



17 Kildare St.,
Dublin 2.

Paschal Donohoe TD,
Minister for Finance and Public Expenditure and Reform,
Department of Finance,
Merrion Street Upper,
Dublin 2.

7th April 2020

Dear Minister Donohoe,

Many thanks for your response to my letter to An Taoiseach of 16th March. Since that date, we have conducted some internal research which may help inform your consideration of the measures that are required to mitigate the economic effects of Covid-19.

Firstly, I wish to express the gratitude of our members in the adjustments made to the Redundancy Payments Act 1967 in the Emergency Measures in the Public Interest (Covid-19) Act 2020. As you can now appreciate, the effects of so large a wave of redundancy claims rolling through the economy would have finished off many of those businesses that can potentially remain viable.

Secondly, while we will continue to constructively engage with DBEI and DEASP on technical issues with the Covid-19 wage subsidy scheme and the Covid-19 pandemic unemployment payment, we are grateful that maintenance of employee incomes has been assigned so high a Governmental priority. A survey of our members found that by a factor of more than 2:1, our businesses are using the wage subsidy scheme above laying off workers (Appendix I). It will, however, be necessary to immediately address the issue of those earners whose incomes preclude them from the wage subsidy scheme. Not alone is there a serious equity issue here, as these people make large, uncapped contributions to the social fund; there is also the existential issue for the Exchequer in keeping these people going, as the over-€75k income bracket yields €16.5bn of the €24.4bn PAYE/USC take, or 68 percent of the total PAYE/USC take (Appendix II).

But I must reiterate the issue I raised with An Taoiseach three weeks ago; SMEs urgently need working capital. We contacted our accounting and office solutions community to produce an estimate of the average creditor's ledger for the SMEs they currently service. Across a sample size of approximately 3,000 SMEs, the average creditor's ledger amounted to €78,000. Removing from Ireland's business demography of 271,000 firms the roughly 1,000 large firms and 130,000 sole traders, this suggests an inter-company debt of just under €11bn.

As you know, the domestic SME sector isn't highly profitable. This means they will burn their remaining working capital, or their creditors, quite quickly. We asked our members how long they believe they can continue as a going concern. Aside from the 5.6% who believe their business will not

survive, 64% believe they will continue as a viable concern for a maximum of six months (Appendix III).

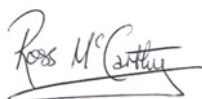
Given the aggregate employment numbers in the SME sector, I need not tell you of the consequences of so high a level of indigenous business collapse.

While I understand that the liquidity issue is the cause of much debate among the Eurozone member states, the credibility and longevity of the euro project will be seriously undermined if the only solution to this problem is an increase to our national debt, which expanded so precipitously during the last recession.

We believe that direct liquidity supports are now required to keep SMEs on commercial life-support throughout this crisis, and any debt that is offered as a part of the solution must be offered on the softest of terms, and at zero or negative rates.

We also recognise that no matter what liquidity arrangements are put in place, some businesses will not be salvable at the end of this crisis. We therefore believe there is an urgent need for a revised 'second-chance' mechanism for SME liquidations, which would provide for a simple, low-cost administrative insolvency regime, conducted outside the courts system at first instance. We will soon publish our proposals in this regard, and I will ask our CEO to raise this issue within the Company Law Review Group at the first opportunity. In addition to avoiding unnecessary company bankruptcies, we further hope to mitigate the risk of a catastrophic wave of personal insolvencies that could be triggered by the sudden change in the business environment.

Yours sincerely,

A handwritten signature in black ink that reads "Ross McCarthy". The signature is written in a cursive style with a horizontal line underneath the name.

Ross McCarthy
Chairperson, ISME

Copy Heather Humphreys TD,
 Minister for Business, Enterprise and Innovation.
 Leo Varadkar TD,
 Taoiseach

Appendix I

Choices	Response percent
Covid19 Wage Subsidy Scheme	52.80%
Covid-19 Pandemic Unemployment Payment (self-employed)	23.28%
Revenue refunds/forbearance	20.47%
SBCI COVID-19 Working Capital Scheme	2.37%
The Credit Guarantee Scheme	0.00%
MicroFinance Ireland COVID-19 loan	1.08%
Business mortgage payment break	7.76%
Business loan payment break	12.50%
Hire purchase/lease payment break	8.62%
Short term loan	1.72%
Peer to peer finance	0.22%
Invoice finance	0.65%
Director's loan	4.09%
Awaiting Govt/EU Guarantee Scheme	3.66%
Not Applicable	19.83%
Other (Please specify)	10.99%

Appendix II

Income earners by gross income range in 2020

€		Number of	€ Million	€ Million
Range of Gross Income		Taxpayer	Income	Tax/USC
		Units*		
0	10,000	456,308	2,088	0.5
10,000	13,000	132,498	1,524	0.8
13,000	15,000	95,664	1,341	10
15,000	18,000	137,370	2,273	28
18,000	20,000	99,450	1,888	53
20,000	25,000	232,535	5,227	261
25,000	27,000	88,881	2,311	148
27,000	30,000	108,674	3,118	230
30,000	35,000	201,774	6,547	569
35,000	40,000	191,721	7,167	759
40,000	50,000	261,560	11,741	1,617
50,000	60,000	197,762	10,821	1,822
60,000	70,000	135,680	8,767	1,653
70,000	75,000	52,858	3,823	764
75,000	80,000	49,130	3,803	797
80,000	90,000	75,868	6,430	1,444
90,000	100,000	56,015	5,310	1,293
100,000	150,000	127,182	15,204	4,296
150,000	200,000	38,764	6,607	2,223
200,000	275,000	20,216	4,672	1,748
Over	275,000	20,379	11,003	4,717
Total		2,780,289	121,665	24,430

*Married persons or civil partners who have elected or who have been deemed to have elected for joint assessment are counted as one tax unit.

Appendix III

As things stand in the Covid19 pandemic, my business can continue as a viable going concern for:

Choices	Response percent
More than 9 months	18.97%
6 to 9 months	11.64%
3 to 6 months	24.35%
1 to 3 months	33.41%
Up to 1 month from March 16th 2020	6.03%
My business will cease trading	5.60%