Budget 2021 and the National Economic Plan

Ibec Submission

Ibec
For Irish Business

Contents

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 230 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 36 trade associations cover a wide range of industry sectors. Ibec members employ over 70% of the private sector workforce in Ireland.

As a country, as a society, as an economy, we've always risen to a challenge.

The devastation COVID-19 has dealt the world will test Ireland in a way we have never experienced before.

Meeting this challenge will take big ideas, brave thinking and a bold approach – all of which Ibec has brought to bear in our submission for the National Economic Plan and Budget 2021.

This document reimagines the Irish business model and will enable the economy to resurge stronger, more sustainable and even more competitive, allowing Irish business and society to thrive.

Calls to Action

1. Support the economy with a €6 billion package

The scale of the challenge facing us from both COVID-19 and Brexit means that the economy will need ongoing support in 2021. The significant, but temporary, income supports currently in place are providing life support to many sectors of the economy. The Government has provided €20 billion in direct support to the economy in 2020. As those supports are withdrawn, in the first quarter of 2021, it is important that they are not all withdrawn at once. The economy is not yet ready to carry itself. A new stage of policy measures will be needed to rehabilitate the economy, strengthen our competitiveness, and ensure recovery. Our view is that the continued package of supports into 2021 will need to be in the region of €6 billion.

2. Set clear, measurable targets for the National Economic Plan

Given the uncertainty in predicting the future, our suggested approach to the NEP is for Government to set a number of high-level, but measurable, policy benchmarks based on a new social progress indicator model to measure national well-being and recovery. There should be no more than twelve benchmarks (four in each of three pillars) covering economic, social, and environmental targets.

3. Take new actions to help get the country up and running

These institutional changes will help provide certainty and ultimately allow business to plan with some confidence. They include permanent governance structures for the new NEP, extensive Social Dialogue, a comprehensive review of the National Development Plan (NDP), an 'investment rule' in domestic fiscal rules, a new Commission on Taxation and Social Welfare, and short-term carbon budgets.

4. Introduce a COVID-19 recovery package for 2020/21

It is important that we now begin to review those emergency supports to understand which might be worth making part of broader economic, labour market or enterprise policy. We must also begin to plan for a recovery and put measures in place to encourage a return to investment in SMEs, support particular sectors worst hit by the COVID-19 restrictions, and to deal with the balance sheet impact of COVID-19 in a direct manner.

5. Diversify and innovate to limit Brexit exposure

In the aftermath of the last recession the one bright light for most of rural and regional Ireland was the growth in the exporting sectors. These sectors are now the most exposed to Brexit. A second blow, within a twelve-month period, would represent a damning setback for the prospects of a balanced regional recovery. The full resources of the existing €4 billion in Brexit contingency funding set aside for the years 2020 to 2025, any increased tariff revenue from UK imports, and the EU Brexit adjustment fund must be brought to bear. We outline a suite of measures to help Irish companies to diversify, innovate and re-align their business models.

6. Adopt an ambitious approach to skills, innovation and SME investment

Experience tells us that the challenge of labour market activation becomes more complex and intractable the longer workers are disconnected from employment. We are proposing an ambitious approach to education, training, innovation, and labour market activation to help workers to retrain and adapt. Building on the lessons of the last crisis, support should be focused on youth unemployment and severely impacted sectors and regions.

7. Ensure the inward and outward FDI model remains competitive

Ireland's FDI growth model is now in a position of great challenge. Dual threats to both our taxation model and our trade openness mean that we will have to work harder as a country to ensure we remain attractive for outside investment. We outline a suite of measures which would help improve the incentive to engage in R&D, invest in advanced technologies, and make it easier to hire and retain skilled staff.

8. Invest in quality of life and the low carbon transition

The goal of measures introduced to promote economic recovery should not be simply a return to business as usual but rather should be taken as an opportunity to improve quality of life in Ireland. In the new NEP, the Government should introduce measures to help business adopt low carbon technologies, help deliver affordable housing, improve regional balance, support home-working and support workers with caring responsibilities.

Introduction

The coming years will prove extremely challenging for the Irish economy and society. But with the right choices, those challenges can provide us with the opportunity to re-imagine a stronger, more sustainable, and ultimately more competitive Ireland.

It is not an overstatement to say that we are currently facing the most significant challenges to the Irish business model in over half a century. That business model has catapulted us from one of Europe's poorest countries to one of its most privileged in a generation. Whilst Ireland has gone through significant economic upheaval in the recent past, none have matched the current moment for its direct impact on the openness which has helped us thrive.

At home, we face some of the most challenging economic headwinds in living memory. As we head toward 2021 the tide of the first impacts of COVID-19 on the economy is beginning to recede and reveal the true economic damage left behind. At the time of writing there are close to half a million people unemployed. Many of the job losses will be permanent, at least until the pandemic ends, and re-allocation of workers to newly created jobs will be a massive endeavour for both the public and private sectors.

The impact of COVID-19 on every country in the world means that for the first time in living memory that Ireland faces a major economic shock without the release valve of emigration. This means that domestic policy will have to work twice as hard to get people back in jobs, get firms investing and re-hiring, and re-skill people for new roles. All of these are challenging tasks and will take time. With unemployment at record levels, it has never been more accurate to state that the best way to raise a person's living standards is to give them a job.

At home, we face some of the most challenging economic headwinds in living memory. As we head toward 2021 the tide of the first impacts of COVID-19 on the economy is beginning to recede and reveal the true economic damage left behind.

Abroad, there has been a significant deterioration in the health of the global economic order which has suited Ireland so well in recent decades. Multilateralism, openness to trade and people, and a rules-based international order were all distinct advantages for small open economies such as ours. They are also now significantly weakened by political polarisation. In the coming months and years, Brexit, ongoing global trade tensions, global corporate tax reform, and the rise of economic nationalism all provide distinct challenges to our way of doing business. A world where the rules based international order is weak and protectionist sentiment is on the rise will be a cold house for Ireland. We must do what we can to champion the virtues of openness, at home and abroad.

Fundamentally, however, Ireland still retains many of the advantages which have delivered us from difficult economic conditions in the past. Ireland remains a rich country. Nothing exemplifies this more than the fact that Irish households saved over €5 billion in Q2, during the most difficult period of the lockdown. TThis wealth is what has allowed us to respond to COVID-19 over recent months, by introducing a generous system of income supports and the largest once-off fiscal stimulus in the history of the State.

