

***‘GETTING THE RIGHT
BALANCE’***

***ISME PRE-BUDGET
SUBMISSION***

Budget 2015

ISME is the only independent voice of Small & Medium business in Ireland, representing in excess of 9,000 members across all sectors. The Association is owned and run by owner managers and is independent of big business, government and unions; the TRUE voice of the Irish SME. www.isme.ie

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INTRODUCTION

We in ISME share the Government's agenda to focus on renewed growth and job creation, while at the same time stabilising the domestic financial sector and restoring fiscal balance. It is essential that Government understands that Ireland will only be able to revitalise its economy by creating new jobs in the private sector, 99% of which are SMEs.

It is also essential that we retain our country's reputation as having a business environment that is flexible, nimble and responsive to a highly uncertain and fast changing global environment. Ireland's recovery will come from business investment.

Critical to ISME member companies' ability to continue to trade out of the recession and retain and secure jobs, is ensuring that Ireland is a competitive place to do business. Access to the EU market is the biggest reason that businesses invest in Ireland. Coupled with this is the integrity of Ireland's tax regime and the fact that is transparent and certain and as such must be protected and valued. Uncertainty over the future of corporate taxation will jeopardise further foreign direct investment and dissuade entrepreneurs from establishing new businesses in Ireland. **It is important that we reaffirm that Ireland has a stable and transparent corporation taxation regime. It is therefore imperative that the Minister for Finance reaffirms the status of the 12.5% corporation tax rate for companies trading in Ireland.**

While there has been progress, the outlook remains challenging, with a weak domestic market and an uncertain global market leading to sustained high unemployment, therefore **the 2015 Budget must get the balance right between generating savings, primarily through cuts and productivity gains rather than imposing additional taxes, which will hinder economic performance.**

With over two-thirds of current expenditure allocated to the public sector and the social welfare budget, focussing on these areas for the bulk of the savings is unavoidable. The temptation to increase income and employment taxes must be resisted at all costs, as to do so will only delay the long sought after growth, so crucial to economic development.

SME owner managers, together with the general public, are seeking clarity and certainty from Government, with regard to future budgetary plans and the impact that this will have on trade and disposable income. It is vital, therefore, that this year's Budget dispels the uncertainty and provides a clear outline and direction on how the

Government intends to deal with the public finances, business costs, lack of bank credit and unemployment.

Small indigenous business, the backbone of the economy will determine the future growth of the economy. It is essential, that the arguments on austerity do not deflect from the real economy and that we plan for the future by introducing pro enterprise policies that will support business to grow, retain and create employment.

This year's Budget needs to reflect the vital importance of the SME sector and the significant contribution the sector can make to secure a better future. To do this we must contain and reduce the cost of running the country, which will allow us to curtail tax rises, incentivise business and thereby unleash the potential of the SME sector.

The recommendations made in this submission represent specific key priorities of ISME members for Budget 2015. They are not a complete overview of the many suggestions and recommendations which the Association has for aiding the economy and in particular the SME sector, which are being aired and progressed at various fora.

ISME, the Irish Small & Medium Enterprises Association, is the only INDEPENDENT body representing owner managers of small & medium businesses in Ireland. Small and Medium Enterprises (SMEs) constitute 99% of all businesses in Ireland, employ over 800,000, which equates to 68% of Private Sector employees and 52% of total employees.

*The Irish Small and Medium Enterprises Association (ISME) was formed in 1993 to guarantee that Small and Medium Enterprises in Ireland have an independent voice. The Association represents in excess of 9,000 SME businesses throughout the 26 counties. Our independence stems from the fact that as a business organisation we uniquely rely on the resources of our members. We are not reliant on big business which compromises other representative organisations. We are the **only independent representative body for SMEs in Ireland.***

Our organisation's members employ over 225,000, from the sole trader operation right up to businesses with 250 employees. We also are a 'broad church', representing all sectors, from importers to exporters, agri-food to engineering, retail, manufacturing, distribution, service industries, including accountants, solicitors and other professions.

SUMMARY RECOMMENDATIONS

Irish Tax Rate

- Reaffirm the status of the 12.5% corporation tax rate for all companies trading in Ireland.

