# Leaning against the wind

Budget Submission 2023

Ibec
For Irish Business

# About us

Ibec is Ireland's largest lobby and business representative group. Our purpose is to help build a better, sustainable future by influencing, supporting and delivering for business success. With over 270 employees, Ibec engages with key stakeholders in Ireland and internationally through our six regional offices and our Brussels office, along with an extensive international network in the UK and US.

Ibec positions are shaped by our diverse membership, which range from small to large, domestic to multinational and our 39 trade associations cover a wide range of industry sectors. Ibec members employ over 70% of the private sector workforce in Ireland.

As well as lobbying, Ibec provides a wide range of professional services and management training to members on all aspects of human resource management, occupational health and safety, employee relations and employment law.

# Table of Contents


Key messages 1

Summary of Budget Day measures proposed by Ibec 5

1. Introduction 7

2. The backdrop to Budget 2023 9

3. A co-ordinated approach to costs, the low carbon transition and energy security 19

4. Competing in an intangible driven economy 25

5. Meeting our big societal challenges 37

6. Revitalising challenged sectors 41

7. Annex 1 47

# Key messages

# Key messages

1. **The new new measures announced on Budget Day should total around €2 billion:** The net Budget Day 2023 package of new tax and spending measures should be in the region of €2 billion. Net of tax increases and buoyancy from non-indexation this would leave the total net new measures at just under €950 million in 2023. It is also crucial that the National Development Plan (NDP) is delivered, with follow through on an increase in capital expenditure in 2023 of €800 million. Our proposals are also consistent with other pre-existing commitments for Brexit Adjustment Funds and EU recovery fund spending along with leaving over €2 billion aside to manage inflation and improve public services.

2. **Ensure the Government continues to run a broadly balanced budget:** Ibec's view is that Budget 2023, with a backdrop of high inflation, should aim for a modest Government surplus and that our better-than-expected fiscal performance should not be used to extend the Government's balance sheet further. At the same time, there is a danger of overcorrecting given uncertain economic dynamics. Our proposals would leave a total surplus for 2023 of around 0.5% of national income, an improvement of around one percentage point of national income relative to 2022. We believe this is about the appropriate rate of return to fiscal normality given the macroeconomic uncertainty.

3. **Cumulative impacts of labour market policy measures are causing major concern amongst businesses:** Ibec estimates suggest that the rollout of auto-enrolment, the living wage, pensions, statutory sick pay, and other leave proposals already announced will add 9% to average labour costs in Ireland over the coming decade. This total is across the whole economy, for many companies in domestic facing sectors, low margin exporters and the SME community the cost of implementing increases in pensions coverage and wage floors will be higher. These costs are on top of the existing significant cost pressures facing Irish companies, with energy, commodity, and transport costs challenging profitability for many. Whilst many of the additions to the so-called Social Wage have merit on their own terms, if phased correctly, they represent a major change in the Irish labour market model. The ongoing lack of co-ordination regarding their phasing is causing major concern amongst our members – particularly in the current economic environment. Companies in the most challenged sectors will need ongoing competitiveness and transition supports over the coming years if they are to implement these changes, beginning in Budget 2023. This should take the shape of a time-limited labour market transition rebate, funded from the National Training Fund (NTF) with a payment break element and a rebate for training, skills or productivity vouchers.

4. **Focus energy measures on futureproofing and resilience:** Dealing with a supply-side inflationary shock means that we must focus on embedding resilience in our energy system. The tax and spending system can be both a 'carrot' and 'stick' in this regard, by increasing the cost of carbon whilst lowering the relative cost of lower-carbon technologies. In this sense, we support the Government's commitment to a continued increase in the level of the carbon tax. However, this must also be balanced by offsetting incentives for research, development, investment and adoption of low carbon technologies and alternative energy sources We outline over €300 million of new spending in 2023 including the additional climate funding earmarked in the NDP and European recovery funds.

5. **Ensure Ireland can compete in an intangible driven economy:** Ireland is increasingly competing in an intangible driven economy. This means competing more intensely to embed internationally mobile skills, knowledge and capital in the economy and to grow our own world leading companies. In 2023 Ireland needs to improve tax incentives to deepen the market for equity investment, encourage the use of share options and enhance investment incentives in areas such as R&D, low carbon technologies and advanced manufacturing. We should move toward a territorial tax system and introduce further tax simplification measures to ensure we can compete for mobile capital. Ireland is under-resourced relative to our ambitions in the areas of higher education, innovation and digital following years of underfunding. We outline public investments in education, skills, research and innovation and digital of over €350 million in 2023.

6. **Target economic supports, where necessary, on the most exposed parts of the economy:** Whilst winding down emergency supports from €7 billion in 2022 to around €1 billion in 2023, Ireland must continue to invest in the competitiveness and productivity of the sectors worst impacted by Covid and Brexit. This can be achieved by a €100 million investment package in the *Experience Economy* product, revitalising the vibrancy of our city centres and making sure the sectors' skills base is ready for the competitiveness challenges ahead. The Brexit Adjustment Reserve funds of €600 million in 2023 should be used to future proof the worst impacted sectors from the increased costs of trade due to Brexit. Around half of the fund should support investment, skills, trade and innovation in Brexit exposed sectors in 2023.

7. **Target measures to meet big societal challenges:** Ireland is facing a range of societal challenges in a variety of areas including childcare, housing, and labour market access. It is important barriers to accessing the labour market are removed. To this end, Ibec is proposing that €167 million be spent on expanding access to childcare and €33 million to support carers and persons with a disability in the workplace. Finally, to meet our accommodation challenges and deliver on much-needed housing, Ibec also proposes €180 million be committed to measures to keep new build housing viable.

# Sumary of Budget Day measures proposed by Ibec

# Summary of Budget Day measures proposed by Ibec

## Table 1: Ibec submission and Government fiscal strategy

| | Government fiscal strategy | Ibec measures |
|---|---|---|
| | € billion | |
| Budget day spending measures | 2.65 | 0.63 |
| Budget day tax measures (net of tax increases) | 1.05 | 1.32 |
| Existing NDP spending commitments | 0.8 | 0.8 |
| Left for demographics, public services and inflation | 2.2 | 2.2 |
| **Total planned package of permanent spending or tax measures** | **6.7** | **4.95** |

**Note:**
Both are in addition to €4.5 billion allocation in 2023 for Covid-related spending, the Ukraine humanitarian contingency, Brexit Adjustment Reserve, and EU Recovery Fund.

# 1

# Introduction

# 1. Introduction

Budget 2023 takes place against a continuing challenging backdrop. Having been through two years of the Covid pandemic and facing the ongoing implementation of Brexit, the Irish economy is now facing significant inflationary pressures. Given the challenging global economic environment, it would be an understatement to say that both Ireland's economy and society continue to be resilient.

In the coming pages, we will frame our priorities for Budget 2023 against a backdrop of these significant challenges. In the short term, the focus of the business community will be on dealing with the impact of rapid escalations in costs, ongoing trade and supply chain disruption and major changes in our business model. Despite this, Irish business is committed to playing a proactive role in facing up to the multitude of challenges and commitments which will arise in the coming decade.

Budget 2023 must strike a balance between the immediate inflationary moment and meeting the long-term challenges we face as a society. This includes the requirements for significant funding for low carbon investment, changes to the basis of competition for mobile investment, changes impacting the workforce, including digitalisation, skills gaps and automation and the growing demands on the State to provide 'superior goods' of improved public services and infrastructure as the country becomes wealthier. The importance of not losing focus on these long-term challenges is, in many cases, underlined by the historical roots of the imbalances which are challenging our economy today.

The Government faces a difficult task in the current inflationary environment. This crisis, driven by a classic shock to supply in the economy, cannot be solved by large scale Government demand-side interventions, as was the case with Covid.

Budget 2023 will be about dealing with strategic challenges whilst ensuring the Government returns to a balanced budget. Businesses understand that the expectations of what the Government can do must be different than during Covid as both capacity constraints and interest rates rise. Measures to support households and businesses must be tightly targeted at those most in need if we are to avoid adding fuel to the inflationary fire.

At the same time, a greater focus must be brought to bear on the coordination of policy measures. Ibec estimates suggest that the rollout of auto-enrolment, the living wage, pensions, statutory sick pay, and other leave proposals already announced will add 9% to average labour costs in Ireland over the coming decade. This total is across the whole economy, for many companies in domestic facing sectors, low margin exporters and the SME community the cost of implementing increases in pensions coverage and wage floors will be higher. Whilst many of the additions to the so-called Social Wage have merit on their own terms, if phased correctly, they represent a major change in the Irish labour market model. The ongoing lack of co-ordination regarding their phasing is causing major concern amongst our members – particularly in the current economic environment. Companies in the most challenged sectors will need ongoing competitiveness and transition supports over the coming years if they are to implement these changes, beginning in Budget 2023.

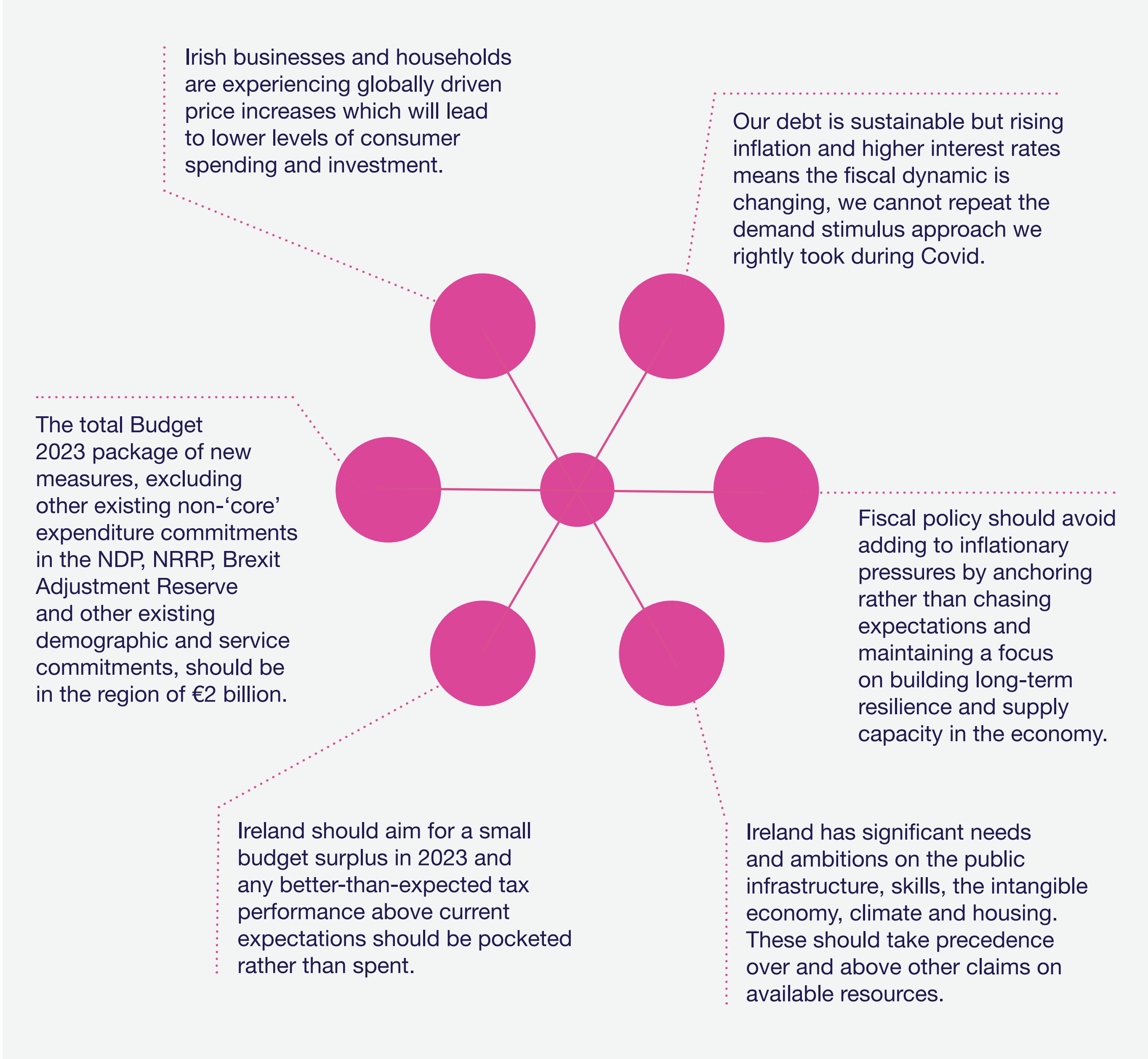
The balance of measures in Budget 2023 should focus on taking very targeted measures to provide some protection to living standards for those most exposed, avoiding adding to inflationary pressures by anchoring rather than chasing expectations and ensuring we continue to have the capacity to follow through on the long-term needs which are so crucial for our society.

