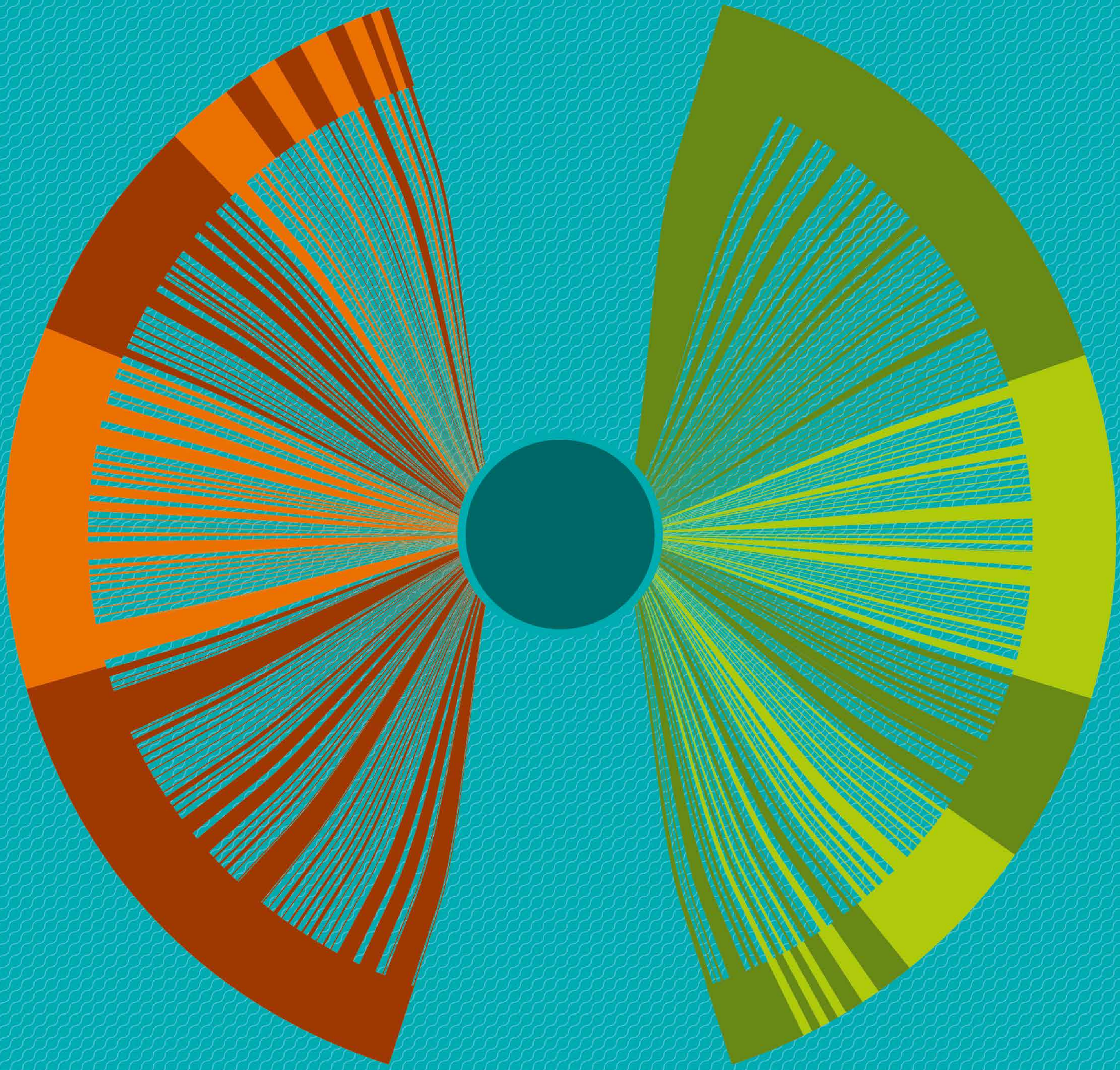
Pre Budget 2018 Submission



CHAMBERS IRELAND

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A Message from the Chief Executive

Budget 2018 comes at a crucial time in Ireland's modern history. We are currently facing into a period of extreme uncertainty, and due to carry-over commitments from Budget 2017 and recently agreed public sector pay deals there is a more limited fiscal space than in the previous two budgets.

Ongoing Brexit negotiations mean that our open, global economy is faced with unprecedented challenges.

At home, our infrastructure stock, having been neglected for the last decade, requires significant investment in order to catch up and enable the country to compete internationally. The housing crisis continues, the digital divide endures, we continue to face funding issues in our higher education institutions, and demographic changes will increase pressure on all areas of infrastructure in the coming years.

From our network of local chambers, representing businesses of all sizes located across the country, the message is loud and clear: Ireland is crying out for investment in infrastructure. Without it we cannot continue to grow or meet the demands of a modern economy.

Chambers are not alone in calling for this and the need for increased investment in infrastructure has been echoed by European and global policy bodies over the last few years. Recommendations from the OECD,[1] the International Monetary Fund,[2] the European Commission[3] and the National Competitiveness Council,[4] all highlight the same issue: Ireland's infrastructural deficits must be tackled.

Now is the time to act upon this. Ireland cannot wait any longer for the essential investment needed in our strategically important infrastructure; without it businesses will suffer and the impact for the wider economy will be less growth and fewer jobs

While it is impossible to Brexit proof a budget, especially given that it is still very unclear what form of Brexit we are likely to see, Government can and should focus on strengthening Ireland's domestic economy and competitiveness in order to ensure that we are in the best position possible for whatever comes of the negotiations process. We must seek to make improvements on issues within our control.

The challenges facing us at an international level are too great to ignore, but the best way to tackle these is by addressing the challenges that face us at home. Regardless of what happens between the UK and the EU 27, Ireland's competitiveness must be the focus of Budget 2018.

And it is not all bad news:
Uncertainty can bring opportunity.

If Ireland can tackle the major issues facing the country in housing, transport, broadband and education among others, we stand to reap the rewards. If we can support small businesses to thrive, if we can ensure that our taxation system recognises the contributions made by innovators and job-creators, then we will be in a position to seize opportunities as they emerge.

I am ever encouraged by the hardiness, innovation and resilience of Irish businesses witnessed in every region of the country and showcased by our network of local chambers. If given the chance I am certain that our business community will rise to the challenge and continue to promote sustainable economic growth, provide employment and enhance the communities in which they operate.

