Budget 2023

Family Business Network Ireland: Pre-Budget Submission 2023

THE FAMILY BUSINESS NETWORK

Family Business Network Ireland

August 2022

A MESSAGE FROM THE EXECUTIVE DIRECTOR

Ireland's Family Businesses have shown their resilience, strength and their importance to their communities over the past two years as they weathered back-to-back challenges to their enterprises. Brexit, the pandemic and now a crisis in the cost of doing business have posed and continue to pose significant challenges to our Family Businesses, but these businesses have shown that they are here to stay, supporting jobs and acting as the beating heart of towns and villages up and down the country.

Our Family businesses do not need handouts; indeed, they do not ask for them. What they do need and do ask for is an economic environment in which they are allowed to create jobs, grow and contribute to their local communities.

Ireland is the best small country in the world for attracting FDI, a deliberate national strategy which has grown Ireland's economy into the powerhouse it is today. We ask that similar foresight and ambitious thinking is shown by the government to allow our indigenous family businesses to grow, innovate, compete with their global peers and benefit their local communities.

It is in this context that we present our submission to the Government in advance of Budget 2023. In it we sketch out realistic but ambitious measures, aimed at strengthening the Irish economy and helping family businesses and their workers weather what we hope will be the temporary shock of crippling inflation.

The Family Business Network has outlined three areas where we feel this can be best achieved.

1. Addressing the Crisis in the Cost of Doing Business
2. Delivering a Competitive Economy
3. Securing a Prosperous Future

It is critical that government policy is focussed on seizing the opportunities that lie ahead and supporting businesses every step of the way. This will be essential as Ireland attempts to reinvigorate and reorganise our economy and address the inflation that is impacting every household and business in the country. As always, family businesses will be at the heart of this and it is crucial that Budget 2023 reflects this fact. The following pages will outline how the Family Business Network believes this can be best achieved with the overarching goal of making Ireland the best small country in the world in which to establish, scale up and pass a successful employment-sustaining business onwards to the next generation of Ireland's job creators.

John McGrane

Executive Director, The Family Business Network

Summary of Key Recommendations

1. **Addressing the Crisis in the Cost of Doing Business in Ireland:**

- Inflationary Pressures:
    - Extend the Tax Warehousing scheme beyond its planned expiration date.
    - Cut VAT on electricity bills.
    - Introduce a one-time grant for businesses to help offset rising energy and raw material costs.
    - Temporarily amend and strengthen the Diesel Rebate scheme.
- Labour Shortages:
    - Streamline the Visa application system.
    - Upskill the Workforce.
    - Introduce Universal Childcare Provision.
- Labour Costs:
    - Reduce the costs of creating and sustaining jobs.
    - Establish a National Economic and Social Forum.
    - Ensure Balance in the introduction of New Employee Rights.
- Insurance Reforms:
    - Deliver a Properly Competitive Market for Business Insurance.
    - Enact and implement the necessary pending legislation on insurance.
    - Consolidate judicial guidelines where appropriate.
    - Expedite the work of the Insurance Competition Office.

2. **Delivering a Competitive Business Environment:**

- Tax Reform:
    - Move away from static analysis of Tax measures.
    - Cut Capital Gains Tax to increase revenue and encourage investment.
    - Increase entry point for marginal rate of personal income tax to €50,000.
    - Reform the Key Employee Engagement Programme (KEEP).
    - Retain the 9% VAT Rate for the Hospitality sector.
    - Review and Replace Commercial Rates.
    - Address Succession issues inhibiting Family Businesses from growing and developing through to the next generation.

- Increase Productivity:
    - Support Family and Indigenous Business with Digitisation.
    - Unlock Innovation potential of Indigenous industry by introducing a targeted R&D Tax Credit and ensuring local collaboration.
    - Support Indigenous Businesses in upskilling their workforce.
    - Stimulate a Business-to-Business support culture.
- Develop Infrastructure:
    - Establish an Infrastructure and Projects Authority.
    - Increase Resources for An Bord Pleanála.
    - Broaden the use of Statutory Decision Periods for Planning.
    - Limit the Opportunities for Judicial Review Proceedings to be launched.
    - Establish a new dedicated Planning and Environmental Court.

3. Securing a Prosperous Future:

- Deliver Sustainable Economic Growth:
    - Announce a timeline to replenish the Rainy-Day Fund.
    - Create a Commission on Public Expenditure.
- Ensure a Joined-Up Approach between State Agencies:
    - Better coordination and cooperation between State Agencies supporting businesses, would ensure that large family owned, and indigenous companies could support and cooperate with SME's and micro enterprises.
- Developing the Green Economy:
    - Introduce a Green Tax Credit to offset costs of Decarbonisation.
    - Equip Local Enterprise Offices to support business through Training and Grants.

About the Family Business Network of Ireland (FBN)

The Family Business Network of Ireland (FBN) was founded in 2013 by leading Irish business families. It represents family businesses throughout the country and has members from a broad variety of sectors, all essential to supporting and driving the Irish economy. Family businesses contribute over 50% of Ireland's GDP, employ nearly a million people across every town and village in the country and provide billions of euros to the exchequer annually.

The Importance of Family Businesses to the Irish Economy

"We cannot consider the Irish Economy without considering the role of Family Businesses. Family businesses account for 70% of all businesses in Ireland and more importantly, they employ one million people".

(Michael Walsh, President of the Family Business Network of Ireland)

- There are **173,000 Family businesses** in Ireland.
- Irish Family businesses employ **nearly a million people**, that's more than the State and foreign businesses combined.
- Approximately **seven out of ten** Irish businesses are family owned.
- Irish owned businesses contribute just under **€19bn** to the Exchequer. [1]
- Indigenous Irish businesses **contributed four times** as much to the recovery of the economy (2013-2019) in Net National Product as their foreign owned counterparts.[2]
- **Family businesses are essential for regional development**. Family businesses are important to local economies especially in rural areas. Unlike FDI, family businesses can be found in every town and village in Ireland. Family businesses tend to remain loyal to their home locations, even when they have become global players.

