



PRE-BUDGET SUBMISSION BUDGET 2018

RETAIL: SUSTAINING AND GROWING AN ECONOMY

Presented to the Department of Finance - JULY 2017

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INTRODUCTION

While the resilience and sustainability of Irish retail attracts less fanfare than the other two pillars of our economy (FDI and export focused businesses) it would be remiss to ignore the far-reaching tentacles of the industry and its sectors which contributes to micro-economies in every village, town and city in this country. To quantify, Irish retailers operate 45,000 businesses with 282,000 employees directly employed in the industry (the largest private industry employer in Ireland) and an associated employment multiplier effect which increases that figure exponentially. As a direct consequence of retail activity, €5.7 billion is contributed to the Exchequer (made up of €4 billion in VAT and €1.7 billion in PAYE) on an annual basis. Therefore, the significance of retail must not be underestimated.

We present our Budget 2018 priorities in that vein.

Established in 1995, Retail Excellence is owned by the members, for the members and is by far the largest retail industry representative body in Ireland. All of the information contained within this submission is collated and our proposals shaped following extensive discussions and interaction with our members who number over 1,750 leading retail companies operating in excess of 10,000 individual stores.

There is no doubt, our large numbers of entrepreneurs and employees are a positive catalyst in job creation and economic growth in this country. That said, 2017 presents a challenging vista to Irish retailers with the potent threat of Brexit, sterling devaluation and political instability in the UK all making it difficult for retailers to strategise to stave off the worst excesses of a post-Brexit hangover which is regrettably already having an impact. Retail trading figures are on a downward trajectory and the consequential consumer trend of online shopping has led to €600,000 being spent in businesses outside of Ireland every hour. This leak of spend to the UK predominately is hurting Ireland, is unsustainable and will cause retail failure if Brexit-proofed measures are not implemented in Budget 2018.

However, like all well-oiled contrarians, we can point out all the problems facing our industry but it is solution focused Budget proposals which are critical in ensuring the long-term sustainability of the industry. We at Retail Excellence are focused on assisting retailers grow, thereby increasing sales, employment opportunities and ultimately return to the Exchequer. This submission seeks to provide a clear set of proposals which we strongly feel are critical to ensure further economic and employment trajectory for the betterment of all of Ireland, both urban and rural.

Retail Excellence: playing our part in sustaining and growing the economy.

1.1. CONSUMPTION TAXATION

We must focus on reducing the cost of living for consumers, thereby putting more money into people's pockets and supporting the domestic economy. The national conversation regarding increasing pay rates ignores the fact that it is take home pay rather than salary pre-taxation that citizens value. While Retail Excellence and retailers believe that fair pay rates is a moralistic right, in order to implement it, retailers and other small businesses need to be assisted by Government taxation policies as they cannot carry that burden on their own. Furthermore, Brexit has resulted in weaker STG£ which in turn has undermined our price competitiveness.

We Recommend

- Reduce our regressive VAT rate of 23%. The standard rate of VAT (23%) is one of the highest in the world. Introduced as a temporary response to the financial crisis, the 23% rate is damaging demand and must now be reduced to 20%. An incremental reduction will have limited impact which is why we advocate for a 3% decrease. Furthermore, with STG£ devaluing further in light of Brexit our pricing must be commensurate with that of the UK otherwise we will witness a significant increase in cross border shopping and online sales where 70% of hourly spend goes to businesses operating outside of Ireland.
- Retention of the 9% VAT rate for labour intensive sectors.
- Reduce excise duty on alcohol and refrain from further increases on tobacco products. In terms of alcohol in particular and in the context of Brexit and a weaker STG£, alcohol is a key driver of shopping activity North of the border.
- Reduce the carbon tax on coal and briquettes to allow retailers compete with the Northern Ireland market where no carbon tax is charged.
- Ensure that businesses are not overburdened before becoming viable entities by increasing the existing VAT registration thresholds to €40,000 and €80,000.
- Ensure equality of treatment for the self-employed by removing the 3% USC Surcharge.

1.2 COST OF EMPLOYMENT

Wages are the single largest cost to any business so an obvious blockage to the creation of new retail industry jobs and a key contributor to lost retail hours of work is the excessive cost of employment in this country. The doubling of the Employers PRSI rate for low paid workers from 4.25% to 8.50%, in addition to the increase in the National Minimum Wage (NMW), has created a significant hindrance. The Low Pay Commission has recommended that any increase in the NMW should be met with an equal and proportionate decrease in the Employers PRSI rate. RE commissioned DKM Economists whose report found that successive Governments have increased the cost of employment in the Irish retail industry by over €1.1billion per annum exclusive of the NMW increase.

