Irish SME Association

Pre-Budget Submission 2025

Contents

Executive Summary

Thanks to a relatively benign fiscal situation, Budget 2025 is one where Government can make strategic choices, rather than have budgetary decisions foisted on them by circumstance.

There is no longer any denying of the strategic importance of the SME sector to Ireland. It makes up 99.8% of our business demography, employs 60% of the workforce, and makes 3.8 times larger a contribution to the state in net national product terms.

Despite this, the state does not engage formally with the SME sector in the same way it does the multinational sector, semi-state sector and the public sector. This must change.

The state cannot mitigate the cost of living for workers by driving up wages. This is proven by independent, objective research. It can only do so by addressing the cost of living (and doing business). Government has the tools to do so, but has not yet exercised the willingness.

As noted by Ministers at the National Economic Dialogue 2024, the NGO and trade union sectors have sought expenditures neither this nor any other state can afford.

ISME advises prudence, and in support of sustainable finances and social protection proposes changes to PRSI and CGT that will in our estimation yield an additional €1.4bn to the Exchequer.

We cannot presume that merely throwing cash at the health system or critical infrastructure will improve outcomes or facilities for citizens, thus we propose a standing public spending commission, and a standing public service pay commission. We need to overhaul the delivery of services and infrastructure before we divert more taxation into them. Outputs of state services have not risen proportionately with expenditure.

We see signs of Dutch disease in the Irish economy in terms of low indigenous productivity, high asset costs and relatively lower service sector wage levels. We need a comprehensive review of indigenous industrial policy to rebalance the national economy as our GDP approaches twice the size of GNI*.

Lastly, in addition to the already massive contribution our sector already makes to the nation, we acknowledge the areas of productivity that are apparent. These shortfalls can be addressed by an upskilled managerial cohort; therefore we must wait no longer in training SME management and workers.

Key Budgetary Themes

1. The Government is strategically blind to the needs of the largest employment sector in the State as a result of failure to formally engage with SME employers via LEEF.

2. The cost of accommodation and living crisis cannot be addressed by forcing up the NMW, only by increasing the supply of accommodation and tackling consumer costs.

3. International trends suggest corporation tax receipts cannot be relied upon anymore, and that state aid rules that have traditionally ensured a level playing field for FDI are being abandoned. Our industrial policy must reflect this.

4. We must recognise that the State will have to resource higher levels of infrastructure and housing spend, as well as address risks identified in our National Risk Assessment which we have persistently ignored. This will limit expenditures elsewhere.

5. We should not aspire to be the most expensive State in the eurozone in which to live, we should aspire to be the most affordable. This means looking critically at our standard and reduced rates of VAT, and what they are applied to.

6. While we need to resource State services for a larger population, we must do so efficiently and effectively. Giving more money to some State services without reforming them will not improve outcomes for citizens. The commercial turnaround in An Post shows what can be done when the service user rather than the service provider is prioritised.

7. Our personal tax rates are not exceptionally high by European standards, but the income at which workers pay the marginal rate of taxation is at 88% of the average industrial wage. We should not remove more workers from the standard rate tax band; all workers must make some level of contribution.

8. While ISME has long campaigned for legal reform in order to tackle legal costs, it is now clear that the legal system is also an impediment to infrastructure development, affordable housing, affordable family law, free speech, timely commercial dispute resolution, and is discouraging inward investment by FDI. For how much longer will this sector be protected from the IMF reform proposals?

9. Our social insurance fund is €350bn underfunded to meet its liabilities, yet Irish workers pay some of the lowest social contributions in Europe. ISME has long advocated a 2% PRSI rate to be applied to all earnings up to the current cut-off of €424 per week, and 6% on the balance.

10. The decline in EV sales in 2024 shows that the public will not make the green transition without economic incentives in place to do so. The constant tinkering with incentives by DFIN is actively undermining efforts to decarbonise the economy.

11. Our workers and our business owners require upskilling to meet the demands of the 21st century business environment, the need to digitalise, to decarbonise, and to export. It is imperative, therefore, that the monies collected via the training levy are spent on elevating the skills of the Irish workforce, as originally intended.

Summary of Principal Recommendations

1.1 Reconfigure LEEF to ensure an adequate and proportionate representation for SME Employers.

2.1 Future increases in the NMW should not exceed CPI.

2.2 The methodology for calculation of the NMW must be changed to address the unique characteristics of the Irish business demography.

2.3 The Low Pay Commission requires an adequate level of SME representation on it to ensure it does not suffer from strategic blindness to the employers of 60% of the national workforce.

3.1 Conduct a policy review of the interaction between indigenous enterprise and the multinational sector in Ireland.

3.2 Indigenous enterprise policy must set tax policy, and finance policy must facilitate that, not the other way around.

3.3 Given that Irish budgets have run in deficit for 17 years when excess corporation tax in included, we should expand the Rainy Day Fund.

4.1 Government must actively intervene in the rental market via the tax and regulatory regime to encourage the provision of private rented accommodation.

4.2 Government must revise upwards its construction targets in line with the recommendations of the Housing Commission Report. The current target of 30,000 units per annum will need to be increased to at least 50,000 units per annum.

5.1 The Commission for the Regulation of Utilities should prepare a report explaining why Ireland's energy prices are so high, and what can be done to reduce them.

5.2 We must follow through on commentary from the Housing Commission and remove the disincentives to the provision of private rental accommodation.

5.3 The Dept of Enterprise should resource the NCPC to reinstate the Cost of Doing Business in Ireland report.

6.1 We need a Public Spending Commission to assess and audit appropriate levels of spend by Department in the public service to ensure we achieve efficiency and effectiveness in our public spending.

6.2 We need a standing Public Service Pay Commission similar to the Office of Manpower Economics in the UK to recommend fair rates of pay in our public service.

7.1 Target the removal of 100% of workers on the average industrial wage from the marginal tax rate.

7.2 Ensure that the 8.8% PRSI rate covers all earnings up to the national minimum wage, and index this annually with movements in the NMW.

7.3 Reduce the standard and reduced VAT rates to 21% and 9% respectively.

8.1 Set comprehensive fee scales for the Circuit and High Courts, per the minority report published in the Report of the Review of the Administration of Civil Justice 2020.

8.2 Require the Courts Service to immediately initiate procedural reforms making better use of ICT and case management.

8.3 Direct the LSRA to set out the process for establishing a specialist conveyancer profession immediately, as has occurred in the UK, New Zealand and Australia.

9.1 Introduce a 2% PRSI rate on all income, and a 6% PRSI on all marginal income above €424 per week.

10.1 Consumers and businesses availing of tax or purchase incentives must have visibility of their costs or liabilities for the useful duration of their asset.

11.1 Government must revert to pre-2016 apprenticeship supports for business owners.

11.2 We want to see adoption and rollout of a basic business qualification for SME owners and managers, similar to or better than the ISME Blue Cert proposal.

Section 1. Employer Engagement

Ireland is progressively moving towards a more European-style collective bargaining and the industrial relations landscape. However, since the inception of social partnership in Ireland, one of the key failures of our engagement systems has been the absence of the SME voice at the table.

This is despite the fact that SMEs make up 99.8% of active enterprises, and employ 60% of the workforce (outside the public sector).[1]

The result of this has been a strategic blindness to the needs of small business. In the case of ISME and our members, it has manifested itself in an unworkable "Work Safely Protocol" during the Covid-19 pandemic,[2] and a complete failure to engage with SMEs on the seriousness of the proposed changes to the National Minimum Wage when flagged in July 2023.[3]

At a European level, and in comparison with the employer representativeness of other member states, Ireland's employer representation is worryingly low.[4] Small enterprise in Ireland is better represented in Europe via SMEUnited than it is in Ireland, where it has no formal footprint at all. It is absurd that ISME deals with Irish trade unions and ETUC[5] in Brussels via the ELA[6] while being excluded from interaction at home in Ireland. While it is the stated intention of Government[7] "*to engage, through LEEF, on the issues raised and how we can continue to promote a positive industrial relations landscape in Ireland…*" it is impossible for this to occur without representation for the 99.8% of employers in scope.

While LEEF is a non-statutory body, its influence in sectoral matters[8] and in setting of the National Minimum Wage is material and profound. The Low Pay Commission sees LEEF as a core body in the setting of the Living Wage.[9] The idea therefore that the largest cohort of employers can arbitrarily be excluded from the forum which fundamentally influences commercial issues withing their businesses is absurd.

This strategic blindness can only be eliminated through a full engagement with small enterprise employers via the Labour Employer Economic Forum (LEEF). While we understand that "there isn't room for everyone at the table," the absence of the largest grouping of employers dilutes the effectiveness of LEEF and mitigates against it generating robust reliable labour policy.

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[1] https://www.cso.ie/en/releasesandpublications/ep/p-bd/businessdemography2021/keyfindings/
[2] https://isme.ie/wp-content/uploads/2021/05/ISME-Note-to-Tanaiste-re-Revised-Work-Safely-Protocol.pdf
[3] https://isme.ie/isme-writes-to-taoiseach-on-national-minimum-wage-concern/
[4] https://www.eurofound.europa.eu/sites/default/files/2023-11/ef22020en-.pdf
[5] https://etuc.org/en
[6] https://www.ela.europa.eu/en
[7] https://enterprise.gov.ie/en/news-and-events/department-news/2022/october/publication-of-the-final-report-of-the-leef-high-level-working-group-on-collective-bargaining.html
[8] https://www.gov.ie/en/collection/7b3918-labour-employer-economic-forum/
[9] https://assets.gov.ie/226962/f72dbeb6-00ef-46cb-8af9-c347cb0851ff.pdf

RECOMMENDATIONS

1.1 Reconfigure LEEF to ensure an adequate and proportionate representation for SME Employers.

1.2 If SME employers are to remain excluded from LEEF, then collective bargaining measures for SMEs must be voluntarist, opt-in, and non-binding.

Section 2. The Cost of Living and the National Minimum Wage

There has been a trend in recent years to move from a statutory national minimum wage (NMW), a floor value below which workers cannot be paid, to a "living wage," benchmarked at 60% of hourly median wage, in line with the recommendations of the Low Pay Commission. It is the intention of the Department of Enterprise and Employment to introduce this over a four-year period to 2026, at which point it will replace the National Minimum Wage.

While ISME acknowledges that income adequacy is defined by an EU standard, there are structural issues to the use of the 60% of median in an Irish context.

ISME supports a NMW that broadly tracks prices, we oppose its use as a tool to address the cost of living as it is bound to fail, for the following reasons:

1. **In the absence of affordable accommodation in particular, there is no NMW affordable for many employers that would also satisfy the accommodation requirements of their employees.**

Among employers of all sizes (including high value adding multinationals) the absence of affordable accommodation is a constant refrain. It is against this background that understandable pressure for higher wages must be placed in context.

