ongoing running expenditure typically includes direct costs such as telecommunications costs, stationery and consumable expenses and travel expenses, incremental costs such as increased insurance, security and maintenance costs, increased overhead costs such as light, heat and utilities, and wear and tear and depreciation.

The manner in which such expenditure is typically incurred raises a number of tax issues. In addition, the tax code contains a number of anomalies stemming from the fact that much of Ireland's tax legislation was drawn up in an era before eWorking was contemplated. The uncertainties caused by these anomalies represent barriers to the development of eWorking. The principal fiscal barriers are discussed in this section.



3.2

Benefit in Kind

Employees are taxed on a benefit in kind (BIK) under Section 118 Taxes Consolidation Act (TCA) 1997 where an Employer incurs expense in, or in connection with, the provision for employees of “domestic or other services or other benefits or facilities of whatever nature”. The tax charge arises in relation to so much of the expense as is not made good to the Employer by the employee.

The legislation provides for apportionment of expenses incurred by an Employer where the expense is partly incurred in connection with providing a benefit to the employee and partly for other purposes. In general terms, this

means that where an Employer incurs expenditure which in part provides a benefit to the employee (intentional or otherwise), the employee is liable to be taxed on the benefit as a BIK.

In an eWorking context, the provision by an Employer of equipment to an eWorker, to be used primarily for business purposes, but where some personal benefit also accrues to the eWorker, creates a tax exposure for the eWorker under the BIK legislation. Specifically where an asset which continues to belong to the Employer is used wholly or partly for non business purposes by an employee, the employee is taxed under the benefit in kind provisions on either the annual value of the use of the asset, or if higher, on the annual amount of rent payable by the Employer in respect of the asset.

This has implications where an Employer incurs capital expenditure on providing equipment for use by an employee, or on modifying part of the employee's home to facilitate eWorking. The employee is taxable on a benefit in kind in respect of the cost to the Employer in connection with the provision of any element of personal benefit (ie personal usage by) to the employee.

The Minister for Finance has commented on the benefit in kind position on computers provided by Employers which are used for work purposes. In the case of teleworkers using Employer-provided PCs to work from home, the Minister has stated that the Revenue will regard personal use of such PCs as incidental and accordingly, no BIK charge arises in these cases. He stated that the same would apply to employees provided with lap-top or notebook PCs for work purposes. The Revenue Commissioners have also confirmed to the Department of Finance that computer accessories and communications equipment made available to teleworkers would not normally attract a BIK charge.

While this position is welcome it deals only with computers. The position with regard to other equipment used for eWorking (such as furniture, storage equipment etc) remains uncertain and as such entails a barrier to the development of eWorking. This barrier could be dealt with through the issue of a formal Statement of Practice on the issue by the Revenue Commissioners.

3.3

PAYE exposure on reimbursement of capital expenditure

Where an employee incurs capital expenditure on the provision of equipment such as computer equipment or furniture, for eWorking purposes, and some or all of the cost of same is reimbursed by the Employer, an exposure to PAYE can arise for the Employer.

This apparent anomaly arises due to the way the charge to tax on employment income (Schedule E) is framed in legislation:-

- Section 112 TCA 1997 charges to tax under Schedule E all salaries, fees, wages, perquisites or profits whatever from an employment.

- Section 117 states that any sum paid in respect of expenses (including reimbursement of capital expenses) by an Employer to an employee shall, if not otherwise chargeable to income tax as income of that employee, be treated for the purposes of Section 112 as a perquisite and taxed accordingly.
- Under the PAYE rules, the Employer is obliged to operate PAYE on all such emoluments (ie including reimbursed expenses) unless the expenses meet specified criteria. Specifically the payments must be no more than reimbursement of vouched expenses actually incurred by the employee in performing the duties of the employment, and must also be wholly, exclusively and necessarily so incurred. (Source: Employer's Guide to PAYE).

It is arguable that any element of personal use of equipment, the cost of which is reimbursed would bring the entire reimbursement within the scope of PAYE on the grounds that the expense does not meet the actual requirements of being wholly and exclusively expended in the performance of an eWorker's duties.

Again, uncertainty in this regard represents a barrier to the development of eWorking which could be alleviated by clarification from the Revenue Commissioners as part of a formal Statement of Practice on eWorking. Specifically it should provide that where eWorkers are reimbursed the cost of eWorking equipment, any personal use of such equipment is incidental and accordingly the expenditure can be regarded as having been wholly, exclusively and necessarily incurred in performing the duties of the employment.

