

**Regulating the  
Small Business  
Sector**

**Report**

**for the Small  
Business Forum**

**Prepared by**

**Indecon**

**January 2006**

**Regulating the Small Business Sector  
Report**

**for the Small Business Forum**

**Prepared by**

**Indecon**

**January 2006**

---

# Contents

*Page*

<b>Executive Summary</b>	<b>i</b>
<b>1 Introduction</b>	<b>1</b>
1.1 Background and Terms of Reference	1
1.2 Acknowledgements	2
1.3 Report Structure	2
<b>2 The Nature of Small Business Regulatory Burdens</b>	<b>3</b>
2.1 Introduction	3
2.2 Defining Regulation	3
2.3 Principal types of Business Regulation	4
2.4 Defining the burden of regulation	5
2.5 Measuring the costs of regulation	7
2.6 Estimate of the Cost of Administrative Burdens to the Irish Economy	11
2.7 The Rationale for and Benefits of Regulation	11
2.8 Conclusions	14
<b>3 International Evidence on the Relative Business Regulatory Burden</b>	<b>16</b>
3.1 Introduction	16
3.2 General Business Environment in Ireland	16
3.3 The significance of regulatory burdens in faced by SMEs in Ireland and the EU	20
3.4 The burdens imposed by different types of employment regulations on small firms	23
3.5 International Evidence of Cost of Compliance for Small Firms	26
3.6 Conclusions	29

---

---

# Contents

*Page*

<b>4</b>	<b>Summary of Irish Survey Results on Regulatory Burden</b>	<b>31</b>
4.1	Introductions	31
4.2	Indecon/Lansdowne Market Research Survey Results	31
4.3	Lansdowne Market Research for Department of Taoiseach, January 2003	36
4.4	Conclusions	40
<b>5</b>	<b>Selected Issues Identified in Submissions</b>	<b>41</b>
5.1	Introduction	41
5.2	Summary of Main Submissions	41
5.3	Proposals Made in Other Submissions	45
5.4	Conclusion	49
<b>6</b>	<b>Policy Options</b>	<b>51</b>
6.1	Introduction	51
6.2	Options for Addressing the Regulatory Burden	51
6.3	More information	53
6.4	Clearer penalties	53
6.5	Risk based regulation	54
6.6	Exemptions for small business	55
6.7	Abolishing regulations	56
6.8	Conclusions	57
<b>7</b>	<b>Proposals for Consideration</b>	<b>58</b>
7.1	Introduction	58
7.2	Suggested General Proposals for Consideration	60
7.3	Selected Specific Recommendations for Consideration	63
7.4	Other Proposals for Consideration	71

---

---

# Contents

*Page*

**Annex 1 References**

**79**

---

---

## Tables & Figures

*Page*

<b>Table 2.1: Regulation Affecting Small Business</b>	<b>5</b>
<b>Table 3.1: A Comparative Assessment of Starting a Business</b>	<b>17</b>
<b>Table 3.2: A Comparative Assessment of Hiring Workers</b>	<b>18</b>
<b>Table 3.3: A Comparative Assessment of Annual Tax Payments</b>	<b>19</b>
<b>Table 3.4: Summary of Ireland's Relative Business Environment</b>	<b>20</b>
<b>Table 3.5: Major constraint on business performance cited by SMEs in 2003 (% of SMEs)</b>	<b>21</b>
<b>Table 3.6: Major constraint on business performance cited by European SMEs in different size classes, 2003 (% of SMEs)</b>	<b>22</b>
<b>Table 3.7: Field of employment regulations in which administrative burdens are highest (% of SMEs)</b>	<b>24</b>
<b>Table 3.8: Influence of administrative burdens of employment regulations on hiring of employees (% of SMEs)</b>	<b>25</b>
<b>Table 3.9: Did the administrative burdens resulting from employment regulations increase or decrease between 1997 and 2003? (% of SMEs)</b>	<b>26</b>
<b>Table 3.10: Regulatory Burden by Employment Size</b>	<b>27</b>
<b>Table 3.11: The Burden of Federal Regulations by Firm Size</b>	<b>27</b>
<b>Table 3.12: Hours per Month Spent on Government Regulation by Size of Business</b>	<b>28</b>
<b>Table 3.13: Mean Number of Hours Spent on Compliance with Employment Regulations</b>	<b>29</b>
<b>Table 4.1: Number of Years in Business of Respondents</b>	<b>31</b>
<b>Table 4.2: Regional Spread of Respondents</b>	<b>32</b>
<b>Table 4.3: Number of Employees of Respondents</b>	<b>32</b>

---

---

## Tables & Figures

Page

<b>Table 4.4 : Respondents' Views on Burden on Principal Regulations</b>	<b>33</b>
<b>Table 4.5: Respondents' Views on Regulations with Highest Administrative Burden</b>	<b>34</b>
<b>Table 4.6: Respondents' Views on Trends in Administrative Burden on Small Firms in Ireland</b>	<b>34</b>
<b>Table 4.7: Respondents' Views on most Significant Barriers to Growth</b>	<b>35</b>
<b>Table 4.8: Views of Respondents on whether Regulations are a Significant Burden on my Business - % of Respondents</b>	<b>36</b>
<b>Table 4.9: Respondents' Views on Which Regulations are a Burden - %</b>	<b>37</b>
<b>Table 4.10: Respondents' Views on Ease of Compliance with Regulations - %</b>	<b>37</b>
<b>Table 4.11: Respondents' Views on the Extent to Which Regulations have become more or less of a Burden - %</b>	<b>38</b>
<b>Table 4.12: Respondents' Views on What the Civil Service can do to be more Business Friendly - %</b>	<b>38</b>
<b>Table 4.13: Respondents' Attitude to Regulations - %</b>	<b>39</b>
<b>Table 5.1: Other General Regulatory Proposals</b>	<b>46</b>
<b>Table 5.2: Other Proposals Specific to SMEs</b>	<b>47</b>
<b>Table 5.3: Other Proposals Specific to Taxation/Finance Regulation</b>	<b>48</b>
<b>Table 5.4: Other Proposals Specific to SMEs</b>	<b>49</b>
<b>Table 7.1: Audit Exemption in Europe</b>	<b>67</b>
<b>Table 7.2: Comparable Thresholds for VAT exemption of EU states</b>	<b>70</b>

---

---

## Tables & Figures

*Page*

<b>Table 7.3: Public Services Considered</b>	<b>73</b>
<b>Figure 2.1: Classifying Small Business Administrative Procedures</b>	<b>6</b>
<b>Figure 2.2: Standard Cost Model</b>	<b>10</b>
<b>Figure 7.1: Labour Regulations</b>	<b>65</b>
<b>Figure 7.2: Online Sophistication</b>	<b>74</b>
<b>Figure 7.3: Full Availability Online</b>	<b>75</b>

---



## Executive Summary

### *Introduction*

This study was undertaken on behalf of the Small Business Forum (SBF) by Indecon International Economic Consultants and concerns a review of the impact of regulation on small business in Ireland and how proper regulation can assist small firms. The purpose of this report is to provide inputs on regulation which can assist the SBF in reaching conclusions and recommendations for its report.

The research suggests that Ireland's regulatory burden compares favourably with other members of the EU and the wider OECD group of countries. However, the evidence indicates that the regulatory burden is increasing and that there are a number of areas of concern for the small business community. Policy needs to take account of areas where the regulatory burden is significant and be careful not to add to the regulatory burden, unless the benefits clearly outweigh the costs. This suggests some general and specific policy goals which we detail below.

### *Costs and Benefits of Regulation*

We define regulations as interventions that are introduced in order to achieve an outcome that otherwise would not be expected to arise. To achieve this outcome firms are forced to alter their behaviour and invest both time and money into complying with the specific regulation. The cost of doing so is often referred to as the compliance cost and it is seen as the burden, on firms, of the regulation.

The costs of regulation could include the costs associated with assigning staff to complete forms, often referred to as the red-tape or administrative burden. They can also be non-recurring costs which are those costs specifically undertaken to achieve the goal of the regulation, such as purchases of plant and machinery and staff training. The Dutch Bureau of Economic Policy analysis (April 2004) estimated the Dutch Administrative Burden to be 3.6% of GDP. The Better Regulation Task Force report assumes this to be similar for the UK, with tax and employment regulations accounting for an element of this. The cost of regulation in Ireland would depend on Irish circumstances which may differ from the Netherlands and the UK. However, it is reasonable to assume that the cost burden of regulation for the Irish economy is significant.

Given these costs it is imperative that policy evaluates the benefits of the current stock of regulations and proposed regulations. Estimation must be closely related to the principal justification for regulatory intervention, which in a number of cases aims to address 'market failure'. In general, regulations tend either to aim at protecting consumers or employees from the consequences of market failure or at preventing the market failure from occurring at all. Market failure could arise due to issues such as asymmetric information and externalities. In considering the benefits of regulations, the market failure argument needs to be clearly indicated and the benefits of addressing it established.

### ***Relative Regulatory Burden in Ireland***

We examined the available evidence on the extent of the regulatory burden on business in Ireland when compared with other countries. Evidence from the World Bank survey suggests suggest that the general business environment in Ireland is positive and Ireland is ranked as the 11<sup>th</sup> easiest country in which to do business. The report also found that Ireland ranked highly in terms of the ease of starting a business and also fared reasonably well in terms of starting a business and in terms of paying taxes. Ireland ranks well in terms of the estimated difficulty, rigidity and cost of employing individuals but not as well in the area of "hiring and firing". This was also identified as an issue by business in workshop sessions with the SBF.

We also examined results from a recent EU survey on relative regulatory burden. These results suggest that Irish SMEs, which in the survey includes firms with less than 250 employees, are less prone to see administrative regulations as the major constraint on their business performance than are firms in other European countries. The results indicate that 5% of firms identified administrative regulations as a barrier compared to 9% for Europe as a whole. In addition, firms in Ireland cite other issues as a more significant barrier to business performance.

The survey also provides evidence on the areas of most significant burden. Like other European firms, Irish SMEs ranked health and safety regulations highly among sources of administrative burden. However, employment related taxes were ranked higher still by Irish firms, whereas their European counterparts tended to see these as relatively less significant. In contrast, European firms gave a much higher ranking to social security and pension requirements and restrictions in working hours than Irish firms did.

There is also US research which estimated the cost of regulation in different areas and by size of firm. The results show that the regulatory burden falls disproportionately on Small Businesses in the US. The cost of compliance per employee is significantly larger for firms with 1-20 firms compared to firms with more than 500 employees. This is confirmed by other research.

### ***Research on the Main Regulatory Burdens in Ireland***

As part of this study Indecon conducted new research on the views of respondents as to the burden of key regulations. Based on the findings, a number of the regulations are considered to be either a significant burden or a very significant burden by a large percentage of respondents. These would include:

- Health and Safety regulations;
- VAT administration;
- Employment regulations;
- Income Tax administration; and
- Environmental regulations.

In each case between 44% and 47% of respondents viewed these regulations as a very significant or significant burden.

Respondents were also asked their views on which regulations are associated with the highest administrative burden. The findings show that the most burdensome regulations in terms of compliance are: health and safety protection for workers (16%); dismissal law (14%); and employment related taxes (14%). Other potential options listed received considerably lower rankings. Respondents were also asked their views on the most significant barriers in terms of securing growth. Finance, administrative regulations and the lack of skilled labour are seen as the most significant barriers.

These results were compared and contrasted with previous research undertaken in 2003. The results show that over half of small firms believe regulations to be a burden and that there is a higher percentage among small businesses. This survey also examined the issue of which of the areas represented the largest burden on businesses. This indicated that taxation requirements are seen as the largest burden on businesses, followed closely by health and safety regulations. Others mentioned included CSO and industry-specific regulations.

We also accessed the views of the small business representative bodies on these issues. The overall view of these bodies is that Ireland is over-regulated and this is imposing a significant cost on business. It is also argued that we are more regulated than other countries and that this is affecting our relative competitiveness. The main areas of difficulty for small business were identified as labour regulations followed by taxation and health and safety regulations. There is also a concern about the extent of form filling imposed by the Government system.

### ***Policy Options for Better Regulation***

Good regulation can be designed around five principles: proportionality, accountability, consistency, transparency and targeting. These five principles of good regulation aim to minimise the burden of regulation by involving interested parties, developing appropriate policy measures to address a specific problem and doing so such as to minimise the effect of the regulation on the firms the regulation is designed to target. Good regulation will not only minimise the associated policy costs of complying with the regulation but they will also minimise the administrative burden placed on businesses.

In terms of policy options there are five general options:

- More information;
- Clearer penalties;
- Risk based regulation;
- Exemptions for small business;
- Abolishing regulations.

Obviously, the merits of different policy options depend on the specific regulation in question.

### ***Proposals for Consideration***

In this section we set out some proposals for consideration that could be considered by the SBF for inclusion in their report. This represents our assessment of the further development of the regulatory reform agenda in the context of the Regulatory Impact Assessments and the establishment of the Better Regulation group.

Our research shows that there is significant ongoing work required in Ireland to evaluate the costs and benefit of regulations that have an impact on small. We note, however, the unique work underway in the Department of An Taoiseach and in other departments. A number of countries, such as the UK and the Netherlands, are well advanced in this area and have undertaken considerable evaluative work of the impact of regulations. This is a first step in deciding on policy actions. The research indicates, however, that there are significant potential benefits from reform in this area. Estimates suggest that the cost of regulations is likely to be high and, as the UK shows with its progress in abolishing over 500 regulations, the benefits of easing this burden could be considerable.

## ***Suggested General Proposals for Consideration***

We divide our proposals into the general and specific. The general proposals focus on three themes: review of the existing stock of regulations; formal assessment of the merits of exemptions or modifications for small business to be undertaken for all new regulations as part of the Regulatory Impact Assessments; and suggestions in relation to the enforcement of regulations.

### ***Proposals for Consideration 1***

**We recommend that each Government Department should undertake an assessment of the cost burden for business of its most burdensome regulations and sets out a programme to reduce the regulatory burden on small business with annual targets. This would involve reviewing the most significant regulations from a business perspective. There is also merit in a review of the transposition of EU Directives and the scope for improving the regulatory impact of these.**

Policy initiatives to-date have focused on the assessment of new proposals. Of course, there is a fundamental issue regarding the suitability of regulations that may have been in place for some time and the cumulative effect of regulations in a specific area. This is an important issue as specific regulations may not have much of an impact but cumulatively a number of regulations may start to have a significant effect.

Experience in other countries indicates that there exist a large number of irrelevant regulations that nevertheless still impose a burden on businesses. A comprehensive assessment of regulations, such as that proposed in the UK by the Better Regulation Task Force, could uncover regulations that impose significant burdens on businesses for little or no benefit to society.

A review of a specific regulation may lead to a number of different outcomes. The conclusion could be that the regulation should remain intact; or that it should be amended, with the inclusion for example of an exemption for certain classes of organisations; or that it should be abolished. Alternatively, the review could conclude that the regulation is not the problem, but that the main concern is its actual enforcement.

