Budget 2015

Pre-Budget Submission

Executive Summary

The past six years have been a tumultuous time for businesses in Ireland. As the country continues on the road from survival to recovery, it is vital that Government acts now to ensure that the business environment is ripe to capitalise on the current and future growth opportunities that are emerging.

Creating such an environment requires changes and improvements across the board through political leadership and corporate citizenship. The Chamber has recognised that business itself must be a leader in helping to address Ireland's legacy challenges and in doing so has helped to address issues from youth unemployment to the SME trading online gap in a collaborative way with government departments and agencies. There remain issues that need political leadership to drive the disruptive change required for some key issues for business. Dublin Chamber puts forward a number of these recommendations in this submission with the aim of creating the highest impact growth impact per Exchequer euro cost.

Access to finance for SMEs:

- Unlock €7.5bn in SME financing by allowing early access to the tax free component of Defined Contribution pensions for the purposes of investing or scaling a business.
- Improve direct financing options (e.g. peer-to-peer, crowdfunding) for SMEs through changes to the personal tax code to allow individuals to earn tax-free interest from personal loans to SMEs, similar to the UK's Individual Savings Account.
- Modernise the rules around Capital Gains Tax to encourage investment by entrepreneurs.

Ireland's competitiveness:

- Improve international messaging of Ireland's uncompetitive headline rate of higher marginal tax by introducing an optional flat rate of tax equal to current effective rate.
- Address shortage of office space in Dublin through a range of carrot (e.g. waiving development charges for a two year period) and stick (e.g. introducing a levy to prevent 'mothballing' of land) measures. Encourage NAMA to release sites in its portfolio.
- Open up the public procurement process by right-sizing tenders and unbundling them, reducing turnover and insurance restrictions, and with the overall aim of reducing the costs & the administration burden on SMEs that tender.

Recommendations

	Disruptive Change	Incremental Change
Facilitating Finance for SMEs	➢ Early access to pension lump sums for SME investment ➢ Personal loans to SMEs ➢ Personal equity investment by entrepreneurs	➢ Revise Employment & Investment Incentive Scheme
Boosting Competitiveness	➢ Provide alternative to existing income taxation system ➢ Improve Special Assignees Relief Programme	➢ Ensure competitive tax environment ➢ Maintain & extend tourism rate of VAT ➢ Revise Foreign Earnings Deduction
Maximising the city's economic contribution	➢ Promote office development in Dublin ➢ Increase capital expenditure and maximise economic return	➢ Private Partnerships
Cash Position of SMEs		➢ Increase cash basis threshold for VAT ➢ Abolish professional services withholding tax ➢ Increase Close company surcharge ➢ Open-up Public Procurement for SMEs

Introduction

In order to restore the credibility of the Irish economy, the Government must deliver on its commitment to reduce the budget deficit to 3% of GDP in 2015. Dublin Chamber of Commerce recognises that this context will mean that the capacity for spending increases and tax cuts is limited.

The proposals in this submission are, therefore, cognisant of the overall cost and cash flow impact on the Exchequer. More can be done with less if existing Government schemes are revised to ensure better take-up and results. These changes aim towards minimal cost and maximum impact on confidence and job creation.

Dublin Chamber shares the Government's commitment to building a jobs-rich economy based on enterprise, innovation and exports – some of the collaborative initiatives undertaken for this reason are outlined in Section 1. Small and Medium-sized Enterprises will form the foundation of this new, more sustainable economy and the Chamber has been encouraged to see the employment potential of SMEs recognised by the Irish Government and the European Union alike.

However, many SMEs struggle to grow due to a lack of available finance and pressure on working capital. Proposals for increasing the range of finance options for SMEs and improving their cash flow are highlighted in the first and last sections of the submission.

Additionally, companies of all sizes need an environment that will allow them to grow. Dublin is competing for inward investment and, increasingly, is competing to support new and expanding domestic businesses. Dublin needs a tax system, infrastructure and support structures to match the international cities it competes with. Our proposals in this regard make up Sections 2 and 3 of the submission.

Inspired by the Government's terminology in the Action Plan for Jobs, we have categorised our recommendations as either 'Disruptive Change' or 'Incremental Change'. We are particularly interested in seeing the Government give serious consideration to our more 'Disruptive' recommendations, as these offer greater potential for high-impact on output and employment.

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1 Chamber Citizenship

Dublin Chamber recognises it has an important role to play in promoting good corporate citizenship and in encouraging business to also take on this responsibility. Being a constructive influencer, making a positive impact on society, and creating sustainable jobs are key elements of this role.

A critical challenge for the Chamber is to anticipate social issues and changes by being in tune with society, especially those issues considered critical to economic survival and development and to the social well-being of society. It is important that business remains proactive on these key issues.

Since 2012, the Chamber has been developing a new approach for its collaborative engagement with local government, central government and businesses. This hands-on approach has allowed the Chamber to work directly with individuals and agencies in: tackling Ireland's youth unemployment crisis through the EU Youth Guarantee Pilot in Ballymun, maximising the potential of Dublin's tech startup eco-system, and addressing the trading online gap amongst Irish SMEs. The pipeline of projects continues to grow and the model is working.

1.1 Youth Unemployment

Following the crisis, the number of Irish young people (aged 15-24) by early 2013 that were in long-term unemployment was over 41%. This represents a clear challenge for Irish society to overcome and it has rightly been a focus of Government. Major government reform initiatives, such as 'Pathways to Work', are creating real opportunities for business to create new jobs but the employer interface of the communication and marketing has been lacking. There is a lack of awareness and engagement among employers which has resulted in a reduced uptake of government incentives to support employers to get young people back to work.

Through Activating Dublin we support the youth guarantee pilot in Ballymun and test new models of employer engagement. By leveraging the best practice of industry and creating a dialogue with the delivery agencies we've seen a marked improvement through the results in the pilot. The pilot to-date has seen 75% of all participants (273) securing an offer of education, training or employment, of which there was over 104 offers of employment or work schemes. In addition, Dublin City Council has committed to creating 50 positions as part of the 'gateway' initiative. Next steps will see the learnings rolled out Dublin wide with a link to the Labour Market Council's employer charter to increase the impact on unemployment figures.

