PRE-BUDGET SUBMISSION 2024

iSME

Irish SME Association

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 people.

ISME is an INDEPENDENT body representing owner managers of small and 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 unique in granting equal voting rights to our members, irrespective of the size of their subscription. We append details of our affiliate associations and represented business sectors at the back of this submission.

We are the only representative body for Irish SMEs that is independent of the interests of large enterprise and the semi-state sector.

We continue to express reservations about spending commitments the State is entering into on the current side. Despite continued outperformance by Ireland's Exchequer figures, especially in VAT, income tax and corporation tax, the "anaemic outlook" for 2023 proposed by the IMF suggests a much more conservative approach is required in Budget 2024.

Domestically, our concerns are:

- There appears to be a 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 already out of control pre-Covid-19. Ireland's health care expenditure as a share of national income (GNI*) ranks 1st in the EU and 2nd globally (behind the US), 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.

Executive Summary

ISME's priorities for Budget 2024 are:

1. Implement a series of **basic tax reforms,** including our taxes on **property, inheritance taxes, commercial rates and LPT.**
2. While **spending on infrastructure** is now at the levels we have previously sought, we are concerned about value for money.
3. The long-term stability of our **social fund spending** must be immediately addressed.
4. 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.'

Inflation and War

Businesses emerged from the global pandemic last year just as energy and commodity price inflation took hold. Some of these businesses will remain viable, a minority 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 divergence 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.

National Finances

We remain concerned at the state of the Exchequer finances, and the continuous demand for greater levels of current expenditure. The continued expansion of the income tax take, VAT and corporation tax means Ireland has lacked a critical focus on expenditure. While public expenditure and debt has yet to gain traction as an election issue, we note that it was a material factor in the recent Finnish general election, despite the fact that Finland's Debt/GDP ratio is better than Ireland's Debt/GNI* ratio.

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TAXATION

INCOME TAX REFORM

ISME welcomed the fact that Government decided to form a Commission on Taxation and Social Welfare, which was logical in the context of the significant interaction between tax and social protection. We regret that it was not ambitious enough in its vision, but this can be put right in the Finance Act. Additionally, some of our recommendations were also referenced in the Irish Tax Institute's "A Future Tax Strategy to Grow Irish Indigenous Exports, June 2017."[1]

ISME welcomed the raising of the Standard Rate Cut-Off Point (SRCOP) to €40,000 in Budget 2023. However, with the current average industrial wage (Q4 2022) at €900.26 per week (€46,813.52pa) this still leaves the marginal taxation of income at €6,813.52, or 17% below the average industrial wage. This is low even by comparison with high-tax economies in Europe, and represents a significant disincentive to upskill, to do overtime, or to seek promotion.

ISME would like to see a commitment to raising the SRCOP to 100% of the average industrial wage initially, with a target of getting to 150% (i.e. €70,220).

By comparison, French rates of tax are progressive to 45%, with an income surcharge of 3% only on incomes above €250,000.[2] Swedish higher rates of personal and municipal tax kick in only at incomes above SEK 613,900 (~€54,300). Germany's "higher" rate of 42% income tax kicks in at €61,971 and remains static until a marginal rate of 45% kicks in at €277,825.

While Ireland's tax system is the most progressive in the EU. However, this progressivity results in Ireland suffering an extremely high degree of concentration on a small number of workers.

Analysis of the Revenue's 2022 income tax figures show that:

- **82% of yield comes from those earning over €60,000.**
- **70% of yield comes from those earning over €80,000.**
- **60% of yield comes from those earning over €100,000.**
- **22% of yield comes from those earning over €275,000.**

This concentration is worsening over time. Therefore, while we were appreciative of the increase in the standard rate cut-off point to €40,000 in Budget 2023, it is important that we do not remove earners below this threshold from the tax net altogether, and that we ensure as many as possible of them continue to pay tax and USC at standard rates.

[1] https://taxinstitute.ie/wp-content/uploads/2018/03/Irish-Tax-Institute-Exports-Report-June-2017.pdf

[2] https://taxsummaries.pwc.com/france/individual/taxes-on-personal-income

Range of Gross Income €		Number of Taxpayer Units	Income € million	Tax / USC € million	Total Tax/USC Revenue
-	10,000	509,177	2,292	0.2	0%
10,000	13,000	188,564	2,196	0.4	0%
13,000	15,000	158,682	2,212	8	0%
15,000	18,000	155,994	2,571	19	0%
18,000	20,000	103,718	1,970	34	0%
20,000	25,000	242,842	5,458	207	1%
25,000	27,000	103,186	2,685	141	0%
27,000	30,000	102,786	2,932	176	1%
30,000	35,000	222,502	7,220	559	2%
35,000	40,000	202,970	7,626	722	2%
40,000	50,000	306,970	13,754	1,693	6%
50,000	60,000	229,537	12,582	1,946	6%
60,000	70,000	170,925	11,061	1,962	6%
70,000	75,000	59,265	4,284	813	3%
75,000	80,000	59,245	4,590	901	3%
80,000	90,000	91,940	7,810	1,621	5%
90,000	100,000	73,026	6,925	1,526	5%
100,000	150,000	176,995	21,224	5,699	19%
150,000	200,000	57,643	9,852	3,205	11%
200,000	275,000	29,738	6,861	2,509	8%
Over	275,000	29,685	15,744	6,755	22%

SOLIDARITY TAX

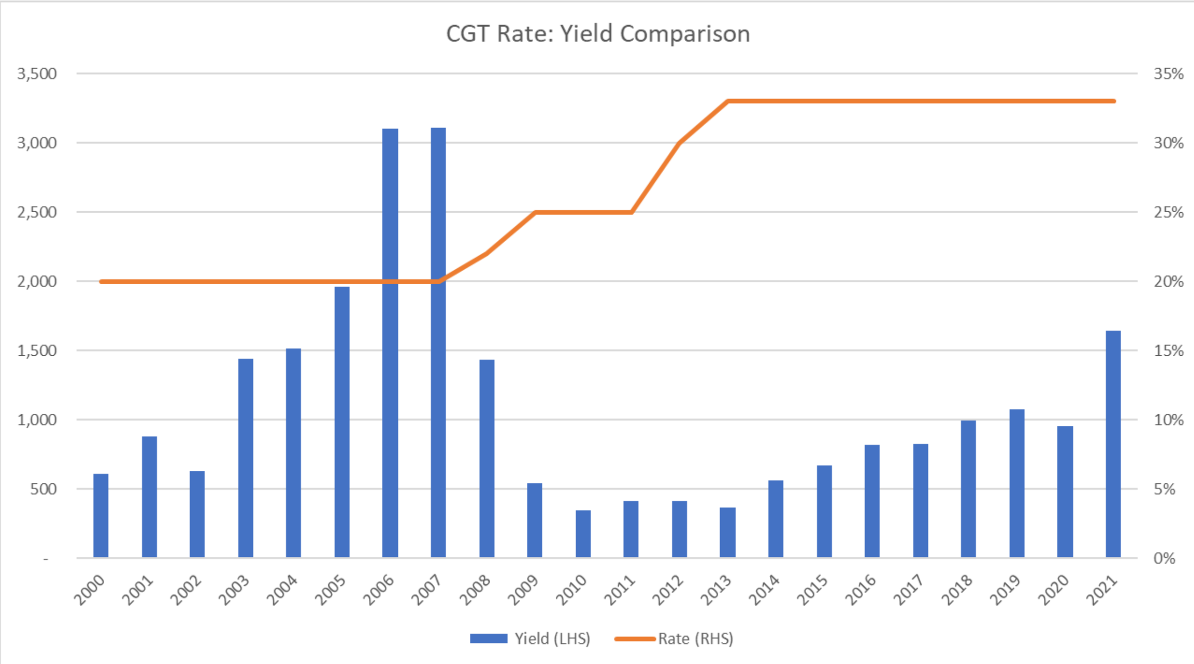
ISME has long lobbied for an end to discriminatory tax measures levied against the self-employed. Equalising the earned income credit for the self-employed with PAYE workers was delivered years after it was promised. However, for high-earning self-employed workers, the 3% USC surcharge remains in place. 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.

CAPITAL GAINS TAX (CGT)

At 33%, the CGT rate in Ireland is the third highest in Europe.[3] We believe that this rate demonstrably depresses yield. While we are not advocating an across-the-board return to the 20% rate which applied prior to 2008, we do believe behavioural economics are at play, and the rate of capital transactions is lower than they would be with a lower headline rate. We also believe that the current 33% is at least partially responsible for retarding housing construction by reducing the attractiveness of transactions in zoned land.

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 €2bn is achievable with a more realistic nominal rate. We also believe a lower 20% rate of CGT should apply to sales of IP, i.e. those transactions not involving land or physical property.

[3] 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.

There is no correct rate of VAT, in Ireland or in any other country. A perusal of Ireland's standard VAT rate shows it was at a low of 16.37% in 1972 and reached a high of 35% from 1983 to 1984. The reduced rate ranged from 5.26% in 1972 to 23% from 1983 to 1984. The "Second Reduced Rate" of 9% was introduced in July 2011, in the teeth of the Great Recession, and it succeeded in maintaining and growing employment in the hospitality sector. While the Department of Finance appears keen to eliminate the 9% rate as an anomaly introduced in the Great Recession, a similar reversion to historical rates is not apparent with the 23% VAT rate, despite the fact that Ireland had a standard rate of VAT of 21% for the 21 years from 1991 to 2012.