[1]Source: Revenue, 2020. Corporation Tax 2019 Payments and 2018 Returns. Available at: https://www.revenue.ie/en/corporate/documents/research/ct-analysis-2020.pdf
[2] Fitzgerald, 2020. Understanding Recent Trends in the Irish Economy https://www.esri.ie/system/files/publications/QEC2020SUM_SA_FitzGerald.pdf

The Importance of Family Businesses to Communities across Ireland

"73% of family businesses measure success differently to non-family businesses, with family-owned businesses typically seeing success in broader terms than merely profit and growth. Family businesses contribute to the social fabric of regions throughout Ireland as, unlike internationally mobile businesses, they have a long-term commitment to local communities and employees." (PwC, 2016)

- There is a family business **in every town and village** in Ireland.
- Family businesses are **values led**. According to PwC's 'Irish Family Business Report', 80% of Irish Family businesses believe that a clear sense of values and purpose leads to increased revenues and profits[3].
- Irish family businesses support their communities - **74% of Irish family businesses** felt a responsibility to **support community initiatives**.
- Family businesses are **more likely to support charitable activities** than non-family businesses, and their commitment to being philanthropic, socially responsible and good members of the community is genuinely felt, deeply held and more robust.
- Other firms may come and go; if treated fairly, **family firms are here for good.**
- Family businesses **hire local, buy local, support local and vote local.**

[3] https://www.pwc.ie/reports/family-business-report-2019.html

Introduction and Context

The Family Business Network of Ireland (FBN) welcomes the opportunity to make a submission on behalf of our Board, Executive and Members to Budget 2023. The recommendations contained within this submission are the culmination of inputs from surveys, meetings and interactions with family businesses throughout the country, augmented with expert analysis and input from the FBN executive team.

Over the past decade, businesses, citizens and successive governments have had to cope with and address four 'once in a generation' adversities – the Financial Crisis, Brexit, the Pandemic and now the onset of a Cost of Living/Doing Business Crisis. On each occasion, working with Government and other partners, FBN has taken a proactive role to ensure a '*jobs led*' recovery is delivered.

Now, the Irish economic model is at a crossroads, faced with both serious challenges and unprecedented opportunities, from competitiveness and changes to our Corporation Tax regime to unlocking the potential of the Green Agenda and the Digital Economy.

By their nature family businesses are ambitious and as such it is the view of FBN that the Government should use this upcoming Budget as an opportunity to outline its vision for a modern Irish economy that is competitive both locally and globally, that drives jobs and investment throughout the country, while fostering innovation and collaboration.

Our submission is unapologetically ambitious and has as its core tenet, the ambition to:

Make Ireland the best small country in the world in which to establish, scale up and pass a successful employment-sustaining business onwards to the next generation of Ireland's job creators.

This submission is designed around 3 Key Pillars:

1. Addressing the Crisis in the Cost of Doing Business in Ireland.
2. Delivering a Competitive Economy.
3. Securing a Prosperous Future.

1. Addressing the Crisis in the Cost of Doing Business in Ireland

To the Government's credit, and that of the businesses and workers across the length and breadth of the country, Ireland has emerged from the Pandemic with one of the strongest economic growth rates in the EU and with a rapid rebound in employment numbers. Furthermore, the economy is expected to grow again strongly in 2023 (Table 1.1).

Table 1.1: Economic and Unemployment rate projections for the Irish Economy for 2022 and 2023.

Source	Growth Rate (2022)	Growth Rate (2023)	Unemployment Rate (2022)	Unemployment Rate (2023)
ESRI (July 2022)[4]	5.8% GNP	3.9% GNP	5.0%	4.0%
Department of Finance (April 2022)[5]	6.4% GDP	4.4% GDP	6.2%	5.4%
European Commission (July 2022)[6]	5.3% GDP	4.0 % GDP	4.6%	5.0%

However, despite this underlying growth, inflation in Ireland has risen to the highest rate since 1984, undermining this growth. According to the Central Statistics Office (CSO), inflation rose to 9.1% in June, up from 7% in April. The Central Bank of Ireland projects inflation to be 6.5% overall this year, up from 2.4% in 2021. It outlines that the primary causes of this are the re-opening of the economy after the pandemic, supply chain disruptions, the impact of the Russian invasion of Ukraine and dramatic increases in energy costs. In addition, manufacturing costs have risen by 7.3% annually, with energy costs rising by a staggering 22.5%. These headline figures fail to show the full extent of rising costs in

[4] ESRI Quarterly Economic Commentary Summer 2022 Pg.iv
[5] Stability Programme Update April 2022 Pg.5
[6] EU Commission Summer Economic Forecast

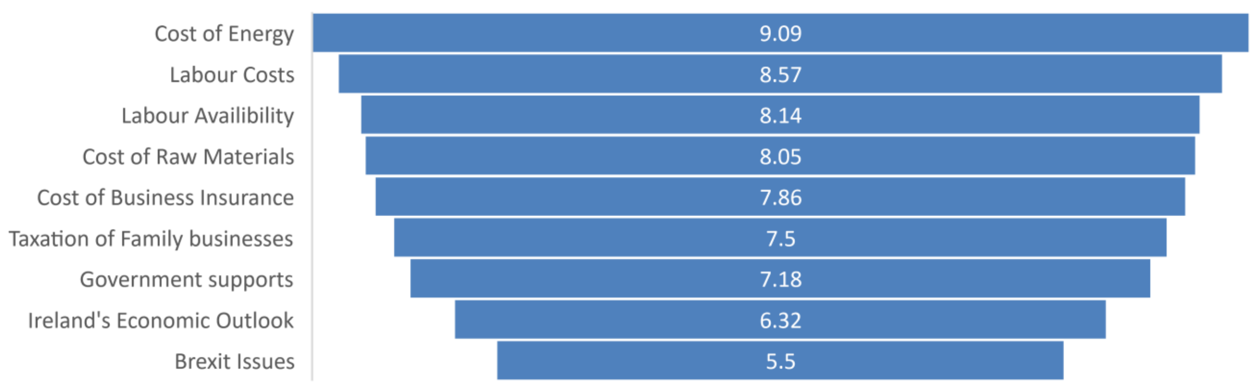
the businesses which are disproportionately impacted due to the nature of their work, for example where energy is a major input to manufacturing. FBN members in the industrial sector have reported that fuel costs are up 80%, freight costs are up by 20% and basic raw materials like chemicals and steel are up by 15% and 25% respectively. One member reported that the core raw material used in their product increased in price by a staggering 250% this year.

