

Artists' Exemption Scheme

*Budget 2006
The Arts Council*

October 2005

13 October 2005
Artists' Exemption Scheme
Position of the Arts Council / An Chomhairle Ealaíon

The Arts Council has examined the Artists' Exemption from within our own resources, and also commissioned background research from PricewaterhouseCoopers. Based on this research and analysis, it is the unequivocal advice of the Arts Council that the present scheme should be retained in its entirety.

Revenue considerations

The stated policy of successive Governments is to support artists and the arts as a matter of public good. Direct and indirect exchequer supports to artists and to arts bodies, including supports mediated through the Arts Council, have been the principal means of giving effect to this policy. The Artists' Exemption Scheme is a non-exchequer instrument designed to further this policy of Government support for Irish artists.

The exemption applies exclusively to income derived from creative and original works — all other income is taxed in the usual way. Hence, a person in full-time taxable employment who claims relief on the royalties earned by a collection of poetry can claim that relief solely on the royalties earned, while paying tax on all other income.

A considerable number of people, encouraged by the Government support for the arts which includes the Artists' Exemption Scheme, have committed themselves to making their lives as artists. Withdrawal of the exemption would create considerable pressure to supply directly from the exchequer the income that would be lost if artists lost their exemptions. We would have a stark choice: either supply from State resources, income the market now provides, or lose a considerable number of artists. This would be inconsistent with existing Government policy and would not serve the public good.

In the 36 years since the scheme was introduced, public appreciation of the central role played by the arts in building civil society has grown considerably, to the point where a Cabinet-level post for the arts has been created. The scheme has played a crucial role in fostering this remarkable growth, through helping to make it possible for that vast majority of artists who earn but a modest income, to devote themselves to their work and thus to the development of the public good.

The vast majority of artists who benefit under this scheme earn, in fact, very little from their artistic work. The background document (contained within) shows that the average earnings of the bottom 50% of beneficiaries in 2001 was 5,213. This compares with the then average industrial wage of 11,000.

Around 48% of those claiming relief earned between 10,000 and 50,000. In many cases, the sum represents income after 3, 4 or even more years work on a book or an exhibition of paintings etc. The non-artistic work an artist may have to undertake in order to live through this period will, of course, be taxed fully. In any case, the majority of earners are emphatically towards the lower end of this bracket.

There is a mistaken impression that the scheme mainly benefits rich artists, in particular those in the music business. The background document shows that 58% of all exempt income in 2001 was earned by only 2% of those artists qualifying.

In arriving at the Revenue Commissioners' estimate of the cost to the exchequer of the tax year 2000/2001 of 36.8m, no account was taken of the extent to which this income would not become taxable in the State in the event that artists' relief did not exist.

Estimates are that, for the high-earning 2% of artists, exempt income for musicians is about 35% of their total income, meaning that they have potential liability to tax on this other income.

The Arts Council is firmly of the belief that the example of high-earning artists encourages young people to pursue a life in the arts, to the ultimate benefit and enrichment of society. We are also conscious of the numbers of support personnel who find employment as a result of the presence in the State of world-class artists.

The background document says that a significant number of high earners will, even if they remain in Ireland for the present, have recourse to normal tax planning measures if exemption is removed, so the nett gain to the exchequer of abolishing the scheme would quickly fall to around 13 million, with every likelihood that this figure will further diminish over time as artists decide to relocate outside the State.

Non-revenue considerations

The Arts Council points out that the benefits of the scheme are felt also in non-artistic spheres and in an international context.

An economy which is not designed to promote and underpin a vibrant civil society cannot be sustained, any more than civil society can be maintained, unless based firmly in a robust economy. These twin goods are intertwined.

Actions undertaken to promote a public good, such as foregoing notional income, can also be actions which strengthen the economy. It is strategically necessary, on the global stage, that Ireland presents itself as a society which soberly values its economic realism and ambitions, while at the same time striving to build a just, imaginative and equitable civil society. At the same time, in domestic terms, the State signals its commitment to the development of both the economy and civil society when it makes supports available to both sectors. The State agreed to forego considerable income in its corporate tax take to promote economic activity and opportunity; it makes similar, if considerably lower, levels of support available to artists who contribute to the evolution of our civil society. Both provisions are rooted in a desire to promote the public good.

The Minister for Finance might consider, in the context of artists contributing both to the promotion of the economy and the enhancement of civil society, the following points:

Global perception of Ireland as a country which values creativity has undoubtedly assisted in attracting multi-national corporations whose cultures place a high value on creativity – companies such as Google, eBay and Apple are prime examples of this.

The eagerness with which policymakers integrate artistic events and personages into major trade missions bears testimony to the acknowledged strength of this link in enterprise policymaking circles.

The value accorded the artist in the national tax framework is internationally understood to signify the State's commitment to the central social value of a strong cultural life. This has won Ireland serious international acclaim.

This widely understood commitment to developing Irish culture at the same time as developing a strong economy, has also been favourable for Irish tourism, especially given the constantly rising educational profile of visitors to Ireland. The fastest growing cohort of our visitors is now graduate tourism.

Having artists of world renown resident in Ireland has helped put in place world class local infrastructures (e.g. management and technical expertise), which is of considerable assistance to up-and-coming artists; this is true particularly of the music and publishing industries.

Summary of the position of the Arts Council / An Chomhairle Ealaíon

- The Arts Council is of the view that the Artists' Exemption Scheme has made a major contribution to the creative arts in Ireland and delivered considerable socio-economic benefits to the Irish people as a whole.
- It is an exemption that has the support of the Irish people and is more equitable in terms of access than any of the other reliefs being reviewed by the Department of Finance.
- The scheme is part of a suite of supports for artists which give expression to longstanding Government policy. Abolition would be a serious refiguring of policy, a major withdrawal of support for the individual artist.
- We emphasise that all other income of persons qualifying for the exemption is taxed in the usual way; the exemption applies exclusively to income derived from creative and original works.
- Abolition would have negative effects on a number of levels, cultural and socio-economic; far from contributing to Revenue receipts, it is very likely to result in a decreased tax take from the sector; abolition is opposed by the Arts Council.
- We are unpersuaded that the public good would be served by transferring from the open market to the State the burden of providing to artists the income they would lose if the exemption were abolished.
- Neither does the Arts Council support the imposition of a cap on allowable earnings under the scheme. A cap would yield little in terms of tax in the short term and would in the medium-to long-term, drive out artists who have potential to make significant Revenue contributions from non-exempt income. A cap would also discourage at the early stages of their careers, artists with potential for significant commercial success.
- The suggestion that a cap would yield significant tax earnings also reflects a misunderstanding of the strong relationship between artists with high levels of exempt earnings and artists with high levels of potentially taxable earnings. High-earning artists get relief on exempt income but pay high tax on their non-exempt income.

Proposing a cap also reflects an incomplete understanding of the inconsistent nature of artists' earnings, with even the most commercially successful of artists having lean years when earnings are close to zero; the period between the initiation of a work and the point where it may generate income for the artist can be as much as six or seven years. A capping formula which attempted to reflect equitably these variations in individual circumstance would be complex and possibly unmanageable.

