CHAMBERS IRELAND

IN BUSINESS FOR BUSINESS

Pre-Budget Submission 2013

Pre-Budget Submission 2013

Ireland faces significant challenges as we move to bring our finances into balance. At the outset we must be mindful of the impact of increased taxes and charges on the domestic economy in particular. We note that the proportion of employment supported by domestic activity has fallen from 50 percent in 2007 to 40 percent in 2011, largely as a result of the collapse in consumption. In addressing these challenges, Government must also work to support domestic demand and with it the wider domestic economy. Government must be 'job proofed' to ensure that any additional taxation measures are designed to secure job creation and support a recovery in consumer demand.[1]

Following extensive consultation with the Chamber network, the following core requirements are requested for Government to consider in framing Budget 2013

1. Be mindful of the need to support the domestic economy. It is only when the domestic economy picks up that we will see any significant growth in job creation that will have a meaningful impact on unemployment. In this context tax increases will damage growth and limit our potential to grow employment numbers and activity levels.

2. Do not pass sick pay costs on to the private sector. Our Chamber members are resolutely opposed to any suggestions that sick pay costs should be passed on to employers at this time. We urge the Government to ensure that the status quo in this regard remains unchanged while Government continues with its efforts to reduce sick pay costs across the wider public sector.

3. In the context of the Croke Park Agreement, outsourcing has to be part of the agenda of Budget 2013 as a means of securing meaningful and significant savings and further reductions in the size of the public service.

4. Continue to defend our 12.5% Corporation Tax. This is a vital draw for FDI which generates more jobs per head of population in Ireland than in any other country.

5. Drive the restoration of the national finances in order to enhance consumer confidence. In closing the deficit, we call for the adjustment to be driven via cuts rather than tax increases, which do less damage to the broader economy. We note that approximately 80pc of public spending is based upon expenditure in Health, Education and Social Welfare. Given the ongoing tightening of capital investments budgets we note that the major heading items from which savings can be driven fall within these areas.

[1] Costs of Doing Business in Ireland 2011, NCC June 2011.

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Taxation

Support Business

1. VAT issues
2. Local Authority Issues
3. Support Cash Flows in Business
4. Introduce Entrepreneurs' Relief to encourage business creation and disposal
5. Simplify and Promote the Seed Capital Scheme (SCS)
6. Public Procurement Process – Enforce Department of Finance Circular 10-10
7. PRSI

VAT issues

We believe that Government should give serious consideration to cutting VAT rates given the ongoing softening of retail sales in particular on the back of poor economic performance and the impact of the 2pc VAT increase that occurred in Budget 2012. While we recognise that the Government did not increase income tax rates in budget 2012, the ongoing softening in VAT receipts witnessed in May 2012 return underlines the negative impact of the hike on consumer spending, the velocity of money and the domestic economy. If we are to help the domestic economy then reducing VAT is one significant way of doing this.

Give certainty on 9pc VAT rate for Hospitality sector

The Government deserves plaudits for its decision to support the tourism sector via the 9pc rate. This measure secured employment and supported ongoing improvements in competitiveness in this sector. Feedback from around our network is that Government now needs to give certainty with regard to the retention of this rate. Many hotels sell accommodation up to two years in advance to international markets. Accordingly, if Government could give certainty on the 9pc rate through to the end of 2014, this would greatly help in securing bookings for summer 2014.

Local Authority Issues

Local Authority charges remain the biggest fixed cost for many SMEs. The recommendations of successive reform reports need to be fully and speedily implemented. The delivery of significant costs-savings derived from the Croke Park agreement and other reports should be passed on to businesses in the form of targeted reductions and other charges that will help to secure enterprises and jobs for the future.