The 9% VAT rate was portrayed as a gift to the hospitality industry, retention of which cost the Exchequer €900m. This is selective accounting.

Firstly, when the 9% rate was introduced in 2011, it was funded not by the Exchequer, but by private sector pension savers via the pension levy. As the then Finance Minister Michael Noonan told the Dáil in 2014, "Without the Pension Levy, there would have been no VAT reduction." This expropriation of citizens' pension savings has yet to be made good by the Exchequer. Secondly, the "cost" of the 9% VAT rate must be balanced against the increased employment, reduced social protection, larger wages, and higher consumer spending, PAYE, PRSI and USC it has generated over the period it has been in operation. In purely accounting terms, the 9% is likely to be a revenue-positive initiative by Government.

Both Ireland's standard and reduced rates are high by EU standards. Our standard rate is seventh highest in the EU, and our reduced rate is fourth highest.[4] This might be acceptable if Ireland's consumer prices were otherwise more affordable, but they are not. Ireland has persistently been the second-most expensive country in the eurozone for many years after Denmark, but since 2021 we have overtaken the Danes to have the most expensive consumer prices. According to Eurostat, Irish consumers pay 36% more than the eurozone average for consumer goods and services. Only Norway, Iceland and Switzerland, all non-EU members, suffer higher consumer prices in Europe as a whole.

With a significant element of core inflation likely to continue in Ireland in 2023, and possibly into 2024, Government should be looking at ways to push down consumer prices, not drive them up. Not alone should the 9% rate be permanently extended to the services and products already receiving it we should lower our reduced rate from 13.5% to 9% for all services and products outlined in the updated Annex III[5] of the EU Vat Directive, with specific focus on housing. **Consideration should be given to the removal of VAT from housing altogether** (see Chapter 3). At this rate, our reduced rate would be in line with EU norms. We should also permanently reduce our 23% VAT rate to our historical 21%.

As a peripheral island economy with no EU border, we should aspire to lowering rather than increasing consumer prices. Consumer inflation is the key driver of wage demands, and workers cannot be blamed for seeking higher wages to meet ever-higher consumer prices. VAT is a key policy lever for Government which should be exercised now.

PROPERTY TAXES

Ireland's property taxes need reform and simplification. 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. 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.

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 is consistent with the strategic objectives of Project Ireland 2040.

[4] https://taxation-customs.ec.europa.eu/document/download/82a38bdb-d724-472d-8e02-325b271e0d88_en?filename=vat_rates_en.pdf

[5] https://lexparency.org/eu/32006L0112/ANX_III/

- 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.

- 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.

KEY EMPLOYEE ENGAGEMENT PROGRAM (KEEP)

KEEP was introduced in the Budget in 2017 and has never performed as expected. The current Revenue's report on the cost of tax expenditures[6] notes a total expenditure of €0.5m by 43 companies on this program. **Structural reform of KEEP is long overdue:**

- **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 scheme7 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.**

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

[7] https://www.gov.uk/tax-employee-share-schemes/enterprise-management-incentives-emis

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,[8] 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. See chapter 5 below.

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. For reference purposes, Government may wish to consider positive elements of the UK's ESOT Scheme.[9]

CAPITAL ACQUISITIONS TAX (CAT) AND INHERITANCE TAXES

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.

Despite the observations of the COTW, Ireland has a relatively high rate of CAT and a relatively low threshold for exemption by comparison with OECD peers. [10] For citizens, the parental residence is also the most common asset against which the "Fair Deals" liability is discharged upon death for nursing home care. This liability is ignored in our CAT rate structure, and ISME believes that indexation of our CAT/Inheritance thresholds should be revisited.

R&D TAX CREDIT

In consultation with our members, especially those in the accounting profession who service SMEs, we understand that penetration of the R&D Tax Credit and the Knowledge Development Box among SMEs is extremely low in fiscal terms. These schemes are written with rules appropriate to large, quoted FMCs, not domestic SMEs. The 2009 Commission on Taxation acknowledged that Ireland's R&D expenditure was low relative to peer OECD countries. The Commission on Taxation and Welfare 2022 (COTW) updated the statistics, but in an unfortunately misleading manner, suggesting that SMEs were the largest claimants of the R&D credit. However, the numbers in the table below from the COTW speak for themselves.

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[8] https://simplywall.st/markets/ie

[9] https://www.gov.uk/hmrc-internal-manuals/trusts-settlements-and-estates-manual/tsem5500

[10] Inheritance, Estate and Gift Tax Design in OECD Countries

Table 21: Breakdown of R&D claimants by size (number of employees), 2017 - 2020

YEAR	2017		2018		2019		2020	
Number of employees	Number of claimants	Cost of credit €m	Number of claimants	Cost of credit €m	Number of claimants	Cost of credit €m	Number of claimants	Cost of credit €m
Less than 10	475	38	409	31	531	33	544	37
11 to 49	549	51	443	39	535	55	534	56
50 to 250	331	69	305	58	354	90	355	99
More than 250	150	290	146	226	181	449	183	466
Total	1,505	448	1,303	354	1,601	627	1,616	658

Source: Revenue Commissioners, R&D tax credit statistics, May 2022

71% of the cost of the R&D tax credit is accounted for by large businesses, despite the fact that they make up 0.2% of active enterprises (CSO Business Demography 2020).[11]

While expenditure in Ireland has increased, it remains grossly over-concentrated (66%)[12] in large companies, despite the fact that such businesses make up only 0.3% of the Irish business demography. SMEs also complain that the likelihood of a Revenue audit increases if a firm avails of the R&D credit.

Simply put, our R&D and IP rules are right sized only for the FMC element of our economy. Acknowledging that FMCs are of fundamental, systemic importance to the Irish economy does not diminish the fact that this is illogical and inequitable, and stunts the ambition of thousands of domestic firms to scale and list.

ISME supports the recommendations of the COTW that: "more guidance and supports should be introduced to facilitate greater uptake by SMEs more generally. The Commission recommends that consideration be given to a limited acceleration of the refundable element of the R&D tax credit from three years to one in order to support early-stage and R&D intensive businesses."

REVENUE DEBT WAREHOUSING

While ISME acknowledges the extension of the Revenue warehousing at the end of 2022, we believe a subset of businesses will require further forbearance and potential write-down due to the permanent scarring resulting from State-imposed lockdowns.

[11] https://www.cso.ie/en/releasesandpublications/ep/p-bd/businessdemography2020/keyfindings/

[12] https://www.cso.ie/en/releasesandpublications/er/berd/businessexpenditureonresearchdevelopment2019-2020/

At the height of the scheme over €3.1bn was warehoused. There are now close to 50,000 taxpayers with debts of less than €5,000 warehoused, and over 27,000 taxpayers with excessed debt in excess of €5,000, including 19,000 employers with over 315,000 employees.

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 could apply for support from a finance expert (from a panel that could be managed similarly to the then Enterprise Ireland Brexit Advisory) 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.

SMALL DISTILLERIES AND TOURISM

In order to encourage the development of small artisan distilleries from both a manufacturing and tourism perspective, ISME requests that the relief from Alcohol Products Tax (APT) allowed under Directive 92/83/EEC[13] (for small producers of Beer, Cider and Perry) is extended also to qualifying small spirits producers in Ireland.

[13] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A31992L0083

RECOMMENDATIONS:

1. Continue to lift the SRCOP, initially to the average industrial wage, with a target of 150% of that wage.
2. Ease the CGT restrictions on entrepreneur relief beyond owner-managers to encourage external and serial passive investor.
3. Raise the €1m lifetime threshold for entrepreneur relief to a minimum of €10m.
4. Introduce a solidarity tax of 3% USC on PAYE earnings over €100,000.
5. Reduce the standard rate of CGT to 25%.
6. Introduce a 20% rate of CGT for IP transactions, i.e. excluding land or physical asset sales.
7. Lower the standard rate of VAT to 21%, and the reduced rate to 9% across all Annex III categories.
8. Replace LPT with a site value tax, and extend site value tax to commercial rates.
9. Introduce a levy or LPT surcharge for road frontage developments.
10. Commit to a regular periodic review of LPT thresholds.
11. Reform KEEP making it usable for SMEs.
12. Remove the requirement for KEEP options to be issued at market value.
13. Introduce safe harbour provisions for valuation of KEEP options and shares.
14. Reform the structure of CAT, and revise and index thresholds.
15. Review and simplify the qualification criteria for the R&D credit. The definition of "basic research requires amendment. The Knowledge Development Box (KDB) also needs reform.
16. Review the Revenue Warehousing scheme to allow businesses which could be rendered insolvent by repayment increased flexibility.
17. The Employment and Investment Incentive (EII) requires review to increase its attractiveness, including reconsideration of the two-tranche relief.
18. 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.)
19. Dividend income is taxed at high marginal personal tax rates of up to 55%, which discourages equity investment in Irish business. Introduce a lower flat rate of taxation on dividend income, likely at the current 33% CGT rate.
20. Given the difficulties SMEs have in attracting qualified talent, consider a new talent regime similar to SARP.
21. Extend Alcohol Products Tax relief to small artisan distilleries.

HOUSING AND 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.

