CHAMBERS
IRELAND
IN BUSINESS FOR BUSINESS

Pre-Budget Submission 2014

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Budget 2014 comes at another crucial time for the Irish economy. Despite recent positive news, such as the deal on the promissory notes, Ireland continues to borrow over €1 billion every month. It follows that the main challenges faced by this Government remain the same: how can borrowing be reduced; how can the deficit be cut; and how can the country's finances be returned to a sustainable footing? Furthermore, Government must do what it can to improve confidence levels and speed up the velocity of money. Not only will this restore activity levels, it will also generate much needed taxes for the State.

While some have been calling for an end to austerity we believe that Government has little choice but to maintain its focus on restoring balance to the Exchequer finances, while creating confidence and taking measures that support activity levels wherever possible.

While Eurostat figures claim that Ireland is a low tax economy,[1] when the Universal Social Charge is included Ireland has one of the highest marginal tax rates for medium and high earners in Europe.

With regards to spending, the recent positive news is a sign that the correct course of action has been taken; it is not an invitation to change direction.

We believe that one of the biggest problems currently facing the business community is the collapse in domestic demand and the subsequent impact on confidence, levels of economic activity and availability of working capital.

While the Government has improved conditions for investment capital availability, many firms continue to struggle as they simply do not have adequate cash flow to remain sustainable or to grow their activities.

Government could help by extending prompt payment requirements, already applied to Government Departments, to all branches of Government, including the HSE and Local Authorities.

A focus on rapid payment from these sectors in particular could significantly help with speeding the velocity of money and further improving business confidence.

In addition, the following core themes are highlighted for Government to consider in framing Budget 2014:

1. **Taxation**: 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. We believe that there should be no more increases in taxes, other than those already scheduled, on either business or consumers. Economic activity must be encouraged through a system that is sensitive to, and recognises the benefit of, investment, access to working capital, growth and employment. In this context, sick pay costs and Employer's PRSI contributions should remain as they are.

2. **Supporting micro, small and medium-sized enterprises**: Recent research from the Central Bank shows that it is younger and newer businesses which are responsible for the greatest job creation.[2] We call on the Government to fully implement the proposals set out in this submission aimed at supporting micro, small and medium-sized enterprises.

3. **Spending**: Readjustments to the national finances remain essential to get Ireland back onto a sustainable footing. The goals mapped out in the Croke Park 2/Haddington Road process

[1] Eurostat give Ireland's top statutory tax rate as 41%, the 11th lowest in the EU27. When the USC is included, the rate of 48% would make Ireland the 11th highest. For details see: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-29042013-CP/EN/2-29042013-CP-EN.PDF

[2] https://www.centralbank.ie/publications/Documents/02RT13.pdf

must be achieved. However, targeted spending in a number of areas, such as labour market activation, can be used to stimulate the economy and support job creating businesses.

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1. Taxation

1.1. Support Business

1.1.1. VAT issues

We maintain that Government should give serious consideration to cutting VAT rates given the ongoing low levels of domestic demand and consumer confidence. While we recognise that the Government did not increase income tax rates in budget 2013, the ongoing softening in VAT receipts shows the negative impact of earlier increases on domestic demand.

Give certainty on 9% VAT rate for Hospitality sector

The Government deserves credit for its decision to support the tourism sector via the 9% rate. This measure has 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. Furthermore, we believe that such schemes can be applied to other sectors such as construction.

1.1.2. Local Authority Issues

Local Authority charges remain the biggest fixed cost for many Small and Medium-Sized Enterprises (SMEs). The savings made from the ongoing reform of Local Authorities and the introduction of the Local Property Tax should be passed on to businesses in the form of targeted reductions.

Securing Cost Savings from Local Authority Mergers

While we welcome the efforts of Local Authorities to reduce costs and limit charge increases, figures from Forfás note that the cumulative increase in rates over the past decade has been almost twice the rate of inflation. Following the execution of the Local Property Tax, Government needs to deliver appropriately targeted reductions in Local Authority charges. Given that significant job creation is dependent on recovery in the domestic economy, this creates an opportunity for local charges to be used to support local businesses. In this context, reform of the application of car parking charges could significantly help struggling town centre businesses. These should be strategically applied on a County-wide basis to support footfall rather than focus purely on revenue generation. 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.