Rewards for Risk

The Self Employed and Proprietary Directors.

- The discrimination against Directors and the self-employed with regard to not being able to avail of the P.A.Y.E. tax allowance needs to be rescinded as a matter of priority. This was recommended in the Commission of Taxation report.
- Allow an opt-in for self-employed for PRSI benefits.
- Revoke the 3% USC disparity in 2015.

Seed Capital Scheme

- Remove all qualifying restrictions, exclusions and investment limits.
- Allow investment to be paid in three tranches.
- Allow a longer time limit for the investor to become a director.

Employment Investment Scheme

- Remove investment limits and qualifying restrictions.
- Remove lifetime cap.
- Increase Year 1 tax relief to 41%.

Start-up Company Relief

- Relief period to be extended.
- Extend the scheme beyond 2014 expiration date.
- Base relief on Employer & Employee PRSI.
- Relief period should be extended to 7 years.

Share Based Remuneration

- Extend the benefit exemption to SMEs.
- Defer USC and Employee PRSI payment.

CGT & Entrepreneurs' Relief

- Remove the full-time executive requirement.
- Increase relief rates.
- Reduce CGT to 20%.

Remuneration

Marginal Rate

- Reduce rate to 40%
- Increase entry to €36,000

Foreign Earnings Deduction

- Decrease the minimum time period and open up the list of relevant states.

Employers PRSI

- Reduce the 8.5% rate to 4.25% again for three years.

Small Benefit Exemption

- Extend to €750

Pensions

- Auto enrolment in pensions should be progressed.

Access to Credit

Strategic Banking Corporation of Ireland

- Clear and strict oversight on the banks distribution of the new funds

Peer-to-Peer Lending

- Introduce regulation.
- Increase awareness levels.
- Government cash investment in P2P lending.

Research and Development

R&D Tax Credit

- Increase the base year exclusion.
- Increase the timeframe for submitting a claim to five years.
- Introduce a two-tier R&D system which has less red-tape for SMEs.
- Allow consultations with Revenue office pre-project commencement.
- Review the UK Patent Box Scheme.

Innovation Voucher Scheme

- Increase Maximum to €25,000

VAT

VAT- Cash Receipts Basis

- Increase the threshold to 2.5m.

Vat Rates

- Cut the higher rate of 23%.

Home Renovation Incentive

Extension of HRI Scheme

- Increase tax credit to 20% and increase maximum expenditure to €50,000.
- Reducing the minimum qualifying spend to €2,203

Upward only rents

- Double tax relief on excess rent over market.

Public Sector Reform

- Abolish the incremental system of rewarding public servants for service in years.
- Abolish all perks and have a basic salary for all.
- Reform sick pay schemes and insist on management accountability.
- The introduction of an independent international oversight body with responsibility for ensuring that there is genuine, transparent and accountable reform of the public sector, highlighting measureable savings in efficiencies.
- The principle of 'jobs for life', should be abolished, with non-performers' contracts terminated in line with the State's industrial relations due process.
- A number of services, including administration, should be outsourced to the private sector.

IRISH TAX RATE

There has been much discussion and ill-informed international criticism of Ireland's 12.5% Corporation Tax rate in recent months. Low corporate tax rates to encourage growth in small open economies like Ireland has been continuously supported by research institutions and the OECD. As a central plank in our industrial policy to attract and retain investment, the 12.5% rate must be protected.

Certainty is essential for existing and prospective investors; ISME recommends that the Minister reiterates the Government's commitment to the retention of the corporate tax rate as an integral part of the strategy to encourage growth, investment and jobs.

Solution: Reaffirm the status of the 12.5% corporation tax rate for companies trading in Ireland.

REWARDS FOR RISK

The Self Employed and Proprietary Directors.

The incentive to start, finance, expand and run a business is affected by the tax regime. The tax environment for SME entrepreneurs has deteriorated since the beginning of the recession and if not addressed will slow down any recovery.

Issue: The tax code has for many years discriminated against Proprietary Directors, preventing them availing of the normal PAYE tax allowance. This indicates reluctance on the part of the authorities to recognize the significant contribution of entrepreneurs and acts as a disincentive for individuals to set up their own businesses.