END OF THIS SECTION

Artists' Exemption Scheme

Background document based on research carried out by PricewaterhouseCoopers commissioned by the Arts Council

April 2005

Table of Contents

Executive Summary	2
Chapter 1 Introduction.....	8
Chapter 2 The Artists' Exemption Scheme Explained	9
Chapter 3 The Artists' Exemption Scheme in Numbers	10
<i>Summary of Chapter Findings</i>	10
3.1 <i>Introduction</i>	11
3.2 <i>The Artists' Exemption Scheme in Historical Perspective</i>	11
3.3 <i>Art Form Profile of Scheme Beneficiaries</i>	13
3.4 <i>Earnings Profile of Scheme Beneficiaries</i>	15
Chapter 4 The Real Cost of Artists' Exemption to the Exchequer.....	19
<i>Summary of Chapter Findings</i>	19
4.1 <i>Introduction</i>	20
4.2 <i>The Artists' Exemption Scheme in the Formative Years</i>	20
4.3 <i>The Artists' Exemption Scheme and Established Irish Artists</i>	21
4.4 <i>What is the Value of Taxes which Might be Recouped?</i>	22
4.5 <i>What is the Potential for the Loss of Tax?</i>	24
4.6 <i>What other Tax Incomes might Take Flight?</i>	25
Chapter 5 The Costs and Benefits Compared	25

Executive Summary

Arts Council Recommendations

Scheme Abolition is Opposed

- the Arts Council is of the view that the Artists' Exemption Scheme has made a major contribution to the creative arts in Ireland and delivered very considerable socio-economic benefits to the Irish people as a whole;
- moreover, it is an exemption that has the support of the Irish people and is more equitable in terms of access than any of the other reliefs being reviewed by the Department of Finance;
- the scheme is an element in a suite of supports for artists which give expression to long-standing Government policy;
- abolition of the scheme would therefore constitute a serious reconfiguration of policy - in effect a major withdrawal from a policy of support for the individual artist;
- the abolition of the exemption would also have negative effects of an economic and cultural nature;
- far from contributing to Revenue receipts, it is very likely to result in a decreased taxation take from the sector;
- Council is keen to emphasise that all other income of persons qualifying for the exemption is subject to taxation in the usual way, the exemption applies exclusively to income derived from the creative and original works of beneficiaries;
- finally, the Artists' Exemption Scheme is the only State support for the Arts in Ireland which truly operates independently of Government and its agents;
- this is a desired feature of State supports for the arts in all democratic societies – artistic independence being crucial to a society's ability to self-evaluate.

The Imposition of a Cap is Not Recommended

- in addition, the imposition of a cap on allowable earnings under the scheme is not supported by the Arts Council;
- a cap would discourage, at the early stages of their careers, artists with potential for very significant commercial success;
- the notion that a cap will yield significant tax earnings suggests a misunderstanding of the very strong relationship that exists between artists with very high levels of exempt earnings and artists with very high levels of non-exempt incomes which are taxable within the State;

- proposing a cap also suggests an incomplete understanding of the inconsistent nature of artists' earnings, with even the most commercially successful of artists having very lean years when earnings are close to zero;
- the period between the initiation of a work and its completion (i.e. the point where it may generate income for the artist) can be as much as six or seven years in many instances;
- a capping formula which attempted to equitably reflect these variations in individual circumstance would be Byzantine in its complexity and very possibly unmanageable;

What is the Artists' Exemption Scheme?

- the Artists' Exemption Scheme is one of the longest-standing tax reliefs in Ireland – having been introduced in 1969 with a view to promoting the creative arts in Ireland;
- the scheme allows for the exemption from tax of incomes derived from creative and original works in the following categories: a) books & writing; b) plays; c) musical compositions; d) paintings or other pictures; and e) sculptures;
- the restriction of the exemption to creative artists means that a large number of professional artists do not qualify, e.g. actors, musical performers, dancers;
- moreover, even in the case of creative artists – only that share of their income which derives directly from the creative component of their work qualifies for exemption;
- in the case of certain of Ireland's most commercially successful artists, such incomes are reported to account for only one-third of total income – with the balance subject to taxation;
- all other income of persons qualifying for the exemption is subject to taxation in the usual way; the exemption applies exclusively to income derived from the creative and original works in respect of which exemption is sought.

The Exemption Primarily Benefits Low Earners

- in 2001, an estimated 1,300 individuals claimed relief on earnings of more than 106 mn. The value of taxes foregone on this income is estimated at 37 mn by the Irish Revenue;
- within the greater scheme of the national tax framework, this is a relatively small relief – annual costs amounting to less than half a percent of the total income tax take in 2001;

- Irish Revenue statistics on the earnings profile of Artists' Exemption Scheme beneficiaries dispel any notion that the scheme is the preserve of the wealthy of Irish society;
- more than 50% of the beneficiaries of the relief in 2001 earned less than 10,000, often considerably less – this is well below the minimum wage rate of 7.00 per hour¹;
- the average earnings of the bottom 50% of scheme beneficiaries in 2001 was 5,213. The respective figure nationally (which includes part-time PAYE workers) was 11,000; close to 90% of all artists qualifying for the exemption in 2001 earned less than 50,000, with these skewed heavily towards the bottom end of this scale;
- therefore, any suggestion that the Artists' Exemption is a scheme for the rich is very misplaced;
- rather, the greatest number of beneficiaries live within very limited economic circumstances, which are subject to considerable year-on-year variation. This is true of some of Ireland's most critically acclaimed artists, as well as of those in the earlier stages of their careers;
- against this, however, there are a number of Ireland-based artists who have achieved commercial success on a global scale from their creative artistic endeavours;
- these artists accounted for 2% of scheme beneficiaries in 2001 and for 48% of all exempted incomes;
- this cohort of beneficiaries is clearly dominated by musicians, but a small number of writers also count among their number;
- as indicated previously, the exempt earnings of musical composers/ performers can account for as little as a third of the total earnings, i.e. a large share of earnings is subject to taxation – a point which would appear to be not completely understood by the public at large.

A Drain on the Exchequer?

- the value of tax foregone on the Artists' Exemption Scheme in the year 2001 was estimated by the Irish Revenue at circa 37 mn in 2001 – equivalent to an effective rate of tax of 35%;

¹ These statistics exclude PAYE workers who engage in creative artistic endeavours on a part-time basis. Moreover, the potential for Scheme beneficiaries to earn non-exempt incomes is very limited – with the exception of musical composers/ performers. These account for a relatively small share of scheme beneficiaries and, with the exception of a small number, are mostly in receipt of very modest incomes.

- this figure is typically touted as “the cost of the Exemption to the Exchequer” – which clearly assumes that the value of creative incomes generated in the Irish State would not change in the even of the Artists’ Exemption being amended or abolished;
- consultations with a selection of high-profile beneficiaries indicate that this is not the case;
- a considerable number indicated that they would undertake legitimate and effective measures to minimise the tax burden. Such measures ranged from a temporary change of tax residence in years of high earning to the putting in place of international tax structures to minimise tax charges;
- having regard to the likelihood of such behaviours, the immediate saving to the Irish Exchequer associated with the abolition of the scheme is estimated at 13.3 mn (see Section 4.4);
- there are, however, very strong reasons to believe that the value of this saving will be short-lived;
- the most important of these is the very important role that the Artists’ Exemption Scheme has played in holding emerging artistic talent in Ireland – when other factors (e.g. small domestic market, distance from cultural hubs) promoted emigration;
- the gradual outflow of emerging artistic talent from Ireland, as a result of the diminished attractiveness of the taxation regime, will mean that the value of creative artistic income (i.e. that income which is now exempt) which may be subject to national taxation will fall gradually over time;
- perhaps even more significantly from an Exchequer perspective, however, the non-exempt incomes of these artists and their agents will also reside overseas for tax purposes;
- these are, conservatively, estimated at more than 105 mn (2001 prices) per annum in Ireland (see Section 4.6);
- in the medium to longer-term, therefore, it would appear that significant change to the Artists’ Exemption Scheme will cost the Exchequer in tax-take terms;
- a scenario of the scale of such costs is presented in Table 1.