In summary, we believe that the first step in this process should be the identification by each Department and agency of the impact of the most burdensome regulations for which it has responsibility and an assessment of the costs and benefits of these regulations. As a priority this could include areas identified in this research which seem to be an issue for small business. This would include, for example, taxation and employment regulations.

It is not proposed to undertake a line by line assessment of each regulation, but to assess the most significant regulations. This detailed work could lead to the adoption of annual targets for the removal or amendment of regulations which would guide future work. We would envisage that there is a role for each Department/Agency with a central co-ordinating role for the Department of Taoiseach and an advisory role for the Better Regulation Group. This is consistent with the mandate of the Better Regulation Group which is charged with reviewing needlessly burdensome regulation.

It is our view that this could provide an impetus to reduce the regulatory burden for small businesses with positive implications for cost competitiveness. The Better Regulation Group should be charged with pursuing this policy agenda, and we believe that this could have a positive impact on the regulatory burden over time.

### *Proposals for Consideration 2*

**We recommend that there be a formal assessment of the merits of exemptions or modifications for small business to be undertaken for all new regulations as part of Regulatory Impact Assessments (RIAs).**

We have cited earlier some of the extensive international research showing that small firms tend to face higher average costs of regulatory compliance, mainly due to the presence of fixed compliance costs. This implies that policymakers may need to have particular regard to the effects of regulation on small businesses, with the aim of ensuring that burdens on such firms are not disproportionate. If this is not done, there is a risk that the competitive position of small businesses will be undermined relative to larger firms.

While the government's new RIA model seems to be moving towards implementation, and guidelines for conducting RIAs were recently published (October 2005), there is as yet little published guidance on how the impact on small businesses should be analysed within a RIA. The RIA guidelines contain only a brief reference in the context of a screening (i.e. initial) RIA:

*In analysing the impact of a regulation on competition, the following questions might be useful: [among other questions]...Is the regulation likely to reduce the competitive position of small enterprise relative to large?<sup>1</sup>*

---

<sup>1</sup> Department of the Taoiseach, 2005, *RIA Guidelines: How to conduct a Regulatory Impact Analysis*, October, p.56.

We suggest that detailed guidance on how to assess the impact of regulation on small businesses be provided by the Department of Enterprise, Trade and Employment. In particular, officials preparing RIAs should be made aware of the problems that fixed costs of compliance can pose for small firms, techniques for identifying costs that bear disproportionately on small firms, and options (such as thresholds) for managing the incidence of such costs. In addition, RIAs should explicitly consider the possibility of exemptions or modification for small business. This should improve the quality of RIAs from a small business perspective and would not involve a significant additional cost.

### ***Proposals for Consideration 3***

**We recommend greater use of risk based approach to enforcement of regulations. We also recommend the commencement of new regulations on a maximum of two dates only in any year.**

The main initiative considered in terms of enforcement involves further moves towards the implementation of risk based regulation. This places the most significant burden on those businesses that work in the areas that pose greatest risk of harm. In this case, the burden is proportional to the risk and as such it minimises the burden of compliance on those businesses whose activities do not pose a considerable harm or a threat to the objective of the regulation.

This could also be an issue in, for example, the tax code. The risk in this case is non-payment of tax and non-compliance with the various regulations. We believe that there is greater scope to develop further self-assessment with increased likelihood of audits and a greater probability of audits in areas of potential non-compliance. This could reduce the regulatory burden on firms with a greater reliance on self-assessment and audits. The role of penalties is important and highlights the importance of setting appropriate penalties.

For example, in the area of Health and Safety, certain activities have a higher probability of an injury or fatality than other activities or sectors in the economy. The enforcement effort should, therefore, focus on those areas where risk is greatest. The Health and Safety Authority are adopting this approach through greater inspections of higher-risk areas such as construction and more specific regulation of certain activities. Accordingly, this risk-based approach is being developed but there may be further steps that could be taken.

Hence, risk based regulations have the potential to reduce the misallocation of resources for businesses in a particular industry by no longer requiring low risk businesses to over-invest in compliance but instead requiring high risk businesses to incur the majority of the burden. This may also involve further development of models of self-assessment and penalties for low risk sectors. This could reduce the costs of certain regulations for low risk activities.

A cost for business of regulation relates to tracking changes in regulations and making changes in practice to meet the new regulatory position. It was proposed during the consultation process, and highlighted in the submissions, that there is merit in limiting the number of days in a given year when the Government is permitted to introduce regulatory changes that would add to the existing burden of business.

We believe there could be merit in this proposal for two reasons. One, it would help businesses with planning and assist in meeting the costs of regulatory change; two, it would highlight from a policy perspective the change in regulatory burdens in any given period. It is noted that this would increase the administrative effort for the Government and would require significant co-ordination between departments and a designated central agency or department. For reasons of practicality we do not believe that social welfare/taxation could be included in this area, but for other areas it could be practical. We have debated the merits of the number of days that should be set aside, and we believe that two days is the most practical available option.

The Exchequer costs of these measures should not be significant, although there would be an administrative cost associated with the measure to limit the number of days in a given year when the Government is permitted to introduce regulatory changes.

### *Selected Specific Proposals for Consideration - Employment Regulations/Health and Safety*

In examining specific areas, first we review the area of employment regulations and Health and Safety.

#### *Proposals for Consideration 4*

**We recommend that any additions to employment regulation faced by small business should only be considered on clear evidence of the costs and benefits and that our relatively competitive position with the OECD countries in terms of labour market flexibility is maintained.**

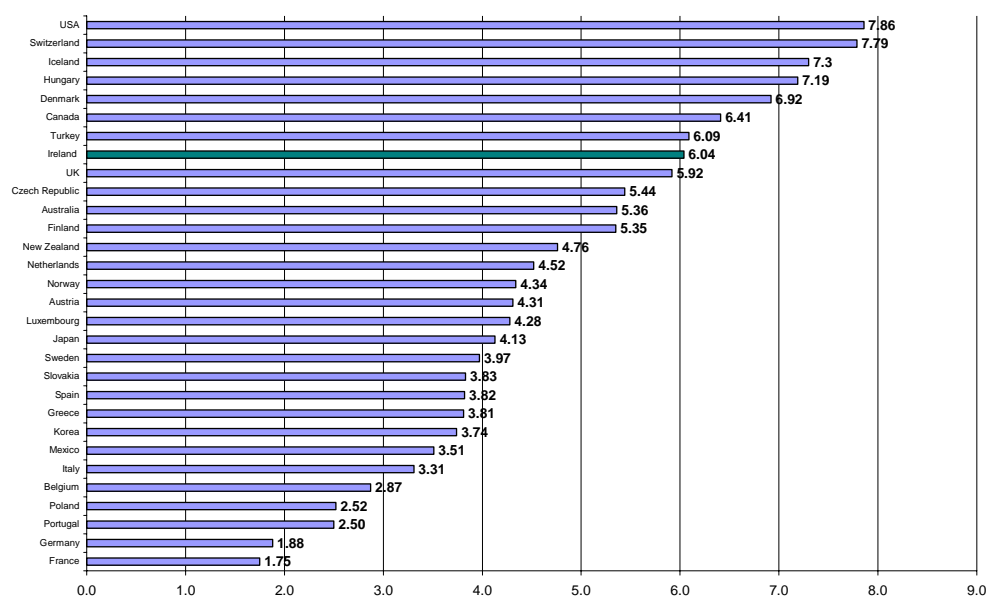
In the inputs to the Small Business Forum, the small business community highlighted the growing burden of employment regulations and the negative impact this having on their competitiveness and capacity to grow their businesses. This is reflected in the submissions received and was also identified as an issue in the survey work for this study. There is, however, an ongoing need to ensure effective enforcement of existing regulation to ensure that any potential exploitation of vulnerable groups in the labour market is prevented.



From a policy perspective the key issue is the impact this may be having on the relative flexibility of the Irish labour market compared with our OECD and other competitors. Data are available from the IMD World Competitiveness Yearbook for 2002 in relation to the flexibility of labour market regulations. Countries are graded on a scale of one to ten, where a low value indicates less labour market flexibility and a higher score indicates greater flexibility. The indicator was constructed on the basis of: hiring/firing practices, minimum wages and other labour market regulation variables.

A summary of the data for 2002 for OECD countries is presented in Figure 7.1. Overall Ireland is ranked 8<sup>th</sup> of thirty OECD countries, behind USA Switzerland, Iceland, Hungary, Denmark, Canada and Turkey. Overall Ireland's position in the rankings suggests that it has a relatively flexible labour market.

**Figure1: Labour Regulations**



Source: IMD World Competitiveness Yearbook 2002

It is crucial that the current advantages Ireland may have in terms of labour flexibility are maintained and that there are no additional regulatory burdens imposed in the absence of clear evidence. Evidence on the link between regulation, productivity and competitiveness highlights the importance of this. Accordingly, we would recommend that additional labour market regulations need to be carefully evaluated to ensure that the benefits of proposals clearly outweigh the costs.

### ***Proposals for Consideration 5***

**We recommend that there is more of a risk based approach to health and safety regulations.**

Health and safety legislation is required to ensure that acceptable standards of care and diligence are taken in response to workplace safety. This is an area where there has been significant research and the studies show that the benefits far outweigh the costs. Of course, this type of legislation does impose a cost for business and the key challenge for policy-makers is to minimise the costs given the benefits.

This is particularly relevant in any Irish context given the recent enactment of the Health and Safety Act 2005. From a policy perspective, and considering the concerns of business, this suggests that enforcement is the key. We believe that increasingly enforcement should be risk-based. This is already happening with the work of the HSA through more inspections of high risk sectors such as construction, and we believe that further moves are desirable.

We believe that this involves cost savings to the Exchequer.

### ***Proposals for Consideration 6***

**We recommend that the timing and rate of increase in the minimum wage should be coordinated with national wage increases.**

There is a concern within the business community that minimum wage increases are not co-ordinated with increases agreed under the national pay talks. This is a very modest change that could assist businesses with planning cost increases. This is proposed by the Chambers of Commerce of Ireland.

### **Taxation/Audit Proposals for Consideration**

In the research reviewed for Ireland and internationally, the burden of tax and audit requirements is identified as a significant issue. We believe that there are a number of changes that could be made which would have a modest impact on small business. These are briefly examined in this section.

### ***Proposals for Consideration 7***

**We recommend that there should be a doubling of turnover threshold from €1.5m to €3m for audit requirements. The current EU maximum threshold is €7.3m.**

There are benefits to obliging companies to have statutory audits given their limited liability status and the benefits of this. However, as there is a compliance cost for business of a certain turnover, the benefits of statutory audit provision may not outweigh these costs. It is increasingly argued that the providers of capital, including banks and other creditors, will ensure that appropriate financial information is available to safeguard their interests. In other words, there is a market based approach to the provision of the required information for companies of a certain size and that regulation is unnecessary given the capacities of these investors.

As set out in this report, many countries reflect this view in having higher thresholds than those that apply in Ireland. We believe that this makes sense and that a more realistic assessment of costs and benefits would point to a higher exemption. Of course, setting the appropriate turnover level where the exemption should apply is a matter of judgement. We believe that reducing the audit requirements for businesses with a turnover of less than €3 million would represent a positive start and would have a positive effect on costs.

We have undertaken some analysis assessing the impact of this proposal. Work by DKM suggests that there are 250,000 small businesses in Ireland, as defined by having fewer than 50 people and a turnover of less than 7.3 million. The evidence suggests that approximately 50,000 of these are incorporated and that perhaps 80% are already exempt. Accordingly, there are around 10,000 firms above the exemption threshold and we estimate that an upper bound estimate of the numbers affected by this proposal is circa 5,000. There is no Exchequer cost arising due to this measure.

### ***Proposals for Consideration 8***

**We recommend that the VAT requirements for small business be reviewed. There are a number of different options including a further increase in the exemption limits for all small business, an increase in the exemptions limit for start-up small business; or VAT simplification for small business to include the option for one calculation and flat rate. The current VAT exemption levels are €27,500 for services and €55,000 for goods.**

The flat rate VAT proposal would allow small businesses an alternative to the normal transaction based method of VAT accounting. In the UK such a scheme allows businesses to make a VAT payment as a percentage of their turnover (as opposed to calculating the VAT of individual sales at the standard rate). Due to the nature of the scheme, some businesses will pay more and some will pay less using the flat rate scheme. This is because the flat rates are calculated as average rates. The net tax paid varies with different trade sectors and hence there are a variety of flat rate percentages.

VAT flat-rate-schemes are designed to save businesses time and possibly money compared to using the 'standard' VAT rate/procedure. The scheme is open to small businesses whose annual taxable turnover (not including VAT) does not exceed Stg£150,000 and whose total turnover (including the value of exempt and non-taxable income but not including VAT) does not exceed Stg£187,500 a year. Some exclusions do apply however. The main impact of these potential options would be to reduce VAT bills and compliance costs for small businesses.

The impact of any measure would, of course, depend on the number of firms affected. The Small Business Forum in its pre-Budget submission proposed an increase in the goods threshold from €51,000 to €70,000 and the services threshold from €25,500 to €35,000. It was estimated that this would cost €66 million in a full year and would remove over 10,000 businesses from the VAT net.

In the budget, the thresholds were increased to €55,000 and €27,500 respectively. This was estimated to cost €12 million in a full year and remove 2,200 businesses from the VAT net. Hence, increasing the thresholds to the levels recommended in the Forum submission would cost approximately €55 million and affect about 8,000 businesses.

The alternative options are difficult to assess in terms of impact because it depends on the nature of the proposal to be introduced. With the flat rate concept, there is flexibility regarding the rate that may be levied by sector. The experience from the UK suggests that there is an Exchequer cost but there are compliance costs savings for businesses and administration costs savings for the Exchequer.

### ***Proposals for Consideration 9***

#### **We recommend simplification of revenue regulations for Employee Financial Participation for SMEs**

We recommend a range of measures that could assist with simplification of tax-based EFPs for firms. This could reduce compliance costs and encourage more employee financial participation. This could include a simplified set of conditions for approval for small firms. The current procedures are very onerous and we believe that they should be simplified for small business. We would also recommend specific changes to the requirements for Revenue Approved Profit Sharing Schemes. This could include changes to the requirements:

- that in contributory schemes the maximum amount of shares purchased out of employees' own resources cannot exceed 7½% of basic salary;
- that each participant must receive at least 1 free share for each share purchased;
- that participation in schemes must be open to all employees.

A detailed review of EFP for Forfás is being finalised by Indecon. This includes a review of EFP and potential changes to the existing regulations. In addition to regulatory changes, encouraging EFP requires greater information and awareness about its benefits. We believe that these proposed measures could increase the awareness of EFP and make the revenue approved schemes more attractive in particular for small businesses that are discouraged by the current rules. These measures could have a positive effect on extending EFP and, in turn, provide benefits to companies and employees. Over the longer term we believe that EFP would be enhanced with some additional Exchequer cost given the tax costs of these initiatives.

