

Small business priorities

Budget 2020

- 01 Protect competitiveness by ensuring that Budget 2020 provides certainty for small business
- 02 Reduce the headline rate of CGT to 20% for all
- 03 Increase the lifetime limit for CGT Entrepreneur Relief to €15 million
- 04 Remove the €3 million cap on the value of business assets allowable for Retirement Relief for those aged 66 plus
- 05 Increase the Earned Income Tax Credit to €1,650 to equal the PAYE tax credit
- 06 Use funding from increases in the National Training Fund levy for the Skillnet Programme

Overview

There is a clear path open to the Government which would de-risk our economy from over-reliance on FDI and seize an important opportunity to future-proof our economic model. That path is to focus on small business and support this important sector to fulfil its potential.

This would involve creating a whole-of-government Small Business Strategy, with a roadmap towards significant policy goals (increased productivity, export diversification etc.). Immediate changes would support the achievement of these goals, including ensuring that Budget 2020 provides certainty to small businesses, reducing capital gains tax, increasing the self-employed tax credit and additional funding for the Skillnet Programme.

Supporting small businesses in this way would mitigate some of Ireland's current vulnerabilities and create a true entrepreneurial culture with benefits for entrepreneurs, employees and communities.



Protect competitiveness by ensuring that Budget 2020 provides certainty for small business

Ireland's competitiveness is under threat. The National Competitiveness Council has confirmed that business costs are rising from an already high base. At a time when positivity among small businesses is at its lowest ever seen by the SFA, it is vital to protect competitiveness and provide certainty for small business.

Vigilance is needed in several areas:

- No further increase in the National Minimum Wage. Rapid increases since 2015 have added over €20,000 to the annual wage bill of a small employer with 10 minimum wage employees
- Mandatory minimum pension contributions by employers should be set at 1% for the first three years, 2% in year four and 3% in year five
- Set the carbon tax at €30 per tonne in 2020 and increase by €5 per tonne annually until it reaches €80 in 2030. A full review of outcomes and impact should be held in 2025
- No further increase in VAT or duties to ensure price differentials do not emerge between the Republic and Northern Ireland

Government must ensure that the mistakes of the past are not repeated by allowing business costs to escalate in a period of economic growth. This is particularly important when the growth is driven by the FDI sector, but the costs are borne disproportionately by small firms. Budget 2020 must do everything it can to facilitate a stable business environment.



This action has no additional cost to the Exchequer.

02

Reduce the headline rate of CGT to 20%; and

03

Increase the lifetime limit for CGT Entrepreneur Relief to €15 million; and

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Remove the €3 million cap on the value of business assets allowable for Retirement Relief for those aged 66 plus

Ireland must be an attractive location to start a business, scale, sell and reinvest. With Brexit, Ireland's competitiveness vis-à-vis the UK is particularly important. At 33%, Ireland has one of the highest rates of capital gains tax (CGT) amongst developed economies. The SFA is calling for a reduction in CGT to 20% across the board, to make investing in a business in Ireland more attractive. CGT represents only 1% of the Government's tax revenue, so there is very little to lose by reducing the rate, but the benefits could be significant. The lifetime limit of €1 million for Entrepreneur's Relief has minimised its impact. The SFA believes that Budget 2020 should see Ireland improve its offering significantly when compared with the UK by increasing the lifetime limit to €15 million.

To encourage businesses to pass to the next generation earlier, a cap of €3 million was placed on the value of business assets which can benefit from Retirement Relief where the owner is 66 years of age or older. Unfortunately, due to our tax environment and the need to work to support longer retirements, small business owners are unable to pass on their businesses to the next generation earlier. Therefore, the SFA recommends the removal of the €3 million cap on the value of business assets which can qualify for Retirement Relief for those aged 66 plus.



The cost to reduce the headline rate of CGT to 20% is €481 million. The cost to increase the lifetime limit for CGT Entrepreneurial Relief is estimated to be €84 million. The removal of the Retirement Relief cap is estimated to be €10 million.

These costings assume no behavioural change. The SFA expects these measures to stimulate transactions, which would return more revenue to the Exchequer in future years.

05

Increase the Earned Income Tax Credit to €1,650

The Programme for Partnership Government states "we will increase the Earned Income Tax Credit from €550 to €1,650 for the self-employed, to match the PAYE credit, by 2018". Yet the gap persists, with the self-employed Earned Income Tax Credit (EITC) currently at €1,350.

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A Small Business Strategy for Ireland

The potential of the small business sector has not been realised. There are many individual success stories but also many tales of struggling businesses and business failure.

The SFA is calling for a national Small Business Strategy just as ambitious as the strategic focus on FDI from the 1950s to the present day. In Ireland, we know exactly what it takes to create real, transformational change, as we have successfully built a world-class environment for multinational companies.

Such a strategy would outline a common vision for the future of small business in Ireland and include both short- and medium-term policy goals. The successful Action Plan for Jobs model could be harnessed as an implementation tool.

Read more at www.sfa.ie/0/NSBS

The Government must now deliver on this commitment in full, to finally end this blatant discrimination against the self-employed.

If a PAYE worker is considering starting a business, they face seeing their income tax credit drop by 18 per cent. This is a clear disincentive to self-employment and business creation. With tax compliance at very high levels in Ireland, any historic justification for the inequality of tax credits between the self-employed and employees is defunct.

The small business community cannot wait any longer for the Government to deliver on this commitment to increase the Earned Income Tax Credit to €1,650 for the self-employed and proprietary directors.



The cost of this measure is estimated to be €40 million.



Use funding from increases in the National Training Fund levy for the Skillnet Programme

Today the impact of technology on business and the fact that people are working for longer, means that it's crucial for owner managers and workers to learn and apply new skills. SFA Skillnet was launched in May 2019; a multi-sector learning network for small businesses that promotes and facilitates workforce learning through subsidised training.

To meet the Government's target of increasing domestic productivity by 1% per year, greater investment in education and upskilling is needed. Government should allocate a greater share of the National Training Fund budget towards the Skillnet Programme to allow networks, such as SFA Skillnet, access to increased funding to help small firms invest in training and to ensure all employees have the necessary skills to adapt to changes in the workplace.



This action has no additional cost to the Exchequer.

The SFA has a vision of Ireland as the most vibrant small business community in the world – supporting entrepreneurship, valuing small business and rewarding risk takers.



The Small Firms Association is the trusted partner of small businesses (less than 50 employees) in Ireland, with members in all sectors and parts of the country.

Its mission is to deliver business-focused advice and insights to member companies, influence government policy to the benefit of small businesses and connect its members in a thriving community.

This submission is based on our knowledge and experience of the small business community, which comprises over 245,000 businesses. These businesses employ half of the private sector workforce, over 700,000 people, in good, local jobs.

Visit www.sfa.ie/policy to read the full SFA pre-Budget 2020 submission.

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