Table 1 Estimate of Actual Tax Foregone, 2001 (Assuming no Artists' Exemption Scheme)

	Short-Term	Medium-Term	Longer-Term
Exchequer Savings	13	8	5
Exchequer Losses	0	- 9	- 13
- Non Exempt Income of Artists	0	- 7	- 10
- Management Fees & Commissions	0	- 2	- 3
Net Exchequer Loss/ Gain	13	- 1	- 8

- computational details are provided at Appendix 2 to the report
- in conclusion, the notion that the Artists' Exemption Scheme constitutes a drain on scarce Exchequer resources is myopic and very seriously misplaced;

Beyond the Tax Equation

- a purely tax-based approach to the rationale for the Artists' Exemption Scheme serves to ignore the vast array of benefits that have derived from the not inconsiderable successes of Irish creative artists over the course of the past twenty years;
- while certain of these successes may have taken place in the absence of the Exemption, their association with Ireland may have been considerably less by virtue of the fact that many of the artists concerned would have resided outside of the State;
- key socio-economic benefits are the following:
- *the work of Irish artists has raised the **international profile** of Ireland considerably, with few individuals unaware of the national origins of, U2, Van Morrison, Enya, Louis le Brocq and Seamus Heaney, to name but a few;*
- *these artists benefit, as artists, from the scheme but one might consider that such benefits as they enjoy are more than repaid in terms of promoting Ireland;*
- *related to the foregoing, the global perception of Ireland as a country which values creativity has undoubtedly assisted in the attraction of **multi-national** corporations whose cultures place a high value on creativity – with companies such as Google, eBay and Apple being prime examples in this regard;*
- *the eagerness with which policymakers seek to integrate **iconic artistic events** (e.g. Riverdance) into trade missions bears testimony to the acknowledged strength of this link in enterprise policymaking circles;*

- *the value accorded the artist in the national tax framework is also reported to be a great source of pride to Irish artists and policymakers in international circles, and has won Ireland serious international acclaim;*
- *a raised international profile has also had very favourable implications for tourism demand for Ireland, which has been on a relatively consistent upward trajectory since the late 1980s;*
- *the Ireland residence of artists of world renown has also helped put in place world-class local infrastructures (e.g. management and technical expertise) which is reported to be of considerable assistance to up-and-coming artists in Ireland;*
- *a tangible example of this is the role played by screenwriters Jim Sheridan and Neil Jordan in promoting production of film projects in which they are involved in Ireland. Sheridan's "In America", for example, was partly produced in Ireland in spite of the obvious advantages to shooting the film in North America (Canada offers significant tax incentives for film production);*
- *the scheme has also assisted a proliferation of creative arts in Ireland – which, while not all necessarily of world standard, serves to enrich the lives of the artists, their audiences and society. The societal benefits of arts participation are well documented;*
- *primary among these benefits is the promotion of greater societal sympathy, understanding, tolerance and mutuality – the cornerstones of civilisation (see Box 5.1);*
- *finally, the local presence of Irish artists who have made it to the world stage is a source of very considerable inspiration to up-and-coming artists. On a more practical level, such artists are known to provide valuable advice to their would-be successors.*
- *these benefits may not be quantified, but what is certain is that a potential short-term tax saving of less than 15 mn would seem like a very poor exchange;*
- *finally, the non-interventionist nature of the Artists' Exemption Scheme is such that the scope for Government censure of creative artistic output is minimised;*
- *this arm's length relationship is a desired feature of State supports for the arts in all democracies – artistic independence being crucial to a society's ability to self evaluate;*
- *the Artists' Exemption Scheme is the only State support which may be considered as truly operating at arm's length from Government and its agents, including the Arts Council.*

Chapter 1 Introduction

Research inputs to the submission which follows were the following:

- review of secondary materials available in respect of the Artists' Exemption scheme in Ireland since its inception in 1969;
- consultations with national informants in the arts sector and beyond, including the Irish Revenue, the Department of Arts, Sport & Tourism, IMRO, the Sculptors' Society of Ireland and the Irish Book Publishing Association;
- consultations with a number of internationally-acclaimed and commercially successful artists who are tax resident in Ireland;
- consultations with tax advisors specialist in entertainment.

The Arts Council would like to extend its sincere gratitude to all of those organisations and individuals who contributed to the preparation of this submission.

PricewaterhouseCoopers (PwC) assisted the Arts Council with the research aspects of this submission.

Chapter 2 The Artists' Exemption Scheme Explained

In advance of providing a detailed profile of the beneficiaries of the Artists' Exemption Scheme, it is worthwhile highlighting a number of features of the scheme which appear to be not completely understood by the public at large. These are as follows:

- the Artists' Exemption Scheme has been in existence since **1969** and is among the most established of the tax reliefs presently being reviewed by the Department of Finance;
- in contrast to many of the other schemes under review, the **rationale** underpinning its introduction constituted an official recognition of the very substantial financial difficulties faced by creative artists resident in Ireland, as opposed to any overt attempt to reduce the tax burden of the super-wealthy or divert funds to particular forms of investment;
- on a more symbolic level, the introduction of the exemption constituted a formal acknowledgement of the important **societal role** played by the creative artist – which has won Ireland many plaudits internationally;
- the exemption is not available in respect of all artistic earnings – rather only incomes derived from original and **creative works** in a small number of categories qualifyⁱ;
- the implication of this is that the incomes of a large number of professional artists in Ireland, e.g. actors, musical performers, dancers, do not qualify;
- moreover, even in the case of creative artists, only that share of their income which derives directly from the creative component of their work qualifies for exemption;
- in the case of certain of Ireland's most commercially successful artists, most notably musicians, this constitutes a relatively small share of total earningsⁱⁱ.

In order to qualify for the Artists' Exemption Scheme, an artist must clearly be tax resident in Ireland. Tax residence in Ireland requires an individual to either spend more than 183 days in Ireland in a given tax year, or spend 280 days in Ireland over a two-year period.

All other income of persons qualifying for the exemption is subject to taxation in the usual way, i.e. the exemption applies exclusively to income derived from the creative and original works in respect of which exemption is sought.

Chapter 3 The Artists' Exemption Scheme in Numbers

Summary of Chapter Findings

Key chapter findings are as follows:

- there were an estimated 1,300 beneficiaries of the Artists' Exemption Scheme in 2001, with an associated exempted income in the region of 107 mn;
- an analysis of the art form profile of beneficiaries in this year shows a predominance of writers (22%) and visual artists (49%), with musical composers and sculptors accounting for similar shares of beneficiaries (i.e. 12%);
- the value of exempted earnings, and the associated value of foregone tax revenues, has risen strongly in the period since 1994/ 1995 – reflecting the major commercial successes of a small number of Irish musicians and writers;
- in 2001, the value of taxes foregone under the scheme was 37 mn. While this is, clearly, a significant sum – it is very small in the context of overall tax receipts in Ireland and in the context of the cost to the Exchequer of various capital allowance schemes;
- a review of the earnings profile of scheme beneficiaries points to a predominance of creative artists earning very little more than the minimum wage;
- the exclusion of PAYE workers from these statistics, and the limited potential for non-exempt earnings in most art forms, indicates that estimates pertain to the full complement of earnings of a majority of beneficiaries;
- the economic welfare of the lowest 50% of earners under the Artists' Exemption Scheme compares very poorly with national averages – average incomes standing at 5,213 in 2001 compared with more than 11,000 for the population as a whole;
- these Irish Revenue statistics are consistent with anecdotal evidence which suggests that a majority of creative artists in Ireland struggle for commercial viability on an ongoing basis – with highly acclaimed artists also falling into this category;
- by contrast, a small number of creative artists in Ireland have achieved commercial success on a global scale. These artists are dominated by musicians, but also include a small number of writers among their number;
- musical performers/ composers are the one category of qualifying artist which may derive a significant share of their income from non-exempt income sources, which are subject to

taxation. These are estimated at close to 84 mn in the case of the highest earning musicians in Ireland in 2001;

- the fact that only a relatively small share of the earnings of the largest beneficiaries of the scheme are exempt would appear to be not fully comprehended by the public at large.