### ***Proposals for Consideration 10***

#### **We recommend the doubling of the corporate tax threshold from €50,000 to €100,000 in order to permit preliminary tax payment to be based on previous the year's assessment**

Preliminary tax for companies becomes due 31 days before the end of the accounting period and the tax paid must be no less than 90% of the final liability. This is based on an estimation of the final tax liability in advance of the year end. Income tax payers make a tax payment based on the liability for the preceding years of assessment. This option is not available for companies where Corporation Tax for the previous period exceeds €50,000; in these cases preliminary tax is based on projected liability.

There are number of issues with this practice. First, in the event of mistakes, the amount due to be paid on the preliminary tax payment date results in the full amount of the liability falling due on that payment date. This is seen as very onerous and represents a major issue for companies. Second, there is an additional compliance cost in collecting the information to make an assessment.

Accordingly, it would make sense that preliminary corporation tax payments should in all cases be based on the prior year's outcome, as is the case for Income Tax payers, for companies with a higher profit threshold. This would have a positive impact on cash-flow for companies. Once again, the number of firms affected by this would be quite limited. Based on the revenue data, not more than 2,000 firms would benefit from this proposed change, and accordingly the Exchequer cost of this proposal is modest.

### *Other Proposals for Consideration*

#### *Proposals for Consideration 11*

**We recommend that targets should be set for further small business online interaction with the State within 3 years.**

The evidence suggests a potential area for improvement is in the provision of online government services through an extension of the services that are offered online.

A recent study<sup>2</sup> considered the online availability of public services in Europe and is the fifth benchmarking exercise on the progress of online public services in Europe to date. The report presents the percentage of online sophistication of basic public services available on the Internet by country, as well as measurements of the percentage of public services fully available online. It considers the situation in the EU Member States, as well as Iceland, Norway and Switzerland and was undertaken in October 2004.

In terms of Ireland's relative performance in introducing online availability of public services, this can be gauged by considering cross-country data in relation to two variables: online sophistication and full online availability. According to the study, the online sophistication of public services is most advanced in Sweden which achieves a rating of 89%. Seven countries reach a score higher than 80%, including Ireland. (The other countries attaining this level are Austria, U.K., Finland, Norway and Denmark). This data suggests that Ireland performs relatively well on the basis of this indicator.

---

<sup>2</sup> Online Availability Of Public Services: How Is Europe Progressing? Web Based Survey On Electronic Public Services, Report Of The Fifth Measurement, October 2004. Prepared by Capgemini for the European Commission, Directorate General for Information Society and Media.

In terms of the percentage of services that offer complete electronic case handling, the best performing countries are Sweden (74%), Austria (72%) and Finland (67%). Ireland is ranked in 11<sup>th</sup> place of 18 countries at only 50%. So while Ireland scores relatively well in terms of online sophistication, but it performs relatively poorly in terms of the number of services fully offered online. This suggests a potential area for improvement in the provision of online government services to extend the range of services offered online.

Accordingly, we believe that there is a need to encourage the State to move more rapidly to extend e-commerce. This would include areas such as data collection and taxation compliance where there is scope to maximise the benefits of e-commerce. There may be other areas and this is an issue that could be explored further by the Better Regulation Group. This could lead to both business and Exchequer cost savings.

### ***Proposals for Consideration 12***

**We recommend improvements in the co-ordination, use and overall customer friendliness of CSO and wider State data collection exercise.**

The available evidence suggests that the time spent on form filling by small business is a distraction from the key task of business development. This arises from the data requirements of the CSO and the information requirements of other Government Departments and agencies. However, there are trade-offs given the essential role of data collection in policy development.

There is a need to improve the co-ordination of this data collecting to ensure the reduction of the burden on small business where possible. This would involve improved co-ordination between agencies and greater sharing of available data. This may raise issues for the Statistics Act and the potential need for a unique business identifier.

We understand that these issues have been addressed in a report prepared by the National Statistics Board. We believe that there is merit in improvements in this area and in particular through improved co-ordination. This could reduce the administrative burden for small businesses, which is an issue identified in the research reported, and help to reduce costs and the time allocated to such tasks.

### ***Proposals for Consideration 13***

#### **We recommend further implementation of proposals to improve the functioning of markets for professional services**

An efficiency cost arising from regulation reflects the value of the resources foregone in direct response to restrictions on firm entry, output and pricing decisions, or cost-minimizing production techniques. This can arise in sectors where restrictions reduce market entry and/or demarcation rules that can unnecessarily add to business costs. A number of such restrictions in the professional sector are of interest to the small business sector given that they are a consumer of services.

In particular, we have in mind the legal profession where there exist a number of restrictions that ought to be removed. These were outlined in proposals made by Indecon for the Competition Authority<sup>3</sup> to improve the functioning of these markets. We believe that these should be implemented as a priority. Over time, their implementation would have the effect of improving service and value for money for service users. An example would be the reforms that could improve the market for conveyancing services. Reforms in the UK have led to a fall in prices for consumers. The Indecon report for the Competition Authority recommended opening this aspect of the market to licensed conveyancing. This could have a positive effect on the cost of such services in Ireland and is an example of the types of reforms that could be introduced in this area.

### ***Proposals for Consideration 14***

#### **We recommend removal of IFSRA restrictions on financial institutions offering unsolicited funding to business sector.**

IFSRA, the financial service regulator, has in place restrictions on the unsolicited funding offering to the business sector. This affects competition in this market and, while it is not a significant, we believe that it should be re-examined by the relevant authority.

---

<sup>3</sup> 'Indecon's Assessment of Restrictions in the Supply of Professional Services', prepared for the Competition Authority, March 2003



### ***Proposals for Consideration 15***

**We recommend a 3-week extension for small businesses that file tax returns online.**

Individual taxpayers that file their returns online receive a three week extension. This provides an incentive for taxpayers to file online with benefits for both taxpayer and the Revenue Commissioners. We recommend that a similar incentive should be offered to companies. This would incentivise additional online filing consistent with government's overall policy towards e-commerce and help with the administrative costs of filing tax returns.

There would be a cashflow cost to the Exchequer but this would be offset by the administrative cost savings.

### **Summary of Proposals for Consideration**

1. We recommend that each Government Department should undertake an assessment of the cost burden for business of its most burdensome regulations and sets out a programme to reduce the regulatory burden on small business with annual targets. This would involve reviewing the most significant regulations from a business perspective. There is also merit in a review of the transposition of EU Directives and the scope for improving the regulatory impact of these.
2. We recommend that there be a formal assessment of the merits of exemptions or modifications for small business to be undertaken for all new regulations as part of Regulatory Impact Assessments (RIAs).
3. We recommend greater use of a risk based approach to the enforcement of regulations. We also recommend the commencement of new regulations on a maximum of two dates only in any year.
4. We recommend that any additions to employment regulation faced by small business should only be considered on clear evidence of the costs and benefits and that our relative competitive position with the OECD countries in terms of labour market flexibility is maintained.
5. We recommend that there is more of a risk based approach to health and safety regulations.
6. We recommend that the timing and rate of increase in the minimum wage should be coordinated with national wage increases.
7. We recommend that there should be a doubling of the turnover threshold from €1.5m to €3m for audit requirements. The current EU maximum threshold is €7.3m.
8. We recommend that the VAT requirements for small business be reviewed. There are number of different options including a further increase in the exemption limits for all small business; an increase in the exemptions limit for start-up small business; or VAT simplification for small business to include the option for one calculation and flat rate. The current VAT exemption levels are €27,500 for services and €55,000 for goods.
9. We recommend simplification of revenue regulations for Employee Financial Participation for SMEs
10. We recommend a doubling of the corporate tax threshold from €50,000 to €100,000 in order to permit preliminary tax payment to be based on the previous year's assessment
11. We recommend that targets should be set for further small business interaction with the State online within 3 years.
12. We recommend improvements in the co-ordination, use and overall customer friendliness of the CSO and wider State data collection exercise.
13. We recommend further implementation of proposals to improve the functioning of markets for professional services.
14. We recommend removal of IFSRA restrictions on financial institutions offering unsolicited funding to business sector.
15. We recommend a 3-week extension for small businesses that file tax returns online.

---

*Source: Indecon*

# 1 Introduction

## 1.1 Background and Terms of Reference

This study was undertaken on behalf of the Small Business Forum (SBF) by Indecon International Economic Consultants and concerns a review of the impact of regulation on small business in Ireland and how good regulation can assist small firms. The purpose of this report is to provide inputs on regulation which can assist the Forum in reaching conclusions and recommendations for its report.

The Forum, established by the Minister for Enterprise, Trade and Employment in 2004, has identified three strategic areas of concern to small business. These are:

- Reducing burdens;
- Improving productivity, and
- Stimulating growth.

The current study deals with the first area, reducing burdens, which has the task of addressing issues in the business environment which may create difficulties for small businesses operating in Ireland.

Regulation is one such issue. Research shows that the regulatory burden is generally found to fall disproportionately on small businesses. This provides a disincentive to individuals considering investing in a small business, either to set it up or to facilitate its expansion. Regulation can stifle the growth potential of small businesses, both through the disincentive to invest caused by the disproportionate regulatory burden and through the disproportionate burden's impact on the daily operation of the business.

As part of the Government's White Paper in 2004, "Better Regulation", the Government has committed to developing a model of best practice in relation to new regulation and changes to existing regulation. Regulatory Impact Analyses (RIA) are to be undertaken in relation to all new regulations and changes to existing regulation in order to assess their likely impact. The purpose of this work is to assist in the further development of this regulatory reform agenda.

## 1.2 Acknowledgements

The consultancy team would like to acknowledge the valuable assistance given to the team by the following: Members of the Forfás Secretariat including Maria Hurley and Marie Burke, Members of the Small Business Forum: Mr. Joe Macri, Ms. Mary Bennett, Dr. Joan Buckley, Mr. Des Cummins, Mr. Daniel Hickey, Mr. Michael Johnson, Ms. Jacqui McNabb, Ms. Breda O'Driscoll, Mr. Conor O'Mahony, Mr. James O'Sullivan, Prof. Frank Roche, Ms. Rosemary Sexton, Brian Keegan and Ms. Rita Shah. We would also like to thank the Better Regulation Unit of the Department of the Taoiseach and the organisations who made submissions to the consultancy team and who participated in our detailed survey. We also acknowledge inputs from other government departments and from Brian Keegan of the Institute of Chartered Accountants in Ireland. The usual disclaimer applies, and the independent views and analysis in this report are the sole responsibility of Indecon.

## 1.3 Report Structure

The structure of this report is as follows. Section two defines and examines the nature of regulations applying to small businesses; section three compares the regulatory burden in Ireland with international evidence; section four details the results of Irish market research on small business regulation and highlights the regulatory issues identified by survey respondents and section five expands upon issues identified in submissions from businesses to the Small Business Forum. Finally, sections six and seven set out some policy options and proposals for consideration arising from the analysis and discussions in previous sections. These are proposals to assist the Small Business Forum in drafting its views on these matters.

## 2 The Nature of Small Business Regulatory Burdens

### 2.1 Introduction

In this section we define and examine the nature of regulations affecting small businesses and their rationale. We also consider the costs and benefits of regulation and consider some estimates of the cost of the regulatory burden.

### 2.2 Defining Regulation

It is useful at the outset to define precisely what the term ‘regulation’ actually means and specifically its relevance to small business.

Regulation has been defined by the OECD as;

*“...A set of “incentives” established either by the legislature, Government, or public administration that mandates or prohibits actions of citizens and enterprises.... Regulations are supported by the explicit threat of punishment for non-compliance”<sup>4</sup>*

Regulations are generally enacted in order to achieve some social objective that previously, or in the absence of the regulation, would not otherwise have been achieved. It is important to stress that this definition does not cover issues related to the price and service quality regulation of certain regulated sectors such as electricity and telecommunications. This report does not relate to regulations affecting so-called ‘regulated sectors’.

---

<sup>4</sup> OECD, 1994; “The OECD Reference Checklist for Regulatory Decision-Making: A Draft Recommendation of the OECD”, Paris.

## 2.3 Principal types of Business Regulation

A number of studies have attempted to identify and quantify the impact of regulation on small firms. Given the array of regulations governing the actions of businesses, these studies first took the step to categorise the regulations into areas of key importance in their impact on small firms. In the United States, in a report for the US Small Business Administration, Crain and Hopkins<sup>5</sup> divided the federal regulations affecting small firms into four broad categories;

- Environmental Regulations
- Economic Regulations
- Workplace Regulations
- Tax Compliance.

Environmental regulations are defined as regulations designed to achieve some environmental objective such as an improvement in air quality, etc. Workplace regulations cover employment related regulation, and tax compliance is also self-explanatory. Economic regulations are not as clear as and include efficiency costs and transfer costs. An efficiency cost reflects the value of the resources foregone in direct response to restrictions on firm entry, output and pricing decisions, or cost-minimizing production techniques. A transfer cost refers to the redistribution of income or wealth in direct response to a regulation rather than the impact on efficiency.

The approach of Crain and Hopkins is very similar to that previously adopted by the OECD, where they assess three broad areas as the basis for their study; Employment Regulations, Environmental Regulations and Tax Regulations<sup>6</sup>. In the following table we classify the main types of regulation affecting small businesses, based on the ENSR 1995 Study. This is a more detailed classification than used in other studies.

---

<sup>5</sup> Crain and Hopkins, 2001; "The Impact of Regulatory Costs on Small Firms"

<sup>6</sup> OECD, 2000; "The OECD Public Management Service Multi-Country Business Survey: Benchmarking Regulatory and Administrative Business Environments in SMEs".

---

**Table 2.1: Regulation Affecting Small Business**

---

---

Tax compliance
Income tax/corporation tax
VAT and excise
Local taxes (e.g. rates)
Annual accounts
Environmental legislation
Operating licences
Statistical information
Trade-related (e.g. tariff collection)
Intellectual property
Legislation dealing with quality of goods and services
Collection of taxes and levies
Employment contracts and employee participation
Equality
Working conditions (incl. health and safety)

---

*Source: ENSR 1995*

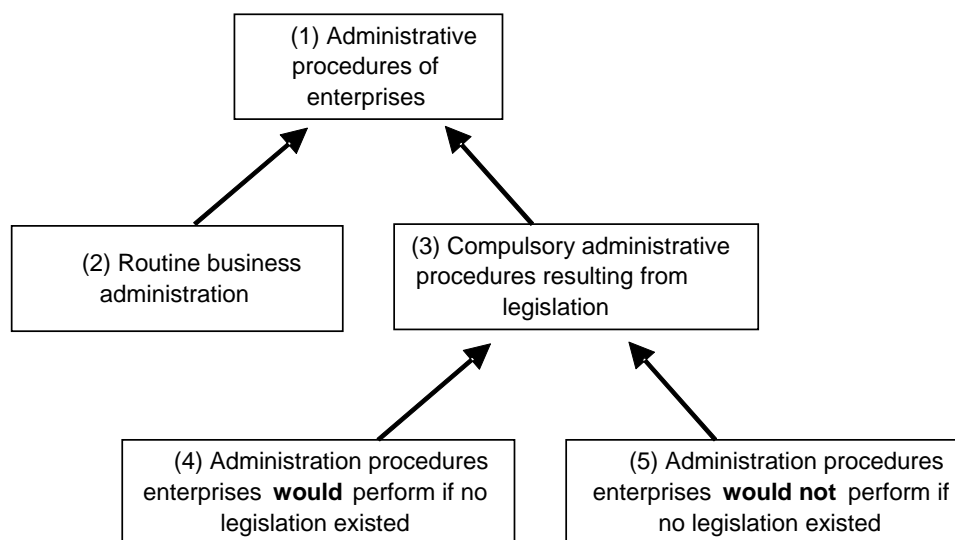
## **2.4 Defining the burden of regulation**

As defined, regulations are introduced in order to achieve an outcome that otherwise would not be expected to arise. To achieve this outcome firms are forced to alter their behaviour and invest both time and money into complying with the specific regulation. The cost of doing so is often referred to as the compliance cost and it is seen as the burden, on firms, of the regulation.

