Ibec Budget Submission

Budget 2022

Meeting our competitiveness challenge

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 250 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.

Our priority, post-COVID, must be on ensuring future growth is sustained and sustainable. With a renewed focus on competitiveness, we can ensure resources are available to meet the major economic and social challenges we face.

Key messages

1.

Show fiscal discipline to deliver on investment ambition

The Government has shown significant ambition in their recent Summer Economic Statement. The Government is now matching Ibec ambitions to reach a target of 4% of GDP for public capital investment for the remainder of the decade. The balance of risks suggests that this quantum of borrowing can be prudent but must be balanced by fiscal discipline when it comes to day-to-day spending and taxation. Our ambitions on infrastructure and policy areas like climate and housing mean that from both a capacity and resource point of view there will need to be clear prioritisation on what is deliverable. It is only by doing this that the Government can guarantee the capacity for key strategic resources will remain available.

2.

Underpin competitiveness, digitalisation and innovation

Continuing a path of strong growth will also need Government to pay significant attention to competitiveness in the private sector. Our current Budget plans are predicated on tax revenues driven by growth in economic activity of the order of 4.5% annually. Ultimately that will need to be driven by continued growth in private sector exports and returns on investment at home and abroad. The key policy levers in facilitating this ambition will be continued support to induce additional business investment, digitalisation and innovation, tackle key labour market challenges and help companies deal with the permanent increase in trade costs represented by Brexit.

Key messages

3.

Prepare our business model for change

The underpinnings of our FDI model are likely to change in the coming years. Various studies have shown the impact this could have on Ireland's attractiveness as a location for FDI, all else being equal. But all else will not remain equal. We have been clear for several years that we must meet this competitiveness challenge by investing in other growth levers such as improving our tax offering in areas we control and investing in education, digital transformation, research and development and critical infrastructure.

4.

Build back better

Ireland faces several 'generational' challenges including revitalising our labour market, improving housing delivery, meeting our low carbon ambitions and the future of work and longer lives. These areas will require transformation from both a tax and expenditure perspective. Revitalising our labour market and building for a new world of work, giving companies the support necessary to meet ambitious low-carbon targets and making targeted interventions in housing can help us drive a new economic model which builds back better.

Introduction

The Irish business model is at a crossroads. In the past decade, Irish businesses and households have experienced three ‘once in a lifetime’ events. These include one of the largest financial crises in the history of the developed world, the exit of our nearest neighbour and traditionally significant economic partner from the EU and the worst global pandemic in a century. Over the next decade, we are entering a time of great promise and ambition. As we emerge from COVID, our most significant challenge will be to ensure future growth is sustained and sustainable.

The Irish business model is at a crossroads. In the past decade, Irish businesses and households have experienced three 'once in a lifetime' events. These include one of the largest financial crises in the history of the developed world, the exit of our nearest neighbour and traditionally significant economic partner from the EU and the worst global pandemic in a century. Over the next decade, we are entering a time of great promise and ambition. As we emerge from COVID, our most significant challenge will be to ensure future growth is sustained and sustainable.

The ability of the State to continue or repeat its fiscal heroics of the past 18-months is not infinite. The challenge for Budget 2022 will be to narrow the channels of support to the sectors which most need it whilst beginning a return to fiscal balance, providing for measures that defend and improve upon our economic competitiveness and finally addressing our long-standing infrastructural deficits for both physical, digital and human capital. All of this will have to be achieved within very constrained fiscal parameters as set out in the Government's recent Summer Economic Statement.

Ireland faces some unique challenges in the post-COVID era. We have obvious, long-standing infrastructural deficits, significant Government policy commitments in areas like health, pensions and the labour market and hugely ambitious climate targets to meet. We are also facing threats to our business model from global corporate tax change and Brexit. All of these will have challenging implications for economic growth, business competitiveness and tax revenues in the months and years ahead. If we can deliver on them, however, they will provide an opportunity to improve Ireland's standing as a place to live, work and invest.

"As we emerge from COVID, our most significant challenge will be to ensure future growth is sustained and sustainable."

Whilst there is no need for a return to the era of austerity, the coming decade will be one where options for new, unfunded, day-to-day spending or tax cuts are constrained. We must be more strategic in our decisions. In this post-COVID era budgetary policy cannot be just about how we divide up the spoils of growth. Ireland's era of 'catch-up' gains in living standards is at its end. We are now a rich country. This means that every coming mile on the journey to improved living standards will be harder than the last. However, being a rich country also means that we have the skills and resources to make those gains if we deploy them strategically. We can also do so whilst improving on other non-economic quality of life drivers.

Increasingly, there will need to be a renewed focus on how we continue to generate growth in an era where the foundations of our business model are changing. It is only by renewing this focus on competitiveness that we can ensure resources continue to be available to fix priority economic and social challenges. A new fiscal and competitiveness discipline will be needed focusing not just on the quantum but the quality of spending.

In this Submission we outline a package of measures in Budget 2022 in line with the Government's available room for spending and tax measures of €1.6 billion in total. Finally, we also outline €540 million in measures we believe should be funded using the over €1 billion available in 2022 and 2023 through the Brexit Adjustment Reserve (BAR). These measures seek to deliver on three broad strategic aims: returning to a focus on competitiveness and encouraging indigenous business, preparing our business model for change and building back better.

"It is only by renewing this focus on competitiveness that we can ensure resources continue to be available to fix priority economic and social challenges."

The backdrop to Budget 2022

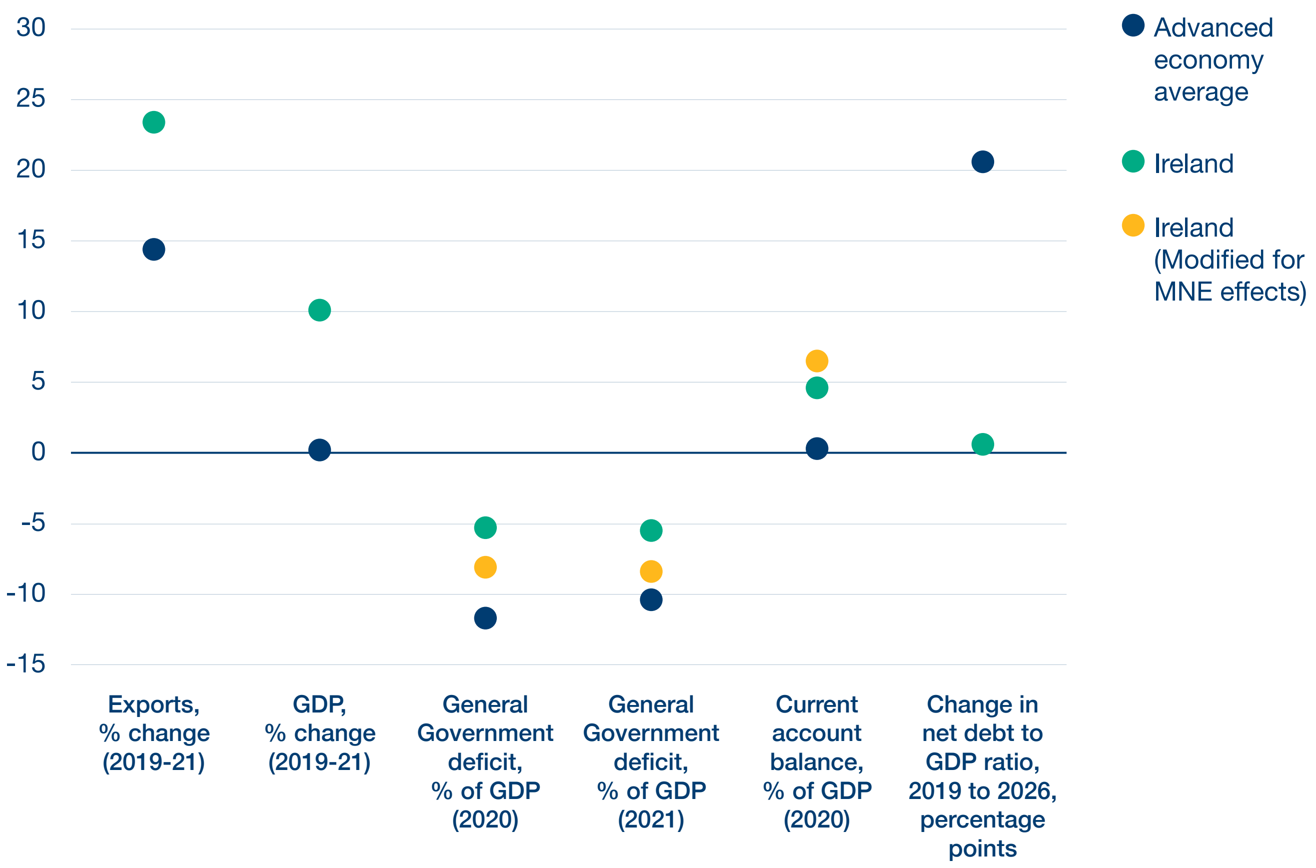
With Irish exports increasing over the past year, despite turmoil both globally and closer to home, there is much to be optimistic about on the future of the Irish economy. However, there are still major challenges on the horizon that need to be recognised and addressed.

