



Budget 2015

**Tax
less
invest
more**

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The budget should give consumers a break, put money back into peoples' pockets and kick start personal, commercial and public investment.



New growth figures for last year and positive trends for the first quarter of this year mean a much smaller adjustment will be required on budget day. A net fiscal adjustment of €200 million will now be enough, far below the planned €2 billion. This would reduce the budget deficit to 2.7%, comfortably under the 3% limit, and support Ireland's reputation and credibility in the international financial markets.

We have an opportunity to put fresh momentum behind Ireland's recovery. Now is the time to draw a line under the period of painful austerity. It was necessary, but the economy has entered a new phase, a broad based recovery is firmly underway. This needs to be reflected in the budget.

The resources are available to reduce income and consumer taxes. Getting more money back into the economy will boost economic activity and support job creation. We also need to boost investment in enterprise and infrastructure, and improve Ireland's international tax offering.

The budget should give consumers a break, put money back into peoples' pockets and kick start personal, commercial and public investment. If we make the right decisions, we can look forward to strong growth in the months and years ahead.

This submission sets out the full details of these proposals and the underpinning economic rationale. If you require any further details, please contact myself or your Ibec contact.

Danny McCoy
Ibec CEO

1. Economic context and approach to Budget 2015

A combination of revisions to Ireland's GDP numbers, a stronger than expected Exchequer performance in the first half of this year and a much improved economic outlook means that an adjustment of much less than the planned €2 billion is now needed. While the European Commission requires Ireland to reach a 2.9% budget deficit target in 2015, Ibec believes that a prudent approach would be to aim for more and target a 2.7% deficit. This provides a degree of flexibility if the economic recovery disappoints. Based on our 2.7% deficit target, Budget 2015 needs to deliver a net fiscal adjustment of just €200 million.

The much improved fiscal and economic outlook means that the resources are now available to support tax reductions and to help deliver a break for consumers and those looking for work. This will move the domestic economy into a more virtuous cycle. We have set out in the recommendations below how a combination of tax rate reductions and new investment initiatives will provide improved momentum for the economy and accelerate the reduction in unemployment. The recommended tax reductions, summarised in Table 1, will require the pre-announced implementation of water charges in 2015 and some further current expenditure reductions. This overall package will be growth enhancing, however, and the approach is supported by extensive international evidence which supports a shift from labour taxes to property-based taxes and other user charges. Ibec's budget proposals, therefore, represent an opportunity to deliver a step-change in Ireland's economic recovery.

Table 1: Net Exchequer impact of Ibec policy recommendations for Budget 2015

	€m
Necessary fiscal adjustment for 2.7% deficit target (opening position)	-200
Ibec policy recommendations	
Income tax reductions	+300
Pension levy termination	+135
Consumer tax reductions (excise)	+100
Other tax/expenditure measures	+150
Total	+685
Expenditure adjustments	
Water charges already announced	-500
Other current expenditure adjustments	-385

2. Key recommendations

Ibec's key recommendations for Budget 2015 are:

- 1. Reduce the net fiscal adjustment to just €200 million:** Stronger than expected economic growth and tax revenues, combined with large statistical revisions to Ireland's GDP level, means that substantially less than the €2 billion planned fiscal adjustment is needed to reach the EU required budget deficit target for 2015. A lower fiscal adjustment will boost confidence and support a recovery in tax revenue through buoyancy rather than through raising tax rates. Ibec recommends a net adjustment of €200 million in order to reach a prudent 2015 deficit target of 2.7%.
- 2. Cut personal taxes:** The improved fiscal outlook provides the opportunity to reduce personal taxes in Budget 2015. Government should:
 - 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
 - Reduce the marginal rate of income tax from 41% (52% when fully loaded with USC etc) to 40% (51%)
 - Reform the USC structure in order to deliver an equal marginal tax rate for the self-employed and PAYE workers
 - Drop the pensions levy
- 3. Reduce consumer taxes:** 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 recent alcohol excise increases which have significantly added to inflation, squeezed overall consumer spending and damaged Ireland's international price competitiveness. The 9% VAT rate should also be continued.
- 4. Enhance investment in enterprise and infrastructure:** Budget 2015 should deliver measures to enhance investment in enterprise and much needed infrastructure. Business investment can be supported by rebranding and enhancing the Employment Investment Incentive Scheme (EIIS) and reforming the capital gains tax regime to encourage reinvestment by enterprise. Infrastructure investment should be increased by bringing a greater number of Public Private Partnership (PPP) projects to the market to take advantage of low financing costs and by packaging innovative financing models for projects such as social housing.
- 5. Improve Ireland's international tax offering:** The competitiveness of Ireland's tax offering for mobile investment has declined in recent years, particularly compared with the UK. Budget 2015 must set out a medium-term business tax strategy for Ireland based on:
 - A commitment to the 12.5% rate brand
 - An improved intellectual property tax offering
 - Greater certainty in the R&D tax credit scheme
 - Competitive personal taxes

Key recommendations

Less austerity



• Reduce the net fiscal adjustment to €200 million



Stronger economic growth means that a much smaller than anticipated adjustment is needed



A lower adjustment will boost consumer confidence and economic activity while still doing better than the 3% deficit target

Reduce tax



• Cut personal taxes



Increase the entry point to the marginal tax rate to €34,800



Reduce the marginal tax rate to 51%



Reform the USC so self-employed and PAYE workers are treated the same



Drop the unfair pensions levy



• Reduce consumer taxes

Key recommendations

More investment



Enhance investment in enterprise and infrastructure



Improve the Employment Investment Incentive Scheme and reform capital gains tax



Take advantage of low borrowing costs to invest in the future through innovative financing mechanisms



Improve Ireland's international tax offering



Reaffirm commitment to 12.5% corporation tax regime



Improve the intellectual property tax offering



Provide more certainty in the R&D tax credit scheme



Ensure personal taxes are attractive to international mobile skills

3. Fiscal policy

3.1 Economic and fiscal outlook

3.1.1 Economic context

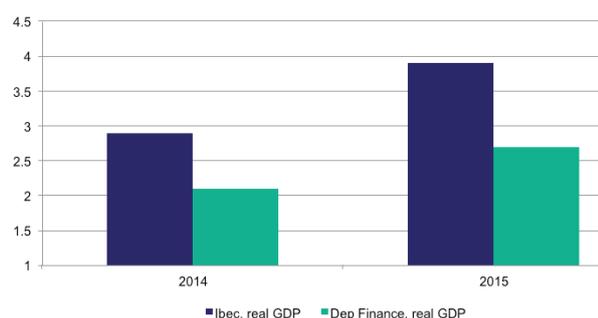
The Irish economy recovered strongly in 2013 as employment increased by over 3%. However, this is not reflected in real GDP figures which have been revised upward from -0.3% to 0.2%. GNP gives a clearer picture of the economic developments in 2013. In volume terms it grew by 3.2%. Net exports contributed positively to overall growth while private consumption remained weak despite the upward trend in employment.

Economic growth is expected to gather momentum in the coming quarters. Moreover, the base of the recovery is expected to broaden. Investment and private consumption will contribute positively to growth. Companies have more confidence in the economic recovery, as seen in the improved sentiment indicators. Moreover, the interest rate environment will remain low and support stronger investment spending. The positive development in employment will continue this year and next. With labour market conditions improving private consumption will recover and contribute positively to GDP. External demand for Irish goods and services will increase as global output and particularly the UK economy are on a recovery mode. The IMF forecasts world GDP to increase to nearly 4% this year and next, from around 3% in 2013. Ireland's real GDP should grow by nearly 3% this year.

For 2015, we expect an even stronger GDP growth of nearly 4%. Ibec's forecast takes into account the positive feedback loops the expected reduction of fiscal measures will have on consumers, companies and ultimately the overall economy. The inflationary environment remains benign. Ibec expects only a gradual increase in inflation to 0.8% and 1.4% this year and next.

The Department of Finance also forecasts an economic recovery for this year and next with an estimated real GDP growth of 2.1% and 2.7% respectively. Compared to Ibec's forecast these growth expectations are substantially lower (see Annex 1).

