British Irish
Chamber of Commerce

SUPPORTING SMEs - DELIVERING FOR THE SECTOR

A Policy Paper by the Small and Medium-Sized Enterprises Committee of the British Irish Chamber of Commerce

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CHAIRMAN'S FOREWORD

Both the UK and Ireland have a strong tradition in Small and Medium Enterprises (SMEs) being a significant part of their economies. In fact, SMEs account for 92.2% of the total Irish enterprise population and thus form the backbone of the Irish economy and its economic drivers. A similar situation exists in the UK and therefore this SME community can be seen to be a significant fiscal influence within both economies. The UK's decision to leave the EU will have a significant effect on SMEs in both jurisdictions and it is imperative that both governments ensure that the strong trading links that have existed for hundreds of years are not disrupted. The livelihoods of many citizens in both countries derive from the operation of these businesses and provide the basis for consumer spending, to include their spending on housing, food, education, transport, etc.

It is therefore vital that both governments recognise the importance of these businesses, which vary across a broad range of sectors and assist them in this difficult transition. These businesses are working across various sectors including food & agriculture, manufacturing, and all the service industries and will face many similar challenges around trade, movement of goods, the imposition of tariffs and the free movement of people. This document has primarily been written based on experiences of Irish members within the British Irish Chamber of Commerce (the Chamber) and we will also perform a similar exercise with SMEs in the UK. The significance of the interaction between both economies, in terms of sharing of labour, trading of services and goods, and the integral supply lines which have developed over time, cannot be underestimated.

While there is a strong interdependence upon many SME businesses in both jurisdictions, the voice of these entrepreneurs must be heard going forward. It should also be remembered that geography is not going to change as a result of Brexit and therefore these businesses will continue to be neighbours going forward and will continue to have business relationships and dealings in the future, no matter what the outcome of Brexit. Indeed with Ireland being the only country with an UK border we are indeed the part of Europe most impacted by the changes to occur. The SME Committee of the Chamber is comprised of business leaders that operate and trade extensively in the British/Irish sphere. The Committee is fully committed to engaging with all stakeholders to ensure that the new relationship between the EU and the UK will continue to facilitate and promote the interests of SME business owners trading between Ireland and Britain.

I would like to take this opportunity to thank all the members of the Committee who contributed to this paper and to the Secretariat of the Chamber for its ongoing support.

Aidan Scollard

A MESSAGE FROM THE DIRECTOR GENERAL

Since the referendum result, the Chamber has made a concerted effort to develop and expand our Committee programme in order to effectively address the changing political and economic climate that we face post-Brexit. The SME sector in Ireland is particularly exposed to the consequences of Brexit with over 40% of Irish SME exports going to the UK. SMEs in Ireland account for over 90% of enterprises in the country and represent 70% of private sector employment. Any significant reduction in the trading environment of the Irish SME sector has the potential to derail Ireland's economic recovery.

As a country we must ensure that the SME sector which acts as the life blood of the economy is as prepared and protected as much as it can be from the impending headwinds of Brexit. The Chamber is responding with a multi faceted approach. We are working with likeminded trading organisations through the British Irish Business Dialogue (BIBD) to develop 'negotiation ready' solutions that would continue to enable UK- Ireland trade to prosper while being acceptable to both the UK and European negotiators. Closer to home, in both Westminster and the Oireachtas, we continually press for policy initiatives that may alleviate the economic pressures for UK and Irish businesses – this paper is an example of the latter.

This paper is derived from contributors who work in the British Irish space and for whom Brexit poses an existential threat to their livelihoods. I am grateful for their contributions and the continued work of the SME Committee of the Chamber. I am confident that this paper will play an important role in the national dialogue in response to Brexit.

John McGrane

SUMMARY OF RECOMMENDATIONS:

Support Irish SMEs Position in the UK Market:

1) Increase promotion of Government supports available to SMEs.

2) Introduce a 'Customs Voucher Scheme' for all small and medium sized enterprises dealing with customs for the first time.

3) Develop a marketing grant for Irish SMEs that are exposed to the UK akin to Bord Bia's Marketing Intensification Programme.

Improve the Competitive Environment that Irish SMEs operate in:

1) Reinstate the reduced lower rate of employer PRSI to 4.25%.

2) Expand the Entrepreneur Relief on Capital Gains Tax (CGT) to a lifetime limit of €15m.

3) Reform the Employee Share-based Remuneration Regime in line with the UK's Enterprise Management Incentive Scheme.

4) Review Ireland's standard rate of VAT to ensure the Irish retail sector remains competitive.

Invest in Ireland's Future Needs:

1) Increase Capital Expenditure to 4% of GDP. Projects that merit particular attention include:
    - The M20 Cork to Limerick motorway scheme
    - Brexit proofing the national ports and airports
    - Bringing forward the scheduled start date for Metro North.

