# ISME
# Pre-Budget Submission 2020

***Preparing for Squally Seas***

To be presented to

***Minister for Finance***

***Paschal Donohoe, T.D.***

*June 2019*

# Contents

# INTRODUCTION

**ISME, the Irish Small & Medium Enterprises Association,** represents in excess of 10,500 SME businesses throughout the Republic, employing more than 245,000. We are an INDEPENDENT body representing owner managers of small & medium businesses in Ireland. We are independent because we rely solely on the resources of our members, not on banks, semi-states, or big business. We are the only independent representative body for SMEs in Ireland.

Small and medium enterprises account for 99.7% of all enterprises in Ireland and account for 70% of all private sector employment. ***Some 930,000 (plus) of Ireland's 2m workforce are employed by an SME.***

We raised a number of macro-economic threats in our pre-budget submission last year, and we regret to note that some of them are starting to materialise:

- *US trade and tax policy remains volatile. It has already resulted in the repatriation of substantial sums[1]to the US treasury from Ireland, and is threatening sanctions on China, the EU and Mexico on a daily basis. This is impacting sentiment everywhere.*
- *Italy's position in the euro is fragile.*
- *The current chaotic political situation in the UK suggests an orderly Brexit is much less likely than it was a year ago. At time of writing, none of the likely contenders for leadership of the Conservative party is advocating a moderated line on the UK's exit from the EU.*
- *All five economic commentaries mentioned in the Department of Finance Monthly Economic Bulletin for May[2] suggest a lowering rate of growth.*
- *Public sector unions have been more assertive in seeking pay increases, despite Ireland's current account being only marginally positive.*
- *Ireland remains heavily a indebted country, with no material reduction to our debt levels as the economy has grown strongly.*

Domestically, our concerns are:

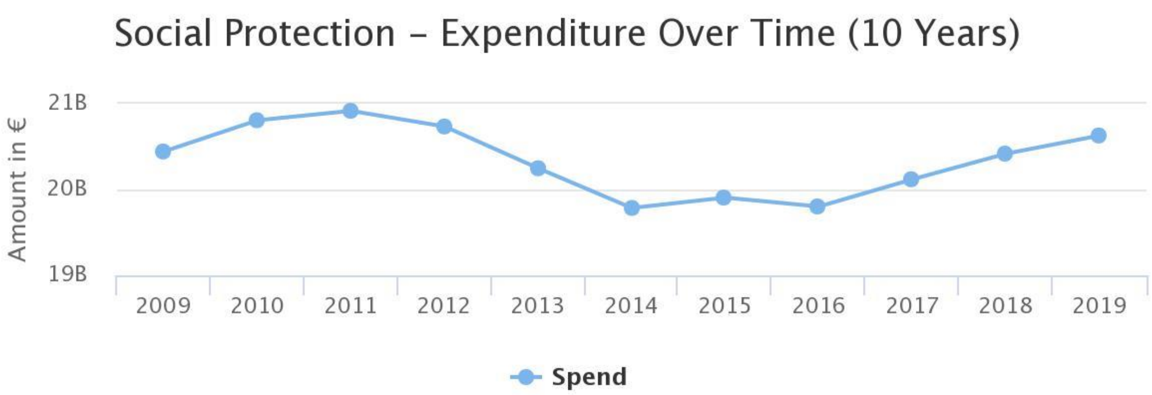
- *Even as we approach full employment, we are getting no 'dividend' in reduced social spending. Decreases in Working Age spending are almost matched by increases in illness and disability[3]. DEASP spend this year will be just €300m behind its peak in the economic crash, when there was massive unemployment (see figure 1). This vote will come under massive pressure if there is an increase in unemployment.*
- *The health vote looks likely to generate an outturn for 2019 that is 11% higher that 2018. Absent major improvements in service delivery, this is unconscionable as well as unsustainable.*
- *The Irish tax-base has narrowed markedly and is overly dependent on income taxes from a minority, and corporation taxes from a very small number of potentially itinerant companies. The steep falls in US investment flows in Q4 2018[4]suggest that treating corporation tax inflows as windfalls[5]and using them to fund fiscal buffers (as suggested by the Central Bank) is a prudent strategy.*
- *No meaningful Government action has taken place to tackle the insurance reform agenda.*

Our failure to reduce debt in nominal terms means that the Government will struggle to execute a counter-cyclical fiscal policy if the country's macro-economic environment disimproves.

---

1 https://www.irishtimes.com/business/economy/us-firms-repatriate-over-half-a-trillion-dollars-in-2018-but-pace-slows-1.3746224
2 https://assets.gov.ie/9463/0daac1c6d2b94c9b9054e303b9f885f2.pdf
3 https://whereyourmoneygoes.gov.ie/en/socialprotection/2019/
4 https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1883
5 https://www.centralbank.ie/docs/default-source/publications/economic-letters/vol-2019-no-3-fiscal-windfalls-a-model-based-analysis-(conefrey-o-reilly-and-walsh).pdf?sfvrsn=10

**Figure 1: DEASP spend 2009-2019 (Source: DPER)**




# EXECUTIVE SUMMARY

Our budget priorities remain little changed from last year, and are as follows for Budget 2020:

1. Implement in full the 20 key tax recommendations made by the Irish Tax Institute.
2. Reduce the ***punitive 23% VAT*** rate to 21%.
3. Our taxes on property, ***commercial rates and LPT***, need to be reformed.
4. While ***spending on infrastructure*** is now at the levels we have previously sought, we are concerned about value for money.
5. Our ***inheritance Tax*** regime must be reformed to incentivise the scaling up rather than sale of family businesses.
6. Government continues to ignore the reports by the ***Irish Fiscal Advisory Council (IFAC).*** In view of where the global economic cycle is at present, this is a matter of concern.
7. Our ***further education and training*** regime is inconsistent with activating a bigger workforce, or training the unskilled. We also acknowledge that our domestic SME base requires extensive training to improve its productivity. This should be incentivised in a manner similar to the Teagasc Green Cert.

