

Small Firms Association

Pre-Budget 2024 submission

Presented to:

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SFA priorities for Budget 2024

- #1 Tackle the increasing costs of doing business
- #2 Sustain investment and reward and retain talent through the tax system
- #3 Support small businesses to stay ahead in a rapidly evolving business environment
- #4 Create an inclusive and diverse small business community

Overview

The last three years have been extremely challenging for Irish small business owners with the economic shockwaves from the war in Ukraine eroding the tentative recovery from the pandemic and further undermining already disrupted global supply chains.

Small businesses are experiencing growth but are constrained by rising costs and increased competitiveness. SFA's research has found that:

- The total average cost of doing business for all small (20-49 employees) and micro (< 10 employees) firms is €138,814 per month. The average for micro businesses is €66,426 and €193,535 for small firms.
- On average labour costs amount to 82% of overall monthly business costs. Banking and other costs (5.6%) is second highest, followed by transport / insurance (5.1%), all property costs (4.9%), and all utility costs (2.4%).
- In summer 2023, rising business costs is the top challenge facing small firms.
- The majority of SFA members identified attracting and retaining staff as a risk to their business. Members stated, a lack of relevant skills, unrealistic wage demands and access to accommodation as the greatest barrier to taking on new hires.
- Half of small business owners stated their business was growing and identified investment, domestic economic growth and upskilling their workforce as opportunities and priorities until the end of the 2023.

Skills and labour shortages, rising wage demands, taxes, and an excess of regulations, especially due to new labour market regulations, are putting Irish small firms under severe pressure. These issues are creating a competitive disadvantage for entrepreneurs and small business owners and hinder startups, investment, and growth.

Embedding competitiveness is critical to building resilience in small businesses across the economy. Ireland must continue to invest in the competitiveness of our smallest employers by focusing on supports for capital investment, innovation, digital and green transition, and skills development. The tax environment for small indigenous businesses should also be improved to encourage small firms and entrepreneurs to scale and grow their businesses and to help staff retention and attraction.

2023 has been considerably challenging for small businesses owners in the area of employment law with the introduction of Statutory Sick Pay from January 1st, increased

minimum wage and a new public holiday. Further State imposed increases in employment costs and the living wage, and other leave proposals already announced are forecasted to add around 2.8% to the total wage bill in the economy in the coming years. In the longer term, over the next decade, the addition of higher PRSI for employers and employees in line with the Commission on Pensions recommendations and rising auto-enrolment rates will increase this to 9%. Whilst many of these policies have merit on their own terms, they will make the business landscape more difficult for small firms.

In addition, members are also dealing with new environmental regulations and reporting requirements, which are due to grow considerably in the years ahead due to sustainable obligations and targets under Irish and EU legislation.

To secure and improve Ireland's competitiveness, all government departments must think about the potential impact of any new legislation or regulation in terms of the regulatory burden it places on small firms, as well as of amendments introduced during the legislative process.

Small business owners have consistently risen to the challenges presented by the past three years and growth in employee headcount and revenue statistics show that this perseverance is paying off. Domestically owned businesses want to create employment, innovate, grow, and find solutions for common challenges like the green and digital transition. Therefore, Budget 2024 must focus on ensuring Ireland remains an attractive and competitive place to create and scale a business, through measures that reduce regulatory burden and boost competitiveness.

Priority actions for Budget 2024

#1 Tackling the increasing costs of doing business

Ireland's micro and small enterprises are facing cost challenges in every area of business be it labour, transport, insurance, banking, and utility costs. In recent months businesses have faced inflationary pressures not seen in decades. Irish interest rates are considerably higher than their counterparts in the euro-area and these rates could rise further before the year is out. Many operate in low margin environments, making it difficult for them to absorb cost increases and demand for value makes it impossible for many to pass the increase onto customers.

Even with increasing household income and employment and export led growth many small firms in different sectors and parts of the country are not thriving due to rising business costs and the impact of housing undersupply on labour supply growth.

To ensure all small firms remain competitive, viable and profitable Budget 2024 must provide certainty on costs and maintaining competitiveness.

In Budget 2024 the Government should:

- **Access to finance** – improve access to bank and non-bank finance for small businesses.
- **Living Wage** – Consideration to how employers with a significant number of low wage employees can be supported in the transition to a Living Wage, given that

significant increases are likely to have larger effect on certain sectors and regions, should be considered in the context of Budget 2024.

