Chambers Ireland's Submission to the Seanad Public Consultation Committee on Fostering and Supporting the Irish SME Sector
September 2018

Introduction

Chambers Ireland is the largest business network in Ireland, with 44 affiliated chambers in our network, located in every major town and city in Ireland and representing businesses across all sectors and of all sizes. We work to create a better environment for business by lobbying the Government and other stakeholders on policy issues across a wide-range of issues affecting Irish businesses. Given the nature of the Irish economy, we specifically focus our attention on proposing policy reforms that support's Ireland's large SME sector, which makes up almost 99% of the Irish economy.

Connectivity Challenges

Broadband

Rural businesses are particularly affected by lack of access to broadband and need to see progress on the National Broadband Plan as soon as possible. Government must act expediently to tackle the digital divide that currently exists between urban and rural Ireland. We must ensure that Irish businesses, in particular SMEs, can compete on an even playing field and have access to the manifold opportunities that trading online brings.

Access to broadband enables businesses to grow, create jobs and contribute to their local economies. Additionally, broadband is now a quality of life factor and enables modern arrangements for modern businesses that want to offer staff flexibility in working lives for employees and it is therefore a significant factor in attracting FDI companies to a region.

The National Broadband Plan, which has already been significantly delayed, must be rolled out as soon as possible in order to allow for Ireland's regions and rural areas to have access to high quality broadband and the benefits

Transport

Transport is one of the most tangible issues affecting organisations' day-to-day operations in all areas of the country and has been highlighted by the Chamber Network as a priority in capital expenditure. Good transport links enable regional networks to develop and stimulate economic growth in a region, while enhanced connectivity provides businesses with more opportunities to trade, as well as contributing to lower costs. Investment in public transport, both inter and intra urban, not only benefits urban centres; properly integrated and efficient transport links act as growth enablers for wider regions and ensure that cities can act as drivers of growth.

Chambers Ireland welcomed the transport projects announced under the National Development Plan and we are pleased with the increased investment being allocated towards transport infrastructure broadly. Failing to significantly increase investment in transport would undermine Ireland's ability to generate economic growth in a sustainable manner and would damage our national competitiveness.

The transport projects announced under Project Ireland 2040 must now be delivered upon. The importance of Ireland's road network and port infrastructure are likely to increase following the UK's exit of the European Union and delivery of these projects must happen in order to facilitate trade and economic growth.

Additionally, the public transport commitments for inter and intra urban transport made in the Project Ireland 2040 must be delivered upon. Government must invest in rapid transport corridors and rail routes for Ireland's growth driver cities as a means to tackle urban congestion and increase use of public transport. For intra-city public transport, we must make more use of hybrid and electric vehicles as much as possible.

High Cost of Doing Business

The high cost of living is a significant challenge facing SMEs across the country. The cost of living is being felt via wage demands of employees as they face increasing housing, childcare and insurance costs among others. This is having an impact upon business costs and staff retention, negatively impacting upon Irish SMEs' competitiveness. At present, businesses are continuously absorbing the high cost of living, rather than it being appropriately tacked by Government.

Housing

Housing is arguably the greatest challenge presently facing Ireland, and while a lack of access to affordable housing is undoubtedly a serious social issue, it is also a significant business issue. Housing issues are being felt by businesses via increased wage demands and challenges in recruiting staff where this is insufficient accommodation for them. Additionally, commercial rent increases are a problem for urban businesses, in particular for SMEs. The housing crisis is a major competitiveness issue for businesses of all sizes, greatly increasing costs, affecting the quality of life of employees and in some cases threatening businesses' operations. This is a major threat to Ireland's overall economic performance.

Cost of insurance

Businesses are finding it increasingly difficult to plan for the future without having a reasonable estimate of what their insurance costs are likely to be as such costs continue to increase significantly year on year. This uncertainty and inability to make accurate forecasts causes a curtailment of capital investment and many businesses cannot progress and develop as they should.

The high cost for insuring certain aspects of a business (for example a night club in a hotel) may make it impossible for the business to continue to engage in that activity, affecting their ability to expand operations and create new services for customers.

The constantly rising cost of insurance is also directly affecting business ability to maintain the correct level of insurance (under-insuring taking place). Liability insurance for certain types of activity is simply unavailable and can result in closure of potentially viable businesses simply because they cannot get cover at any price. This situation also tempts some businesses to operate without any or with inadequate insurance cover which is not good practice.

