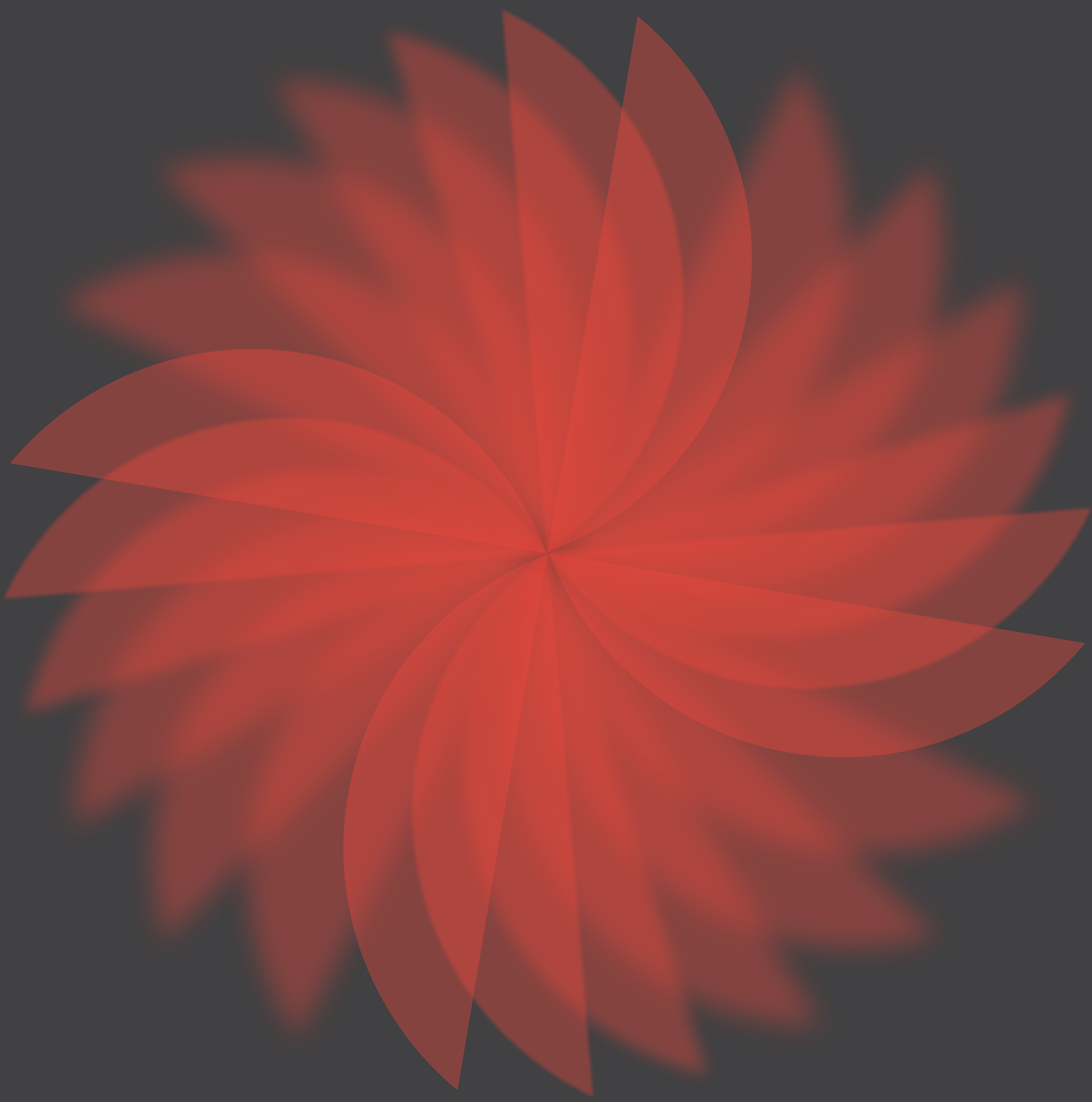
Ibec
For Irish Business



HARNESSING ABUNDANCE

Budget Submission 2024

About us

Ibec is Ireland's largest lobby and business representative group. Our purpose is to help build a better, sustainable future by influencing, supporting and delivering for business success. With over 280 employees, Ibec engages with key stakeholders in Ireland and internationally through our six regional offices and our Brussels office, along with an extensive international network in the UK and US.

Ibec positions are shaped by our diverse membership, which range from small to large, domestic to multinational and our 39 trade associations cover a wide range of industry sectors.

As well as lobbying, Ibec provides a wide range of professional services and management training to members on all aspects of human resource management, occupational health and safety, employee relations and employment law.

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Key messages

Our major challenge is creating the capacity to harness abundance. The economy is continuing to grow at a rapid pace and the case for further private sector investment remains strong. Our major challenge is creating the capacity to continue to grow whilst maintaining social cohesion. We have failed to invest in absorptive capacity (eg, skills, housing, productivity, or infrastructure) for record private investment levels. This has led to systemic congestion in both access to physical assets like housing and to the ability of households to access services which reflect the dignity which should be afforded in a rich society. This congestion, in turn, has led to productivity being capitalised in rising asset prices rather than broad-based growth in quality of life, with significant distributional effects. This is now a material threat to economic advancement, generational solidarity and social cohesion.

Excessive pessimism about State capacity cannot be allowed to contribute to a failure to adequately plan for demand. The State has no other option but to be biased towards action when it comes to the major investment needs facing us. This action must, however, be matched with the capacity to reform and improve our ways of working. We know that there are certain risks of overheating in the economy. However, failing to invest ambitiously in the short run, to avoid the risk of overheating, will reduce the capacity of the economy to grow in the future. In an open economy, where demand is driven by external forces and where targets such as carbon net zero are blind to economic cycles, this is a recipe for long-term competitiveness losses and a permanent capacity deficit. Ireland will need decades of consistent investment, regardless of the economic cycle, to meet its infrastructure needs.

The State should set up a National Infrastructure Fund to expand the NDP from 2024 to 2030. Ireland has not had a predictable stream of public capital investment and projects for any consistent period over the past three decades. The current National Development Plan (NDP) would need to be expanded by at least €20 billion between now and 2030, just to meet its initial ambitions in real terms. In Budget 2024, the Government should reflect growing demands for investment in areas such as carbon net zero, a more rapidly growing population, and continued deficits in infrastructure by setting up a National Infrastructure Fund with a targeted balance of close to €20bn by 2026, which would then target an additional €30 billion in Exchequer spending on infrastructure, over and above the current NDP, by 2030.

Budget 2024 should run a substantial fiscal surplus and use funds to expand productive capacity: Given the place Ireland finds itself in the economic cycle, there is a clear case for running a strong fiscal surplus of around 4% of national income in 2024. This would leave Ireland with one of the most significant surpluses of any developed country over the period which may be further expanded by the potential introduction of a Qualified Domestic Minimum Top Up Tax of 15% on some corporate profits. In 2024, Ibec proposes an allocation of €3.5 billion to the national infrastructure fund. A Budget Day package, of €8.7 billion should include a further €1.8 billion on infrastructure delivery and capacity in 2024. €3.6 billion should be spent on addressing technological advancement, the experience economy and creative industries, skills and promoting net zero carbon initiatives. Finally, €1.7 billion would be included in a labour market facing package including income tax indexation, childcare, caring responsibilities and expanding labour market access for all. This would leave €1.5 billion for a social welfare package and other current spending. This would be somewhat below the Government's planned Budget Day package of core and non-core spending and tax cuts of €10.7 billion.

We must invest in State Capacity and reform to help us deliver on our investment goals: The next ten years will see a transformation in the country due to the challenges of net zero, digitisation, ageing and technological change. This also means building capacity across the public sector to deliver on these projects. The business community have repeatedly drawn attention to the lack of technical, regulatory, policy, administrative and planning skills across the public sector causing significant delay, backlogs and reputations risks when it comes to delivering projects in Ireland. This includes, but is not limited to, the well-known issues in the planning system regards housing and major infrastructural projects. It can also be witnessed in our delivery of policy and services in areas such as transport, forestry, energy, environment, data and cybersecurity, amongst others. We must adequately resource key delivery bodies and sectoral regulators to clear backlogs and meet adequate timelines, invest in digitisation and administrative modernisation, and reform regulation and procurement to encourage both value for money and innovation. In Budget 2024, the Government should invest €125 million in additional state capacity and systems modernisation to deliver infrastructure, increase the capital budget by over €1 billion to move projects forward and spend €700 million on measures to improve housing delivery – including delivery of a VAT rebate on new housing and additional investment in affordable and cost-rental housing.

We will have to alter our business model to prepare for rapid changes in technology. Rapid advancements in technology across multiple sectors along with the significant decarbonisation will create substantial challenges but also enormous opportunities for the Irish economy. Whilst not all new technologies will prove to be the next ‘general purpose technology’ which drives global productivity growth, we must invest our capacity to both generate ideas and absorb them. This requires ongoing investment in horizontal policy drivers – like skills, research and development, export orientation and innovation. In Budget 2024, the Government should invest €710 million in measures to improve research and innovation funding, drive digital capacity and improve Intellectual Property (IP) development and management. This should be complemented by significant investment in university funding of €307 million, in line with Funding the Future. It should also spend €225 million on supporting Irish business growth – including introducing a territorial tax regime, expanding the entrepreneurs’ relief to a lifetime limit of €15 million and improving tax incentives for equity investment. Finally, it should invest €650 million in supporting net carbon zero ambitions throughout the economy – including a new multiannual fund for companies investing in low and zero-carbon technologies and a 130% super-deduction for energy-efficient and zero carbon investments in businesses.

Unlock the €1.5bn surplus of the National Training Fund (NTF): To launch an industry-led investment campaign that will deliver the key skills for the 21st century, including skills for a digital society, climate action, Industry 5.0, leadership capability and skills to support SMEs. Core to this NTF-funded campaign will be industry leadership to ensure that investment is demand-driven and builds a responsive and agile pathway to learning, infrastructure and expertise across the further and higher education system. In Budget 2024, the Government should spend €500 million on measures under the NTF including the implementation of a Lifelong Learning Strategy for Ireland, additional funding for the further education and training sector, the introduction of a National Training Voucher Scheme to help dismantle the cost and time barriers associated with workforce development and lifelong learning and incentivise more SMEs to engage in the apprenticeship programme by funding the full cost of off-the-job training for all employers.

The personal tax offering must allow us to compete for the most mobile talent: Ireland's comparatively early entry to the higher income tax rate and relatively less attractive personal tax offerings for the most mobile talent undercut our ability to compete for key skills. Over the last decade income taxes for average workers have been increasing in real terms due to non-indexation of the standard rate band. As wages increased, ad-hoc budget increases to the tax bands failed to keep pace, leading to so-called 'bracket creep'. Full indexation of the income tax and USC system would cost close to €1.2 billion in 2024. Any tax package less than this, because of bracket creep, would represent a tax increase in real terms. In Budget 2024, the Government should Increase the entry point to the higher rate of tax to €43,000 and increase tax credits by €100 for single workers and €200 for married couples and civil partners. Along with this it should improve schemes aimed at retaining key workers in the country and wellbeing in the workplace – a total tax package of €1.5 billion.

Ensure the benefits of a strong labour market are widely felt: We must facilitate an increase in our labour force both through attracting skilled labour from abroad and further activation of our existing working-age population not yet in employment. Census 2022 has highlighted the impact of our demographic trends, as a large and rapidly growing share of adults act as unpaid carers. Similarly, access to, and cost of, childcare is a key pinch point for many. Results from the Labour Force Survey indicate that, of those who would like to work but cannot currently seek employment, two-thirds stated caring responsibilities or a disability or illness as the primary impediment. These barriers affect a large share of the working-age population and must be addressed to ensure equal access to the labour market. In Budget 2024, the Government should invest €200 million in expanding childcare accessibility by increasing the universal subsidies available for all children under three years of age and the income thresholds, supporting out-of-school hours care and providing support to carers and workers with disabilities including the introduction of a new Access Employment Programme for people with disabilities modelled on JobsPlus.

Prepare for broadening the tax base over the coming years: Ireland's tax base is highly and increasingly concentrated. The best answer to the risks this entails is to broaden the tax base, whilst using the tax receipts wisely and concentrating increases in corporate tax on non-recurring investments. As outlined in our submission to the Commission on Taxation and Welfare Ibec recognises that future pressures – including population ageing, low carbon transition, demand for public goods, digitalisation and changes in the labour market – will mean that taxation as a proportion of national income will need to grow over the coming decades. In this context, our approach is to focus on ensuring that increases in taxation follow the least economically damaging approach possible and are attuned to the economy's competitiveness needs. This can be achieved by broadening the base of tax gradually to ensure that tax is collected from more sources rather than being overconcentrated on a few and focusing any tax increases on assets that are less internationally mobile rather than more mobile capital and skilled workers. Where increased taxation is necessary it should be levied on the least mobile and economically damaging manner. The least damaging tax increases would come from the taxation of immovable wealth through the LPT and CAT and taxes on congestion, carbon and other environmental user charges. User charges, such as congestion charges or road pricing, should be introduced where the path to net zero carbon emissions means taxes on carbon begin to fall.

1.

The business case for harnessing abundance

Elevator Pitch

The congestion problem

- Demand in the Irish economy is mainly driven by external factors and will continue to grow strongly. A failure of domestic supply capacity and infrastructure to keep up is leading to significant congestion and constraints.
- Our major challenge is creating the capacity to continue to harness this abundance. A failure to invest in absorptive capacity (eg, skills, housing, or infrastructure) for record private sector investment levels has led to significant structural challenges.
- This has led to systemic congestion in both access to physical assets like housing and to the ability of households to access services. This is now a material threat to both economic advancement, generational solidarity and social cohesion.

The investment need

- A continued failure to invest in the short run to avoid the risk of overheating, will reduce the capacity of the economy to grow in the future. In an open economy, where demand is driven by external forces, this is a recipe for long-term competitiveness losses and a permanent congestion.
- The business community has repeatedly drawn attention to the lack of technical, regulatory, policy, administrative and planning skills across the public sector causing significant delay, backlogs and reputations risks when it comes to delivering projects in Ireland. We must adequately resource key delivery bodies and sectoral regulators to clear backlogs and meet adequate timelines, invest in digitisation and administrative modernisation, and reform regulation and procurement to encourage both value for money and innovation.
- With the economy at full employment, labour supply is also a major challenge, and it remains unconscionable that there is a €1.5 bn surplus of employer contributions sitting in the National Training Fund at a time when there is such urgent need for workforce upskilling and reskilling.

Using the windfall

- The proposal of a Sovereign Wealth Fund is understandable given the concentration of our tax base. However, we have significant reservations about its use as a source of funding for deficits in the pensions system which will emerge in the coming decades. Permanent and recurring expenditures like pensions need permanent and recurring funding streams.
- Instead, the Government should establish a new National Infrastructure Fund capitalised with a portion of current corporate tax revenues. This fund would guarantee public capital investment is protected in the event of future fiscal downturns, lessen the need for 'catch-up' spending, deliver improved value for money and give greater certainty to companies to build capacity in the sector.
- It is our view that to reflect growing demands for investment in areas such as net carbon zero, a more rapidly growing population than was allowed for in the National Planning Framework process, rising costs and continued deficits in infrastructure - a new National Development Plan spending target to 2030 should be set to reflect these realities with €30 billion in Exchequer spending on infrastructure, over and above the current NDP, between now and 2030.

Living within our means

The Irish business environment is buoyant. Following extensive engagement with CEOs across the country in recent months, it is clear to us that most firms remain in expansionary mode. Challenges in other investment locations mean that Ireland is still a location of choice for new investment and CEOs see substantive growth opportunities.

The domestic economy is also growing rapidly. Relative to 2019, employment has increased by 10%. The total private sector wage bill over the same period rose by 26%. As a result of these factors, total household disposable income is up 25% and the income tax and Universal Social Charge (USC) take is up 48%.

This can also be witnessed in household balance sheets. Irish households have saved over €50 billion since 2019 over and above what would have been normal if pre-Covid trends had continued. Households now have €152 billion on deposit in Irish banks, the equivalent of around €85,000 for every household in the country. Of all EU countries, Ireland has seen by far the sharpest rise in its ‘excess saving’ stock – which is now equivalent to 34% of annual disposable household income in the economy.

A fast-growing economy has created abundant resources for the State. The State holds €23 billion in cash balances, there is a further €6 billion held in the National Reserve Fund and the Government is planning to run a cumulative surplus (after budget day policy changes) north of €20 billion between today 2023 and the due date for the next election. Very few other countries globally have the mix of both public and private cash resources available to us.

This is all reflected in the balance of the current account in the Irish economy - the balance of how much less we are consuming as a society than we are earning. At the peak of the construction bubble, it had stood in a deficit of 5% of national income, the balance which had to be borrowed from abroad. Today, it stands in a surplus of 9% of national income, amongst the largest surpluses in the developed world.