The interaction between our legal and planning systems requires very urgent attention. The planning system is so convoluted, and planning horizons are so long, that significant investors in our energy infrastructure are being discouraged from acting in this market.[14] It is not acceptable that planning permission for essential housing, transport or energy infrastructure can takes years or decades to progress through our planning system, which needs radical overhaul.

The average house price in Ireland in Q1 2023 was €308,497.[15] This is a multiple of 6.6 times the average industrial wage of €44,824, which is considerably more than average Small Company Earnings (€36,400), and marginally more than average Medium Company (€43,212) earnings, according to current CSO Earnings & Labour Cost data.[16] 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 situation whereby politicians publicly call for the construction of housing while simultaneously objecting to construction in their own constituencies is not merely reprehensible, it is unsustainable, and may require reconsideration of our constitutional, electoral and planning laws.

The flight of landlords from the rental market is no longer in question, it is a fact. Daft.ie rental data show that availability of new rental homes has collapsed. There were just 1,096 homes available to rent *in Ireland* on February 1st this year.[17] 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[18] 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 completely 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.

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14 https://www.independent.ie/opinion/comment/more-chaos-than-cunning-coalition-plans-for-offshore-energy-have-a-real-blackadder-whiff-about-them-42414414.html

15 https://www.daft.ie/report/2023-Q1-houseprice-daftreport.pdf

16 https://www.cso.ie/en/releasesandpublications/ep/p-elcq/earningsandlabourcostsq32022finalq42022preliminaryestimates/

17 https://ww1.daft.ie/report/ronan-lyons-2022q4-daftrentalprice?d_rd=1

18 https://ww1.daft.ie/report/barry-oleary?d_rd=1

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.
- 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 into 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[19] 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. We propose amendments to our tax code in Chapter 1 to mitigate this decline.

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.

Land is subject to finite supply, in Ireland as in every other state. Rather than continually foster urban sprawl, Government should review our strategic housing plans including reconsideration of relocation of Dublin Port.

[19] https://www.ipav.ie/sites/default/files/ipav_ipoa_jim_power_final_report_may_2022.pdf

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?

RECOMMENDATIONS:

1. Reform our zoning and planning process to improve the timelines for delivery.
2. Revenue should regularise the tax affairs of employees who have resided in employer-provided accommodation below prevailing market rents within the last five years.
3. In order to stop the flight of landlords from the rental market, converge their tax treatment with that of institutional landlords.
4. As an interim measure, reduce tax charged from the marginal to the standard rate, and remove PRSI liability from rental income, OR, introduce a large income disregard such as that in Sweden.
5. Exempt from CGT on sale any rental property that has been registered with the PRTB for 10 years.
6. Consider relocation of Dublin Port in the context of Ireland's strategic housing needs.

SECURING A GREEN ECONOMY

Ireland's climate action targets[20] are ambitious, especially in light of forecasted increases in electricity demand over the coming decades.

Reducing carbon emissions will prove extremely difficult if, for example, data centres will consume up to 29% of our electricity output[21] 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. ISME therefore welcomes the recent announcement that domestic solar PV installation will be free of VAT,[22] and we believe this template must be aggressively applied to encourage rapid take-up of consumption reducing technologies.

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.[23] 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).

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 retrofit 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,[24] 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 and incentivising approach to the funding of deep retrofit, or it will simply not happen at the pace Ireland needs it to happen. Additionally, the number of providers in the SEAI One-Stop-Shop should be significantly increased beyond 12 nationally.[25]

[20] Climate Action Plan 2019

[21] https://www.irishtimes.com/business/energy-and-resources/eirgrid-chief-backs-case-for-review-of-data-centre-policy-in-ireland-1.4558482

[22] https://www.gov.ie/en/press-release/977ed-ministers-mcgrath-ryan-announce-a-zero-rate-of-vat-for-the-supply-and-installation-of-solar-panels-for-private-dwellings-from-may-1st-2023/

[23] https://world-nuclear.org/information-library/current-and-future-generation/electricity-and-energy-storage.aspx

[24] 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

[25] https://www.seai.ie/grants/home-energy-grants/one-stop-shop/registered-providers/

District heating has been rolled out in small projects in Ireland, but we need to aggressively encourage best-practice projects similar to those exemplars identified in the European Union's Horizon 2020 research[26] in Denmark, Germany and Austria.

The cost and pay-back considerations for SMEs are not dissimilar to those of domestic users. Even with elevated energy prices, the payback periods for deep retrofits and low/no-carbon heating systems are simply too long to be considered by SMEs.

Businesses with an interest in investing in Solar PV installation have complained that feed-in tariff payments are not commercial, and they vary by utility provider. A more transparent, simple, and furthermore commercial approach is required, perhaps by managing and routing feed-in tariffs through the network operator rather than through individual energy providers.

Resolving this issue will require long-dated debt solutions at low (or no) interest rates. We know that the most successful debt scheme provided by Government has been the Future Growth Loan Scheme[27] (FGLS) with loan drawdowns consistently matching the credit available. The key success factor in the FGLS has been the 7–10-year term. The economics of climate mitigation measures for business (and consumers) will require debt finance solutions of this length, at rates lower than those currently available. This is of course asset-backed finance. We note that the Fair Deals Scheme[28] works in a similar manner, providing current coverage for nursing home care in exchange for a long-dated charge against a housing asset. If we are serious about reaching our climate targets, we will have to take bold steps in financing GHG emissions from business and consumers.

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. It is unsustainable for Ireland to object to nuclear power while contracting to buy it from the UK and France.

[26] https://ec.europa.eu/research/participants/documents/downloadPublic?documentIds=080166e5abea3185&appId=PPGMS

[27] https://enterprise.gov.ie/en/what-we-do/supports-for-smes/access-to-finance/future-growth-loan-scheme/

[28] https://www2.hse.ie/services/schemes-allowances/fair-deal-scheme/about/

RECOMMENDATIONS:

1. Radically simplify and shorten our planning process, to hasten the buildout of energy infrastructure (see Chapter 2).
2. Provide significant levels of long-dated, low-rate debt finance to SMEs and consumers to speed up the delivery of low-carbon infrastructure.
3. The feed-in tariff rates are not sufficiently attractive to encourage commercial operators. Both the tariffs themselves and the mode of tariff payment should be reviewed.
4. Exempt from VAT all new-build housing at the Near Zero Energy Buildings (NZEB) standard.[29]

[29] Technical Guidance Document L (Appendix E)

PRODUCTIVITY

The National Training Fund continues in substantial surplus while we have several known shortfalls in education, as well as a substantial degree of 'over-education.'[30]

The NTF needs to target emerging issues:

- Ireland is close to peak employment, and many sectors are facing a skills shortage, which is affecting the competitiveness of enterprises. The lack of skilled employees is causing staff poaching, and unrealistic and unsustainable payroll expectations on employers.
- 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 and to introduce 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.
- 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.

It is also vital that areas of real skills shortage are recognised and addressed by various methods including education, but also through using work permits for non-EU residents. A full review of the Critical Skills and Eligible and Non-Eligible lists is required, a process which will require close coordination with recruiting employers. The use of recruitment sites such as Jobs Ireland as evidence of National Skills shortages is flawed and constitutes a barrier to Government in understanding the real skills gaps.

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, marketing, digitisation, and adaption to the Green Economy. Participants learn how to manage core responsibilities of

[30] https://www.irishtimes.com/news/education/irish-workers-are-most-overqualified-in-europe-1.3229608

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).

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 and CGT 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[31] 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.

With the assistance of Skillnet Ireland, ISME hopes to run a Blue Cert pilot in 2023, after which we will seek Revenue support to incentivise a rollout of the Blue Cert among SME owner-managers and their staff.

We do not believe that the impacts of legal costs, the legal system, and insurance costs are adequately understood or accounted for in our costs of doing business, or in providing and developing housing and infrastructure in a reasonable time. It appears that "everything can be litigated," a state of affairs that costs us greatly in both finance, time, and opportunity cost.

[31] https://www.tui.ie/_fileupload/TUI%20Salary%20Scales.pdf

RECOMMENDATIONS:

1. Revise supports for post-2016 apprenticeships to assist small business employers to take on apprentices.
2. Conduct a full review of the Employment Permits system[32] and Labour Market Needs Test.[33]
3. Provide for CAT, CGT and PAYE relief for SME staff to undergo the Blue Cert basic business qualification from 2024.
4. The CSO must consolidate data on legal costs and costs of navigating the legal/planning system in its Economic statistics.
5. Ensure that all primary and secondary legislation impacting the micro and small business sectors is subject to a regulatory impact assessment, and conforms with the Small Business Act.[34]

[32] https://enterprise.gov.ie/en/what-we-do/workplace-and-skills/employment-permits/

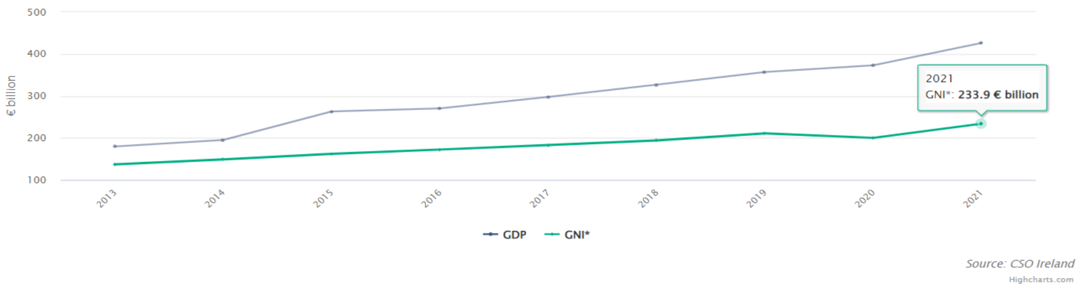
[33] https://enterprise.gov.ie/en/what-we-do/workplace-and-skills/employment-permits/employment-permit-eligibility/labour-market-needs-test/

[34] https://eur-lex.europa.eu/EN/legal-content/summary/a-small-business-act-for-european-smes.html

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.

