Submission to the Commission on Welfare & Taxation – Your Vision, Your Future

January 2022

Introduction

Dublin Chamber is the representative body for businesses in the Greater Dublin Area. Its diverse membership base spans across all sectors and company sizes, from start-ups and sole traders to large multinationals and semi-state companies. This gives the Chamber a keen insight into the needs of businesses and their employees. Dublin Chamber members are united by the vision that the Dublin region will be globally renowned for its economic competitiveness, sustainability, and quality of life.

This submission details Dublin Chamber's views on how best the taxation and welfare systems can support economic activity and promote increased employment and prosperity, while ensuring that there are sufficient resources available to meet the costs of public services and supports in the medium and longer term. A long-term strategy is needed to position the Irish economy for a sustainable recovery beyond Covid-19. Dublin Chamber supports a prudent fiscal policy, taking account of both international and internal circumstances.

We begin by addressing the pressing need to broaden Ireland's progressive, yet narrow, personal income tax system. Ireland has one of the most progressive personal income tax systems in the developed world; it is ranked the most progressive within the EU members of the OECD.[1] However, Ireland's progressivity has resulted in a "squeezed middle". There is a need to broaden the income tax base to bring it in line with other countries in the EU and further abroad, whilst rebalancing the system toward less mobile factors such as immobile and unproductive wealth. In the first section we discuss how bringing Ireland's entry level tax closer to that of other EU states is one way to broaden Ireland's tax base.

Second, we discuss how best the taxation and welfare systems can support promoting increased employment and prosperity in a resilient, inclusive, and sustainable way. According to Dublin Chamber's Q4 Business Outlook Survey, 54% of businesses reported that staff retention and recruitment is the biggest challenge facing them in 2022, and 69% reported that they have experienced an increase in staff turnover in the past six months.[2] The issue of a skills shortage has come up repeatedly during focus groups with Dublin Chamber members and needs to be addressed. Under this section we demonstrate ways to

[1] ESRI, https://www.esri.ie/news/irish-tax-system-does-most-in-europe-to-reduce-inequality
[2] Dublin Chamber Q4 Business Outlook Survey, https://www.dublinchamber.ie/Portals/0/Business%20Trend%20Surveys/Dub%20Chamber_survey%20report_Q4_final.pdf?ver=2021-12-14-161410-540&timestamp=1639498472959

attract key talent to Ireland in order to mitigate the country's skill shortage. We additionally address how best to incentivise parents to re-join the work force.

We then review how best the taxation environment for SMEs and entrepreneurs can ensure that Ireland remains an attractive place to sustain and grow an existing business or to start and scale up a new business. Ireland has achieved notable success in attracting FDI to the country, largely due to its competitive, consistent, and transparent corporate tax regime. One of the largest sources of tax revenue to the state is corporation tax. Last year, corporation tax accounted for 20% of tax revenues compared to an average of 12% a decade ago.[3] Foreign multinationals account for 32% of employment and 49% of employment taxes.[4] However, the ambitious approach to FDI has not been mirrored in the state's treatment of indigenous SMEs, a crucial part of the Irish economy. With proper support and policy recognition, SMEs can play a pivotal role in pulling the economy out of the Covid-19 crisis and building a stronger and more resilient economy. Dublin Chamber therefore suggests that more should be done to support SMEs and entrepreneurs.

We next examine how the taxation system can be used to help Ireland move to a low carbon economy as part of the process of meeting its climate change targets. This includes ensuring the sustainability of environmental tax revenue resulting from decarbonisation of the economy. In many ways, business has been ahead of government in taking the initiative to accelerate Ireland's climate goals. However, whilst large businesses and multi-nationals have the means to switch to more environmentally friendly practices, it is essential that more financial assistance is made available to SMEs in order to further move the Irish business community forward in this respect.

Finally, we consider how taxation measures can contribute to solving Ireland's housing crisis. Inflation in the price of accommodation has been and will likely remain the most immediate threat to cost competitiveness in Dublin and Ireland. According to Dublin Chamber's Q4 Business Outlook Survey, 45% of firms ranked housing availability as the number one issue impacting Dublin's competitiveness in the year ahead.[5] The issue is one of increasing concern. In this section we therefore place particular emphasis on the need to tax land that is not being utilised effectively. Vacant properties and land should be disincentivised via high taxation. In this respect, there is a need to accelerate and reform the Zoned Land Tax, whilst also looking at how Local Property Tax could be used to encourage property owners to make the most efficient use of their property. Crucial to the property tax issue, however, is the need to avoid any scheme that unfairly targets Ireland's cities and is counter to the National Planning Framework vision of sustainable urban density.

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[3] RTE News, https://www.rte.ie/news/business/2021/0810/1240028-11-8bn-collected-in-corporation-tax-last-year/#:~:text=of%20Finance%20today.-,Last%20year%2C%20corporation%20tax%20accounted%20for%2020%25%20of%20tax%20revenues,average%2012%25%20a%20decade%20ago.&text=Ten%20firms%2C%20all%20multinationals%2C%20accounted,of%20the%20corporation%20tax%20collected.

[4] Houses of the Oireachtas, https://www.oireachtas.ie/en/debates/question/2021-06-22/229/#:~:text=Foreign%20multinationals%20account%20for%2032,owned%20multinationals%20it%20was%2011.1%25.

[5] Dublin Chamber, Q4 Business Outlook Survey, https://www.dublinchamber.ie/Portals/0/Business%20Trend%20Surveys/Dub%20Chamber_survey%20report_Q4_final.pdf?ver=2021-12-14-161410-540&timestamp=1639498472959

Central to our submission is the idea that Ireland must continue to be an attractive location for businesses that are successful in both the domestic and the international marketplace. To achieve this, it will need to be responsive to the major changes that are likely to happen over the next 10-15 years. Some very material changes are already underway, with developments in technology affecting where and how people work, many of which were precipitated by the Covid-19 pandemic. The impact of the UK's departure from the EU on the Irish economy over the coming decade is also significant. Not only is the UK our largest trading partner, but it is also a strong competitor for talent and foreign direct investment and was a country that had somewhat similar views to Ireland's on certain tax matters around the EU table. It must also be recognised that the relative attractiveness of Ireland's corporation tax rate for businesses making investment decisions is likely to be reduced as the world converges on a minimum tax rate for large multinational corporations (MNCs). In such circumstances, the other factors that are considered in location decision making will assume greater relative importance than they have in the past. These factors will also be relevant for Irish indigenous businesses making investment decisions as they scale and grow.