1.2 Trading Online, Addressing the €3.6bn Gap

In 2014, Irish consumers spent over €6bn online of which two-thirds left the country. Six of out ten Irish consumers said they would buy from an Irish site if they knew about one that matched what they were getting from an international site. Yet a quarter of Irish SMEs don't have a website, let alone the capacity to trade online. There has been a lack of Government support to address the new threat to domestic firms from international online players, support for businesses in the trade of local goods remains both antiquated and limited at Government level. In this context, the Activating Dublin Trading Online pilot was setup as a joint initiative of Google, Facebook, PayPal & eBay – the first time globally that the four companies had partnered together on such a project. The project designed, tested and set to scale a programme based on international best practice to guide the majority of Dublin business to effectively trading online. The results of the 20 pilot companies from a broad spectrum of business types and sizes within two months of completion was impressive: 55% increased Sales or Leads; 70% have or have potential to create jobs within the year; 30% are exporting for the first time or grew export sales; and

30% had made significant capital investment to better equip themselves for the online opportunity.

In this project, the results were brought to inform the design of the Government's National Trading Online Voucher scheme which aims to assist 2,000 business trade online by 2015. The results from the pilot demonstrate a larger potential for job creation on a per company basis with those employing more. Targeting this cohort is amongst the next in the pipeline but a government champion is needed.

1.3 Making Dublin the Best City to Start a Business

Dublin already has a thriving eco-system which supports a wide range of tech and innovative startups while many of the global tech companies have established their European headquarters in Dublin. The aim of this project was to build on Dublin's tech startup success to develop a more city centric and better coordinated approach to significantly increase the startup activity (economic & employment) in Dublin. The action plan which was produced out of the collaboration and engagement with the startup community found that 2,800 jobs and a €200m per annum economic contribution can be achieved if the objective was realised. Working with both local and central Government departments some of the issues identified in the action plan have now been addressed. However, a major and more structural change has been the securing of private funding for Dublin's Commissioner for Startups. This role will help Dublin compete amongst the international cities as a startup hub. The success is in no small part due to the Chair of the project and the support of Enterprise Ireland, Dublin City Council and DCU Ryan Academy.

This pre-Budget Submission is set in the context of those activities which demonstrate our commitment to the betterment of Ireland, not only for our 1,300 members but for all Irish citizens.

2 Facilitating Finance for SMEs

Access to finance is the major issue facing the SME sector in Ireland. Many SMEs remain highly indebted as a result of past investment decisions and contracts. Even new enterprises, or firms with strong balance sheets, find it difficult to raise finance to grow their businesses.

The bank finance market in Ireland is constrained by the banks' requirement to de-leverage their balance sheets in preparation for stringent stress tests. The banks' ability to lend to SMEs is therefore limited.

The EU's High-Level Expert Group on SME and Infrastructure Financing, which was co-chaired by the Secretary General of the Department of Finance, clearly recognised the difficulties of SMEs in accessing finance and the need to support the development of sources of non-bank finance for SME activity. In particular, the Group acknowledged the merits of encouraging direct financing links between individuals (including savers and institutions) and SMEs.

Dublin Chamber acknowledges the recent measures taken by Government, such as the €500 million in new credit to be made available to Irish SMEs through the Strategic Banking Corporation of Ireland. However, this credit alone cannot support SMEs lending needs. Compared to other EU countries, Irish SMEs are overly reliant on banks for financing their activities.[1] Improving the alternatives to banks must be a priority.

2.1 Early access to Pension Lump Sums | Disruptive Change

Allow early access to the tax free component of Defined Contribution pensions for the purposes of investing in or scaling a business.

2.1.1 *Background*

Unlocking Ireland's private pension funds could provide a significant source of non-bank finance. There is in excess of €80bn under management in Irish Pension Funds, at the end of 2013. Approximately €50bn of this is related to defined benefit funds, with €30bn related to individual or defined contribution arrangements.

Currently, there is no tax payable on 25% of pension funds at drawdown (subject to a maximum tax free sum of €200,000). However, it is not possible to access any part of the pension fund prior to age 60.

2.1.2 *Proposal*

Dublin Chamber recommends that a portion of the funds from a Defined Contribution pension be made available to individuals before the age of 60 on a once-off basis. These funds must be used to invest in a startup company or to increase the capital available to an existing company. We estimate this proposal can unlock up to €7.5bn in SME financing.

To maximise the amount invested, the pension funds should make use of an individual's lifetime tax-free lump sum. Withdrawals of tax free cash from pension funds should be deducted from the overall lifetime tax-free lump sum limit. For example, if total entitlement to tax free cash was €200,000, and €100,000 was drawn down to invest in a business, only the remaining €100,000 tax free entitlement would be available at retirement age.

2.1.3 *Conditions*

To ensure that this support is used to improve SME financing, access would only be granted subject to certain conditions. Funds released under this facility should only be used for 'specified events', such as:

- Investing in a startup company, possibly via a matched funding arrangement with existing lenders, peer-to-peer lending, or existing Government incentives such as enterprise grants etc.
- Investing in an existing SME business with a view to scaling up and creating employment.
- Capital expenditure within an existing business.

An important condition of this proposal would be that the pension should not be established expressly for the purpose of an early drawdown. A 'look back' condition of about two years would help prevent tax avoidance scenarios (e.g. lump sum payments being placed into the pension and then taken out).

Furthermore, it is crucial the monies released from pensions cannot be raided by the banks. To prevent this, it is proposed to create an 'investment capital trust' into which the tax free funds would be released. Such trusts could be administered by the existing trustee structures within life assurance offices. This would ensure that

[1] Indeed, the High Level Group stated that Europe as a whole "has been overly reliant on a bank financing model for its economy."

monies would not be absorbed into bank balance sheets. The trusts would also allow unincorporated businesses to avail of the scheme, and keep the pension funds separate from their trading accounts.

