Presentation to Oireachtas Committee on Budgetary Oversight 19 June 2018

Mary Rose Burke

INTRO

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Chairman and Deputies, I would like to begin by thanking the Committee on Budgetary Oversight for the invitation to discuss priorities for Budget 2019. Dublin Chamber values our ongoing engagement with parliamentarians of all parties and is appreciative of this opportunity to present our Preliminary Recommendations for Budget 2019.

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Dublin Chamber is the largest chamber of commerce in Ireland. We represent 1,300 firms throughout the Greater Dublin Area, employing some 300,000 people nationally, and ranging in size from small start-ups to major multinationals. Our diverse and cross-sectoral membership base gives the Chamber a keen insight into the needs of both businesses and their employees in the run up to the next Budget.

DUBLIN CHAMBER POLICY AGENDA

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The Chamber takes a holistic view of the commercial environment. In our policy agenda, we strive to reflect the complementary needs of business and society. Last year, we undertook The Great Dublin Survey, engaging with 20,000 residents of the capital region to discern their hopes, needs and expectations for the future.

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Informed by the results, we undertook the Dublin 2050 project, to provide a vision of Dublin for the next generation. Our vision is of a city renowned both for its business competitiveness and for its quality of life. It is with this vision in mind that we approach Budget 2019.

POLICY PROCESS

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Our Budget recommendations have been approved by our elected Policy Council, and shaped by ongoing engagement with our membership base and by the work of our Budget & Taxation Taskforce led by Vincent Harrison. While official estimates of available exchequer resources next year have not been available for long, we hope to inform the work of this Committee by outlining our strategic priorities and preliminary recommendations at this stage.

CONTEXT FOR BUDGET 2019

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Ireland's small open economy has continued to perform strongly despite rising international risks. Robust economic growth is continuing, and there is healthy consumer sentiment. Meanwhile, the labour force is steadily approaching full employment. Dublin Chamber research suggests that over half of firms expect staff numbers to rise in Q3 2018. Such figures offer reason for optimism, but also caution against an overly expansionary fiscal policy.

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Headline indicators are positive, but the underlying situation is precarious. Internal risk factors include high government debt, the inadequacy of economic infrastructure, the productivity gap between Irish and multinational firms, and reliance upon a narrow segment of tax receipts. These weaknesses leave Ireland's globalised economy highly vulnerable to external shocks.

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Budget 2019 must take action to address these weaknesses, while avoiding inflation. Dublin Chamber notes the OECD observation that there are already signs of overheating in the economy, and echoes recent IMF advice that Ireland should exercise caution with its fiscal policy in 2019.

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Informed by these realities, and by business feedback, Dublin Chamber recommends that the fiscal space should be used to prepare Dublin and Ireland for the challenges ahead, by strengthening the fundamentals of the economy, namely – our infrastructure – our indigenous businesses – and our labour force.

Vincent Harrison

As Mary Rose Burke has outlined, Dublin Chamber advocates a targeted approach to the use of available resources in 2019. I will discuss these under three headings, each of which represents an imperative for Government: 'Invest in Ireland's Infrastructure'; 'Grow Ireland's Businesses'; and 'Invest in Ireland's Human Capital'.

INVEST IN IRELAND'S INFRASTRUCTURE

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The inadequacy of our infrastructure stock is perceived as the most important barrier to doing business in Ireland according the World Economic Forum's survey. Infrastructure ranks as the most important policy issue for businesses in the Greater Dublin Area and is

identified as the greatest challenge facing the competitiveness of the region. In a survey of Chamber members carried out this quarter, almost half (48%) chose investment in infrastructure as the top priority for Budget 2019.

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Dublin Chamber welcomes *Project Ireland 2040* and the accompanying National Development Plan. Alignment of spatial and capital investment planning is to be commended, as is the longer-term approach adopted in the NDP. The first test of Budget 2019 will be whether it meets the Government's commitments as outlined in the NDP. This will require €7.3 billion in exchequer funding for public capital expenditure.