- **Apply the SME Test across all Government Departments without exception** – to reduce the regulatory burden on small business. Amendments introduced during the legislative process should also be assessed.
- **Coordinate the introduction of new legislation and regulations** – small companies have had to deal with the introduction of an unprecedented number of new policy initiatives in recent months with more to come around employment law and sustainable obligations. All of which has and will add cost pressures and administrative burden onto small businesses. Government must seek to coordinate the individual pieces of legislation and regulations and introduce them in a phased manner.
- **Reform commercial rates** – Reform of our commercial rates system is needed to ensure the prosperity of our town and village centres.
- **Automatic Enrolment Pensions** – Support the recommendation in the Joint Committee on Social Protection, Community and Rural Development and the Islands pre-legislative scrutiny report on the Automatic Enrolment Retirement Savings System Bill, that there be a two-year lead-in period following the Bill being passed and signed, to allow business to be ready for the cost and implementation.
- **Housing** – Continued supports and funding for the Housing for All plan must be prioritised in Budget 2024 to increase housing supply across the country.

#2 Sustain investment and reward and retain talent through the tax system

A vital dimension of Ireland's competitiveness is its relative attractiveness as a location to start a business, entice expertise and investment to grow into a global company, and create appealing conditions to sell a business and reinvest. With greater focus on driving the green and digital transformation of our economy, now is the time to provide innovative improvements to the economic regime we have. In the first instance, the Government must deal with the investment and taxation policies which are causing continued concern for Irish indigenous businesses.

Changes to taxation are the most effective measures the Government can make to encourage more people to go into business for themselves. Tax changes can create incentives and mitigate risks, making entrepreneurship attractive. The benefits of a true entrepreneurial culture include job creation, greater levels of innovation, increased tax revenues and more vibrant local economies.

In Budget 2024 the Government should:

- **Introduce new investment policies to encourage small firms and entrepreneurship such as:**
 - Reduce the general CGT rate to 20%.
 - Index the entry point to the higher rate of tax by approximately €5,000 in 2024, to bring the entry point to the top rate of tax to €45,000.
 - Action the R&D tax credit recommendations of the Commission on Taxation and Welfare that would see more guidance and supports introduced to facilitate greater uptake by small firms more generally and consideration be given to a limited acceleration of the refundable element of the R&D tax credit from three

years to one to support early-stage and research and development intensive businesses.

- Increase the lifetime limit for CGT Entrepreneur Relief to €15 million immediately and remove the 50% working time test to help incentivise investment in small firms and benefit from expertise and experience.
 - Increase EIS relief from €250,000 to at least €300,000 per annum. Allow the EIS tax relief to be claimed in its entirety in year 1 at 40% and apply the relief to PRSI and USC also. Allow capital losses, net of tax relief already received, incurred on EIS investments. EIS is currently set to end at the end of 2024. SFA recommends the further extension of EIS beyond 2024.
 - To encourage angel investors, working time should be reduced to 5% and Entrepreneur Relief should be extended to angel investors.
 - The Tax Debt Warehousing Scheme must be kept under review generally. To support repayment of covid-19 warehoused debt small firms must be able to avail of advice and financial support on how to develop a repayment plan. SFA propose creating a programme through the Local Enterprise Offices that would provide information on managing debt and cashflow and access to a financial expert who will prepare a repayment plan with the business that can be presented and approved by Revenue. Such a programme would be open to all enterprises with up to 50 employees.
- **Reward and retain talent through the tax system by:**
 - Allowing the Small Benefit Exemption to be paid in four, tax free payments, each year and increase the combined value of the four benefits to €2000.
 - Introducing a workable share scheme for small businesses taking into account the reasons the company awards shares to employee (e.g., employee retention, employee development within the business etc). The tax cost of awarding shares to employees can be prohibitive. e.g., Increase the APSS annual tax-free limit of €12,700 to €50,000 to encourage employee retention at management level.

#3 Support small business to stay ahead in a rapidly evolving business environment

Budget 2024 must prioritise the competitiveness of Irish small firms to allow them to stay ahead in a rapidly changing business environment. Small business owners are taking positive and transformative actions on the green economy and the digital transition is opening new opportunities. Unfortunately, research shows that Irish small businesses continue to underperform in these areas compared to competitors and are less productive than large firms for many reasons.