FBN's *Family Business Sentiment Report 2022*, illustrates the resilience of family businesses despite the challenging economic climate, with 62% of family businesses either likely or very likely to create new jobs over the next 12 months. However, this is down from 85% this time last year, with only 23% of members optimistic about doing business over the next 12 months, compared to 65% this time last year. Understandably, when asked "*How concerned are you about the following*?", **Energy Costs**, **Raw Material Costs, Labour Costs** and **Labour Availability** were the biggest concerns for family businesses - significantly eclipsing last year's greatest concerns of taxation and Covid-19 supports (Graph 1.1).

FBN's Family Business Sentiment Report 2022:

Thinking about your business, how concerned are you about the following:

(1 = Not at all concerned; 10 = Very Concerned)



Source: The Family Business Network Business Sentiment Report 2022

These sentiments are reflected in the Bank of Ireland *Business Pulse Survey*, which saw a 7.5 percentage-point decline in business confidence for the year to June 2022, while the Accenture / S&P *Global Ireland Business Outlook Report* found that Irish business confidence was the lowest since October 2020, with manufacturing confidence the lowest since the Great Recession. FBN members have shown great resilience over the past two years in addressing the dual challenges of Brexit and the Pandemic. 2022 now sees the third external crisis to face family and indigenous businesses in as many years and despite growing their businesses and increasing the number of workers they employ, this current crisis has meant that FBN members are currently absorbing unsustainable levels of cost - which threaten the longevity of their businesses and the jobs of the workers that they employ.

However, it is the view of the members of FBN that, with the right economic environment and policy framework, this crisis can be tempered and family businesses can revert to doing what they do best - innovating, investing and employing for the betterment of their community, local economy and the country as a whole.

FBN believes that the following actions, if taken by the Government in Budget 2023, would significantly mitigate the worst effects of the current crisis:

- **Action 1 -** Extend the tax warehousing scheme beyond its scheduled date of cessation (May 1 2023).
- **Action 2 -** Reduce the VAT charged on electricity bills.
- **Action 3 -** Allow for a one-time scaled grant for businesses to offset the cost of energy and raw material increases akin to the €200 household payment.
- **Action 4 -** Temporarily strengthen the Diesel Rebate Scheme by lowering the price floor, amending the rebate rate, or increasing the maximum rebate amount per litre to stabilise the cost of freight.

Further to this, we believe that actions should be taken in the following areas to address the cost of doing business – on **Labour Shortages**, **Labour Costs** and **Insurance**, as detailed below.

Labour Shortages

The Family Business Network *Business Sentiment Report 2022* outlines that family businesses are gravely concerned both about labour costs and the availability of labour for their businesses. These findings have been substantiated by a survey conducted by *Core Research* which found that two out of three construction firms were struggling to recruit enough workers, with traditional skilled trades such as bricklayers and carpenters in short supply[7]. Other research shows that almost half of IT and engineering firms are having difficulty filling roles, while Fáilte Ireland is reporting that the viability of three-in-ten hospitality businesses is under threat due to inability to fill crucial vacancies. FBN believes

[7] https://www.independent.ie/business/irish/builders-stall-projects-amid-high-costs-and-lack-of-skilled-labour-41853430.html

the following actions will help alleviate the skills shortage in the economy and ensure workers are placed in sustainable well-paying jobs:

Action 5 - Streamline the Visa Application System: FBN acknowledges the progress being made in addressing bottlenecks to the Employment Permit System and the broad scope of the sectors included. However, the process continues to be thwarted by the restrictive nature of the criteria, the slowness of the administrative approval process and the lack of engagement with applicants. A streamlined approach for employers involving a senior liaison officer would urgently address at least some of the bureaucratic challenges facing applicants and their prospective employers.

Action 6 - Upskill the Workforce: FBN believes that visas are an appropriate mechanism to support skills deficits in the short term but that it is no substitution for upskilling and enhancing the educational attainment of our existing workforce. FBN welcomed the Government's *Action Plan for Apprenticeships 2021* as a step change in approach for developing skills for the emerging economy. However, it is our view that the model, as currently prescribed, is skewed towards school leavers and that additional resources are needed to encourage mature applicants from within the current workforce. This is to ensure that neither workers nor their employers miss out on this opportunity. Furthermore, FBN believes that greater support is needed to support full-time workers who wish to avail of part-time education but are generally excluded from the State's *Free Fees Scheme*.

Action 7 - Move to Universal Childcare Provision: Ireland is one of the most expensive countries for childcare services in the EU, with average fees for full-time childcare exceeding €184 a week, with Dublin and surrounding counties averaging over €200 per week. In Finland, Denmark, Belgium, France and Sweden, weekly full-time fees range between €30 to €70 per week. Coupled with the low entry point to the marginal tax rate, secondary earners are disincentivised from entering the workforce, which has a disproportionate impact on women. Prior to the Pandemic, female participation in the workforce was 63% compared to 75% amongst men. In in the UK the female participation rate is 71%, while in Sweden it is 76%. One of the key ingredients in the early economic boom of the 1990s in Ireland was the significant increase in the female participation in the workforce. Progress in this has now slowed which impacts opportunities for women, labour productivity, business dynamism and household incomes. FBN believes that investment in universal childcare would be an investment in equality of opportunity, the economy and society as a whole and would alleviate some of the pressure on the labour market.

