# PwC's 2023 Climate Action Pre-Budget Submission

# Introduction

**Ireland, along with many countries in Europe and elsewhere around the world, has made significant commitments to achieve net zero carbon emissions by 2050.**

The latest IPCC's sixth assessment report highlights that we need to speed up our response in order to mitigate the worst effects of climate change. The report goes on to say *'the alarm bells are deafening, and the evidence is irrefutable: greenhouse gas emissions from fossil fuel burning and deforestation are choking our planet and putting billions of people at immediate risk'*.[1]

While the impact of COVID-19 and the war in Ukraine have resulted in unprecedented challenges, in light of the impact of climate change on humanity, it must remain at the top of the agenda.

# Executive Summary

**The Government has a momentous task facing them as they steer Ireland in this fight against climate change.**

Feedback from the Environmental Protection Agency (EPA) is that Ireland is falling critically short of its emissions reduction target of 51% by 2030. Carbon budgets are a crucial aspect of Government's armoury here, however, implementation and adherence will be a key determinant of their efficacy. Tax policy is another critical lever in this regard. Through the introduction of tax incentives to encourage investment in particular areas or the imposition of taxes to discourage certain behaviours and fund a just transition for all, positive behavioural change can be influenced throughout society and business.

As Paschal Donohue, Minister for Finance said at the Dublin Climate Summit – *"Business-as-usual is no longer enough; we must make fundamental changes to how we do business, and how we live our lives"*. So what can and should the Government look to do as part of Budget 2023?

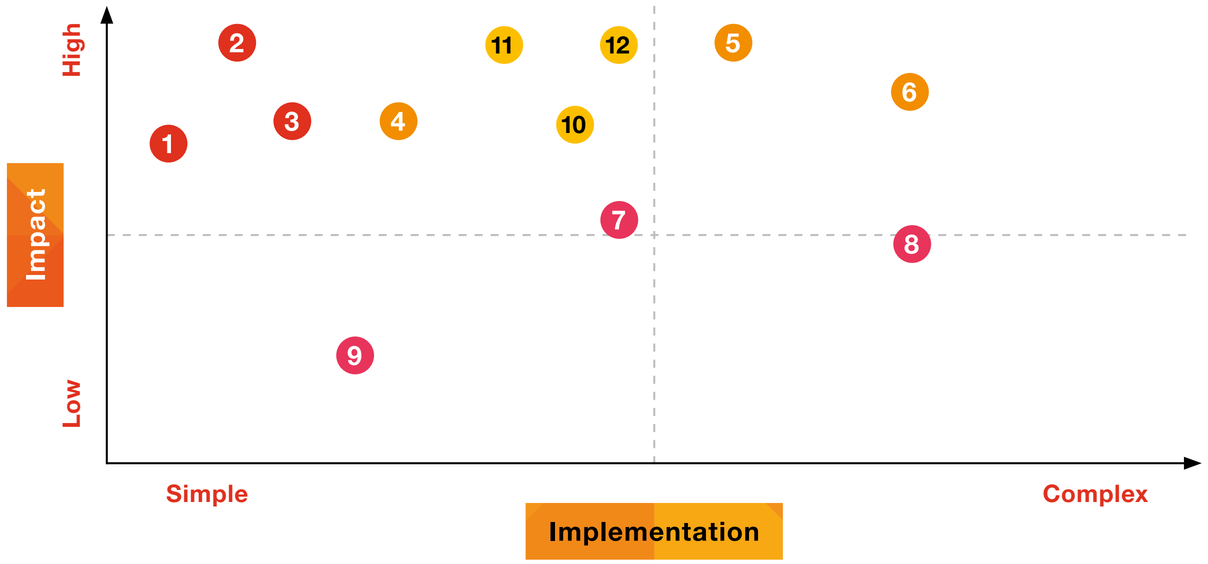
Our pre-budget submission focuses on developments since Budget 2022, in addition to, our hopes, expectations and asks for Budget 2023 across the following areas:

1. Developing our infrastructure and encouraging adoption of a more sustainable way of living
2. Encouraging Private Investment and Entrepreneurship in sustainability initiatives
3. Establishing Ireland as a 'Green Finance Hub'
4. Implementing a holistic environmental tax and incentive system
5. Supporting decarbonisation of the Irish Aviation Industry
6. Ensuring a Just Transition

Source

1. Click to view.

We believe the above key areas will play a critical role in Ireland's decarbonisation journey provided they are implemented appropriately. We have set out a summary of the suggested ideas raised in this document which the Government could add to its selection of measures in the below table.




| | |
|---|---|
| 1 | Tax Saver scheme for the hybrid worker |
| 2 | Tax relief for financing costs associated with retrofit |
| 3 | Extension of help to buy scheme to include 'help' to insulate |
| 4 | Grid connection costs as qualifying spend |
| 5 | Extension of participation exemption |
| 6 | Enhancement of R&D tax credit and EIIS scheme |
| 7 | Expansion of the scheme for Accelerated Capital Allowances |
| 8 | Guidance for CBAM and Energy Taxation Directive |
| 9 | Extension of s81C (emissions allowances) |
| 10 | Supporting decarbonisation of the aviation industry (various) |
| 11 | Ensuring a Just Transition (various) |
| 12 | Supporting the renewable energy industry (various) |



# Developments since Budget 2022

**Budget 2022 was a progressive and comprehensive budget with regard to the Government's commitment to Climate Action and was signalled as the first of many "green" Budgets to come.**

However, while funding allocations and tax measures positively signalled the direction of travel, there were clear opportunities for braver, more progressive tax measures that would ensure positive behaviours, decision making and/or discourage certain practices that are negatively impacting the environment both at a corporate and consumer level.