The success of the FDI sector means it is expanding at a far faster rate than the domestic sector. The CSO's 2021 Annual National Accounts[35] show a GDP of €426bn compared to a GNI* of €234bn, a divergence of 45%. In simple terms, this means the output of the FDI sector is almost approaching that of the remainder of the Irish economy.



In one respect this is good, generating high employment, high wages and high corporation tax returns. On the other hand, it risks regulatory capture and pricing or crowding domestic enterprise out of our own economy. There are also longer-term risks associated with deglobalisation and the emergence of artificial intelligence.

We accept that there are issues with the reliability of the GDP figure, such as the presence of contract manufacturing (see below). However, GDP remains a benchmark figure used by the EU and the OECD in the consideration of tax and macroeconomic matters.

We believe that a fixation on FDI means we undervalue our domestic enterprise sector. The FDI sector makes a huge contribution to Ireland, but in Net National Product terms, the domestic sector contributes 3.75 times more to the Irish economy.[36] This is principally down to employee remuneration. While employees of FDI operations typically earn a substantial income premium over those in domestic businesses, there are fewer of them, and they a geographically concentrated in the urban conurbations. SME employers on the other hand are everywhere.

[35] https://www.cso.ie/en/releasesandpublications/ep/p-ana/annualnationalaccounts2021/gniandde-globalisedresults/

[36] https://www.esri.ie/news/success-of-the-economy-now-depends-very-heavily-on-the-progress-of-domestic-business

TABLE 1 **NNP AT BASIC PRICES, BEFORE ADJUSTING FOR THE STATISTICAL DISCREPANCY, € MILLION**

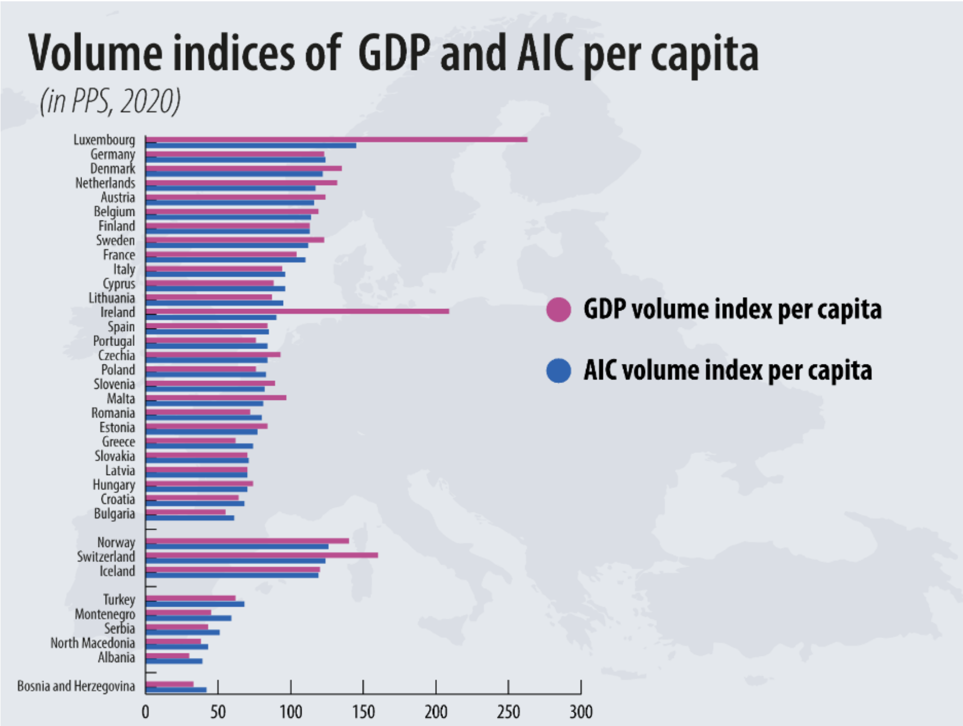
Foreign MNEs	2013	2014	2015	2016	2017	2018
1. Compensation of employees	18,056	18,848	20,201	21,089	22,373	23,308
2. Gross operating surplus/mixed income	52,654	59,552	117,723	118,073	131,425	145,830
3. Consumption of fixed capital	14,710	16,135	42,730	49,244	57,244	62,279
4. (2-3) Net operating surplus	37,944	43,417	74,993	68,829	74,181	83,551
5. (1+2) Gross value added	70,710	78,400	137,924	139,162	153,798	169,138
6. (5-3) Net value added	56,000	62,265	95,194	89,918	96,554	106,859
7. Corporate taxes	3,329	3,427	5,202	5,615	6,258	7,936
8. Factor flows - profit repatriations (allocation of primary income flows)	34,615	39,990	69,791	63,214	67,923	75,615
9. (6-8) Contribution to NNP	21,385	22,275	25,403	26,704	28,63[illegible]	31,244

Domestic	2013	2014	2015	2016	2017	2018
1. Compensation of employees	52,591	54,250	57,588	61,579	65,778	69,986
2. Gross operating surplus/mixed income	41,267	45,924	48,977	53,266	57,671	63,958
3. Consumption of fixed capital	11,829	12,548	13,603	14,512	15,832	16,989
4. (2-3) Net operating surplus	29,438	33,376	35,374	38,754	41,839	46,969
5. (1+2) Gross value added	93,858	100,174	106,565	114,845	123,449	133,944
6. (5-3) Net value added	82,029	87,626	92,962	100,333	107,617	116,955
7. Corporate taxes	955	1,206	1,689	1,758	1,959	2,485
8. Factor flows - profit repatriations (allocation of primary income flows)	0	0	0	0	0	0
9. (6-8) Contribution to NNP	82,029	87,626	92,962	100,333	107,61[illegible]	116,955

Total	2013	2014	2015	2016	2017	2018
1. Compensation of employees	70,647	73,098	77,789	82,668	88,151	93,294
2. Gross operating surplus/mixed income	93,921	105,476	166,700	171,339	189,096	209,788
3. Consumption of fixed capital	26,539	28,683	56,333	63,756	73,076	79,268
4. (2-3) Net operating surplus	67,382	76,793	110,367	107,583	116,020	130,520
5. (1+2) Gross value added	164,568	178,574	244,489	254,007	277,247	303,082
6. (5-3) Net value added	138,029	149,891	188,156	190,251	204,171	223,814
7. Corporate taxes	4,284	4,633	6,891	7,373	8,217	10,421
8. Factor flows - profit outflows	34,615	39,990	69,791	63,214	67,923	75,615
9. (6-8) Contribution to NNP	103,414	109,901	118,365	127,037	136,248	148,199
10. Residual factor outflows excluding profit repatriations and redomiciled PLCs	1,022	-1,888	-3,176	-6,456	-1,327	280
11. (9-10) NNP adjusted for redomiciled PLCs	102,392	111,789	121,541	133,493	137,575	147,919
12. Redomiciled PLCs	6,492	6,852	4,662	5,781	4,458	5,002
13. (11+12) NNP	108,884	118,641	126,203	139,274	142,033	152,921
NNP adjusted for redomiciled PLCs	102,392	111,789	121,541	133,493	137,575	147,919
Foreign MNEs % of GVA	43	44	56	55	55	56
Foreign MNEs % of NNP adjusted	21	20	21	20	21	21

Source: CSO Institutional Sector Accounts, Non-Financial and author's calculations.

The divergence between GDP and GNI* in Ireland is extreme, and unusual relative to our near peers. It is also reflected in the divergence show in the chart below between our GDP and Actual Individual Consumption (AIC), 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.[37] We therefore feel our fiscal conservatism in ISME is justified because of our more realistic per capita wealth.



ec.europa.eu/eurostat

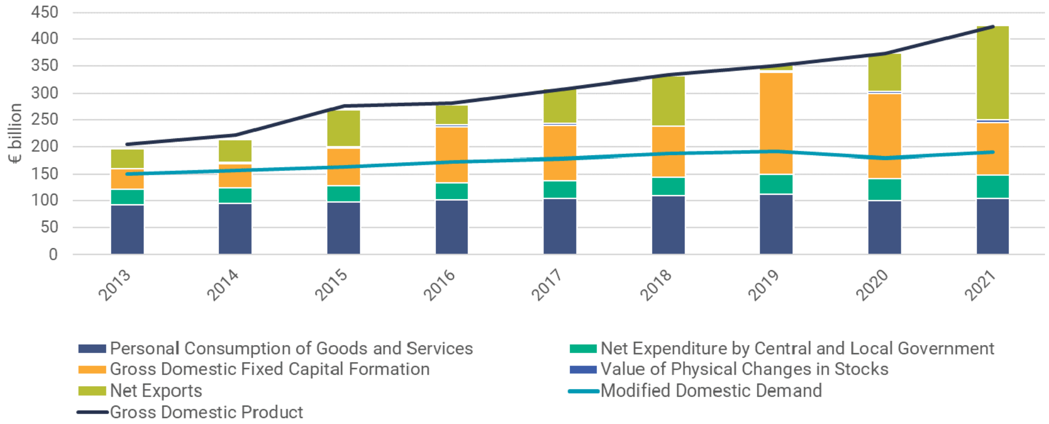
A further concern we have with Ireland's GDP data is the extent to which they include third-country manufacture and exports.[38] By some estimates, up to 25% of Ireland's improved net export performance is attributable to third-country manufacture. The figures below from the CSO's National Income and Expenditure release[39] show that personal consumption and government expenditures remain relatively static, while fixed capital formation has been declining since 2019. The primary driver of our increased GDP has therefore been net exports. Allowing for the fact that the Covid pandemic negatively impacted fixed capital formation, we must retain a necessary scepticism in our treatment of rising GDP figures which have so significant a component of third-country exports embedded in them.

