



**An Alternative 10 Point Plan for Micro, Small and  
Medium-Sized Enterprises**

## Contents

Introduction .....	2
An Alternative 10 Point Plan: Summary .....	3
Principles.....	4
The Importance of SMEs and Micro Enterprises .....	4
Job Creation and Retention .....	4
The Need to be Ambitious .....	4
Revenue Neutral Reforms.....	4
Removal of Restrictions .....	5
Indigenous Non-Exporting Companies .....	5
New Economic Realities.....	5
Taxation Not Enough .....	5
Critique of the 10 Point Plan announced in Budget 2013 .....	6
Chambers Ireland’s Alternative 10 Point Plan .....	10
1. A Reduced VAT Rate on Housing Repair, Maintenance and Improvements (RMI).....	10
2. Enable Start-ups to Offset Corporation Tax against Other Taxes Due .....	10
3. Halve the level of Capital Gains Tax for Entrepreneurs to 16.5%.....	11
4. A Targeted Rates Reduction for Businesses in Town Centres .....	11
5. A Double Rent Deduction for Companies with Upward Only Rent Reviews.....	12
6. Apply an ‘Ireland Rate of Return’ in Tendering Decisions for Public Sector Contracts	12
7. An Additional Tax Incentive Policy to Encourage Private Sector Investment .....	13
8. Promote Ireland as the Best Possible Location for Nearshoring.....	13
9. Mandate all Government Research Funding Agencies to set aside 2.5%of their Budget for SMEs .....	13
10. Further Operational Issues to Promote Business Interests .....	14
Conclusion.....	16

© Copyright April 2013, Public Affairs Division, Chambers Ireland, Newmount House, Lower Mount Street, Dublin 2

Every effort has been made in the preparation of this publication to verify material. Chambers Ireland does not take responsibility for any errors or omissions.

## Introduction

Chambers Ireland is the country's largest business network. With over 50 affiliated chambers in every sector and region in the country, we are dedicated to promoting competitiveness within the business community. In turn, this competitiveness leads to economic growth and stability, supporting job creation and retention.

As part of Budget 2013 the Government included a section on Assistance for the Small and Medium Enterprise (SME) Sector. This included an acknowledgement of the important role SMEs currently play in the Irish economy and a recognition that they will be a key part in any future economic recovery. The measures announced were a 10 Point Tax Reform Plan to help small businesses and a number of measures designed to increase the availability of credit for SMEs.

The tax proposals were designed to assist small businesses in a range of ways:

- helping their cash flow position;
- helping them to access funding more easily;
- reducing the costs associated with the administrative burden of tax compliance;
- boosting demand for their products in new markets abroad; and
- incentivising them to create new jobs.

Chambers Ireland welcomes the inclusion of these measures; however, a closer examination of the detail leads to the conclusion that the initiatives announced will have a limited impact on the trading conditions of most businesses. Policies and initiatives must be more ambitious and far-reaching to produce transformative outcomes.

This document includes a critique of the 10 point plan announced as part of Budget 2013, with suggestions for improvement, and an alternative 10 point plan, which we believe can produce the type of transformations necessary to stimulate real and meaningful job creation. We estimate that the initiatives highlighted in this document can potentially create up to 30,000 new jobs.

Our initiatives are bold where the Government has been too quick to apply the precautionary principle. Given the level of unemployment in Ireland, risks need to be taken; bold moves cannot be avoided based solely on fear of failure.

However, we have also been mindful of the need to produce affordable initiatives. None of the suggestions in our alternative 10 point plan would require significant spending commitments from the Government. Furthermore, where costs are incurred, we believe these will be more than offset by the savings produced and revenue generated by getting people back into work.

This document is the result of a thorough consultation process with representatives of the Chamber Network around Ireland and a range of subject matter specialists from major accounting and taxation firms. All of those involved understand the challenges facing the business community in Ireland and are well placed to suggest policies and initiatives that will improve the business environment.