FBN is aware that some of the driving factors of higher labour costs are inflation-linked increases for workers and a labour market where the demand for skilled workers is greater than their availability. If we can address our labour shortage, spiralling labour costs will be tempered. Reforming the insurance sector, as discussed later in this paper, is another way in which spiralling childcare costs could be stabilised.

Address Labour Costs

In addition to addressing labour shortages, there are labour costs that the Government can either exacerbate or alleviate. The family businesses of Ireland take great pride in how they treat their employees. In general, they tend to have a lower staff turnover than non-family run businesses and many of their employees stay with them through generations. FBN is supportive of expanding the social safety net for workers in this country, but this must be balanced out with the impact that increased expenditures will have on businesses. It is FBN's view that societal programmes being considered by the Government should be discussed through dialogue rather than by decree or by the narrow scope of the Labour Employer Economic Forum (LEEF) which is not representative of all businesses.

Factors the Government should consider include:

Action 8 - Reduce the cost of creating and sustaining jobs: To partially offset the rising labour costs and falling margins, FBN believes that a temporary reduction for employer PRSI should be introduced to help stem the current impact of rising costs.

Action 9 - FBN reiterates its recommendation that a **National Economic and Social Forum should be established** which brings together stakeholders from across all sectors, to assist in formulating an economic plan and social contract for the decade ahead.

Action 10 – Ensure Balance in the Introduction of New Employee Rights: FBN is of the view that the Government should consider the following principles in its deliberations when considering additional social provisions for workers. (i) **Do no harm in relation to Job Creation**, (ii) **The Introduction of any new employee supports (Sick Pay, Pension Provision etc) should be cost-neutral** for Irish businesses (offset by reducing employer PRSI etc), (iii) that **Employers already fund Social Welfare provisions** through PRSI Contributions and (iv) the spiralling **cost of doing business.**

Insurance Reform

For the past number of years, FBN has been an active member of the *Alliance for Insurance Reform* and a strong advocate in our own right for reforming the uncompetitive nature of the insurance system. The cost of insurance continues to act as a significant barrier to recovery post-Covid and will continue to hamper our economy unless it is fundamentally resolved. This urgency is compounded by the current crisis in business costs with FBN members flagging this issue as one of their greatest concerns for their business. Reform now needs to be fast tracked as a government priority to ensure liability premiums are reduced to an affordable and sustainable level. These reforms have been identified by Government, but they are not being remedied fast enough.

Action 11 – Deliver a properly competitive market for Business Insurance We urge the Minister for Public Expenditure and Reform to ensure that sufficient funding is in place to allow for the following to happen:

- Enactment and commencement this year of Duty of Care amendments to the Occupiers Liability Act 1995.
- Enactment and commencement this year of the Personal Injuries Resolution Board Bill 2022.
- Rapid consolidation of the Judicial Guidelines in the courts and transparency as to awards in cases where the guidelines apply.
- An acceleration of the work of the Insurance Competition Office at the Department of Finance to ensure the urgent entry of more underwriters into the Irish liability insurance market.

2. Delivering a Competitive Economy

According to the World Economic Forum, a *competitive* economy for businesses is more likely to grow more sustainably and inclusively, meaning an increased likelihood that everyone in society will benefit from the fruits of economic growth. Therefore, the delivery of a more competitive economy is not only in the interests of business but also to society more generally. According to a PwC report, the *EMEA Private Business Heatmap*[8], Ireland is ranked 14th out of 34 EMEA countries for its environment in which Private Business can flourish. Ireland ranks strongly in their *Macroeconomics* category coming first in class (measured on GDP growth and forecast, inflation rate, consumption expenditure and GNI per capita). However, when assessed on the landscape for indigenous business, Ireland does markedly worse, ranking 17th for the *Private Business Landscape*, 20th for *Tax and Regulatory Environment*, 15th for *ESG metrics*, 17th for *Public Health*, 26th for *Education, Skills & Talent* and 20th for *Technology and Infrastructure*.

The *Taxation and Regulatory Environment* score (20th) in this study is particularly striking. The constituent sub-categories of this metric ranks Ireland 4th for its Corporation Tax Rate, but 19th on its income tax rate and 11th for indirect tax rate (VAT). This ranking highlights the disparity in the tax environment for FDIs and indigenous enterprises, who are more likely to be impacted by high income tax and indirect tax rates.

A similar disparity between the economic environment in Ireland for indigenous companies and their FDI peers is found in the Institute for Management Development (IMD) *World Competitiveness Yearbook* (compiled in association with the IDA). This is an annual assessment that benchmarks the performance of economies based on more than 330 criteria, measuring different facets of competitiveness. It ranks Ireland second for attracting investment with its Investment Incentives, third for Foreign Investors, fourth for Corporation Tax Rate on profit and fifth for lack of protectionism. However, Ireland's greatest weaknesses are centred around domestic tax issues, ranking 53rd for Ireland's Consumption Tax Rate (VAT) and 40th for Personal Income Tax, rankings that place Ireland in the bottom half of countries assessed.

[8] https://www.pwc.com/gx/en/services/entrepreneurial-private-business/emea-private-business.html

The key pillars for assessing the competitiveness of the economy are economic performance, the tax environment, business productivity and infrastructure. To this end, FBN proposes below changes to the **Irish Tax Regime**, **Supports to Enhance Productivity** and **Infrastructural Development**.