In the context of plans to abolish Town Councils, in situations where there is currently a disparity between the commercial rates in a Town Council and County Council area, every effort should be taken to equalise them by reducing the higher rate rather than increasing the lower rate. While the Department of Finance may say that this is not within their remit, the reality is that in managing the Department of the Environment, Community and Local Government vote, priorities should be set in terms of supporting the domestic economy. A crucial means of doing this is by supporting businesses that create and support employment.

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, we reiterate our call that 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.

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

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.

1.1.3. Support Cash Flows in Business: Further increase the qualifying amount for companies to use cash accounting

Chambers Ireland fully supports efforts to improve the cash flow of SMEs by implementing EU law to allow them to use a cash accounting system.[4]In Budget 2013, the Government raised the qualifying amount for companies to use cash accounting, allowing companies to account for VAT on sale on the basis of payments received rather than tax invoices issued, from €1 million to €1.25 million. While this was a welcome development, this threshold is still low in comparison to cash accounting schemes in the UK and Australia.

This qualifying amount should be raised further 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. The cash flow cost for the State could be substantially covered by redirecting unused investment funds set aside for the Partial Credit Guarantee scheme.

1.1.4. Tax Clearance Certificate Issues

Chambers Ireland remains 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 resulting for all parties in these related transactions.

1.1.5. Retain Employers PRSI at Current Levels

Chambers Ireland remains concerned that any increase 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[5] 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."[6] Any move to increase the PRSI contributions of employers would impact on productivity levels, which could subsequently impact on job retention and job creation.

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[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.

[5] http://stats.oecd.org/mei/default.asp?lang=e

[6] Ireland's Productivity performance, 1980-2011. Forfás. April 2012 (p.9)

1.1.6. Childcare Issues

Chambers Ireland believes that crèche/child care fees should not be subject to the same taxation measures as other work related benefits such as pensions, health insurance and parking spaces.

Currently, if an employer pays for a crèche or assists in any manner with the payment of childcare fees, this is automatically applied as a Benefit in Kind (BIK). In our view there should be some mechanism to allow for tax relief, even at the standard rate, for any employer contribution to child care costs so they are not treated as a BIK.

Such an act would assist employers in the recruitment of staff and alleviate the burden of child care costs to all employees. It would also be a practical means of supporting gender equality and assist highly indebted younger couples.

1.2. Suggested Improvements to the Employment and Investment Incentive Scheme (EIIS)

We note that use of the EIIS has fallen dramatically from a peak of €152m in 2007 to a current low of less than €20m. Chambers have a number of suggestions to improve the use of and access to the EII scheme, with a view to ensuring that more firms from more sectors use this worthwhile initiative:

1. Consider introducing a 'Seed Employment and Investment Incentive Scheme' targeting investments in seed/early stage companies with an upfront income tax relief of 41% and greater facilitation of Business Angel investors;
2. Remove the high income earner restriction;
3. Reinstate the minimum holding period of five years;
4. Ensure that that medium-sized companies in non-assisted areas automatically qualify under the new EU risk capital guidelines for this scheme;
5. Review the impact of broadening the scheme on higher risk and early stage internationally trading businesses; and
6. Simplify accumulation rules.

1.3. Drive enhanced use of the Seed Capital Scheme (SCS)

While recognising that Government has sought to enhance use of the Seed Capital Scheme, we believe that more could be done to grow the number of firms applying for it. These are as follows:

1. The scope and activities of the SCS should continue to mirror the EIIS;
2. Even greater promotion of the scheme;
3. Revenue Commissioners should provide outline approval for SCS claims to facilitate the securing of funding/investments from other sources;
4. Revenue should commit to processing income tax refunds quickly to aid start up firms with cash flow; and
5. Government should consider options for making the scheme more attractive to the self-employed.

