ISME
Pre-Budget Submission 2023

Sustainable Recovery

Presented to

Minister for Finance

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And

Minister for Public Expenditure and Reform

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ISME
Irish SME Association

Contents

INTRODUCTION

ISME, the Irish Small & Medium Enterprises Association, represents more than 10,500 direct and affiliated 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.

ISME recognises that the State should act counter-cyclically in its budgetary policy. While the pandemic aftermath would otherwise be a time to commit to significant State expenditure, we are experiencing a significant increase in inflation at the moment, which the State should avoid exacerbating.

We continue to express reservations about spending commitments the State is entering into on the current side. Continuous deficit spending is simply not an option for a state with one of the highest per capita government debts in the world. The December 2021 Fiscal Advisory Council Fiscal Assessment Report (albeit one which precedes the war in Ukraine) noted "The lack of a plan to meet these [health and climate change] commitments create risks to the implementation of the Government's fiscal plans in the years ahead."

We are delighted they advocate a multi-pronged approach to the provision of social housing; the housing shortage is a massive issue which cannot be "outsourced" to SME employers through forced wage increases.

Domestically, our concerns are:

- *We see too many macro indicators of international recession for Ireland to ignore: contracting GDP in the US;*[1] *an inverted yield curve;*[2] *a significant decline in China's Manufacturing Purchasing Managers' Index (PMI);*[3] *a significant sell-off of US equities;*[4] *and the possibility of a significant global food crisis due to the war in Ukraine.*[5]
- *While Exchequer receipts are holding up exceptionally well,*[6] *we view control of current account spending as inadequate as we emerge from the Covid pandemic.*
- *There appears to be a broad consensus (to which ISME does not subscribe) that a bigger state, with a bigger price-tag, is required; while at the same time there is neither a consensus nor even a debate as to how this should be funded.*
- *The health vote was out of control pre-Covid-19. Ireland's health care expenditure as a share of national income ranks 1st in the EU15*[7]*but in 9th place when adjusted for relative prices and 2nd highest cost per head of population. Yet the Sláintecare program suggests no strategy to achieve value for money or efficiency in our health spend.*
- *Covid-19 has exposed serious gaps in our plans for E-Health. Our patient records systems were unable to efficiently manage a national vaccine rollout. A functional E-Health system must precede Sláintecare.*
- *The Irish tax-base remains dangerously narrow in its dependence on corporation tax and a small number of PAYE earners.*
- *Our political system appears structurally incapable of confronting vested interests engaging in rent-seeking behaviour or refusal to reform and modernise.*

[1] https://www.ft.com/content/5b51bb09-19ff-4a11-9b93-5f0539567120
[2] https://www.weforum.org/agenda/2022/05/yield-curve-recession-economic-outlook/
[3] https://www.statista.com/statistics/271770/china-manufacturing-purchasing-managers-index/
[4] https://news.sky.com/story/us-stocks-head-for-worst-day-since-2020-amid-recession-fears-12616232
[5] https://www.bbc.com/news/world-europe-61503049
[6] https://www.gov.ie/en/press-release/2b6be-strong-momentum-in-tax-receipts-continues-in-may-318-billion-spending-underpins-supports-to-public-services-and-the-economy-ministers-donohoe-mcgrath/
[7] How Does Irish Healthcare Expenditure Compare Internationally? ESRI October 2020

ISME is not saying we expect an imminent recession. We are saying that there are sufficient indicators of a possible recession that Government must act prudently, and plan and budget on the basis that one could occur in the next six to 12 months.

EXECUTIVE SUMMARY

Our budget priorities assume that Ireland will have exited the pandemic-induced recession in 2022 but will suffer tail effects.

1. Implement a series of ***basic tax reforms***.
2. The completion of the Commission on Taxation and Welfare this year should encourage Government to properly integrate both.
3. Permanently reduce our ***punitive 23% VAT*** rate to 21%.
4. Our taxes on property, ***commercial rates and LPT***, need to be reformed.
5. While ***spending on infrastructure*** is now at the levels we have previously sought, we are concerned about value for money, particularly on the National Broadband Plan and the Children's' Hospital.
6. Our ***inheritance Tax*** regime must be reformed to incentivise the scaling up rather than sale of family businesses.
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 via the tax system like the Teagasc 'Green Cert.'

Pandemic Aftermath, Inflation and War

Businesses are emerging from the global pandemic just as inflation in energy and commodity prices takes hold. According to Deloitte figures, business insolvencies[8] fell significantly in 2021. This suggests that working capital supports from Government have kept afloat business that would otherwise be insolvent. Some of these will be viable, others will not. There will be legacy debt and trading issues which will threaten the commercial viability and solvency of many SMEs.

- Introduce incentives to encourage equity investment in small companies.
- We will need to revisit Revenue Debt Warehousing for some sectors or businesses, if we are to avoid insolvency among some viable businesses which took a heavy hit during lockdown (see below).
- Incentivise small businesses to pay creditors within 90 days by providing a 3% VAT rebate for invoices paid on time.

More generally, we note with concern the continuing bifurcation between GDP and GNI*. To us, this suggests the emergence in Ireland of three essentially autonomous economic sectors: the Foreign Multinational Corporation sector, which injects large personal earnings and corporation tax into the economy, the public sector, and the domestic SME sector. The second sector manages to benchmark its earnings by relation to the first (while surpassing it) and the income gap that has opened relative to the SME sector is very significant. According to the CSO's Q1 2022 figures, the gap between public sector and small company average earnings is now €321.33 per week, or 46% of SME pay. This large and persistent gap between public and private sector pay must inform any talks contemplated in reviving social partnership (see below).

[8] https://www2.deloitte.com/ie/en/pages/finance/articles/significant-decrease-for-corporate-insolvencies-in-2021.html

TAXATION

Tax Reform

We have gone through one full economic cycle without any meaningful reform of the tax code. The Government has indicated that there will be a Commission on Taxation and Social Welfare in the life of the current Dáil, which we believe is long overdue. We make the following 18 recommendations:

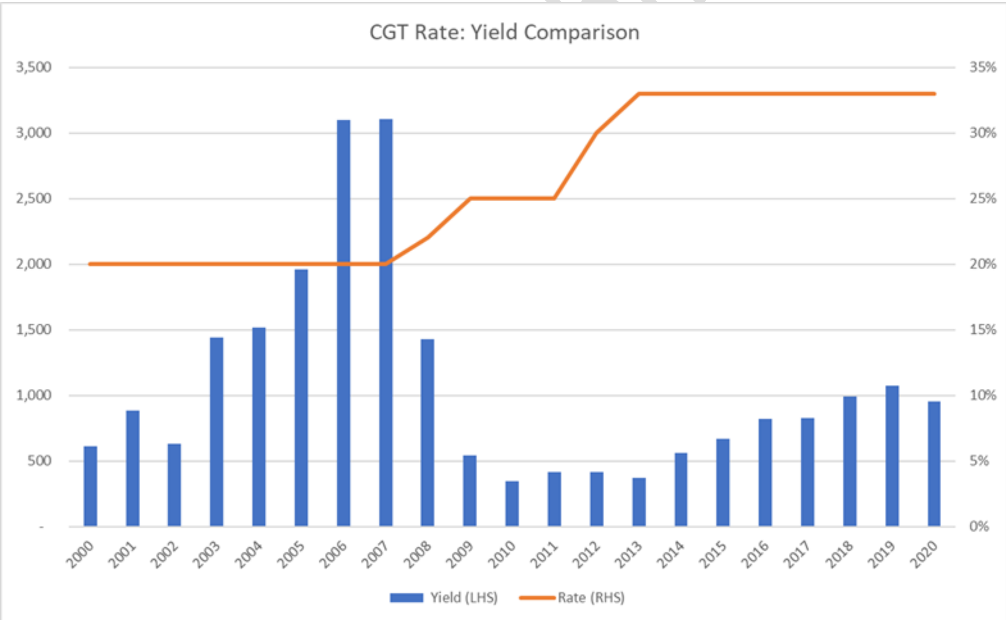
1. Our **CGT rate at 33%** is fourth highest in the OECD, and negatively impacts investment and scaling in Irish businesses. A reduction in CGT would almost certainly increase the yield. Those who support the current CGT rate should be asked to justify whether they support a lower than possible tax yield. (see below)
2. **Introduce a Solidarity Tax of 3%** on PAYE incomes over €100,000 (see below).
3. **Reform VAT** (see below).
4. **Reform Property Taxes** (see below).
5. **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 purports to encourage equity investment in SMEs, the subsequent treatment of those same investors is punitive.
6. The early progressivity of our **marginal tax rates**** above the average industrial wage discourage personal advancement, upskilling and promotion.
7. The **KEEP scheme** remains too complicated and restrictive for use by SMEs (See below).
8. 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.
9. **Reform Capital Acquisitions Tax** (see below).
10. The **Knowledge Development Box (KDB)** remains in need of reform for SMEs.
11. 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.
12. **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.
13. **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.
14. 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.
15. **The definition of "basic research" is so onerous in qualification for the R&D tax credit**[9] that it discourages SMEs from applying for it unless they can show their research is new to the world. The definition is: "experimental or theoretical work undertaken primarily to acquire new scientific or technical knowledge without a specific practical application in view." SMEs should qualify for this credit if they undertake research new to them.
16. 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.)
17. **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.
18. Consider **a new talent regime similar to SARP** but targeted at SMEs.

[9] https://www.revenue.ie/en/tax-professionals/tdm/income-tax-capital-gains-tax-corporation-tax/part-29/29-02-03.pdf

** 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. The average industrial wage stood at €44, 824 in Q4 2021. The marginal rate entry point for a single worker was raised by 4.2% to €36,800 in Budget 2022. While this improvement was welcome, the Standard Rate Cut-Off Point (SRCOP) remains 18% below the current average industrial wage. Future taxation policy should set benchmarks against the average industrial wage, with a view to getting to 150% (i.e. €67,236). This would still be a low marginal rate threshold by international comparison. By contrast, French workers pay 41% tax only on earnings above €73,517, and pay a 45% rate on earnings over €158,223.[10]

Capital Gains Tax (CGT)

At 33%, the CGT rate in Ireland is the third highest in Europe.[11] We believe that our rate depresses yield. While we are not advocating a return to the 20% rate which applied prior to 2008, we do believe behavioural economics is at play, and the rate of capital transactions is lower than they would be with a lower headline rate. It is demonstrably clear from the rate/yield diagram below that the increase in yield has not tracked the increase in Ireland's GDP post the Great Recession. We consider a 25% CGT rate would stimulate a considerable increase in yield. While we do not believe CGT yield will ever revert to its Celtic Tiger levels of €3bn, we believe a reliable annual yield of €1.5bn is achievable with a more realistic nominal rate.



Solidarity Tax

ISME has long lobbied for an end to discriminatory tax measures levied against the self-employed. Equalising the earned income credit for the self-employed with PAYE workers was delivered years after it was promised. However, for high-earning self-employed workers, the 3% USC surcharge remains in place. It is now apparent that this discriminatory levy will not be ended. We therefore consider that a USC surcharge of 3% should be introduced for all PAYE workers earning over €100,000 per annum, or a third PAYE rate of 43% should be introduced for the same cohort. Revenue estimates suggest this would yield in excess of €300m per annum for the Exchequer.

[10] Expatica.com France
[11] https://taxfoundation.org/capital-gains-tax-rates-in-europe-2021/

VAT

When the 9% VAT rate was originally introduced, it was accompanied by an increase in the standard rate from 21% to 23%. The 9% rate has been removed, despite its having attracted over 30,000 jobs into the hospitality sector. Yet the 23% rate has remained in place and is one of the highest rates in Europe. Given our significant rates of consumer inflation at the moment, the case for a permanent reduction of the punitive 23% rate to 21% has never been stronger. If it has the impact of stimulating consumer spending, the net impact on public finances will not be significant as the VAT take will increase overall if spending is increased.

The 9% VAT rate which has been temporarily maintained in the hospitality sector should be retained in the interest of Ireland encouraging competitive pricing for our tourist industry.

Property Taxes

ISME welcomes the adjustments to property taxes made in Budget 2022, but they do not go far enough. 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 urban sprawl and 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.

Funds generated by the LPT are transferred to the centralised Local Government Fund which is used to support the provision of local public services. In comparison to last year's yield of €359m,[12] €258 million was collected in 2013.[13] A compliance rate of 91.3% was registered despite the difficulties created by Covid-19 last year. The LPT's predecessor - the Household Charge - which was collected directly by local authorities rather than the Revenue received a far lower compliance rate than the LPT.

In order to address the systemic failures in the LPT system as currently structured, ISME proposes the following key reforms:

- Firstly, a site value tax should replace the open-market valuation basis applied to property for LPT purposes. A site value tax, unlike the current LPT, would involve taxing proportionate to the value of a site, rather than the value of what is built on a site. Rather than taxing the entirety of a property, that being the land and what is built upon the land, only the value of the land is taken into account. This places greater emphasis on factors such as the location of the land rather than factors within the control of the individual that allow for the generation of positive economic activity such as construction of buildings on land or the improvement and development of existing buildings, which the LPT serves to discourage. This is also consistent with the strategic objectives of Project Ireland 2040

- Secondly, a levy on road frontage (or a load factor on an LPT valuation) can perform a critical function in the future funding of local government. In a fair and equitable system, road frontage should form a more important indicator of how much tax should be paid by property owners; and encourage the efficient use of land in areas already serviced by state infrastructure. A road frontage levy would discourage ribbon development and encourage rural densification.