2.1.4 *Cost & Benefit*

The only tax cost to the Exchequer relates to the lost revenue from the pension levy. If a total of €7.5bn were raised through this scheme, we estimate the Exchequer cost would be €45m.

Dublin Chamber believes that releasing pension funds for investment in Irish SMEs would have the following effects:

- Offering a new source of credit to SMEs and increasing credit flow to start ups and SMEs.
- Providing assurance to those struggling with unsustainable debts that they can make a new start without the need to apply for fresh credit.
- Increasing employment via the SME sector, a proven creator of employment.

The Chamber considers that the most likely investors in potentially successful Irish businesses will be business owners themselves.

For the reasons outlined above, the Chamber strongly urges the Government to consider allowing early access to the tax free cash entitlement from DC pension schemes, in the limited circumstances outlined above.

2.2 Personal Loans to SMEs | Disruptive Change

Improve direct financing options (e.g. peer-to-peer, crowdfunding) for SMEs through changes to the personal tax code to allow individuals to earn tax-free interest from personal loans to SMEs, similar to the UK's Individual Savings Account.

2.2.1 *Background*

Ireland's peer-to-peer (P2P) lending market is poorly developed. To date, it is thought to have provided less than €5m in loans to businesses. The UK offers a useful example of how P2P financing models can be developed. The leading P2P operators in the UK have channelled new loans worth hundreds of millions of pounds to UK borrowers. Furthermore, the UK has for many years allowed individuals to invest an annual amount (£15,000 in 2014/15) into certain assets (principally stocks and shares, or bank accounts), through an Individual Savings Account (ISA). All gains and earnings on those investments are either tax-free or low-tax (10%) in perpetuity. In its most recent budget, the UK government announced that it would consider extending the ISA allowance to include P2P loans from 2015. Analysts estimate that this would significantly increase the flow of finance through crowdfunding sources.[2]

Ireland's current lack of direct financing links could be significantly developed through crowdfunding or peer-to-peer online markets, which allow people to lend money to applicant Irish SMEs by way of an online market-place. Indeed the EU's High-Level Expert Group on SME and Infrastructure Financing recommends that:

> *"Member States and National Central Banks support peer-to-peer financing and crowd-funding to the greatest extent possible."*

[2] Liberum research on global P2P Lending, 11 March 2014

2.2.2 *Proposal design*

Dublin Chamber recommends a change to the personal tax code to allow individuals to earn tax-free interest from personal loans to SMEs. This could be achieved via:

- an annual tax-free interest allowance (for example, €10,000) in respect of interest earnings on loans to SMEs (similar to the rent-a-room scheme, which today allows €10,000 pa of relevant rental income to be received free-of-tax);

  or

- an annual investment allowance (for example, €15,000) in respect of the amount lent via personal loans to SMEs with the interest on any income gained would be perpetually tax-free.

It is expected that a significant part of such individual lending would be channelled through crowdfunding or peer-to-peer (P2P) online markets.

However, the ability to lend to SMEs should not be limited only to P2P channels. Tax allowances in this area should be designed as widely as possible to encourage the greatest possible take-up across different channels.

Existing anti-avoidance rules regarding related parties and closely-held companies could be used to ensure no abuse of the proposed allowance.

2.3 Personal Equity Investment by Entrepreneurs | Disruptive Change

Dublin Chamber recommends a change to Ireland's Capital Gains Tax rules to encourage investment by entrepreneurs in the equity of SMEs.

2.3.1 *Background*

Ireland's Capital Gains Tax rate of 33% is among the highest in Europe and significantly higher than the effective rates of nearly all of our competitors for investment. Moreover, Ireland's CGT rate has increased by a full 65% over the past four years.[3]

These high rates of CGT on equity gains undoubtedly damage Ireland's ability to generate domestic direct investment, or 'DDI'. An entrepreneur with an investment plan will surely consider the attractions of simply moving her business to Northern Ireland or Great Britain to avail of the significant economic advantages.

2.3.2 *UK CGT & Entrepreneurs' Relief*

In the UK, there are three CGT rates 10%, 18% and 28% depending on the nature and the individual's total taxable income. The 10% rate applies to qualifying entrepreneurial gains. To qualify individuals may invest in a business provided they own at least 5% of that business and have worked there for at least one year. If the investment meets these criteria, investors can earn up to £10m in gains at a special lower rate of 10%.

By contrast, the entrepreneurial relief in Ireland introduced in Budget 2014 is relatively narrow and complex in its application, largely benefitting investors with gains from at least two successful prior investments.

[3] Despite the rising rate, the tax receipts from CGT have dropped over the past four years. In 2013, €369m was collected compared to €542m in 2009.

2.3.3 *Proposal design*

The Chamber believes that reforming the Irish entrepreneurial relief to reflect the UK approach would stimulate the economy and increase corporate & personal tax revenues. These benefits would far outweigh any direct costs to the Exchequer posed by the reforms.

The rules surrounding CGT must be adapted to encourage investment by entrepreneurs in the equity of SMEs. Dublin Chamber proposes that a significant part of an individual's lifetime capital gains on shares in their own SME would be taxed at a lower rate of CGT (e.g. 10%). This lower rate would apply to capital gains up to a prescribed lifetime allowance (e.g. €15m).

2.4 Employment and Investment Incentive | Incremental Change

The Chamber believes that the following five amendments could significantly increase uptake of the EII. In order of priority, Dublin Chamber urges the Government to:

- 2.4.1 Increase the period of investment from three to five years;
- 2.4.2 Remove the restriction related to expansion capital for businesses in non-assisted areas;
- 2.4.3 Remove the phased nature of the relief and allow full relief from the start;
- 2.4.4 Help address the complexity of the EII legislation by including deeming conditions (such as being an Enterprise Ireland client) to clarify which companies qualify; and
- 2.4.5 Allow subsidiaries in a group to apply for EII.

The overall cost of the amendments suggested would be marginal given that the costing built into past Budgets remains largely unspent. These changes will help to realise the growth and employment potential of these SMEs.