To meet the business and enterprise sector obligation under the Climate Action Plan to reduce emissions by 35% by 2030 and the Department of Enterprise trade and Employment's White Paper on Enterprise targets, Budget 2024 must comprise a real supportive set of actions and measures tailored to small business owners and their employees.

In Budget 2024 the Government should:

- **Introduce small business friendly incentives – to achieve the green transition such as:**

- Continued commitment to funding for programmes such as – Green for Micro, Green Start, SEAI business grants and supports and MentorsWork. Introduce a new LEO voucher to reduce the cost of accessing sustainability certification and standards for small firms.
 - Simplify sustainability reporting standards – both EU and national sustainability reporting standards should be simplified to facilitate small firms.
 - 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.
 - Introduce a sustainability employee programme for micro and small firms – this programme would give financial assistance to micro and small firms to cover the cost of taking on an employee for up to 24 months, whose responsibility would be to reduce the environmental and energy impacts of their buildings, heating, transport, and supply chains.
 - Rethink the step-down of the BEV vehicle 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 OMV. 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.
- **Boost productivity within micro and small firms by:**
 - Strengthening small business owners’ leadership, management capabilities and skills – through productivity-boosting training and supports provided by MentorsWork, Local Enterprise Offices (LEO) and Enterprise Ireland.
 - Introducing targeted supports to enable indigenous business to invest in innovation and productivity – this will help Irish small firms by expanding the Enterprise Ireland Innovation Voucher Scheme value to €10,000: to encourage higher levels of research, development, and innovation activity within business, particularly to support initial SME engagement with the national innovation ecosystem.
 - Increasing exports from indigenous small firms – by providing companies with less than 50 employees with adequate training, grants and advisory services through the LEOs and Enterprise Ireland.
 - Unlocking the €1.5bn surplus of the National Training Fund – 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, for leadership capability and skills to support SMEs.

- Leveraging the National Training Fund (NTF) to implement a Lifelong Learning Strategy for Ireland – 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.
 - Introducing a National Training Voucher Scheme – 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.
 - Delivering a sustainable funding model to support an integrated apprenticeship system – to encourage more businesses and in particular small firms to participate in apprenticeships, the new funding model for apprenticeships should cover the cost of off-the-job training for all employers.
- **Raise the digital skills of micro and small business owners and their employees by:**
 - Including everyone in further digital opportunities - promote digital literacy, digital inclusion, cyber security, 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.
 - Offering 100% capital allowances for small firms – to invest in IT equipment and other home office expenditure to facilitate remote working.
 - Ensuring national cybersecurity capacities, institutions and infrastructure are adequately co-ordinated, resourced, focused and implemented - Engage, co-ordinate and strengthen our cyber security ecosystem. Encourage a pipeline of the relevant knowledge, skills, and talent in the State. 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 and 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. 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.

#4 Create an inclusive and diverse small business community

SFA is proud to support and work with Employers for Change and sit on the Irish Human, Rights and Equality Commission’s Worker and Employer Advisory Committee. We are committed to building a strong economy and business climate for entrepreneurs and small business owners which includes driving diversity and inclusion across organisations and Ireland’s small business community.

Budget 2024 must introduce supports and initiatives to address challenges facing social groups that are under-represented or disadvantaged in entrepreneurship and provide funding and advice to build and create inclusive workplaces.

In Budget 2024 the Government should:

- **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.
- **Offer supports and training to small businesses** – to allow them to make their premises and services more accessible.
- **Provide funding to support businesses in becoming Web Content Accessibility Guideline (WCAG 2.1) compliant** – this would enable small firms to upgrade their websites to make them more accessible to people with all manner of disability.
- **Ensure better regulation** – so that all grant schemes and funding sources for assisting business in workplace adaptation and equipment do not result in undue administrative and cost burden on employers.
- **Offer supports and training for employers on cultural awareness and inclusion in the workforce** – untapping potential employees from alternative pools of talent and marginalised groups will assist small firms to become a more resilient and diverse workforce.
- **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.
- **Identify best practices** – to promote and support entrepreneurship amongst women, youth, older people, disabled, migrants and the unemployed.

About the SFA

The Small Firms Association (SFA) 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. 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 SFA makes this submission to the Department of Finance based on our knowledge and experience of the small business community, which comprises over 267,000 businesses, employing half of the private sector workforce, some 755,000 people.

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