[37] https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20211215-1

[38] https://www.politico.eu/article/ireland-gdp-growth-multinationals-misleading/

[39] https://www.cso.ie/en/media/csoie/newsevents/presentations/CSO_Briefing_-_Macroeconomic_Releases_ANA_2021,_QNA_&_IA_Q1_2022_-_15072022.pdf

GDP by Expenditures



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 FDI/MNC sector.

While not seeking to crimp the performance or output of our excellent FDI/MNC sector in any way, we want to point out the crowding and resource effects it has on the domestic economy, particularly in the regions, where employers (particularly those in locally delivered services) are simply unable to compete with the salaries and benefits paid to employees in high-tech exporting MNCs. Capital naturally accretes around those businesses which generate the highest return. However, this process produces outcomes which are not necessarily equitable or socially desirable. The price and scarcity of housing in Ireland is clear example of this process.

The economics of this process have been explained previously as the "Dutch Disease" and more recently as "Silicon Valley Syndrome."[40] **The authors of the Silicon Valley Syndrome paper noted four distinct effects of infusions of venture capital, which ISME believes are mirrored in Ireland:**

(1) The portion of the tradable sector of interest to venture capital ***expands***, particularly in terms of aggregate employment.

(2) The rest of the tradable sector ***contracts***; the number of firms and employees ***drop*** within these industries.

(3) Meanwhile, the number of firms and employees in the non-tradable sector ***rises***.

(4) However, income within the non-tradable sector becomes more dispersed. While the average income falls for those, such as bartenders and waiters, at the bottom of the income distribution, it climbs for those, such as dentists and doctors, already at the top. (Emphasis ISME)

In our view, without a greater balance between indigenous and FDI/MNC enterprise, Ireland's economy will suffer in a similar way (if it is not already doing so).

[40] Silicon Valley Syndrome, Kwon and Sorenson 2021

Policymakers have seen Silicon Valley as a model for economic development. But increasing economic inequality appears to be an unintended downside. High tech industries create wealth. But the "trickle down" effect of this wealth, as the owners and employees of these companies increase their spending on local goods and services, only appears to go so far down. It benefits those at the high end—the already well-off accountants, doctors, and lawyers. But those at the lower end of the service economy, the servers and taxi drivers, appear simply to fall further behind.

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' FDI/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.

ACTIVE ENCOURAGEMENT OF IRISH BUSINESSES TO LIST

As noted in the Taxation chapter above, the number of Irish businesses which go through the IPO process to a stock market listing is unusually low. Ireland also faces the imminent de-listing of the two largest quoted companies from our stock exchange. This is not a single-factor issue, and will require more than just a review of tax treatment to correct it.

However, we must understand how this failure to list is not just depriving Irish businesses of funds, and the Exchequer of income, but it is also depriving Irish workers of wealth.

"Profit sharing in the form of stock distributions to workers would help to democratize the ownership of America's vast corporate wealth which is today appallingly undemocratic and unhealthy... Profit sharing in a form that would help to correct this shocking maldistribution would be highly desirable for that reason alone.... If workers had definite assurance of equitable shares in the profits of the corporations that employ them, they would see less need to seek an equitable balance between their gains and soaring profits through augmented increases in basic wage rates. This would be a desirable result from the standpoint of stabilization policy because profit sharing does not increase costs."

UAW union President Walter Reuther to the Joint Economic Committee of Congress, Feb. 20, 1967

Irish businesses which attain scale do not merely fail to list or IPO, they invariably dispose of their business to non-domestic buyers. This results in a permanent loss of Irish intellectual property. Not every indigenous enterprise which scales will want to list, but the Irish tax code must be amended to make trade sales, management buy-outs (MBOs) or management buy-ins (MBIs) as attractive to Irish people as they are to foreign nationals.

REDUNDANCY REBATE

ISME has lobbied for several years for the restoration of the statutory redundancy rebate. 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. 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

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.

Regulation of peer-to-peer lending has come very late in Ireland,[41] 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. We also wish to see regulation of commercial P2P lending.

START-UP INCUBATION

Ireland has had relatively few exemplars of successful high-technology incubation. Enterprise Ireland has been an exceptional success born of an ambitious "think big" mentality, which we need to see again. While EI incubation hubs have been a great success, collaboration initiatives with existing businesses, particularly in the maritime and energy sectors, remain a necessity.

As ISME has noted before, IMERC was an outstanding facility which was designed to facilitate collaboration among the partners to exploit opportunities for commercialisation of their outputs and services, to create jobs and to support marketing of the joint initiatives. Its closure was a mistake. We are now suffering the lack of wind-energy manufacturing infrastructure in our rollout of FLOW (see Chapter 3 above). Initiatives such as IMERC are of strategic importance to Ireland's future, and cannot be abandoned because of localised issues. If IMERC is not to be re-established, the State needs to immediately institute some agency which can replicate its functionality in maritime technology.

STATE SECURITY CLEARANCE REGIME

Unlike other EU countries, there is no properly constituted security clearance regime in Ireland. While establishment of such a regime might require the enactment of primary legislation, it is urgently necessary.

There are two primary forms of clearance, Personal Security Clearance (PSC) and Facilities Security Clearance (FSC). EU security clearance levels are standardised as Restricted, Confidential, Secret and Top Secret. ISME understands that some clearances were issued in the past on an ad hoc basis, but that appears to be no longer available, and in any case, it was informal, time-consuming, and unsatisfactory. This is a significant national structural deficit that impedes both our industrial development and the involvement of Irish academics in classified work.

Its absence is optically difficult for Ireland's image as a modern, progressive, high-technology, IT-intensive economy.

[41] https://www.centralbank.ie/news/article/central-bank-announces-new-crowdfunding-regulatory-regime-13-Jan-2022

The primary difficulties associated with absence of a security clearance regime are:

- National PSC or FSC is unavailable to businesses or academics wishing to perform or participate in classified work.
- Some works under Horizon Europe may be classified. Businesses or academics wishing to participate cannot be cleared for them.
- The issue is more acute in the European Defence Fund that is promoted by our Department of Defence, as defence projects are usually classified. Ireland is effectively excluding itself from participation in these.
- At a recent UK Space event, representatives of an Irish SME could not attend because their staff did not have the security clearance. The security clearance required was a UK clearance, however in commercial events, mutual clearances are normally recognised.
- Furthermore, if an enterprise in the security sphere sought to establish itself in Ireland, the absence of a security clearance regime could be used by rival state development agencies to direct such investment to their own countries.

RECOMMENDATIONS:

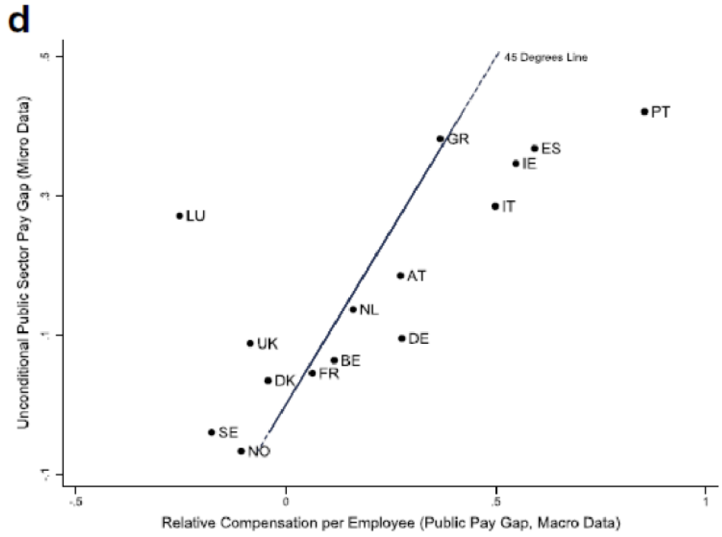
1. Institute a new State Agency with specific responsibility to develop and scale indigenous SMEs, not just those which are HPSUs or exporting.
2. Reduce the divergence between GDP and GNI* by improving the output capacity and productivity of the domestic enterprise sector.
3. Review Ireland's tax code to encourage business listing or trade sale, making the latter attractive to Irish buyers.
4. Reintroduce the Statutory Redundancy Rebate, or in default, reduce employer's PRSI by 0.5%.
5. Establish an incubation facility for high potential maritime and FLOW technology.
6. The Department of the Taoiseach must assign responsibility to a department of state to establish a state security clearance regime to EU-recognised standards within one year.