1.4. Support the Ongoing Development of a Philanthropic Culture

Building on the Chamber Network's role as a community based development organisation and Chambers Ireland's Corporate Social Responsibility (CSR) Awards, which will celebrate their 10th anniversary in 2013, Chambers Ireland supports all ongoing efforts to grow philanthropy in Ireland.

In this context, we note that positive changes were made in the 2013 Finance Bill regarding restrictions on the use of tax relief schemes by high income earners. It is our view that these modifications to tax relief on charitable donations could be further enhanced.

The most recent Finance Bill made some positive changes, including:

- Decoupling charitable giving from tax relief schemes; and
- Changing the tax benefit so that a charity can reclaim the tax paid rather than the donor.

It also decreased the rate from 41% to 31%. While these simplifications were, for the most part, positive for small donors, they do not go far enough in the case of major philanthropists.

Accordingly, we support the case made that any donation over €5,000 in value should be reclaimed by the donor and the rate at which such a reclaim can be made should be set at the higher rate.

With appropriate anti-avoidance measures, these changes will increase the making of substantial gifts for the benefit of wider society in the future.

2. Supporting Micro, Small and Medium-Sized Enterprises

2.1. Improve access to Working Capital

Problems with working capital place a considerable burden on companies. This leads to payment delays, cuts in wages or working hours to staff as well as the use of personal funds or resources to maintain the business.

To date the response from Government has largely focused on investment finance, with measures such as the Temporary Partial Credit Guarantee Scheme and the Microfinance Scheme.

More recently, some measures have been introduced to improve working capital, such as the increase in the turnover threshold for companies to pay VAT on a cash basis and the increase in the de minimis level of the Close Company Surcharge announced in Budget 2013.

Chambers Ireland welcomes any move that addresses the concerns of SMEs and acknowledges the work that has been done to increase the supply of credit. However, we are concerned that Government policy may not be focussed on the most pressing needs of SMEs. Availability of working capital and support for extended cash flow must become priority areas. Enhancing the availability of investment capital, while very welcome, does not address the issue of supporting cash flow in the economy.

Demand has fallen considerably as shown by the very low take up of the investment capital schemes.

The second report of the Temporary Partial Credit Guarantee Scheme, launched on 24 October 2012 with the objective of generating lending facilities of €150m per annum, shows that, at 31 March 2013, the scheme was taken up by 24 companies, with facilities of €3.1m and an estimated employment impact of 181 new jobs created and 25 jobs maintained.[7] The report also states that uptake of the scheme "remains disappointing". Given the poor demand for these funds, Government now has the opportunity to redirect unused amounts to support cash flows in Business by raising the qualifying amount for companies to use cash accounting to €2.5 million.

2.2. A Reduced VAT Rate on Housing Repair, Maintenance and Improvements (RMI)

The continuing crisis in the construction sector remains a major concern. Accordingly, we recommend a reduction of VAT to 5% on all RMI up to a value of €50,000 on residential properties. This is an opportunity to stimulate rapid growth and create up to 5,000 new jobs. Not only would this incentivise start-ups and create employment, it would also increase the circulation of money in the economy. This would be fully in line with EU law which has recently changed to allow member states to permanently reduce VAT to 5% in this area in order to support economic growth.[8]

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[7] http://www.djei.ie/enterprise/smes/2ndQuarterlyReportdetailingtheanalysisandperformanceoftheCreditGuaranteeSchemeat31stMarch2013.pdf

[8] Item 10 to Annex III of Council Directive 2006/112/EEC (In brief, no Member State can introduce any *new* zero rates of VAT, though they may continue charging any lower rates, including zero rates, that were in place on 1 January 1991. In addition Member States have the discretion to charge up to two reduced rates of VAT - between 5% and 15% - on a specified list of goods and services). Ireland already has two such rates (13.5% and 9%); however, we would recommend adding RMI to one of the existing rates and lowering it to 5%.

This rate reduction may be delivered by way of the home owner applying for a refund of VAT directly from the Revenue Commissioners.