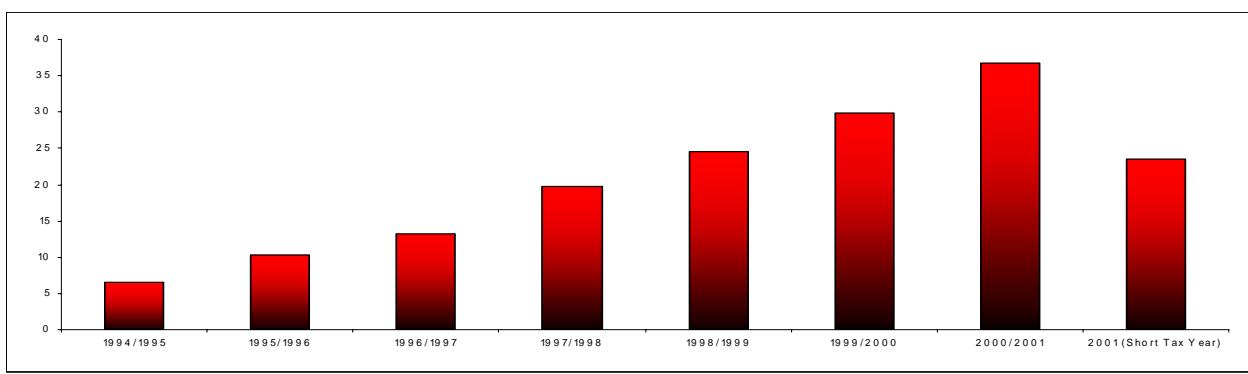
3.1 Introduction

This chapter presents an overview of all statistical and anecdotal evidence which is available regarding the Artists' Exemption Scheme in Ireland. It comprises three additional sections, the next of which presents an overview of the value of exempted income under the scheme since statistics first became available in 1994 / 1995. Section 3.3 presents a high level overview of the art form profile of beneficiaries, while Section 3.4 presents statistics on the earnings profile of beneficiaries and places these into a national context.

3.2 The Artists' Exemption Scheme in Historical Perspective

Statistical information on the cost of the Artists' Exemption Scheme to the Irish Exchequer was first made available for the tax year 1994/1995. In this year, the estimated cost to the Exchequer was 6.5 mn. A review of the annual statistical reports of the Irish Revenue indicates that the cost of the scheme has risen steadily in the intervening years (see Figure 3.1) ⁱⁱⁱ.

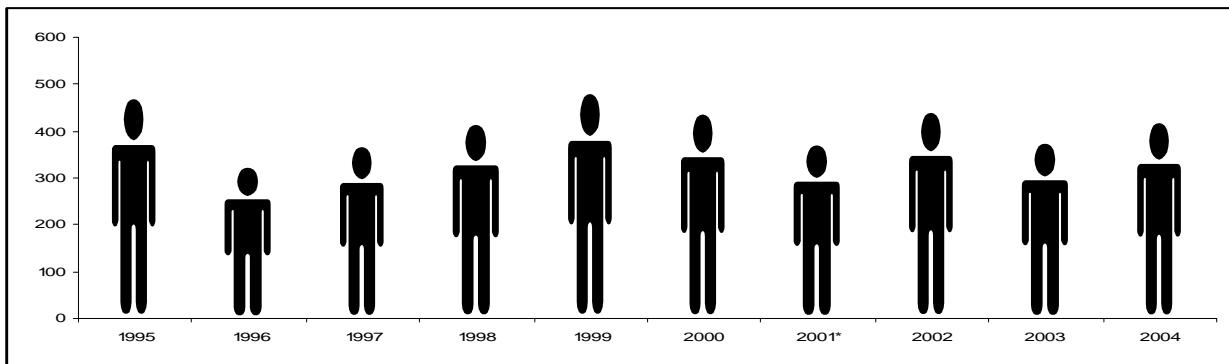
Figure 3.1 mn Cost to the Irish Exchequer of the Artists Exemption Scheme



A review of the number of determinations made by the Irish Revenue regarding qualification for the exemption suggests that the growth in Exchequer cost indicated in Figure 3.1 is not attributable

to a strong surge in the number of individuals engaged in qualifying creative, artistic endeavours in the period under review (see Figure 3.2).

Figure 3.2 Number of Artists' Exemption Scheme Determinations, 1995 to 2004



Source: Irish Revenue (PwC Derived)

Rather, the increased cost to the Exchequer of the scheme between 1994 and 2001 is attributable to the emergence of a small cohort of Irish artists who achieved nearly unimaginable global success in this period. This cohort is dominated by musicians, but a small number of writers also count among their number. In other words, the rising "cost" of the Artists' Exemption Scheme to the Exchequer is, in many ways, a measure of its very success.

Table 3.1 presents details of the absolute "cost" of the Artists' Exemption Scheme to the Irish Exchequer for the period 1994 to 2001. Details in respect of later years are not available.

Table 3.1 Cost of Artists' Exemption to Exchequer, 1994 to 2001

	1994/1995	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001 (Short Year)
mn								
Artists' Exemption	6.5	10.3	13.2	19.8	24.5	29.9	37.1	23.5
Gross Income Tax Receipts	5,252	5,796	6,627	7,285	8,030	9,113	9,347	9,075
Cost of Capital Allowances	1,127	1,109	1,191	1,408	1,406	1,649	1,703	1,833
Artists' Exemption as %								
Gross Income Tax Receipts	0.1%	0.2%	0.2%	0.3%	0.3%	0.3%	0.4%	0.3%
Cost of Capital Allowances	0.6%	0.9%	1.1%	1.4%	1.7%	1.8%	2.2%	1.3%

Source: Irish Revenue (PwC Derived)

In 2001, the Artists' Exemption Scheme cost the Exchequer an estimated 23.5 mn in foregone tax revenues. This, however, was a short tax period – with the actual cost in this year more likely to be in line with that for 2000/2001 (i.e. 37 mn).

While 37 mn is clearly a significant amount of money, it is very small in the context of total income tax receipts in Ireland in 2001 (< 0.5%) and in the context of the cost to the Exchequer of capital allowances available for investment in infrastructure (<1.5%).

Moreover, the actual annual cost to the Exchequer of the Artists' Exemption Scheme is considerably less than the 37 mn indicated, reflecting the fact that the State would not recover 100% of the foregone tax if the scheme was abolished (see Chapter 4).

3.3 Art Form Profile of Scheme Beneficiaries

There were an estimated 1,323 beneficiaries of the Artists' Exemption Scheme in 2001.

Table 3.2 presents an analysis of the number of individuals who were approved under the scheme between 2002 and 2004 by art form.

