

7 May 2021

Paschal Donohoe, TD
Minister for Finance
Department of Finance
Government Buildings
Merrion St Upper
Dublin 2

Sent by email

Re: Avoiding a cliff edge in supports for firms impacted by Covid

Dear Minister

I am writing to you in relation to the decisions which need to be made in the coming weeks concerning the Covid business and income supports. These decisions will be necessary in order to balance the competing objectives of helping to preserve as many businesses and retain as many jobs as possible and minimising the substantial ongoing fiscal costs of that support for the State.

Ibec recognises the strong and effective range of supports which the Government has put in place for business over the past year. These have helped sustain thousands of businesses and hundreds of thousands of households across the State. We also welcome the recent improved clarity on the timeline for re-opening of the economy and society. We recognise that supports will have to change in level and in scope as we enter this new phase of recovery and note the recent Government commitments to avoid cliff-edge effects as supports are adapted or withdrawn.

The coming months will provide significant co-ordination challenges for Government as it seeks to balance the cost of support for the economy and the fact that many sectors will either not re-open fully or will re-open at reduced capacity due to social distancing measures. It is also the case that for many sectors there will be ongoing impacts from the scarring effects of Covid on re-hiring and on 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.

In the first instance, and before any supports are altered, it is our view that the new Summary Rescue Process should be in place in order to avoid unnecessary liquidations of viable companies.

Wage subsidy and income supports

From a fiscal perspective we understand that the Pandemic Unemployment Payment (PUP) and the Employer Wage Support Scheme (EWSS) have been major commitments by the State over the past 14 months. It is our view that these supports will need to be targeted further as we move from lockdown to re-opening. Fundamentally we believe that, where there is a trade-off between fiscal sustainability and the continuation of these measures, the margin of adjustment should be one of scope rather than across the board alterations or withdrawal of support. In addition, any changes should be designed to avoid cliff-edge effects for business or households as the economy and society re-opens.

It is our view that the EWSS has some built-in features which mean that the scheme has inherent cliff-edge effects. Even if the scheme itself remained unchanged, the complete removal of support for vulnerable companies once a turnover threshold of 70%, relative to 2019 trading, is reached will cause difficulties for employers seeking to retain staff as they re-open. It is important that firms don't face this cliff edge adjustment as business volumes increase but remain well below their pre-crisis levels.

We are therefore requesting that the EWSS should be amended to provide a tiered step-down level of support for businesses once their turnover returns above 75% of the reference period level but remains below 90%. This change would ensure that firms are not disincentivised from hiring additional staff and operating at full capacity once they approach the 75% threshold. As sectors reopen over the course of the Summer and toward the Autumn, it is our view that the EWSS should allow for ongoing claims until at least two months after a given sector is fully re-open without significant social distancing limits on capacity.

In relation to the PUP, feedback from members across sectors both last summer and more recently is that the payment may cause challenges in getting workers to return to work. This is particularly a problem where capacity is constrained and only part-time hours are on offer. Our view is that the PUP should – in line with the EWSS – from a future date be limited only to workers from those sectors which are fully closed or subject to significant social distancing limits. To avoid cliff-edge effects, workers in re-opening sectors should be given similar treatment to self-employed workers for a period as they return to work. That is, they should be allowed to earn a level of income over a period of weeks after returning to work on a part-time basis whilst also keeping their payment. A parallel approach should also be put in place whereby the JobsPlus scheme is expanded further in order to support more rapid re-hiring for companies facing extreme demand uncertainty. Our view is that far greater budgets for JobsPlus should be set contingent on a return to a PUP adjusted unemployment rate of 6%.

Together we feel these measures would 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, whilst also doing so in a manner which allows the State to gradually withdraw support whilst avoiding cliff-edge effects for both business and workers.

Restart supports, tax warehousing and commercial rates

Restart supports will also be important for companies. Given the duration of the ongoing restrictions, many businesses are now experiencing severe pressure on their cashflow reserves. This means a new round of the restart grant will be needed as the economy re-opens.

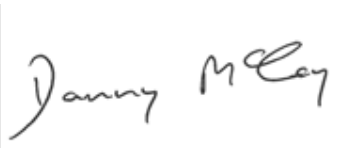
Finally, excess debt will also become an issue as the year progresses. It is proven to slow investment, productivity and growth in companies. It is therefore imperative that supports are put in place which ensure as low a debt burden as possible for firms exiting restrictions. The State has a legitimate objective to maximise Exchequer cash collection, however this cannot come at the expense of survival for viable firms and future economic growth potential. The Revenue Commissioners must ensure that debts held under the Tax Warehousing Scheme are dealt with in a reasonable manner and should not prove an additional threat to business viability. The commercial rates waiver for sectors that remain impacted by the public health measures should be extended until September and reviewed in light of the restrictions applying at that time.

Rebuilding our Experience Economy

The Experience Economy, encompassing the hospitality and related sectors and all of its supply chains, has suffered more than most over the course of the Covid crisis. The above measures will be essential in order to sustain businesses as they begin the gradual return to more normal trading conditions. It will also be vital to provide certainty for business development and future bookings across the Experience Economy, that the 9% VAT rate is retained until at least 2024. In order to support as much employment as possible in medium and larger employers, as well as those smaller businesses, we recommend the removal of the current cap on the Covid Restrictions Support Scheme (CRSS).

I would like to again commend you on the business support measures implemented to date and would welcome your support in ensuring that these further changes are delivered.

Yours sincerely



Danny McCoy
Ibec CEO

Cc: Derek Moran