Tax Reform

Taxation is a key policy lever that the Government can use to support indigenous and family businesses in creating jobs and growing the economy in a sustainable and regionally balanced way. The Government has successfully used a competitive Corporation Tax Rate as the key pillar of Ireland's world leading FDI Strategy. However, Ireland's Corporation Tax Rate of 12.5% will expire in 2023 as the country adopts the OECD's anti-Base Erosion and Profit Shifting (BEPS) Framework. When enacted, Ireland will have to apply a minimum Corporation Tax rate of 15% on all corporates with revenue in excess of €750 million. Over the last number of years, FBN and others have warned that Ireland has become overly reliant on the FDI sector, while the exchequer has become dependent on volatile Corporation Tax revenues.

FBN believes that Ireland must continue to be a hospitable place for FDI. However, the changing of our Corporation Tax Rate should now act as a catalyst for reinvigorating the domestic economy, of which family-run businesses make up the vast majority of firms. If the Government successfully creates an economic environment that is conducive to indigenous and family businesses, then family businesses will more than make up for any potential slowing of FDI activity in Ireland. Failure to re-balance the economy between FDI and indigenous businesses will leave Ireland exposed to any downturn in our multinational offering. Below, we have outlined taxation-specific recommendations that we believe will significantly improve the competitiveness of the environment in which Irish Family and Indigenous businesses operate under.

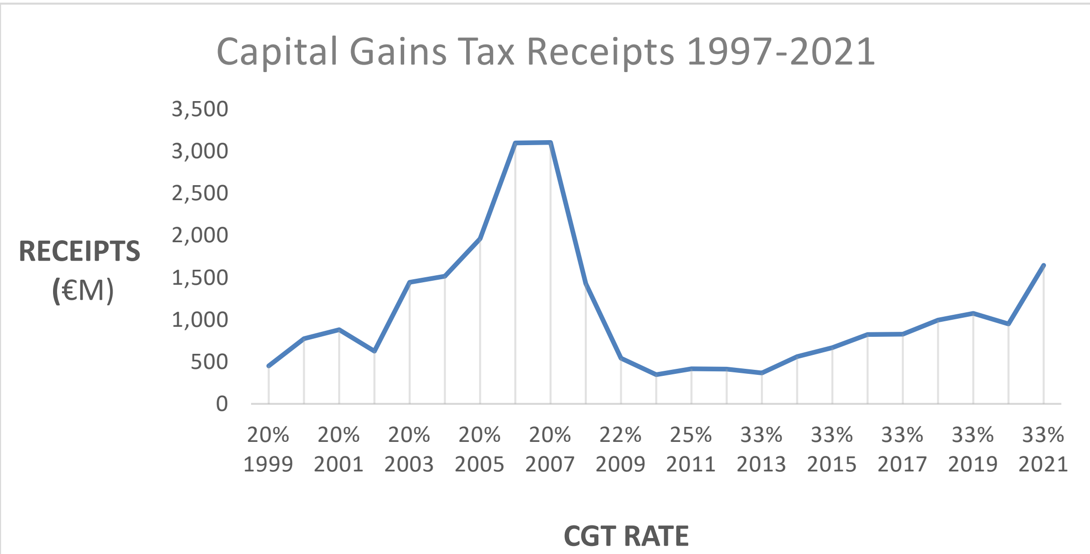
Action 12 - Move away from Static Analysis of Tax Measures: The beneficial effects of tax reform are obstructed by the Department of Finance's narrow approach to forecasting tax revenues. FBN reiterates its view that not all tax cuts will cost the exchequer revenue; some even have the potential to grow the exchequer's revenue through stimulation of economic activity. FBN recommended to the *Commission for Taxation and Welfare* that the Department of Finance should move away from the traditional *static forecasts* on the impact of tax changes which fail to consider behavioural adjustments, therefore failing to give an accurate forecast of revenue accruing from tax cuts/increases.

Action 13 - Cut Capital Gains Tax (CGT) to Drive Investment and Increase Exchequer Receipts: In 2008, Ireland's capital gains tax rate was 20% - today the Irish rate of 33% is the 3rd highest in the EU. This places Irish family businesses at a distinct disadvantage as compared to their European peers. Ireland's Foreign Direct Investment (FDI) strategy has a low corporation tax rate as its cornerstone. Conversely Ireland's Capital Gains Tax Rate acts as a disincentive to investment in indigenous enterprises. The OECD Report on '*SME and Entrepreneurship Policy in Ireland*' stated the following about Ireland's CGT rate:

> *"The Irish Capital Gains Tax rate of 33% is high compared to the OECD mean, which may discourage investment and entrepreneurship".*

Recent evidence clearly shows that a reduced rate of CGT can stimulate activity and increase exchequer revenues (Table 2.1). In Budget 1998, the then Minister for Finance Charles McCreevy cut the standard Capital Gains Tax rate from 40% to 20%. There was a significant growth in tax revenues immediately after the rate was halved (far beyond the Department of Finance's projections) with strong growth in general non-housing related investments. From 2009, successive Governments have increased the CGT rate {20% - 22% -25%-30%-33%}. In recent years, CGT revenue with a rate applied of 33% has failed to return the high yields of the last decade despite asset values recovering (see table 2.1).

Table 2:1: Capital Gains Tax Rates and Receipts 1997 -2021



Sources: 1999-2020 taken from 'Finance Accounts'
(e.g.https://assets.gov.ie/22544/6e396749aa3145f5bb5b08b92c83c7b1.pdf)
1997-1999 taken from Statistical Report of the Revenue Commissioners for the y/e 31 Dec 2000 (https://www.revenue.ie/en/corporate/documents/statistics/archive/statistical-report-2000.pdf)

Making a Case for Cutting the Capital Gains Tax (CGT) Rate

1. Both the Irish Tax Institute[1] and the Tax Strategy Group believe that a reduction in the overall CGT rate could increase transactions and exchequer returns.
2. A reduction in CGT would send a very powerful message to businesses across the country and beyond that Ireland is a great place to invest, grow and scale up.
3. Capital Gains Tax accounted for only 1.5% of total exchequer receipts in 2021 from a high of just under 7% in 2006. The risk to the exchequer from any reduction in CGT revenue is very low, whereas the likely increase in exchequer receipts from a rate cut will help deliver Ireland's much needed recovery.

