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Michael McGrath T.D.
Minister for Public Expenditure and Reform
Department of Public Expenditure
Upper Merrion Street
Dublin 2

8 July 2020

Re: July Stimulus and Reform of the TWSS

Dear Minister,

As you will be aware, Chambers Ireland has been conducting a series of nationwide Business Community Surveys over the past number of months which seek to quantify the economic impact that COVID-19 is having on businesses.

We have enclosed an overview of our research into the economic impact of COVID-19 on the business community, which has tracked, from March to June, how business has responded to the crisis, the impact it has had on their revenue and their outlook for the months ahead.

The findings of our most recent set of survey results, published in June towards the end of Phase 1, are synopsised as follows-

- **Business activity levels are extremely low**, for those businesses that have returned to operation under Phase 1
- Businesses that have opened are typically **experiencing less than half of their usual levels of business activity** for this time of year
- The median expected revenue of survey respondents over the next three months (relative to what they would have expected to be earning in a typical year) has risen from -60% to -50% over the next three months, so **most businesses expect their earnings over the coming three months to be half the normal amount**
- **25% of businesses expect to have earnings that are -70% of their usual level**
- The impact of revenue decline is being **felt more strongly in the regions, notably in the West, Border counties and the South East**

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- **Smaller operators have seen revenue reduced most significantly**, again compounding regional effects for areas which do not have large employers
- **Invoice arrears are increasing** with the value of unpaid invoices (relative to the same period in 2019) significantly up across all sectors
- **Almost two thirds of microenterprises and small businesses have experienced both an increase in the value owed to them and an increase in the proportion of debt** that is owed to them that is now in excess of 90-days past due

Since the outset, we have highlighted the need for far-reaching economic interventions from Government to support local economies and job creators right across the country and have welcomed the supports that have been introduced thus far.

Ahead of the publication of additional measures to support business in the July Stimulus, we are reiterating the need for significant supports for business to help them survive the economic crisis caused by COVID-19.

As we move to the final stages of re-opening the economy, it is critical that supports like the Temporary Wage Subsidy Scheme are not abruptly ended. While we might be approaching the end of the staged re-opening, the COVID-19 pandemic continues to be a very real threat. Due to this threat, the way we live, and how businesses are permitted to function, is now very different, and will continue to be until we reach a time where the virus is eradicated, with either a vaccine or cure becoming widely available.

Until that time, national health advice has dictated that the public must change their behaviour by maintaining social distancing and wearing masks. Theses directives have fundamentally altered the viability of many business, particularly in the hospitality, tourism, and retail sectors. For this reason, to ensure that businesses can continue to trade through the pandemic, it is essential that are financially supported to do so.

We have outlined below the priority interventions that will be required to support vulnerable businesses whose viability has been constrained by the virus.

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Recommendations for July Stimulus

1. *Continuation of the TWSS beyond August for vulnerable sectors*

Results from our second survey reveal that 96% of respondents believe that the support measures that have already been introduced will need to have their timelines extended beyond the initial 12-week commitment.

We recognise that the requirement for a continuation of the TWSS beyond August will vary between sectors and as the Roadmap phases roll out. However, some form of wage subsidy will be required for all sectors well beyond the autumn, with any tapering off then to occur slowly and strategically. Businesses need certainty on how they will be sustained as the economy begins to reopen.

We call on Government to retain the Wage Subsidy Scheme, for vulnerable sectors, beyond the August commitment, and extend for the duration of 2020. In line with this extension, we call for the Department to ensure that there is a clear roadmap for how the subsidy will be tapered off over time.

2. *Reform of the Scheme*

Many businesses availing of the TWSS are faced with an inability to replace or hire additional staff under the current scheme, specifically those in the food and hospitality sector.

This is causing undue obstacles as the TWSS is too restrictive for some of these businesses looking to replace staff. As the scheme is also based on pre-pandemic wages in January and February of this year, extra hours that are given to the remaining staff do not qualify under the scheme.

Employers that have promoted employees, or increased employees' hours during the pandemic (e.g. a permanent change from part-time to full-time, or working additional hours to cover the hours of someone on sick leave or who has left their employment, etc.) are penalised under the current TWSS. Employers in this situation who have availed of the subsidy will have to pay such employees more than their Average Net Weekly Wage and the employer is essentially punished for same by having that excess taken from their subsidy.

In reviewing the TWSS, we call on the Department to ensure that new employees, hired after the February period, are eligible for wage supports.

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3. *Expansion of grant aid for business*

The findings from our recent series of surveys reveal that overhead costs for most business that had closed exceeded €2,000 per week and business that need restocking expect it to cost in excess of €3,000. The introduction of the "Restart Grant" was a welcome first step in supporting business to re-open. However, our members urgently require additional supports and interventions from Government to the growing costs of overheads, such as rent, utilities, stock. In particular, microenterprises and small businesses seem to have experienced both an increase in the value owed to them and an increase in the proportion of debt that is owed to them that is now in excess of 90-days past due. Without a significant intervention from the State, the debt burden will become insurmountable for many businesses, with closures and job losses inevitably following.