# TAXATION

## Irish Taxation Institute Proposals

The Irish Taxation Institute is the pre-eminent body in the provision of expert tax advice in Ireland. ISME wholeheartedly endorses their 20 Key Tax Recommendations,[6] but re-orders them as follows, consistent with the views of our members:

1. **A Tax Strategy** is required which will positively support and shift Ireland's export strategy. (ISME comment: our tax strategy appears to have been developed with foreign-owned MNCs in mind only. We need to address this with a tax strategy that encourages, not penalises, growth in the indigenous enterprise sector)
2. We need an end to the **tax disparities and discrimination against the self-employed.** Those who create employment and wealth in the economy should not be punished by the PAYE and USC systems for doing so.
3. Our **CGT rate at 33%** is fourth highest in the OECD, and negatively impacts investment and scaling in Irish businesses.
4. **Entrepreneur relief is too tightly restricted to owner-managers,** and discourages external and serial passive investors from the possibility of a lower CGT rate. This restriction should be removed, and the €1m lifetime threshold for entrepreneur relief also needs to be increased to a minimum of €10m. While Government policy



[6] A future tax strategy to grow Irish indigenous exports June 2017, Chapter 11

purports to encourage equity investment in SMEs, the subsequent treatment of those very investors is punitive.

5. The progressivity of our **marginal tax rates**** above the average industrial wage discourage personal advancement, upskilling and promotion.
6. The **KEEP scheme** remains too complicated and restrictive for use by SMEs. The changes announced in budget 2019 have not addressed this, and the 'lifetime limit' element introduced has made the scheme less attractive.
7. The administrative blockers for businesses in claiming the **R&D tax credit** must be removed. As with the KEEP scheme, the structuring of the R&D tax credit discourages or prevents SMEs from applying for it.
8. The **Knowledge Development Box (KDB)** remains in need of reform for SMEs.
9. Ireland has a limited number of individuals who have funds to invest in business through the **Employment and Investment Incentive (EII)**. SMEs are too reliant on the pillar banks, and need a more diverse range of finance options. The annual cap of €150,000 for investors should be lifted towards the equivalent in the UK of Stg£1m investment limit.
10. **The EII income tax relief for investors is also split into two tranches –** 30% in the year of investment and an additional 10% after three years. This split relief concept reduces the attractiveness of the EII and should be removed.
11. **EII rules require the investor to hold less than 30% of the company's shares**, denying relief to the founder shareholder. This restriction should be removed from our regime.
12. Limitations on **outsourcing in the R&D tax credit regime** restrict collaboration among Irish businesses and between businesses and third-level institutions. These restrictions do not exist under the OECD Modified Nexus rules and should be removed.
13. The **Start-Up Refunds for Entrepreneurs (SURE)** scheme should be extended to include new business founders who were previously self-employed and are starting up another business. (A proviso could be that the self-employed person cannot have previously left a Revenue debt unpaid.)
14. **Dividend income is taxed at high marginal personal tax rates of up to 55%**, which does not encourage equity investment in Irish business. Introduce a lower flat rate of taxation on dividend income.
15. Consider **a new talent regime similar to SARP** but targeted at SMEs.
16. **Close the gaps in Ireland's double taxation agreement (DTA) network across Latin America, Africa and southern Asia.**
17. The **Foreign Earnings Deduction (FED)** reduces the income tax bill of employees travelling to develop exports in 30 countries. The range of qualifying countries should be broadened.
18. **Companies sending employees abroad short-term, often experience difficulties with tax, payroll, and double taxation** issues. A streamlined approach to tax compliance is needed.
19. Uncertainty about the **tax treatment of travel expenses** is creating concern for some workers sent abroad. Legislation in this area urgently needs to be brought up to date to deal with this issue.
20. Last but not least, we consider the Irish Tax Institute's suggestion for an **information campaign explaining both the tax policies and their administration** to be worth pursuing by the Revenue.

** While ISME understands the fiscal and political difficulties with raising the marginal rate thresholds, Irish workers are taxed at marginal rates at far too low a level of income, even by comparison with Scandinavian exemplars. Currently, the marginal rate for a single worker kicks in above €35,300, which is 10% below the current average industrial wage of €38,871 (Q4 2018). We suggest future taxation policy should set benchmarks against the average industrial wage, with a view to getting to 150% (i.e. €58,306). This would still be a low marginal rate threshold by international comparison.

## ISME Taxation Proposals

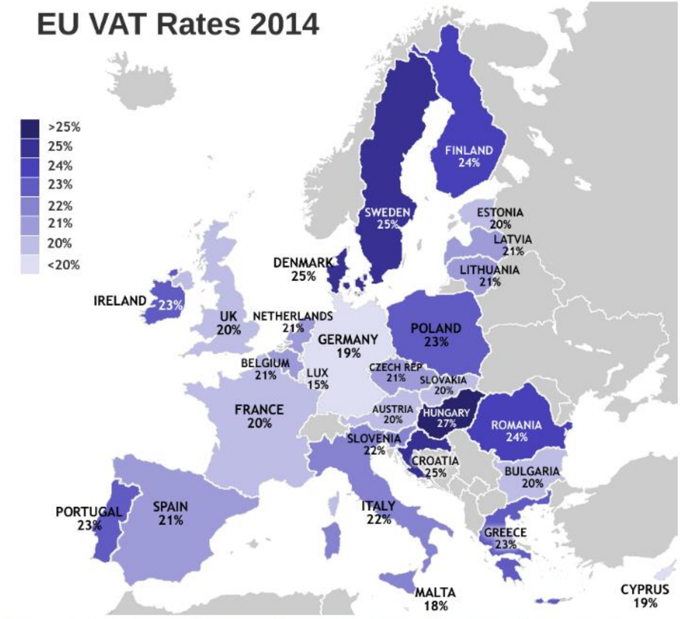
In addition to the Irish Taxation Institute proposals above, we consider the following to be essential for the SME sector:

### VAT

Following the removal of the 9% VAT rate last year, the **headline rate of VAT should be reduced from 23% to 21%.** This reduction is long overdue. Our standard VAT rate is one of the highest in the EU. (See figure 2 below). For a small, open and peripheral economy, this is a significant drag on our competitiveness, especially as the UK maintains a lower rate, and sterling continues its long, slow slide against the euro.