## **An Alternative 10 Point Plan: Summary**

- 1.** *Introduce a Reduced VAT Rate on Housing Repair, Maintenance and Improvements (RMI)*
- 2.** *Enable Start-ups to Offset Corporation Tax against Other Taxes Due*
- 3.** *Halve the level of Capital Gains Tax for Entrepreneurs to 16.5%*
- 4.** *Introduce a Targeted Rates Reduction for Businesses in Town Centres*
- 5.** *Introduce a Double Rent Deduction for Companies with Upward Only Rent Reviews*
- 6.** *Apply an 'Ireland Rate of Return' in Tendering Decisions for Public Sector Contracts*
- 7.** *Introduce an Additional Tax Incentive Policy to Encourage Private Sector Investment*
- 8.** *Promote Ireland as the Best Possible Location for Nearshoring*
- 9.** *Mandate all Government Research Funding Agencies to set aside 2.5% of their Budget for SMEs*
- 10.** *Introduce Further Operational Initiatives to Promote Business Interests*

## Principles

This critique and alternative 10 point plan are based on a range of principles. These were central to the discussions and consultations that resulted in this document.

### ***The Importance of SMEs and Micro Enterprises***

SMEs and micro enterprises are vital to Ireland's future economic sustainability. While it is recognised that Ireland is doing well in the area of Foreign Direct Investment (FDI) and export led industry, concerns remain that not enough is being done to assist indigenous companies focused on the domestic market. In particular, there is scope for Government to implement policies and initiatives that will assist and encourage start-ups and micro enterprises to grow into medium-sized companies.

Furthermore, FDI is vulnerable to changes in markets. Ireland can lose its preferred position at any time and has limited control over it. It is important to grow the domestic economy; to incentivise start-ups and facilitate their growth into medium-sized enterprises.

### ***Job Creation and Retention***

At the heart of our critique and alternative plan is the promotion of policies that will allow for job creation and retention. It is essential that Government does all that it can to promote the conditions and business environment that will lead to job creation.

Job creation is central to Ireland's economic recovery. It is the only way to get the country's finances back on a sustainable footing. Given that over 99% of businesses in Ireland are SMEs and most employment is located in this sector,<sup>1</sup> it is fair to say that sustainable and meaningful job creation is a function of improved business conditions for micro, small and medium-sized enterprises.

### ***The Need to be Ambitious***

Too many of the initiatives announced in Budget 2013 as part of the 10 Point Plan lack the ambition necessary to produce significant outcomes. We believe all initiatives and policies must be monitored, their impact evaluated and necessary improvements and extensions made in Budget 2014.

### ***Revenue Neutral Reforms***

It is essential that the maximum assistance for micro enterprises is achieved with the minimum risk on Government spending. Furthermore, it is important to note that where costs are unavoidable, they will be offset by gains produced through job creation.

It must be remembered that certain measures, such as the reduction of VAT or Capital Gains Tax, which may appear to reduce revenue, actually produce significant macroeconomic gains in the medium to long term. For every person brought into employment by a micro enterprise, there is an immediate gain for the exchequer: there is one less person on the live register and one more person contributing through taxation. It also has a positive impact on the national business environment by increasing the circulation and velocity of money<sup>2</sup> and the subsequent multiplier effect.

---

<sup>1</sup> <http://budget.gov.ie/budgets/2013/Documents/Annex%20D%20-%20SME's.pdf>

<sup>2</sup> Velocity of circulation, see <http://www.economist.com/economics-a-to-z/v#node-21529302>

### ***Removal of Restrictions***

As far as possible all restrictions on starting and growing a business should be removed. There are too many conditions attached to existing incentives for starting a business and creating new jobs. It is essential to incentivise this behaviour rather than building barriers to complicate the process.

### ***Indigenous Non-Exporting Companies***

It is a reality of doing business that many companies start by being exclusively focused on the indigenous market. These companies must be given support. Many of these companies will grow to be the small and medium-sized, exporting companies of the future. They must be given every opportunity to achieve this growth.

### ***New Economic Realities***

The new realities of business must be recognised. Many of the provisions within the Companies Acts, orders and regulations, as they apply to start-ups, are simply not appropriate to the types of business that must be nurtured if the economy is to grow. Existing rigid structures do not allow for the innovative, dynamic and enterprising approaches necessary in today's business climate.