Ian Talbot
Chief Executive, Chambers Ireland

1 https://www.oecd.org/eco/outlook/economic-forecast-summary-ireland-oecd-economic-outlook-june-2017.pdf
2 https://www.imf.org/en/News/Articles/2017/05/12/ms051217-ireland-staff-concluding-statement-of-the-2017-article-iv-consultation
3 https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-specific-recommendations-commission-recommendations_-_ireland_0.pdf
4 http://www.competitiveness.ie/Publications/2017/NCC-Costs-of-Doing-Business-2017-Report.pdf

Introduction

Chambers Ireland is the largest business network in the State, with members in every geographic region and economic sector in Ireland; we understand and represent the concerns and views of Irish business across all regions.

Our Pre Budget 2018 Submission has been drafted in consultation with our network of local chambers, which operate in every region of the country and work directly with businesses of all sizes.

Budget 2018 comes at a vital point in Ireland's return to economic stability and growth. While we are moving ever closer towards full employment, with growth rates projected to continue,[5] we face challenges both at home and abroad. We are now one year on from the UK's referendum decision to leave the European Union and economic analysts have unanimously predicted that the macroeconomic impact of Brexit on Ireland will be severe.[6]

Budget 2018 is an opportunity for Government to take steps to ensure that our economy is resilient and in the best possible position to absorb any shocks that may occur in the years to come. Managing our national debt and ensuring that there is a "Rainy Day Fund" available for the tougher years to come must continue to be a priority for Government. However, prudent fiscal measures should be balanced with investment. In consulting with the Chamber Network in the drafting of this submission, the feedback we received was that, above all else, investment in infrastructure is the top priority for business for Budget 2018.

5 ESRI figures project that GDP growth is forecast to be 3.8% in 2017 and 3.6% in 2018 https://www.esri.ie/news/growth-to-remain-strong-in-2017-and-2018/

6 http://www.finance.gov.ie/news-centre/press-releases/modelling-medium-long-term-potential-macroeconomic-impact-brexit-ireland

Ireland's infrastructure stock is seen as the main challenge to economic growth and after a decade of neglect, requires greatly increased investment. Issues such as housing, broadband, transport and childcare provision are all impacting upon quality of life and driving higher wage demands in the economy. We now need to reverse the move towards increases in current expenditure and refocus spending on long-term capital investment as a means to achieve sustainable and balanced growth.

As recently as 2015, Ireland's capital investment was the lowest in the EU, at just 1.7% of GDP. The issues which are now affecting the areas of housing, transport, broadband, education and skills, childcare, energy and water will require significantly greater levels of investment in the immediate term if we are to begin to tackle current challenges.

The projected increase in Ireland's population, which Government estimates could grow by a further 1 million by 2040[7], will place further pressure on our already laden infrastructure stock, and requires that we adopt forward-thinking which will ensure that infrastructure is as future-proofed as possible from conception to construction. The level of investment required means that we must have a diverse and broad base of tax supporting it, now and into the future.

7 http://npf.ie/wp-content/uploads/2017/02/Position-Paper-Issues-and-Choices-Ireland-2040-web.pdf

We need to change our thinking in relation to national budgets and their on short-term planning. Some of the policy recommendations contained within this Budget Submission are medium to long term asks, which should be set in motion over a multiannual period, rather than announced and delivered upon within a single budgetary cycle. One such policy recommendation is the need to revaluate the competitiveness of Ireland's income tax regime, particularly high marginal rates, which owing to the limited fiscal space currently available cannot be introduced over a single year without taking away from other, more pressing priorities.

The impact of Brexit on the Irish economy is one issue which will be on the agenda for the foreseeable future and this is reflected throughout our submission in the various areas where we believe it will have impact. However we must focus on Ireland's competitiveness regardless of what is happening at an international level.

There are a number of measures which Government should introduce in order to improve the conditions for operating a small business in Ireland which are outlined in this submission. Along with a number of specific small business supports, delivering equity between PAYE workers and the self-employed is long overdue and must be delivered upon. We must have a taxation system which ensures that innovators, investors and entrepreneurs are recognised as contributors to growth and are taxed fairly.

This submission is divided into three sections, reflecting the three areas where we would like to see Government focus their attention:

The first section focuses on the issues in infrastructure where investment is most urgently required.

The second section highlights measures which would improve working conditions for small businesses, which are the corner stone of our economy and the largest employer in the country.

The third and final section outlines changes to our taxation system which would enhance competitiveness and address the particular PRSI and tax anomalies facing the self-employed.

The need to enhance and secure Ireland's competitiveness as a location in which to do business is of fundamental importance and is the logic behind our submission, running throughout each of these three sections.

Summary of Recommendations

Investing in Ireland's Future

Significantly Increase Investment in Infrastructure:

- Increase investment in infrastructure to at least **4% of GDP**.
- Provide investment for large-scale expansionary infrastructure projects to enable growth across Ireland, to improve competitiveness and to protect against Brexit challenges

Transport:

- Major investment is needed in **Ireland's road network**
- Maintenance expenditure for existing transport stock should be increased
- Invest in ports and port access due
- Commitment to investment in high quality public transport
- Electrification of public transport fleet

Housing:

- Bring forward **Vacant Site Levy** implementation to January 2018
- Double Local Property Tax on properties vacant for 2 years or more
- Consider the development of a land tax based on value of parcel of land to replace LPT in the long term

Broadband:

- National Broadband Plan should be revaluated and rolled out as soon as possible
- Upload and download speeds as outlined in NBP must be sufficient to meet future demands and infrastructure rolled out in NBP must be adequately **future-proofed**

Energy:

- Strengthening of Ireland's grid infrastructure to provide affordable and secure energy supply and to prioritise connectivity
- Facilitate **transition to a low carbon economy** and invest in innovation
- Encourage behavioural change and uptake of low-carbon technologies

Water:

- **Off-balance sheet funding** for required major water infrastructure projects should be explored

Education and Skills:

- Increase investment in Higher Education facilities
- **Refocus the National Training Fund** to reflect current employment levels
- Greater provision of enterprise-led training tailored for SMEs

Childcare:

- Continue investment in **accessible, affordable, high quality childcare services**
- Adequate resourcing to commitments outlined in the National Women's Strategy regarding financial supports for quality childcare

Pensions:

- **Incentivise enrolment** in private sector pensions
- Ensure that regulations governing pensions are flexible and allow workers to transition into full retirement

Budget Stabilisation Fund:

- **Rainy Day Fund** must be implemented and should be brought forward with an initial contribution in 2018