[12] https://www.revenue.ie/en/corporate/documents/statistics/lpt/lpt-stats-1021.pdf
[13] https://www.revenue.ie/en/corporate/documents/statistics/lpt/lpt-stats-2013-2015.pdf

- Thirdly, Government should commit to completion of a LPT revaluation every five years, perhaps in Census year.

While the commercial rates system differs in the detail of calculation from LPT, it is also based on an open-market "retail" property valuation, and this suffers the same systemic failures as LPT. As currently structured, commercial rates penalise town-centre development and encourage donut development. For this reason, we believe the basis of valuation for commercial rates should also be site value.

Marginal Tax Rates

While Ireland's tax system is (rightly) lauded as the most progressive in the EU,[14] this comes at the expense of an extremely high degree of concentration on a small number of workers. Analysis of the Revenue's 2018 income tax figures show that:

- 75% of yield comes from those earning over €60,000
- 61% of yield comes from those earning over €80,000
- 49% of yield comes from those earning over €100,000
- €16% of yield comes from those earning over €275,000.

Income Range €pa	Number of Taxpayer Units	% of Total Number of Taxpayer Units	Income (€m)	% of the Total Income	Income Tax Liability (€m)	% of the Total Income Tax Liability	Cumulative % of total income (from highest)
0 - 10,000	423,603	16.68	1,917.2	1.82	11.8	0.07	
10,000 - 12,000	82,422	3.25	908.6	0.86	4.3	0.03	
12,000 - 15,000	127,400	5.02	1,724.7	1.63	6.9	0.04	
15,000 - 17,000	86,951	3.42	1,390.8	1.32	5.9	0.04	
17,000 - 20,000	131,840	5.19	2,441.3	2.31	42.8	0.26	
20,000 - 25,000	217,946	8.58	4,903.4	4.65	192.1	1.16	
25,000 - 27,000	87,782	3.46	2,282.1	2.16	114.8	0.69	
27,000 - 30,000	124,223	4.89	3,538.5	3.35	206.2	1.24	97.7
30,000 - 35,000	190,572	7.51	6,188.1	5.87	427.9	2.58	96.5
35,000 - 40,000	166,339	6.55	6,219.5	5.9	545.8	3.29	93.9
40,000 - 50,000	237,937	9.37	10,635.5	10.08	1,232.2	7.43	90.6
50,000 - 60,000	169,338	6.67	9,267.2	8.78	1,308.0	7.88	83.2
60,000 - 70,000	122,512	4.83	7,935.6	7.52	1,237.5	7.46	75.3
70,000 - 75,000	48,838	1.92	3,537.8	3.35	591.3	3.56	67.8
75,000 - 80,000	41,232	1.62	3,192.1	3.03	561.6	3.39	64.3
80,000 - 90,000	64,390	2.54	5,455.7	5.17	1,023.0	6.17	60.9
90,000 - 100,000	47,650	1.88	4,514.7	4.28	917.9	5.53	54.7
100,000 - 150,000	107,186	4.22	12,782.9	12.12	3,006.3	18.12	49.2
150,000 - 200,000	30,096	1.19	5,134.1	4.87	1,418.1	8.55	31.1
200,000 - 275,000	15,520	0.61	3,584.4	3.4	1,081.0	6.52	22.5
Over - 275,000	15,054	0.59	7,937.3	7.52	2,654.2	16	16.0

How sustainable this model is will only be judged when we have an economic crisis which hits the higher paid.

Key Employee Engagement Program (KEEP)

KEEP was introduced in the Budget in 2017 and has never performed as excepted. The Revenue's May 2022 report on the cost of tax expenditures[15] notes *no expenditure at all on this program*. Structural reform of KEEP is long overdue:

[14] http://www.publicpolicyarchive.ie/ireland-has-the-most-progressive-income-tax-system-in-the-eu-2/

[15] https://www.revenue.ie/en/corporate/documents/statistics/tax-expenditures/costs-tax-expenditures.pdf

- Valuation criteria for companies needs to increase to widen net.
- Requirement for an employee to "work a minimum of 30 hours per week" does not reflect the reality of start-ups.
- Scheme should mirror closely the EMI scheme[16] in UK which is more flexible and has seen a good uptake.
- Lower tax rate on the sale of the shares - 20% tax rate on sale rather than 33%.
- Eliminate the prohibition on companies that claim EII relief not being able to claim KEEP.
- Mirror Entrepreneurial Relief and Retirement Relief rules i.e. exemption, length of service and lower rates.
- In most small companies Share Options only have a value if the business is sold, the current rules mean is the business is sold in year 11. In view of how few Irish SMEs list (and how long it takes), this alone renders the scheme unviable.
- It is a requirement that the shares be issued at the market value at the date of the grant, most businesses don't know this value, the business owner should be allowed to estimate this with some explicit Revenue guidelines provided so they don't have to spend money on professional advice.

Ireland is currently experiencing extreme wage pressure, with most SMEs unable to meet the pay expectations of employees. It is also the case that a euro can only be taken out of a business once, whether that is in the form of pay, bonus, sick-pay or auto-enrolment pensions. Given that the long-run price-earnings ratio of the Irish Stock Exchange has averaged x 17,[17] a far better way to share wealth with Irish workers is through equity. A euro of wages or bonus ***will always be just a euro***. But a euro of equity ***trades at a multiple of 17***. Our tax system is depriving Irish workers of this crucial ability to create wealth for themselves and the Irish economy.

Lastly, in view of how few Irish businesses ever advance to IPO, KEEP must be optimised to work for unlisted as well as functioning for listed businesses, and there must be no time limit on the scheme.

Capital Acquisitions Tax (CAT)

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 €335,000 ('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.

Revenue Debt Warehousing

As a result of the working capital measures taken by Government during the pandemic, many businesses have built up substantial tax balances due to the Revenue. From 1st May 2023, this will become repayable.[18] For some sectors which endured a long lockdown, lost sales will not be recovered, and repayment of this debt will need to be extended beyond the 36 months currently available under the Revenue's Phased Payment Arrangements (PPAs). This may constitute the difference between viability and insolvency for some businesses. We propose that such businesses can apply for support from a finance expert (from a panel that could be managed by say Enterprise Ireland) to help them develop a business plan outlining how they could pay the outstanding taxes in a timeframe that would not cripple the business. This plan, prepared by an expert, would then be presented to and approved by The Revenue. This could save millions in potential tax write offs and save many companies heading into insolvency.

[16] https://www.gov.uk/tax-employee-share-schemes/enterprise-management-incentives-emis
[17] https://simplywall.st/markets/ie
[18] https://www.revenue.ie/en/starting-a-business/paying-your-tax/debt-warehousing/warehouse-extension-2022.aspx

SPENDING

Infrastructure and Housing

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.