Solution: Allow Proprietary Directors to avail of the normal PAYE Allowance.

Issue: Another anomaly of the system, that needs to be urgently addressed, is not allowing the self-employed equal social welfare entitlements in the event of the closure of their business and they become unemployed. The failure to provide supports to entrepreneurs, who have lost their livelihoods, sends out the wrong message in promoting an enterprise culture and disregards the significant contribution that these individuals have made to the economy.

Solution: Allow an opt-in to PRSI for Self-employed and Proprietary Directors for illness and disability benefits. This can be extended to full benefits over time.

Issue: There is a USC disparity of 3% between the employed and self-employed. The current legislation states that the additional 3% USC on non-PAYE income in excess of €100,000 will cease to have effect for the tax year 2015 and subsequent years. This will restore parity between the marginal tax rates applicable to employees and the self-employed.

Solution: Ensure that this commitment is enforced in the Budget.

Seed Capital Scheme

The Seed Capital Investment Scheme (SCS) provides tax relief for specified individuals who invest in companies that are carrying on trading activities coming within the EII scheme (Employment and Investment Incentive). There is currently a low level of usage of the scheme which indicates that changes need to be made to promote its uptake. The scheme is intended to incentivise Entrepreneurs to leave employment and start their own business and this objective must be supported and prioritised.

Provisional figures for 2013 show that 65 companies participated at an exchequer cost of €1.3m.

Issue: The condition that states that the investor must have been in employment (apart from one year prior to investing in the business is too restrictive and excludes:

- Employees who for example are made redundant or leave employment and have not set up the new business in the tight timeframe i.e. are not employed for more than the one prior tax year
- Self-employed individuals with no employment in the prior years

Solution: Remove the condition that the individual has to have employment income in the prior year's qualifying for relief. This would include previously employed and self-employed individuals on equal basis and the likelihood of successful business ventures would increase.

Issue: The investment must be made in two tranches even though the grant aid comes in 3 stages. This causes practical difficulties and the 3rd stage of grant aid can be paid outside the time limit for investment which has the effect of prohibiting further SCS investment.

Solution: Allow the investment to be paid in three tranches and amend the tax legislation to allow investment timing and stages to be the same as the grant aid

Issue: The individual must become a full time director/employee of the new company in the tax year in which the investment is made or within 6 months from the date of the investment. This is too short a period of time.

Solution: Allow a one year time limit during which the investor can become a director/employee of the company invested in.

Issue: The exclusion for individuals who have previously owned 15% or more of the share capital of another trading company is unfairly restrictive.

Solution: The restriction could be only that no prior SCS shares were held.

Issue: The maximum per year is €100k. But this is a tax credit, not a total refund i.e. you will get a max of 41% of this. So the people paying higher taxes are punished for doing so.

Solution: Remove this maximum and open it up to be based on maximum job creation.

Issue: The maximum relief per annum of €100,000 is too restrictive and minimises potential investments.

Solution: This should be increased to €150,000. This would make the maximum relief equal to that available in the Employment Investment Incentive Scheme.

Issue: Criteria for being a qualifying company is overly restrictive.

Solution: open it up beyond manufacturing and internationally traded services.

Issue: Often, recently unemployed persons do not have sufficient funds to invest in a company.

Solution: Allow some of the refund to be used to cover part of the investment.

Employment Investment Scheme

The Employment Investment Incentive Scheme (EIIS) is a tax relief incentive scheme that provides relief for investment in certain corporate trades. The scheme replaced the Business Expansion Scheme (BES) and was announced in Budget 2011.

The scheme allows an individual investor to obtain income tax relief on investments up to a maximum of €150,000 per annum in each tax year up to 2020. Relief is initially available to an individual at up to 30%. Up to a further 11% tax relief is available where it has been proven that employment levels have increased at the company at the end of the holding period (3 years) or where evidence is provided that the company used the capital raised for expenditure on research and development.

The use of the funds must contribute directly to the maintenance or creation of employment in the company.

The scheme was utilised by 1011 investors in 2013 at an exchequer cost of €12.4m. It is essential that Government acts now to accelerate the use of the scheme.

