Dublin Chamber Presentation to Oireachtas Committee on Budgetary Oversight
24 September 2019

Overview

I would like to thank the Committee on Budgetary Oversight for its invitation to discuss priorities and recommendations for Budget 2020. Dublin Chamber values its engagement with parliamentarians of all parties and appreciates this opportunity to present its pre-budget submission.

Dublin Chamber is the largest chamber of commerce in Ireland, representing 1,300 firms across the Greater Dublin Area. Our diverse membership base spans the spectrum from small start-ups to major multinationals, giving us a strong insight into the needs of businesses and their employees in the run up to the Budget.

Dublin Chamber takes a holistic view of the business environment. Our vision is that Dublin will be globally renowned both for its economic competitiveness and quality of life. And it is with this vision in mind that we approach Budget 2020.

Our budget submission has been shaped by ongoing engagement with our members and approved of their elected representatives, based on the work of a member taskforce led by Eoghan Quigley.

We have a duty to our members to highlight issues of concern and to highlight the public policy changes that are needed to improve the business environment. As a civic actor, Dublin Chamber strives to do this in a way that reflects and supports the needs of the community at large.

We are acutely aware of the challenges facing the business community – and the Government – in the face of a possible no-deal Brexit. And the decision to base Budget 2020 on a no-deal scenario is a prudent one in light of current uncertainty.

Members of the committee will notice that while some of the goals in our submission are ambitious, we have also outlined several more targeted measures that could more easily be accommodated within the fiscal constraints of single year – even a year such as 2020.

With most of the planned €2.8 billion budgetary expansion in 2020 already accounted for, the Government has a package of c. €600 million remaining. Dublin Chamber recommends use of this limited fiscal space to prepare for the serious challenges ahead by strengthening the fundamentals of the economy.

This should involve supporting Irish enterprise, ensuring sustainable infrastructure and housing investment, and improving labour market access.

Supporting Irish Enterprise

Ahead of Brexit, the Chamber has compared Ireland and the UK in order to provide a competitive context for our proposals. This is outlined in the tax table on page 4 of our submission. Ireland's position relative to our nearest competitor has been in decline for several years, and we now lag behind the UK across a range of metrics.

FDI is vital to the Irish economy, but as the global environment changes, so our business model must adapt, remaining attractive to international investors while also avoiding excessive reliance on a small number of highly mobile firms.

We need to foster an entrepreneurial environment and strengthen Ireland's indigenous business base. This will require a step change in the level of investment by Irish SMEs.

However, Ireland's Capital Gains Tax rate is now the third highest in Europe. Worse still, the flat 33% rate applies irrespective of the level of risk taken by an entrepreneur and the contribution of the investment to the Irish economy. The same tax is paid on passive investments in large blue chip multinationals as is paid on high-risk Irish start-ups. This is not only inequitable; it effectively incentivises investment in larger foreign firms over investment in Irish SMEs.

To transform the equity environment for Irish business, we embrace the ambition of moving towards a 20% rate of Capital Gains Tax for all unlisted trading firms. The UK has already taken a similar step with its own SME base in mind.

Conscious that this may have significant exchequer implications in the short-term, we have also outlined a number of targeted measures that could be adopted more quickly. These should be considered both as preparatory steps to improve competitiveness, and as possible tax expenditures as part of a post-Brexit stimulus package.

First among them is our proposal to outmatch the UK on Capital Gains Tax Entrepreneur Relief, by raising the lifetime cap on qualifying gains to €15 million. Ireland's offering at present is starkly uncompetitive, imposing a lifetime cap of €1 million, as opposed to £10 million in the UK.

We have also proposed changes to the R&D Tax Credit, the taxation of entrepreneurs' dividends, and the Key Employee Engagement Programme.

While progress on all fronts is not possible in one fiscal year, I want to stress that there is scope within the budgetary parameters as outlined in the Summer Economic Statement to send a strong signal that Ireland intends to sharpen its competitive edge in the face of Brexit.

Sustainable Infrastructure & Housing Investment

Infrastructure and housing consistently rank as the most important public policy challenges facing businesses in the capital. Joined-up thinking between housing development, public transport and other infrastructure will be key to addressing Dublin's deficits in these areas. In particular, projects like Metro North, the DART Expansion Programme, and the Eastern & Midlands Water Supply are essential to ensuring a sustainable future for the Greater Dublin Area.

The announcement of the National Planning Framework and the accompanying National Development Plan has been followed by subsidiary plans for investment and development at regional and metropolitan level. It is vital that Budget 2020 follows through on these.

There is serious concern in the business community that in the event of a downturn, public capital investment will be cut, as has so often been the case before. With this in mind, steps must be taken to guarantee delivery of the planned infrastructure improvements that are needed to compensate for past decades of underinvestment.

There are three practical things the Government could do to ensure that next time it will be different:

First, if economic growth dips below the level required to fund the NDP, drawdown from the Rainy Day Fund should be permitted to ensure steady delivery. This would meet the Fund's short-term aim of economic stabilisation through stimulus, while also building capacity for the future.

Second, starting next Budget Day, all parties should commit to responsible use of excess revenues. Last year, the corporation tax take was almost €1.4 billion ahead of target. Raising day-to-day spending on the basis of unexpected receipts is a recipe for instability, and for political backlash in a downturn. These revenues should be used to accelerate priority projects or, where this isn't practicable, to bolster the Rainy Day Fund.

Third, revenue from future increases in Carbon Tax should be ring-fenced for investment in green infrastructure. Dublin Chamber is at the forefront of the sustainability agenda, and we welcomed Minister Bruton to launch our Sustainability 2050 series in February. We fully accept the need for the Carbon Tax, while calling for a clear schedule of planned increases to ensure that businesses can adapt in good time. However, securing public buy-in for the tax will be difficult if the Government punishes carbon use without providing alternatives for low income earners. Improving public transport is the place to start.

Labour Market Access

The final business concern which I will bring to your attention is the tightening labour market. While this reflects a good news story in some respects, it is important to remain cognisant of the immediate challenges it poses to scaling businesses and the potential medium-term risk to Dublin's international competitiveness.

There is still considerable scope to raise female labour market participation. The cost and availability of childcare and the combined effects of the tax and social welfare system appear to have a depressing effect on the female labour participation rate at present. Addressing this would improve access to skills, ease pressure on wage costs, and moderate the reliance on new international labour.

Dublin Chamber calls on the Government to focus on improving the universal component of the National Childcare Scheme in 2020, and to carefully assess the scheme's incentive effects on labour market participation. We have also proposed for future consideration a Returning to Work credit to reduce the marginal tax benefit rate for second earners in a family who are returning to work.

Conclusion

We are conscious that Budget 2020 comes at a delicate time. But as the last Budget before the UK's exit from the EU, it offers an opportunity for Ireland to demonstrate serious intent about business competitiveness versus the UK, as well as its commitment to long-term planning for sustainable infrastructure investment, and improved quality of life.

Thank you for listening and I look forward to exchanging views with you.