Small Business Focus

Retain 9% VAT Rate:

- Retain the **9% VAT** rate on tourism and hospitality sector

Brexit Supports and Trade Finance:

- Establish of an **Export Working Capital Scheme** to assist SME exporters to expand, process new orders and service new clients in order to combat negative effects of Brexit on trade
- Government must adequately resource state agencies and invest in our network of embassies and Irish Chambers overseas, while also increasing funding to assist businesses with Brexit related issues

Employee Share Ownership Scheme:

- Deliver on commitment to introduce an **Employee Share Ownership Scheme** tailored to the needs of SMEs and smaller companies

Enhance Innovation spending:

- Establish grant support for **SMEs** undertaking **innovation R&D** as a more accessible alternative to the tax credit which is not currently servicing the needs of smaller firms

Tax Reform

Income Tax:

- The **marginal rate of income tax** remains too high. We ask for commitment to reduce the marginal tax rate to below 50% for all. In the medium term we ask for a review of the entry point to the higher rate of tax to address competitiveness

Capital Gains Tax:

- Ireland's **CGT system** must be more competitive when compared to the UK. The lifetime limit on Entrepreneurs Relief should be increased and the relief extended to the disposal of shares held for longer than 3 years

Maintaining Ireland's Corporate Tax Rate:

- Reaffirm commitment to maintaining Ireland's corporate tax rate based on principles of rate, regime and reputation providing **tax certainty** on corporate tax rates

Supporting Self-Employed, Entrepreneurs & Small Business:

Continue to introduce tax reforms which will deliver parity between self-employed and PAYE workers including changes to:

- Earned Income Tax Credit for self-employed;
- Opt-in PRSI system;
- Removal of 3% USC surcharge on self-employed earning over €100,000;
- Parity in maternity and paternity PRSI contributions for self-employed;
- Funding for female entrepreneurs;
- Tax credit on Employers PRSI for micro-enterprises growing staff

INVESTING IN IRELAND'S FUTURE

Significantly Increase Investment in Infrastructure

Investment in infrastructure is a major concern of Irish business ahead of Budget 2018. Ireland is currently uncompetitive when it comes to comparative investment in infrastructure. The National Competitiveness Council (NCC), in their recent report on Ireland's Competitiveness Challenges,[8] highlighted that comparatively, Ireland's investment in infrastructure as a percentage of GDP per capita is worryingly low when looking at investment levels in countries that Ireland typically competes with for trade and investment.[9]

Issues and opportunities stemming from Brexit must form part of Government's considerations and plans for Ireland's future competitiveness. Another report by the NCC benchmarks the competitiveness of Ireland [10] outlines the challenge Ireland is facing in relation to infrastructure in comparative terms specifically with the UK. The report points out that "in the run-up to, and post, Brexit we can expect the UK to intensify its investment in infrastructure, enhance and develop its tax and nontax offering for enterprise, develop its skills and innovation base and expand trade into new and existing markets. Moreover, we can expect other countries to continue to enhance their competitiveness position". As such, is it vital that Government focuses not only on restoring investment levels in line with those of our neighbours, but also on increasing investment even further in order for us to move beyond playing catch-up and begin expansionary large scale infrastructure projects that will support growth in Ireland's regions and cities.

8 http://www.competitiveness.ie/Publications/2016/Competitiveness-Challenge-2016-NCC.pdf

9 "Public investment as a proportion of gross fixed capital formation (2%) is below both the UK and Euro average (2.7%)", http://www.competitiveness.ie/Publications/2016/Competitiveness-Challenge-2016-NCC.pdf

10 http://www.competitiveness.ie/News-Events/2017/NCC-Benchmarking-Competitiveness-for-Publication.pdf

Our national competitiveness is more vital than ever in the face of Brexit. We cannot continue to neglect investment in the strategic infrastructure which is vital for businesses to function and succeed; a well-functioning infrastructure system is critical for any modern economy. If we wish to remain competitive in a global market, we must increase expenditure and invest smartly and strategically.

Current expenditure of 2% of GDP is inadequate in light of the challenges now facing the country, both domestic and external.

While the fiscal space of Budget 2018 is limited, Chambers Ireland recommends that Government explore alternative funding mechanisms. By working with bodies such the European Structural and Investment Funds (ESIF) and the European Investment Bank, Ireland can increase the financing options for large-scale infrastructure projects, while also seeking flexibility under the Stability and Growth Pacts' Fiscal Rules of up to 0.5% of GDP. Government must also commit to increasing the number of Public Private Partnerships as a means to increase levels of investment within the currently limited budget available.

Recommendations

- Chambers Ireland is calling on Government to commit to increase the levels of capital expenditure on infrastructure from 2% of GDP as it currently stands to 4% GDP or higher in Budget 2018.
- Government must seek alternative investment mechanisms in major infrastructure projects through funding from bodies such as the European Investment Bank and explore greater levels of Public Private Partnership opportunities for infrastructure projects.

Transport

Transport is one of the most tangible issues affecting business' day-to-day operations in all areas of the country and has been highlighted by our Network as the top priority in capital expenditure. Good transport links enable regional networks to develop and enhanced connectivity provides businesses with more opportunities to trade. Without increased investment in transport we risk undermining our ability to generate economic growth in a sustainable manner, as well as damaging our national competitiveness. Recent years have seen Ireland spending nowhere near peak levels of investment on road transport and we have been allowing the infrastructure stock of the country to depreciate through lack of investment. Our ability to attract FDI and grow Irish business is compromised if Ireland's air, port and road infrastructure cannot deal with current and projected demand.

Recommendations

- Major investment in Ireland's road network is needed and new projects that will deliver inter-regional and intra-city connectivity should be prioritised.
- Government must increase the maintenance expenditure for Ireland's existing transport stock.
- Ireland's main ports require investment which will enable them to increase capacity in the face of a Brexit deal which is likely to see greater usage of Ireland's ports in both importing and exporting, as well as ensuring that ports are connected to the high quality road networks necessary to connect them to their regions and the wider country.
- Government must commit to greater investment in high quality public transport provision.
- Government must enable and ensure the electrification of Ireland's public transport fleet as one measure to ensure that Ireland is progressing towards international agreements and climate change targets.

Housing

The housing crisis is one of the most significant issues affecting Ireland at present, both in terms of social costs and economic costs. The housing crisis is a major competitiveness issue for businesses of all sizes, greatly increasing costs, affecting the quality of life of employees and in some cases threatening businesses' operations. This is a major threat to Ireland's overall economic performance. In the short term, the freeing up of vacant land for development for housing and commercial purposes, would go some way to alleviating the shortage in housing provision and benefit Ireland's competitiveness in relation to FDI and cost of living. Longer term, there is a need to address the drivers of high land costs through the establishment of a land tax, based on land value.