A strong recovery is possible

Despite challenging domestic conditions and big international challenges, we continue to be optimistic about the future of the Irish economy. Trade and investment openness and a strong sectoral mix are again providing a lifeline to the Irish economy. On most measures of broad economic activity (see Figure 1), Ireland's export strength is continuing to provide the resources both in terms of incomes and taxation which will allow us to grow strongly from the COVID crisis. This is, in many ways, a repeat of what we experienced during the global financial crisis.

Total Irish goods exports in the first half of the year totalled €137 billion with a further €131 billion in services exports from the country. This represents an increase of 15% and 18%, respectively, relative to the first half of 2020. The numbers, however, are likely to have been somewhat inflated by goods that are manufactured for Irish firms under contract abroad. On the other hand, customs records of goods exports (recorded as leaving the jurisdiction) showed trade in goods are up 5% on the same period in 2019.

Figure 1: Key short-term relative performance indicators



Some of this volatility relative to 2020 is likely to have been driven by COVID effects, Brexit related stockpiling and within sector effects. Overall, the pattern for Irish exports is expected to be strong again in 2021 – rising by over 5% - as secular demand in sectors like food, technology and life sciences continues to drive the Irish recovery.

The second leg to our small open economic model is in the domestic distribution of those incomes and resources earned in the export sector into local economies. This in turn will rely heavily on both the level of public health restrictions and the confidence of consumers to spend. Early leading indicators of domestic recovery are strong albeit with deep uncertainty attached.

Despite the comparatively poor performance of domestic sectors in the first half of the year, there are signs of light on the horizon, with credit and debit card data and strong VAT returns indicating the potential for a rapid recovery in consumption. This, in conjunction with positive improvements in employment as sectors reopen, shows an economy well placed to see a rapid recovery in economic activity as the vaccine is fully rolled out. However, this is still heavily reliant on the impact of any future COVID variants on business and consumer confidence.

There will be continuing volatility in the global economy as we re-open – the global economy is growing strongly but is a long way from 'business as usual'. Supply chain challenges might be temporary, but they are consequential for margins and competitiveness on a trading island nation. For some commodities, these price challenges may be short-lived. Other costs may take more time to normalise. One major challenge facing companies during the recovery from the pandemic is rising trade costs globally. The average increase in container costs across all global shipping routes, weighted by volumes of trade, increased from $1,600 last June to almost $6,000 in June 2021.

These costs, in effect, act as a tax on trade and if they are sustained could have real impacts in terms of the structure and volume of global trade. For small, open island economies the impacts are far from trivial. Fortunately, early signs are that investment in capacity is responding to increased prices. The impact of this might, however, take time to come through in pricing with low existing investment levels in recent years due to low prices and rising emissions reduction costs.

No need for austerity

Ireland's strong growth potential means that budget deficits should not require cuts in non-COVID related spending or tax increases as the economy recovers. Indeed, the eurozone may have some excess capacity to increase spending in the face of unanticipated speedbumps over the coming year as we emerge from COVID. The Government does, however, face a tricky glide-path to reducing the deficit to sustainable levels as the economy recovers.

The IMF forecasts that Ireland's deficit is expected to be 10th in the EU27 in 2021 and 2022. This would meet the Government's 'middle of the pack' target. In addition, medium-term forecasts suggest that our debt as a proportion of national income will be around the advanced economic average in 2021 and the only advanced economy to see a falling/stable debt ratio by mid-decade.

ECB policy has been significantly more accommodative than during the global financial crisis with net public sector asset purchases through the Public Sector Purchase Programme (PSPP) sitting at €337bn and Pandemic Emergency Purchase Programme (PEPP) at €1.3 trillion since March 2020. This allied to long maturities and low interest in the debt stock and solid growth dynamics means that any increase in bond yields globally as the economy recovers would have to be significant and sustained to provide for challenging fiscal dynamics over a medium-term horizon.

The need for support will be driven by a return to normal economic activity levels. ECB baseline projections are for inflation to reach only 1.5% at the end of 2023 – well below its 2% price stability target. Even in a mild scenario, this would grow to 1.9%. Despite some well-grounded hope that interest rates may stay lower for longer, these figures and a set of oncoming fiscal risks will continue to define our window for a return to 'normal' fiscal policy.

"The Government does, however, face a tricky glide-path to reducing the deficit to sustainable levels as the economy recovers."

A new fiscal and competitiveness discipline

This return to normal policy will be driven by two factors. Firstly, while the State's dramatic fiscal interventions over the past two years are sustainable, they are unlikely to be inexhaustible. This is true even in a world where the balance of probability is for lower interest rates. Secondly, Ireland also faces a decade or more of significant challenges and existing commitments which will result in increased spending pressures, increased costs for business and the potential for downward pressure on tax revenues.

These include:

- dealing with rapid population ageing
- solving the housing crisis
- implementing Sláintecare
- adapting to a new world of work
- re-aligning to deal with the fallout from Brexit
- future-proofing our pensions and social insurance system
- re-inventing our business model in the face of global corporate tax change

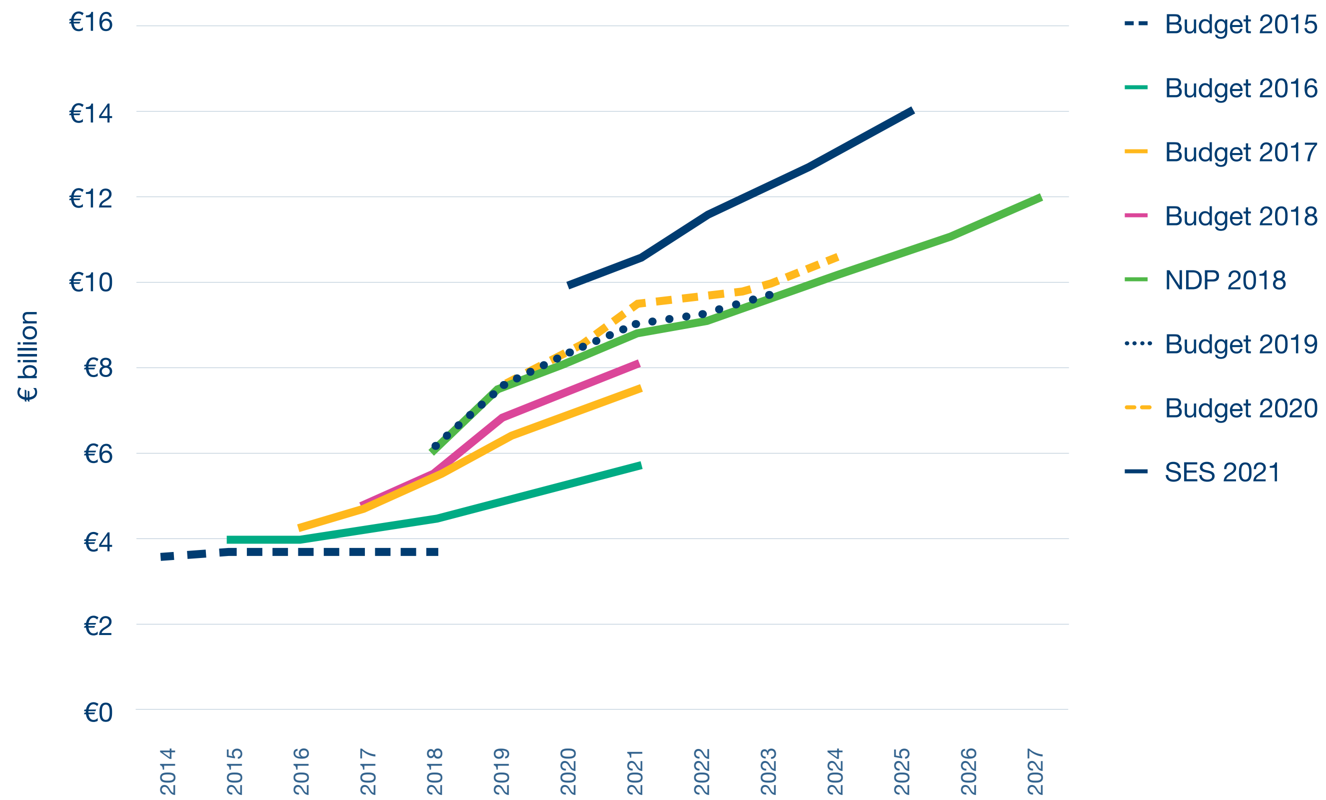
and

- significantly decarbonising most of the economy over the coming decade

On top of this Government has either committed to or suggested significant increases in employment and other costs in the areas of PRSI, pensions auto-enrolment, the living wage, short-term sick pay benefits, parental leave benefits, pay-related jobseekers benefit, treatment benefits and other ancillary benefits which may add significantly to the cost of labour and businesses' operations.

"Ireland also faces a decade or more of significant challenges and existing commitments."