1. Fiscal Sustainability

1.1 Broadening the Tax Base

Ireland's income tax system is highly progressive and focused on a narrow base of taxpayers. Including our system of transfers under the social welfare system, it is the most progressive in the OECD. This means that the Irish Exchequer is over reliant on a narrow base of income earners to generate much of its revenue.

The existence of a stable tax base is essential in ensuring that an economy is resilient against external shocks, such as the impact of Covid-19. One means of achieving greater stability is providing for a broad income tax base and therefore avoiding over-reliance on one source of tax revenue. Dublin Chamber accepts there is a need to broaden the tax base in Ireland.

The narrowness of Ireland's income tax base was highlighted by the EU and IMF during the Financial Crisis as a point requiring correction if Ireland was to achieve greater fiscal stability going forward.[6] And yet, since then, successive Budgets have acted to increase the narrowness of the income tax base. In 2021, it is projected that the top 1% of earners will pay 25% of the total income tax and USC for the period.[7] Similarly, it is projected that the top 25% of income earners will pay 83% of the total income tax and USC in 2021.[8] Alongside this, over one third of all taxpayers pay no income tax.[9] This process should be arrested, and indeed reversed in future years. The current Programme for Government outlines an ambition to extend and enhance the range of social insurance benefits, as well as to

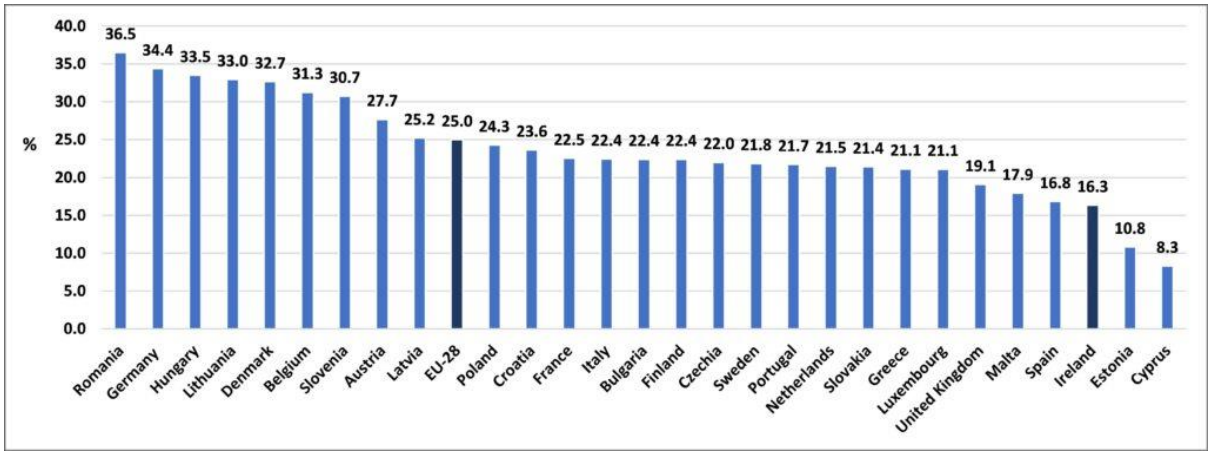
[6] RTE, https://www.rte.ie/radio/radio1/clips/21146813/
[7] 2021 Income Tax TSG Paper, https://www.gov.ie/en/publication/fdd38-budget-2021-tsg-papers/
[8] Ibid.
[9] Ibid.

introduce a pay-related (versus flat rate) jobseeker benefit.[10] This ambition is consistent with the idea of increasing the value of contributions from all social insurance beneficiaries.

Despite the high progressivity of the labour tax system, total tax revenue from labour taxes is proportionally higher in Ireland than the EU average. This would indicate that an oversized reliance is being placed on a smaller cohort of earners in Ireland as compared with other EU countries. The tax rate indicator measures the burden of income tax on gross earnings plus employee's social contributions. In 2019, the income tax rate for a single person on a low income in Ireland was 16%, compared to the EU average of 25%.[11] Seven EU Member States had income tax rates above 30%: Romania (37%), Germany (34%), Hungary (34%), Lithuania (33%), Denmark (33%), Belgium (31%) and Slovenia (31%).[12] Moves should be made to correct this imbalance, for example, through non-indexation or partial indexation of the entry points to the tax and USC net.

While it is often noted that Ireland over-relied on volatile tax receipts in the lead up to the previous crisis, much of this focuses simply on the reliance on taxes relating to property and construction sector activity, for example stamp duty and CGT. It is worth recalling that, discounting income levy receipts which applied to a much wider base, income tax receipts fell from a high of c. €12.25bn in 2007 to a low of €8.6bn in 2010 (a c. 30% reduction). The introduction of the broad base income levy in 2009 did much to counteract the steep fall in income tax receipts, contributing €1.1bn to the Exchequer in 2009 and €1.45bn in 2010,[13] despite applying at much lower rates in comparison with the income tax rates applying at that time.[14]This highlights the effectiveness of a broad base tax in providing resilience to the Exchequer.