Recommendations

- The Vacant Site Levy is not due to be levied until January 2019. The introduction of this 3% site value tax should be brought forward to the January 2018 in order to disincentivise land-hoarding and increase land available for development in Ireland's city regions in particular.
- In the short term, Government should double the Local Property Tax on properties vacant for 2 years or more as a measure to tackle the high number of vacant properties in the areas of greatest need.
- Government should consider in the long term the development of a land tax that is based on the value of a parcel of land which would replace Local Property Tax. As the value of a piece of land increases, the rate of tax increases. Such an approach to land management would not penalise improvements to land in the way that LPT does.

Broadband

The digital divide that currently exists between urban and rural Ireland must be addressed as soon as possible to enable businesses all over the country to compete on a level playing field. Improved broadband infrastructure nationally will enable entrepreneurs in any area to establish a business, create jobs and contribute to the economy. Broadband is not only an economic issue, it also a quality of life issue, and businesses are keenly aware of the flexibility which enhanced connectivity can bring, making it a more attractive location in which to do business.

The National Broadband Plan (NBP), which has already been significantly delayed, must be rolled out as soon as possible in order to allow for Ireland's regions and rural areas to have access to high quality broadband and the benefits which this brings to businesses and people. Rural and regional Ireland cannot be left behind on such a vital element of modern life.

Recommendations

- While it is now likely that the NBP will have to be revaluated in light of the 300,000 premises recently removed from the 'Intervention Area' of the NBP, Chambers Ireland would like to see this take place in as timely a manner as possible.
- In revaluating the NBP, Chambers Ireland recommends that the Department of Communications, Climate Action and Environment examine the suitability of the download and upload speeds contained in the current plan, with a view to ensuring that the standards set are sufficiently future proofed. Chambers Ireland is of the view that download and upload speeds should take into account the future needs of businesses, and the current minimum goals of 30mpbs for downloads and 6mbps for uploads should be increased to reflect the pace of development in this sphere.
- Chambers Ireland recommends that the provisions for 'future proofing' broadband infrastructure be carefully examined in the bidding process and that the winning tender is allocated with this in mind. Such a significant piece of investment by the State must not be obsolete in terms of technological requirements a few years from now and must be capable of being easily and affordably enhanced or upgraded in line with future demands.

Energy

The secure and affordable provision of energy is vital for every business in the country. The importance of protecting Ireland's energy security is likely to increase over the coming years due to demographic pressures, increased levels of economic activity and potential political risks. Improving and expanding Ireland's grid infrastructure through increased investment must be prioritised to provide for our long-term energy security and to address the sustainable delivery of future energy needs.

Energy capacity, continuity and security is extremely important for the ability of Ireland's regions to compete for investment and attract companies to establish in an area. The FDI sectors which have typically established bases in Ireland and are significant contributors to Ireland's economy, such as pharmaceuticals, manufacturing, and ICT companies are all heavily reliant on sustainable and secure energy supply.

Recommendations

- Government must commit to strengthening Ireland's grid infrastructure to ensure that it is capable of providing affordable and secure energy to businesses all over the country, also ensuring that the grid is capable of managing the supply of renewable energy as its importance increases in the future.
- Ireland's island location means that our connectivity to suppliers of energy is of the utmost importance and our energy security must be prioritised. Government should commit to exploring the feasibility of measures to increase security of supply to Ireland.
- The Single Electricity Market which operates between Northern Ireland and the Republic of Ireland must be protected in Brexit negotiations. Government should work with Northern Ireland to ensure the introduction of the Integrated Single Electricity Market, which stands to benefit both consumers and businesses in both countries.
- Government must increase the allocation of funding towards incentivising the uptake of low carbon emission vehicles, such as Electric Vehicles. Incentives such as free use of road and bridge tolls is one.
- Government should introduce a plan for the phasing out of inefficient heating systems in homes and premises by introducing a scheme to move to low carbon heating solutions.
- The Office of Government Procurement could have a major impact on behavioural change in the private sector through utilising the tendering process to encourage greater uptake of low-carbon technologies in targeted areas, such as transport and energy. Government should examine the potential use of public tendering to progress towards a low carbon economy and ensure that state bodies are also engaged in consciously sourcing low carbon services and technologies.
- Government must look to invest in and utilise new technologies which can facilitate Ireland's transition to a low carbon economy and invest in such innovations where appropriate.

Water

A safe and secure supply of water is a vital need of Ireland's citizens and businesses alike. The recent decision to abolish domestic water charges means that Government must now look elsewhere to fund the water and wastewater projects required to meet current and future demand. If Ireland is to remain a competitive FDI destination, planning for the future of water and increasing the quality and capacity of Ireland's water infrastructure must be a priority.

Given that the Capital Plan was drawn up at a time when Irish Water was off-balance sheet, there is a need for clarification and certainty on the future funding of water infrastructure projects, particularly for projects which have previously been committed to.

Recommendations

- Chambers Ireland recommends that Government explore off-balance sheet funding for the required major infrastructure projects in water and wastewater with various bodies, including the EIB, ISIF and ESIF.
- Water infrastructure projects which have been previously committed to, such as the Water Supply Project Eastern and Midlands Region, which will provide water for a large part of Mid-East Region, must be commenced as planned in order to ensure the continuous supply of safe and stable water across the country.

Education & Skills

Ireland continues to have the youngest population in Europe with one third of the population under the age of 25. The education and skill level of our young people in undoubtedly an advantage to businesses operating here and contributes significantly to Ireland's overall national competitiveness. Maintaining what is currently recognised as a world-class education system will require significantly increased levels of investment as Ireland faces both demographic pressures and shortages in funding at third level institutions across the country. Alongside these issues, skills gaps have emerged in recent years in areas such as IT, engineering and construction and must be addressed through educational offerings which are accessible to those in employment, as well as those seeking employment.

While Irish universities may benefit from Brexit in attracting more intentional students, if they are to grasp these opportunities they must be well regarded internationally, competitive in course offerings and adequately funded.