In the UK, the Better Regulation Task Force (BRTF) have taken compliance costs to be the sum of both recurring and non-recurring costs, relating to the regulation. The recurring costs are taken to be the additional ongoing costs for business brought about by the existence of the regulation, what the Cabinet Office in the UK refer to as the regulation's implementation cost. This includes the costs associated with assigning staff to complete forms, often referred to as the red-tape or administrative burden. Non-recurring costs, or policy costs according to the UK Cabinet Office, are those costs specifically undertaken to achieve the goal of the regulation. This is likely to include one-off purchases of plant and machinery, as well as training for staff.

Importantly, the costs incurred by firms in response to a particular regulation, both policy and implementation costs, should not be automatically regarded as the burden of regulation on businesses. Further insights on this issue can be gleaned from the theoretical model in Figure 2.1, called MISTRAL, which was developed in the Netherlands as a method of measuring the administrative burdens associated with regulation. One can adopt a similar framework for assessing policy costs.

Figure 2.1: Classifying Small Business Administrative Procedures



Source: Based on ENSR (1995), Figure 14.1



Within this framework it is possible to consider the administrative burden legislation is placing on an individual firm. The first box relates to the administrative procedures undertaken by the business. These are made up of administrative activities all firms have an interest in undertaking, such as maintaining accounts, stock control and sales administration (box two), as well as administrative procedures businesses are required to undertake under national or international legislation (box three).

Within the ENSR report they define all efforts businesses have to make in order to comply with these legislative obligations as administrative burdens even though some of these would have been carried out by the firm regardless of the existence of the regulation (box four). These represent a burden on businesses as the regulation generally does not allow the business to undertake this activity within their own timetable but rather when the legislation dictates, an example of this is the preparation of a firm's annual accounts. Those activities in the final box represent administrative procedures firms would not undertake if not required to do so by regulation. Essentially, the individual business does not see the direct benefit of carrying out these procedures and thus views them as a burden.

This approach represents a bottom up approach to estimating the administrative burden placed on firms by regulation. This approach has been applied in many studies undertaken to assess the regulatory burden faced by firms and we shall review the findings of these in the subsequent sections.

## **2.5 Measuring the costs of regulation**

In a review of existing studies on the regulatory burdens on small businesses, Chittenden, Kauser and Poutziouris (2002) identified a number of approaches researchers have used in order to help determine the implication of regulations. They found that a Cost-Benefit approach to estimating the likely impact of the imposition of new regulations to be most widely used technique. This approach evaluates the likely long term costs and benefits associated with a specific policy and then trades these off against each other to best inform policy makers of the policy's likely impact and whether it achieves its desired objective. In order to estimate the costs associated with the introduction of a new regulation, a number of approaches have been adopted in the literature:

- Econometric study – this is a statistical calculation generally based on an underlying economic model whereby the impact of the regulation is estimated using firm or industry level data providing a potentially sophisticated and meaningful method of measuring the impact of the regulation on the final market;
- Expenditure evaluation – this approach generally involves a survey of companies due to be affected by the new regulations as to their perceived compliance cost;
- Engineering approach – under this methodology an estimate of the cost of installing all of the equipment required to comply with the regulation is calculated to be the cost of the regulation. However, a possible weakness of this approach is that it fails to determine a counterfactual and ignores the administrative cost of complying with regulations;
- Productivity study – whereas the previous approach fails to determine the counterfactual, this methodology is based on it. An estimate of the productivity of the regulated sector is provided under a scenario without the regulation and then this is compared to the actual productivity of the sector, since the introduction of the regulation. This approach only allows for an ex-post evaluation;
- General equilibrium model – this approach is designed to estimate the impact of a particular regulation on the sectors it directly affects, as well as the likely knock-on effects of the direct impacts on output and employment in the economy as a whole.

Further to these approaches to estimating the likely impacts of regulation on businesses, a number of alternative approaches have been adopted to estimate the burdens of environmental regulation. They include:

- Actuarial techniques;
- Professional judgement;
- Decision analysis techniques;
- Valuation approaches.

The actuarial and decision analysis techniques adopt statistical analysis in an attempt to quantify, in money terms, environmental liabilities. The valuation approach relies on legal and economic techniques for valuing the environment, whereas professional judgements rely on the evidence of experts in the particular area.

All of the methodological approaches listed previously for estimating the likely impact of a specific regulation focus predominantly on the policy cost of compliance. The administrative burden is largely ignored and as such would lead to an under-estimation of the full impact of the policy change. The administrative burden of regulations is estimated to make up to 30 per cent of the overall cost of the regulation and as such it is important that this burden is similarly estimated. The impact of the administrative burden is important both in relation to new and existing regulations and minimising this burden is currently being directly targeted under new initiatives by a number of European countries, including Denmark, the Netherlands and the UK.

A model that is currently being used across Europe to estimate the cost of administrative burdens is the Dutch Standard Cost Model (SCM). This approach can be identified as falling within the expenditure evaluation approach methodology, discussed previously and thus relies on the experience of firms and the administrative burdens placed on them through regulatory compliance. This model has already been used in Denmark and the Netherlands and it is the proposed approach for assessing the administrative burden of regulation in the UK<sup>7</sup>. This approach follows the bottom up methodology of the MISTRAL framework model already seen wherein all of the administrative procedures undertaken by firms, both compulsory and non-compulsory, are regarded as contributing to the burden.

Under this approach the administrative burden caused by each individual regulation is separately identified and is easily reported in a monetary value. The approach is simple: the number of businesses affected by the regulation is multiplied by the hourly tariff of those workers required to meet the information obligation of the regulation and this is further multiplied by the number of hours required to meet the administrative obligation in a given year. The formula for this approach is given in Figure 2.2.

---

<sup>7</sup> Better Regulation Task Force, 2005; "Regulation – Less is More"

---

**Figure 2.2: Standard Cost Model**

---

$$\text{Cost of Regulation (SCM)} = N \times W \times T$$

N = number of businesses affected by the regulation

W = the hourly wage of those involved in meeting the information obligation

T = the number of hours taken to meet the administrative obligation in a year

---

This approach does not claim to establish the true administrative burden of a particular piece of regulation but rather a stylised estimate and when summed to the estimates of all other regulations, provides the government with an overall picture of regulation. This enables policy-makers to identify key areas where action should be taken to reduce the regulatory burden.

In an attempt to kick start the Lisbon Agenda, the European Commission has identified better regulation as a means for promoting better jobs and growth in Europe<sup>8</sup>. The Commission supports a common method of assessing the administrative burden imposed by both EU and domestic legislation and has developed a Net Administrative Cost Model, in favour of the SCM, in order to do so. Although based on the SCM the Net Administrative cost model contains differences. The core equation for calculating the cost of the administrative burden is the same as in the SCM, however only administrative procedures undertaken by firms in response to the regulation, and not procedures that they would have otherwise have undertaken, are regarded as relevant to calculating the true burden. Also, the Net Administrative Cost Model does not simply focus on the burden imposed by a new or existing regulation but rather assesses the net cost of the regulation by subtracting from the cost of the regulation any costs that are suppressed by the same regulation. At this stage the EU does not envisage using the Net Administrative Cost Model for macro assessments of a country's administrative burden, such as is advocated under the SCM approach, but rather to use this common approach to evaluate regulations on a case-by-case basis.

---

<sup>8</sup> European Commission, 2005; "Implementing the Community Lisbon programme: A strategy for the simplification of the regulatory environment", COM (2005) 535.

## 2.6 Estimate of the Cost of Administrative Burdens to the Irish Economy

The Dutch Bureau of Economic Policy analysis (April 2004) estimated the Dutch Administrative Burden to be 3.6% of GDP. The Better Regulation Task Force report assumes this to be similar for the UK, with tax and employment regulations accounting for an element of this. The cost of regulation in Ireland would depend on Irish circumstances which may differ from the Netherlands and the UK. However, it is reasonable to assume that the cost burden of regulation for the Irish economy is significant.

## 2.7 The Rationale for and Benefits of Regulation

The principal justification for regulatory intervention from governments is a need to address the issue of 'market failure'. Market failure occurs when markets do not bring about economic efficiency or are not working optimally i.e. there is a Pareto sub-optimal allocation of resources in a market/industry. Put in simple terms this means that the market is not allocating scarce resources efficiently and total social welfare is not being maximised. In such a situation it is acknowledged that there is an economic case for government intervention in the market and that this intervention is in the public interest.

In addressing these issues in more detail we begin by considering the reasons why market failure may exist and the subsequent rationale for regulation. This is followed by a discussion of the benefits of such regulation.

### 2.7.1 Market failure and the rationale for regulation

Economic regulation is one of a number of possible responses to market failure. Regulation can take the form of maximum or minimum prices, the imposition of taxes, standards, directives or quotas and as well as other interventions and can be a result of a national government intervention or from an international body e.g. the European Commission. In general regulations tend either to aim at *protecting* consumers or employees from the consequences of market failure or at *preventing* the market failure from occurring at all.

There are four broad categories or reasons for market failure, namely:

- Asymmetric information;

- Externalities;
- Public goods;
- Monopoly.

### **Asymmetric information**

Asymmetric information may arise when sellers or providers of a good have information which is not available to the buyers or purchasers. In this regard, economists distinguish between 'search goods' and 'experience goods'. The former are goods that can be inspected by either touch or sight prior to purchase. Experience goods are goods the quality of which cannot be discerned prior to purchase. The distinction between search and experience goods has important implications for the ability of consumers to make judgements on them.

Some goods may also constitute what is known as 'credence goods'. This is a good whose quality cannot be fully assessed before or after consumption. Darby and Karni (1973) argue that this is likely to be the case when a judgement about quality requires the consumer to have specialised knowledge of the product or service. Asymmetric information between buyers and sellers is likely to be more pronounced with credence than experience goods. In the former, and to a lesser extent in the latter, the provider acts as an expert who determines how much of the good or service is necessary, since the customer may be unable to judge the quality of the good or service provided.

In cases where sellers possess information that consumers do not but would use in making a decision on whether to consume the good or not, a government may intervene by introducing regulations stipulating that the seller must provide that additional information. This information would be desirable for consumers to make informed choices. Some examples of interventions of this kind include drug companies being required to put generic names on drugs in order to cut search costs for users and rules prohibiting publication of false information (due to a view that courts are not an adequate check on dishonest claims due to cost and delay of using them).

### **Externalities**

Externalities arise in situations where “the unregulated price of a good does not reflect the true cost or benefit to society of producing the good.” Thus the potential market failure arising from externalities is that the social optimum output or level of consumption diverges from the private optimum. In the case of negative externalities, regulations may be used to bring private costs more closely into line with social costs (e.g. environmental taxes) or restrict social costs to a given level (e.g. imposition of employment standards).

The standard rationale for regulating externalities is to maximise efficiency by ensuring that full social costs are taken into account in production decisions. However, alternative responses include reorganising property rights or reducing bargaining costs. This rationale is key in considering many of the regulations that impact upon the small business sector in Ireland. These would include health and safety regulations, employment standard type regulations and environmental regulations.

### **Monopoly**

The existence of monopoly power is often thought to create the potential for market failure and a need for intervention to correct for some of the welfare consequences of monopoly power. For example, regulations in relation to possible mergers and acquisitions (M&As) may be used to prevent or modify certain proposed M&As which could be against the public interest (e.g. if the gains in ‘productive efficiency’ are less than the losses in ‘allocative efficiency’).

Monopoly power can lead to less provision at a higher cost to consumers and is therefore inefficient compared with what would obtain in a competitive market. Thus regulations are often introduced to address these market failures.

### **Other cases where regulation may be justified**

Breyer (1982)<sup>9</sup> considers a number of justifications for regulation, and these are consistent with the theoretical benefits identified above. He also outlines a number of additional cases in which regulation may be justified. These included:

---

<sup>9</sup> Breyer, Stephen, (1982), *Regulation and its Reform*, Harvard University Press.

- Unequal bargaining power;
- Rationalisation;
- Moral hazard, whereby “someone other than the buyer pays for the buyers purchase”;
- Paternalism; and,
- Scarcity.

### **Summary of benefits**

The case for regulation is to address the principal sources of market failure identified above. Taken together, a legitimate purpose of regulation is to assure standards of competence, performance, ethical behaviour and personal accountability in a market. What is important, however, is to examine the impact of any regulations, i.e. costs and benefits, and to evaluate the key issue of proportionality.

To summarise, the potential benefits of economic regulation include the following:

- Consumer protection;
- Fair trading;
- Optimal resource allocation;
- Maintain service standards; and,
- Maintain other standards.

## **2.8 Conclusions**

For the purpose of this work we defined regulations as interventions that are introduced in order to achieve an outcome that otherwise would not be expected to arise. To achieve this outcome firms are forced to alter their behaviour and invest both time and money into complying with the specific regulation. The cost of doing so is often referred to as the compliance cost and it is seen as the burden, on firms, of the regulation.

The costs of regulation include the costs associated with assigning staff to complete forms, often referred to as the red-tape or administrative burden. They can also be non-recurring costs which are those costs specifically undertaken to achieve the goal of the regulation, such as purchases of plant and machinery and staff training.



The evidence suggests that the costs of regulation could be significant and data for the Netherlands suggest that the costs could be equal to 3.6% of GDP. For Ireland this would equate to around €5 billion in 2004.

Given these costs it is imperative that policy evaluates the benefits of current and proposed regulations. Estimation must be closely related to the principal justification for regulatory intervention, which in a number of cases aims to address 'market failure'. In general, regulations tend either to aim at protecting consumers or employees from the consequences of market failure or at preventing the market failure from occurring at all. Market failure could arise due to issues such as asymmetric information and externalities. In considering the benefits of regulations, the market failure argument needs to be clearly indicated and the benefits of addressing it established.