The economy will face a significant number of challenges and oscillations over the coming months, including the prospect of a no-deal Brexit. We will need to use our wealth wisely in order to help re-frame our economy for the upcoming challenges. Despite the symmetric and global nature of the COVID-19 shock helping to deliver record low interest rates, sound fiscal policy will still mean better prioritisation of budgetary measures. This will be needed to maximise the resources available for productive investments which help grow the economy and improve living standards.

We are a country with a skilled population, global outlook, and welcoming business environment, which sits at the core of one of the world's largest markets. As the global economy recovers from COVID-19 we must make sure to build on these strengths. This means re-imagining some of the ways we live and work to ensure that we continue to thrive regardless of the outside environment. We must control that which we can control.

Ireland's great strength has always been an ability to provide certainty and to be adaptable as circumstances have changed. A major lesson for the business community globally over the past decade has been that the openness to trade, investment, and people which helps sustain our business models is contingent. It is contingent on making sure that the benefits of that openness deliver for all, that they provide improved livelihoods, a better quality of life in all regions, and a more sustainable way of life.

In this document we set out ways in which the Government can help business deliver on these three mutually compatible objectives: to ensure our living standards are protected from the current global economic turmoil, to ensure a growing economy delivers a better quality of life, and to ensure that business can contribute to a more sustainable way of living.

It is only by delivering on those first three, that business will enjoy our fourth objective – a continued open and globalised business model which will allow our businesses to thrive.

A dynamic approach to the National Economic Plan

Given the uncertainty in predicting the future, our suggested approach to the NEP is for Government to set a number of high-level, but measurable, policy benchmarks based on a new social progress indicator model to measure national well-being and recovery.

Setting targets

The new National Economic Plan (NEP) provides an opportunity to re-imagine the Irish business model for a more challenging world. In this section, we set out the high level fiscal and budgetary approach we think the Government should take over the coming three years. By taking this approach we hope that the Government can remain responsive and flexible to ongoing changes in our external environment, which are more difficult to predict than at any time in the recent past.

The plan cannot be based on a single fixed guess at the future, the path of the virus, or a vaccine. It must set out the State's policy under several event-contingent paths to achieving its objectives. These paths should be cognisant of Brexit, of differing paths of COVID-19, and on assumptions about the symmetric recovery of the global economy. The path of fiscal policy after 2021 will be quite different if the virus continues to impact on the economy over a longer-period.

Given the uncertainty in predicting the future, our suggested approach is for Government to set a number of high-level, but measurable, policy benchmarks based on a new social progress indicator model to measure national well-being and recovery. There should be no more than twelve benchmarks covering economic, social, and environmental targets. These should mirror other similar previous efforts, such as Ibec's Driving Ireland's Recovery Campaign, New Zealand's 'Wellbeing Budget' and the OECD Better Life Index.

As we work towards building a better Ireland, the role of housing; infrastructure; public services; and the environment will have a greater impact on quality of life and well-being. Ireland should and can be a global leader in seeking to supplement measures of economic prosperity with a wider social progress indicator model based on benchmark pillars for an economic, social, and environmental recovery.

There should be no more than twelve benchmarks covering economic, social, and environmental targets.

Managing change

Ultimately these benchmarks should also be accompanied by a level of institutional change to help manage the challenges of recovery and to ensure implementation of policy actions. These are set out in detail in this section.

Forecasting the economy in the medium-term is difficult at the best of times. The cumulative uncertainty caused by the impact of COVID-19, Brexit, and the broader global economic environment makes business, financial, or economic planning next to impossible in the current environment. As such, the new National Economic Plan must be adaptable to events and cannot be based on any one central forecast or prediction.

From a business point of view, the current environment is inherently uncertain, is reliant on outcomes which are far beyond their control, and is as much in the gift of political, public health, and global economic events as any internal business planning. Nowhere has this been clearer than in the speed and scale of the COVID-19 shock to business planning. It also, however, extends to one-off events like Brexit and global trade developments.

Ultimately our approach is governed by two overarching objectives:

Firstly, to provide as much certainty as possible over the coming years, in areas where that is possible. This will involve providing forward guidance on tax and spending issues so that firms can plan with some semblance of advance knowledge.

And secondly, to ensure that where policy issues arise, which by their nature involve significant change, that the Government provides leadership in ensuring that changes do not create further certainty. This can only be achieved, in our view, through an extensive social dialogue process on issues including the low carbon transition, the future of social protection models, taxation, and wider quality of life issues.

Fundamentally, the new National Economic Plan should provide a structure for managing the process of uncertainty and change rather than a single critical path based on fixed, but ultimately speculative, forecasts of an increasingly uncertain future.

To achieve these two objectives and to ensure implementation of the benchmarks laid out in Section 2.1, there are several institutional changes which we believe should be central to the new National Economic Plan. These institutional changes will help provide certainty and ultimately allow business to plan with some confidence. They are set out below:

- Review the new National Economic Plan at regular intervals and put in place robust Governance structures: Based on the successful model of the 2012 Action Plan for Jobs, the new NEP should have permanent Governance structures compromising private and public stakeholders. The plan should on a bi-annual basis review a set of actions for each year, with clear milestones, and assign lead stakeholders in delivering on those actions.

- Engage in extensive Social Dialogue: To deliver buy-in to the new National Economic Plan the Government needs to reset Ireland's engagement with trade unions and employers in a more structured consultation and engagement model. This will support recovery and address long-term societal issues. Experience in Ireland in the past and in other small open economies shows that a coherent model of dialogue, if managed well, can help deliver meaningful economic advances.