Ultimately, keeping our focus on these long-term challenges is crucial if we are to improve living standards throughout the business cycle and meet the demands placed on us by abiding shifts in population, climate and the operation of the global economy.

# 2

# The backdrop to Budget 2023

## The Elevator Pitch




The Irish economy is at a turning point. Changes in the global environment – in commodity, energy and financial markets – are reshaping the global economy from the one we have recognised over the past decade. The era of record low interest rates, low inflation, and spare capacity we have lived through since the global financial crisis is being overturned.

The European and Irish economies are both suffering from a 'terms of trade' shock. With the well-documented increase in the price of commodities, energy and transport which are being imported. This is translating into an overall loss of income for the Irish economy and a transfer of resources to commodity-exporting economies. As higher prices – particularly of energy imports – are now expected to last for some time, there may be an ongoing challenge to the cost of doing business and living standards.

For Ireland, as a small open economy, shifts in the flow of capital through the global economy can have an outsized impact on our growth model. Our members are already experiencing this through tighter capital markets and a greater focus on costs. The outlook for

Irish business is marked by growing concern at rapid shifts in our competitive position. This underlines the importance of controlling what we can here at home in Budget 2023.

We expect the strong recovery momentum, which was evident in the first half of the year, will fade into 2023. This will happen as the loss of income for businesses and households becomes manifest through higher energy bills and rising interest rates. This will reduce the growth of the two drivers of the domestic economy, consumer spending and investment.

Investment in Ireland continued to be robust coming into 2022, most recently evidenced by another record year for IDA investments in 2021. However, the global environment is changing. Central Banks are raising interest rates globally. ECB interest rate hikes of 500 basis points are already in place with significantly more expected in the coming 12 months. These shifts in global interest rates have already had material impacts on financial markets with Government bond yields rising and equity prices falling.

Whilst interest rates are still exceptionally low by historical standards, these interest rate increases will have implications for investment in the private sector. Generally, projects need their return to clear the hurdle rate - the cost of capital plus a risk premium. Reported hurdle rates have generally sat between 10% and 15% globally over recent decades. As such, the rising cost of capital will be a particular issue for more risky investments and investments where returns might be comparable to ‘safe’ assets like treasuries.

From an Irish economic perspective, investment levels will face a greater challenge from rising risk premiums and uncertainty around growth in major markets. In addition to changes in the funding environment, investment in Ireland is also facing headwinds from capacity pressures in the labour market and rising costs. As a society, we must plan for the long-term State investments needed to grow our capacity and resilience in housing, energy, infrastructure and skills.

There is a need to support those exposed to the downside of inflation. This support, however, must be targeted at those most in need. Government must intensify work through the Labour Employer Economic Forum to ensure better coordination of tax, social welfare and other social wage policies that can address these inflationary pressures in the run-up to Budget 2023.

However, attempts to wholly offset the impact of inflation on real incomes risk adding to inflationary pressure and undermining our ability to meet these long-term goals.

**Rising cost pressures for business**

Price inflation in Ireland is now rising at its fastest pace since the mid-1980s. This is on the back of a continued rise in European gas prices as Russian pipeline exports to Europe fell in recent months. Winter 2022 prices had been expected to fall coming in around 200 pence per therm as recently as early June. However, this has risen in recent times to over 400 pence per therm at times. This is compared to pre-crisis prices of 40 to 60 pence. Whilst there is significant volatility, it is now likely that higher energy prices will become a structural feature of the European economy in the coming years. This will be a generational challenge for the European economic model.

Irish businesses spend (excluding energy suppliers) over €3 billion on natural gas and electricity and a further €1 billion on road transport fuels annually. The competitiveness impact of rising energy prices has already put major pressure on companies’ ability to maintain profitability with knock-on implications for investment and jobs. Many Irish businesses are reporting energy prices between 3 to 5 times higher than this time last year.

Cost increases are not limited to energy alone. Before the Ukrainian war happened, surveys by the European Commission had already shown well over 80% of Irish manufacturers identified a shortage of key materials or equipment as a barrier to production. Commodity prices across several sectors have also risen significantly since the pre-Covid era. Food commodities, fertilisers, metals and minerals and precious metals have all seen rapid global price hikes.

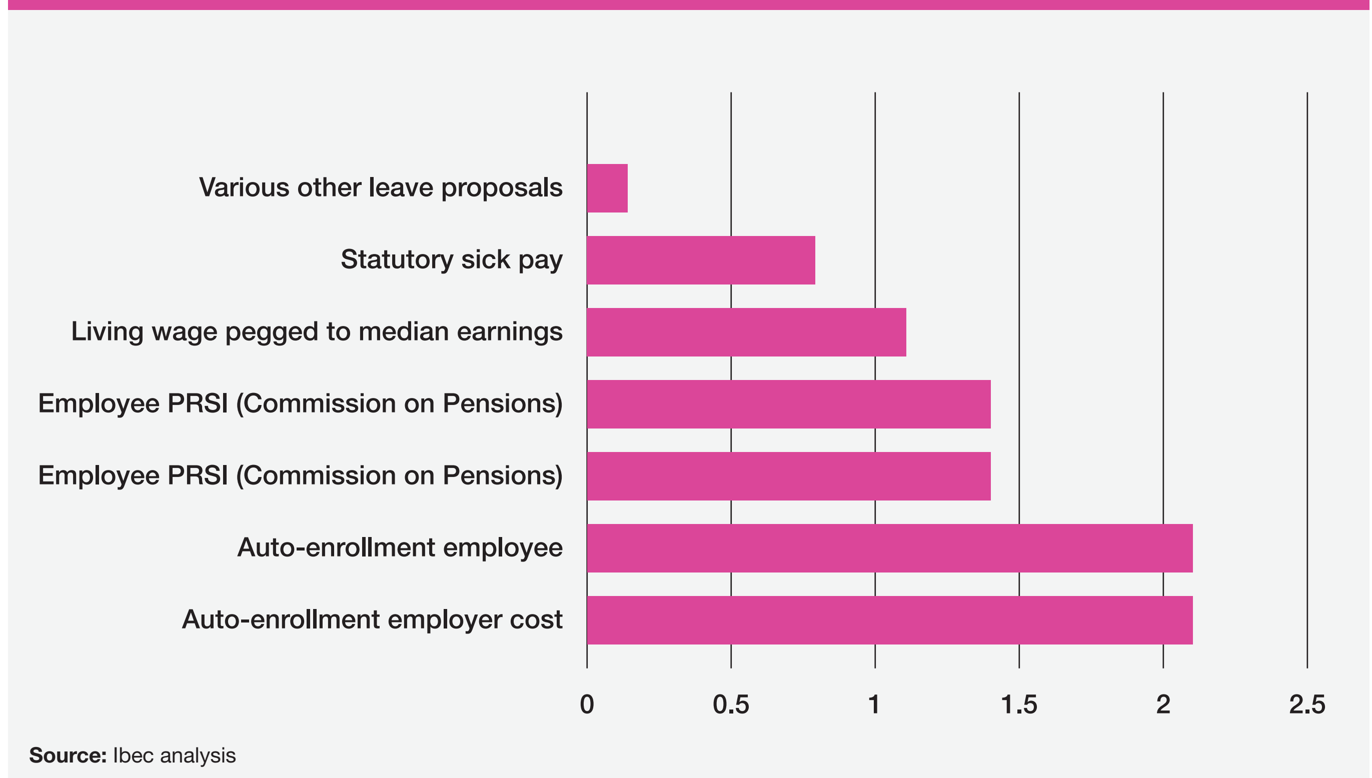
The shortages, which are in many cases driving these price rises, are a particular challenge for some Irish sectors such as food and drink, engineering, MedTech and biopharma. In the food and drink sector, shortages of critical commodities like maize, wheat, oilseeds, and urea threaten the viability of production of some lines and products. Similar shortages in supplies of neon, used in lasers and the manufacture of semiconductors, medical-grade steels, radioisotopes, metal catalysts and aluminium along with significant price hikes are a challenge to the technology and life sciences sectors.

At the same time, high global transport costs remain a challenge for supply chains. The Freightos Baltic Global Container Index showed that container shipping costs from East Asia to Northern Europe had increased from $1,900 per container on average in the pre-pandemic era to over $10,000 in June 2021. This peaked at $15,000 at the end of January yet remains at elevated levels. The expectation that global oil prices will continue to remain above their pre-crisis peak, rising trade costs to reflect environmental regulations in transport and other pressures on costs and supply chains may keep price levels high for some time.

On the other hand, we have begun to see some early signs of softening the rapid increases in global commodity prices and shipping costs. This has been driven by two trends which are likely to accelerate in 2023, market supply adjustments following significant disruption during Covid and slowing demand for goods globally due to fears of a recession in some major markets. Given the crucial role of Ukraine and Russia in the supply of many of these key commodities it may take some time for global markets to adjust fully.

Finally, the Government has introduced significant increases in the cost of employment due over the coming years. Ibec estimates suggest that the rollout of auto-enrolment, the living wage, statutory sick pay, and other leave proposals already announced will add around 2.8% to the total wage bill in the economy in the coming years. In the longer term, over the next decade, the addition of higher PRSI for employers and employees in line with the Commission on Pensions recommendations and rising auto-enrollment rates will increase this to 9%.