2.4.1 *Three to five year investment period*

As part of the changes made in the transition from the Business Expansion Scheme (BES) to the Employment and Investment Incentive (EII) scheme, the investment period was shortened from 5 years to 3 years.

Based on engagement with our members, Dublin Chamber believes that this period is too short for companies to build sufficient cash flow to pay back EII investors. The companies capable of accruing cash flow in this short time are more likely to be at a later stage of development, and are therefore not main target companies of EII.

The shorter investment period means that many companies that would benefit from EII cannot prepare a viable financing plan which involves securing funds, putting the investment to work, adjusting the business model, and generating a return sufficient to repay the investment.

The Chamber appreciates that the objective of the change was to make the scheme more attractive for investors by shortening the investment period. While this can be more attractive to investors, the benefit is marginal as most investors are rolling over such investment in any case. The shift back to a five year investment period should be a major priority for reform of the EII.

2.4.2 *Remove the restriction on expansion capital for businesses in non-assisted areas*

The restriction in relation to the use of the EII scheme by medium enterprises based on the geographic location of the operation is reducing the opportunity of businesses in Dublin to grow and hire new staff. The Chamber is aware of Dublin companies that would have been able to make major capital investments using the EII scheme but due to their location they were not eligible. In these cases, job creation opportunity has been lost entirely.

The restriction in place for non-assisted areas (Dublin, Meath, Kildare, Wicklow and Cork) is not benefitting other regions. The investment in a potential EII company is often diverted to another non-job creation rich investment opportunity. We acknowledge that removal of this restriction will require consultation with the European Commission.

2.4.3 *Remove the phased nature of the relief and allow full relief from the start*

Under EII, investor relief is provided at the marginal tax rate of 41%, but is granted in two tranches. The first tranche of relief is provided at 30% of the amount invested and is permitted in the year of investment. The second tranche of 11% is available in the year after the three year investment period has elapsed, subject to the company meeting at least one of two criteria: increasing employment numbers and maintaining average remuneration; or increasing expenditure on research and development.

The two tranche relief was designed to address concerns of a major take up of the programme. However, the results from 2012 demonstrate that such a concern has not materialised.

At present, EII is simply presented as a 30% relief to individual investors given the complexity and risk that the qualifying conditions may not be achieved. Dublin Chamber recommends the full 41% relief be granted from the initial investment date. The release of the additional relief would add to the attractiveness of investing in Irish businesses and support employment growth.

2.4.4 *Address the complexity of the EII legislation to simplify the process for businesses*

The EII legislation has a requirement for the company to be trading. However, this does not provide for companies that engage in extensive product development prior to beginning trading. The tech sector is a good example, where product development can take up to three years.

Dublin Chamber recognises that the current requirement is in place to prevent abuse. Therefore we suggest that in addition to the existing criteria, a deeming condition be included in the legislation which would recognise companies that are not trading but are in receipt of an Enterprise Ireland grant, enrolled in a recognised Incubator/Accelerator or other relevant deeming condition.

2.4.5 *Amend to allow subsidiaries in a group to apply for EII*

Some subsidiary companies are excluded from EII, and the legislation is very restrictive to companies operating a group structure. In such cases, subsidiary companies must satisfy restrictive criteria in order for the holding company/group to qualify. It is quite common for companies to have a group structure and in reality it is unlikely that all entities will be qualifying companies. Therefore, the current legislation is preventing what would otherwise be eligible companies from availing of EII funding. A review and amendment of this part of the legislation is necessary prior to renewal with the European Commission.

3 Boosting FDI & Competitiveness

Attracting skilled overseas workers and their families remains a challenge for Ireland, and a headline rate of income tax at 52% is a major deterrent in this competition for talent.

However, the perception abroad is worse than the reality. It is not well understood that the effective rate of tax paid by higher earners is much lower than 52% once the various tax credits and allowances are taken into consideration. The effective rate paid is typically around 40%.

Dublin Chamber appreciates that a reduction of the top rate is not feasible given current budgetary constraints. We propose the introduction of an optional flat rate of tax at 40% with all bands and allowances eliminated. This simplified system would create a more appealing headline rate of tax, with minimal loss in tax revenue for the State.

Secondly, we recommend an overhaul of SARP to boost uptake.

Our final proposals in this section concern amendments to the Foreign Earnings Deduction scheme and the extension of the tourism rate of VAT.

3.1 Optional flat rate of tax at 40% | Disruptive Change

Introduce an optional flat rate of income tax at 40% in line with the maximum effective rate. Those who opt in to the system would see their bands and allowances eliminated.

3.1.1 *Background*

Attracting international executives through their tax treatment is a sensitive political issue, but has significant potential for domestic job creation. For Ireland to compete globally and attract both business and key skills into the country, a more appealing income tax regime is essential.

In Ireland, the top rate of personal income tax combined with USC and PRSI is 52%, applying from an income level of €32,800. This actual rate of tax is one of the highest in the world, and the income level at which this rate applies is very low. By comparison, the top rate in the UK comes into effect at approximately €182,000 and in the US at €290,000. The rate is perceived as unfair, appearing to take over half of executives' income starting from a low level

However, it is commonly perceived that the average rate of tax quickly approaches 52% at income levels above €32,800. This is not the case. At an average salary level, the impact of personal tax is in line with the OECD average. It is only as income exceeds the average level that the tax take begins to substantially outstrip the OECD average.

3.1.2 *Proposal*

Dublin Chamber proposes to introduce a flat rate of income tax of approximately 40%. This could be achieved by drawing on the experience of the Universal Social Charge.

The USC generates very significant revenues as it does not allow for deductions. Similarly, individuals could be given the option of paying a flat tax of 40% to cover Income Tax, USC and PRSI with no deductions.

This would address a number of the current problems:

- Ireland's would have a 40% headline tax rate which would be perceived as competitive with other jurisdictions.

- Those who avail of the option would be incentivised to earn additional money as they could now retain 60% of the income earned rather than 48%.