While critics have argued that under EU regulations it is not possible to place a ceiling on such a scheme, precedent would suggest this is not the case. Currently, Ireland's reduced rate of 13.5% applies to short-term hire of ships, boats and other vessels not exceeding 15 tonnes, while the 0% rate applies to certain fertilisers in units of not less than 10kg.

Research conducted in the UK suggests that such a cut could create 3,625 jobs in Scotland, a country broadly similar to Ireland in economic and demographic terms, by 2015.[9] Furthermore, it is estimated that this could result in a further 2,178 jobs through the multiplier effect.

One successful scheme, designed to produce a "temporary, timely and targeted stimulus" is the Home Renovation Tax Credit, introduced in Canada in 2009.[10]

We believe the benefits of this initiative would go beyond the construction sector. As homeowners refurbish their properties, there would also be an increase in purchases of soft furnishings, white goods and other electrical appliances.

In Ireland, the CSO statistical Yearbook 2012[11] shows employment levels by NACE economic sector. From 2007 to 2011 employment in the construction sector fell by 60.8%. Significantly, employment in accommodation and food services, which benefits from a reduced VAT rate, only fell by 17.9% and has shown recent increases.

2.3. Enable Start-ups to Offset Corporation Tax against Other Taxes Due over a five year period

A company should be able to off-set trading losses against other taxes due in the initial start-up phase. Furthermore, an initial start-up period of 5 years would, in our view, be more beneficial to new enterprises. This would assist cash flow for start-up companies, a vital ingredient which could enable them to overcome the most challenging period in the development of the company.

The calculation could be done on a value basis so the Revenue Commissioners do not lose out financially but "refund" VAT in a given year in lieu of a Corporation Tax Deduction in future years when profits are made.

We recommend the introduction of a pilot scheme at the earliest opportunity, to be extended to all business start-ups once its efficacy has been established.

2.4. Halve the level of Capital Gains Tax for Entrepreneurs to 16.5%

It is unfair to apply the same level of Capital Gains Tax to an entrepreneur, who is risking so much to establish an enterprise, as to an individual who, for example, is investing savings in shares in the stock market. A successful entrepreneur makes a significant contribution to the economy in terms of taxes on earnings, employment taxes, rates and economic activity; the other is passive and makes little economic contribution and should therefore pay CGT at a higher rate.

We note that cyclical taxes, such as corporation tax, CGT and Stamp Duties, as a total of the tax intake, have fallen considerably since 2008, when CGT stood at 20%. This supports the international evidence that increases in CGT rates can actually reduce revenue.[12] We also note that CGT makes up

[9] http://www.cutthevat.co.uk/cut-the-vat/research/
[10] http://www.cbc.ca/news/pdf/budget2009-pamphlet2.pdf
[11] http://www.cso.ie/en/media/csoie/releasespublications/documents/statisticalyearbook/2012/c2labourmarket.pdf
[12] For example, see the UK based Institute of Economic Affairs which provides an overview of relevant research: http://www.iea.org.uk/blog/why-increasing-capital-gains-tax-could-actually-reduce-revenues

a small proportion of the total tax take. For example, in 2012 it raised €414.5m compared to over €25bn from VAT and income tax.[13]

Accordingly, we believe that CGT should be reduced significantly to 16.5% for entrepreneurs, to incentivise and reward risk taking both on business assets and business share disposals. It could also grow CGT revenues and enhance opportunities for growth and 'scalability' as some entrepreneurs could be further incentivised to sell their businesses as they approach retirement to other companies/entrepreneurs seeking to grow.

Furthermore, we believe the existing situation acts as an impediment to companies achieving scale, growing to become small and medium-sized enterprises and developing internationally.

2.5. A Targeted Rates Reduction for Businesses in Town Centres

The retail sector remains an important part of the micro enterprise and SME sectors. However, many are struggling to remain in business due to excessive rates imposed by Local Authorities. In order to guarantee their survival, allowing them to retain the important jobs they provide, we recommend the introduction of a rates reduction for companies, located within town and city centres, which provide much needed employment and contribute to the quality of life in these areas.

While we recognise that the issues of rates and development contributions are reserved functions for Local Authorities, it is the role of the relevant Departments to provide the statutory and policy framework which enables these Authorities to implement initiatives focused on business development and job creation.