Income Tax Rate Of 'Low' Wage Workers – Single Persons Without Children, 2019



Source: Eurostat (2020)

[10] Houses of the Oireachtas, https://www.oireachtas.ie/en/debates/question/2021-06-22/229/#:~:text=Foreign%20multinationals%20account%20for%2032,owned%20multinationals%20it%20was%2011.1%25.
[11] Patrick Malone, Comparing Irish Income Taxation Rates with other EU Member States, https://publicpolicy.ie/papers/comparing-irish-income-taxation-rates-with-other-eu-member-states/
[12] Ibid.
[13] Revenue, https://www.revenue.ie/en/corporate/documents/statistics/receipts/net-receipts.pdf
[14] The lowest rates for the income levy in the years 2009 and 2010 were as follows: Period 1 January 2009 to 30 April 2004: 1% on income up to €100,100; Period 1 May 2009 onwards: 2% on income up to €75,036.

Recommendations

- Future tax increases should be applied to a broad base to resist further narrowing of the Irish tax base and to ensure fiscal stability going forward.
- The entry points to the income tax, PRSI and USC net should be gradually lowered over time to ensure all taxpayers have a stake in public spending outcomes.

2. Promoting Employment

Although unemployment levels have recovered somewhat from the height of the pandemic, figures have still not returned to pre-Covid levels. In October 2021, the unemployment rate stood at 8.9%, in comparison to 5.3% in October 2018.[15] Simultaneously, Ireland is facing huge pressure on the labour market. According to Dublin Chamber's Q4 Business Outlook Survey, 54% of businesses reported that staff retention and recruitment is the biggest challenge facing them in 2022 and 69% reported that they have experienced an increase in staff turnover in the past six months.[16] These findings confirm anecdotal reports that "the Great Resignation" is a trend causing Irish businesses serious concern. Increased attrition levels and difficulty recruiting for roles have been accompanied with upward wage pressure. Recently published Central Bank/Indeed research has found that labour supply is not keeping pace with demand in sectors such as construction and software development, thus putting upward pressure on wages.[17] This further adds to the cost of running a business and undermines economic competitiveness.

2.1 Attracting Talent to Ireland

In the context of Ireland's relatively high personal income tax regime, peripheral geographic location, and substandard urban infrastructure, employers can encounter difficulty in persuading highly skilled workers to relocate here. This is often due to the perception that the high marginal tax rate in Ireland is not compensated for by a high quality of urban life. The Special Assignee Relief Programme (SARP) is designed to address this. Crucially, however, SARP is not currently available to SMEs or start-ups. To lessen the skills gap in Ireland, Dublin Chamber recommends that the government acts on the advice of the OECD and extends SARP to SMEs and start-ups in line with the recommendations of the Government's SME Taskforce report.[18] This would help Irish SMEs to attract international talent with critical skills. Access to skilled labour in Dublin is a problem affecting firms of all sizes, but SMEs particularly struggle to compete for the talent they require to expand. Improved workforce mobility in a post-Covid world offers Ireland an opportunity to attract talent to the country, potentially helping transform Ireland into a hub for global talent across a wide range of fields. Multinational firms report that SARP continues to play a vital role in attracting key executive staff from abroad who not would otherwise make the move to

[15] CSO, https://www.cso.ie/en/csolatestnews/pressreleases/2021pressreleases/pressstatementlabourforcesurveyq32021/ & https://www.cso.ie/en/releasesandpublications/er/mue/monthlyunemploymentoctober2018/
[16] Dublin Chamber, Q4 Business Outlook Survey, https://www.dublinchamber.ie/Portals/0/Business%20Trend%20Surveys/Dub%20Chamber_survey%20report_Q4_final.pdf?ver=2021-12-14-161410-540&timestamp=1639498472959
[17] Irish Times, https://www.irishtimes.com/business/economy/unemployment-falls-to-pandemic-low-of-7-9-as-labour-market-recovers-1.4718050
[18] Report of the SME Taskforce: National SME and Entrepreneurship Growth Plan (2021)

Dublin. In order to assist SMEs in attracting the skilled staff required for business expansion, the playing field should be levelled between the indigenous and FDI sectors.[19]

2.2 Female Labour Participation

Considering the significant economic challenge that the country now faces, investment in long-term thinking around human capital and taxation must remain a priority. More needs to be done to address the lack of skilled workers in the labour market and enhancing female participation in the work force is one way in which to do so.

Childcare costs in Ireland are among the highest in the EU and considering the relatively low level of entry to the higher tax bracket, this entails poor value for money for working parents.[20] The combination of high childcare costs and an unsupportive tax regime particularly undermines female labour market participation. Irish women with more than one child are less likely to return to full time employment after maternity leave.[21] Meanwhile, approximately half of working mothers have considered leaving the work force due to childcare costs.[22] The current system is not fit for purpose and greater state intervention in the sector is necessary to provide a steady supply of affordable, quality childcare. Although the childcare package announced in Budget 2022 was a welcome step in alleviating the growing financial burden on working parents, more investment is needed if Ireland is to reduce childcare costs and achieve a more sustainable and diverse labour market.

International examples of successful childcare policy usually involve universal offerings. For example, in Finland children are eligible for universal childcare from the age of eight months up to the age of 7, the time of entry to primary school education.[23] Finland has a female employment rate of 72.4%, notably higher than Ireland's rate of 63.7%.[24]

Government should conduct a review of the National Childcare Scheme and move toward a more universal form of childcare, learning from the example of Nordic models where childcare is viewed more as a basic state service rather than a private sector endeavour.[25] Oireachtas research has concluded that this approach would have positive impacts on affordability, accessibility, child wellbeing, and maternal wellbeing.[26] Research by the Department of Children and Youth Affairs indicates that a public state-run option could run at

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[19] Key Recommendation 10 in the OECD Review's accompanying Roadmap, as outlined at the Irish Government's SME & Entrepreneurship Strategy Conference on 12 July 2019, calls for new hires to be able to apply for SARP.