Food supplements should NOT be made VAT liable, as the VAT recovery is likely to be negligible due to online shopping. School Uniforms over a certain size currently attract VAT of 23%. All School Uniforms, of whatever size, should be zero rated for VAT purposes.

**Figure 2: Comparative VAT Rates 2014 (Source: EU Commission)**




VAT can potentially affect competition within the Single Market so it's important that Member States agree common rules that are fair to all EU businesses and consumers. This is why the Member States originally agreed to standardise on VAT, and to keep VAT rates within an agreed band.

## Property Taxes

2018 was another wasted opportunity to reform our property taxes. Commercial Rates and Local Property Taxes are technically linked, in that they are both based on what are effectively 'retail' valuations for property. The legislative basis for our rates system dates from 1898, and is unfit for purpose. Our members are willing to consider updated rates calculations systems. The current rates system requires substantial overhaul before it threatens business viability. It discriminates against town-centre operators, and encourages donut development, contrary to Project Ireland 2040.

Similarly, LPT is based on an open-market valuation basis, which penalises urban-dwellers, and those who invest in and upgrade their homes. LPT discourages densification and urbanisation, both key objectives in the National Planning Framework for Project Ireland 2040. The **current structure of commercial rates and LPT make a nonsense of Government strategy** and must be addressed soon. Furthermore, the exemption of post-2013 builds is a fundamental and inexcusable inequity in the taxation system which must be plugged immediately if it is not to face legal challenge.

## Capital Acquisitions Tax (CAT)

Last year's increase in the CAT threshold was so derisory, it is inexplicable how it made its way into the budget day speech. CAT was introduced in 1975 as an inheritance /gift tax with a threshold of the equivalent of €190,461. If indexed at the CPI rate, this would now equate to over €1.3m, instead of the current €320,000 ('Group A'). The effect of this is to diminish the attractiveness of intergenerational transfer of business, and is one of the reasons so few Irish family businesses reach the scale of their continental cohorts.

There is a 90% CAT relief in the transfer of business assets from one generation to another. But this only applies where control of the business transfers at the same time. This is neither possible nor desirable in all cases. In many cases the first generation retains title in property, in order to maintain a post-retirement pension. If family-owned Irish business are going to 'scale not sale' then CAT must be reformed.

# SPENDING

## Infrastructure

Ireland has a shortage of affordable housing, and critical underinvestment in its potable and wastewater infrastructure. It has under-developed high-capacity urban transport networks. It remains dependent on fossil fuels for energy generation. It has yet to complete its inter-urban motorway network.

The domestic economy continues to struggle and is in need of an investment stimulus. Well-planned infrastructural projects could help to boost jobs, spending and consumer sentiment. It is also a key competitiveness issue and is important in attracting FDI to Ireland. Capital investment is a far higher priority for Ireland than current expenditure.

Conscious of our position on fiscal prudence, we suggest that capital expenditure is categorised into short, medium and longer-term priorities, with a view to elongating state expenditures in a counter-cyclical fashion. As the potential for recession looms, now is the opportunity for Ireland to look at projects that could be initiated during a down-turn, returning a counter-cyclical bias to public spending.

## Broadband

Serious questions have arisen regarding the value for money of the National Broadband Plan (NBP) as currently configured.

ISME is conflicted in criticising the current plan, because our members recognise the critical importance of supplying high quality broadband access in the shortest timeframe possible. However, we do not believe that the NBP should be delivered 'at any price,' nor do we believe that fibre to the doorway is an inalienable right, or the optimal solution in every case. This is especially the case in rural areas, where a fibre-to-the-door policy could be seen as an endorsement of one-off housing development. Connection of other utilities such as water, foul water, and electricity is paid for by the consumer in those cases. The NBP fails to state a justification for connecting every single household, irrespective of location, to fibre.

## Encouraging the Green Economy

Ireland will not meet its greenhouse gas (GHG) reduction targets as the economy improves. The DCCAE commitments to supportive tax policies in its National Mitigation Plan are aspirational and non-specific. The type of aggressive tax incentive measures that are already under way in Norway are merely 'under consideration' in the National Mitigation Plan. This is the unfortunate consequence of taxing the motoring sector so heavily over the decades: The Exchequer is reluctant to countenance any move away from CO2-intensive transport because of considerations of revenue forgone.

The SME sector can play an active role in assisting the State if it is appropriately encouraged to do so. Those technologies which can markedly reduce energy consumption, such as LED lighting, should be incentivised with measures such as reducing or removing the recycling charge, and preferential VAT rates. The Government should be willing to consider use of the VAT system to further stimulate the sale of low-consumption technologies. The recently reported confirmation by Revenue that it intends to view car-charging at work as a BIK runs entirely counter to Government policy, and must be overturned. Until electric options become deeply and cost-effectively embedded in society, tax policy will have to be used as an instrument to encourage it.

Similarly, the current methodology for calculating the PSO levy (which is under review by DCCAE as part of the Integrated Single Electricity Market (I-SEM) project) runs counter to Government policy on encouraging uptake of low-carbon technologies. Until this review is completed, the PSO levy must be frozen.