This change could potentially transform Ireland's personal tax system and:

- Help Ireland respond to the challenges of the OECD Base Evasion and Profit Sharing (BEPS) initiative;
- Complement our corporate tax offering;
- Incentivise the domestic economy.

Further study would be required to determine whether the combination of behavioural change and the withdrawal of allowances could create a positive revenue change. However the measure could at least be cost neutral, as those who avail of the system would see their bands and allowances eliminated.

3.2 Special Assignee Relief Programme | Disruptive Change

Overhaul of SARP to ensure that the system currently in place supports investment decisions.

3.2.1 *Proposal*

Attracting key senior international talent continues to be a significant challenge for multinationals in Ireland. The Minister for Finance reported to the Dáil on 21 May 2013 that just six individuals qualified for the Special Assignee Relief Programme (SARP) in 2012. For Ireland to compete globally and attract both business and key skills into the country, an effective expatriate regime is essential.

Ireland can usefully look to the Netherlands for an example of a successful scheme for attracting highly skilled employees. The Dutch system offers a 30% reimbursement for international employees that bring specific new skills into their organisation. The 30% ruling means that the maximum effective tax rate is 36.4% for foreign employees that meet the skills requirements and the minimum pay threshold. The scheme is designed to be simple for both tax authorities and businesses. In 2009, there were approximately 12,000 applications to the scheme with a 90% approval rate.

The contrast between the Dutch and Irish figures indicates that the SARP is in need of a fundamental redesign. A major issue cited by potential senior hires who declined the opportunity to come to Ireland is the personal tax regime. These high-level employees will typically have the option of locating in another country with a more favourable tax regime. It is vital that Ireland revise its high personal tax regime so as not to lose these employees to other markets. Dublin Chamber has set out a proposal for reform above in Section 3.1.

3.3 Foreign Earnings Deduction | Incremental Change

The Foreign Earnings Deduction (FED) scheme could be significantly improved by implementing the following reforms:

3.3.1 Expand the eligible countries to include those identified in the Government's Trade, Tourism and Investment Strategy 2010-2015;

3.3.2 Adjust the number and definition of a qualifying day to align with the business demands; and
3.3.3 Modify the relief so that it can be awarded through the PAYE system.

3.3.1 *Expand the eligible countries to include those identified in the Government's Trade, Tourism and Investment Strategy*

Currently, the Foreign Earnings Deduction provides for a limited tax deduction for individuals who temporarily carry out the duties of their office or employment in select countries. The original select countries were Brazil, Russia, India, China or South Africa. In the Finance Act 2013, the select countries were expanded to include Nigeria, Senegal, Algeria, Egypt, Ghana, the Democratic Republic of Congo, Kenya and Tanzania.

The Chamber recommends that the further expansion of the list of countries to align with the Government's Trade, Tourism and Investment Strategy 2010-2015. Such an alignment would expand the selected countries to include Japan, Australia, Singapore, South Korea, Saudi Arabia, UAE, Malaysia, Turkey, Indonesia, Mexico, Vietnam, Thailand, and Chile.

3.3.2 *Adjust the number and definition of qualifying days to align with the business demands*

The number of days required as "qualifying days" is currently 60 within a 12 month period. This period is seen as unnecessarily long for many of the small businesses that could use the Foreign Earnings Deduction. It is suggested to reduce the qualifying days by more than half, to 25 days. The definition of the qualifying days should also include travel to and from the country, as the travel time to many of these locations is lengthy.

3.3.3 *Modify the relief so that it can be awarded through the PAYE system*

Currently, the tax relief for the Foreign Earning Deduction is claimed at the end of the tax year by the employee who has undertaken the travel. Allowing the relief to be awarded through the PAYE system would speed up the relief process considerably. Claims already require the statement of the employer, so relief via PAYE would speed up the process for the individuals with minimum impact on employers. A key advantage of the scheme should be that the employee can access cash flow impact more quickly than the current system allows.

3.4 Tourism rate of VAT extension & expansion | Incremental Change

Commit to the continuation of the 9% reduced rate of VAT which has been a clear success for the tourism sector, and explore its expansion.

3.4.1 *Proposal*

The 9% rate of VAT places Ireland in a favourable position versus a majority of other EU Member States, particularly in the food and restaurant sector. Other countries are moving in a similar direction: Germany, France and Spain all currently operate low VAT rates for hotel stays and Switzerland has announced a 4-year renewal of its reduced rate. Ireland must maintain the 9% rate to entrench the advantages gained over the past 24 months of its existence, and continue to encourage growth and employment in tourism, and.

Given the policy's success, Dublin Chamber recommends that the rate be extended to 2016.

The Government should also consider expansion of the reduced VAT rate for a variety of other labour intensive industries, where EU law allows. In particular, services such as construction, the renovation and repair of private dwellings and hairdressing are mostly operated as small business and do so on very tight margins. A small reduction in operating costs could yield extremely positive effects, both for the consumer and in terms of growing employment opportunities. The possibility of extending the reduced VAT rate to labour intensive areas such as these is something we believe should also be examined further.

3.5 Competitive Tax Environment | Incremental Change

Ensure that Ireland remains a tax competitive location for the attraction and retention of FDI and indigenous businesses.

3.5.1 *Support*

There are a number of ongoing corporate tax discussions taking place at EU, transatlantic and global levels. The Chamber believes that the Corporation Tax Strategy set out by the Minister for Finance in Budget 2013, which focuses on Rate, Regime and Reputation, is a solid base for engage in those political discussions.

Dublin Chamber appreciates and supports the Government's commitment to progress this strategy. Ensure that Ireland is not at a competitive disadvantage is paramount to the outcome of any of these discussions, which the Minister captured well in his Budget Speech:

> *"The Countries are increasingly competing more and more aggressively for mobile foreign direct investment. I want Ireland to play fair - as we have always done - and I want Ireland to play to win. That is why I will continue to examine ways in which Ireland can ensure that our corporate tax regime remains competitive."*

4 Maximising the city's economic contribution

The Greater Dublin Area (GDA) is the country's portal to the global economy and the engine that propels the national economy forward. A vibrant, energetic and prosperous Dublin city region will play an instrumental role in solving the unemployment crisis that besets the State.