The postponement, yet again, of Metro North,[19] is a serious indictment of our ability to plan and deliver on infrastructural projects. The overturning of planning permission for a wastewater treatment plant in Clonshaugh[20] for legal reasons around environmental impact is a gross absurdity, when Dublin's Ringsend plant is already over capacity and regularly discharges raw sewerage into the sea. The interaction between our legal and planning systems requires very urgent attention.

The average house price in Ireland in Q1 2022 was €299,093.[21] This is a multiple of 6.7 times the average industrial wage of €44,824 (6.3 multiple in 2021), and 14 times (13.5 times multiple in 2021) the annual National Minimum Wage of €21,294 (2021). It is not in the gift of most SME employers to increase wages in line with these increases, and the State will have to intervene to provide adequate social housing at affordable prices.

The flight of landlords from the rental market is no longer in question, it is a fact. Daft.ie rental data[22] show that availability of new rental homes has collapsed. There were just 851 homes available to rent *in Ireland* on May 1st this year, down 77% year-on-year. The average number of homes available to rent nationwide at any point in time over the fifteen-year period 2006-2021 was nearly 9,200 - over ten times the supply available currently. Nationally, rents are at roughly double the price they were at in 2012[23] and available rental stock has fallen 96% (from approximately 15,500 units) over the same period. Despite this, we continue to see the social demonisation of landlords, and every legislative proposal originating from the Oireachtas appears calculated to eliminate the dwindling supply of private rental accommodation.

The issue has become so critical for many businesses that they have resorted to renting or purchasing houses and apartments for workers, and are letting them either rent-free or at sub-market rates. Either way, there is a BIK issue which Revenue has so far ignored. Buying housing is a really bad, unproductive use of a business's working capital, but banks are happy to lend for it because it's buy-to-let, and they have good security over the asset if the loan goes bad. CPI does not reflect what's going on, since rents make up less than 18% of the index, but lower-paid workers pay far more of their total income for accommodation.

Perhaps because of the current political environment, most of the interventions in the rental sector have served to reduce rather than increase the supply of accommodation. The supply of accommodation has been adversely affected by significant policy changes over the last decade:

- The effective outlawing of bedsit accommodation.
- The ending of Section 23 incentives.
- The increasing regulatory burden on landlords.
- The reduction of deductibles for private landlords, and the application of social charges to rental income (but not for institutional landlords). Local property tax is not a permissible deduction, meaning landlords must pay this tax from their "after tax" income. Meanwhile, institutional landlords pay tax only on dividends.

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[19] https://www.rte.ie/news/dublin/2021/1004/1250664-metro-north-delay-latest-in-long-list-of-postponements/
[20] https://www.breakingnews.ie/ireland/permission-for-e500m-wastewater-treatment-plant-must-be-overturned-high-court-rules-1041202.html
[21] Daft.ie Houseprice Report Q1 2022
[22] Daft.ie Rental Report Q1 2022
[23] https://ww1.daft.ie/report/barry-oleary?d_rd=1

- A planning system which is very accommodative of lengthy legal review, including from persons unaffected by a particular planning application.
- The legal system is very accommodative of tenants who do not pay rent, even for extended periods of time.
- Rent pressure zones have frozen many landlords with long-sitting tenancies with rents that are far below market.
- For many self-employed persons, buy-to-let property is their sole method of pension provision. The increasing disincentives to invest in buy-to-ley property not only attack their pension arrangements, but are pivotal in the contraction in rental supply.

A more comprehensive description of the issues facing private landlords was recently completed by economist Jim Power[24] for the Institute of Professional Auctioneers and Valuers and the Irish Property Owners' Association. The cumulative effects of these policy changes are decreased supply and increased costs of housing and rents. It is time that the private sector (beyond institutional landlords) was motivated to provide more rental accommodation. The political system must have the courage to show that current policies on the provision of rental accommodation have failed. A 96% decline in rental stock over the past decade cannot be considered as anything other than abject policy failure.

The foregoing should not be considered a criticism of institutional landlords. They provide significant volumes of buy-to-let property, especially apartments. However, they typically invest in more highly populated urban areas, and not in smaller towns and villages. This has led to the bizarre situation where many ISME members in rural areas outside our major cities are now buying or renting accommodation for their employees. While this will be welcomed in some quarters, we consider the diversion of business capital into accommodation to be a negative consequence of rental market failure.

Businesses cannot meet the wage expectations of those who can't afford rents, so Government is going to have to step up and encourage entry into the market by private landlords again- institutional landlords are not interested in buying a few semi-ds in Tullamore and Tramore, but workers still have to live there. In considering legislative proposals from the Oireachtas for the rental market from now on, ISME will apply this simple test:

- ***Will it increase or decrease the supply of accommodation?***

Encouraging the Green Economy

Ireland's climate action targets[25] are ambitious, especially in light of forecasted increases in electricity demand over the coming decades. The EPA has said that at our current rates of carbon emission, we are unlikely to meet our emissions targets.[26]

Reducing carbon emissions will prove extremely difficult if, for example, data centres will consume up to 29% of our electricity output[27] by the end of this decade. Before addressing our future energy requirements, we should consider if all of that future power demand is necessary or appropriate: i.e. should Ireland invest in substantial energy generating capacity simply to permit the long term storage of cat videos and TikToks? Would it not be more appropriate, as the European headquarters for so many digital media companies, to encourage the adoption of data retention policies which discourage the amassing of digital media?

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.

[24] https://www.ipav.ie/sites/default/files/ipav_ipoa_jim_power_final_report_may_2022.pdf
[25] Climate Action Plan 2019
[26] https://www.irishtimes.com/environment/climate-crisis/2022/06/01/epa-report-warns-ireland-may-not-meet-climate-targets/
[27] https://www.irishtimes.com/business/energy-and-resources/eirgrid-chief-backs-case-for-review-of-data-centre-policy-in-ireland-1.4558482

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. Government must ensure it does not disincentivise any carbon mitigation strategies through taxation or levies.

Ireland has invested very heavily in wind energy. However, wind continues to suffer from the problems of intermittency and storage. Solutions proposed to the latter problem include batteries, liquid air, thermal storage and kinetic energy.[28] However, Ireland's position as an Atlantic island with a mature gas network offers us a chance to fully exploit our investment in wind, while taking the lead in floating offshore wind (FLOW).

Rapid developments in FLOW technology allow deployment in waters from circa 60m to 1000m depth. FLOW can produce high wind capacity factors, as well as making practicable the production of hydrogen from the electrolysis of seawater. This green hydrogen can be injected, for example, into our domestic gas network or burned directly in gas-fired electricity generation. It can also be produced from FLOW at scale for export. There is no reason why, with suitable supports, Ireland's FLOW system and attendant support technologies cannot become world-leading.