## **3 International Evidence on the Relative Business Regulatory Burden**

### **3.1 Introduction**

In this section we examine the available evidence on the extent of the regulatory burden on business in Ireland when compared with other countries. Given the importance of competitiveness for a small open economy such as Ireland benchmarking with other OECD and European countries is a crucial element of this analysis.

### **3.2 General Business Environment in Ireland**

In this section, we make use of an extensive comparative study undertaken by the World Bank on the conditions of doing business in various countries (including Ireland). There is a strong element of subjectivity in this type of comparative analysis, but we feel that it can help in assessing some key regulatory policy issues.

One measure of the business environment in a country relates to the conditions attaching to starting up a business. This may be measured in terms of the number of procedures involved, the time in days that it would typically take to complete the total number of procedures, and an estimate of the cost of setting up a business as a percentage of income per capita. Table 3.1 presents the findings on setting up a business in the countries studied. Ireland performs well with a mid-to-low table rating of 5.3% of income per capita and, with a low number of 4 procedures required. Based on this analysis, it is most difficult and costly to set up a business in Greece, whilst it is least costly in Denmark

Table 3.1: A Comparative Assessment of Starting a Business

Country	Procedures (number)	Time (days)	Cost (% of income per capita)
Greece	15	38	24.6
Poland	10	31	22.2
Spain	10	47	16.5
Italy	9	13	15.7
Portugal	11	54	13.4
Netherlands	7	11	13
Belgium	4	34	11.1
Slovenia	9	60	10.1
Austria	9	29	5.7
<b>Ireland</b>	<b>4</b>	<b>24</b>	<b>5.3</b>
Germany	9	24	4.7
Finland	3	14	1.2
France	7	8	1.2
Sweden	3	16	0.7
United Kingdom	6	18	0.7
United States	5	5	0.5
Denmark	3	5	0

Source: World Bank; "Doing Business Report, 2005"

Looking at another dimension of the business environment, Table 3.2 presents the findings on the estimated difficulty, rigidity and cost of employing individuals in each of the studied countries. Ireland ranks low in terms of the cost of hiring as a percentage of the salary, coming fourth from bottom. Denmark has the highest rank, while Belgium and France rank top, with employers in Belgium spending over half of the salary for a position on hiring costs.

Table 3.2: A Comparative Assessment of Hiring Workers

Country	Difficulty of Hiring Index	Rigidity of Employment Index	Hiring cost (% of salary)
Belgium	11	20	55
France	78	66	47.4
Sweden	28	43	33.4
Italy	61	57	32.6
Spain	67	66	31.6
Austria	11	44	31.3
Greece	78	66	30
Poland	11	37	25.8
Portugal	33	58	23.8
Finland	44	48	22.2
Germany	44	55	21.3
Slovenia	61	64	16.6
Netherlands	28	49	15.6
Ireland	28	33	10.8
United Kingdom	11	14	8.7
United States	0	3	8.5
Denmark	11	20	0.7

Source: World Bank; "Doing Business Report, 2005"

The regulatory burden arising from tax issues is often mentioned as a concern for business and this issue was assessed by the World Bank. The findings are presented in Table 3.3 and show that Ireland ranks third from bottom with 8 tax payments and an estimated cost of 76 hours. Only France (72 hours) and Switzerland (63 hours) rank lower in terms of the estimated burden. The tax system in the Netherlands seems to be most burdensome, with compliance requiring an estimated 700 hours.

Table 3.3: A Comparative Assessment of Annual Tax Payments

Country	Payments (number)	Time (hours)
Netherlands	22	700
Italy	20	360
Slovak Republic	31	344
Portugal	7	328
United States	9	325
Austria	20	272
Slovenia	29	272
Greece	32	204
Poland	43	175
Belgium	10	160
Denmark	18	135
Sweden	5	122
Germany	32	105
Ireland	8	76
France	29	72
Switzerland	25	63
Finland	19	..
United Kingdom	22	..

Source: World Bank; "Doing Business Report, 2005"

The World Bank Survey also provides an overall benchmark of business regulation and its enforcement in 155 countries worldwide. The most recent survey shows that the general business environment in Ireland is positive with Ireland ranked as the 11<sup>th</sup> easiest country in which to do business. Table 3.4 presents Ireland's position in relation to a number of the other areas surveyed. This is in line with a range of other studies, but of course, does not suggest that there is no room for improvement.

The report also found that Ireland ranked highly in terms of the ease of starting a business. Ireland also fared reasonably well in terms of starting a business and in terms of paying taxes. Ireland's lowest ranking was in the area of hiring and firing, which was also an issue identified by business in workshop sessions with the Small Business Forum.

**Table 3.4: Summary of Ireland's Relative Business Environment**

	<b>Ireland</b>
Ease of Doing Business	11 <sup>th</sup>
Starting a Business	11 <sup>th</sup>
Hiring and Firing	59 <sup>th</sup>
Paying Taxes	21 <sup>st</sup>

*Source: World Bank; "Doing Business Survey, 2005"*

### **3.3 The significance of regulatory burdens in faced by SMEs in Ireland and the EU**

There is some survey evidence on this based on an EU commissioned study. In Table 3.5 below we provide some results of a survey of SMEs from Ireland and the EU as a whole. It is interesting to assess the extent businesses in Ireland rate administrative regulatory burdens in comparisons with other problems they face.

These results suggest that Irish SMEs, which in the survey includes firms with less than 250 employees, are less prone to see administrative regulations as the major constraint on their business performance than are firms in other European countries. The results indicate that 5% identified administrative regulations as a barrier compared to 9% for Europe as a whole. In addition, firms in Ireland cite other issues as a more significant barrier to business performance.

**Table 3.5: Major constraint on business performance cited by SMEs in 2003<sup>10</sup>**  
(% of SMEs)

	Ireland	European average
Lack of skilled labour	17%	13%
Access to finance	11%	10%
Implementing new technology	1%	3%
Implementing new forms of organisation	3%	2%
Quality management	2%	1%
<b>Administrative regulations (on environment, health, safety)</b>	<b>5%</b>	<b>9%</b>
Infrastructure (road, gas, electricity, communications)	5%	4%
Purchasing power of customers	31%	36%
Other	12%	8%
None at all	12%	13%
Don't know / no answer	2%	1%
Total	100%	100%

*Source: Categories are exclusive. Weighted data, ENSR Survey 2003 among 7,837 SMEs in 19 European countries*

However, these results do not necessarily tell us much about the importance of regulatory burdens to small businesses in general. Posing the question in this way focuses attention on firms facing extreme regulatory burdens, rather than on the level of burden on the average firm. Also, other small business research suggests that regulatory burdens may vary with firm size. Since the sample in this case includes some medium-sized firms, it may be that the small firms in the sample reported a higher or lower average.

It is possible to examine the issue of how perceived regulatory burdens vary with firm size, although published data on this are only available on a European basis, not for Ireland alone. In Table 3.6 below, we show the European average shares of each firm size class reporting the various “major constraints on business performance”, again for 2003.

<sup>10</sup> The question posed in the survey was “Which of the following factors has been the major constraint on your business performance over the last two years?”.

It seems that the smallest and largest SMEs are less prone to cite administrative regulation as their major business constraint, whereas mid-size SMEs are somewhat more prone to do so. This pattern is consistent with the results of other international research; while the burden of regulation tends to be less onerous as firms get bigger, some regulatory measures exempt companies below a certain size threshold.

**Table 3.6: Major constraint on business performance cited by European SMEs in different size classes, 2003**  
(% of SMEs)

Firms by size class	0-9 staff	10-49	50-249
Lack of skilled labour	13%	14%	20%
Access to finance	10%	13%	7%
Implementing new technology	3%	2%	5%
Implementing new forms of organisation	2%	4%	3%
Quality management	1%	1%	2%
<b>Administrative regulations (on environment, health, safety)</b>	<b>9%</b>	<b>13%</b>	<b>11%</b>
Infrastructure (road, gas, electricity, communications)	4%	5%	5%
Purchasing power of customers	37%	30%	31%
Other	8%	7%	9%
None at all	13%	10%	6%
Don't know / no answer	1%	0%	0%
Total	100%	100%	100%

*Source: Categories are exclusive. Weighted data, ENSR Survey 2003 among 7,837 SMEs in 19 European countries*



### **3.4 The burdens imposed by different types of employment regulations on small firms**

Next we consider the types of regulations that may be most significant. This could assist in identifying those areas where the attention of policy-makers ought to focus.

Quantitative research on how different types of regulation affect small businesses is relatively scarce in Europe and in Ireland specifically. However, in the field of employment regulation there is some survey evidence. In 2001, the ENSR survey included a module on the perceived effects of employment regulations, and there are some interesting results in its Irish component.

Table 3.7 below lists a range of types of employment regulations and indicates Irish and European SMEs saw as creating the highest burdens.

Like other European firms, Irish SMEs ranked health and safety regulations highly among sources of administrative burden. However, employment related taxes were ranked higher still by Irish firms, whereas their European counterparts tended to see these as relatively less significant.

In contrast, European firms gave a much higher ranking to social security and pension requirements and restriction in working hours than Irish firms did.

**Table 3.7: Field of employment regulations in which administrative burdens are highest<sup>11</sup>**  
(% of SMEs)

	Ireland	European average
Employment related taxes	32%	12%
Health & safety protection for workers	28%	30%
Social security & pension requirements	4%	14%
Employment Contracts	4%	3%
Dismissal Law	3%	3%
Collective bargaining	3%	2%
Sector-specific requirements for licences/certificates	3%	5%
Restriction on working hours	1%	6%
Worker participation law	0%	1%
Don't know/no answer	22%	23%
Total	100%	100%

*Source: Categories are exclusive. Weighted data, ENSR Survey 2001 ENSR Survey among 7,662 SMEs in 19 European countries*

In addition to scoring employment regulation by the significance of burdens imposed, the survey explores to what extent regulation affects firms' behaviour. On the question of how far administrative burdens have an effect on firms' hiring decisions (Table 3.8 below), Irish responses were much closer to the European average. About half of SMEs felt that employment regulations had no effect on hiring decisions. Among those firms that reported some effect, Irish SMEs tended to report a more limited effect than the European average.

<sup>11</sup> The question posed in the survey was "Governments may require enterprises to keep registers or submit information, etc. In which ONE of the following fields of employment regulations are such administrative burdens highest? "

**Table 3.8: Influence of administrative burdens of employment regulations on hiring of employees<sup>12</sup> (% of SMEs)**

	Ireland	European average
Not at all	47%	47%
A little	24%	18%
Considerably	10%	12%
Much	2%	9%
Very much	6%	8%
Don't know/no answer	10%	5%
Total	100%	100%

*Source: Categories are exclusive. Weighted data, ENSR Survey 2001 ENSR Survey among 7,662 SMEs in 19 European countries*

Similar questions in the survey sought to discover how far employment regulations affected the extent of outsourcing and the use of temporary staff. As with hiring decisions, most firms reported that these activities were not affected by regulation.

There is also evidence on the perceived trend in the burden of employment regulations between 1997 and 2003 (Table 3.9). As with other surveys, the majority of both Irish and European SMEs reported an increase in perceived burdens during this period. Of those expressing an opinion, only about a third felt there was no change or a decrease in such burdens.

<sup>12</sup> The question posed in the survey was “To what extent do these legal administrative burdens in the field of employment regulations influence your decision to hire employees?”.

**Table 3.9: Did the administrative burdens resulting from employment regulations increase or decrease between 1997 and 2003?<sup>13</sup>**  
(% of SMEs)

	Ireland	European average
Increase	60%	64%
Decrease	4%	3%
No change	22%	23%
Don't know/no answer	15%	10%
Total	100%	100%

Source: Categories are exclusive. Weighted data, ENSR Survey 2001 ENSR Survey among 7,662 SMEs in 19 European countries

### 3.5 International Evidence of Cost of Compliance for Small Firms

The previous sections discussed some results which examined differences in regulatory burden by firm size. There is also US research which estimated the cost of regulation in different areas and by size of firm. Table 3.10 reports some of the results which show the regulatory burden falls disproportionately on Small Businesses in the US. The cost of compliance per employee is significantly larger for firms with 1-20 firms compared to firms with more than 500 employees. This difference is largely attributable to scale economies. The table also provides an indication of types of burdens that are significant.

<sup>13</sup> The question posed in the survey was "Did the administrative burdens resulting from these employment regulations, increase or decrease since 1997".

**Table 3.10: Regulatory Burden by Employment Size**

Type of Regulation	Cost per Firm	Average Cost per Employee	1-20 Employees	21-249 Employees	500+ Employees
Environmental	17,467	959	1,246	1,194	671
Other Social	9,224	506	658	630	354
Economic Efficiency	8,047	442	574	550	309
Taxation	28,261	1,551	2,017	1,931	1,086
Transfers	14,719	808	1,050	1,006	566
Total	77,522	4,255	5,532	5,298	2,979

Source: Hopkins, T. D., 1995; "Profiles of Regulatory Costs", Report to the US Small Business Administration, Office of Advocacy

Table 3.11 presents information on the estimated compliance costs with federal regulations for firms of different sizes. Again it is possible to see that the average cost per employee is significantly higher for smaller firms (except for the case of economic regulations, which tend to affect larger firms).

**Table 3.11: The Burden of Federal Regulations by Firm Size**

	All Firms (\$)	<20 Employees	20 - 499 Employees	500 + Employees
Environmental	1,213	3,328	1,173	717
Economic	2,065	1,616	1,648	2,485
Workplace	779	829	873	698
Tax Compliance	665	1,202	625	562
Total	4,722	6,975	4,319	4,463

Source: Crain & Hopkins, 2001; "The Impact of Regulatory Costs on Small Firms", Report to the US Small Business Administration, Office of Advocacy.

Research from the UIT is also available on this issue. Table 3.12 shows an analysis of the number of hours per month per business spent on Government regulation, broken down by the size of the business. The figures show a decreasing relationship between the number of employees and the number of hours spent per employee spent ensuring compliance with Government regulations.

**Table 3.12: Hours per Month Spent on Government Regulation by Size of Business**

Number of Employees	Total Hours	Hours per Person
0	6.5	4.4
1 - 2	12.8	6.4
3 - 4	16.4	4.1
5 - 9	23.8	3.4
10 - 19	31.8	2.4
20 - 49	41.1	1.4
50 +	76.7	1.3
Total	22.6	3.9

*Source: Small Business Research Trust, 2000; "NatWest SBRT Quarterly Survey of Small Businesses in Britain", Vol. 16 No.3*

Table 3.13 shows an analysis of the average number of additional hours per week per business (and estimated total cost) spent on compliance specifically with employment regulation, broken down by the size of the business. The figures show that the cost is highest for firms with 20-49 employees, but is lower for smaller and larger firms.

