Presentation to the Select Committee on Budgetary Oversight

Ex-ante Scrutiny of Budget 2018

Introduction

Chambers Ireland is the largest business organisation in the State. With over 45 member Chambers in our Network, we represent businesses in every geographic region and economic sector in Ireland.

Our geographic representation gives us a unique understanding of the challenges facing businesses throughout Ireland. In particular, we know and understand the threats to those doing business and providing much needed jobs in towns and villages. We also understand the opportunities and believe Government can play a major role in minimising the threats and turning the opportunities into realities.

In this presentation, we were asked to focus on three main themes:

1. VAT on Hospitality Sector;
2. Vacant Site Levy / LPT Tax; and
3. Pre-budget submission.

Chambers Ireland is pleased to make this submission to the Committee on topics of direct relevance to our members across the country.

1 VAT on Hospitality Sector

The 9% rate of VAT has contributed significantly to the growth of tourism and jobs in that area in the last few years. Tourists are also arriving from increasingly diversified markets. We also welcome new direct air links and affordable fares which will undoubtedly contribute to this area. However in spite of a 4.2% growth in arrivals in Jan – June 2017, there was a concerning fall of 6.4% from Great Britain during that period[1].

Employment in the tourism and hospitality sector has a particular regional importance, providing much needed employment in rural Ireland and border areas. The fall in tourist numbers from Great

[1] Tourism Ireland Situation & Outlook Analysis Report, July 2017

Britain was predicted following Brexit and the fall in value of sterling has contributed, both to make Ireland less attractive financially and also potentially improving the competitiveness of UK tourist offerings for Irish / other Euro denominated visitors.

There is also a competitiveness aspect this debate - 17 out of 19 euro-zone countries have tourism VAT rates of 10 per cent or less making our current rate competitive against that cohort.

Taking all matters into consideration, together with the uncertainty surrounding the nature of and timeframes for Brexit, we believe that the 9% VAT rate should remain in place as to increase it to our standard rate of 13.5% would be detrimental to the sector.

2 Vacant Site Levy / LPT Tax

Chambers Ireland has long called for a broad based system of property taxation. Some of the chief attributes for it to be acceptable are;

a) A local tax to fund local services and local development needs
b) Fairly applied in that everyone should contribute something
c) Structured to broaden the revenue base of local government and, in turn, lead to a reduction in the pressure on the business community via rates and other charges
d) Should be equitable

Having established the local property tax and a high compliance ratio we are concerned that the objectives above are being watered down over time with property values still locked at 2013 levels and many exemptions now in place. We appreciate the difficulties significant rises in house prices cause when computing liabilities, resulting in significant increases. However the bands and rates of taxation applied could, for example, be adapted.

In addition Local Authorities have flexibility to vary LPT payable through the Local Adjustment Factor by an amount of +/- 15%. While this falls within the remit of Local Councils to determine the use of this factor there is an opportunity for appropriate use of this flexibility to raise funds for local services and development which otherwise could not be delivered or would have to be funded by increases in Business Rates. We have called on Councils to assess the opportunity in each of their areas to raise additional funds.

Finally in the long term Government should consider the development of a land tax that is based on the value of a parcel of land, which would replace LPT. As the value of a piece of land increases, the rate of tax increases. Such an approach to land management would encourage improved use of land and not penalise improvements in the way LPT does.

With regard to the Vacant Site Levy due to be levied from January 2019 we have recommended this be brought forward to January 2018 as one of several measures which could be employed to encourage housing development.

3 Pre Budget Submission

As part of our budget process we conducted an extensive consultation process with our Network about the concerns of the business community and the feedback forms the basis of our submissions. We recognise that there is limited "fiscal space" and we strongly encourage Government to continue to urge the EU that the Fiscal Space calculations be reviewed and updated to reflect economic circumstances, the nature of investments proposed and relative borrowing costs.