Recommendations

- Currently, only 23% of the National Training Fund is allocated for training those in the workforce, while 77% goes towards training those seeking employment. This is completely at odds with Ireland's unemployment rate, which has been steadily falling in recent years and now at the lowest level since 2008. [11] Chambers Ireland is calling for the refocusing of the National Training Fund to reflect the current employment levels and increase the training opportunities for those in employment.
- Greater provision of training which is specifically tailored to SMEs has the potential to boost the competitiveness and productivity of small business and should be facilitated in an accessible manner for SMEs. Through training we can ensure that skills mismatches and gaps are addressed, while also ensuring that the skills needs of the future will be met.
- With the potential introduction of customs tariffs between the UK and Ireland in the coming years, Ireland's SMEs must be supported to deal with customs issues and learn how to access new markets. Specialised training for up-skilling SMEs in market access and customs training will be essential in supporting Irish businesses through a potentially difficult Brexit.
- Educational facilities in Ireland's ITs and Universities require increased investment in order to meet the specifications required for hi-tech, scientific and innovative disciplines. The capital allocation to the Department of Education and Skills must address the issue of investment in educational facilities to cater for increasing student numbers, a growing diversity of learning modes and upgrade of equipment within technical facilities, such as laboratories.
- We must increase the provision of training targeted to the long-term unemployed and early school leavers in order to improve the labour market participation of low skilled young people and negate the risk of entrenched unemployment.

11 http://www.cso.ie/en/releasesandpublications/er/mue/monthlyunemploymentmay2017/

Pension Reform

Chambers Ireland has consistently highlighted the risk that inadequate pension provision for private workers poses to our future economic stability and prosperity as a society. Current contributions to the State pension fund will not be sufficient to pay the levels of benefits necessary for an adequate standard of living for future retirees.[12]

In 2016, the Central Statistics Office released figures showing that the number of workers who had a pension in the fourth quarter of 2015 fell to 46.7% compared with 51.2% in the same quarter in 2009. This reduction in the proportion of workers belonging to pension schemes comes as Ireland faces notable demographic challenges where the number of over 65s in Ireland is expected to grow significantly. In addition to the growing gap in pension provision for public and private sector workers, the gender gap in pensions across EU countries, including Ireland, is considerable.[13]

Government must begin to address pension and labour policies in a holistic way can contribute positively to the reduction of the gender gap in pay and pensions.

12 http://www.mckinsey.com/united-kingdom/our-insights/is-irelands-population-ready-for-retirement

13 http://eige.europa.eu/sites/default/files/documents/MH0415087ENN_Web.pdf

Recommendations

- Government must ensure that regulations governing pensions are flexible and allow workers to gradually transition into full retirement while allowing part time work or job sharing.
- Incentives should be implemented to encourage enrolment in private sector pensions and include measures that address the gender gap in pension provision.

Affordable Childcare Services

The high cost of childcare in Ireland often means that for parents, and particularly lone parents, it is not cost effective to work after having children. Childcare costs in Ireland are the second highest in the OECD for couples and the highest in the OECD for lone parents.[14] The challenge of retaining women in the workforce has been highlighted as a concern by employers, and was attributed in part to the difficulty employees face in accessing affordable childcare. By ensuring access to affordable childcare services we can reduce living costs for families, enhance female labour market participation, increase the well-being of children, address the gender-pay gap, and increase Government revenues with a higher rate of labour force participation.

Chambers Ireland welcomed Government's commitment to extend Early Childhood Care and Education (ECCE) Scheme to cover a second year, as was recommended in our 2017 Pre Budget Submission. However we believe that more detailed plans and financial commitments need to be put in place to ensure that childcare is properly financed in the long-term.

14 http://www.competitiveness.ie/Publications/2017/NCC-Costs-of-Doing-Business-2017-Report.pdf

Recommendations

- We recommend that Government continue to invest in childcare services in the long-term and that funding secured in last year's budget (€19 million) be matched or increased in Budget 2018.
- We call on Government to ensure that the commitments made in the National Women's Strategy are introduced and adequately resourced, including; maximising use of schools and existing facilities to support school age childcare, and initiatives to support women returning to work from maternity leave.
- In September 2016, Government introduced two weeks paid paternity leave for fathers. We recommend that Government work with employers' groups to examine how increasing parental leave provisions can be introduced and managed with minimal burden to employers.

Budget Stabilisation Fund

A Budget Stabilisation Fund, also known as a 'Rainy Day Fund', can help to protect the vital investments required during a period of economic recession. Such funds have been used in many countries across the world as means of continuing investment in an economy during downturns. As a small, open economy, Ireland is particularly vulnerable to external shocks, and facing the challenges and uncertainty arising from the UK withdrawal from the EU it is important that Ireland plans to protect essential state capital spending in the future.

The lack of investment in infrastructure during the recent financial crisis and economic downturn has left Ireland with significant infrastructure deficits. Beginning a Budget Stabilisation Fund now can help to ensure that a similar situation does not occur in the future, where investment grinds to a halt, and that we have the reserve capital in place to maintain and develop essential infrastructure projects. The European Commission Country Specific Recommendation for Ireland 2017 recommends that Ireland ensure the economy is more resilient to fluctuations and advises that the Fund be advanced.[15]

The Minister for Finance announced in Budget 2017 that the Government would introduce a 'Rainy Day Fund' once a balanced budget is achieved in 2018.

15 https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-specific-recommendations-commission-recommendations_-_ireland_0.pdf

Recommendation

- Due to the current strong performance of the Irish economy, Government should consider establishing the Budget Stabilisation Fund in 2018 with an initial lower contribution to begin and increasing the contribution gradually in 2019 and 2020 to approximately 0.5% of GDP.

SMALL BUSINESS FOCUS

Retain 9% VAT Rate on tourism & hospitality sector

The reduction of the VAT rate from 13.5% to 9% for the tourism and hospitality sector was announced in Budget 2011 and provided a much needed boost to the sector during the difficult years of the financial crisis. Over 30,000 jobs have been created in this sector since 2011, with tourism and hospitality accounting for 7% of total employment in the economy.[16]

Employment in the tourism and hospitality sector has a particular regional importance, providing much needed employment in rural Ireland and border areas. The reduction in the VAT rate has improved the competitiveness of this sector and 2016 was the best year for overseas tourism to the island of Ireland, including 4.9 million British visitors, worth €1.5 billion. Brexit is likely to have a significant impact on tourism, particularly in the border region, through currency volatility and potential reduction in visitor numbers from the UK. Research suggests that outbound travel from the UK will decline by 2.5% in 2017 which will have a significant impact on Ireland.[17]

As such, Chambers Ireland takes the view that an increase to the VAT rate of 9% during this uncertain time would be detrimental to the sector.