Similarly, any new charges for local services must be distributed locally as is currently the case with the Non Principal Private Residence tax (NPPR). In this way Government can play its part in ensuring that local authorities have the budget to fully discharge their regulatory activities.[2]

New Local Property Charges

At time of writing we do not know how the proposed tax will be structured, however in our view the new tax should be used exclusively to broaden the revenue base of local authorities. While we recognise the need to introduce the Property Tax, we strongly feel that the following pre requisites should apply on establishment of the tax:-

[2] For example we are aware of some Local Authorities still do not have the budgets to ensure that Empty Use Provisions are fully enforced on landlords that flout these to the detriment of the shopping experience in market towns around the country

1. It should lead to an appropriately targeted reduction in rates and other charges being paid by local businesses by at least 20% to spur local job creation.
2. The Property tax should not be used to indirectly boost Government coffers by bringing in matching reductions in the level of annual GPG funding (General Purpose Grant) being provided to the local authority. In this context the General Purpose Grant (GPG) should be ring-fenced to be maintained at the level of 2012 funding for next 5 years.

Securing Cost Savings from Local Authority Mergers

We are concerned that despite announcements to integrate Local Authorities such as Limerick City and County, not enough is being done to secure real and meaningful savings from these mergers. We urge the Government to drive efficiencies especially with regard to the back office in these sectors. All recommendations for Local Authority mergers outlined in the Local Government Efficiency Review should be fully implemented forthwith, with savings arising being passed back to the business community in an appropriately targeted approach.

Government should set out clear guidelines for local authorities seeking to help businesses by enabling their customers to pay all charges, including development contributions. Ideally this would be on a monthly or quarterly basis using online payment.[3] Furthermore, new business tenants taking over a previously occupied building should not be made liable for any outstanding rates bills owed, as is currently the case around the country.

Capital Allowances for Water Efficiency Works

Following the success of incentives for energy efficiency works, Chambers Ireland reiterates it support for the introduction of capital allowances for businesses for water efficiency works. Such an allowance would minimise their use of water, thereby reducing their cost base. It would also have obvious benefits for the environment and reduce the burden on the already overstretched water network in the State.

Support Cash Flows in Business

Chambers Ireland fully supports efforts to improve the cash flow of SMEs by implementing EU law to allow them to utilise a cash accounting system.[4]

While the Revenue Commissioners have implemented a cash accounting scheme, allowing companies to account for VAT on sale on the basis of payments received rather than tax invoices issued, it requires that annual turnover of the business must not exceed €1 million. This threshold is low in international comparison being approximately two-thirds of the thresholds that apply under the cash accounting schemes in the UK and Australia. Where a VAT-registered trader has an annual turnover exceeding €1 million, it can only apply the cash accounting scheme where its supplies goods or services that are almost exclusively (at least 90%) made to unregistered persons. This limits its application in practice to retailers and others businesses that sell to consumers. It does not assist

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[3] While many local authorities do this, there is no standard procedure in place that supports those Local Authorities that facilitate this

[4] As noted by Dublin Chamber, Article 66(b) of Directive 2006/112/EC permits Member States to use cash accounting. Directive 2010/45/EU of 13 July 2010 states in the recitals that Member States should provide for cash accounting: "to help small and medium-sized enterprises that encounter difficulties in paying VAT to the competent authority before they have received payment from their customers...This should allow Member States to introduce an optional cash accounting scheme that does not have a negative effect on cash flow relating to their VAT receipts.

the large number of SMEs with a turnover of over €1 million that carry out mainly business-to-business sales.
We fully support recommendations regarding the extension of the scheme to businesses with a turnover of less than €2.5 million. The full year cost of this proposal is zero, as there is no reduction in VAT paid, simply a deferral.

Drive Electronic Payment

Government also needs to move exclusively to e-Payment. A move to e-payment would take approximately €1 billion in cost out of the economy and would again support competitiveness in Ireland[5]. In this context, the move by the Department of Agriculture to pay premia via electronic methods to all farmers has been a huge success and reduced costs arising from cash transactions dramatically. While we recognise the work that is currently underway under the aegis of the Central Bank in this regard, we believe that Government can send a strong signal to the wider market by committing to progressively moving to electronic payments by the arrival of the Single Euro Payments Area (SEPA) in February 2014.