Figure 1: GDP forecasts (y-on-y % ch)



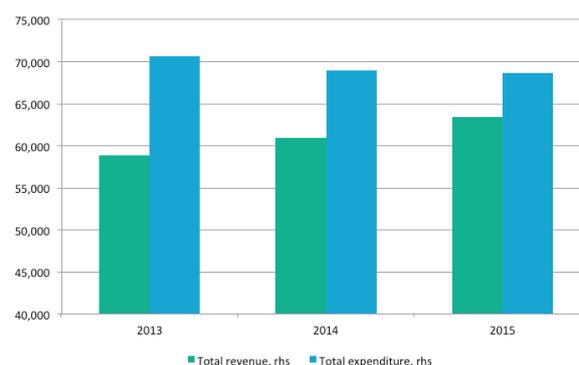
The main differences between the projections relate to the composition of growth. Ibec forecasts a stronger growth of investment spending and private consumption. Moreover, Ibec expects employment to increase faster than Department of Finance forecasts. In tow with stronger employment the unemployment rate should drop to a lower level. Ibec forecasts an unemployment rate of 9.6% for 2015 while the Department of Finance expects 10.5%.

3.1.2 Fiscal outlook

The differences between economic scenarios matter, as they affect the fiscal outlook. Stronger domestic demand and continued growth in employment will be reflected in higher revenues. Moreover, as the unemployment rate continues to drop social payments, which are the biggest component of government expenditures, will decline.

Ireland outperformed on public finances last year. This was achieved by growth in tax revenues and by expenditure restraints. As a result, the fiscal deficit dropped below the recommended target level of 7.5%. Additionally, on the basis of the revised GDP figures – due to the adaptation of the ESA 2010 accounting standards and an upward revision of growth – the general government deficit for 2013 was substantially revised downwards from 7.2% to 6.7% of nominal GDP. For this year the government plans to lower the fiscal deficit to 4.8% of nominal GDP which is below the EDP deficit ceiling of 5.1%. The government's fiscal deficit target for 2015 is 2.9%. On the back of its economic scenario the Department of Finance forecasts that total revenue should increase from €58.8 billion to €60.9 billion in 2014 and further increase to €63.4 billion in 2015. Total expenditure is expected to fall from €70.6 billion to €68.9 billion this year and €68.6 billion next year. These developments include the previously announced package of tax and expenditure measures of around €2 billion for 2015.

Figure 2: Department of finance projections (€ millions)



Source: DOF

3. Fiscal policy

The tax revenue figures of the first half of this year have already exceeded the Department of Finance's expectations. For the period from the beginning of the year to June they amounted to €18.5 billion which is 1.2% ahead of target. The year-on-year growth rate was strong at just below 5%.

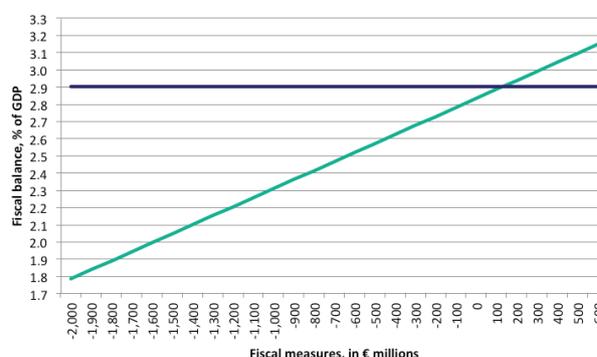
The strong increases in income tax and VAT in the first six months of this year support Ibec's expectations that the economic recovery is gathering strong momentum which will lead to higher growth rates than the Department of Finance currently anticipates. Ibec's growth scenario is also supported by hard economic data such as retail sales and industrial production. Moreover, employment continued its upward trend vice versa unemployment its downward trend. These developments support Ibec's expectation that tax revenues in 2014 and 2015 will be higher than the Department of Finance forecasts.

Stronger internal demand and positive employment will continue to be reflected in higher tax revenues. The reduction of unemployment – on the other hand – will lower social payments. Moreover, a reduction of fiscal measures in 2015 will have positive feedback effects on overall growth. Based on our growth assumptions for 2014 and 2015, the general government deficit in relation to nominal GDP would therefore fall to 3.9% and 1.8% this year and next – both substantially below the Government's projected fiscal deficit and significantly under the EDP deficit ceiling.

3.1.3 The fiscal adjustment

The Government aims to reduce the fiscal deficit to below 3% by 2015. We think that, based on our economic and fiscal outlook, this reduction can be achieved with substantially less than the €2 billion in tax and expenditure measures which the government has planned for 2015. Ibec expects nominal GDP to grow by 3.7% and 5.3% this year and next. Under these assumptions, the chart below shows what happens to the government deficit if the fiscal measures are reduced from €2 billion to 0. In our scenario tax and expenditures measures of €2 billion lead to a fiscal deficit of 1.8% in 2015. Even with no fiscal adjustment the government deficit would be at 2.8% which is below the EDP ceiling of 2.9%.

Figure 3: Fiscal balance scenarios



Source: Ibec calculations

Recommendation 1: The fiscal adjustment

- In Ibec's economic scenario a deficit of 2.9% in 2015 could be reached without any additional fiscal measures. However, we believe that it would be prudent to target a 2015 deficit of 2.7%.
- A net fiscal adjustment of just €200 million should be delivered in order to meet our preferred deficit target of 2.7%.

4. Personal tax

4.1 Current challenges in the personal tax system

Recent budgets have substantially increased the tax burden on Irish workers and the system as currently structured provides a number of challenges:

Competition for mobile skills: The personal income tax burden in Ireland is now much higher than in many of our competitors and large numbers of Ibec members are reporting difficulties in attracting mobile talent to Ireland. The entry point to the marginal rate is the lowest in the OECD and the marginal rate (52% for employees) is one of the highest compared to countries with which we typically compete with for investment. In addition to the high personal tax burden for skilled staff, changes to tax rules on share benefits in recent years have further damaged the competitiveness of Ireland's personal tax regime. Many companies are also finding it difficult to retain talent and the high personal tax burden is increasingly cited as a reason for staff to move overseas. Multinational companies which are seeking to attract expat workers for a project or placement typically operate tax equalisation models. This has the effect of delivering an agreed net salary to the employee and an adjustment in the gross salary to reflect this.

The overall impact of Irish income tax increases in recent years has therefore been to increase the total labour cost for multinational businesses locating positions in Ireland. This means that Ireland is becoming a less attractive location for investment and many direct and ancillary jobs are being lost to competitor jurisdictions with lower personal income tax burdens. This is costing jobs and damaging the Exchequer returns.

Figure 4: Effective income tax rates in key competitor countries at various salaries



Note: Based on single person with no additional reliefs

Incentive to work: The personal income tax system impacts on incentive to work in two ways. Firstly, many employers are forced to compete directly with the social welfare system in order to fill certain income positions. Lower take-home pay and relatively unchanged social welfare payments have meant that many employers are forced to offer higher gross salaries in order to attract job seekers to move from welfare to work. Secondly, for those already in employment the incentive to work overtime, take up promotions or to move from part-time to full-time employment has been reduced. The low level of entry to the marginal tax rate is a particular problem in this regard. A further related issue is that the increase in the personal tax burden has increased the attractiveness of 'black economy' activity and is making it more difficult for compliant businesses to compete. Wage pressures: Following a number of years of limited salary increases, wage pressures are now escalating. Improved labour market conditions are playing a role but the most significant driver for wage increases is the erosion of take-home pay in recent years. There is currently no cost of living justification for wage increases – the overall cost of living remains below where it was in mid-2008 – but employee spending power has been reduced substantially. Therefore, employers are facing growing wage demands at a time when they are unable to pass on these higher costs to their consumers.

Domestic economy spending power: As a result of the extended period of lowflation, 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.