**Table 3.13: Mean Number of Hours Spent on Compliance with Employment Regulations**

Number of Employees	Average Weekly Additional Hours	Average Weekly Additional Costs
1 – 4	4.75	£81.45
5 – 9	6.94	£84.80
10 – 19	6.35	£140.12
20 – 49	13.16	£184.18
50 – 99	6.95	£174.57
100 +	3.67	£133.33

*Source: Forum of Private Business, 2000.*

## 3.6 Conclusions

In this section we examined the available evidence on the extent of the regulatory burden on business in Ireland when compared with other countries.

Evidence from the World Bank survey suggests suggest that the general business environment in Ireland is positive with Ireland ranked as the 11<sup>th</sup> easiest country in which to do business. The report also found that Ireland ranked highly in terms of the ease of starting a business and also fared reasonably well in terms of starting a business and in terms of paying taxes. Ireland ranks low in terms of the estimated difficulty, rigidity and cost of employing individuals but not as well in the area of “hiring and firing”. This was also identified as an issue by business in workshop sessions with the Small Business Forum.

We also examined results from a recent EU survey. These results suggest that Irish SMEs, which in the survey includes firms with less than 250 employees, are less prone to see administrative regulations as the major constraint on their business performance than are firms in other European countries. The results indicate that 5% identified administrative regulations as a barrier compared to 9% for Europe as a whole. In addition, firms in Ireland cite other issues as a more significant barrier to business performance.

The survey also provides evidence on the areas of most significant burden. Like other European firms, Irish SMEs ranked health and safety regulations highly among sources of administrative burden. However, employment related taxes were ranked higher still by Irish firms, whereas their European counterparts tended to see these as relatively less significant. In contrast, European firms gave a much higher ranking to social security and pension requirements and restriction in working hours than Irish firms did.

There is also US research which estimated the cost of regulation in different areas and by size of firm. The results which show the regulatory burden falls disproportionately on Small Businesses in the US. The cost of compliance per employee is significantly larger for firms with 1-20 employees compared to firms with more than 500 employees.



## 4 Summary of Irish Survey Results on Regulatory Burden

### 4.1 Introductions

The previous section assessed the available international research of relevance to this study. In some cases there were references to Ireland but in most cases there were other country-specific research. The issue of regulatory burden in Ireland is not well researched and this is an area where further work is required.

### 4.2 Indecon/Lansdowne Market Research Survey Results

In this section, we present the findings of market research conducted by Indecon in conjunction with Lansdowne Market Research on regulatory compliance costs for small firms in Ireland. First, we examine the details of the survey and then discuss the results.

#### 4.2.1 Sample characteristics

Table 4.1 shows the profile of those businesses surveyed in terms of the length of time that the business has been in operation. Over 80% have been in operation for more than 6 years.

**Table 4.1: Number of Years in Business of Respondents**

One	4
Two	1
3-5 Years	11
6-10 Years	25
11+ Years	57
Refused	2

*Source: Indecon and Lansdowne Market Research*

In relation to regional representation, Table 4.2 presents the regional spread of the respondents to the Indecon/Lansdowne survey. As should be expected, the majority of firms were from Dublin and wider Leinster.

**Table 4.2: Regional Spread of Respondents**

Dublin	21
Rest of Leinster	27
Munster	21
Connacht/Ulster	29

*Source: Indecon and Lansdowne Market Research*

As we are interested in small firms, Table 4.3 shows the breakdown of the respondents in relation to the number of employees. Nearly three in four have ten or less employees with 90% having 20 employees or less.

**Table 4.3: Number of Employees of Respondents**

1-10	73
11-20	17
21-30	4
31-40	2
Over 40	4

*Source: Indecon and Lansdowne Market Research*

#### 4.2.2 Burden of regulations

Table 4.4 presents a summary of the views of respondents as to the burden of key regulations. Based on the findings, a number of the regulations are considered to be either a significant burden or a very significant burden by a large percentage of respondents. These would include Health and Safety regulations, VAT administration, Employment regulations, Income Tax administration and Environmental regulations. In each case, between 44% and 47% of respondents viewed these regulations as a very significant or significant burden.

**Table 4.4 : Respondents' Views on Burden on Principal Regulations**

	Very Significant Burden	Significant Burden	Neither	Insignificant Burden	Very Insignificant Burden	Don't Know
Health and safety Regulations	11	34	7	41	6	1
VAT Administration	10	37	6	40	3	4
Employment Regulations	7	38	2	41	6	6
Income Tax Administration	7	39	7	33	7	7
Environmental Regulations	6	38	7	43	4	2
Corporate taxation Administration	3	32	12	35	8	13
Corporate Governance	1	25	9	38	13	14

Source: Indecon and Lansdowne Market Research

Respondents were also asked their views on which regulations are associated with the highest administrative burden. The findings show that the most burdensome regulations in terms of compliance are: health and safety protection for workers (16%); dismissal law (14%); and employment related taxes (14%). Other potential options listed received considerably lower rankings.

**Table 4.5: Respondents' Views on Regulations with Highest Administrative Burden**

Health and Safety protection for workers	16
Dismissal Law	14
Employment related taxes	14
Restrictions on working hours	7
Social security and pension requirements	3
Worker participation law	1
Collective bargaining	1
Sector-specific requirements regarding licenses and/or certificates	1
Employment contracts	9
Don't Know	34

*Source: Indecon and Lansdowne Market Research*

Table 4.6 presents a summary of respondents' views in relation to trends in this issue which show that there is a general belief that the costs of compliance are increasing, with 71% stating that they believe that the burden has increased. Within this, 23% believe that this increase has been significant. We also asked whether there had been a trend in the administrative burden facing firms.

**Table 4.6: Respondents' Views on Trends in Administrative Burden on Small Firms in Ireland**

Increased significantly	23
Increased	48
No Change	15
Decreased	8
Decreased significantly	2
Don't Know	4

*Source: Indecon and Lansdowne Market Research*

Table 4.7 outlines the barriers that respondents believed to be the most significant in terms of securing growth. Finance, administrative regulations and the lack of skilled labour are seen as the most significant barriers. Interestingly, respondents expressed the belief that (excluding the 'Other' category), administrative regulations are the second most significant barrier of those listed below.

**Table 4.7: Respondents' Views on most Significant Barriers to Growth**

Finance	28
Other	26
Administrative regulations	23
Lack of skilled labour	21
Implementing new technology	18
Infrastructure	12
Entrepreneurship education	9
Management	6
Access to information	3
Don't know	16

*Source: Indecon and Lansdowne Market Research*

### 4.3 Lansdowne Market Research for Department of Taoiseach, January 2003

We present the findings of additional market research conducted by Lansdowne Market Research on the burden of regulatory compliance for small firms in Ireland, completed for the Department of Taoiseach.

Table 4.8 shows a summary of the views of survey respondents as to whether regulations are a significant burden on businesses and this is set out by the size of the business. The results show that over half of small firms believe regulations to be a burden and that there is a higher percentage among small businesses.

**Table 4.8: Views of Respondents on whether Regulations are a Significant Burden on my Business - % of Respondents**

	Strongly Agree	Agree	Neither Agree or Disagree	Disagree
Total	26	28	19	27
1-9 Employees	26	28	18	27
10-49 Employees	23	29	18	27
50 + Employees	23	33	28	12

*Source: Lansdowne Market Research for Department of Taoiseach, January 2003*

This survey also examined the issue of which of the areas represented the largest burden on businesses. Table 4.9 shows that taxation is the largest burden on businesses, followed closely by health and safety regulations. Others mentioned included CSO and industry specific regulations.

**Table 4.9: Respondents' Views on Which Regulations are a Burden - %**

Taxation Regulations	26
Health and Safety	22
CSO	13
Industry Specific	13
Company Law	10
Employment Law	9
Environmental Regulation	7

*Source: Lansdowne Market Research for Department of Taoiseach, January 2003*

Table 4.10 summarises respondents' views on the ease of compliance with each type of regulation. The most difficult regulations from a compliance perspective are identified as health and safety and employment law.

**Table 4.10: Respondents' Views on Ease of Compliance with Regulations - %**

	Very Easy	Quite Easy	Neither Easy/ Difficult	Quite Difficult	Very Difficult	Don't Know
Taxation/PRSI	12	43	25	19	3	2
Environmental Regulations	9	28	16	26	8	20
Employment Law	13	32	18	29	11	8
Industry Specific Regulations	8	36	23	27	7	6
Health and Safety	11	35	20	29	7	5
Company Law/ Annual Refunds	11	38	22	17	4	9
CSO Data	8	38	18	21	9	7

*Source: Lansdowne Market Research for Department of Taoiseach, January 2003*

According to businesses surveyed, there has been an increasing trend in the costs of compliance with regulations, as shown in Table 4.11.

**Table 4.11: Respondents' Views on the Extent to Which Regulations have become more or less of a Burden - %**

A lot more	33
A little more	29
No Difference	32
A little less	5
A lot less	1

*Source: Lansdowne Market Research for Department of Taoiseach, January 2003*

In terms of making the government system more business-friendly, Table 4.12 outlines the areas that survey respondents suggest should be addressed. The most popular suggestions were more interaction with businesses, improved communications, and improved customer service.

**Table 4.12: Respondents' Views on What the Civil Service can do to be more Business Friendly - %**

More Interaction with businesses	18
Improve internal/external communications	16
Improve customer service	16
Simplify terminology	10
Be more efficient	8
Make information easier to obtain	5
Less bureaucratic more transparency	4
Improve on-line access	4
Extend opening hours	4

*Source: Lansdowne Market Research for Department of Taoiseach, January 2003*



Table 4.13 summarises respondents' general attitudes to regulations. This identifies a number of interesting issues for policy-makers. These include a general view that regulations ought to be reduced; that there is a need for better enforcement, and there is a need for regulation reviews and better communication with business.

**Table 4.13: Respondents' Attitude to Regulations - %**

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Disagree Strongly	Don't Know
It is difficult to keep track of all the regulations affecting my business	26	46	8	18	-	2
Businesses need less regulation	20	30	15	32	2	1
Regulations affecting my business are reasonable and straightforward to comply with	3	54	12	21	8	1
There are fewer regulations on Irish business than in other countries	5	11	22	17	5	40
Most regulations are well enforced	1	39	7	43	6	3
Regulations are regularly reviewed to ensure that they are up to date	1	24	12	36	11	16
There is adequate consultation with business in the design of new regulations	1	17	11	40	19	12

Source: Lansdowne Market Research for Department of Taoiseach, January 2003

## 4.4 Conclusions

This section summarises the results of new research on the views of respondents as to the burden of key regulations. Based on the findings, a number of the regulations are considered to be either a significant burden or a very significant burden by a large percentage of respondents. These would include:

- Health and Safety regulations,
- VAT administration;
- Employment regulations;
- Income Tax administration; and
- Environmental regulations.

In each case, between 44% and 47% of respondents viewed these regulations as a very significant or significant burden.

Respondents were also asked their views on which regulations are associated with the highest administrative burden. The findings show that the most burdensome regulations in terms of compliance are: health and safety protection for workers (16%); dismissal law (14%); and employment related taxes (14%). Other potential options listed received considerably lower rankings. Respondents were also asked their views on the most significant barriers in terms of securing growth. Finance, administrative regulations and the lack of skilled labour are seen as the most significant barriers.

These results were compared and contrasted with previous research undertaken in 2003. The results show that over half of small firms believe regulations to be a burden and that there is a higher percentage among small businesses. This survey also examined the issue of which of the areas represented the largest burden on businesses. This indicated that taxation requirements are seen as the largest burden on businesses, followed closely by health and safety regulations. Others mentioned included CSO and industry specific regulations.

## 5 Selected Issues Identified in Submissions

### 5.1 Introduction

The submissions received by the Small Business Forum as part of its work identified the regulatory burden as an issue for business. In this section we summarise some of the main points included in these submissions. We begin by presenting a summary of the key issues raised in the main submissions made to the Small Business Forum, and follow this with an assessment of the recommendations made in the submissions.

### 5.2 Summary of Main Submissions

#### 5.2.1 Small Firms Association

The Small Firms Association (SFA) submission to the Small Business Forum included a discussion of a number of issues in relation to small business regulation and these are summarised below.

While SFA acknowledges the importance of regulations to improve the functioning of markets and achieve environmental and social policy goals, it stresses the importance of a balance between the needs of business and the goals of regulation. SFA has the “strongly held view” that “enterprise development in Ireland is unnecessarily and severely handicapped by the amount of bureaucratisation and the costs associated with it.”

Research undertaken by the SFA found that for a small firm in Ireland which employs eight people, one-half of one person’s time is devoted to filling out forms. This includes duplicated information requests from different state bodies: “any company wholly engaged in business within Ireland can have as many as 80 core forms to complete, many requiring submission a number of times a year.”

SFA also raises claims that regulation “can result in higher prices and costs, a reduction in consumer choice, and a reduction in flexibility and innovation.”

According to SFA, if regulations are well-designed and efficiently enforced, they can achieve their goals “without imposing a significant compliance cost on firms or weakening the ability of businesses to adapt to changing economic conditions, technologies and consumer preferences.”

The SFA made the following recommendations in relation to the costs and bureaucratisation of regulation for small business:

- Development of a transparent and independent system of assessing the quality of regulatory impact assessments prepared by Government departments;
- Development and frequent publication of regulatory indicators to better measure the cumulative administrative and compliance cost on firms from regulation; and,
- Increased consolidation of information requests to industry from government departments and agencies through the use of technology.

### 5.2.2 Irish Small and Medium Enterprises Association

According to the Irish Small and Medium Enterprises Association (ISME), small business owners are “forced to read, understand and implement almost 1,000 different major legislative items that impact on their business in all areas including taxation, industrial relations and health & safety among others” in order to comply with legislation and regulations. In addition, firms are expected to complete almost 110 core forms each year in their dealings with State and semi-State bodies.

ISME states in its submission that “the area of greatest concern to small businesses is the excessive amount of labour legislation” imposed on the sector. In support of this ISME suggests that “the highly regulated labour market in Ireland is very much a consequence of EU-led Legislation, which is having a detrimental effect on the European Community’s ability to create jobs and to remain competitive. The increased level of bureaucracy has resulted in 20 new pieces of labour legislation alone being introduced in the last 5 years.” This regulation falls disproportionately on small businesses, as they are primarily labour intensive, according to ISME and “increased labour legislation has been identified as a significant barrier to small companies with regard to increasing their employee numbers”.

ISME stresses its position on the issue saying “it is the strongly held view of industry in general and SMEs in particular that industry in Ireland is unnecessarily and severely handicapped by the amount of regulation imposed by excess bureaucratisation.”

Relative to other countries’, regulation is much higher in Ireland, according to ISME. This is stifling growth, reducing competitiveness and costing Ireland jobs. Regulations are imposing costs and inflexibilities, which frustrate enterprise, hamper innovation and deter investment.

ISME also makes the point that regulations impose burdens on the State itself through the need for the explanation and enforcement of often-complex rules to businesses.