Entrepreneurs' Relief

As part of the Government's efforts to create a country that is the best place in the world to do business by 2016, we support the introduction of an entrepreneurs' relief which would reduce the effective Capital Gains Tax rate from 30% to 10% for "qualifying disposals". This entrepreneurs' relief from Capital Gains Tax was introduced in the UK a number of years ago and has operated successfully since its introduction. Entrepreneurs' relief should apply to gains made on the disposal of entrepreneurial businesses by individuals following the sale of all or part of a business, and gains made from the sale of any assets when a business ceases to trade. This would act as a reward for the risk taking of entrepreneurs and an incentive for them to establish new businesses in the future.

Key conditions would need to be met to entitle the entrepreneur to qualify for the rate of 10% on their disposal. We recommend the following conditions:

1. The relief should only be available to individuals (sole traders, partnerships, if you own shares in your limited company).
2. The individual should have owned the business for 12 months before claiming the relief, or for 12 months before the date the business stopped trading.
3. The relief should be subject to a lifetime limit of €5,000,000 and the standard CGT rate of 30% should apply on any proceeds beyond this limit.
4. In the instance where an entrepreneur closes rather than sells their business, it should still be possible to claim entrepreneurs' relief on the gains from assets disposed of within the subsequent three years.
5. An entrepreneur should also be able to claim relief on the sale of shares and securities in a trading company, or the holding company of a trading group. An entrepreneur must, however:
   have been an employee or officer of the business;
   owned at least 5% of the company's ordinary share capital; and
   have had at least 5% of the voting rights.

The benefits of introducing this relief would be as follows:

1. This relief would incentivise entrepreneurs to grow the value of their businesses in a manner which will create employment and stimulate Ireland's economic growth.

[5] Irish Payment Services Organisation data

2. This relief would promote investment in start up companies.
3. This relief would encourage many SME owners to grow and sell their businesses as the effective rate of capital gains tax would be much lower for disposal of qualifying assets.
4. With entrepreneurs' relief the individual only has to hold the shares for a period of up to a year. This is in contrast with the BES relief which stipulates a period of five years possession. The five year holding period can operate as a disincentive as the life cycle of certain high technology start-up companies can often be much shorter than five years. This may require part of the business to be divested to third parties or investors within the five year period. Therefore a one year holding period is deemed more appropriate.
5. There would be no upfront cost to the Exchequer as tax relief would be granted on exit.

Other measures that would support business include:

- Enabling individuals to benefit from the current start up exemption for companies.
- Research and Development tax reliefs should be levied on a volume basis.
- Accelerated capital allowances for SME companies on investments up to a ceiling of €15,000 per item.

Tax Clearance Certificate Issues

Chambers is concerned regarding the bluntness of the requirement for a tax clearance certificate to secure payment from government agencies. We believe that there is scope for modifying this regime to enable an Inspector of Taxes to apply appropriate discretion on the specific requirements for a Tax Clearance Certificate when presented with evidence showing that a firm cannot secure a due payment from a Government agency due to its inability to get a tax clearance certificate and where the firm needs that payment to pay the taxes required to secure the tax clearance certificate. Enabling an Inspector to apply discretion in this regard could break this 'vicious circle' with positive outcomes ensuing for all parties in these related transactions.

Simplify and Promote the Seed Capital Scheme (SCS)

Chambers Ireland continues to believe that this scheme is not promoted widely enough to potential entrepreneurs. Similarly, the qualification criteria should be further simplified with a view to supporting citizens to start their own businesses.

We call on the Government to:

1. Clarify the process by which this scheme can be used
2. Simplify the means by which a start up company is deemed eligible
3. Set down timelines for the processing of applications under the scheme
4. Promote the scheme more widely[6]

This could again support individuals seeking to start a business and grow job opportunities in the future.