In the period since Budget 2022, there has been a variety of positive developments which have either embedded Ireland's commitment to decarbonisation into action or signed Ireland up to international commitments and agreements such as those entered into as part of COP26. Specifically, there have been the following domestic advancements to support Climate Action:

- The release of the Climate Action Plan 2021 which provides a roadmap through which Ireland will organise and coordinate efforts to achieve the targets which have been legislated for in the Climate Action and Low Carbon Development (Amendment) Act 2021.
- The release of the National Development Plan, Sustainable Mobility Policy, Electric Vehicle Charging Infrastructure Strategy 2022-2025, Retrofit National Plan and the National Energy Security Framework.
- The launch of Ireland's Sustainable Finance Roadmap.
- The delivery of the second RESS auction which has resulted in 414 MW of onshore wind and 1,534 MW of solar which represents a potential increase of nearly 20% in Ireland's renewable energy generation. The Government also released a schedule of dates for RESS over the next 3 years setting us on a path to achieve our ambitious renewable energy targets.
- The first offshore wind RESS auction (ORESS) is scheduled for early 2023. In addition, the passing of the Maritime Area Planning Bill was a critical milestone in the development of our offshore wind planning and consenting framework.
- The allocation of funding to a variety of initiatives but specifically, the launch of a new grant scheme for retrofit, €60m allocated to community projects and at least €10m pledged to the Climate Adaptation Fund.
- The launch of supports to manage the transition, for example, the Climate Toolkit 4 Business for SMEs.
- Public Consultations for a variety of areas, including but not limited to, offshore wind, carbon budgets, the Biofuels Obligation Scheme, Electric Vehicle Charging Infrastructure Strategy and Ireland's Territorial Just Transition Plan.

While the strategies and pathways are set for our 2030 targets, the implementation and action of these plans will determine our success or failure in reaching them.

## Opportunities for Budget 2023

Against a backdrop of high inflation and the rapidly increasing cost of living, the Government will have a challenging task for Budget 2023 of balancing our commitment to Climate Action with the requirement to allocate funding elsewhere in the economy.

Following on from our detailed pre-budget submission last year (**link**), this document highlights our suggested ideas which the Government could add to its selection of potential tax measures, supports and/or funding which can be used to support Ireland's decarbonisation journey.

# Part 1 Developing our infrastructure and encouraging adoption of a more sustainable way of living

**Developing infrastructure across transport, housing, energy and EV charging, in addition to encouraging green corporate and consumer behaviour will be crucial to Ireland's transition to a more sustainable economy.**


The Government's plan for public investment as detailed in the National Development Plan (NDP) will play a significant role in addressing the challenges faced by Ireland over the coming years. In addition to the NDP investment, private finance will be required to successfully deliver some of the major infrastructure projects. For instance, private finance will prove crucial in the area of renewable electricity and specifically in offshore grid infrastructure. The government estimates that €10 billion of private investment will be needed to meet the renewable energy targets of 5 GW by 2030. We have further discussed renewable energy investment in the section on Private Investment and Entrepreneurship.

While housing, transport and public infrastructure in general has been a key focus area of the Government, and the level of investment committed is welcomed in its ambitions, we have identified a number of tax measures which would encourage positive consumer and corporate behaviours with regard to sustainable living.

## Transport

By 2030, the Government's goal is to reduce emissions by 45-50% in the sector. They are committed to providing 500,000 additional public transport journeys daily by 2035, in addition to providing more walking and cycling infrastructure.

Reducing emissions will improve air quality, especially in cities. It is expected that more people will use public transport when more journeys and routes are available, reducing the need for personal transport in cars. An increase in walking and cycling paths should also reduce the use of personal transport.

Some tax ideas which might further incentivise corporate and consumer behaviour could include the following:

### Tax Saver scheme for the hybrid worker

There may be an opportunity to offer a tax credit for travel costs associated with public transport (similar to medical expenses). Currently, all employees of companies (including company directors) that choose to participate in the Tax Saver scheme are eligible, provided the commuter tickets are applied for and supplied by the employer. While the Tax Saver initiative is positive it is not flexible enough to offer the same level of savings to commuters who are only using public transport less than 2-3 days a week.

Further relief could be granted to fully exempt such benefits from all Income Tax.

### Tax credit for employers

A tax credit could be offered to employers who acquire transport tickets for employees. This should be offered to employees at no additional cost, without the benefit in kind (BIK) treatment similar to the system in place in Portugal.

## Housing

The National Residential Retrofit Plan aims to achieve the equivalent of 500,000 homes retrofitted to a Building Energy Rating of B2/cost optimal or carbon equivalent and the installation of 400,000 heat pumps in existing premises to replace older, less efficient heating systems by the end of 2030. Upon finalising its review of the NDP, the Government allocated €5 billion of additional carbon tax revenues to support residential retrofit to 2030.

The new National Home Energy Upgrade Scheme will provide grants of up to 50% of the cost of a typical deep retrofit to a minimum B2 BER standard, up to €25,000. This leaves the balance of 50% to be funded by the homeowner. With reference to the National Retrofit Plan, we note the Government is working with the Strategic Banking Corporation of Ireland and the European Investment Bank to develop a retrofit loan guarantee scheme and associated low-cost residential retrofit loans which will be a welcome development.

Some tax ideas which might further incentivise corporate and consumer behaviour could include the following:

### Interest on loans for retrofit

Consideration could be given to offering offering a tax credit for interest paid on loans to finance retrofitting works against the individual's income tax paid/payable for the year the work is completed or the preceding year.




### Incentivising landlords to retrofit through tax relief

Landlords could be incentivised to participate in the scheme by offering them a reduced rate of CGT where they retrofit a residential property prior to a sale. Any retrofitting costs incurred above the €25,000 threshold could be allowed as a deduction from the capital gain.

### Extension of 'help to buy' scheme to include 'help to insulate'

An idea we raised last year but we are re-emphasising this year is the extension of the 'help to buy' rebate provisions to include a 'help to insulate' relief which would apply to purchasers of second hand homes with low BER (D-G). For example, if a 'help to insulate' relief was applied to renovation costs for insulation / retrofit (est at c€25k to €60k) then a certain percentage of the amount paid to the contractor (similar to help to buy it would be offset against VAT for the contractor). In order to qualify for the relief, the works would need to be appropriately certified and could include spending on heat pumps, smart metres, external / internal wall insulation, solar panels etc. The relief could be based on the after- grant spend and could be up to 20-30% of that net spend.