This message is reflected by data on Dublin's contribution to the overall national tax take. In 2008, Dublin generated 55.6% of the total VAT revenue and paid 62.4% of all corporation tax.[4] It also accounted for 50% of PAYE revenue and 41% of all Capital Gains Tax intakes in the same year.[5] Moreover, recent CSO data indicated that 771,900 people were employed in the GDA in Q3 2012 which represented 42% of the total 1,841,300 individuals working in the State.[6]

Ireland's future economic prospects are contingent on Dublin's ability to deliver modern, world-class infrastructure and a heavy concentration of investment.

4.1 Lack of office space in Dublin | Disruptive Change

Ensure that an adequate amount of high quality office space is available in Dublin through tackling issues around investment, development and costs.

[4] Response to a parliamentary question by Leo Varadkar, TD. Available:http://www.leovaradkar.ie/?p=1076
[5] Ibid
[6] CSO (2012) *Quarterly National Household Survey Quarter 3 2012*, 22

4.1.1 *Background*

If Dublin is to remain an attractive destination for multinational companies, the availability of high quality, reasonably priced office space is essential. There is growing evidence that, regardless of the national situation, Dublin faces a shortage of suitable accommodation for investors. The latest figures from JLL show that vacancy rates for Grade A quality office space now stand at just 5% and the tap of new property development has not been turned on. Given that our main competitors for investment are other metro locations across Europe, failure to address the availability issue is a loss not just for Dublin, but for Ireland. Rents for prime office space in Dublin are currently competitive when viewed against other similar-sized European cities, but these rents will rise as supply dries up.

4.1.2 *Development Charges Waiver*

In order to incentivise investors, it is suggested that local authorities (in the case of development charges) and the State (in the case of project-specific levies), share some of that risk. This could be achieved via the following measures:

- In the case of the four Dublin local authorities, a complete waiver of development charges is needed where the construction project does not require any additional infrastructure development and a 50% waiver where some additional infrastructure is required. In both cases the local authority will gain additional future revenues from future increases in value as rental yields rise so there should be no net cost.

- In cases where the cost of additional infrastructure exceeds the 50% development charge, arrangements may be put in place to recover the cost over time. In the case of project specific levies such as Metro North, the upfront levy should simply be transmuted into a future annual levy based on the increased value of the property when and if the proposed project is completed.

4.1.3 *Facilitating Development*

Dublin Chamber welcomed the approval of Dublin City Council's Docklands SDZ plan, which will accelerate the development of much-needed new residential and commercial properties. However, there are still several issues which impede development:

- The 80% windfall tax on rezoned land should be significantly reduced. At present, the tax does not generate significant revenues and acts as a major disincentive for preparing available sites for development.

- Dublin City has at least 600 vacant sites. If developed, such sites could add to the social and economic fabric of the city, boosting employment and helping to alleviate the housing crisis. We urge the Government to act on the proposal to instate a vacant site levy, as alluded to in the Construction 2020 plan.

- SDZ planning still requires a minimum of 12 months. The Chamber urges the Government to follow through on its commitment to greater planning flexibility as set out in the Construction 2020 plan.

- The Chamber considers the seven storey limit in place in Dublin to be excessive, and a strong impediment to developments that would help address the supply issues.

- Brownfield sites remain a significant challenge. If unlocked, they could provide sites for tens of thousands of accommodation units in the Dublin region.

- The 'land banking' or 'mothballing' of land must be strongly discouraged, and NAMA should be encouraged to release the sites in its portfolio. The Government must consider all available options in addressing this issue. In particular, Compulsory Purchasing Orders are a largely unused tool which could be used to prevent land banking.

4.2 Danger in under investment | Disruptive Change

In business and Government alike, capital investment needs are sometimes ignored in times of poor cash flow. Failure to invest in the future can destroy a business, just as failure to invest in Dublin will seriously damage the national economy.

Dublin Chamber appreciates that only the most pressing infrastructural projects can be considered in the current climate. Below is a proposal for revising and increasing the existing capital investment envelope, in order to maximise the potential economic impact of existing infrastructure.

We urge Government to show strong business acumen by prioritising capital investment in the city at this critical juncture.

4.2.1 *Background*

A strong economic rationale also exists for enhancing Ireland's infrastructural network. City regions are responsible for generating more than 80% of global Gross Domestic Product (GDP) and contain over half of the world's population. If Dublin is to realise its potential as a city region, it must deliver a 21st century infrastructure that foments, rather than hampers, economic development.

A significant portion of the population in the GDA and surrounding counties commute to Dublin on a daily basis. Indeed, Census 2011 figures revealed that 76% of commuters into Dublin City and suburbs live in Fingal, Kildare, Meath or Wicklow.[7] If the population of these counties continues to grow,[8] we can expect a concomitant increase in the number of people commuting to Dublin. The National Transport Authority (NTA), for instance, estimates that the number of journeys that will be made by people within the GDA each weekday in 2030 could be more than 6 million.[9]

These commuters face lengthy travel times. More than 1 in 7 commuters residing in Fingal, Laois, Westmeath, Meath, Kildare and Wicklow face travel times of an hour or longer to their job.[10] There is also significant disparity in journey distance between residents of Dublin city centre and its inner suburbs and those who live in the GDA hinterland. The journey distance to work for the majority in the former camp is less than 5km while most individuals in the latter group travel over 10km to work.[11]

4.2.2 *Proposal*

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[7] CSO (2012) *Profile 10: Door to Door*, 21
[8] The 2011 Census results revealed that the rate of population growth in Kildare, Meath and Wicklow averaged 11.4% since 2006 with County Laois recording a hugely substantial increase of 20.1%. Significant population growth has also occurred in the counties that surround the GDA. The average population growth of Louth, Wexford and Carlow since 2006 has amounted to 9.77%.
[9] National Transport Authority (2011) *Greater Dublin Area: Draft Transport Strategy 2011-2030 -2030 Vision*, Chapter 4, 9
[10] Ibid
[11] Ibid, Chapter 4, 11

For the reasons outlined above, an integrated, multi-modal transport infrastructural system is a requirement for the Dublin Region and its adjacent counties. Government must devise credible strategies to meet this urgent need and the investment plan set out by the National Transport Authority will not be sufficient. The funding envelope outlined in the Integrated Implementation Plan (2014) for 2015 to 2018 is a mere €10m above the investment made in 2013 (see table).

