Submission to the Oireachtas Committee on Budgetary Oversight on Priorities for Budget 2021

October 2020

Dublin Chamber is the representative body for businesses in the Greater Dublin Area. Our diverse membership base, spanning the spectrum from small start-ups to large multinationals, provides the Chamber with a strong insight into the needs of business at this critical time for the Irish economy. The Chamber's vision is that the Dublin region will be globally renowned both for its economic competitiveness and quality of life. Dublin Chamber's formal submission to the Government in relation to Budget 2021 has been circulated to all members of the Oireachtas Budgetary Oversight Committee and is also available on the Chamber website here. This document is a response to an invitation from the Committee to address the questions discussed below.

What are the key decisions you would like to see included in Budget 2021? Have you costed these policies and if so, how much would they cost?

Dublin Chamber's full range of recommendations for Budget 2021 is discussed in detail in our pre-budget submission. Dublin Chamber's key budgetary policy priorities are to boost investment in Irish enterprise; to accelerate the transition to a sustainable economy; and to support employees and improve the labour market. In service of these goals, we have three priority recommendations:

1. **Introduce a new 20% Capital Gains Tax rate for investments in unlisted trading firms to boost investment in Irish SMEs.**

   Helping Ireland's indigenous business base to recover and grow will require greater investment in SMEs. The ESRI identified a significant investment gap in the Irish SME sector in a joint study with the Dept. Finance several years ago, estimating that the gap amounts to over €1 billion annually.[1] The situation has deteriorated drastically due to Covid-19, with estimates of the revenue shortfall facing SMEs at the end of 2020 now ranging from €10.3 billion (Central Bank) to €15 billion (ESRI). However, Ireland's flat rate of Capital Gains Tax undermines efforts to promote investment in SMEs as there is no incentive to invest in a home-grown start-up rather than in a longer-established

[1] "The magnitude of this "investment gap" is economically meaningful and is estimated to be just over 30% (in 2016) relative to SMEs actual investment." ESRI, Measuring the Investment Gap & its Financing Requirements for Irish SMEs, 8 March 2018, https://www.finance.gov.ie/wp-content/uploads/2018/03/180308-Measuring-the-Investment-Gap-and-its-Financing-Requirements-for-Irish-SMEs.pdf

multinational company. On the contrary, the present Capital Gains Tax (CGT) regime effectively incentivises passive investment in 'blue chip' foreign firms over investment in higher-risk domestic enterprises by applying a flat 33% CGT rate, the third highest in Europe,[2] irrespective of the level of risk taken, or the contribution of the underlying investment to the Irish economy.

Dublin Chamber proposes introducing a new 20% CGT rate on investments in unquoted trading businesses, i.e. companies that are not listed on any Stock Exchange, where shares have been held for over 3 years. While still higher than the 10% rate available under the comparable UK Investors Relief scheme, this would be a significant measure to encourage investment in indigenous business. To keep the scheme open to small-scale investors, there should be no minimum percentage shareholding in order to qualify. We recommend establishing a lifetime limit on qualifying gains of €10m.

The Dept. of Finance has 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.[3] It has been calculated that a blanket CGT reduction to 20%, applying to investments in both listed and unlisted firms, would reduce Exchequer revenue by €481 million in a full year.[4] However, this static costing does not account for the increased revenue generated by stimulating business investment and greater participation in share ownership, and is obviously larger than the static cost of a targeted reduction. Moreover, the cost compares favourably with the estimated €440 million cost of cutting the standard rate of VAT from 23% to 21% as part of the July Jobs Stimulus package.[5]

You can read more about this and our other recommendations to boost investment in Irish enterprise in our pre-budget submission here.

2. **Prioritise sustainable infrastructure investment in the Greater Dublin Area to accelerate the transition to a green economy.**

Bold and ambitious measures are needed to accelerate the transition to a sustainable economic model for Ireland that will form the basis for prosperity in a rapidly changing world. This will require delivery of infrastructure projects in urban areas in tandem with sustainable urban planning. Green infrastructure in urban areas offers the greatest potential to achieve carbon reductions by effecting large-scale change in consumer behaviour. Infrastructure investment, and public transport investment in particular, is more efficient in high-density zones where greater use will be made of completed projects. Dublin Chamber has long argued that the State should allocate national resources in a way that respects and reflects where Irish people live in their greatest