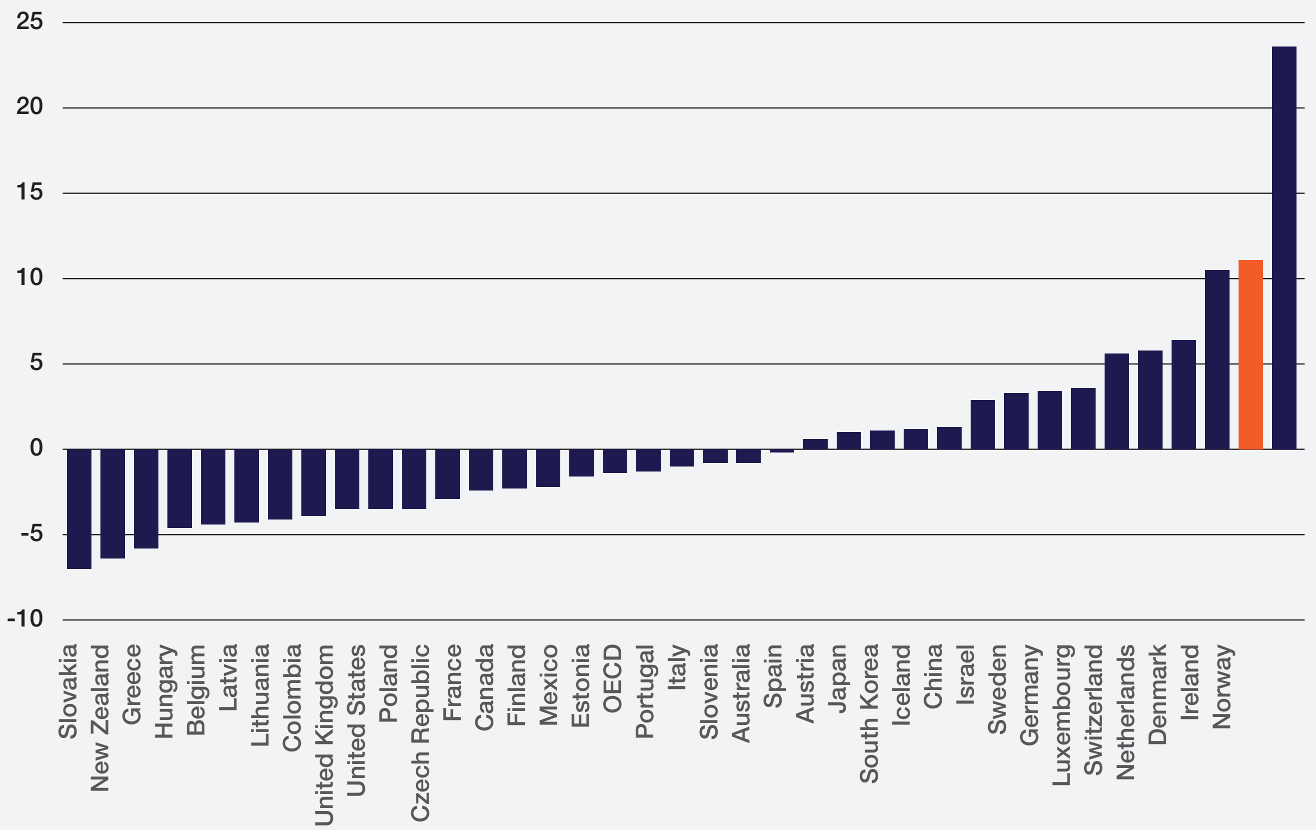
In short, we are living significantly within our means.

Harnessing this abundance to build long-term productive capacity in the economy is the major challenge of the coming years. We lack skills, are challenged for productivity, have congested infrastructure and regulatory, planning and policymaking systems which are overwhelmed. The process by which we convert cash resources to material improvements in living standards is struggling to deliver.

Irish economic policy over the past decade has been marked by one significant shortfall, a failure to plan for abundance. Whilst private sector growth has added over 700,000 jobs to the economy, we have failed to put in place the infrastructure, services and capacity to facilitate high living standards on an ongoing basis.

A failure to observe and appreciate the scale of growth in our population, in business investment and consequent demands on social infrastructure and services has left systems unable to cope. Many of our major economic and social challenges stem from this common root. They are now a material threat to social cohesion.

Figure 1: Current account balance 2023 of OECD countries, % of national income



Source: OECD

Water, water everywhere

Despite this growing affluence at a macro level, there is a strong sense society is not feeling the benefits of greater material wealth. There are obvious reasons for this. Access to cash and a growing economy has not translated to equal access to either physical assets or services, which many regard as the mark of an affluent society. Indeed, a failure to plan for affluence, by building capacity, has left the economy in danger of running into limiting capacity constraints.

Ireland is a medium-sized, open, regional economy in a European context. Regional economies differ from larger, less open, economies in several ways. Not least, employment and living standards are driven by the success of our export base rather than the scale of our domestic market. Ireland has been incredibly successful at growing the scale of its export base in recent years. It has also been successful at attracting sufficient labour flows to grow that export base.

However, a failure to invest in absorptive capacity (eg, skills, housing, productivity, or infrastructure) for these investment levels has led to significant structural challenges. It has led to systemic congestion in both access to physical assets like housing and to the ability of households to access services which are core to the dignity which should be afforded in a rich society. This congestion, in turn, has led to productivity being capitalised in rising asset prices rather than broad-based growth in quality of life, with significant distributional effects. It is leading to frays in Ireland's social cohesion.

It is also leading to a growing sense of a generational gap. The share of employees aged 25 to 34-year-old living with their parents has risen from 37% a decade ago to 68% today – one of the highest such rates in Europe. Even for those living outside the childhood home, the homeownership rate has more than halved since the mid-2000s. This has implications inside the workplace as well as in society more broadly.

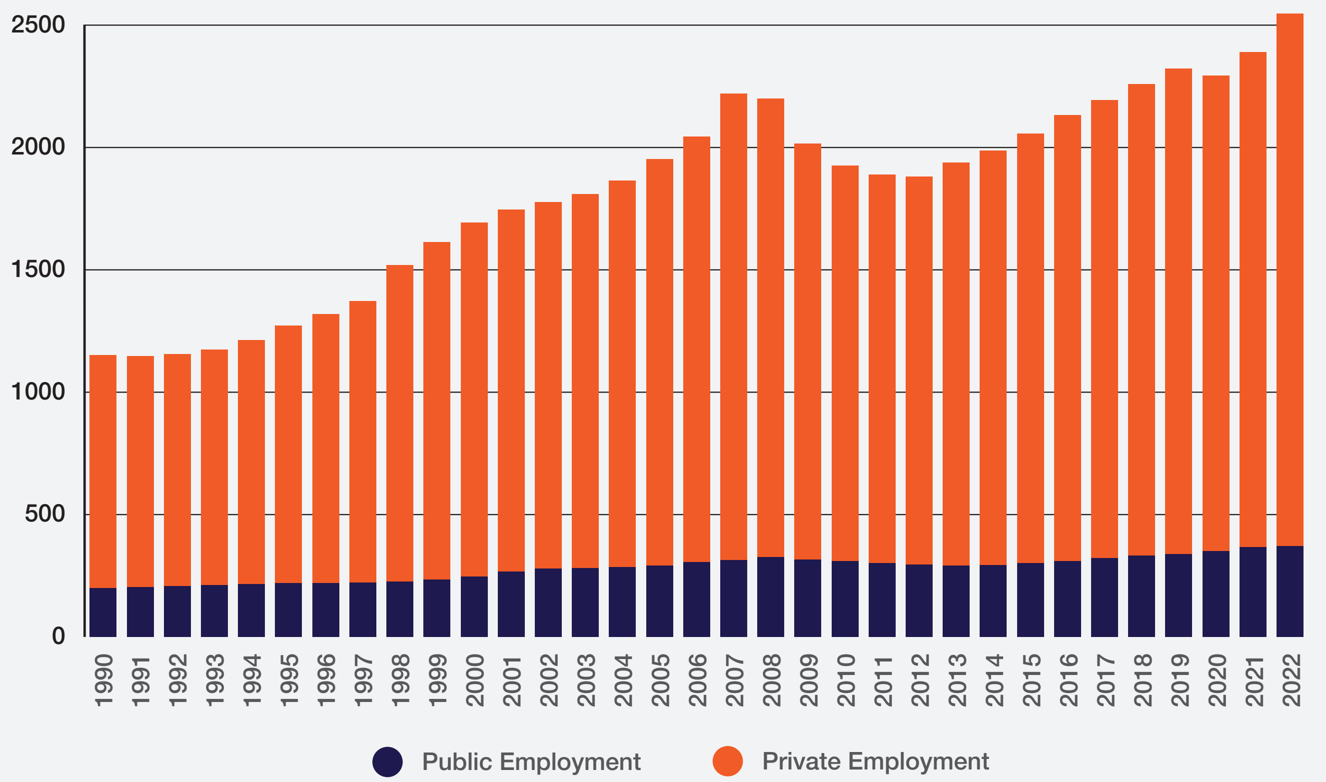
Housing, quality public services and reasonable public infrastructure are all out of reach for too many people. These stories are well-worn in our national discourse. They stem from a common root; investment in the private sector is outgrowing many parts of the public sector. This is resulting in a social balance which is out of kilter.

Ireland has added 700,000 private sector workers to the economy in the past decade. Meanwhile, total public sector employment has increased by only 65,000. Over the same period, the number of workers in the administrative, regulatory and planning arms of the State – the Civil Service, Local Government and Non-Commercial State Agencies – has increased by only 17,000 workers. Ireland now has one of the lowest ratios of public sector to private sector workers in the OECD at 15% of the total workforce, equivalent to 75,000 workers fewer than the OECD average.

Whilst this does not seem like an obvious issue for the business community to take up, State capacity – the ability of the State to convert resources into achieving its policy objectives – is a driving force behind a thriving 21st-century economy. In the 20th century, a business based itself wherever natural resources and transport links existed. Workers then flocked to those locations, in Ireland's case to service exported demand. However, the growing intangibility of the global economy means that businesses now locate, and export demand is serviced from, only those regions where the most skilled people live and want to live.

People who can create the intangible assets on which the global economy turns want to live somewhere which delivers not only a reasonable salary but also an internationally competitive quality of life. Quality public infrastructure and services are key, not only to our personal quality of life but to our overall national competitiveness.

Figure 2: Public and private sector employment, 1980 to 2022, thousand

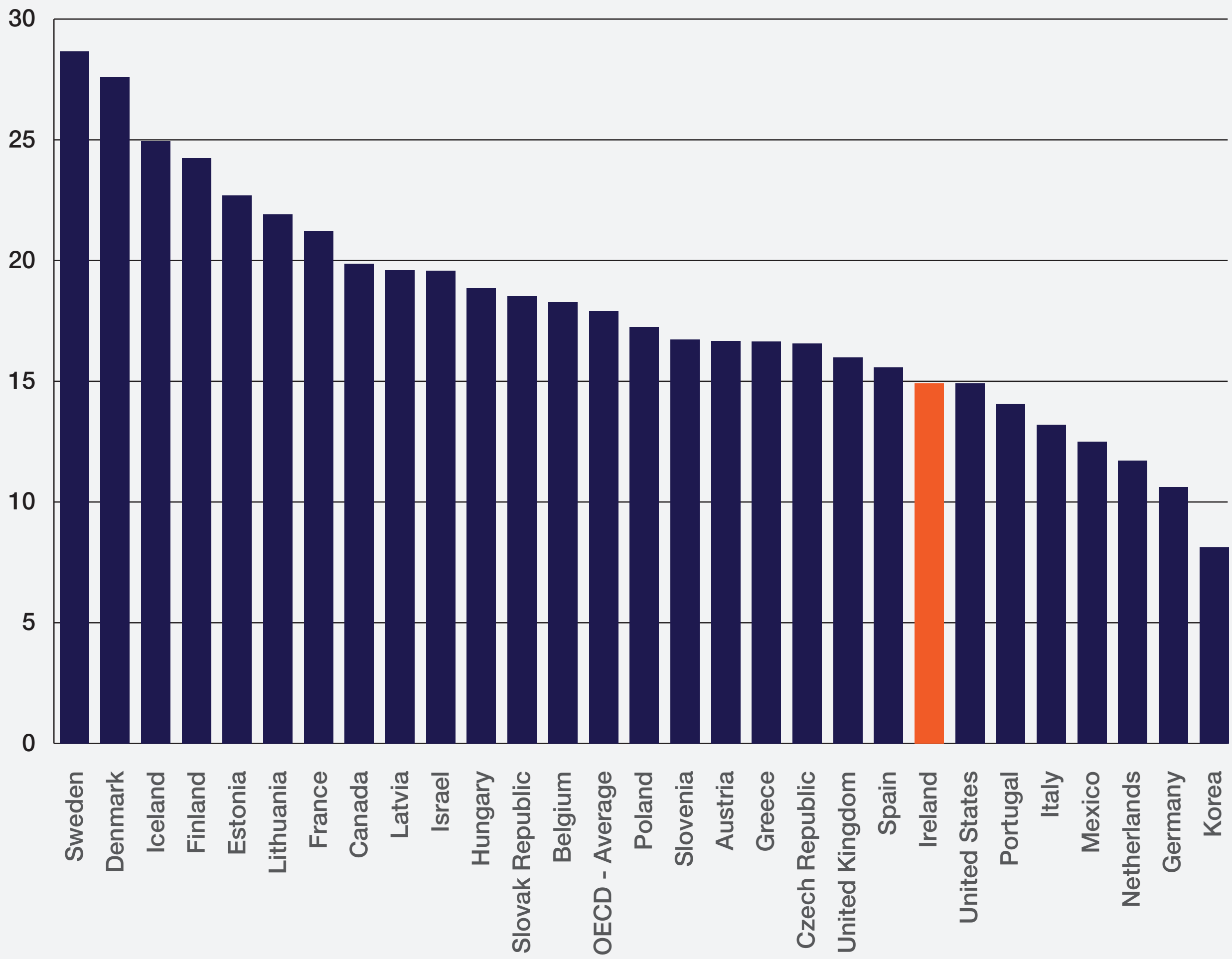


Source: CSO, DPER, Ibec calculations

There are also significant direct barriers to broader economic and social advancement from a lack of State Capacity. The business community have repeatedly drawn attention to the lack of technical, regulatory, administrative and planning skills across the public sector causing significant delay, backlogs and reputation risks when it comes to delivering large projects in Ireland. This includes, but is not limited to, the well-known issues in the planning system with regards to housing and major infrastructural projects. It can also be witnessed in our delivery of policy and services in areas such as transport, energy, environment, data and cybersecurity, amongst others.

Significant backlogs and policy gaps across the system are now a material drag on progress towards our policy objectives, from the complex delivery of major utility projects to the everyday delivery of licencing across multiple sectors. This is incongruous in a country with the resources which are at Ireland's disposal.

Figure 3: Public employment, % of total employment in the OECD



Source: OECD

Building for abundance

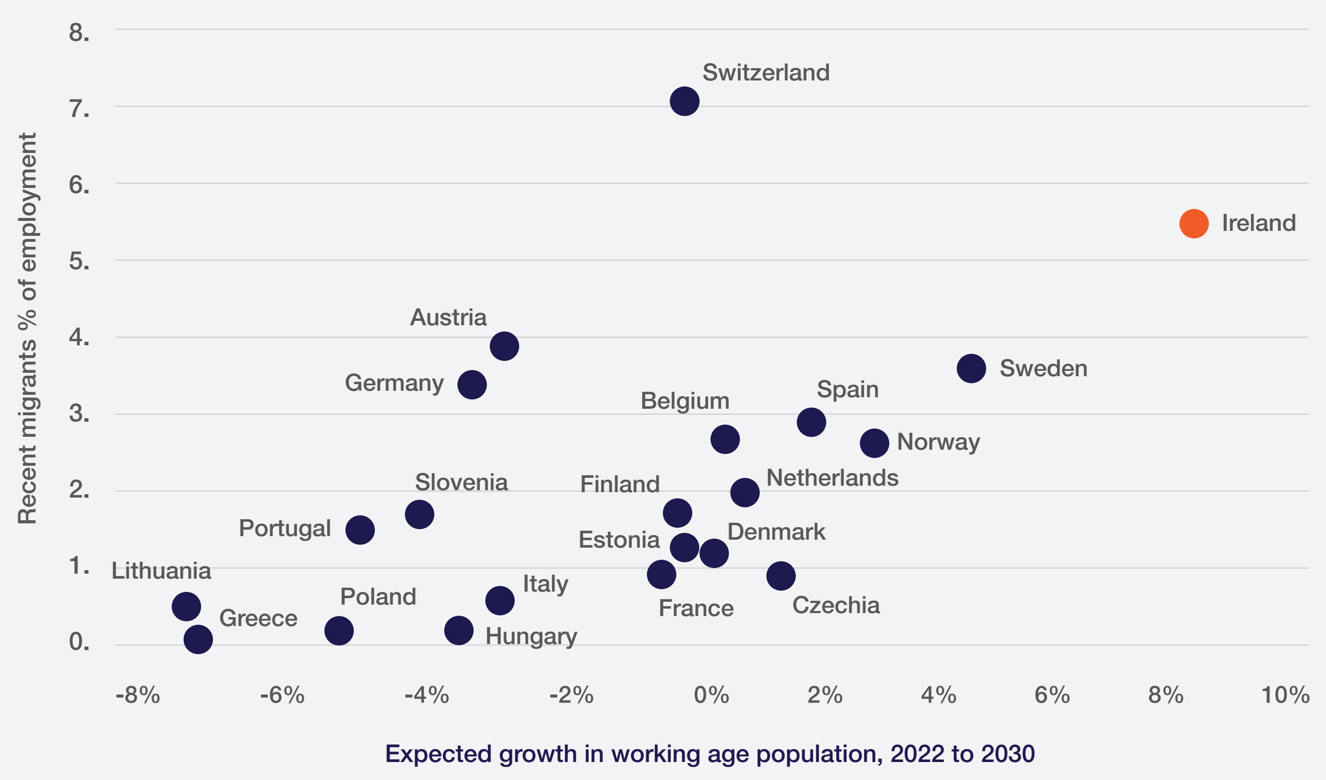
One of the major concerns expressed about building the infrastructure and services to meet the continued strong growth of investment in the economy is the question of capacity in the labour market. Whilst it is important to be realistic about efficiency and value for money concerns, they should not dominate automatically over the need for effectiveness in delivery. Getting economically and societally important projects completed is as important as optimising value for money.