Childcare

The high cost of childcare in Ireland often means that for parents it is not cost effective to work after having children. Childcare costs in Ireland are the second highest in the OECD for couples and the highest in the

OECD for lone parents. This is impacting upon wage demands. It also makes it more difficult for employers to retain women in the workforce.

Chambers Ireland recommends that Government maintain investment in Early Childhood Education, deliver prompt roll out of the Affordable Childcare Scheme, deliver a value-for-money cost analysis of childcare provision and maximise the use of schools and existing community facilities for childcare provision.

The National Minimum Wage
The National Minimum Wage has increased for the last three years in a row, placing significant wage pressure on SMEs. Increases to the National Minimum Wage at a time of such uncertainty around the future performance of our economy, stemming from the international trading environment and Brexit, stand to hinder the competitiveness of Irish businesses, and in particular Ireland's SME sector.

Employee Share Ownership
In an increasingly competitive employment market, SMEs are often competing with and losing out to MNCs for talent attraction and retention. Chambers Ireland has previously advocated for the introduction of an Employee Share Ownership Scheme as an option for SMEs to attract and retain the right people. While we welcomed the introduction of the Key Employee Engagement Scheme in Budget 2018 as a means for Irish SMEs to attract and retain talent, feedback from our Network indicates that this scheme is not operating as well as it could and that overly restrictive conditions are making it unattractive to businesses.

Getting this scheme right could be hugely positive for Irish start-ups and scale-ups, as well as the wider economy, and as such Chambers Ireland recommends a number of changes which would make this scheme work better for business. As it currently stands, KEEP is overly complex and too restrictive, and it does not provide the easy-to-implement, productivity-enhancing incentives that would make it an attractive option for a start-up business or SME.

Skills and Training
Unfortunately, Ireland continues to lag behind other European countries in the participation of the workforce in lifelong education and training, a fact pointed out by SOLAS and by the European Commission in the Country Specific Recommendations for Ireland 2017.

A contributing factor to the low levels of engagement in life-long learning is the inaccessibility of many FET courses for small and medium sized enterprises. We would like to see a focus on increasing ease of access for small and medium sized enterprises to engage with skills and training providers. Feedback from our network and from stakeholders informs us that the administrative burden in accessing FET opportunities is too often a deterrent for SMEs. It is SMEs that stand to benefit the most from accessing FET courses and we should ensure that there are as few restrictive elements in place as possible. An evaluation of the barriers which exist in accessing courses and training opportunities for SMEs should be undertaken by DES or SOLAS.

As the National Training Fund employers' levy is set to increase by 0.1% a year over the next two budgets (following an increase of 0.1% in Budget 2018), employers must be given a greater say in how this Fund is spent. Businesses, in particular SMEs, stand to benefit hugely from a range of business-tailored training courses for employees, however at present there is a disconnect between skills provision and business' needs. Additionally, many businesses remain unaware of the skills and training opportunities currently available under the FET Strategy and how these might benefit their companies. Greater emphasis is required on the communication of FET opportunities which exist for businesses.

The most recent unemployment figures stand at 5.6% (August 2018) and as we rapidly approach 'full employment', employers face increased challenges related to productivity, sourcing employees with the right training, and skills mismatches in the workforce. As such, it should be as administratively easy as possible for businesses to access skills and training provision for their employees.

Chambers Ireland advocates the introduction of a voucher model for skills and training courses would enable employers to choose educational providers from the private sector based on reputation and proven excellence. The voucher could be modelled on the 'Innovation Voucher' model, administered by Enterprise Ireland and accessible to SMEs that require the up-skilling or re-training of key employees.

Recommendations on for Supports for SMEs & Entrepreneurs

In Budget 2019, Government must do more to encourage and support SMEs and the self-employed to grow and ensure that we are celebrating and encouraging the job creators in our economy. More attention must be given to policies that support entrepreneurship and to programmes that ensure SMEs can recruit and retain staff. We must also ensure that the kinds of incentives and supports that are introduced support male and female entrepreneurs.

In our submission to the Department of Finance on Budget 2019, we called for a wide range of recommendations that will support SMEs, employers and start-ups around the country. Below we have outlined our recommendations to Government on how Ireland can better support SMEs, innovators and entrepreneurs.