The most recent Daft Rental Report (Q4 '23)[10] puts the average monthly rent at €1,823 nationally (i.e. €21,876 pa). The Housing Agency's Affordability Calculator[11] suggests that spending ***less than*** 35%-39% of ***disposable income*** is generally affordable for most households. Therefore, at the 39% limit, a minimum wage of ***at least*** €56,092 (€25.66/hour) would be required to cover the average rent affordably.

2. **The methodology for calculation of the "adequate" living wage i.e. 50% of mean or 60% of median is inappropriate for Ireland** because workers in the multinational and public sectors combined make up 48% of the national workforce, and enjoy remuneration levels very significantly higher than those in micro, small and medium enterprises. The disparity between public and private sector workers in Ireland is significantly greater than in peer countries.

We acknowledge that the methodology in use is EU driven. However, Ireland is uniquely challenged in the use of this methodology because of the structure and remuneration within our workforce, which essentially produces "two Irelands."

The latest CSO Business Demography[12] states that there are 919,680 workers in Ireland's large enterprise sector. (public service workers are omitted from this calculation).

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[10] https://ww1.daft.ie/report/ronan-lyons-2023q4-daftrentalprice?d_rd=1
[11] Affordability Calculator
[12] https://www.cso.ie/en/releasesandpublications/ep/p-bd/businessdemography2021/keyfindings/

Based on the latest CSO Workers in large enterprise are paid €185.08 (21%) per week more than the average private sector worker, and €287.67 (38%) more than a worker in a small business. Public sector workers are paid €248.76 (29%) more than the average worker and €351.91 (46%) more than a worker in a small business.[13]

Data from DPER[14] shows the headcount in all vote groups of the public service to amount to 397,121 at the end of 2023. Taking the 2021 large business demography figure of 919,680, plus the DPER 2023 public service headcount, this puts the proportion of the total workforce which is employed in either large firms and the public service at 1,316,801 workers, or 49% of the workforce.

The CSO intermittently produces data[15] to suggest that there is no public-private pay gap, or that the difference is now negative. This belies the nominal data they produce in their quarterly earnings data. It is also inconsistent with meta data in research by Campos et al[16] showing Ireland to have the largest public -private pay gap in the EU after Portugal and Spain, where private sector wages are far lower than ours. In the UK, which is being used as a NMW comparator for Ireland because of the NI border, average weekly earnings in the private sector[17] are £22 (3%) higher than average wages in the public sector.

Even the ESRI[18] and the IMF[19] have methodological difficulties with the manner in which the CSO minimises the extent of the public-private pay gap by reference to organisation size. In any case, the organisational size issue is moot when average public sector pay in Ireland now exceeds that in large firms in every earnings report. It is likely that to avail of an accurate and objective assessment of the public-private pay gap in Ireland, the government will have to look beyond the CSO.

In summary, use of the 50% mean/60% median metric for NMW-setting in Ireland is highly problematic, and must be corrected for statistically.

3. Average wages in the economy are not driven by the size of the NMW, they are driven by the vibrancy of the economy.

One of the reasons advanced for increasing the NMW is that we are moving to a higher wage economy, which justifies an increase in statutory minimum wage. It is also suggested that driving the minimum wage helps to increase wages generally, and that we w=share a land border with a jurisdiction which has a current minimum wage of £11.44[20] (€13.40) per hour. However, when we look at the current (February 2024) average weekly earnings in the UK[21] at £677 per week, which is 1.5 times the weekly minimum wage. In Ireland, the current average weekly wage of €921.81 is 1.9 times the weekly minimum wage of €495.30. Of course,

[13] https://www.cso.ie/en/releasesandpublications/ep/p-elcq/earningsandlabourcostsq32023finalq42023preliminaryestimates/
[14] https://databank.per.gov.ie/Public_Service_Numbers.aspx?rep=VG
[15] https://www.cso.ie/en/releasesandpublications/rp/rp-eappp/eappp20152018/
[16] https://izajolp.springeropen.com/articles/10.1186/s40173-017-0086-0
[17] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/averageweeklyearningsearn01
[18] https://www.esri.ie/system/files/publications/RN20120402.pdf
[19] https://www.imf.org/external/pubs/ft/scr/2012/cr12336.pdf
[20] https://www.gov.uk/government/publications/the-national-minimum-wage-in-2024
[21] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/averageweeklyearningsearn01

this multiple is used by some social partners to justify an increase in the NMW on an income adequacy basis, but it completely debunks the proposition that the NMW is a driver of wages in the economy.

Considering CSO earnings data,[22] the sector experiencing the fastest growth in quarterly earnings is the small business sector, with an average annual growth rate of 4.8%, exceeding that of all other employment sectors, as well as the growth in the NMW itself. Competition for labour with other sectors is demonstrably the driver of wage growth in the SME sector, a process we expect to continue given the fact that Ireland is close to full employment.

4. **Ireland already has the second highest NMW in the EU**.[23] If a high NMW is essential in giving workers both a good standard of living and a high wage, this fails to explain how Ireland is outranked in the labour cost table by both Denmark and Austria, two countries which do not have an NMW.[24] Again, ISME believes this confirms our view that it is the vibrancy of the economy which is the real driver of wages.

Ireland has additional workforce wage-setting agreements in place consisting of SEOs[25] and EROs.[26] ISME members have exposure to these via our childcare, grooming, security and construction memberships. Indeed, it is interesting that in the childcare sector, the Federation of Early Childhood Providers sought higher rates of pay for some grades than were sought by SIPTU. This should be noted in the context of senior trade union officials[27] who state that "*employer groups want the state to subsidise their profit margins and, second, they want the wages of the lowest-paid to be frozen.*"

5. **Aside from the affordability issues for employers, there are empirically proven negative consequences for workers in driving the NMW faster than the market will bear**.

Ireland is currently at (or close to) full employment. Therefore, the hours displacement effect caused by the increase in the NMW in January is yet to be felt. However, it is demonstrably present in certain sectors.

As both the ESRI[28] and the Seattle Minimum Wage study by the University of Washington[29] have shown, increases in statutory minimum wages have less impact on overall wage rates than do improvements in the local economy. Furthermore, an increase in the NMW can lead to either a reduction in hours worked, or in an increase in unemployment levels, especially for the low-skilled or the unskilled.

In an economy close to full employment like Ireland, increases in the NMW above the inflation rate typically:

- Contribute little to real wage gains (formerly called "P60 earnings")

[22] https://www.cso.ie/en/releasesandpublications/ep/p-elcq/earningsandlabourcostsq32023finalq42023preliminaryestimates/
[23] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Minimum_wage_statistics
[24] https://ec.europa.eu/eurostat/databrowser/view/lc_lci_lev/default/table?lang=en
[25] https://www.workplacerelations.ie/en/what_you_should_know/hours-and-wages/sectoral%20employment%20orders/
[26] https://www.workplacerelations.ie/en/what_you_should_know/hours-and-wages/employment%20regulation%20orders/
[27] https://notesonthefront.typepad.com/politicaleconomy/2024/03/save-our-profit-margins.html
[28] https://www.esri.ie/system/files/publications/RS132.pdf
[29] https://www.washington.edu/news/2016/07/25/minimum-wage-study-effects-of-seattle-wage-hike-modest-may-be-overshadowed-by-strong-economy/

- Negatively impact worked hours in service businesses.
- Negatively impact the employment rate among low-skilled and unskilled workers.

Aside from the NMW, we also note with concern changes made to the General Employment Permit[30] regime without consultation, notice or engagement. The General Employment Permit replaces the old Work Permit Employment Permit. General Employment Permits are the primary vehicle used by the State to attract 3rd country nationals for occupations which are experiencing a labour or skills shortage.

These permits have, since 2023, been subject to a "minimum annual remuneration" the quantum for which varies by sector.

It makes no sense that minimum pay arrangements in excess of the NMW are made on an arbitrary basis without engagement with industry. No reasoning or justification has been advanced for these sectoral minima. They should be ended this year, and remuneration for permit holders and employers should be subject to normal wage-setting criteria, JLCs or SEOs as appropriate.

Use of a NMW to address a cost-of-living crisis resulting from inadequate levels of housing in particular is an exercise bound to fail. It has not succeeded in any other country.

ISME's submission to the Low Pay Commission on the National Minimum Wage 2025 is available HERE.

RECOMMENDATIONS

2.1 Future increases in the NMW should not exceed CPI.

2.2 The methodology for calculation of the NMW must be changed to address the unique characteristics of the Irish business demography.

2.3 The Low Pay Commission requires an adequate level of SME representation on it to ensure it does not suffer from strategic blindness to the employers of 60% of the national workforce.

2.4 The minimum annual remuneration requirements for General Employment Permits should be abandoned immediately.

[30] https://enterprise.gov.ie/en/what-we-do/workplace-and-skills/employment-permits/permit-types/general-employment-permit/

Section 3. FDI, Corporation Tax Receipts, and Indigenous Enterprise Policy

From the Publication of the Programme for Economic Expansion in 1958, through our accession to the EEC in 1973, to the establishment of the EU Single Market in 1993, the opening of the Irish economy to international trade and the encouragement of foreign direct investment has reversed both population and economic decline.

The expansion of the FDI sector in Ireland has been so great that we now have one of the greatest divergences between GDP and GNI in the world, and we have had to generate our own unique measure of GNI* (Modified Gross National Income).

GDP expanded to €506bn in 2022, compared to a GNI*of €273bn.[31] GNI*, at 54% of our GDP, is a more realistic descriptor of our national income and wealth.

Accepting that this is not universally acknowledged, ISME sees signs of emerging “Dutch Disease” or “Silicon Valley Syndrome”[32] in the Irish economy. This is characterised by:

- Capital and employment flows into the tradable sector of interest (in Ireland’s case, pharma and IT) with expansion in firms and employment.
- The rest of the tradable sector contracts, reducing employee and firm numbers.
- Meanwhile, the number of firms and employees in the non-tradable sector rises.
- However, ***income within the non-tradable sector becomes more dispersed***. While the average ***income falls for those, such as bartenders and waiters, at the bottom of the income distribution***, it climbs for those, such as dentists and doctors, already at the top. (Emphasis ISME)

In our view, without a greater balance between indigenous and FDI/MNC enterprise, Ireland’s economy will suffer in a similar way (if it is not already doing so).

Policymakers have seen Silicon Valley as a model for economic development. But increasing economic inequality appears to be an unintended downside. High tech industries create wealth. But the “trickle down” effect of this wealth, as the owners and employees of these companies increase their spending on local goods and services, only appears to go so far down. It benefits those at the high end—the already well-off accountants, doctors, and lawyers. But those at the lower end of the service economy, the servers and taxi drivers, appear simply to fall further behind.

The words of the European Central Bank chief Christine Lagarde broadcast on 21st May[33] regarding the size of FDI in our economy should be noted. She stated that “*oversized revenue from a particular source, maybe that exceptional revenue should be set aside.*” While Ireland

[31] https://www.cso.ie/en/releasesandpublications/ep/p-mip/measuringirelandsprogress2022/economy/
[32] Silicon Valley Syndrome, Kwon and Sorenson 2021
[33] https://www.rte.ie/player/series/prime-time/SI0000000825?epguid=IH10002396-24-0039

has set up a rainy-day fund, we believe far too little of this oversized revenue is being diverted into it, and is instead being spent poorly on the current side.