2.6. A Double Rent Deduction for Companies with Upward Only Rent Reviews

In many cases companies are currently paying rents which have little or no correlation with the market value of their property. We would suggest that if these rents are affecting a business's ability to trade, it should be entitled to a double rent deduction in their returns.

We accept that the Government cannot act on upward only rent reviews; however, this may be a mechanism whereby the consequences for some businesses affected are eased.

2.7. Apply an 'Ireland Rate of Return' in Tendering Decisions for Public Sector Contracts

As one of the biggest buyers of services in the State, Government departments and agencies need to be more mindful of the positive outcomes of awarding tenders to locally based suppliers. Rather than applying a 'value for money' criteria, consideration must be given to the value produced to the national economy in terms of jobs created, revenue increased and welfare costs reduced arising from awarding contracts.

The Department of Jobs, Enterprise and Innovation (DJEI) and the Department of Public Expenditure and Reform (DPER) need to work more closely to ensure their policies are complementary. The DJEI are putting incentives in place to encourage SMEs while the DPER may be adopting tendering and procurement policies which favour larger firms, often not resident in the State.

The method of single sourcing being pursued is a risky strategy which deviates from best practice and could result in the collapse of large numbers of small, local companies. From what we can see

[13] http://www.finance.gov.ie/documents/exchequerstatements/2012/exchfinaldec.pdf

the discretion of lower nominal contracts to be awarded locally is being withdrawn from 2014 onward.

Cost efficiencies and savings must not be achieved at the expense of jobs. The Comptroller and Auditor General (C&AG) should be mandated to review value for money critiques in the context of the wider return on investment achieved by awarding contracts locally. The Dáil Public Accounts Committee could then be empowered to review C&AG reports via a 'jobs and tax proofing' analysis of all contract awards. A recent report carried out prior to the awarding of contracts for campus development at University College, Dublin shows that such projects can be revenue neutral due to increased fiscal flows to the Exchequer and a reduction in social welfare costs.[14]

We support cost containment and efficiencies by Government. However, this cannot be at the cost of our SME community. The business generated by Local Authorities is significant and plays a vital role in local communities in terms of job creation and economic sustainability.

2.8. Mandate all Government Research Funding Agencies to set aside 2.5% of their Budget for SMEs

To complement the increase in the amount of expenditure eligible for the R&D tax credits, we believe that all Government agencies involved in research funding should set aside 2.5% of their budget for SMEs.

2.9. The Importance of 'Joined Up' Government

Stimulating economic growth, encouraging new businesses and the resulting benefits in terms of job creation are so important that decisions by all Government Departments must not be allowed to impact on them negatively.

We recommend that all policy debates at Cabinet should include a consideration of the potential impact on job creation and the profitability of micro, small and medium-sized enterprises.

For example, the Department of Health's push to increase taxation on cigarettes and alcohol, while reflecting its public health priorities, will have the unintended consequences of encouraging black market purchases, increasing the incentive to smuggle and harming retailers who often depend on sales of these products to drive footfall and other sales in their businesses.[15]

That same Department's insistence on raising the levy on private health insurance also has a considerable impact on business support for health insurance as an employee benefit, increasing payroll costs and further undermining funding for broader healthcare provision.

2.10. ePayment

Government needs to move now to catch up on this important agenda for Ireland by driving a swift transition to ePayment. The Minister should commit to a rapid implementation of all Government payments to customers and suppliers by electronic means only. In tandem with this decision, it should produce a schedule of duty charge increases on cheques that will incentivise all stakeholders to make the transition to ePayment.

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[14] http://www.ucd.ie/campusdevelopment/announcements/campusdevelopment2009-2012/

[15] For more details on this issue see the Retailers Against Smuggling Pre-Budget Submission. Available through the Joint Committee on Finance, Public Expenditure and Reform, Correspondence Item 2012/354. They estimate that cigarettes and associated impulse purchases can account for up to 30% of a retailer's turnover.