16 Restaurant Association of Ireland claimed that the reduction in the VAT cannot be claimed as the only factor driving employment in the sector but it has made a significant contribution and has had a very positive impact on the competitiveness of the tourism product in Ireland – http://www.rai.ie/key-issues/

17 New Tourism Ireland Red C research shows Brexit implications for tourism: https://www.tourismireland.com/Press-Releases/2017/January/New-Tourism-Ireland-RedC-research-shows-Brexit-imp

Recommendation

- Retain the 9% VAT rate for the hospitality and tourism sector as an important support to help combat Brexit challenges and as a support for regional and rural employment in the tourism and hospitality industry.

Employee Share Ownership Scheme

Ireland has been experiencing economic recovery and growth in recent years and with this we have seen growing wage pressures and an increasingly competitive economic environment for business. Employee share incentive schemes, or share ownership schemes, offer many benefits to business in retaining skilled and experienced staff and can help motivate employees to support business growth. It has also been demonstrated that share incentive schemes can help to solve business challenges such as absenteeism, high staff turnover and business succession. Share ownership options also enhance the ecosystem for start-ups by offering such businesses a means to attract talent at an early stage and with limited finances.

The Minister for Finance announced in Budget 2017 the intention to introduce an SME-focussed, share-based incentive scheme in Budget 2018, on the basis that employee participation in companies' ownership and profits has been shown to increase competitiveness and support employment and growth.

The UK Enterprise Management Incentives (EMIs) support small and medium sized enterprises with assets less than £30 million and fewer than 250 employees to offer certain share options to employees. A similar scheme in Ireland would assist with competitiveness and the ability of SMEs to retain talented employees.

Recommendations

- We urge Government to deliver upon the commitment to introduce an employee share ownership scheme tailored to the needs of SMEs that cannot offer listed shares to employees.
- Government must ensure that the tax system does not disincentivise the uptake or implementation of employee share incentive schemes and that tax liability is not prohibitive on the disposal or sale of shares.
- We believe that there should be flexibility in the applicability of approved shares. Mandatory application of schemes to all employees make them less attractive for some employers who wish to apply schemes to high performing teams or specific business operations to drive and promote productivity.

Brexit Supports and Trade Finance

Following the UK's vote to leave the European Union in June 2016, one of the main concerns of the Irish Chamber Network is the impact this exit will have on our economy. The almost certain reduction in trade between Ireland and the UK will have a disproportionate impact on our indigenous firms, especially exporting SMEs, which are hugely reliant on the UK as their primary market. While larger multi-nationals which trade in international markets are likely to be better insulated from the consequences of a UK exit from the EU, smaller firms will feel a more profound impact and will be less capable of absorbing it. Some sectors have already felt the effects of the extreme currency fluctuations following the referendum result. More disruption of this nature is likely to follow in the months and years to come.

As part of Budget 2018, Government must take steps to support Irish business to be resilient, remain competitive and mitigate the risks of Brexit for SMEs. Chambers Ireland takes the view that given the severe impact a Brexit will likely have on our SME exporters, now is the appropriate time to introduce a trade finance programme. Similarly, by investing in our diplomatic and trade networks abroad we will be in a better position to capitalise on opportunities in new markets.

Recommendations

- We recommend that an Export Working Capital Scheme which would target SME exporters which require additional trade finance or working capital to process new orders or service new clients should be introduced. We propose that, with some revisions to their mandate, an agency like the Strategic Banking Corporation of Ireland (SBCI) could provide the facility through existing channels with lenders and retail banks.
- We recommend that Government adequately resource state agencies, such as Enterprise Ireland, Local Enterprise Offices and InterTrade Ireland, so that they can assist businesses in planning for Brexit. Of particular concern to the Chamber Network is that Government ensures that micro-businesses which operate cross-border are supported through such agencies.
- We recommend that Government continue to invest in our network of embassies, state agencies and overseas Irish Chambers which operate in regions of strategic interest to the Irish economy. It is our view that these networks must be more focussed on providing trade and commercial assistance to Irish businesses working abroad.

Enhance Innovation spending for SMEs

Investment in innovation is one way in which Ireland can increase productivity growth and diversify our enterprise sector. As highlighted in a recent report by the National Competitiveness Council, the level of public investment in R&D in Ireland is significantly below that of the UK, with the UK spending almost two-and-a-half times the Irish rate of expenditure as a proportion of GDP.[18] The potential to foster the productivity and exporting potential of Irish firms through investing in innovation was also highlighted in the recent EU Country Specific Recommendations.[19]