The practical effects of this two-tier economy are manifested in the accommodation market, where we increasingly see large employers buying housing which they provide to their employees at or below market rates, while at the same time driving up the cost of accommodation generally by reducing supply.

The indigenous enterprise sector is failing to scale, and CGT measures[34] to be introduced in 2025 with exacerbate this problem. That small proportion of Irish businesses which do scale tend to exit rather than grow under Irish ownership. When Irish business owners exit, they tend to do so not via MBI or MBO as these are unattractive due to the effects of Sec 135(3A) of the TCA 1997.[35] We thus find that good indigenous businesses are disposed of to foreign venture capital, taking with them their intellectual property. This is not desirable in the long run.

This is clear evidence of a disconnect between tax policy and industrial policy.

NCPC data shows indigenous enterprise to be substantially less productive (i.e. profitable) than multinational business, and this is confirmed by Revenue corporation tax returns (2021) for non-multinational companies below:

Companies	Cumulative total	Average employees/ company	Average CT/ Company €/pa
97,425	56%	4.3	- 3,500
60,160	91%	7.2	5,136
7,814	95%	19.9	28,155
3,057	97%	30.0	48,741
1,505	98%	39.8	69,103
874	98%	42.7	89,245
1,915	99%	61.4	139,426
892	100%	87.5	303,812
238	100%	151.5	693,277
123	100%	166.8	1,845,528

It is important therefore that we do not fall for the current rhetoric from trade union lobbyists that small businesses are sitting on pots of gold. They are in fact only marginally profitable (if at all, a problem that is acute in the micro sector).

The theme of the National Economic Dialogue *"A more shock-prone world: challenges and opportunities for Ireland*" summed up the challenge for domestic enterprise policy. It must be dynamic, and capable of rapid adaptation in a kinetic and potentially hostile global economy.

[34] https://www.grantthornton.ie/insights/factsheets/retirement-relief-key-tax-changes-impacting-family-business-transfers-in-ireland/
[35] https://taxinstitute.ie/wp-content/uploads/2017/10/s135-amendment-examples-of-transactions-impacted.pdf

Government must therefore have due regard for the Enrico Letta Report[36] for the EU Commission. It's call to action for SMEs is worth quoting:

> "*It is vital to make it dramatically easier to do business in the Single Market, especially for SMEs. The whole European integration project is at risk if most European businesses cannot effectively benefit from the Single Market: it is both a matter of productivity and of political support*."

ISME has argued every year since 2003 for a fundamental review of indigenous industrial policy. Our call for a policy review is not a binary SME 'or' FDI/MNC, and ***therefore should not be seen as a threat to, or criticism of, multinationals based in Ireland***.[37] We are merely asking Government to ensure that SMEs can reasonably access the types of support that have been made available to MNCs for many years.

We see a mutually beneficial symbiosis between the indigenous enterprise and the multinational sector in a 21st Century policy review. We believe the case has never been stronger to initiate one now.

RECOMMENDATIONS

3.1 Conduct a policy review of the interaction between indigenous enterprise and the multinational sector in Ireland.

3.2 Indigenous enterprise policy must set tax policy, and finance policy must facilitate that, not the other way around.

3.3 Given that Irish budgets have run in deficit for 17 years when excess corporation tax in included, we should expand the Rainy Day Fund.

4.1 Government must actively intervene in the rental market via the tax and regulatory regime to encourage the provision of private rented accommodation.

4.2 Government must revise upwards its construction targets in line with the recommendations of the Housing Commission Report. The current target of 30,000 units per annum will need to be increased to at least 50,000 units per annum.

[36] https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf
[37] https://www.businesspost.ie/news/us-multinationals-ask-government-to-reconsider-risks-posed-by-reliance-on-overseas-investment/

Section 4. Infrastructural Spend

Ireland has one of the largest positive changes in population in the EU[38] and a population in 2022 of 5.1m.[39] This is the highest population in the history of the state, but it remains 1.4m people below the 6.5m recorded for the 26 counties of the Republic in 1841.

This population, and the pressure created by inward migration, is creating natural demand for housing, water, wastewater and energy infrastructure. These are problems of success and affluence, not of poverty.

Following the Great Recession, Irish Government policy focussed on institutional landlords as the vehicle to provide private rental accommodation. There were good reasons for this at the time; loose banking had created an artificial property boom, and ghost estates, bankruptcies and insolvent banks resulted.

Conversely, when we look at rental affordability in the first decade of the century, rental supply in 2006 was high and monthly rental cost was low.[40] 18 years later, rental supply has reduced by more than 90% (to 2,200 available units), and average rents are at €1,823 per month.

Private (small) landlords continue to exit the rental sector, and there appears to be a reluctance even among institutional landlords to invest in the market when legislative interference in it is so high.

There are suggestions that the rental market remains attractive because there is a significant (and rising) number of tenancies showing in CSO Census figures[41] and the registration figures produced by the RTB.[42] This is nonsense, and it is clear that the new landlords entering the market are in fact employers.[43]

While some social partners may welcome the provision of accommodation by employers, ISME sees significant downside to it. Aside from the diversion of business working capital into non-core activity, the BIK implications[44] of accommodation provision are onerous for both employer and employee. ISME is not confident that the majority of employer-provided accommodation is fully compliant with Revenue rules.

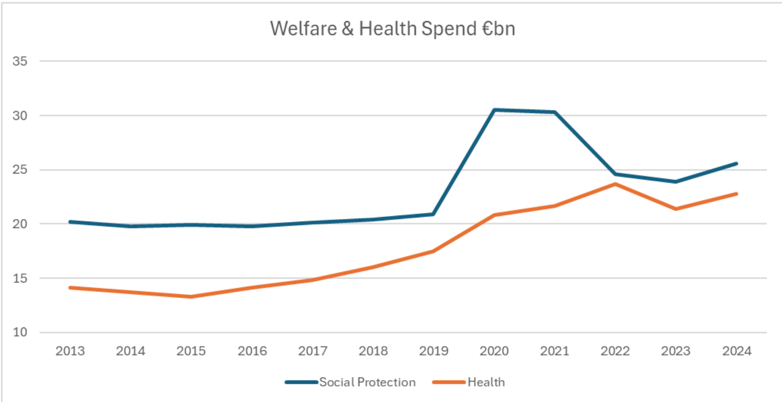
In short, the decision to focus the provision of rental accommodation on institutional landlords while introducing rent controls such as Rent Pressure Zones, has self-evidently failed. In the words of economist Assar Lindbeck[45] "*rent control appears to be the most efficient technique presently known to destroy a city—except for bombing*."

[38] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Tab_1_rev_Demographic_balance,_2022_(thousands).png
[39] https://www.cso.ie/en/csolatestnews/pressreleases/2023pressreleases/pressstatementcensusofpopulation2022-summaryresults/
[40] https://ww1.daft.ie/report?d_rd=1
[41] https://www.cso.ie/en/releasesandpublications/ep/p-cpp2/censusofpopulation2022profile2-housinginireland/homeownershipandrent/
[42] https://www.rtb.ie/images/uploads/forms/RTB_Quarterly_Bulletin_Q1_2024_%287%29.pdf
[43] https://www.irishtimes.com/business/2024/01/25/ryanair-buys-25-homes-in-north-dublin-estate-to-rent-to-cabin-crew/
[44] https://www.revenue.ie/en/employing-people/benefit-in-kind-for-employers/free-or-subsidised-accommodation/index.aspx
[45] https://www.econlib.org/library/Enc/RentControl.html

This failure must now be acknowledged, and private landlords, who are the only source of affordable rental accommodation in the short to medium term, must be immediately attracted back into the market.

Ireland also seems to be unable to control capital spending on essential public infrastructure.[46][47]

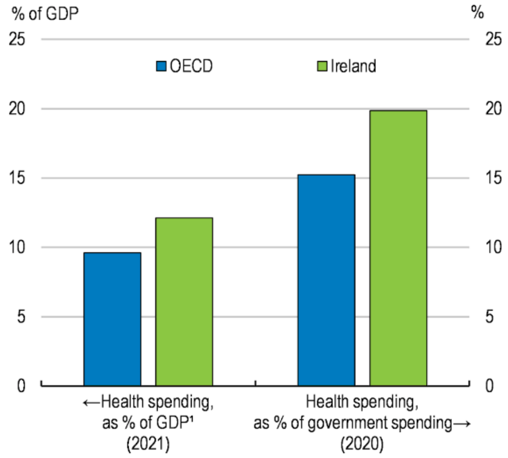
We do not see a return on public services commensurate with the spending on them. Our population in 2016 was 4.8m, and our health spend was €14.1bn. In 2024, our population is some 5.1m (+6%) while our health spend has risen to €22.8bn (+62%).[48]



The OECD declares our healthcare spending as "comparatively high."[49] It accounts for a sizeable share of government spending, reflecting high costs. Pay is high and pharmaceutical spending does not make the most of low-cost alternatives. As ageing begins to accelerate, spending pressures are projected to increase. Already spending on long-term care is elevated. Achieving efficiency gains will be important in addressing these pressures.

[46] https://www.independent.ie/irish-news/politics/childrens-hospital-bill-tops-2bn-as-taoiseach-says-we-will-not-be-allocating-any-more/a2051260168.html
[47] https://www.thejournal.ie/metrolink-expensive-rail-underground-6163625-Sep2023/
[48] https://whereyourmoneygoes.gov.ie/en/
[49] https://www.oecd-ilibrary.org/sites/46a6ea85-en/index.html?itemId=/content/publication/46a6ea85-en

Figure 3. **Spending on healthcare is high**



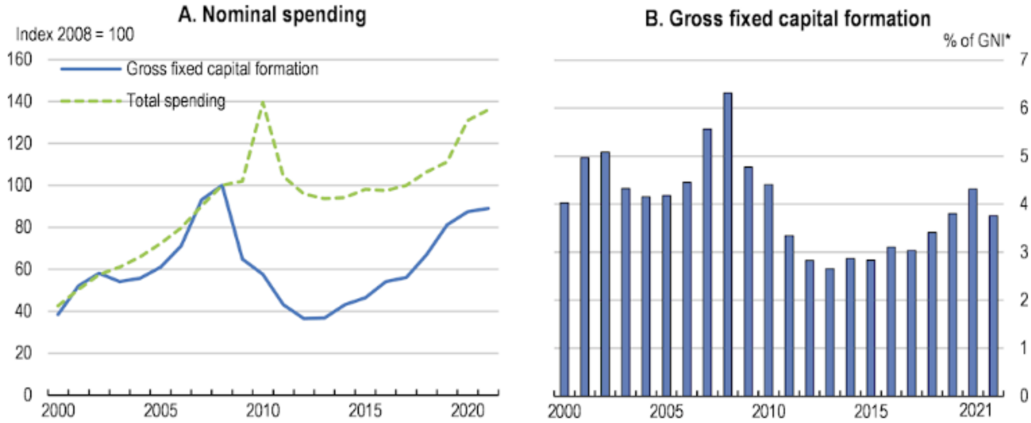
1. Health spending for Ireland is computed as share of GNI*.