### Reduced stamp duty on residential or commercial properties which are retrofitted post acquisition

Introduce a reduced rate of stamp duty, or an exemption from stamp duty, where a retrofit of a second-hand property has taken place within a specified time period after the initial purchase of the property.

## EV Infrastructure

With reference to the Government's draft Electric Vehicle Charging Infrastructure Strategy 2022-2025 (which was subject to a recent Public Consultation), the adoption of EV's across the economy and society needs to be supported by robust EV charging infrastructure. 'At home' charging points, neighbourhood charging points and a country wide public network is fundamental to ensuring we can support the goal of 1 million EVs on our roads by 2030. This will be funded through initiatives such as the Shared Island Fund.

EV, Plug-in Hybrids and Hybrids have a combined market share now of approximately 45% as of March 2022. The growth in sales has been on a strong upward trajectory since 2019. As demand continues to grow and given the EU Parliament's recent vote to cease selling internal combustion engines within the EU by 2035, clear action and implementation steps need to be taken with regard to the roll out of the public network of EV charging points.

There is currently a relief for Battery Electric Vehicles from Vehicle Registration Tax of €5,000 until the end of 2023. However, consumer behaviour, both corporate and individual, would benefit from further tax reliefs and incentives to drive climate positive decision making.

Some tax ideas which might incentivise corporate and consumer behaviour could include the following:

### Tax relief for home charging points

Based on the draft strategy, 80% of charging is currently done at home, there is currently a grant of €600 for the first installation of a charging point which can cost up to €1,500, however second or subsequent charging points may not qualify. All costs associated with a home charging point should qualify for tax relief either through a deduction or credit against income tax or property tax.

### Interest on car loans to purchase EVs

A standard rate tax credit could be offered for interest paid on loans to finance the purchase of electric cars (or hybrid cars on a sliding scale) and for finance costs associated with installing home charging points against the standard rate of tax.

### Trade in old vehicles for electric bikes

As outlined last year, in addition to a focus on EVs, some countries are introducing policies to encourage the adoption of electric bikes. The Irish government could create a similar scheme to one proposed in France which encourages the transition from fossil fuel run cars to electric bikes which offers owners of old cars €2,500 in exchange for trading in these cars to purchase an electric bicycle[2]. Such a policy could be particularly effective for consumers who live in the city or for those only using their car for short journeys.

Source

2. Click to view.

# Part 2 Encouraging Private Investment and Entrepreneurship

**Public finance will not be sufficient to enable Ireland to meet its climate targets by 2030 and beyond. Private investment plays a critical role in financing the transition to a green economy. The EU sustainable finance agenda ensures that private investment plays a central role in meeting our climate goals.**

Ireland, as a small open economy, relies heavily on inward investment to build out its infrastructure, stimulate growth and support innovation.

We have focused on two key sectors which will each form an economic pillar for our future green economy and which require substantial private investment and / or will be driven by entrepreneurs: offshore wind and ClimateTech & green technology.

## Offshore wind sector

In particular, Ireland requires significant private investment to unlock its renewable energy potential as our offshore wind sector remains underdeveloped but offers our most significant future competitive advantage. Both fixed bottom and floating offshore wind are critical to us reaching our full potential to become a net exporter of renewable energy.

The Climate Action Plan 2021 set a target of 70% renewable electricity by 2030 with 5GW of renewable electricity to be generated from offshore wind by this date. Ireland has a sea area approximately seven times its landmass. The long term potential for offshore renewable electricity is 70GW through wind, wave and tidal. Offshore wind is critical to achieving these targets. The legislative measures introduced in 2021, notably, the National Marine Planning Framework ('NMPF') and the Marine Area Planning Area Act have provided the planning and consenting framework necessary for the large scale developments in this area. The Offshore Renewable Electricity Support Scheme ("ORESS") which is scheduled for early 2023, will be a significant milestone in accessing our offshore wind potential.

The expenditure required will be substantial. The International Monetary Fund has forecast that the capital spend necessary for Ireland to meet its 2030 target to be at €10bn a year from now to 2030. The capital investment will come via a mixture of public and private investment, the latter being fundamental and largely inbound investment.

There are a number of tax aspects of transactions involving renewable energy projects which would benefit from further clarification through legislative updates or updates to the Tax and Duty manuals prepared by the Revenue Commissioners. Some of the points below have been discussed in recent tax cases and will be a key tax aspect of investment decisions as we build out our renewable energy infrastructure over the coming decades:

### Grid connection costs

Historically, grid connection costs incurred by an energy producer have been treated as non-qualifying for capital allowances on the basis the grid connection assets were not plant and machinery as the assets did not belong to the energy producer (as part of the connection agreement, ownership of the grid connection assets must transfer from the energy producer to the grid operator for a nominal amount when the development becomes operational). However, a recent decision by the Tax Appeals Commission ("TAC") determined that there is a basis to treat capital expenditure incurred on grid connection assets as qualifying for wear and tear allowances. The principles established by this TAC decision should be applicable to costs incurred on installing grid connection assets in a renewable energy development such as wind farms and solar farms. At the moment, prospective investors into this sector in Ireland are uncertain about the eligibility of grid connection costs for capital allowances. Many of these prospective investors are making decisions on the feasibility of Irish projects at present and the tax impact of these types of costs will have a material impact on their financial modelling. Given the relatively large costs of grid connection costs in renewable energy developments and the increasing levels of investment activity in this sector, we believe it would be beneficial if guidance was issued to put the position beyond doubt and provide a greater degree of certainty on Revenue's position on this matter to prospective investors.