Action 14 - The Entry Point to the Marginal Rate of Personal Taxation should be increased to €50,000:
To ensure family business can pay the appropriate salaries for their employees and to ensure workers receive a fair net pay for their labour, FBN recommends that the Government raises the entry point to the marginal rate of personal income tax to €50,000. Despite intense competition and a labour skills shortage that has defined a "*War for Talent,*" workers in Ireland pay one of the highest marginal tax rates in the world on salary levels below the average wage; in fact, only flat-tax countries have a lower entry point to their marginal rates. A high marginal rate of tax distorts behaviour in such a way that the Government never gets anywhere near the full economic value of an increase.

The OECD has warned that Ireland's *"high marginal rates of personal taxation may constrain entrepreneurship as well as the attraction of talented entrepreneurial labour from abroad",* while Tánaiste Leo Varadkar has said that the Ireland's high tax rates will be a "major disincentive" when competing for remote workers. Taking the UK as our closest neighbour, Irish workers on an average salary face a higher effective rates of personal taxation, with the gap rising significantly as salaries increase (Table 2:2).

Table 2:2 'OECD Taxing Wages 2021 Ireland and the UK'

Indicator	Ireland (Tax as a % of Income)	UK (Tax as a % of Income)
Single person on the Average Wage	33.6	30.8
Single person on 167% of the Average Wage	42.1	37.2

Source: OECD 'Taxing Wages 2021'.

Action 15 - Reform the Key Employee Engagement Programme (KEEP):

Attracting and retaining talent is becoming more challenging in the current economic climate. As the employment market exceeds capacity family businesses need access to innovative offerings to attract talent and remain competitive versus the multi-national sector. The ability to offer equity to employees is one such strategy that was welcomed by the sector on its introduction as part of the 2017 Finance Act. Here's how one FBN member described how important an effective a share remuneration scheme could be for their business:

"As a 2300-employee company, we are keen to incentivise our staff through equity-based remuneration (which would help us compete with multinationals who offer similar benefits) but the current tax treatment means this is not an option for us. If Revenue and the Department of Finance could address this issue it would help us significantly with staff remuneration, attraction, and retention" (The Family Business Sentiment Report 2022).

Unfortunately, KEEP has proven to be unnecessarily complicated and thus unattractive to businesses as an effective way of attracting and retaining talent and to date only a handful of employees have been granted KEEP options. **Reforms should include increasing the Tax Relief, removing annual and lifetime limits and changing the qualifying criteria which are too exclusionary.**

Action 16 - Retain the 9% VAT Rate: FBN advocated for and welcomed the introduction of the 9% VAT rate for the hospitality sector. This sector was decimated during the Pandemic and has faced the brunt of the greatest increases in labour costs and the unavailability of labour. This rate should be retained and reviewed at Budget 2024.

Action 17 - Review and Replace Commercial Rates: FBN has long held the view that the Commercial Rates system, which is a relic from Victorian times, is no longer appropriate in the digital age. This system unfairly discriminates against local family businesses which are the lifeblood of villages and towns across Ireland, in favour of multibillion-euro online retailers such as Amazon, who do not have the same impact on their local community as their indigenous peers. The businesses that suffered the most from the Pandemic are largely the same as the ones who pay the highest commercial rates. At a time when local town revival is a priority of this Government, the Minister should use Budget 2023 as an opportunity to announce a full review of the Commercial Rates system.

Action 18 - Enable Family Businesses to Power Growth through the Generations: Family businesses are the beating heart of the local economy and communities throughout the country. They do not invest for short-term gain and are committed to communities they have been embedded in for generations and will be for generations to come. The tendency for family businesses to have a long-term outlook with regards to business strategy makes them a vital source of stability during uncertain economic and political times. Taxation policy can determine when and how succession takes place. It has never been as important to amend our tax system to ensure an efficient transition to the next generation within a family business. FBN endorses the recommendations contained within PwC's Pre-Budget Submission for Private Enterprise *'Supporting Sustainable Growth',* developed in conjunction with FBN, which will help alleviate some of the issues surrounding family business succession and transition:

Recommendations as outlined in the Pre-Budget submission by PwC Private Enterprise 'Supporting Sustainable Growth' developed in conjunction with the Family Business Network (2022):

- 18.1 Raise the capital acquisitions tax (CAT) Band A threshold (including all gifts and inheritances from parents to their children) to €500,000.
- 18.2 Remove anomalies from CGT Retirement Relief.
- 18.3 Increase the retirement relief age from 66 to 70.
- 18.4 Remove cash as a non-qualifying asset in trading businesses for CAT Business Relief purposes until and unless the cash is invested in non-qualifying assets.
- 18.5 Allow CAT Business Property Relief on active property rental businesses. This is in line with our suggestion within the Employment Supports category whereby it is proposed that incentives are introduced for Irish businesses to let properties to their staff.
- 18.6 Introduce mechanisms to facilitate the transfer of businesses to the next generation without incurring upfront punitive tax costs (e.g. an 'upfront instalment' of the gift or inheritance tax applying with any balance of tax being spread over a long-term period of at least 10 years).
- 18.7 Introduce temporary measures to reduce gift tax liabilities in order to provide a window of opportunity to encourage a transfer of wealth. Consider reducing the gift tax liability to 75% of the inheritance tax liability as was the case prior to 1994.