3.4

Employer reimbursement of running expenses

The tax treatment of running expenses depends on whether the expenses are borne in the first instance by the Employer or by the eWorker and whether the eWorker is an employee in the general sense or self employed. The following anomalies arise:

- To the extent that ongoing running expenses are incurred directly by the Employer, a benefit in kind charge can arise for an employee eWorker where there is a personal benefit to the employee. (See 3.2 above).
- Where an employee incurs the expense in the first instance and claims reimbursement from the Employer, then the Employer may be exposed to a PAYE liability to the extent that the expense cannot be validated (due to an element of personal use or enjoyment) as having been wholly, exclusively and necessarily expended in the performance of the eWorker's duties. (See 3.3 above).

- Where the employee incurs the expense directly and is not reimbursed by the Employer, then the employee can claim tax relief in respect of the expense but only if it is incurred wholly, exclusively and necessarily in the performance of the employment. To the extent that the expense entails any level of non business purpose, in theory, the entire expense is not tax deductible.

Given the strict wording of the legislation and the Revenue's policy of applying it in a relatively literal manner, real tax burdens and difficulties arise. In practice, in addition to reimbursement of direct expenses incurred wholly, exclusively and necessarily by an eWorker in the performance of duties of their office or employment, eWorkers will also have to incur expenses which on a strict reading of the legislation are not wholly, exclusively and necessarily so incurred.

Aside from the technical tax exposure, the nature of the expenses incurred by an eWorker are such as would require the eWorker to make claims for reimbursement based on apportioning expenses between business and private elements. Given the amounts involved we consider that the keeping of detailed records in support of such apportionments is an inefficient administrative burden on eWorkers which represents a barrier to the development of eWorking.

3.5

Travel expenses

Certain travel (including mileage) expenses may be reimbursed by an Employer. The Revenue Commissioners have produced explanatory leaflets setting out the circumstances in which such reimbursement can be made tax-free for "business journeys".

The Revenue leaflet IT51 provides that a business journey is one in which the employee travels from one place of work to another place of work in the performance of the duties of the employment, but that journeys between an employee's home and place of work are not business journeys. However the leaflet goes on to provide that where an employee proceeds on a business journey directly from home to a temporary place of work (rather than commencing that business journey from his/her normal place of work) or returns home directly, tax-free business mileage should be calculated by reference to the lesser of the distance between home and the temporary place of work, and the distance between the normal place of work and the temporary place of work.

The position of an eWorker based primarily at home, but making essential visits to the Employer's premises (even when this is a very substantial distance away) is not clear. The current Revenue practice fails to recognise the unique position of eWorkers who in many cases work primarily from home. As such, this places eWorkers at a disadvantage to their traditional counterparts and consequently represents a barrier to the development of eWorking.

3.6**Capital Gains Tax - Principal Private Residence exemption**

Gains arising on the sale of a dwelling house or part of a dwelling house which has been occupied by an individual as his only or main residence are exempt from Capital Gains Tax under the provisions of Section 604 TCA 1997. [Principal Private Residence Relief].

The legislation provides that where a dwelling or part of a dwelling is used exclusively for the purposes of a trade, business or profession, the gain shall be apportioned and the exemption will not apply to the part of the gain apportioned to the trade, business or professional use.

This represents a concern to many individuals contemplating eWorking. Where part of the dwelling is set aside exclusively for business use, the eWorker faces a real restriction of his/her entitlement to Principal Private Residence Relief. As a consequence an eWorker faces a higher liability to Capital Gains Tax on the disposal of his private residence than an employee working outside the home. This consequence of eWorking can be seen as a barrier to eWorking.

Where part of the dwelling is set aside primarily but not exclusively for business use, there is a widespread misconception and fear that it will result in partial loss of the Principal Private Residence Relief CGT exemption. Whilst this is not strictly speaking the case, the perception itself represents a material barrier to the development of eWorking.

3.7**Irrecoverable Value Added Tax**

In an eWorking context there are a number of instances in which the strict interpretation of the VAT rules result in an increased VAT liability which cannot be recovered by business, and therefore represents an extra cost or burden. Such liabilities represent an increased cost on Irish business of adopting eWorking as opposed to office based working.