Figure 2: The growing ambition in Government capital plans, 2014 to 2021

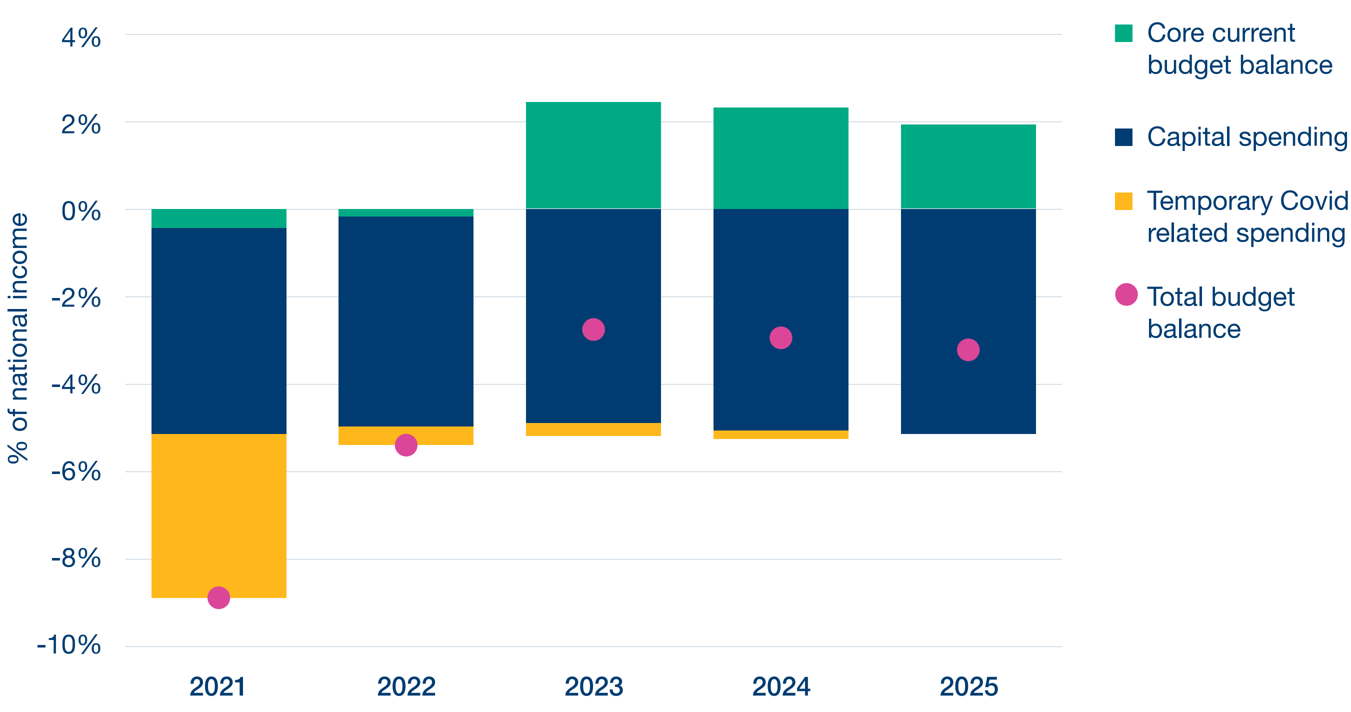


As the ESRI recently noted[1] if interest rates remain low it will be possible for Government to borrow to address some of our infrastructural deficits. But this is not guaranteed. The Government have shown significant ambition in their recent Summer Economic Statement. Between 2021 and 2025 Ireland will deliver a capital budget of €60 billion, an increase of one-quarter on the plans set out in the National Development Plan in 2018 (see Figure 2). The Government is now matching Ibec ambitions to reach a target of 4% of GDP for public capital investment. The major challenges to fixing key deficits are no longer about funding – they are about planning, delivery and capacity.

This balance of risks suggests that the quantum of prudent borrowing identified must be balanced by fiscal discipline when it comes to day-to-day spending. Our ambitions on infrastructure and policy areas like climate and housing mean that from both a capacity and resource point of view there will need to be clear prioritisation on what is deliverable. It is only by doing this that the Government can guarantee the capacity for key strategic efforts will remain available should downside risks solidify into real threats to economic activity. In this fashion, the Government will return day-to-day tax and spending to a sustainable surplus worth around 2% of national income annually by 2023. This, in part, will be used to return ambitious rates of infrastructure investment (see Figure 3).

1. https://www.esri.ie/system/files/publications/QEC2021SUM_SA_MCQUINN_0.pdf

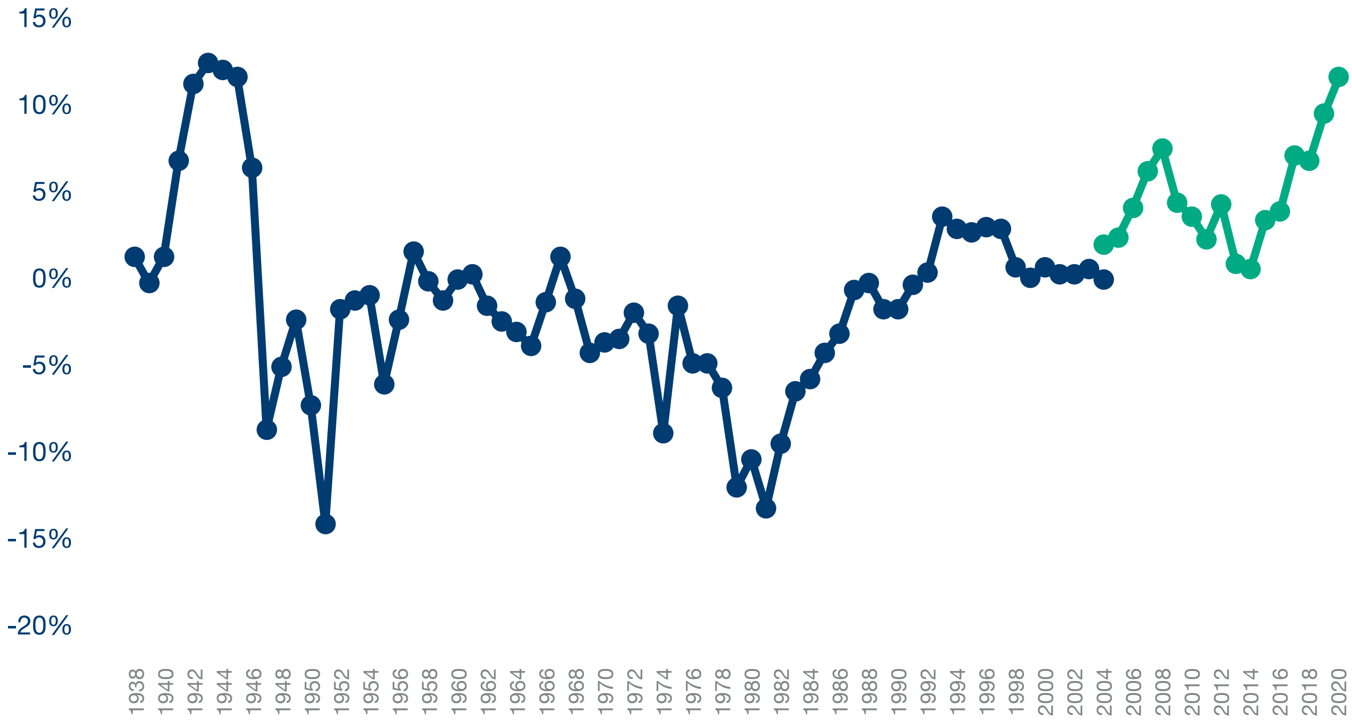
Figure 3: Government current and capital spending plans, 2021 to 2025



From 2023 onward, around 45% of our capital budget will be funded out of a consistent surplus in tax revenue over day-to-day spending and 55% will be funded out of debt. In this way, we can take advantage of low rates whilst balancing against the risks of changes in the external environment. Our view is that this is a prudent path for policy and that the scale of the current surplus will need to be maintained over the coming decade if we are to address key infrastructure challenges. Ultimately this means that any discretionary changes in day-to-day spending or tax will need to be balanced against one another broadly.

Continuing this path of investment-led growth will also need Government to pay significant attention to competitiveness in the private sector. Our current Budget plans are predicated on tax revenues driven by growth of the order of 4.5% annually. The Irish exporting sectors will be the key to delivering that growth. Ultimately that will need to be driven by continued growth in private sector exports and returns on investment at home and abroad. The key metric in facilitating this ambition will be continued current account surpluses throughout the 2020s.

Figure 4: Irish Balance of Payments, current account (% of national income), 1938 to 2020



***Note:** Pre-2004 data GDP taken from Jordà-Schularick-Taylor Macrohistory Database[2], Post-2004 CSO based on modified CA balance.*

If the private sector continues to generate surplus income for Ireland, we will have the resources to sustain ambitious public investment plans. Whilst the current account surplus has been at record levels in recent years (see Figure 4), this has been partly driven by unexpected corporate tax receipts. Continued vigilance and support will be needed for Irish firms to internationalise, export and grow their operations globally.

In the coming sections, Ibec will set out ways to use fiscal measures to support these strategic aims. We will take a multi-annual view where possible – recognising that all challenges are unlikely to be met in the short term. Over a three-year time horizon, these measures will seek to achieve three aims: help protect our competitiveness, prepare our business model for change, and build back better.

> "If the private sector continues to generate surplus income for Ireland, we will have the resources to sustain ambitious public investment plans"

2. Òscar Jordà, Moritz Schularick, and Alan M. Taylor. 2017. "Macrofinancial History and the New Business Cycle Facts." in NBER Macroeconomics Annual 2016/

Returning to a focus on competitiveness and encouraging indigenous business

The withdrawal of support for the sectors worst affected by the pandemic and Brexit will need to be balanced with investment in digitalisation and innovation to boost economic competitiveness, as well as the introduction of offsetting measures to cover the increased cost of trade.