A very strong message was that investment in infrastructure needed to be the absolute priority in Budget 2018 with a preference for other matters, Small Business Focus and Tax Reform, be addressed by making commitments under the Multi-Annual Framework model for future budgets. A significant component of the rationale for this was the importance of maximising our competitiveness in the light of Brexit uncertainty. Our submission is fully laid out on our website[2].

Key elements are:

I. Infrastructure

Our network feedback this year was that investment in Infrastructure should take precedence over all other budget matters. Minister Donohoe's commitment to an additional €4.1 billion in capital spending between 2018-2021 is welcomed as is the commitment to link Capital Plans to the National Planning Framework (NPF). The NPF is also considered hugely important by our network.

Some key areas we need that investment to target are:

a) Housing - Huge threat to Ireland's competitiveness. We welcome the attention it is receiving but it is vitally important to implement the latest plans with a huge sense of urgency.

b) Transport - transport is a crucial area for investment. Greater connectivity between our regions and improving intra-city transport should be prioritized. However, Government must deliver the National Planning Framework (next draft due end Sept) and we need to ensure that spending on infrastructure ties in strategically with that. Examples

- Recent Indecon/Cork/Limerick Chamber research found M20 motorway would create over 5,000 jobs, help create a seamless Atlantic corridor and enable much greater connectivity between the regions.
- Our ports infrastructure and connectivity, particularly to help open up more direct access to EU markets.

c) Broadband - It is essential to rollout the National Broadband Plan as soon as possible. Businesses can't function without quality, high speed broadband. It affects a company's ability to do business. It hampers access to new markets. It renders it increasingly difficult to do business with the Government - examples

- Applying for Government tenders
- Dealing with Revenue
- Filing Annual Returns with Companies Registration Office

Download and upload speeds also need to be future-proofed in light of competitiveness with other jurisdictions.

[2] Chambers Ireland Pre Budget Submission 2018
http://www.chambers.ie/assets/media/Downloads/Publications/Budget%202018/Final%20Budget%202018%20sml.pdf

d) Energy - Our priority is ensuring a dependable and sustainable supply. We also have to be ready for a welcome increase in population of 1 million over the next 25 years (CSO predicts by 2040). We need to prioritize continuous investment in our Grid infrastructure and address climate change issues.

e) Water - We need to know how it is proposed to fund a sustainable water supply across the country from "general taxation", to ensure reliable funding and to open up the opportunity to raise external funding for vital projects.

f) Education - Ireland continues to have the youngest population in Europe with one third of the population under the age of 25. Therefore, we must aspire to be the best there is with a best-of-practice education system encompassing everything from early childcare to college education.

Adult education and up skilling - With unemployment heading for 6%, there is a need to reallocate funding from unemployment programs to schemes specifically geared to up-skilling those already in employment. This will increase our competitive capability internationally and augment the ability of existing businesses to grow.

g) We need to continue investment in accessible, affordable, high quality childcare services and to meet our commitments outlined in the National Women's Strategy.

II. Small Business Focus
   a. Retention of 9% VAT Rate
   b. Implementation of an Employee Share Ownership Scheme tailored to the needs of SMEs
   c. Establish grant support for SMEs undertaking innovative R&D
   d. Brexit supports including financial commitment to back up announced proposals to expand our networks overseas and additional supports for wide range of businesses to expand export horizons and necessary training and skills.

III. Tax Reform
   a. Reducing the marginal rate of tax below 50%
   b. A CGT scheme more competitive with UK
   c. Continuing commitments made to supporting Self Employed, Entrepreneurs and Small Business in areas such as
      i. Removal of 3% USC surcharge
      ii. Earned income tax credit
      iii. Parity for self employed in maternity / paternity PRSI Contributions
      iv. Tax credit on Employers PRSI for micro-enterprises

Conclusion

We greatly welcome the Committee's interest in the areas we have covered and are happy to respond to any questions you have.