VAT-registered persons (companies or individuals) can only recover VAT charged where they are in receipt of a VAT invoice properly made out to them. Furthermore they can only recover VAT where the expenditure is for use in their business for the purpose of making taxable supplies (VATable) or activities qualifying for a VAT deduction. Where there is an element of private use of, say, equipment or services, a portion of the Value Added Tax charged is irrecoverable. Some examples typical in an eWorking context illustrate the difficulty:

- (a) Where an employee purchases, say, office furniture or other equipment for use in their employment, as the employee is not registered for VAT, the employee cannot recover any element of the VAT charged. If the Employer

makes a contribution to, or fully reimburses the employee, the Employer cannot claim recovery of any deemed VAT element of the reimbursement. This therefore increases the cost to the Employer, by the amount of the VAT.

In order to recover the VAT it is necessary that the Employer purchase and retain ownership of the equipment, and that the VAT invoice is properly made out to the Employer. However, in many eWorking cases this approach may neither be possible nor reflective of the commercial arrangement between the eWorker and the Employer.

- (b) Being located away from the office, eWorkers may find that they occasionally have to purchase consumables (eg stationery) or avail of services (eg electricity, telephone and heating) that would attract VAT, to which the Employer should be entitled to an input credit. Very often it may not be possible for the employee to obtain a proper VAT invoice made out to the Employer. In these circumstances, where such ongoing costs are incurred by the employee and reimbursed by the Employer, there is no entitlement on the Employer to recover VAT.
- (c) VAT is not recoverable to the extent it arises on goods or services used for private enjoyment. Strictly speaking when an Employer purchases eWorking or other equipment for use by an employee, it is necessary to determine whether there is any element of personal use and enjoyment anticipated. A proportionate amount of the VAT would be irrecoverable in these circumstances. In practice this may be extremely difficult to determine or administer. This same position also prevails in the case of a self employed individual purchasing goods or services.

For the above reasons, eWorking can increase the cost base of Irish business due to inability to recover VAT inputs that properly relate to a VATable business. Precedent exists elsewhere in Europe facilitating such recovery in certain circumstances.

The inability of Irish business to recover VAT in the above circumstances disadvantages such businesses vis a vis their local and international counterparts. This further barrier to eWorking could be alleviated by introducing entitlement to input credit for VAT inputs incurred in relation to eWorking expenses based on criteria to be set out in a formal Revenue Statement of Practice.



The international perspective

We have had discussions and correspondence with colleagues on various international KPMG tax networks throughout Europe and North America. International experience differs quite significantly. Several jurisdictions have recognised that the traditional tax framework can lead to inadvertent tax exposures for eWorkers and have acted to curb same. However, based on our review, we have not become aware of any jurisdiction which has introduced a comprehensive series of fiscal measures to actively encourage eWorking and in so doing untap its potential.

Overall, international experience highlights an opportunity for Ireland to lead the way as regards creating a fiscal environment in which eWorking can easily flourish. The measures taken by overseas governments to acknowledge the position of eWorkers include:

- Germany allows reimbursement of a proportion of all the domestic costs (including fees for utilities, etc) up to certain limits for individuals who are partially working from home and without limit where their central workplace is in their home.
- In the US an Employer may reimburse home office expenses without giving rise to a tax charge. In determining home office expenses, a percentage (usually based on floor area) is taken of total household expenses such as rent, mortgage interest, utility fees, maintenance and depreciation (39 year tax life for buildings). Where the Employer does not reimburse the employee for these costs the employee may claim tax relief for them, subject to certain limits (for example, to the extent that they exceed 2% of Adjusted Gross Income).
- In Belgium employees receive a tax free allowance of 5,000F each month to cover any expenses incurred by them, or alternatively the Employer may reimburse the employee for all actual business expenses incurred.
- In an effort to increase the general level of computer skills a number of multinational companies are seeking in various jurisdictions a situation whereby they can provide computers to staff for personal or family use without a tax charge arising.
- In the UK, where an Employer makes computer equipment (including software, printers, scanners, modems, discs and other peripherals) available on loan or cheap hire to an employee, or the family or household of an employee, the first STG£500 of any benefit in kind charge is exempt from tax, leaving only the excess over the amount of the annual cash equivalent subject to charge. The annual value normally taken is 20% of the cost of computer equipment, unless it is rented, in which case the annual rent is taken.
- The UK allows a VAT registered Employer claim input credit in respect of VAT on certain costs incurred in the first instance by employees and reimbursed by the Employer, notwithstanding that there is no VAT invoice properly made out to the Employer. For example these costs include telephone expenses and a VAT element of mileage expenses.