MAINTAINING A VIBRANT PUBLIC SECTOR

The gap between public and private sector pay[42] (as of Q4 2022) stands at €303, or 36%. In the UK, private sector pay nominally exceeds public sector pay by 0.5%.

	Q4 17	Q4 18	Q4 19	Q4 20	Q4 21	Q3 22	Q4 22
All Sectors	731.86	757.21	786.33	847.21	863.70	867.63	900.26
Private sector	672.47	698.61	726.32	792.63	814.56	811.49	830.57
Public sector	944.64	961.67	991.07	1,021.22	1,023.36	1,058.98	1,133.47
<50 employees	577.21	607.55	631.39	679.30	702.96	688.26	700.69
50-250 employee	678.29	700.08	731.81	809.68	815.70	807.14	831.39
>250 employees	864.40	881.78	913.03	965.61	977.79	999.94	1,043.64

The extent of this gap is only elsewhere seen in Mediterranean countries[43] (See figure below) where private sector pay is far lower. This means that Irish 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.



42 https://www.cso.ie/en/releasesandpublications/ep/p-elcq/earningsandlabourcostsq32022finalq42022preliminaryestimates/

43 https://izajolp.springeropen.com/articles/10.1186/s40173-017-0086-0

The headline public-private pay gap ignores the much larger gulf between public sector pay and SME pay. As of Q4 2022, the Small Company pay gap was €433, a difference of 62%, in favour of the Public Sector. Regarding Medium Company the pay gap was €302 (36%), and for Big Company, the pay gap was €90 (9%), again in favour of the Public Sector. Housing & childcare affordability is a crisis issue for SME employees, and SME employers earning mostly single digit net margin cannot make up this difference. The CSO continues to publish questionable justifications[44] 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. Apart from mostly PIIGS countries, the pay gap noted above is <10% in most EU countries. Actual comparisons between current rates of pay for our senior civil servants[45] (at an exchange rate of £0.87/€) and those in the UK[46] 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. We know of no material level of age, qualifications, educational or vocational superiority of the Irish public service over their UK counterparts.

ISME has for several years called for Government to ***reduce the public-private sector pay gap to 10% by 2025.*** This no longer looks achievable.

ISME has stated publicly that while it does not object to an increase public sector pay, it is justifiable only in return for reform. Most of the clamour for pay increases come from those sectors with the poorest performance records. The OECD's 2020 Country Report[47] 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.[48] 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.

ISME notes proposals from Government[49] suggesting a change to collective bargaining rights. ISME has no objection to collective bargaining along similar lines to that conducted among our EU neighbours. However, the rights of small employers to engage and participate in such collective bargaining must be respected.

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[44] https://www.cso.ie/en/statistics/earnings/publicprivatesectorpaydifferential/

[45] https://assets.gov.ie/90209/c34ecf4b-c517-4e39-9e61-5955a7eb6385.pdf

[46] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/949622/_150k_2020_Master_.xlsx

[47] OECD Country Report Ireland 2020

[48] https://www.gov.uk/government/organisations/office-of-manpower-economics

[49] https://merrionstreet.ie/publication_of_the_final_report_of_the_leef_high-level_working_group_on_collective_bargaining.html

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[50] which followed the "Abbeylara ruling" removed, if necessary, by constitutional referendum.

Maintenance of a vibrant public sector requires that efficient, effective services be delivered at a price tag our society can afford. The fact that Cuba has offered medical support to Ireland[51] despite spending five times less per capita on their health system suggests Ireland has fundamental structural issues with its health expenditure.

Threat of industrial unrest cannot be used as a justification for 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.

RECOMMENDATIONS:

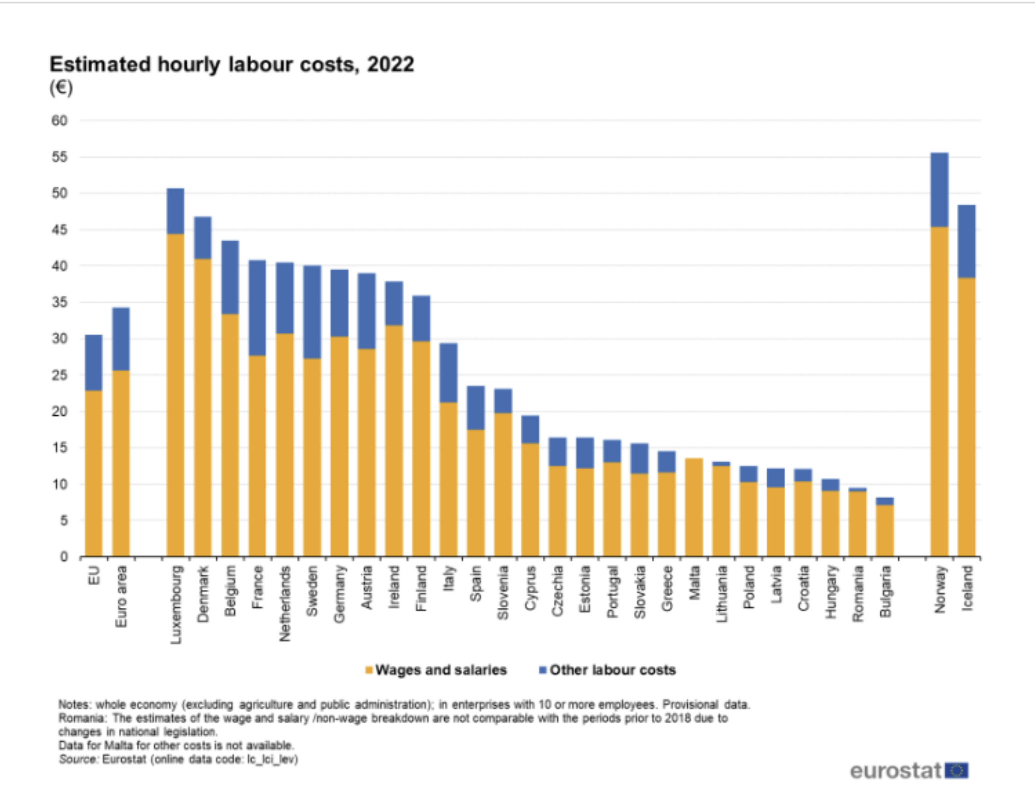
1. Establish a standing Public Service Pay Commission.
2. Establish a standing Public Spending Commission, to interrogate unvoted and voted current and capital expenditures and to establish a value-for-money ethos for the State.
3. Discussion on public service pay must involve innovation, efficiency and effectiveness, especially in the rollout of Sláintecare.
4. Any alteration to collective bargaining rights must involve the SME sector as employers of 66% of the workforce.

[50] https://www.irishtimes.com/news/majority-of-the-supreme-court-judges-ruled-against-state-s-appeal-over-carthy-inquiry-1.1084767

[51] https://www.irishtimes.com/health/2023/04/06/cuba-could-send-doctors-to-help-irish-health-service-ambassador-says/

SOCIAL PROTECTION FOR ALL

ISME acknowledges that, relative to nominal deduction paid to the social fund, employers' PRSI in Ireland is low by EU standards[52] 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 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[53] with Ireland's being the 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.

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[52] https://www2.deloitte.com/content/dam/Deloitte/cz/Documents/survey/EU-Social-Security-Survey.pdf

[53] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Wages_and_labour_costs#Labour_cost_components

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.

Regarding the contributory and non-contributory old-age pensions, the 2018 actuarial review of the Accrued-to-Date liability for Ireland's social welfare pensions[54] estimated an unfunded shortfall of €359bn. Ireland is not unique in facing such a pensions timebomb, and proposed solutions to the deficit are politically difficult wherever they are tried.[55]

Raising the pension age is not the sole solution to this problem, but is probably the most socially divisive.

- **Slowly reduce the real value of the old-age pension over time.**
- **Steadily reduce other public spending to fund increasing pensions liability.**
- **Increase the working-age population through a program of incentivised births. This would postpone but not eliminate the pensions timebomb, and Italy's "baby bonus" scheme has yet to prove a success.56**
- **Increase the working-age population through program of incentivised immigration. This would postpone but not eliminate the pensions timebomb, and carries its own social risks.**
- **Increase employer's PRSI. (Payroll taxes will increase from 11.05% this year to 12.55% next year with auto-enrolment, and will increase to 16.05% by 2034).**
- **Increase employee PRSI. Ireland already has one of the lowest personal social contributions in Europe, and across a 45-year career at the average industrial wage, an Irish worker will only pay PRSI contributions sufficient to cover six years of contributory old-age pension.**

Rather than propose blunt measures such as raising the pension age, we believe the Department of Social Protection should expend more resource on explaining the implications of the pension deficit to citizens,

[54] https://assets.gov.ie/122794/9d8f18b8-aae8-4444-ac4c-61144ef87bd7.pdf

[55] https://www.npr.org/2023/03/20/1164705654/france-retirement-age-emmanuel-macron-no-confidence-vote-protest

[56] https://www.ft.com/content/cf234ec0-ce06-4ce4-bd3c-e33f28680005

and exploring which are the least socially divisive methods to tackle them. However, the longer we procrastinate, the more it will cost our children to fund our pensions.