**Figure 1: Long-term impact of various proposals on the private sector wage bill**




**Source:** Ibec analysis

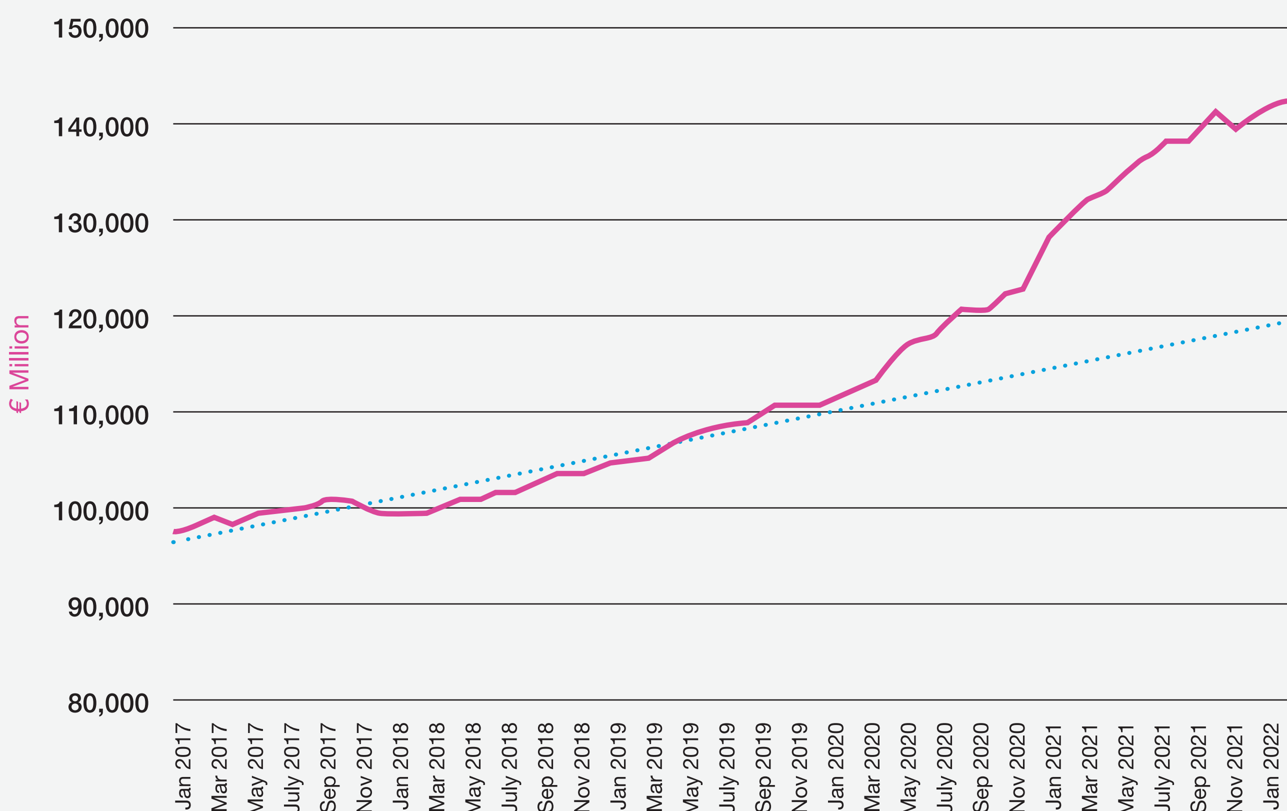
**A relative price shock for consumers**

When it comes to households, we expect that consumer price inflation this year will run at around 7% for the full year. Rising energy prices mostly flow out of the economy in terms of higher imports but also introduce a relative price shock to consumer spending. This is where households when faced with higher spending on energy bills cut back on consumption elsewhere. Overall consumption remains unchanged but other sectors of the economy – particularly those reliant on discretionary spending lose out.

Total spending on electricity, gas and other fuels (including transport) accounts for 9.3% of household spending in Ireland. As a result, for every 10% increase in energy costs, the amount of consumer spending elsewhere in the economy might fall by 0.9%, holding savings and incomes steady. This effect is likely to be mitigated somewhat in Ireland by a mix of fiscal measures, higher wage demands and a run-down of elevated pandemic household savings. A second element on the consumer side is that households may become more cautious as they look at the post-pandemic realities. As a result, the savings-driven consumption 'boom' which might have been expected, particularly in the Experience Economy, is unlikely to materialise to the same extent.

The rising interest rates outlined in previous sections are likely to have some impact on spending by households. There will be significant variability between different households, however. Over 69% of Irish households own their own home, rather than rent or live in social housing. Of those around half (34.5% of households) own their home with a mortgage or loan and are thus potentially exposed to rising mortgage interest rates. Amongst the total value of mortgages in the country 45% is on mortgages fixed for over a year, with the remainder split between either tracker or variable mortgages. The share of longer-term fixed products has risen from a level of only 6% as recently as 2014 and has been the dominant product in new mortgages in recent years.

Figure 2: Irish household savings, relative to their pre-crisis trend



On the other hand, Irish households come into this period with much-improved balance sheets. Some Irish households will benefit from rising interest rates. In 2009 as we entered the financial crisis, Irish households held €80 billion on deposit in Irish banks and had €150 billion in debt to the system – including mortgages. Today those numbers have almost reversed with €139 billion on deposit in Irish banks from Irish households and only €80 billion owed in debt.

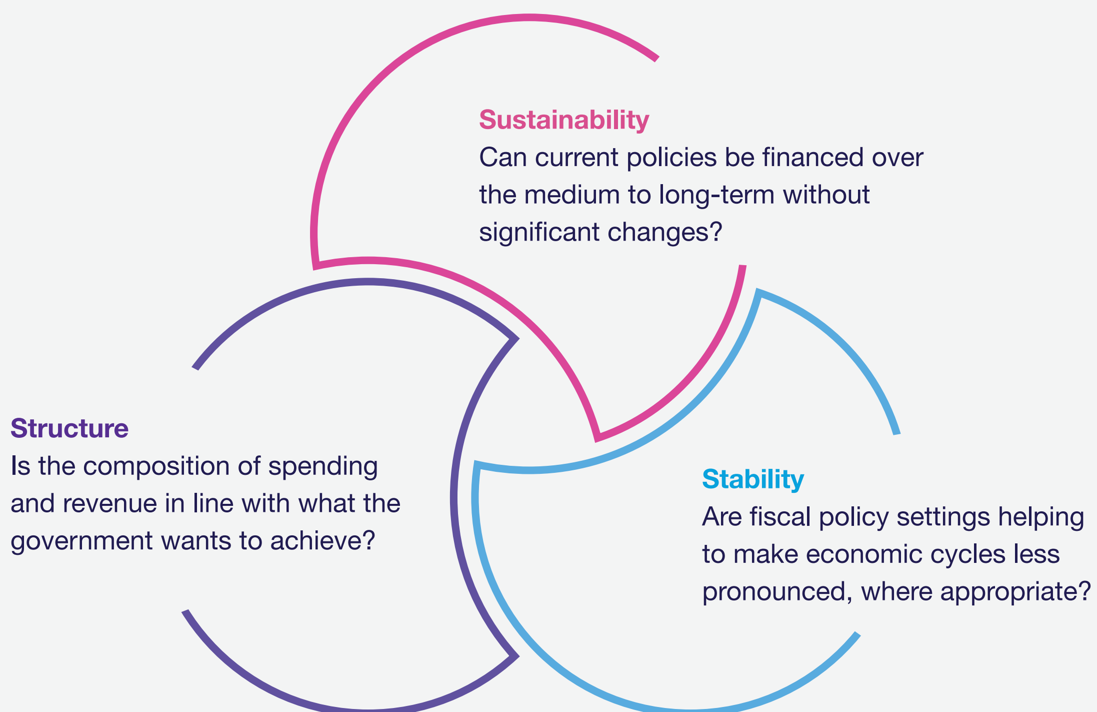
We expect inflation will add about €7 billion to total consumer spending in nominal terms in 2022. However, given the context of disposable income growing strongly, existing 'excess' household savings of over €22 billion, Government supports in 2022 of around €2 billion in 2022 and a rate of new saving which is running at over €6.5 billion a quarter, many Irish households have the resources to sustain spending levels despite inflation.

As such, the rising interest rates will have a quite different effect than they would have in the past. Those savings are much higher amongst older households, households with high incomes and those who own their homes outright. This again, speaks to the need to target measures at those who need them.

### A changed fiscal dynamic

The focus of fiscal policy must be on a policy mix that is not just sustainable in the narrow sense of debt and deficits, but which takes a broader perspective on producing sustainable economic, social and environmental outcomes. For this reason, a balance must be struck between this narrow and broad sense of fiscal sustainability. On the other hand, the narrow sense of fiscal sustainability remains a crucial goal for Irish businesses. We have seen in the past decade the impact unsustainable fiscal practices can have on business, society and the economy more broadly overall. They can create uncertainty, lead to volatility and impair private investment.

Figure 3: Dimensions of responsible fiscal policy in New Zealand




**Source:** New Zealand Treasury

In this context, and as outlined in detail in our recent submission to the Commission on Taxation and Social Welfare, the framework used by the New Zealand Treasury to assess dimensions of responsible fiscal policy (Figure 3) is a useful guide on the kind of thinking which guides our approach to this submission. Through the prism of sustainability, structure and stability we can view these challenges and their potential impact over the coming years.

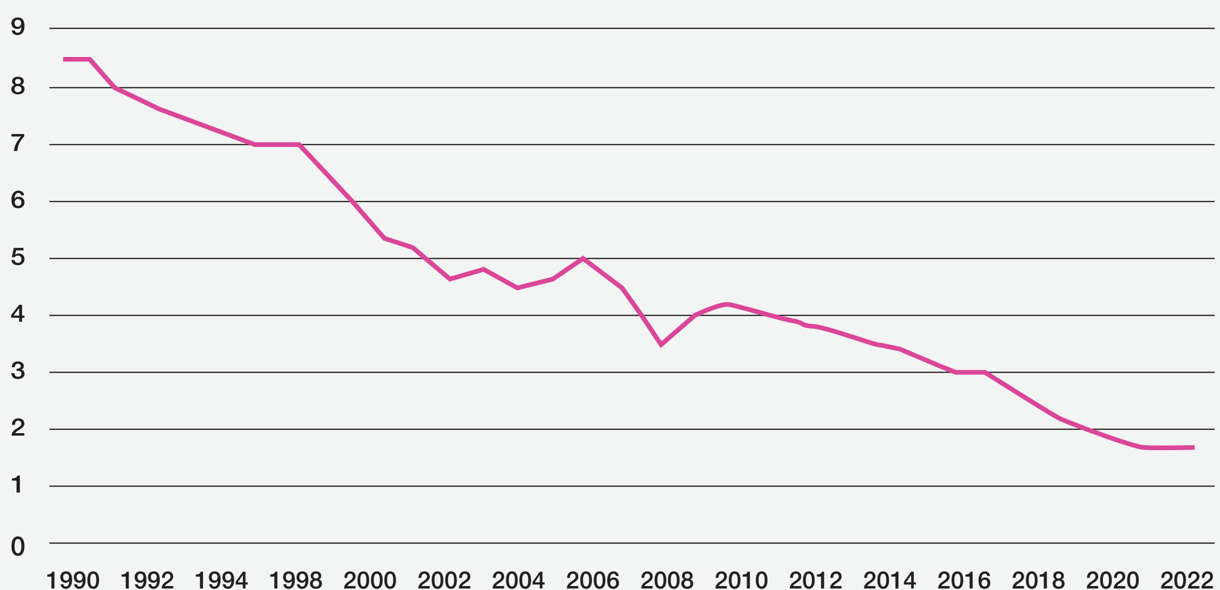
Irish business from this perspective is acutely aware of our responsibility to promote sound fiscal policy where risk is balanced with needs. This means balancing significant and unavoidable investment needs which are quite clearly in Ireland's future with a competitive business model and sustainable debt and deficits.

Rising inflation means the fiscal dynamic facing the economy is also likely to change relative to recent years. Even if inflation subsides in 2023, the era of negative interest rates on Government debt is over. New purchases under the Pandemic Emergency Purchase Programme (PEPP) have ended and interest rate hikes are on the way globally.

The market-implied path for the ECB Bank Rate (1.3%), the Bank of England (2.9%) and the US Federal Reserve (3.6%) are all expected to rise materially by the end of 2022. These hikes throughout 2022 will bring the ECB's deposit rate back into positive territory, having been negative since June 2014. This is understandable given the similar moves by both the Federal Reserve and the Bank of England. However, there are significant risks of a growth slowdown if the timing of such measures or their severity is misjudged.