Table 3.2 Art form Profile of Individuals Approved under Artists' Exemption, 2002 to 2004

	Number of Individuals	% of Total
Book or Other Writing	232	22%
Literature & Novels	177	17%
Scriptwriting	36	3%
Poetry	11	1%
Other	8	1%
Play	71	7%
Playwright	50	5%
Screenplay/ Scriptwriting	21	2%
Musical Composition	117	11%
Painting/ Pictures	521	49%
Paintings	460	43%
Photography	31	3%
Other	30	3%
Sculpture	124	12%
Total	1,065	100%

Source: Irish Revenue (PwC Derived)

Between 2002 and 2004, an estimated 1,065 individuals were approved under the Artists' Exemption Scheme – with the greatest number of these accounted for by painters. Writers and painters, combined, accounted for 66% of all approvals in this period. Musicians, by

contrast, accounted for by just 11% or 117. The pattern of approvals by art form has been broadly consistent since 1999 (see Table 3.3).

Table 3.3 Art form Profile of Individuals Approved under Artists' Exemption, 2002 to 2004

	1995	1999	2001*	2002	2003	2004
Book or Other Writing	29.3%	18.8%	21.4%	19.6%	24.5%	26.4%
Play	11.1%	8.3%	7.6%	6.4%	6.9%	7.7%
Musical Composition	12.4%	12.3%	12.5%	13.5%	10.1%	10.6%
Painting or other picture	39.2%	43.8%	45.3%	47.0%	48.8%	44.8%
Sculpture	7.9%	16.9%	13.3%	13.5%	9.6%	10.6%
Total	100%	100%	100%	100%	100%	100%

Source: Irish Revenue (PwC Derived)

Finally, no official statistics are available regarding the extent to which the Artists' Exemption Scheme has succeeded in the attraction of international artists to reside in Ireland. A review of the full listing of beneficiaries prepared by the Irish Revenue suggests that a considerable share (i.e. circa 10%) may be non-national, but it is not clear if the Artists' Exemption is the reason for their Irish residence. Anecdotal evidence suggests that many of these artists are resident in Ireland for life-style reasons.

There are, however, examples of high profile international artists who have resided in Ireland for tax purposes. These include Irvine Welsh, Frederick Forsyth, Ron Wood, Len Deighton, Richard Condon and members of a small number of musical groups (e.g. Spandau Ballet, Rolling Stones). The apparent limited appeal of the tax exemption to overseas artists has been attributed to a combination of factors, most notably:

- the very limited earnings of artists in the early stages of a career, coupled with a requirement to remain close to market demand and inspiration sources;
- the cost-of-living in Ireland, particularly the price of houses in recent years, which can by-and-large negate the benefit of the tax exemption;
- the difficulties experienced by established and commercially-successful artists in becoming self-employed for the purposes of the Artists' Exemption, i.e. practical difficulties entailed in dissolution of existing tax structures;
- the reported ease with which the effective rate of tax on copyright income may be minimised within mainstream international tax regulations.

Certain of these factors, e.g. ease of minimising tax on copyright income, high cost of living in Ireland, will have important implications for the tax gain associated with the abolition or amendment of the scheme, which are described in Section 4.4.

3.4 Earnings Profile of Scheme Beneficiaries

3.4.1 Overview

A high-level overview of the earnings profile of Artists' Exemption Scheme beneficiaries in 2001 is provided in Tables 3.4 and 3.5. In reviewing these tables, it is important to bear in mind that the statistics pertain, for the greatest part, to professional artists only, i.e. the earnings of individuals engaged in art on an amateur or part-time basis are mostly excluded.

Moreover, with the exception of musical composers/ performers, the non-exempt earnings of beneficiaries are typically small.

Table 3.4 Distribution of Artists' Exemption Income, 2001 (Grossed up to Full Year)

Earnings Bracket	Number of Artists	Total Exempted Income	Average Exempted Income per Artist
5,000 or less	446	1,222,073	2,740
5,001-10,000	248	2,395,581	9,660
10,001-50,000	456	13,157,061	28,853
50,001-100,000	75	7,215,689	96,209
100,001-200,000	39	7,064,949	181,153
200,001-500,000	31	13,456,579	434,083
500,001-10,000,000	28	62,174,995	2,220,536
Total	1,323	106,686,928	80,640
Earnings Bracket	Number of Artists	Total Exempted Income	Average Exempted Income per Artist
5,000 or less	34%	1%	n.a.
5,001-10,000	19%	2%	n.a.
10,001-50,000	34%	12%	n.a.
50,001-100,000	6%	7%	n.a.
100,001-200,000	3%	7%	n.a.
200,001-500,000	2%	13%	n.a.
500,001-10,000,000	2%	58%	n.a.
Total	100%	100%	n.a.

Source: Irish Revenue (PwC Derived)

Table 3.5 Distribution of Artists' Exemption Income, 2001 (Cumulative) (Grossed up to Full Year)

Earnings Bracket	Number of Artists (Cumulative)	Total Exempted Income (Cumulative)	Average Exempted Income per Artist
5,000 or less	446	1,222,073	2,740
5,001-10,000	694	3,617,655	5,212
10,001-50,000	1150	16,774,716	14,586
50,001-100,000	1225	23,990,405	19,584
100,001-200,000	1264	31,055,355	24,569
200,001-500,000	1295	44,511,933	34,372
500,001-10,000,000	1323	106,686,928	80,640
Earnings Bracket	Number of Artists	Total Exempted Income	Average Exempted Income per Artist
5,000 or less	34%	1%	n.a.
5,001-10,000	52%	3%	n.a.
10,001-50,000	87%	16%	n.a.
50,001-100,000	93%	22%	n.a.
100,001-200,000	96%	29%	n.a.
200,001-500,000	98%	42%	n.a.
500,001-10,000,000	100%	100%	n.a.

Source: Irish Revenue (PwC Derived)

Tables 3.4 and 3.5 point to a highly dichotomous earnings structure among individuals qualifying for the Artists' Exemption Scheme. More than 50% of all qualifying artists had exempt incomes less than 10,000 in 2001 – below the level at which they would now be required to pay tax. Close to 90% of qualifying artists have incomes below 50,000, with these skewed heavily towards the lower end of this scale. Combined, these artists accounted for 16% of all incomes exempted under the scheme in 2001. By contrast, the top 2% or 28 beneficiaries accounted for 58% of incomes exempted under the scheme.

This dichotomy reflects at once the dire economic circumstances within which many creative artists in Ireland work, as well as the major global successes of a small number of Irish artists. The ground between these two extremes is relatively sparsely populated – although there is reported to be some year-on-year movement between the lower and middle echelons.

The level of earnings concentration shown in Table 3.5 is not repeated at national level.

In 2001, the top 2% of earners nationally accounted for just 15% of total earnings. Similarly, the average income of the lowest earning 50% of the population in 2001 was more than 11,000, compared with 5,213 in the case of artists qualifying under Artists' Exemption.

It is, thus, clear that the Artists' Exemption is not a "rich man's" relief, as has been purported in certain quarters – rather the greatest number of its beneficiaries obviously struggle for financial viability on a year-on-year basis. This is true of relatively unknown beneficiaries, as well as of certain of Ireland's most internationally renowned and critically acclaimed artists.

The same cannot be said of any other reliefs presently being reviewed by the Department of Finance – the availability of very considerable cash reserves typically being a prerequisite for entry to such schemes (e.g. capital allowances). Statistics on the earnings profile of beneficiaries of such reliefs, are, however, not collated.

3.4.2 Earnings Profile by Art Form

As suggested previously, it is widely acknowledged that the qualifying art forms are not represented equally in the various earning points of Tables 3.4 and 3.5. Rather, the very high earning categories are known to be dominated by musicians and a small number of writers. By contrast, poets and visual artists are thought to dominate the lowest earning categories.