### ***Taxation Not Enough***

Finally, it is essential to recognise that taxation is only one area that must be addressed to stimulate the economy. In particular, the issue of funding availability must be continually reviewed to ensure innovative ideas can grow into sustainable businesses. However, an imaginative and radical change is required to the taxation of micro businesses so that these can expand and grow and take on employees and develop on to become SMEs.

## **Critique of the 10 Point Plan announced in Budget 2013**

### ***1. Reforming the 3 Year Corporation Tax Relief for Start-Up Companies***

This measure includes a welcome recognition that businesses are unlikely to make a profit in the first three years of trading. Therefore, it is important that they are allowed to carry unused credits forward.

However, too many restrictions are included in the measure in its current form. It does not apply to sole-traders and partnerships and has been tied into the amount of employer's PRSI.

This measure could be improved by extending the period to five years and removing the restrictions. This would incentivise start-ups and encourage job creation.

### ***2. Amending the Close Company Surcharge***

The de minimis level at which the charge applies is increasing from €600 to €2,000. In theory, this is a welcome move; however, the figures involved will allow for very limited benefit. An increase of €1,400 is rarely the difference between a company remaining in business and going out of business.

We propose that the Close Company Surcharge should not apply to all Micro and Small Companies. These companies must be enabled to keep revenue in the business when they start to make a profit rather than being penalised for retaining monies within the company.

This would add to the business environment necessary to encourage start-ups and would be virtually revenue neutral due to the potential for job creation involved.

### ***3. Increasing the Amount of Expenditure Eligible for the R&D Tax Credit***

Two main questions arise with this initiative: firstly, why is it necessary to place a limit on the expenditure eligible for the credit; and why is it necessary to include a reference to a base year? These are unnecessary restrictions that will only discourage innovative business practices.

The limit of €200,000 places Irish businesses at a distinct disadvantage when compared to our international competitors. According to a 2012 Global survey of R&D tax incentives carried out by Deloitte,<sup>3</sup> even the increased limit, announced as part of Budget 2013, falls far short of that available in many other countries. For example, in France there is a 30% tax credit for the first €100m of qualified R&D expenditure and in the UK SMEs can qualify for a 200% volume-based super deduction.

Furthermore, this initiative does very little for micro enterprises, which rarely have the resources to invest in R&D.

### ***4. Increasing the VAT Cash Receipts Basis Accounting Threshold***

This is a very welcome idea; however, the increase from €1m to €1.25m is much too low. Using CSO figures, we estimate that this increase will only be an option for a maximum of 1,200 companies but we expect few of these to apply as the increase does not give a

---

<sup>3</sup>[http://www.deloitte.com/assets/DcomCanada/Local%20Assets/Documents/Tax/EN/2012/ca\\_en\\_tax\\_Global\\_SurveyR&D\\_Tax\\_incentives\\_September\\_2012.PDF](http://www.deloitte.com/assets/DcomCanada/Local%20Assets/Documents/Tax/EN/2012/ca_en_tax_Global_SurveyR&D_Tax_incentives_September_2012.PDF)

sufficiently broad range. An increase to €2.5m would greatly incentivise uptake in the scheme and could benefit 4,658 companies, with a much higher percentage likely to apply.

This is fully in line with EU law.<sup>4</sup>

The scheme is also less favourable than similar schemes in the UK.<sup>5</sup>

Furthermore, a proper transition arrangement should be applied as companies exceed the limit which would incentivise companies to continue to grow as they approach the limit.

#### **5. Extending the Foreign Earnings Deduction**

The rationale for extending the foreign earnings deduction is sound; however, the list of countries announced in Budget 2013 seems arbitrary. This initiative should be extended to all emerging economies outside the EU. Also, being capped at €35,000, the relief is too limited.

Furthermore, this initiative will do little to assist start-ups, which are generally focused exclusively on the indigenous market and do not have the resources to send staff to other territories for three months.

#### **6. Extending the Employment and Investment Incentive**

Extending this scheme to 2020 is welcome; however, there was no indication that it was due to end. Therefore, rather than being an extension to the existing arrangement, the Government has actually established a limit.

The logic of this measure is that it reduces the risk of investing in a new business, allowing it to grow and create new employment; however, a considerable risk remains. In the current economic climate, all restrictions placed on investing in a new or developing business should be removed. These restrictions include the amount that can be raised by a company in a 12 month period and the lifetime amount raised by each company.