Public Procurement Process – Enforce Department of Finance Circular 10-10

Government must emphasise the importance of local tendering. We need to encourage public sector organisations to purchase goods and services from local firms and consortia rather than relying

[6] See: http://www.revenue.ie/en/tax/it/leaflets/it15.html

exclusively on end-to-end solutions provided by major international entities. Tender requirements must not be excessive and must be simplified in order to enable more SMEs to compete for business from Government.

Specifically the Government must ensure that Department of Finance Circular *10-10 Guidance Doc on SME participation,* issued by the Department of Finance in October 2010 regarding how public procurement contracts should be awarded, should be fully enforced and policed—especially by Local Authorities. Despite much rhetoric on this agenda not enough is being done to support local and new business start ups via tendering support from Government.

Possible changes to PRSI

Chambers Ireland is concerned that any rise in the PRSI contributions of employers could have a detrimental impact on SMEs. Ireland has worked hard to produce an internal devaluation of labour costs. Figures from the OECD[7] show that Ireland's Unit Labour Cost fell considerably in 2009 and 2010. This has had a positive effect on the competitiveness of SMEs. An increase in PRSI contributions could reverse this trend and would only add to the pressures faced by employers in this sector.
The National Competitiveness Council state: "Both enterprise and government have a role to play in maximising productivity. Given that productivity gains arising as a result of the severity of the recession have passed, there must be a renewed emphasis on improving Ireland's long term productive capacity."[8] Any move to increase the PRSI contributions of employers would impact on productivity levels, which could subsequently impact on job retention and job creation.

Finally, comparisons with other Continental EU Member state social insurance schemes are not valid given that way that these are generally structured and administered by employers and worker representatives. The Irish system is a pay as you go scheme. The only valid comparator is the UK System.

[7] http://stats.oecd.org/mei/default.asp?lang=e
[8] Ireland's Productivity performance, 1980-2011. Forfás. April 2012 (p.9)

Spending

Labour Market Activation Measures

1. Maintain Current Sick Leave Payment Regime
2. Reduce Administrative Burdens on Business
3. Microfinance Initiatives
4. Use the National Training Fund for Strategic Training Needs

Maintain Current Sick Leave Payment Regime

The Chamber network remains concerned regarding efforts of the Department of Social Protection (DSP) to foist sick leave costs onto employers at a time when they are seeking to reduce all costs to restore competitiveness and secure employment.

The DSP needs to take more progressive measures to cut its social welfare bills rather than merely putting more costs on to the tax generating sector of the economy. Its efforts in this regard must be rejected.

Similarly the DSP and the wider government must be mindful of the negative impact of changes to the redundancy rebate scheme arising from Budget 2012. Whatever the merit of DSP claims regarding the scheme as it affected multinational employers, the impact of the reduction of the rebate to 15pc for SMEs is that challenged firms with 20 employees or less seeking headcount reductions may well have to close rather than make reductions as the cash flow implications of funding the redundancy scheme will be catastrophic.

Reduce HR Costs Burdens on Business

Chambers Ireland makes a number of recommendations in the context of two main priorities:

1. The well-being and competitiveness of Irish businesses; and
2. Job retention and creation.

Chambers Ireland is particularly aware of the problems facing two specific groups: employers in the tourism and catering sectors who have been hit hardest by the rules on Sunday premiums; and employers in border counties who must remain competitive with businesses in Northern Ireland. While Budget 2013 is not focussed especially on Labour market regulation, Government must be mindful of the need to cut the cost of employment and secure jobs. Budget 2013 can play a role in supporting this agenda.

1. Plans to rationalise EROs and REAs must be executed as soon as possible as well as the delivery of a consolidation of HR-related enforcement agencies. Done correctly these should cut the cost of Human Resources for the business community.
2. Chambers Ireland reiterates its belief that the National Minimum Wage is a sufficient safeguard to protect low-paid workers from falling into poverty. Furthermore, this safeguard ought to be linked to other indicators of growth to protect employers from excessive payments in times of difficulty.
3. Chambers Ireland remains concerned about the position of businesses who rely on large numbers of casual and Sunday workers. The government must guarantee that the code of practice produced by the Labour Relations Commission on Sunday premiums takes into account the considerable hardships faced by many small retailers, especially those in the

tourism and catering sectors. These premium payments were introduced as recognition that work was being completed during 'unsocial' hours. This is simply no longer the case. Many of those employed in these sectors are 'casual' or student workers. Those for whom the position is their main source of income will still be protected by the National Minimum Wage.