We Recommend

- Introduction of a permanent 4.25% Employers PRSI rate for low paid workers earning less than €380 per week to enhance job retention and creation in the retail industry. A reduction in the PRSI rate to enable employers to meet the cost of the national minimum wage increase is set out in the Programme for Partnership.
- Increase the Small Benefits Exemption (voucher) from €500 to €650, which is equivalent to approximately one week's wages for those on the average industrial wage. The increase will enhance spending in local economies by approximately €45m per annum.
- We urge all political parties to fully support the independent and evidence based national minimum wage determination of the Low Pay Commission. Continued pay inflation will result in product price inflation.



1.3 COMPETITIVENESS

The Government has committed to improving Ireland's international competitiveness ranking. A significant part of the SME competitiveness problem relates to high business costs (Source: NCC's "Costs of Doing Business in Ireland 2015") and previous reports note issues around UORR rent on legacy leases, commercial rates, utility costs (energy costs 6th highest in EU), credit & financial costs (SME loans <€1m are 60% pricier than EU average), transport costs (diesel costs 4th highest in EU), waste costs, liability insurance costs, business services costs (9th most expensive to enforce a legal contract, and 6th longest to achieve that), and labour costs.

We Recommend

- Reduce local authority commercial rates by better funding local Government.
- Introduce emergency legislation to immediately tackle rising insurance costs in Ireland which are proving prohibitive for many Irish retailers and will cause loss of economic opportunity and closure of some businesses.



The Retail Excellence Annual Retreat attended by over 1000 delegates

1.4 RETAIL FINANCE

Retail provides employment to 282,000 people in every village, town and city in the country which is the same as the combined number employed in IT, agriculture, forestry, fishing and financial services. It contributes €5.7 billion annually to the Exchequer. We have recorded three successive quarters (up to March 2017) of decline in the industry which is of grave concern. In particular, there was a fall in consumer confidence (a 22 month low in December 2016), overall expenditure was down, online spending at British retail operations was up and clothing, footwear and jewellery recorded no rise in spend. The main culprit is sterling devaluation which accurately conveys the devastating impact Brexit is having on the industry and in particular those retailers along the border area. Without adequate finance options we will not be able to confront the threats posed to the retail industry.

We Recommend

- The introduction of a strategic retail fund to help Irish retailers stave off the worst excesses of Brexit.
- The immediate focus on the introduction of a business focused bank akin to Metro Bank in the UK where half of its balance sheet lending is targeted at SMEs.
- A change in lending policy away from bricks and mortar security to the assessment of the strength of a business plan submitted.

1.5 ONLINE SUPPORT

The growth of online operations is the biggest challenge facing the industry. Over the course of 2017 €598 billion will be spent online by European consumers. Thus it is imperative that Irish Retailers get a slice of this pie. That said, 22% of Irish SMEs have no online presence. Of the 78% that do, 75% of them do not have fully functioning eCommerce websites capable of processing payments. When you consider that €850,000 is spent by Irish consumers every hour online and that €600,000 of this is lost to businesses operating outside Ireland it is clear that the time to act is now.

Properly funding online sales businesses and utilizing all State agency supports for the benefit of internationally focused retailers will mean increased returns to the Exchequer through additional revenues from VAT receipts, Corporation Tax and PAYE.

We Recommend

- An increase in the percentage contribution to applicants under the Digital Trading Voucher provided by Local Enterprise Offices.
- Development of a new funding tier under the Digital Trading Voucher aimed specifically at internationally focused retailers who require increased supports to take on the global consumer market.
- Development of a Strategic Retail Support Unit within State Agencies like Enterprise Ireland which will support and assist retailers from a network, logistics, linguistics perspective when they seek to diversify into other European, Asian and American markets.
- Training and financial support for businesses setting up online to meet the support needs arising from the growth of eCommerce.

1.6 INCREASED RESOURCES FOR THE AUTHORITIES TO COMBAT CRIME

There are significant demands on the authorities from various aspects of society and this situation has impacted on the Force's ability to effectively carry out their duties. In particular, retailers are absorbing massive losses through shrinkage from retail crime. Retail crime takes on many guises from theft to bogus claims which are being carried out by increasingly sophisticated criminals from throughout Europe.

We also note a significant increase in the number of activities from casual trading to the sale of counterfeit goods at unlicensed markets being reported by our Members which are threatening the livelihood of legitimate businesses. In particular, the application of carbon tax in the Republic vis-à-vis the non-necessity to pay same in Northern Ireland has led to the proliferation of smuggling of solid fuel over the border, season sales of goods and products by casual sellers, children under the age of criminal responsibility being used in organised crime to include begging. Such illicit activities means the Exchequer is being deprived of income tax and VAT by this activity so everyone loses out.