ISME is doing its part to market the value of deep-retrofit both to consumers and to our member companies engaged in retro-fit work. However, the economics of deep retro-fit remain challenging. With a deep retro-fit costing up to €60,000 to €70,000 for a standard three-bed home, and a maximum SEAI grant €25,000,[29] the payback period for a household spending €2,500 per annum on energy is 14 years- assuming energy cost is reduced to zero. This requires a far more accommodative approach to the funding of deep retro-fit, or it will simply not happen at the pace Ireland needs it to happen.

Lastly, if we are serious about an economy based around ever-denser electrification, we must be mature enough to commence a discussion on the use of new nuclear energy generation systems, such as small modular reactors, advanced fission, and thorium-based nuclear power.

National Training Fund and the "Blue Cert"

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.'[30] The NTF needs to target 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.

[28] https://world-nuclear.org/information-library/current-and-future-generation/electricity-and-energy-storage.aspx
[29] https://www.irishtimes.com/special-reports/renovate/home-retrofits-a-guide-to-costs-grants-time-frames-and-best-ways-to-approach-the-project-1.4811069
[30] https://www.irishtimes.com/news/education/irish-workers-are-most-overqualified-in-europe-1.3229608

- 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,[31] 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.

The "Blue Cert" is a proposed programme of training and development for SME managers and owner managers. It is specifically designed to give SME managers a broad range of necessary knowledge and skills to perform their business activities and manage their businesses in a safe, ethical and professional manner.

The Blue Cert provides trainees with a solid grounding in finance, human resource management, IT and marketing. Participants learn how to manage core responsibilities of company compliance – financial transactions, employment, environment and health and safety record keeping.

The programme has been designed jointly by ISME, Network Ireland and Griffith College and has been directly informed by industry regulators such as HSA and WRC, with plans to also seek input from Revenue Commissioners and to ensure its compliance with developing environmental and sustainability opportunities and requirements.

The programme is being designed at level 6 on the National Framework of Qualifications and will lead to a special purpose certificate award. The programme is delivered using a combination of online and in-person delivery to facilitate participants' employment commitments and schedules. It is expected that participants would attend the programme over three ten-week periods within a calendar year, with up to 6 hours being delivered each week using a combination of online delivery (lunchtimes/evenings) and occasional in-person workshops.

The programme would be spread over a calendar year to facilitate participants' assimilation and practice of the skills involved and their companies' work schedules. The learning and development for participants is expected to equate with 60 ECTS (the equivalent of a year in further / higher education).

[31] 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

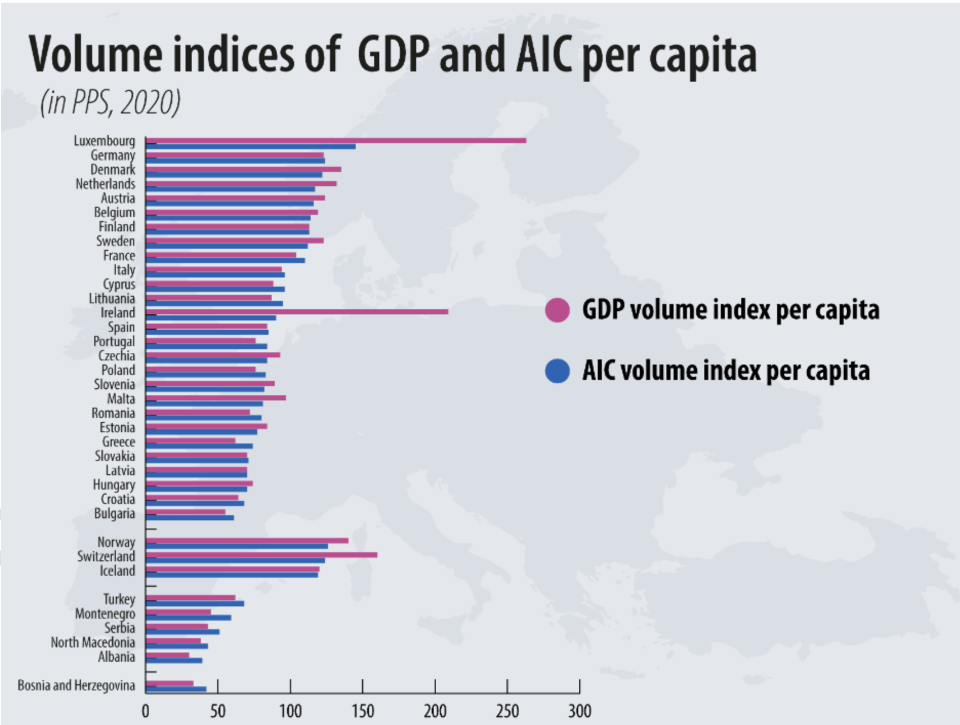
ISME estimates the cost per trainee is expected to be €5,950 for the overall programme, and we ask for tax support equivalent to the Teagasc Green Cert to be provided for in Budget 2023. Since this qualification will not be limited to the second generation in family businesses, there will be a requirement for a tax benefit beyond the CAT reduction currently applicable under the Green Cert. We suggest this could be by way of additional tax credits. However, given the fact that the NTF will have accumulated almost one billion euro by the end of 2022, we see the expenditures under this program netting off only a small fraction of the funds available under the NTF.

The principle that educational attainment merits extra pay is established elsewhere. For example, teachers qualify for an annual allowance[32] of between €532 and €5,526 based on QQI level attained. We would not seek anything as advantageous as that, but we see the merit for employers, employees and the Exchequer in providing a once-off financial and/or tax incentive.

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. Our GDP figures also give a highly artificial picture of domestic economic health.



ec.europa.eu/eurostat

The chart above showing the volume indices of GDP and Actual Individual Consumption (AIC) show a divergence which is only elsewhere seen in Luxembourg- not a good analogue for Ireland. AIC is a far better measure of material welfare of households than GDP per capita, and in Ireland our AIC is running at just 90% of the EU average.[33] We therefore feel our fiscal conservatism in ISME is justified on the basis of our more realistic per capita wealth. It is

[32] https://www.tui.ie/_fileupload/TUI%20Salary%20Scales.pdf
[33] https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20211215-1

important not to read into expanding corporation tax receipts the misapprehension that domestic enterprises are doing as well as foreign multinationals.

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 dependence on the MNC sector.

ISME has argued every year since 2003 for a fundamental review of indigenous industrial policy. Our call for a policy review is not a binary SME 'or' MNC. We see a mutually beneficial symbiosis between the two in a 21st Century policy review. We believe the case has never been stronger to initiate one now.

Statutory Redundancy Rebate

With the onset of the Covid pandemic, ISME lobbied Government very hard for an affordable insolvency regime for small enterprise, and we are grateful that the Companies (Rescue Process for Small and Micro Companies) Act 2021[34] has been enacted. However, with the termination of Covid business supports, it is likely that 2022 will see a significant uptick in redundancies.