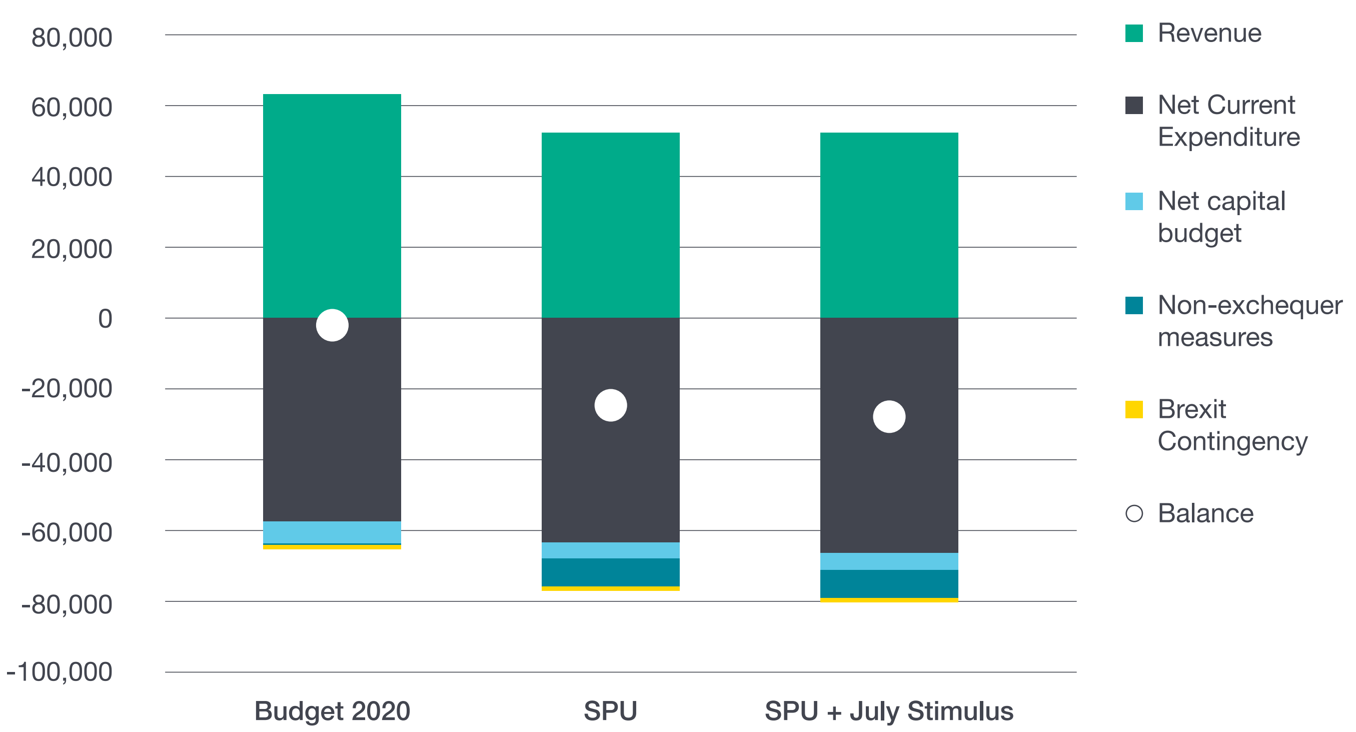
- Review the National Development Plan: The €500 million of infrastructure stimulus in the July Stimulus plan was rightly focused on the three 'M's - maintenance, minor works, and modal shift. These additional measures are the correct balance of schemes to bring an immediate boost of the economy. But, over the medium-term, a more comprehensive review of the National Development Plan (NDP) is crucial in the context of broader developments. This review should focus on an 'NDP plus' model with new schemes in addition to the existing NDP. Our view is that there should be an increase in the NDP budget by €25 billion over the lifetime of the plan: supported through Exchequer, private and international financing sources.

- Introduce an 'investment rule' into domestic fiscal rules: Previous crises have resulted in cut-backs to the capital budget of the State and ultimately stored up significant, and expensive, investment deficits. This must not happen again. To provide a fiscal anchor for the capital budget, the Government should set an explicit multi-annual investment target compliance which should be assessed under the 2012 Fiscal Responsibility Act.

- Convene a new Commission on Taxation and Social Welfare: With relevant expertise, to help plan a taxation system which is fit for purpose in the postcrisis World. Initial recommendations by the Commission should be published and responded to by Government in Q2 2021.

- Introduce short term carbon budgets: Ultimately economic plans must be viewed in a sustainability context. In line with our publication "Building a Low Carbon Economy" Ibec recommends the introduction of continually reducing carbon budgets for sectors outside the Emissions Trading System (ETS). These budgets would restrict the amount of GHG emissions Ireland could emit over a specified period of years. This would bring greater visibility to Ireland's emissions targets and obligations. It would also give more certainty to investors and promote greater policy discipline.