We Recommend

- Increase in support and resources for An Garda Síochána and the Revenue Commissioners.
- Increased visibility of the authorities.
- Increase in the number of on-the-spot checks of casual and seasonal sellers and unlicensed markets.

1.7 TOWN RENEWAL

Retail Excellence has been to the forefront in terms of developing policy in this area and advising town committees, Chambers of Commerce and Local Authorities on how to get the best from town centres, encouraging people to come back, developing an evening economy and enhancing the quality of experience for local citizens.

Towns are fundamentally important in society. They are a place where a community congregates. A meeting point. And the retail industry is an essential part of them in terms of helping provide vitality and competitiveness. Increased investment is required in many regional towns and villages to enhance their streetscapes to encourage consumer spending, making them more attractive places in which to live, work and raise a family. The following actions by Government will accelerate the revival of many towns:

We Recommend

- Increase in funding for the Town and Village Renewal Scheme.
- Re-establishment of Town Councils.
- Introduce a fund to make certain retailers exempt from rates for a period in order to encourage a retail mix and improve the offer.
- Introduce a tax incentive scheme to encourage town centre living which will add vibrancy to towns.



1.8 RATES

Nationally, a re-valuation of properties and their rates is currently underway. While we acknowledge that this move is an income neutral exercise retailers have provided us with examples of sharp changes to business rates bills and the fear that these changes will turn viable businesses into unviable ones. Therefore, we feel strongly that no move should be made threatening the sustainability of retailers. We strongly urge Government to implement measures which will protect shops and the jobs which rely upon them.

We Recommend

- Introduction of a cap on how much bills can rise or fall.
- In circumstances where business rates are revalued upwards that the Government provides a transitional arrangement, to help businesses adapt i.e. limit the amount bills go up each year. So businesses facing higher rates will see their bills go up in steps over the next five years. But for big businesses in places where property values have risen a lot, the increases will still be steep.

1.9 INFRASTRUCTURAL INVESTMENT

Nationally, there is an infrastructural crisis in housing, transport and utilities, which is having a significant impact on various aspects of retailers businesses but in particular is having a detrimental effect on talent acquisition and retention. The Government urgently needs to intensify the delivery of the 'Building on Recovery: Infrastructure and Capital Investment 2016- 2021' and prioritise capital spending in Budget 2018 and beyond.

We Recommend

- Delivery of the 'Building on Recovery: Infrastructure and Capital Investment 2016- 2021'.
- Prioritise capital spending in the interests of dealing with our infrastructural crisis and encouraging further FDI to our shores in the aftermath of Brexit.

1.10 INCREASED INVESTMENT IN THE HOME RENOVATION SCHEME

Retail Excellence acknowledges the success of the Home Renovation Incentive which provides tax relief for Homeowners through an Income Tax credit at 13.5% of qualifying expenditure on repair, renovation or improvement works carried out on a main home or rental property by qualifying Contractors. At a time where housing demand is far outstripping demand it is therefore imperative to continue this initiative. Reducing the minimum qualifying spend will attract more people to contract work from tax-compliant providers and reduce shadow economy activity.

We Recommend

- Increase the tax credit to at least 20%.
- Increase the maximum qualifying expenditure from €30,000.
- Extend the HRI Scheme to cover ancillary services and products within the construction industry like external enhancements, landscaping and gardening activities.



1.11 UORR

After wages, rent is the next largest cost for many businesses. Retailers are crippled with legacy leases which were signed up to during the Celtic Tiger era, a time of limited retail availability and high rents when upward only rent reviews were the norm. Therefore, retrospective legislation must be introduced to address this issue before more retailers close up shop. Late last year rental curbs were introduced to address the spiraling cost of private residential rents so therefore any argument precluding the State from interfering in private property is now moot. This situation is further bolstered by other examples of State interference in individuals constitutional property rights such as the Planning and Development Act 2001 which forced landowners to give more than 20pc of their holdings for social housing purposes.

We Recommend

- Make the Land and Conveyancing Law Reform Act 2009 retrospective in its application.
- Introduce a prohibition on Upward Only Rents from next lease renewal date.
- Abolition of **all** upward only rent review clauses to allow all commercial tenants to pay market rents. This measure would also support many SME retailers who are suffering penal and unsustainable rents due to upward only leases which in turn are linked to personal guarantees.



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