For small businesses to grow, Government must recognise and reward the risks involved in entrepreneurial activity.

#### **7. Extending Stock Relief for Farmers**

This is a measure that has been in place for a considerable length of time. There was little indication that it was due to come to an end.

This amounts to little more than a technical, 'tidying up' exercise. It is not a stimulus measure.

#### **8. Introducing a Capital Gains Tax Relief for Farmers**

This is a welcome initiative for the agriculture sector. However, there is no legitimate reason why it is restricted to this sector. In effect, this policy (along with No. 7) discriminates

---

<sup>4</sup> Article 66(b) of Directive 2006/112/EC permits Member States to use cash accounting. Directive 2010/45/EU of 13 July 2010 states in the recitals that Member States should provide for cash accounting.

<sup>5</sup> Where a VAT-registered trader has an annual turnover exceeding €1 million, it can only apply the cash accounting scheme where it supplies goods or services that are almost exclusively (at least 90%) made to unregistered persons. This limits its application in practice to retailers and others business that sell to consumers.



against other business sectors and may even be in contravention of the spirit, if not the letter, of EU law.

A logical extension of the rationale behind this policy would be to reintroduce a ‘Business Asset Rollover Relief’ for the disposal of all business assets where monies are reinvested in replacement business assets. A Business Asset Rollover Relief, such as that provided in the UK,<sup>6</sup> which allows for the deferral of any CGT due upon the disposal of any assets if new assets are purchased, would also incentivise further investment in the economy. This development would be at no extra cost to the exchequer. The payment of CGT would merely be delayed.

### **9. Reviewing the ‘Carried Interest’ Provisions in the Tax Code**

Any initiative that opens or improves avenues to finance for Irish businesses is a good thing. However, this initiative only looks at one such avenue. A much more ambitious programme should be commenced to explore all possible sources of funding, to incentivise investment from a wide range of sources and reward the risks taken by legitimate business investors.

### **10. Announcing a Public Consultation: ‘Taxation of Micro Enterprises: Reduction in Compliance Costs’<sup>7</sup>**

Consultation is always welcome; however, consultation in itself is not enough. It is neither a stimulus nor an incentive, merely a facilitator. Government must act, and be seen to act, on the advice and recommendations of recognised stakeholders and subject matter specialists.

The consultation must result in further positive Disruptive Reform, such as that introduced by Minister Perry in February 2013, relating to the new Integrated Licensing Portal for retailers.<sup>8</sup>

#### **Summary**

A set of policies to assist SMEs is very welcome; however, we contend that the specific points in the Government’s 10 point plan do not do enough to transform the environment in which individuals start and grow businesses.

Of the initiatives in the Government’s 10 point plan:

- too many include unnecessary limitations;
- too many are unnecessarily limited to certain sectors;
- too many are merely extensions of existing schemes; and
- too many are merely facilitators of change, rather than actual stimulus measures.

Each of the measures must be closely monitored. The quantitative impact, in terms of business creation, business growth and employment, must be established. Necessary adjustments and improvements should be identified and introduced in Budget 2014.

---

<sup>6</sup> <http://www.hmrc.gov.uk/helpsheets/hs290.pdf>

<sup>7</sup> Chambers Ireland’s submission to this consultation process can be accessed at: [http://www.chambers.ie/assets/media/Images/Publications/Submissions/Chambers%20Ireland\\_Submission%20to%20the%20Consultation%20on%20the%20Taxation%20of%20Micro%20Enterprises\\_Final.pdf](http://www.chambers.ie/assets/media/Images/Publications/Submissions/Chambers%20Ireland_Submission%20to%20the%20Consultation%20on%20the%20Taxation%20of%20Micro%20Enterprises_Final.pdf)

<sup>8</sup> <http://www.merriestreet.ie/index.php/2013/03/new-licensing-system-will-provide-significant-savings-for-retailers-minister-perry/?cat=12>

We believe that an additional range of reforms, set out below, can produce the change necessary to transform Ireland into a country that inspires entrepreneurial behaviour and rewards the risks taken when starting and growing a business.

