Submission to Government on Priorities for the Supplementary Budget 2020

7th July 2020

Executive Summary

- **Priority I: Extend Supports for Business Costs**
  - Provide for a gradual withdrawal of the Temporary Wage Subsidy Scheme for SMEs and publish a schedule of planned reductions to allow for financial planning.
  - Extend the waiver of commercial rates for impacted firms to the end of Q1 2021.
- **Priority II: Boost Business Liquidity**
  - Expand the Restart Grant so that all small firms may be eligible if they meet the other criteria; increase the base rate of pay-out; and re-examine the connection to commercial rates payments to ensure that start-ups and small firms sharing spaces may be eligible.
  - Expedite the promised roll-out of new credit and finance facilities for SMEs through a new Credit Guarantee Scheme, SURE scheme, the warehousing of tax liabilities, and the scale-up of Microfinance Ireland.
  - Ease access to the Employment & Investment Incentive (EII) Relief for start-ups impacted by Covid-19 by amending the definition of an 'undertaking in difficulty'.
  - Provide for a 14-day payment cycle by all Government departments and their agencies to support business cash flow.
- **Priority III: Protect and Reboot the Hospitality Sector**
  - Extend the Temporary Wage Subsidy Scheme for the hospitality sector until the Budget in October and adapt it to the industry's labour market conditions.
  - Stimulate domestic demand by raising the cap on the tax-free voucher for employees while restricting its use to the Irish tourism and hospitality sector.
- **Priority IV: Support New Ways of Working and Travelling**
  - Increase the individual tax rebate for home working costs as a monetary incentive to prevent a return to congestion and support continued social distancing.
  - Support modal shift by providing new grant aid for SMEs to cover the costs of new cycling related facilities.
  - Provide an urban voice on the new SME Taskforce for Covid-19 recovery through *City Regions Ireland*.

1. Introduction

Dublin Chamber is the representative body for businesses in the Greater Dublin Area. Its cross-sectoral membership base spans the spectrum from small start-ups to large multinational firms, giving the Chamber a keen insight into the needs of businesses and their employees at this challenging time. The Chamber's vision is that the Dublin region will be globally renowned both for its economic competitiveness and quality of life; and we have promoted this vision in our past pre-budget submissions[1] as well as our General Election priorities report earlier this year, which called for *A Decade of Delivery* to secure a sustainable future for Dublin.[2] Our recommendations focused on investment in infrastructure for an urban future, sustainable urban planning and housing, an improved environment for enterprise and entrepreneurship, and a modern flexible workforce. This submission to the new Government outlines business priorities for the supplementary budget planned for July 2020 in light of the challenges facing the economy as a result of the Covid-19 crisis.

2. The Programme for Government and Economic Recovery

The enterprise agenda is more relevant now than ever as Ireland attempts to charts a course out of the current crisis. Firms are closing and will close as a result of Covid-19. We need to make sure that viable firms are supported, but also that new firms can raise finance, trade and generate employment. Business and consumer confidence will be key factors affecting how business owners and entrepreneurs make these investment and trading decisions.

The Programme for Government contains a number of positive and timely commitments with respect to supporting SMEs. We welcome the commitment to review Capital Gains Tax (CGT) in each budget to support innovation-driven enterprises that will help the transition to a low-carbon economy, and the commitment to review the taxation environment for SMEs and entrepreneurs more generally with a view to improving the various support schemes. Dublin Chamber works particularly closely with start-ups and entrepreneurs, and welcomes this attention to the importance of the enterprise in the Programme for Government. We have long made the case for an improved environment for equity investment in Irish SMEs. The present CGT regime effectively incentivises passive investment in 'blue chip' foreign firms over investment in higher-risk domestic enterprises by applying a flat 30% CGT rate, one of the highest in Europe, irrespective of risk profile or the contribution of the underlying investment to the Irish economy. To address this, Dublin Chamber supports a 20% rate of CGT on investments in unquoted trading companies where shares have been held in excess of 3 years. While lower than the 10% rate available under the UK Investors Relief scheme, this would be an important step to encourage investment in indigenous business.[3] Other measures