Source: OECD, Health Expenditure and Financing database; and OECD, National Accounts database.

For these reasons, we favour the establishment of a Public Spending Commission, tasked with reporting on the efficiency and effectiveness of Government infrastructure procurement.

The OECD and the Fiscal Advisory Council both note that Ireland's fiscal policy tends to be pro-cyclical. Furthermore, when an economic contract occurs such as the great financial crash, it is current spending which is prioritised at the expense of capital.[50] During the GFC, the sate effectively bailed out the public sector at the expense of the private sector, resulting in the ballooning of our national debt and the destruction of our construction industry.

Figure 1.11. **Government spending has been quite volatile, particularly public investment**



Note: Figures are for public spending and public gross fixed capital formation.

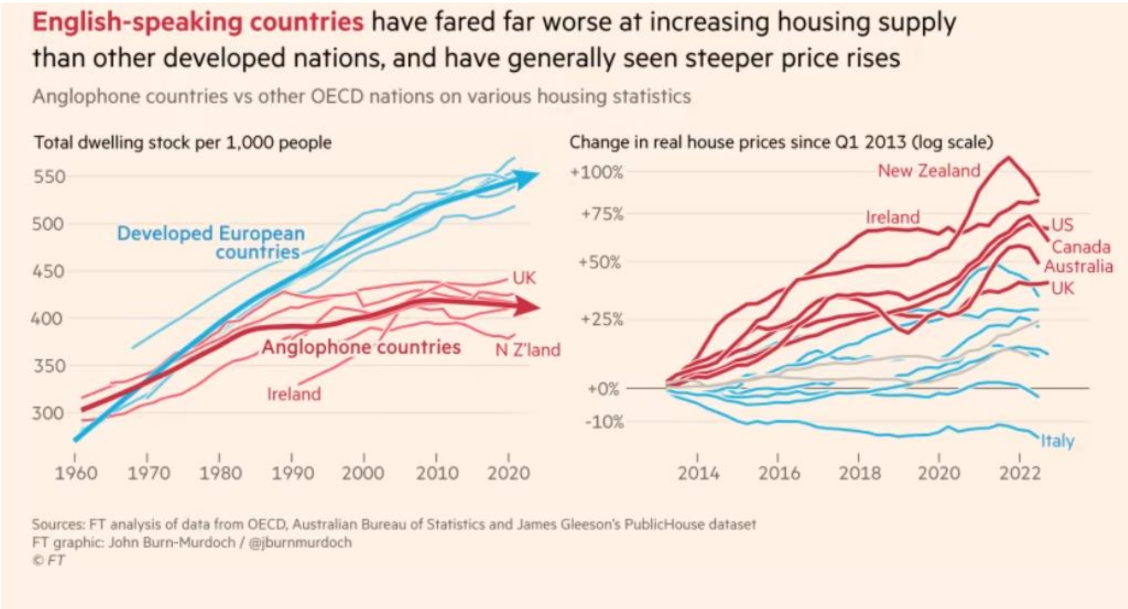
Source: Central Statistical Office.

StatLink https://stat.link/9kzcsx

The effects of this are felt today, with our shortage of accommodation. We need to break out of this cycle, and accept that a balance between the public and private sectors must be maintained.

[50] https://www.oecd-ilibrary.org/sites/46a6ea85-en/1/3/1/index.html?itemId=/content/publication/46a6ea85-en&_csp_=0d85b67c922ac83fc1b1901231f9daab&itemIGO=oecd&itemContentType=book

Section 8 of this submission will look at the impact of the legal system and legal costs on Ireland. However, we should also be look at the ability of Spain, Italy, Germany and France to deliver large-scale public infrastructure projects like high speed rail, underground rail, nuclear energy generation, national broadband and more far faster and more effectively than we can. The Financial Times identified this in March 2023[51] as an “English-speaking” problem, although it might more accurately be labelled a “common law” problem.



RECOMMENDATIONS

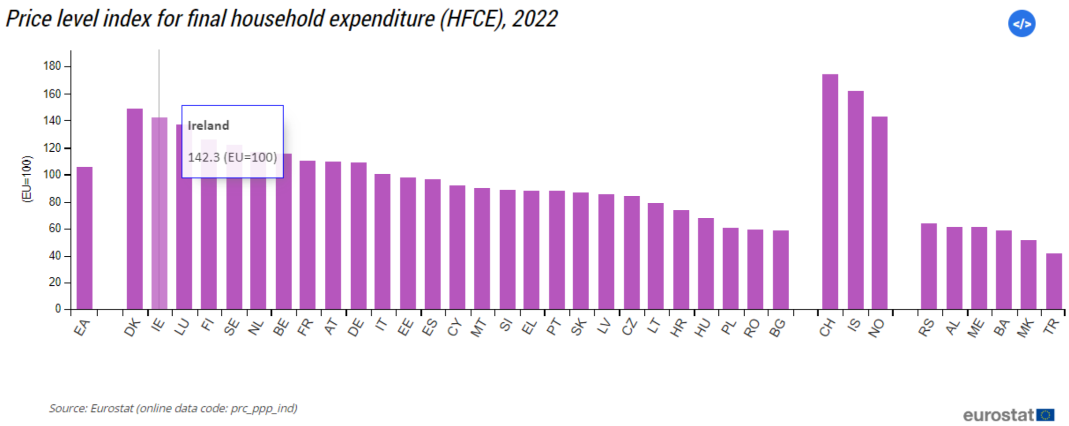
4.1 Government must actively intervene in the rental market via the tax and regulatory regime to encourage the provision of private rented accommodation.

4.2 Government must revise upwards its construction targets in line with the recommendations of the Housing Commission Report. The current target of 30,000 units per annum will need to be increased to at least 50,000 units per annum.

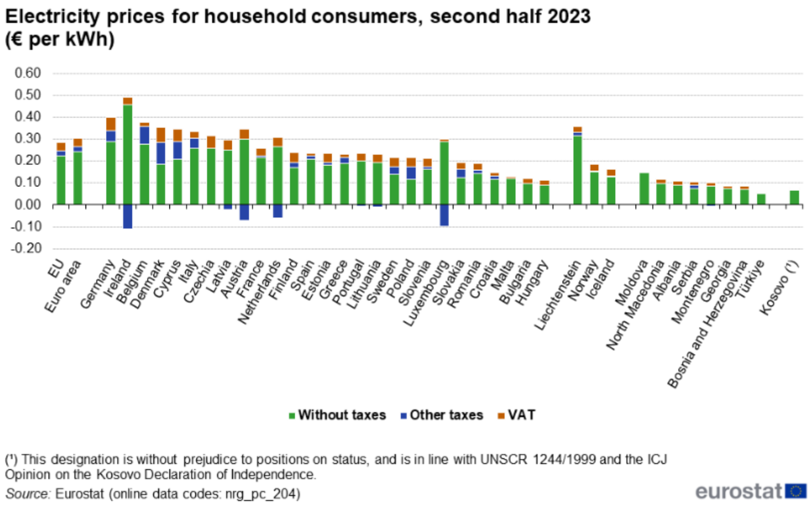
[51] https://www.ft.com/content/dca3f034-bfe8-4f21-bcdc-2b274053f0b5

Section 5. Consumer and Business Prices

Ireland suffers comparatively high consumer and business prices relative to our EU neighbours and the UK.[52] Our consumer prices are consistently the highest in the EU behind Denmark, a country which shares a land border with the EU's largest economy.

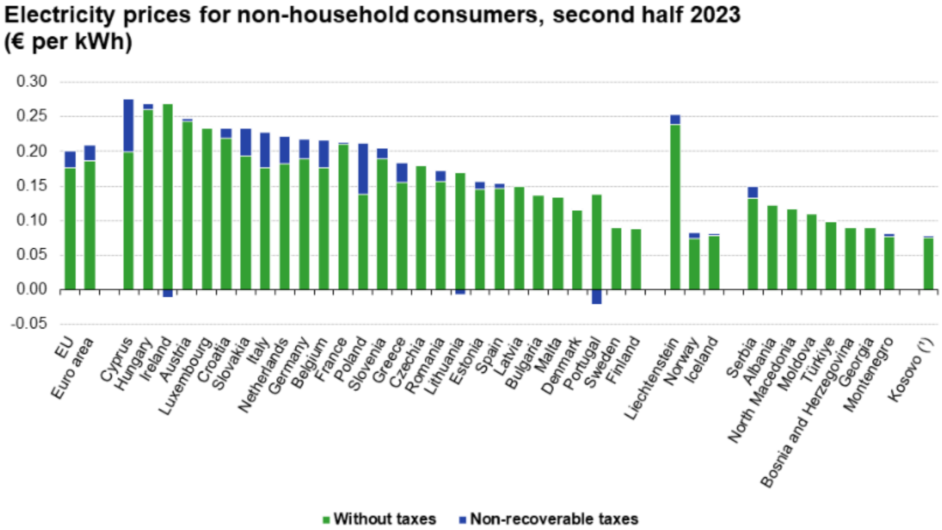


Energy prices for both consumers and businesses are consistently the highest in the EU.[53]



Open market gas prices are used as the base for EU electricity marginal cost pricing. Given the price spiking this has resulted in, we should move to address it at EU level. In the interest of price stability, the CRU should require energy suppliers to publish their hedging policies.

[52] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Comparative_price_levels_of_consumer_goods_and_services
[53] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Electricity_price_statistics#Electricity_prices_for_household_consumers



(¹) This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo Declaration of Independence.