Increase Productivity

A prominent feature of the Irish economy is the dual nature between the multinational sector and the even more job-intensive indigenous sector. Indeed, it is important to note that numerous indigenous

Irish employers are themselves multi-nationals, such as our major agri-foods and manufacturing firms. However, it has been well publicised that Ireland has a significant productivity gap between the indigenous and international sectors. While family businesses tend, through their personal commitment, to be more productive than their non-family-owned peers in the indigenous sector, the intertwined relationship between the two means that it is equally important for both that overall indigenous productivity increases so as to ensure sustainable economic growth for the whole sector. The key factors that will increase productivity include **digitisation**, **innovation**, and **greater investment in skills.**

Action 19 - Support Family and Indigenous Business with Digitisation: Digitisation is fundamental for increasing productivity. Countries that embrace digitalisation will lead the new industrial revolution, while countries that fall short will be left behind. However, Ireland is not a leader in the field. FBN welcomes the publication of the Government Strategy *'Harnessing Digital'* aimed at enabling the digital transition. Coupled with the dimensions in the framework on digital infrastructure and skills, the targets in the framework are ambitious enough to deliver Ireland into 2030 as a world leader in the digital space, delivering productivity and economic benefits for all businesses.

It is vital now that when the granular detail of the plan to digitally transform business is set out, all indigenous businesses are given the same priority as large international companies and micro start-ups.

To this end, FBN recommends:

- **19.1 Expansion of the Digital Transition Fund.** FBN called for the establishment of the fund, but we note its explicit goal to significantly ramp up the level of micro and start-up businesses becoming digital exporters; it is important that medium sized enterprises are included with the same importance. If Ireland's ambitious goal of 90% of SMEs reaching basic digital intensity by 2030 is to be met, our family businesses must be given the same priority.
- **19.2 Appoint a Digitisation Czar.** In this space, FBN welcomes the appointment of Ireland's first Artificial Intelligence ambassador earlier this year. We believe that a similar role, holistically championing comprehensive digital transition, would be a practical commitment to businesses and the international community, proving how seriously Ireland is taking the digitisation of its economy.
- **19.3 Intensify Broadband Rollout:** By EU Metrics, Ireland is largely in line with the EU average when it comes to businesses access to internet of at least 2 megabytes per second, but it has one of the lowest proportions of fibre broadband connections in the OECD. Remote working

and the expansion of the Government's Connected Hubs agenda are reliant on the efficient and timely rollout of the National Broadband Plan. Noting the delays to its rollout and the subsequent fines for National Broadband Ireland (NBI), FBN calls on the Government to continue to liaise with NBI to ensure that there are no further delays, and that the rollout is intensified.

Action 20 - Increase the Innovative Propensity of Indigenous Irish Firms: There is a clear and evident correlation between productivity and innovation. According to analysis carried out by the OECD, Irish indigenous businesses innovate less than their foreign owned counterparts and their OECD peers with only one in five indigenous businesses carrying out in-house R&D. The R&D tax credit is one of the Irish Government's key policy levers that the Government uses to encourage innovation. However, this is limited in its application and is tailored towards the largest multinationals. Consequently, 80% of R&D expenditure in Ireland is attributed to 0.7% of firms i.e., foreign multinationals.

Family and indigenous businesses report that they lack the resources needed to complete the extensive documentation required to receive R&D supports. In addition, companies must also demonstrate a scientific or technological advancement - this can be challenging for smaller firms if they fail to demonstrate this subjective requirement. FBN notes that there are templates more appropriate for Indigenous businesses in other countries such as Austria, where tax credits are given in the form of a direct cash grant for R&D expenditure, and in the UK, where companies meeting the definition of a Small or Medium sized Enterprise (SME) can claim a benefit of up to a quarter of their qualifying development costs. These schemes do not have the same requirements as in Ireland where taxable profit is needed to realise benefits.

- **20.1 Support Innovation Through an Indigenous R&D Tax Credit:** FBN recommends that a specific R&D Tax Credit be designed for Indigenous Businesses.
- **20.2 Ensure local collaboration.** Greater support is needed for clusters, research hubs and a joined-up network between indigenous and foreign owned industry partners and academics. In addition, supports for consortiums of smaller firms should be provided.

Action 21: Support Indigenous Businesses to Upskill their Workforce:

"Assigning workers to tasks based on their comparative advantages i.e., optimally matching workers to job tasks, is one of the key channels through with (good) management drives productivity"

OECD 2021

There is clear evidence that upskilling both managers and their workforce is key to unlocking productivity growth in an economy. For managers, this can be through learning new skills in people management or financial management to optimise the resources available to them. This is also true for workers, where adult learning leads to increased productivity.

- **21.1** Develop a **tax credit or accessible grant scheme to support indigenous business train and upskill their managers and workers** to ensure that their workforce and leadership are at the cutting edge of global developments.
- **21.2 Become a World Leader in Lifelong Learning.** Amongst 25–34-year-olds, Ireland ranks first in the EU with 57% of adults with a higher-education qualification, but this figure drops to 30% for 55–70-year-olds. The EU set a target of 15% of adults in *Lifelong Learning* by 2020 but Ireland will not reach this target until 2025. The Government needs to provide stimulus to ensure that Ireland moves from laggard to leader in further education by 2030.
- **21.3 Stimulate a business-to-business support culture**, recognising that most large firms are willing to impart skills and mentoring to less developed firms. The Government needs to create structures for this sharing of knowledge to occur.

Develop Infrastructure

Action 22 Deliver Infrastructure that is Fit for Purpose

FBN has endorsed the revised National Development Plan (NDP) published in October 2021 which will invest €165 billion in Irish infrastructure over its lifetime. We welcome that the Government is set to spend approximately €12bn on much needed infrastructural projects next year. However, the rollout of critical national infrastructure has been plagued by well publicised budgetary overruns (National Children's Hospital) and delays (National Broadband Plan). While businesses the length and breadth of the country are striving to improve their efficiencies and productivities they cannot do so in a vacuum. In addition, family businesses are themselves significant investors in local and regional capital projects but are hampered by planning delays and spurious objections. FBN believes that the following actions would expedite the delivery of the NDP and other critical infrastructure across the country:

- 22.1 Establish an Infrastructure and Projects Authority: While FBN acknowledges that there is an Advisory Group established to support the Department of Public Expenditure and Reform with external reviews, we believe that an *Infrastructure and Projects Authority,* akin to the UK model, should be established to work with government and industry to ensure projects are delivered successfully and to improve performance over time.
- 22.2 Increase resources for An Bord Pleanála with a dedicated unit for renewables within the Board.
- 22.3 Akin to Strategic Housing Developments (SHDs) statutory decision periods should be introduced more widely to ensure investors and developers are given reasonable timelines for decisions.
- 22.4 FBN supports the rebalancing of the planning system to reduce the stages at which a judicial review can be sought. In addition, we support limits on the entities that can take legal challenges and a new cost-capping arrangement to ensure frivolous cases are not encouraged.
- 22.5 Given that now, one in every four high court judges are dealing with judicial reviews it is imperative that the Government honour its commitment to establish a new Planning and Environment Court which should result in more expeditious decision making.