4. Personal tax

Recommendation 2: Income tax reform

Government now clearly accepts that the income tax burden has been pushed too far in Ireland and taxpayers need a break. Based on current growth expectations and related tax revenue trends Ibec estimates that resources of about €500 million (in gross terms) can provide for income tax reductions in Budget 2015. The net cost of this package for the Exchequer in 2015 would be about €300 million and the measures would become revenue neutral within a three year period. The medium-term priorities for income tax reform must be to:

- Significantly increase the entry point to the marginal rate of tax
- Bring the marginal tax rate back in line with our main competitors for investment
- Equalise the income tax treatment for employees and the self-employed

In Budget 2015, Government should:

- 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. This would have a gross cost of €240 million in 2015;
- Reduce the marginal rate of income tax from 41% (52% when fully loaded with USC etc) to 40% (51%). This would cost €130 million in 2015;
- Reform the USC structure in order to deliver an equal marginal tax rate for the self-employed and PAYE workers.

4.2 Pensions levy

The private-sector pension levy is a uniquely unfair and unacceptable tax. The levy is not a tax on income or on interest; it is not a contribution to the public purse based on ability to pay. It is an expropriation of capital sums saved by workers in the private sector.

In Budget 2014, the Government reversed an earlier decision that the pension levy would end in 2014. Moreover, the Government increased and extended the levy in a way that caused a reasonable fear that the levy may be here to stay. The levy damages wider policy efforts to increase pensions coverage and demonstrates the disjointed approach of Government to pensions policy in Ireland.

Recommendation 3: Drop the pension levy

If Government is to make any progress with its roadmap for workplace pensions it is essential that the pensions levy is dropped in Budget 2015.

4.3 Employee financial involvement

Employee Financial Involvement (EFI) has a key role to play in terms of improving Ireland's competitiveness, fostering a more direct link between performance and reward and acting as an incentive to essential international talent. The imposition of both employee PRSI and the USC on employee share schemes, and particularly broad based employee share schemes, has introduced a level of administrative complexity for business that far outweighs the relatively modest revenue which might be generated. It has also curtailed the take-up levels of such schemes at a time when increasing our competitiveness and attracting key talent is a priority. The tax treatment of share schemes in Ireland is now considerably less attractive than in competitor countries, such as the UK. This is contributing to the rapidly accelerating investment competitiveness challenge which we are facing from our nearest neighbour.

Recommendation 4: Encourage employee financial involvement

The tax exemption available for certain employee share schemes should be extended to encompass both PRSI and the USC, to support investment and talent retention.

4. Personal tax

4.4 Foreign Earnings Deduction (FED)

The Foreign Earnings Deduction (FED) scheme is well intentioned but ultimately ineffectual due to excessive restrictions and conditionality applying to the scheme. Ibec recommends:

- That a much broader and consistent classification of emerging and developing countries is included into the FED scheme. This would support trade with countries and regions which are expected to grow faster than Ireland's traditional trading partners such as the UK and the USA, generating wide ranging export opportunities.
- We also advise that the number of qualifying days should be reduced from 60 to 40 days. Many business trips combine various countries in emerging and developing economies. A single business trip therefore might include four neighbouring countries in a region with only one night spent in each country. Therefore, we suggest altering the restriction that the qualifying days must include at least four consecutive days in the relevant states to a minimum of two consecutive days spent in the entity of the emerging and developing economies classified by the IMF.

Recommendation 5: Help firms win exports

- Helping firms to win exports is crucial to Ireland's economic recovery. Ibec believes the FED scheme will help firms do just that by reducing the cost of winning trade abroad.
- In line with recent Ibec submissions on the schemes the government should renew the FED programmes to make it easier for firms to use and increase uptake.

5. Domestic tax environment

5.1 Labour and business costs

Over the past two years we have seen the erosion of hard won competitiveness gains on the back of wage pressures returning to the economy and increases in other costs on labour. The National Competitiveness Council report benchmarking Ireland's international competitiveness for 2014 noted that despite recent improvements, Ireland is still a high cost location for a number of key business inputs and that cost competitiveness is getting worse in a number of areas, including labour costs. A number of these costs on labour have been driven by Government policy decisions including increases in the lower rate of PRSI, changes to illness benefit arrangements, increases in health insurance related costs and of course income tax increases.

Irish labour costs are 16% above the EU average. Moreover they are 30% higher than labour costs in the UK, our main competitor. Recent years have seen a benign inflation environment and still unacceptably high unemployment. In this context it is difficult to justify wage increases for most firms in the absence of clear productivity improvements.

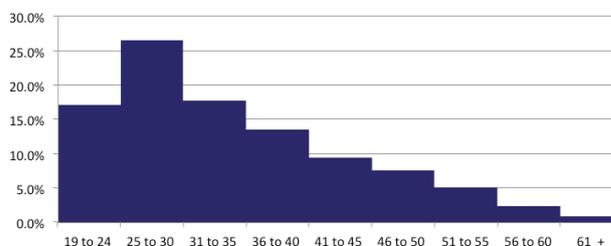
5.1.1 JobsPlus scheme

The JobsPlus Incentive became the Government's main labour market subsidy replacing the Revenue Job Assist, Employer Job (PRSI) Incentive Scheme and the lower rate of employer's PRSI. Regular cash payments are made to qualifying employers to offset wage costs where they employ jobseekers who have been on the live register for a year or more.

This scheme is designed to encourage employers to focus their recruitment efforts on those who have been out of work for long periods with increased levels of payment for those out of employment for more than 24 months. Interest in the scheme has been significant with enquiries from over 3,800 employers and almost 9,000 jobseekers since its initial introduction, a rate of 350 and 800 enquiries per month respectively. Thus far the total cost has been €21.5 million with 2,400 people taking up work in 1,811 businesses.

In general economic evaluations of labour market subsidies have been mixed depending on the design of the scheme. However, labour subsidies can be successful and important if properly targeted particularly at groups such as the long-term unemployed. These groups are most at risk of leaving the labour market, suffering the long-term effects of unemployment and finding it difficult to find work in a recovering labour market leading to hysteresis in the labour market.

Figure 5: Age distribution of JobsPlus employees



Source: DSP

In this context JobsPlus appears to be in line with more successful job subsidy schemes. Of those employees who found work under the scheme just over 60% had previously been unemployed for 24 months or over, the remainder had been employed for over one year. It has also been successful in targeting younger workers with 44% of the participants in the scheme being under the age of 30 compared to around 30% of people eligible for the scheme. However, other factors such as education levels may play a role.

Thus far the scheme has only been able to place 27% of those who have enquired or applied for the scheme with the limited placements (2,500) already exhausted. Given its success and the relatively low level of funding JobsPlus has received relative to its predecessors Ibec believes:

- JobsPlus should be given additional funding up to 7,500 places.
- The schemes eligibility requirements should be expanded to include those spending a significant time unemployed but not yet 12 months unemployed through a scaled subsidy for those unemployed for six months or more.

5.2 Industrial electricity costs

Ireland remains a relatively high cost country for electricity, damaging our ability to attract energy intensive industries. The CER's recent proposal to increase the Public Service Obligation (PSO) levy by 55% will put a further strain on energy-intensive firms. While the proposal is a response to a forecasted fall in the wholesale price of electricity, energy users in other EU markets are likely to see similar reductions in wholesale costs without any corresponding increase in PSO. This reaffirms the need for a contingent compensatory scheme only triggered when electricity cost rise above a certain point.

A significant number of member states across the EU have national measures in place to compensate large energy users for indirect costs associated with climate change and energy policies.

5. Domestic tax environment

Ibec recommends the development of a financial instrument, to be administered by EirGrid or the CER, to mitigate the impact of high electricity costs on firms facing international competitiveness pressures at times when Irish electricity costs are higher than the EU average.

The European Commission's Energy and Environment Aid Guidelines and the Emissions Trading Scheme Directive allows member states to partially compensate large electricity users in the event that taxes or levies negatively impact the international competitiveness of their energy-intensive industries. Denmark, Sweden, Germany and the Netherlands currently have schemes in place to shield their energy intensive industries from the costs of meeting renewables, while Spain and the Belgian region of Flanders recently put measures in place to offset the costs associated with climate change policies. In the past number of months, the United Kingdom received state aid clearance from the European Commission to compensate large energy users for the effects of the mandatory carbon price floors.

