



# **PRE-BUDGET SUBMISSION BUDGET 2019**

**RETAIL: SUSTAINING AND GROWING AN ECONOMY**

Presented to the Department of Finance - JULY 2018



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# INTRODUCTION

With record numbers back to work, unemployment figures at an all-time low and economic growth being a forecaster's safe bet, it is clear that Ireland has regained some of its purr from the days of the Celtic Tiger. What this means for Irish retail is a little less clear. While sales trends recorded in the industry demonstrate an upward trajectory - albeit marginally so - it is imperative that we put what these mean firmly in perspective.

On a quarterly basis, Retail Excellence, in conjunction with our partner Grant Thornton, collates trading data from thousands of member retail operations, which is a brilliant indicator of the performance of the industry or otherwise. The overwhelming picture being consistently painted since mid-2017 is that a degree of vulnerability continues to exist. While figures might be marginally up, this has occurred at the expense of intensive marketing campaigns undertaken by retailers and consequentially reduced margins.

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, €7 billion is contributed to the Exchequer on an annual basis. Therefore, as the largest retail representative body in Ireland, the views of our membership and the challenges facing them from the VAT differential between Ireland and the UK, insurance and general business costs, competitiveness, talent acquisition and retention, housing availability and affordability, non-tax compliant cheap imports and the extraordinary growth in online spend needs to be earnestly considered.

Positioning retail in its rightful place as a significant arm of the economy is a key objective of Retail Excellence, which is why we are advocating to ensure that 2019 is a breakthrough budget with retail-focused solutions. The long-held assertion that improving consumer spend through increases in social welfare payments and tax bands is enough to take care of retail is no longer satisfactory given the unique challenges the industry faces.

And why is that you might ask? Simple. Irish retailers are facing external challenges which demand unique solutions to issues such as Brexit, sterling devaluation (Irish consumers spent €418m in 2017 in Northern Ireland with Irish excise figures falling by €300m in Q3 2017) and the onslaught of cheap non-EU imports, whose prices are sometimes distorted as a consequence of VAT or duties not being paid on them. 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. At Retail Excellence, we are focused on assisting retailers to 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 positive economic and employment trajectory for the betterment of all of Ireland, both urban and rural.

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

**Lorraine Higgins**

*Chief Executive Retail Excellence*

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## 1.1. TAX FAIRNESS

The biggest threat to bricks and mortar stores in Ireland and consequentially the retail mix and vibrancy of our town centres is the onslaught of cheap, non-European imports coming into the country. Currently two-thirds of all online spend is fulfilled by businesses operating outside of this jurisdiction with a significant portion of imports emanating from Asia, America and beyond. Given this amount equates to over €14 million per day, it is physically impossible for the authorities to intercept each and every parcel. As a result, this represents a significant loss not only to retailers in Ireland but the Exchequer in VAT receipts, duties and other taxes. It also raises the spectre of associated issues to include false advertising of prices, product liability and counterfeit goods. However, we are not alone in facing this problem. Currently the European Commission estimates the cost in terms of lost revenue to the Member States is in the region of €150 billion per annum.

### ***We Recommend***

- Oblige online marketplaces to ensure all advertisers on their website have VAT numbers displayed and that said VAT number is valid prior to any business advertising on their platform
- Hold online marketplace, jointly and severally liable for unpaid VAT of overseas sellers operating on their websites where an overseas seller advertising on the site has not registered for an Irish VAT number
- Increase resources to enable the authorities to conduct audits on Distance Sellers, apply liability notices and impose tax penalties where warranted
- Reduce the VAT exempt amount consumers can import from €22 to €0
- Reduce the general duties exemption amount consumers can import from €150 to €0
- Reduce the VAT threshold wherein Distance Sellers are obliged to register from the current amount of €35,000

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## 1.2 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 be reduced to 20%. With a weakened sterling and a 3% VAT differential, consumers are reacting with their hands and feet. €418 million was spent by Irish consumers in Northern Ireland in 2017. Exacerbating this further is the fact that 2/3 of all online spend is fulfilled by businesses operating outside Ireland, thereby representing a significant loss to Irish retail but also to the Exchequer. At this point, while an incremental reduction will have limited impact we would welcome a commitment to any reduction to the current VAT rate
- Retention of the 9% VAT rate for labour intensive sectors
- Reduce excise duty on alcohol and refrain from increases on tobacco products. In terms of alcohol in particular and in the context of Brexit and weaker STG£, alcohol is a key driver of shopping activity north of the border which has led to a greatly reduced excise take from Q3 in 2017
- Reduce 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