We should be realistic but not pessimistic about our ability to find new workers, improve processes and strengthen our capacity to deliver. Ireland first reached unemployment rates below 5% in late 2018 and early 2019, with the attendant increase in assertions that the economy was at risk of overheating. Yet, the economy has been able to add over 275,000 jobs since, without triggering major competitiveness losses. Our job vacancy to unemployment ratio at 0.3 is still mid-table amongst EU countries and lower than peers in Northern Europe where it measures between 0.5 in the Nordics and 1.2 in Germany and the Netherlands. There is no doubt that capacity is now extremely tight, but the growth in Ireland's working-age population and our openness to inward migration mark us as one of the few countries in Europe where demographics are continuing to add to labour market capacity. Of comparable European countries, Ireland has by far the highest expectations for future working-age population growth and the second-highest rate of working-age migration (see figure 4).

We also remain below the frontier in terms of employment rates and productivity in domestic sectors – which both could allow for additional capacity in the coming years. There is a role for the private sector too in confronting the way we do business, in ensuring that we are improving productivity, adapting technologies, driving the circular economy and doing more with less where we can.

Excessive pessimism about State capacity cannot be allowed to contribute to a failure to adequately plan for demand. The pressures facing Ireland in infrastructure

Figure 4: Labour market capacity – working age population growth and labour market openness.



Source: Eurostat, Ibec calculations

and State capacity stem from a decade and more of low investment. The answer to such pressures cannot be further underinvestment relative to demand. In this context, caution for its own sake is not a virtue. Neither can it be an excuse for inaction.

Ibec's view is that the State has no other option but to be biased towards action when it comes to building the capacity to take on the major investment needs facing us. This action must, however, be matched for the capacity to reform and improve our ways of working.

The key to all of this is planning. We know that there are certain risks of overheating. However, the trade-off between solving infrastructural deficits and economic overheating is not simple. Operating within capacity in the short run to avoid the risk of overheating, will reduce the capacity of the economy to grow in the future. In an open economy, where demand is driven by external forces, this is a recipe for long-term competitiveness losses and a permanent shortage of capacity. Yes, there is a risk of overheating from undertaking greater investment, but there is a guarantee of overheating from a failure to invest.

In this submission, we outline how Budget 2024 can be about overcoming these challenges through a series of measures targeted at building for abundance. These measures are not focused on short-term consumption for households or businesses – but on building the long-term capacity of the economy to allow it to continue to grow. These measures sit under three headings:

- Building state capacity
- Preparing for the future
- Making growth work for all

2.

The Ibec approach to Budget 2024

A sustainable tax base and responsible fiscal policy

Ireland is in an enviable fiscal position. The current forecasts for a budget balance of an average of nearly 4% of national income in each of 2024, 2025 and 2026 are significantly higher than even the most well-performing developed economies.

Whilst there are risks that these surpluses might not materialise, there are also significant upside risks. Much is made of the 'windfall' nature of corporate tax receipts; this implies that the surge in corporate tax since 2015 is somehow unexpected or transitory. They represented a structural change in how corporate tax is paid in 2015 globally. Tax receipts are highly concentrated by design rather than accident. The implementation of an OECD inspired Qualified Domestic Minimum Top-up Tax (QDMTT) from January 2024 brings upside potential for fiscal performance but with further risk of corporate tax concentration in the coming years.

Revenue data for 2022 shows that the current effective corporate tax rate on profits in Ireland is 10% for multinational enterprises in Ireland (10.1% for our top 10 taxpayers), this will increase closer to 15% (depending on substance based carve outs) for most of our major taxpayers from next year. As noted by the OECD impact assessment of the impact of Pillar 2 of the OECD agreement: *"Broad QDMTT introduction will shift potential revenue gains from UPE jurisdictions to affiliate jurisdictions where low-tax profits are currently located"*. Whilst the negative revenue impacts of Pillar 1 are unlikely to occur for several years. The best response to the impact is to broaden the tax base, whilst using the tax receipts wisely and concentrating increases in corporate tax on non-recurring investments.

In this context, the notion of a Sovereign Wealth Fund being proposed is understandable. We have significant reservations, however, about its use as a source of funding for deficits in the State pensions system which will emerge in the coming decades. Whilst the challenges brought by population ageing are undoubtedly significant for Ireland, these challenges, where they imply higher ongoing permanent and recurring expenditures, cannot be met by storing up windfall tax receipts.

As noted by the Commission on Pensions, certainty and reliability are core to the future of the State Pension scheme. This, in our view, requires a permanent and reliable funding stream rather than variable and unknown future dividends from a wealth fund. In either case, those dividends could only ever cover a small fraction of future ageing costs. Permanent expenditure commitments will need to be met with permanent revenues. As we made clear in our 2021 submission to the Commission on Pensions and our 2022 submission to the Commission on Taxation and Welfare, rates of Pay Related Social Insurance (PRSI) will have to increase for both employers and employees over the coming decades to offset the increased costs of an ageing population. This should be managed in such as way that it is certain, gradual and with long lead-in times.

As outlined in our submission to the Commission on Taxation and Welfare Ibec recognises that future pressures – including population ageing, the low carbon transition, demand for public goods, digitalisation and changes in the labour market – will mean that taxation as a proportion of national income will need to grow over the coming decades. In this context, our approach is to focus on ensuring that increases in taxation follow the least economically damaging approach possible and are attuned to the economy's competitiveness needs. This can be achieved by broadening the base of tax to ensure that tax is collected from more sources rather than being overconcentrated on a few, focusing any tax increases on assets that are less internationally mobile rather than more mobile capital and skilled workers and by ensuring we have a social insurance model which balances income security with labour market flexibility.

Considering Ireland's highly concentrated tax base, the international evidence on the elasticity of higher marginal rates, growing competition for skilled workers and the future changes in global employment which will make key workers more rather than less mobile, we believe that the best path for future reform of income tax would be to make changes which indexes the entry point to the top rate over and above the average full-time wage in the economy. On the other hand, more workers should pay tax, and this can be achieved very gradually through non-indexation or partial indexation of the entry points to the tax and USC nets.

Given Ireland's place as a medium sized open regional economy in a European context, any tax increases should avoid taxes on mobile capital or labour. An overt focus on these factors would, likely, have significant negative economic implications and ultimately mean large behavioural effects on expected tax yields based on static analysis. Where increased taxation is necessary it should be levied on the least mobile and economically damaging manner. The least damaging tax increases would come from the taxation of immovable wealth through the Local Property Tax and Capital Acquisitions Tax and taxes on congestion, carbon and other environmental user charges. And user charges, such as congestion charges or road pricing, should be introduced where the path to Net Zero Carbon emissions means taxes on carbon begin to fall.

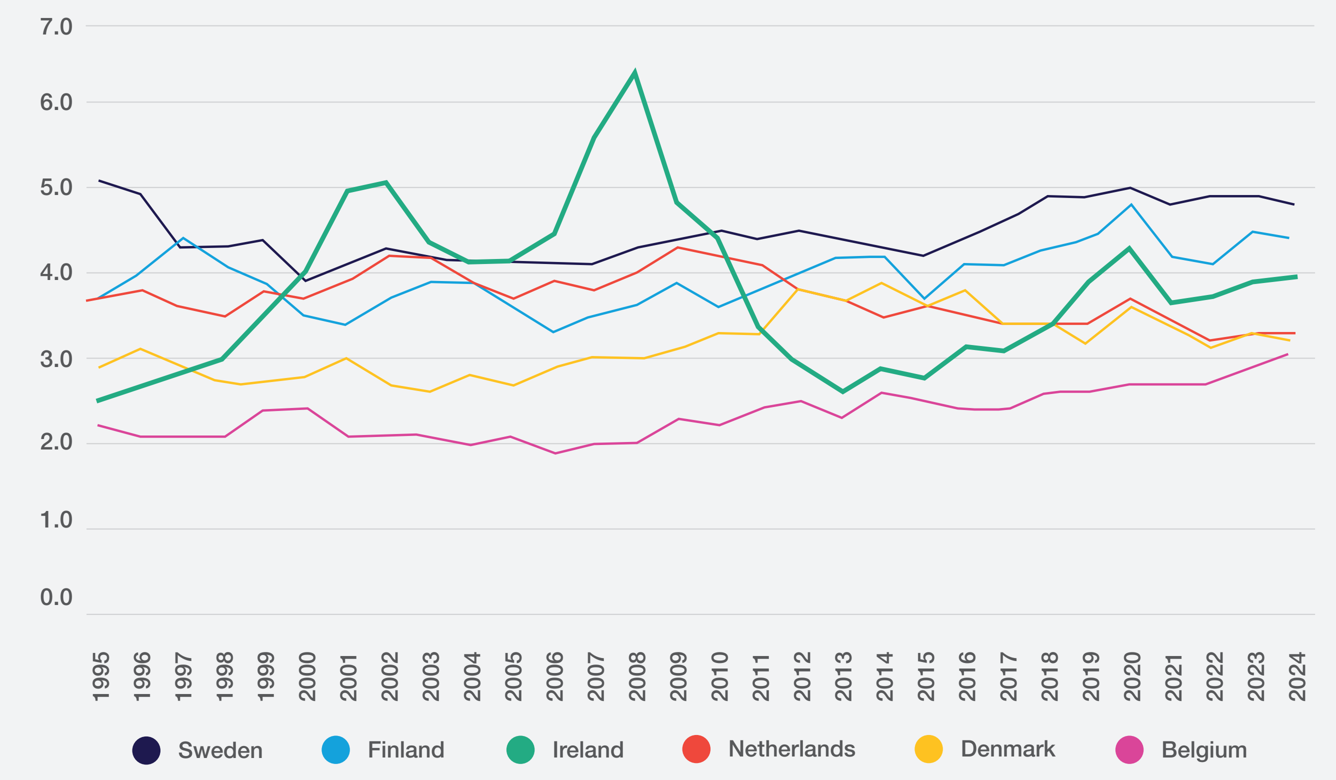
The business case for a National Infrastructure Fund

The growing intangibility of the global economy means that businesses now locate where the most skilled people live. People who can create the intangible assets on which the global economy turns want to live somewhere which delivers not only a reasonable salary but also an internationally competitive quality of life. Quality public infrastructure and services are key, not only to our personal quality of life but also to our overall national competitiveness.

This all requires someone to pay for it without running significant deficits. It requires a mature conversation with the electorate about their societal expectations and how they can be responsibly met.

When it comes to risk, Ireland faces larger risks from underinvestment relative to our grand challenges

Figure 5: Public capital spending relative to other mid-sized Northern EU economies, % of national income



Source: Eurostat

over the coming decades. Public investment is often biased against by political incentives. Previous crises have resulted in cutbacks to the capital budget of the State and ultimately stored up significant, and expensive, investment deficits. This must not happen again.

As Figure 5 shows, Ireland has not had a consistent predictable stream of public capital investment and projects in the past three decades, unlike other similar economies. In fact, since its advent as a truly developed country in the early 1990s Ireland has only consistently out invested its peers regarding public capital in fewer than ten of those years. This has left Ireland with decades of consistent public investment behind comparator countries when it comes to public infrastructure.

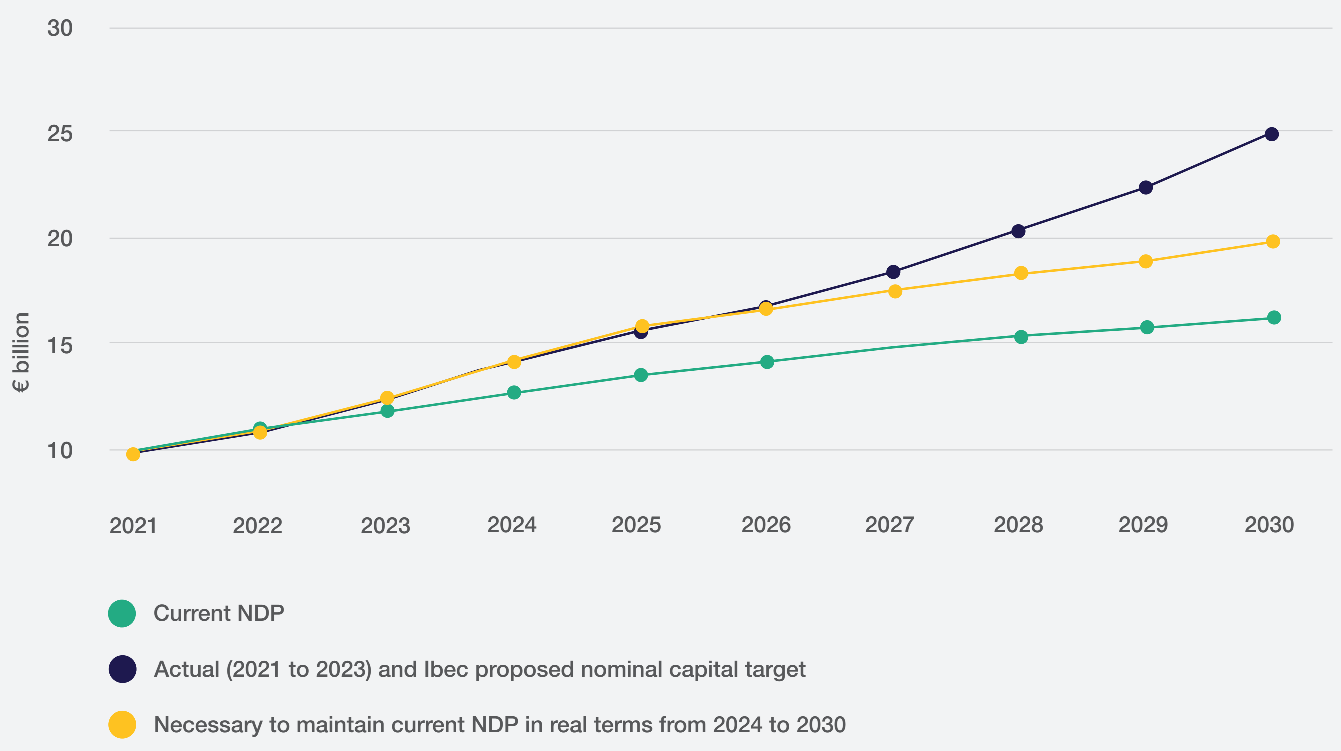
In addition, a recent analysis by the Irish Fiscal Advisory Council (IFAC) shows that because of higher inflation and lower nominal spending, real capital spending in the NDP between 2021 and 2025 is now due to be 24% lower than had been planned. Capital spending has not been indexed in the same manner as current spending. IFAC estimate almost €20 billion in additional capital spending would be needed between 2024 and 2030 to protect the existing ambition within the NDP. We see an additional need on top of this of at least €10 billion to reflect growing demands for investment in areas such as net-zero, a more rapidly growing population than was allowed for in the National Planning Framework process, and continued deficits in infrastructure which were unaddressed by the previous NDP.

In Budget 2024, the Government should add to its current 5% rule fiscal rule for growth in expenditure ceilings by introducing a new Exchequer investment target set in nominal terms, which is explicit over the long term. This would help provide a fiscal anchor for the capital budget through an explicit multi-annual investment target.

This target should be set for an additional €30 billion in Exchequer spending on infrastructure, over and above the current NDP, by 2030. This would represent roughly a 25% uplift on the current NDP plan.