While the Chamber is heartened by the NDP, stable and timely implementation will be crucial. Ireland's recent pattern of capital expenditure is among the most unstable in Western Europe, and it must avoid slipping back into this traditional pattern of boom and bust.

Given the importance of infrastructure delivery, we believe use should be made of the Rainy Day Fund as an 'insurance policy' for the NDP. Dublin Chamber recommends that when economic growth dips below the level required to fund delivery of the NDP, drawdown from the Rainy Day Fund should be permitted to ensure steady implementation.[1]

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Dublin's success is critical to Ireland's success. But contrary to a widespread perception the capital city is significantly underfunded relative to other regions. For example, Dublin received the second lowest level of capital investment per head from central government of any county from 2009-2016. According to a survey conducted earlier this year, over two thirds (68%) of firms in Dublin believe that not enough is being done to improve infrastructure in the city.

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Traffic congestion in the Greater Dublin Area already costs the Irish economy €350 million per annum, rising to a cost of €2 billion per annum by 2033. In this context, projects to relieve the growing pressure in the capital must be prioritised for delivery. Chief among these are MetroLink, the DART Expansion Programme, BusConnects, and the Shannon Water Pipeline project.

GROWING IRELAND'S BUSINESSES

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[1] 4% over 2022-2027 period, based on **2% real** and 2% inflation. *Project Ireland 2040: NDP*

To secure its future prosperity, Ireland must remain attractive to multinational investors while also taking action to avoid excessive reliance upon a narrow number of multinational businesses. This will require the strengthening of Ireland's indigenous business base.

There is little sense among businesses that progress is being made here. Indeed, a recent Department of Finance & OECD study has highlighted the widening productivity gap in the Irish economy, with productivity increasingly driven by foreign-dominated sectors such as ICT, pharma, and telecommunications.

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Budget 2019 will be the last before Brexit. To provide a competitive context for our proposals on entrepreneurship, Dublin Chamber has undertaken a comparison of Ireland and the UK. The table displayed on the present slide is included in our Preliminary Recommendations document and I invite you to consider it. While progress on all these fronts is not feasible in any one fiscal year, there is room for Ireland to make a serious statement of intent in 2019.

ENTREPRENEUR RELIEF

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Firstly, Ireland's offering to entrepreneurs is starkly uncompetitive in relation to the UK offering, which includes a lifetime cap of £10 million on qualifying gains for Entrepreneur Relief from Capital Gains Tax (or around €11.4 million in current market prices). This compares with a €1 million cap in Ireland.

To send a strong signal that Ireland intends to compete with the UK ahead of Brexit, Dublin Chamber recommends upgrading Entrepreneur Relief to surpass the UK. The cost of bringing Ireland's lifetime limit up to the nominal UK equivalent of €10 million, as promised in the Programme for Government,[2] has been estimated at €54 million using the non-dynamic costing model employed by the Department of Finance. A further increase in the limit to €15 million would incur an added annual cost to the exchequer of just €2 million, according to the same model, while positioning Ireland at a clear competitive advantage against the UK.[3]

INVESTOR RELIEF

Secondly, Dublin Chamber's proposes a scheme to encourage greater investment in existing Irish SMEs. As a matter of principle, the Capital Gains Tax rate should reflect the risk profile

[2] Programme for a Partnership Government, p. 38

[3] Department of Finance Tax Strategy Group – TSG 17/11, Capital & Savings Taxes, 25 July 2017, p.5. Dublin Chamber notes the limitations of non-dynamic costing, and the fact that previous reductions in Capital Gains Tax have had a stimulatory effect on economic activity, ultimately increasing revenue generation.

of the investment concerned and its contribution to the Irish economy. In practice, however, the flat 33% rate of CGT effectively incentivises passive investors to invest in large blue chip multinationals at the expense of investment in higher risk Irish start-ups and SMEs.