The Revenue Commissioners reported the collection of €353 million in carbon tax in 2012. We envisage that up to one-quarter of this would need to be ring-fenced in the future. The proportion of this money disbursed in each year could be varied at the discretion of the CER, depending on the amount (in cents per kWh) by which Irish industrial electricity prices exceed the published EU average.

The default criteria for firm eligibility should be the same as that previously applied by EirGrid to the Large Energy User Rebate in 2011. The Large Energy Users Rebate was determined on the basis of connection voltage (LEU customers are those connected at 38kV or above). The rebate applied to approximately 1600 firms, many of whom are SMEs. However, government could also explore possible alternative criteria, provided that this did not delay implementation.

Recommendation 5: Prioritise competitiveness

- 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 pressure on labour costs or erode Ireland's recent competitiveness gains;
- Government should expand the JobsPlus scheme to bring it closer in line, in terms of resources, with the schemes it replaced in order to encourage firms to hire people on the live register for periods in excess of six months;
- The Budget should see the establishment of a compensatory scheme for large energy users to be triggered when Irish electricity costs exceed the EU average.

5.3 Investment taxation

5.3.1 Employment and Investment Incentive Scheme (EIS) and Seed capital schemes

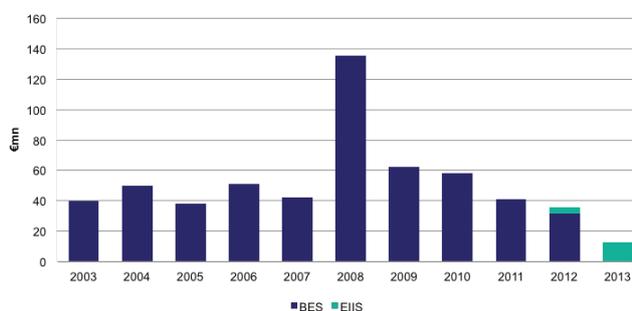
The Irish SME sector has an embedded over-reliance on bank funding and particularly funding of a short term nature. This is partly an institutional issue but it has been exacerbated by the fact that alternative sources of funding are scares for Irish firms. In this context the EIS and Seed Capital schemes have the potential to help deliver a diversified and improved funding environment for SMEs.

5. Domestic tax environment

The EIIS was introduced in 2011 as a successor to the relatively successful Business Expansion Scheme (BES). The aim of the scheme was to encourage individuals to invest in Irish business by improving their prospective post-tax returns through tax incentives. The ultimate objective of the scheme was to finance Irish enterprise growth through alternative channels to bank financing. For a number of reasons, however, take-up on the scheme has fallen far short of what would have been hoped.

Take-up of the BES/EIIS scheme was quite solid in value terms throughout the 2000s with average take-up between 2003 and 2007 of around €44 million per annum. The scheme saw a sharp spike to €135 million, in value terms, in 2008 before gradually falling back to normal levels in the years to 2012. The changeover to the EIIS scheme in 2012 and 2013, however, coincided with a significant fall in take-up of 65% year-on-year. This cannot be wholly explained by the deteriorating investment environment.

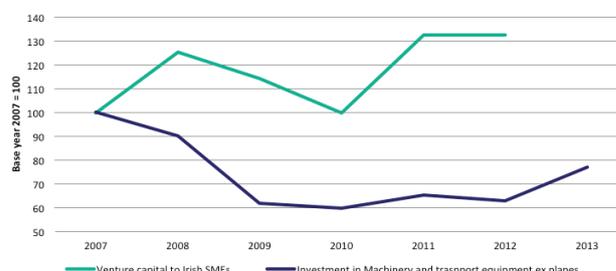
Figure 6: Take-up of the BES/EIIS scheme



Source: DOF

European Venture Capital Association (EVCA) data on venture capital investment to Irish firms suggests a relatively stable venture capital investment environment from external finance for firms during the period 2007 to 2013. Annual venture capital funding to Irish SME's was consistently between €55 million and €70 million during these years. Despite investment in machinery and transport equipment (ex-planes) falling by almost 40% between 2007 and 2009 it has seen a strong year in 2013 rising by 22%.

Figure 7: Investment in Irish firms



Source: European Venture Capital Association (EVCA), CSO The decreases in value terms in the BES/EIIS scheme do not tell the full story. The volume of take-up of the scheme actually rose in 2012 and 2013 despite the value falling. Over 1,000 people took up the scheme in 2013 compared to only 900 in 2009. Although these figures were down on take-up in the pre-recession period of almost 2,000 they have been broadly stable since a sharp decrease in 2009.

The take-up in the value of the scheme has been falling due to the average claim falling by over 70% between the final years of the BES scheme and the changeover to the EIIS scheme as the scheme became substantially less attractive to higher value investors. This is evident particularly in the 2012 figures when the two schemes operated in different halves of the year – without any major changes to the external environment average expenditure in the scheme fell from €32,000 under the old BES to €11,363 under the new EIIS scheme showing clearly that the makeup of the scheme rather than the external environment is the key factor in driving lower take-up.

5. Domestic tax environment

Recommendation 6: Reform the EIS scheme

Budget 2014 began addressing this issue as the EIS was removed from the high earners restriction for a period of three years. This should provide some renewed life to the scheme but it must be marketed properly as investor impressions of the schemes attractiveness will have altered in the intervening period. Budget 2015 must see a solution to the issues which have resulted in poor take-up for the EIS scheme namely:

- Re-brand the EIS scheme: The scheme as it is currently branded does not seem to have a clear purpose. It is not clear from its current branding that the scheme is about investment in SMEs or what the benefits of investing in these companies are for investors or for society more broadly. It is Ibec's continuing position that the scheme should be rebranded to make its purpose clear; namely investing in Irish SMEs.
- Drop the employment or R&D restriction: In addition to unclear branding the purpose of the scheme has been confused by the inclusion of the employment growth/R&D spend restriction. While both aims are laudable they create unnecessary levels of complexity for both firms and investors.

Firstly, the requirements are unlikely to have any substantial marginal benefit for either jobs or R&D as growing firms are likely to grow employment and R&D in either case.

Secondly, the restriction adds an extra layer of uncertainty for investors about their potential returns.

Finally, although employment and R&D are positive on a macro level, restricting small

firms in this way may hamper rather than help their growth. For example a large number of firms in receipt of EIS funding are in manufacturing where capital expenditure may be more beneficial than R&D or additional unnecessary employees. The restriction as structured creates incentives for investors to second guess the entrepreneurs knowledge of what capital allocation will best benefit the firm's growth. In these cases the overall result for employment and R&D will be negative in the medium-term as businesses invest available funds sub-optimally.

Ibec recommends that the restriction be lifted with a 30% up-front payment and 11% over a three year period regardless of how the funding is allocated.

- Target non-traditional investors: The rebranded scheme would benefit from greater marketing and promotion to make smaller investors more aware of the opportunities involved and allows them to easily find enterprises in which to invest.
- Reduce overall risk: Non-traditional investors have a different risk profile to the typical cohort of seasoned BES/ EIS investors and are currently not sufficiently encouraged to make investments in SMEs due to relatively low value returns and relatively high investment risk. This makes investing in SMEs a relatively risky proposition compared to housing, stocks or general savings.

In other European countries, a number of methods, including guarantees against a proportion of losses have been successfully used to promote investment schemes similar to the EIS. The Netherlands and Austria have introduced such guarantees aimed at mitigating risk and attracting capital. Ibec believes a similar scheme should be introduced here and underwritten by the state.

5. Domestic tax environment

5.3.2 Diversification of venture capital schemes

Venture capital tax reliefs in general must be structured to take account of differing investor profiles and levels of investor risk. The mix of Irish venture capital tax incentives does not do this in any meaningful way.

Seed Enterprise Investment schemes (SEIS): The UK has recently recognised the differential risk profiles between micro and medium sized enterprises by introducing the SEIS which provides more generous incentives for individuals investing in start-up firms less than two years old with gross assets of less than €200,000. Ibec believes a similar angel investment tax incentive should be introduced here for start-up firms and micro-enterprises in approved sectors.