From the perspective of the Irish Revenue, this point is highly noteworthy.

Musicians are the one category of qualifying artist which may derive a significant share of their income from non-exempt income sources. In other words, these artists are likely to generate significant incomes which may be liable for taxation within Ireland.

The ratio between exempt and non-exempt earnings is likely to vary significantly between individual musicians. Non-exempt income derives from three primary sources, namely: a) performance income; b) merchandising; and c) recording royalties ^{iv}.

Performance income is typically subject to taxation in the country in which the performance takes place. In other words, only incomes derived from performances which take place in Ireland are taxable in Ireland. By contrast, all global merchandising incomes and recording royalties may be subject to taxation in Ireland. The value of merchandising income will vary depending on the extent to which the musician tours, but music industry sources estimate that recording royalties are typically 1.5 times greater than publishing royalties (i.e. exempt income).

Applying this ratio to 90% of the incomes of the top 28 earners under the Artists' Exemption Scheme in 2001 (adjusted for the short tax year), the estimated value of recording royalty incomes

which are taxable in Ireland is 83.9 mn (i.e. (62.2 mn * 90%) * 1.5). To the extent that incomes from merchandising, sponsorships and Irish performances are excluded, this estimate is most likely on the conservative side ^v.

Moreover, this estimate excludes the non-exempt incomes of musicians and other artists in receipt of exempt incomes of less than 500,000.

Chapter 4 The Real Cost of Artists' Exemption to the Exchequer

Summary of Chapter Findings

Key chapter findings are the following:

- the short-term implications of the abolition or significant amendment of the Artists' Exemption Scheme in Ireland would most likely be limited to a relatively modest reduction in the value of creative artistic output in Ireland;
- this reduction would result from a combination of factors, including the repatriation of artists living in Ireland solely for tax purposes, the emigration of Irish artists in search of lower costs of living and proximity to cultural "hubs", and the requirement for certain artists to pursue alternative employment to supplement artistic incomes;
- reflecting the relative ease with which the effective rate of taxation on copyright incomes might be minimised by the major earners under the scheme, many of whom have highly sophisticated taxation teams, it is assumed that the effective rate of tax which could be realised on exempted earnings is of the order of between 14% and 15%;
- combined, these assumptions yield a potential short-term saving of more than 13 mn for the Irish Exchequer as a result of the abolition or significant amendment of the Artists' Exemption Scheme;
- this saving would, however, diminish significantly over time as artists with potential for major commercial success seek alternative tax residences, close to the major markets for their art or in the relevant "hub", in their formative career stages;
- this in turn would lead to the loss, to the Irish Exchequer, of the non-exempt earnings of such artists and their management;
- these earnings are estimated to be substantially greater than exempt incomes.
- Table 4.3 presents a scenario of the net cost to the Irish Exchequer of abolishing or significantly amending the Artists' Exemption Scheme.
- Assumptions and computational details are provided in Appendix 2.

Table 4.3 Estimate of Actual Tax Foregone, 2001 (Assuming no Artists' Exemption Scheme)

	Short-Term	Medium-Term	Longer-Term
Exchequer Savings	13	8	5
Exchequer Losses	0	- 9	- 13
- Non Exempt Income of Artists	0	- 7	- 10
- Management Fees & Commissions	0	- 2	- 3
Net Exchequer Loss/ Gain	13	- 1	- 8

- the scenario presented in Chapter 3 indicates that the Exchequer would make an initial gain as a result of amending the Artists' Exemption Scheme, but that this would most likely turn

- to a small deficit in the medium-term (i.e. 5 to 8 years) and to a considerable deficit (i.e. - 8 mn) over the longer term;
- a clear case of throwing the baby out with the bathwater!

4.1 Introduction

In earlier chapters, the annual cost of the Artists' Exemption Scheme to the Irish Exchequer was estimated at 37 mn. As indicated previously, however, this cost is predicated on an assumption that the cost of the scheme is equivalent to the value of foregone taxes. This assumes that a change in the Artists' Exemption Scheme would result in no change in the behaviours of its beneficiaries. A series of consultations with critically acclaimed and/ or commercially successful artists in Ireland indicated clearly that this is not so.

Rather, the comment was repeatedly made that Ireland has been "swimming against the tide" in the battle to retain la crème de la crème of its creative artists at home, for the following reasons:

- Ireland is seriously disadvantaged in trying to retain talented artists, as a result of the very restricted and small market for many art forms (e.g. visual arts) and being at a step removed from the major hubs of artistic activity in Europe^{vi};
- the very high cost of living in Ireland, compounded by the non-fixed nature of many forms of artistic endeavour (e.g. writing, painting), also place Ireland at a disadvantage vis-à-vis other European locations.

The Artists' Exemption Scheme has helped to counteract some of these disadvantages, allowing and encouraging creative artists to remain on home soil and affording them the financial wherewithal to access artistic expertise, as required, overseas.

The purpose of this chapter is to describe the real costs to the Irish Exchequer of the Artists' Exemption Scheme, by testing the assumption that behaviours would remain unchanged in the case of a significant amendment to, or the abolition of, the scheme.

4.2 The Artists' Exemption Scheme in the Formative Years

As part of the research process for this assignment, twelve of Ireland's most commercially successful and/ or critically acclaimed beneficiaries of the Artists' Exemption Scheme were questioned as to the role played by the scheme in the early stages of their careers. All respondents identified the Artists' Exemption Scheme as having had a crucial bearing on their decision to become a full-time artist and/ or to remain in Ireland.

The poor return on artistic work in the early stages of a career mean that many artists engage in their art form on a temporary basis – while holding down a **full-time job** in an unrelated sector. This was the case for a considerable number of those interviewed. The potential for a part-time artist to achieve critical acclaim is, however, very limited – the time

input required to produce art to the standard required being such that it is nearly impossible if not full-time.

The existence of the Artists' Exemption Scheme was described as having accelerated the decision to move into art on a full-time basis for a considerable number of those interviewed, and in winning family support for this move. "Taking the sting out of the tail" was the term used by one of those consulted. While it is not possible to be specific for confidentiality reasons, this "acceleration process" was identified as having contributed directly to the production of two works which are now internationally renowned and sources of very considerable national pride.

In the case of a number of other artists who were younger when they embarked on their artistic careers, the Artists' Exemption Scheme meant the difference between **staying in Ireland** and relocating permanently to London or Paris. This distance from the European artistic centres was identified as having detracted at times from the quality of their art form, although the critical acclaim enjoyed by these artists might suggest otherwise. The decision to remain in Ireland as young artists has carried through to their later years, and there are few who would deny that the residence of these artists has not benefited Ireland very significantly.

Finally, and in the case of two of the artists interviewed, the introduction of the Artists' Exemption Scheme provided the impetus for a **relocation back to Ireland** from elsewhere in Europe. Long-time beneficiaries of the scheme, these artists are well known and highly regarded throughout Irish society. The very existence of the Artists' Exemption Scheme in Ireland was described by both as a source of considerable pride in European artistic circles and as having been crucial to their financial viability until the later stages of their respective careers.

As is clear from the foregoing, the Artists' Exemption Scheme would appear to have contributed in no small way to the very considerable body of work produced by Ireland-resident artists over the course of the past twenty years. Indeed, when questioned as to the implications of the scheme for the arts in Ireland going forward – nearly all commented that the implications for the current generation of internationally-successful artists would be muted, compared with the implications for those which will follow.