ISME has lobbied for several years for the restoration of the statutory redundancy rebate. While this issue attracted no attention as we approached full employment, the jobs market is being ravaged by Covid-19. 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 cost of meeting statutory redundancy liabilities may also render some businesses insolvent.

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 Covid-19 moratorium on redundancies will soon end, and a tidal wave of redundancies is inevitable as businesses restructure through the pandemic. The more expensive the Government makes it to lay people off, the more reluctant businesses will be to re-hire once the pandemic is over. The statutory redundancy payment could make the difference between a solvent and an insolvent business. **Therefore, 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

Covid-19 has cruelly exposed our over-dependence on our pillar banks. Despite huge effort by the SBCI to distribute urgently needed liquidity to our SME sector, that effort has run into the sands once credit applications get into our pillar banks. Ireland needs to broaden its banking base, and regulation of our peer-to-peer sector is a long overdue measure necessary in doing so.

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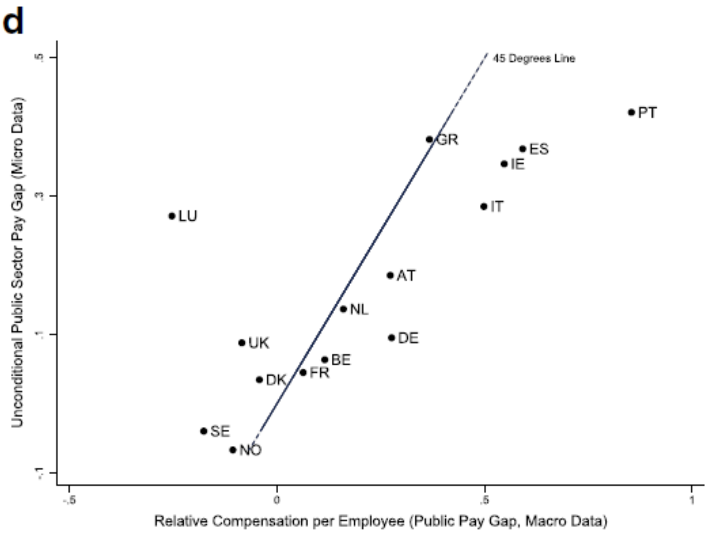
[34] https://www.oireachtas.ie/en/bills/bill/2021/92/

Regulation of peer-to-peer lending has come very late in Ireland,[35] despite the influx of more providers. That is welcome, and we hope P2P will more actively fill the gap which is not being filled by our dwindling pillar banks.

Public Sector Reform

The gap between public and private sector pay[36] (as of Q4 2021) stands at €219, or 27%. This is the lowest the gap has been for many years. In the UK, private sector pay nominally exceeds public sector pay by 0.5%. The published rates of pay for senior civil servants in the UK[37] suggest that most Irish civil servants of equivalent rank are already paid well in excess of their British counterparts. We know of no material level of age, qualifications, educational or vocational superiority of the Irish public service over their UK counterparts. Even at a low of 27%, this gap is only elsewhere seen in Mediterranean countries[38] (See figure 1 below) where private sector pay is far lower. 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.

Figure 1: Understanding the public sector pay gap (Source: Campos et al)



The headline public-private pay gap ignores the much larger gulf between public sector pay and SME pay. As of Q4 2021, they stood at €1,033 and €702 respectively, a difference of 47%. The CSO continues to publish questionable justifications[39] for the existence of so large a gap, but critically, it does not explain how Ireland is such an outlier in comparative terms among its Northern EU peers. Actual comparisons between current rates of pay for our senior civil servants[40] (at an exchange rate of £0.87/€) and those in the UK[41] suggest that, with very few exceptions (which are mostly technical in role) Irish civil servants do significantly better than UK peers on a like-for-like basis.

ISME has for several years called for Government to ***reduce the public-private sector pay gap to 10% by 2025.***

ISME has stated publicly that while it does not object to an increase public sector pay, it should have been made in return for reform. Most of the clamour for pay increases come from those sectors with the poorest performance

[35] https://www.centralbank.ie/news/article/central-bank-announces-new-crowdfunding-regulatory-regime-13-Jan-2022
[36] CSO Preliminary Earnings March 2022
[37] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/949622/_150k_2020_Master_.xlsx
[38] https://izajolp.springeropen.com/articles/10.1186/s40173-017-0086-0
[39] https://www.cso.ie/en/releasesandpublications/rp/rp-eappp/eappp20152018/
[40] https://assets.gov.ie/90209/c34ecf4b-c517-4e39-9e61-5955a7eb6385.pdf
[41] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/949622/_150k_2020_Master_.xlsx

records. The OECD's 2020 Country Report[42] found a significant shortfall in outcomes for the public for the Health, Education and Justice sectors. To continue uncritically to raise public sector pay, without any call for reform or modernisation, at a time when recruitment or retention are problems in very few areas of the public service, and when the public finances are gravely challenged, suggests that the Department of Public Expenditure and Reform has lost both its grip and its *raison d'être*.

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.[43] 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.

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.

On the same topic, we note overtures from Government to trade unions suggesting that partnership may be revived. We do not have an issue with the revival of partnership, but if it is to consist only of representatives of large businesses and multinationals on the one hand, and trade unions largely representing state employees on the other, then it cannot make recommendations concerning SMEs. If there is not adequate representation of SMEs in any future discussions on partnership, then the employees of SMEs must be excluded from the outcome of those talks.

As the Exchequer comes under increasing (and understandable) wages pressures within the public service, we consider this a perfect opportunity to reform the relationship between the political executive and the civil service. When a minister is de jure responsible for everything in their department, they are de facto responsible for nothing. This goes to the heart of the issues with the Ministers and Secretaries Act 1924, which is long overdue reform. As referenced above, with some of the most highly paid senior public servants in Europe, we are entitled to a significant degree of accountability and performance from them. We also wish to see the constraints on enquiry[44] which followed the "Abbeylara ruling" removed, if necessary, by constitutional referendum.

The ongoing threat of industrial unrest cannot be used as a justification for continued refusal to reform our public services. We can, through a continued focus on productivity and reform, deliver a world class public service affordable to our citizens and children. Properly digitising our public services in the public cloud can be part of the strategy to achieve that objective.