Our existing debt is sustainable, however, with a low average interest rate on the existing stock of debt and roll-overs in the coming decade focused on higher-yield bonds. This means that interest rates would have to rise into the range of 3% plus before we would see material changes to the Government's interest rate bill – from existing debt. It also means, however, that returning to a balanced budget will be necessary and new day-to-day spending will have to be matched by new tax revenues.

Figure 5: Average interest rate on the stock of the national debt



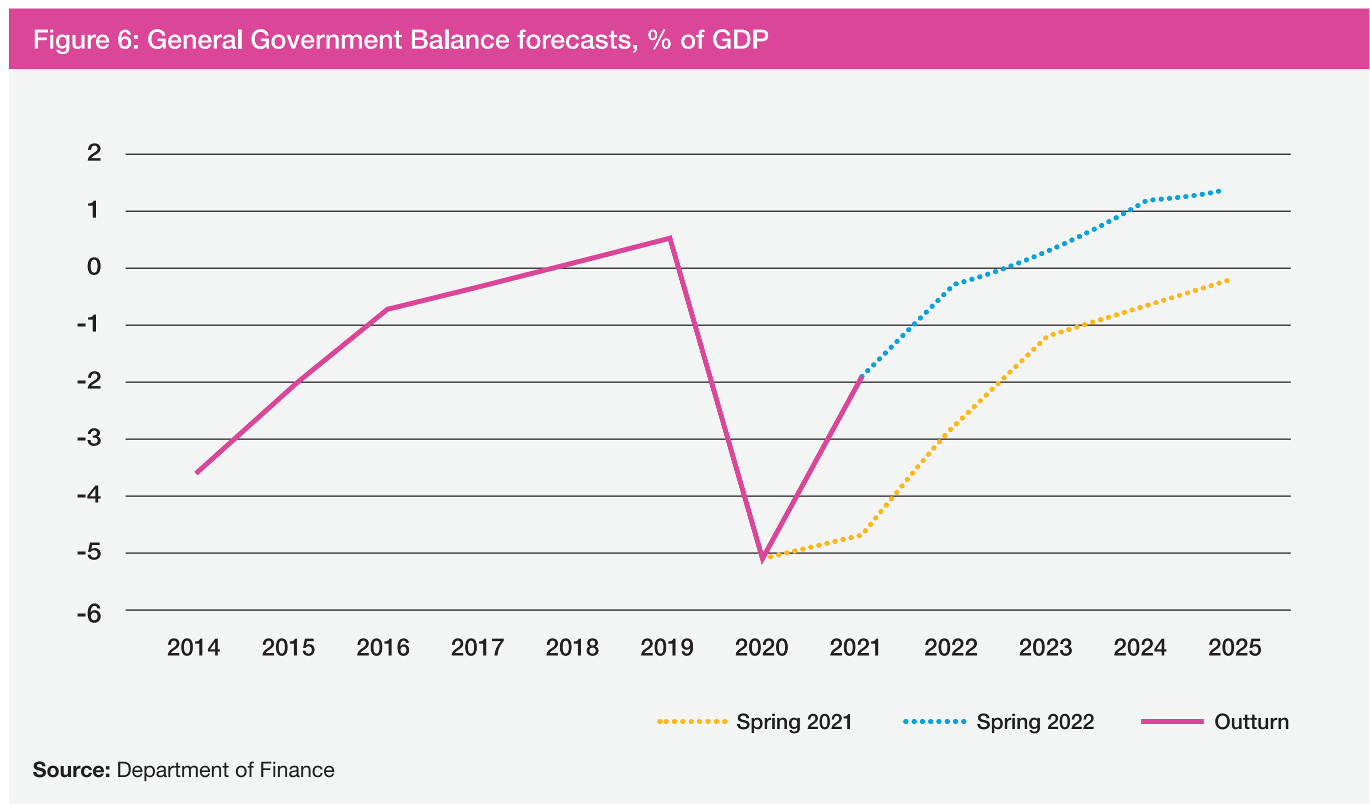

**Source:** Ibec calculations

All of this means that Budget 2023 cannot be a repeat of 2020, 2021 or 2022 where a cumulative Government deficit of €30 billion was rightly recorded to protect the economy and society. Measures will have to be targeted and expectations will have to be tempered. Excessive fiscal interventions in a capacity-constrained environment, targeted at the wrong areas, risk throwing fuel on the inflationary fire.

Ireland has significant needs and ambitions for public infrastructure outlined in the ambitious and welcome National Development Plan. Over and above these claims on available resources to meet strategic challenges, Ibec recognises that the Irish system faces several costs and risks – particularly the low carbon transition and population ageing - which will emerge over the coming years and will result in a need for a larger share of tax revenues in national income.

Stronger than expected growth, tax revenues and inflation will mean our debt and deficit as a proportion of national income will perform better than expected. Department of Finance forecasts now expect that a budget surplus will be reached in 2023, whereas this had been expected to only be achieved post-2025 in the Spring of last year.

**Figure 6: General Government Balance forecasts, % of GDP**




**Source:** Department of Finance

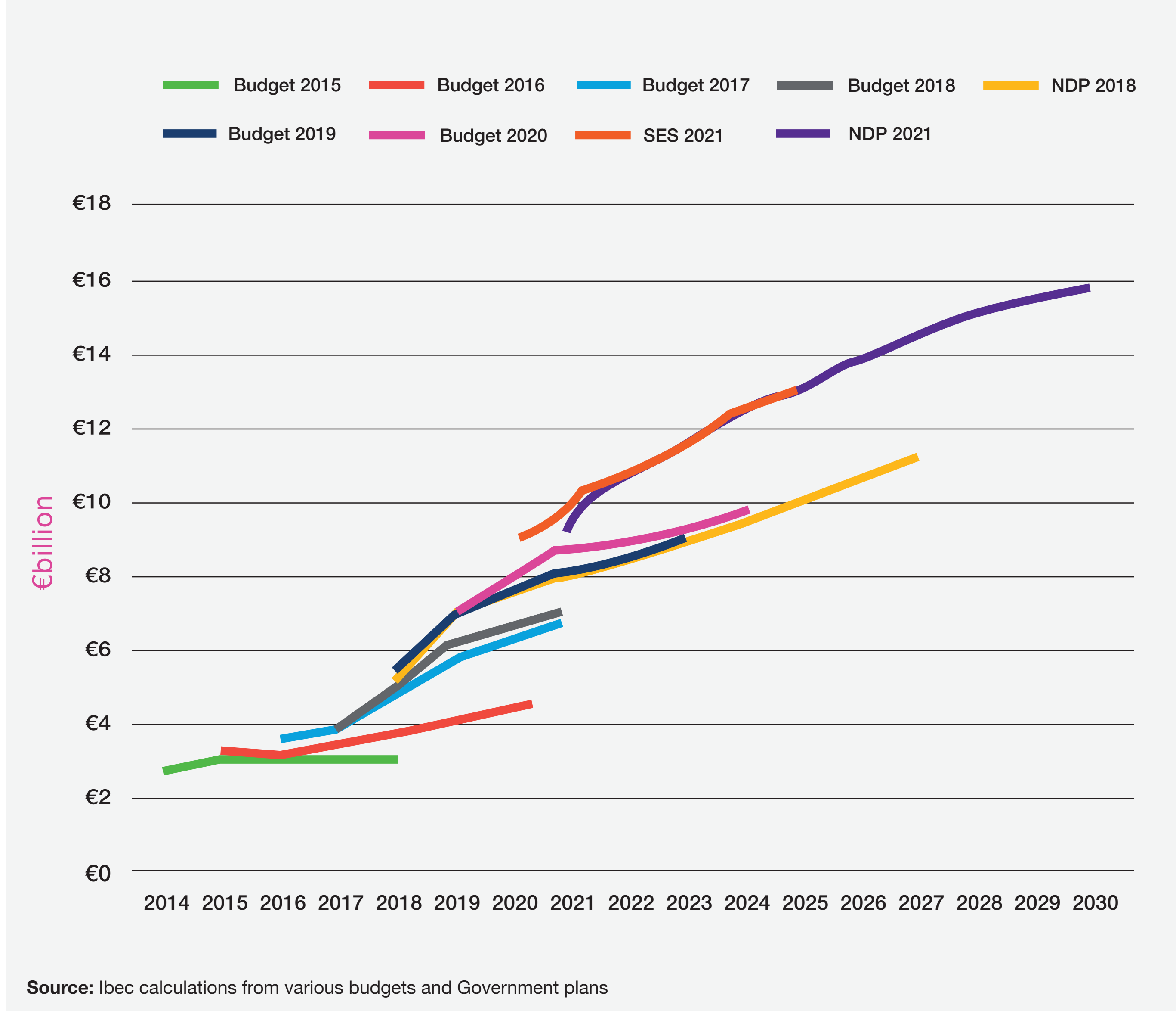
The Stability Programme Update (SPU) has outlined that without additional Budget Day tax measures the State would run a fiscal surplus of €1.2 billion in 2023. Tax revenues have continued to outperform since. The State's tax take at €36.8 billion in the months between January and June was up 25% or €7.3 billion on the same period in 2021.

Were the Government fiscal rules announced in Budget 2022 in place this would imply that 'core' tax and spending decisions would amount to around €4 billion in Budget 2023 off a 'core' expenditure base of €80.1 billion from 2022 (i.e 5% growth). However, with these rules suspended core spending is due to increase by €5.3 billion in 2023 relative to 2022. With overall spending to rise by €5.65 billion and a tax package to be provided of €1.05 billion.

This tax package is in line with the €1 billion estimate of the Fiscal Advisory Council of the level of additional taxation which would be collected were more people to be dragged into higher tax bands, due to non-indexation. Were the package not to reach €1 billion, this would, in any conceivable sense, be a tax increase. This leaves the total real package of tax cuts proposed by us, net of tax increases and indexation, at €320 million. This is in addition to €630 million in expenditure proposals, €800 million in NDP funding and allowing for €2.2 billion to deal with inflationary pressures beyond the measures set out in this document.

Ibec's view is that in Budget 2023, with a backdrop of high inflation, Ireland should aim for a moderate Government surplus and that our better-than-expected fiscal performance should be pocketed rather than running a deficit. Measures should be highly prioritised and focused on increasing the productive capacity of the economy where possible. This can also be achieved by continuing to deliver on significant infrastructural investments laid out under recent capital plans.