At the same time, the stamp duty charge on payment cards should be abolished. Upon making the transition, up to €2bn would be saved in transaction costs while also providing enhanced traceability on cash transactions for VAT revenue gathering purposes.

3. Spending

3.1. Labour Market Activation Measures

To complement the proposals to help micro, small and medium-sized enterprises, we believe that considerable public spending should be focused on the need to get people back to work. Figures from the Central Statistics Office[16] show that the standardised unemployment rate in April 2013 remains at 14%. Furthermore, the ninth review under the extended arrangement by the International Monetary Fund[17] points out that the unemployment and underemployment rate in Ireland "stands at a staggering 23 percent."[18] There is clearly a need to get people working and to encourage those people currently underemployed to become fully employed where appropriate.

Two areas of specific concern are youth unemployment and joblessness among males aged 25 to 54.

There are no simple solutions to the problems of unemployment and underemployment. The Troika's Tenth Review Mission to Ireland[19] states that "further policy efforts" are required to address the increasingly structural nature of unemployment but policy in one area and initiatives from one Government department will not ease the crisis.

The Department of Social Protection's review of employment supports is making significant progress in terms of identifying many of the major challenges ahead.[20] However, we maintain that a holistic approach must be taken. Joined-up government, producing coherent policy responses involving a range of departments and State bodies, is essential to produce the desired outcomes.

We contest that reforms can be made in a number of distinct but related areas in order to produce an environment where job creation is facilitated, work is rewarded and unemployment and underemployment are reduced.

These areas are:

1. Maintenance of the current sick leave regime;
2. Labour market regulation;
3. Active labour market policies;
4. Reform of the National Training Fund; and
5. The relationship between welfare and work.

3.1.1. Maintain Current Sick Leave Payment Regime

The Chamber Network remains concerned that the Department of Social Protection (DSP) will shift responsibility for sick leave costs onto employers at a time when they are seeking to reduce all costs to restore competitiveness and secure employment.

Similarly, the DSP and wider Government must be mindful of the negative impact of changes to the redundancy rebate scheme arising from Budget 2012 and 2013. Whatever the merit of DSP claims regarding the scheme as it affected multinational employers, the impact of the abolition of the rebate for SMEs is that challenged firms with 20 employees or fewer 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. We would encourage Government to reverse these changes.

[16] http://www.cso.ie/en/media/csoie/releasespublications/documents/labourmarket/2013/lreg_apr2013.pdf
[17] http://www.imf.org/external/pubs/ft/scr/2013/cr1393.pdf
[18] Ibid. pg 26
[19] Statement issued 9th May 2013: http://www.imf.org/external/np/sec/pr/2013/pr13161.htm
[20] http://www.welfare.ie/en/Pages/Report-on-Stakeholder-Forum-2013.aspx

3.1.2. Labour Market Regulation

The Government must make the entire legal framework around Human Resources and labour relations more business-friendly. Employment legislation should be consolidated to produce a rationalised and streamlined system that meets the needs of the business community.

Current legislation fails to take account of the relationship between the economic cycle and wage levels. There ought to be a mechanism that allows for wages, including the National Minimum Wage, to fall as well as rise in line with other relevant indicators.

When wage bills are too high, businesses are less likely to hire new employees. Employment Regulation Orders and Registered Employment Agreements have resulted in excessive wage bills for businesses in certain sectors of the economy.

Many businesses rely on large numbers of casual and Sunday workers. The Government must guarantee that Sunday premiums take into account the considerable hardships faced by many small businesses, especially those in the retail, tourism and catering sectors while also being mindful of the need for cost competiveness with our adjoining market in Northern Ireland.

We believe the Government can look towards the Danish model of 'flexicurity' and recognise that one reality of the modern economy is a move from job security to employment security. The European Commission describes flexicurity as "an integrated strategy for enhancing, at the same time, flexibility and security in the labour market."[21] They suggest it has the potential to reconcile the needs of employers with the needs of workers.

3.1.3. Active Labour Market Policies

Much has been done in this area. Pathways to Work: the Government Policy Statement on Labour Market Activation[22] will introduce a wide range of services to assist people in their efforts to return to the labour force. However, it is essential that the developments meet the needs of the business community.