Issue: An investor receives 30% tax relief on investment, then 11/41sts (nearly) four years later if the employment has increased. If an investment is made during 2014, receipt of the relief of 11/41sts is delayed to the end of 2018 only if the employment has increased.

Solution: Remove this restriction so that the maintenance of employment leads to qualification for the relief.

Issue: For investors both connected and unconnected the limit is €150,000 yearly. If a connected person invests the total contributions are then capped @ €500,000 for the total investment period. This means that if a connected person invests and an outside investor invests, the outside investor has to wait until the connected investor's investment matures to receive back their 100%. This is restrictive and could hinder the growth of the company.

This is too restrictive and will reduce the activity and use of this scheme to the detriment of employment.

Solution: Investment limits should be removed to allow for greater job creation potential. There should be no extra restrictions on connected investments in comparison with investments from unconnected investors. Most small businesses are family run and owned and it is often easier to garner investments from connected persons than from external investors.

Issue: There is a lifetime cap of €10m for BES/EII investments.

Solution: This cap should be doubled to €20m to allow successful investors to continue to raise EII funds.

Issue: Investors currently receive tax relief of 30% in Year 1 and must then wait 4 years for the remaining 11%. This means the investment is less attractive to investors.

Solution: Increase the tax relief on Year 1 to 41%.

Start-Up Company Relief

In 2008 a new corporation tax incentive was introduced in respect of new or start-up companies which commenced trading in 2009 onwards. The effect of the incentive was to exempt new/start-up companies from corporation tax for a period of three years from the date of commencement of business in the event that they met certain conditions. Section 34 of the Finance Act 2011 extended this 3-year tax relief for new companies starting up in 2011. The scheme was also amended such that the value of the relief is based on the amount of employer's PRSI paid by a company in an accounting period, subject to a maximum of €5,000 per employee and an overall limit of €40,000. Credit is also given for any employers' PRSI exempted under the Employer Job (PRSI) Incentive Scheme in respect of a company's employees in determining the amount of corporation tax relief available to the company.

Issue: The value of the relief is based on the amount of employer's PRSI paid by a company in an accounting period, subject to a maximum of €5,000 per employee and an overall limit of €40,000.

Solution: Relief should not be based on payroll taxes as start-ups do not tend to employ staff in the initial years of business.

Issue: The current system of relief restricts proprietary directors from being taken into consideration. This is extremely relevant in the current climate where many new business are being created by owners and the relief as it currently stands does not recognise the employment of "owner/founders" as employment creation.

Solution: Base the relief on Employee PRSI and Employer PRSI.

Issue: Losses may be incurred in the initial years of the business which means the three year period for claiming relief is too short.

Solution: Relief period should be extended to 7 years.

Recommendation: Extend the scheme beyond its 2014 expiration date and incorporate the change mentioned above.

Share Based Remuneration

Until 1 January 2011, where shares in the employer company were awarded to employees, the award was not subject to either employer or employee PRSI. This PRSI exemption was an important attraction that share based remuneration offered over other forms of employee benefits. Changes were announced in 2011 which mean that Share-based remuneration is now subject to employee PRSI only, at the rate of 4%.

Issue: Share-based remuneration is included as income when determining the appropriate subclass for employees and when charging employee PRSI. Share-based remuneration is not subject to employer PRSI. It is not be included as income when determining the appropriate subclass for employers and when charging employer PRSI. In some cases this may result in a different PRSI subclass for the employer and for the employee.

Solution: Defer payment of USC and Employees PRSI. The payment of such taxes under the current scheme can give rise to up to 11% payable when options are exercised or when shares are allocated depending on the nature of the approved scheme.

Capital Gains Tax

The CGT rate has risen from 20% to 33%. When the rate was reduced to 20% important reliefs were withdrawn. A key relief for business was roll over relief – CGT could be deferred when the proceeds of a sale of a business asset were reinvested in replacement business assets. Business badly needs reinvestment that has long been deferred with the recession, roll over relief should be reintroduced. The lessons of the last recession on the 1980's need to be re-learned, that investment needs to be properly incentivised for investment to happen, and for there to be increased liquidity in capital transactions, and this requires lower rates of CGT.

Solution: Reduce CGT rate to 20%.