Figure 7: The advancement of Government capital plans, 2015 to 2021

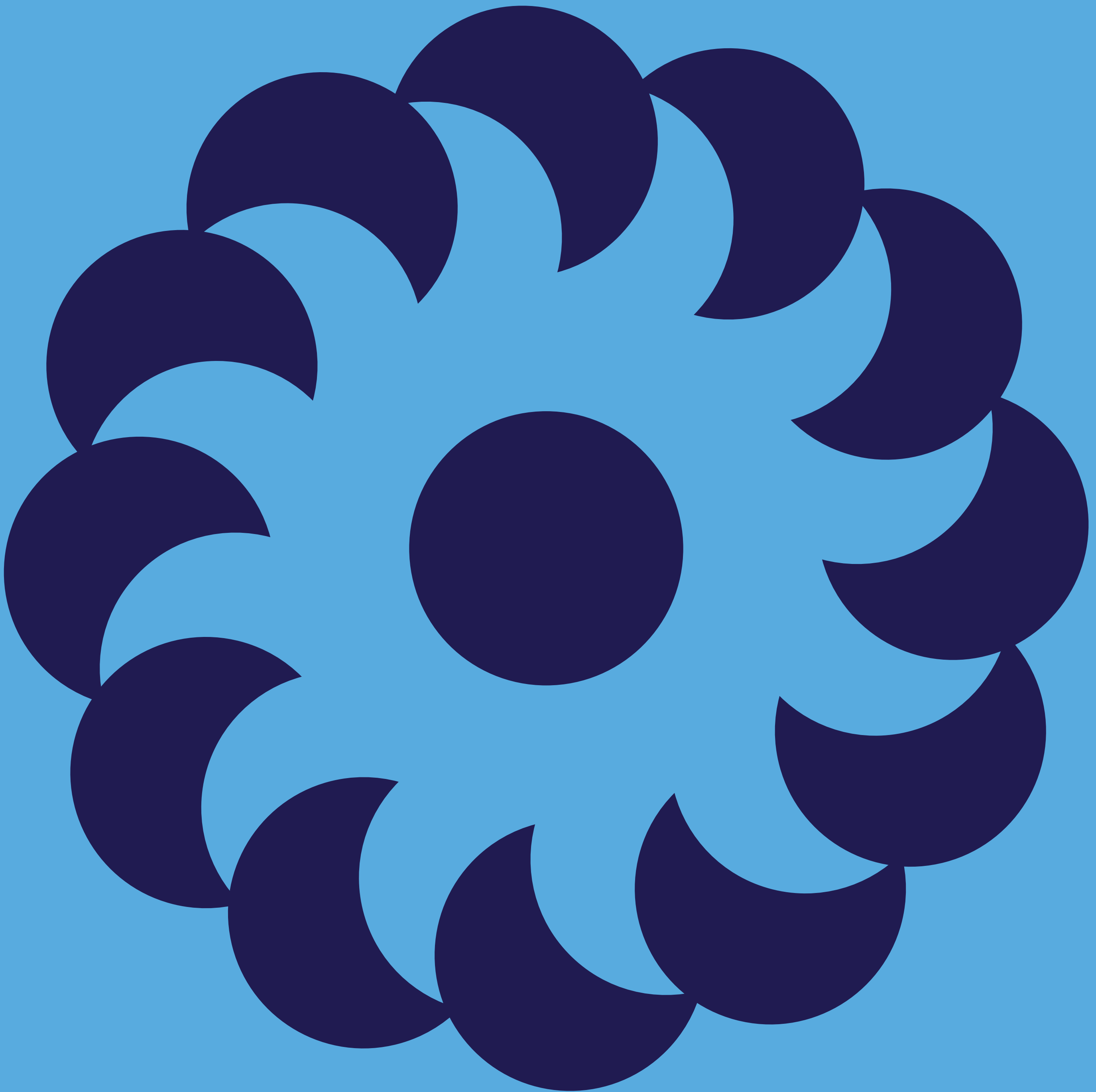



**Source:** Ibec calculations from various budgets and Government plans

The total Budget 2023 package of new tax and spending measures should be in the region of €2 billion net of tax increases. Counting automatic non-indexation of tax bands as tax increases would leave the total net new measures at just under €950 million in 2023.

It is also crucial that despite capacity pressures in the economy the National Development Plan (NDP) is delivered. This includes following through on pre-existing commitments for additional core capital expenditure in 2023 of €800 million.

Finally, our proposals are also consistent with other pre-existing commitments of the €800 million Brexit Adjustment Fund and EU recovery fund spending along with leaving €2.2 billion aside to pay for inflation and public service and putting in place a €3 billion contingency fund for costs arising from the Ukraine crisis. This would leave a total surplus in the State's Budget for the year and an improvement in the State's budgetary position of around 1 percentage point of national income versus 2022. We believe this is about the appropriate rate of return to fiscal normality given the macroeconomic uncertainty.



# A co-ordinated approach to costs, the low carbon transition and energy security

# 3. A co-ordinated approach to costs, the low carbon transition and energy security

**Overview**

Inflationary pressures across the economy are building for both businesses and households. From a business perspective, the knock-on impact of rising costs on business investment will be significant and operate through three main channels.

Firstly, rising construction costs will make new investments and housing completions relatively more expensive. This will slow new investments and may make some investments unviable in the short run. Secondly, concerns about rising energy and commodity costs may take precedence over new investments when it comes to the management of company resources in the short run. Thirdly, uncertainty about the future path of both energy prices and consumer demand in the economy will slow decision making on new investments. Together these impacts will weigh on new investment in 2022 and into 2023 but may create new opportunities in the longer run. In particular, a higher price level for fossil fuels will create a lower relative cost of renewable investments.

Dealing with a supply-side inflationary shock means that we must focus on two policy areas. Firstly, where measures are introduced to protect businesses and households directly from rising costs, they should be time-bound and targeted. Secondly, we must take measures to improve the resilience of both households and businesses to rising energy, commodity and other cost shocks in the long run.

The tax and spending system can be both a ‘carrot’ and ‘stick’ in this regard by increasing the cost of carbon whilst lowering the relative cost of lower-carbon technologies. In this sense, we support the Government’s commitment to a carbon tax level of €100 per tonne by the end of the decade. This path must be sustained to be credible and maximise changes in behaviour. It must also be balanced by incentives for research, development, investment and adoption of low carbon technologies by both businesses and households. Now is the time to ensure that supports work in incentivising companies and households to invest in a time where the relative cost of investment in energy efficiency makes greater sense.

Energy security is not just about physical supply but also the affordability of supply. The set of measures in this section seeks to build resilience in the economy against ongoing high energy costs while supporting energy security and accelerating low carbon and resource-efficient investments.

# Measures for Budget 2023

| Measure | Detail | Cost, €m |
|---|---|---|
| **Undertake a comprehensive review of Ireland's energy security and take action to address risk areas** | Undertake a comprehensive national energy security review to identify risks and opportunities in our energy system as we transition to net zero. In addition, develop an integrated hydrogen strategy for Ireland, set clear national targets for hydrogen and renewable gas, and begin work on a new framework to permit the development of new emergency energy storage in Ireland. | 1 |
| **Provide an additional €450m to drive low carbon investment in industry by scaling up and expanding industry supports** | For Ireland to remain an attractive and competitive place to do business, coming Budgets must help support the decarbonisation of Irish industry. The mitigation options in this sector are costly and complex. To deliver large-scale emissions reduction in this sector, SEAI Project Assistant Grants, the Support Scheme for Renewable Heat, and the Excellence in Energy Efficiency Design (EXEED) programme need to be expanded and made more accessible. Meanwhile, high attrition rates need to be addressed through enhanced guidance and training for applicants. This should also make full use of the time-limited EU Temporary Crisis State Aid Framework enabling enhanced national measures to support the decarbonisation of industrial processes and an accelerated roll out of renewable energy. | 450 million (45 million in 2022) |
| **Ensure Accelerated Capital Allowances are in place for low carbon alternatives** | The accelerated capital allowances for energy-efficient equipment and gas transport should be regularly reviewed and maintained to ensure uptake of low carbon technologies and road usage in line with the 2019 report of the Low Emission Vehicle Taskforce are maximised. | Cash flow only |
| **Work within new EU Directive rules to 'Green' our VAT rates** | As it stands, most energy-efficient equipment is subject to VAT at the standard or reduced 13.5% rate. The adoption of Directive No. 2022/542 may allow some energy-efficient goods and services (particularly solar panels and the supply and installation of highly efficient low emissions heating systems) to be given preferential treatment through the VAT system. The Government should ensure that these provisions are considered in Budget 2023 concerning domestic VAT rates in Ireland. | 5 (based on UK estimates for similar) |
| **Review the R&D tax credit to ensure it supports low carbon technology** | Following a review with stakeholders, Revenue should provide specific guidance on the use of the R&D tax credit for low-carbon technologies. This could be a crucial lever in getting firms to invest in innovations that accelerate their low carbon journeys and help promote Ireland as a location for 'green' R&D. | 0 |

| Measure | Detail | Cost, €m |
|---|---|---|
| **Finance the development of hydrogen and biogas projects** | These should be financed through future EU ETS auction revenues to enhance security of supply. | ETS Revenues |
| **Introduce a new microgeneration scheme and capital grants for on-site renewable technologies** | The full roll-out of a new Microgeneration Support Scheme is necessary to allow households and businesses to decarbonise their electricity supply, better manage energy costs, and play an active role in the energy transition. | 10 |
| **Rethink the step down of the BEV vehicle BIK exemption** | From 2018 the full BIK exemption was limited to electric vehicles with an OMV of €50,000 or less. With a partial exemption below this. From 2023 the BIK exemption is due to end with relief only in respect of a reduction in the OMV of EVs of €35,000 in 2023, falling to €10,000 in 2025. The removal of the BIK exemption, allied to Ireland's early step in a series of very steep marginal tax rates will mean material reductions in take-home pay for middle-income workers driving electric vehicles of even modest OMV. Given the anticipatory and multiannual nature of these decisions, it also means a rapid and significant loss of incentive to choose fully electric rather than diesel vehicles. Already members are reporting that for commercial fleets the rollout of electric vehicles has stalled on the back of much reduced staff demand.<br><br>The result of having a limited direct incentive expected over the coming years will make it more difficult to accelerate rollout in commercial fleet. As a result, this will significantly slow progress toward a critical mass in the crucial second-hand market for electric cars. A significant rethink will be needed if we are to have any chance of meeting our climate targets of 1 million such vehicles on the road by 2030 (which will need over 100k EVs added to the stock per annum – equivalent to total new car sales in recent years). An equitable solution, which better reflects these decarbonisation goals, would be for electric cars below a €50,000 OMV to instead be moved to the 8% BIK rate which will apply to employer provided vans from Jan 2023. | No Revenue data available but minimal cost |
| **Support industry efforts to adopt circular economy practices and business models** | Introduce a dedicated seed funding programme to help businesses adopt circular economy practices, design new circular products and services, and connect with other organisations to exploit asset sharing and reuse opportunities. Embed circular economy principles in existing training programmes and fund new circular economy training programmes for key sectors. | 2 |

| Measure | Detail | Cost, €m |
|---|---|---|
| **Ensure excise rates assist in the move toward the uptake of alternative fuels** | The excise duty for natural gas and renewable gas as a transport fuel was set at the EU minimum rate in Budget 2015 until the end of 2022. This support is key to confidence in the uptake of CNG technology and the decarbonisation of the HGV fleet, which accounts for around 19% of transport emissions. As a result, the extension of this excise duty treatment was recommended in the Low Emission Vehicle Taskforce report published in 2019 to allow for delays in infrastructure provision and to allow for vehicle purchase decision cycles. The Government should extend the excise duty treatment to at least 2030, in line with the UK. | 0 |
| **Ensure investment supports are low carbon friendly** | Investment supports such as the EIIS and R&D tax credit should be regularly reviewed to ensure that they are attractive for investment in the most cost-effective low carbon technology. | 0 |
| **Extend the Low Emission Vehicle Toll Incentive (LEVTI) scheme** | The LEVTI scheme was launched in June 2020 which broadened the Electric Vehicle Toll Incentive Scheme that was introduced in July 2018. Both schemes are due to expire at the end of 2022. Extending the LEVTI by two years would provide certainty and support to those switching to alternative fuels, particularly as fleet operators and hauliers pay higher tolls and tend to use toll roads more frequently. | 2 |

# 4

# Competing in an intangible driven economy

# 4. Competing in an intangible driven economy

**Overview**

Ireland is increasingly competing in an intangible economy. This means not only being competitive when it comes to headline corporate tax rates but also competing more intensely for embedding internationally mobile skills, knowledge and capital in the economy. This can only be achieved by updating our investment offering in a post-BEPS age, encouraging Irish firms to grow and scale internationally, taking steps to drive innovation-led growth and making sure that Ireland is an attractive proposition for talent which is increasingly mobile in this hybrid work environment.