### Extension of participation exemption

As noted in our prior year submission (**link**), in order to ensure that Ireland maximises the opportunity to become a hub for global green financing activities, it is important that Ireland's holding company regime is equally as efficient as those of our European counterparts. Ireland's participation exemption (s626B TCA 97) currently includes a requirement for the underlying investee company to be "trading" in order to avail of the exemption. Sustainable investee companies, such as renewable energy asset developers or carbon capture technology companies, may not meet this trading requirement, particularly at the very early stage of development of these projects. Given the capital commitments required to develop these assets, companies will often look to obtain funding from private investors, in many cases by selling a portion of their equity interest. Such funding structures are common in the renewable energy and climate technology sector and can result in a substantial CGT impact on the seller. From a climate perspective, it is critical that these early stage development projects are being funded and brought to operational status. Ireland should consider a clarification of the requirement for the investee company to be considered 'trading' (i.e. allow an exemption for pre-trading activities where the economic activity undertaken is an integral part of the transition to a green economy). Compared to their competitors, these companies stand out positively and thus should benefit from higher investments. Thereby, the legislation aims to reward and promote environmentally friendly business practices and technologies.

### Reintroduction of Section 486B

Section 486B TCA 97 came into operation with effect from 18 March 1999 and provided for a scheme of tax relief for corporate equity investments in certain renewable energy generation projects. The scheme ran until 31 December 2014. The relief was given in the form of a deduction from a company's profits for its direct investment in new ordinary shares in a "qualifying renewable energy company", which included companies operating in the solar, wind, hydro or biomass technology categories. The relief was capped at the lesser of 50% of all capital expenditure (excluding lands) net of grants or €9,525,000 for a single project. Further, investment by a company or group was capped at €12,700,000 per 12 month period, and there was a requirement for the shares to be held for at least 5 years by the corporate investor, or else the relief was withdrawn.

Given the capital required to fund our climate change and wider ESG targets, Ireland should consider the reintroduction of this scheme to encourage investment into sustainable projects and build on Ireland's reputation as a hub for sustainable innovation. By expanding the original scheme to include all start-ups and SMEs undertaking decarbonisation activities, such as the development of carbon capture technology, hydrogen storage solutions or sustainable aviation fuel solutions this would help to develop an environment where drivers of a sustainable economy and their investors are incentivised and supported. The Government has long had a policy of promoting private investment to provide support to viable and fundamentally sound Irish SMEs and start up businesses and also to drive infrastructure projects where significant capital outlay can be required at the development stage. The reintroduction of Section 486B would clearly be in line with these policies.

### Interest limitation rules

The interest limitation rules were introduced into Irish law with effect from 1 January 2022, in line with the provisions of the EU Anti Tax Avoidance Directive ("ATAD"). As provided for under the ATAD, the Irish interest limitation rules include an exemption for long-term public infrastructure projects. While the introduction of such an exemption is positive, as currently drafted it does not extend to Irish companies borrowing to invest in the equity of renewable energy projects unless that company is also directly engaged in the project, thereby creating a barrier to deployment of capital for such projects. In order to ensure that investment in Irish renewable energy projects and sustainably focused initiatives remains an attractive prospect to all investors, a broader implementation of the exemption for long-term public infrastructure projects should be considered.

### Port infrastructure – enhanced capital allowances regime

Developing our offshore wind sector is highly dependent on a robust supply chain, port infrastructure and a skilled workforce. We have discussed below the importance of upskilling and reskilling our workforce for the green economy. From a port infrastructure perspective, a number of Irish ports require significant investment to deal with the expected surge in development and construction activity, in addition to the operations and maintenance (O&M) activity post energisation of the offshore wind farms. The UK have recently introduced additional enhanced capital allowances which provide for a 100% upfront deduction for certain qualifying spend on plant and machinery and an enhanced structures and building allowance of 10% per annum (straight line basis) is available for expenditure incurred by businesses on constructing, renovating or acquiring new buildings or structures. The capital expenditure must be in specified 'tax sites' of freeports as determined by the Government. Ireland would greatly benefit from similar reliefs introduced here.

### Other considerations to support supply chain and operations

In addition to the above ideas, there are a number of areas which were highlighted in our submission last year which should also be considered, namely, reducing the administrative burden of RCT and facilitating quicker VAT refunds for renewable energy companies and projects.

## ClimateTech and green technology solutions

Another key area of focus of the energy transition is technology and the development of ClimateTech solutions which will be a key aspect of our decarbonisation efforts and wider climate action objectives, for example, the circular economy and use of natural resources. Ireland has established itself as a global technology hub for attracting strategic business activities of technology companies, in addition to having a rich ecosystem for innovative indigeous companies. Ireland is a prime location for the development of ClimateTech companies and we must continue to invest in incentives to support and attract such companies to Ireland. The R&D tax credit is one of the most valuable tax reliefs available to this sector. In addition to the Employment Incentive Investment Scheme which gives tax relief for investment in Irish indigenous businesses.

### Enhancing the R&D tax credit regime to support the development of ClimateTech and green technology in Ireland

There is currently a consultation regarding the Irish R&D tax credit regime to ensure that it is operating as intended and maximising opportunities by attracting investors and encouraging indigenous investment. As outlined in our consultation response to the Department of Finance, we believe that there are a number of aspects of the regime which would benefit from modifications through legislative updates. In particular, the following changes would help to encourage investment in green technology and contribute towards meeting our 2030 renewable energy targets:

» We recommended that the definition of qualifying R&D expenditure is amended to ensure costs incurred for the purposes of R&D qualify for the R&D tax credit. At present, the definitions for the fields of science and technology that qualify for the R&D tax credit are broad and have not been updated since their introduction. We recommend the inclusion of specific terminology around green and sustainable technology to enhance clarity. Investors in the expanding area of green technology require certainty of relief at the outset of projects and the regime would provide further value to investors if these definitions were updated regularly to take account of trends and developments in green and sustainable technologies.

» Investment in green technology and renewable energy is extremely cash intensive at the outset and often takes several years to earn a return on the initial investment. As such, the conversion of the regime to a fully payable R&D tax credit would be very beneficial. We recommend that an improvement to the regime is made to provide for a fully monetised credit for which payment can be accelerated from the current three years to one year.

