

The Davy logo consists of the word "DAVY" in white, uppercase, sans-serif font, centered within a solid red square.

DAVY

The background of the entire page is a photograph of the Parliament Buildings in Dublin, Ireland. The image shows a large, ornate stone building with a prominent blue-tiled dome. In the foreground, a large circular window with a decorative metal grille is visible, set within a stone archway. Below the window, a classical statue of a seated man is visible in a niche. The sky is a clear, pale blue.

# Pre-Budget Submission 2025

August 2024

## Introduction

Davy is Ireland's leading wealth manager and investment bank, servicing the investment and funding needs of private and corporate clients in Ireland and the UK and of institutional investors globally. We specialise in connecting capital with opportunity, with a focus on the Irish economy.

Our submission is informed by our experience in servicing our domestic client base, the sectoral insights of our research analysts and our understanding of the perspectives of institutional investors (equity and debt) on the Irish economy. We don't seek to represent their many and divergent views, but rather focus on matters of most significance nationally.

Our submission covers four broad areas, as follows:

1. Addressing infrastructure constraints to sustainable growth;
2. Reviving Euronext Dublin to support Irish enterprise;
3. Enabling the diversification and growth of Irish wealth;
4. Sustaining equity in capital taxation.

The combined effect of the proposals presented would, we believe, support the competitiveness of our economy and, by extension, the financial wellbeing of Irish society.

## 1. Infrastructure Constraints

Our [research](#) indicates Ireland is on the cusp of a period of rapid economic growth, subject to comprehensively addressing important infrastructure constraints in the areas of housing, renewable energy, transport and health.

Housing deficits have contributed to rapid rental inflation in recent years, limiting opportunities for consumer spending and investment and, importantly, threatening our social cohesion.

We forecast 36,000 new dwelling completions in 2024, rising to 42,000 in 2025. This represents significant progress on recent years but falls well short of the new supply needed to support our population forecast of close to 6 million by 2030. This is estimated at 85,000 units per year.

The economic and social benefits of investing in renewable energy infrastructures are significant, from enhancing the competitiveness of our domestic industry to supporting green energy exports. Lower population exposure to carbon emissions and associated climate impacts should also deliver significant health and broader societal benefits.

A series of factors, domestic and international, speak to the need for an accelerated period of focused capital investment over the next 5-10 years. These include:

- important risks to our FDI competitiveness, in the face of mounting competition and as we position into the next wave of AI-related technology innovation;
- population ageing will place greater strain on our public finances over time with the effects compounded should we miss the opportunity for economy-led population growth; and
- robust public finances mean that our debt ratio and interest burden has significantly improved, and we now enjoy the lowest refinancing risk in Europe.

While we are strong advocates of an expansion in our capital spending, there is a need to ensure that this does not undermine achievements in the moderation of consumer price inflation. These have been driven by international factors primarily, with price inflation domestically still elevated. It is, therefore, important that current public spending and taxation levels do not become detached from historical norms.

## 2. Vibrant Domestic Exchange

Notwithstanding the globalisation of capital markets in recent decades, we subscribe strongly to the view that a vibrant domestic exchange is critical to a flourishing indigenous enterprise sector.

There is significant evidence that this is the case, with publicly listed Irish companies now European and global leaders in their respective sectors and contributing hugely to our economy.

Location matters. Foreign listings limit local economic benefits in the early stages and Exchequer gains as businesses flourish. They also naturally lead to reduced early-stage involvement by Irish investors.

Euronext Dublin, our domestic exchange, continues to face challenges and requires urgent public support.

Davy is a member of the Irish Equity Market Forum (IEMF) and fully supports the proposals set out in its pre-budget submission, with the primary elements as follows:

### Retail Savings and Investment Scheme

Aimed at growing levels of retail investment in Irish companies and SMEs listed on public markets, it is proposed that the State puts in place greater tax incentive for smaller investors.

Specifically, we are seeking an increase in the annual tax-free amount for Capital Gains Tax (CGT) to €7,500 and the establishment of a scheme which supports tax-free investments of up to €40,000 in Irish publicly listed companies with a market capitalisation of less than €1.5 billion.

Such schemes exist elsewhere in Europe.

### Fiscal Incentives for Founders

Aimed at meaningfully increasing the pipeline of Irish companies seeking domestic listings over foreign sale, two related proposals as follows:

- Enhancing angel investor and entrepreneur reliefs to make them more attractive;
- Providing tax reliefs on the costs associated with a public listing, be that via means of a permissible deduction or an enhanced tax credit.

New listings are essential to the attainment of a critical mass of activity on Euronext Dublin.