## National Training Fund

The National Training Fund continues in substantial surplus while we have a number of known shortfalls in education, as well as a substantial degree of 'over-education.'[7] The NFT needs to be targeted at addressing the emerging issues:

- As Ireland reaches peak employment, many sectors across Ireland are facing a national skills crisis, which is affecting the competitiveness of enterprises. The lack of skilled employees is causing poaching of staff, unrealistic and unsustainable strains on employers to compete to maintain their employees. This skills shortage is affecting the competitiveness of enterprises.
- Apprenticeships offer both the employer and apprentice an excellent way of training however the two-tiered apprenticeship schemes offered by government will continue to cause hardship for employment sectors where the median wage is low. The post 2016 apprenticeships require the employer to pay the apprentice while both on and off the job. This system must be reviewed to encourage employers to take on and train apprentices in a sustainable way. A supporting scheme should be made available to support post 2016 apprenticeship (like Job bridge or Jobs plus) or to reintroduce the pre-2016 model where the government covers the cost of training while the apprentice is off the job as in electrical, plumbing and motor apprenticeships etc.
- Training rate: The removal of the training rate has affected some employers' ability to train staff and many sectors are no longer taking on trainees. While the protection of low paid workers is a priority, this must be balanced with the demands and cost of training apprentices. Additional support should be made available to encourage employers to engage with available apprenticeships.
- Life-long learning as a key component in workforce development. Additional financial support should be directed from the NTF towards supporting those in employment, to upskill them in a manner that is enterprise-led.

We need to align pre-employment education to the needs of the industry. Additionally, a review of career guidance should take place to support school leavers choose a path that is most appropriate, and to emphasise the benefits of apprenticeships for students with the apt skills.

ISME acknowledges that the productivity issue among Irish SMEs is real. Productivity is static or falling in the domestic economy, as is profitability. In his Seanad Public Consultation Committee Report on Small and Medium Sized Businesses in Ireland,[8] Senator Padraig O'Céidigh identifies productivity as a key element in value creation by SMEs.
This is occurring at a time when there is an increasing trend toward protectionism globally; when our nearest and largest trading partner is leaving the single market, and when US, OECD and EU Commission trade and corporation tax policies threaten the long-term viability of our traditional industrial policies based around foreign multi-national corporations.

If we are to scale our indigenous enterprise base, it is imperative that we address latent deficits in managerial skills within our SMEs; particularly financial management, IT capability, marketing capability, innovation, personnel development, risk identification and management, research capability, and strategic planning.

A very significant body of work on needs analysis in this area has been completed by the Irish aircraft leasing firm Avolon[9] this year, in their 'Project i'. Avolon summarised their essential 'skills for success' as Education; Early Stage Funding and Support; Acceleration; Venture Funding; and Growth and Exit.



[7] https://www.irishtimes.com/news/education/irish-workers-are-most-overqualified-in-europe-1.3229608
[8] https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/seanad_public_consultation_committee/reports/2019/2019-05-16_small-and-medium-sized-businesses-in-ireland_en.pdf
[9] https://dm1es2gjsclbk.cloudfront.net/files/01-05-2019_15:48:03.pdf

The best way to quickly upskill management in the indigenous enterprise sector is to encourage a rapid uptake in skills training and life-long learning. ISME believes the quickest way to achieve this is to develop a QQI Level 6 course, encompassing the skills noted above, and incentivised in a similar manner to the Teagasc Level 6 Specific Purpose Certificate in Farm Administration (the 'Green Cert') for farmers.

# OTHER

## Review of Indigenous Industrial Policy

There is now a consensus among trade and economics professionals that Ireland's economic policy remains too heavily invested in the multi-national corporation sector. While ISME is first to acknowledge the contribution from this sector to corporation and payroll tax receipts, and to high levels of disposable income, the sector remains very exposed to externalities such as US trade and tax policy. As far back as 1982, the Telesis Report argued that Irish industrial policy was excessively focussed on mobile investment from abroad, at the expense of indigenous industry. Similarly, the Culliton Report of 1992 argued for the creation of an agency solely devoted to Irish industry. While we now have Enterprise Ireland, we lack a national vision of what policy prescriptions indigenous enterprise should follow in order to allow them to scale, and to decrease our importance on MNCs.

ISME has argued every year since 2003 for a fundamental review of indigenous industrial policy. We believe the case has never been stronger to initiate one now.

## Statutory Redundancy Rebate

ISME has lobbied for several years for the restoration of the statutory redundancy rebate. While this issue attracts no attention as we near full employment, the market will turn at some point. One of the unintended effects of making redundancy more expensive or difficult for employers is that they are less likely to hire employees, and more likely to use agency or contracted labour.

The Government reduced the rebate on Statutory Redundancy in 2012, and eliminated it in 2013. This was a mistake. Employers always had liability for a proportion of Statutory Redundancy payments, but the State provided an 'insurance policy' via the social fund to pay the balance. The employers' contribution to this fund was set at 0.5% (recovered via PRSI) in the Redundancy Payments Acts 1979. **This contribution was not terminated when the rebate ended.**

The employers' payments to the redundancy fund generated a substantial surplus over the fund's liabilities. In 2002, the then Department of Social Welfare paid a dividend of €635m to the Exchequer. The removal of a rebate (which employers were already paying for) was wrong, although done in the teeth of the recession. This justification no longer exists. The Statutory Redundancy rebate should be reinstated at its 2012 level (60%). Failing this, the requirement to pay statutory redundancy should be eliminated, or employers' PRSI should be reduced by 0.5% in lieu.

## Peer to Peer Lending

It is a shocking indictment of our dependence on the pillar bank sector for SME lending that P2P lenders can fund (in hours or seconds) business loans for SME working capital at rates of 7%-14%, and sometimes more.