» Companies that are in pre-trading periods cannot currently claim the R&D tax credit in those periods. A change in the rules to provide for this would provide a key improvement for companies that are in an early stage of their development/maturity where cash resources are at their greatest need.

### Amendments to the Employment Incentive Investment Scheme ("EIIS")

We welcome the amendments to the EIIS legislation included in Finance Act 2021 which enabled investment funds to make investments that qualify for relief, specifically Investment Limited Partnerships ("ILPs") and Limited Partnerships that meet relevant criteria. These reforms have been positive for scaling Irish businesses, particularly those in emerging areas (such as the climate technology sector but not limited to), making them more attractive and available to a wider pool of investors. While the reforms to date have been extremely beneficial, we are aware of some administrative issues which are arising in practice and curtailing further potential investment activities.

» Under the current EIIS provisions, finance must be raised by the investee company through the issuance of shares. Access to appropriate and affordable finance is vital for businesses at all stages of development and has been a cornerstone policy for the Government in supporting the Irish SME sector in the past number of years. In the market it is common for scaling businesses to raise finance through debt and quasi-equity style funding as this provides businesses with an affordable source of funding which does not dilute the shareholding of the founding members. As such, consideration should be given to expanding the definition of a qualifying investment to include debt and quasi-equity style investments in qualifying companies by qualifying investors.

» Another key consideration from an EIIS perspective is whether investors are potentially excluded from availing of the relief on account of being "connected" with the investee company within the meaning of Section 500 TCA 1997. As currently drafted, Section 433(3)(b) TCA 1997 appears to treat all individuals who have invested into an EIIS fund (via a partnership) as automatic "partners'' of everyone else who have invested into the fund, which leads to very significant and unintended consequences on the availability of EIIS relief. This seriously curtails the activities of qualifying investment funds which is clearly at odds with the Finance Act 2021 amendment which is aimed at encouraging greater levels of risk investment into EIIS qualifying companies. In this regard, we would recommend that the definition of "partner" for the purpose of the legislation is amended to encompass only individuals who are in partnership with each other in a true commercial/trading sense (e.g. partners in a professional services firm).

## Other considerations

### General Block Exemption Regulation (GBER)

It is appreciated that a number of tax reliefs which have been introduced in Ireland over the years to promote growth and innovation have been subject to GBER, which has resulted in onerous reporting requirements and complexities in accessing the various tax reliefs (including EIIS relief which is referenced below). We are encouraged by the recent EU Commission consultation on proposals to allow for Member States to implement aid measures regarding the green and digital transition without prior notification and approval by the Commission (as is usual outside the GBER). A simplification of the administrative rules around GBER in an Irish context would be a very welcome development in the context of encouraging private investment in the green and digital economy in Ireland.

# Part 3 Establishing Ireland as a ‘Green Finance Hub’

**While climate change poses significant risks and challenges, there are also many opportunities and the Irish financial services sector is well placed to be a key enabler in the net zero transition and to drive the change needed to deliver a more sustainable future.**

It is vital that Ireland continues to develop an environment which fosters the growth of sustainable finance and puts Ireland on course to be a leading centre for sustainable finance by 2025 (as set out in Ireland's Sustainable Finance Roadmap).

As a hub for global green / sustainable financing, Ireland is uniquely placed to help drive the flow of private capital towards greener and more sustainable projects on a global scale. Climate change is undoubtedly a global crisis and as such a global response is required. In this regard, the government's commitment to further developing the area of sustainable finance through the launch of Ireland's Sustainable Finance Roadmap is a welcome development in the financial services sector and sets the scene for future, more transformative, plans in the green financing space. The roadmap sets ambitious but achievable targets with a view to Ireland being a leading sustainable finance centre by 2025.[3] By unlocking Ireland's potential in this area, it will help to further position Ireland as the leading international domicile for sustainable products and investments. Promoting Ireland as a leader for sustainable investment and ESG on a global scale, should demonstrate Ireland's commitment to working towards the achievement of the Sustainable Development Goals, which should in turn lead to further inward investment and continued economic growth.

While this focus on sustainability offers significant opportunities for Ireland, it also presents a risk that, if we do not address the issue appropriately, we could be left behind and lose the opportunities for growth. With more than 37,000 people[4] working in the financial services industry in Ireland, the sector has the people with the skillset, initiative and drive to achieve these ambitious targets. With some further tweaks to our domestic tax regime, as outlined further below, Ireland can continue to attract key talent and boost its image as a centre of excellence for sustainable finance in the years to come.

### Promotion of investment in sustainable products by Irish investors

In order to further promote the adoption of sustainable practices in the Irish market, consideration should be given to the introduction of a preferential rate of income / corporation tax for returns generated from sustainable investment products by Irish tax resident investors. As noted above, Article 9 funds, as classified under SFDR, are those products which have a sustainable investment objective and thus have the most significant impact from a climate change perspective. Encouraging investment in these products should have a positive impact on both Ireland's climate targets, as well as climate targets outside of Ireland, depending on the investments made by the fund and should also continue to position Ireland as the leading international domicile of choice for sustainable products and investments.

In addition, consideration should be given to reducing the rate of investment undertaking tax ("IUT") for Article 9 funds. The tax rate of Irish deposits is currently 33% and we would suggest that a more attractive reduced rate is offered to encourage large scale investment and to overcome the inertia that would inevitably exist if only an equal or marginally better rate was offered. As above, given that IUT only applies to Irish tax resident investors, the Irish financial services sector could benefit from significant positive publicity in promoting such an initiative with potentially very little loss of overall revenue to the Irish economy. In addition, by linking the qualification for these incentives to auditable EU regulations (i.e. the SFDR) this will ensure that the incentives shall only apply to verified sustainable investors.