## Chambers Ireland’s Alternative 10 Point Plan

### **1. A Reduced VAT Rate on Housing Repair, Maintenance and Improvements (RMI)**

The continuing crisis in the construction sector remains a major concern. Accordingly, we recommend a reduction of VAT to 5% on all RMI up to a value of €50,000 on residential properties. This is an opportunity to stimulate rapid growth and create up to 5,000 new jobs. Not only would this incentivise start-ups and create employment, it would also increase the circulation of money in the economy. This would be fully in line with EU law which has recently changed to allow member states to permanently reduce VAT to 5% in this area in order to support economic growth.<sup>9</sup>

This rate reduction may be delivered by way of the home owner applying for a refund of VAT directly from the Revenue Commissioners.

In the UK, many kinds of work that builders and similar trades do are standard-rated for VAT; however, some types of work can be charged at a reduced rate of 5% or at the zero rate if certain conditions are met. This includes construction of a new house or flat, converting a building into a house or flat and renovating or altering an empty house or flat.<sup>10</sup> Furthermore, the Business and Transport section has recently issued a Standard Note which discusses the possibility of harmonising the rate of VAT on all construction work.<sup>11</sup> Research conducted in the UK suggests that such a cut could create 3,625 jobs in Scotland, a country broadly similar to Ireland in economic and demographic terms, by 2015.<sup>12</sup> Furthermore, it is estimated that this could result in a further 2,178 jobs through the multiplier effect.

We believe the benefits of this initiative would go beyond the construction sector. As homeowners refurbish their properties, there would also be an increase in purchases of soft furnishings, white goods and other electrical appliances.

In Ireland, the CSO statistical Yearbook 2012<sup>13</sup> shows employment levels by NACE economic sector. From 2007 to 2011 employment in the construction sector fell by 60.8%. Significantly, employment in accommodation and food services, which benefits from a reduced VAT rate, only fell by 17.9% and has shown recent increases.

### **2. Enable Start-ups to Offset Corporation Tax against Other Taxes Due**

A company should be able to off-set trading losses against other taxes due in the initial start-up phase. Furthermore, an initial start-up period of 5 years would, in our view, be more beneficial to start-up enterprises. This would assist cash flow for start-up companies, a

---

<sup>9</sup> Item 10 to Annex III of Council Directive 2006/112/EEC (In brief, no Member State can introduce any *new* zero rates of VAT, though they may continue charging any lower rates, including zero rates, that were in place on 1 January 1991.9 In addition Member States have the discretion to charge a reduced rate of VAT - between 5% and 15% - on a specified list of goods and services. One of the items of this list is the “provision, construction, renovation and alteration of housing, as part of a social policy.”)

<sup>10</sup> <http://www.hmrc.gov.uk/vat/sectors/builders/construction.htm>

<sup>11</sup> <http://www.parliament.uk/topics/Construction-industry.htm> (See Standard Note - VAT on construction)

<sup>12</sup> <http://www.cutthevat.co.uk/cut-the-vat/research/>

<sup>13</sup> [http://www.cso.ie/en/media/csoie/releasespublications/documents/statisticalyearbook/2012/c2labourmark et.pdf](http://www.cso.ie/en/media/csoie/releasespublications/documents/statisticalyearbook/2012/c2labourmarket.pdf)

current obstacle that is a vital ingredient to enable them overcome the most challenging period in the development of the company.

The calculation could be done on a value basis so the Revenue Commissioners do not lose out financially but “refund” VAT in a given year in lieu of a Corporation Tax Deduction in future years when profits are made.

We recommend the introduction of a pilot scheme at the earliest opportunity, to be extended to all business start-ups once its efficacy has been established.

### **3. Halve the level of Capital Gains Tax for Entrepreneurs to 16.5%**

It is unfair to apply the same level of Capital Gains Tax to an entrepreneur, who is risking so much to establish an enterprise, as to an individual who, for example, is investing savings in shares in the stock market. A successful entrepreneur makes a significant contribution to the economy in terms of taxes on earnings, employment taxes, rates and economic activity; the other is passive and makes little economic contribution and should therefore pay CGT at a higher rate.