[20] European Commission, https://eacea.ec.europa.eu/nationalpolicies/eurydice/sites/eurydice/files/infoecec_final.pdf; Independent.ie, https://www.independent.ie/business/personal-finance/latest-news/childcare-costs-hereamong-the-most-expensive-in-europe-38290772.html

[21] CSO, https://www.cso.ie/en/releasesandpublications/er/eampb/employmentanalysisofmaternityandpaternity benef its2016-2019/

[22] Irish Times, https://www.irishtimes.com/news/social-affairs/half-of-working-mothers-consider-giving-upwork-over-childcare-costs-1.4189580

[23] World Economic Forum, https://www.weforum.org/agenda/2019/03/nordic-nations-best-places-for-parentschildren/

[24] CSO, https://www.cso.ie/en/releasesandpublications/ep/p-wamii/womenandmeninireland2019/work/

[25] World Economic Forum, https://www.weforum.org/agenda/2019/03/nordic-nations-best-places-for-parentschildren/

[26] Oireachtas Research Paper, https://data.oireachtas.ie/ie/oireachtas/libraryResearch/2020/2020-06-16_l-rsnote-public-provision-of-early-childhood-education-an-overview-of-the-international-evidence_en.pdf

a cost of up to €2 billion annually; however, there are a number of options to consider.[27] While the cost to the exchequer of progress toward a state funded model is significant, the current private system represents a false economy; it results in childcare that is often unaffordable for working parents and results in a sector of low paid workers and failing private providers, all while undermining broader national goals with respect to labour market participation and gender equality and constraining the growth potential of the economy. The European Commission's official statement on early childcare education systems outlines in its first recommendation that provision must be available and accessible to all; this is not currently the case in Ireland.[28]

In addition, government should consider introducing a Return-to-Work tax credit for second earners returning to or taking up work. It is important to note that although Ireland's income tax system is progressive for low and middle earners by European standards, the entry level for the highest rate of income tax is very low. Ireland's marginal tax rate thus acts as a deterrent to a second earner in a two-parent family looking to re-enter the workforce whilst also paying for childcare. The attractiveness of returning to work, even at the higher salary levels generally commanded by skilled employees, is weakened by the structure of the tax system and the low level of state support for childcare costs currently available. Dublin Chamber recommends the introduction of a Returning to Work credit of, say €5,000, for second earners taking up employment. Its operation would need to be coordinated with the Home Carer's credit and it could be tapered to be withdrawn over a five-year period after taking up employment. The measure itself could be withdrawn as the labour force participation gap diminishes. It should be restricted to parents who are not returning to pre-maternity leave employment so that the deadweight effect can be reduced, and the behavioural economic incentive to return to the workforce of having a "use it or lose it" tax credit available would be paramount.

Recommendations

- SARP should be extended to SMEs and start-ups to attract international talent with critical skills.
- There needs to be sustained progress towards a more universal model of childcare to enhance female participation in the labour force.
- A Returning to Work credit for second earners taking up employment should be introduced, coordinated with the Home Carer's credit.

3. Supporting Economic Activity

3.1 Foreign Direct Investment

Foreign multinational corporation and payroll tax payments amounted to approximately €15bn in 2019,[29] accounting for more than half the net Exchequer receipts for these tax

[27] Irish Times, https://www.irishtimes.com/news/social-affairs/annual-cost-of-providing-state-run-childcarecould-top-2bn-1.4309217
[28] European Union Lex, https://eur-lex.europa.eu/legalcontent/EN/TXT/?uri=uriserv%3AOJ.C_.2019.189.01.0004.01.ENG&toc=OJ%3AC%3A2019%3A189%3ATOC
[29] Revenue, https://www.revenue.ie/en/corporate/documents/research/ct-analysis-2020.pdf

heads in the period.[30] This demonstrates the enormous contribution that foreign direct investment has made towards Ireland's economy and the prosperity and wealth of its communities. Dublin Chamber therefore proposes that any initiatives intended to support the resilience and stability of our tax and welfare systems must include specific measures to maintain Ireland's attractiveness for foreign direct investment in the medium and long-term. Such measures should form the basis of any reform intended to ensure that there are sufficient resources available to meet the costs of public services in the medium and longer term.

3.2 Entrepreneurship & SME Growth

Dublin Chamber recognises the importance of FDI. However, it is also necessary to acknowledge the crucial role that indigenous SMEs play in growing the Irish economy. The time has come for an ambitious approach to be adopted towards Ireland's SME sector through an overhaul of indigenous enterprise policy. Ireland must remain attractive to international investors while also taking action to avoid overreliance on a small number of highly mobile firms. This will require the strengthening of Ireland's indigenous business base, both to increase the size of the overall economy and increase the proportion of it accounted for by Irish firms.

The ESRI has identified a significant investment gap in the Irish SME sector in a joint study with the Department of Finance, calculating that gap amounted to just over €1 billion.[31] The Irish Capital Gains Tax (CGT) regime effectively incentivises passive investment in larger foreign firms over investment in higher risk Irish SMEs. This runs contrary to the national interest, which clearly lies in building up a greater indigenous business base to avoid over-reliance on a small number of multinationals. Ireland's CGT rate is now the fourth highest in Europe.[32] The flat 33% rate on all capital gains (with no provision for indexation), irrespective of the level of risk taken and the contribution to the Irish economy of the investment, is clearly inequitable. The same CGT is paid on passive investments in large blue chip foreign companies as is paid on higher-risk Irish companies. People providing angel investment, people providing their services as employees, and shareholders who do not meet the 5% threshold to avail of Section 597AA (Entrepreneur Relief) are therefore unfavourably treated. Moreover, the distinction between large, quoted companies, with a liquid market for the sale of shares, and unquoted firms, with a much less liquid market for the sale of shares, is not reflected in the taxation regime.