SOLAS and the new ETBs must respond to the needs of business. The functional relationship between the education system and the economy must be recognised. A 'lag' between the needs of the economy and the training offered in the education system can be a cause of decreased productivity. Alan Gray from Indecon Economic Consultants has suggested there is a "misalignment" in the skills base.[23] Emigration shows that people may be skilled but do not have the right skills for the Irish economy at this time. At the same time, there are some jobs which employers find hard to fill. This scenario must be avoided. Areas where this may become an issue in the future could be Aerospace maintenance and engineering.

To this end, we fully support the work of the Review Group to develop a modern apprenticeship system, recently established by the Minister of Education. We trust that any recommendations put forward by the group will be implemented swiftly and be given sufficient funding to guarantee their efficacy.

The courses on offer from providers of vocational education should not follow the traditional academic calendar. When a person loses their job, support and training opportunities should be available immediately. With the danger of falling into long-term unemployment more pronounced than ever, it is essential that supports are available at the time of need.

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[21] http://ec.europa.eu/social/main.jsp?catId=102&langId=en
[22] http://www.welfare.ie/en/downloads/pathwaystowork.pdf
[23] See pg 16: http://www.welfare.ie/en/downloads/Report-on-Stakeholder-Forum-2013.pdf

The successes of JobBridge must be built upon. High quality apprenticeships should be offered to an increased number of suitable candidates. The small number of companies who have abused the system must not be allowed to detract from the overall success of the scheme.

The JobsPlus initiative must be introduced on schedule and must allow businesses to benefit with the minimum of administrative burden.

3.1.4. Reform of the National Training Fund

The National Training Fund (NTF) is gathered via a compulsory levy on all employers of 0.7%. This amounts to approximately €350m per annum. The vast majority of this money is currently devoted to training 'for employment.'

There is virtually no funding available to employers to either up skill their management teams or staff. This does little to assist firms at a time when they need it most.

Accordingly, we call for €150m of the NTF to be ring-fenced to support four thematic areas:

1. €50m to be made available for upskilling owner managers and the management teams of these SMEs on vital skills such as Cash Flow Analysis, Leadership, Business Strategy, Sales Management, Opening Export Markets and Operations.
2. €50m to be made available for upskilling the existing workforce of SMEs with a view to making them more productive and helping these firms to become more profitable.
3. €35m to be made available for supporting first time exporters entering near markets. In this context, the most pertinent market for SMEs that are new to exporting is the UK, with a focus on London and the South East; however, most SMEs will never qualify for support from Enterprise Ireland using traditional measures. Therefore, qualification criteria need to be broadened significantly to enable these firms to begin exporting.
4. €15m to be made available to support the eEnabling of SMEs, assisting them to trade on line.

3.1.5. The Relationship between Welfare and Work

In this area, two key questions arise. Firstly, how can people be incentivised to enter the workforce; are there subtle incentives which reward unemployment? Secondly, how can people currently in part-time work be encouraged to transition to full-time employment when the opportunity arises? This 'underemployment' harms the economy as people are not as productive as they ought to be.

Replacement rates must continue to fall to ensure that they do not act as an incentive to remain unemployed. Forfás[24] has suggested that the current rate in Ireland acts as a disincentive to work. The current system effectively creates a 'poverty trap' which results in the unemployed person becoming detached from the workforce.

Changes in the payment of social welfare, along with further reform of tax credits and tax bands must be implemented to ensure replacement rates do not create an impediment to employment.

Individuals currently working part-time should receive the necessary support to move to full-time employment. Government must find the right balance: incentives must be created and impediments must be removed. People must recognise the benefit of moving to a full working week.

The services provided by Intreo must be introduced fully and rolled out across the country as quickly as possible. The service must be focused on helping people to break their dependency on welfare and move into the workforce on a permanent basis.