4. Chambers Ireland notes that the Government ought to take this opportunity to make the entire legal framework around Human Resources more business-friendly. Currently the potential cost of downsizing in business adds an extra burden to already struggling SMEs. In this context the recent cut the redundancy rebate was unfair and unjustified, especially for SME businesses, and should be reversed.

Partial Loan Guarantee and other Microfinance Initiatives

Chambers Ireland has long called for the Government to establish a Partial Loan Guarantee for qualifying viable businesses. We welcome the Government's agreement to deliver this initiative however we are concerned about how long the scheme is taking to be rolled out. We call on the Government to deliver on this scheme as soon as possible.

Similarly we support the Government's efforts to establish a microfinance initiative. We would suggest that both initiatives be rolled out at the same time to ensure greater awareness of the potential funding available.

Use the National Training Fund for Strategic Training Needs

Chambers Ireland remains concerned about the way the National Training Fund is disbursed. This fund is derived from levies on business yet too much of the fund is used on expensive apprenticeships that do not help the businesses that have contributed to the fund.

Furthermore, there is a cap on funding for training people in employment despite the fact that we are aware of very significant demand and need from firms in Ireland for these training solutions.

Specifically we recommend that funds should be set aside for enterprise led training, such as Skillnets, to assist with specific structural employment challenges which arise in the future.

Property Related Issues

Government made considerable efforts in Budget 2012 to help the property sector. We note indications that international investors are examining Irish property portfolios at present. However the lack of execution on the roll out of a Property Register is a cause of great frustration. This needs to be delivered as soon as possible with a view to informing all investors of property prices as soon as possible.

In this context the case for cutting development contribution regimes across local authorities is compelling. We would suggest that they need to be cut significantly (a minimum of 20-30pc from peak levels) to support the business case for new building investments in our urban centres in particular.

Chambers Ireland looks forward to the recommendations of the Inter Departmental Group on Property Tax being published, debated and implemented in Budget 2013. We recommend that a broadly based and equitable valuation based local property tax should be delivered in Budget 2013. This should be devised on a self assessment basis similar to the Non Principal Private Residence tax. Furthermore, any revenues arising must be ring fenced for Local Authorities to help protect their

already challenged budgets. This in turn will reduce the pressure on business as the 'funder of last resort' for Local Authorities. Again, Government must be mindful of the need to cut costs rather than raising taxes to meet liabilities as any new taxes and charges will directly impact on the domestic economy, demand and ultimately on VAT and Excise receipts, which are still anaemic at best once you remove the impact of the VAT increase of Budget 2012.

Containing Social Welfare Costs

We note that the National Competitiveness Council has stated that replacement rates should be revised to ensure that no replacement rates exceed 100pc and in the longer term that they should fall to no more than 70%.[9] We support this tapering of reliefs to a more 'Scandinavian' model that sees payments decline in line with the length of time that an individual is out of work. Given the size of the State's social welfare bill, this issue is particularly pressing and other related recommendations such as strengthening conditionality of social welfare needs.[10]

Public Sector Reforms Must Deliver Tangible Cost Savings

Chambers makes the following recommendations in the context of delivering real further and additional savings under the Croke Park Agreement.

Three Year Pause in Increments Needed

During 2000–08, the gross exchequer pay bill rose 118% in nominal terms, driven by staff numbers rising 35 percent and average pay increases of 61%.[11] While there has been a reduction of 13.5% across the board in the period since then, given our current economic circumstances the public sector pay bill needs to fall further in the context of our need for further cost containment measures. A logical starting point is to pause all increments for a period of three years. This is particularly important given that 63% of all public servants qualify for increments.[12] In 2011 alone, increments increased the public sector pay bill by €250m.

