



Retail Ireland Budget Submission

Michael Noonan TD
Minister for Finance
Government Buildings
Dublin 2

Dear Minister

As you and your officials prepare the groundwork for Budget 2015, I wish to write to you to outline the key priorities for the retail sector at this challenging time for our industry. We would like you to bear these points in mind in the coming months and hope that you will include some or all in your Budget speech in October.

The strategic importance of the retail sector to the Irish economy

The retail sector is Ireland's largest employer. With a footprint in every town in the land, it is also this country's most geographically diverse industry.

These two facts highlight the potential the retail sector has in helping the Irish economy on to a path of sustainable growth. It is important to remember that;

- Retail employs 275,000 people – this is the total number of those employed in ICT, agriculture, forestry and fishing and the financial and insurance sectors combined.
- The retail and wholesale sector spends approximately €8.2 billion in wages and salaries, an average of €30,000 per person.
- The wholesale and retail sector generates over €5.1 billion in taxes per annum. Broken down by category, €3.6 bn of this came from VAT, while a further €1 bn came from PAYE. This shows the wholesale and retail sector as a major conduit to tax takes in the country.
- 90% of retail businesses in Ireland are Irish owned.
- 77% of retail businesses are family-owned.
- 38% of retailers have a turnover of less than €200,000.
- 77% of retailers have a turnover of less than €1 million.

Further details and the breadth and scope of our industry can be found in the accompanying *Strategy for Retail 2014-2016* that accompanies this submission.

The current state of the retail sector and performance of retail sales in 2014

CSO data for 2014 suggests that a modest recovery in consumer spending is underway. However, the data also shows that this recovery is fragile and patchy. When car sales are excluded year-on-year growth has shown only modest growth, with a large disparity between volume growth and growth in the value of sales;

Total sales for all businesses combined (excluding motor trades) – annual change

Month	Value	Volume
January	1.3%	3.1%
February	0.7%	2.7%
March	0.5%	2.7%
April	3.0%	4.9%
May	1.4%	3.4%

This divergence between sales volumes and sales values can be attributed to the practice of retailers discounting items in order to drive footfall – proof that consumers remain reluctant to spend. Retail Ireland forecasts that consumer spending will rise by 1.9% in 2014 and by 2.4% in 2014.

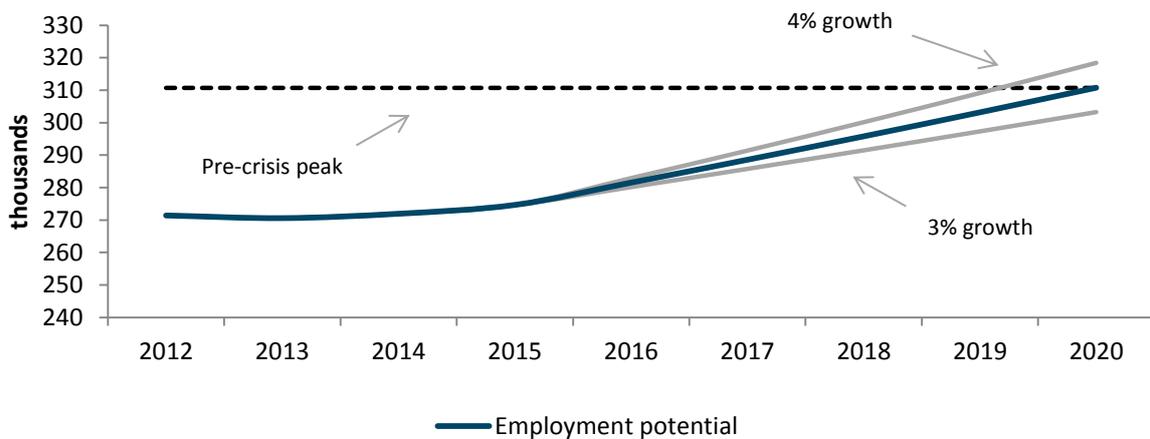
The potential for the Irish retail sector

A healthy retail sector is vital to the Irish economy and to the commercial life of our towns and cities. If the economy improves, and we put in place the right policies to support the development of the sector, we project that retail has the potential to create up to 40,000 new jobs.

In 2012, employment in the wholesale and retail sectors averaged just over 270,000 people. Historically, employment growth has been about one percentage point lower than the volume of sales growth. This reflects the high employment intensity of the sector coupled with productivity improvements that have been in line with the performance of the other sectors of the domestic economy.

The chart below shows that wholesale and retail employment has the capacity to reach the pre-crisis peak by the end of this decade and employ in excess of 310,000 people, accounting for about 15% of total employment in Ireland.

Employment potential of wholesale and retail, based on 3-4% GDP growth from 2015



Source: CSO and Ibec calculations

The retail sector is a major employer right across the country and is labour intensive. Any significant increase in retail activity will immediately lead to job creation. A resurgent retail sector will also have a direct impact on the social and commercial lives of our towns and cities, which have been badly hit by shop closures and the resulting job losses.