Dublin Chamber's first recommendation is therefore a targeted reduction in CGT to boost investment in the SME sector and to reward those who take a risk on Irish business rather than opt for the safer and easier path of passive investment in large, listed firms. With a similar concern in mind, the UK introduced an 'Investors Relief' from CGT. It offers a lower CGT rate of 10% on lifetime gains of up to £10 million from disposals of shares in an unlisted trading company or the holding company of a trading group. While still higher than the 10% rate available under the UK Investors Relief scheme, a 20% rate would be a significant measure to encourage investment in indigenous business. To keep the scheme open to

[30] Revenue, https://www.revenue.ie/en/corporate/press-office/annual-report/2019/ar-2019.pdf
[31] ESRI, https://www.esri.ie/system/files/publications/SUSTAT86.pdf
[32] Tax Foundation, https://taxfoundation.org/capital-gains-tax-rates-in-europe-2021/

small scale investors there should be no minimum percentage shareholding in order to qualify.

A targeted reduction in CGT would undoubtedly be less costly and have a more meaningful economic impact than recent initiatives such as the VAT cut from 23% to 21% from September 2020-February 2021 which cost the Exchequer €400 million. In comparison it has been calculated that a blanket CGT reduction to 20%, applying to investments in both listed and unlisted firms, would reduce Exchequer revenue by €481 million in a full year; a reduction restricted to unlisted firms would obviously be of lower cost.[33] This static costing does not account for the increased revenue generated by stimulating business investment and greater participation in share ownership.

Second, to succeed in developing prospering indigenous businesses on a large scale, it is critically important that Ireland provides a supportive environment for entrepreneurship throughout the life cycle of a business, rather than merely during the start-up phase. Promotion of a start-up culture must be combined with effective long-term rewards for entrepreneurs who choose to stay on and scale their businesses rather than accept the allurement of a short-term reward by selling the firm prematurely. Ireland's present tax regime lacks this holistic and long-term approach. In the UK, the effective total tax rate on share dividends at the higher rate is 32.5% compared with 52% in Ireland, a stark differential in the context of Brexit.

Currently, divestment is the only means by which entrepreneurs can extract large-scale value from their firm in a manner that is not subject to the full rate of income tax, as Entrepreneur Relief only applies to CGT on the value of shares. Changes introduced by the Finance Act 2017 have increased the difficulty.[34] The result is an 'inefficient incentive' that drives successful businesspeople to 'sell up' rather than stay on and grow their business further. While divestment is an appropriate and desirable outcome for serial entrepreneurs, for example, it should not be the only option that is encouraged. In many cases the scaling of Irish SMEs may be of greater long-term value to the Irish economy. Dublin Chamber proposes to tax entrepreneurs at a lower rate of 30% on income from share dividends.[35] The qualifying criteria would be the same as those that apply to individuals and firms with respect to Entrepreneurs Relief. This should encourage more entrepreneurs to retain and grow their business, reducing the number of "trade sales". Consideration should also be given to extending this dividends relief to income from distributions paid to employees in qualifying start-ups in order to help them attract and retain staff.

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[33] Dept. Finance, Capital Gains Tax Capital Acquisitions Tax, Stamp Duty, Tax Strategy Group - 19/11, July 2019, p. 10, https://assets.gov.ie/19127/bf33c368730e4dc58cc7c7930c9b8487.pdf

[34] Finance Act 2017 introduced the new Section 135(3A), TCA 1997, as an anti-avoidance mechanism. In practice it serves to convert many genuine transactions from distributions that are subject to CGT into distributions subject to income tax. E.g. management buyouts are a traditional mechanism to allow key stakeholders to exit or retire from their businesses. But making these transactions subject to income tax undermines their attractiveness; it pushes businesses towards sales to third parties or liquidation if a CGT exit is to be achieved.

[35] Revenue tentatively estimated the total cost of a 30% income tax rate on dividend income from Irish resident companies (replacing all income tax, PRSI, and USC currently collected) applied universally at €95 million. Restriction of the scheme to qualifying entrepreneurs would of course limit the cost to a fraction of this figure. Dáil Éireann Debate Thursday 5 July 2018, Question No. 85, Reference No. 29775/18. Answered by the Minister for Finance Paschal Donohoe.

Finally, the Employment and Investment Incentive (EII) scheme needs to be improved, particularly the administrative burden and other inappropriate barriers to qualification. It is crucial that the EII scheme rules are simplified, and that greater certainty is provided for companies and individuals participating in the scheme. In this regard, we recommend that the EII scheme provisions be amended so that where a company has provided correct and complete information to Revenue, a confirmation that it is eligible for EII Scheme can be issued to the company. This would be similar to the operation of the equivalent UK EIS rules. Further, the holding company rules should be amended to allow for subsidiaries of other companies to avail of the relief. This could be used to attract minority investment in specific subsidiaries that form part of a wider group.

The relief itself should be made more attractive, both to investors and to companies with ambitions for growth, by improving the treatment of losses or disposals and vesting the relief over the 4-year period. We echo the recommended enhancements to Ireland's EII scheme suggested in the SME Taskforce Report, including the need to allow CGT losses for lossmaking EIIS investments[36] and to offer full CGT relief on profits on EIIS investments made for a year.[37]

3.3 Research and Development

Other targeted measures to foster indigenous enterprise include improvement of the Research and Development Tax Credit for medium-sized companies. Business R&D in Ireland remains dominated by larger, foreign-owned MNCs, with only 1% of small firms engaged in R&D.[38] To address the growing productivity gap between the indigenous and multinational sectors, Government must increase innovation among SMEs. The R&D Tax Credit is one of the principal schemes the Government uses to encourage R&D among businesses. As currently designed, however, it is failing to drive R&D among indigenous businesses on the scale that Ireland requires. The European Commission has advised that the emphasis in Ireland's R&D strategies for business should be to build up research and innovation capability within Irish SMEs and has recommended that the R&D tax credit scheme must be targeted at SMEs specifically. This was echoed by the OECD in its Review of SME and Entrepreneurship Policy in Ireland, commissioned by the Department of Business Enterprise & Innovation. Dublin Chamber previously called on Government to increase the tax credit to 30% for SMEs and welcomed the progress on this. The 30% rate should now be extended beyond small and micro enterprises to all SMEs in line with the above recommendations.