Outsourcing

We note that much of the reportage around the Croke Park Agreement talks about 'centralisation of management and administration'. In our view, this is not sufficient to significantly cut the cost of Government. Government must embrace targeted end to end outsourcing of staff and services in significant numbers as part of its efforts to close the budgetary gap. Ireland has a number of domestically and internationally owned outsourcing companies with internationally located reference sites showing how outsourcing can be delivered on a cost effective basis. We urge Government to be more radical and mindful of the need to secure employment and reduce costs in the wider economy. In this context, outsourcing up to 30,000 public servants while assuring their employment rights has to be considered as one element of closing the hole in the national finances.

Sick Leave

We fully support the Minister for Public Expenditure and Reform's plan to reform public sector sick leave arrangements as part of Budget 2012.[13] We note that sick leave in the public service costs the country around €500 million every year. Currently public service workers are entitled to receive full pay for certified sickness absence for up to six months in one year, and half- pay thereafter, subject to a maximum of 12 months of paid sick leave in any period of four years. Staff can also receive seven days of uncertified sick pay in any 12 month period. This situation is unsustainable, and in

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[9] See Pp 39-40 'Cost of Doing Business in Ireland 2011' National Competitiveness Council, June 2011
[10] ibid
[11] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:ESA95
[12] http://implementationbody.gov.ie/publications/
[13] http://www.budget.gov.ie/budgets/2012/EstimateStatement.aspx

need of serious reform in order to increase efficiency and productivity, and boost morale among workers.

In this context, the following changes are needed:

1. Entitlements to certified sick pay reduced to three months on full pay, followed by three months on half-pay.[14]
2. A reduction in uncertified sick leave from seven to three days in any one year.
3. New arrangements for staff with serious long-term illnesses.

Performance Management

Proposed changes to the Performance Management Deployment System (PMDS) of public service workers could see fixed numbers of poorly performing workers losing increments. It is an attempt to create a high-performance culture within the public service in order to make it more productive and efficient. It is also proposed that workers will have to achieve a 'three' rating in their annual review in order for their increment to be approved. Currently they must only achieve a 'two' rating. This rating is defined as "needs improvement".

Redeployment

We note and appreciate the willingness of public service workers to move up to 40km to meet redeployment needs across the service.

Allowances

We support efforts by the Department of Public Expenditure and Reform review of public service allowances with a view to reducing these. It has been tasked with finding a 10% saving in all allowances and premium payments paid to public service workers (€75million of the existing €2 billion). These changes must be applied to both existing workers and new entrants into the public service. .[15]

Public sector pay

A European Central Bank Study from December 2011[16] illustrates how public-private wage differentials in poorly performing countries, including Ireland, are considerably greater than countries performing well, such as Germany. They suggest there is a correlation between excessive levels of public service pay and poor macroeconomic performance and shrinking public finances. This issue becomes more important as, "public sector labour markets have grown in size in many countries, so that the implications of their functioning for overall macroeconomic performance as well as for the public finances have become increasingly relevant."[17]

Infrastructure

Secondary and tertiary roads across Ireland need continued investment in maintenance. SMEs in particular need to be able to move their goods around the country cost effectively. Businesses would also benefit from more competitive insurance rates resulting from improved safety and reliability of secondary and tertiary roads.

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[14] Two workers at Galway University Hospital have recently been sacked for persistent absenteeism. Such actions are deemed necessary in the context of startling figures that show how 1,100 HSE staff members are out sick every day in the HSE West area. It is notable that the absentee rate is reducing in the wake of this decision. A spokesperson for HSE West has commented that the rate is moving closer to the national target of 3.5% of all workers.