[2] Tax Foundation, 'Capital Gains Tax Rates in Europe', 18 June 2020, https://taxfoundation.org/capital-gains-tax-rates-in-europe-2020/
[3] 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] Dept. Finance, *Capital Gains Tax Capital Acquisitions Tax, Stamp Duty, Tax Strategy Group -19/11*, July 2019, p. 10, https://assets.gov.ie/19127/bf33c368730e4dc58cc7c7930c9b8487.pdf
[5] Government of Ireland, *July Jobs Stimulus 2020*, p. 4, https://www.gov.ie/en/publication/c48ab-july-jobs-stimulus/

numbers. The Greater Dublin Area is the engine of the Irish economy and Ireland's largest population hub. Home to 40% of the population of the State, its population of 1.9 million will grow to 2.2 million by 2031.[6]

Dublin's success is critical to Ireland's success. Dublin was recently ranked among the most traffic-congested cities in the world, with an average of almost 250 hours lost per driver annually.[7] Conservative estimates of the cost of traffic congestion in the GDA amount to €350 million per annum, rising to a cost of €2 billion per annum by 2033.[8] This impacts both upon business competitiveness and quality of life, while also retarding the city's transition to a green future. Irrespective of Covid-19-driven fiscal deficits, the positive borrowing environment should be used to accelerate delivery of sustainable infrastructure projects in the capital city region. Priority projects include:

- ***MetroLink***

Dublin Chamber has long advocated the North element of the project and strongly supports the delivery of MetroLink to provide a rail connection between Swords, Dublin Airport and the city centre, and to serve the rapidly growing population of North County Dublin. The population of Fingal, which is the youngest in Ireland, grew by more than the entire province of Connacht in between the 2011 and 2016 censuses.[9] The Government must work to ensure this project is delivered by 2027 as planned.

- ***DART+ and DART Underground***

The DART+ expansion programme represents a sorely needed upgrade to the commuter rail service in the Greater Dublin Area, which would also act as the basis of a national electrification programme. While this is budgeted for likely completion by 2030/31 under the current National Development Plan, the revision of the NDP next year offers an opportunity to accelerate this timeline to 2027, for delivery in conjunction with MetroLink. Meanwhile, sight must not be lost of the DART underground interconnector, which will be crucial to the development of an integrated public transport system in Dublin and across the island of Ireland. This project has been discussed since 1971, but almost a half-century later, no progress has taken place. Dublin Chamber proposes that €40 million in funding should be set aside for a Railway Order and tender design process to bring it to 'shovel ready' status by the end of the current Government term in 2025.

- ***BusConnects***

The NTA plan for new bus corridors and Bus Rapid Transit in the capital includes new orbital routes better linking communities together along with the rollout of segregated cycle lanes. It has the potential to be a valuable solution to mounting traffic congestion

[6] CSO Census 2016, EP001: Population & Actual & Percentage Change 2011-16 by Sex, Province County or City, Census Year & Statistic, http://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/Define.asp?maintable=EP001&PL#anguage=0

[7] INRIX Global Traffic Scorecard 2018, http://inrix.com/scorecard/

[8] Dept. of Transport calculation, Dáil Question No: 346, John Lahart TD. Ref No: 1857/17, Proof: 348, Answered by the Minister for Transport Tourism and Sport Shane Ross.

[9] CSO, 2011-2016 Connacht Growth: 8,195; Fingal Growth: 22,223. CSO Census 2016, Preliminary Actual and Percentage Change in Population 2011-2016 by Sex, Province, County or City, Census Year and Statistic

and should be prioritised for funding. This project needs to remain on target and be delivered by 2027.

- ***Greater Dublin Area Cycle Network Plan***

There is strong business appetite for better cycling infrastructure in Dublin, as a means of easing congestion, improving quality of life, and making progress towards carbon reduction targets. The rapid improvements to safer urban cycling infrastructure in the wake of Covid-10, albeit provisional, show what can be achieved if there is political will in this area. We warmly welcome the significant allocation of funding for new cycling and pedestrian infrastructure in the Programme for Government. It is important that these funds are used to rapidly deliver the long-awaited Greater Dublin Area Cycle Network Plan, which would transform Dublin for the better. This should be prioritised for completion by 2025 to support the goal of a 20% modal share for cycling by 2030.

- ***Eastern & Midland Region Water Supply Project***

Water systems in competitor cities typically operate at c. 80% capacity, while in Dublin this figure is c. 98%. With Dublin expected to meet water supply constraints by 2025, the Eastern & Midland Region Water Supply Project is an urgent priority to ensure a sustainable supply of this vital resource.