Regarding the measures that will be needed to support business in addressing this issue, the recommendation from our members is that expanded grant aid, which can be efficiently accessed, will be more useful than loans.

4. *Improve attractiveness of loan schemes*

Loans will of course play a role in supporting businesses in the recovery. However, for loans to be both attractive and useful, they must cater to the specific needs of businesses operating in what are unprecedented times. Through our surveys, we received feedback from the business community on the loan schemes announced by Government up to the start of June. Only 4% of respondents have applied for one of the loan schemes, with an additional 18% either considering it in the future. Most respondents determined that loan schemes would not be suitable for their business, given the nature of the economic challenges they were facing. The feedback tells us that, particularly for smaller businesses, the rate of interest and application criteria make these supports unsuitable for many.

Long-term, 0% or very low interest, loans or grants will be needed throughout the recovery. In addition, the design of these types of loans, in order for them to be attractive, must contain interest holidays for longer than 6 months, with repayments over an extended period. Traditional debt-based interventions will not be the solutions to the liquidity and cashflow crisis within Irish businesses due to COVID-19.

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5. *Commercial Rates Waivers and Additional Funding for Local Government*

The announcement by the last Government that the rates deferral was to be replaced with a three-month rates waiver was well received in our Network. However, while the move was welcome in principle, feedback from our members indicates that for the sectors that have been worst impacted (both through closures and declining revenue), waivers would need to be extended beyond three months, with the scope for it to be extended to a full year. Further, we have received feedback that there is a lack of clarity on the ground as to how the waiver should be applied, and when funding to replace shortfall in income will be received by local authorities from the Exchequer.

The July Stimulus package is an opportunity for Government to review this decision, and ensure that all businesses who have been impacted by COVID-19, (we are proposing using the criteria of a 25% decline as the test for eligibility) are not liable for commercial rates for 12 months following on the onset of the COVID-19 pandemic in Ireland.

It is essential that local authorities are funded by central government, so that a mechanism for granting waivers (and refunding rates already paid), is operable and consistently applied throughout the country. Local Government will also require funding for additional costs arising from the need to redesign city and town centres as a result of COVID19.

6. *Sustained Funding for Infrastructure and NDP Projects*

Throughout the development of the National Development Plan, our network of chambers has been supportive of the approach of creating a long-term strategy for balanced regional growth. Such a strategy will rebalance the nation and address the fact that Dublin has become one of the most congested cities in the world. If we continue to rely on the status quo, to drive growth for the island, we will risk national economic underperformance.

With the likelihood of a 'V-shaped' recovery diminishing in light of renewed lockdowns which are occurring in our trading partners, with the World Bank predicting the largest global recession in at least 150 years, and with the tourism industry devastated for the foreseeable future, a significant portion of our potential growth over the next 18-24 months will need to be fuelled by counter-cyclical government investment. Well executed, this would have the benefit of reducing the infrastructure gap which has opened over the last decade.

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We call for a commitment from Government that projects which are "shovel ready" and due to begin within the next 6-18 months will continue to be funded, and that they will be speedily implemented.

7. *Urgent Clarity on Issue of Liability for Income Tax*

While we welcome the flexibility shown by the Revenue Commissioners on income tax issues currently, it is imperative that both employers and employees are made aware of how the liability for tax owed will be treated once this crisis has passed. This has yet to be clarified by Revenue, causing concern and confusion for both businesses and employees.

We need a clear roadmap on how income tax liabilities will be collected. The possibility that the subsidy payment will be taxed at the end of this year will have significant impacts on employees resulting in potentially substantial tax bills in December.

Chambers Ireland recommends that the Revenue Commissioners reclaim any income tax liabilities over a period of 1–2 years, as opposed to being taken in one single payment, to reduce the financial pressure on employers and employees.

8. *Tax Reform*

In advance of Budget 2021, our members are conscious that several tax reforms will be needed to stimulate economic activity. It is unclear if a decision on tax will be taken as part of the July Stimulus package, or if these decisions will be taken as part of Budget 2021. In advance of these decisions, our members call for consideration to be given to the following specifically as a response to COVID-19:

- Review of reliefs and allowances available for home working including capital allowances for equipment and the extension and reform of the e-working allowance
- An extension of the small benefits exemption to benefit-in-kind to allow employers to give vouchers in 2020 and 2021 up to the value of €1,000. (The cap is currently €500- an expansion would support shop local schemes, domestic consumption, and stimulate local economies)
- A review of options available to the Department of Finance to stimulate consumer activity, once the economy has fully re-opened, through targeted VAT reductions
- Improving the attractiveness of equity solutions to fund SMEs.

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9. *Prompt Payment by State and Semi-State Organisations*

Throughout the crisis we have called for the State to mandate all its bodies to pay its debts promptly, but we are not aware of any such assertion being made. We continue to call for this very easily implemented action to boost the velocity of money in the economy.

We would welcome the opportunity to brief your office on the above in more detail. Please do not hesitate to contact us to discuss any of the matters raised

Yours sincerely,

Ian Talbot
Chief Executive