The Voice of
Small Business

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Small Firms Association

Pre-Budget 2021 submission

Presented to:
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and

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SFA priorities for Budget 2021

#1 Protect the business environment for small firms and entrepreneurs

#2 Prepare for a ‘no-trade deal’ Brexit

#3 Sustain investment and entrepreneurship through the tax system

#4 Support employment and upskilling in small firms

#5 Incentivise small firms to transition to a low-carbon economy

Overview

Small firms are at the mercy of the COVID-19 crisis, with Government and local authorities forced to step in to save the futures of thousands of small firms and their employees through grants, loans, and job subsidies. These mechanisms have been central to the Government’s emergency business supports but not all businesses in need fell within the criteria for supports. Budget 2021 must help further to get Ireland’s small business community back on its feet.

Many small firms have had to make major adjustments to survive the current crisis. SFA’s research found that by the end of April 2020:

- Three-quarters of small business owners (74%) expect to return to pre-COVID-19 levels of demand within 12 months after restrictions end.
- Respondents in general were expecting substantial decreases in turnover (64%) and profitability (62%).
- 45% expect employee numbers to stay the same with a third expecting a slight decrease in staffing.
- Over two fifths (41%) expected their order books to decrease substantially, and less than half (49%) expected a significant decrease in domestic sales over the next 12 months.
- Brexit, and a slowdown in the global economy have also been identified as concerns by small business owners.

The Programme for Government identifies SMEs as the backbone of our economy and communities across the country and key drivers of employment. To fulfil this important sectors potential Budget 2021 must introduce measures to improve the tax environment for small indigenous businesses, their ability to retain and create jobs and upskill business-owners and their employees.

Supporting small businesses in this way will achieve the next stage of Ireland’s response to the COVID-19 crisis, mitigate some of Ireland’s economic vulnerabilities and create a true entrepreneurial culture with benefits for entrepreneurs, employees and communities.

A National SME Growth Plan

The Programme for Government commits to the establishment of an SME Growth Taskforce to design a National SME Growth Plan that will map out an ambitious long-term strategic blueprint beyond COVID-19. Implementation of a national strategy was also recommended in the OECD SME and Entrepreneurship Policy Review of Ireland. Prior to Brexit and COVID-19 the SFA called for the establishment of such a strategy. Now, we are calling for the urgent delivery of this Plan, to guide domestic policy to save small firms, get people back in employment, get entrepreneurs investing, re-skilling employees and creating jobs.

Such a Plan should outline a common vision for the future of small business in Ireland (increased productivity, export diversification etc.) in line with the goals of the National Economic Plan. The already identified priority recommendations in the OECD roadmap for SME and Entrepreneurship Policy in Ireland should be used to guide the new Plan. The implementation, of this Plan would be an emphatic statement from government that it will support home grown enterprises and stand behind those individuals who take the risk to start their own business.

Furthermore, we press for the urgent establishment of a “Save SME Taskforce Group” of key stakeholders including proprietary directors, self-employed working in professional services and owner-managers with 10 plus staff. To focus on the short-term supports for small firms and entrepreneurs to respond to the ongoing challenge of COVID-19. Continued engagement between different government departments, agencies, academia, business representatives and the small business sector in Ireland will be most important in contributing to our reboot and growth going forward.

Small businesses are the backbone of the Irish economy and account for 98% of businesses in the county and employ nearly 760,000 people half of the private sector workforce. They will take any government support they can get to survive the COVID-19 crisis and will need help to recover and maintain employment and prepare for Brexit.

SFA suggests that the Government considers implementing the following in Budget 2021 to help small businesses to recover and survive and reframe our economy for the upcoming challenges of Brexit but equally important is the highlighted areas of caution where we have concerns about some areas of policy.