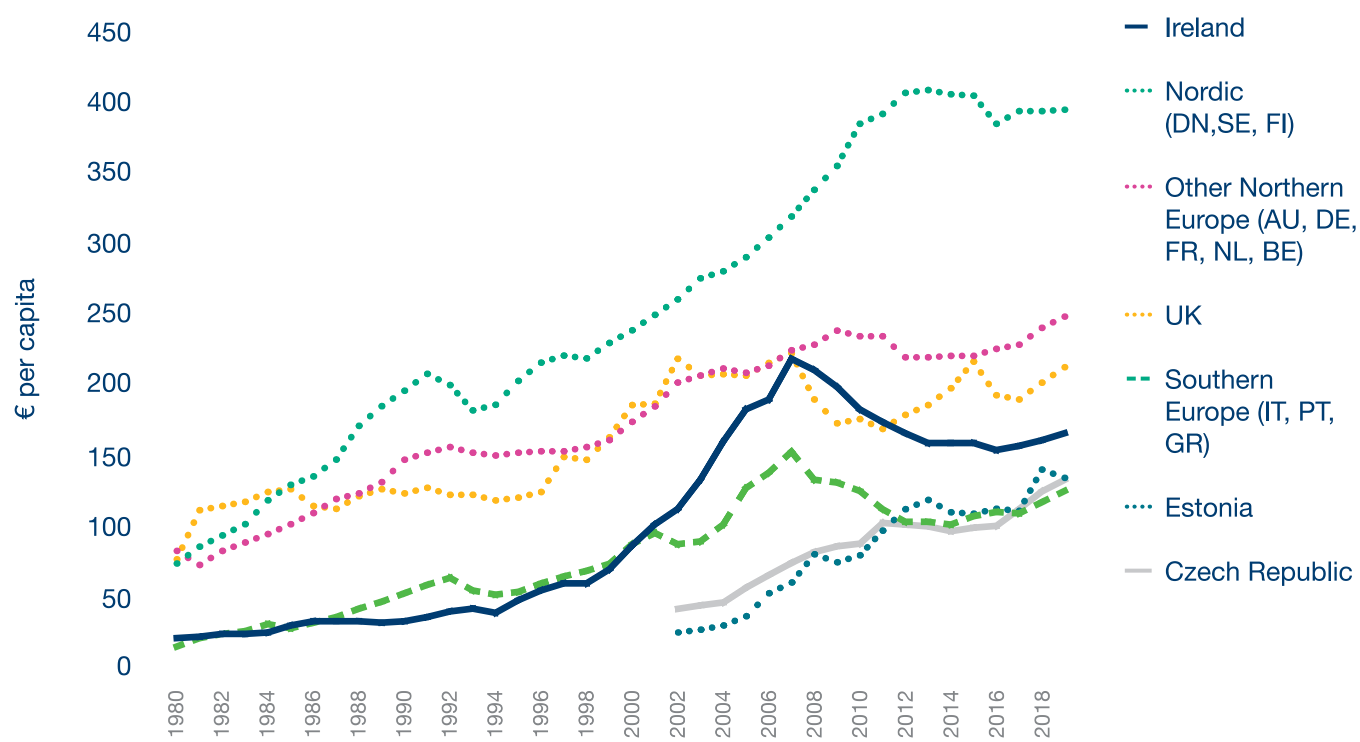
Overview

There are several key challenges for business over the coming years that will dominate available capacity and resources. To meet these targets and recover strongly from a pandemic a renewed focus will be needed not only on cost competitiveness but also on key competitiveness levers which can be supported through fiscal policy.

In this section, we set out several supports which will provide a cost-effective way to induce additional business investment, digitalisation and innovation, tackle key labour market challenges and help companies deal with the permanent increase in trade costs represented by Brexit.

At the same time, Budget 2022 will need to re-calibrate the appropriate pace and timing of the withdrawal of supports building on the National Economic Plan allowing for new variants and changes in the environment facing the worst impacted firms and sectors. To do this the scope of supports can be narrowed as planned whilst allowing for the most vulnerable firms and sectors to receive targeted ongoing support.

Figure 5: Government spending on R&D (€ per capita), 1980 to 2019



When it comes to embedding competitiveness, innovation and digitalisation is critical to building resilience in businesses and across the economy as the global trading environment continues to shift in the aftermath of the Covid crisis and Brexit, while responding to the global climate crisis. Ireland must continue to invest in research, development, digitalisation and innovation to boost national productivity and economic competitiveness. This investment aims to drive innovation and digitalisation at the business level, build human capital and maximise the return on R&D investment for economic and social progress. Developing and maintaining a fully integrated, functioning research and innovation system, that addresses short term needs as well as exploring longer-term research opportunities, is commonly recognised as an integral part of a small, advanced country's infrastructure.

Looking across Europe, many competitor economies are synonymous with their innovation capability and strengths, which helps prime their innovation ecosystems for the next wave of development and opportunity. Great examples of this include Estonia as a digital start-up frontrunner, the UK making significant investments from fundamental research to 5G technologies as a central pillar to their post-Brexit economic strategy, Germany continues to be recognised as an Industry 5.0 powerhouse, France will mobilise €7bn to deliver an ambitious health care innovation strategy to 2030, etc.

These funding injections in competitor countries will further widen the gap for Ireland and will impact our ability to compete internationally (see Figure 5), attract world-leading research and innovation talent and impede our ability to become an innovation leader. Now is the time for Ireland to consider what our new economic narrative should be. The countries innovation strategy can provide the answer, and put innovation, digitalisation, research, talent, and skills at the heart of our economy and society.

We also outline what we think would be the most appropriate use of the Brexit Adjustment Fund. 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.

Finally, it is important that we now begin to introduce an ambitious series of tax reforms for indigenous businesses over the next three years to spur recovery and encourage a return to investment in SMEs. There have been several false dawns on this front in recent years – but with young enterprises key to jobs growth, it has never been more important to get the tax mix right.

> "Ireland must continue to invest in research, development, digitalisation and innovation to boost national productivity and economic competitiveness."

Measures for Budget 2022

To encourage business investment:

Produce an SME tax roadmap

Cost: Neutral

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.

Send a signal of intent to serial entrepreneurs by radically improving the CGT entrepreneurs' relief

Cost: €100 million

This can be achieved in a balanced way by removing the lifetime limit on gains, matching the rate with future corporate tax rate and expanding the relief to passive investors in areas with high growth potential.

Give firms access to a greater pool of equity investment

Cost: €10 million

At a time when Irish firms are struggling to acquire adequate funding, the limit of €250,000 annual investment limit and €500,000 limit for investment over seven years will restrict the flow of capital to firms. The limits should be re-calibrated to support immediate investment and cash flow by doubling the annual limit and allowing up to €1 million on investments held over four years. In line with the recommendations of the Indecon Review losses on EII investment should be allowed for CGT purposes and any capital gains on the sale of shares are taxed as capital gains rather than as income.

Introduce a Pro-forma R&D tax credit

Cost: €10 million

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.

To encourage business innovation:

Scale the public investment in innovation and research
Cost: €112 million
To support a pipeline of ideas and knowledge, technology development and exchange between industry and academia. Increase investment by 20% per annum to achieve €1.25bn by 2025.

Introduce targeted supports to enable SMEs to invest in innovation and productivity
Cost: €10 million
This will help SMEs by expanding the Enterprise Ireland Innovation Voucher Scheme with a supportive mentoring programme and increasing 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.

Incentivise the development of industry and academic smart specialisation clusters:
Cost: €25 million
To bring innovative talent across the country, and to support a culture and connection between national ambition and local enterprise a network of smart specialisation centres of excellence in strategic areas should be developed across the country.

To focus the supports on the most vulnerable sectors:

Keep the EWSS and grant support under review as the economy recovers
Cost: €250 million from Brexit Adjustment Reserve and dependent on any step-back in restrictions.
The extension of the Employment Wage Subsidy Scheme beyond 30 June until 31 December 2021 was a welcome development. However, given the uncertain nature of the virus and the effectiveness of existing measures against future variants the Government should stand prepared on a scenario contingent basis for 2022 in the event further or partial extensions in the scheme are needed. This should be strictly limited to sectors that are significantly impacted by ongoing/returning public health restrictions on their operations or those potentially significantly impacted by Brexit. It should also include a commitment to graduate the cliff-edge turnover threshold in the EWSS between 70% and 90% with firms losing part of the subsidy as they hit turnover or other milestones.

Extend the 9% VAT rate for tourism and extend the rate to the on-trade
Cost: €450 million
The 9% VAT rate is a vital measure in helping businesses in the sector recover margin at a time when they are facing higher Covid related costs of doing business. However, in recognition that many of these firms are unlikely to see a full return to normality in 2022, they need to have the certainty that the 9% VAT rate will remain in place until at least December 2023.

Ensure Revenue tax debt warehousing works

Cost: Cashflow only

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.

Change the Duty system for bad debts and provide for an excise cut of €50 mn in 2022

Cost: €60 million

Allowing for excise on alcohol to be recovered similarly to VAT on bad debts would prove extremely helpful in supporting the provision of credit to the sector by suppliers. This should be allied to a general cut in excise of €50 million across the board as the sector re-opens.

Introduce a new craft cider excise exemption scheme

Cost: €250,000

n 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.

Increase funding for overseas tourism promotion and product development

Cost: €30 million

Increase funding for overseas marketing, direct grants and product development by €30 million in 2022.