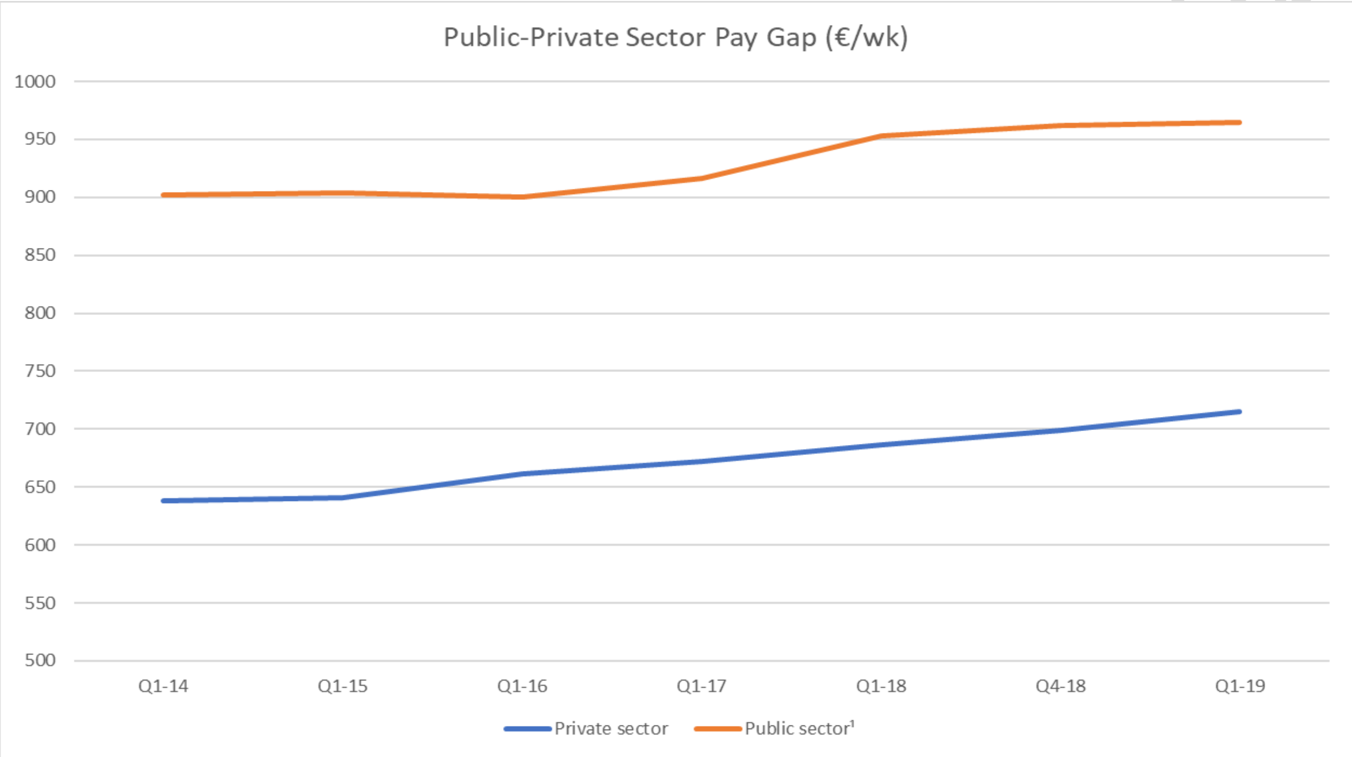
Peer to peer lending remains unregulated, despite the influx of more providers. The longer this situation continues, the greater the risk we run of a major failure in the shadow lending area.

## Public Sector Reform

Public sector pay and pensions now account for more than one-third of all current spending, yet there is widespread public dissatisfaction with the efficiency, effectiveness and quality of services delivered in the Health, Education and Justice sectors.

The gap between public and private sector pay[10] (as of Q1 2019) stands at €249.69, or 35%. With private sector pay increasing quickly the gap is closing, but not quickly enough. See figure 3 below. This gap does not take account of the more attractive conditions of employment in the public service, such as security of tenure, elevated holiday entitlements, and defined benefit pensions.

**Figure 3: Weekly Public-Private Pay Gap**

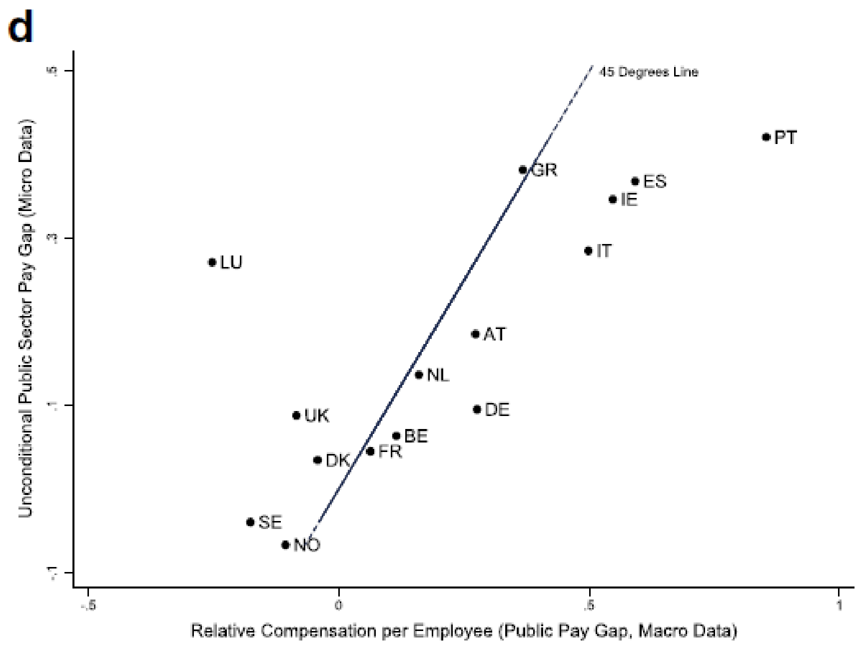



It is an established factual and statistical reality, and cannot be explained away by partial interests in the public service. The gap persists in Ireland at a level only seen in Mediterranean countries[11] (See figure 4 below). Even as we approach full employment, and with private sector pay rising at a faster rate than that in the public service, that gap is not materially closing. This means that SMEs are competing against ***both*** foreign multinationals and the State for talent. That is a very difficult place to be for the majority of SMEs.