Priority actions for Budget 2021

#1 Protect the business environment for small firms and entrepreneurs

The cost of doing business is a very sensitive issue for SFA members. This year, the National Competitiveness Council stated, once again, that Ireland remains a high cost base with numerous barriers and disincentives for entrepreneurs and established businesses. Since the economic crisis, small firms have faced several competitiveness challenges such as the high cost of credit, legal services, and general liability insurance as well as digital economy, infrastructure, skills, and education. In recent years, State supports, and initiatives have assisted start-ups with investment, rental space, training, and other business costs, while existing business-owners have had to rely on retained earnings to fund spending and investment. In response to COVID-19, business costs have again increased with small businesses having had to alter their premises, re-train staff and cover the cost of personal protective equipment and other protective measures to make their staff and premises safe to reopen.

This is the reality being faced by members of the SFA every day. Many operate in low margin environments, making it difficult for them to absorb cost increases. On the other hand, the COVID-19 marketplace and demand for value makes it impossible for many to pass the increase onto customers. At a time when many small firms are dependent on emergency support measures and facing the significant challenges of Brexit, it is vital that all budgetary measures are assessed for their impact on small firms.

Half of the private sector workforce is employed in the small business sector, so Government must be particularly vigilant about the cost of employment. The impact of COVID-19 on employment is without precedent, the unemployment rate has jumped from under 5% in the early part of the year to 26% in May and more than 1 million people received state supports in April 2020 through jobseekers-allowance. Once the recovery begins, the Government must be particularly vigilant about the cost of employment, especially in those sectors most at risk from automation such as agriculture, retail, transport, hospitality, and manufacturing. The Employment (Miscellaneous Provisions) Act 2018 shows how policy making is too often totally removed from the reality of running a small business and endeavouring to sustain employment.

To rebuild after this health crisis, we must address challenges such as housing, broadband, transport and the environment in order to be more competitive and get people back to work, firms investing, re-hiring and up-skilling and creating jobs.

In Budget 2021 the Government should:

- **Maintain the National Minimum Wage rate in 2021:** Based on the stark unemployment figures and the decision to extend the Employee Wage Subsidy Scheme to April 2021 there is no economic reasoning to increase the cost of labour next year.
- **Postpone the introduction of the auto-enrolment (AE) pension system until the end of 2025:** Due to its effect on labour costs, the unknow economic and business impact of Covid-19 and the uncertainty of Brexit. The SFA also recommends that government follow the UK example and stagger the dates at which companies will become subject to AE duties. Starting dates should be based on the size of an employer's PAYE scheme with larger employers starting first. Greater certainty is required on specific design features such as an efficient collection structure and an effective mechanism for the State

contribution. Furthermore, the proposed Commission on Pensions needs to consider the impact of AE and further reforms on business competitiveness.

- **Support the competitiveness of risk takers and job-creators in the economy and introduce a fund to write down debts:** Introduce a fund to write down debt under the Revenue tax warehousing scheme where they threaten business viability, extend the commercial rates waiver to six months with a further six-month deferral, and introduce a binding mandatory arbitration model for disputes over commercial leases. This arbitration model should include some State burden sharing based on the recent Swedish state-aid approved model.
- **Protect the growth and productivity of small firms and entrepreneurs**: By addressing issues such as broadband, housing, transport links and childcare costs to maintain competitiveness and power the economy post-Brexit.
- **Support FDI-SME linkages**: By ensuring that export promotion initiatives extend to helping SMEs join FDI value chains, supporting SME compliance with industry standards, and involving FDI in local enterprise-led networks for innovation and skills development.

#2 Prepare for a 'no-trade deal' Brexit

As we emerge from this crisis, small firms are hoping to see a swift conclusion to Brexit negotiations. Unfortunately, it now seems likely that a no-trade deal outcome will be likely in December. If the worst occurs it will fundamentally reframe the economic outlook for both the country and the region's most reliant on Brexit exposed sectors. Whilst some parts of the country may begin to recover from Covid-19 in 2021, others would be sent in a second recessionary spiral.

No matter what the outcome of Brexit, either scenario will spell further difficulties for small companies. Therefore, further supports for our indigenous business will be needed to mitigate the worst impacts of Brexit domestically.