2) Roll out the National Broadband Plan as a national priority

3) Develop the Skills needs of the SME Sector
    - Re-direct funds within the National Training Fund (NTF) to up-skilling employees
    - The Chamber recommends that through programmes such as Skillsnets, businesses should be incentivised to invest in the development of the language skills of their workforce.

BACKGROUND AND CONTEXT

The British Irish Chamber of Commerce represents business activities with interests across the two islands of Britain and Ireland. It exists to champion, protect and grow the trade between the UK and Ireland. Working on behalf of its members, large and small, north, south, east and west, the Chamber maintains the closest links to our governments, civil service and opposition spokespersons to ensure that the views of its members are factored into action.

The SME Committee of the Chamber represents small and medium sized enterprises across Ireland and the UK. Its raison d'être is to be the focal point for SME businesses in the British Irish business space. One of its key goals is to ensure that any barriers that may impede the trade between the UK and Ireland are removed and to make a pathway to ensure more effective joined up links between the UK and Irish markets.

As part of its objective to facilitate information exchange between its members and government representatives, the SME Committee has developed this Policy Paper to outline its members' concerns in relation to Brexit and the policy proposals that they believe would assist in alleviating some of the greatest risks to their businesses.

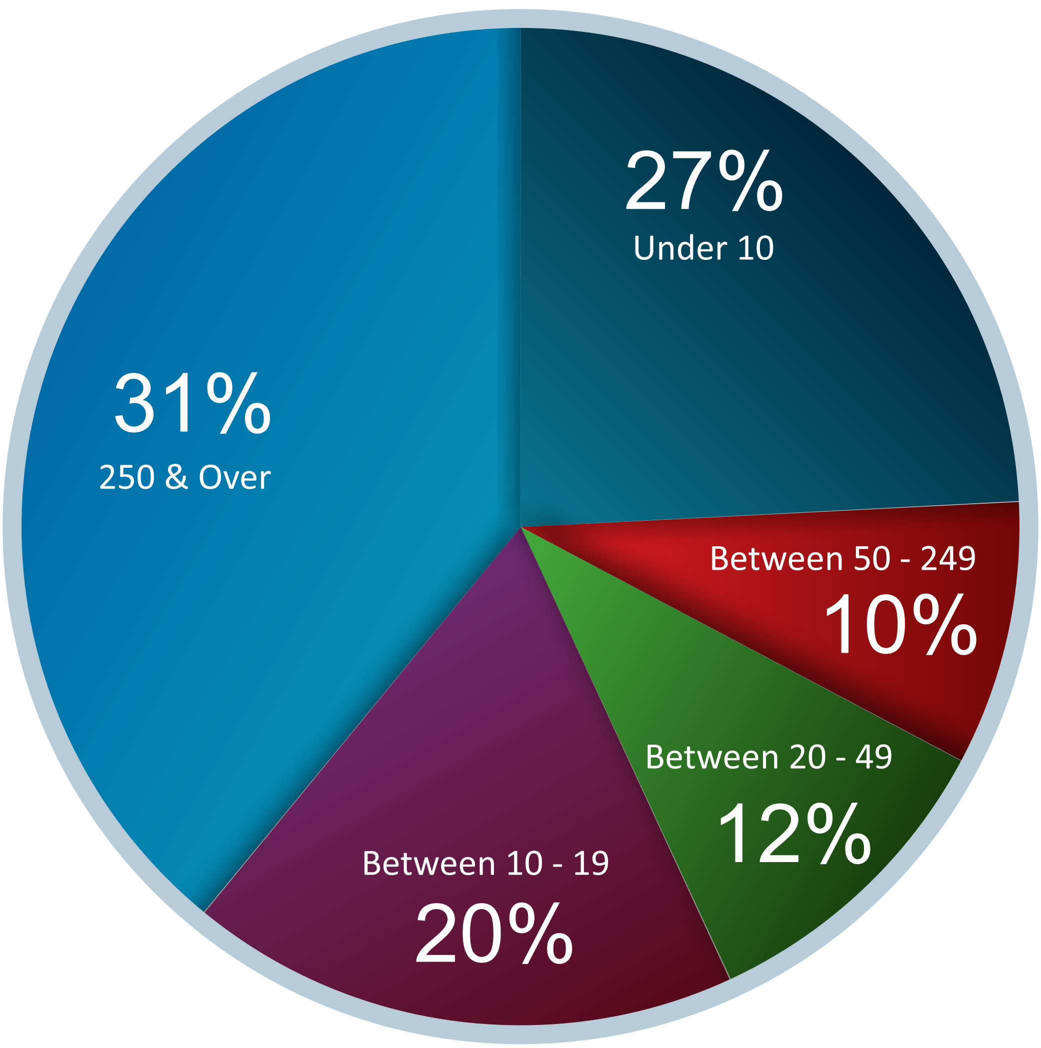
The SME Committee acknowledges the on-going work of the Government and state agencies to develop indigenous business in Ireland. Furthermore the Committee welcomes recent initiatives designed to support the SME sector in light of Brexit. This paper is designed to be informative and constructive in its suggestions.