Source

3. Click to view.
4. Click to view.

Source

5. Click to view.
6. Click to view.
7. Click to view.

### Expansion of the scheme for Accelerated Capital Allowance

It is widely accepted that there is a profound disconnect between the ESG data that is available to asset managers, administrators, investors and the data that they require. This was highlighted in a recent PwC survey, where 73% of asset managers cited lack of data as their largest challenge when structuring ESG products[5]. In this regard, there is an urgent need in the market for the development of software and data gathering systems which support the collection of reliable ESG data. Currently Ireland offers an accelerated capital allowances scheme for energy efficient equipment ("EEE"), as defined by the qualifying conditions listed under Section 285A TCA 1997. At present, ESG digital technology solution software does not qualify for accelerated capital allowances. Pillar 3 of Ireland's Sustainable Finance Roadmap, is focused on applying digital technology solutions to the ESG data and risk management challenge and it is further noted that *"upon successful implementation of the roadmap, by 2025 it can be expected that Ireland's financial services sector is…… funding transformative technology and innovations, and turning the billions committed to climate investment through public channels into trillions of total climate investment, nationally and further afield"*.[6] Therefore, in order to support Ireland's goal of becoming a hub for global green / sustainable finance and to encourage investment in this area to provide the data that is so badly needed, we suggest extending the benefit of the accelerated capital allowances regime to qualifying expenditure incurred by companies on investment in technology software solutions for ESG data management and reporting.

### Territorial System of Taxation

In December 2021, the Department of Finance released a public consultation on the introduction of a territorial regime of double taxation relief in Ireland. As noted in PwC's response to the public consultation, a territorial system of taxation would simplify Ireland's tax code and ultimately enhance the country's attractiveness as a destination for investment.[7] Where a territorial regime is implemented, with key design features such as:

» A broad exemption from tax for Irish resident companies for all foreign dividends,

» The option to elect out of exempt treatment and to apply the credit relief mechanism; and

» Simplification of the tax credit rules, which will be needed to deal with situations in which an exemption does not apply,

This will help to further enhance Ireland's attractiveness as a location for sustainable assets and promote Ireland as a hub for global green/sustainable financing activities.

### Legislative changes to taxation of carried interest

In addition to having the right sustainable products, it is important that Ireland can attract the right people. Attracting and retaining local and international senior people with the requisite experience and skills is a necessary step in developing Ireland as a hub for global sustainable financing. As noted in our prior year submission (**link**), a new form of tax relief designed to incentivise senior employees of private investment companies to remain in Ireland or come to Ireland is required.

# Part 4 A holistic environmental tax and incentive system

**Environmental taxes act as a key deterrent to behaviours that are contrary to our climate action goals.**

Carbon tax is Ireland's most substantial environmental tax and is legislated for up to 2030 when it will reach €100 per tonne. We have discussed how the allocation of carbon tax revenues is critical to a Just Transition in Section 6.

The following aspects of our environment tax and incentive regime could be considered as part of Budget 2023:

### Carbon Border Adjustment Mechanism (CBAM)

The introduction of CBAM will equalise the cost of carbon between goods produced within the EU, and those imported through the purchase of carbon certificates to help pave the way towards a low carbon economy. CBAM will create additional costs on the importation of cement, steel, fertilisers, aluminium, iron, refineries, organic basic chemicals, hydrogen, polymers and electricity for traders when the mechanism is fully operational by January 2026.

However, it is worth noting, and is a significant concern, that the most likely affected goods are those which have faced recent shortages and increased costs, directly or indirectly as a result of the conflict in Ukraine and other global trade disruptions this year. With the already rising prices of such materials, it is anticipated that with the introduction of CBAM importers will seek to pass the cost of this mechanism down the supply chain, further contributing to the rising cost of living. The administrative and reporting requirements CBAM will also be introduced from January 2023 and will cause significant disruption for businesses.

Guidance on CBAM and its introduction for businesses is needed as soon as possible to allow sufficient time for businesses to assess how they will report the embedded emissions within their products at the beginning of 2023.

### Energy Taxation Directive (ETD)

The ETD is being updated since entering into force in 2003. The proposed recast introduces a new structure of tax rates to reflect both the energy content and environmental impact of fuels and electricity by grouping them in general categories. The categories are ranked in order of most polluting, with gas, oil, petrol, and non-sustainable biofuels taxed at the highest rate, and the lowest minimum rate applying to electricity, advanced sustainable biofuels and biogas, and renewable fuels of non-biological origin (hydrogen). A wider range of products will also be included to promote greenhouse gas emission reductions, energy efficiency, and take up of electricity and alternative fuels.

A major change to the proposal is the removal of exemptions and reductions for particular industries from the ETD e.g. kerosene used as fuel in aviation and heavy oil used as fuel in maritime will no longer be fully exempt from energy taxation for intra-EU voyages.

We would encourage Ireland when transposing the directive into National law, to maximise the environmental impact permitted within the directive, and to ensure to further incentivise the use of alternative fuels (biofuels, hydrogen etc).

### Supporting the renewable energy sector through customs reliefs

It is worthwhile to consider utilising existing EU reliefs to help promote trade in the renewable energy sector. End-use can provide relief from import duties where products are put to a 'specific use'. The end-use system also extends the tariff suspension system to certain products This could potentially be extended to renewable energy-related products.

We encourage Ireland to lead on such ideas at a European level.

### Extension of Section 81C (Emission allowances)

The net zero agenda is driving demand for high quality verified carbon offsets in the voluntary carbon market (with COP 26 confirming a role for the voluntary market going forward). Key stakeholders (including Regulators, investors, lenders) are requesting companies to measure their carbon footprint and put decarbonisation strategies in place. For many companies, this will take time and the purchase of carbon credits may be part of the interim solution for the transition period (although caution is required amidst the risks and perception of greenwashing). There may also be an element of GHG emissions in businesses that are difficult to remove and carbon offsets may be required to achieve net zero in these circumstances.