	2013	2014	2015	2016	2017	2018	Total
Funding (€ m)	140.6	149.2	145	150	150	150	884.8

4.3 Public Private Partnerships

Dedicate more internal resources to explore the potential to unlock additional moneys for capital investment through Public Private Partnerships (PPPs).

4.3.1 *Background*

The agreement and commencement of work of the Public Private Partnership (PPP) for the Newlands Cross project marks a significant step forward.

It was signalled in 2012 that the Department of Public Expenditure & Reform was actively exploring PPP funding yet progress has been minimal. The Chamber is also disappointed that while the European Investment Bank is calling for greater use of their funds, the reality is that practical barriers are in place making this out of reach.

Given the ongoing constraints on government funding and borrowing levels in the medium term, government must look to alternative means to finance infrastructure. User charging has been used to great effect in Ireland.

Where user charging is not an option, ultimately the reality is that the Exchequer (and the taxpayer) has to pay for that infrastructure. A question then remains as to what is the most efficient and affordable way to pay for that infrastructure. In the current environment, the government cannot afford to borrow more to fund infrastructure. Using private finance to fund infrastructure would mean that the burden of payment for the Exchequer is spread over time (in tandem with generation of improved economic activity, at least in part as a result of the improved infrastructure), rather than having to be funded upfront.

Greater exploration of Irish access to PPPs, perhaps supported by European Investment Bank funding, would not only support direct job creation, it is a competitive necessity for macro employment levels. Such exploration must include consideration of credit enhancement, such as changes to concession lengths, changes to the tenor of the financing, use of sovereign risk insurance products and 'ring fencing' Government funds to address financers' risk concerns.

5 Cash Position of SMEs

Since the beginning of the crisis, SMEs have faced serious cash flow issues which have hampered their ability to grow.

In recent years, the Government has introduced several measures which aim to address this constrained cash flow to SMEs. The Chamber welcomes these, but feels that certain revisions could substantially improve the schemes in place, and boost the cash position of Irish SMEs.

5.1 Cash Basis Threshold for VAT | Incremental Change

Increase the cash basis threshold for VAT to €2.5m as a final step in the incremental increase over the past two budgets.

5.1.1 *Proposal*

Over successive Budgets Dublin Chamber has championed the need to increase the threshold of the cash receipts basis for VAT from €1 million to €2.5 million. Making VAT due on the basis of cash receipts rather than on the issuance of an invoice has the effect of easing the cash flow pressures on small businesses. We estimate based on CSO business census figures that this change would make an additional 4,500 companies eligible for the cash receipts basis of VAT.

In the last two Budgets, we have welcomed the progress towards this goal, as in Budget 2013 it was first increased to €1.25m and then in Budget 2015 to €2m. The Chamber recommends that the Government make the final increase to the cash basis threshold for VAT to €2.5m. An increase would continue to improve the cash flow situation for SMEs, and add to the Government's achievements in this area to date.

5.2 Professional Services Withholding Tax | Incremental Change

Remove the Professional Service Withholding Tax obligation for professional service providers where evidence of tax clearance is obtained.

5.2.1 *Proposal*

Government departments, agencies and semi-state bodies are obliged to withhold an amount equal to the standard rate of tax (20%) from professional service providers.[12] The amount deducted is a credit given against income tax or corporate tax. Dublin Chamber has been informed by many companies that the process of getting tax credits against withheld payment can take over a year-and-a-half.

This additional cash flow burden can be significant for a company. The amount withheld is not limited to the profit from service but includes third party costs, outlays and other expenses.

Given that evidence of a tax clearance certificate for contracts in excess of €10,000 is now required, a professional services withholding tax is unnecessary. Tax compliance rates for Irish companies are very high compared with rates in 1987 when compliance was introduced. Dublin Chamber recommends the removal of the

[12] Basically, all professional services are subject to Professional Services Withholding Tax. This includes the following services: accountancy, auditing or finance and services of financial, economic, marketing, advertising or other consultancies, solicitor or barrister (and other legal services),geological services, architectural, engineering, quantity surveying or surveying nature, medical, dental, pharmaceutical, optical, aural or veterinary nature. The 20% is applied on total amount including any third party costs but ex-VAT.

Professional Service Withholding Tax obligation for professional service providers where evidence of tax clearance is obtained.

5.3 Close Company Surcharge | Incremental Change

Increase the close company surcharge *de minimis* from €2,000 to €10,000 and abolish the professional services charge.

5.3.1 *Proposal*

Most Irish resident companies are what are called 'close' companies. A Close Company is a company where rights to control and income distribution are held by five persons or fewer. Close companies are liable for a surcharge on undistributed income payable of 20%. Professional service close companies are separately liable for 15% on half of their undistributed after-tax trading income. As a result, there is a disincentive for companies to maintain the necessary level of cash-flow on demand through their deposit account.

It would also seem that many of the historical reasons for the surcharge no longer apply.[13] The Commission on Taxation Report 2009 recommended a significant increase in the *de minimis* amount for which investment income could be undistributed, and the elimination of the professional service charge.