Corporate Venturing: One of the major aims of Irish industrial policy over previous decades has been to see increased linkages between indigenous SME's and larger domestic and foreign firms. In this context, some thought should be given to the potential of tax incentives for corporate venturing. These may be particularly successful in creating ties between these two types of firms. Corporate venturing tax incentives are aimed at companies considering direct investment, in the form of a minority shareholding, in SMEs or groups of companies in approved sectors. The UK provided tax incentives for corporate equity investment in the same types of companies as those qualifying under the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) scheme.

5.3.3 Capital Gains Tax (CGT)

Following increases in capital gains tax (CGT) in recent years it was necessary that the rate was left unchanged in Budget 2014 and that a new CGT incentive was introduced for entrepreneurs. Although this scheme is still to receive approval from the European Commission it will provide a relief to individuals who have made a gain on asset disposal and reinvest in a new business.

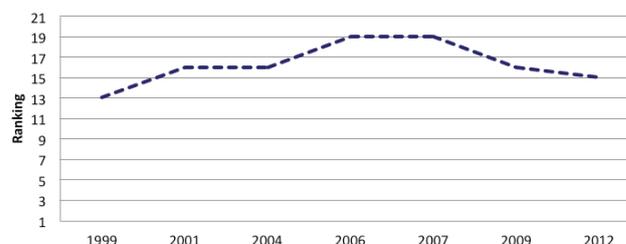
However, the new entrepreneurial relief as currently structured is excessively restrictive. In particular the holding period on the new investment is too long and would require in some cases entrepreneurs to remain in a new business longer than is optimal in order to claim the full benefit of the credit. Additionally, receiving the CGT relief on disposal of the second investment means that it is likely to be almost a decade before the entrepreneur could hope to see any return from the tax credit.

5.3.4 SME R&D tax credit

Ibec believes the government should consider launching a 'credit lite' R&D tax credit model for SMEs. Many SMEs, despite undertaking research and development activities, are not engaging with the credit due to its complexity and administrative requirements. Ireland is also out of line with many of its competitors by not having a significantly more

attractive tax credit regime for SMEs.

Figure 8: Irish R&D tax credits generosity ranking for SME's among OECD countries 1999-2012



Source: Ibec calculations from data provided by the Information Technology and Innovation Foundation (ITIF)

We recommend that a streamlined or 'credit lite' model should be developed for SMEs which would include the use of pro-forma templates for R&D project management, recording R&D activity and calculation of eligible costs and revenue benefit associated with the credit. Simple on-line calculators demonstrating the benefit and eligibility rules of the credit would be a useful resource for SMEs and would also greatly improve awareness and promotion of the scheme.

Recommendation 7: Support SME investment

Investment in and by SMEs should be supported by the diversification of venture capital schemes, further reform of capital gains taxation and the introduction of a simplified version of the R&D tax credit for SMEs.

5.4 Consumer taxation

Indirect taxes have increased significantly in recent years with a negative effect on domestic demand. These increases are counterproductive for the Exchequer and damage important domestic industries. As can be seen from the successful reduction in the rate of VAT for the tourism sector targeted reductions in consumer taxes can deliver a benefit to the economy and Exchequer. Ibec believes that any increase in current VAT or excise rates, which are already exceptionally high, or any broadening of their base will hurt domestic consumption which is essential to employment and recovery.

5. Domestic tax environment

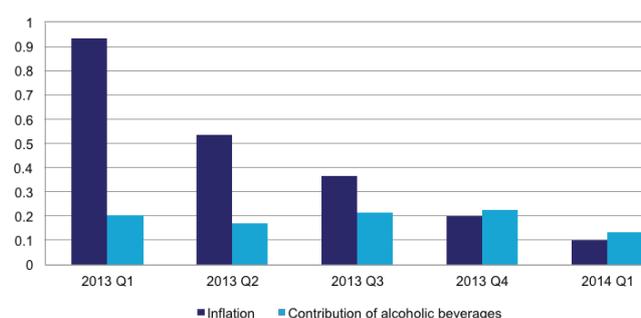
5.4.1 Excise duties on alcohol

Excise on alcohol has been increased substantially in recent budgets including a full year effect of €180 million in 2013 and a further €145 million in 2014. These excise increases have created a hostile domestic environment for this growing domestic sector putting pressure in particular on the cash-flow of SMEs and act as a deterrent for investment among larger firms.

As a result of these excise increases Irish alcohol prices and excise rates are now amongst the highest in Europe. Eurostat's latest price level indices (2013) show Ireland is the most expensive country in the Eurozone in which to buy alcohol, at almost 70% above the Eurozone average. These increases are worrying for a number of reasons:

Impact on consumers: Recent increases in excise duties have been a direct tax on Irish households with tax increases passed on to consumers in most cases in the form of higher prices. The contribution of alcoholic beverages inflation to the overall cost of living has been substantial in recent quarters with alcoholic beverages becoming a major component of overall inflation. This represents an increased burden on lower income deciles more than higher ones.

Figure 9: Contributions of alcohol to overall inflation (y-on-y % ch)



Source: CSO

Ibec believes that increases in alcohol prices as a result of increases in excise are quickly becoming counterproductive as the tax will be levied particularly on those households who spend a higher proportion of their income in the consumer economy. Households in the bottom three deciles spend on average about 5% of their disposable income on alcohol respectively compared to just 2.7% for those in the top three deciles, increases in excise will hit these households disproportionately.

Impact on tourism: CSO data for 2013 indicated that overseas tourists to Ireland spend €3.2 billion in the Irish economy per annum making it a key economic sector particularly for regions with little or no industrial base. Ibec analysis shows that indirect taxation plays a major part in the price points in the tourism sector and the overall competitiveness of the Irish offering.

Given the price elasticity of tourism and the importance of drink prices and the Irish pub experience in tourism any decision to further increase excise will damage Ireland's brand as a location for tourism. This is particularly true for UK tourists.

Cost differential with the UK: In 2009 increases in the price differential between alcohol prices in Ireland and the UK led to a significant rise in cross border shopping. Recent excise increases risk aggravating these issues. The analysis shows that recent changes in relative price levels and exchange rates have resulted in Irish price level indices moving from only 13% above UK levels in 2012 to 23% in 2013. This figure is still below levels seen in 2009 (circa 40%) which resulted in a spike in cross border shopping but changes of a similar size in relative excise levels in the coming budget would see the price difference on alcohol rising further toward 2009 levels.

5.4.2 VAT in tourism related sectors

As part of the Jobs Initiative announced in May 2011, a new 9% rate of VAT on selected categories of largely hospitality goods and services was introduced for a temporary period running from July 2011 to December 2013. The measure was originally estimated to cost €350 million in a full year.

Various analyses of the employment and Exchequer impact of these measures showed that:

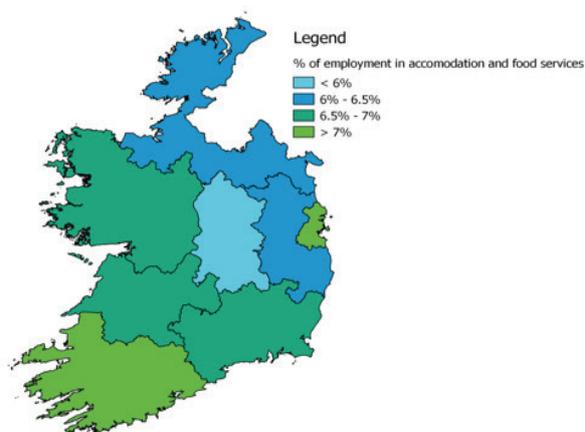
- The measures were very successful and have delivered strong employment gains and retention and a substantial direct and indirect buoyancy for the Exchequer
- The total number of jobs created or retained directly by the measures, over its first 18 months was between 15,000 and 25,000.
- The tax reduction was passed through substantially to consumers and as a result was a direct annual Exchequer gain from higher Irish consumer and visitor spending in both the sectors directly affected by the VAT reduction and in other retail sectors.