Capital Gains Tax & CGT Entrepreneurs Relief

This relief was introduced by Section 45 of Finance (No 2) Act 2013, which inserted a new Section 579A into the Taxes Consolidation Act 1997 to give effect to the capital gains tax relief announced in the Budget.

The Relief applies to Entrepreneurs who:

- have made disposals of assets since 1 January 2010 on which they have paid capital gains tax;
- invest at least €10,000, in the period from 1 January 2014 to 31 December 2018, in acquiring chargeable business assets that will be used in a new business and who subsequently (after a minimum period of 3 years) dispose of those chargeable business assets at a gain giving rise to a capital gains tax liability.

The relief will be given on the tax due on any chargeable gain arising on the subsequent disposal of the chargeable assets after a minimum period of 3 years and will amount to the lower of:

- the full amount of capital gains tax paid on the initial disposal made since 1 January 2010 or
- 50% of the CGT payable on the disposal of the new chargeable business assets.

Issue: The current proposal excludes investment companies whereby investors with funds held in corporate investment structures are excluded.

Solution: This rule should be removed to make the relief criteria less restrictive.

Solution: Relax the full time executive requirement to attract serial entrepreneurs with multiple investments

Solution: 50% relief under the current CGT rates would mean that the relief would be less attractive to that provided in the UK with 10% CGT on any qualifying profits with a lifetime claim of up to £10 million of relief in total.

REMUNERATION

Marginal Tax Rate

Issue: It is generally accepted that both the marginal rate of tax is too high and entry to the marginal tax rate is too low and acting as a disincentive to work.

Solution: Increase the entry point from €32,800 to €36,000 for a single person.

Solution: Reduce the marginal rate of income tax from 41% to 40%.

Foreign Earnings Deduction

Employees who carry out part of their duties in particular foreign countries are entitled to claim a tax deduction. The maximum deduction is €35,000 and the maximum relief is 41% which amounts to €14,350. In order to qualify for the relief.

The basic condition is that, within a period of 12 months the employee has worked in one or more of the relevant states for a minimum period of 60 "qualifying days".

Issue: Small businesses do not have the resources to have employees working outside Ireland for periods exceeding 60 days. Typically time spent abroad would be 2 to 4 weeks in a 12 month period and the trips tend to be less than 4 consecutive days. Trade shows in particular, can be just 3-5 days.

Solution: The number of days should be less than 60 for small and medium enterprises to take account of economic and business realities. The minimum period for qualifying days should be reduced to 10 days, to make this relief SME friendly.

Issue: The list of 'relevant states' is too restrictive and does not include many of the countries in which Irish SMEs are focused on building a market.

Solution: The foreign country list should be expanded to include countries where business is being sought and being built up – including EU countries.

PRSI – Lower rate for Employers

The standard rate of employer PRSI is 10.75%. A lower rate of 8.5% applies to employee earnings which are €356 or less per week. As part of the 2011 Jobs Initiative, Michael Noonan reduced this rate to 4.25% until the end of 2013.

Issue: This welcome support for job creation was not renewed for 2014 and later years. This having a massive negative affect on payroll costs for 2014.

Solution: The measure should be reintroduced for a further 3 years to assist in sustaining and creating jobs.

Small Benefit Exemption

Solution: Extend the small benefit exemption, which allows the provision of a non-cash benefit such as a voucher to the value of maximum €250, in any one tax year. Consider extending this benefit to €750.

Pensions

The proposal for auto enrolment pensions should be progressed. Employee and Government should make a defined percentage contribution. Any contribution by Employers must be optional and incentivised.

ACCESS TO CREDIT

Strategic Banking Corporation of Ireland (SBCI)

ISME welcomes the advent of the SBCI to re-energise the financing of the SME sector and assisting the drive for jobs growth. However a preferable option to it funnelling funds through the rescued Irish banks is to establish a new implementation body to regulate and place these new funds.

Solution: Introduce a clear and strict oversight on the banks distribution of the new funds. This will ensure that they are not used to replace existing loans with preferred clients, as was done previously by the banks, when deserving SMEs were left 'high and dry'.