Moreover, many SMEs, and most start-ups, face cash flow issues which make the 3-year deferred claim model unattractive or impractical. Allowing an upfront payment would make the R&D tax credit a more realistic option for early-stage firms with lower cash resources. As this a cash-flow measure, it would be cost-neutral over a three-year period, with minimal exchequer impact. It is also worth noting the UK regime, where there is a special R&D Relief

[36] SME Taskforce Report Action 1.6.1, https://enterprise.gov.ie/en/Publications/Publication-files/SME-Taskforce-National-SME-and-Entrepreneurship-Growth-Plan.pdf
[37] SME Taskforce Report Action 1.6.2, https://enterprise.gov.ie/en/Publications/Publication-files/SME-Taskforce-National-SME-and-Entrepreneurship-Growth-Plan.pdf
[38] CSO, https://www.cso.ie/en/releasesandpublications/er/berd/businessexpenditureonresearchdevelopment2015-2016/

available to SMEs with extremely attractive conditions, including a super deduction of 130% of qualifying costs for SMEs.

Recommendations:

- CGT should be cut to 20% for unlisted trading firms.
- Entrepreneurs should be taxed at a lower rate of 30% on income from share dividends.
- EII relief should be made more accessible and attractive.
- R&D incentives should be improved to boost innovation in Irish SMEs, including an upfront cash claim and a higher tax credit rate of 30% for medium-sized enterprises.

4. Climate

Dublin Chamber has for a more than a decade been a strong voice in advocating for sustainability and the importance of the business voice in national climate action goals. The Chamber is committed to upholding the UN Sustainable Development Goals (SDGs) and, in particular, works in support of Goal 11 Sustainable Cities and Communities, Goal 8 Decent Work and Economic Growth, Goal 9 Industry, Innovation and Infrastructure, Goal 5 Gender Equality, and Goal 13 Climate Action. The Chamber is leading the way in preparing businesses for the transition to a green economy through its Sustainability Academy, which offers participating businesses a comprehensive range of supports including training in green public procurement.

Ambitious measures are needed to accelerate the transition to a sustainable and innovative economic model for Ireland that will form the basis for prosperity in a rapidly changing world. Sustainable business practices will be a key requirement of business resilience in the coming years, and proactive measures should be adopted to encourage them, potentially improving both Ireland's FDI offering and its indigenous SME base. Many of the changes required for a business to "go green" involve a significant initial outlay, and Government support would particularly assist SMEs in making the transition

Capital investment in sustainable city infrastructure is essential to deliver on sustainable cities, and, to support climate action goals. Delivery of the '15 Minute City' will aid in this as it enables urban density, active travel, and use of public transport. Dublin Chamber therefore welcomes the government's commitment to increase carbon tax to €100-per-tonne by 2030. This is essential in securing the funding required to advance Ireland's transition to a green, sustainable, and digitalised economy.

4.1 SMEs

In addition to accelerating carbon taxes, Government should do more to encourage and facilitate sustainable practices in SMEs. A fundamental challenge being faced by early or growth stage enterprises in the green space is being able to attract and retain the risk capital required to build their business. One way Government could help is via a tax credit for SMEs that have shown a commitment to sustainability. This could be measured, for example, with a check list, or 'Sustainable Business Register', of actions to significantly reduce greenhouse gas emissions or otherwise improve sustainability. Items on the list could include: retrofit and energy efficiency measures; green supply chain guarantees; effective waste management practices; circular economy measures; and adoption of low emissions transport. The tax

credit would be linked to the costs incurred in completing these items and would be modelled on the R&D tax credit, calculated at 30% of qualifying expenditure.

4.2 Planning

In recent focus groups held by Dublin Chamber, the need for clarity around the extension of various tax reliefs and funding schemes to assist businesses and individuals with their sustainability goals was noted as highly important. For example, there was a call for clearer communication and decision making surrounding the Benefit in Kind tax scheme for electric cars, and its possible extension. It was stressed that businesses and individuals need assurances and medium to long term commitments from government before they fully engage with such schemes.

4.4 Research and Development

An OECD study published in September 2020 found that both R&D tax incentives and direct funding are effective in incentivising R&D investment by business.[39] In this regard, we recommend enhancing the existing R&D tax credit regime to allow for a credit with respect to expenditure incurred in relation to R&D activities undertaken with respect to solar, wind, hydro, or biomass energy technologies, as well as other green technologies (for example, soluble or compostable materials for packaging, air filtration methods, ocean cleaning technology, etc.).

Recommendations

- A tax credit should be considered for SMEs that have undertaken and completed three items from an approved list of environmental sustainability measures.
- Medium to long term plans should be put in place to encourage engagement with schemes.
- Our existing R&D tax credit regime should be enhanced allow for a 30% credit with respect to expenditure incurred with respect to R&D activities undertaken with green technologies.

5. Housing

Inflation in the price, and the overall high cost, of accommodation has been and will likely remain the most immediate threat to competitiveness in Dublin. Low levels of housing and apartment construction over many years in the region have not kept pace with rising population and employment levels and now threaten the city's global reputation as a place to do business. Moreover, the collapse in footfall and closure of premises during the pandemic, particularly in the city centre, highlights the urgent need to make Ireland's five cities home to liveable communities that can sustain urban businesses and ensure urban centres are safe and vibrant.