[24] Op cit. Pg 31

Government should give consideration to 'outsourcing' employment programmes, whereby the companies with responsibility for delivering the services receive payment by results. Evidence provided by G4S[25] shows how such schemes have been successful in other countries. In Australia, in the first four years after services were contracted out, the cost of the programmes fell dramatically and the unemployment rate fell substantially. In the United Kingdom, after the first year of privately run Employment Zones, 34% of participants were or had been in paid employment, compared with 24% in previous publicly run New Deal programmes.

3.2. Public Sector Reforms Must Deliver Tangible Cost Savings

Chambers Ireland fully supports the Government's efforts to achieve significant savings in the public sector pay and pensions bill. We support the efforts of management and the unions to reach a negotiated settlement but maintain that, if such a settlement is not reached, the savings of €300m in 2013 and €1bn over three years must be legislated for.

We continue to hold the view that considerable extra savings are possible through:

- A continued focus on productivity enhancement and reform that delivers more services at lower costs with reduced over time costs;
- Targeted Business Process Outsourcing (BPO);
- Reforms to sick leave arrangements;
- Reforms in pay and pension entitlements to enhance and encourage productivity

In the context of BPO, we believe that the time frame for these contracts must be long enough to justify an investment of resources that will build 'wins' through enhancing productivity and improving customer experiences. The ideal time line to achieve such goals is 8-12 years, with appropriate breaks and review periods allowed for both parties.

3.3. Infrastructure

Secondary and tertiary roads across Ireland need continued investment and 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.

We welcome the recent announcements on the N7 – Newlands Cross upgrade; however, a range of further relatively minor investments could unblock significant road bottlenecks around the country. Accordingly, Chambers Ireland also considers the following projects to be priorities:

1. N4—complete final sections of this road in particular the N4 realignment of Collooney/Castlebaldwin section.
2. N11—while significant progress has been made on this road via recent announcements, we believe that the upgrade of this road to Rosslare Europort is vitally important,
3. A5—Providing certainty on Irish Government commitments to support the upgrading of the A5 linking Donegal to the East Coast most easily.
4. M20—Cork to Limerick road given its potential for supporting economic development and job creation.

[25] Welfare Reform: An International Perspective, April 2012

3.4. Insurance Sector Issues

3.4.1. Encouraging Irish Pensions Funds Reserves to Invest in Irish Utility Infrastructure Assets

Chambers Ireland believes that there is considerable scope to support ongoing investment programmes in the State while 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 investment in infrastructure, we note the ongoing need to support capital investment programmes, especially in water, electricity and other 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 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 reserves 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 and stimulate 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 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.[26]

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. [27]

3.4.2. Pension Levy

The Chamber Network welcomes the Government commitment that this levy will cease in 2014. The levy has increased 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. [28]

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[26] 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.

[27] 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 10%). 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.

[28] 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.

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.

3.4.3. 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 more equitable. These proposals could be introduced at no additional cost; merely maintaining 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 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.
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 people affected by the change in the cap 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 and 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 will be substantially reduced at a time when persuading multinationals to continue to invest in Ireland is crucial.

3.4.4. 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, this would increase tax revenue in the current year, but 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.

3.4.5. Health Insurance Issues

Chambers Ireland is concerned that certain provisions within the Health (Amendment) Bill 2013,[29] announced in Budget 2013, will have negative consequences.

The plan to charge patients with private health insurance for the use of public beds in public hospitals is:

1. Bad for consumers – The associated increases in the cost of health insurance will cause younger, healthier people to cancel their policies. This will lead to further increases in cost.
2. Bad for public sector productivity and efficiency – As more people leave the private health insurance market, they will be forced to re-enter the public health system. This will lead to increases in the cost of health care. Therefore, this Bill runs counter to the Government's commitments to cut public expenditure.
3. Bad for competitiveness – Ireland must remain an attractive destination for Foreign Direct Investment. Increases in the cost of providing health insurance for key employees and instability of pricing may make Ireland a less attractive destination.

Therefore, we call on Government to reverse this plan.

3.5. Partnership Companies

Chambers remain concerned regarding the lack of detail about how these entities will be integrated into Local Authority structures. Government should look at an already 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[30]. 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.

[29] In particular we are concerned about Section 13 of the Bill.

[30] See: http://www.een-ireland.ie/eei/