This paper draws on the recent Consultative Forum 'Listening to our Members – Delivering for the Sector' organised by the SME Committee, to ascertain members' views, concerns and expectations following the UK electorate's vote to leave the EU. In addition to this, national statistics, reputable analyses and various Chamber Brexit projects have been used to supplement the findings of the Forum.

While the Irish economy has a disproportionately high reliance on foreign direct investment, small and medium size enterprises represent that vast majority of the business community in Ireland. The recently published Central Statistics Office (CSO) report 'Business Demography 2015' outlines the makeup and importance of Irish SMEs to the economy from the most recent available data. In 2015, there were 248,843 enterprises in Ireland. Small and medium sized enterprises accounted for 92.2% of the total enterprise population. SMEs generated 56% of total turnover in the business economy and just under 50% in gross value added. They accounted for a significantly higher proportion of employment at 69.1% of persons engaged as illustrated in the Chart below (CSO, 2017a).

PERSONS ENGAGED BY ENTERPRISE SIZE

Source: CSO (2017) Business Demography 2015



THE CURRENT TRADING RELATIONSHIP BETWEEN THE UK AND IRELAND

Trade between the UK and Ireland now exceeds €60bn annually and supports over 400,000 jobs across both islands. In 2016, Ireland exported €15.3bn worth of goods to the UK representing 13% of overall visible exports while Ireland imported €16.8 billion worth of goods from the UK representing 23% of total visible imports (CSO, 2017b). In 2015, Ireland exported €23.5bn worth of services to the UK accounting for 19% of total services exports, while services imports of €12bn from the UK accounted for 8% of total services imports (CSO, 2016a).

Table 1: The Top 5 Categories of Goods Exported to the UK in 2015

The Top 5 Categories of Goods Exported to the UK in 2015 were:
• Meat and meat preparations
• Medical and pharmaceutical products
• Organic chemicals
• Essential oils, perfume materials; toilet and cleansing preps
• Dairy products and birds' eggs
• Other transport equipment

Source: Central Statistics Office (CSO) (2016) "Brexit: Ireland and the UK in numbers"

Table 2: The Top 5 Categories of Goods Imported from the UK in 2015

The Top 5 Categories of Goods Imported from the UK in 2015 were:
• Petroleum, petroleum products and related materials
• Gas, natural and manufactured
• Natural and manufactured miscellaneous articles not elsewhere specified (n.e.s.)
• Essential oils, perfume materials; toilet and cleansing preps
• All other commodities and transactions
• Road vehicles (including air-cushion vehicles)

Source: Central Statistics Office (CSO) (2016) "Brexit: Ireland and the UK in numbers"

These figures significantly understate the exposure of the SME sector to the UK, with over 40% of Irish SME exports going to the UK. In addition, the UK is typically used as a 'test-market' for SMEs who embark on the export market for the first time. Ireland also represents a significant trading partner for the UK. Ireland is the UK's fifth largest export market and the UK's largest export market in food and drink. Ireland is also the second largest market in clothing, fashion and footwear.

THE CURRENT TRADING RELATIONSHIP BETWEEN IRELAND AND NORTHERN IRELAND

With regard to the trading relationship between Ireland and Northern Ireland, last year (2016) Ireland exported €1.65bn worth of goods to Northern Ireland and imported €1.1bn worth of goods (CSO, 2017b). At a macro level Northern Ireland is far more reliant on Ireland than vice versa. Exports from the North to the South accounted for 31% of Northern Ireland's total exports, while imports from Ireland account for 27% of all imports into Northern Ireland.

The headline statistics fail to illustrate the importance of the North-South trading relationship. While Northern Ireland represents less than 2% of Ireland's total goods exports, it has much higher significance for the many small traders that operate either side of the border. According to the CSO, there were 8,295 residents from Ireland in 2011 that commuted across the border to Northern Ireland to work or study, while 6,456 residents from Northern Ireland commuted across the border to work or study in Ireland (CSO, 2016b). The Centre for Cross Border Studies estimates that up to 30,000 people cross the border every single day (Centre for Cross Border Studies, 2016). It is also estimated that about 1 million HGVs, 1.3 million vans and about 12 million cars move between Northern Ireland and Ireland annually.[1]

Northern Ireland is also an important export route for Irish trade to other EU Member States. Although there is no detailed information on the exact level of trade that passes through Northern Ireland from the Republic on to an EU member state, economist Tom Ferris suggests that by aggregating port statistics from Northern Ireland and Ireland and comparing those with the all-Island GDP would give some indication of Irish exports through Northern Irish ports. In 2015, approximately 40% of container movements to and from the island of Ireland went through Northern Irish ports, while the North only represents 20% of the GDP of the island of Ireland (Ferris, T, 2016). This would indicate that around half of Northern Ireland's containers either derive from the Republic or are destined for it. If this is the case and some form of customs border is implemented, this will put further pressure on Irish Ports.