Figure 1: Development of the exchequer balance in 2020, € million



The fiscal approach to the new National Economic Plan

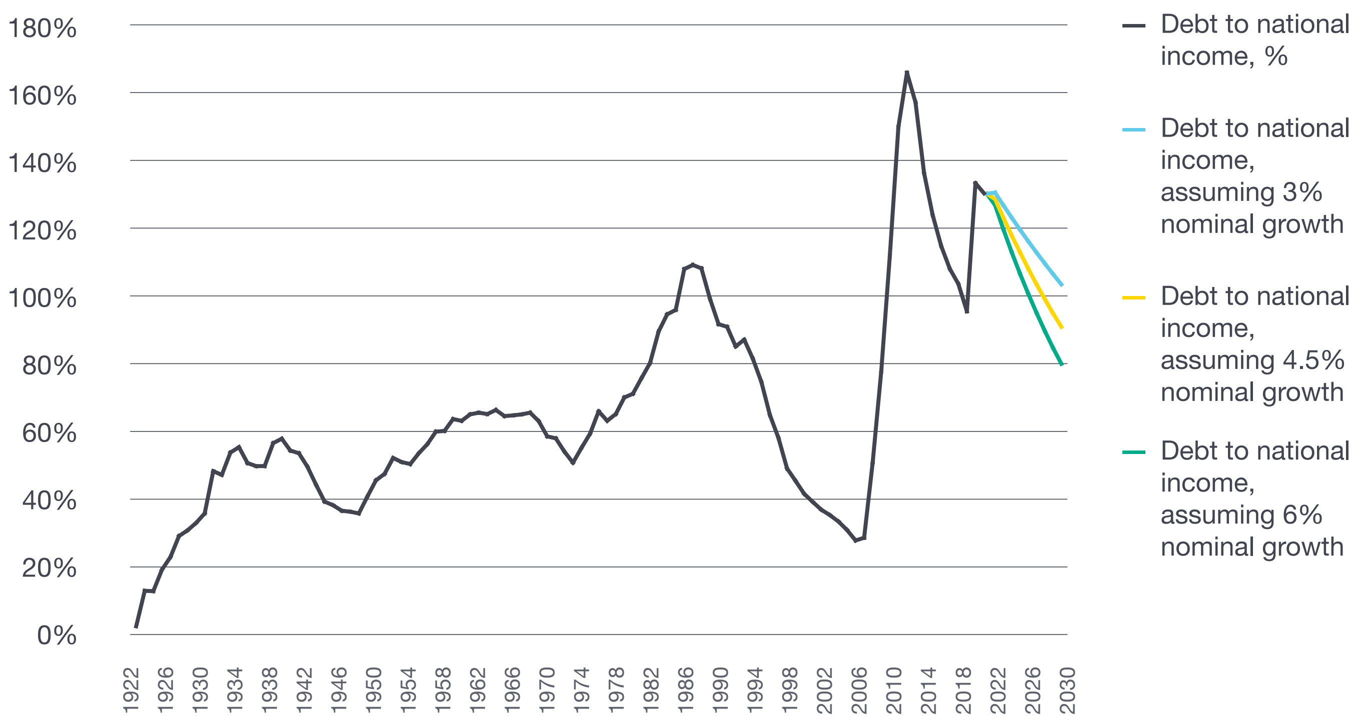
An uncertain fiscal position

Coming into 2020 the Irish economy was growing at a rapid pace and on a sustainable basis. The economic vista was characterised by the strongest current account surplus on record, low borrowing costs, strong growth, strong but stable wage growth and record foreign direct investment. This was all underpinned by sustainable fiscal and financial balances. This has been thrown into disarray by the impact of COVID-19 on the State. It will be further challenged, over the coming months, by a slower global economic outlook and by the end of the Brexit transition.

The short-term economic outlook is bleak, with close to half a million people without work. Early signs of recovery in indicators such as retail sales must be taken in context, with large increases in spending on once-off items which had been stalled due to lockdown driving improvements in sales in the short-term. The medium-term outlook to the end of 2020 and into 2021 is much less certain.

This year, the State could and indeed should, run a deficit of close to €30 billion. This is a far cry from the balanced Budget forecast in October. The deficit will hit double digits, as a percentage of national income. Far from being a negative, this will be a sign that Government has done the right thing. It is important to remember the global nature of the shock. This deficit will leave the State ending 2020 with a deficit which is in line

Figure 2: Debt to national income under three different recovery scenarios



***Source:** Ibec calculations using data from the CSO (post 2000) Fitzgerald and Kenny (2018) and Gerlach and Stuart (2015)*

with other developed economies. In a World where Central Banks are committed to keeping financing costs low, we should do whatever it takes to combat the economic crisis while it lasts.

The Irish business model, as demonstrated by continuing strong corporate tax receipts, continues to put Ireland in a good position for recovery ahead of the global economy. Assuming progress and distribution on a vaccine, or a strong antiviral, is relatively swift in 2021 the economy and the fiscal position can be expected to recover at a quicker pace than the global economy as a whole. In the longer-term a recovering economy will provide the basis for a return to a balanced current budget.

About 55% of the increase in the 2020 deficit is linked to falling tax revenues, with the remainder linked to emergency spending on health, income, and economic supports.

By their nature taxes should increase and emergency spending fall as the economy recovers, unless we choose to keep some measures as permanent parts of our policy toolkit. When a recovery in the economy allows we should begin this orderly return to normal fiscal policy by unwinding emergency support measures. But this should only happen when the economic circumstances are right.

In the absence of a medical breakthrough in the next 18 months the long-term sustainability of the State's record support for the economy, and the fiscal position of many countries, will come under pressure. The economic damage from the COVID-19 outbreak would spread through supply-chains and leave a permanent scarring on our growth potential in almost every sector of the economy. This in turn will demand a review of how we support the economy and fund that economic support.

The new NEP must remain flexible to these ongoing circumstances without being overly cautious. In this regard, the institutional framework set out in the previous section is crucial to delivering improved outcomes.

Increase productive investment to support fiscal sustainability
Over the course of the coming years the Government must use institutional mechanisms set out in Section 2.1 to review the performance of systems of economic stabilisation and support and to understand which might be worth making part of broader economic, labour market or enterprise policy. We must also have a rounded discussion through a new Commission on Taxation and Social Welfare and a strong Social Dialogue process on how to deliver the resources necessary to fund further improvements in areas like housing, health, and the environment.

These discussions will require a whole of society buy-in. The resources directed toward COVID-19, Brexit, and the broader economic disruption will significantly increase our national debt and reduce our room to finance additional spending without commensurate increases in new revenue streams.

Our expectation, in the event of a modest recovery and broad availability of a vaccine in late 2021, is that the budget deficit, which will hit €30 billion in 2020 would roughly halve to €15 billion in 2021 and again halve in 2022. By 2023 we would expect the deficit would have closed. This implies a total cumulative increase of circa €50 billion on the national debt in a moderate recovery scenario.

Low borrowing costs mean that this can be sustained in the medium term as long as the growth path in the years of recovery is strong. A strong growth path is the best way to ensure re-financing of debt is sustainable in the medium to long-term. But Ireland is now a developed country, our room for the 'catch-up' growth of previous decades is limited. The renewal of economic progress can only be achieved through concrete policy action. This, in turn, requires that new resources are brought to bear on the effort to grow the economy. Research by the Fiscal Advisory Council[1] has shown that significant domestic multipliers exist where spending is focused on capital investment over current spending, and particularly over wage spending. Roughly a €1 spend on this type of productive investment delivers over €2 to domestic value-added. This is the case in both the short and long-term.

In a similar sense, spending on productivity enhancing areas such as skills and research and development have been shown to boost the potential growth rate of the economy. Ultimately that potential growth rate will have significant implications for fiscal sustainability. This plan must set out clear and ambitious targets for State funding of skills and R&D over the long-term.

We must also have a rounded discussion through a new Commission on Taxation and Social Welfare and a strong Social Dialogue process.

1. Ivory, et al (2020)

Recovering from Covid

We must also begin to plan for a recovery and put measures in place to encourage a return to investment in SMEs, support particular sectors worst hit by the COVID-19 restrictions, and to deal with the balance sheet impact of COVID-19 in a direct manner.

Overview

The recent July stimulus package was ambitious and comprehensive. It is estimated that about two-thirds of the overall package will be spent in 2020, with some measures rolling into 2021. The July stimulus measures taken as a minibudget would represent the largest budgetary expansion in recent history. Pro-rata by the months of the expansion in late 2020, the measures should add in the region of 9% boost to domestic demand in the second half of the year.

In the first instance, it is crucial that these schemes work from day one and that the delivery on funding to companies and the broader economy happens as soon as possible. Delivery on schemes, to date, has been too slow for both political and administrative reasons. Significant gaps have emerged between dates of announcement of some schemes and the time taken for firms to receive much needed funding.

Government has clearly taken on board the input from business and the package addresses priorities Ibec identified in areas of enterprise liquidity; upskilling and getting people back to work; and infrastructure. As the economy recovers these schemes can be unwound but they will require some level of open-ended commitment into 2021.