In Budget 2013, the Government raised the de minimis level from €635 to €2,000. This move is welcome, but in the context of the cash flow requirements of companies, it is still too low. The Commission on Taxation examined *de minimis* amounts of €5,000 and €10,000 as indicative amounts.[14]

The professional service charge also saw a rise in the *de minimis* amount in Budget 2013. This is insufficient and is put best by the Commission on Taxation which stated:

> *"The close company surcharge on professional services companies inhibits such companies from re-investing their trading income. Similar restrictions do not apply to other trading companies. We cannot see an objective rationale for distinguishing between professional services companies and other trading companies and we therefore recommend the abolition of the surcharge for professional services companies."*

Therefore, Dublin Chamber believes that the *de minimis* level should be increased from €2,000 to €10,000 and that the professional services charge be abolished in Budget 2015.

5.4 Public Procurement | Incremental Change

The Chamber has consistently campaigned for the improvement of the public procurement process. In particular, the following reforms would facilitate the process for businesses, especially SMEs:

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[13] "The justification for extending the surcharge regime in 1976 to include retained profits of close companies was based on concerns of leakage of income tax from the self-employed sector as well as concerns about the equity of a corporation tax system that permits very low-taxed profits. However the introduction of self assessment for companies, the introduction of dividend withholding tax, and the bringing forward of preliminary Corporation Tax payments has achieved the acceleration of payment of tax on the profits of companies generally." - Submission to the Commission on Taxation by the Consultative Committee of Accountancy Bodies – Ireland. http://www.commissionontaxation.ie/submissions/Accountancy%20Tax%20Financial%20Law%20Insurance//A02%20-%20CCABI.pdf

[14] The 2011 Tax Strategy Group discussion of this topic notes: "The Report does not specify what the increased limit should be." However, the Report's costing figures indicate that they consider €5,000 to €10,000 as appropriate levels.

5.4.2 Use the LM3 tool in all public contracts
5.4.3 Increase joined-up thinking between APJ & procurement rules
5.4.4 Clearer award criteria and provide feedback
5.4.5 Reduce administrative burden
5.4.6 Access to Public Procurers
5.4.7 Prompt payment options

5.4.1 *Background*

If SMEs win and retain more supply contracts to Government and other authorities, this is a 'win-win' for all, generating growth in employment and business taxes. While the recently published "Circular 10/14: Initiatives to assist SMEs in Public Procurement" document is to be welcomed, overall Dublin Chamber does not believe that the circular will make any tangible difference to small firms who are struggling to compete for public contracts.

5.4.2 *Use the LM3 tool in all public contracts*

Dublin Chamber proposes that any public contract given out should include the use of LM3 in its criteria. This would ensure that every public contract would take the local economic impact into consideration.

The LM3 Online tool has been used to great effect in the UK at local government level, enabling organisations to measure how much using local or non-local suppliers is worth to the local economy. LM3 measures the multiplier effect of income into a local economy over three 'rounds' of spending, taking into account:

- Any organisation's turnover or project cost including procurement and employee wages and other forms of cost,
- Where and with whom the company spends that money,
- Where and how suppliers and employees re-spend their incomes.

The multiplier is then calculated for every unit of currency spent within a 'local' area selected by the user. For example, an LM3 score of 1.50 would indicate that every €1 earned by your company generates an additional €0.50 for your local area.

5.4.3 *Increase joined-up thinking between APJ & procurement rules*

Dublin Chamber calls on the Government to address the current disconnect between the Action Plan for Jobs and the rules around public procurement. The aim of the Action Plan for Jobs is to increase employment in the state, and it is vital that the rules around procurement are aligned to the same goal.

5.4.4 *Clearer award criteria and provide feedback*

Two of the most consistent issues raised by members of Dublin Chamber in relation to the tendering process are the lack of clarity regarding award criteria and the lack of feedback. Dublin Chamber believes that the following measures should be taken to offer more clarity in contracts and for the provision of concise feedback that will make it easier for suppliers to tender for public contracts:

- Tailor the criteria for contracts of varying value (e.g. below €50k, €500k, €1m, €10m) and then ensure turnover & insurance criteria are appropriate to the size of these contracts.
- Ensure that public servants do not bundle contracts simply to reduce the administrative burden they face. The current level of paper work required for assembling a tender document remains the same regardless of the value of

the contract. This makes it more likely for public servants to bundle contracts together to ease (their own) administrative burden.

- Insert social clauses in the tender criteria, rather than focusing on minimum criteria. These clauses might focus, for example, on the benefit of local job creation and supply chain proposals.
- Ensure that feedback is provided to all firms. This will highlight areas where they need to improve for the next tender. It can also help them come to a decision that a particular area of work is not for them. For tenders of all sizes, detailed feedback should outline why the applicant was not successful in winning a contract.

5.4.5 *Reduce administrative burden*

The administrative burden of tendering for public contracts has been cited by many suppliers as an obstacle to tendering for public contracts. We believe that a number of basic measures can be implemented to improve this.

- Increase the use of standardised tender documents. This will enable suppliers to become more familiar with the questions to be answered and the forms to be appended to their tender.
- Provide a longer lead in time by the early advertisement of available contracts.
- Minimise the number of questions asked of suppliers and be mindful of the resource constraints which micro and small enterprises operate under.
- Award notices should be published for all contracts.
- Eliminate jargon from tender documentation.
- The provision of audited financial statements is not relevant to all entities, e.g. a partnership. This should be clarified in the contract.

5.4.6 *Access to Public Procurers*

Identifying and communicating with public sector procurers has long been a difficultly encountered by suppliers tendering for public sector contracts. To overcome this barrier experienced by suppliers, especially suppliers relatively new to public sector tendering, it is recommended that public sector organisations make contact persons publically available for supplier inquiries inside and outside of competition periods.

5.4.7 *Prompt Payment Options*

Since earlier this year, the government now has available to it a Purchasing Card facility from certain banks which can have a very significant positive effect on the job-sustainability of suppliers of goods and services to numerous departments and agencies of the State. This new facility, which can reduce the average cashflow delay from over 50 days to as little as 3 days, can also significantly reduce the State's overall costs of making payments to its suppliers. It is vital that small businesses can be paid faster for their work. Dublin Chamber recommends that the Purchasing Card system be used by all Government departments and agencies, and local government bodies, for all goods and services procured from SMEs.