The current 'restoration' process means that public sector pay as a proportion of total government spending is accelerating faster than it did during the boom. ***The State should commit to reducing the public-private sector pay gap to 10% by 2025.***

[10] https://cso.ie/en/releasesandpublications/er/elcq/earningsandlabourcostsq42018finalq12019preliminaryestimates/
[11] https://izajolp.springeropen.com/articles/10.1186/s40173-017-0086-0

**Figure 4: Understanding the public sector pay gap (Source: Campos et al)**




The issue is no longer merely fiscal, it is moral. The continued unchallenged diversion of State resources into public service current expenditure represents an unjustified transfer of wealth from the poorer, exposed majority to the cosseted minority, at the expense of infrastructural spending, and the future generations who will have to repay our profligacy. The majority of the €46,000 in national debt owed by every man, woman and child in this country is as a result of current expenditures in our public service. A decade after we sustained our last fiscal crash, we have forgotten its lessons, and are steadily building towards another.

We consider the absence of a permanent pay-setting mechanism to be detrimental to good order in the public finances. The setting up of ad hoc commissions such as the Public Service Pay Commission in 2017 is no substitute for the maintenance of a standing pay commission such as the UK's Pay Review Body (PRB), which is run by the Office of Manpower Economics[12] (see figure 5). Despite the size of the UK's public service, the standing secretariat of the PRB is just 30 people. It is fed with specialist sectoral information in respect of doctors and dentists, NHS, police, prison service, schoolteachers, senior public service staff, and the armed forces.

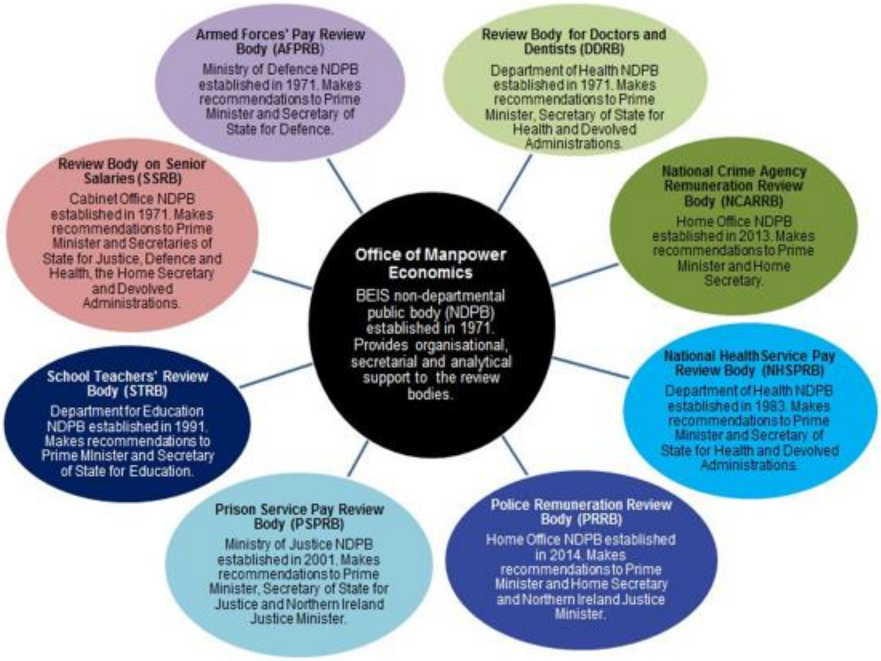
Current Government policy on public sector pay is not informed by objective data on recruitment and retention trends, or by analysis of pay for analogous roles or grades abroad. It is simply informed by the degree of perceived trade union unrest in any particular sector, and the likelihood of nurses, teachers or Gardaí to go on strike. This produces perverse outcomes in highly trade-unionised sectors. For example, despite having a young population, Ireland enjoys a higher number of nurses per capita[13] than most exemplar OECD-35 countries; but a lower number of doctors per capita.[14] Despite this, the bias in expenditure is away from primary care and towards hospital care. We suggest that this is because of the fear of industrial action, rather than driving optimal healthcare outcomes. This nonsense diverts wealth towards sectors without a recruitment and retention issue and is unsustainable.

Given the size and cost of the Irish public service, and the fact that the findings of the Public Service Pay Commission have been ignored by some of the trade unions, the establishment of an agency analogous to the UK PRB is warranted here. It would ensure that pay adjustments would be data-driven rather than extorted under the threat of industrial action.



[12] https://www.gov.uk/government/organisations/office-of-manpower-economics
[13] https://data.oecd.org/healthres/nurses.htm#indicator-chart
[14] https://read.oecd-ilibrary.org/social-issues-migration-health/health-at-a-glance-2017/doctors-overall-number_health_glance-2017-52-en#page1

**Figure 5: The UK PRB (Source Gov.UK)**




***If it comes to a choice between widespread and damaging industrial unrest, or a repeat of the fiscal crash of 2008-2010, the former is much preferable to the latter. We can, through a continued focus on productivity and reform deliver a world class public service our citizens can afford.***

## Pensions Reform

The ‘strawman’ consultation by DEASP for pension reform, while welcome, does not go far enough, in that it fails to tackle the issue of the unfunded liabilities for public service and social protection pensions. Together, these liabilities total more than €450bn, which is more than twice the size of the Irish national debt.

While we acknowledge the pension benefits of an Automatic Enrolment (AE) for the employee, the proposed funding mechanism would have a negative employment impact, especially for lower paid workers.

The quantum of the proposed State contribution to the AE scheme is miniscule by comparison to its massive subsidisation of public service pensions, and would be a maximum of €1,125 per worker per annum. Public service pension accrual attracts favourable tax treatment that is not accorded to private sector pensions savings. This would not encourage those who currently contribute to their personal pension to migrate to the AE scheme.