Section 81C TCA 1997 currently confirms that a corporate tax deduction for expenditure incurred for the purposes of the trade on the purchase of EU Emissions Trading Scheme (EU ETS) allowances is available and that amounts received or receivable for the disposal of purchased allowances are deemed to be trading receipts of the trade. We suggest considering the expansion of the scope of the corporate tax deduction in this section to cover carbon offsets in the voluntary sector in line with the definition of carbon offsets in Section 110 TCA 1997. This would limit the relief for the purchase of voluntary carbon credits to those sponsored by the State or other inter-governmental institution or regulated commercial enterprise and would also require recognised independent periodic verification, monitoring and reporting. The deduction could be linked to requiring reporting of GHG emissions and prescribing pre-defined reductions over the transition period. Linking a corporate tax deduction to a requirement to report and reduce GHG emissions should encourage companies to measure GHG emissions in the entirety of their value chain and encourage a change in behaviour which is a critical step in Ireland's decarbonisation journey.

### Enhancement of the scheme for Accelerated Capital Allowance

As outlined in our submission last year, there are a range of potential improvements to the capital allowances regime for energy efficient equipment. This relief is critical to corporate decision making and is a valuable cash flow mechanism for SMEs in particular. Opportunities to develop a comprehensive, user friendly and valuable relief that will support a more sustainable corporate sector, in addition to providing additional support for SMEs as they work through the transition to a green economy.

# Part 5 Supporting decarbonisation of the Irish Aviation Industry

**The aviation industry has committed to achieving net zero carbon emissions by 2050 through the International Air Transport Association (IATA). Aviation is a hard to abate industry meaning that the emissions reduction solutions required to meet net zero goals will come from technologies that are not yet commercially available.**

The transition to carbon neutrality is critically dependent on actions taken today, even though the results of those actions will not be immediately apparent.

The key areas of focus to meet aviation's net zero target are centred around sustainable aviation fuel (SAF), operational improvements (improved air traffic management, etc.), other alternative fuels (hydrogen, electric, etc.), carbon capture techniques and verified carbon credits schemes.

SAF is expected to be one core driver of the aviation sector's decarbonisation journey. A number of sustainable aviation fuels are already in production and are being used in limited cases. However, there are still challenges around the production of SAF and further work and investment is needed to develop new technologies to enable the production of SAF at scale and to make it commercially viable. This will require collaboration across many stakeholders and Ireland is well placed to play a significant role in this process and to become an innovation hub for the development of SAF enabling technologies.

Ireland, as the leading centre for aircraft leasing globally and home to Europe's largest airline, has the opportunity to take a leading role in the aviation sector's journey to net zero. Aircraft leasing companies can leverage their growing influence within the sector to raise awareness and stimulate action across their international customer base. As buyers of more than 50% of new commercial aircraft, lessors can use their sizable buying power to influence the original equipment manufacturers to invest in new technology development to contribute towards the industry meeting its climate goals.

The scale of change and innovation required to arrive at commercially viable solutions to achieve net zero is arguably the industry's biggest challenge. Ireland's development into a global aircraft leasing hub has been driven in no small part by our specialised and skilled workforce in this area. Our competitive and transparent tax regime supported by the 12.5% corporate tax rate in addition to our extensive treaty network has also helped to promote Ireland as an attractive location to establish an aircraft leasing platform and encourages world players in this industry to conduct their leasing business through and with Ireland. In order to consolidate Ireland's position as a leader in this space we have set-out some proposed amendments to the tax code which would greatly support this industry in its push towards decarbonisation. With the right support in place, we believe Ireland is well positioned to play a significant role, both on a domestic and on a global scale.

## Development of new SAF technologies and to promote the manufacture / utilisation of SAF in Ireland

### Reintroduction of Section 486B

As noted above, SAF is expected to be one core driver of the aviation sector's decarbonisation journey. This will require significant investment in the development of new SAF enabling technologies as well as the establishment of manufacturing capabilities to move towards the production of SAF at scale. In order to promote Ireland as a cluster for innovation in the ESG space and to encourage investment in this area in Ireland, we propose that tax relief under Section 486B TCA 1997 be considered for investment into projects working on the development of new SAF technologies as well as for SAF manufacturing / production projects. As noted earlier in our submission, Section 486B TCA 1997 would provide a deduction from a company's profits for its direct investment in new ordinary shares in a "qualifying renewable energy company", which we suggest should be extended to include companies developing new SAF enabling technologies and to companies manufacturing / producing SAF.

### Extension of participation exemption

As noted earlier in our submission, in order to ensure that Ireland maximises the opportunity to become an innovation hub for the development of SAF enabling



technologies, it is important that Ireland's holding company regime is equally as efficient as those of our European counterparts. Early stage research and development activities carried on by companies in this sector may not meet the "trading" requirement to qualify for the Irish participation exemption, making it more challenging to secure equity investment from third party investors without triggering CGT liabilities for the founders. Ireland should also consider a relaxation of the requirement for the investee company to be considered 'trading' in these circumstances, by extending the exemption to pre-trading activities where the economic activity undertaken is an integral part of the transition to a green economy through the reduction of GHG emissions.

### Tax Incentive for the supply of SAF

Currently one of the most significant barriers to the use of SAF is cost. According to a report issued by the World Economic Forum (in collaboration with member governments in the CST Sustainable Aviation Fuel (SAF) Ambassadors group and with the support of the Mission Possible Partnership), SAF production expenses result in market prices significantly greater or more than traditional fossil jet fuel, depending on the production pathway used. This limits the potential for market-driven scaleup. It is expected that the cost differential between SAF and conventional jet fuel will narrow as economies of scale and new production techniques are developed, but cost competitiveness is unlikely to be achieved without policy support. In order to bridge this gap and promote Ireland as a leading supplier of SAF, we propose that a tax credit be provided to Irish distributors / manufacturers of SAF which would be linked to predefined targets (such as GHG intensity reductions), with a higher credit for higher emissions reductions. This should help to bridge the gap between the cost of traditional fossil jet fuels and SAF (by, for example, linking the credit to a requirement to share the benefit of the credit with end-users of SAF) and could be scaled back once SAF reaches the required economies of scale.