To address the competitiveness challenge of Brexit:

Ensure qualification criteria for Brexit supports is cost and margin focused

Cost: No additional funding, all items funded from Brexit Adjustment Reserve

Given the majority of the impact of Brexit will be felt in margins and increased trading costs, qualification for schemes cannot be based on a narrow turnover metric. Any scheme based on turnover loss alone is likely to be poorly targeted and ineffective. As such, schemes must include metrics linked to increased costs or decreased margins on sales.

Introduce an export credit insurance scheme

Cost: €20 million

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 was only £125 million over 5 years and was offset by premia income resulting in a positive operating surplus.

Invest in competitiveness and trade promotion

Cost: €225 million

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 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.

Extend the Revenue Warehousing Scheme to Brexit impacted companies

Cost: Technical assumption of €30 million bad debt

This scheme has proven an effective mechanism to remove a cashflow burden from companies at no immediate cost to the Exchequer. An inability to pass on additional costs to consumers given tight timelines means that emergency support for cash flow will be needed.

Extend the Pandemic Stabilisation and Recovery Fund (PSRF)

Cost: Funded from existing surplus in PSRF scheme

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.

Do not increase other areas of VAT or duties on potentially mobile products or services

Cost: Neutral

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.

Extend the Foreign Earnings Deduction to more markets

Cost: €1 million

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 to 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. This will be particularly important given the need to diversify in the face of Brexit.

Extend and re-finance the 'Ready for Customs' grant scheme

Cost: €10 million

The scheme due to expire in August 2021 should be extended to December 2022 to reflect the implementation of the UK border operating model and provided with new funding of the order of €10 million.

Preparing our business model for change

Protecting the foreign direct investment vital to our growth will require innovative responses to any challenges to our tax competitiveness. These solutions will arise from investment in infrastructure, technology, education and innovation.

Overview

Ireland is a small, very open, regional economy in a global context. Our growth story over recent decades has been synonymous with attracting wave after wave of new foreign direct investment to supplement what was, at the outset, a weak capital base. Each wave of FDI has seen us move into increasingly complex and higher value areas of production and export.

"multinational companies account for one-fifth of Irish private-sector jobs, one-third of wages, two-thirds of business Capex and €9 in every €10 of our exports"

We can see the impact of the substantial MNE activity in Ireland in the fact that multinational companies account for one-fifth of Irish private-sector jobs, one-third of wages, two-thirds of business Capex and €9 in every €10 of our exports:

- Today Ireland has all of the top 10 global technology companies, 18 of the world's top 25 MedTech companies and 18 of the world's top 20 Biopharma companies and has the highest proportion of high-tech exports in Europe.
- We are the second largest exporter of medical devices in Europe – including leading Europe in the export of contact lenses, test kits and diagnostics, pacemakers and coming second in the export of orthopaedic products.
- We are also the second biggest exporter of complex pharmaceutical goods and medicines in the EU after Germany – including leading Europe in the export of antisera and immunological products and being Europe's second-largest exporter of vaccines.
- Ireland is also the 5th largest exporter of data processing machines in the EU and manages half of the world's leased aircraft fleet.

While our strategy might shift and adapt over the coming years, this is only natural at our phase of development. The key for Ireland, as it has been in the past, is that in response to tax, trade and other challenges Ireland reacts proactively to ensure that multinational investment of both the inward and outward variety will remain central to the Irish growth story. And even though it may not be as central to that story in the future , tax competitiveness will still play a role.

“even though it may not be as central to that story in the future, tax competitiveness will still play a role.”

The last number of years have seen a significant change in the Irish corporate tax landscape. Since 2018 alone we have seen the introduction of Controlled Foreign Company Rules, the BEPS Multilateral Instrument, an ATAD compliant Exit Tax, Hybrid Mismatch Rules, updated Transfer Pricing rules and Mandatory Disclosure Rules. The coming years are also likely to see moves toward implementation of the ATAD Interest Limitation rules, Public Country-by-Country Reporting, and the consideration of moving to a territorial tax regime. This is all before we get to broader discussions about the changed international tax landscape.

2021 may yet see even more significant change for the tax element of our business model. The recent agreement of 131 countries at the OECD to implement a new global minimum effective corporate tax rate would be a significant departure both materially and for our global brand. A 15%, or higher, rate would close the competitiveness gap to other EU competitors with effective tax rates close to or below 20%, such as Netherlands, Belgium, Sweden, Denmark, Switzerland, and Finland.

Paper	Source	Year	Scope of paper	Findings and estimated effects
'The importance of corporation tax in the location choice of multinational firms-Part of the Economic Impact Assessment of Ireland's Corporation Tax Policy'	Department of Finance and ESRI	2014	Estimated the probability of MNEs choosing Ireland as a location over other European countries, assuming a change in corporate tax rate. Considers MNEs' location choices from 2005-2012.	MNEs had a 3.12% chance of choosing Ireland as a location while the headline tax rate was 12.5%. They estimate an increase to a 15% rate would have reduced this to a 2.44% chance and an increase to 17.5% would have reduced this to a 1.98% chance, all else constant.
Working paper: 'Corporate taxation and investment of multinational firms-Evidence from firm-level data'	OECD	2020	Looks at sensitivity of MNE investment rates to corporate taxation across 17 OECD members including Ireland, with investment defined as the change in value of fixed assets (tangible and intangible) between each year for 2007-2016.	Preliminary results from the working paper found a 1% percentage point decrease in the EMTR is associated with a fall in MNEs investment rate of 0.13% points.
Corporate Taxation and Foreign Direct Investment in EU Countries: Policy Implications for Ireland	ESRI Special article	2016	Estimated the probability of a new foreign affiliate choosing a given European country to locate in, 2002-2013	All else constant, an increase in the headline corporate tax rate from 12.5% to 13.5% would be associated with a reduced probability of being chosen as a location for FDI by 0.4%. FDI from outside the EU and from the services sector was particularly sensitive to the Irish corporate tax rate. For non-EU FDI, a 1 percentage point increase in the tax rate was associated with a 4.6% fall in probability of being chosen. Also found that non-tax factors such as R&D expenditure, cost competitiveness and sharing a common language were important in MNEs decisions on where to locate.

Various studies have shown the impact this could, all else equal, have on Ireland's attractiveness as a location for FDI. But all else will not remain equal. For one, other countries such as the US and UK are increasing their headline rates. From an Ibec perspective, we have been clear for several years that we will need to meet this competitiveness challenge and ensure all else does not remain equal by investing in other growth levers such as education, research and development, and critical infrastructure.

There may also be opportunities in this new dispensation. Most notably, a future base on global tax competition means that Ireland cannot be undercut in future. As trends of change and higher tax rates play out globally Ireland will maintain key advantages in terms of our track record of significant tax certainty and competitiveness – no matter what the minimum allowable rate.

All told, this does not mean the end of the Irish business model but a challenge. The Irish tax regime has gone through change before. EU membership meant the gradual end of the 0% rate on manufacturing exports which existed from 1956-1980. The 10% rate for manufacturing exporters and IFSC from 1980 and 1987 respectively were also ended by EU rules. Our current 12.5% headline rate was phased in from 1996 to 2003. The core reason we continued to thrive despite these changes was radical and concrete action by business and Government.

In the past decade, in part because of the BEPS process, Ireland has moved to be a model of substance with extraordinary levels of investment such that the capital stock in our globalised business model has been transformative. Ireland has arrived at a new level; the challenge is now one of retention of our place as a rich nation as opposed to aspiration.

The opportunity is to maximise what we have within the construct of a new international tax settlement in areas such as our world-beating R&D tax credit and deliver the competitiveness factors that our society needs anyhow – infrastructure, technology, education and innovation.

"Ireland will maintain key advantages in terms of our track record of significant tax certainty and competitiveness – no matter what the minimum allowable rate."

Measures for Budget 2022

To remodel our inward and outward offering:

Maximise our tax competitiveness within any new dispensation

Policy ask

It is crucial, that while it may be too early to address these issues definitively there must be an urgent reassessment of Ireland's tax attractiveness under any new OECD regime. This should include significant simplification of any new regime rather than layering on existing provisions. Consideration should be given to moving to a participation exemption for dividends/territorial tax regime, merging the 25% non-trading rate with the headline rate, allowing firms to file as a single entity ('fiscal unity'), dealing with issues around interest deductibility, maximising potential investment and innovation supports and a broader review of the corporate tax regime to ensure simplicity, certainty, and neutrality following a period of significant change. A package of tax competitiveness measures could usefully be achieved as part of the new domestic stakeholder engagement process committed to under the Corporate Tax Roadmap or it could be put on a permanent footing in the long run under an independent office akin to the Office of Tax Simplification in the UK.

Improve R&D tax credit take-up by dealing with underlying issues

Cost: €60 million

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. This would be consistent with the treatment under the Knowledge Development Box and in line with other jurisdictions.

Ensure the R&D tax credit meets any standards of 'refundability' or other qualification to maintain its attractiveness under any OECD regime

Policy Ask

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.

Introduce accelerated capital allowances for advanced manufacturing

Cost: Cashflow only, €5 million in 2022

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.

To make sure we lead on high-skilled workers:

Index the entry point to the higher rate of tax to wages, broaden the tax base and set out long-term 'indexation plus' targets
Cost: €196 million
In most countries indexation of tax bands to inflation or wages is an automatic part of Budgetary policy. Government should follow through on commitments in the Programme for Government by indexing the entry point to the higher rate of tax to wages for all earners, an increase of approximately €1,000 in 2022. 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.