5 Government action required

- 5.1** The potential of eWorking to improve business competitiveness in Ireland and to improve skills and employee resources generally has been widely acknowledged. To capitalise on this potential we consider that a range of measures should be considered by Government for immediate implementation with a view to encouraging the development of eWorking in Ireland and as one means of addressing Ireland’s increasing skills shortage.

Government measures are required to address the barriers to the development of eWorking identified at section 3. In addition, an opportunity exists to encourage the rapid evolution of eWorking in Ireland through the introduction of targeted tax incentives along the lines set out below.

5.2 Revenue Statement of Practice on eWorking

We consider that many of the barriers to the development of eWorking identified at section 3 can be satisfactorily dealt with through the issuance by the Revenue Commissioners of a formal Statement of Practice in relation to the tax treatment of eWorkers. The key issues to be dealt with in the Statement of Practice (“SOP”), are:

- In the first instance the SOP might define a “qualifying eWorker” as an employee or self employed person employed in an occupation in respect of which the Code of Practice on eWorking applies and where the Employer, in relation to that occupation has drawn up a written policy for the operation of eWorking in its business, in accordance with the Code of Practice on eWorking.
- The SOP should confirm that any private use of any equipment or furniture provided to a qualifying eWorker to enable him/her to engage in eWork will be treated as incidental and will not give rise to an income tax charge for the eWorker under the benefit in kind provisions.
- Similarly, the SOP should confirm that reimbursements by an Employer of expenses incurred by a qualifying eWorker in the performance of their duties, including any apportionment of household expenses undertaken on a fair and reasonable basis, will be considered to have been incurred by the qualifying eWorker wholly, exclusively and necessarily in the performance of their duties and therefore:
 - the qualifying eWorker will not face a charge to income tax under the BIK legislation, and
 - the Employer will not be obliged to operate PAYE on any such reimbursement.
- The SOP should confirm that qualifying eWorkers who are self employed should be entitled to a tax deduction in computing their income tax liability, for all expenses wholly and exclusively incurred for

the purposes of their trade or profession including, importantly, an allocation of household expenses determined on a just and reasonable basis.

- The SOP should confirm that the Revenue Commissioners will not seek to restrict the application of the Principal Private Residence Relief from Capital Gains Tax in the case of eWorkers. At present such a restriction would only arise where part of the residence is used exclusively for the purpose of a trade, business or profession. Whilst such exclusive use of part of the dwelling for trade or business purposes seems unlikely, clarification on this point is considered appropriate to deal with both the theoretical exposure and the popular misconception that the less than exclusive use of part of a dwelling for trade or business purposes can result in a restriction on Principal Private Residence Relief.
- The SOP should adapt the current Revenue Statement of Practice with regard to travel expenses, as applied in the case of qualifying eWorkers, to enable both home-based and multi-site eWorkers to be reimbursed at currently applicable rates for all mileage undertaken in the performance of their duties. The Statement could confirm that home-based eWorkers can treat their home as their fixed place of business, facilitating reimbursement for mileage expenses incurred in travelling from their homes in the performance of their duties. Similarly for multi-site eWorkers who may work from home or from a number of offices around the country, the SOP should confirm that they will be entitled to regard the office nearest to their home (which it is acknowledged could be their home in certain cases) as their fixed place of business.

As noted in section 3, apart from difficulties relating to PAYE and BIK in connection with the reimbursement of eWorkers for their running expenses, the diverse nature of the overhead expenses that may be incurred by a qualifying eWorker in the performance of his/her duties, and the detailed records and subjectivity required to undertake an apportionment of such overheads as between business and private use, in most cases creates an administrative burden for an eWorker which is not in keeping with the financial implications thereof. It also results in reduced productivity.

To ease the administrative burden for qualifying eWorkers it is suggested that the proposed Revenue Statement of Practice on eWorking should also allow for an annualised tax free reimbursement to be made on an unvouched basis to each qualifying eWorker of up to IR£1,000 (commensurate with the estimated average overhead cost faced by eWorkers).

This reimbursement is intended to cover all indirect overhead costs including light, heat, electricity, utilities, household consumables, maintenance, general security and insurance and in general any overhead to be apportioned between business and private use.

The opportunity to avail of an unvouched reimbursement of up to IR£1,000 in respect of stated overheads should be optional for qualifying eWorkers. Qualifying eWorkers who can prove that their annual overhead cost exceeds IR£1,000 should be afforded the right to claim reimbursement of the actual overhead expense borne by him/her upon presentation of vouched support for the reimbursement.