[15] http://www.tui.ie/

[16] www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1406.pdf

[17] ibid

A range of relatively minor investments could unblock significant road bottlenecks around the country. Accordingly, Chambers Ireland also considers the following projects to be priorities:

1. M18/N18—Completion of Gort-Oranmore Road linking Limerick/Shannon to Galway and beyond.
2. N4—complete final sections of this road in particular the N4 realignment of Collooney/Castlebaldwin section.
3. N11—Complete the road to Rosslare Europort,
4. A5—Providing certainty on Irish Government commitments to support the upgrading of the A5 linking Donegal to the East Coast most easily.
5. N7—Newlands Cross Upgrade. Sign contracts and proceed forthwith to commissioning the final 'pinch point' on the Cork-Dublin-Belfast road.
6. M20—Cork to Limerick road given its potential for supporting economic development and job creation.

Similarly, the Government needs to clamp down now on widespread avoidance of full motor taxation payments by car owners. As this loop hole is closed, we call on all savings arising (upwards of €94million euro[18]) to be ring fenced for secondary and tertiary road maintenance.[19]

Insurance Sector Issues

Helping Irish Pensions Funds Reserves for Investment in Irish Utility Infrastructure Assets

Chambers Ireland believes that there is considerable scope to support ongoing investment programmes in the State while also boosting activity levels in the short to medium term by ensuring that Irish pension funds can be incentivised to support investments in these sectors.

As a strong supporter of infrastructure network investments, we note the ongoing need to support capital investment programmes, especially in water, electricity and the other related capital programme investments that are strategically important to the country. These require significant ongoing investment to enable Ireland to meet is energy, sustainability and economic policy targets and needs.

The level of investment needed requires significant ongoing borrowing. Access to international capital markets has been constrained by the Eurozone crisis and the associated Sovereign funding challenges faced by the Irish Government in recent times.

We note that domestic institutions such as Pension funds have significant revenues that could be deployed in the Irish market within the right structure. Government can enable these funds to invest on a commercial basis in a way that helps to finance critical national infrastructure investments while also stimulating the economy.

The regulatory asset based model applied to fund utility networks investments typically links the revenues from the networks to Irish inflation. Uniquely, this positions the owners of regulated

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[18] See PQ Answer from Minister Hogan http://debates.oireachtas.ie/dail/2011/06/01/00031.asp

[19] See Report of the Local Government Efficiency Review Group' July 2010. Page 140, item 10.6.13 'Under existing rules where a vehicle has not been in use in a public place the applicant can obtain relief from tax by getting the form signed and stamped in a Garda station confirming the signature on the declaration of non use. It should be noted that the Garda Síochána do not have a role in ensuring the validity of the declaration. The system is therefore open to significant abuse. This "off-the-road" facility is generating approximately 396,000 declarations per annum and is currently costing up to €75 million.'

network assets as a natural hedge against inflation linked assets. We believe that Irish utility inflation linked Bonds would be attractive to Irish pension funds with liabilities linked to Irish inflation.[20]

Accordingly, Government needs to support the Minister for Social Protection in specifying that these types of investments should benefit from a zero risk weighting under the Social Welfare and Pensions Act 2012.[21]

Pension Levy

While welcoming the Jobs Initiative, the Chamber network believes that the Pension Levy will be self-defeating and urge the reversal of this charge. This levy will increase the burden on the provision of pension benefits and will encourage many employers to walk away from their obligations. In addition it sends a disturbing message to multi-national employers who may see this as retrospective taxation.[22]

In our view, the levy has damaged Ireland's standing in the global Financial Services industry and has certainly damaged hopes for Ireland to become a hub for Pan-European pension schemes as had previously been hoped.

Standard Fund Threshold (Pensions Cap)

The Standard Fund Threshold (SFT) was reduced significantly at the last budget to €2.3m. Since then a lot of uncertainty has been created regarding further reductions, with references being made to a maximum pension of €60,000 per annum. This uncertainty has led to people being unable to plan for their retirement. Clarity is required around how this cap will apply in future.

Our network supports two proposals which would make the current system a more equitable one. Furthermore, there would be no additional cost. This proposal merely maintains the real value of the limit going forward.