[1] http://www.independent.ie/business/brexit/free-movement-across-the-island-post-brexit-is-achievable-in-principle-revenue-official-35731042.html

Participants at the Consultative Forum flagged two significant impacts as an initial consequence of Brexit:

1. Currency Fluctuation & **2. Uncertainty.**

CURRENCY FLUCTUATION

The most significant initial and immediate impact of Brexit on Irish SMEs was currency fluctuation. The average £/€ exchange rate for the second half of 2015 was £1 to €1.40, a favourable exchange rate for Irish exporters. The day of the referendum (June 23) the exchange rate was still a positive £1 to €1.31. However, immediately after the result, the value of sterling fell to €1.20. By October of 2016 £1 could only buy €1.10. By June of 2017, the £/€ exchange rate was averaging around €1.13. The most well publicised industry in Ireland to be affected by the fall of the value of sterling was the mushroom industry where many small traders went out of business, due to the fact that the majority of Irish growers export 100% of their production to the UK. Their contracts tended to be agreed 12 months in advance, in sterling, and the fall in the value of sterling wiped out their margins and put many of them out of business. Although this is the most severe example it is not restricted to the mushroom trade. Participants of the Consultative Forum generally noted the decrease of the value of their exports as a result of the falling value of sterling against the euro. Others had noted that their import costs had reduced but have found that sterling based suppliers are now increasing their prices. Companies operating in services were particularly concerned with currency fluctuations and that concern extended to companies trading in dollars, in addition to sterling.

In January 2017, The Frontline Project, carried out by the Brexit Border Blog on behalf of the British Irish Chamber of Commerce and Chambers Ireland, compiled a collection of testimonies collected from businesses along the border. One testimony from Paddy Malone of the Dundalk Chamber of Commerce illustrates the slowdown in investment due to currency volatility:

> *For smaller businesses, investment in both Dundalk and Newry has been stifled by volatility and you can see the effects on both main streets. Suppose you are developing a cross-border business or one which depends on cross-border footfall. You work out your business plan based on prevailing exchange rates and go in to see your bank about a five-year loan arrangement. The loan managers won't have reliable five-year rate projections but they can see the volatility of the last five years. They would prefer to place their funds elsewhere* (2017, pg.9).

UNCERTAINTY

In November 2016, the Chamber conducted a wide-ranging survey to ascertain the concerns of the business community in light of the Brexit situation. These results indicated that uncertainty in relation to the terms of Brexit was amongst the business community's greatest concerns with

- 73% of respondents stating that they needed clarity of Brexit terms in order to deal with the effects of Brexit;
- 63% saying they were in need of unbiased information.

This was reinforced by a participant at the Consultative Forum who had wanted to expand their operations into the UK market. They had looked at premises and joined the British Irish Chamber of Commerce but are now holding off on investing in the UK market until further clarity over Brexit emerged. Uncertainty remains prevalent amongst SMEs and within the wider economy in both the UK and Ireland. Uncertainties in the UK are expected to put downward pressure on domestic demand while investment there is expected to fall this year. Trading statistics for 2016 suggest that Brexit is already having an impact on the trade of goods between Ireland and the UK. Both export and import figures fell last year by 4% and 8% respectively.

PREPARING FOR BREXIT

At the Chamber's Consultative Forum, participants were asked how they had been preparing for Brexit. No one at the Consultative Forum had formed an internal Brexit Committee as they were too small and under time constraints. Some companies had hedged currencies while others had insisted on being paid through euro. Some participants had initiated a detailed examination of income and expenditure streams to identify potential difficulties as a result of Brexit. Other participants outlined that they had sought advice from a professional service provider to hedge currency (in advance of the referendum). There was general agreement that Enterprise Ireland's 'Brexit Scorecard' has been quite useful for companies preparing themselves for Brexit. A couple of participants informed the discussion that they were considering opening a base in Northern Ireland to have access to the UK market post-Brexit. It was noted that there has been a growing number of companies thinking of buying a UK company or using the UK for finishing their products. There was a general feeling amongst contributors that this might help circumvent custom rules.

These contributions reflect previous responses from the Chamber's Brexit Survey as outlined in the table below.