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[1] *Dublin Chamber Submission on Budget 2020*, https://www.dublinchamber.ie/DublinChamberofCommerce/media/Policy-Documents/Dublin-Chamber-Budget-2020-Submission-DIGITAL_1.pdf; *Dublin Chamber Submission on Budget 2019*, https://www.dublinchamber.ie/getattachment/813a45f7-1444-43bc-b00b-9d5436bb3c89/Dublin-Chamber-Pre-Budget-Submission-2019.pdf?lang=en-IE

[2] *A Decade of Delivery: Securing Dublin's Sustainable Future,* https://www.dublinchamber.ie/DublinChamberofCommerce/media/banners/DubChamber_Election-Manifesto-2020.pdf

[3] HM Revenue & Customs internal manual, *Capital Gains Manual*, CG63500P, https://www.gov.uk/hmrc-internal-manuals/capital-gains-manual/cg63500p. The Dept. Finance has

to foster indigenous enterprise include raising the lifetime cap on qualifying gains for CGT Entrepreneur Relief to match or exceed the nominal UK equivalent, and to improve the R&D Tax Credit for medium-sized companies.[4]

Dublin Chamber welcomes the Programme for Government as offering the basis for a step change in favour of investment in public transport and active travel infrastructure, with the potential to transform quality of life in Ireland's growing cities. Of course, this needs to be combined with delivery of new residential development in line with the National Planning Framework to meet growing urban demand for accommodation. Dublin Chamber has long made the economic, social, and environmental case for this urban sustainability agenda, but the Covid-19 crisis lends it new urgency. Public transport capacity is now a critical issue, while pedestrian space and cycling infrastructure have taken on a new priority due to social distancing concerns. The Chamber has also been at the forefront of promoting remote and flexible working, and has sought to advise Government on the changes needed to support businesses and their employees in the context of ongoing social distancing requirements. Several short-term recommendations in this regard are outlined in this document.

Continued commitment to capital investment in public infrastructure should play a vital role in mitigating the economic damage wrought by Covid-19 by providing stimulus and certainty, while also preparing Ireland to take better advantage of the economic recovery when it occurs. Meanwhile, a renewed focus on Ireland's enterprise environment should take place to establish entrepreneurship and SME growth at the centre of Ireland's economic strategy post-Covid-19, alongside continued foreign direct investment. We look forward to discussing these issues in more detail ahead of Budget 2021. However, the economic shock caused by the pandemic also raises more urgent questions of business survival and it is these that Dublin Chamber highlights for immediate attention in this submission.

3. PRIORITY I: Extend Supports for Business Costs

The July supplementary budget should focus on maximising the survival rate of Irish businesses, to support a large-scale return to growth and employment and to minimise the "scarring" effects of the lockdown. This can be done by injecting struggling businesses with badly needed liquidity supports. In this regard, the Temporary Wage Subsidy Scheme remains a particularly important measure which reflects that fact that labour costs account for the bulk of business costs of firms in Dublin.

3.1 Provide for a Gradual Withdrawal of TWSS for SMEs:

A sudden discontinuance of the Temporary Wage Subsidy Scheme after 31st August would represent a financial shock for many SMEs still reeling from a collapse in revenue and

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previously said it is unable to calculate the cost of introducing any version of the UK scheme in Ireland on the grounds that tax returns do not identify the amount of chargeable gains associated with unquoted shares. Dáil Éireann Debate Thursday 5 July 2018, Question No. 86, Reference No. 29776/18. Deputy Pearse Doherty. Answered by the Minister for Finance Paschal Donohoe.