Budget 2015 Proposals

With the scale and breadth of our industry at its disposal, the Irish economy can deliver jobs growth throughout the country.

To do this, retail must be put on a path to sustainable growth. Budget 2015 offers the Government the opportunity to assist the domestic economy through targeted, strategic measures that will give consumers reassurance and give retailers hope.

We would like you to consider the below proposals for inclusion in Budget 2015 in order to safeguard jobs in the retail sector;

1. Reduce the fiscal adjustment

Retail Ireland supports the continued efforts of the Government to restore the country's public finances to full health. These efforts not only reap dividends abroad, by ensuring foreign investors have confidence in the country, but also assure the domestic audience that measures are being taken to stabilize the economy.

Nevertheless, the impact of previous Budgets has been to remove money from consumers' pockets, damaging spending power and reducing the level of spending in the domestic economy.

This Budget, for the first time in many years, allows the Government to meet its fiscal responsibilities while also increasing consumer spending power, boosting retail sales and creating employment in retail and other related sectors.

The Government aims to reduce the fiscal deficit to below 3% by 2015. Retail Ireland supports Ibec's earlier submission to you in which it stated that this reduction can be achieved with substantially less than the €2 billion in tax and expenditure measures which Government had planned for 2015.

Such a move also would signal to consumers that economic recovery is taking root and previously deferred spending can now take place.

Retail Ireland recommends that a net fiscal adjustment of just €200 million should be delivered in order to meet a deficit target of 2.7%.

2. Impose no new costs on retailers

Consumer Price Index (CPI) data suggests that in May 2014 the price of goods was 1.8% lower than May of 2013, while the price of services rose by 2.0%, the cost of energy rose by 0.1% and the costs of utilities and local charges rose by 3.1%.

This data suggests that retailers continue to reduce prices while simultaneously facing higher costs of doing business.

This situation is not sustainable.

It is vital that Budget 2015 does not result in any increase in costs such as energy, Government services, local authority charges and other input costs for retailers. To do so would endanger jobs and job creation.

Retail Ireland recommends that Budget 2015 impose new costs on doing business for Irish retailers to ensure that the fragile recovery in some areas of retail sales be maintained.

Further, the oil excise duty regime in Ireland is outdated and out of line with practice internationally. The industry is significantly disadvantaged by the requirement to pay excise duty before fuel leaves bonded warehouses and prior to the sale or collection of excise from customers.

This anomaly has proved increasingly difficult for the largely Irish owned fuel retailers since the onset of the credit crisis. The present system imposes an intolerable strain on the working capital of the oil industry and discourages it from holding stocks – a matter counter to Government energy policy.

Retail Ireland recommends that excise on oil be collected on a duty deferment basis in line with the collection of carbon tax. This would improve security of

supply, reduce the administrative burden on the state, and would mitigate the unsustainable burden on the oil industry and hence on the wider economy.

3. Make it cost effective for retailers to hire new staff

The Government has added to overall wage costs in recent years through changes to PRSI, illness benefit, health insurance and general taxation, which in the long term has an upward effect on wages.

It must not introduce measures in Budget 2015 which will put even further pressure on labour costs or erode Ireland's recent competitiveness gains. In fact, this Budget provides an opportunity to begin the process of reducing the costs associated with employing new staff.

It is imperative that measures are taken in Budget 2015 to reduce the costs for retailers to hire new employees, which would simultaneously encourage expansion and investment.

One very simple way to do this is to reverse the changes made to the PRSI regime in Budget 2014. The Employer PRSI rate of 4.25% on lower paid workers introduced as part of the Jobs Initiative to encourage employment, returned to 8.5% at the start of this year, resulting in an employer PRSI rate of 10.75%. This is simply too high.

Retail Ireland recommends a reduction in Employer PRSI to encourage retailers to employ more staff and invest in the expansion of their businesses.

The establishment of the Irish Strategic Banking Corporation is long overdue. As we emerge from the crisis, business is now looking to invest again. Small retailers, in particular, need a more diversified financing offering.

Irish SMEs are currently paying one percentage point more for finance than the Eurozone average. The new state backed bank must help address this challenge and provide new financing opportunities for firms that may not get funding through the existing bank network.

Retail Ireland recommends that the establishment of the Irish Strategic Banking Corporation be expedited so that lending to the retail sector can begin as soon as possible.

4. Cut personal taxes

In recent Budgets, following the severe economic downturn that the country experienced, Irish consumers endured a number of increases in personal taxation, resulting in a large reduction in take-home pay and a subsequent fall in retail sales.

We estimate that retail sales fell by 25% between 2008 and 2013.

Reducing personal taxation is an important step in providing consumers with extra disposable income which can then be spent in the domestic economy, encouraging job creation and incentivising investment.

As a result of the extended period of low inflation, spending power reductions in the domestic economy have been caused primarily by the higher tax burden. Consumer confidence is now at a seven-year high but consumers need increased spending power to kick-off a meaningful virtuous growth cycle in the domestic economy. Cutting incomes taxes in Budget 2015 is the most effective way to boost consumer spending power.