Table 3: British Irish Chamber of Commerce Brexit Business Survey: Business Preparedness

Business Preparation	Proportion of Respondents
Reviewing Currency Strategy	45%
Seeking Advice	35%
Establishing a Brexit Team	18%
Non Applicable / None	18%
Sourcing New Suppliers	14%
Cutting Costs	14%
Seeking New Territories	14%
Delaying investment strategy	13%
Training Staff	8%
Establishing a UK base	3%
Establishing an EU base	2%
Complete Relocation from UK to EU	0.00

Source: British Irish Chamber of Commerce Business Brexit Survey (2016)

Although these results would generally be reflective of the Irish business community, one third of respondents would be classified as larger firms which would skew the level of preparedness in a positive trajectory, especially in relation to having a 'Brexit plan'. InterTrade Ireland's quarterly Business Monitor survey (Q1 2017) of 750 SMEs on the island of Ireland, indicates that 98% of firms have not yet made plans to deal with Brexit (Intertrade Ireland, 2017).

The most immediate and pressing concern participants at the Forum had was whether the UK's exit was to be through a cliff edge scenario. In this scenario where no agreement is reached between the EU and the UK and the trading relationship reverts to the World Trade Organisation's (WTO) 'most favoured nation' (MFN) rule on tariffs on exports and imports. This means that all trading partners must be treated equally; likewise the General Agreement on Trade in Services (GATS) imposes an unconditional MFN obligation.

In this scenario or a 'Hard Brexit' scenario which would result in the UK leaving the Single Market and Customs Union leading to customs checks being applied to imports from Great Britain and Northern Ireland and vice versa. Participants concerns turned to the impact that a 'Hard Brexit' would have on their businesses and the wider economy. Those concerns are well founded, as the Economic, Social and Research Institute (ESRI) has calculated that in the event of a 'Hard Brexit', simulations suggest a negative outcome where UK to Ireland trade could fall by approximately 20% or higher, Irish GDP would, within 10 years, be around 4% worse off, while job losses could be in the region of 40,000 (ESRI, 2016).

While the EU's external tariff varies from sector to sector, the average EU external tariff is only 4.8% for goods; however the agri-food sector has the highest exposure. The average applied EU tariff on agricultural goods is approximately 14.5%, while the average applied tariff on Dairy is approximately 36%. If the UK were to be subjected to the EU Bound Tariffs, it could see tariffs applied on UK agri-food as high as 60% for products such as beef. The UK itself will need to develop its own WTO schedule to be applied to imports.

InterTrade Ireland has done a significant piece of work in this area and has recently produced a report entitled 'The Potential Impact of WTO Tariffs on Cross-Border Trade'. In this report InterTrade Ireland examined the potential impact of trade between Ireland, Northern Ireland and Great Britain in the case of the application of EU WTO tariffs being applied and an increase in non-tariff barriers on trade of goods. Key points derived from the report include the following:

- Although only 2% of WTO goods apply a tariff of over 35%, these goods account for 12% of Irish exports to both Northern Ireland and Britain , while 19% of Northern Irish exports to the Republic fall under this category. This is because a substantial aspect of Irish trade to Britain and to Northern Ireland is made up of agri-food products

- The research indicates that by applying the WTO tariff schedule to 2016 trade levels it is estimated to have an effect of reducing cross-border trade by 9%

- Non-Tariff barriers would almost double the effect to a 16% reduction in cross-border trade

- Meat exports from Britain to Ireland would fall by 28% (InterTrade Ireland, 2017b)

Although tariffs would significantly impact the agri-food trade on the island of Ireland, more broadly speaking non-tariff barriers can be more restrictive for trade than tariffs. Once the UK exits the single market these non-tariff barriers to trade will include custom controls, rules of origin checks, differences in regulations, diverging standards as well as anti-dumping duties. There are 85,000 Irish businesses which trade with UK businesses of which 68,000 are small to medium traders – it is estimated 60,000 of these traders will be dealing with customs for the first time. Revenue calculations suggest that custom declarations in Ireland will go from 1m to 20-30m.

The costs associated with training and the on-going administrative burden for SMEs will be significant. According to the OECD, crossing the border, documentation and customs compliance requirements, lengthy administrative procedures and other delays can increase transaction costs by up to 24% of the value of traded goods (OECD, 2013). In addition, in some countries, revenue losses from inefficient border procedures may exceed 5% of GDP. A practical example of costs involved in technical barriers is illustrated in a 2009 study of 91 countries by Kee et al. which found that technical barriers were the equivalent to a 12% tariff barrier (Kee et al. 2009). The UN Conference on Trade and Development found technical barriers contribute more than twice as much as tariffs to overall market access trade restrictiveness (UN, 2013). As one participant at the Forum noted:

> *Tariffs can be factored into the cost of production, but delays and administrative costs associated with customs checks are more burdensome.*

Supply lines would be disrupted, creating a systemic risk for SMEs.