This new national target could be met through the new Infrastructure Fund, capitalised with a portion of current

Figure 6: Proposed Exchequer capital target versus the current NDP



Source: Ibec calculations

corporate tax revenues and any future underspends on capital in Departmental ceilings which cannot be carried forward. This fund would have three significant advantages:

- Firstly, it would guarantee public capital projects are protected from cyclical downturns in revenues. It would smooth tax receipts used toward public infrastructure over time. Conversely, it would lessen the need for rapid ‘catch-up’ capital spending at the top of the economic cycle, thus allowing for improved value for money.
- Secondly, infrastructure in the public debate is too often thought of as a countercyclical tool, rather than a consistent need to be met for a modern economy. Our proposal would treat infrastructure not merely as a tool of economic stabilisation but as an investment in our future, which should be undertaken on a persistent basis, regardless of short-term cycles.
- Finally, the two benefits above would also give greater certainty to sectors which are downstream of infrastructure delivery. This in turn would allow companies to build capacity and to retain skills in both the public and private sectors. This would provide a barrier against capacities eroding and constraints emerging during upswings in investment in the future.

When it comes to the broader fiscal question, our view is that the State should target surpluses appropriate for the business cycle of around 4% of national income. This would leave Ireland with one of the most significant surpluses of any developed country over the period. It would anchor tax as a proportion of national income, whilst expanding State investment in key areas. It would also see gross national debt fall from 79% to closer to 60% of national income (40% in net terms) by 2026.

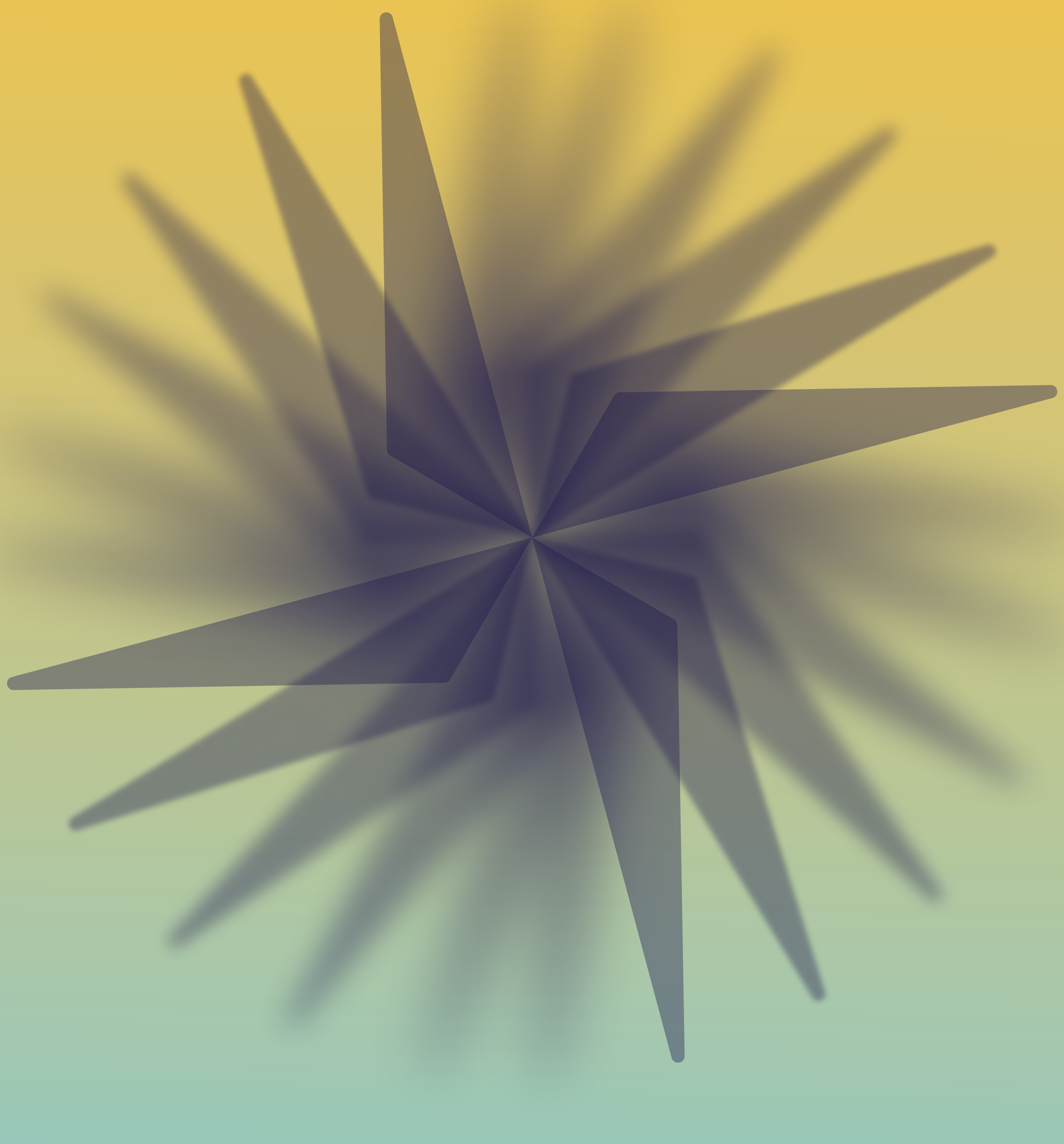
On the infrastructure side, the existing €6 billion in the National Reserve Fund, added to a further €13 billion in inputs over the period to 2026, would leave a National Infrastructure Fund of around €19 billion which – along with small further Exchequer contributions in future years - could be used for funding the higher NDP contributions outlined over the remainder of the decade.

Ultimately, through this approach, Ibec’s proposals adequate surpluses to keep debt on a downward trajectory, a much-improved approach to funding national infrastructure into the long run and strategically growing the capacity of the economy.

In 2024, Ibec proposes an allocation of €3.5 billion to the National Infrastructure Fund. A Budget Day package, of €8.7 billion would add a further €1.8 billion to public sector capacity and infrastructure delivery in 2024. €3.6 billion could be spent on addressing technological advancement, the experience economy and creative industries, skills and promoting net zero carbon initiatives. Finally, €1.7 billion would be included in a labour market package including income tax indexation, childcare, caring responsibilities, addressing disabilities and expanding labour market access for all. This would leave €1.5 billion for a social welfare package and other current spending on services.

Table 1: Ibec fiscal sums, € million					
No policy change surplus	22,300				
Target budget balance, % of national income	3.7%				
Target budget balance	10,085				
Remaining for Budget Day and infrastructure fund	12,215				
Budget day package (ex-infrastructure fund)	8,715				
	Heading	**Cost**	**Tax**	**Current**	**Capital**
Building State Capacity	5,335				
Committed to infrastructure fund for NDP		3,500	-	-	3,500
To strengthen our State Capacity to deliver		125	-	125	-
To meet our infrastructural needs		1,000	-	-	1,000
To build better housing		700	380	20	300
To ensure better procurement and regulation		10	-	10	-
Preparing for the future	3,710				
To push technological boundaries		710	150	450	110
To address skills needs		925	-	925	-
To promote Ireland outbound		225	175	50	-
To support the experience economy and creative industries		950	860	90	-
To meet our Net-Zero future		650	200	-	450
To develop the All-Island economy		250	-	-	250
Make growth work for all	1,670				
To reward work		1,470	1,420	50	-
To support an inclusive labour market		200	-	200	-
Total Ibec recommendations (ex-infrastructure fund)		7,215			
Expanding other public services and supports	1,500		-	1,500	-
Breakdown of spending (including infrastructure fund commitment)	12,215		3,185	3,420	5,610

3. Building State Capacity



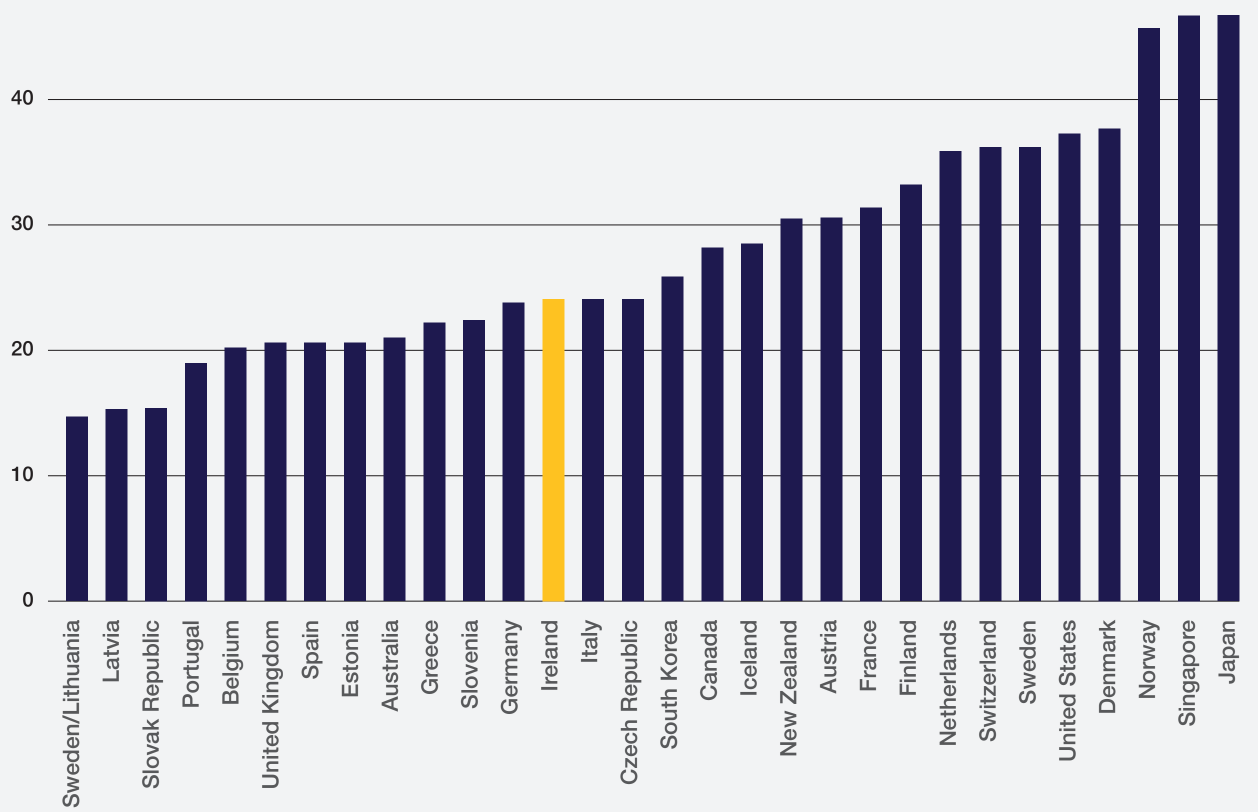
Overview

The next ten years will see a transformation in the country. By 2030 there will be over 1.1 million additional people on the island and more older citizens than ever. We have also set ambitious targets to decarbonise society and the economy, the demands for funding for low carbon investment, which the Climate Change Advisory Council estimate will require €125 billion of investment across public and private over the next decade. On top of this, we have made commitments to implement the National Planning Framework to re-balance regional growth and encourage major changes in how people live and work.

Only through the co-benefits of investment will we improve our long-term competitiveness. For example, breaking the link between economic growth and high emissions growth is vital to our long-term wellbeing and international competitiveness. It will incentivise the move to more efficient sources of energy, increase our capacity in growing sectors, and ultimately improve our energy security – all crucial elements of our competitiveness.

All these challenges together mean that the ambition shown in capital spending plans of recent years must be continued and built on throughout the coming decade. The social implications of our low levels of infrastructure development are obvious in our health, education, and housing systems. The impacts on business are less well documented but are a constant source of feedback from Ibec members. In areas from roads to broadband, poorly developed infrastructure pushes up operating costs directly for businesses by making trade more difficult or expensive. Improved accessibility also increases the effective size of a local labour market and therefore boosts the productivity of firms and individual workers. There are also indirect impacts. The biggest single domestic driver of competitiveness pressures is the lack of housing supply. A lack of quality outcomes at third level will have a deleterious impact on skills availability, and higher commuting costs for workers means lower productivity.

Figure 7: Public capital stock, per capita, $ thousand PPP.



Source: IMF, OECD, Ibec calculations

State capital investment has been falling across the developed world for several decades, often to levels below the replacement rate for the depreciation of existing assets. Following the last recession, the legacy of fiscal adjustment saw significant underinvestment in capital infrastructure, even relative to those international competitors. However, Ireland has a rapidly expanding population and severe bottlenecks which can only be solved by expanding expenditure on new infrastructural capacity. Over the medium-term, a more comprehensive suite of additional projects to 2030 will be needed in the context of broader developments.

As it stands, Ireland is a low to below-average performer on capital stock relative to our international peers. After a rapid period of catch-up to advanced economy norms in the 1990s and 2000s, progress stalled during the aftermath of the financial crisis. The IMF's 2017 technical assistance report on Irish capital investment acknowledged this point. In recent years, significant progress has been made on increasing our relative convergence to advanced economies. There are still barriers, however, with the 2017 IMF report stating that "Ireland's investment efficiency is favourable compared to global measures, but significantly weaker when compared to advanced economies alone". A new national income investment target and improving spend efficiency will both be key to renewing our efforts to close the public capital stock gap with our developed peers.

This also means building capacity across the public sector to deliver on these projects. As outlined in Section 1, there are significant direct barriers to broader investment from a lack of State capacity. The business community have repeatedly drawn attention to the lack of technical, regulatory, administrative and planning skills across the public sector causing significant delay, backlogs and reputations risks when it comes to delivering projects in Ireland. This includes but is not limited to, the well-known issues in the planning system regards housing and major infrastructural projects. It can also be witnessed in our delivery of policy and services in areas such as transport, forestry, energy, environment, data and cybersecurity, amongst others. We must ensure that both capacity and reform are delivered in such a way that Ireland becomes a leader in the delivery of both large projects and services. This means adequately resourcing key delivery bodies and sectoral regulators to clear backlogs and meet adequate timelines, investing in digitisation and administrative modernisation, and reforming regulation and procurement to encourage both value for money and innovation.

In Budget 2024, **to strengthen our State Capacity to deliver**, at a cost of €125 million, the Government should:

Ensure adequate staffing and specialist staff in key regulatory and delivery bodies: In Budget 2024 we should provide significant funding for capacity in both sectoral regulators across the economy, licencing bodies where significant backlogs have emerged, bodies in the planning system, courts, local authorities, and courts where they have capacity challenges. We should also invest in policy development, planning and data functions where there are significant backlogs in guidance on new technologies or sectoral/technological strategies.

Invest in administrative modernisation: Ongoing embrace of digital technologies and data interoperability can enhance operational efficiency and the quality of administrative procedures through increased automation of physical and digital tasks and embracing new tools. We must lead and invest in secure, accessible online Government services and the inclusive digitalisation of public service delivery for organisations and citizens. This should be in addition to leveraging the €210m provided for in the agreed National Recovery and Resilience Plan (NRRP) to drive further digital transformation in public sector projects.

Embrace our enhanced role in digital regulation: Ireland should ensure its capacities in the governance of secure, safe, and competitive digital and data innovation are adequately resourced and focused to match its role and provide for a robust and predictable regulatory environment. This should include adequately resourcing the new Coimisiún na Meán, the Data Protection Commission (DPC) and other actors in the digital landscape.

Ensure national cybersecurity capacities, institutions and infrastructure are adequately co-ordinated, resourced, focused and implemented: We must co-ordinate and strengthen our cyber security ecosystem and encourage a pipeline of the relevant knowledge, skills, and talent in the State to enhance our national cyber security and resilience and support the positioning of Ireland as a lead player in the cyber security industry. In Budget 2024 the Government should provide the National Cyber Security Centre (NCSC) with further resources so that it can implement the recommendations of the NCSC Capacity Review, the additional activities proposed for the NCSC in the mid-term review of the National Cyber Security Strategy, fulfil the additional responsibilities allocated to the NCSC in response to new EU legislation (e.g., NIS2 Directive) and the Commission on the Defence Forces’ recommendations accepted by Government. We should also provide the capacity to investigate and prosecute cybercrime, including fraudulent calls and texts, by filling vacancies in the Garda National Economic Crime Bureau and publish the overdue resourcing plan for the Bureau.

Urgently put in place all measures necessary to deal with the current backlog at An Bord Pleanála: We must ensure bodies such as An Bord Pleanála and other relevant agencies have the resources needed to recruit and retain significant numbers of additional staff with relevant expertise. Following on from the recommendations of the Office of the Planning Regulator’s Review on how to “quickly turn around a major and rapidly increasing overhang of caseload”. Otherwise, the imposition of new statutory deadlines for decisions on consents could prove counterproductive.

Staff the soon-to-be-established Planning and Environment Division of the High Court with appropriately trained judges and support staff: This will likely entail an increase in the total allowed number of sitting judges, which in turn will require new primary legislation.