1. We propose that a more formal link be set between the increases in the Pensions Cap and the increases of some economic index such as inflation or earnings growth. The introduction of such a link has the sole benefit of merely protecting the maximum pension fund for tax relief purposes from erosion due to inflation or excess earnings growth. If such a link is not introduced, then the value of the tax reliefs afforded to pensions would be eroded each year and be inconsistent with the stated objectives of the Government.

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[20] Many Pension funds are looking to move their investments out of equities and other risky asset classes and into investments that closer match their liability profile. Due to the unavailability to date of Irish inflation linked bonds some Irish pension funds have resorted to buying large quantities of French and Italian inflation linked debt.

[21] A key aspect of the transaction is how an investment in these bonds by Pension funds would be treated by the Pensions Board in terms of Pension Funding standards and risk allocation. The Social Welfare and Pensions Act 2012 provides that certain investment categories carry a zero risk weighting while other more risky classes of investment would carry a risk weighting (initially 15%). The Act gives the Minister for Social Protection the authority to specify which types of investments which benefit from a zero risk weighting. Giving bonds linked to Irish inflation this status would reflect the unique suitability of such investments for Pension funds and avoids Pension Schemes being penalised for 'derisking' their funds. It would also be a very positive step in terms of attracting investment from Irish pension funds into Irish infrastructure owned and managed largely by Irish state-owned companies.

[22] Chambers remain concerned regarding the impact of changes to the tax treatment of life insurance related investment products. These sectors are suffering from significant declines in investments arising from the Insurance Levy and other changes to their respective tax treatment. The issue is that in switching consumers and investors away from these products we are creating another dependency time bomb in the medium term as citizens age and retire without having access to funds needed to fund their old age.

2. We support proposals that the calculation should be more equitable. In addition the calculation of the value of the benefits is crude and makes no allowance for age at retirement and the level of increases to be granted to members' benefits. If the cap is going to be more relevant in future the calculation methodology needs to be refined.

This calculation should take into account the following:

1. Rate at which benefits increase. A pension with inflation-linked increases is worth approximately 30% - 50% more than a non-increasing pension. This is not factored in to the calculation.
2. Age at retirement.

A large number of the people affected by the change in the cap are people who are in senior positions with long service. In many cases these people are employed by multinationals and due to their long service would have significant responsibility / authority within their parent company. In the event of these people opting to retire early due to a desire to avoid suffering severe penalties under the cap then the influence that Irish subsidiaries have within their parent organisations have will be substantially reduced at a time when persuading multinational to continue to invest in Ireland is crucial.

Tax Relief on Pension Contributions

Any change to the marginal rate of taxation will have a negative effect on pension provision at the higher rate.
We suggest that the Government maintain the current system for higher rate tax payers but looks to increase the tax relief granted for lower paid workers. This would expand pension provision and encourage lower paid workers not to opt out of their existing pension arrangements due to short-term financial pressures.

If tax changes result in higher rate taxpayers ending pension contributions, then this would increase tax revenue in the current year, but would reduce tax revenue longer term as a result of fewer pensions being paid. Any person in employment that specified compulsory pension contributions would correctly regard the system as unfair double taxation. Pension provision already faces significant challenges. Negative adjustments to the tax relief system will increase these challenges resulting in significant reductions in the provision of private pension benefits which will increase the reliance on state benefits in the future.

Local Enterprise Offices/Partnership Companies

Chambers remain concerned regarding the lack of detail about how these entities will be integrated into local authority structures. We note that Government is already using a very successful model of 'blended outsourcing' of services to the Irish business community via the European Enterprise Network model offered by five affiliated chambers in Dublin, Cork, Galway, Sligo and Waterford in association with Enterprise Ireland. This service, which is run with EU Commission funding, is currently helping Irish businesses to grow their activities and sales across the European Union. We believe that the Government should consider such a model of service delivery that could ensure that complementary strengths of local Chambers and local authorities to service their respective stakeholders.