SMEs are also concerned about the UK becoming a third country in relation to VAT; this would result in cash-flow and administrative issues that would arise once the imposition of import VAT on trade between the UK and Ireland is applied.

RECOMMENDATIONS

The Irish SME sector is particularly exposed to the United Kingdom's withdrawal from the EU. It is essential that the Irish SME sector remains competitive in order to address the Brexit challenge. The SME Committee of the British Irish Chamber of Commerce believe that there are three key areas that the Government must address to safeguard the Irish SME sector:

- Support Irish SMEs position in the UK market;
- Improve the competitive environment that Irish SMEs operate in; and
- Invest in the future needs of the economy.

SUPPORT IRISH SMEs POSITION IN THE UK MARKET

It is generally acknowledged that Irish state agencies are amongst the best in the world and their success has been well documented. The Chamber welcomes increased resources for Bord Bia, Enterprise Ireland and the IDA and wishes to see this trend continue and expanded upon given the current uncertainties. The Chamber welcomes recent initiatives such as Bord Bia's 'Brexit Barometer' and Enterprise Ireland's 'Brexit Scorecard' and the 'Be Prepared Grant'. These, supplemented by additional supports for the Local Enterprise Offices (LEOs), are an indication of the quick response of these agencies to the challenge of Brexit. It should be noted that a significant proportion of SMEs are not clients of state agencies and that enhanced efforts should be made to ensure that SMEs exposed to Brexit do not fall between agency remits.

	RECOMMENDATION
1 Increase Promotion of Government Supports To the Government's credit there are nearly 100 different supports available to SMEs, however many of them have a low take up rate. This is despite their advantages and simplicity of application.	**The Chamber recommends that a small budget be made available to promote government supports for SMEs to ensure a greater understanding of their purpose. In light of Brexit, businesses need a one-stop shop website where supports for all sized businesses within all sectors are easily accessible.**
2 Introduce a 'Customs Voucher Scheme' for all Small and Medium Size Enterprises dealing with Customs for the First Time It is estimated that 60,000 Irish SMEs will be dealing with Customs for the first time. These SMEs currently trade with UK exporters and importers as if they were in their home market. Many of these SMEs will be ill-equipped for the administrative and logistical burden of dealing with customs procedures on a regular basis.	**The Chamber recommends that a 'Customs Voucher Scheme' be introduced (similar to the Trading Online Voucher) which would be open to all SMEs that will be dealing with customs for the first time to assist them in gaining specialist advice or for training staff in customs procedures. A nominal amount of €2,000 per company could be provided to companies who successfully apply.**
3 Develop a Marketing Grant for Irish SMEs that are exposed to the UK Last year Bord Bia launched a Marketing Intensification Programme (MIP) to provide targeted marketing supports for agri-food businesses with a high dependency on the UK market. The grant supports were designed to assist companies in strengthening their position in the UK market and in their efforts at market diversification.espite their advantages and simplicity of application.	**The Chamber recommends that a similar scheme be adopted on a cross-sector basis for Irish exporting SMEs that have a high level of exposure to the UK market.**

IMPROVE THE COMPETITIVE ENVIRONMENT THAT IRISH SMES OPERATE IN

The cost of doing business in Ireland has a significant impact on how competitive we are internationally. The National Competitive Council (NCC) 'The Cost of Doing Business in Ireland' states

"Ultimately, cost competitiveness is a critical foundation to withstand economic shocks and relentlessly pursuing cost competitiveness across all business inputs is essential for a small, open, trade-dependent economy such as Ireland." (NCC, 2017, pg9).

Budget 2018 allows the Government an opportunity to offer support to the Irish SME sector. Some supports that could improve the cost competiveness of Irish businesses are outlined:

RECOMMENDATION

1 Reinstate the Reduced Rate of Employer PRSI:
As part of the 2011 Jobs Initiative, the Government reduced the lower rate of employer PRSI to 4.25%. The scheme expired and was not renewed. Given the economic challenges that will face SMEs in the hospitality and retail sectors as well as businesses operating on the border region, sustaining jobs in these sectors and regions should be the Government's top priority.

The Chamber proposes that this initiative be reintroduced for a limited period.

2 Expand the Entrepreneur Relief
The Entrepreneur Relief on Capital Gains Tax (CGT) was originally introduced in Finance Act 2015 and expanded on in Budget 2017 for entrepreneurs disposing of certain business assets. The relief allows entrepreneurs to apply a CGT rate of 10% on chargeable gains arising on the disposal of certain business assets from 1 January 2017 up to a lifetime limit of €1m. Although a welcome initiative, expanding the relief to match the UK's favourable lifetime limit of £10m should be the minimum ambition of the Government. The Table below illustrates the costs involved for the Exchequer.