Minister Noonan in his 2014 Budget speech praised the scheme as a proven "major success" for the reasons outlined. To re-enforce this success the scheme was continued in Budget 2014. Ibec believes the economic rationale for this scheme has not changed. Tourism in

5. Domestic tax environment

Ireland continues to be a major and growing economic sector with overseas visitors spending over €3.2 billion per annum in Ireland. Since 2012 one in four net jobs in the economy has come in accommodation and food. The sector has seen a severe adjustment during the crisis and has regained international competitiveness and created large numbers of jobs despite suffering structural issues.

Figure 10: Employment in accommodation and food services



Source: CSO

The demand for tourism is relatively responsive to price. As a result the competitiveness of Irish tourism is particularly sensitive to changes in its relatively high cost base. Removing this support now would damage employment in the hospitality and broader tourism sector as increased costs would mean loss of international competitiveness.

5.4.3 Mineral oil excise collection

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 importers and distributors 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. Excise on oil should 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.

Recommendation 8: Encourage the recovery in domestic demand

Domestic demand is showing signs of recovery for the first time since the recession. Consumption taxes will damage this recovery particularly through their regressive nature. The success of the 9% VAT regime for tourism shows that targeted reductions in taxation can be positive for the economy and the Exchequer. Ibec believes this should provide the blueprint for consumption taxes in Budget 2015. There should be:

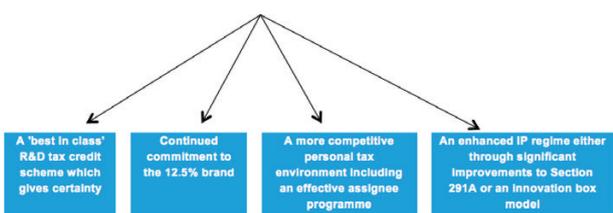
- A reduction in last year's increases in excise duties on alcohol reducing costs for hard pressed consumers and bringing price closer in line with the UK
- A retention of the 9% VAT rate for the tourism sector which has provided almost 1 in 4 new jobs since its introduction
- Forward guidance for consumers and industry on changes to consumer taxation
- No discriminatory taxes on certain food and drinks products on a sugar or fat basis
- No further increases in carbon taxes, which have already exacerbated growing problems for Ireland's relative energy cost competitiveness
- Reform of mineral oil excise collection

6. International taxation

6.1 Priorities for a medium-term FDI strategy

The Department of Finance published a detailed consultation paper on Base Erosion Profit Shifting (BEPS) in June 2014 and Ibec will separately respond on the wider challenges, in relation to a medium-term strategy for re-imagining Ireland's tax offering, through this consultation. This submission will expand on our summary position, illustrated in Figure 12, which identifies the four central pillars needed for a competitive business tax offering in the medium-term. While the BEPS initiative may well result in some changes in international taxation, business believes that any legislative changes should be implemented in a coordinated manner and Ireland must present any reforms as part of an enhanced and competitive international tax offering. It is essential that corporation tax reform restores Ireland's competitiveness as an investment location by addressing the intellectual property offering; certainty in relation to the R&D tax credit and a more competitive personal tax regime.

Figure 11: Four pillars of a medium-term FDI strategy for Ireland



6.2 Certainty for R&D tax credit scheme

The R&D tax credit scheme has become a cornerstone of Ireland's enterprise policy and is essential in driving innovation in indigenous firms and in helping to locate R&D and wider investment into Ireland. Various policy changes have enhanced the scheme over recent years but the ongoing single biggest weakness of the scheme is the uncertainty faced by those businesses availing of it. This uncertainty has recently increased considerably and it now risks undermining the broader policy objectives of the scheme and Ireland's overall attractiveness as an R&D location.

The uncertainty issue can be addressed by:

- Establishing a structured process (similar to the clearing house model used in other policy areas) whereby Revenue, policy, industry and advisor professionals can address difficulties with the scheme and establish clarity on areas of uncertainty.

- Set up a streamlined technical appeals process.
- Ensure greater consistency on R&D definitional issues between grants and other SFI policy and the eligibility criteria used in technical assessments of R&D claims by Revenue appointed external experts. Improved guidance is needed for technical experts and SFI should have a role in ensuring that this guidance is consistent with wider innovation policy.
- Reduce the current audit period of four years, 25% of companies recently surveyed by Ibec on this issue identified this as their most important priority for change.
- In order to ensure that there is greater clarity and consistency in communication from Revenue officials to industry it should establish a central specialist unit of scheme experts. The current model of non-specialist advice at a district level results in a lack of consistency in rulings and guidance to industry.
- Changes to the funding landscape has placed new pressures on Ireland's higher education institutions (HEIs) to diversify their income streams and actively pursue contract and consultancy research opportunities from companies, taking specific account of the fact that externally funded posts in such institutions are not subject to public sector head controls. The level of eligible expenditure outsourced to a higher education institution under the R&D tax credit scheme should be increased to 15 %, in line with the changes made in Budget 2014 in terms of outsourcing to other third-party research performers.

6.3 Taxation of mobile employees

Shortcomings of the existing taxation of mobile employees

- The exceptionally low uptake demonstrates that the current incentive for mobile employees the Special Assignee Relief Programme (SARP) is clearly not fit for purpose; just 8 employers availed of the scheme in 2012. This ineffectual scheme should be ceased and be replaced with an entirely new income tax regime for expat workers
- The rationale for such a scheme in Ireland is very strong and we need to have a scheme which works for employers and assignees. The clear objective of any reform of the scheme must be to see a substantial increase in take-up over the coming years. It is incredibly frustrating for the business community to see new policy introduced to address an identified business challenge and for the resulting scheme to be rendered ineffectual due to excessively restrictive terms and conditions

6. International taxation

- The current scheme is only available to the FDI sector but indigenous firms also face considerable skills deficits and policy measures are required in order help Irish-owned firms to attract and retain specialist skills from overseas
- A strong attractiveness for FDI is core to the national economic strategy and the medium-term plan. Ireland is one of the most open and globalised economies and Irish-based firms need to continuously attract mobile and specialist talent. In the post-BEPS environment, the personal tax regime for mobile talent will be a more important factor in selecting a business location
- Many of our competitors have targeted expat income tax schemes and it is becoming increasingly difficult for Irish-based employers to compete with these locations in the absence of such a scheme
- If the scheme is working effectively and helping to attract additional new roles into Ireland and supporting new ancillary roles in the economy, there will be significant revenue gains for the Exchequer. An effective measure will support employment prospects for a whole range of jobseekers across the economy and will ultimately provide the tax revenues needed to reduce the tax burden for all workers.
- The relief should provide an exemption from all tax on work and should therefore include both the USC and PRSI;
- It is vital the relief is available to all new hires as the current restriction has greatly limited the usefulness of SARP in rapidly growing sectors and in those sectors facing skills shortages at an international level. Indigenous firms should also be able to avail of the scheme in order to address their skill shortages;
- The scheme should be simple to administer and reporting requirements should not be excessive;
- The existing income thresholds should be amended to include commission and bonus payments. The current minimum threshold of €75,000 excludes such income and therefore fails to address the skills challenges faced by sectors such as technical sales where remuneration largely consists of bonus and commission payments and basic salaries are comparatively low;
- The tax exemption benefit should be increased to 35% in order to place Ireland as 'best in class' e.g. the Dutch system currently operates what is known as a '30% ruling';
- The new regime should not include tax liability for other world-wide income, such as capital gains, for non-domiciled individuals based in Ireland.