Support the roll-out of digital infrastructure across the country: Local authorities have an important role in bridging the digital divide. Each local authority should be provided with funding to support a dedicated telecoms unit to reduce barriers to, and enable, telecoms investment within each of the 31 local authority areas. Functions would include data collection/GIS mapping, development of a telecoms asset register, acquiring digital connectivity benchmarking and coverage data for each LA area, support intra-regional alignment with all public sector asset owners. These offices would connect with Dublin City Council's Dublin City Council Telecoms Unit, which was established to accelerate the rollout of digital infrastructure and 5G deployments, as well as meeting local commitments under the European Electronic Communication Code.

Digitise planning: We must urgently implement the long-awaited digitalisation of the planning system. It is not currently possible to make planning applications online in most local authorities resulting in duplication, waste and complexity for those engaged with the system.

In Budget 2024, **to meet our infrastructural needs**, at a cost of €1 billion, the Government should:

Increase planned investment over the lifetime of the NDP to reflect growing needs: Budget 2024 should reflect growing demands for investment in areas such as net-zero, a more rapidly growing population than was allowed for in the National Planning Framework process, and continued deficits in infrastructure a new multiannual nominal target for investment spending should be put in place alongside the fiscal rule. This target should be set for an additional €30 billion in Exchequer spending on infrastructure, over and above the current NDP, by 2030. This would represent roughly a 25% uplift on the current NDP plan.

Ensure projects are released through project selection and planning: A growing number of major infrastructure projects under the current NDP have been delayed in recent times for lack of relatively small amounts of funding to move through the approvals process (e.g., the TII 6-step process). This is particularly true of transport projects where many projects are stalled at the early phases of the 6 phases to project implementation. It is vital that funding is released early to allow projects to move through appraisal, selection, design, planning and procurement on time or ahead of schedule where possible.

Ensure adequate utilities funding: Funding for utilities is crucial to allowing better planning of infrastructure delivery. This is to ensure that capacity is available to meet on-going demand and that zoned land is serviced in advance of development. Given rising costs, utilities must be given adequate funding to deliver on maintenance and upgrades – as well as new projects in their capital programme. It is also important key projects in areas like water and wastewater are given funding to move toward delivery – such as the Water Supply Project Eastern and Midlands Region and the Greater Dublin Drainage Project.

Deliver construction skills: We must grow investment in education and training centres to address waiting lists as quickly as possible and to ensure that the system can ramp up the numbers taking part in apprenticeships. Expand total available places on apprenticeships to meet projected skills needs. Increase the number of visas granted for key skills within the construction sector to address the significant undersupply of workers relative to Housing for All requirements. Provide opportunities for upskilling in advanced construction methods through the continued rollout of Further Education and Training Centres of Excellence.

Invest in productivity in construction: Budget 2024 should introduce accelerated capital allowances for investments in advanced automation, BIM, robotics and digital technologies in the construction, building materials and adjacent sectors.

Invest significantly in research equipment and infrastructure in Higher and Further Education: This is crucial to ensuring that the sector has the physical capacity to meet student numbers and is providing a materially improved experience in terms of necessary equipment and the built environment. A €200m strategic capital investment programme for cutting-edge technology, equipment and infrastructure would link technology adoption, innovation and specialist skills development in a practical manner and ensure it remains focused on next-generation industry requirements and practice.

Fund the regional airports programme: Regional airports within the Republic played a key role throughout the pandemic and will continue to play an ever more important role given the predicted growth of population in the regions outside Greater Dublin. We therefore see a need for continued investment in our smaller regional airports beyond 2025. There is also a strong case for extending the scope of the Regional Airports Programme to include a continuation of financial support to the two regional State Airports, consistent with EU Regulation 2017/1084. Ibec considers that the provision of operational and capital funding under the Regional Airports Programme on a more enduring basis is justifiable in both cases. In addition to enhancing passenger safety and security, it could also reap dividends for the future environmental sustainability of the operations at both airports, including deep energy efficiency retrofits and renewable energy projects. As such: operating aid for improving airport security, safety and sustainability should in principle be available to airports with up to three million passengers per annum; and investment aid for these three non-economic activities should be available to airports with up to five million passengers per annum. This should be achieved within a greater overall funding envelope.

In Budget 2024, **to build better housing**, at a cost of €700 million, the Government should:

Introduce a VAT refund order worth 5% of a new home for purchasers of new build homes: This should be introduced on a temporary basis under Section 103 of the VAT Act to help offset the rising costs of construction and supply chain challenges in the sector.

Increase the target to 20,000 social, affordable and cost-rental units annually by the end of the decade, with a focus on greater delivery of affordable and cost-rental units: We must expedite delivery by reducing the significant waiting times under the current pre-construction process and Capital Works Management Framework (CWMF). This should also involve working with the marketplace and other procurement stakeholders, at the outset in identifying the best approach to projects and the appropriate delivery model. In addition, we should develop a stock of different pre-approved social housing designs that could be selected to meet the requirements of different tenants or specific site constraints. Finally, it is important that we review the approval process for direct and third-party build in terms of the interaction and sequencing between stages, such as changes to design, to ensure they do not automatically revert to the first stage.

Ensure that a portion of future social and affordable housing is completed using offsite construction methods: This would encourage more businesses to invest in offsite manufacturing which will in turn lead to increased speed of delivery. 30% represents a starting point – in line with other EU countries, however, this could be increased to 50%-70% over the lifetime of the program.

Ensure adequate funding of the Capital Advance Leasing Facility (CALF), Capital Assistance Scheme (CAS) and Cost Rental Equity Loan (CREL) schemes and significantly expand the Repair and Leasing scheme: This would help to ramp up home delivery through the Approved Housing Bodies and bring vacant housing into the social housing sector.

Provide tax incentives for private investment in cost-rental or affordable rental: The introduction of a scheme of tax credits for private or institutional investors where property owners let property at an affordable rent for a given number of years – modelled on the US Low-Income Housing Tax Credit – would help assist the funding and delivery of units.

Review rental caps to ensure that unintended consequences are minimised: While the first-order impact of rent controls at 2% is attractive for existing renters, there are significant insider-outsider effects which have been shown in other jurisdictions – with falling supply and standards for new renters. The existing cap levels must be reviewed regularly to ensure they do not have overall negative effects on new renters by weighing on supply in a higher cost-of-capital environment.

Protect good tenants and property owners through a much better-resourced Residential Tenancies Board (RTB): In order to provide adequate resources to develop and support a well-functioning residential rental sector in Ireland, for the equal benefit of property owners and tenants the regulatory body for the sector should be adequately resourced.

For RTB-registered landlords, Government should increase the range of allowable expenses: This should be aimed at improving rental capital stock or meeting regulatory obligations – including those which will come into focus due to the Government's Climate Action Plan. We should index the cap on Section 97A pre-letting expenses, accelerate capital allowances on fixtures and fittings and put new retrofit tax supports on a permanent footing.

Improve access to domestic sources of funding for affordable residential development: This can be achieved by linking domestic savings and finance to the development of affordable homes, through a risk-appropriate income tax incentive for investments in designated residential development funds, mirrored on the Employment Investment Incentive Scheme (EIIS) and in line with the 2017 report of the 'Working Group on The Tax and Fiscal Treatment of Rental Accommodation Providers'.

Drop plans for a concrete blocks levy: The concrete blocks levy is an ill-conceived policy and will represent a levy on new homeowners who should not be asked to shoulder additional burdens. It should be dropped. Left in place it would add around €1,200 to the cost of a new build 3-bed semi-detached house and greater amounts to industrial or other large capital projects – for example, it would add around €5,000 to the installation of a wind turbine.

In Budget 2024, **to ensure better procurement and regulation,** at a cost of €10 million, the Government should:

Simplify and standardise the public procurement process: Simplification, cost reduction, and increased transparency are proven approaches to boosting the competition for contracts. We must redouble efforts to standardise T&Cs and investigate specific sets developed for each category. Public procurement must be open to small micro-enterprises, including start-ups, this means keeping administrative burdens to a minimum. We must also urgently complete the review of Circular 10/14 and financial and insurance requirements must be proportionate, so as not to be a barrier to bidding.

Ensure enhanced visibility of procurement opportunities: Engagement with the market must be open. Each public buyer should have a "doing business with us" section on their website. It is also important that pre-commercial engagement should be actively promoted, with SMEs having the opportunity to meet with key decision-makers on innovative products and services. "Meet the Buyer" events should also be encouraged on a sectoral or category council-level; not a one-size-fits-all approach.

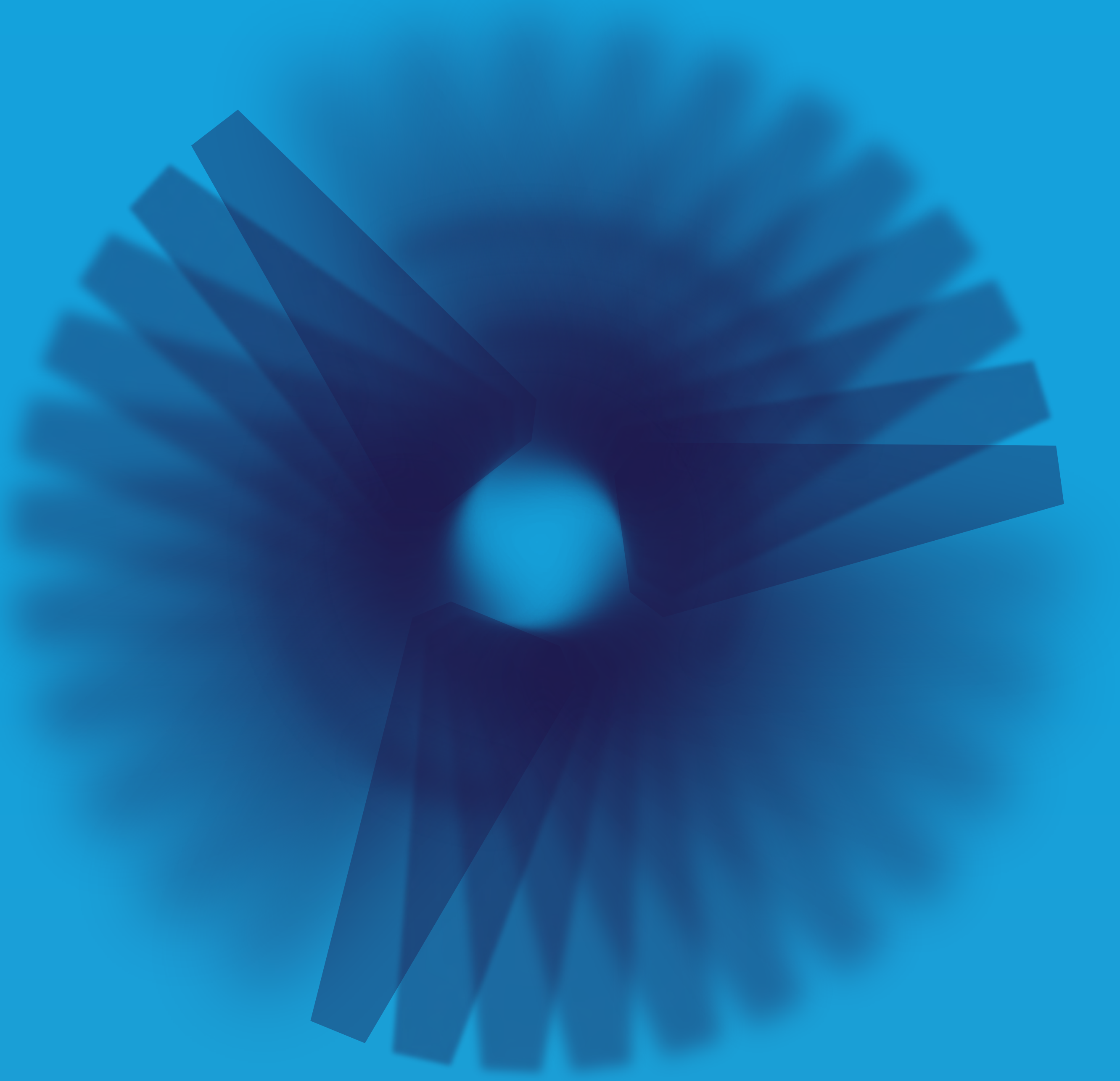
Promote the procurement of innovation: We must differentiate between buying innovatively (i.e., using new processes, approaches etc) and buying new/innovative products. Public bodies should take full advantage of the opportunities to promote innovation through pre-commercial opportunities (e.g., Small Business Innovation Research scheme, Innovation Partnerships etc) and look to pre-commercial procurement opportunities funded by the European Commission (e.g., Horizon 2020 programme).

Establish an independent office akin to the Office of Tax Simplification: This would help to embed the long-term approach to simplification in line with the approach taken in the UK which has been favourably reviewed by all stakeholders or the Law Reform Commission in Ireland.

Implement the OECD recommendation to re-establish the 'Better Regulation Unit' in the Department of an Taoiseach and establish a new arms-length regulatory oversight body: This recommendation from the OECD review on 'Strengthening Policy Development in the Public Sector in Ireland' would ensure better quality and independent oversight of regulatory processes and in line with other EU countries ensure adequate impact assessments and ex-post evaluation takes places and put the better regulation agenda back at the heart of Government.

4.

Preparing for the future



The global economy is on the edge of material changes brought about by the once-again rapid advancement in technology. We will have to alter our business model to adapt to changes to the basis of competition for mobile investment and subsequent economic activity and prepare for changes impacting the workforce and broader society. These include advances in areas such as digitalisation, automation, robotics, additive manufacturing, artificial intelligence, augmented reality, advances in battery technology, genomics and quantum computing. These, along with the significant decarbonisation now required of our businesses and broader society will create significant challenges but also enormous opportunities for the Irish economy.

Whilst not all the above will prove to be the next ‘general purpose technology’ which drives global productivity growth, we must invest in our capacity to both generate ideas and absorb then throughout the business economy. This requires ongoing investment in horizontal policy drivers – like skills, research and development, export orientation and innovation.

Ireland is increasingly competing in an intangible economy. This means competing more intensely for creating and embedding internationally mobile talent, knowledge and capital in the economy. In this context, a horizontal focus should be on individuals and communities as much as companies or sectors. This means an intense focus on key policy areas such as education, skills, taxation, intellectual property, and migration policy. However, a ‘talent-centric policy goes further and focuses on making Ireland a desirable place to live. This requires ambitious investment not just in ‘hard’ infrastructure like transport, broadband, and housing but also in ‘soft’ infrastructure like community amenities, childcare, openness, the Experience Economy, and the environment.

Table 2: Average Government expenditure allocations for R&D, per worker, $2015 PPP

	1990-1994	1995-1999	2000- 2004	2005- 2009	2010-2014	2015-2020	2021
Switzerland	No data	620	671	753	963	1,151	1,273
Norway	677	653	746	900	1,003	1,188	1,179
Germany	713	707	703	725	844	903	1,114
South Korea	No data	264	343	582	782	834	1,084
Denmark	472	589	666	780	1,007	962	998
USA	876	788	831	947	844	834	934
Finland	617	766	821	921	974	842	882
Austria	496	537	608	684	808	822	855
Belgium	457	535	601	671	720	742	842
Sweden	723	654	664	729	782	766	824
Netherlands	724	658	689	718	737	721	812
France	1,022	879	903	845	767	680	732
Italy	621	562	674	640	554	517	660
UK	510	470	514	518	481	480	544
Spain	388	424	534	578	561	484	527
Canada	437	381	448	506	482	456	517
Estonia	No data	150	159	299	444	417	508
Ireland	239	281	375	534	542	414	466
Portugal	202	271	288	285	279	253	250
Ireland position	15th	13th	13th	12th	12th	16th	16th

Source: OECD, Ibec calculations

It is certain that the global battle for labour, talent and innovation will be more intense in the decade ahead. A high quality, flexible, engaging and dynamic third level education system is the cornerstone of social and economic progress. We can only compete successfully for investment if we have a talent and innovation base that measures up with the best in the world. To deliver this critical need Ireland must prioritise investment in universities, further education, apprenticeship, and lifelong learning so that a wide diversity of talent and people can participate in an evolving labour market. Budget 2024 must be a statement of intent to the university and further education sector to prepare for the future in a more global, sustainable and digital world. This future direction is one that Ireland richly deserves and desperately needs to remain a top location for mobile business investment.

Ireland also has an opportunity to vastly improve our relative performance when it comes to enhancing our innovation, digital and AI capabilities. This is not just about being the home to scientific innovation but ensuring companies and individuals have the capability to adapt to new technologies – increasing our absorptive capacity. These areas include skills for all ages, support for research and development, infrastructure, regulatory coherence and resourcing and a host of other areas. It also means promoting Ireland outbound, ensuring the discipline brought by being exposed to export markets is available to more companies earlier. A focus on these drivers can help not just to drive leading-edge technological work in Ireland but as importantly a focus on adoption, as well as creation, will be crucial in embedding broad-based growth and future-proofing our competitiveness.