[4] Dublin Chamber, *Submission on Budget 2020*, pp. 3-9, https://www.dublinchamber.ie/DublinChamberofCommerce/media/Policy-Documents/Dublin-Chamber-Budget-2020-Submission-DIGITAL_1.pdf#page=5

slowdown in cash flow, and could undermine what the scheme has successfully achieved thus far. Uncertainty remains a major factor affecting both business and consumer confidence; thus far the Government has mitigated this through bold and protective measures, and these should be continued in the short-term. Changes to the wage subsidy scheme should not take the form of a ‘cliff edge’. Rather, the supplementary budget should provide for an extension of the scheme beyond 31st August and commit to a planned tapered withdrawal in order to provide impacted SMEs with certainty and grant them ‘breathing room’ to re-adapt to dramatically changed market conditions. To allow SMEs engage in necessary financial planning, the supplementary budget should be accompanied by a phased roadmap for withdrawal of the Temporary Wage Subsidy Scheme, with a schedule of planned reductions published well in advance.

3.2 Extend the Commercial Rates Waiver:

The commercial rates waiver for impacted business (i.e. those with a 25% decline in turnover) should be extended until the end of Q1 2021, thereby marking a 12 month period of rates relief from the onset of the Covid-19 crisis in March 2020. In order to facilitate this, the July supplementary budget should provide for adequate replacement funding for Local Authorities from the Exchequer (the initial 3-month waiver had an estimated cost of €260 million). This measure has a significant impact on local authorities in Dublin, which raise more than half their funding from businesses through rates and other business levies.

4. PRIORITY II: Boost Business Liquidity

Liquidity is the most immediate issue which is facing companies of all sizes, with costs having mounted even as businesses remained shut, and debts growing accordingly. Further action is required to bolster firms’ working capital and support investment, with a particular focus on the needs of impacted SMEs.

4.1 Expand and Upgrade the Restart Grant

While the credit facilities provided as part of the initial Covid-19 support package remain welcome, and improvements to these will be important, many businesses have reached their natural repayment constraints and are not in a position to take on more debt. Others will approach this position soon. Successfully rebooting the economy will therefore require a major injection of cash into impacted but viable businesses without adversely affecting their debt profile.

Dublin Chamber notes the Programme for Government commitment to ‘review the Business Restart Grant and consider further grant supports for SMEs’ and advises immediate and ambitious action in this regard. The supplementary budget should make provision for a major increase in the Restart Grant. The funds required to address the impact of Covid-19, e.g. acquiring new stock etc., vary from firm to firm, with some businesses requiring tens of thousands of euro to recommence trading. Government should increase the Restart Grant from €2,000 to €15,000. The equivalent measure in the UK, the Small Business Grant, is £10,000, while the Federal German emergency aid for companies with up to 10 employees includes a non-repayable cash grant of up to €15,000. A revision of the Restart Grant would be an opportunity for the Government to reconsider its decision to close off the grant to firms that had a turnover of over €5 million. The EU definition of a small business is an enterprise with less than 50 staff and a turnover or balance sheet total not exceeding €10 million; eligibility criteria for the Restart Grant should be adjusted to reflect this.[5]

Particular consideration should be given to start-ups and to other small businesses which may be using shared spaces. To ensure the eligibility of such firms and to protect Dublin's start-up eco-system, the connection of the grant to commercial rates payments should be re-examined. Finally, business feedback suggests that release of funds thus far has been too slow, a report that has also been heard in relation to other supports. Additional resources should therefore be committed to speed up the processing of applications as necessary.

4.2 Expedite Roll-Out of Credit Facilities for SMEs:

Further credit facilities for small businesses remain important to economic recovery and must be provided for in the July supplementary budget. Dublin Chamber notes the positive commitments in the Programme for Government with respect to debt finance for SMEs, including the commitment to enact legislation for the introduction of a new €2 billion Credit Guarantee Scheme, SURE scheme, and the warehousing of tax liabilities. The Chamber calls for speedy action on these fronts and an ambitious approach to the promised scale-up of Microfinance Ireland so that it can support greater numbers of small businesses and start-ups in accessing finance.[6]

4.3 Ease Access to EII Relief for Start-Ups

The Employment & Investment Incentive Relief provides a valuable means of accessing finance for start-ups. To qualify there is a requirement that a company must not be an 'undertaking in difficulty', but this is defined as one in which accumulated losses exceed the value of 50% of subscribed share capital. This criterion should be reconsidered in light of the impact of Covid-19 on small start-ups (and the supports otherwise available), as it may no longer accurately reflect the underlying viability of such an enterprise.[7]

4.4 Provide for 14-Day Payment:

The supplementary budget should make provision to ensure that all Government departments and their agencies strictly adhere to a 14 day payment cycle and that information relating to prompt payment should be published on a regular basis. This has been adhered to in the past generally only by Government departments and not by their associated agencies in Health and Housing, for example, which account for the bulk of Government spending.