- ***Luas Extension***

Dublin Chamber recently welcomed the publication of plans for the Luas extension to Finglas. The Luas is a vital part of the transport infrastructure in Dublin and plans for this extension, alongside extensions to Bray, Lucan and Poolbeg, were all allocated funding in Project Ireland 2040. These projects should be accelerated as part of the National Economic Plan.

- ***Broadband infrastructure***

As remote and flexible working increases, the reliability of broadband infrastructure in Dublin will grow in importance. During the Covid-19 crisis, WiFi black spots in the Greater Dublin Area, coupled with increased pressure on broadband causing slowing and connection outages, contributed to difficulties for people working from home. According to a recent ComReg Survey 77% of broadband users saw an increase in the usage of their home broadband service after Covid-19 restrictions were introduced. Telecommunications networks have largely been able to cope with the additional demand, but continued infrastructure investment will be required over the long-term to enable employees throughout the Dublin region to remote work effectively.

You can read more about this and our other recommendations to accelerate the transition to a sustainable economy in our pre-budget submission here.

3. To support employees and improve the labour market, the Employment Wage Subsidy Scheme should be reformed and considered for extension.

The Covid-19 pandemic has had a dramatic impact on the labour market, with the Covid-19 Adjusted Measures of Unemployment indicating an unemployment rate of 17% by

July 2020.[10] 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'. A sudden discontinuance of the Employment Wage Subsidy Scheme from April 2021 would likely represent a financial shock for many SMEs still suffering from a collapse in revenue and slowdown in cash flow, and could undermine what the scheme has successfully achieved thus far.

The tourism and hospitality sector has been particularly adversely affected by Covid-19, such that many otherwise viable businesses will continue to require some form of support until conditions begin to return to normal. A more gradual and targeted withdrawal of the revised wage subsidy scheme should therefore be planned to allow for sector-specific needs. This should be as part of a broader Government roadmap for business survival and recovery in the most badly impacted sectors. Moreover, the payment of the subsidy in arrears has cash flow implications for many businesses still reeling from a collapse in revenue and should be paid more promptly.

Dublin Chamber proposes reform of the EWSS so that the subsidy is paid in advance rather than arrears in order to support targeted firms with cash flow difficulties. We also propose that serious consideration be given to extending the EWSS beyond Q1 2021 on a sectoral basis for viable businesses that continue to be impacted by Covid-19.

You can read more about this and our other recommendations to support employees and improve the labour market in our pre-budget submission here.

How much do you think the Government should borrow to fund expenditure in 2021? Would it be prudent to borrow in excess of what is required to avail of the historically low interest rates? Rather than run the risk of borrowing at higher interest rates in the medium term should interest rates rise? Are there any revenue raising measures that you would recommend?

Dublin Chamber believes that it would be prudent for Government avail of the low interest rates at present by increasing borrowing. Irrespective of Covid-19-driven fiscal deficits, the positive borrowing environment should be used to accelerate delivery of sustainable infrastructure projects in the capital city region. These will act as a stimulus, protect the public exchequer against interest rate increases and inflation in the future, and begin to redress Ireland's historic deficit in urban infrastructure so that the country is better positioned to take advantage of global economic recovery when it occurs.

In the context of the uncertain economic outlook, and the extraordinary pressure on the public exchequer this year as Ireland grapples with the social and economic impact of Covid-19, it appears inevitable that the Government will have to adopt new fiscal adjustment measures. It is not likely or desirable that this be achieved purely through adjustments to current expenditure, and the National Economic Plan must therefore consider how best to

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[10] CSO statistical release, 5 August 2020, Monthly Unemployment July 2020, https://www.cso.ie/en/releasesandpublications/er/mue/monthlyunemploymentjuly2020/

raise revenue without undermining the goal of economic recovery. Increased taxation on labour and investment should be avoided so as to support economic recovery. The Programme for Government commits to raising the Carbon Tax from €26 per tonne to €100 per tonne by 2030.

Dublin Chamber proposes that in addition to making appropriate use of the positive borrowing environment, the National Economic Plan may accelerate the carbon tax timeline if necessary in order to secure the funding required for a revised and expanded National Development Plan that will advance Ireland's transition to a green and sustainable economy. This ought to be accompanied by a clear schedule of future increases to allow businesses to plan.

Broader context for our recommendations in this respect can be found in our pre-budget submission which is available here.