Recommendations

Ibec believes it is essential that Ireland has an effective and successful assignee tax relief scheme which supports our open and globalised economic model. A new scheme should therefore be delivered in Budget 2015

A new assignee scheme should have the following features:

- It should be simple and easy to understand by employers, international investors and potential assignees;
- It should be 'best in class' from an international competitiveness perspective;
- The relief should be made available to all assignees once they become tax resident in Ireland and should apply to the entire period for which they are tax resident ;

Recommendation 9: Ensure Ireland remains a competitive location for mobile investment

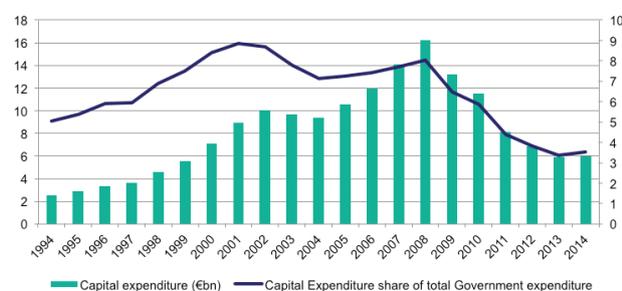
- The competitiveness of Ireland's business tax offering must be urgently enhanced, particularly in relation to the tax treatment of IP
- Deliver improved certainty in relation to the R&D tax credit scheme
- It must be made easier for firms to win investment through a strong incentive for mobile employees

7. Expenditure priorities

7.1 Overview

Between 2008 and 2013 voted government expenditure fell by 12.5% as the State addressed the continued need to reduce government expenditure. Despite the continued need to tightly control government expenditure, in the post-bailout period government will have greater flexibility in its fiscal decision making. In this context there are some very good reasons why investment in infrastructure should return to the fore in government thinking.

Figure 12: Government capital expenditure 1994 – 2014



Source: DPER

Since 2008 voted capital expenditure fell by over 60%. It dropped from 14.4% of total voted government expenditure to only 6.3%. From 2008 to the end of 2013 gross public expenditure was cut by €7.8 billion, the capital programme cuts have accounted for €5.5 billion of this. Cuts to capital expenditure will ease off from 2013, with government committed to spending €3.25 billion on capital projects in each of 2014, 2015 and 2016. These figures will remain broadly steady as a proportion of overall government expenditure but will fall as a percentage of GDP due to growing economic output.

Table 2: Government capital expenditure commitments

Year	Capital expenditure(€bn)	% of GDP	% of Gross Govt expenditure
2012	3.9	2.4	5.8
2013	3.4	2.0	4.9
2014	3.3	1.9	4.9
2015	3.3	1.8	5.0
2016	3.3	1.7	5.1

In the 1990s lack of investment in infrastructure left a rapidly expanding economy with severe bottlenecks in some areas. This was overcome in the middle part of the last decade through a process of rapid and expensive infrastructure growth. However, since 2008, infrastructure expenditure has fallen significantly. Capital expenditure has made up over 70% of total expenditure cuts since 2008. This has led to a situation where over 60% of the infrastructure budget in 2011 was spent on maintenance of existing capital rather than new projects. If this trend continues under the current plan then by 2016 between 90% and 95% of capital expenditure will be on maintenance.

Cuts in recent years may have been necessary given fiscal circumstances, however, demographic and competitiveness pressures mean that a new approach is needed in the period between 2016 and 2020. In this context Ibec believes a comprehensive medium-term analysis of infrastructure needs and a plan for delivery is necessary.

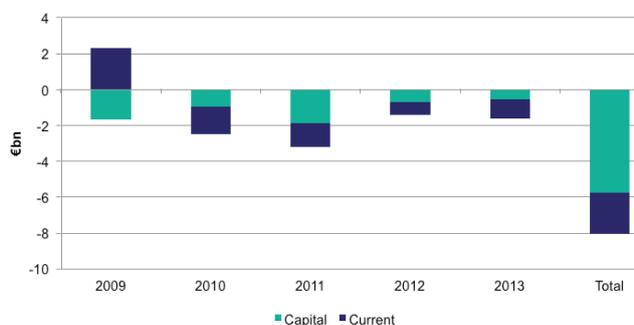
In Budget 2015 the Irish government should commit to the development of an infrastructure 2020 strategy. Government should begin work on a comprehensive medium-term plan for the country’s capital needs beyond 2016; with specific focus on a new National Spatial Strategy and infrastructure plan to 2020. The current capital expenditure framework until 2016 is necessarily cautious; by 2016, however, the plan will result in the vast majority of the capital budget being spent on maintaining existing capital stocks. The new infrastructure plan for 2020 must be more ambitious in order to avoid a loss of international competitiveness and serious demographic pressures on infrastructure over the next 20 years.

7.2 Innovative investment

Although government must remain the main funder of national infrastructure projects there is a need to embrace a greater diversity of funding and co-funding options particularly those with off balance sheet potential. Commitment to this type of funding model has been uneven in the past and greater buy-in is needed from all stakeholders in order to substantially increase the level of private sector funding in infrastructure provision. Ireland needs greater diversification in its non-Exchequer funding sources and these need to be fully integrated into long-term national infrastructure planning.

7. Expenditure priorities

Figure 13: Contributions to public expenditure reductions



Source: DPER

7.2.1 Public private partnerships (PPP) as a key delivery mechanism

National efforts to tackle our economic difficulties have bolstered confidence in the international marketplace and hence have made PPP a viable model once more. Government needs to be ambitious in delivering a programme of infrastructural investment and PPP will increasingly offer a cost effective means of spreading public funding over a greater number of projects.

In Ireland, PPP has been used as an active and successful model to date in the transport, education and civic building sectors with all projects procured to date through this model delivered on or ahead of time and with no cost overrun exposure for the public sector.

External finance should be recognised as a valuable source of inward investment, which in turn will assist in further boosting the attractiveness of Ireland as a location to do business. Regular engagements need to continue with international banks as well as institutional lenders from the pension and insurance sectors. We should also look to European sources for funding mechanisms. Ireland needs to build on its track record of successfully utilising cohesion funding to support economic development during the next round of funding 2014-2020.

The EIB is a potential source of funding for long-term capital investment in line with EU 2020 priorities. All options to attracting EIB financial support should be pursued by government. This includes seeking investment from the Joint European Support for Sustainable Investment in City Areas (JESSICA) financial instrument. The national feasibility study identified opportunities for Ireland in the Resource Efficiency and Innovation thematic areas.

The EIB is considering alternative approaches to financing investment in infrastructure including a project bond initiative, which would provide a mechanism by which international investors could obtain an additional level of comfort in investing in Irish infrastructure projects.

It should be noted that the National Development Finance Agency is conducting discussions with the Council of European Development Bank regarding potential support for public infrastructure projects with a social vocation e.g. justice.

Government has undertaken significant work to identify appropriate funding sources for infrastructure investment. Diversification of funding streams must occur and Government should consider the following mechanisms to support infrastructure delivery over the lifetime of the current capital programmes and in planning for subsequent initiatives:

- **Direct capital investment:** Where total government-funded projects are the only feasible option, investment in economic infrastructure that supports growth and competitiveness should be prioritised;
- **Co-funding:** Use traditional funding for a portion of the scheme, enabling Government to attract private funding for the balance;
- **Institutional lenders:** Explore sources of debt finance from institutional lenders in the pensions and insurance sectors to fund investment options to invest in Irish infrastructure projects (€70 billion held in Irish pension funds);
- **Innovative financing structures:** New structures are being considered in the marketplace to address the decline of the monolines. Private sector entities such as Hadrian's Wall Capital and also the EIB are considering offering support to different tranches of debt to de-risk the senior debt element;
- **EU support:** Align infrastructure priorities with the EU2020 strategy and examine possible funding from European Institution sources (e.g. under Multiannual Financial Framework 2014-2020). EIB investments generally reflect European Commission priorities;
- **Ireland Strategic Investment Fund:** The €6.4 billion discretionary portfolio of the National Pension Reserve Fund is to be used for support commercial investment in the economy to support economic activity and employment through the ISIF;
- **NewERA:** Support for infrastructure investment in the utilities' sector (water, energy and telecommunications);
- **Sale of State assets:** Proceeds arising from the sale of State assets should be re-invested in infrastructure and not used for debt restructuring. For example, part-funding the construction of the new National Children's Hospital from the upfront payment received for the twenty-year exclusive license to operate the National Lottery in Ireland.

7. Expenditure priorities

7.3 Social housing provision

The State currently provides around €1 billion of direct housing support through the provision of social housing and rent supplement (with an additional €1 billion indirectly through mortgage interest relief). This system of almost wholly publicly funded social housing is unique to Ireland. Ibec believes this system could be made significantly more effective in achieving its aims without large amounts of additional current government spending by altering the structures through which social housing is delivered.