The coming years will see a significant change to our business tax model, not least the introduction of a potential minimum effective tax rate and significant changes to our tax base. In this context, standing still is not an option. It is imperative that both our offering for FDI and Irish headquartered multinationals is maximised to drive investment and growth. There will be a particular need to focus on tax simplification, investment in R&D and ensuring we maximise the attractiveness of our tax offering for highly skilled and mobile talent.

Irish firms face several ongoing challenges to their growth and productivity. These include high legacy debts and costs, a small domestic market, a lack of diversified funding options, barriers to innovation, and challenges accessing and competing for the right skills to help them grow. These challenges are not unique to the Irish market but the challenges to growth from the funding environment, market size, and peripherality are far more acute in Ireland than in most developed countries. There are several levers within the tax system that can be used to help overcome some of the broader systemic disadvantages facing our indigenous business community. These include improved tax incentives to deepen the market for equity investment, encouragement for share options and similar schemes through the tax system and enhanced investment incentives in areas such as R&D, low carbon technologies and advanced manufacturing.

Considering Ireland's highly concentrated tax base, the international evidence on the elasticity of higher marginal rates, growing competition for skilled workers and the future changes in global employment which will make key workers more rather than less mobile, we believe that the best path for future reform of income tax would be to make changes which gradually move the top marginal rate of tax to around 45% of income and index the entry point to the top rate over and above the average full-time wage in the economy. This should be allied to an attractive temporary regime for the most internationally mobile workers. On the other hand, more workers should pay tax, and this can be achieved very gradually through non-indexation or partial indexation of the entry points to the tax and USC nets. In Budget 2023, some indexation of tax bands must take place to reflect the inflationary environment, along with targeted measures to attract skills to SMEs and improve our offering for share options.

Finally, Ireland is under-resourced relative to our ambitions in the areas of innovation and digital. The private sector has invested billions in developing intangible and tangible capital to support innovation and digital in recent years, with over €700 million invested by the telecoms sector alone last year. We cannot see the gap with our competitors widen in key areas such as public investment in research and innovation, cybersecurity and governance of digital and data innovation if we are to compete in an age of intangible and highly mobile capital.

# Measures for Budget 2023

To remodel our inward and outward offering to mobile investors

| Measure | Detail | Cost, €m |
| --- | --- | --- |
| **Move to a territorial tax regime in 2023** | Ibec supports a move to a territorial system of taxation for Ireland on the basis that there are many wide-reaching policy benefits of such a move. Firstly, as outlined in the Coffey Report, the current worldwide system has formed in a piecemeal fashion over time, which has resulted in an extraordinarily complex system which places undue administrative burdens on businesses. The complexity of the current system increases both the cost of compliance and the risk of error among the affected corporations. A territorial system would provide more certainty for business and reduce the associated administrative costs. | Move to a territorial tax regime in 2023 |
| **Maximise our tax competitiveness within any new dispensation** | Whilst it is too early yet to make concrete decisions for the post-BEPS world, we should begin a process that ensures our tax value proposition remains attractive in a post BEPS world. This should include: A commitment to 'root and branch' simplification rather than overlaying any agreement on top of the existing, increasingly complex, regime. Ending the multi-rate system over time. Dealing with issues where rule overlay has resulted in complexity (for example interest deductibility rules, S247 and transfer pricing on domestic transactions). And, allowing related businesses to compute income tax on a consolidated basis as a single entity ('fiscal unity'). | 1 |
| **Improve R&D tax credit take-up by dealing with underlying issues** | Provide greater certainty around decision-making consistency and broader administration. Review Appendix 1 (SI No. 434 /2004) qualifying activities to ensure they keep pace with ongoing scientific progress. Significantly increase the €100,000 or 15% limit on qualifying outsourced expenditure to Third Level Institutions and the restrictions on outsourcing to related parties. Condense the 3-year R&D tax credit refund to one year for SMEs. Continually review R&D qualifying activities to ensure they keep pace with ongoing scientific progress. | 60 |
| **Ensure the R&D tax credit meets any standards of 'refundability' or other qualifications to maintain its attractiveness under any OECD regime** | Both any OECD GLOBE agreement and any changes to the US GILTI or SHIELD will have to be studied carefully to ensure the R&D tax credits benefits can be maximised under any new global regime. In particular, attention may need to be given to the order of offsets and the timing of payable credits. | 0 |

| Measure | Detail | Cost, €m |
|---|---|---|
| **Introduce accelerated capital allowances for advanced manufacturing:** | This should include computerised/computer-aided machinery and robotic machines. Ireland has the second-lowest density of industrial robots in the EU15, despite them being strongly linked with increased productivity. Research by Micheals and Graetz (2018) has shown that growth in robot density (robots per worker) accounted for about one-sixth of productivity growth between 1993 and 2007. This growth in robot density increased wages significantly and didn't hit overall employment. | 5 |
| **Establish an independent office akin to the Office of Tax Simplification in the UK.** | To embed the long term approach to simplification in line with the approach taken in the UK which has been favourably reviewed by all stakeholders. | 1 |
| **Improve the Budget Day process by consulting on any changes in advance** | Where certainty is key, the Department of Finance must provide pre-legislative consultation on any major changes in the regime due in the Finance Bill. This will bolster Ireland's reputation as a stable regime at a time of significant change. | 0 |
| **EU Debt-equity bias reduction allowance (DEBRA) proposals have positive potential but should be approached cautiously** | Equity and debt financing are both complementary methods of financing, each with its advantages and disadvantages. While we are broadly supportive of an allowance for corporate equity (ACE) to rebalance the incentives for equity relative to debt, caution must be taken with the DEBRA proposals not to undermine investment and to target the measure appropriately. This can be achieved by limiting it to new equity and preferably with similar notional treatment to interest deductibility. It would also be advantageous to give more generous treatments to SMEs and high growth mid-caps. De Mooij and Devereaux (2011) outline that the introduction of an allowance for equity could greatly improve economic outcomes in Ireland relative to the rest of Europe, however, the converse is true of disallowing the exemption of interest. As such, regardless of the final design of the DEBRA proposal, interest deductibility must remain in place as a fundamental part of the corporate tax system. | 0 |
| **Avoid double taxation of Restricted Stock Units (RSUs)** | The taxation of Restricted Stock Units (RSU's) in Ireland is based purely on an employee's tax residence status at the time of vesting. This is out of line with the UK, US and other OECD economies where tax is based on residence over time - from the date of grant to the date of vest of the RSU. This has resulted in double taxation where the employee moves mid-year with full taxation due in both Ireland and the prior location. Feedback from companies is that this is becoming a major impediment to attracting talent into the country. The regime should therefore move to one which adopts the OECD standard of a sourcing approach – over the grant to vest period. | Minimal cost |

| Measure | Detail | Cost, €m |
|---|---|---|
| **Abolish the bank levy** | It is now well-established that many banks across Europe cannot earn their cost of capital and are thus not viable in the long run. This is reflected in price-to-book ratios (a measure of a bank's market value relative to its tangible assets – which should be above 1 for healthy banks) which have remained below 1 for eurozone banks for almost a decade and which have averaged in recent times at 0.5 for Irish banks. Already Irish banks are constrained by high capital costs including a relatively high cost of capital, significant but shrinking legacy physical networks, and higher risk weights on assets in the post-financial crisis era. In this context, the banking levy is an unnecessary additional burden on bank viability and the attractiveness of the Irish retail banking market for new entrants. | 88 |

## To drive innovation led growth in Ireland

| Measure | Detail | Cost, €m |
|---|---|---|
| **Produce an SME tax roadmap:** | Good practice in recent years has seen the Department provide roadmaps and feedback statements of great value on the direction of Corporate Taxation both broadly and specifically. Consideration on the same should be given for SME taxation outlining a series of changes over a three-year time horizon to include changes in CGT, EIIS and other tax measures. | Cost Neutral |
| **Improve the KEEP scheme to ensure share options are an attractive choice for start-ups and high growth companies** | The KEEP scheme in its current form has not worked. Fewer than 10 people benefited from the scheme in 2019 (the latest data available). Low take-up has been driven by issues around scheme complexity, the difficulty in the valuation process and a low (€3 million) limit on the market value of issued but unexercised shares when early rounds of investment may place the companies' valuations at many multiples of this level. Given the low liquidity in the market for equity in Ireland, the restrictions on employer share buy-backs are unreasonably onerous and can also render the scheme unusable for many workers. The concept of the scheme is important – but needs significant reform to work. | 10 |
| **Give firms access to a greater pool of equity investment** | Ireland has a limited market for equity in companies – and within this market, the EII is a major support to the ecosystem. It should be maintained and further improved by increasing annual investment limits and implementing the recommendations of the Indecon review to allow losses on EII investment for CGT purposes and any capital gains on the sale of shares taxed as capital gains rather than as income. | 10 |
| **Introduce a Pro-forma R&D tax credit** | To help smaller firms overcome administrative costs and engage with the credit. The existing limit should be in line with UK's R&D tax relief for SMEs with more generous tax treatment, reduced additional recordkeeping requirements, cash repayments upfront, and 'advanced assurance' for the first three times it is claimed. This would be in line with the OECD "Road Map for SME and Entrepreneurship Policy in Ireland". There should also be an increase in the science test limit to €100,000. | 10 |

| Measure | Detail | Cost, €m |
|---|---|---|
| **Deliver on a long-term sustainable funding model for higher education** | Higher education institutions have played a significant role in the economic and societal transformation of Ireland's economy over the past decades. The announcement of further investment of €307 million in core funding recognises the urgent funding crisis facing the sector and the necessity of investing in the quality and capacity of Ireland's education institutions to protect our international competitiveness offering. Government must begin to deliver on this multi-annual commitment in Budget 2023. | 100 |
| **Increase the reckonable income for SUSI grants to match inflation** | While the €1,000 increase in reckonable income thresholds for student grants is welcome our view is that this should be increased by a further €2,000 in 2023 in order to ensure the limits do not provide barriers to a college education for students or barriers to work for either them or their families. | 12 |
| **Leverage the National Training Fund to implement a Lifelong Learning Strategy for Ireland:** | Develop a national strategy for lifelong learning to boost digital, green and management skills in Ireland and prepare people for the future of work. Leverage the National Training Fund to increase lifelong learning participation by investing in employer programmes for upskilling and reskilling. | 100 Funded from the NTF surplus in 2023 of €1.2 billion with no deficit impact |
| **Scale public investment in research and innovation:** | Increase public investment in research and innovation by 20% per annum to achieve €1.25bn by 2025 and to deliver on Ireland's ambition of becoming an international Innovation Leader with strong industry-academia collaboration. As part of this, we should establish a new approach to multiannual infrastructure investment in higher education institutions that build on the progress made under PRTLI to position Ireland as a key destination and partner for cutting edge research. | 100 |
| **Allow tax support for spectrum licences** | A deduction or allowance should be allowed against corporation tax for the purchase of spectrum licences, as was the case before 2003. This should be done as an annual deduction of the cost over the lifetime of the asset and would bring us in line with most other EU countries and the UK. This in turn would help accelerate the rollout of 5G and future technology and improve Ireland's standing in capital allocation decisions for key infrastructure. | 5 |
| **Shared rural network** | Work with mobile operators to deliver on a share rural network approach – akin to the UK model – to deliver improved mobile coverage in rural areas. | 40 |

| Measure | Detail | Cost, €m |
| --- | --- | --- |
| **Introduce a time-limited labour market transition rebate, for companies which can show challenged viability due to State imposed increases in employment costs and regulation** | The surplus in the NTF (a 1% tax on private sector payrolls) has increased from €152 million in 2015 to over €855 million in 2022. This surplus was experiencing an annual growth rate of north of €200 million in the pre-Covid era and will return to this level in the absence of additional spending. As a result, the projected reserve surplus of the NTF by 2025 will rise to €1.4 billion if Covid emergency expenditure is stable, and €1.9 billion if Covid emergency spending returns to normal levels. A proportion of the funds from the NTF should be used to provide a support scheme for companies which can show challenged viability due to State imposed increases in employment costs and regulation. This should take the form of both a break from NTF payments, 1% of payroll, for the period of where viability is challenge and a further rebate of up to 2% of payroll (or two years payments) equivalent in training, skills or productivity vouchers, funded from the NTF surplus. | Funded from NTF |