Implement a sustainable long-term funding model for higher education
Cost: €100 million
Across core, capital and recurrent funding to preserve the success and quality of Ireland's education offering: An additional €100m in core funding will ensure Ireland's HE system remains high quality, delivering programmes that enhance the graduate pipeline for Irish industry and support an engaging student experience.

Expedite the rollout of the FET College of the Future
Cost: €30 million over 10 years
To deliver a cohesive suite of education and training programmes with strong industry engagement, complemented by technology and dynamic learning spaces that facilitate learning, accessible at all life and career stages. This will require an investment of €30million over the next 10 years.

Develop a long-term funding model for lifelong learning
Cost: €20 million
Invest €20m per annum over 5 years to system to leverage the progress made in digital and remote learning during the pandemic to support the development of digital skills and enhanced leadership skills in preparation for the future of work.

Provide additional funding to Skillnet Ireland
Cost: €10 million
Skillnet Ireland are a crucial element of the country's industry-led skills infrastructure that will enhance future business transformation and talent development. Funding should be increased by €10 million in 2022.

Resource the National Apprenticeship Office
Policy Ask
Resource the National Apprenticeship Office immediately to drive the delivery of the new action plan to bring strong alignment between training and employment schemes and the labour market, support learners to build work-ready skills in their chosen occupation and grow talent for the organisation.

Reform the operational and reward constraints in Revenue approved share option schemes:
Cost: €10 million
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.

Work with HMRC to facilitate changes for cross-border workers in the Border region

Policy Ask

The growth of remote work has caused issues, particularly in the border counties, regarding cross-border workers. At the moment they are forced by their tax status to either work remotely or in-office on a full-time basis with no option for hybrid working. This impacts workers travelling in both directions and should be a focus on joint work with HMRC and potentially work at the OECD in the post-COVID era.

Extend SARP

Cost: €45 million

The Special Assignee Relief Programme is due to end at the end of 2022. The scheme should be extended indefinitely into the future. As Ibec showed in our 2019 submission on the scheme, the workers impacted by SARP are highly mobile and evidence suggests that the net optimal tax rates for those workers are significantly lower than domestic workers. In other words, higher rates of tax may result in fewer of these highly mobile workers and a lower overall tax take. A SARP-like scheme exists in Sweden, Denmark, Germany, the Netherlands, Belgium, France, the UK, Switzerland, and Italy amongst others. The scheme could also be further improved by adopting the OECD recommendation to extend the scheme to new hires for SMEs and startups. 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. Guardrails could be built in by having a minimum basic salary of €75,000 or some higher figure, inclusive of performance-related pay.

To prepare us for further digital transformation

Budget 2022 should help Ireland embrace its role in EU digital regulation, strengthen regulatory capacities and lead on digital policy issues at an EU level

Cost: €5 million

Recent research highlights that data-related regulatory issues have become a major investment attractor[3]. Ireland plays an important role in the growing European (and consequently global) digital regulatory framework and should further leverage this expertise in shaping relevant EU and international regulatory discussions. To support our status as a global digital hub, we should deepen our capacities as a regulatory hub too. Ireland should ensure its capacities in the governance of data innovation are adequately resourced to match its role and provide for a robust and predictable regulatory environment. Increase funding to the Data Protection Commission by €5 million

Include everyone in further digital opportunities

Cost: €17 million

Invest, foster, and attract necessary digital talent; enable everyone to gain the necessary skills and realise their potential in a digitalised recovery. Deliver and resource new 10-year Adult Literacy, Numeracy and Digital Literacy (ALND) Strategy for Ireland. Promote digital literacy and skills, promote inclusion and awareness of the opportunities presented in a more digitalised Ireland.

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3. William Fry and Amarach Research (2021)

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:

Cost: €7 million

Ibec very much supports Government plans to expand the National Cyber Security Centre (NCSC). The OECD recognise Ireland as being part of a group of top global hubs for the import and export of digitally deliverable services. Ireland is home, according to some estimates, to over 30% of all EU data. 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.

Act on the Cruinniú GovTech report findings

Cost: €15 million

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 driving further digital transformation in public sector projects.

Resource and implement key national digital strategies

Cost: €1 million for implementation mechanisms to activate enhanced funding for digital from the NRRP, NDP, other EU/government funds and private sector sources.

Engage stakeholders and deliver an updated National Digital Strategy, with a particular focus on the Industry 4.0 and AI strategies within that. Establish meaningful mechanisms to engage stakeholders and ensure a whole of government delivery of these national strategies. Leverage the €85M provided for in the agreed NRRP to driving 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, other Government line Departments and leveraging private sector opportunities will be key to delivering.

Allow tax support for spectrum licences

Cost: €5 million

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 is turn would help accelerate rollout of 5G and future technology and improve Ireland's standing in capital allocation decisions for key infrastructure.

Building back better

As we work to meet the many challenges facing our economy, we cannot lose sight of our commitment to upskilling our labour market, reducing our carbon emissions, increasing the supply of affordable housing, and making our pensions more sustainable.

Overview

Ireland faces several 'generational' challenges including revitalising our labour market, improving housing delivery, meeting our low carbon ambitions and the future of work and longer lives. These areas will require transformation from both a tax and expenditure perspective.

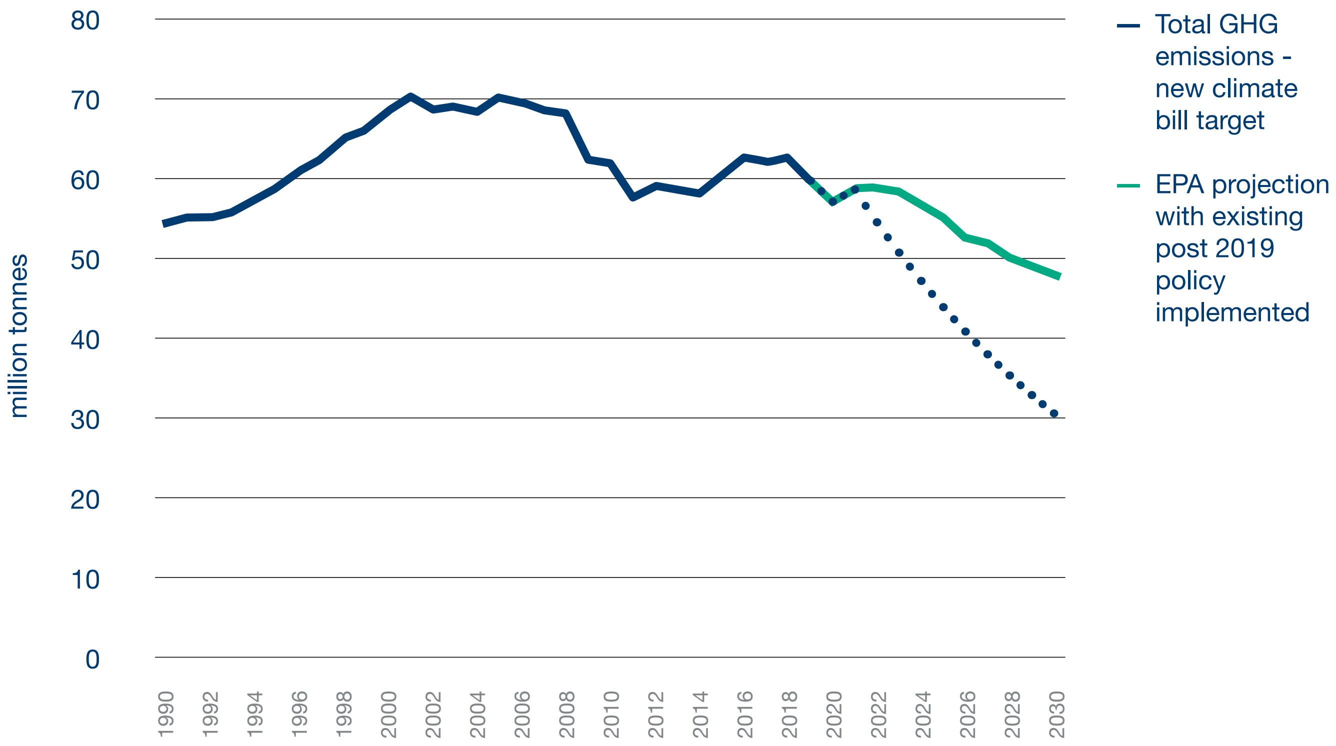
Ibec recognises the strong and effective range of supports which the Government has put in place for business over the past year. While we recognise that supports will have to change in level and scope as we enter this new phase of a jobs led recovery, it is essential that in closing them that they are not withdrawn prematurely. This Government as set out in the recent National Economic Plan have sought to strike the correct balance to this end. Some support will remain acutely relevant for those sectors that will have ongoing disruptive impacts from ongoing public health restrictions and the scarring effects of Covid on re-hiring and investment decisions throughout 2021 and the years to come. This is particularly true where demand is significantly seasonal or deeply uncertain and is likely to impact many firms across the Experience Economy. Ibec welcomes the gradual reduction of the existing labour market and employer supports and the focus on activation, upskilling and reskilling.