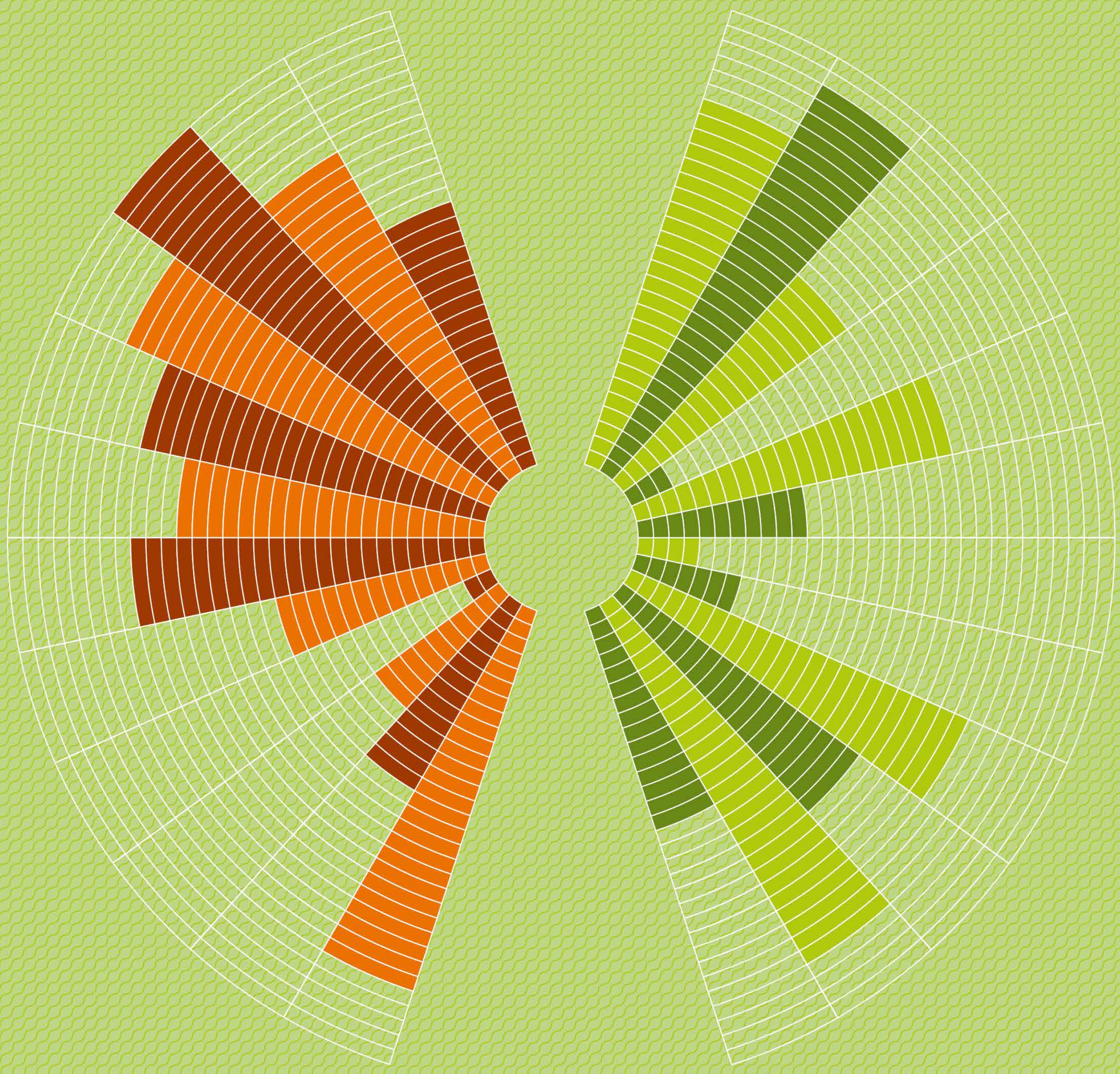
Last October a Department of Finance report found that while most firms conducting R&D are small and domestic, total expenditure on R&D is dominated by large, multinational firms.[20] Non-Irish firms carry out roughly two-thirds of total business R&D, and therefore benefit most from the tax credit offering. The European Commission's Research and Innovation Observatory and the International Monetary Fund have both highlighted the need to improve the R&D engagement of small and indigenous companies as well as enhance their links to educational institutions. The OECD has found that the current offering of tax credits is not always well suited to the needs of smaller, domestic firms or young businesses. They outline that Ireland's direct government funding of business innovation and research lags behind many competitor countries and recommends that "a well-designed, competitive and transparent system of direct supports can complement existing tax incentives and can direct public funding to areas of high social and economic returns."[21]

Recommendation

- We recommend the establishment of direct grants for SMEs engaged in innovation R&D as a more accessible alternative to tax credits, in order to specifically target small, innovative, Irish businesses.

18 http://www.competitiveness.ie/News-Events/2017/NCC-Benchmarking-Competitiveness-for-Publication.pdf
19 https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-specific-recommendations-commission-recommendations_-_ireland_0.pdf
20 http://www.finance.gov.ie/sites/default/files/170214%20R-and-D-Credit-Evaluation-2016.pdf
21 https://www.oecd.org/policy-briefs/ireland-better-innovation-policies-for-better-lives.pdf

TAX REFORM



Income Tax

The taxation of work in Ireland is marked by a narrow base and high effective tax rates by international standards. Ireland's narrow tax base places a significant burden on middle-income earners and according to a recent report by the IMF, also "undermines female labour force participation, creates welfare traps for low-skilled workers, and discourages high-skilled worker migration to Ireland."[22] This is a serious threat to Ireland's overall competitiveness and in particular negatively affects our ability to compete with the UK in the attraction and retention of skilled workers. Ireland's marginal tax rate is high relative to the UK, where the top marginal rate applies at 4.2 times the average industrial wage, while in Ireland the highest rate of income tax starts to apply at just below the average industrial wage. It should also be noted that the effective marginal tax rate for high earning self-employed people is 55%.

It is the view of Chambers Ireland that Government must commit to reviewing our income tax model, particularly the point of entry for the higher rate of tax. We see this as being of particular importance to our competitiveness as an economy. However, we acknowledge that there will be considerable cost involved in making any changes to how we collect tax in the short-term. Therefore, as part our recommendations for Budget 2018, we call on Government to maintain a broad tax base and ensure that there is equity between PAYE workers and the self-employed.

22 http://www.independent.ie/business/irish/squeezedmiddles-tax-too-high-imf-34921526.html

Recommendations

- In the immediate term, we ask that Government commit to reducing the marginal tax rate to below 50% for the self-employed. Self-employed earners earning more than €100,000 are faced with an additional USC burden of 3% more than a PAYE worker earning the same amount of income. Government should introduce full equity in taxation between the self-employed and PAYE workers.
- We recommend that Government commit to implementing a roadmap for the review of the levying of income tax in the medium term, and put a plan in place over several budgets to review the entry point to the higher rate of tax, so that we are in line with comparable countries in the OECD and can maintain our competitiveness when it comes to attracting talent.

Capital Gains Tax

Ireland currently has significantly higher standard rates of Capital Gains Tax than the UK. In the context of Brexit and the ever growing need for Irish tax rates to be competitive when compared to the UK, it is time for Ireland to review CGT rates and assess where improvements can be made.

Capital Gains Tax Entrepreneur Relief was introduced in the Finance Act 2015 which brought Ireland closer in line with the UK and was a first step in improving competitiveness on CGT. Entrepreneur Relief applies on the disposal in whole or in part of qualifying chargeable assets. Further steps were made by the Minister for Finance in Budget 2016 to reduce the CGT Entrepreneur Relief rate from 20% to 10% to match the UK rate. However, the lifetime limit of €1 million in chargeable gains in Ireland remains very low compared to the UK limit of £10 million.

The UK extended Entrepreneur Relief to "long-term investors" in 2016, which allowed for disposal of shares where they are owned for a period of three years. The move is designed to encourage investors and gives an incentive to invest in unlisted trading companies over a longer term. This can ensure that companies have access to the capital they need to grow and create further employment.