Direct expenses incurred by the eWorker such as in respect of stationery and separately identifiable telecommunications costs (ie dedicated business lines) could be reimbursed to the qualifying eWorker on a vouched basis in accordance with the terms of the proposed SOP (see above).

A related Statement of Practice on the pertinent VAT issues should extend entitlement to input credit to VATable Employers in respect of:

- The actual VAT charged to qualifying eWorkers on the purchase or hire of equipment to be used primarily in the performance of the eWorker's duties, to the extent reimbursed by the Employer, notwithstanding that the related invoice might not be issued to the Employer and that ownership might not rest with the Employer;
- The actual VAT charged to qualifying eWorkers in connection with expenses incurred in the performance of their duties and which are directly reimbursed by the Employer upon a VAT invoice made out to the qualifying eWorker being presented to the Employer; and
- A proportion (conservatively taken to be 12.5%) of the total amount of indirect overhead expenses incurred by a qualifying eWorker in the performance of their duties, again to the extent reimbursed by the Employer, subject to a maximum of IR£125 per annum per qualifying eWorker (ie IR£1,000 @ 12.5%), notwithstanding that invoices relating to the underlying expenses might not be issued to or available to the Employer.

The SOP on VAT should also confirm that any private benefit from assets issued or expenditures incurred in the performance of a qualifying eWorker's duties should be treated as incidental and should not result in a reduced entitlement on the part of the Employer to input credit.

5.3

Accelerated capital allowances – eWorking equipment

To evidence Ireland's commitment to eWorking and to quickly encourage the further development of eWorking in Ireland, we recommend that a form of accelerated capital allowance be introduced for expenditure on computer and communications equipment and ancillary plant and equipment to be used in the performance of their duties by qualifying eWorkers or to facilitate remote access to Employer business systems by qualifying eWorkers.

Specifically, we propose that a first year allowance of 100% of the expenditure be granted to Employers who have drawn up a policy for the operation of eWorking in their business, in accordance with the Code of Practice on eWorking. The accelerated allowances might be heralded as applying for a three year period only so as to serve as an encouragement for earlier embracement of eWorking and should be extended to both incorporated and unincorporated businesses.

As the encouragement offered merely takes the form of an acceleration of allowances otherwise available over seven years, the medium term cost to the Exchequer of this proposed incentive should be minimal.

In the case of corporate tax payers, reducing tax rates (currently 24% but reducing to 20% from 1 January 2001 and eventually 12.5% from 1 January 2003) renders tax incentives such as those outlined above only marginally attractive. To provide greater encouragement to corporates to adopt eWorking in their business, we further recommend that in the case of corporate tax payers, the accelerated capital allowance should be extended to 200% of qualifying expenditure (see above) incurred in the said three year period. From 1 January 2001, the effective first year tax relief for standard rate corporate taxpayers would, therefore, be 40% reducing to 1.875% (ie 15% @ 12.5%) on the expiry of the proposed three year period, say on 1 January 2004. This additional incentive to corporate tax payers affords the following benefits:

- it would confirm in a very visible way the Irish Government's commitment to eWorking,
- by applying only to Employers who embrace the Code of Practice on eWorking, it encourages business to adopt and apply a formal policy on eWorking, and
- by extending significantly greater tax relief for earlier investment in eWorking, it encourages the rapid short term development of eWorking.

5.4

Accelerated buildings allowance - "Plug and Work" Facilities

The concept of eWorking extends beyond working at home to those who telecommute (who work partly at home and partly in the office) and mobile eWorkers (who work on the move). Many eWorkers operate from several workstations such as one of several Employer or customer premises, from home, from hotel rooms or from cars, trains, planes etc.

A Plug and Work Facility is a suitably equipped building available for hire on a short term basis by eWorkers and their Employers. Such facilities offer work-spaces where mobile and other eWorkers could, for a fee book a "hot-desk", plug in their own computer and communications equipment and undertake their eWorking duties. Unlike typical Internet Cafes, we envisage Plug and Work Facilities would be far more conducive to business use with enhanced security and privacy, and greater work space.

No such facilities currently exist in Ireland. Moreover, the risks associated with the development of same are such as renders the short term development of such facilities unlikely.

In order to encourage the development of such facilities we believe that a targeted tax incentive would be necessary and appropriate. In this context we propose that a scheme of accelerated industrial buildings allowances be introduced to apply to Qualifying Plug and Work Facilities similar to the scheme that applies to “Park and Ride” facilities.