Measures need to balance the dual objective of targeting the scope of supports only at those who need them, as measured by the re-opening status of their sector and their personal or business circumstances and avoiding any disincentive in return to work whilst also doing so in a manner which allows the State to gradually withdraw support and avoiding cliff-edge effects for both business and workers. Measures should also be targeted at those with the most challenging labour market outcomes – the young and those groups with high levels of unemployment. With these challenges to the fore, now is the time to unlock the surplus in the National Training Fund to foster an ambitious, agile and responsive education and training system.

The recently approved Climate Action Bill aims to halve emissions by 2030 and to achieve carbon neutrality by 2050. This is amongst the most ambitious legally committed climate targets internationally. Today Ireland emits around 58 million tonnes of greenhouse gases annually. The new plan will aim to achieve reductions to 30 million tonnes by 2030 initially through a process of economy-wide five-year carbon budgets, including sectoral targets, on a rolling 15-year basis, starting this year. This may drive significant change amongst many sectors of the economy, but it will need radical additional policy effort.

> "While we recognise that supports will have to change in level and scope as we enter this new phase of a jobs led recovery, it is essential that in closing them that they are not withdrawn prematurely."

Figure 6: Total GHG emissions to meet 2030 target



Recent modelling by the Environmental Protection Agency (EPA) showed that under pre-2019 policy ambitions Ireland would have achieved effectively no overall reduction in its climate emissions by 2030. Post-2019 measures – which include a move to a €100 carbon tax by 2030, a 70% renewable energy target, targets for 1 million electric vehicles by 2030, 500,000 home retrofits, the delivery of key public transport projects and €22 billion of spending under the existing National Development Plan – would reduce emissions from 58 million tonnes by 2030 to 48 million tonnes. However, our new targets have set a cap for the whole economy by 2030 of around 30 million tonnes annually (see Figure 6). As a result, new policy measures will be needed to drive a reduction in emissions over the next decade which is almost three times as ambitious as already planned under existing policies. This level of change would be transformative but will require public and private investment and coordination on an unprecedented scale.

Finally, our ambition on housing in the new 'Housing for All' strategy will need to match existing and pent up needs on the supply side. Fundamental now is the role of delivery on those plans to ramp up public building whilst also encouraging further policy certainty and stability to allow the private sector to deliver on its own significant ambitions. Throughout this there must be a focus on affordability, policy stability and ensuring value for money.

Measures for Budget 2022

To tackle labour market challenges:

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

Strengthen labour market intelligence
Cost: €2 million
Investments in data-driven approaches to individually tailor and target labour market activation to the most urgent needs must be core to policy development.

Align investment in skills development and reskilling with the needs of the labour market
Policy asks
This will require collaboration between employers, further and higher education providers, Skillnets, Intreo and the Public Employment Services.

Allow firms to give rewards under the small benefits exemption (SBE) on a cumulative basis
Cost: €1 million
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 2022 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.

Provide €5m in annual funding to deliver the Carer's Guarantee
Cost: €5 million
To enable the delivery of a suite of supports for carers across the country which will ultimately help support labour market participation in an ageing society. These supports will include access to emergency respite; intensive one-to-one support for carers in crisis; a suite of training programmes and access to information and advocacy clinics in local community centres, primary care centres and hospitals.

Reform existing disability support schemes
Reform of existing funding
In particular: Personal Reader Grants should allow for assistive technology. Disability Awareness Training Scheme should be open to all employers without identifying an employee with a disability or be provided free to all employers through state-funded trainers e.g., through state-funded projects or not for profit organisations. This would remove the need for an application process. Finally, the Wage Subsidy Scheme is outdated and focuses on the medical model of disability. The terminology is off-putting to both employers and people with disabilities. It also fails to take into consideration people with disabilities who are capable of working to the same level as non-disabled peers but at reduced hours e.g., the time needed to set up personal equipment.

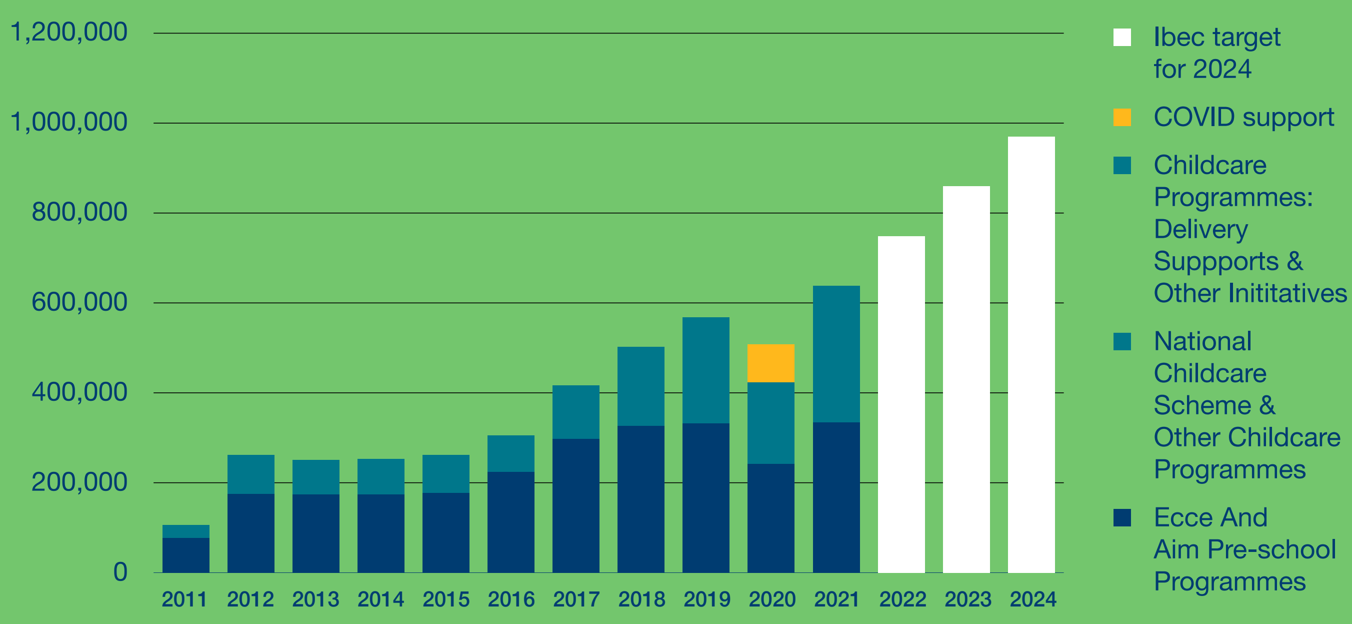
Amalgamate all the current disability supports
Reform of existing funding
Into one grant that will cover an employee's needs as achieved by the UK's Access to Work scheme.

Provide €15m to extend personal assistant supports
Cost: €15 million
Supports available for persons with a physical disability who work on certain schemes (e.g., CE schemes) should be available to persons in other forms of employment.

Improve the Subsidy Scheme for persons with a disability
Cost: €8 million
From its current level at 55% of the minimum wage to 70% of the minimum wage level and index it to future increases in statutory minimum wages. The threshold of 21.5 hours of work per week required to access the Subsidy Scheme for persons with a disability should also be removed. This would enable people with disabilities to access part-time employment.

Urgently prioritise the commitments outlined in the First 5 strategy in a much shorter timeframe
Cost: €110 million in 2022
Current commitments would see a doubling of the investment in ELC and SAC from a 2018 figure of €485 million to €970 million by 2028. However, doubling the funding will not meet the OECD (0.8% of GDP) or UNICEF targets (1% of GDP). This incremental approach to funding in the sector is failing to achieve the desired outcomes of First 5 and failing parents and children, employees and providers. A greater ambition for the early learning and care sector is required by achieving the €970 million target by 2024 (see Figure 7). Following the report of the Expert Group on the First Five Funding Model, a renewed strategy and ambition that delivers on a fit for purpose early learning and school-age care model needs to be costed and a strategic commitment to achieving the aims reworked.

Figure 7: Ibec ambition on childcare funding, € thousand



To encourage the private sector to meet our low carbon ambition:

Work to maximise Ireland's opportunities from FIT for 55

Policy ask

The scope of the reforms proposed is unprecedented, with nearly every sector of society impacted in some way. It will also have significant fiscal implications – for both tax and expenditure. Ireland must engage with the full detail and implications of the 13 proposals. In a changing world, where investment, consumers, and talent follow environmental integrity, climate action makes both economic and environmental sense. Government must work with key stakeholders to ensure the legislation reflects the unique issues of Irish business and helps deliver a cost-effective transition to carbon neutrality.

Provide an additional €400m to drive low carbon investment in industry by scaling up and expanding industry supports

Cost: €45 million in 2022

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. There is no one solution, and the appropriate alternative fuel will largely be determined by individual production needs and location. Biomass, renewable biomethane, AD biogas, Bio-LPG, hydrogen, electricity, waste-heat use, and natural gas with carbon capture will all play a role. To deliver large-scale emissions reduction in this sector, the Support Scheme for Renewable Heat must be reviewed and refinanced over the lifetime of the new NDP, and the scheme opened to large industry. Additional funding must also be provided for the Excellence in Energy Efficiency Design (EXEED) programme.

In addition, when setting targets, Irish businesses currently rely heavily on guidance from the UK Department of Environment, Food and Rural Affairs and private consultancy. A dedicated state resource or unit within SEAI or DECC, would make it easier for small and medium-sized businesses to begin this journey, and for larger organisations to tailor existing commitments to and Irish context.