In the longer-term, a return to a balanced current budget should begin at an appropriate pace. This can be achieved, without significant economic impact if the emergency support measures are unwound only when the economic circumstances allow. Government should clearly set out in the new National Economic Plan several event contingent paths to achieving these objectives. These paths should be cognisant of Brexit, of differing paths of COVID-19, and on assumptions about the symmetric recovery of the global economy.

It is important that we now begin to review those emergency supports to understand which might be worth making part of broader economic, labour market or enterprise policy. We must also begin to plan for a recovery and put measures in place to encourage a return to investment in SMEs, support particular sectors worst hit by the COVID-19 restrictions, and to deal with the balance sheet impact in businesses of COVID-19 in a direct manner.

Delivery on schemes, to date, has been too slow for both political and administrative reasons. Significant gaps have emerged between dates of announcement of some schemes and the time taken for firms to receive much needed funding.

Measures for Budget 2021

To encourage business investment:

- Send a signal of intent to serial entrepreneurs by radically improving the CGT entrepreneurs' relief: This can be achieved in a balanced way by increasing the lifetime limit on capital gains to €15 million and expanding the relief to passive investors in areas with high growth potential.

- Introduce tax measures to support business investment: For investments in the years between 2020, 2021, and 2022 - introduce full expensing for fixed investment for sectors worst impacted by COVID-19, and allow any investment losses under EIIS against CGT and increase the annual limit on investment to €2 million.

- Unlock non-Exchequer investment in infrastructure provision: Introduce government-backed exemptions to local authority charges to unlock non-Exchequer investment in infrastructure such as renewable energy and 5G.

To support the worst impacted sectors:

- Graduate the 70% turnover threshold in the EWSS: As it stands the 'cliff-edge' turnover threshold in the EWSS stands to introduce significant adverse incentives to company operations. For labour intensive firms, the loss of the whole subsidy, once a threshold of 71% of normal turnover is reached, will result in the firm's profits falling until they reach close to 90% of normal turnover. The subsidy should instead be graduated between 70% and 90% with firms losing part of the subsidy as they hit turnover or order milestones.

- Re-introduce the 9% VAT rate for tourism and extend the rate to the on-trade: For companies in the hospitality and personal services industries along with the on-trade and other badly impacted sectors until the end of 2022.

- Explore an incentive driven arbitration model for disputes over commercial leases: This should include a facility for some State burden sharing and provide short-term protection from eviction. The State burden sharing model should be based on the recent Swedish state-aid approved model which covers up to 50% of rent reductions negotiated between tenants and landlords for the period of the crisis at a cost of €400 million.

- Ensure potential tax liabilities related to COVID-19 income supports do not become an undue burden: Potential tax liabilities arising from the WSS and other income supports must not act as a disincentive to engage with future use of short-time work or income continuance schemes. Any adjustment to tax credits should happen over as long a period as possible and five years at a minimum.

- Work on a European level to extend the concessional treatment of VAT on PPE to all workplaces: In recognition of the significant administrative and cash flow implications of PPE VAT it was confirmed that the zero rate of VAT may be applied, on a concessional basis, to the supply of personal protection equipment (PPE) health care settings for use in combatting COVID-19. This concessional treatment of PPE should be extended to all supply for use in the workplace but will require change at a European level.

- Allow firms to give rewards under the small benefits exemption (SBE) on a cumulative basis and extend BIK benefits on a temporary basis: The small benefits exemption provides significant support for local economies by allowing firms to boost worker spending power. As it stands only the first small benefit to a total value of €500 is allowable under the exemption and the total benefit given must be less than €500. From 2021 the SBE should be moved to operating on a cumulative basis, allowing firms to give smaller benefits throughout the year and making the first €500 of any reward which is greater than €500 allowable. This would both allow firms the flexibility to suit their rewards systems, make the administration of the SBE simpler, increase compliance, and allow employees in cash-flow constrained firms to get greater benefit from the SBE. In addition, the State should introduce a one-time extension of the small benefits exemption to benefit-in-kind to allow employers to give a voucher in 2020 or 2021 up to the value of €2,000, on a tax free basis.

To deal with COVID-19 related balance sheet damage in an up-front manner:

- Introduce measures to address COVID-19 tax debts: Excess debt is proven to slow investment, productivity, and growth in SMEs. It is imperative that supports are put in place which ensure as low a debt burden as possible. If SMEs are left with significant balance sheet damage, this would represent a significant blow to the growth potential of the most labour-intensive sectors of the economy. The State should introduce a fund to write down debts under the Revenue tax warehousing scheme where they threaten business viability.

- Work to defer the new interest limitation rule for the period of COVID-19: Given the exceptional circumstances the economy is facing, we support calls by BusinessEurope on the European Commission to urgently consider a temporary suspension or more flexibility to the interest limitation rule in order to give Member States and companies more efficient tools to support the re-covery. With falling profitability, the rules, if introduced would risk placing significant pressure on firms' balance sheets and would be a self-inflicted wound on the road to recovery. The Irish Government should delay introduction of the rules insofar as it is possible for the period of COVID-19.

Total cost of measures:

€2.5bn

Getting ready for Brexit – Deal or no deal

In the aftermath of the last recession the one bright light for most of rural and regional Ireland was the growth in the exporting sectors. These sectors are now the most exposed to Brexit. A second blow, within a twelve-month period, would represent a damning setback for the prospects of a balanced regional recovery.

Overview

It now seems likely that a no-deal outcome will be likely in December. If the worst occurs it will fundamentally reframe the economic outlook for both the country and the region's most reliant on Brexit exposed sectors. Whilst some parts of the country may begin to recover from COVID-19 in 2021, others would be sent in a second recessionary spiral.

Previous Ibec work has shown that employment in the most Brexit exposed sectors was mainly focused on rural areas, rather than urban ones. Up to 30% of workers in Cavan/Monaghan work in the most Brexit exposed sectors, whilst fewer than 8% do in any of our cities. Research undertaken by Ibec has also shown that workers in the most Brexit exposed sectors also finished school younger than the average across the economy. For example, only 17% have a third-level qualification. These workers are also much older than average - one-in three workers in the most Brexit exposed sectors are over the age of 50.

In the aftermath of the last recession the one bright light for most of rural and regional Ireland was the growth in the exporting sectors. These sectors are now the most exposed to Brexit. A second blow, within a twelve-month period, would represent a damning setback for the prospects of a balanced regional recovery in 2021.