Under the scheme, accelerated capital allowances would be available on expenditure incurred on the construction or refurbishment of qualifying Plug and Work Facilities to be developed in accordance with criteria to be laid down by Enterprise Ireland.

The capital allowances available would be up to 100% in year one for an owner occupier, and up to 50% in year one (with 2% annual allowance thereafter) for a lessor. An owner occupier would be one who manages the short term lettings.

The following are the principal objectives in establishing this relief:

- to provide walk-in spaces around the country for mobile eWorkers,
- to provide meeting rooms for mobile and home-based eWorkers,
- to provide back-up facilities for home-based eWorkers to allow increased productivity in certain circumstances (eg for times where there are distractions at home), and
- to allow a number of eWorkers from the same company to eWork and occasionally meet at facilities closer to their homes.

6 Proposed measures - Exchequer cost

6.1

Measures covered by Statement of Practice

Our expectation is that the tax receipts from the range of direct tax (income tax and corporation tax) measures proposed to be incorporated in a Statement of Practice is currently negligible. Consequently, we would expect that the cost to the Exchequer in terms of revenue foregone as a consequence of issuing the Statement of Practice should be negligible. We expect that this position also holds true with regard to the proposal at Section 5.2 to enable eWorkers to avail of an unvouched reimbursement of up to IR£1,000 per annum in respect of stated overheads. The maximum reimbursement under this proposal of IR£1,000 is based on an estimate of the average overhead costs incurred by eWorkers generally. On this basis eWorkers would be entitled to reimbursement of up to IR£1,000 upon providing vouched receipts to their employer. The proposal is primarily aimed at minimising the administrative burden for eWorkers from having to keep detailed records and hence is not envisaged to entail a material Exchequer cost.

It will however be necessary to limit the application of the reimbursement proposal to qualifying eWorkers so as to minimise potential for abuse of the proposal and therefore to minimise the potential cost to the Exchequer. The combined effect of the VAT proposals to be clarified in a Statement of Practice should also be neutral from an exchequer cost perspective given that it is open to the Employer and eWorker to organise their relationship such that the relevant invoices are issued directly to the Employer. It should also be open to certain tax payers to register for VAT and charge VAT on to their Employer such that the VAT input costs incurred by them would ultimately be recoverable. On this basis the VAT measures to be included in the Statement of Practice can be seen as enabling greater administrative convenience rather than involving tax saving and therefore cost to the Exchequer.

6.2

Accelerated capital allowances - eWorking equipment

The cost of this measure depends on the number of eWorkers encouraged to join the work force over the next three years, their tax status as well as the tax status of their Employer and the level of qualifying expenditure to be incurred by the Employer.

To the extent that the incentive entails the granting merely of 100% accelerated allowances, the benefit is purely a timing benefit whereby tax payers will be allowed relief for their capital expenditure in one year rather than over seven years. In addition there is an actual benefit conveyed on corporate tax payers by reason of the 200% accelerated allowance proposal.

Assuming that the incentive encourages 20,000 new eWorkers each year over the next three years entailing capital expenditure of IR£5,000 for each and that all of this expenditure is incurred by corporate tax payers, 50% of whom are standard rate tax payers and 50% of whom are 10% tax payers we estimate that the aggregate cost to the Exchequer of the incentive in present value terms to be approximately IR£44 million.

The aforementioned cost needs to be assessed in the context of the incremental income tax revenues to be generated from the increased numbers in the work force consequent on the incentive. If one assumes that of the 20,000 new eWorkers referred to above, 50% represent persons who are new to the work force and an average earnings level of IR£15,000 (conservative) we estimate that incremental Exchequer revenue during the three year period could be in the region of IR£134 million, in present value terms, whilst thereafter the annualised incremental revenue to the Exchequer could be IR£76.9 million. Furthermore, additional VAT and PRSI contributions to the Exchequer can be expected from such an increased work force.

6.3

Accelerated buildings allowance - “Plug and Work” Facilities

We would expect that the take-up in respect of Plug and Work Facilities would be no greater than Government expectations regarding the take-up of Park and Ride Facilities when a similar incentive was introduced for that sector in 1998. At that time the full year cost of extending accelerated capital allowances to Park and Ride Facilities was estimated by the Department of Finance at IR£1 million. Similarly the cost of introducing a similar incentive in 1999 for childcare facilities was estimated by the Department of Finance to be IR£1.5 million. Based on the above our expectation is that the cost of introducing the accelerated industrial buildings allowance for Plug and Work Facilities would not exceed IR£1.5 million in a full year.