Increase the carbon tax

Revenue raised €160 million

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. This should be in line with the Programme for Government commitment of annual increases of €7.50 per tonne annually. New and expanded state supports must be rolled out to help businesses and homeowners decarbonise and reduce their exposure to the tax increases.

Extend the Accelerated Capital Allowances for Gas in Transport

Cost: €1 million

In the 2018 Finance Act, an accelerated capital allowances (ACA) scheme was introduced to investment in natural gas vehicles and associated refuelling infrastructure. The scheme is due to expire at the end of 2021 and although the uptake to date has been somewhat limited, as more CNG refuelling stations are rolled out and vehicle uptake increases, it is expected that this scheme will be more widely used. An extension to the ACA scheme was also recommended as part of the 2019 Low Emission Vehicle Taskforce report and it would be beneficial for the market for that extension to be put in place in the 2022 Budget.

Support industry efforts to adopt circular economy practises and business models
Cost: €2 million
Introduce a dedicated seed funding programme to help business adopt circular economy practises, 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.

Maximise the potential for infrastructure under ATAD (Anti-Tax Avoidance Directive)
Policy ask
The exemption for long-term public infrastructure as defined under ATAD as "a project to provide, upgrade, operate and/or maintain a largescale asset that is considered in the general public interest by a Member State" should not be limited to a narrow range of infrastructure projects with direct state involvement (i.e. PPPs) but should also apply to broader public infrastructure delivered by private companies (i.e broadband, transport assets, energy projects, housing and other utilities).

Reform the eWorking tax allowance into an annual credit equivalent of €800 pro-rata to days worked from home
Cost: €130 million
This would incentivise remote working arrangements and is the simplest solution to the complex and overly burdensome allowance system.

Work with EU partners to reduce VAT on renewable technologies and energy-efficient equipment
Policy ask
As it stands most energy-efficient equipment is subject to VAT at the standard rate. Previous efforts by the EU Member States to reduce this rate (see UK 2015) have been struck down in the European Courts. As such a new approach to 'greening', the VAT Directives is needed. Ireland should work with EU partners to support this effort.

Extend the benefit-in-kind exemption for electric vehicles when the current scheme expire:
Cost: €3 million
To help meet 2030 targets for EV adoption.

Extend the current Excise Duty for Natural Gas and Biomethane
Policy ask
The excise duty for natural gas and biomethane as a transport fuel was set at the EU minimum rate in Budget 2015 for eight years. This measure is aimed at addressing the price disparity between CNG and conventional fuels, to accelerate the update of lower-carbon technologies. Extending the current excise duty treatment for gas in transport was advocated for in the Low Emission Vehicle Taskforce report that was published in 2019. Extending the excise duty treatment would provide certainty to CNG users and facilitate vehicle purchase decision cycles. HGVs generally have a lifespan of eight years and extending the excise duty for eight years could act as an incentive for fleet operators and hauliers to switch to CNG and biomethane. In addition, extending the duration of the current excise duty treatment would allow for a more extensive CNG infrastructure rollout. In the UK, favourable excise duty treatment is set to continue until 2032.

Extend the Low Emission Vehicle Toll Incentive (LEVTI) scheme

Cost: €2 million

The LEVTI scheme 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. An extension to the LEVTI would be welcome as it has been in operation for circa one year compared to the EV scheme which has been operating for three years. Extending the LEVTI 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. If the LEVTI scheme were to be extended for two additional years, that would bring it in line with the current EV scheme.

Introduce an HGV Scrappage Scheme

Cost: €40 million

The Department of Transport introduced an Alternatively Fuelled Heavy-Duty Vehicle (AFHDV) purchase grant scheme in March 2021 which supports the purchase of new, non-retrofitted large vans, trucks, buses and coaches with an unladen design gross weight of more than 3.5 tonnes. The AFHDV purchase scheme is intended to help bridge the gap in purchase price between conventional heavy-duty vehicles (HDVs) and those powered by alternative low emission fuels. HGVs that are coming to the end of their service life could transition to alternatively fuelled technologies at an accelerated rate if there were incentives in place. Vehicles of 10 years or greater age comprise approximately 36% of the HGV fleet in Ireland. If an additional scrappage scheme for older HGVs were introduced as part of the next phase of the AFHDV purchase scheme, this could lead to significant emission savings and avoid the risk of lock-in of a cohort of older diesel vehicles. A recent Transport for London scheme allowed for €15,000 scrappage up to a limited overall number of vehicles.

To help provide certainty to homebuilders and buyers:

Provide long-term policy certainty:

Policy ask

The new 'Housing for All' strategy and renewed National Development Plan will provide a launchpad for a new and ambitious policy mix in housing. This will be underpinned by significant new funding to meet these ambitions. The key now is delivery. For the private sector, policy certainty will be key in delivering ongoing funding flows and supply growth. The establishing of the Housing Commission will be a welcomed addition to these ambitious new fiscal commitments in order to help secure and determine longer-term policy for housing, encourage long-term decision making and supply and finally to deliver capacity, productivity and the best value for money under this new dispensation.

Renew Help-to-Buy

Cost: €126 million

The 'Help to Buy' is due to expire in December 2021, given the ongoing use of the scheme and demand certainty it provides, the scheme should be extended until at least December 2023.

Reform investment in essential infrastructure

Policy ask

The cost of significant amounts of new local infrastructure is funded through both general development levies and particularly Special Development Contributions on new housing schemes. This in turn means that the cost of new infrastructure is passed on wholly to purchasers of new homes, despite benefitting the entire community. These Development Contribution schemes lack transparency and consistency in terms of their design and use. Budget 2022 should begin a discussion on rebalancing the funding of local infrastructure between development levies and recurring local property taxes levied on the entire community.

To make our pensions more sustainable:

Government should pursue a policy that links the State pension age with life expectancy

Cost avoided in future years in hundreds of millions

Future increases to the State pension age should be introduced within a fair, transparent and understandable framework.

Separate the State Pension from the Social Insurance Fund entirely

Policy ask

Given the ageing population, the growing size of the Social Insurance Fund (SIF) into the future and the different policy aims for its use, Ibec would support the State Pension being separated from the Social Insurance Fund entirely. This would involve creating a standalone State Pension Fund (SPF) and separating SIF contributions from SPF contributions for payroll and accounting. The SIF would then be focused mostly on working-age benefits.

Government should allow for the continuation of PRSI contributions past State pension age

Cost neutral

Splitting the SIF into two separate funds, as above, would also benefit workers looking for flexible retirement pathways beyond the State Pension age. Those workers choosing to do so should be allowed to continue to pay PRSI contributions at Class A rather than Class J and receive a broader range of working-age benefits under the reformed SIF.

Government should publish a revised roadmap for auto-enrolment

No cost in 2022

While this should take account of the exceptional strain both employers and employees are now under, there are important design elements of the scheme and related infrastructure that could be finalised. A revised plan should be developed so that the scheme can be timed to kick in when unemployment is low and stable, there is medium-term economic certainty and forward guidance on labour market policy.

Annex 1

Total costings within budgetary strategy

Ireland's Budget Day for the coming four budgets will look like the table below. Each Budget will see in the realm of €4.75 billion in 'new' measures. Of these an average of €3.2 billion is already committed to areas such as increased infrastructure spending, provisions for pay and reasonable assumptions about the level of new spending needed to continue to provide services at existing levels given demographics and price inflation.

Table A1: Summer Economic Statement Government Budget Strategy

€ Billion	2022	2023	2024	2025
Total budget package	4.7	4.5	4.8	5
Cost of meeting existing commitments[4]	3.2	3	3.2	3.4
Available spending	1	1	1.1	1.1
Available tax	0.5	0.5	0.5	0.5

4. Note: *Existing commitments include funding to maintain levels of services at existing levels, fund National Development Plan commitments, address demographics costs and allow for uplift in public pay.

Therefore, there will be an average €1.6 billion available in tax or spending measures each year. The Ibec approach is to fit within these boundaries in our own budget submissions. As per the table outline below, we outline a total of €1.6 billion in net tax and spending measures for Budget 2022 and about €540 million in measures under the €1 billion Brexit Adjustment Reserve (BAR) across 2022 and 2023.

Table A2: Ibec policy proposals for Budget 2022

	Cost (€ million) in 2022	BAR cost
To encourage business investment	-120	0
To encourage business innovation	-149	0
To focus the supports on the most vulnerable sectors	-540	-250
To address the competitiveness challenge of Brexit	0	-286
To remodel our inward and outward offering	-65	0
To make sure we lead on high-skilled workers	-385	0
To prepare us for a digital transformation	-45	0
To tackle labour market challenges	-141	0
To encourage the private sector to meet our low carbon ambition (net of carbon tax receipts of €160 million)	-59 (-219 gross before carbon tax increase)	0
To help provide certainty to homebuilders and buyers	-126	0
To make our pensions more sustainable (savings from pension reform not included)	0	0
	-1630	-536

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 Statistics Board as well as representing 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 Offices
84/86 Lower Baggot Street,
Dublin 2.
T: + 353 1 605 1500
E: membership@Ibec.ie
www.ibec.ie/membership

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 Cortenbergh, 89,
Box 2,
B-1000 Brussels,
Belgium.
T: +32 (0)2 740 14 30
E: europe@ibec.ie
www.ibec.ie/europe

Design: reddog.ie

ibec.ie/budget2022