### Establishment of an Irish Growth Capital Fund

The establishment of an equity fund, supported by the State, for Irish companies using Irish equity markets to help bridge the shortfall of domestically focused institutional investors. The fund would have broader benefits for the attractiveness of the Irish equity market for non-Irish IPO candidates. Per the IEMF submission, the fund should be open to other investors.

Additionally, we support the call in the Euronext Dublin pre-budget submission for a review of the stamp duty treatment on the trading of Irish shares creating a level playing field with competitors.

### 3. Diversification and Growth of Irish Wealth

Davy is Ireland's leading wealth manager, providing an array of planning, pension and investment supports to business owners, professionals and executives from their mid-career stages through retirement. We have an avid interest not just in the safeguarding and growing of our client assets, rather also in the changing quantum and profile of wealth right across Ireland.

Our national wealth is characterised, in simple terms, by high concentrations in cash and housing. Irish households are under-represented relative to European peers in listed securities and funds, which offer diversification and growth opportunity. This has implications not just at household level but also for the State as we face the challenges of population ageing.

Private **pensions** are an important, incentivised, mechanism for Irish household investment in diversified assets. The Standard Fund Threshold (SFT), however, limits the value of tax-relieved pension benefits to €2 million, down from €2.3 million in 2014. We believe that the SFT should be removed or significantly increased and indexed.

More broadly, we are supportive of all measures which support higher levels of pension investment given the funding challenges associated with our ageing population.

The tax treatment of **funds**, particularly relative to direct equities, cash and housing, creates further disincentive to Irish household investment in diversified and long-term, value-accretive assets.

While we support the gross roll-up approach to fund taxation, it is crucial to recognise the distorting effects of disparate tax rates on investor behaviour. The current disparities between the rates of Investment Undertaking Tax (IUT), Deposit Interest Retention Tax (DIRT), and Capital Gains Tax (CGT) inadvertently encourage investors to make decisions based on tax advantages rather than the suitability of the investment itself. Such tax-driven decision-making can lead to suboptimal portfolio diversification, increased risk exposure, and missed opportunities for long-term growth.

Therefore, we advocate for harmonising these tax rates with the common CGT rate, currently at 33% with equivalent annual tax-free amounts across all three investment growth tax regimes. This alignment will create a neutral tax environment, ensuring that investment choices are driven by the intrinsic qualities and risks of the assets rather than by tax arbitrage opportunities.

Ultimately, this policy will support a more rational and efficient allocation of capital, benefiting both Irish households and the broader economy.

Additionally, a series of anomalies related to investment in funds create disincentive to investment in regulated fund structures over alternatives and need to be addressed. These include:

- loss relief is not available on units in Irish or regulated offshore funds against gains in other Irish or regulated offshore funds whereas losses on one CGT instrument can be used against the gain on another CGT instrument;
- the tax treatment on spousal transfers during lifetime and on death differs between CGT assets, Irish funds and regulated offshore funds;
- where a spouse inherits a CGT instrument, there is an uplift to market value. However, where a spouse inherits units in an Irish fund, there is no uplift to market value;
- the application of the exit tax/CAT offset including the two-year holding period differs between Irish funds, regulated offshore funds and life assurance funds; and
- the inability for gross payments to be made to certain non-taxable entities. There is a further anomaly in that if tax has been suffered, there is no mechanism for the entity in question to claim a refund of that tax.

To re-iterate, making the tax treatment of investments in regulated funds simpler and fairer is required to support the more productive and lower risk deployment of Irish household wealth.

Further detail on these and other proposals for changes in the tax treatment of investments in regulated funds is contained in our [submission](#) to the Department of Finance consultation on the Funds Sector.

## 4. Sustaining Equity in Capital Taxation

On the matter of sustaining equity in the taxation of Irish capital, five proposals as follows:

### Capital Acquisition Taxation (CAT) Thresholds

CAT is charged at a rate of 33% (current rate) on the value of gifts or inheritances a beneficiary receives above the applicable threshold. In 2009, children were able to receive gifts/inheritance from their parents of up to €542,544 before CAT was due. This amount was significantly reduced and currently stands at €335,000. This threshold has not increased since 2019.

The main asset that a child typically inherits from their parent is the family home.

In 2012, the median price of a house nationally in Ireland was €205,476. This compares with €335,000 in May 2024, equivalent to a 63% increase.

**We would suggest that there should be a full review of all CAT thresholds with a particular focus on the Group A threshold (parent to child) to take account of the rise in asset value/inflation.**

### CAT: Section 82 CATCA 2003

Section 82 (2) (a) CATCA exempts from CAT the receipt in the lifetime of the disponent of money or money's worth for support, maintenance or education taken by dependent children. Section 82(4) CATCA extends this relief to inheritances, where both parents of the minor child are deceased.

It is unclear why both parents need to be deceased. If a child inherits on the death of one parent and the other parent is alive, the relief is not available. For example, in circumstances where parents are separated or divorced, and one parent is deceased, the relief would not be available.