No matter what the outcome of Brexit, Ireland and the most Brexit exposed sectors face unforeseen and adverse consequences. Irish companies will need support to diversify, innovate and re-align their business models. The education system will need support to provide the capacity for upskilling. Supporting our indigenous industries will mitigate the worst impacts of Brexit domestically.

This must be borne in mind when setting the parameters of Budget 2021. The full resources of the existing €4 billion in Brexit contingency funding set aside for the years 2020 to 2025, any increased tariff revenue from UK imports, and funding from the EU Brexit adjustment fund will need to be brought to bear.

No matter what the outcome of Brexit, Ireland and the most Brexit exposed sectors face unforeseen and adverse consequences. Irish companies will need support to diversify, innovate and re-align their business models.

Measures for Budget 2021

To support firms through the immediate impact:

- Work to extend the temporary state-aid framework into 2021 for Brexit-impacted sectors, obtain substantial funding from the Brexit Adjustment Reserve and put in place a multi-annual framework for funding Brexit mitigation beginning in Budget 2021. This must provide clarity on the resources available for Brexit mitigation for the most impacted sectors and form a key part of the new national economic development plan.
- Ensure the provisions of the Brexit Omnibus Bill are enacted in the event of a no-deal outcomes: Crucial amongst these is the introduction of a deferred payment regime for import VAT.
- Stand ready to re-introduce the Employer Wage Subsidy Scheme for Brexit impacted companies in a no-deal scenario: The scheme should be put on a scenario contingent footing and be re-introduced on a temporary basis where firms are struggling due to immediate loss of income due to Brexit.

To encourage trade and diversification:

- Improving the export capability of indigenous Irish manufacturing: This can be done by introducing a State supported export credit insurance scheme to ensure the expected gap in supply of export credit insurance does not impact on the ability of Irish firms to export. In addition, further funding for direct grant supports for innovation, marketing and trade promotion for firms building new markets should be provided.
- Investment in Competitiveness: Medium term measures to allow the Irish Government to introduce investment aids to support companies invest in enabling technology, management training and upskilling, plant renewal and expansion, refinancing, market development and innovation to regain competitiveness following single market fracture.
- Increase R&D grant rates to 50%: Ensure State agencies make full use of the new state-aid guidelines to fund up to 50% of Research and Development projects which support future business growth
- 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.

Total cost of measures:

Paid for through the existing €4 billion in Brexit contingency funding set aside for the years 2020 to 2025, additional tariff revenue from UK imports, and funding from the EUs Brexit adjustment fund.

Getting people back to work and promoting SME investment

We are proposing an ambitious approach to education, training, innovation, and labour market activation to help workers to retrain and adapt. Building on the lessons of the last crisis, support should be focused on youth unemployment and severely impacted sectors and regions.

Overview

Current unemployment levels paint a stark picture of the impact of COVID-19 and associated containment measures. The unemployment rate has jumped from under 5% in the early part of the year to 26% in May, with record numbers receiving unemployment supports from the State. While all sectors have seen an increase in unemployment, the sectors most impacted are retail, accommodation and hospitality, and construction. These sectors account for almost half of all recipients of the pandemic unemployment payment during the lockdown despite representing just 27% of total employment before the COVID-19 restrictions were introduced.

Those unemployed in the wake of COVID-19 are also disproportionately younger workers, who represent a large share of employees in the sectors worst affected by lockdown measures. Workers under 25 make up one-fifth of all pandemic unemployment payment recipients despite representing just 12% of the labour force.

The costs of this level of unemployment, both in social terms and to the exchequer, is unsustainable. Experience tells us that the consequences both for society and the labour market worsen as short-term unemployment turns to long-term unemployment. The challenge of labour market activation becomes more complex and intractable the longer workers are disconnected from employment. While introducing restrictions on activities during the initial COVID-19 emergency was necessary to protect Irish households, the focus must now be on setting the conditions for a speedy and widescale return to work.

The business recovery in a post-Coronavirus World will require agile and innovative businesses which can embrace technology and new opportunities. New business models require new skills, work processes and forms of people management. We are proposing an ambitious approach to education, training, innovation, and labour market activation to allow the labour force to retrain and adapt to these new business models. Building on the lessons of the last crisis, increased supports and new labour market activation programmes should be provided to support jobseekers, with a focus on youth unemployment and severely impacted sectors and regions.

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Measures for Budget 2021

Help get people back to work:

- Set open-ended budgets for return to work and retraining supports contingent on specific targets: Some schemes aimed at getting people back to work or retraining should remain open-ended until a target unemployment rate of 6% is met.

- Keep the duration, funding envelope and terms of the JobsPlus scheme under review. These factors may need to be revisited if the rate of unemployment does not fall quickly enough in light of activation or recovery measures or indeed where certain regions remain significantly impacted by persistent unemployment as a result of COVID-19 (e.g. areas reliant on tourism employment).

- Support workers in their return to work, particularly in the regions and sectors most impacted by COVID-19 disruptions: By increasing funding for labour market activation schemes and enhancing short-time work programmes to provide government-funded training on the 'off' days.

Support training and upskilling:

- Provide €500m for in-employment training vouchers to business: To access accredited training to improve skills, adaptability, and long-term employment prospects of the labour force.

- Allocate €20m from the National Training Fund to launch a dedicated digital education innovation funding call: To enhance digital education capacity in the tertiary education sector. While the Coronavirus prompted a rapid move to remote learning and working, the future of work and study will be increasingly digital long after the current disruptions.

- Increase investment for Generation Apprenticeship, by €40m per year over the course of the new NEP: To encourage enterprise engagement, reduce on the job training costs and support strategic programme management and innovation

- Increase investment for the Business Liaison Services to develop agile training programmes: Empower Education and Training Boards to become highly responsive regional training partners for businesses by increasing investment to respond to evolving skills needs in enterprise.

- Commit €400m to substantially increase funding for, and recapitalise, higher education: To promote innovation and skills and support businesses to stay at the cutting edge.

- Expand the Youth Employment Support scheme: Younger workers are disproportionately represented on pandemic related unemployment payments and make up a large portion of workers in sectors heavily impacted by COVID-19. Target labour market supports specifically towards youth unemployment.

Help firms to innovate and grow:

- Develop a new approach to funding innovation capacity in higher education as a successor to PRTLI: This should amount to €300 million over a five-year funding round to support new investment in research and innovation infrastructure, technology and human capital development.