Our standard VAT rate is fourth highest in the EU, and our reduced rate is third highest in the EU.[54]

Member State	Standard rate	Member State	Reduced rate
Hungary	27	Hungary	5/18
Denmark	25	Czechia	10/15
Croatia	25	Finland	10/14
Sweden	25	Ireland	9 / 13.5
Greece	24	Austria	10/13
Finland	24	Greece	6/13
Ireland	23	Croatia	5/13
Poland	23	Portugal	6/13
Portugal	23	Belgium	6/12
Italy	22	Sweden	6/12
Slovenia	22	Spain	10
Belgium	21	France	5.5 / 10
Czechia	21	Italy	5/10
Spain	21	Slovakia	10
Lithuania	21	Slovenia	5 / 9.5
Latvia	21	Lithuania	5/9
Netherlands	21	Cyprus	5/9
Austria	20	Bulgaria	9
Bulgaria	20	Estonia	9
Estonia	20	Netherlands	9
France	20	Romania	5/9
Slovakia	20	Luxembourg	8
Cyprus	19	Poland	5/8
Germany	19	Germany	7
Romania	19	Malta	5/7
Malta	18	Latvia	12/5
Luxembourg	17	Denmark	-

With the exception of detached and non-detached houses in Luxembourg, Irish rents are consistently the highest in the EU.[55] A Housing Commission report[56] has criticised "ineffective decision making and reactive policymaking where risk aversion dominates." We must recognise that demand-side measures can never address a supply-side problem. Those politicians and NGOs advocating simplistic demand-side measures must be faced down with

[54] https://taxation-customs.ec.europa.eu/document/download/231d5d92-160f-4a7f-a104-5a87aba97735_en?filename=vat_rates_en.xls
[55] https://ec.europa.eu/eurostat/documents/6939681/7243182/Ares%282023%298073026+Booklet_2024_rents_2023_e_Final.pdf/e9d50b9f-911c-ca5f-7161-1adc03cb7598?t=1701095269033
[56] https://www.irishtimes.com/ireland/housing-planning/2024/05/21/housing-commission-report-leaked-findings-are-damning-indictment-of-government-eoin-o-broin/

facts. The ten recommendations of the Housing Commission[57] regarding rental supply are simple, commonsense measures and must be implemented without delay.

2023 CURRENT MARKET RENTS
Average rent per month given in the local currency of each country

COUNTRY / City		Flats			Houses		Currency
		3-bedroom	2-bedroom	1-bedroom	Non-detached	Detached	
European Union							
Austria	Vienna	2 050	1 550	1 150	2 350	3 850	EUR
Belgium	Brussels	1 600	1 300	980	1 700	2 550	EUR
Bulgaria	Sofia	2 150	1 350	940	-	3 600	BGN
		1 100	*700*	*480*	-	*1 850*	*EUR*
Croatia	Zagreb	1 800	1 250	890	2 150	3 050	EUR
Cyprus	Nicosia	1 150	860	630	1 350	1 950	EUR
Czechia	Prague	49 800	37 250	27 100	47 550	62 150	CZK
		2 100	*1 550*	*1 150*	*2 000*	*2 600*	*EUR*
Denmark	Copenhagen	19 850	14 650	12 200	21 250	27 700	DKK
		2 650	*1 950*	*1 650*	*2 850*	*3 700*	*EUR*
Estonia	Tallinn	1 550	1 100	780	1 750	2 500	EUR
Finland	Helsinki	2 250	1 500	1 100	2 250	3 400	EUR
France	Paris	2 900	2 200	1 350	2 950	3 750	EUR
	Lyon	1 650	1 200	790	1 750	2 400	EUR
Germany	Berlin	2 150	1 600	1 250	2 200	2 900	EUR
	Bonn	1 500	1 150	840	1 450	2 100	EUR
	Karlsruhe	1 500	1 100	910	1 600	2 250	EUR
	Munich	2 450	1 800	1 550	2 650	3 750	EUR
Greece	Athens	2 000	1 300	960	2 100	2 850	EUR
Hungary	Budapest	636 200	483 900	329 300	753 700	1 117 750	HUF
		1 700	*1 300*	*890*	*2 050*	*3 000*	*EUR*
Ireland	Dublin	3 200	2 550	2 050	3 550	4 500	EUR
Italy	Rome	1 650	1 200	910	1 350	2 000	EUR
	Varese	1 100	820	670	1 550	2 350	EUR
Latvia	Riga	1 400	1 050	740	1 650	2 350	EUR
Lithuania	Vilnius	1 400	1 050	790	1 650	2 400	EUR
Luxembourg	Luxembourg	3 050	2 400	1 850	3 750	4 600	EUR
Malta	Valletta	1 550	1 250	900	2 000	3 150	EUR
Netherlands	The Hague	2 000	1 650	1 200	2 450	3 500	EUR
Poland	Warsaw	6 400	4 700	3 200	8 150	13 300	PLN
		1 450	*1 050*	*720*	*1 850*	*3 000*	*EUR*
Portugal	Lisbon	2 300	1 850	1 350	3 200	4 300	EUR
Romania	Bucharest	5 950	4 450	2 900	-	9 700	RON
		1 200	*900*	*580*	-	*1 950*	*EUR*
Slovakia	Bratislava	1 600	1 100	790	1 800	2 450	EUR
Slovenia	Ljubljana	1 850	1 200	820	1 650	2 250	EUR

The study[58] by economist Jim Power and commissioned jointly by the Irish Property Owners' Association and the Institute of Professional Auctioneers and Valuers has clearly shown the issues which have contracted the supply of rental accommodation.

At the same time, workers and social partners demand wage increases in order to meet the cost of living. This is a classic wage-price spiral, which cannot be addressed by increasing wages.

Access to affordable housing is now recognised by the National Competitiveness and Productivity Council as a significant drag on competitiveness, sustainable growth and personal well-being.[59]

Ireland must revisit national policy on nuclear power generation. (see Section 10).

[57] https://assets.gov.ie/294018/e1aae1ed-07c4-473d-811e-3426756321ee.pdf
[58] IPAV-IPOA Report
[59] https://www.competitiveness.ie/publications/2024/bulletin%2024-3%20competitiveness%20and%20the%20housing%20market%20in%20ireland.html

Other areas of business cost remain persistently high without sign of reform. Upward only rents continue to effect a significant part of the commercial landscape despite rents elsewhere abating due to oversupply. Insurance reforms have yet to yield lower prices or higher competition, particularly in employer liability and public liability insurance.

RECOMMENDATIONS

5.1 The Commission for the Regulation of Utilities should prepare a report explaining why Ireland's energy prices are so high, and what can be done to reduce them.

5.2 We must follow through on commentary from the Housing Commission and remove the disincentives to the provision of private rental accommodation.

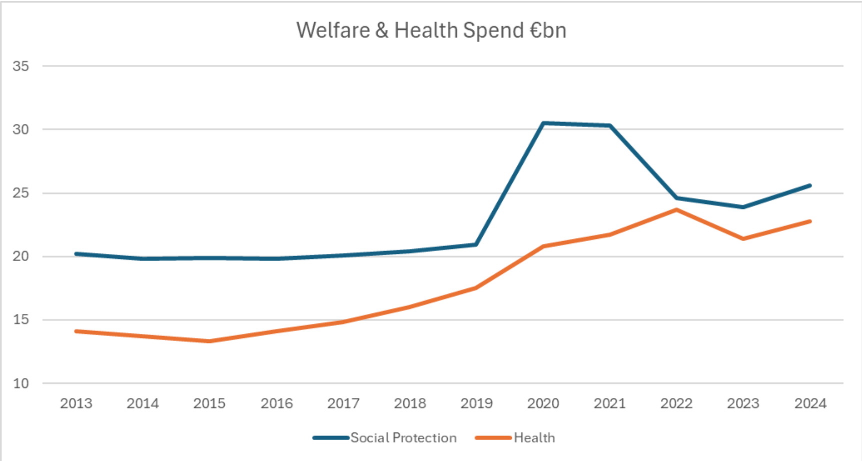
5.3 The Dept of Enterprise should resource the NCPC to reinstate the Cost of Doing Business in Ireland report.

Section 6. Adequate State Services

As with an appropriate level of capital expenditure on state infrastructure, there is an apparent political and social clamour for greater spending on state services. ISME appreciates that as our population grows, there will be a requirement for a greater level of state service. However, it does not follow that state current expenditures should expand pro rata.

In business, indeed any other social activity, there is an expectation that as an organisation grows, its spend will grow also. That is true to a point. As a business grows, its "cost of goods sold" will typically grow in line with its revenues. But its overheads will not, as businesses are expected to show efficiency in overhead spend.

In Ireland in 2013, we had a population of some 4.6m, and a health spend of €14.1bn. Today our population has risen to 5.1m (+11%), while our health spend has increased to €22.8bn (+62%).[60] Have our health outcomes improved in line with expenditures?



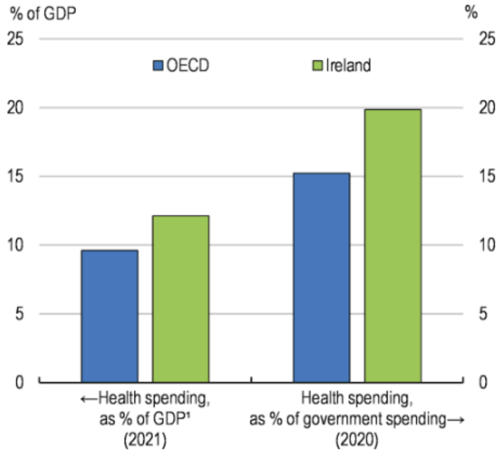
No matter how we analyse the spend, whether in GDP or nominal terms, our health spending is high.[61]

After a period of reduced spending, our health spend has risen and is now high in comparison with other OECD countries. It also accounts for a sizeable share of government spending, reflecting high costs.

Pay is high and pharmaceutical spending does not make the most of low-cost alternatives. As ageing begins to accelerate, spending pressures are projected to increase. Already spending on long-term care is elevated. Achieving efficiency gains will be important in addressing these pressures.

[60] https://whereyourmoneygoes.gov.ie/en/
[61] https://www.oecd-ilibrary.org/sites/46a6ea85-en/index.html?itemId=/content/publication/46a6ea85-en#section-d1e1540-e8e5e178b9

Figure 3. **Spending on healthcare is high**



1. Health spending for Ireland is computed as share of GNI*.

Source: OECD, Health Expenditure and Financing database; and OECD, National Accounts database.

We must recognise these realities, and bring private sector rigour into management of our health system. We cannot afford to do otherwise.

Ireland has 20.5% of its workforce in public employment as share of total employment, which is a higher share than the OECD average (18.6%).[62]

Of note in the past number of years is the almost entire cessation of recruitment of executives from the private sector into the higher echelons of the public sector via the Top Level Appointments Committee (TLAC).[63] While jobs are publicly advertised, they are invariably filled from within public service ranks. We consider this to be detrimental to the long-term performance and output of the public service, and will reinforce an unwillingness to challenge the status quo. TLAC must introduce a minimum percentage of external hire to fill public service vacancies. The success of An Post in this regard should be noted by Government.

Only one department of state (Defence) reports on pensions in the budgetary process. This should be extended to all departments.

RECOMMENDATIONS

6.1 We need a Public Spending Commission to assess and audit appropriate levels of spend by Department in the public service to ensure we achieve efficiency and effectiveness in our public spending.

6.2 We need a standing Public Service Pay Commission similar to the Office of Manpower Economics in the UK[64][65] to recommend fair rates of pay in our public service.

[62] https://www.oecd.org/publication/government-at-a-glance/2023/country-notes/ireland-cbfad650/
[63] https://www.publicjobs.ie/en/information-hub/senior-management
[64] https://www.gov.uk/government/publications/pay-review-bodies-and-police-boards-introduction/an-introduction-to-pay-review-bodies-and-police-boards
[65] https://assets.publishing.service.gov.uk/media/64b7b7ac71749c000d89ee9f/SSRB_Report_2023_Executive_Summary_Accessible.pdf

6.3 The Parliamentary Budget Office must expand on their good work to date with a more detailed and granular analysis of departmental spending by local authority area.