ISME welcomes the commencement of Automatic Enrolment (AE) in 2024. AE will raise payroll taxes from the current 11.05% to 12.55% in January 2024 and to 17.05% in January 2034.

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 materially higher than the 3% contribution made in the UK.[57]

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 pensions within a fixed period of time.

AE should also be leveraged to assist those in more vulnerable or precarious employment (including part-time employees and those on community employment schemes) in having a long-term income beyond the current contributory and non-contributory arrangements. We believe the €20,000 income limit is too high for AE.

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.

As Government considers the additional measures it will introduce in compliance with the EU Work-life Balance Directive,[58] 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.

[57] https://www.gov.uk/workplace-pensions/what-you-your-employer-and-the-government-pay

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

TREATMENT OF THE SELF-EMPLOYED

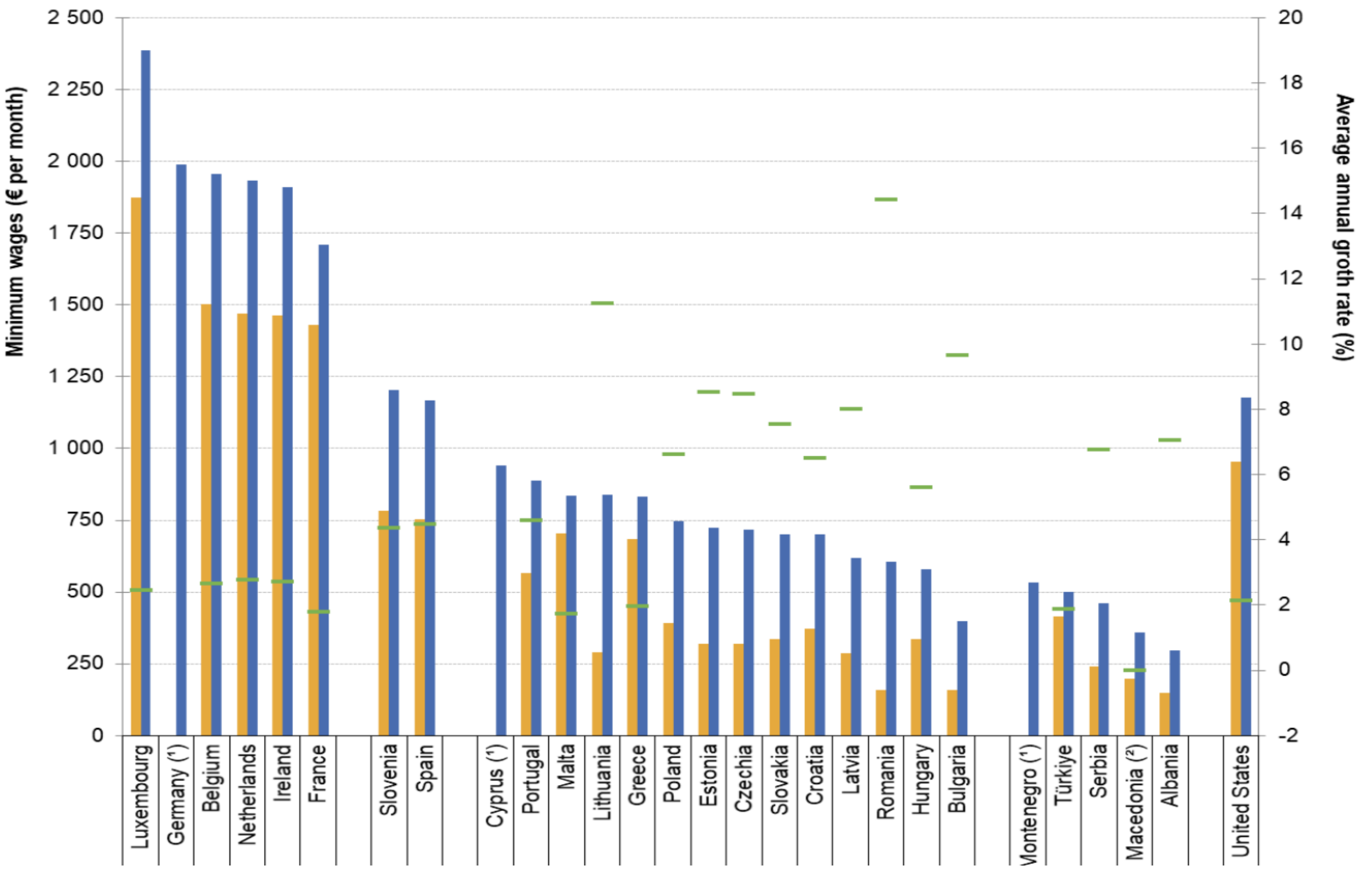
The COTW got the issue of self-employed PRSI wrong in its “Foundations for the Future” report. While some EU countries do apply a social levy on the self-employed, most of those countries do so on the basis of an income cap, and operate their social systems on a social insurance basis (see the Deloitte report linked above) rather than a taxation basis as we do. As the minority report in the COTW observed, the Commission took no account of entrepreneurship or risk in making its findings.

Furthermore, as ISME has explained in writing to both ESRI and the Department of Finance regarding proposals to charge the self-employed the employer’s rate of PRSI, there is a basic equity issue in charging one worker a 4% rate of contribution, while charging another (whose earnings are not guaranteed) a rate of 11.05% for the same level of entitlement. The outcome for any given gross income level is a lower net income for the latter worker. This is not fair. There are ways to (partially) circumvent this problem- for example, allowing a self-employed person to charge employer’s PRSI to their business as a deductible, but the onus is on the State to find an equitable solution to this. The “equity” issue does not appear to arise when it comes to levying high-earning self-employed persons an additional 3% USC.

NATIONAL MINIMUM WAGE AND THE “JOBS KILL ZONE”

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

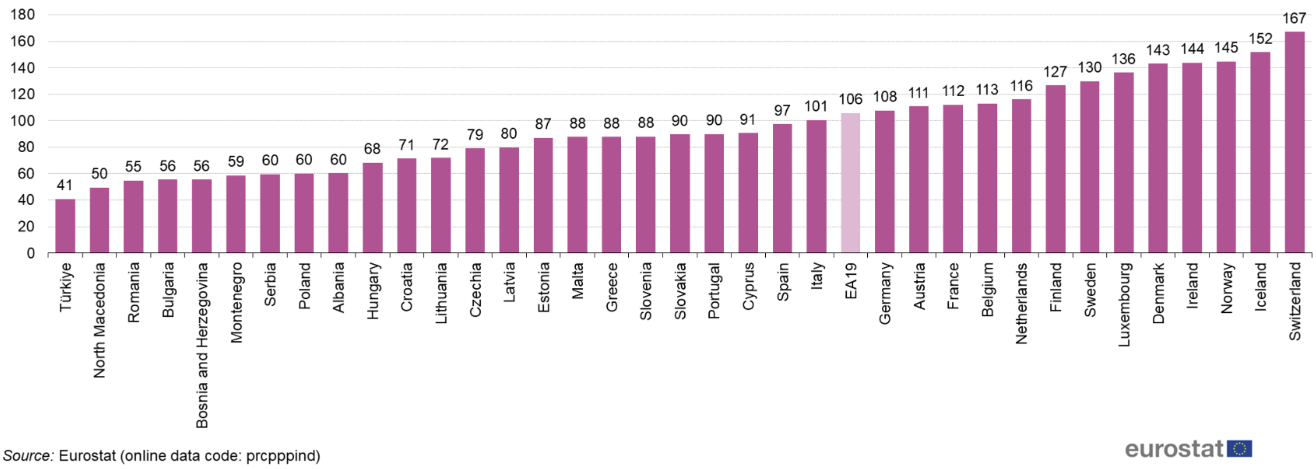
Minimum wages, January 2023 and January 2013
(levels, in € per month and average annual growth, in %)



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 below). 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.

Consumer Prices EU 2020 (Source: Eurostat)

Price level index for final household consumption expenditure (HFCE) 2021, (EU=100)



Source: Eurostat (online data code: prcppind)

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[59] 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 all* 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. This would yield the Exchequer an estimated €870m per annum in PRSI to defray our pension deficit.
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. The €5,000 per-band increase in thresholds announced last November were not sufficient,[60] and the Band 1 allowance is €6k below the average industrial wage. Reform or remove the link between income and local authority rent.