We should focus on driving sustainability across our business model. Over the last number of years, there has been a growing movement among Ibec members and businesses globally to consider the impact of their operations, not just in terms of maximising returns but in generating returns in a way that balances economic, environmental, social and governance goals. Some of this change has been driven by the demands of citizens and consumers, others by political or regulatory change, but through it all is a growing prioritisation within companies themselves, from employees to management teams. Being connected to broader goals – in areas such as social policy, the low carbon transition and the circular economy - when defining our Budgetary strategy will become central to investment decisions and supporting value-added products.

In Budget 2024, **to push technological boundaries,** at a cost of €710 million, the Government should:

Scale public investment in research and innovation by €150 million: To support a pipeline of ideas and knowledge, technology development and exchange between industry and academia we must increase investment by 20% per annum to achieve €1.25bn by 2025. For mature economies, such as Ireland, innovation is the chief driver of sustainable economic growth. In addition to boosting productivity, it also attracts international business investment supporting thousands of high-quality jobs throughout the country. Ireland's next phase of economic development will need to be underpinned by a robust research and innovation system that develops talented graduates, embraces innovation and technological change; improves SME productivity; enhances skills and supports Ireland's transition to a low carbon economy. The current levels of public investment in R&D are not representative of a country that strives to be an innovation leader, and this is highlighted as a national weakness in the recent European Innovation Scorecard analysis for Ireland.

Introduce a new multiannual 'National Digital Agenda Accelerator Fund': Ireland needs to maximise its planned NRRP/NDP investment in digital but needs to double down on its investment and reforms in future-proofing secure digital innovation, skills, adoption, and services across upcoming Budgets and the latter half of this decade. Government should resource this necessary strategic investment in our future through a new multiannual 'National Digital Agenda Accelerator Fund' and leveraging the NTF. This fund would help enhance our competitiveness, resilience, public services, regional development, and well-being, and to achieve our national and EU digital transition targets in the period 2024-2030 and beyond. The estimated cost of a new multiannual 'National Digital Agenda Accelerator Fund' to intensify trust and investment in deepening national digital capacities and embracing our enhanced regulatory role in digital is €500 million over the period 2024-2030.

Budget 2024 should introduce a funded graduate placement programme that supports SMEs to attract and retain high quality graduate and research talent: This would help install innovation expertise directly into the SME operation to identify new product and process opportunities and enhance innovation capacity within the business. A critical feature of the programme will be that the internship provides supporting link to higher education consultancy services, business and legal schools, research programmes, spinout companies and state-backed innovation supports.

Fund seed linkages between SMEs and large businesses: Ireland would benefit significantly from enhanced mechanisms for SME-MNC collaborations. Such collaborations will enable the system to focus on new technologies at the earliest stages of the RDI pipeline of MNC to ensure that such innovation development occurs in Ireland and enables SMEs to engage in global value chains by developing supporting or competitor technologies. In addition, it encourages a "seeding effect", where ex-employees of MNCs, if supported properly, are the key drivers of local start-up development. Budget 2024 should provide seed funding to foster linkages between indigenous and multinational firms on projects of common interest and co-selling opportunities which have the potential to enhance the productivity and innovation potential of both firms.

Introduce targeted supports to enable SMEs to invest in innovation and productivity: The SMEs targeted Enterprise Ireland Innovation Voucher Scheme has not been indexed in many years and should be increased in value to €10,000. This would encourage higher levels of research, development, and innovation activity within business, particularly to support initial SME engagement with the national innovation ecosystem.

Invest in inclusion in digital opportunities: This is necessary to promoting digital literacy, digital inclusion, and digital skills. Invest, promote, and provide access to the necessary digital skills that enable organisations, educators, and individuals to engage and succeed in a more digitalised Ireland.

Introduce accelerated capital allowances for advanced manufacturing: This should include computerised/computer-aided machinery and robotic machines. Ireland has the second-lowest density of industrial robots in the EU15, despite them being strongly linked with increased productivity. Research has shown that growth in robot density (robots per worker) accounted for about one-sixth of productivity growth between 1993 and 2007. This growth in robot density increased wages significantly and did nopt hit overall employment.

Ensure the continued benefit of the R&D tax credit: Given the R&D tax credit has now become 'refundable' it will now be taxed for most MNEs at the 15% rate (depending on substance levels), reducing the value of the credit to 21.25%. At the same time, measures in Budget 2020 to increase the value of the credit to 30% for small businesses were not introduced due to legislative complexities of administering a dual rate regime. Increasing the credit to 30% for all companies would be a welcome move – meaning an increase to a 30% rate for Small and Mid-Cap businesses and a retention of the current effective 25% rate for global MNEs.

Improve the R&D tax credit administration: The current credit would benefit from greater certainty around decision-making consistency and broader administration. This has been a particular issue around rental expenditures (with a significant impact on SMEs) and early-stage companies in R&D-intensive sectors. We should also accelerate the monetisation of the payable credit element against payroll in the first year to support cash flow in those companies, remove or significantly increase the €100,000 or 15% limit on qualifying outsourced expenditure to Third Level Institutions and the restrictions on outsourcing to related parties.

Introduce a pro-forma R&D tax credit: This would help smaller firms overcome administrative costs and engage with the credit. The existing limit should be in line with UK's R&D tax relief for SMEs with more generous tax treatment, reduced additional recordkeeping requirements, cash repayments upfront, and 'advanced assurance' for the first three times it is claimed. This would be in line with the OECD "Road Map for SME and Entrepreneurship Policy in Ireland". There should also be an increase in the science test limit to €100,000.

Reduce VAT rate for internet access services: We must reduce the VAT rate for internet access services as provided for in Council Directive (EU) 2022/542 of 5 April. This reduced rate will incentivise the take up of internet access services both in the National Broadband Plan intervention area and in areas served by the private sector while helping consumers.

Reduce mobile coverage 'blackspots': Budget 2024 should fund open access telecommunications infrastructure in mobile coverage 'blackspots' (about 5% of the landmass has no data coverage) that would be available to all mobile network operators in areas where it is not commercially viable for the private sector to deliver such infrastructure. Similar models already exist in countries such as the UK and Germany – with a proof-of-concept costing in the region of €5 million.

Expand supports for IP use by enterprise: Focusing on the framework conditions for enterprise-level IP activities will help boost competitiveness and innovation. New initiatives should be funded in pooling IP and strategic R&D funds to ensure scale and expertise. IDA Ireland's and Enterprise Ireland's resource and IP capabilities need to be expanded to provide direct support to client companies. Supports to grow IP use by indigenous enterprises should be expanded and should be connected to the broader innovation and business support landscape, not treated as a separate, specialist subject.

Hold a referendum on the Unified Patent Court (UPC): Ireland is legally required to hold a referendum to ratify the Unified Patent Court Agreement, which would provide significant benefits to Irish businesses. The new pan-European system for patent protection and enforcement is now live, but Irish companies cannot yet fully benefit from the new system. Government must provide much-needed certainty to businesses by holding the referendum in line with next year's local and European elections. Full Irish participation in the new system will help grow our patent-intensive sectors, improve our innovation performance, help scale indigenous and founder-led companies, and help us compete for new inward investment.

Prepare to make Ireland's participation in the Unified Patent Court 'best in class': It is not enough for Ireland to merely host a Local Division of the UPC, and to simply catch-up with other locations. We must also have the ambition to make the Irish Local Division 'best in class'. It must be able to demonstrate a reputation for quality, efficiency and be actively and aggressively marketed internationally as a litigation venue. Ireland must be positioned as a global IP hub. Prompt action is required, and preparations stepped up for hosting the Irish part of the UPC ahead of a referendum.

Fund an online EU funding information centre for enterprises: This one-stop-shop would provide information to Irish enterprises on the full funding opportunities open to them and would enable businesses of all sizes and activities to assess, analyse and pursue EU funding sources that could be competitively secured. It is separate from the Horizon European NCP network.

Increase participation by Irish enterprises in IPCEIs: Ireland should support companies to explore the opportunities to participate in innovative, pan-European mechanisms such as IPCEI (Important Projects of Common European Interest). An IPCEI is a structured model for boosting the implementation of major projects that make a significant contribution to economic growth, jobs and the competitiveness of the European industry and economy. Government should support the involvement of Irish companies in these structured initiatives in cutting-edge sectors. IPCEIs are not subject to traditional State-Aid limitations and will support key enterprise sectors through the deployment of new technology or solutions.

Follow through on funding for the high-level action plan following the Commission on the Defence Forces: The Government has approved a decision to move to Level of Ambition 2 (LOA2) over six years to 2028. This will result in the Defence budget rising to 0.72% of national income, by 2028. Budget 2024 should set out a multiannual plan to step up funding throughout that plan. This should support the security of Ireland's economic infrastructure and our reputation as a place to invest.

Establish a digital piracy unit within An Garda Síochána: Ibec recommends that a dedicated anti-digital piracy unit within the IP crime unit of An Garda Síochána is established and that it is resourced with at least two detectives to target resellers of pirated content, which is a real threat to the screen industry in Ireland.

In Budget 2024, **to address skills needs**, at a cost of €925 million, the Government should:

Unlock the €1.5bn surplus of the National Training Fund: This is crucial to launching an industry-led investment campaign that will deliver the key skills for the 21st century, including skills for a digital society, climate action, Industry 5.0, for leadership capability and skills to support SMEs. Core to this NTF-funded campaign will be industry leadership to ensure that investment is demand-driven and builds a responsive and agile pathway to learning, infrastructure and expertise across the tertiary education system.

Leverage the National Training Fund to implement a Lifelong Learning Strategy for Ireland: To prepare individuals for the digital and green twin transition. While Ireland's lifelong learning participation rate stands above the EU average at 13%, Ireland continues to fall behind our international counterparts such as Sweden (34.7%), Finland (30.5%) and the Netherlands (26.6%). The NTF is an opportunity to financially underpin a strategic approach to lifelong learning and upskill Ireland's workforce to prepare for the digital and green transition across all sectors of the economy.

Introduce a National Training Voucher Scheme: The OECD Skills Review recommends greater use of industry incentives to help dismantle the cost and time barriers associated with workforce development and lifelong learning. The introduction of a National Training Voucher scheme has the potential to boost in-company training and widen participation in upskilling and reskilling to include all businesses and employers. Based on the principle of cost reimbursement, businesses should be able to claim back expenses for training costs during the year undertaken with an accredited education and training provider. Alternatively, the voucher can be used to draw down funding to finance training leave to support businesses to engage with available skills development opportunities across further and higher education.

Deliver a sustainable funding model to support an integrated apprenticeship system: The proposed integrated apprenticeship system will bring together craft and consortia-led apprenticeship programmes and must address the inconsistencies in funding between consortia and craft-led apprenticeships to support employer engagement and the continued development of apprenticeship programmes. This includes closing the funding gap between craft and consortia-led apprenticeships. While the €2,000 employer incentive is a welcome initiative, it does not go far enough to close the gap between craft and consortia-led apprenticeship in relation to off the job training costs. To encourage more businesses and in particular SMEs to participate in apprenticeships, the new funding model for apprenticeships should cover the cost of off-the-job training for all employers.

Support the development, management and scaling of apprenticeship programmes: The limited resources provided for the management and development of consortia-led apprenticeships does not reflect the supports needed for the scaling of these programmes at a national level.

Support access and inclusion in apprenticeship programmes: The new access and inclusion bursary is a welcome initiative to support underrepresented groups in transitioning to apprenticeships. Additional funding is needed to expand the bursary to programmes in further education.

Provide an additional €50 million towards successful NTF-funded programmes: Focus on those that support strong industry engagement in education and training such as Springboard+, Skillnet Ireland networks, and successful pathway programmes for employment such as Skills to Advance, Recognition of Prior Learning (RPL) and Traineeships and Generation Apprenticeship.

Implement the commitments of the Funding the Future funding and reform framework for higher education to deliver right-sized, sustainable core funding of €307 million. This will help realise the full potential of the higher education system to inform and respond to the rapid transformation of the economy, and provide greater student outcomes, an enhanced research and innovation base and talent pipeline and increased engagement with lifelong learning and workforce development.

Establish specialist centres of training excellence across the ETB network with an investment of €200m over three years: As specialisation and industry clusters continue to emerge in specific regions, the ETB network must be encouraged to develop centres of training excellence to drive innovation and enhance intermediate skills development within clusters related to manufacturing, construction, decarbonisation and sustainability, technology and automation, and the experience economy. Specialised centres of excellence can provide cutting edge pilot facilities, demonstration equipment and infrastructure to help innovation, technology and allied skills diffusion to industry in strategic, yet practical way. This will also enable ETBs to develop critical expertise and core skills capability and encourage a stronger levels of enterprise collaboration. Such investment will also ensure that skills and training can be focussed on next generation industry practice and provide access to critical infrastructure to SME and micro enterprises for continuous upskilling and innovation.

Expedite access to a borrowing framework for Technological Universities: This would help the sector prepare for future investment needs. We should also ensure appropriate direct government investment where the viability of purpose-built student accommodation is a challenge.

Unlocking the Research and Innovation Potential of Technological Universities: The evolving landscape for Technological Universities must ensure that the role of research and innovation will be a catalyst in driving regional economic and social development. Technological Universities will require an R&I transformation fund to meet the TU research growth targets as set out in the TU Act. This specific fund, of €25 million in 2024, would provide the necessary resources, innovation infrastructure and enabling framework conditions, including workload allocation, to enable greater industry engagement on innovation and skills development. This will result in a step-change in the scale of R&I activity across the TU sector, enabling them to connect with more companies and communities in an impactful way, whilst building the international reputation and relevance of TUs.

In Budget 2024, **to promote Ireland outbound,** at a cost of €225 million, the Government should:

Give firms access to a greater pool of equity investment: Ireland has a limited market for equity in companies – and within this market, the EII is a major support to the ecosystem. It should be maintained and further improved by increasing annual investment limits and implementing the recommendations of the Indecon review to allow losses on EII investment for CGT purposes and any capital gains on the sale of shares taxed as capital gains rather than as income.

Capital gains taxation should be reformed to provide greater benefit to investing in high-potential companies: International evidence shows that high CGT rates lower entrepreneurial risk-taking, disincentivise the growth of venture capital both on the demand and supply side, and damages high-potential companies by locking entrepreneurs into their business for far longer than is optimal. High CGT rates on entrepreneurs also fundamentally alter the incentives for the investment of private capital in the economy. Our view is that this should take the form of a continuation of entrepreneurs' relief with improved scheme limits to €15 million and should be extended to passive investors such as Angel or Venture Capital investors.

Simplify our corporate tax regime to reflect new realities: Ibec supports a move to a territorial system of taxation for Ireland on the basis that there are many wide-reaching policy benefits of such a move. The merits of such a regime have been discussed in previous consultations over recent years, most notably the Coffey Review of Ireland's corporation tax code. These include reduced complexity, lower administrative costs and greater certainty for taxpayers. Indeed, Ireland is unusual as the only EU country left operating a global regime and one of only four OECD countries doing so. This undermines Ireland's reputation for competitiveness vis-a-vis other regimes globally. We also strongly support the reform of Ireland's interest deductibility rules. The increased complexity of Ireland's interest deductibility rules combined with ATAD rules and a new layering of Pillar 2 will require simplification of the overall system to avoid it becoming vastly complex and restrictive compared to our competitors. Both should happen in the upcoming finance bill.

Provide a roadmap on further corporate tax simplification: As outlined in previous submissions to both the Public Consultation on the OECD International Tax Proposals and the Commission on Taxation and Social Welfare Ibec has also outlined other forms of regime simplification which should be considered, including but not limited to ending the multi-rate system over time and allowing related businesses to compute income tax on a consolidated basis as a single entity ('fiscal unity') in a manner similar to consolidation for financial reporting purposes.

Ensure repayments of tax are timely and efficient: With a significantly more constrained funding environment ahead than start-ups have experienced in the recent past the tax system must not provide a barrier to firms extending their financial 'runway.' One cost-effective way to do this would be to ensure that schemes, such as the R&D tax credit, where repayments of tax are due to companies are paid in the shortest timelines possible rather than over multiple or delayed instalments.

Invest in trade promotion: Introduce investment aids to support new or expanding exporters investing in enabling technology, management training and upskilling, plant renewal and expansion, refinancing, market development and innovation to grow their markets. Additional funding should also be put in place for direct grant supports for marketing and trade promotion for companies looking to build new markets in the EU and internationally.

Introduce an export credit insurance scheme: Introduce a State-supported export credit insurance scheme, to ensure Irish firms remain competitive against other EU competitors that can access such schemes. This is unlikely to cost any significant amount – the UK equivalent has in the last five years supported over £29 billion worth of business transactions with an average claim paid as a proportion of the average amount at risk of only 0.1%, including Covid-19. Total claims paid in their scheme were only £125 million over 5 years and were offset by premia income resulting in a positive operating surplus.

Continue to invest in customs and logistic supports: Customs and logistics supports will remain important for SMEs and Mid-Caps impacted by groupage becoming less feasible. Data from the UK has shown a major impact on SMEs in particular selling into the EU market due to fixed costs of non-tariff barriers. Further investment and training will be needed in the coming years to help manage these challenges and ensure SMEs continue to export.