On regulation, ISME makes the following recommendations:

- Any overlay of European standards over and above internationally accepted standards should be resisted;
- Standards should be based on sound scientific evidence and take account of costs, benefits and risks. They should not act as barriers to trade;
- Unnecessary documentation should be amended, simplified or abolished;
- There should be increased co-operation between all state agencies, where possible, including the Revenue Commissioners, the Companies Registrations Office and CSO with regard to sharing information, which is readily available to one or the other; and,
- Regulatory impact assessments should be introduced on all legislation and regulations that are imposed on small business.

### 5.2.3 The Chambers of Commerce in Ireland

The Chambers of Commerce in Ireland (CCI) submission considers issues in relation to ‘red tape’ as a form of regulation. It states that while it “accepts that some degree of regulation is not only acceptable it is desirable, all regulation must be proportionate and manifestly justified. Furthermore it needs to be more SME-friendly as regards to how it is applied.”

The CCI points out that regulation “imposes costs as well as benefits” and sites the Working Time Directive as an example. It has, according to CCI, “been implemented in a way that seriously inhibits the entrepreneurial energies of fast growth start-ups and creates inflexibilities that a small employer cannot afford.” Furthermore, CCI feels that EU initiatives to protect consumers and workers have added to the complexity of running a business.

The CCI identifies two key problems with business related legislation:

1. Regulatory burdens are harder for small businesses to carry than they are for large corporations; and,
2. One-size-fits all international remedies often do not sit very well with the business environment of individual countries.

The overall message of the submission in relation to regulation is to reduce the burden of red tape on business. The submission also suggests that all regulations should come into effect on two fixed dates per year at which time small business can be prepared and sensitised to these changes. As an example, CCI suggests that these dates should be on February 1st and August 1st each year.

#### 5.2.4 The Institute of Chartered Accountants in Ireland

The Institute of Chartered Accountants in Ireland (ICAI) submission addresses a number of issues including: audit exemption; alternative forms of external assurance; alternative structures for small businesses; impact of regulation on small business; accounting needs of small companies; taxation compliance costs; and the tax code. The issue of regulation is addressed either directly or indirectly in these areas.

Specific to the regulation of small firms, ICAI believes that “laws and regulations designed to regulate larger, public interest entities, often have undesirable and unintended ‘trickle down’ effects on smaller entities, and impose unnecessary costs.” It states that any new government measures to regulate business activity should take account of their impact on small businesses. To this end, “Regulatory Impact Assessments should include where possible, assessments of how EU legislation has been implemented elsewhere”, according to ICAI.

On taxation compliance costs, ICAI recommends that a review of such costs to small businesses “should be undertaken and Regulatory Impact Assessments should be carried out on proposed future changes to tax law.”

A number of other recommendations are made by ICAI in their submission. These include:

- Research should be undertaken into the accounting and auditing needs of smaller entities;
- Revenue start-up visits should be re-instated;
- Audit exemption should be given to SMEs from the annual statutory audit;
- Retired former executives and retired professionals from accountancy, medicine, chemicals, electronics and academia should be encouraged through tax incentives to work part-time in start-up companies.
- Current thresholds which exempt businesses for accounting for VAT are too low and should be raised.
- The harsh tax regime as well as the tax penalty scheme applied to proprietary directors of small enterprises should be re-examined;
- Recent abolition of “roll-over relief” whereby capital gains tax would only become payable once the business assets were finally sold without further reinvestment, should be reviewed. Also, the high rate of Stamp Duty on commercial premises should be reviewed.
- Alternative structure for small businesses should be considered. At present, the Limited Liability Partnership (LLP) structure which combines flexibility of internal structure and organisation of a partnership with the benefit of limited liability is not available in Irish legislation.

### **5.3 Proposals Made in Other Submissions**

The above section summarises the main points raised and proposals made in four of the main submissions made which address the issue of regulation. In this section we summarise other recommendations made in other submissions that have relevance to this study. They fall under a number of headings including: general regulatory recommendations; regulations specific to SMEs; finance regulation recommendations; and company law recommendations.

### 5.3.1 General Regulatory Proposals

A number of recommendations (additional to those discussed in the previous section) were made in submissions to the Small Business Forum. These are set out in Table 5.1.

**Table 5.1: Other General Regulatory Proposals**

<b>Proposal</b>	
1.	Government should re-commit to implementing the European Charter for Small Enterprises in a comprehensive fashion at the earliest possible date and fully involve local agencies in developing plans and proposals to attain that goal (Sligo County Enterprise Board)
2.	Review public service tendering process for contracts below €500,000 (Institute of Certified Public Accountants in Ireland)
3.	Allow temporary work permits for those awaiting asylum decisions (Institute of Certified Public Accountants in Ireland)
4.	Consider a policy revision to ensure a co-ordinated national strategy focusing on SME start-ups (Bank of Ireland)

*Source: Submissions to Small Business Forum.*



### 5.3.2 Regulation specific to SMEs

A number of proposals specific to the regulation of SMEs were made in submissions and these are summarised in Table 5.2.

**Table 5.2: Other Proposals Specific to SMEs**

<b>Proposal</b>	
1.	Review of regulation for businesses below a certain size being subject to maintaining essential safeguards for employees (Institute of Certified Public Accountants in Ireland)
2.	Review of regulatory framework to allow relaxation of some regulations for small businesses for a start-up period of 3 years (Institute of Certified Public Accountants in Ireland) or 5 years (ISME)
3.	Allow for relief or a lead-in period for small businesses from business regulation, particularly in relation to corporate enforcement (Miriam McGillicuddy, IT Tralee)
4.	Tackle “late payments” to SMEs through stronger sanctions and simplified legal process (Bank of Ireland)

*Source: Submissions to Small Business Forum.*

### 5.3.3 Taxation/Finance Regulation Proposals

A number of proposals specific to taxation/finance regulation were also made in submissions and these are summarised in Table 5.3.

**Table 5.3: Other Proposals Specific to Taxation/Finance Regulation**

Proposal
1. Current thresholds which exempt businesses for accounting for VAT are too low and should be raised. Also the “no loss of VAT” principle which the Revenue Commissioners previously applied should be re-introduced for the benefit of small businesses (The Institute of Chartered Accountants in Ireland)
2. Increase VAT registration thresholds to €80,000 for goods and €50,000 for services (The Chambers of Commerce of Ireland)
3. Increase the threshold for VAT on a cash receipt basis to €3m, to relieve pressure on working capital(The Chambers of Commerce of Ireland)
4. Increase VAT registration threshold to €150,000 (Institute of Certified Public Accountants in Ireland)
5. Recent abolition of “roll-over relief” whereby capital gains tax would only become payable once the business assets were finally sold without further reinvestment, should be reviewed. Also, the high rate of Stamp Duty on commercial premises should be reviewed. (The Institute of Chartered Accountants in Ireland)
6. Exemption for new businesses from employer PRSI should be allowed for three years after start-up (Institute of Certified Public Accountants in Ireland)
7. An easy to apply profit sharing scheme should be introduced whereby SMEs could provide for 10% of net profits exempt of taxes to accumulate in a fund for employees which could not be drawn down for a three year period.
8. Operational concerns and perceived barriers to all forms of employee financial involvement must be identified through research and consultation. The issue of taxation in relation to gainsharing is one of a number of areas that must be examined in this context (National Centre for Partnership and Performance)
9. Reform of preliminary tax system which taxes 80% of previous years profit, 1 month before the end of financial year (Vincent Tully Ltd)

Source: *Submissions to Small Business Forum.*

### 5.3.4 Company Law Regulation

Finally, a number of proposals in relation to company law regulation are presented in Table 5.4.

**Table 5.4: Other Proposals Specific to SMEs**

Proposal	
1.	Alternative structures for small businesses should be considered. At present, the Limited Liability Partnership (LLP) structure which combines flexibility of internal structure and organisation of a partnership with the benefit of limited liability is not available in Irish legislation. (The Institute of Chartered Accountants in Ireland)
2.	Review of company law legislation whereby directors are granted a presumption of innocence until proven guilty without recourse to the high court. (The Institute of Chartered Accountants in Ireland)

*Source: Submissions to Small Business Forum.*

## 5.4 Conclusion

The overall conclusion from the main business submissions is that Ireland is over-regulated and this is imposing a significant cost on business. It is also argued that we are more regulated than other countries and that this is affecting our relative competitiveness.

The main areas of difficulty for small business were identified as labour regulations followed by taxation and health and safety regulations. There is also a concern about the extent of form filling imposed by the Government system.

In summary, the research suggests that Ireland's regulatory burden compares favourably with other members of the EU and the wider OECD group of countries. However, the evidence indicates that the regulatory burden is increasing and there are a number of areas of concern for the small business community. Policy needs to take account of areas where the regulatory burden is significant and be careful not to add to the regulatory burden, unless the benefits clearly outweigh the costs. This suggests some general and specific policy agendas.



## 6 Policy Options

### 6.1 Introduction

The available evidence from the international research indicates that in terms of the burden of regulation, Ireland performs well. However, the survey evidence from Ireland and the views of small business reach an alternative view. This is important in considering potential policy responses. These are discussed in this section before discussing some general recommendations that could be considered in this area.

### 6.2 Options for Addressing the Regulatory Burden

The regulations addressed in this report exist to mandate or prohibit actions by small businesses, with the general objective of achieving a particular social objective. Incentives, in the form of explicit punishments, exist to coerce firms to comply with the regulations and in doing so they may be forced to alter their productive processes or undertake investment in new equipment, all of which creates the regulatory burden for firms. In looking at ways of alleviating this burden on businesses, it is important to realise that there will always be a burden imposed by regulation. If the actions of a firm were not altered by the regulation, then the purpose of the regulation would be questionable, due to its failure to bring about a specified objective. If the objective is to retain the status quo, one that is retained both with and without the regulation, then why regulate at all. This type of regulation is unnecessary and is an example of “Bad Regulation”.

The goal of the policy maker therefore should be to minimise the amount of bad regulation introduced, as well as removing out-dated and irrelevant regulations. “Good Regulation” can be designed around five principles<sup>14</sup>:

- Proportionality - regulations should be implemented only when necessary and favourable to alternatives and they should be appropriate to the risks posed with the associated costs minimised;

---

<sup>14</sup> Better Regulation Task Force, “Regulation – Less is More; Reducing Burdens, Improving Outcomes”, March 2005.

- Accountability – the objective of the regulation should be clearly justifiable and subject to scrutiny;
- Consistency – regulations should be a coordinated set of policies wherein overlaps are minimised and that are implemented and enforced in an equal and fair manner;
- Transparency – as well as regulations being open to scrutiny, it is important that all interested parties are informed of and given the opportunity to contribute to policy objectives to be achieved through regulation;
- Targeting – regulations should be focussed on a clear and achievable objective with full knowledge of the likely impacts on specific groups and designed such as to minimise potential side effects.

These five principles of good regulation aim to minimise the burden of regulation by involving interested parties, developing appropriate policy measures to address a specific problem and doing so such as to minimise the effect of the regulation on the firms the regulation is designed to target and others businesses affected by potential side effects. Good regulation will not only minimise the associated policy costs of complying with the regulation but they will also minimise the administrative burden placed on businesses.

The targeting and proportionality principles are of particular importance to understanding the burden of regulation placed on small businesses. If small firms are to bear a disproportionate burden of the regulation, then the implications of this should be understood by the policy maker, with a view to potentially reviewing the regulation such that the policy objective is achieved through the introduction of good regulation. There are a number of general options open to policy makers to assist them in the examination of regulations so that they adhere to the principles of good regulation, these options can also be used to alter existing regulations or the examination of proposed regulations so that the burden of the regulation is minimised.

### 6.3 More information

A significant contributing factor to the administrative burden of regulation is the time and effort exerted by businesses attempting to keep up to date with new regulations and how changes in their business could create further regulatory issues for them. To alleviate this burden more, better and easily accessible information should be made available to businesses informing them of their regulatory requirements as a result of the introduction of a new regulation. Information and assistance can also be provided to new businesses and to businesses that are growing in their own market and in other new markets. The provision of more and better information will not only reduce the time and effort spent by businesses attempting to understand their regulatory requirements but it may also reduce the expenditure by these firms on obtaining this information from a private source. In the UK, the Government's Action Plan on Regulatory Reform identifies the need for more and better information to be given to businesses to facilitate their regulatory compliance and for the associated burden to be minimised.

### 6.4 Clearer penalties

Just as businesses require more and better information in order to minimise the burden imposed on them by regulation, for the regulation to be effective, firms must also understand the incentives associated with compliance. In the absence of clear penalties associated with non-compliance and vague guidelines as to when businesses are to be liable to pay penalties, it can result in an inefficient use of resources thus increasing the burden of regulation on businesses. An integral part of the design of regulations should be the incentive used to coerce firms into complying with it, just as the regulation should follow the five principles outlined previously, the penalties should similarly be designed. Without clear penalties, firms may have an incentive to over invest in their compliance so as to remove the risk of them being in breach of the regulation, thus increasing the burden of the regulation on businesses. Although this was not the objective of the policy maker, the absence of clear penalties, irrespective of the regulation itself, generated an additional burden of regulation borne by businesses.

## 6.5 Risk based regulation

Over recent years policy makers have begun to consider alternatives to the classic “command and control” style of regulation, and in some cases have adopted clearly targeted regulation that is proportional to the risks posed. The implementation of risk based regulation places the most significant burden on those businesses that work in the areas that pose greatest risk of harm. The burden is proportional to the risk and as such it minimises the burden of compliance on those businesses whose activities do not pose a considerable harm or a threat to the objective of the regulation. A number of EU transport directives have adopted a risk based approach in favour of the classic command and control style, with the effect that all transport businesses are not subject to the same regulations or penalties. In the case of businesses that transport chemical materials, those that handle more harmful or dangerous materials, such as nuclear materials, are subject to more stringent regulations whereas those transporting chemicals that do not pose a considerable threat to individuals or the environment do not have to comply with such stringent regulations. Once this regulation is clearly worded it means that compliance is proportional to the risks posed by each business’s activity and as such this minimises investment and administrative costs associated with the regulation as firms are no longer required to similarly adopt and comply with command and control style regulations that treat all businesses equally irrespective of the risks posed by their activity. Risk based regulations therefore reduce the misallocation of resources for businesses in a particular industry by no longer requiring low risk businesses to over-invest in compliance but instead requiring high risk businesses to incur the majority of the burden.



## 6.6 Exemptions for small business

The targeting of regulation is an important principle for policy makers to consider and is something that is best informed by an ex-ante examination of the likely impacts of a proposed regulation, such as a Regulatory Impact Assessment. Considering the likely impact of a regulation on the market as a whole may lead the policy maker to falsely assert that the burden of regulation on businesses is not disproportionate to the objectives of the regulation. However this approach has a significant flaw, it treats all businesses affected by the regulation equally and thus will understate the burden of regulation on small businesses in a sector containing small, medium and large sized businesses, provided there are fixed costs associated with the regulation. Many of the administrative burdens placed on businesses by regulation, such as competing financial accounts and filing returns with the revenue, do not vary substantially with firm size and as a result place a disproportionate burden on small businesses. Exemptions have been used both in Ireland and many other countries in order to relieve this excess burden on small businesses and both the exemptions and their thresholds represent a clear opportunity for policy makers to better target regulations to achieve their objective in an efficient a way as possible. The accountability and transparency principles of good regulation also form an important aspect of this approach to better regulation.