Retail Ireland supports Ibec's call to increase the entry point to the marginal tax rate from €32,800 to €34,800 for a single person, with corresponding adjustment for a married couple, while reducing the marginal rate of income tax from 41% (52% when fully loaded with USC etc) to 40% (51%).

5. *Reduce other consumer taxes*

It is vital that Budget 2015 is not seen by consumers as “giving with one hand, while taking away with the other”. This will be recognised by consumers for what it is, resulting in no new spending in the domestic economy and a continued high level of household saving.

Indirect consumer taxes directly impact upon retailers' ability to grow and hire new employees. They are also regressive, are unrelated to ability to pay and do not contribute to equity in the tax system.

Drawing on the success of the 9% VAT rate for the hospitality sector, Budget 2015 should reduce other consumer taxes in order to support personal spending power and the domestic economy.

It should reverse last year's alcohol excise increases which have significantly added to inflation, squeezed overall consumer spending and damaged Ireland's international price competitiveness. Ireland has the highest excise duties on wine, the second highest duties on cider and the third highest duties on beer and spirits in the EU.

Given ample evidence provided to the Department previously on the size of the black market in tobacco and fuel, we also believe that duties on these products should at least be frozen at their current levels.

Retail Ireland recommends a reversal of last year's excise duty increase on alcohol while freezing excise duties on fuel and tobacco to avoid further incentives for those operating in the black market. The 9% VAT rate should also be continued.

A particular issue involves the prescription charge levied on medicines supplied by Irish pharmacists. Our pharmacy members inform us that evidence suggests that

medical card holders, particularly those on fixed incomes, are reducing the medication they take in order to reduce their monthly drugs bill.

This has implications not just for the retail sector and the Exchequer, but also patient health.

Retail Ireland recommends a reversal of the increase in the prescription charge contained in the last Budget.

6. *Incentivise retailer investment in town centres and encourage use of vacant outlets.*

Research from CBRE shows that while retail activity has picked up a little in the first half of this year, vacancy rates in key towns and cities remain high:

- Athlone has a vacancy rate on its high street of 21.6% in Q1 of 2014, up from 18.2% in Q3 of last year.
- The vacancy rate on Patrick St in Cork is up from 13% to 14.3%.
- Sligo's high street vacancy rate stands at 12.5%, unchanged from last year.
- Limerick's rate also remains unchanged at 16.3%.
- Henry St in Dublin has a vacancy rate of 12.8%, up from 4.3%

There are improvements in parts of the country, with high profile areas like Grafton St showing reduced vacancies and Cork's Opera Lane development fully let. But the overall picture highlights the continued problems of our sector.

A key problem is the high level of local authority charges, such as commercial rates. A recovery in the retail sector will reduce vacancy rates, increase the rates base and ultimately provide extra funding for local authority services.

A key way to make that happen is to reduce rates for retailers and even offer rates holidays for retailers that take on a vacant unit. Such a move would improve the retail mix in towns and cities, encouraging shoppers and driving footfall.

Retail Ireland recommends a scheme allowing for reduced local authority rates, or rates holidays, be introduced to encourage retail, hospitality or other investment into currently vacant units. This should be done in consultation with businesses and representative bodies to ensure existing businesses are not put at an undue or prolonged disadvantage.

7. *Further instil confidence in Irish consumers. A rise in consumer spending will lead to a rise in retailer investment.*

Retail Ireland has previously pointed out that speculation about budgetary measures is often as damaging- if not more damaging- than the impositions of those measures. It had long been a complaint of the Irish retail sector that the timing of the Budget in early December had a hugely depressing effect on November sales, with consumers waiting until after Budget Day before deciding how much they had to spend.

This is why we warmly welcomed the decision to move the Budget from December to October.

We believe this work should be built upon. The next 12 to 18 months are vital for the domestic economy –consumers must be given the certainty they need to plan their spending and be encouraged to unlock funds currently being diverted to savings or deb write-down.

To ensure this takes place, it is vital that a coordinated, non-speculative communications approach from the Government is put in place. In essence, we need a moratorium on “kite flying”.

The Department of Finance is best placed to coordinate this and ensure that the impact upon consumer behaviour and confidence is considered before any Government announcement is made.

Retail Ireland recommends that the Department of Finance ensure that all departments and agencies confidence check public pronouncements or policy initiatives against the likely effect on spending in the domestic economy.

Conclusion

Retail Ireland fully supports the Government’s stated aim to put the public finances on a sound footing while simultaneously growing the economy and helping to create the right conditions for employment growth. To make that aim a reality, we must encourage consumers to start spending again.

We believe the measures outlined in this letter support our shared aims and we look forward to some or all being implemented. At our last meeting in late 2013 you undertook to meet with us again this year in advance of Budget 2015. We look forward to that meeting.

Kind regards

A handwritten signature in black ink, appearing to read 'Frank Gleeson', with a large, stylized flourish at the end.

FRANK GLEESON
CHAIRPERSON