Extend the foreign earnings deduction to more markets: As it stands the scheme works well, but we think the scheme should be extended to include all countries that are classified as emerging and developing economies by the IMF. This would support trade with countries and regions that are expected to grow faster than Ireland's traditional trading partners such as the UK and the USA, generating wide-ranging export opportunities.

Do not extend the bank levy: As outlined in our submission to the Retail Banking Review we believe that the bank levy is an additional cost of doing business for the Irish banking sector, for which there is no longer any policy rationale. The levy now represents a pure legacy charge on the retail banking sector, which does not aid in the achievement of any policy goal. Given the recent exit of operators from the market, the levy also undermines the choice in the sector and its overall attractiveness to new entrants. As such the banking levy should not be renewed in any form, beyond its current end date of December 2023.

In Budget 2024, **to support the experience economy and creative industries,** at a cost of €850 million the Government should:

Experience Economy: This should mean a permanent retention of the VAT rate for the sector at 9% for businesses in the Experience Economy to protect demand in the sector against growing economic uncertainty. We should also increase funding for overseas tourism promotion and product development and continue investment and support to promote the Experience Economy through funding for tourism, festivals, events and wider creative industries and domestic tourism product development.

Supporting town and city centres: To support the rejuvenation of social life in city and town centres the Government should continue funding to support local groups and community infrastructure to ensure town and city centres are clean and attractive places for both domestic and international visitors. This should be added to significant funding for city centre events and creative industries throughout 2024 and supply-side incentives such as subsidised off-peak transport and permanent waiver of fees for street furniture.

Supporting the night-time economy: Budget 2024 should build on recommendations from the Night-time Economy Taskforce and continue funding the night-time economy support scheme for long lasting boost to vibrancy and local economy of our cities and towns. We must also ease regulatory burden by introducing a streamlined licensing system for events and markets, including the granting of Music and Singing and Theatre licences or “Entertainment licences” to event spaces for limited periods of time. Finally, we should invest in public realm enhancements to support a safe, night-time economy. This involves providing capital support to pilot cities and towns to support safety and security measures such as better street lighting, outdoor areas, and specific requirements designated by An Garda Síochána.

Reduce excise on alcohol products by 7.5%: Ireland has a high level of excise duty on key consumer products in Europe. Across a range of consumer goods, Ireland has the highest rate of excise on wine, Sugar-Sweetened Drinks (SSDs) and Tobacco in Europe. We have the second-highest rate of excise on beer and the third-highest rate of excise on distilled spirits. Already it is likely that we are at or beyond the point where excise rates are optimising tax take. Ireland is a standout in Europe in excise rates but not in collection due to falling consumption. As such, future increases in excise should be ruled out and rates on drinks products should move gradually toward European norms. If future increases in excise are undertaken, they should not be costed as revenue raising in the Budget process.

Extend the Alcohol Products Tax relief on cider and perry to other fermented drinks: The relief from Alcohol Products Tax of 50% on cider and perry, produced by qualifying small producers must be extended to producers of other fermented drinks (as defined under the Revenue heading “other than cider and perry”), wine (from grapes) and intermediate products.

Enhance S48I film tax incentive: The incentive should be improved by increasing the cap on eligible expenditure from €70 million to €150 million, replacing the expired Regional Uplift to promote the long-term development of the industry in the regions. The development of the VFX digital production sector should be promoted by offering an enhanced tax incentive for international projects like the successful incentive in France.

Screen Ireland funding: A significant increase in Screen Ireland operational and capital funding is needed given the proportionately greater resources available to competitor agencies.

Sustainable regional development: Strengthen regional talent development through increased funding for initiatives such as the Screen Ireland National Talent Academies and the Western Region Audiovisual Producers Fund (WRAP Fund).

In Budget 2024, **to meet our Net-Zero Carbon future,** at a cost of €650 million, the Government should:

Provide an additional €450m in a fund to drive zero carbon investment in industry by scaling up and expanding industry supports to 2026: For Ireland to remain an attractive and competitive place to do business, coming Budgets must help support the decarbonisation of Irish industry. The mitigation options in this sector are costly and complex. To deliver large-scale emissions reduction in this sector, SEAI Project Assistant Grants, the Support Scheme for Renewable Heat (SSRH), and the Excellence in Energy Efficiency Design (EXEED) programme need to be expanded and made more accessible. The scale of support offered under the SSRH needs to be increased to support large scale decarbonisation. Meanwhile, the high attrition rates in all support schemes need to be addressed through enhanced guidance and training for applicants.

Introduce a low-carbon super deduction: The accelerated capital allowance for energy-efficient equipment which is due to end in 2023 should be maintained to ensure the uptake of low-carbon technologies. The capital allowances should be increased to a super deduction of 130% of capital outlay including other costs such as retrofitting – to bring forward investment in our low carbon future.

Stimulate innovation to support the net zero transition: Ireland will need a range of technologies and solutions to meet its ambitious climate targets. While the role of certain technologies like wind power, solar PV, battery storage, electric vehicles, district heating, and electric heat pumps is becoming clear, it remains unclear how these will work together in an efficient mutually positive way. Meanwhile, there remains great regulatory, investment and technology uncertainty in other areas of the transition particularly in the areas of industrial heat, heavy goods freight, large offroad vehicles, carbon capture, the use of renewable gases and liquid fuels including hydrogen, biomethane, and HVO. State investment is needed to help identify the optimum solutions for these hard to transition sectors. This could be achieved through the funding of industry pathfinder projects, aligned with third level research partners, to lead by example.

Support the development of a Sustainable Aviation Fuel (SAF) sector in Ireland: The route to decarbonising aviation globally will be via three paths, each of which is at various stages of development and industrialisation: Battery-electric; hydrogen (in the form of both fuel cells and hydrogen turbines); and SAF. Battery and hydrogen technologies are advancing rapidly, with several experimental aircraft powered by such sources already flying, or under test. However, given the significant technological challenges and lead times associated with the development and certification of new aircraft types, it is unlikely that these technologies will be available in meaningful scale and capability until post-2035. Even then, the capability is likely to only be relevant for short haul applications. Coupled with that, fleet rollover to these new technologies will take significant time. Conversely, SAF is already available and can be used to fuel the existing fleet, utilising existing infrastructure. The use of SAF can reduce carbon emissions by up to 70-100% depending on the production pathway used. The key issues facing SAF are i) ramp-up in production and hence availability ii) industrialisation of the various pathways to produce SAF and iii) cost vs traditional fuel.

Given Ireland's role as a global hub for aviation activities, matched with large scale offshore wind potential the country has the potential to be a global hub for SAF and synthetic SAF (power to liquid) from hydrogen development, deployment and production. To drive investment and production of SAF and synthetic SAF, a coherent set of public policy interventions is required. Such interventions have had significant success in scaling other renewable energy markets such as wind and solar.

These include tax relief under the relief for investment in renewable energy generation (Section 486B TCA 1997) for projects working on the development, manufacturing and production of new SAF and synthetic SAF technologies, extending the participation exemption to pre-trading activities in situations where the economic activity undertaken relates to SAF development or production, ensuring SAF and synthetic SAF technologies are compatible with the R&D tax credit and classifying SAF and synthetic

SAF related development and production plant and machinery as Energy Efficient Equipment for capital allowances.

Rethink the step-down of the Electric Vehicle Benefit in Kind (BIK) exemption: The step-down of the BIK incentive, allied to Ireland's early step-in of very steep marginal tax rates will mean material reductions in take-home pay for middle-income workers driving electric vehicles of even modest original market value. Given the anticipatory and multiannual nature of these decisions, it also means a rapid and significant loss of incentive to choose fully electric rather than diesel vehicles. Already members are reporting that for commercial fleet the rollout of electric vehicles has stalled on the back of much reduced staff demand. The result of having a limited direct incentive expected over the coming years will make it more difficult to accelerate rollout in commercial fleet. As a result, this will significantly slow progress toward a critical mass in the crucial second-hand market for electric cars. An equitable solution, which better reflects these decarbonisation goals, would be for electric cars below a €50,000 OMV to instead be moved to the 8% BIK rate which will apply to employer-provided vans from January 2023.

Increase the carbon tax at a steady rate: Set out a clear signal for low-carbon investment and give businesses and citizens the time and resources to reduce their exposure to the tax and transition to a low-carbon society. This should be in line with the Programme for Government's commitment of an annual increase of €7.50 per tonne annually. New and expanded state supports must be rolled out to help businesses and homeowners decarbonise and reduce their exposure to tax increases.

Review the R&D tax credit to ensure it supports low-carbon technology: Following a review with stakeholders, Revenue should provide specific guidance on the use of the R&D tax credit for low-carbon technologies. This could be a crucial lever in getting firms to invest in innovations that accelerate their low-carbon journeys and help promote Ireland as a location for 'green' R&D.

Extend the Low Emission Vehicle Toll Incentive (LEVTI) scheme: The LEVTI scheme was launched in June 2020 which broadened the Electric Vehicle Toll Incentive Scheme that was introduced in July 2018. It is due to expire at the end of 2023. Extending the LEVTI by two years would provide certainty and support to those switching to alternative fuels, particularly as fleet operators and hauliers pay higher tolls and tend to use toll roads more frequently.

Support the adoption of biofuels to help decarbonise heat and transport sectors: Biofuels will play a critical role in the decarbonisation of energy sectors that cannot easily electrify like HGV transport and aviation. The Biofuel Obligation Scheme (BOS) has proved an enormous success, achieving more than 99% of Irelands renewable energy share in transport (RES-T) target, removing millions of litres of petrol and diesel from the market each year and is largely unnoticed by end consumers. It offers a relatively low resistance path to decarbonisation without relying on large volumes of individual consumer decisions. However more advanced biofuels like Hydrotreated Vegetable Oil (HVO) are now needed to overcome technical limits. As more electric vehicles enter circulation, greater volumes of these biofuels can be directed towards those hard to transition sectors. The effectiveness and necessity of biofuels needs greater Government recognition. To support increased local biofuel production and end-user adoption, Government should change the classification of HVO from a substitute fuel to a renewable fuel and extend the diesel rebate scheme to HVO.

Support business decarbonisation through the full roll out of the Microgeneration Support Scheme (MSS) and National Smart Metering Programme (NSMP): Microgeneration provides significant opportunities for homes and businesses to decarbonise energy use and better manage energy costs. The accelerated uptake in microgeneration, especially rooftop solar PV, since the start of 2022 European energy crisis indicates that small scale distributed renewables could play a more significant role in the energy transition than previously expected. Budget 2024 must drive increased uptake through the full roll out of the MSS, the Clean Export Guarantee (CEG), the Clean Export Premium tariff, the NSPM, and ancillary informational supports and resources for end-users.

In Budget 2024, **to support the development of the all-island economy,** at a cost of €250 million, the Government should:

Boost all-island investment by supporting projects of common interest through an expansion of the Shared Island fund to 2030: The exercise of re-energising and evolving the operation of the Belfast Good Friday Agreement during its 25th Anniversary can provide a boost to investment. The business community has long since identified that one of the primary benefits of an all-island approach to investment is to create economies of scale for investors and project promoters. We have identified the following investment priorities that would benefit most from all island cooperation and alignment:

Strengthening the Single Electricity Market (SEM) and delivering an aligned all island climate and energy strategy. Accelerating the delivery of transport and other infrastructure projects to improve all-island connectivity – particularly to the North-West. Leveraging R&D investments in an all-island context and maximising opportunities for public private collaboration on an all-island basis and taking an all-island approach to FDI by promoting the synergies to be achieved across all-island supply chains; access to talent; R&D capacity and other economies of scale benefits.

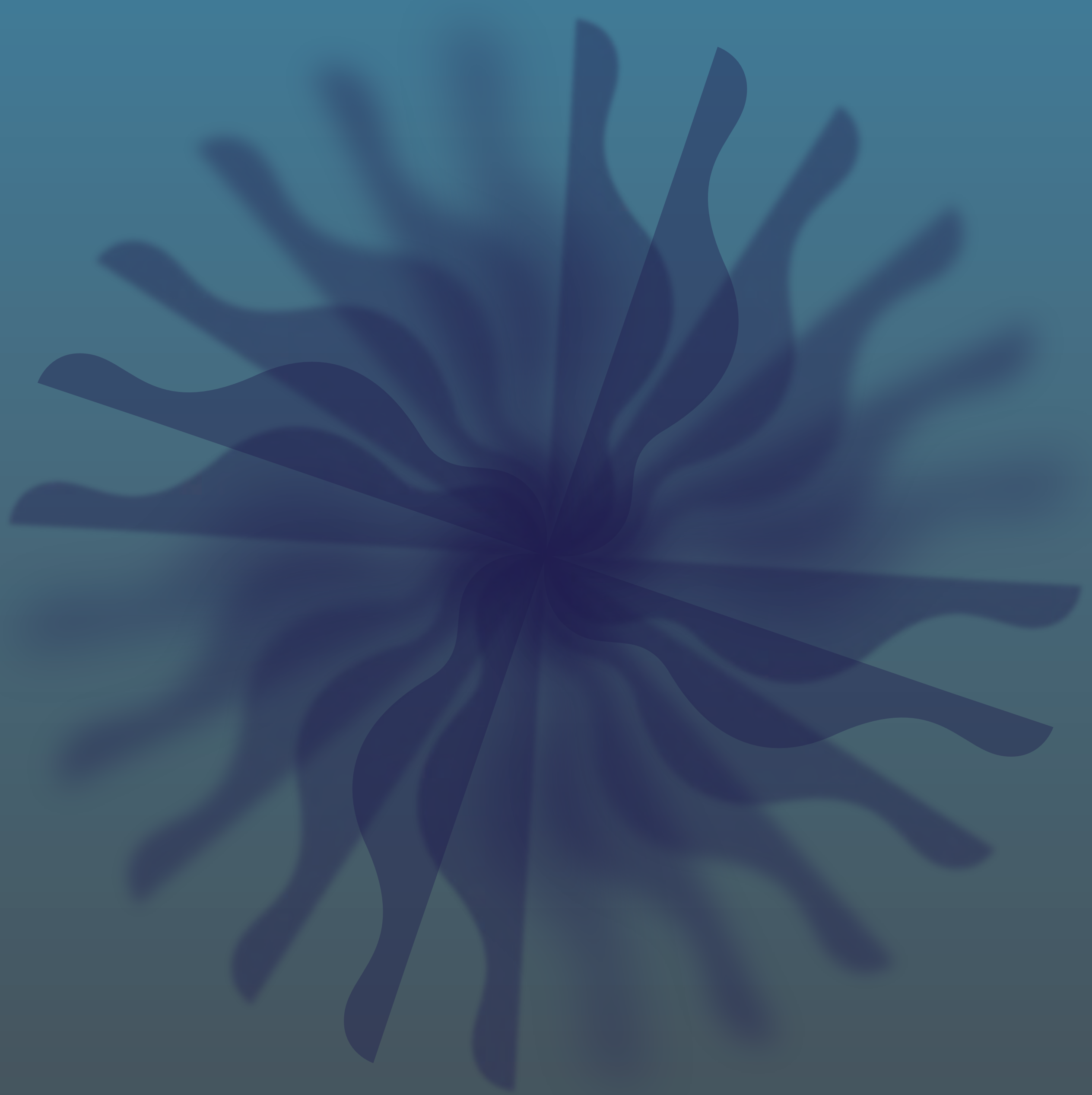
All of these are areas where proven economies of scale and proximity will deliver better outcomes for all concerned. Indeed, in most of these areas some joined-up North-South cross border provision is necessary to deliver the most cost-effective outputs and the outcome that delivers optimum mutual benefit.

The ringfencing of the Shared Island Fund in Budget 2021 was a significant development for investment in the all-island economy. To help achieve these major goals our view is that the €1 billion Shared Island Fund should be accelerated and over the remaining NDP timeframe, beyond 2025, a much more substantial funding of €4 billion will be required to address long-standing connectivity challenges and maximise the post Brexit opportunities for the all-island economy.

All Island Disruptive Technologies Innovation Fund (DTIF): Building on the success of the Shared Island research and innovation programmes, an all island DTIF funding call of €100m will enhance deep collaboration between SME, international business, and research-intensive universities on the island to focus on and develop new technologies and talent streams that tackle common interest grand challenges associated with energy, agrifood, healthcare, climate action, technology and creative industries.

Work with HMRC to facilitate changes for cross-border workers in the Border region: The growth of remote work has caused issues, particularly in the border counties, regarding cross-border workers. In the short-term, there must be increased flexibility in the existing transborder worker relief so that some element of hybrid work can resume in advance of a more fundamental bilateral solution to the issue. Long-term work should focus on joint work with HMRC and potentially work at the OECD in the post-Covid era. There are pragmatic and practical ways in which any concerns can be addressed. Reform and changes to legislation is required to make the all-island economy work and will positively impact the border and North-West regional economies in particular.