We note that cyclical taxes, such as corporation tax, CGT and Stamp Duties, as a total of the tax intake, have fallen considerably since 2008, when CGT stood at 20%. This supports the international evidence that increases in capital gains tax rates can actually reduce revenue.<sup>14</sup>

Accordingly, we believe that CGT should be reduced significantly to 16.5% for entrepreneurs, to incentivise and reward risk taking both on business assets and business share disposals. It could also grow CGT revenues and enhance opportunities for growth and ‘scalability’ as some entrepreneurs could be further incentivised to sell their businesses as they approach retirement to other companies/entrepreneurs seeking to grow.

Furthermore, we believe the existing situation acts as an impediment to companies achieving scale, growing to become small and medium-sized enterprises and developing internationally.

### **4. A Targeted Rates Reduction for Businesses in Town Centres**

The retail sector remains an important part of the micro enterprise and SME sectors. However, many are struggling to remain in business due to excessive rates imposed by Local Authorities. In order to guarantee their survival, allowing them to retain the important jobs they provide, we recommend the introduction of a rates reduction for companies, located within town and city centres, which provide much needed employment and contribute to the quality of life in these areas.

We recognise that this should be more nuanced than the Large Retail Levy and Expanded Small Business Relief Scheme<sup>15</sup> currently in operation in Northern Ireland; however, the support it provides for small businesses can be the difference between these businesses remaining viable and ceasing to trade.

---

<sup>14</sup> For example, see the UK based Institute of Economic Affairs which provides an overview of relevant research: <http://www.iea.org.uk/blog/why-increasing-capital-gains-tax-could-actually-reduce-revenues>

<sup>15</sup> <http://www.northernireland.gov.uk/index/media-centre/news-departments/news-dfp/news-archives-dfp-dec-2011/news-dfp-151211-executive-decides-on-large.htm>

The French Contribution Economique Territoriale (CET)<sup>16</sup> is one example of a local tax which takes into account the contribution made by a company as well as the rateable value of the property occupied by the business. Local Authorities are given considerable discretion over minimum rates and exemptions can be applied to new companies, called auto-entrepreneurs, who create new jobs.

While we recognise that the issues of rates and development contributions are reserved functions for Local Authorities, it is the role of the relevant Departments to provide the statutory and policy framework which enables these Authorities to implement initiatives focused on business development and job creation.

#### **5. A Double Rent Deduction for Companies with Upward Only Rent Reviews**

In many cases companies are currently paying rents which have little or no correlation with the market value of their property. We would suggest that if these rents are affecting a business's ability to trade, it should be entitled to a double rent deduction in their returns.

We accept that the Government cannot act on upward only rent reviews; however, this may be a mechanism whereby the consequences for some businesses affected are eased.

Currently, companies are choosing examinership as the only way to 'break' upward only rent reviews. We note that, in properties owned by NAMA, 206 requests for rent abatements have been approved for businesses experiencing pressure in terms of cashflow.<sup>17</sup>

#### **6. Apply an 'Ireland Rate of Return' in Tendering Decisions for Public Sector Contracts**

As one of the biggest buyers of services in the State, Government departments and agencies need to be more mindful of the positive outcomes of awarding tenders to locally based suppliers. Rather than applying a 'value for money' criteria, consideration must be given to the value produced to the national economy in terms of jobs created, revenue increased and welfare costs reduced arising from awarding contracts.

The Department of Jobs, Enterprise and Innovation (DJEI) and the Department of Public Expenditure and Reform (DPER) need to work more closely to ensure their policies are complementary. The DJEI are putting incentives in place to encourage SMEs while the DPER may be adopting tendering and procurement policies which favour larger firms, often not resident in the State.

The method of single sourcing being pursued is a risky strategy which deviates from best practice and could result in the collapse of large numbers of small, local companies. From what we can see the discretion of lower nominal contracts to be awarded locally is being withdrawn from 2014 onward.

Cost efficiencies and savings must not be achieved at the expense of jobs. The Comptroller Auditor General (C&AG) should be mandated to review value for money critiques in the context of the wider return on investment achieved by awarding contracts locally. The Dáil

---

<sup>16</sup><http://www.french-property.com/guides/france/working-in-france/starting-a-business/other-business-taxes/>

<sup>17</sup> <http://www.nama.ie/news/nama-cash-receipts-nearing-e10-billion/>

Public Accounts Committee could then be empowered to review C&AG reports via a ‘jobs and tax proofing’ analysis of all contract awards.