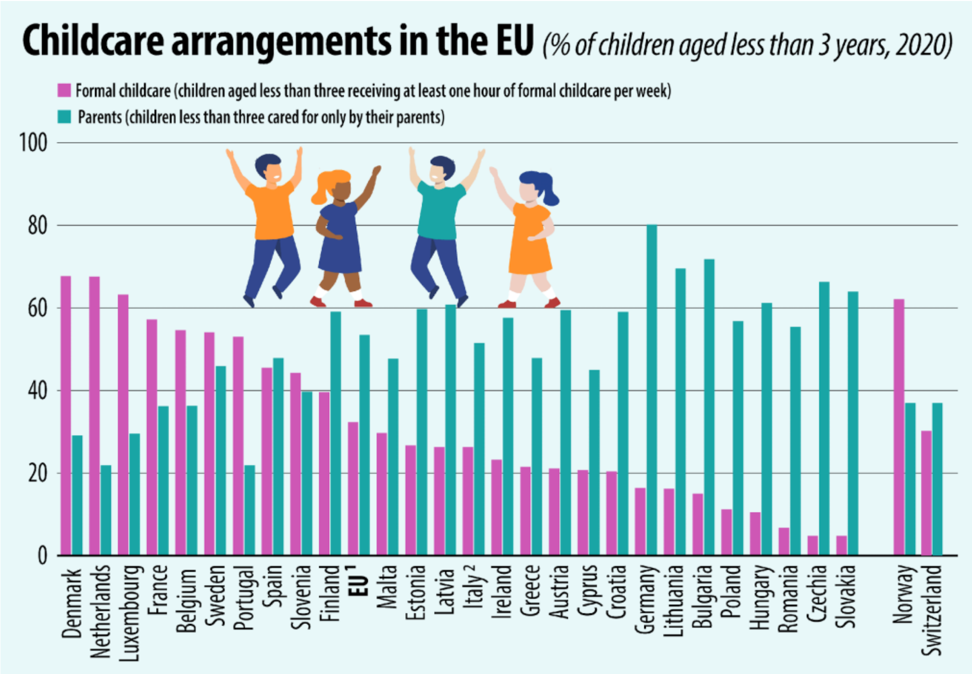
EARLY YEARS EDUCATION AND CHILDCARE

The cost of childcare in Ireland is high by comparison with our EU neighbours, however this is impacted by the very low State expenditure on childcare (.3% GDP) and results in a situation where we have lower rates of formal childcare than most peer economies.[61] The Department of Children, Equality, Disability, Integration and Youth should immediately review the formal Early Years structures in Ireland, which review must acknowledge the fact that the vast majority of childcare in Ireland is provided by SMEs rather than multinationals. It needs to be highlighted that the one size model does not fit all and the resulting impact on small/ medium providers is resulting in a large number of provider closures.

[59] Jobs Kill Zone

[60] https://www.gov.ie/en/press-release/7e024-government-approves-increase-in-social-housing-income-eligibility-thresholds/

[61] https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20220504-2



[1] Estimated
[2] 2019

ec.europa.eu/eurostat

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 [62][63] This increase of 21% in the benefit rate produced a one-year 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.

The current (February 2023) rate of unemployment is 4.3%.[64] At the same time, we have a rate of "long-term unemployment" of 1.7%,[65] which coincides with significant labour shortages in the workplace and requests from employers to expand the work permit scheme.

RECOMMENDATIONS:

1. Engage in a social dialogue with workers from a starting point that acknowledges the existence of the pension deficit, and asks workers how best they are willing to close it.
2. Future developments in PRSI must not discriminate against the self-employed.
3. Extend AE to the self-employed, and to part-time workers and lower income earners. Lower or remove the €20,000 income threshold for AE.
4. As part of the budgetary process, each department should account for the current and accrued pension liabilities of its staff on an annual basis.
5. Eliminate the high marginal PRSI rate between €18k and €22k per annum through a 2% PRSI charge on all income up to €440 per week, and a 6% PRSI rate for income above €440 per week.
6. Significantly increase the income level for medical card qualification.
7. Remove the child element from the Jobseeker's payment and increase child benefit for all, while making child benefit taxable.
8. Significantly increase the Band 1-, 2- and 3-income thresholds for social and affordable housing. ISME believes these should be in the region of €80k, €70k and €60k respectively.
9. The DCEDIY should conduct a review of Early Years education and its funding structures to ensure its long-term viability.
10. The Minister for Social Protection should audit and publish the qualification criteria for payment in respect of disability allowances.

[62] https://assets.gov.ie/31645/905d6f46fc7b4063b15e5fc6d31ccd2e.pdf

[63] https://assets.gov.ie/31643/747d413bb5984f7da5aa634a6c411382.pdf

[64] https://www.cso.ie/en/releasesandpublications/ep/p-mue/monthlyunemploymentfebruary2023/

[65] https://www.cso.ie/en/releasesandpublications/ep/p-lfs/labourforcesurveyquarter12022/tables/

A SOCIAL PROGRESS INDICATOR

Despite the housing and other societal challenges, Ireland remains a relatively good place to live compared to some of its peers. Nevertheless, political and media discourse regularly suggests Ireland 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*.

RECOMMENDATIONS:

1. Establish a Social Progress Indicator or balanced scorecard to measure non-economic performance metrics for the state.

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,[66] extant UORR lease contracts have remained in place. At the time of original legislation, the Government of the day cited constitutional issues[67] 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.

RECOMMENDATIONS:

1. Ban historic upward-only rent leases.

[66] https://www.ucem.ac.uk/wp-content/uploads/2016/01/Irish_Rent_Reviews.pdf

[67] http://www.justice.ie/en/JELR/Pages/PR11000247

A LOOK OVER THE HORIZON

While Ireland took a strategic step forward in 2014 with the initiation of a National Risk Assessment (NRA) process, we have been less foresighted in resourcing and taking actions to address identified risks. For example, while the 2014 NRA, which took place after the Russian annexation of Crimea, identified the potential for energy supply impacts and price rises, Ireland took no action to secure gas reserves.

Therefore, ISME considers it of fundamental national importance not just to continue the NRA process, but to adequately resource the closure of material gaps identified. In addition to the issues raised in the current NRA consultation,

ISME suggests that the State considers some longer-term issues which could affect Ireland:

- **The capacity for artificial intelligence to displace or replace high-technology jobs, particularly in our FDI sector.**
- **Advances in quantum computing, many of which are unlikely to be publicly acknowledged, greatly increase the cyber threats to Ireland and undermine any data protected by algorithmic security.**
- **The capacity of the State to retrain larger cohorts of the workforce as technology alters work requirements and patterns.**
- **The need to stress-test our Exchequer finances in anticipation of a permanently elevated interest rate environment.**
- **The potential for stagflation to affect the EU or wider western economy.**
- **The long-term stability of the euro and Ireland's ability to replace it; the potential for one or more eurozone members to fail; the impact on the euro of the renminbi becoming a global reserve currency.**
- **The impact of de-globalisation or supply-chain reshoring on the Irish economy, particularly our FDI sector.**
- **The potential impacts of a conventional land or sea conflict in the eastern EU or in the western pacific on the Irish economy and on our defensive stance. Conventional capacity cannot be acquired at the point where it is necessary.**
- **The impacts of significant levels of inward migration due to climate change in Africa.**
- **The impacts of coastal inundation on our eastern and southern coasts, and the internal population displacement arising.**
- **The effects on Ireland's limited banking demography of a move to a Central Bank Digital Currency.**

RECOMMENDATIONS

1. Expand the current National Risk Assessment to include over-the-horizon risks.
2. NTMA should publish Ireland's debt profile to maturity on all our national debt.
3. The Department of the Taoiseach should initiate an annual gap closure plan to address gaps identified in the NRA.
4. DPNDPDR should set out estimates to close gaps identified by the NRA in capital and current expenditure terms.

Appendix I: Affiliated Groups and Sector Breakdown

Hair and Beauty Industry Confederation (HABIC)
Hairdressing Council of Ireland
Nursing Homes Ireland
Synergy Hair Group
Irish Spa Association
The Irish Federation of Complementary Therapy Associations (FICTA)
Irish Massage Therapist Association
Irish Hairdresser Federation
Association of Fine Jewellers
Irish Jewellers Association
Irish Weighing Association
Agricultural Consultants Association
Irish Caravan & Camping Council
Irish Egg Association
Irish Security Group
Irish Thoroughbred Breeders Association (ITBA)
Irish Grain & Feed Association
Convenience Stores & Newsagents Association (CSNA)
The Irish Medical and Surgical Trade Association (IMSTA)
Health Stores Ireland
The Association of Irish Racecourses Limited
The Irish Haemophilia Society
Irish Gun Trade Association (IGTA)
Irish Hardware & Building Materials Association
The Irish Association of Pensions Funds
Irish Foster Care
Association of Landscape Contractors of Ireland
EIQA - The Excellence Ireland Quality Association
Garden Centre Association of Ireland
Hire Association Europe
National Childminding Association of Ireland
Animal Collectors Association

BUSINESS SECTORS IN MEMBERSHIP:

Accountant
Accounting Software & Sales
Agriculture
Amusement Centres
Animal Care & Products
Architect
Association/Enterprise Office
Business Consultancy
Business Services
Catering Service & Equipment
Childcare
Cleaning Service & Products
Clothing & Footwear
Conference, Event Management Services & Equipment
Construction Materials &
Education & Training
Electrical/Electronics
Energy & Fuels & Services
Energy Consultants
Engineering
Convenience stores

Environmental Services
Finance
Food & Beverage
Food Hygiene & Equipment
Gardening/Horticulture
Giftware
Hardware & DIY
Health, Hair & Beauty
Home Furnishings
Horse Products, Stables &
Hotel/Guesthouse/Hostel
HR & Recruitment
Insurance
Interior Design
IT Service & Sales
IT Software
Jeweller & Jewellery
Landscape Gardener
Legal Services
Leisure & Sport
Newsagents

Logistics & Warehousing
Marketing/ Advertising/PR
Media
Medical/Dental
Medical/Pharmaceutical
Nursing Home
Office Products & Furniture
Packaging
Photography
Poultry & Egg Products/Farms
Print & Design
Printing & Publishing
Removal & Storage
Restaurants/Cafes
Safety Products
Security
Tourism
Transport
Vehicle Sales, Repairs & Service
Waste & Recycling
Supermarkets