The unfunded pensions liabilities of the State are the largest threat to its long-term financial stability, and the DEASP remains the largest-spending Government department. It is therefore imperative that the DEASP receives robust, honest, independent and objective advice on addressing the entire pensions issue (and not just private sector pension coverage) from the ESRI, IFAC and/or NTMA, as well as the advice of external consultants not on the public payroll.

The AE scheme should be the first step taken to bring equivalence between public and private sector pensions according to the Revenue’s pensions and tax evaluation criteria. DEASP should commit to elimination of the apartheid between public and private sector with a fixed period of time.

Despite exchequer pensions amounting to more than €2.7bn annually, only one department details its pensions expenditure as a separate vote. The practice of analysing departmental pensions as a separate vote should be extended to all departments beyond the Department of Defence.

## National Minimum Wage

Ireland has the second-highest National Minimum Wage (NMW) in Europe (see figure 6). For several years now, this has been increased on an annual basis, without reference to underlying increases in cost of living. There appears to be a confusion in Ireland about what a NMW is designed to achieve; and the concept of a 'living wage' is frequently used as an analogue or used as an alternative baseline to the NMW.

The NMW is the floor value below which hourly wages may not drop. It is not designed to cover the rent of the 'average' rental apartment, or to pay the mortgage on the 'average' home in Ireland. It is a statutory minimum hourly rate. It is genuinely unhelpful to continually conflate policy and social objectives with the outcomes that raising of the NMW will achieve. Raising the NMW is a political cop-out from the more difficult issue of controlling the cost of living in Ireland; something for which successive governments have abdicated responsibility to the private sector. Ireland is the second most expensive country to live in within the EU, after Denmark (see figure 7). This would be bearable for the populace if our public services were as developed as those in Denmark, but they are not. It is noteworthy that Denmark has no NMW.

For many service-based industries such as the hairdressing, cafes and restaurants, 2019 has been a particularly tough year following the reversal of the VAT rate from 9% to 13.5%, an increase in the National Minimum Wage, an increase in employers' PRSI contribution towards the National Training Fund, the abolition of the sub-minimum training rates and the introduction of banded hour contracts. Many employers are struggling to maintain the current level of employment and absorb the additional costs of these changes. Coupled with the uncertainty of Brexit, ISME would seriously caution the Government on any upward increase in the National Minimum Wage for 2020.

As we head toward Brexit, it is worth noting that the NMW and the *National Living Wage* in the UK is £8.21/hr, equivalent to circa €9.23/hr. The Irish NMW is €9.80/hr, and sterling continues to decline. Government must stop outsourcing the rising cost of living to employers via the NMW, and must start to take seriously the need to reduce costs of living in Ireland.

**Figure 6: NMW in the EU (Source: Eurostat)**

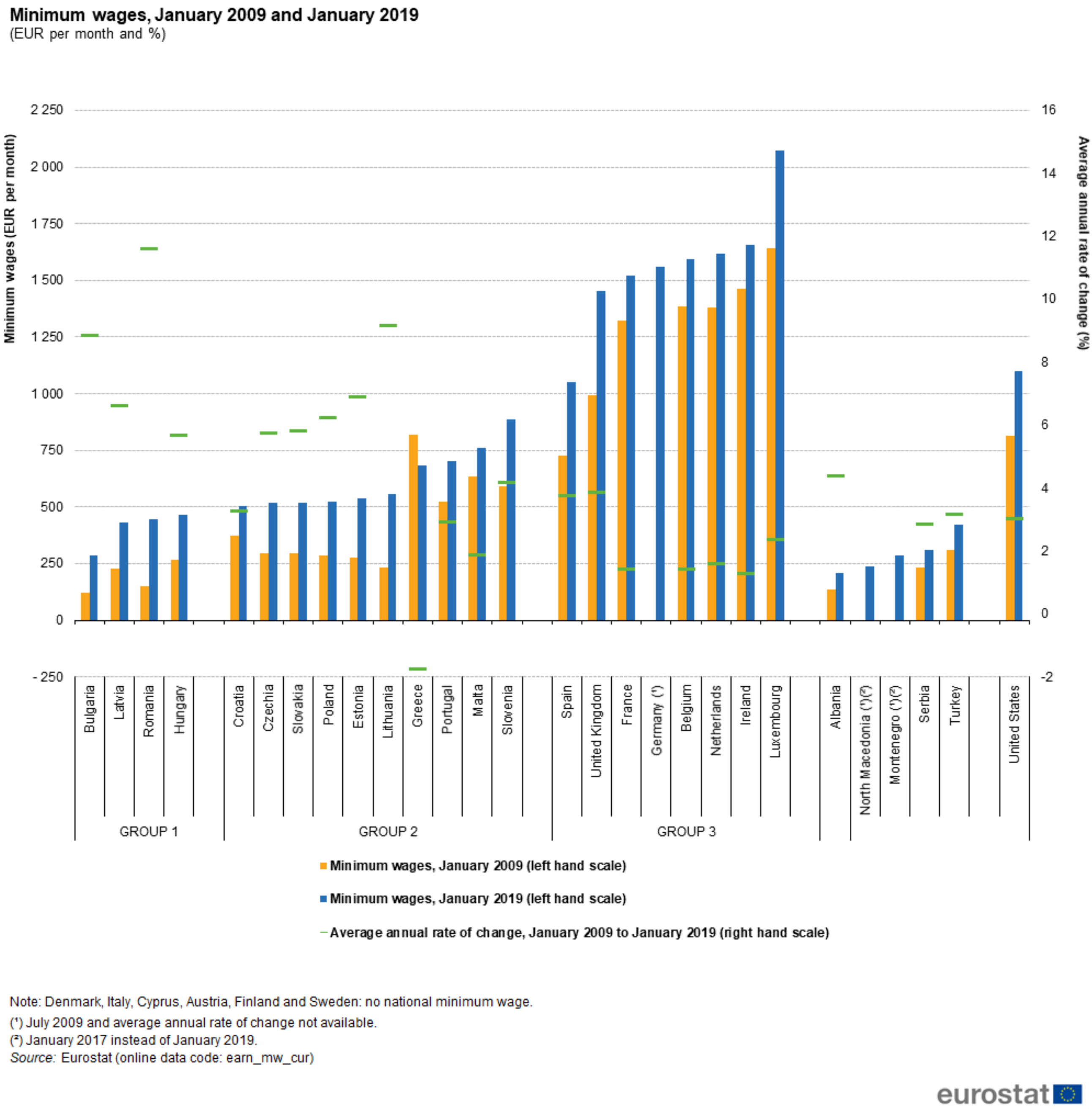
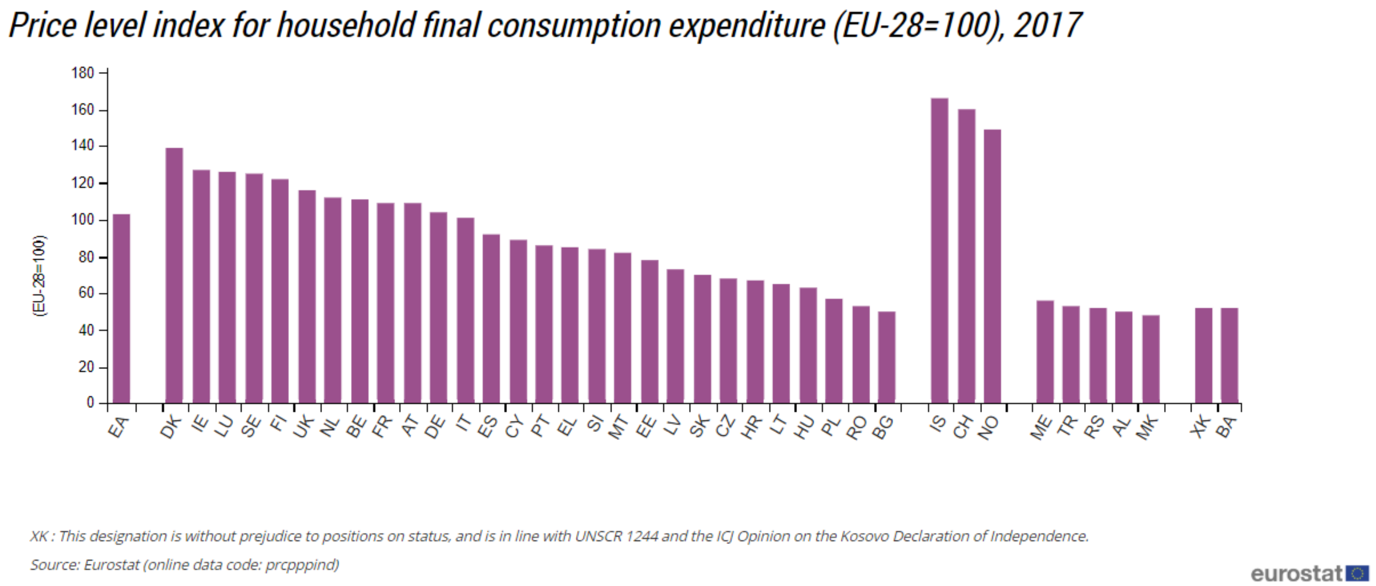