- Develop Ireland's network of innovation districts and incubation centres as regional innovation hubs: With remote working facilities anchored by a lead education institution to foster synergies between business, innovators and academia.

- Introduce a pro-forma R&D tax credit: In order 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 you claim it.

- Increase the Innovation Voucher value to €10,000: to encourage higher levels of research, development, and innovation activity within business, particularly to support initial SME engagement with the national innovation ecosystem.

- Supporting business to accelerate innovation: Given the impact of disruptive economic events, innovation as a tool to build business resilience becomes more pressing. As part of the Enterprise Ireland Agile Innovation Fund, direct support should be provided to enable business to embark on innovation feasibility and strategic planning.

- Ensure adequate funding for 'Green research': Invest in technologies linked to energy integration including assessment of new technologies for the integration of renewables to the grid; advancement of Smart Technology and Smart Grids; continued research into the interactions and interfaces between different energy carriers; and research into the impact of climate change on in-frastructure and resources such as water. A DTIF funding round dedicated to green technologies will support innovation and research collaboration between Irish start-ups, SMEs and MNCs, and the research and technology expertise in research institutions.

Total cost of measures:

€1.6bn

Ensuring our inward and outward FDI model remains competitive

Ireland's FDI growth model is now in a position of great challenge. Dual threats to both our taxation model and our trade openness mean that we will have to work harder as a country to ensure we remain attractive for outside investment.

Overview

Ireland's FDI growth model is now in a position of great challenge. Dual threats to both our taxation model and our trade openness mean that we will have to work harder as a country to ensure we remain attractive for outside investment. Despite this there are signs that we are becoming less competitive in areas in which we have traditionally had an advantage.

The trend over the past decade is for countries to reduce their headline corporate tax rates in response to base broadening globally. In other Northern European countries like the UK, Sweden, Denmark and Finland, the gap in effective tax rates is now down to only 7 percentage points and on a downward trend. This is not a significant gap when bases are broadly the same.

The R&D tax credit has undergone rigorous economic analysis and has been shown both here and internationally to be working as intended with significant positive impact. Department of Finance analysis shows that the scheme exhibits some of the lowest deadweight loss of any similar scheme in the developed World. About 60% of private sector R&D in the country only exists because of the credit. The total spend under the credit has more than halved since 2014 and this drop must be addressed.

Both taken together these issues are resulting in serious uncertainty amongst companies both investing in and out of Ireland. But tax remains an important tool. The best way to combat unease is to take concrete measures to provide certainty and innovative improvements to the regime we have. In the first instance, by dealing with the administrative issues which are causing continued concern for companies interacting with the R&D tax credit and introducing new supports for the next wave of technological investment.

Outside of the tax regime, it is important that we up our game in areas of our offering where we traditionally have had a weakness. Recent years have seen us slip further behind in Government funding of innovation. Our traditional strength in advanced manufacturing is one which will not last into future decades if we stand idly by while large developing countries attempt the next step up the value chain. Ambitious plans like 'Made in China 2025' are targeting our domains of expertise. We have lost industries before to foreign competition. The key to rising living standards is our ability to step into more complex products and services industries immediately up the value chain. This requires forethought and investment.

Our traditional strength in advanced manufacturing is one which will not last into future decades if we stand idly by while large developing countries attempt the next step up the value chain.

Measures for Budget 2021

Provide certainty:

- Provide certainty to the regime and prepare for a world after international tax reform: In the new National Economic Development Plan the State must re-commit to pursuing FDI opportunities for growth, the 12.5% corporate tax rate and the importance of the R&D tax credit. It must also prepare for the future of the model, by ringfencing any future overruns in CT revenues for spending on innovation, education, or capital projects alone.
- Work with other EU Member States to introduce a temporary suspension or provide more flexibility on the implementation of the interest limitation rule: The rule if introduced at this point in the business cycle risks placing unforeseen pressure on firms' balance sheets, will significantly dampen investment, and weigh on economic recovery.
- Renew the Knowledge Development Box legislation: The KDB has provided an important incentive for companies to undertake substantial R&D activities in Ireland. It should be put on a permanent legislative basis.
- Enact as a priority the Investment Limited Partnerships Bill and the tax review of the European Long-Term Investment Funds Regulation: This will help to modernise outmoded legislative barriers to growth in the financial services sector.

Help firms move up the value-chain:

- Halt the decline in R&D tax credit take-up by dealing with underlying issues: Provide greater certainty around decision making consistency and time-sheets. Remove the 15% limit on qualifying outsourced expenditure to Third Level Institutions and the restrictions on outsourcing to related parties. This would be consistent with the treatment under the Knowledge Development Box and in line with other jurisdictions.
- 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.
- Reform the operational and reward constraints in Revenue approved share option schemes: This would allow them to be more flexible 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.

Total cost of measures:

€75 million

Improving quality of life and the low carbon transition

The goal of measures introduced to promote economic recovery should not be simply a return to business as usual but rather should be taken as an opportunity to improve quality of life in Ireland. In the new NEP, the Government should introduce measures to help business adopt low carbon technologies, help deliver affordable housing, improve regional balance, support home-working, and support workers with caring responsibilities.

Overview

Ensuring a rapid economic recovery will require decisive and sweeping action from Government. The goal of measures introduced to promote economic recovery should not be simply a return to business as usual but rather should be taken as an opportunity to improve quality of life in Ireland, further the low carbon agenda and imagine a better future.

The enforced slowdown in travel and economic activity because of COVID-19 containment measures has led to a dramatic fall in greenhouse gas (GHG) emissions and air pollution. Meanwhile, in some areas, nitrogen dioxide and particulate matter levels are half what they were a year ago. These gains, although temporary, reveal the extent to which our economic and environmental fortunes are interlinked. Our economic model remains wedded to high emissions growth, and we failed to break this link in the last economic recovery. Breaking this link is vital to our long-term wellbeing and international competitiveness. The crisis has also shown us great examples of resilience, with businesses adapting to challenging and rapidly changing circumstances. With the right supports, sustainability can be built firmly into our economic recovery.

The lessons of the lockdown and a wide-scale transition to home working have also highlighted the interconnection of home and working life. In particular, the importance of child and homecare supports to allow those in employment with caring responsibilities to work effectively and remain in the labour force has never been more apparent.
The cost of childcare in Ireland remains among the highest of the OECD countries, largely due to significant State subsidies internationally. Parents are impacted by the costs of quality care, while many providers are struggling to sustain businesses under significant administration, inspection and regulation demands and increasing commercial rates and insurance costs.