According to a report by the National Economic and Social Council, 'Ireland must bring about a fundamental change in its system of urban development, land management and housing provision. It must evolve from a speculative and highly cyclical system to a permanently

[39] MicroBeRD: An OECD study on the impact of R&D tax incentives https://www.oecd.org/sti/microberd-rd-tax-incentives-policy-note.pdf

affordable, stable and more sustainable system of housing.'[40] We concur. Ireland's housing supply gap urgently needs to be bridged. The number of homes being built is less than one half of the total estimated to be required annually for the next decade to meet demand—13,800 in 2020 vs 34,000 required.[41] Housing supply has been a problem in the region for decades and the Covid-19 pandemic has further exacerbated the supply problem; completions are down over 30 per cent compared to the same period last year.[42]

There is also an affordability gap that is continuously growing. The average national sale price of a home is now €260,000, compared to average annual earnings of €42,500.[43] The average sale price in Dublin is higher at €379,000, and rising. Recent research has suggested that, in the Greater Dublin area, households on the current average income would be able to access less than 5 per cent of new homes built. In addition, national standardised rents grew by over 6 per cent to €1,226 last year.[44]

The State must play a central role here, and urban housing should resume priority in public capital investment. For some time now it has been evident that the welfare system is picking up the responsibilities for housing due to the lack of capital investment in the area. There has been a sustained failure to invest in social housing construction and this has placed enormous pressure on the welfare system. Ireland has a long history of "quick fix" housing tax policy measures which have in many cases added to market instability. The future tax policy for the sector should be underpinned by stability. There is a need for certainty and administrative simplicity.

To reduce pressure on the private market, social housing provision needs to shift definitively from reliance on acquisition and rental support to the construction of purpose-built social and affordable homes on a large scale. Mixed tenure and development are important, and government should focus on the supply side of solutions in this respect.

Property tax needs to be targeted and specific. It should ultimately work to enhance Ireland's housing supply and subsequently improve Ireland's global reputation.

5.1 Zoned Land Tax

Dublin Chamber welcomed the commitment in the 2020 Programme for Government to examine ways to ensure that unused or underused building stock in cities and other urban centres can be made available for upgraded and sustainable housing. However, more needs to be done to see this come to fruition, as vacant land and property remains a pressing issue.

Reform of the Vacant Site Levy was needed as it did not effectively advance housing development. Just €21,000 was collected from the levy in 2020.[45] Dublin Chamber therefore supports the move to a Zoned Land Tax. However, the current plan for the tax's implementation raises serious concerns, including the long lead-in time of two years. Moreover, the 3% rate will be lower than the 7% currently charged under the levy, potentially reducing the incentive to develop some vacant land. Government have justified the 3% rate

[40] National Economic and Social Council, http://files.nesc.ie/nesc_reports/en/150_Housing_Policy.pdf
[41] Ibid.
[42] Ibid.
[43] Ibid.
[44] Ibid.
[45] The Irish Examiner, https://www.irishexaminer.com/news/arid-40333667.html

by explaining that it aligns with the starting point for the vacant site levy when it was first introduced. Given the urgency of the housing crisis this rationale is hard to justify. Mobilising vacant and underused property is a crucial land management activity to increase affordable housing supply and Dublin Chamber therefore advises that the Zoned Land Tax be substantially increased and accelerated to ensure that landowners are encouraged to make the best use of their land.

5.2 Local Property Tax

Dublin Chamber argues that a considerable increase in Local Property Tax (LPT) is an effective way to raise revenue in coming years, given that it has little impact regarding incentives to work. Ireland's LPT is considerably lower than comparable taxes in countries such as the UK and France, and Ireland should look to other countries when it comes to the implementation of its property taxes. If LPT is raised, Government needs to ensure that the burden of this tax is lessened for the likes of pensioners and others who may have bought their homes when they were worth substantially less, as they may not be able to afford high LPT rates.

LPT should also be leveraged to deter property owners from leaving their sites vacant. For example, an additional vacancy charge as a proportion of the LPT bill of the property could serve as an effective measure to increase housing supply. A proactive approach to vacant property can be found in Denmark which has a higher residential property tax compared to Ireland, as well as a site value tax, both of which work to reduce vacancy. Denmark also has strict measures in place to prevent vacancies and therefore stimulate housing supply. If an owner moves and does not wish to sell the property, the owner must rent it out, if a property is empty for more than six weeks, the owner must report to the municipal authority, which then seeks to provide tenants, whom the owner must accept. Dublin has approximately 9% vacancy with over 36,000 vacant homes[46] compared to Copenhagen's 3.5% vacancy with about 21,770 vacant homes.[47] Ireland should look to countries, such as Denmark, that have put effective measures in place that successfully mitigate issues relating to housing supply.

5.3 Site Value Tax

Dublin Chamber considers LPT as preferable to a Site Value Tax. However, we recognise that there are merits in introducing a Site Value Tax in Ireland, particularly due to the penalty it imposes on a failure to put land to its most efficient use. Site Value Tax is therefore an alternative option for ensuring that landowners have an incentive to make better use of their land. Dublin Chamber further acknowledges that a site value tax model has proved successful in other countries.[48]

Crucially, however, Dublin Chamber argues that if introduced, local authorities should be given the freedom to vary the Site Value Tax to reflect local circumstances and to avoid a "Dublin tax" that would serve to deter people from moving to the city. In this respect Dublin

[46] CSO: Central Statistics Office (2016), https://www.cso.ie/en/releasesandpublications/ep/p-cp1hii/cp1hii/vac/
[47] Danmarks Statistik (2016), https://www.statistikbanken.dk/FLYBOL
[48] Denmark introduced a land tax in 1926. Estonia is an example of more recent adoption (1993). The legislature in Pennsylvania allows cities to adopt dual-rate property taxation whereby land is taxed at a higher rate than buildings. As of 2006, there were 13 towns and cities plus two school districts with two rate structures in Pennsylvania, and of these the most recent adoption was in 2006 (Dye and England, 2010).

Chamber agrees with the 2009 Taxation Commission's view that 'Taxpayers would consider it very unfair if the same amount of tax was payable in respect of two properties of different sizes, simply because they were located on identical parcels of land.'[49] Dublin Chamber further agrees with the Commission's caution of introducing a tax 'based on what could be construed as a theoretical value of the site rather than a value of the property on that site.'[50] In particular we question what precisely is taken into account regarding the "value" of a site. Micheál L. Collins and Adam Larragy suggest that value should be derived from 'location and access to publicly funded or subsidised services, facilities and utilities.'[51] They conclude that 'sites in rural areas are worth less than those in urban areas, irrespective of how they are being used.'[52] Dublin Chamber argues that view point is overly simplistic, and that an extensive and holistic evaluation of subsided benefits granted to an area would have to be carried out on a case by case basis to reach an accurate conclusion on the rate of site value tax. Any site value tax needs to take account of the cost of the higher cost (per household) of public service provision in more remote areas, including health, education and other public services.