6.4 TLAC must establish a minimum quota for private-sector recruitment to senior public service ranks.

6.4 In order to provide a longer time horizon for Government expenditures, Ireland should adopt multi-annual accounting; and accruals accounting to show the incurring of liabilities as they are imposed.

Section 7. Reform of Taxation

GENERAL

There is never a good or easy time for reform of our taxation system, but we have neglected a comprehensive reform of our tax system for a long time.

ISME has previously noted the concentration of income tax yield from a small proportion of taxpayers (see next section). Both IFAC[66] and the Parliamentary Budget Office[67] have noted the concentration of corporation tax yield among a very small number of US multinationals in Ireland. What is not appreciated is the large overlap between the two income sources: with 35% of workers employed in the large-firm sector (predominantly multinationals), the Exchequer is extremely dependent on MNCs for both corporation tax and income tax.

PERSONAL TAXATION

Ireland's rates of income taxation are not comparatively high, but the income band at which workers enter the marginal rate of taxation is extraordinarily low. The current marginal rate of taxation kicks in at €42,000 per annum, which is 88% of the average industrial wage.[68] By comparison:

- The French 41% rate[69] starts at an income of €82,342, and the 45% rate starts at an income of €177,106.
- In Germany, the 42% tax rate starts at an income of €66,760, and the 45% rate at an income of €277,825.[70]
- In Sweden, income up to SEK 614,000 (approximately €53,000) is taxed at a combined national/municipal rate of 32%, and income above that at a combined national/municipal rate of 52%.

At the lower end of the income scale, our PAYE, PRSI and USC allowances mean that a large number of workers make little or no contribution to the Exchequer, while 78% of the income tax take comes from workers earning €60,000 or more per annum.[71] This is neither fiscally sustainable nor socially desirable.

While the universal social charge is much derided, it is the only taxation measure that extends below the €12,000 income level. Everyone should pay something to the Exchequer, even if it is nominally small for that reason, we should not focus on removing USC, or removing taxpayers from the USC, but of course entry onto the higher rates should be indexed.

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66 https://www.fiscalcouncil.ie/wp-content/uploads/2023/05/Understanding-Irelands-Top-Corporation-Taxpayers-Brian-Cronin-Fiscal-Council-2023.pdf
67 https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2024/2024-05-24_spring-commentary-2024_en.pdf
68 https://www.cso.ie/en/releasesandpublications/ep/p-elcq/earningsandlabourcostsq32023finalq42023preliminaryestimates/
69 https://www.service-public.fr/particuliers/vosdroits/F1419?lang=en
70 https://taxsummaries.pwc.com/germany/individual/taxes-on-personal-income
71 https://www.revenue.ie/en/corporate/information-about-revenue/statistics/income-distributions/stats/Income-Tax-Distributions.aspx

The standard rate cut-off point for income should be set at 100% of the average industrial wage, and indexed annually.

The continuance of the 3% surcharge on higher earning self-employed is utterly discriminatory and unjustified. As we have lobbied for some years, if this surcharge is not removed, it should be extended to PAYE workers earning over €100,000 per annum.

Local Property Tax (LPT) is based on an open-market valuation basis, which penalises urban-dwellers, and those who invest in and upgrade their homes. It discourages densification and urbanisation, both key objectives in the National Planning Framework for Project Ireland 2040.

We should replace LPT with a site value tax, taxing the value of a site, rather than what's built on it.

We should introduce a levy on road frontage (or a load factor on an LPT valuation), which would discourage ribbon development and encourage rural densification.

Government should commit to completion of a LPT revaluation every five years, perhaps in Census year.

BUSINESS TAXATION

There is no correct rate of VAT, in Ireland or in any other country. Ireland's standard VAT rate ranged from a low of 16.37% in 1972 to a high of 35% from 1983 to 1984. The reduced rate ranged from 5.26% in 1972 to 23% from 1983 to 1984. The "Second Reduced Rate" of 9% was introduced in July 2011 in the Great Recession, and succeeded in maintaining and growing employment in the hospitality sector. While the 9% rate is treated as an anomaly introduced in the Great Recession, a similar reversion to historical rates is not apparent with the 23% VAT rate, despite the fact that Ireland had a standard rate of VAT of 21% for the 21 years from 1991 to 2012.

As shown in Section 5, our VAT rates are too high in EU terms. We must weigh the benefits of higher Exchequer returns against higher consumer and business cost and supressed demand.

As with the modernisation of LPT in the personal taxation section above, the commercial rates system is obsolete and runs contrary to government strategy. It penalises businesses that operate in town centres while rewarding those who develop greenfield sites on the periphery. Like LPT, it should be modernised to charge on the basis of site value.

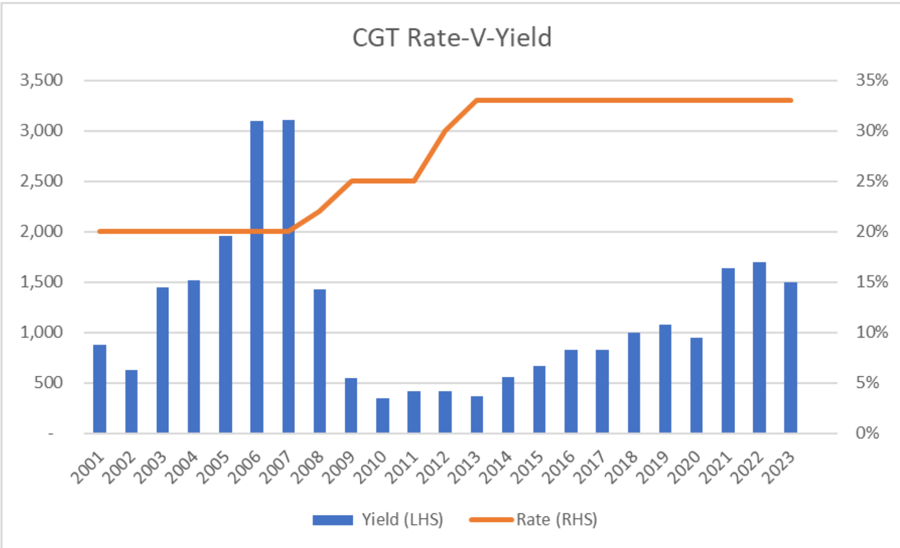
KEEP was introduced in the Budget in 2017 and has never performed as expected. The current Revenue's report on the cost of tax expenditures[72] notes a total expenditure of €0.5m by 43 companies on this program. Structural reform of KEEP requires addressing valuation criteria; the minimum work requirement; the EII prohibition; the 33% tax on share sale and the

[72] https://www.revenue.ie/en/corporate/documents/statistics/tax-expenditures/costs-tax-expenditures.pdf

realisation of share options. The lack of a functional KEEP system is depriving workers of employment-created wealth and after seven years of failure should be prioritised in Budget 2025.

At 33%, the CGT rate in Ireland is the third highest in Europe.[73] We believe that this rate demonstrably depresses yield and is at least partially responsible for retarding housing construction by reducing the attractiveness of transactions in zoned land. Despite other tax heads surging ahead, CGT is declining. Our position on CCGT has been vindicated, and it is clear that the Exchequer is leaving at least €500m in CGT on the table annually through an inappropriately high rate. Which is more important to the state- rate or yield?

We consider a 25% CGT rate would stimulate a considerable increase in yield. While we do not believe CGT yield will ever revert to its Celtic Tiger levels of €3bn, we believe a reliable annual yield of €2bn is achievable with a more realistic nominal rate. We also believe a lower 20% rate of CGT should apply to sales of IP, i.e. those transactions not involving land or physical property.



The Finance Act 2023 introduced a CGT restriction on the transfer of a business within a family that was fundamentally misguided in policy terms. In the case of transfer of a business by a parent up to 69 years, relief restricted to €10m; and in the case of a parent from 70 years onwards, relief was restricted to €3m. This enactment was flawed because when a business transfers within a family, no capital gain in fact takes place unless the recipient of the business sells that business. The beneficiary simply takes over a "going concern" which throws of an annual income stream on which a return is earned. Charging CGT on this transfer makes no more sense that charging CGT on a quoted multinational which changes management.

[73] https://taxfoundation.org/capital-gains-tax-rates-in-europe-2021/

The change also guarantees that indigenous businesses will not scale, but will be sold off before they hit the artificial €10m hurdle; even if disposal is not in the best interest of the business and its employees.

Section 50 of the Finance Act 2023 is therefore a good example of a tax change which runs counter to a stated policy to scale indigenous enterprise. We would never dream of introducing a similar measure for a quoted business, but we are happy to do so for a well-manage indigenous company for ideological reasons.

CAT was introduced in 1975 as an inheritance/gift tax with a threshold of the equivalent of €190,461. If indexed at the CPI rate, this would now equate to over €1.3m, instead of the current €335,000 ('Group A'). The effect of this is to diminish the attractiveness of intergenerational transfer of business and is one of the reasons so few Irish family businesses reach the scale of their continental cohorts.

There is a 90% CAT relief in the transfer of business assets from one generation to another. But this only applies where control of the business transfers at the same time. If family-owned Irish business intend to 'scale not sale' then CAT must be reformed.

Despite the observations of the COTW, Ireland has a relatively high rate of CAT and a relatively low threshold for exemption by comparison with OECD peers.[74] For citizens, the parental residence is also the most common asset against which the "Fair Deals" liability is discharged upon death for nursing home care. This liability is ignored in our CAT rate structure, and ISME believes that indexation of our CAT/Inheritance thresholds should be revisited.

Penetration of the R&D Tax Credit and the Knowledge Development Box among SMEs is extremely low in fiscal terms. These schemes are written with rules appropriate to large, quoted FMCs, not domestic SMEs. The 2009 Commission on Taxation acknowledged that Ireland's R&D expenditure was low relative to peer OECD countries. The Commission on Taxation and Welfare 2022 (COTW) updated the statistics, but in an unfortunately misleading manner, suggesting that SMEs were the largest claimants of the R&D credit. However, the numbers in the table below from the COTW speak for themselves.

[74] Inheritance, Estate and Gift Tax Design in OECD Countries

Table 21: Breakdown of R&D claimants by size (number of employees), 2017 - 2020

YEAR	2017		2018		2019		2020	
Number of employees	Number of claimants	Cost of credit €m	Number of claimants	Cost of credit €m	Number of claimants	Cost of credit €m	Number of claimants	Cost of credit €m
Less than 10	475	38	409	31	531	33	544	37
11 to 49	549	51	443	39	535	55	534	56
50 to 250	331	69	305	58	354	90	355	99
More than 250	150	290	146	226	181	449	183	466
Total	1,505	448	1,303	354	1,601	627	1,616	658

Source: Revenue Commissioners, R&D tax credit statistics, May 2022

71% of the cost of the R&D tax credit is accounted for by large businesses, despite the fact that they make up 0.2% of active enterprises.[75]

While government aspires to increase non-debt funding for indigenous business, the exodus from the Irish stock exchange continues, and equity is becoming a less viable option for business owners. This is a function of both stamp duty that is too high, and an unrealistic taxation policy on dividends, which are treated for tax in the same manner as regular income, despite the fact they are not guaranteed and carry risk.