Direct payments to parents in the form of child benefit are the second highest of any OECD country, yet despite increased State funding, Ireland fails to meet the EU average or UNICEF targets. Our proposals will place sustainability and the low carbon agenda at the core of Ireland's growth model, while supporting the labour force to be an effective pillar in the economic recovery.

Our economic model remains wedded to high emissions growth, and we failed to break this link in the last economic recovery. Breaking this link is vital to our long-term wellbeing and international competitiveness.

Measures for Budget 2021

For the low carbon transition:

- Increase annual funding for the national deep retrofit programme by €300m: Deploy a new delivery and financing model and use the post COVID-19 recovery phase to begin upgrading large sections of our building stock to B1 and A BER ratings

- Provide an additional €400m to drive low carbon investment in industry by scaling up and expanding industry supports including the Support Scheme for Renewable Heat (SSRH) and the Excellence in Energy Efficiency Design (EXEED) programme: Address the market failure in sustainable finance by scaling up supports for businesses looking to improve their carbon footprint and reduce their exposure to the carbon tax.

- Establish in law a gradual upward carbon tax: Set out a clear signal for low carbon investment and give businesses and citizens the time and resources to reduce their exposure to the tax and transition to a low carbon society.

- Introduce a €100m exchequer subvention to the PSO levy to help finance costlier projects under the Renewable Electricity Support Scheme and provide relief for electricity users.

- Expand circular economy training and skills programmes and introduce seed funding for businesses to help build cross sectoral partnerships and exploit asset sharing and reuse opportunities.

- Introduce a tax credit for the use of electric taxis to incentivise consumer change and new technology adoption in the tax fleet. This would amount to a 15% income tax credit on the value of taxi journeys taken in electric vehicles, with all information needed to verify contained on existing receipts.

Housing, health, regional development, and remote working:

- Introduce a Shared Equity scheme for housing: This should be based on the details of the Property Industry Ireland discussion paper "The Irish Equity Loan: Supported Homeownership for the locked-out generation". The scheme is for First Time Buyers looking to purchase a new build A-rated home as their primary residence. These purchasers must have household incomes below €95,000 and can apply to get an equity loan of up to 30% of the home value for the difference between the purchase price and the sum of their maximum mortgage borrowings and deposit. Home price caps and equity loan caps will differ depending on the type of home and location.

- Place regional development at the heart of recovery: Create a €200 million annual "town growth fund" to support the revitalisation of town centres. Funding can be sourced from local resources but based on a match funding principle. Projects will be funded through a competitive bidding process. It would unlock a minimum of €1.2 billion investment over three years.

- Increase and extend the eWorking tax allowance to an annual equivalent of €1,500 and provide BIK support for employer supported capital spend: This would incentivise remote working arrangements. Employer support for capital spending on homeworking space, up to a lifetime limit of €10,000, should be treated in the same manner as company cars under BIK and verified in line with the Home Renovation Incentive. The taxable cash benefit should be based on an annual imputed rental uplift from the work or a straight-line depreciation of 5%.

- Ensure accumulated deficits in the voluntary healthcare sector are fully financed: Currently many organisations in the voluntary healthcare sector are facing additional pressures for the public services provided and carry forward deficits annually. This known problem (as outlined in the Report of the Independent Review Group, February 2019) has been further exacerbated by COVID-19, whereby patients admitted with the disease or with suspected disease were deemed free of charge under Infectious Diseases Legislation. The HSE must ensure that these deficits in the voluntary healthcare sector are funded in a structured manner.

- Act on the Cruinniú GovTech report findings for enhanced public services and growth. Lead and invest in online Government services and the digitalisation of public service delivery for organisations and citizens. Address any administrative barriers to procurement in digital services, including Cloud.

Supporting workers with caring responsibilities:

- Commit to investing in early childhood learning and care over the next 5 years to bring funding up to at least 1% of national income. This will increase labour market participation, particularly for women, retain working parents in the labour market and deliver quality sustainable care and education in the early years sector. Existing child benefit payments should be maintained for low income families and tapered off for higher income families. This would enable savings to be ringfenced for early learning and care (ELC) services and to evaluate and enhance the sector.

- Supporting workers with caring responsibilities: Introduce a suite of supports for carers and the caring industry which will ultimately help support labour market participation in an ageing society. This should include a €135 million package over the term of the new National Economic Plan, to provide for supports for workers with caring responsibilities and the companies in the sector. This should include expansion of respite care hours, individual supports, training, professionalisation and a significant increase in the home supports budget to provide for an additional 5 million hours of in-home support.

Supporting people with disabilities in the workplace:

- Amalgamate all the current disability supports into one grant, a person-centred system, as achieved by the UK's Access to Work scheme.
- Support persons with disabilities in the workplace: Provide €15m to extend personal assistant supports available for persons with a physical disability who work on certain schemes (e.g. CE schemes), increase the Subsidy Scheme for persons with a disability from its current level at 55% of the minimum wage to 70% of the minimum wage level and index it to future increases, and remove the threshold of 21.5 hours work per week required to access the Subsidy Scheme for persons with a disability.
- Develop an independent Employer Support Agency to promote and advise the recruitment and retention of people with disabilities: Building on the experiences of the EDI pilot programme this agency would need to be properly resourced and located within the Department of Enterprise, Trade and Employment.
- Create a properly commissioned, integrated and resourced National Supported Employment Programme: This would enable professional employment specialists to facilitate the necessary supports to progress people with disabilities into employment and assist the employer with advice on reasonable accommodations and in-work supports.

Total cost of measures:

€1.9bn

Annex 1

Total cost of Ibec measures for Budget 2021

Ibec Measure for Budget 2021		**€ cost** (rounded to the nearest €5 million)
Recovering from COVID-19	To encourage business investment	180
	To support the worst impacted sectors	1,500
	To deal with COVID-19-related balance sheet damage in an up-front manner	800
Preparing for a no-deal Brexit		Paid for through additional tariff revenue, the Brexit adjustment fund, and the existing Brexit contingency
Getting people back to work and business investing	To help get people back to work	200
	To support training and upskilling	960 (partly funded through the NTF)
	To help firms to innovate and grow	400
Ensuring our inward and outward FDI model remains competitive		75
Improving quality of life and the low carbon transition	For the low carbon transition	710 (partly funded by the increased carbon tax)
	For housing, health, regional development, and remote working	750
	To support workers with caring responsibilities	420
Total		**€6 billion**

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