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PRESS RELEASE

Speech by Liam Connellan, Director General, CII at CII North Dubln Regional Meeting at the International Airport Hotel, Dublin Airport on Thursday, 9th May 1991 at 1pm.

URGENT NEED FOR AMENDMENT TO FINANCE BILL TO PROMOTE INVESTMENT AND STIMULATE ECONOMIC GROWTH

The Confederation is seriously concerned that from 5th April next accelerated capital allowances will be totally abolished and this places an urgent focus on the need to allow business in Ireland to depreciate machinery over its commercial life when computing profits for tax purposes. The commercial life of machinery today due to technological obsolescence is frequently as low as three to five years. From next April, industry will be permitted the use only of annual wear and tear allowances under which machinery may only be written down at a rate of 12.5% per annum on the declining balance, that is over a period of more than 10 years.

This requirement is completely out of line with commercial reality, and if a realistic wear and tear allowances regieme is not immediately introduced it will have serious consequences for the credibility of the Irish tax system, for investment and for job creation. The rules for the determination of taxable profits must operate in a way which fully recognises legitimate business costs. Otherwise, loss making firms will be forced to pay taxes on artificial "profits", and the effective rate of corporation tax for firms which invest heavily will be substantially higher than the nominal rate.

Many countries such as France, Sweden and Luxembourg accept fully the machinery write-off charges specified in the company's accounts. Given the rate of technological obsolescence of machinery other EC countries permit annual allowances of 25% to 50%. From these examples, it is clear that the current Irish provisions are very much at variance with international practice.

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It is vitally important that this anomaly is corrected immediately so that firms will be able to make investment decisions on a realistic and competitive basis. If an alteration in legislation is postponed then the net cost of machinery in Ireland will be much higher than in other EC countries, and investment will either be diverted elsewhere or will not be made.

This would have severe adverse consequences for investment in Ireland and for subsequent increases in output and employment. In its recent report on "Real Convergence in the EC" the European Commission stated that "investment is the single most important factor in determining the medium to long term growth path of any economy". Ireland needs more productive investment urgently. The implementation of legislation which would have the effect of penalising investment by disallowing the commercial depreciation of machinery would be extremely damaging to economic development and job creation.

The Confederation therefore urges the Government to introduce a provision in the 1991 Finance Act which would allow fully the commercial depreciation of machinery from next April after the current system of accelerated capital allowances is terminated. It also recommends an urgent review of the fiscal incentives available in other EC Member States so as to ensue that the Irish incentive package remains competitive. In this way, a fall off in investment which would have serious adverse consequences for output and employment, can be avoided.

ENDS

9th May 1991