Dublin Chamber recommends introducing an Investor Relief along the UK model, offering a lower 20% CGT rate on all investment in unquoted companies to encourage the growth of indigenous businesses.

OTHER ENTERPRISE MEASURES

Dublin Chamber calls on the Government to consider a lower rate of income tax on dividends for entrepreneurs, in order to reward entrepreneurship at all stages in the business lifecycle. To develop prospering indigenous businesses on a large scale, Ireland must offer rewards to entrepreneurs for staying on to scale their businesses rather than offering divestment as the only path to extract large-scale value.

Consideration should also be given to making the R&D tax credit more attractive to SMEs by allowing an upfront claim and increasing the credit rate to 30%. This would begin to address the low levels of innovation in the indigenous sector.

INVESTING IN IRELAND'S HUMAN CAPITAL

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Lastly, Dublin Chamber recommends that Government take measures to attract retain and develop talent in the Irish labour force. This is crucial to check rising costs, maintain Irish attractiveness as a location for FDI, and support indigenous business growth.

Access to skilled labour is a rapidly growing challenge facing businesses in the Greater Dublin Area. Almost two thirds of Chamber members now report that they are searching for employees with a particular skillset, but struggling to find them.

This challenge will continue to mount in the context of a buoyant labour market. As the OECD has recently noted, high Irish labour costs threaten to slow business growth and undermine competitiveness through inflation, making it difficult for SMEs to compete with larger firms for skilled employees. While inward migration will continue to play a valuable role, population growth in the capital carries its own challenges in terms of managing overstretched infrastructure and the housing stock.

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The female employment rate in Ireland is 10.4% lower than the male rate. This represents untapped potential in the Irish labour force that can be utilised without increasing demographic pressure. One in five Dublin Chamber members have specifically identified easing female labour market participation as the solution to helping them access the skillsets that they require.

There is clear evidence that the gap in female labour participation is due to the burden of childrearing falling upon women in a context of high childcare costs. Female labour force participation diverges sharply from male participation around childbearing age, and fails to catch up before retirement.

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This is increasingly supported by business feedback. Over three quarters of Dublin Chamber members now report that the cost of childcare has a material impact on their business. It affects both the cost and availability of staff for almost 40% of businesses, solely the availability of staff for over a quarter of businesses, and solely the cost of staff for around one in ten businesses.

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Noting recent IMF advice, Dublin Chamber recommends a significant expansion of fiscal support for the new Single Affordable Childcare Scheme to ameliorate this problem in 2019. This should be combined with a serious examination of how the taxation system can serve to discourage second earners – often highly skilled – from returning the workforce.

Dublin Chamber has a number of other recommendations to improve the skills base in Dublin and help SMEs to attract the skilled specialists they need to grow.

We recommend extending the Special Assignee Relief Programme by allowing it to apply to new recruits in cases where the firm in question is an SME. This accounts for the fact that SMEs lack the overseas presence required to attract high-skilled staff using the programme at present, and levels the playing field for SMEs.

Dublin Chamber also suggests improvements to the Key Employee Engagement Programme which was intended to facilitate greater share-based remuneration in SMEs. These improvements include detailed guidance on valuations, and a lifting the restriction on the value of share options granted to one individual.

Finally, we have taken the opportunity to highlight growing alarm in Dublin's professional services sector about Revenue treatment of professional subscription fees. Many

professional memberships are necessary for the employment undertaken by those who hold them, even if not statutorily required. Rather than subjecting employees to unreasonable Benefit-in-Kind taxation, Dublin Chamber calls on Government to foster and maintain a skilled and educated force.

Mary Rose Burke

CONCLUSION

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Chairman, I will briefly conclude by thanking you and the Deputies for their kind attention, and the Committee Clerk and his colleagues for their assistance. We are keen to hear your feedback on our strategic priorities and recommendations in advance of our final submission to the Department of Finance. And we look forward to discussing them with you in more detail this afternoon and in the coming weeks.

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