In Budget 2021 the Government should:

- **Stand ready to re-introduce the Employer Wage Subsidy Scheme for Brexit impacted companies in a no-trade deal scenario:** The scheme should be put on a scenario contingent footing and be re-introduced on a temporary basis where firms are struggling due to immediate loss of income due to Brexit.
- **Improving the export capability of indigenous Irish manufacturing:** This can be done by introducing a State supported export credit insurance scheme to ensure the expected gap in supply of export credit insurance does not impact on the ability of Irish firms to export. In addition, further funding for direct grant supports for innovation, marketing and trade promotion for firms building new markets should be provided.
- **Increase R&D grant rates to 50%:** Ensure state agencies make full use of the new state aid guidelines to fund up to 50% of Research and Development projects which support future business growth.
- **Do not increase other areas of VAT or duties on potentially mobile products or services:** 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.

#3 Sustain investment and entrepreneurship through the tax system

A vital dimension of Ireland's competitiveness is its relative attractiveness as a location to start a business, attract expertise and investment to grow into a global company, and create attractive conditions to sell a business and reinvest. As we head towards 2021 the best way to combat unease is to take concrete measures to provide certainty and innovative improvements to the economic regime we have. In the first instance, the Government must deal with the investment and taxation policies which are causing continued concern for Irish indigenous businesses.

Changes to taxation are the most effective measures the Government can make to encourage more people to go into business for themselves. Tax changes can create incentives and mitigate risks, making entrepreneurship attractive. The benefits of a true entrepreneurial culture include job creation, greater levels of innovation, increased tax revenues and more vibrant local economies.

In Budget 2021 the Government should:

- **Reduce CGT to 20% across the board**: To make investing in a business in Ireland more attractive. Analysis by the Irish Tax Institute shows that CGT represents only 1% of the Government's tax revenue. In this context there is very little to lose by reducing the rate, and the benefits could be significant. International evidence (from Australia in the early 2000s, for example) as well as Irish data from the last two decades, has demonstrated that when CGT rates are reduced, revenue to the Exchequer increases, as economic activity and investment transactions are stimulated.
- **Send a signal of intent to serial entrepreneurs by radically improving the CGT entrepreneurs' relief**: Increase the lifetime limit for CGT Entrepreneur Relief to €15 million and broaden the tax relief of the statutory capital gains tax (revised entrepreneur relief) by making third party equity investors eligible.
- **The 3% surcharge on USC, which applies only to the self-employed, should be expired in Budget 2021**: This surcharge is out of line with the Government's aim of encouraging entrepreneurship. Introducing the change now would send a positive message to the small business community of the Government's commitments. It should be expired now and not when resources allow (as mentioned in the Programme for Government).
- **Introduce accelerated capital allowances for small firms**: To invest in IT equipment to facilitate remote working. We also recommend extending this to engineering and manufacturing companies to invest in new machinery and related equipment that will drive efficiencies and productivity through automation, new technologies and business digitalisation.
- **Guarantee employment retention**: We propose the reduced rate of Employers PRSI of 0.5% to continue for employees until April 2022 for Covid-19 impacted businesses in instances where the employee qualified for PRSI Class J9 under the Temporary Wage Subsidy Scheme/Employer Wage Subsidy Scheme or returns to employment from the Covid-19 Pandemic Unemployment Payment.
- **The Earned Income Tax Credit (Self-employed) to be equalised with the employee tax credit in Budget 2021:** If this new government is committed to entrepreneurship and job creation, then they must increase the Earned Income Tax Credit to €1,650 for the self-employed and proprietary directors.

#4 Support employment and upskilling in small firms

Having skilled and experienced staff – and being a skilled and experienced owner-manager – is crucial to running a successful, resilient, and agile small business. The combination of these will be essential to recover and survive in a post-Coronavirus world. The past few months have highlighted the need for increasing integration of digital technology into the everyday life of a small business and for the Government to invest in policies to strengthen digital skills, re-training and boost basic skills.

As we move forward a strong focus on supporting people without jobs, especially young people, with upskilling and training to enhance employability will be required if we are to get people back to work quickly.