Peer to Peer Lending

The challenges faced by SMEs in relation to accessing credit are well documented. Peer-to-Peer (P2P) lending improves this situation by providing another avenue of funding for business owners to explore. As well as assisting businesses, Peer-to-Peer lending allows individuals who aren't typically involved in investing in businesses to get a greater interest return on their savings.

The UK government decided to lend £20m to small businesses through FundingCircle.com (A UK P2P website) in March 2013. Within 2 months of the announcement, FundingCircle.com lending increased from £1m per week to £5m. The raised levels of awareness and credibility from the governments lending promoted P2P lending as an option and led to a huge increase in the funding available via this method. A similar funding injection into a P2P company by the Irish Government would increase awareness of this type of lending and also make it more attractive to investors and borrowers.

Issue: Peer-to-Peer lending is currently unregulated in Ireland. This makes investing in P2P lending less attractive.

Solution: The UKs Financial Conduct Authority will regulate P2P lending in the UK from April 2014. These regulations could act as a template. ISME requests that a set of regulations for Irish P2P lending be created and implemented as soon as possible.

Issue: Awareness and investment levels need to be raised so that P2P funding can become a credible alternative to bank funding for Irish SMEs.

Solution: ISME recommends that the Government follow the UK successful example of promoting the P2P lending industry through a cash investment. This investment would increase awareness of this funding stream and encourage savers to invest.

RESEARCH AND DEVELOPMENT

R&D Tax Credit

The R&D tax credit is a valuable tax-based incentive that is designed to encourage investment in R&D by companies in Ireland.

Issue: Base year exclusion is too low.

Solution: Increase the base year exclusion from 300k to 400k or eliminate the base year rule entirely.

Issue: The current timeframe for submitting a claim is too short and does not reflect the business plan cycle.

Solution: Increase in the timeframe for claims submitted from two to five years.

Issue: The R&D system is too costly and cumbersome for small businesses

Solution: Introduce a two-tier R&D system which has simpler initial queries for small businesses. Ensure that small companies are not burdened by extra administrative and financial costs and allow them access to the credit with a minimum of red-tape obstacles.

Issue: Businesses find it difficult to gauge whether or not their expenditure qualifies under the scheme.

Solution: Allow businesses to consult with revenue pre-project commencement to discuss whether or not the planned expenditure qualifies for the exemption. This would allow them to make a more informed decision about the R&D activities they wish to engage in.

Issue: The UK patent Box Scheme came into force in April 2013. This scheme allows companies to apply a lower rate of Corporation Tax to profits earned from its patents after this date. This relief will be phased in over 4 years from April 2013, and once the full benefit is in effect, the lower rate of Corporation Tax to be applied to these profits will be 10%. Patent box is focussed on patents rather than other forms of IP as they have a strong link to R&D and high-tech manufacturing, and will encourage both FDI and innovation by SME's.

Solution: Review the UK Patent Box scheme in the context of Ireland.

Innovation Voucher Scheme

Issue: The Innovation voucher scheme has had limited success due to a lack of promotion. Greater SME involvement in R&D can be achieved by streamlining more and better focused efforts to promote cooperation between industry and researchers.

Solution: ISME recommend that the existing €5000 innovation vouchers (Max €12,500) should be extended to €25,000 to ensure more meaningful development is carried by SMEs and by third level institutions on their behalf.

VAT

VAT- Cash Receipts Basis

The annual VAT cash receipts basis threshold for Irish SMEs increased from €1.25m to €2m on the 1st of May 2014. This will assist SMEs in improving cash-flow and reducing administration. The primary benefit of the Cash Receipts basis of accounting is the pressure it removes from businesses to pay VAT which has not yet been received. It is particularly helpful for start-ups and expanding companies.

The Cash Receipts Accounting Basis is merely a deferral of revenue for the exchequer- it does not amount to a revenue loss.

Issue: The VAT cash receipts basis threshold is still too low. It excludes many companies who would benefit from a higher threshold.

Solution: The Association requests that this threshold be increased to €2.5m in Budget 2015. This will further support SMEs in organising cash flow and reducing administration.

VAT Rates

Issue: The top rate of VAT is acting as a disincentive to spend in the economy. The likely effects of any decrease in VAT rates should be costed and analysed by the Department of Finance to determine what reduction can reasonably be made.