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## 1.3 COST OF EMPLOYMENT

Wages continue to be the single largest expenditure item for retailers and the excessive cost of same acts as an obvious blockage to the creation of new retail industry jobs and a key contributor to lost retail hours of work. 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. Retail Excellence commissioned DKM Economists whose report found that successive Governments have increased the cost of employment in the Irish retail industry by over €1.1 billion 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. However, Retail Excellence warns that continued pay inflation will result in product price inflation and a move should be made to biennial determinations which will help retailers accurately compile detailed projections for their businesses
- Introduce pay harmonisation between employees and the self-employed so tax credits for the latter is equal to the former at a rate of €1,650 instead of €1,150. The current situation acts as a disincentive to individuals entering self-employment or starting their own business



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## 1.4 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. In particular, allocate funding for the establishment of independent appeals body from decisions of PIAB (Personal Injury Assessment Board) which will determine the fairness of awards or otherwise from the body of first instance. This will greatly reduce the financial, resource and time cost incurred by retailers in fighting claims in Court, whilst safeguarding the Plaintiff's constitutional right to justice who would be entitled to judicially review the decision of the Appeals Board
- Raise the exit rate from lower tax band per annum per individual. The fact that much overtime and bonuses are subject to high-income tax acts as a disincentive to productivity and meaningful participation of employees
- Bring Ireland's entrepreneurial relief on Capital Gains Tax in line with that of the UK (10% on the first STG£10m gain and 20% thereafter) to ensure Ireland's competitiveness in a post-Brexit era

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## 1.5 ONLINE SUPPORT

The growth of online operations is the biggest challenge facing the industry. Over the course of 2018 €600 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 (IEDR figures). 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 or at the very least introduce a loan scheme to facilitate innovation and digitisation of their businesses
- 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
- Funded training and financial support for businesses setting up online to meet the support needs arising from the growth of eCommerce. With the increasingly boundary-less nature of retail, Budget 2019 should look at providing such educational funding supports to upskill employees so they can establish and/or enhance their ecommerce capacity and digital strategies in order to acquire international custom

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## 1.6 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 €7 billion annually to the Exchequer and yet successive budgets fail to offer retail-focused solutions. Current retail performance is defined by multi-speed recovery, marginal gains and continuous declines in the footwear, jewellery and clothing sectors which is of grave concern. In particular, consumers are displaying a guarded optimism shaped by cash constraints or caution and possibly both which has led to a degree of price sensitivity. Consequentially, online spending continues apace (two-thirds of spend leaves the country) and trends suggest an increase in over-the-border spending (€418 million in 2017) brought about as a result of our unique geographical position and sterling devaluation. Therein lies the devastating impact Brexit is having on the industry and in particular those retailers along the border area.

Without adequate finance options to help enhance in-store customer experience through investment and modernization of retail premises, the use of digital and technology and the expansion of the retail offer, 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 (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



The Retail Excellence Annual Retreat was attended by 2,000 retailers

## 1.7 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 their 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.

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, seasonal sale 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 indicates that while retailers in Ireland are being negatively impacted, the Exchequer is also being deprived of income tax and VAT.

### ***We Recommend***

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





## 1.8 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. The retail industry is an essential part of this fabric 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***

- Introduce a Living Over the Shop tax incentive scheme for retailers with vacant stockrooms and space over their premises so they can convert them into town centre living which will help alleviate the housing affordability and availability issues currently facing employees and will add vibrancy to the town centre
- 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



David Fitzsimons Group CEO, Lorraine Higgins CEO Retail Excellence and JP Kennedy Managing Director TileStyle | Chairperson Retail Excellence submitting our 2018 Budget Submission to Government

## 1.9 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 increase following re-valuation, that Government facilitates a transitional arrangement to help businesses adapt i.e. limit the amount bills increase each year. So, businesses facing higher rates will see their bills increase incrementally over a five year duration





Retail Excellence hosted the Global Retail Council at their annual Retail Retreat and Expo this year.

## 2.0 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', the Ireland 2040 Plan 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



Chairperson Retail Excellence | Managing Director TileStyle, JP Kennedy

## 2.1 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





## 2.2 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. In the latter part of 2017, 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



## ABOUT RETAIL EXCELLENCE

Established in 1995, Retail Excellence is the largest retail industry body in Ireland which is owned by the Members, for the Members. Retail Excellence represents almost 2,000 leading retail companies in Ireland who operate in excess of 13,000 stores and employ 130,000 people directly.

We are an organisation which invests in innovative and learning, market intelligence, human resource services, Government representation and Member networking initiatives.

Our Members are the most progressive and innovative retailers in the country.





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