5. Making growth work for all



The enormous growth of recent years has seen a corresponding change in our labour market, with record numbers now working in Ireland. Over the same period, we have seen significant increases in the labour force, as high employment and rising wages pull more working-age people into the workforce. Despite this, new entrants to the labour market have not kept pace with the extraordinary demand for labour we are seeing on the back of ongoing growth. The consequences of this are being felt across society, both in rising costs and limiting business' ability to invest and expand, as well as skills shortages which contribute to the difficulty in delivering on key policy priorities for households such as housing, healthcare and education.

With a tight labour market looking set to continue for the foreseeable future, we must ensure as many people as possible are supported into a diverse and inclusive labour force, our taxation system is reviewed to ensure Ireland is an attractive place to live and work, and that capacity pressures in areas including childcare, healthcare and security are addressed to deliver on quality-of-life issues.

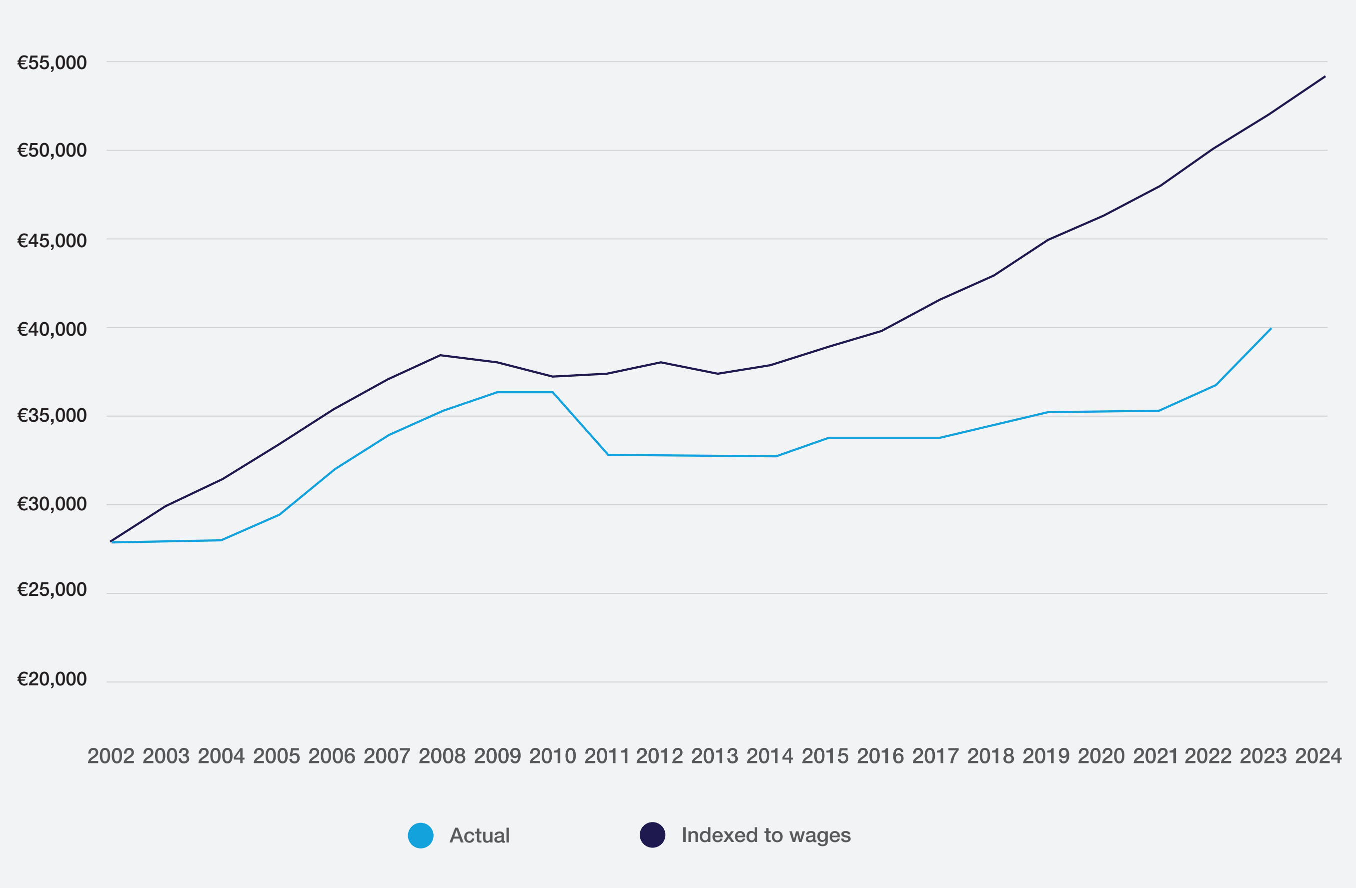
With employers of all sizes across every sector now reporting difficulties in recruiting to fill vacancies, we must facilitate an increase in our labour force both through attracting skilled labour from abroad and further activation of our existing working-age population not yet in employment. This will require significant investment in areas such as childcare, transport, and education to remove the barriers which prevent people from seeking employment and ensure that Ireland is an attractive place to live and work.

Census 2022 has highlighted the inevitable impact of our demographic trends, as a large and rapidly growing share of adults are acting as unpaid carers, with almost 300,000 adults across the country providing care.

Similarly, access to, and cost of, childcare is a key pinch point for many. The high cost of childcare relative to take-home pay is a disincentive to work for many parents and disproportionately disconnects women from the labour market. Results from the Labour Force Survey indicate that, of those who would like to work but cannot currently seek employment, two-thirds stated caring responsibilities or a disability or illness as the primary impediment. These barriers affect a large share of the working-age population and must be addressed to ensure equal access to the labour market and that as a country we have access to the labour needed to ensure continued growth.

While labour force participation has been growing, there is more to be done in this area to bring Ireland in line with other developed economies. Ireland's comparatively early entry to the higher income tax rate and relatively less attractive share option and personal tax offerings for the most mobile talent undercut our ability to compete for key skills. As such, it is also timely to review our taxation system to ensure that work is adequately rewarded and incentivised and that Ireland can compete to attract highly skilled and mobile international labour.

Figure 8: Standard rate band versus indexation to wages, 2002 to 2023



Such a review must also consider the context of the last decade, over which income taxes have been increasing in real terms due to non-indexation of the standard rate band. As wages increased, ad-hoc budget increases to the tax bands failed to keep pace, leading to so-called 'bracket creep'. For this reason, the Programme for Government contains a commitment to full indexation of credits and bands "in the event that incomes are again rising as the economy recovers". Full indexation of the income tax and USC system would cost close to €1 billion in 2024. Any tax package less than this, because of bracket creep, would represent a tax increase in real terms.

With strong competition for skills a feature not just of the Irish but also global labour market, improving our tax offering will be key to ensuring work is rewarded and Ireland continues to be a draw for international talent.

In Budget 2024, **to reward work,** at a cost of €1.4 billion, the Government should:

Increase the entry point to the higher rate of tax to €43,000 and increase tax credits by €100 for single earners and €200 for married couples and civil partners: The Government should follow through on its commitment to prevent further increases in income tax in real terms as wages rise. In Ireland, during the 2000s, the income tax system broadly kept pace with increases in wages. However, over the past decade, the real value of both tax bands and credits has fallen significantly due to decisions to not index the tax system to wages. For example, the entry point to the top rate of tax – which today is set at €40,000 – would be set at €55,000 had it kept pace with wage inflation over the past twenty years. Whilst the personal tax credit, which currently stands at €1,775 (having been cut from €1,830 to €1,650 in Budget 2011 and never restored) would now stand at €2,900. Full indexation of the income tax and USC system would cost close to €1 billion in 2024. Any tax package less than this, because of bracket creep, would in fact represent a tax increase in real terms.

Ensure supports for rising employment costs are in place: It is critical that the State puts in place a comprehensive support programme for companies who are struggling with the introduction of the living wage and other employment costs. This should include increasing the top-rate employer PRSI threshold above the new living wage annually and the introduction of a temporary PRSI credit for lower earning workers, relative to the increases in weekly labour costs which will occur in 2024, 2025 and 2026. The Government must also produce a clear roadmap on other tax (PRSI, USC, IT) and social welfare (Working Family Payment, Housing Assistance Payment, SUSI grants, childcare subsidies, etc) to ensure that the introduction of the living wage does not lead to high marginal effective tax rates for workers. As outlined in the 2022 University of Maynooth report a move to a €12.30 Living wage could lead to loss of between 29% of the increase through increased taxation and lost social supports (single earner, no kids) and 76% of the increase (dual earner, 4 kids). Budget 2024 must set out a plan to ensure an increasing wage floor does not interact with the tax and welfare system in such a way as to impact on people's incentive to work.

Put the KEEP scheme on a permanent footing to ensure share options are an attractive choice for start-ups and high-growth companies: The KEEP scheme represents one component in the Irish offering to attract key talent as well as providing a mechanism by which SMEs can compete with larger competitors when recruiting staff. While significant improvements to the scheme were undertaken in Budget 2023, take-up has plateaued at a low level over recent years, with just 227 employees granted shares per the latest available figures. Improvements to the scheme need time to be reflected in its adoption and businesses require certainty to avail of it.

Reform the operational and reward constraints in Revenue approved share and profit-sharing schemes: Ireland has the lowest offering of profit-sharing and share ownership schemes in Europe according to the 2019 European Company Survey. This is despite their well-understood benefits. Revenue-approved share schemes must be offered on the same terms to all workers. This makes them inflexible to companies' reward structures. These schemes must be allowed to be linked to performance. The €12,700 limit on Revenue approved share options schemes should also be increased to €20,000 and indexed to wages having not been indexed since the early 2000s.

Extend the existing reductions in public transport fares of 20% to the end of 2024: The reduction in public transport fares has successfully served the dual purpose of partially insulating households from the full impact of increased travel costs, which remain high, as well as furthering the climate agenda by shifting commuter behaviour away from car journeys and towards the use of public transport. Fare reductions also promote much-needed rejuvenation of social life in city and town centres.

Expand BIK relief for workplace health and wellbeing supports: At present several forms of health and well-being support, including counselling, dental care/insurance and exercise classes fall outside the scope of BIK relief. Employer-provided health and well-being support act as a social good which not only promotes the health of the workforce but has significant preventative benefits in terms of serious illness and associated costs for the public healthcare system. BIK relief for employer-subsidised health insurance would increase coverage across the private sector workforce and reduce pressure on the public system. There are particular opportunities for improvement in 2024 when it comes to employer provided dental insurance by eliminating the BIK tax on corporate paid dental insurance benefits up to a value of €300 per individual. This measure would increase participation in corporate dental benefit plans, leading to improved oral health outcomes and better utilization of public funding for strategic oral healthcare goals that are aligned with Smile agus Sláinte and the World Health Organization.

Extend regimes for highly skilled workers to SMEs: We support the OECD recommendation to extend tax support through a form of SARP to new hires for SMEs and start-ups. Many companies have also raised the issue of base salaries being the only qualifying remuneration for the scheme. Often in roles such as sales, in smaller companies, and in start-ups a large proportion of pay can consist of bonuses, benefit-in-kind or share options. The qualifying conditions should be altered to include performance-related pay in a minimum basic salary for SMEs.

Implement the Commission on Pensions' recommendation that a separate Social Insurance Fund (SIF) account be created for the State Pension: Given projections around the ageing of Ireland's population over the coming years, the sustainability of the state pension system is a key priority. As outlined by the commission, the separate identification, accounting, and reporting of State Pension contributions will provide transparency concerning how State Pensions are financed, and the Fund's ability to meet its commitments on an ongoing basis.

Allow for a continuation of PRSI contributions past the State Pension age: Splitting the SIF into two separate funds, as above, would also benefit workers looking for flexible retirement pathways beyond the State Pension age. Those workers choosing to do so should be allowed to continue to pay PRSI contributions at Class A rather than Class J and receive a broader range of working-age benefits under the reformed SIF.

Extend the small benefit exemption to €1,500 and allow it to be given across a maximum of four rather than two payments in a year: The SBE move toward operating on a cumulative basis should be made more flexible, allowing firms to give smaller benefits throughout the year up to the existing €1,000 limit and beyond to €1,500 in 2024. This would both allow firms the flexibility to tailor their rewards systems, make the administration of the SBE simpler, increase compliance, and allow employees in cash-flow-constrained firms to get greater benefits from the SBE.

In Budget 2024, **to support an inclusive labour market,** at a cost of €200 million, the Government should:

Increase the universal subsidies available for all children under three years of age and the income threshold for targeted subsidies by January 2024: Childcare is increasingly beyond the reach of the "squeezed middle" income families and this needs to be urgently addressed to support greater labour market participation, particularly of women. While the National Childcare Scheme has seen net childcare costs fall substantially for lower-income households, they remain among the highest for middle- and higher-income households, especially where multiple children are involved. Increase the income threshold for all children under the NCS to above mean household income, to an €80,000 maximum reckonable family income.

Incentivise the provision of baby (Under 3's) places in childcare settings by providing appropriate capitation and targeted capital grants by January 2024: The lack of available places is impacting the labour market participation of employees who wish to return to work following family related leave and those working parents who wish to join the labour market. The demand is such that places are being booked while the mother is still pregnant. This is in part due to the regulations that were introduced around space in 2016 making it unsustainable for many providers from a cost perspective.

Support an out-of-school hours care system: Childcare outside of school hours is needed to address the needs of working parents, in particular those with an atypical workday. This system should include incentives for schools to make space available to out-of-school-hour services, to avoid the logistical complications involved for children and working parents.

Provide funding to the Public Employment Service to offer tailored support for labour market activation: Research tells us that certain cohorts face specific barriers in entering the labour force which require a specialised approach to activation and support to enter the workplace. Providing such an outreach approach requires resourcing and funding these initiatives, in collaboration with community groups, to bridge the gaps and facilitate engagement with employment.

Introduce an Access Employment Programme for people with disabilities: This programme, modelled on JobsPlus, will subsidise a paid work placement with an employer for up to 6 months. It will be applicable to long-term unemployed members of the disabled community who need work experience and to upskill to start or restart their employment journey. This will encourage employers to create opportunities for people with disabilities. The model will be similar to the Work Experience Placement Programme, allowing the jobseeker to retain their full benefits for the duration of the fixed term placement.

Develop and implement a new National Traveller and Roma Inclusion Strategy (NTRIS) that is properly resourced, with time-bound objectives: The previous NTRIS strategy lacked ambition and ownership to deliver on its objectives. The next iteration must tackle the fundamental and multifaceted barriers to employment including culturally appropriate guidance and activation supports that lead to jobs.

Amalgamate existing employment supports for persons with a disability into a single grant, implement an online application portal for all supports, to be promoted via a media campaign for employers and employees with disabilities: Improve simplicity and access by rolling existing employment supports for people with disabilities into a single grant that covers an employee's needs, like the UK's Access to Work scheme. Increase ease of access to support through an online application portal, which would allow jobseekers to apply for jobs with supports already in place, rather than requiring potential employers to apply for grants.

Extend personal assistant and reader support, and open Disability Awareness Training Scheme to all employers: To be effective in the modern workplace, the personal reader grant should include assistive technology. Provide €20m to extend personal assistant supports for those with a physical disability to all forms of employment, not just limited to specific schemes. The Disability Awareness Training Scheme should be opened to all employers without the need to identify an employee with a disability.

Increase and reform the subsidy scheme for persons with a disability: Increase the Subsidy Scheme for persons with a disability from its current level of 55% of the minimum wage to 70% of the minimum wage level and index it to future increases. The threshold of 21 hours worked per week should be removed to allow people who find it difficult to work longer hours to access part-time employment.

Extend eligibility to a free travel pass to people with epilepsy: People with epilepsy cannot hold a driver's license until they are one-year seizure free and may have to incur significant costs to remain connected to employment and education. Many do not qualify to meet the strict medical criteria for a disability allowance or invalidity pension which would enable them to access such a travel pass.

Provide long-term, multi-annual funding for Employers for Change, the dedicated information and advice service for employers: Such funding would enable greater planning and strategic approaches to strengthen employer engagement activities through the provision of more support, guidance and information.

Provide €10m in annual funding to deliver the Carer's Guarantee: Provide this recurring annual funding to enable the delivery of a suite of supports for carers across the country which will ultimately help support labour market participation in an ageing society.

Improve attractiveness of work in the voluntary healthcare sector to address recruitment and retention issues: The crisis in staffing has led to entire departments being closed in some voluntary facilities, at a time when the Irish population is growing and ageing, putting even further demands on already stretched resources and limited capacities. It must be ensured that the voluntary healthcare sector is attractive both for new recruits and highly skilled workers, including management teams, and that hospitals are adequately resourced to achieve this. Provide clearer and more accessible training pathways for healthcare professionals recruited from outside the EU to ensure they can progress their training and remain in the workforce long term. A retention campaign among recent healthcare graduates would also help to ease pressures within the system.

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