We support cost containment and efficiencies by Government. However, this cannot be at the cost of our SME community. The business generated by Local Authorities is significant and plays a vital role in local communities in terms of job creation and economic sustainability.

### ***7. An Additional Tax Incentive Policy to Encourage Private Sector Investment***

While recognising the proactive approach of the Department of Jobs, Enterprise and Innovation in this area, for instance with the establishment of the MicroFinance Fund and the Credit Guarantee Scheme, we believe Government must explore a wide range of alternative funding sources, which could provide the funds necessary for businesses to begin trading.

We recommend the introduction of an alternative tax incentive policy to encourage private sector investment in Irish businesses. For example, if a loan is made by a private individual to an unconnected business we recommend that they become eligible for loss relief for Capital Gains Tax and any return made qualify for the reduced tax rate set out in point 3.

### ***8. Promote Ireland as the Best Possible Location for Nearshoring<sup>18</sup>***

As the costs of doing business increase globally, the option of ‘nearshoring’ is becoming more attractive for European businesses. While many companies are looking towards Eastern Europe for certain services, there are many reasons why Ireland would be better suited to their needs. The competitive advantages of doing business in Ireland such as the highly skilled workforce, the first rate infrastructure and the use of English should be exploited to encourage companies across Europe to locate their business processes here.

We recommend that nearshoring becomes an important component of the IDA’s promotion of Irish Business Service Centres (BSC). Ireland must be presented as the ideal location for European companies who require these services and the necessary facilities and knowledge for nearshoring services must be in place.

### ***9. Mandate all Government Research Funding Agencies to set aside 2.5% of their Budget for SMEs***

To complement the increase in the amount of expenditure eligible for the R&D tax credits, we believe that all Government agencies involved in research funding should set aside 2.5% of their budget for SMEs.

One model that could be followed US Small Business Innovation Research (SBIR) Program which has been designed to stimulate technological innovation and provide opportunities for small business. Under this programme, Federal agencies with R&D budgets over \$100 million are required to administer SBIR programmes using an annual set-aside of 2.5%. Since

---

<sup>18</sup> “Nearshoring is the transfer of business or IT processes to companies in a nearby country, typically with one which shares borders. This is usually due to capitalize on benefits of proximity which include time zones, cultural and linguistic similarities, and political factors.” (<http://www.zdnet.com/it-nearshoring-to-pick-up-in-2013-7000010672/>) For a discussion of the advantages of nearshoring and some of the problems which remain in eastern European territories see <http://www.economist.com/node/5246203>

its establishment in 1982, this programme has played a crucial role in the development of many successful start-up companies. If appropriately tailored for Ireland, it could have a similar impact.<sup>19</sup>

## **10. Further Operational Issues to Promote Business Interests**

### **Urgent Consolidation of Existing HR Legislation**

Ireland has a multi-layered and lengthy process for labour market regulation and wage-setting. It is our view that this is insufficiently flexible to account for changes in the broader economy. Wages should reflect economic conditions and should be in line with other indicators of growth. Put simply, increased flexibility will give businesses the confidence to invest and grow.

At present significant numbers of employers continue to defer decisions to hire new employees as they see adding employment as more akin to a fixed cost rather than a viable and flexible cost. Employers are unwilling to add such costs until more certainty exists in the economy.

A recent longitudinal study carried out by the National Competitiveness Council<sup>20</sup> identifies facilitating labour market adjustment as one of five main factors that increase productivity in the economy.

Chambers Ireland believes that the process of wage-setting, along with other labour market regulations, can be rationalised to provide a range of services that would free businesses from unnecessary ‘red-tape’ while continuing to offer protection for workers. Only a rationalised system will give businesses the confidence to expand their workforce.

