

ISME BUDGET 2012 SUBMISSION**'DEVELOPING A STRATEGY FOR GROWTH'**

- *The Association cautions against exceeding the €3.6bn budget adjustment.*
- *ISME advocates cuts in public sector and social welfare over taxation increases.*
- *No increases in income or indirect taxes, including VAT.*
- *The introduction of a state investment bank critical for SMEs to access finance.*
- *Address unemployment by offering immediate financial subsidies to employers.*
- *Tackle the black economy through targeted tax credits.*
- *Implementation of cost reduction recommendations rather than more reports required.*

ISME, Friday 21st October 2011.

In its pre-budget submission issued today, (Friday 21st October), **ISME, the Irish Small & Medium Enterprises Association**, called on the Government to address the budget deficit primarily through cuts in public sector and social welfare expenditure, rather than additional taxes, which would hinder economic performance. The Association outlined that to go beyond the €3.6bn budgetary adjustment would be counterproductive and would only stall future growth potential. The emphasis needs to be on introducing confidence and certainty in an attempt to kick start a fragile economy

According to ISME Chief Executive, Mark Fielding, "From an SME perspective, what is critically important is that the decisions taken to address the deficit do not create further uncertainty and in the process further erode both business and consumer confidence. This requires that the Government adhere to its agreed plan of €3.6bn adjustment, with the bulk of the adjustment generated through reduced expenditure rather than additional taxation".

"We, as a country, are waiting too long for real cost savings from Government. They say that they are carrying out a 'comprehensive spending review'. However have we not had the McCarthy Report in 2009 and the Local Government Review Group report in 2010? How many more reports must we have before this Government grasps the nettle"?

With over two-thirds of current expenditure allocated to the public sector and the social welfare budget, focussing on these areas for the savings is unavoidable. The temptation to increase income and employment taxes must be resisted at all costs, so as not to delay the long sought after growth, so crucial to economic development".

"While the Government must introduce further austerity measures, they also need to implement policies that will assist the economy by developing a strategy for the development and growth of both

enterprise and employment. Innovative policies are needed to stimulate the economy, by tackling the issues of concern to businesses, especially the costs of doing business, the lack of adequate finance and cash flow difficulties, which are hindering business and preventing them from trading effectively and competitively. The increasing black economy and the ongoing difficulties in the labour market are other key areas that need immediate attention”.

ISME’s budget policy to address the current economic difficulties can be summarised as:

- **Reduce expenditure, with a particular emphasis on public sector and social welfare budget. This would entail significant cuts in public sector employment, further reductions in pay and a radical review of the current taxation and social welfare system.**
- **The €3.6bn budget adjustment should not be exceeded.**
- **No increases in income or indirect taxes, including VAT.**
- **To offset the black economy, offer tax credits to home owners who use tax compliant trades people.**
- **Reduce state influenced business costs, including commercial rates, energy and transport.**
- **Address the lack of credit to SMEs by introducing a state bank, and allow for favourable tax incentives for individuals and pension funds that invest in SMEs.**
- **Address the deteriorating labour market, by introducing financial subsidies for employers who take on additional staff that are currently unemployed.**
- **Reduce the top rate of employer’s PRSI.**

“The Association believes that it is imperative that future growth be driven by the success of our businesses, particularly SME indigenous enterprises, the backbone of the economy. It is essential, that the emphasis on austerity does not hamper the real economy and that we plan for the future by introducing pro enterprise policies that will support business to grow, create and retain employment”, concluded Fielding.

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Note to Editors:

Summary of Key Recommendations

1. Cost Competitiveness:

- Addressing commercial rates by reforming local authorities and changing the way rates are assessed.
- Increase the level of competition in the energy sector.
- Address unfair pricing by VAT exempt public bodies.
- Abolish upward only rent reviews for leases pre-March 2010.

2. Improving SME Cash-flow:

- Create a specific business lending bank, similar to ICC in the nineteen seventies.
- Favourable tax incentives for individuals or pension funds that invest in SMEs.
- Capital invested by family members for the purpose of establishing or expanding a new or existing family business should also receive some form of favourable tax treatment.

- Insist that state agencies including commercial companies adhere to 15 day prompt payment.
- Introduce and champion a Fair Payment Charter for all businesses.

3. Supporting Enterprise:

Taxation measures

- Taxes on incomes should not be increased. (the current rates and bands remain.)
- There should be no increase in the higher rate of VAT.
- Tax incentives should be offered to home owners who use tax compliant verifiable trades people.
- The discrimination against Directors and the self-employed with regard to availability of the P.A.Y.E. tax allowance needs to be stopped.
- Maintain the tax relief on personal pension contributions at the current rate and at the current allowable limit.

R & D and Innovation

- The introduction of double tax relief on all expenditure on R & D.

Approved Profit Sharing Schemes for SMEs

- The introduction of a simple to apply profit sharing scheme for SMEs.

Public Procurement

- Tenders should be divided into smaller lots without prejudice to directive 2004/18/EC.
- Contracts should be awarded to the tender that shows the best value for money rather than the lowest price. This would allow SMEs to better sell their high technical expertise.

4. Employment Creation/Retention

- The introduction of a scheme similar to the Employment Incentive Scheme, which operated in the 1980's, which would provide a financial subsidy to employers taking on additional unemployed individuals.
- A reduction in the top rate of employers PRSI to 8.5% to help alleviate the cost of employment.
- The Employers PRSI exemption scheme needs to be maintained.
- The reintroduction of the Enterprise Support Scheme.

5. Public Sector Reform

- Reduce public sector pay by introducing a new benchmarking process, which would also compare public sector wages with those internationally.
- Reduce numbers employed by 35,000 over the next 2 years.
- The principle of 'jobs for life' should be abolished.
- A number of services, including administration, should be outsourced to the private sector.

6. Social Welfare Reform

- Reform the Social Welfare Code to ensure that the self-employed can avail of social welfare entitlements immediately.
- A radical review of the current taxation and social welfare system to ensure that the 'tax wedge', the monetary difference between being gainfully employed and claiming social benefits, is changed.

ISME is the only independent voice of Small & Medium business in Ireland, representing in excess of 8,500 members across all sectors. The Association is owned and run by owner managers and is independent of big business, government and unions; the only TRUE voice of the Irish SME. www.isme.ie.