The Chamber proposes that this relief should be expanded to a lifetime limit of €15m. This would send a very positive message to the business community in Ireland and beyond.

Entrepreneurial Relief on Capital Gains Tax

CGT	FIRST YEAR €M	FULL YEAR €M
Entrepreneur Relief		
Increase limit taxed at 10% to €5m	45	49
Increase limit taxed at 10% to €10m	50	54
Increase limit taxed at 10% to €15m	52	56

Recommendation: The Chamber proposes that this relief should be expanded to a lifetime limit of €15m. This would send a very positive message to the business community in Ireland and beyond.

Source: Department of Finance Press Office

3 Reform the Employee Share-based Remuneration Regime

Employee share-based remuneration schemes are of particular importantance for start-ups in the tech sector as it allows them to attract high level talent to their business. Revenue currently supports three approved share schemes:

1. Approved Profit Sharing Schemes (APSS)
2. Employee Share Option Trusts (ESOT)
3. Save as You Earn (SAYE) schemes

The current criteria associated with engaging with these schemes make it very difficult on SMEs and start-ups to avail of. The alternative, which is the use of un-approved share schemes, carries a punitive tax burden whereby employees are liable to income tax, USC and PRSI at the marginal rate. This tax liability falls on receipt of the shares or on the exercise of a share option. Therefore, employees would have to use their own income to cover the taxes incurred which acts as a disincentive, defeating the original purpose of any employee share-based remuneration scheme.

RECOMMENDATION

The Chamber proposes reforming the existing share-based remuneration regime to ensure that SMEs can reward key employees with share options in a tax-efficient and administratively simple manner as committed to in the current Programme for Partnership Government (2016, 37). To achieve this goal, a share option scheme in line with the UK's Enterprise Management Incentive (EMI) scheme should be introduced.

4 Review Ireland's Standard Rate of VAT

At 23% Ireland has one of the highest standard rates of VAT in the EU which compares unfavourably to the UK standard rate of just 20%. At a time when border businesses are under immense pressure as a consequence of the depreciation of sterling, this high rate compounds the difficulties facing SMEs. The Chamber notes the recent call from Retail Excellence Ireland for a 3% reduction in VAT in an effort to protect retailers from the effects of Brexit.

To incrementally reduce the VAT rate over the next two Budgets. Should a 'Hard Brexit' materialise a further reduction should be examined or reform of the current VAT structure should be considered.

INVEST IN IRELAND'S FUTURE NEEDS

SMEs cannot succeed in isolation, their success is dependent not only on a strong economy but on a supportive infrastructural environment. This has been highlighted by Chambers Ireland, the National Competiveness Council and Ibec to name just a few. Ireland's recovery and response to Brexit will be placed at risk if this concern is not addressed.

1 Increase Capital Expenditure to 4% of GDP

During the economic crisis, general government capital expenditure was significantly reduced from 5.2% of GDP in 2008 to 1.8% of GDP in 2013, before slightly recovering to the current spend of 2.2% of GDP - well below the EU average of 3%. Eight years of falling government investment has significantly reduced the quality and adequacy of Ireland's infrastructure. This chronic underinvestment has put Irish businesses at a comparative disadvantage with their competitors in the UK and more broadly, in the EU. Although the Government's capital investment plan is welcome, it falls short of ensuring Ireland's economic and demographic needs are met. Projects that merit particular attention include:

- The development of the M20 Cork to Limerick motorway scheme

According to a report by Indecon commissioned by the Chambers of Limerick and Cork, the development of the M20 Cork to Limerick motorway would increase the labour force within a 45-minute commute of major employment centres by an estimated 23% to 243,000 people. [2]

- Invest in Ireland's International Transport Links

Currently 86% of truck freights at Irish ports come from the UK while 80% of Ireland's goods exports are transported to the UK either for direct use or as a landbridge to Europe. In preparation for Brexit Irish ports must be given the resources needed to mitigate against any potential delays at ports or to prepare for direct shipping to Europe if the landbridge via the UK is jeopardized. The Government should also bring forward the start date for Metro North to support growing demand at Dublin Airport.

RECOMMENDATION

The Chamber recommends that the Government commits to increasing capital expenditure as a percentage of GDP to 4% over the next 5 years. Given the restraints within the Fiscal Space, the Government should investigate other means through which this can be achieved.