4.3 The Artists' Exemption Scheme and Established Irish Artists

The artists interviewed as part of the research process were also questioned as to their likely response to a significant amendment to the Artists' Exemption Scheme. In considering these responses, it is important to bear in mind that the artists consulted are very well established, i.e. have been practicing their art form for many years and are in family life-stages or beyond.

Responses included the following:

- change tax residence permanently;
- change tax residence in years of significant earnings;
- engage in legitimate tax avoidance measures, without changing residence;
- do nothing.

Two of the twelve artists interviewed indicated that they would consider permanently changing their tax residence in response to a significant amendment of the Artists' Exemption Scheme, in spite of the fact that they have both been resident in Ireland for many years. A further three indicated that they may consider changing tax residence for years of very significant earnings, although family ties and commitments could pose challenges for at least one in this regard.

Four indicated that they would consider means of minimising the effective rate of tax on income which is presently exempt, without changing tax residence. The relatively low level of take-up of the Artists' Exemption Scheme by overseas artists, as well as consultations with a number of Irish tax advisors, expert in the field of entertainment, suggests that there are effective and legitimate means of doing so within existing international tax regulations.

Three indicated that they would "bite the bullet", but would have to curtail non-commercial activities in order to do so. Such non-commercial activities were identified by nearly all interviewees. These included in-kind and financial contributions to charitable appeals, and the provision of educational services and advisory services to aspirant artists.

4.4 What is the Value of Taxes which Might be Recouped?

The purpose of this section is to estimate the value of the tax revenues which could be recouped if the Artists Exemption Scheme was abolished, having regard to the changes in behaviour that such a move might engender. Assumptions contained in this section are based on consultations with a selection of artists and tax advisors.

Table 4.1 shows the assumed effective rates of tax that could, in theory, be applied to the tax-exempt earnings of artists.

Table 4.1 Assumed Effective Rates on Exempt Artist Income^{vii}

Earnings Category	Exempt Incomes, 2001	Assumed Effective Rate of Tax	Estimated Tax Foregone
5,000 or less	1,222,073	0%	0
5,001-10,000	2,395,581	0%	0
10,001-50,000	13,157,061	21%	2,737,793
50,001-100,000	7,215,689	24%	1,751,727
100,001-200,000	7,064,949	28%	1,968,189
200,001-500,000	13,456,579	35%	4,666,864
500,001-10,000,000	62,174,995	42%	25,875,427
Total	106,686,928	35%	37,000,000

Source: Irish Revenue/ Arts Council Assumptions (PwC Derived)

Applying a series of assumptions regarding the share of exempt income which would be lost to Ireland as a result of the abolition of the Artists' Exemption, as well as the effective rates of tax that could theoretically be achieved by the major earners under the scheme, Table 4.2 presents an estimate of the real cost of the Artists' Exemption Scheme to the Exchequer, i.e. the value of additional tax revenues that would be collected in the period immediately after the scheme's abolition or significant amendment.

Computational details are contained in Appendix 1.

Table 4.2 Estimate of Actual Tax Foregone, 2001 (Assuming no Artists' Exemption Scheme)

Earnings Category	Assumed % Reduction in Income	Estimated Exempt Income, 2001	Assumed Effective Rate of Taxation	Estimated Tax Foregone
5,000 or less	0%	1,222,073	0%	0
5,001-10,000	0%	2,395,581	0%	0
10,001-50,000	-30%	9,209,943	21%	1,916,455
50,001-100,000	-30%	5,050,982	24%	1,226,209
100,001-200,000	-30%	4,945,464	23%	1,130,459
200,001-500,000	-20%	10,765,263	20%	2,118,702
500,001-10,000,000	-5%	59,066,245	12%	6,861,782
Total	-13%	92,655,552	14.3%	13,253,607

Source: Irish Revenue/ Arts Council Assumptions (PwC Derived)

Assumptions underpinning Table 4.2 are the following:

- due to a combination of emigration as well as the requirement to engage in alternative forms of employment, the value of artistic output which qualifies for the Artists' Exemption Scheme will fall by 13% in the short-term, i.e. from 106.7 mn to 92.6 mn;
- this, conservatively, assumes that only a very small share of the earnings of the largest earners under the scheme is lost to emigration;
- reflecting the tax sophistication of the larger earners under the scheme, as well as reported ease with which the rate of tax on copyright income may legitimately be minimised, it is assumed that the effective rate of tax on exempt earnings is 14.3% - as opposed to the 35% assumed by the Irish Revenue;

- however, and reflecting their more limited resources, tax savings realised are assumed to be dominated by the major players – with those earning less than 100,000 in 2001 assumed not to realise any reduction in the effective rate of taxation.

Applying these assumptions, the real cost to the Irish Exchequer of the Artists' Exemption Scheme is 2001 is 13.3 mn. Within a national tax context, this is very small indeed.

There is, however, a flaw at the heart of the foregoing analysis – namely, the value of exempted income is assumed at 2001 levels². These income levels are the legacy of the Artists' Exemption Scheme having been in place for more than 35 years. Consultations with some of Ireland's most commercially successful artists indicates that, while deep-rooted family and social connections render a change of residence undesirable, they might not be resident in Ireland had the exemption not existed in the formative stages of their careers.

In other words, the tax saving to the Exchequer will not remain static at 13.3 mn over time. Rather, it is likely to decline considerably as the next generation of Irish artists choose a different path to their predecessors. Assuming that Irish artists are equally successful into the future as they have been historically, this has important implications for the Irish Exchequer as well as for the quality of artistic output in Ireland.

4.5 What is the Potential for the Loss of Tax to Other Jurisdictions?

As indicated previously, many creative artists in Ireland generate incomes which do not qualify for the Artists' Exemption Scheme. This is particularly true of musicians, but writers, painters and composers may generate incomes from readings, teaching and some forms of interpretative work which are not exempt.

In the case of musicians, the non-exempt incomes (i.e. that income which is taxable in Ireland) of the top music earners in Ireland was estimated at 83.9 mn in Chapter 3. The non-exempt earnings of writers, visual artists and (non-performing) composers cannot be estimated with any degree of precision, but are most likely very small compared with that for musicians.

Artists are also required to pay PRSI and are required to charge VAT on sales.

Again, the reluctance of established artists to relocate means that such revenues may not be lost to the Irish Revenue in the short-term.

In the medium- to longer-term, however, such revenues would be unlikely to arise in the Irish State as a result of emigration of the next generation of Irish artistic talent.

² The assumed decline in exempt income of 13% pertains to the change that would most likely take place within 12 months of a change to the existing scheme being announced.

4.6 What other Tax Incomes might Take Flight?

Downstream tax payments which derive from the work of creative artists in Ireland include:

- payments to management companies, none of which are exempt from taxation. Such companies typically work on a proportion of total incomes, with fees ranging between 10% and 20%. Management companies are normally resident in the same country as the mainstay of the artists which they manage;
- assuming an agreed management fee of 15% of the earnings of the top musicians in Ireland, incomes which are subject to full taxation in the Irish economy are estimated at close to 25 mn³.
- payment to sales agents, e.g. visual artists pay up to 50% commission on the sale of their works through Irish galleries. Again, none of these incomes are exempt.

The taxes which arise on these downstream earnings would also be, at least partially, lost to the Irish Exchequer in the medium-term if the Artists' Exemption Scheme is abolished or significantly amended.

Chapter 5 The Costs and Benefits Compared

The foregoing chapter considered the Exchequer costs and benefits associated with changing the existing legislation as it pertains to the taxation of creative art forms. This analysis, however, had no regard to the wide range of socio-economic benefits which are known to derive from the Artists' Exemption Scheme and the success of its beneficiaries. These benefits are the subject of this chapter. In advance of describing these benefits, it is worthwhile considering the not inconsiderable **achievements** of some of Ireland's creative artists.