## To ensure we compete for mobile skills

| Measure | Detail | Cost, €m |
|---|---|---|
| **Increase the entry point to the top rate of tax to €40,000 by 2024** | Government should follow through on commitments in the programme for government by indexing the entry point to the higher rate of tax by approximately €3,200 in 2023 and to bring the entry point to the top rate of tax to €40,000. In the medium-term, the government will need to set out a strategy to broaden the income tax base and gradually increase the entry point to the top rate of tax in real terms. | 631 |
| **Reform the operational and reward constraints in Revenue approved share option schemes:** | Ireland has the lowest offering of profit-sharing and share ownership schemes in Europe according to the 2019 European Company Survey. This is despite their well-understood benefits. Revenue approved share schemes must be offered on the same terms to all workers. This makes them inflexible to companies' reward structures. These schemes must be allowed to be linked to performance. The €12,700 limit on Revenue approved share options schemes should also be increased to €20,000 and indexed to wages having not been indexed since the early 2000s. In addition, Government must work with stakeholders to save the 'Save As You Earn' system which is under significant threat due to structural changes in the Irish banking system and Brexit. | 10 |
| **Work with HMRC to facilitate changes for cross-border workers in the Border region:** | The growth of remote work has caused issues, particularly in the border counties, regarding cross-border workers. In the short-term there must be increased flexibility in the existing transborder worker relief so that some element of hybrid work can resume in advance of more fundamental bilateral solution to issue. Long-term work should focus on joint work with HMRC and potentially work at the OECD in the post-COVID era. | 0 |
| **Improve Ireland's system for mobile talent in the context of growing global competition** | A scheme for highly mobile skilled workers should be introduced on an indefinite basis to ensure Ireland does not lose out in the coming years as competition for mobile, remote and skilled workers grows. Some 25 mobile workers schemes exist across Europe in Sweden, Denmark, Austria, Spain, Portugal, Finland, the Netherlands, Belgium, France, the UK, Switzerland, and Italy amongst others. A recent EU Tax Observatory report ranked Ireland's current SARP regime as amongst the least attractive of those regimes. Ireland should introduce something akin to the Danish or Dutch regimes which provide much more attractive benefits. | 50 |

| Measure | Detail | Cost, €m |
| --- | --- | --- |
| **Extend regimes for high skilled workers to SMEs** | We support the OECD recommendation to extend tax support through a form of SARP to new hires for SMEs and start-ups. Many companies have also raised the issue of base salaries being the only qualifying remuneration for the scheme. Often in roles such as sales, in smaller companies, and in start-ups a large proportion of pay can consist of bonuses, benefit-in-kind or share options. The qualifying conditions should be altered to include performance-related pay in a minimum basic salary for SMEs. | 10 |
| **Implement a revised non-standard PRSA for savers** | Given new compliance requirements for one-member pension arrangements to meet the obligations of the IORP II directive, there is an urgent need to implement the recommendation of the Interdepartmental Pensions Reform and Taxation Group (November 2020) for a revised non-standard PRSA to give savers more flexibility in managing their retirement savings (e.g. broader choice of investment assets). | Cost neutral |

## To support our digital economy

| Measure | Detail | Cost, €m |
|---|---|---|
| **Embrace Ireland's role in EU digital regulation, strengthen regulatory capacities and lead on digital policy issues at an EU level** | To support our status as a global digital hub, we should deepen our capacities as a regulatory hub. Ireland should ensure its capacities in the governance of digital and data innovation are adequately resourced to match its role and provide for a robust and predictable regulatory environment. Ensure adequate resources are provided for the Data Protection Commission and expected EU regulatory and enforcement requirements for digital markets and services, online safety and data sharing. Ensure adequate resources are provided for the Data Protection Commission and expected EU regulatory and enforcement requirements for digital markets and services, online safety and data sharing. | 10 |
| **Ensure further resources for strengthening coherence and capacities, across relevant statutory bodies and our cybersecurity ecosystem, necessary in the implementation of the National Cyber Security Strategy** | Ibec very much supports Government plans to expand the National Cyber Security Centre (NCSC) and the upcoming review of the National Cyber Security Strategy. Cybersecurity and resilience are economic priorities for Ireland. Government should help safeguard SMEs online, encourage further e-commerce and consider a dedicated cybersecurity and resilience voucher scheme. We must also encourage a pipeline of relevant knowledge, skills, and talent in the State that enhance our national cybersecurity and resilience and support the positioning of Ireland as a lead player in the cybersecurity industry. We must intensify outreach and work with our international partners to understand and shape the response to an ever-changing cyber risk and governance environment. Cost to enhance national cybersecurity capacities, safeguard SMEs and foster cybersecurity ecosystem: additional €21 Million in the period 2022-2024. | 7 |

| Measure | Detail | Cost, €m |
|---|---|---|
| **Act on the Cruinniú GovTech report findings** | Lead and invest in secure, accessible online Government services and the inclusive digitalisation of public service delivery for organisations and citizens. Address any administrative barriers to procurement in digital services, including Cloud. Provide a catalyst for further growth with economic and societal benefits. €15m should be set aside for this in 2022 but we believe it may well be cost-neutral in the long run. By leveraging and re-using assets such as data, enhancing procurement processes, and spending at least 25% spend of the Public Sector technology budgets on start-ups and SMEs, Ireland can enhance Government and public services and productivity for customers and encourage an ecosystem that can create further innovation, growth, and jobs. This should be in addition to leveraging the €210m provided for in the agreed NRRP to drive further digital transformation in public sector projects. | 15 |
| **Resource and implement key national digital strategies** | Engage stakeholders in the Enterprise Digital Advisory Forum and deliver the new National Digital Strategy and related strategies, with a particular focus on supporting digital (including AI) adoption across enterprise. Ensure a whole of government delivery and meaningful stakeholder engagement in the implementation of these national strategies. Leverage the €85m provided for in the agreed NRRP to drive further digital transformation across enterprise through the introduction of a new grants scheme for businesses and the establishment of European Digital Innovation Hubs (EDIHs) to support further digital transformation of enterprise in Ireland. Post-establishment, Government should ensure that the EDIHs and the new Advanced Manufacturing Centre continue to have adequate resources to support shared ambitions to keep Ireland at the forefront of a digital future. Funding under the NRRP, NDP, and other Government line Departments and leveraging private sector opportunities will be key to delivery. | 2 |

5

# Meeting our big societal challenges

# 5. Meeting our big societal challenges

**Overview**

After several years of disruption and in a context of competing policy priorities, pressures have been building in many areas such as childcare and housing, while more needs to be done to ensure we make the best use of skills and talent in the workforce by promoting diversity and inclusion. These issues present ongoing challenges but there is also an opportunity for policy responses that improve quality of life, support participation in the labour force and deliver a more inclusive society.

Adequate provision of childcare is an ongoing challenge for many families, with many working parents finding it increasingly difficult to find affordable childcare to meet their and their children's needs. Lack of childcare is impacting parents who find it difficult to return to work or participate in the labour market, with a disproportionate impact on women's participation in the labour force.

In particular, early years childcare for children under three years requires additional resourcing, both to provide extra places for these children and to increase subsidies, to bring childcare back into reach for 'squeezed middle' income families. Incentivising the provision of out-of-school hours childcare is also needed, to provide childcare for parents who have non-standard work hours. To meet these needs, Ibec is calling for €167m in additional childcare spending.

Additionally, supporting access and inclusion in the workplace for people with disabilities is key to both delivering a society that is inclusive, and making good use of the skills and experience of people with disabilities in the labour force. To this end, existing employment supports for workers with disabilities should be streamlined into a single, simpler grant. €30m in additional funding should go to expanding schemes that provide workplace support and opening the Disability Awareness Training Scheme to all businesses.

At the same time, the housing shortage continues to bite around the country, with both renters and homebuyers in all regions affected. Access to affordable housing is key, both as a societal necessity and to keep Ireland competitive and attractive as a place to live and work.

In an age of increasingly mobile labour, housing is a key determinant of quality of life which will impact the long-run trends of where people choose to live and work. Delivery of our housing plans is vital both in retaining the skills and experience of those already in the Irish labour market and attracting much needed additional workers from abroad. With this in mind, Ibec proposes several policy actions which can be undertaken to support the delivery of much-needed housing, improve liquidity in the land market and streamline the taxation of housing and commercial property at a cost of around €200m.

## Measures for Budget 2023

To support the delivery of our housing plans

| Measure | Detail | Cost, €m |
|---|---|---|
| **Moving from taxing housing transactions to stocks** | A rebalancing of the tax burden on housing from transactions to a life-cycle model should take place in a tax neutral fashion over multiple budgets by moving from asking purchasers of new homes to pay for community infrastructure (upgrades in roads, water and amenities) through development charges toward levying those charges on communities through the Local Property Tax. | 0 |
| **Vacant housing should be taxed** | Ibec is in favour of taxation of vacant dwellings through an additional vacancy charge as a proportion of the LPT bill of the property. Any charge should consider genuine reasons (such as long-term illness/ caring needs) and be targeted at a long-term vacancy of 12 months or more. There is also a strong argument for limiting taxation of vacancy to where it is in an area of need – in Rent Pressure Zones. | Uncertain but international evidence suggests in the low tens of millions of euro. |
| **Extend 'Help to Buy'** | The HTB scheme is now a crucial part of the viability of new build housing in the country. The scheme is due to expire in December 2022, given the ongoing use of the scheme and demand certainty it provides, the scheme should be extended until at least December 2023. | 180 |
| **Reform commercial rates** | We support a streamlining of the current commercial rates system. Our view is that the commercial rates system should be ultimately replaced by a simple and transparent Site Value Tax in a revenue-neutral fashion. This is consistent with the calls from the National Competitiveness Council for a "tax on the unimproved value of commercial property". This tax should allow local authorities to vary its rate by asset class or holding period but avoid overcomplicating it by having varying rates by sector. | 0 |
| **The Zoned Land tax should be reviewed for its effectiveness** | The insufficient implementation of the vacant site levy led to its replacement by a Zoned Land Tax for serviced and zoned but undeveloped land, in Finance Bill 2021. This will begin to be administered from January 2024. We welcome the implementation of the tax as a route toward improved liquidity in the market for land and its effectiveness should be reviewed at regular intervals. | 0 |