[2] Gearing up for the M20: A Route to Success - produced by Indecon Economic Consultants and RED C Research (July 2017)

2 Roll out the National Broadband Plan as a National Priority

The roll out of the National Broadband Plan, which was originally published in 2012, has been delayed yet again due to concerns over the projected cost. The Minister has confirmed that the start date has been pushed back to 2019; this puts Irish SMEs located in rural Ireland at a significant disadvantage at a time when consumers in Europe, the UK and Ireland look more and more to online shopping for purchasing their goods. Research carried out by Vodafone shows that 69% of rural SMEs have slow and unreliable internet speeds which prevents them from working efficiently and undermines their potential for growth. The same survey found that 37% of these businesses would have to relocate if internet connectivity was not available.

The Chamber recommends that the National Broadband Plan be fast tracked as a national priority.

INVEST IN IRELAND'S FUTURE NEEDS

SMEs cannot succeed in isolation, their success is dependent not only on a strong economy but on a supportive infrastructural environment. This has been highlighted by Chambers Ireland, the National Competiveness Council and Ibec to name just a few. Ireland's recovery and response to Brexit will be placed at risk if this concern is not addressed.

3 Develop the Skills needs of the SME Sector

Reform the National Training Fund

The Chamber supports the enterprise led 'Skillsnets' initiative where employer groups, trade union representatives and education practitioners work together to up-skill existing employees. Programmes like this are essential in closing the current skills gap in the Irish economy. However, only one in every five euro from the National Training Fund (NTF) is spent on in-employment training.

Develop a Foreign Language Strategy for the Irish Workforce

The Chamber believes further emphasis needs to be given to developing language skills of the Irish workforce. Over 70% of Irish people cannot speak a language other than English or Irish. This compares unfavourably to our EU counterparts with only 21.5% in Germany and 35.1% in the UK unable to speak a foreign language.[3]

This foreign language deficit puts Ireland at a comparative disadvantage at a time when SMEs need to broaden their export base. The Chamber welcomes the publication of the Foreign Language Strategy for Education, however improvement in the language skills of Ireland's current workforce is needed now.

RECOMMENDATION

The Chamber recommends that a higher proportion of the money available within the NTF be re-directed from seeking employment training towards in-employment training.

The Chamber recommends that through programmes such as Skillsnets, businesses should be incentivised to invest in the development of the language skills of their workforce.

[3] https://www.irishtimes.com/business/technology/nearly-70-of-rural-smes-hobbled-by-poor-internet-1.2866428

British Irish Chamber of Commerce

britishirishchamber.com

BACKGROUND

The British Irish Chamber of Commerce was founded in 2011 ahead of the historic visit of HM Queen Elizabeth II to Ireland and the subsequent State visit of President Michael D. Higgins to Britain. The objective of the Chamber is to champion the €60 billion annual trade between the UK and Ireland which directly sustains over 400,000 jobs. We are a bilateral Chamber, engaging members from across two islands and five legislative bodies in meaningful dialogue with a common purpose.

Excellent networking events help our members to find new suppliers and markets. Sector driven policy committees enable firms to jointly examine opportunities and threats and to think about collaborative growth in Europe and beyond.

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MEMBER BENEFITS

When you join the British Irish Chamber of Commerce you can opt for a range of benefits from a broad menu. Talk to us to create a bespoke package that's perfect for your needs.

Choose from:

- A seat on the Council of the British Irish Chamber of Commerce with rights to attend meetings of both Dublin and London Chapters
- Access to all areas of Chamber activity, including membership of Sectoral Working Groups (currently Energy, Agri-Food, SME, ICT, Infrastructure, Finance & Professional Services, Culture, Arts, Sport and Tourism, Brexit, Life Sciences, Higher Education and Research) with full voting rights on policy direction.
- Opportunity to Chair or observe sectoral working groups
- Invitations to C Suite and Invitation Only Events including Invited Leaders Series and those with cabinet ministers, business leaders, policy makers and ambassadors
- Invitations to events at Westminster and Dáil Éireann
- Priority booking for fast selling high profile events including President's Gala Dinner, Annual Conference Dinner and Charity Lunch
- Opportunities to host and/or sponsor events and deliver keynotes
- Availability of Chamber Executives to address your events
- Co-branded events for a diverse audience and strong attendance
- Opportunities to bring clients to events
- A dedicated Customer Relationship Manager; regular personal engagement, bespoke plans
- Complimentary tickets for Annual Conference
- High visibility on the Chambers website
- Introductions to trading partner opportunities
- Opportunities to partake in Trade Missions
- Complimentary membership of British Irish Gateway for Trade- BIG

To join the Chamber please contact: Yve O'Driscoll
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The British Irish Chamber of Commerce is the leading business group serving the interests of businesses with interests in Britain and Ireland

Every week, over €1 billion of trade is conducted between our two islands. This trade sustains over 400,000 jobs directly, and many more indirectly.

The Chamber's member businesses employ almost 2 million people globally and we look for every opportunity to help them grow in a pro-business, pro-employment and pro-community environment.

British Irish Chamber of Commerce

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