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[5] *Official Journal of the European Commission* (L 124/36) 20th May 2003, 'Commission Recommendation of 6th May 2003 concerning the definition of micro, small and medium-sized enterprises', https://www.enterprise-ireland.com/en/About-Us/Our-Clients/SME-Definition-OJ-2003.pdf
[6] *Programme for Government, Our Shared Future*, p. 19
[7] Revenue, *Tax and Duty Manual Part 16-00-10, The Employment and Investment Incentive (EII) Relief for Investment in Corporate Trades*, p. 6, https://www.revenue.ie/en/tax-professionals/tdm/income-tax-capital-gains-tax-corporation-tax/part-16/16-00-10.pdf#page=6

5. PRIORITY III: Protect and Reboot the Hospitality Sector

The ‘Accommodation and food and beverage services’ sector (which excludes grocery retail) plays a critical role in both the Dublin and national economy but has been severely affected by Covid-19.

5.1 Extend and Adapt TWSS for the Hospitality Sector:

The supplementary budget should extend the Temporary Wage Subsidy Scheme for hospitality businesses until the Budget in October, to provide support during this exceptional decline in overseas tourist numbers. The TWSS should also be adapted to accommodate the particular labour market conditions and vulnerabilities of this sector. Many hospitality businesses are disproportionately reliant upon seasonal workers and student employees, including overseas students whose working hours are restricted; and have seen staff numbers drop considerably as employees have either gone home or taken up the Pandemic Unemployment Benefit. Replacement staff, however, are ineligible. As the TWSS is based on pre-pandemic working conditions, extra working hours given to remaining staff may not qualify either currently. The supplementary budget should address these anomalies. In addition, the extension of TWSS to newly-hired staff should be considered.

5.2 Stimulate Domestic Demand:

While costs are supported through the TWSS, Government has an important role to play in stimulating domestic demand for the accommodation and food and beverage services sector in the context of low international visitor numbers and low consumer confidence. Dublin Chamber proposes that the existing tax free voucher for employees be expanded and repurposed to drive domestic tourist demand. The supplementary budget should triple the €500 limit to €1,500, while restricting its use to the domestic tourism and hospitality sector. As a practical measure, consideration may be given, for example, to channelling use of this allowance through Fáilte Ireland’s new *Discover Ireland* website as a platform for domestic bookings.

6. PRIORITY IV: Support New Ways of Working and Travelling

Dublin Chamber has long highlighted the importance of investment in public and active transport infrastructure, and of improvements to the public realm. With this in mind, the Chamber warmly welcomes the commitment in the new Programme for Government to shift capital funding in favour of both public and active transport, a long held aspiration of the Chamber. Expeditious delivery of badly needed infrastructure projects like MetroLink, the DART Expansion Programme, BusConnects, and Luas extension will be critical both to Dublin’s future sustainability and its competiveness. However, in light of the continued need for social distancing in Ireland’s capital city region, we believe that particular priority must now be given to delivery of the Greater Dublin Area Cycle Network Plan.[8]

[8] National Transport Authority, December 2012, *GDA Cycle Network Plan: Written Report*, http://www.nationaltransport.ie/wp-content/uploads/2014/04/Written_Report11.pdf

The crisis caused by Covid-19 has highlighted the relative fragility of our current economic model while also showing the possibility of new ways of living, working, and travelling. Successfully rebooting the economy will require support for these changes in order to ensure a safe and sustainable return to business on a large scale. The July supplementary budget provides an opportunity to begin this transition. With public transport capacity now a critical issue, support for home-working should be considered as part of the supplementary budget, combined with realistic supports for modal shift towards walking and cycling by commuters in urban areas.