Social Protection and Pensions Reform

ISME acknowledges that, relative to nominal deduction paid to the social fund, employers' PRSI in Ireland is low by EU standards[45] at 11.05%. However, it is not as low as our employees' contribution of 4%, which is indeed one of the very lowest. However, both employer and employee contributions in Ireland must be considered in the context that benefits of our social protection system are capped irrespective of income, while contributions to the fund are uncapped. This is characteristic of a taxation system, not a social insurance system. We believe Ireland must progressively move to adopt a social insurance system, where employers and employees can draw an explicit link between what they pay into the system and what they can draw from it. Acknowledging that the social

[42] OECD Country Report Ireland 2020
[43] https://www.gov.uk/government/organisations/office-of-manpower-economics
[44] https://www.irishtimes.com/news/majority-of-the-supreme-court-judges-ruled-against-state-s-appeal-over-carthy-inquiry-1.1084767
[45] https://www2.deloitte.com/content/dam/Deloitte/cz/Documents/survey/EU-Social-Security-Survey.pdf

contributions paid by Irish employers and employees by EU standards is low, there is also the fact that pre-tax Irish payroll costs are high[46] with Ireland's being the (joint) fourth highest in the EU.

The PRSI system must cease to be used as a marginal form of taxation and must start to be used as social insurance. See also the "Jobs Kill Zone" below. As we are advising the DEASP:

1. ISME supports previous policy recommendations to move towards and auto-enrolment system for state pensions. State pensions must operate on a total-contributions basis, must provide for those who wish (or need) to retire earlier, and must allow those who contribute more (or who choose to work longer) to benefit more. Pensions must operate on a social insurance model, not on a taxation and fixed benefit model, Auto-enrolment should become the basis for all pensions paid in the state, including public service employees.

2. Jobseeker's Benefit is paid as a fixed weekly allowance to workers who have lost their jobs, irrespective of what their income level prior to unemployment. This is entirely inconsistent with the fact that the PRSI ceiling of €75,036 was eliminated in Budget 2011. Ireland must either re-introduce PRSI ceilings for employees or move to a social insurance model for payment of Jobseeker's Benefit.

3. The disability allowance system must preclude payment for 'lifestyle' disabilities, such as illiteracy. It is wholly improper for the state to pay someone to be illiterate.

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 employer contribution up to a maximum of 6% would represent a substantial increase in payroll cost for a great deal of employers, especially as the initially mooted state contribution of 25% has already been reduced to 20% in the latest iteration of the proposals. The 6% proposed for Irish employers is in marked contrast to the 3% contribution made in the UK.[47] This suggests that for a 6% employer contribution to not adversely affected employment levels, employees will have to absorb some or all of this (i.e. gross earnings cannot rise by the full amount of the increase).

The quantum of the State contribution to the previously proposed 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.

46 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Estimated_hourly_labour_costs,_2021_(EUR).png
47 https://www.gov.uk/workplace-pensions/what-you-your-employer-and-the-government-pay

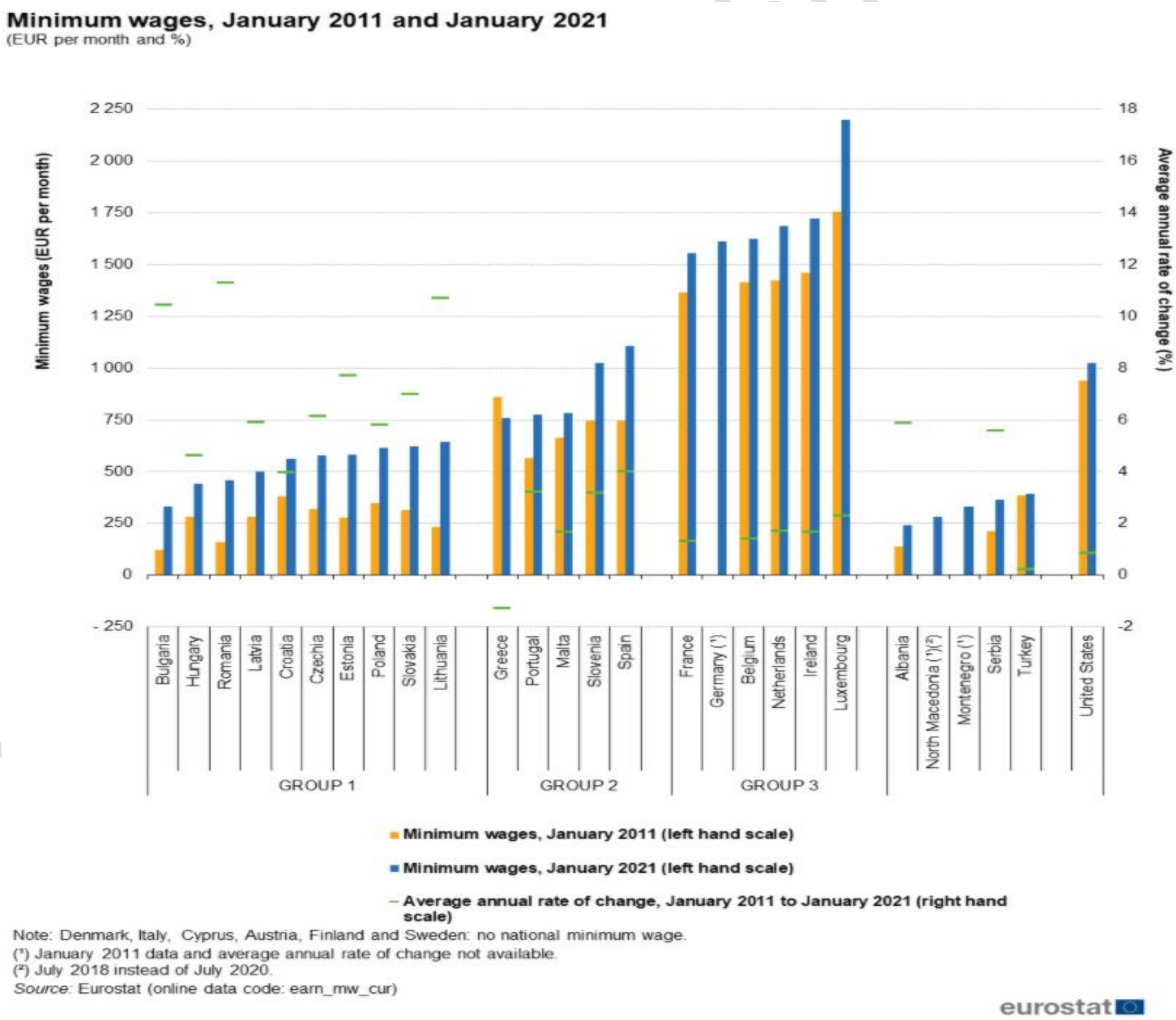
As Government considers the additional measures it will introduce in compliance with the EU Work-life Balance Directive,[48] we also consider it essential that the social fund will act as a social insurance fund for employers and will meet in full the additional burdens that will be placed on payroll as these new measures are rolled out.

National Minimum Wage and the "Jobs Kill Zone"

Ireland continues to have the second-highest National Minimum Wage (NMW) in Europe (see figure 2). 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.