### **A One Stop Website for New Exporters<sup>21</sup>**

Many micro enterprises make the transition to being an SME as they begin to explore export markets. These businesses would benefit from a one-stop website to provide information on the export or import process. At present, an Irish SME needs to trawl through the websites of a number of different agencies and Departments, with no single source to access information on the numerous requirements involved in international trade. We would highlight the UKTI website as an example of best practice in this area.<sup>22</sup>

### **The Importance of ‘Joined Up’ Government**

Stimulating economic growth, encouraging new businesses and the resulting benefits in terms of job creation are so important that decisions by other Government Departments must not be allowed to impact on them negatively.

We recommend that all policy debates at Cabinet should include a consideration of the potential impact on job creation and the profitability of micro, small and medium-sized enterprises.

---

<sup>19</sup> <http://www.sbir.gov/about/about-sbir>

<sup>20</sup> Ireland’s Productivity Performance, 1980-2011. March 2012

<sup>21</sup> This idea was presented to the Joint Oireachtas Committee on Foreign Affairs and Trade by Chambers Ireland on 13<sup>th</sup> February 2013. The presentation can be viewed on the Committee’s website.

<sup>22</sup> <http://www.ukti.gov.uk/home.html?guid=none>

For example, the Department of Health's push to increase taxation on cigarettes and alcohol, while reflecting its public health priorities, will have the unintended consequences of encouraging black market purchases, increasing the incentive to smuggle and harming retailers who often depend on sales of these products to drive footfall and other sales in their businesses.<sup>23</sup>

That same Department's insistence on raising the levy on private health insurance also has a considerable impact on business support for health insurance as an employee benefit, increasing payroll costs and further undermining funding for broader healthcare provision.

### **An Immediate Review of Standard Documentation for Government Construction Contracts<sup>24</sup>**

As stated previously, the construction sector continues to struggle and must be supported wherever possible.

Given that over 50% of construction work carried out in Ireland in 2012 was through public contracts, it is essential that these are reformed to guarantee a fair tendering process and contracts which no longer place unnecessary conditions on the contractor.

The current Government standard contract places too much undue risk on contractors for issues that may materially affect the build cost of State contracts. A partnership approach would ensure a balance is achieved whereby unforeseen issues are appropriately funded rather than placed exclusively on the contractor, as is currently the case.

We recommend that any reform results in more certainty in terms of the sustainability and profitability of the contractors as well as the impact on existing employees and job creation.

### **Local Authorities Creating the Best Environment in which to do Business**

In order for businesses, especially in the retail sector, to remain competitive and successful it is important that retail areas are attractive to customers. We support the work carried out by Local Authorities to improve business and retail districts.

In this context, the Department for the Environment, Community and Local Government's *Supporting Economic Recovery and Jobs – Locally*<sup>25</sup> highlights Waterford City Council's use of a combination of the Redundancy Apprenticeship Scheme and a Community Employment Scheme in the regeneration of a large block of derelict commercial property. This will improve the business environment, encourage increased consumer activity, support training and reskilling and give the individuals participating in the schemes increased purchasing power.

---

<sup>23</sup> For more details on this issue see the Retailers Against Smuggling Pre-Budget Submission. Available through the Joint Committee on Finance, Public Expenditure and Reform, Correspondence Item 2012/354. They estimate that cigarettes and associated impulse purchases can account for up to 30% of a retailer's turnover.

<sup>24</sup> This issue was raised by the Construction Industry federation at the 'Public Procurement in Ireland' conference on 21<sup>st</sup> March 2013. Their main points are summarised here: <http://cif.ie/news-events/current-news/public-procurement-system-costing-the-state-tens-of-millions-of-euro-every-year-cif/>

<sup>25</sup> <http://www.environ.ie/en/Publications/LocalGovernment/Administration/FileDownload,31194,en.pdf>



## Conclusion

To return the Irish economy to a sustainable footing, it is essential to get as many of the 294,600 people currently unemployed to join the 650,000 already employed by micro and small enterprises.

This will be achieved through radical proposals which encourage people to start new businesses and create an environment which facilitates growth.

The Government must recognise the work done by entrepreneurs and those willing to take the difficult steps necessary when starting a business. Risk taking behaviour, which creates jobs and results in benefits for the whole of society, must be rewarded.

Applying the suggestions in this alternative 10 point plan, together with our recommendations for improving the Government's plan, would recognise these risks, provide such rewards and bring Ireland closer to the Taoiseach's vision of "the best small country in the world in which to do business."