6.1 Increase the individual tax rebate for working from home

Although official Government health advice remains that employees should continue to work from home where possible, traffic volumes in Dublin have already exceeded 75% of pre-Covid-19 levels, indicating that more encouragement and support for remote working is required.[9] Dublin Chamber has already made a number of broad recommendations in this regard, including in our *Position Paper on Remote & Flexible Working*[10] and in our recent submission to the Oireachtas Committee on Covid-19 Response.[11] However, the supplementary budget provides an opportunity for a monetary incentive. At present, persons working from home may make an individual tax rebate claim against 10% of the costs of home working (including electricity, broadband, and heating) at their marginal tax rate at the end of the year. The rebate is very modest. For example, if tax is claimed back on expenses worth €100 (10% of annual bills amounting to €1000) by someone on the lower income tax rate of 20%, only €20 would be received. The Government should examine means of making this more attractive, and Dublin Chamber suggests that consideration could be given to a higher percentage of allowable expenses, e.g. 50%.

6.2 Provide Grant Aid for Cycling Facilities:

The NTA and Dublin City Council have warned that a successful return to work and trading while maintaining necessary social distancing will rely upon dramatic changes in commuter behaviour in favour of walking and cycling. The Covid Mobility Programme for Dublin City is predicated on a 200% increase in cyclist numbers from 13,131 in 2019 to 39,000.[12] However, most SMEs, unlike some larger firms, simply do not have the bike storage, shower, and changing facilities to accommodate a major shift to cycling by their employees; they also face liquidity issues and cost constraints that do not burden many larger firms. In the absence of funding to address these constraints, it is highly unlikely the cycling target will be met. To make the proposed modal shift more realistic, Dublin Chamber recommends that in addition to new public bike storage, the supplementary budget should make new grant aid

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[9] Dublin City Council, 2 July 2020, *COVID Mobility Measures Update to the Lord Mayor and Elected Members*

[10] Dublin Chamber, April 2020, *Position Paper on Remote & Flexible Working*, https://www.dublinchamber.ie/DublinChamberofCommerce/media/banners/Dublin-Chamber_Remote-Working-Policy-Paper_April-2020.pdf

[11] Dublin Chamber, June 2020, *Reopening Dublin Surveys: SME Findings & Recommendations, Submission to the Oireachtas Special Committee on Covid-19 Response*, https://www.dublinchamber.ie/DublinChamberofCommerce/media/banners/Dublin-Chamber-Submission-to-Special-Committee-on-Covid-19-docx.pdf

[12] Dublin City Council / National Transport Authority, *Enabling the City to Return to Work*, May 2020, p. 9, https://www.dublincity.ie/sites/default/files/content/RoadsandTraffic/COVID/Covid%20Mobility%20Programme%2022.5.20%20FA%20WEB.pdf#page=9

available specifically for SMEs to cover the costs of new cycling-related infrastructure on private commercial premises.

6.3 Provide an Voice for Urban SMEs

SMEs in cities face a particular profile of concerns. For example, staff are more likely to use public transport and face congestion issues, while the hospitality sector in urban areas is generally less reliant upon tourists in relative terms, while being very reliant upon local demand. These issues must be considered in policymaking over the coming months and years. Dublin Chamber notes the Programme for Government commitment to convene a SME and State Bodies Group to be chaired jointly by the Minister for Finance and the Minister for Business to coordinate the Government's ongoing response to Covid-19 for SMEs.[13] Ireland's cities are the drivers of growth in the Irish economy and the urban business community will have a central role to play in the national recovery from the Covid-19 crisis. With this in mind, Dublin Chamber requests representation on the new Taskforce for *City Regions Ireland*, an alliance of the chambers of commerce of Ireland's five cities as identified in the National Planning Framework.[14]

[13] *Programme for Government, Our Shared Future*, p.19
[14] City Regions Ireland, https://www.cityregionsireland.ie/