There are also operational issues with the implementation of site value tax, as noted by the 2009 Taxation Commission. Obtaining the necessary data for the tax would require substantial input from several different bodies and agencies in order to calculate the appropriate value of land on an individual property basis, while some additional staff would also be required for its implementation and dealing with appeals. The 2012 report of the Inter-departmental Group on the Design of a Local Property Tax (LPT) similarly argued that arguments for site value tax are outweighed by the likely difficulties.

From a sustainability perspective, urban living, alongside the idea of the '15 minute city', should be promoted as opposed to discouraged. Recent research has found that those who live in cities have lower direct emissions from transport, heating and cooking.[53] For example, people in semi-urban areas in Austria emit around 8% more CO_2 than those in cities, and people in rural areas around 4% more.[54] It is therefore necessary to avoid taxes that unfairly target Ireland's cities. Elsewhere we have stressed the need to attract talent to Ireland's cities, any introduction of disincentives to do so should be avoided.

5.4 CGT Rollover Relief

In order to reach the densification goals set out in the National Development Plan, Government should reintroduce rollover relief from Capital Gains Tax for businesses with respect to the amount of the proceeds received from the sale of property for conversion to residential use which is re-invested in a replacement property (i.e., new site and/or building) where that property is used in the trade of the enterprise. This would free up land in city centre locations ideal for residential development, whilst also enabling businesses to move to more suitable locations where they would be able to expand further without being

[49] Commission on Taxation, 2009: 172, http://files.nesc.ie/nesc_reports/en/150_Housing_Policy.pdf
[50] Ibid.
[51] Micheál L. Collins and Adam Larragy, A SITE VALUE TAX FOR IRELAND: Approach, Design and Implementation, https://www.tcd.ie/Economics/TEP/2011/TEP1911.pdf
[52] Ibid.
[53]The Conversation, https://theconversation.com/suburban-living-the-worst-for-carbon-emissions-new-research-149332
[54] Ibid.

impeded by a Capital Gains Tax liability which they may struggle to pay along with the cost of a replacement premises.

5.5 Local Authority Funding

Dublin is suffering from underinvestment in its infrastructure and municipal services; there is strong demand for climate action, a better urban environment, and improved quality of life; and property tax revenue has an important role to play in meeting these needs. Dublin Chamber supports greater funding and empowerment of local government in Dublin, to this end we welcome the recent change to LPT whereby local authorities can now retain 100 percent of the LPT revenues raised in their areas.[55] We further welcome the recently announced property rezoning tax of 30% which is set to come into effect in 2022, and particularly the suggestion that money raised from the new tax will be ring-fenced for infrastructure in the council area where each rezoned site is located.

Recommendations

- The Zoned Land Tax should be substantially increased to ensure that landowners are incentivised to the highest degree possible to make use of their land.
- The LPT should play a more important role in local authority financing. To encourage local authorities to maximise its contribution and avoid overreliance on commercial rates, the upward variation limit of 15% should be increased, while the decision on the annual variation should be integrated into the annual budgetary process rather than treated as a stand-alone item earlier in the year.
- Vacant housing should be taxed through the LPT.
- If introduced, a Site Value Tax should be varied to reflect local circumstances and be designed to avoid undermining national goals with respect to sustainable urban density.
- CGT rollover relief should be reformed and reinstated on a targeted basis to encourage the conversion of appropriate and centrally located urban buildings for residential purposes.

[55] Department of Finance, https://www.gov.ie/en/press-release/a9a5a-minister-donohoe-announces-changes-to-local-property-tax/

Summary of Recommendations

Fiscal Sustainability

- Any future tax increases should be applied to a broad base to resist further narrowing of the Irish tax base, maintain competitiveness, and to ensure fiscal stability going forward.
- The entry points to the income tax, PRSI and USC net should be gradually lowered over time to ensure all taxpayers have a stake in public spending outcomes.

Promoting Employment

- SARP should be extended to SMEs and start-ups to attract international talent with critical skills.
- There needs to be sustained progress towards a more universal model of childcare to enhance female participation in the labour force.
- A Returning to Work credit for second earners taking up employment should be introduced, coordinated with the Home Carer's credit.

Supporting Economic Activity

- CGT should be cut to 20% for unlisted trading firms.
- Entrepreneurs should be taxed at a lower rate of 30% on income from share dividends.
- EII relief should be made more accessible and attractive.
- R&D incentives should be improved to boost innovation in Irish SMEs, including an upfront cash claim and a higher tax credit rate of 30% for medium-sized enterprises.

Climate

- A tax credit should be considered for SMEs that have undertaken and completed three items from an approved list of environmental sustainability measures.
- Medium to long term plans should be put in place to encourage engagement with schemes.
- Our existing R&D tax credit regime should be enhanced to allow for a 30% credit with respect to expenditure incurred with respect to R&D activities undertaken with green technologies.

Housing

- The Zoned Land Tax should be substantially increased to ensure that landowners are incentivised to the highest degree possible to make appropriate use of their land.
- The Local Property Tax (LPT) should play a more important role in local authority financing. To encourage local authorities to maximise its contribution and avoid overreliance on commercial rates, the upward variation limit of 15% should be increased, while the decision on the annual variation should be integrated into the annual budgetary process rather than treated as a stand-alone item earlier in the year.
- Vacant housing should be taxed through the LPT.
- If introduced, a Site Value Tax should be varied to reflect local circumstances and be designed to avoid undermining national goals with respect to sustainable urban density.
- CGT rollover relief should be reformed and reinstated on a targeted basis to encourage the conversion of appropriate and centrally located urban buildings for residential purposes.