**We would suggest that Section 82(4) CATCA is amended so that the relief is available on an inheritance from a parent regardless of whether the other parent is alive.**

### CAT: Section 79 CATCA 2003

Normally, an absolute inheritance taken by a parent from a child falls under the Group A threshold, with any excess taxed at the prevailing CAT rate. Section 79 CATCA provides that if certain conditions are met, an inheritance taken by a parent from a child is exempt from CAT (regardless of the value of the inheritance). To qualify for the exemption, the child must have received a non-exempt gift or inheritance from either or both of his/her parents within the five-year period prior to his/her death. The rationale around this condition is unclear.

It is not necessary that the inheritance be the same property or of the same value as the prior gift or inheritance. There is no rationale to discriminate between cases where a non-exempt gift was made by parents in the preceding five years and one where no non-exempt gift was made, particularly as there is no correlation between the value of the non-exempt gift or inheritance made by the parent(s) and the subsequent inheritance received by the parent(s).

**We would suggest that the five-year condition is removed, and a full exemption should be available where parents inherit from their children.**

#### **Capital Gains Tax (CGT): Retirement Relief**

CGT retirement relief, in broad terms, facilitates the tax-efficient lifetime transfer of the family trading business to the next generation provided that certain conditions are satisfied.

In 2024, where an individual is aged between 55 and 65 and the family trading business is transferred to their children, there is no monetary limit on the amount of the relief. Where the individual is 66 or over, and their share of the market value of the family trading business is over €3 million, the relief for the individual is capped at €3 million.

Finance Act (No.2) 2023 introduced a few changes to CGT retirement relief which will be effective from 1st January 2025. A welcomed change was the increase in the age limit from age 66 to age 70 before the €3 million cap applies. An unfavourable change was the introduction of a €10 million cap on the transfers of a family trading business to children where the individual is aged between 55 and 69. We believe that the €10 million cap will negatively impact on the lifetime transfers of family business and will reduce the number of lifetime transfers of family businesses.

**We would suggest that the €10 million cap be scrapped, or at the very least its introduction paused until the impact the cap will have on the transition of family businesses is considered further.**

#### **CGT: Entrepreneur Relief**

If certain conditions are met, CGT entrepreneur relief allows for a reduced CGT rate of 10% to be applied to chargeable gains up to a lifetime limit of €1 million. Gains in excess of the €1 million limit are taxed at the prevailing CGT rate. To qualify for the reduced CGT rate, an individual must have owned the qualifying asset for a continuous period of three years. In the case of shares, the individual must have owned at least 5% of the ordinary shares for a continuous period of three years at any time prior to the disposal. For all other qualifying assets, the three years must be in the five years immediately prior to the disposal.

**We would suggest that the lifetime limit should be reviewed and increased. We believe that an increased limit would be in line with the level of investment that a private business requires to grow and expand. An increased limit would also encourage entrepreneurial activity.**

## Supplementary Materials

This submission is based, in large part, on Davy research and policy submissions in 2024. Additional detail is available at the links below:

- [Funds Sector 2030 - Regulatory Framework & Taxation of Investment Products: Davy Submission](#)
- [Review of the Standard Fund Threshold Regime 2024: Davy Submission](#)
- [Proposals to Reboot Irish Equity Capital Markets Pre-Budget 2025 Submission: Irish Equity Market Forum Submission](#)
- [Irish economy - On the cusp of rapid growth: Davy Research report](#)

## About Davy

Davy is Ireland's leading provider of wealth management and investment banking services, connecting capital with opportunity for almost 100 years.

Our wealth management division provides full-service investment and financial planning advice to a wide variety of clients, including professionals, executives, retirees, business owners, and not-for-profit organisations. With an overall satisfaction of 95%\*, our clients trust us to manage in excess of €19 billion\*\* of assets across our discretionary and advisory investment platforms.

Our capital markets division connects corporates with capital and institutions with investable ideas, providing a range of services including equity sales trading, fixed income, sustainability advisory, corporate finance, corporate broking, and research. For the past 30 years, our trading team has been a leading market maker in Irish equities, and in 2023 we retained our number one market share\*\*\*.

We advise two thirds of companies on Euronext Dublin, including 9 of Ireland's top 10 listed companies\*\*\*.

We are over 900\*\* people dedicated to delivering exceptional outcomes for our clients and continually focus on meeting our sustainability agenda. Our headquarters are in Dublin city centre, while our offices in Belfast, Cork, Galway, and London service our regional and UK clients.

\* Source: ROI Voice of Client Survey of Davy's wealth management clients, H2 2023

\*\* As of 1st January 2024

\*\*\* Source: Euronext Dublin, December 2023



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