

Opening Statement to the Oireachtas Committee on Budgetary Oversight

Gerard Brady, Head of National Policy and Chief Economist, Ibec

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Introduction

I would like to begin by thanking the Chair for the invitation to Ibec to appear before the Committee this afternoon. I am Gerard Brady, Head of National Policy and Chief Economist at Ibec. We are grateful for the opportunity to appear before the Committee today to examine Chapters 9 through 12 of the Commission on Taxation and Welfare Report.

Backdrop

The report from the Commission on Taxation and Social Welfare comes at a crucial time. Our current economic uncertainties, the remainder of this decade will see significant ambitions begin to be put in place for the economy in areas such as decarbonisation and digitalisation, as well as the challenges of increased competition for mobile investment and workforces, the prospect of a rapidly ageing population, overconcentration of the tax base and the impact of future global tax reform. These challenges will have significant implications for fiscal policy.

Over the coming decade, the focus of fiscal policy must be on policy that is not just sustainable in the narrow sense of debt and deficits, but which takes a broader perspective on producing sustainable economic, social and environmental outcomes. For this reason, a balance must be struck between this narrow and broad sense of fiscal sustainability.

Promoting Enterprise

Regarding Chapter 9 of the report, 'Promoting Enterprise', Ibec recognises that business tax reform has a significant role to play in supporting Irish firms to grow and improve productivity.

There are several levers within the tax system that can be used to help overcome some of the broader systemic disadvantages facing our indigenous business community. These include improved tax incentives to deepen the market for equity investment, encouragement for share options and similar schemes through the tax system and enhanced investment incentives in areas such as R&D, low-carbon technologies and advanced manufacturing.

To this end, Ibec broadly welcomes the Commission's recommendations to promote enterprise and business growth in Ireland, in particular the recommendations targeted at encouraging the founding and scaling of start-ups and SMEs, and the promotion of R&D. Driving innovation, increased efficiency among Irish businesses and broad-based growth across sectors are all key to a thriving and stable economy.

It is important to reiterate the Commission's finding that, while existing incentives in the tax system for R&D, promoting equity financing, and enabling staff recruitment among start-up and micro-enterprises are good in principle, they must be simplified.

Promoting Employment and Reform of the Labour Market and Social Protection System

Regarding changes to the social protection and income tax systems, Ibec acknowledges the need for reform to ensure the social insurance system is resilient both to potential shocks and to account for the inevitable increase in demands on the fund from an ageing population. These challenges will inevitably require greater levels of funding.

Having said this, the cumulative impacts of labour market policy measures are causing major concern amongst businesses. The rollout of auto-enrolment, the living wage, pensions, statutory sick pay, and other leave proposals already announced will add significantly to average labour costs in Ireland over the coming decade.

While these changes will be implemented across the whole economy, for many companies in domestic-facing sectors, low-margin exporters and the SME community the cost of implementing increases in pensions coverage and wage floors will be higher.

Whilst many of the additions to the so-called Social Wage have merit on their own terms, if phased correctly, they represent a major change in the Irish labour market model. The ongoing lack of coordination regarding their phasing is causing major concern amongst our members – particularly in the current economic environment.

In this context, and finally, Ibec wishes to emphasise the Commission on Taxation and Welfare's acknowledgement in recommendation 11.2 that: *"there is a need to coordinate and manage the phased introduction of such reforms. The Commission, therefore, recommends the establishment of appropriate coordination mechanisms to monitor the cumulative effect of policy changes on enterprise."*