Solution: The highest 23% rate of VAT should be decreased to 21% to boost domestic demand.

HOME RENOVATION INCENTIVE (HRI)

Extension of HRI Scheme

The Home Renovation Incentive provides tax relief for Homeowners through an Income Tax credit at 13.5% of qualifying expenditure on repair, renovation or improvement works carried out on a main home by qualifying Contractors. Budget 2014 estimates that this scheme will cost the exchequer €62 million.

ISME expects that this scheme will have a positive impact on reducing black market activity. However, the tax credit is only available to the principal private residence of an individual.

Issue: The current scope of the scheme is too restrictive.

Solution: *ISME* suggests extending this scheme to buy-to-lets. This would lead to further improvements to housing stock and also be an extra boost to the construction sector. Most importantly, it would provide extra work orders for tax-compliant, registered tradespeople and move work out of the shadow economy.

Issue: The tax credit of 13.5% is too low.

Solution: The tax credit should be increased to 20% to make it more attractive.

Issue: The maximum qualifying expenditure of €30,000 is too low.

Solution: Increase this maximum to €50,000 to increase activity in the construction sector.

Issue: The minimum qualifying expenditure of €4,405 plus VAT is too low.

Solution: Reducing the minimum qualifying spend will attract more people to contract work from tax-compliant providers and reduce shadow economy activity. *ISME* recommends that that minimum spend be halved to €2,203 plus VAT.

UPWARD ONLY RENT REVIEWS

After wages, rent is the next largest cost for many businesses. On the matter of rents and in particular upward only reviews (UORR), which have crucified many enterprises; there is no easy way of saying it but our Government has let us down badly. The pre-election manifestos promised legislation, which post-election was reneged on. In many cases companies are currently paying rents which have little or no correlation with the market value of their property. Rents in Ireland are almost twice the international average and will have to reduce. The pity is that this will happen too late for many businesses.

The only way out of the UORR is to put your business into examinership, a process too expensive for the vast majority of businesses.

Apologists for UORR, banks, insurance and pension funds have been successful in retaining legacy UORR.

Issue: In the absence of any government initiative on the rent situation, where enterprises are paying 'tiger rents', which have no correlation with market rents and creating unsustainable losses, that they be allowed a

double tax allowance on their rent cost. This will at least reduce the impact of uneconomic rents, while allowing asset yields to remain, thus keeping the loan covenants intact and more importantly maintain jobs.

Solution: A double tax allowance on excessive rent cost due to upward only rent reviews.

PUBLIC SECTOR REFORMS.

The cost of running the public sector, is way beyond what the Country can afford. Public sector pay and pensions, now account for more than one-third of all current spending. The sector is still overstaffed in certain areas, despite over-generous packages and has not delivered on the real efficiencies required and promised through various benchmarking, Croke Park and the new Haddington Road agreements.

Annual increments, perks and privileges continue despite efforts to curtail them. It is extremely difficult therefore for SME owner managers and their staff to fund extraordinary pay and conditions for the public sector, when the SME sector has experienced severe drops in income and minimal supplementary pension protection for themselves, beyond the State Pension.

For too many years Government have avoided introducing cuts to the public sector for fear of a backlash from the public sector unions. This effectively has led to the situation where one sector of the economy can hold the Country to ransom, knowing that a little pressure on the politicians means that invariably they will get their way.

For the future of the economy the Government has no option but to insist on reductions in public sector pay and pensions, together with a measurable, transparent and verifiable efficiency drive. We must reduce the burden of a sector that threatens to be a drag on economic growth and strangle the rest of the economy. We can, through a continued focus on productivity and reform deliver a world class public service that plays a necessary and strategic role in the economy.

ISME recommends the following;

- Abolish the incremental system of rewarding public servants for service in years.
- Abolish all perks and have a basic salary for all.
- Reform sick pay schemes and insist on management accountability.
- The introduction of an independent international oversight body with responsibility for ensuring that there is genuine, transparent and accountable reform of the public sector, highlighting measurable savings in efficiencies.
- The principle of ‘jobs for life’, should be abolished, with non-performers’ contracts terminated in line with the State’s industrial relations due process.
- A number of services, including administration, should be outsourced to the private sector.