In Budget 2021 the Government should:

- **Protect and allocate a greater share of the National Training Fund budget to Skillnet Ireland**: To provide specific and targeted programmes necessary for small business owners to make use of and develop their people and enhance their management and strategic capability to build stronger indigenous enterprises.
- **Provide €500m for in-employment training vouchers** to improve skills, adaptability, and long-term employment prospects of the labour force.
- **Support the rollout of the Enterprise Ireland's Spotlight on Skills programme to SME**s: to identify and source the key skills required to grow the business.
- **Keep the duration, funding envelope and terms of the JobsPlus scheme under review:** These factors may need to be revisited if the rate of unemployment does not fall quickly enough in light of activation or recovery measures or indeed where certain regions remain significantly impacted by persistent unemployment as a result of COVID-19 (e.g. areas reliant on tourism employment).
- **Support workers in their return to work, particularly in the regions and sectors most impacted by COVID-19 disruptions:** By increasing funding for labour market activation schemes and enhancing short-time work programmes to provide government-funded training on the 'off' days.

#5 Incentivise small firms to transition to a low-carbon economy

Small business owners care about the environment and have already been taking steps to reduce their emissions. In addition, small firms are optimistic about the potential for new business from the move to a low-carbon economy, with many members believing there would be more opportunities than threats for their business. Together with our members we want to see small businesses gain from the transition, as micro generators, investors, consumers and as suppliers of products and services.

The SFA acknowledges but does not support the Programme for Government's ambition to increase carbon tax by €7.50 per tonne in every budget until 2029. This plan punishes small firms with new costs instead of providing them the tools needed to further reduce their carbon footprint.

In Budget 2021 the Government should:

- **A portion of the revenue collected through the increase of the carbon tax should be used to provide small firms with additional State supports:** This would make decarbonisation investments more cost-effective and attractive.
- **Commit to the new Green Enterprise Fund in Budget 2021:** Due to the limited funding available the new Green Enterprise Fund should only be made available to small firms with less than 50 employees, start-ups and entrepreneurs operating across the economy. With limited liquidity and enterprise investment currently available to our small business community this funding will be vital to channel funds to entrepreneurs seeking to build a green and sustainable business.
- **Incentivise landlords to attain a minimum BER standard:** Reintroduce the Home Renovation Incentive (HRI) for landlords which closed on the 31 December 2018. Through this scheme landlords would be able to reclaim the HRI for repairs, renovations, and improvements to rental properties. The Department should consider extending the HRI list of qualifying works to include certain good and services needed to substantially raise a building energy rating (BER) standard. The SFA also recommends that landlords be able to claim this new HRI in real time (the year the qualifying works was paid for) not in the year after the work has been paid for. The reintroduction of the HRI would incentivise landlords to undertake works on their properties to attain a minimum BER standard.

Conclusion

At the current juncture, it is crucial that appropriate measures are introduced that will generate the growth needed to retain and create jobs, overcome the challenging COVID-19 and pre-Brexit environment, and deliver a low carbon economy. Small business can lead the way in helping Ireland to recover quickly – but in order to do this, the Government must deliver a National SME Growth Plan, reduce capital gains tax, increase the self-employed tax credit and provide additional funding up-skilling and retraining.

Supporting small businesses in this way would mitigate some of Ireland's current vulnerabilities and assist in helping the economy to recover as we deal with the ongoing health crisis.

About the SFA

The Small Firms Association (SFA) is the trusted partner of small businesses (less than 50 employees) in Ireland, with members in all sectors and parts of the country. Its mission is to deliver business-focused advice and insights to member companies, influence government policy to the benefit of small businesses and connect its members in a thriving community.

The SFA has a vision of Ireland as the most vibrant small business community in the world – supporting entrepreneurship, valuing small business, and rewarding risk takers. The SFA makes this submission to the Department of Finance based on our knowledge and experience of the small business community, which comprises over 267,000 businesses, employing half of the private sector workforce, some 755,000 people.

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