Tax Equity

In this Budget cycle Government must, as previously committed, bring Earned Income Tax Credit for self-employed in line with the Employee Tax Credit. Following Budget 2018, the total earned income credit for self-employed individuals sits at €1,150 annually leaving a discrepancy of €500 with the Employee Tax Credit.

Self-employed earners earning more than €100,000 are faced with an additional USC burden of 3% more than a PAYE worker earning the same amount of income. Government should introduce full equity in taxation between the self-employed and PAYE workers.

Government should introduce a short-term tax credit on employer PRSI to enable microbusinesses to grow and increase employee numbers. If applied to businesses with less than 10 employees, the introduction of a 3-year tax credit on employer PRSI for each new hire would support microbusinesses to create jobs and enable them to grow.

Diversity in Business

According to a report by the Global Entrepreneurship Monitor on Ireland, a man is more than twice as likely as a woman to be an early stage entrepreneur. In addition, more than half of female entrepreneurs are focused entirely on the home market and have no markets overseas, while just one third of male entrepreneurs are similarly focused. We call on Government to support female entrepreneurs so that they start-up, scale-up and become more globally focused, in line with their male counterparts.

We recommend that Government support state agencies to expand funds, such as the Competitive Start Fund, that offer targeted supports for female entrepreneurs to include a broader range of business models and sectors.

Chambers Ireland calls on Government to introduce additional supports to increase the provision of management training to advise female-led companies on scaling up their businesses.
We are asking that Government support state agencies to provide training to female entrepreneurs on international trade and commit to increasing female participation in Irish overseas trade missions to access new markets.

A competitive landscape
Ireland's high rates of CGT are impeding entrepreneurship and competitiveness. Comparative data from the Tax Foundation shows Ireland had the 5th highest rate of capital gains tax in the OECD in 2016. The high rate of 33% remains in place and is potentially disincentivising investment in the economy and discouraging the release of underutilised assets such as land or property.

Chambers Ireland recommends that the Irish Capital Gains Tax rate of 33% be gradually reduced to be closer to the UK standard rates and to be more competitive against the UK CGT tax regime. Additionally, we recommend increasing the lifetime limit of €1 million in qualifying capital gains under Entrepreneur's Relief to €10 million to improve the attractiveness for repeat investors and to encourage increased investment in Irish business.

A culture of entrepreneurship
Strategic changes to the capital gains tax regime could encourage investment in Irish businesses and ensure support for entrepreneurs and innovative ideas in our economy. Chambers Ireland recommends CGT rollover relief to allow deferral of CGT where the proceeds of a sale are reinvested in an SME or business fund managed by a state enterprise agency. The aim of this initiative would be to encourage investment in Irish businesses and ensure that start-ups and scale-ups are able to access the finance needed to grow.

We recommend that Government consider the introduction of a mechanism where entrepreneurs can apply for a "small business rollover", similar to the Australian model, where an entrepreneur can apply for tax relief on the capital gain when reinvesting in an SME or new business.

External Challenges
As a small open economy, we are very exposed to international market volatility and this feeds down to even our smallest companies - if interest rates are increased, this will have consequences for investment, access to finance, exports, etc.

Brexit continues to be identified as a challenge for SMEs, as it forecasted that SMEs exporters are likely to find the UK's exit from the EU the most challenging. Once the UK leaves the EU, it will be a lot harder for SMEs to continue to do business with the UK. While larger multi-nationals which trade in international markets are likely to be better insulated from the consequences of a UK exit from the EU, smaller firms will feel a more profound impact and will be less capable of absorbing it. Some sectors have already felt the effects of the extreme currency fluctuations following the referendum result. As more disruption of this nature is likely to follow in the months and years to come, helping SMEs to diversify their markets will be very important.

In response to Brexit, Chambers Ireland recommends that Government work with and support the Chamber Network to communicate resources that will help businesses to prepare for Brexit. The Chamber Network is uniquely positioned to offer businesses expert guidance on export documentation and customs, and Chambers Ireland proposes that Government support the Network to provide training to exporting companies that stand to face additional customs issues in light of Brexit.

Chambers Ireland welcomed the introduction of the Brexit Loan Scheme, having called for this in previous submissions to Government. We recommend that Government continue to make funding available through the Brexit Loan Scheme in order to support more businesses who may wish to innovate in response to Brexit as we near the UK's exit of the European Union.