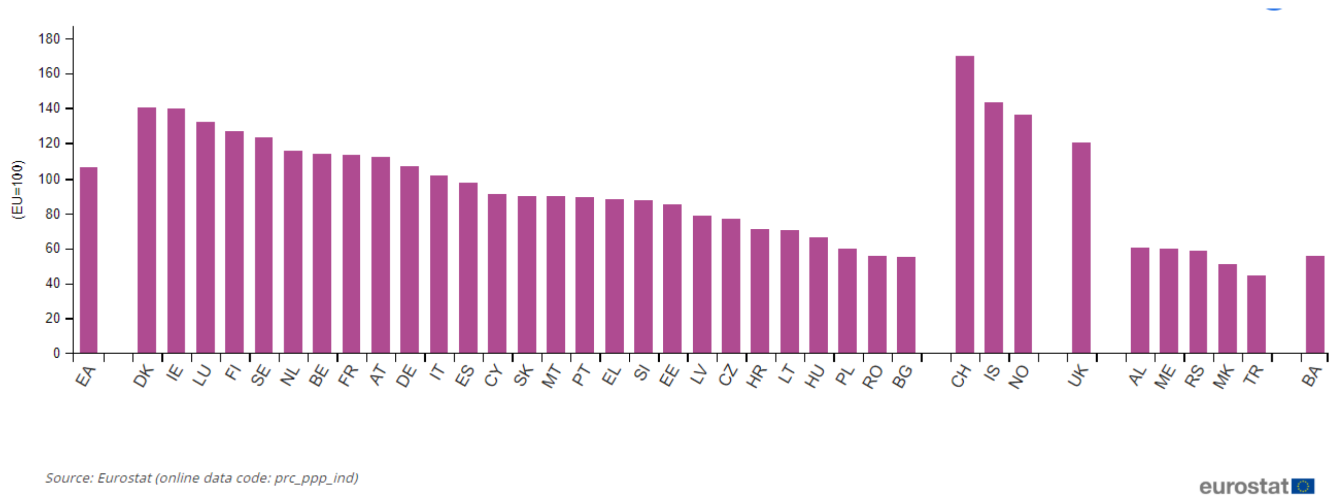
Raising the NMW is a political cop-out from the more difficult issue of controlling the cost of living in Ireland; something for which successive governments have abdicated responsibility to the private sector. Ireland is the second most expensive country to live in within the EU, after Denmark (see figure 3). 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.

Figure 2: NMW in the EU (Source: Eurostat)



[48] https://ec.europa.eu/social/main.jsp?catId=89&furtherNews=yes&newsId=9438&langId=en

Figure 3: Consumer Prices EU 2020 (Source: Eurostat)



We have observed the annual NMW revision process become a sterile, adversarial process, where the objectives of a NMW have been forgotten, and the sectoral responses have become stereotypical. Worse, we know from experience among member companies that raising the NMW may, in some circumstances, be counter-productive to the interests of the low pad. This sounds counter-intuitive, but is based on the real-world interaction between our social insurance, childcare, medical care and social housing systems. This problem is particularly acute in the income range from €18,000 to €30,000, which we have called the "Jobs Kill Zone. In our submission[49] to Government, we have made four key recommendations which would be far more meaningful than a few cents added to the NMW, or indeed the introduction of a so-called "living wage."

1. Eliminate the very high marginal rate on additional income in the PRSI Transition Zone from €18,304 to €22,048 per annum by **charging a new 2% rate of PRSI on weekly earnings up to €440 per week and a new 6% PRSI rate only on earnings above €440 pw. The change would increase the take-home pay for all full-time workers earning less than €880 per week**.
2. Setting the basic rate for qualifying for the medical card at more than 30% above the comparable Jobseeker's assistance rate.
3. Replacing the child element in Jobseeker's payments and all other welfare schemes by substantially increasing, (up to doubling) Child Benefit, phasing out Working Family Benefit, and at the same time making the Child Benefit taxable
4. Significantly increasing the income thresholds for access to social housing. Reform or remove the link between income and local authority rent.

Optional Unemployment

This is a difficult and contentious issue, but we believe it exists, especially where there is a capacity to work in the grey economy. It is very difficult, but not impossible, to isolate. In Budget 2002, the then "Unemployment Benefit" was increased from £77.50pw (€98.40) to €118.80 [50][51] This increase of 21% in the benefit rate produced a one-year

[49] Jobs Kill Zone
[50] https://assets.gov.ie/31645/905d6f46fc7b4063b15e5fc6d31ccd2e.pdf
[51] https://assets.gov.ie/31643/747d413bb5984f7da5aa634a6c411382.pdf

increase in the unemployment rate of 13%. This occurred at a time of full employment colloquially known as the "Celtic Tiger." Unfortunately, we must conclude that at least some element of this increase was unforced by economic circumstance.

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,[52] extant UORR lease contracts have remained in place. At the time of original legislation, the Government of the day cited constitutional issues[53] 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.

Reform of this issue has never been timelier, as lease agreements are likely to be the proximate cause of insolvency for most of the businesses that enter insolvency as Ireland exits the Covid-19 pandemic. With commercial vacancy rates in Henry Street approaching 30%[54] there will never be a better time to tackle this issue.

Social Progress Indicator

Despite the Covid-19 pandemic and other societal challenges, Ireland remains a relatively good place to live compared to some of its peers. Despite this, political discourse is regularly suffocated by cries that suggest Ireland

[52] https://www.ucem.ac.uk/wp-content/uploads/2016/01/Irish_Rent_Reviews.pdf
[53] http://www.justice.ie/en/JELR/Pages/PR11000247
[54] https://www.irishtimes.com/business/retail-and-services/henry-street-vacancies-to-hit-31-as-traders-seek-urgent-action-over-decline-1.4552581

is a third world country with public services to match. We therefore need an objective, politically neutral basis on which to identify those areas where improvement is, in fact, required.

ISME therefore considers it essential that Ireland develops a Social Progress Indicator, hopefully agreed through the National Economic Dialogue process, which would contribute far more to the budgetary debate than an endless discursion on our GDP and our GNI*.

SUMMARY OF ISME PRE-BUDGET SUBMISSION RECOMMENDATIONS

TAXATION

- Implement ISME's 18-point tax reform.
- Update and reform the current ARV calculation system for commercial rates, and reform of the LPT system
- Use the taxation system to incentivise a Basic Business Qualification at QQI level 6 for every business owner and manager.

SPENDING

- 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

- Introduce a new 2% rate of PRSI on weekly earnings up to €440 pw and a new 6% PRSI rate only on earnings above €440 pw.
- Conduct an immediate review of indigenous industrial policy 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).
- Reduce the public-private sector pay gap to 10% by 2025.
- Establish a standing Public Service Pay Commission.
- Ban all (including historic) upward-only rent reviews.
- Stop increasing the NMW, introduce measures that eliminate the "Jobs Kill Zone" instead.