RECOMMENDATIONS

7.1 Target the removal of 100% of workers on the average industrial wage from the marginal tax rate.

7.2 Ensure that the 8.8% PRSI rate covers all earnings up to the national minimum wage, and index this annually with movements in the NMW.

7.3 Reduce the standard and reduced VAT rates to 21% and 9% respectively.

7.4 Remove the 3% USC surcharge on high-earning self-employed, or extend it to all PAYE workers earning over €100,000 per annum.

7.5 Levy Local Property Tax (LPT) on a site value tax basis

7.6 Introduce a levy on road frontage.

7.7 Complete a LPT revaluation every five years.

7.8 Levy commercial rates on a site value rather than open-market valuation basis.

[75] https://www.cso.ie/en/releasesandpublications/ep/p-bd/businessdemography2021/keyfindings/

7.9 Amend the definition of a ‘qualifying holding company’ for KEEP to permit the corporate group as a whole rather than just the holding company.

7.10 Simplify the company valuation process for KEEP along the lines of that used by HMRC for the Enterprise Management Incentive (EMI) in the UK.

7.11 Remove the annual emoluments cap in KEEP from qualifying share option limits.

7.12 Allow for the maintenance of KEEP relief where a business is reorganised.

7.13 Reduce the standard rate of CGT to 25%, and introduce a second rate of 20% for IP-related capital gains.

7.14 Ease the CGT restrictions on entrepreneur relief beyond owner-managers to encourage external and serial passive investor.

7.15 Raise the €1m lifetime threshold for entrepreneur relief to a minimum of €10m.

7.16 Radically simplify the R&D credit regime for SMEs.

7.17 Tax dividend income at the CGT rate rather than at the gross income tax rate.

NOTE:

The Revenue Ready Reckoner[76] is used by political parties and others in the formation of tax policy, yet it states on the cover that “costings assume no behavioural change.” This is so unrealistic an assumption that it should dropped, as should the cost/benefit assumptions behind increases/decreases in individual tax heads. We tax alcohol and tobacco heavily in order to discourage consumption, a policy which works, but at the expense of yield.

[76] https://www.revenue.ie/en/corporate/documents/statistics/ready-reckoner.pdf

Section 8. Legal Reform

ISME is at a loss to explain the failure to reform the legal profession and to control legal costs. The NCPC has called for meaningful reform of the legal system since 2016.[77] The LSRA has so far failed to tackle restrictive practices in admission to and qualification to advance in the legal professions, nor so far has it exhibited any determination to root out misconduct in the professions. To date, the LSRA has done nothing to dispel the concern expressed by the former head of the CCPC[78] Isolde Goggin that the "*common good prevails over vested interests.*"

In April, ISME led a delegation into the Department of Justice lobbying on defamation reform. We were accompanied by a retail security company turning over €10m annually in Ireland ROI, which has 93 active retail defamation claims on its books with a total potential liability of €3m. These claims typically settle in the €5k-€8k range, with €25k-€35k in costs. We had another business which had to settle a claim for €27k having enforced the licensing laws in not serving an apparent minor. The legal instruction to convenience store owners with shoplifters is "no challenge" since the defamation suit will cost more than the stock being stolen.

The legal lobby appears determined[79][80] to keep divorce out of the District Court, citing concern for the victims of marriage breakdown.

The State Claims Agency puts the cervical check claims liability[81] in the region of €300m, two thirds of which will be legal fees (based on fee ratios established in the Central Bank NCID[82] reports). While the "absolute confidence" standard has been set by the High Court and Supreme Court in Morrisey, it should be noted that clinical liability of this type is not recognised by the WHO or in any other jurisdiction. The number of cervical claims in Ireland is larger than in the UK, despite the population difference. The NCID data is self-explanatory on why cases are litigated rather than settled via PIRB, despite the fact they take longer for very little extra money.

Estimates of legal fees traded in insolvency cases[83] are sometimes equivalent to the residual value of the insolvent firm.

While the CCPC called out the LSRA over its recent recommendations on conveyancing,[84] we are no further advanced with that policy than when the NCPC first called for it in 2016. There is no reason the LSRA could not have called for both digitisation AND conveyance reform, but

[77] https://www.competitiveness.ie/bulletins/legal-costs-bulletin.pdf
[78] https://www.ccpc.ie/business/wp-content/uploads/sites/3/2017/05/Does-the-law-protect-incumbents-FINAL-29APR16.pdf
[79] https://www.rte.ie/radio/radio1/clips/22383950/
[80] https://www.irishtimes.com/opinion/2024/04/17/were-heading-for-an-unfair-elitist-two-tier-divorce-system/
[81] https://www.irishtimes.com/health/2023/07/06/exponential-rise-in-legal-claims-could-make-cervicalcheck-financially-unsustainable-report-warns/
[82] https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/national-claims-information-database/ncid-employers-liability-insurance-report-3.pdf?sfvrsn=bfc1631a_8
[83] https://www.businesspost.ie/news/compromise-deal-agreed-on-legal-and-professional-fees-in-mac-interiors-case/
[84] https://www.rte.ie/news/business/2024/0411/1442882-ccpc-disappointed-at-conveyancing-report-recommendations/

it seems that LSRA priorities are to maintain regulation of the professions, for the professions, by the professions.

The NCPC has regularly ventilated[85][86] the impact of the legal system on the construction of housing, water infrastructure, energy generation, and public transport, to no apparent avail. As noted in section 4, this problem is not unique to Ireland, and appears to affect other common law jurisdictions in a similar manner.

Both the EU Semester reports for Ireland[87] and the EU Commission Rule of Law reports[88] annually note promises of reform from Dublin, little emerges, with the latest Rule of Law report noting "*While an analysis of approaches to reducing litigation costs is pending publication, no further steps have been taken.*"

By way of illustration of how the legal process can be prolonged in Ireland, the case of an ISME member is worth mentioning. McCool V Honeywell[89] involves an alleged breach of contract. Despite the fact that this case has been litigated through the High Court, COA and Supreme Court since 2005, none of those courts have come to a decision on the substantive issue of breach. The Supreme Court agreed to support this latest appeal out of a desire to test a prior ruling in "Battle" in 1968. No less than four judgments by Justices Charleton,[90] Hogan,[91] Woulfe[92] and Murray[93] allow the plaintiff to continue the action on very narrow grounds if he can secure some funding to do so. This case is already intergenerational. The plaintiff is 74 years old and has handed over the business to his son and will continue the fight the case alone if he has the means to do so. But irrespective of the merits of the substantive issue, it is

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[85] https://www.competitiveness.ie/publications/2023/ireland%20s%20competitiveness%20challenge%202023ireland's%20competitiveness%20challenge%202023.html
[86] https://www.competitiveness.ie/publications/2024/bulletin%2024-3%20competitiveness%20and%20the%20housing%20market%20in%20ireland.html
[87] https://economy-finance.ec.europa.eu/document/download/61ad0b86-2eea-4e27-a4ed-ddb148ce6186_en?filename=IE_SWD_2023_607_en.pdf
[88] https://commission.europa.eu/document/download/8bbaf837-f09a-46a2-9eca-f2d77efa1cd4_en?filename=20_1_52574_coun_chap_ireland_en.pdf
[89] https://ie.vlex.com/vid/mccool-v-honeywell-control-793404657
[90] https://www.courts.ie/view/Judgments/a1441ceb-4840-4ff3-83da-5fa4733e2e27/49fd394d-9946-4c9a-b773-73c1e385d55a/2024_IESC_5_(Charleton%20J).pdf/pdf
[91] https://www.courts.ie/view/Judgments/21434bf0-ff5f-48c4-827c-a42f22913aad/49fd394d-9946-4c9a-b773-73c1e385d55a/2024_IESC_5_(Hogan%20J).pdf/pdf
[92] https://www.courts.ie/view/Judgments/37d1c40d-bbf3-48bd-8e86-d1d3d22bd304/49fd394d-9946-4c9a-b773-73c1e385d55a/2024_IESC_5_(Woulfe%20J).pdf/pdf
[93] https://www.courts.ie/view/Judgments/abe886d0-a5ac-442f-8f70-20d05211bce7/49fd394d-9946-4c9a-b773-73c1e385d55a/2024_IESC_5_(Murray%20J).pdf/pdf

fundamentally unjust that a case can run for decades without conclusion, because we have no equality of arms before the courts.

RECOMMENDATIONS

8.1 Set comprehensive fee scales for the Circuit and High Courts, per the minority report published in the Report of the Review of the Administration of Civil Justice 2020.[94]

8.2 Require the Courts Service to immediately initiate procedural reforms making better use of ICT and case management.

8.3 Direct the LSRA to set out the process for establishing a specialist conveyancer profession immediately, as has occurred in the UK, New Zealand and Australia.

8.4 The right of appeal in civil litigation must be regulated (as it is in criminal law) to prevent impecunious or vexatious plaintiffs from coercing defendants into settlement.

8.5 Require plaintiffs to bond their costs, or alternatively, enact an Irish equivalent to the LARA in the United States.[95]

8.6 Require the Courts Service to publish granular costs data, including those of cases settled out of court, in their annual report.

8.7 Amend and commence Section 30 of the Civil Liability and Courts Act 2004[96] to require the PIRB to establish and maintain a register of all personal injuries actions.

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[94] https://www.civiljusticereview.ie/en/CJRG/04112020%20FINAL%20REPORT%20WEB1.pdf/Files/04112020%20FINAL%20REPORT%20WEB1.pdf
[95] https://www.congress.gov/bill/115th-congress/senate-bill/237#
[96] https://www.irishstatutebook.ie/eli/2004/act/31/section/30/enacted/en/html#sec30

Section 9. Reform of Social Insurance

The actuarial reviews of the state's liabilities for pensions suggest a liability of €471bn for social welfare pensions[97] and €176bn for public service pensions[98] as of December 2021. This liability totals €647bn, equivalent to 136% of Ireland's 2022 GDP (€475bn) and 266% of our 2022 modified gross national income (€249bn). These liability ratios are extraordinary, and suggest coming generations will have to pay ever higher income taxes to discharge liabilities arising on a pay-as-you-go basis.

Despite this, Irish workers pay some of the lowest social contributions in Europe.[99] This fact is cynically ignored by our trade unions, who complain that "*employer contributions are the 5th lowest in the EU as a percentage of national output.*"[100] Employer contributions are rightfully low, since contributions are uncapped by refence to income, yet benefits are capped, means-tested, or both. This is not social insurance.