### Accelerated capital allowances for energy efficient equipment ("EEE")

We refer to our pre-budget submission for 2022. Similar to last year, in order to support Ireland's position as a global aircraft leasing hub, we propose extending the accelerated capital allowances regime under Section 285A TCA 1997 to apply to:

» Any energy efficient aircraft or any aircraft converted to enable the use of sustainable fuel types;

» Energy efficient / sustainable fuel type aircraft assets placed on lease to third parties;

» Plant and machinery required to enable the supply of SAF to aircraft; and

» Plant and machinery used in the manufacture of SAF, to include plant and machinery leased to SAF manufacturers for this purpose.

Including energy efficient aircraft within the scope of the accelerated capital allowances regime would be an opportunity to reward aircraft lessors and airlines alike to focus on developing a more energy efficient fleet.

# Part 6 Ensuring a Just Transition

**A Just Transition encompasses a myriad of economic and societal considerations which arise on the development of the green economy and transition away from fossil fuels.**

The European Union's Just Transition Mechanism is integral to the EU's Green Deal, targeted at ensuring "a fair transition to a climate-neutral economy, leaving no one behind".

Ireland is set to receive up to €84.5 million from the EU Just Transition Fund over the programme period of 2021-2027. The Government will complement this funding with Exchequer resources. Furthermore, as carbon tax is on an upward trajectory until 2030, revenues generated from carbon tax will continue to be reinvested in ensuring a Just Transition as in previous years. Therefore, in Budget 2023 and beyond, we can expect a large amount of funding to be allocated to areas of the economy and society most adversely impacted by the transition.

In response to the Russia / Ukraine war, the Government launched the National Energy Security Framework, which deals with protecting businesses and customers, particularly vulnerable members of society, ensuring security of supply and reducing our dependence on fossil fuels. The Government recently introduced a suite of targeted and universal supports which are focused on fuel poverty:

- €200 (including VAT) as a credit for all domestic electricity accounts.
- A reduction in VAT from 13.5% to 9% on gas and electricity bills from the start of May until the end of October.
- A reduction to zero of the Public Service Obligation (PSO) levy on electricity bills.
- An Excise Duty reduction on fuel.
- An increase in the Fuel Allowance of €355.
- An €8 million support fund for hauliers.
- 80% grants for attic and cavity wall insulation.
- A committed €20 million in supports for solar PV panels for households that have a high reliance on electricity for medical reasons.

The above measures are welcome and needed in a time of such uncertainty. The high cost of living due to inflation is impacting a large number of households and businesses. We would hope to see further extension of some of these measures in Budget 2023.

Some of the areas where we would expect or hope to see Government address in Budget 2023 include:



**Retrofit programmes for social housing / low income households**
The National Retrofit Plan is a key element of the Government's plans for economic recovery. The significant budgets now provided for retrofit will help to stimulate the creation of high-quality jobs throughout the country, and support the development of supply chains for products and services that will be required to transform Ireland's housing stock. This will be a key aspect for just transition in Ireland.

**Encouraging re-skilling and employment**
This is an area, as in previous years, we expect to receive substantial funding to support the transition as employment and upskilling are critical to enabling us to meet our emissions targets and to move to a Green economy.

Small and medium sized enterprises (SMEs) are the backbone of the Irish economy and key enablers of Climate Action in Ireland. They account for 99% of active enterprises and 70% of employment. SMEs will play a critical role in Ireland's transition from a number of areas but notably, in the areas of construction, technology and biodiversity / circular economy.

SMEs continue to require funding and support from Government in order to either future proof their business or to be encouraged to invest in a business that would support the Green economy.

In addition to steps taken in previous Budgets and the launch of the Climate Toolkit 4 Business for SMEs, some tax ideas could include the following:

1. An additional corporate tax deduction for staff costs where the employees in question have been hired to support the business's sustainability agenda or where selected employees are completing an upskilling programme that is contributory to the Green economy.
2. Continued improvements to capital allowances for energy efficient equipment as detailed in last year's submission which continue to be a valuable upfront tax deduction and therefore, cash flow benefit for SMEs.

**Agriculture and land use**
The transition for the Agricultural sector is a critical aspect of Ireland's transition to the green economy

and is a large component of a Just Transition for Ireland due to our reliance on the sector for economic, societal and cultural reasons. A comprehensive suite of funding and tax measures are needed to support and manage this transition. Some tax ideas could include the following:

1. A refundable tax credit where a farmer uses their land for a sustainable purpose such as land management that sequesters carbon.

2. The disposal of land to a recipient who will designate the land to a sustainable use could be subject to a lower rate of CGT of 10%.

3. Expand/widen VAT refund programme (available to farmers for infrastructure projects) to include investment in energy efficient fuels/equipment (biofuels, methane capture machines).

**Community involvement in renewable energy projects**

The State should act to ensure the greatest possible levels of community ownership in all future renewable energy projects by encouraging communities to develop their own projects and by requiring that developer-led projects make share offers to communities to encourage greater local involvement and ownership.

The taxation of these types of structures through the Employment and Investment Incentive Scheme (EIIS) or a corporate tax relief equivalent requires clarity and certainty for individual taxpayers or individual taxpayers that have grouped themselves into a corporate vehicle. We would note our comments above in the 'Encouraging Private Investment and Entrepreneurship' section which include tax ideas which complement this idea.



# Key contacts

**Susan Kilty**
Partner
Tel: +353 1 792 6740
susan.kilty@pwc.com

**Peter Reilly**
Partner
Tel: +353 1 792 6644
peter.reilly@pwc.com

**Kim McCleanaghan**
Partner
Tel: +353 1 792 6912
kim.a.mcclenaghan@pwc.com

**Rebecca Greene**
Director
Tel: +353 1 792 5059
rebecca.greene@pwc.com

**Marie Coady**
Partner
Tel: +353 1 792 6810
marie.coady@pwc.com

**Colm O'Callaghan**
Partner
Tel: +353 1 792 6126
colm.ocallaghan@pwc.com

PwC would like to thank all those who contributed to the content within this report: Robert Costello, Sinead Kelly, Paul Rodgers, Catherine Murray, Brendan Coleman, Michael O'Leary, Kathy Doyle, Niamh Gleeson and Illan Dunne.