Recommendations

- We recommend that Government gradually reduce the Irish Capital Gains Tax rate of 33% to be closer to the UK's standard rates[23] in order to be more competitive against the UK's CGT tax regime.
- Government should increase the lifetime limit of €1million in qualifying gains under Entrepreneur's Relief to €10 million in order to improve the attractiveness of Ireland to investors and to encourage increased investment in Irish business.
- We are asking that Government extend Capital Gains Tax Entrepreneur Relief to the disposal of shares held once they have been held for a period longer than three years in order to encourage long-term and serial investors.

23 UK standard rates are 10% if within the basic income tax band (or 18% on residential property) and 20% (28% on residential property) on any amount above this or if a higher rate taxpayer.

Maintaining Ireland's Corporate Tax Rate at 12.5%

Ireland's clear and transparent corporate tax system and corporate tax rate of 12.5% have been contributing factors for multinationals choosing to locate operations here. Ireland's corporate tax receipts have increased significantly in the last two years, rising 57% to €7.35 billion in 2016.

While we do not see any threat to the sustainability of Ireland's corporate tax receipts in the immediate term, it should be emphasised that Ireland is a small open economy and is very exposed to external shocks. The increasing concentration of Irish corporate tax receipts[24] could pose risks for the Irish Exchequer, where conditions, such as recent announcements by the US on plans to reduce their CT rate from 35% to 15%, along with the potential change in the UK's CT rate in the near future, may create a situation where multinational companies consider relocating elsewhere. While there is little Government can do to mitigate against such external influences, it is a risk to be mindful of.

Offering certainty to business in the face of changing policies and regimes internationally stands to benefit Ireland. Greater emphasis on increasing competitiveness through other measures such as tackling the cost of living, skills gaps and addressing the housing crisis and infrastructural deficits should be prioritised in favour of any changes to Ireland's CT regime.

Certainty in tax is an asset in itself and should be valued in the face of global changes.

24 Just 10 firms pay 40% of Ireland's corporate tax income: Ireland's reliance on so few firms makes the tax base unpredictable and vulnerable to shocks.

Recommendations

- Government should reaffirm its commitment to maintaining Ireland's transparent corporate tax system based on the stated principles of rate, regime, and reputation. Chambers Ireland recommends that Government maintain Ireland's 12.5% Corporate Tax Rate and offer businesses certainty in the face of global changes.
- We recommend that Government ensures that Ireland maintain sovereignty in taxation policy, while working with international partners and the process of BEPS to ensure fairness in international taxation. This is particularly important in light of potential changes to the US corporation tax code, the UK's forthcoming exit from the European Union and ongoing discussions at EU-level regarding a Common Consolidated Corporate Tax Base.

Supporting Self-Employed, Entrepreneurs & Small Business

Ireland's taxation system should ensure that innovators, investors and entrepreneurs are recognised as contributors to growth and are taxed fairly. SMEs make up approximately 99%[25] of Irish business and employ over 870,000 people, almost 70% of the workforce. Government should not only consider introducing supports to help small business grow, encourage trade and increase employment but must also consider how the taxation system can further foster entrepreneurship and encourage innovation. We propose a range of measures aimed at improving the environment for Irish businesses and we encourage changes to the taxation system to support entrepreneurship and drive growth in our economy.

Chambers Ireland welcomed previous commitments by Government to increase tax equity between PAYE workers and the self-employed. We are asking that Budget 2018 delivers upon these commitments and also looks at new measures which would offer similar supports to the self-employed which are currently available to PAYE workers.

25 CSO business demography figures for 2014, released 06 July 2016 - http://www.cso.ie/en/releasesandpublications/er/bd/businessdemography2014/

Recommendations

- **Bring Earned Income Tax Credit** for self-employed in line with the PAYE/Employee Tax Credit. The increase of €400 announced in Budget 2017 brought the Earned Income Tax Credit for the self employed to €950. There is still a discrepancy of €700 between the PAYE Tax Credit of €1650 and the Earned Income Tax Credit which must be addressed in Budget 2018.

- **Introduce an Opt-in PRSI System:** The self-employed and owner directors should be able to avail of an opt-in social protection scheme to allow them to access social welfare in the event of business failure or illness. A recent survey by the Department of Social Protection showed that 75% of self-employed favour an opt-in system for extra PRSI benefits. 4 out of 5 ranked long-term illness benefit for the self employed as a top priority. The Minister for Social Protection has stated that the results of this survey will guide policy developments including Budget 2018. We ask Government to provide a wider opt-in PRSI scheme to help create a more supportive tax environment for entrepreneurs and the self-employed.

- **Deliver USC Equity with PAYE workers:** Self-employed workers earning more than €100,000 are faced with an additional USC burden of 3% more than a PAYE worker earning the same amount of income. A timeline should be set out to remove the USC surcharge for the self-employed and to bring equity of taxation for the self-employed in line with that of PAYE workers. The marginal rate of tax for the high earning self-employed is 55% which must be addressed urgently as a competitiveness issue.

recommendations continued overleaf

- **Support Female Entrepreneurship and Women in Business:** We recommend expanding funds like the Competitive Start Fund which aims to support female entrepreneurs. Expanding such funds to include a broader range of business models and sectors would have a positive impact on female entrepreneurs in accessing investment.

  We recommend that Local Enterprise Offices create grant funds for female entrepreneurs and broaden the eligibility to include business sectors of existing financing programmes. Additionally, enterprise agencies (particularly Local Enterprise Offices) should expand funding programmes to service-based businesses as certain service sectors are potentially of substantial value to the economy.

- **Remove Maternity and Paternity leave anomalies for self-employed:** Government should review the regulatory anomalies for the self-employed in accessing maternity and paternity leave. The current difference between the PRSI contributions necessary for the self-employed to access maternity and paternity benefit compared to that of PAYE workers discriminates against the self-employed.

  The self-employed must have 52 weeks contributions in a relevant tax year compared with 39 weeks for an employee (33% more) and must give 12 weeks' notice of their intention to commence maternity or paternity leave compared with 6 weeks for an employee (100% more notice). The existing anomalies create direct barriers for female entrepreneurs and women considering self-employment. PAYE workers and the self-employed should be treated equally in qualifying for maternity and paternity benefit.

- **Tax Credit on Employer PRSI to enable micro enterprises to grow:** Government should introduce a short-term tax credit on employer PRSI to enable micro enterprises to employ an additional staff member. Micro businesses face significant barriers to growth and scaling due to the costs associated with hiring an extra staff member. If applied to businesses with less than 10 employees, the introduction of a 3 year tax credit on employer PRSI for each new hire would support micro businesses in the creation of jobs and enable them to grow.

Chambers Ireland Pre Budget 2018 Submission

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