**Figure 7: Consumer Prices EU 2017 (Source: Eurostat)**




## Upward-Only Rent Reviews

After wages, rent is the next largest cost for most businesses. In many cases, companies are currently paying rents that have little or no correlation to the market value of their property. Rents in Ireland are almost twice the international average. The only legal way out of UORR is to put a business into examinership, a process too expensive for the majority of businesses.

Despite the abolition of UORRs on new leases[15], extant UORR lease contracts have remained in place. At the time of original legislation, the Government of the day cited constitutional issues[16] for their inability to ban historic leases. Interestingly, when the issue of spiralling domestic rents become a political issue, these constitutional issues evaporated; the establishment of Rent Pressure Zones debunked the myth of a constitutional bar to intervention in commercial rents. UORRs are an anachronism, for which there are many modern market-based alternatives. They continue to exert a drag on high street retail at the very time that sector is under immense pressure from online. As NAMA is being wound down, it is likely that the Government will face less opposition should it decide to ban all UORRs.



[15] https://www.ucem.ac.uk/wp-content/uploads/2016/01/Irish_Rent_Reviews.pdf
[16] http://www.justice.ie/en/JELR/Pages/PR11000247

### TAXATION

- Implement the 20 key tax recommendations of the Irish Taxation Institute
- The highest 23% rate of VAT should be decreased to 21% to boost domestic demand.
- Maintain zero VAT rating on food supplements
- All School Uniforms, of whatever size, should be zero rated for VAT purposes
- Update and reform the current ARV calculation system for commercial rates, and reform of the LPT system
- Update our CAT regime to encourage scaling of family businesses, and intergenerational transfer

### SPENDING

- Spread capital expenditures forward, pushing back less urgent demands into our next economic down-turn
- Implement tax policies that align with, and encourage, private sector expenditure on the green economy
- Divert spending away from the university sector towards skills-based, vocational and life-long learning

### OTHER

- Conduct an immediate review of indigenous industrial policy in order to reduce our dependence on foreign-owned multi-national corporations.
- Reintroduce the Statutory Redundancy Rebate (or remove the 0.5% employers' PRSI levy which funds it).
- Regulate peer-to-peer lending in Ireland.
- Reduce the public-private sector pay gap to 10% by 2025.
- Permit no pay increases in the public sector that are not objectively justified by recruitment or retention issues, or are warranted by comparison to international benchmarks.
- Establish a standing Public Service Pay Commission
- Introduce labour force activation measures which encourage employers to hire people with disabilities
- Initiate a Universal Retirement Savings Scheme to address the massive pensions deficit in Ireland
- Ban all (including historic) upward-only rent reviews
- Stop increasing the NMW, reduce the costs of living (especially housing cost) instead