ISME has long advocated a 2% PRSI rate to be applied to all earnings up to the current cut-off of €424 per week, and 6% on the balance.

ISME has lobbied unsuccessfully since 2020 for equitable treatment of private sector pension savers. Our efforts have been ignored. However, the impact of the standard fund threshold (SFT) rules on members of the public service[101] appears to have alerted the Department of Finance to the consequences of applying the standard fund threshold to public servants, and a consultation on the SFT was announced last year.[102]

ISME notes with concern the egregious spin recently emanating from the Revenue[103] suggesting '*a "massive loophole" allowing people to sink up to €2 million tax free into their pension pots*.' For the avoidance of any doubt, the pensions of all public servants of Principle Officer (or analogous grade) or higher enjoy the accumulation of a €2m pot without the payment of BIK on employer contributions. Any attempt to "fix" the SFT problem for high-ranking public servants and politicians by altering capitalisation factors while discriminating against private sector pensioners earning the same would reignite the ISME pension challenge put into abeyance by the current consultation.

ISME has long advocated an auto enrolment system in order to address the low rates of pension coverage among private sector workers.[104] However, we also recognise that as

[97] https://assets.gov.ie/281624/49705d28-b54a-491c-b43f-64f2db7cbfb0.pdf
[98] https://assets.gov.ie/280001/e74d6f2b-9753-4853-9051-cdfa545ea010.pdf
[99] https://www2.deloitte.com/content/dam/Deloitte/cz/Documents/survey/EU-Social-Security-Survey.pdf
[100] https://www.ictu.ie/sites/default/files/publications/2024/8468%20Challenging%20myths%20and%20improving%20working%20conditions%20in%20a%20strong%20economy%20March%202024%20FINAL.pdf
[101] https://www.irishtimes.com/politics/2023/12/12/pension-rules-to-be-reviewed-as-gardai-say-fund-threshold-regime-is-forcing-early-retirements/
[102] https://www.irishtimes.com/politics/2023/12/12/pension-rules-to-be-reviewed-as-gardai-say-fund-threshold-regime-is-forcing-early-retirements/
[103] https://www.irishtimes.com/politics/2024/05/19/revenue-raises-concerns-over-rule-change-allowing-people-to-sink-up-to-2m-tax-free-into-pension-pots/
[104] https://www.cso.ie/en/releasesandpublications/ep/p-pens/pensioncoverage2023/

government intervenes to rapidly increase labour cost, it may have to intervene to assist some businesses in covering the cost of auto enrolment.

ISME has long noted an issue with Ireland's labour underutilisation rate (persons unemployed, classified as pert-time underemployed, and those available for work but not seeking work) and was pleased to see this acknowledged at the National Economic Dialogue 2024.[105] In 2021, we published our "Jobs Kill Zone[106] Report" which identified how state policies affected the decision-making of low skills workers regarding work. It examined how the interaction of policies on tax and other deductions for workers in the income range from €18k to €30k per annum have made working unattractive for many in this income zone.

The report found that workers with lower market skills, such as early school leavers, could be expected to react social welfare and tax policy by either dropping out of the labour market or adjusting their work practices to minimise taxation. ISME has long argued both in its pre-budget submissions as well as its submissions on the national minimum wage, that driving up the statutory minimum wage is simply not a solution to the problem of low wages in the economy.

There has been some good work completed by government in this regard, especially with increases in the income limits for social and affordable housing.[107] But the Band 1 income limit of €40,000 for a single person is still just 83% of the average industrial wage, and the Band 3 limit of €30,000 is 62%.

Case Study:

An ISME member in the West of Ireland, owning seven dry-cleaning outlets, awarded a staff member (not on the National Minimum Wage) a 12.4% pay rise following the increase in the NMW, in order to maintain staff relativities. Shortly afterwards, the employee reported that she had lost qualification for her medical card. However, staff in her local Intreo office advised her that if she reduced her working week to four days, she would again be eligible for her medical card. They further advised her that if she reduced her working week to three days, she would qualify for the Housing Assistance Payment (HAP).

Social Protection Systems are thus directly promoting under-employment in the state.

[105] https://assets.gov.ie/293945/760875b7-aee1-43b7-9af5-8932fc3cc74f.pdf
[106] https://isme.ie/isme-calls-for-policy-changes-to-eliminate-the-jobs-kill-zone-for-low-income-workers/
[107] https://assets.gov.ie/236056/59ecede4-f862-4c5d-bf5a-e1a1d4ff9a63.pdf

RECOMMENDATIONS

9.1 Introduce a 2% PRSI rate on all income, and a 6% PRSI on all marginal income above €424 per week.

9.2 Government should set out a strategy to fund the liability for social protection and public service pensions.

9.3 Set the basic rate for qualifying for the medical card at more than 30% above the comparable Jobseeker’s assistance rate.

9.4 Replace the child element in Jobseeker’s payments and all other welfare schemes by increasing Child Benefit, phasing out Working Family Benefit, and at the same time making the Child Benefit taxable.

9.5 Significantly increasing the income thresholds for access to social housing. Reform or remove the link between income and local authority rent.

Section 10. Managing the Green Transition

The marked decline in electric vehicle sales in 2024 shows that the public will not make the green transition without reliable economic incentives in place to do so. We also witnessed ill-advised tinkering with company car incentives by the Department of Finance which produced perverse incentives for both businesses and employees using company vehicles to purchase second-hand diesel vehicles. 2023 and 2024 also saw very significant increases in the depreciation rates for EVs, and an ongoing issue with the provision of EV charging facilities.

Businesses will not sink significant levels of capital expenditure into green transition initiatives in the absence of certainty around their financing, nor will funders be willing to extend access to debt finance. The payback periods for investment in solar PV, heat pumps and deep retrofit tend to be exaggerated by their providers. It is no surprise that shorter-term debt facilities are not nearly as attractive as longer-dated facilities such as the growth and sustainability loan scheme.

Similarly, consumers will baulk at the purchase of EVs which will rapidly depreciate, are difficult to charge, and which will have a finite battery life. Government tax and incentive policies must be alert to this, and can never be arbitrary or capricious.

Consumers are rightly being warned about the optimistic pay-back times for retrofit.[108] Government, as well as the SEAI and funders including the SBCI must be more commercially and financially realistic about the long-term commitment required for retrofit.

We must be realistic and explicit in our social communication of the costs of the green transition. Even with the less contentious issue of food, UCC research has established that consumers voice a desire for more sustainable food supply, but a reluctance to pay more for food produced sustainably.[109]

Green procurement dramatically increases costs. The EU has signalled its direction of travel regarding sustainability and GHG reduction, but the initiatives underlying this such as CBAM,[110] CSRD[111] and CSDDD[112] will result in higher end costs to consumers, and a progressive restriction on SME participation in the wider economy as they struggle with the adoption of certification such as ISO 14001.[113]

We need to address the lack of joined up thinking in Ireland's energy needs. We acknowledge that the knowledge economy is going to require data centres, but our power generation capacity falls far short of what is required to allow more of them to base here.

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[108] https://www.independent.ie/business/personal-finance/do-all-the-sums-twice-before-you-get-into-long-term-debt-to-retrofit-your-home/a161801710.html
[109] https://www.irishtimes.com/business/2024/05/22/irish-consumers-want-more-sustainable-food-but-not-to-pay-for-it-ucc-survey-finds/
[110] https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en#:~:text=Why%20CBAM%3F-,CBAM,production%20in%20non%2DEU%20countries.
[111] https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en
[112] https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en
[113] https://www.nsai.ie/certification/management-systems/iso-14001-environmental-management/

Ireland has a goal to be a global producer of offshore wind energy, yet the Arklow Bank facility is 20 years old, and our planning and legal systems mitigate against any rapid rollout of floating offshore wind (FLOW).

Renewables are a sustainable form of energy production, but they remain unreliable, and currently lack storage capacity. As France and the UK plan the development of further nuclear power facilities, Irish law forbids its use[114] but not its importation. France has energy costs that are 30% of ours. A transition from hydrocarbons to nuclear powered electricity is easier to achieve as the total cost of ownership is lower.

If we are to be serious about the green transition, we must have an informed discussion about the implications for consumers and business about its implementation.

RECOMMENDATIONS

10.1 Consumers and businesses availing of tax or purchase incentives must have visibility of their costs or liabilities for the useful duration of their asset.

10.2 Ensure that environmental policy on the green transition leads relevant tax reform, not vice versa.

10.3 Inform business and consumers of the cost elements of the green transition.

10.4 Revisit Ireland's energy requirements consistent with the green and digital transitions.

10.5 Reopen a debate on the generation and use of nuclear power in Ireland.

[114] https://www.irishstatutebook.ie/eli/1999/act/23/section/18/enacted/en/html#sec18

Section 11. Workforce and Employer Upskilling

Our workers and our business owners require upskilling to meet the demands of the 21st century business environment, the need to digitalise, to decarbonise, and to export. It is imperative, therefore, that the monies collected via the training levy are spent on elevating the skills of the Irish workforce, as originally intended.

Much has been written lately by our trade union colleagues suggesting that productivity in indigenous industry is low.[115] We agree with the core thesis and in fact have been lobbying for a basic business qualification for small business owners since 2019.

We disagree with the trade union critique of "unproductive" businesses such as hospitality and wholesale. While it is true that most hospitality businesses are fundamentally unproductive in the microeconomic sense; in reality they provide the main or only source of non-welfare income in many of the more rural and remote areas of Ireland and along the Wild Atlantic Way. Not every town can have an Intel Fab, and we must accept that employment cannot be evenly spread across the whole island.

We also see a shortfall in provision of apprenticeships among indigenous employers, as well as a reluctance among many young people to participate in them. This is a function of:

- A reduction in apprenticeship supports by Government post 2016.
- An over-emphasis on academic tertiary education and a social devaluing of technical and vocational education, leading to very high drop-out rates in some institutions.[116]

Budget 2024 saw a 30% decrease in funding to Skillnet Ireland. While we understand that the government is subject to spending rules, this decrease in training funding resulted from a decision to fund across-the-board energy credits for all households, irrespective of need. We expressed our concern to the Minister for Public Expenditure and Reform[117] that the National Training Fund, which is funded by a 1% employer contribution, could be allowed to expand its surplus while SMEs and their employees were denied their own money back for training. This must not happen again, or it will fundamentally undermine the business case for the maintenance of the training levy.

RECOMMENDATIONS

11.1 Government must revert to pre-2016 apprenticeship supports for business owners.

11.2 We want to see adoption and rollout of a basic business qualification for SME owners and managers, similar to or better than the ISME Blue Cert proposal.

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115 https://www.irishtimes.com/business/2024/05/16/irish-workers-among-the-least-productive-in-europe-study-indicates/
116 https://www.irishtimes.com/ireland/education/2023/09/27/why-are-college-dropout-rates-on-the-up/
117 https://isme.ie/wp-content/uploads/2023/12/ISME-to-Minister-DPER-re-Skillnet-Budget-Dec-23.pdf