SFA
Small Firms Association

Small business priorities

Budget 2019

01 Protect competitiveness by ensuring no additional costs for small businesses

02 Reduce the headline rate of CGT to 20% for all

03 Increase the lifetime limit for CGT Entrepreneur Relief to €15 million

04 Increase the Earned Income Tax Credit to €1650 to equal the PAYE tax credit

05 Introduce measures to boost the viability of residential property construction

Budget 2019

Overview

There is a clear path open to the Government that would de-risk our economy from over-reliance on foreign direct investment (FDI) and seize an important opportunity to future-proof our economic model. That is to focus on small business and support this important sector to fulfil its potential.

This would involve creating a whole-of-government Small Business Strategy, with a roadmap towards significant policy goals (increased productivity, export diversification etc.). Immediate changes would support the achievement of these goals, including ensuring that no additional costs are placed on small businesses in Budget 2019, reducing capital gains tax, increasing the self-employed tax credit and addressing the ongoing housing shortages.

Supporting small businesses would mitigate some of Ireland's current vulnerabilities and create a true entrepreneurial culture with benefits for entrepreneurs, employees and communities.

01

Ensure Budget 2019 does not impose additional costs on small businesses

Ireland's competitiveness is under threat. The National Competitiveness Council has confirmed that business costs are rising from an already high base.

At a time when positivity among small businesses is at its lowest since the immediate aftermath of the Brexit vote, it is vital that no measures that impose additional costs on small companies are introduced.

Vigilance is needed in several areas:

- No further increase in the National Minimum Wage. Rapid increases since 2015 have added over €20,000 to the annual wage bill of a small employer with 10 minimum wage employees.
- No mandatory pension contributions by employers. This would be another burden on those creating employment.
- No further increase in the National Training Fund levy until the other elements of the funding triangle (student and State) are in place
- Retain the 9% VAT rate for the hospitality sector to support Ireland's rural economy

Government must ensure that the mistakes of the past are not repeated by allowing business costs to become unsustainable in a period of economic growth. This is particularly important when the growth is driven by the FDI sector but the costs are borne disproportionately by small firms.

This action has no additional cost to the Exchequer.

02

Reduce the headline rate of CGT to 20%; and

03

Increase the lifetime limit for CGT Entrepreneur Relief

Ireland must be an attractive location to start a business, scale, sell and reinvest. With Brexit, Ireland's competitiveness vis-à-vis the UK is particularly important.

At 33%, Ireland has one of the highest rates of capital gains tax (CGT) amongst developed economies. The SFA is calling for a reduction in CGT to 20% across the board, to make investing in a business in Ireland more attractive. CGT represents only 1% of the Government's tax revenue, so there is very little to lose by reducing the rate, but the benefits could be significant.

The lifetime limit of €1 million for Entrepreneur's Relief has minimised its impact. The SFA believes that Budget 2019 should see Ireland improve its offering significantly when compared with the UK by increasing the lifetime limit to €15 million.

The cost to reduce the headline rate of CGT to 20% is €442 million.

The cost to increase the lifetime limit for CGT Entrepreneurial Relief is estimated to be €56 million.

These costings assume no behavioural change. Experience shows that when CGT rates are reduced, revenue to the Exchequer increases as economic activity and investment transactions are stimulated.

04

Increase the Earned Income Tax Credit to €1,650

The Programme for Partnership Government states "we will increase the Earned Income Tax Credit from €550 to €1,650 for the self-employed, to match the PAYE credit, by 2018". Yet the gap persists, with the self-employed Earned Income Tax Credit (EITC) currently at €1,150.

If a PAYE worker is considering starting a business, they face seeing their income tax credit drop by 30%. This is a clear disincentive to self-employment and business creation. With tax compliance at very high levels in Ireland, any historic justification for the inequality of tax credits between the self-employed and employees is defunct.

The small business community cannot wait any longer for the Government to deliver on this commitment to increase the Earned Income Tax Credit to €1,650 for the self-employed and proprietary directors.

The cost of this measure is estimated to be €42 million.

A Small Business Strategy for Ireland

The potential of the small business sector has not been realised. There are many individual success stories but also many tales of struggling businesses and business failure.

The SFA is calling for a national Small Business Strategy just as ambitious as the strategic focus on FDI from the 1950s to the present day. In Ireland, we know exactly what it takes to create real, transformational change, as we have successfully built a world-class environment for multinational companies.

Such a strategy would outline a common vision for the future of small business in Ireland and include both short- and medium-term policy goals. The successful Action Plan for Jobs model could be harnessed as an implementation tool.

Read more at www.sfa.ie/0/NSBS

05

Introduce measures to boost the viability of residential property construction

The housing supply crisis now represents a significant cost to business.

High rental costs are fuelling wage demands and job seekers abroad do not want to move to Ireland due to concerns around securing affordable accommodation.

Housing shortages have been at the top of the political agenda for some time, but one important part of the equation has not been addressed, that is how to make residential development more commercially viable.

SFA proposes:

- Introduce a site value tax to replace the commercial rates and vacant sites levy
- Permanently reduce VAT for large build-to-rent developments to provide a level playing field with commercial developers
- Sanction a temporary VAT reduction on the residential sector to bring the return on investment back to a competitive rate
- Explore a system of capital allowances for residential development
- Reconsider building height to avoid urban sprawl and achieve a higher population density

There is no net cost to introducing a site value tax.

The cost of the permanent reduction in VAT for large build-to-rent developments is €10 million.

The cost of a temporary 9% VAT rate for residential construction is €220 million.

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.

SFA
Small Firms Association

The Small Firms Association 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.

This submission is based on our knowledge and experience of the small business community, which comprises over 245,000 businesses. These businesses employ half of the private sector workforce, over 700,000 people, in good, local jobs.

Visit www.sfa.ie/policy to read the full SFA pre-Budget 2019 submission. For further information, please contact Sven Spollen-Behrens, SFA Director, on 01 6051602 or sven@sfa.ie.