## To enable access to childcare and support participation and inclusion in the workplace

| Measure | Detail | Cost, €m |
|---|---|---|
| **Increase universal subsidy and income thresholds and incentivise the provision of childcare places for children under three.** | Childcare is increasingly beyond the reach of many families. This needs to be urgently addressed to support greater labour market participation, particularly of women. Increase the universal subsidy by 50c at a cost of €50m. Increase the income threshold for all children under the NCS to above mean household income, to an €80,000 maximum reckonable family income at a cost of €48m. | 157 |
| **Support out-of-school hours care system** | Childcare outside of school hours is needed to address the needs of working parents, in particular those with an atypical workday. This system could include incentivising schools to make space available to out of school-hour services, to avoid the logistical complications involved for children and working parents. | 10 |
| **Increase funding for Carers' Guarantee** | Provide an additional €3m to deliver support for carers across the country, including emergency respite, one-to-one support for carers in crisis, training programmes and access to information and advocacy clinics in primary care centres, hospitals and community centres. | 3 |
| **Amalgamate existing employment supports for persons with a disability into a single grant** | Improve simplicity and access by rolling existing employment supports for people with disabilities into a single grant that covers an employee's needs, similar to the UK's Access to Work scheme. | 0 |
| **Increase and reform the subsidy scheme for persons with a disability** | The Wage Subsidy Scheme is currently €6.30 and should increase to €7.50. The threshold of 21 hours worked per week should be removed to allow people who find it difficult to work longer hours to access part-time employment. | 10 |
| **Extend personal assistant and reader support, and open Disability Awareness Training Scheme to all employers** | The personal reader grant should include assistive technology. Provide €20m to extend personal assistant supports for those with a physical disability to all forms of employment, not just limited to specific schemes. The Disability Awareness Training Scheme should be opened to all employers without the need to identify an employee with a disability. | 20 |
| **Work within new EU Directive rules to ensure our VAT rates promote lower health costs** | As it stands most medical equipment is subject to VAT at the standard rate. The adoption of Directive No.2022/542 may allow some medical technologies with significant social value to sustain lower VAT rates across Europe. Ibec's view is that Ireland should adopt a reduced rate structure for Medical devices CE-marked according to MDR and advocate for such a reduced rate across the EU. | 5 |

# Revitalising challenged sectors

# Revitalising challenged sectors

**Overview**

Embedding competitiveness is critical to building resilience in businesses across the economy as the global trading environment continues to shift in the aftermath of the Covid crisis and Brexit. Whilst winding down emergency supports for Covid from €7 billion in 2022 to around €1 billion in 2023, Ireland must continue to invest in the competitiveness and productivity of the sectors worst impacted and the *Experience Economy* in particular. This can be achieved by investment in the *Experience Economy* product, revitalising the vibrancy of our city centres, making sure the unwinding of remaining Covid supports is done sensibly and making sure the sectors' skills and technology base is ready for the competitiveness challenges ahead.

The Brexit Adjustment Reserve funds of €600 million in 2023 should be used to future proof the worst impacted sectors from the increased costs of trade due to Brexit, many of which have not yet crystallised with delays in the implementation of some Border controls.

Our view is that the bulk of this funding should go to the worst impacted industries and trade sectors to help introduce offsetting measures which cover the increased cost of trade and avoid the passing on of those costs down the supply chain through higher costs or lower demand. There should be a focus on support for capital investment, innovation and skills development to improve cost competitiveness for the UK and other markets. Also, there should be additional support for decarbonisation to help meet sustainability requirements in new markets. Trade support measures in market promotion, ECI and other financing tools also remain important.

# Measures for Budget 2023

To protect our Experience Economy

| Measure | Detail | Cost, €m |
|---|---|---|
| **Make the 9% Rate of VAT permanent** | Given the significant scarring on the sector, its debt overhang and the significant cost challenges it will face in the post-Covid era we believe that from March 2023 the 9% rate of VAT for the *Experience Economy* should be made permanent. A failure to do so would lead to a rise in inflation in 2023 of roughly 0.5%. | 350 for 10 months |
| **Invest in our Experience Economy product and ensure our city centres retain their vibrancy** | Continue investment and support to promote the *Experience Economy* through funding for tourism, festivals, events, conferences, public realm improvements and wider entertainment industry promotion and product development – with a renewed focus on town and city centres in the post-Covid era. | 20 |
| **Increase funding for overseas tourism promotion and product development** | Increase funding for overseas tourism and event promotion direct grants and product development by €20 million in 2023. | 20 |
| **Ensure revenue tax debt warehousing works** | Excess debt is proven to slow investment, productivity and growth in companies. The State also has a legitimate objective to maximise Exchequer cash collection. However, this cannot come at the expense of survival for viable firms and future economic growth potential. As such the commencement of Phase 3 of the Revenue Tax Warehousing Scheme from January 2023 must be kept under review generally as we get a clearer read of economic conditions and consideration should be given to extending the timeline for sectors such as the Experience Economy and aviation which are likely to face public health restrictions for longer. | Cashflow only |
| **Do not increase other areas of vat or duties on potentially mobile products or services** | Ensure further price differentials do not emerge between the Republic and Northern Ireland due to increases in taxes or excises which have the potential to drive cross-border/ unlicensed activity. | Neutral |
| ***Experience Economy* life-long learning** | Invest in skills development to support life-long learning in the *Experience Economy* to ensure career development and future-proofing of careers to changes in the sector. | 10 |

| Measure | Detail | Cost, €m |
|---|---|---|
| **Reduce excise on alcohol products by €50 million** | Ireland has a high level of excise duty on key consumer products in Europe. Across a range of consumer goods, Ireland has the highest rate of excise on wine, Sugar-Sweetened Drinks (SSDs) and Tobacco in Europe. We have the second-highest rate of excise on beer and the third-highest rate of excise on distilled spirits. Already it is likely that we are at or beyond the point where excise rates are optimising tax take. Ireland is a standout in Europe in excise rates but not in collection due to falling consumption. As such, future increases in excise should be ruled out and rates on drinks products should move gradually toward European norms. If future increases in excise are undertaken, they should not be costed as revenue-raising in the Budget process. | 50 |
| **Introduce a new craft cider excise exemption scheme** | In line with recent changes to the EU Structures Directive on relief on Excise and reliefs which are currently available to microbreweries, Budget 2022 should extend excise relief to producers of other fermented drinks (such as cider and perry and other than cider and perry) wine (from grapes) and intermediate products. The relief must offer a 50% reduction to independent small producers of these fermented beverages that produce less than 15,000 hl per annum. The excise relief should also be extended to manufacturers of wine (from grapes) and intermediate products that produce less than 1000 hl and 250 hl respectively per annum. | 0.25 |

## To make the best use of the Brexit Adjustment Reserve

| Measure | Detail | Cost, €m |
|---|---|---|
| **Introduce an export credit insurance scheme** | Introduce a State-supported export credit insurance scheme, to ensure the general lack of private export credit insurance capacity to cover all economically justifiable risks for exports does not impact the ability of Irish firms to export or remain competitive against other EU competitors that can access such schemes. This is unlikely to cost any significant amount – the UK equivalent has in the last five years supported over £29 billion worth of business transactions with an average claim paid as a proportion of the average amount at risk of only 0.1%, including COVID-19. Total claims paid in their scheme were only £125 million over 5 years and were offset by premia income resulting in a positive operating surplus. | 20 setup costs |
| **Invest in competitiveness and trade promotion** | Introduce investment aids to support companies investing in enabling technology, management training and upskilling, plant renewal and expansion, refinancing, market development and innovation to regain competitiveness following a single market fracture. Additional funding should also be put in place for direct grant supports for marketing and trade promotion for companies looking to build new markets in the EU and internationally and for companies looking to transition their operations to lower-carbon technologies. | 225 |
| **Continue to invest in customs and logistic supports** | Customs and logistics supports will remain important for SMEs and Mid-Caps impacted by groupage becoming less feasible. Data from the UK (LSE, 2022) has shown a major impact on SMEs in particular selling into the EU market due to fixed costs of non-tariff barriers. Further investment and training will be needed in the coming years to help manage these challenges and ensure SMEs continue to export. | 10 |
| **Introduce a reformulation fund** | Introduce a €5 million fund for the Irish food and drinks sector to help companies meet the reformulation targets set out in a Roadmap for Food Product Reformulation in Ireland, as the sector continues to address the ongoing challenges of Brexit and the impacts on market access and disruption arising from the UK's independent trade policy. | 5 |
| **Extend the pandemic stabilisation and recovery fund** | Allow the ISIF to invest directly through equity, debt and hybrid instruments best suited to business needs. The fund still has circa €1.5 billion remaining. | 0 |

| Measure | Detail | Cost, €m |
| --- | --- | --- |
| **Extend the foreign earnings deduction to more markets** | As it stands the scheme works well, but we think the scheme should be extended to include all countries that are classified as emerging and developing economies by the IMF. This would support trade with countries and regions that are expected to grow faster than Ireland's traditional trading partners such as the UK and the USA, generating wide-ranging export opportunities. | 1 |
| **Accelerated Tax Allowances and capital grants for farmers for Slurry Tank Capacity Expansion, and for LESS Slurry Spreading equipment** | In seeking to fix the problem areas identified by the Draft Nitrates Action Programme and Nitrates Directive, the dairy sector has engaged with Government Departments in a unique co-funded partnership called the Agricultural Sustainability Support and Advice Programme (ASSAP). In addition, the Co-ops lending programmes provide for lending to farmers to address and drive sustainability improvements on farms, including slurry tank capacity expansion and the acquisition of LESS equipment. As part of a major push to reduce Nitrates in waters and significantly improve water quality, accelerated tax allowances should be made available to farmers who wish to expand slurry tank capacity, alongside a time limited capital grant programme. Accelerated tax allowances should also be made available for the acquisition of LESS slurry spreading equipment as part of a major strategy to reduce ammonia. | 20 |

# Annex 1

| Tax and spending measures by heading | € million |
|---|---|
| Focus energy measures on futureproofing and resilience | 65 |
| Help Irish companies start up, scale, invest and compete for talent | 195 |
| Public investments in education, skills, research, innovation, and digital | 451 (100 from NTF surplus) |
| Increase the entry point to the top rate of tax in the face of inflation | 631 |
| Embedding competitiveness in our Experience Economy | 450 |
| To support the delivery of our housing plans | 180 |
| Supporting childcare, long-term care and people with disabilities | 205 |
| To make the best use of the Brexit Adjustment Reserve | 271 |
| Follow through on NDP plans | 800 |

Gerard Brady is the Chief Economist at Ibec, Ireland's largest business representative group. His role involves regular analysis of economic issues for a business audience, shaping Ibec's economic, tax and fiscal policy positions and advising companies and sectoral organisations. He is a current member on the National Economic and Social Council (NESC) and the National Statistics Board. He also represents Irish business in a number of international economic and tax fora such as Business at the OECD (BIAC) and BusinessEurope. Prior to joining Ibec in 2013, Gerard worked as a Lecturer in Economics in University College Cork. He is a previous winner of the Miriam Hederman O'Brien prize awarded by the Foundation for Fiscal Studies.


**Ibec Head Office**
84/86 Lower Baggot Street,
Dublin 2.
**T:** +353 1 605 1500
**E:** membership@ibec.ie

**Galway Offices**
Ross House,
Victoria Place,
Galway.
**T:** +353 91 561109
**E:** galway@ibec.ie
www.ibec.ie/west

**Cork Offices**
Second Floor,
Penrose One,
Penrose Dock,
Cork.
**T:** + 353 21 4295511
**E:** cork@ibec.ie
www.ibec.ie/cork

**Limerick Offices**
Gardner House,
Bank Place,
Charlotte Quay,
Limerick.
**T:** + 353 61 410411
**E:** midwest@ibec.ie
www.ibec.ie/midwest

**Donegal Offices**
3rd Floor,
Pier One,
Quay Street,
Donegal Town,
Donegal.
**T:** + 353 74 9722474
**E:** northwest@ibec.ie
www.ibec.ie/northwest

**Waterford Offices**
Waterford Business Park,
Cork Road,
Waterford.
**T:** + 353 51 331260
**E:** southeast@ibec.ie
www.ibec.ie/southeast

**Brussels Offices**
Avenue de Cortenburgh 100,
1000 Brussels,
Belgium.
**T:** +32 (0)2 740 14 30
**E:** europe@ibec.ie
www.ibec.ie/europe

ibec.ie/budget2023