3. Securing a Prosperous Future

Family business are not transitory, they are the bedrock of the Irish economy and are rooted in communities throughout the country. They hire local, invest local and support local communities. They have overcome recessions and political turbulences of the past and have been unwavering in their commitment to the country. FBN is committed to playing its part in ensuring that the next decade is one of hope, ambition, and achievement. To this end, we make the following recommendations:

Action 23 - Deliver Sustainable Economic Growth: FBN has repeatedly given the Government its fair dues for guiding the economy through the upheaval that was the Covid-19 Pandemic. The counter cyclical approach by the Government to safeguard businesses and the hundreds of thousands of livelihoods they sustain was the correct approach and has been validated by the economy's swift recovery. FBN believes that it is imperative that the Government keep a medium to long term perspective on the country's economy and to avoid short-term knee jerk measures that can become permanent.

FBN believes it is prudent to implement short-term targeted measures to protect businesses and households from the current cost of living crisis, however we are apprehensive about the rapid increase in permanent current expenditure as outlined in the *Summer Economic Statement* which projects that over the period 2022-2025 core current expenditure will grow by an average by 5.6% per annum (6.0% in 2022, 6.5% in 2023, 5.0% in 2024, 5.0% in 2025).

FBN has consistently flagged our concern that potentially transient national income such as Corporation Tax Revenues are being used to fund permanent current expenditure across government departments. To this end, FBN believes the following actions should be considered in Budget 2023:

- **23.1 Announce a timeline to replenish the Rainy-Day Fund.** To protect the Irish economy against the volatility of Corporation Tax revenues, the National Rainy-Day Fund must be replenished under a timeline announced in Budget 2023.

- **23.2 Announce a Commission on Public Expenditure.** FBN has been an active participant in the Government's *Commission for Taxation and Welfare*. We believe a similar public consultation and engagement on public expenditure is warranted.

Action 24 - Ensure a Joined-Up approach between State Agencies: FBN believes that the development in recent years of *Local Enterprise Offices* (LEOs) across the country has been a positive contributor to the growth and survival rates of micro enterprises, while *Enterprise Ireland* continues to be the anchor agency that supports Irish indigenous businesses looking to open new export markets. However, FBN believes that there is a gap in support for medium sized businesses to help them to scale and grow at home in Ireland, businesses who are too big for micro grants and whose requirements differ from the criteria outlined for Enterprise Ireland clients.

FBN notes various Government strategies encouraging greater linkages between the SME sector and multinationals. While we are supportive of this approach, we believe that more could be done to support linkages between major Irish family owned and indigenous businesses and those that could benefit from their knowledge in the SME sector, creating regional powerhouses akin to the strategies of some of our international peers. As other business cultures such as Germany's *Mittelstand* know well, not every enterprise needs government support in order to thrive in a vibrant local economy.

Similarly, not every business needs to export to be successful. Indeed, there are significant opportunities for state agencies to support indigenous employers relied upon by multinational companies for their supply chain of goods and services, just as in Germany and other successful economies. FBN believes that a strengthened Enterprise Ireland could coordinate and lead these initiatives, supporting links between large Irish Businesses and SMEs, supporting non-exporting businesses as well as:

- Supporting Irish Businesses to Scale Up at home.
- Supporting the Regionalisation and Clustering Agenda.
- Joining the dots of Ireland's numerous supports, simplifying access and participation and priming local collaborations.
- Delivering through grants, investment and business-to-business mentoring in disadvantaged localities and regions.
- Enabling the Revenue Commissioners to continue to support enterprises through productive reliefs such as for pension funding and entrepreneurial investment.

Action 25 - Developing the Green Economy:

Ireland has set an ambitious but equally achievable target to be net carbon neutral by 2050 and FBN has articulated our support for achieving this moral obligation. In fact, family businesses are amongst the most pioneering companies in the country in transitioning to the green economy. From the outset FBN has stated that indigenous businesses must be at the centre of this endeavour if these goals are to be realised. FBN advocated for, and welcomed, the Government's decision to set up a *Green Transition Fund* to support businesses transition away from fossil fuels. However, there are additional innovative supports available to client companies of some state agencies which are not available to non-members. To this end, FBN recommends that the Government:

- 25.1 Introduce **a Green Tax Credit** to support business with the outlays of adjusting their business to a more carbon neutral approach.
- 25.2 Ensure that all **Local Enterprise Offices are equipped to support businesses through training and grants** as they familiarise themselves with Environmental, Social and Governance (ESG) reporting.

Conclusion

When family businesses flourish, they reinvest in their local area, they create local employment, and they directly support their local communities. As we emerge from the upheaval of Covid-19 and address the onslaught of cost increases it is important that business and political leaders take a longer-term vision for the country, the economy and society. it is our view that Ireland should be the best place in the world to establish a business, scale up and to pass that business on to the next generation for the betterment of local communities and society as a whole. This Budget should be a signpost of the way to that goal if only we can grasp the opportunities presented to us.

FBN Ireland

13 Merrion Square

Dublin D02 HW89

Tel: +353 1 634 3050

Email: info@fbnireland.ie