With regard to **writers**, Ireland is home to a number of Europe's most critically acclaimed writers, including Noble Laureate and Whitbread Prize winner Seamus Heaney, Booker Prize winner Roddy Doyle, Whitbread Prize winner Brendan O'Donoghue and other internationally renowned writers such as John Banville, Eoin Colfer, Dermot Bolger and Colm Toibin. A number of international writers, e.g. Irvine Welsh, Len Deighton, are also tax resident in Ireland.

Ireland is also home to Jim Sheridan and Neil Jordan, both internationally acclaimed writers for the **screen**. Emerging talents include Mark O'Halloran (Adam and Paul) and Mark O'Rowe (Intermission). In their capacity as directors, both Jim Sheridan and Neil Jordan have attracted major film production activity to Ireland.

Finally, Ireland is home to some of Europe's best loved writers of **fictional novels**, with Irish writers nearly always featuring in UK bestseller listings. These include Maeve Binchy,

³ Computed as follows $((€83.9 + (€62.1 \text{ mn} * 90\%)) / 85\%) - (€83.9 + (€62.1 \text{ mn} * 90\%))$. The first formula is essentially used to gross up exempt (i.e. €62.1 mn * 90%) and non-exempt earnings (€83.9 mn) of creative artists to include the fee paid to management (i.e. 15% or 100% - 85%). The second formula pertains to the artist earnings. The difference between the two is the estimated management fee.

who received a Lifetime Achievement Award at the British Book Awards in 1999, Marion Keyes, Patricia Scanlan and Cathy Kelly.

The international successes of Ireland-based popular **musicians** needs little comment – the Corrs, Enya, U2, Westlife, Boyzone and the Cranberries yielding more platinum awards per head of population (1996-2001) than any other country in the world. In addition, musical composers such as Paul Brady have helped put Ireland on the global song writing map, while Bill Whelan's Riverdance has been a global phenomenon for more than a decade.

Ireland-based **visual artists** have also won many global and international accolades. Among them, Louis le Brocqy, Robert Ballagh, Anne Madden, Felim Egan and Eilis O'Connell.

Socio-economic benefits attaching to Artists' Exemption Scheme in Ireland include the following:

- the Artists' Exemption Scheme has raised the international profile of Ireland considerably, with few individuals unaware of the national origins of Riverdance, U2, Enya, Louis le Brocqy and Seamus Heaney, to name but a few;
- closely related to the foregoing, the global perception of Ireland as a country which values creativity has undoubtedly assisted in the attraction of multi-national corporations whose cultures place a high value on such creativity – with companies such as Google, eBay and Apple being prime examples in this regard;
- the value accorded the artist in the national tax framework is also reported to be a great source of pride to Irish artists and policymakers in international circles;
- a raised international profile has also had very favourable implications for tourism demand for Ireland, which has been on a relatively consistent upward trajectory since the late 1980s. Indeed, a small share of this tourism demand can be attributed directly to beneficiaries of the Artists' Exemption Scheme, e.g. U2;
- the Ireland residence of artists of world renown has also helped put in place an infrastructure (e.g. local management and technical expertise) which is reported to be of considerable assistance to up-and-coming artists in Ireland;
- a tangible example of this is the role played by screenwriters Jim Sheridan and Neil Jordan in promoting production of film projects in which they are involved in Ireland. Sheridan's *In America*, for example, was partly filmed in Ireland in spite of obvious advantages to shooting the film in North America;
- the scheme has also assisted a proliferation of creative arts in Ireland – which, while not all necessary of world standard, serves to enrich the lives of the artists, their audiences and society at large. The societal benefits of arts participation are well documented;
- primary among these benefits is the promotion of greater societal sympathy, understanding, tolerance and mutuality – the cornerstones of civilisation (see Box 5.1);

- finally, the local presence of Irish artists who have made it to the world stage is a source of very considerable inspiration to up-and-coming artists. On a more practical level, such artists are known to provide valuable advice to their successors.

Box 5.1 The Arts and Civilised Society

Presentation by Dr. Anthony Grayling to the Civil Arts Inquiry in the UK, October 2003

... What the narrative arts do among other things is to make it possible for us to see into lives, situations and experiences which, if we did not have those narratives available to us, we might never otherwise encounter. Suppose you live in an illiterate life in one cottage, in one village, in one part of the world, never going anywhere and never seeing anything other than the same familiar locality. You could be a wide and good person, and your relationships with those around you might be excellent relationships, for there is no suggestion that access to the narrative arts is necessary for being good or living a good life. But the supposed parochial life will, by its very definition, be a severely limited life. To be able to understand others, even those whose interests and choices you cannot agree with, and to get some insight into cultures you do not share, you need your horizons expanded, and your imagination fed, by an instrument with the power to generate such understanding and insight. That is what the narrative arts offer. By reading a novel or seeing a play or film, you get to be a fly on the wall in many more lives than you could observe in your own one lifetime, and you get to live many other lives in narrative than you can possibly live in fact. Far from not mattering that experience is vicarious, the very fact of bracketing, of distance, of knowing that it is narrative and not occurrent fact, helps to make salient the rich lessons to be gleaned. By this means, sympathies towards others have a chance of being broadened and enriched, at the same time as the same lessons are applied to oneself.

Sympathies; insight; understanding. This is where the work of the arts, intentionally or otherwise, connects with the notion of civil society. Sympathy, understanding, and their hoped-for offspring of tolerance and mutuality, are not an automatic outcome of engagement with the arts – after all, some SS officers undoubtedly listened to Beethoven and read Goethe before going off to work in the gas ovens. But those virtues – sympathy, understanding, tolerance and mutuality – give society its best chance of being civil, just as the possibility of education offers an individual better prospects than being left in ignorance. Perhaps the point is best expressed in terms of its ideal. In the ideal, the arts offer those who engage with them attentively and responsively the chance to educate their sensibilities, to become more discriminating and thoughtful, and more alert to everything around them, not least to other people.

It is not just Utopian but misguided to dream that the arts might thereby bring peace and enlightenment everywhere, as if it were a substitute for archangels; but it brings increments of these things, and in the course of history has brought enough of them to make the civility of civil society.

These benefits may not be quantified, but what is certain is that a potential short-term tax saving of less than 15 mn would seem like a very poor exchange.

ⁱ these categories are: i) book or other writing; ii) play; iii) musical composition; iv) painting or other picture; and v) sculpture;

ⁱⁱ The implication of this is that the effective rate of tax paid may be determined, to the greatest extent, by the wider national tax framework.

ⁱⁱⁱ In reviewing Figure 3.1, it is important to bear in mind that the cost to the Exchequer is assumed to be equivalent to the value of the relief claimed, i.e. that an identical volume of income would have qualified for the relief even in its absence. This issue is revisited in Chapter 6.

^{iv} i.e. compensation for the musician's creative input which is typically computed as a % of the purchase price

^v Irish Revenue data which could validate this estimate is not available.

^{vi} Identified as London for musicians and Paris in the case of the visual arts.

^{vii} These assumptions were derived using the Irish Revenue estimate that the Exemption Scheme cost in the region of €37 mn in foregone tax in 2001 – equivalent to an effective rate of taxation of 35%. The effective rate of tax rises as income grows, reflecting the lower share of total earnings accounted for that share of income which is not liable for tax and that share which is liable only at the lower rate. An effective rate of 42% indicates that these income components are very small in the overall scheme.