Local authorities remain the largest provider of socially rented housing (107,000 units approx) in the State followed by much lower levels coming from housing agencies. Existing low rent levels, tight staffing conditions and funding for local government make it difficult for local authorities to increase the stock of social housing. As a result the local authority sector has been in effect pulling out of social housing provision, albeit in an unstructured way. Turning this around using public funding would require significant investment.

Housing associations and third sector bodies on the other hand are currently a relatively small provider of social housing as a proportion of overall supply. Much of this is due to a number of capacity constraints related to the disparate number of these bodies and their small individual size.

More could be done in this arena to bridge the public and private rental provision of social housing. There are private sector and European funds which could be better leveraged for the sector which have not been utilised adequately. This private sector funding should take up a much greater role in the provision of social housing in Ireland. There are, however a number of important issues which must be overcome, namely:

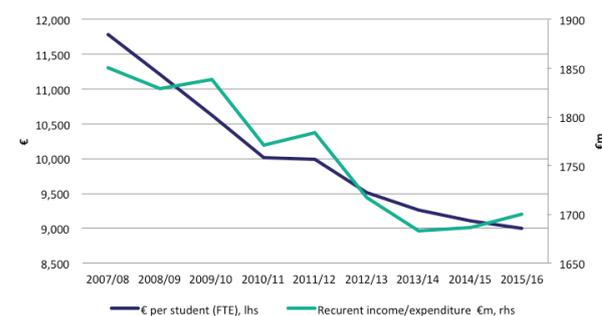
- The current provision is fractured with a lack of scale;
- There are serious capacity and skills constraints when it comes to leveraging private funding;
- From a private sector point of view there is excessive reliance on Part V for delivery. Part V is not fit for purpose given that it increases build costs and is disrupting the private market whilst resulting in very little new social housing.

Ibec believes that it is time to look at different models of social housing provision. A key element of any new social housing model would be to get expenditure on social housing off-balance sheet in a similar way to other projects such as Irish Water. Currently, it is on balance-sheet, making increases in direct provision difficult in the near-to-medium term. Recent funding provisions came from the proceeds from the sale of the National Lottery Licence and Bord Gáis. These funding streams will be limited with the consequent need to structure social housing provision in a manner which can access sources of external finance.

7.4 Higher education

The overall level of funding of Higher Education Authority (HEA) funded higher education institutions has been declining since 2007/08. Between 2008 and 2014 total funding per student decreased by 22% with a further fall expected out to 2016.

Figure 14: Expenditure in Irish higher education

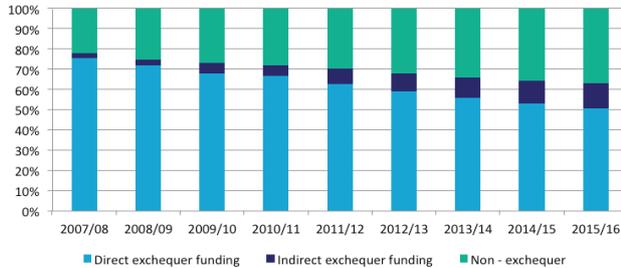


Source: HEA

These changes have meant major changes in the structure of how higher education in Ireland is funded. Direct funding from the Exchequer has dropped from 75.5% of higher education funding to almost 55.5%. It is set to decline further to 51% by 2016 due to increases in the student charge and reductions in overall funding including income from the charge. Including indirect Exchequer funding through the student charge (around half of all student charge income comes from higher education grants) Exchequer funding has fallen from 78% to 65% of the total with a movement toward indirect funding. This compares with the OECD average of 68% and the EU average of 76.4% for 2010, the latest year for which figures are available.

7. Expenditure priorities

Figure 15: Expenditure in Irish higher education by source



Note: Does not include research funded indirectly by the Exchequer or other spending on institutions directly from the Department of Education and Skills. Source: HEA

The current position is unsustainable. The combination of growth in numbers and the reduction in resources carries risks which are further exacerbated by forecasts for continued growth in student numbers. The European Commission, for example, forecasts expect numbers in Irish higher education to increase by almost 40,000 students over the next ten years. Increases in student numbers of this magnitude cannot be facilitated under current funding arrangements without jeopardising the quality of education.

The higher education system has an essential role to play in supporting economic growth through the development of new knowledge and the provision of skilled graduates. Unfortunately Ireland has reached a tipping point in terms of the impact of recent cuts on quality. The absence of a robust financing model for third level education is a threat to Ireland's future prosperity. By 2016, privately paid student contributions (that is, excluding higher education grants and as distinct from the total of income from non-State sources), will amount to 19% of total institutional income. Government should avoid further damaging cuts and put in place an effective student fees and loan system to underpin the sustainability of a high-quality higher education system.

Recommendation 10: Invest in Ireland's future

- Government funding for capital expenditure remains limited despite strong demographic bottlenecks ahead;
- Government must engage and explore opportunities for innovative funding mechanisms, taking advantage of strong international interest in Irish investments;
- Government should announce the development of a new infrastructure 2020 plan inclusive of a new national spatial strategy as part of Budget 2015;
- A new approach to higher education funding should be put in place. In the immediate term this should involve the reintroduction of capital funding to build the capacity to meet existing and forecasted demand. In respect of recurrent funding, the 'one off' reduction of €25 million in recurrent funding should be restored as a precursor to the putting in place of an overall model for sustainable funding.



Growing our infrastructure doesn't have to be a pipe dream

Annex 1: Ibec fiscal forecasts table*

	Ibec-Forecasts		2013	2014	2015
1	GDP, real	% yoy	0.2	2.9	3.9
2	Inflation	% yoy	0.5	0.8	1.4
3	GDP, nominal	% yoy	0.1	3.7	5.3
4	GDP, nominal	€ millions	174,791	181,258	190,865
	Budgetary Forecast		2013	2014	2015
5	Taxes	% of GDP	23.7	24.6	24.7
6		€ millions	41,400	44,505	47,175
7		% yoy		7.5	6.0
8	Social contributions	% of GDP	5.8	5.7	5.7
9		€ millions	10,215	10,419	10,784
10		% yoy		2.0	3.5
11	Property income	% of GDP	1.6	1.4	1.2
12		€ millions	2,710	2,525	2,215
13		% yoy		-6.8	-12.3
14	Other	% of GDP	2.6	2.5	2.3
15		€ millions	4,540	4,300	4,760
16		% yoy		-5.3	10.7
17	Total revenue	€ millions	58,865	61,749	64,934
18		% yoy		4.9	5.2
19		% of GDP	33.7	34.1	34.0
20	Compens. of employees	% of GDP	10.5	10.1	9.4
21		€ millions	18,425	18,275	17,935
22		% yoy		-0.8	-1.9
23	Intermediate consumption	% of GDP	4.7	4.5	4.3
24		€ millions	8,300	8,190	8,125
25		% yoy		-1.3	-0.8
26	Social payments	% of GDP	16.3	15.4	14.1
27		€ millions	28,560	27,846	26,871
28		% yoy		-2.5	-3.5
29	Interest expenditure	% of GDP	4.4	4.4	4.4
30		€ millions	7,680	7,900	8,400
31		% yoy			
32	Subsidies	% of GDP	0.9	0.8	0.8
33		€ millions	1,495	1,360	1,520
34		% yoy			
35	GFCF	% of GDP	1.6	1.5	1.4
36		€ millions	2,725	2,720	2,695
37		% yoy			
38	Other	% of GDP	2.0	1.4	1.5
39		€ millions	3,465	2,545	2,790
40		% yoy			
41	Total expenditure	€ millions	70,650	68,836	68,336
42		% yoy		-2.6	-0.7
43		% of GDP	40.4	38.0	35.8
44	Balance	€ millions	-11,785	-7,087	-3,402
45	Gross change in Balance, y-o-y	€ millions		4,698	3,685
46	Planned fiscal measures	€ millions		2,500	2,000
47	Non-policy related fiscal change	€ millions		2,198	1,685
48	Government deficit	% of GDP	6.7	3.9	1.8
49	Difference to EDP balance	€ millions		-1,500	-1,657
50	Diff to planned Gov bal	€ millions		-953	-1,733

*Fiscal position prior to Ibec policy recommendations



**The country's
hard work
should be
less taxing**

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