## 6.7 Abolishing regulations

All of the previous suggestions for addressing the regulatory burden placed on businesses have been applicable to both new and existing regulation, this suggestion deals explicitly with existing regulations but the general approach can also be adopted when policy makers are assessing the alternatives to adopting new regulations. The “do nothing” option is one that should always be considered alongside the options for regulation. The statute books in many countries contain regulations that were developed at the beginning of the twentieth century, that are still in force but whose focus has been altered significantly through technological and general advancements such that they are out-dated, in some cases irrelevant or covered by new regulations, but still impose a burden on businesses. A full review of active regulations, such as that proposed in the UK by the Better Regulation Task Force, would uncover the ineffectual, out-dated and duplicated regulations that impose significant burdens on businesses and allow for this burden to be alleviated through the abolition of the regulation. This would similarly lead to the simplification of the regulatory compliance process businesses must follow. New regulations should similarly be subject to such scrutiny after an initial period, such as two years, to assess the impact of the regulation. If the regulation has not been operating as was envisaged by a thorough ex-ante regulatory impact assessment, then its abolition should be considered as an alternative to modifying the existing the regulation.

## 6.8 Conclusions

Good regulation can be designed around five principles proportionality; accountability; consistency; transparency and targeting. These five principles of good regulation aim to minimise the burden of regulation by involving interested parties, developing appropriate policy measures to address a specific problem and doing so such as to minimise the effect of the regulation on the firms the regulation is designed to target and others businesses affected by potential side effects. Good regulation will not only minimise the associated policy costs of complying with the regulation but they will also minimise the administrative burden placed on businesses.

In terms of policy options there are five general options:

- More information
- Clearer penalties
- Risk based regulation
- Exemptions for small business
- Abolishing regulations

Obviously, the merits of different policy options depend specific regulation in question.

## 7 Proposals for Consideration

### 7.1 Introduction

In this section we set out some proposals for consideration that could be considered by the SBF for inclusion in their report. These represent our assessment of the further development of the regulatory reform agenda in the context of the Regulatory Impact Assessments and the establishment of the Better Regulation group.

Our research shows that there is significant ongoing work required in Ireland to evaluate the costs and benefit of regulations that have an impact on small. We note, however, the unique work underway in the Department of An Taoiseach and in other departments. A number of countries, such as the UK and the Netherlands, are well advanced in this area and have undertaken considerable evaluative work of the impact of regulations. This is a first step in deciding on policy actions. The research indicates, however, that there are significant potential benefits from reform in this area. Estimates suggest that the cost of regulations is likely to be high and, as the UK shows with its progress in abolishing over 500 regulations, the benefits of easing this burden could be considerable.

The available evidence provides varied views on the extent of regulation in Ireland. The overall conclusion from the main business submissions is that Ireland is heavily regulated and this is imposing a significant cost on business. This contrasts with international evidence suggesting that Ireland ranks well among other countries in the extent of this burden.

From a policy perspective, identifying the key areas of concern from a small business perspective is crucial. The main areas of difficulty for small business identified in the business submissions were labour regulations, followed by taxation and health and safety regulations. There is also a concern about the extent of form filling imposed by the Government system. Based on the survey findings, the following regulations are considered to be either a significant burden or a very significant burden by a large percentage of respondents:

- Health and Safety regulations,
- VAT administration;
- Employment regulations;

- 
- Income Tax administration; and
  - Environmental regulations.

The same survey indicates that the most burdensome regulations in terms of compliance are: health and safety protection for workers (16%); dismissal law (14%); and employment related taxes (14%). Previous research highlighted the following areas as the most burdensome:

- taxation requirements
- health and safety regulations.

Based on the research undertaken, we have identified a number of general recommendations that could help in the further development of regulatory policy. We have also set out a selected small number of potential policy actions that we believe could improve the regulatory environment for small business. These are provided as inputs to the Small Business Forum. Obviously, this is a policy area where there is potential for significant further research to establish the costs and benefits of regulations in a variety of areas and we identify a limited number of proposals at this stage.

In the following sections we establish the rationale, expected impact, implementation issues and cost of the proposals.

---

## 7.2 Suggested General Proposals for Consideration

The general proposals focus on three themes: review of the existing stock of regulations; formal assessment of the merits of exemptions or modifications for small business to be undertaken for all new regulations as part of Regulatory Impact Assessments; and suggestions in relation to the enforcement of regulations.

### *Proposals for Consideration 1*

**We recommend that each Government Department should undertake an assessment of the cost burden for business of its most burdensome regulations and sets out a programme to reduce the regulatory burden on small business with annual targets. This would involve reviewing the most significant regulations from a business perspective. There is also merit in a review of the transposition of EU Directives and the scope for improving the regulatory impact of these.**

Policy initiatives to-date have focused on the assessment of new proposals. Of course, there is a fundamental issue regarding the suitability of regulations that may have been in place for some time and the cumulative effect of regulations in a specific area. This is an important issue as specific regulations may not have much of an impact but cumulatively a number of regulations may start to have a significant effect.

Experience in other countries indicates that there exist a large number of irrelevant regulations that nevertheless still impose a burden on businesses. A comprehensive assessment of regulations, such as that proposed in the UK by the Better Regulation Task Force, could uncover regulations that impose significant burdens on businesses for little or no benefit to society.

A review of a specific regulation may lead to a number of different outcomes. The conclusion could be that the regulation should remain intact, or that it should be amended, with the inclusion for example of an exemption for certain classes of organisation; or that it should be abolished. Alternatively, the review could conclude that the regulation is not the problem, but that the main concern is its actual enforcement.

In summary, we believe that the first step in this process should be the identification by each Department and agency of the impact of the most burdensome regulations for which it has responsibility and an assessment of the costs and benefits of these regulations. As a priority this could include areas identified in this research which seem to be an issue for small business. This would include, for example, taxation and employment regulations.

It is not proposed to undertake a line by line assessment of each regulation, but to assess the most significant regulations. This detailed work could lead to the adoption of annual targets for the removal or amendment of regulations which would guide future work. We would envisage that there is a role for each Department/Agency with a central co-ordinating role for the Department of Taoiseach and an advisory role for the Better Regulation Group. This is consistent with the mandate of the Better Regulation Group which is charged with reviewing needlessly burdensome regulation.

It is our view that this could provide an impetus to reduce the regulatory burden for small businesses with positive implications for cost competitiveness. The Better Regulation Group should be charged with pursuing this policy agenda, and we believe that this could have a positive impact on the regulatory burden over time.

### *Proposals for Consideration 2*

**We recommend that there be a formal assessment of the merits of exemptions or modifications for small business to be undertaken for all new regulations as part of Regulatory Impact Assessments (RIAs).**

We have earlier cited some of the extensive international research showing that small firms tend to face higher average costs of regulatory compliance, mainly due to the presence of fixed compliance costs. This implies that policymakers may need to have particular regard to the effects of regulation on small businesses, with the aim of ensuring that burdens on such firms are not disproportionate. If this is not done, there is a risk that the competitive position of small businesses will be undermined relative to larger firms.

While the government's new RIA model seems to be moving towards implementation, and guidelines for conducting RIAs were recently published (October 2005), there is as yet little published guidance on how the impact on small businesses should be analysed within a RIA. The RIA guidelines contain only a brief reference in the context of a screening (i.e. initial) RIA:

*In analysing the impact of a regulation on competition, the following questions might be useful: [among other questions]...Is the regulation likely to reduce the competitive position of small enterprise relative to large?<sup>15</sup>*

We suggest that detailed guidance on how to assess the impact of regulation on small businesses be provided by the Department of Enterprise, Trade and Employment. In particular, officials preparing RIAs should be made aware of the problems that fixed costs of compliance can pose for small firms, techniques for identifying costs that bear disproportionately on small firms, and options (such as thresholds) for managing the incidence of such costs. In addition, RIAs should explicitly consider the possibility of exemptions or modification for small business. This should improve the quality of RIAs from a small business perspective and would not involve a significant additional cost.

### ***Proposals for Consideration 3***

**We recommend greater use of risk based approach to enforcement of regulations. We also recommend the commencement of new regulations on a maximum of two dates only in any year.**

The main initiative considered in terms of enforcement involves further moves towards the implementation of risk based regulation. This places the most significant burden on those businesses that work in the areas that pose greatest risk of harm. In this case, the burden is proportional to the risk and as such it minimises the burden of compliance on those businesses whose activities do not pose a considerable harm or a threat to the objective of the regulation.

This could also be an issue in, for example, the tax code. The risk in this case is non-payment of tax and non-compliance with the various regulations. We believe that there is greater scope to develop further self-assessment with increased likelihood of audits and a greater probability of audits in areas of potential non-compliance. This could reduce the regulatory burden on firms with a greater reliance on self-assessment and audits. The role of penalties is important and highlights the imperative of setting appropriate penalties.

---

<sup>15</sup> Department of the Taoiseach, 2005, *RIA Guidelines: How to conduct a Regulatory Impact Analysis*, October, p.56.



For example, in the area of Health and Safety, certain activities have a higher probability of an injury or fatality than other activities or sectors in the economy. The enforcement effort should, therefore, focus on those areas where risk is greatest. The Health and Safety Authority are adopting this approach through greater inspections of higher-risk areas such as construction and more specific regulation of certain activities. Accordingly, this risk-based approach is being developed but there may be further steps that could be taken.

Hence, risk based regulations have the potential to reduce the misallocation of resources for businesses in a particular industry by no longer requiring low risk businesses to over-invest in compliance but instead requiring high risk businesses to incur the majority of the burden. This may also involve further development of models of self-assessment and penalties for low risk sectors. This could reduce the costs of certain regulations for low risk activities.

A cost for business of regulation relates to tracking changes in regulations and making changes in practice to meet the new regulatory position. It was proposed during the consultation process, and highlighted in the submissions, that there is merit in limiting the number of days in a given year when the Government is permitted to introduce regulatory changes that would add to the existing burden of business.

We believe there could be merit in this proposal for two reasons. One, it would help businesses with planning and assist in meeting the costs of regulatory change; two, it would highlight from a policy perspective the change in regulatory burdens in any given period. It is noted that this would increase the administrative effort for the Government and would require significant co-ordination between departments and a designated central agency or department. For reasons of practicality we do not believe that social welfare/taxation could be included in this area, but for other areas it could be practical. We have debated the merits of the number of days that should be set aside, and we believe that two days is the most practical available option.

The Exchequer costs of these measures should not be significant, although there would be an administrative cost associated with the measure to limit the number of days in a given year when the Government is permitted to introduce regulatory changes.

## 7.3 Selected Specific Recommendations for Consideration

### 7.3.1 Employment Regulations/ Health and Safety

In examining specific areas, first we review the area of employment regulations and Health and Safety.

#### *Proposals for Consideration 4*

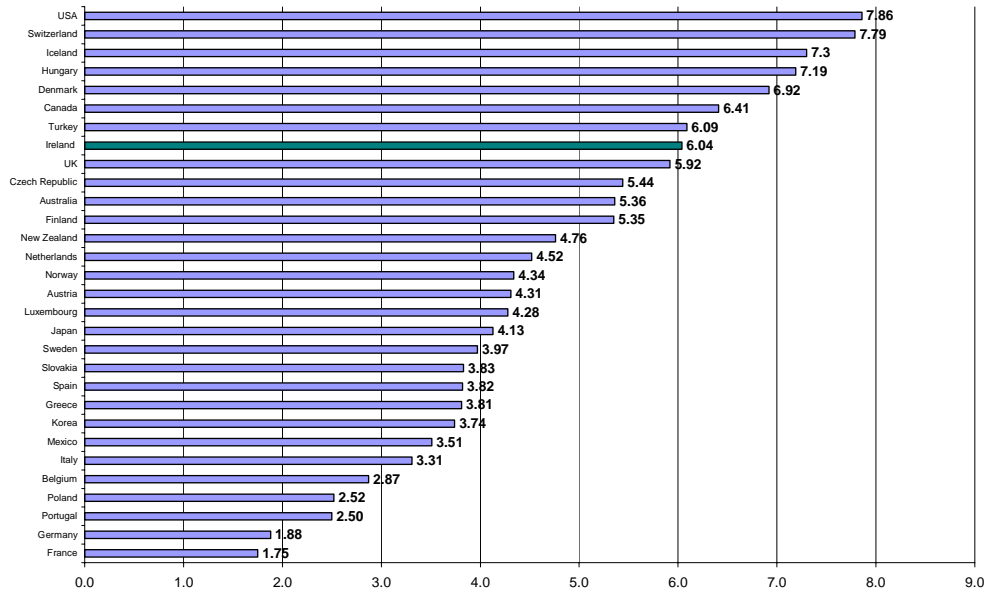
**We recommend that any additions to employment regulation faced by small business should only be considered on clear evidence of the costs and benefits and that our relatively competitive position with the OECD countries in terms of labour market flexibility is maintained.**

In the inputs to the Small Business Forum, the small business community highlighted the growing burden of employment regulations and the negative impact this having on their competitiveness and capacity to grow their businesses. This is reflected in the submissions received and was also identified as an issue in the survey work for this study. There is, however, an ongoing need to ensure effective enforcement of existing regulation to ensure that any potential exploitation of vulnerable groups in the labour market is prevented.

From a policy perspective the key issue is the impact this may be having on the relative flexibility of the Irish labour market compared with our OECD and other competitors. Data are available from the IMD World Competitiveness Yearbook for 2002 in relation to the flexibility of labour market regulations. Countries are graded on a scale of one to ten, where a low value indicates less labour market flexibility and a higher score indicates greater flexibility. The indicator was constructed on the basis of: hiring/firing practices, minimum wages and other labour market regulation variables.

A summary of the data for 2002 for OECD countries is presented in Figure 7.1. Overall Ireland is ranked 8<sup>th</sup> of thirty OECD countries, behind USA Switzerland, Iceland, Hungary, Denmark, Canada and Turkey. Overall Ireland's position in the rankings suggests that it has a relatively flexible labour market.

Figure 7.1: Labour Regulations



Source: IMD World Competitiveness Yearbook 2002

It is crucial that the current advantages Ireland may have in terms of labour flexibility are maintained and there are no additional regulatory burdens imposed in the absence of clear evidence. Evidence on the link between regulation, productivity and competitiveness highlights the importance of this. Accordingly, we would recommend that additional labour market regulations need to be carefully evaluated to ensure that the benefits of proposals clearly outweigh the costs.

**Proposals for Consideration 5**

**We recommend that there is more of a risk based approach to health and safety regulations.**

Health and safety legislation is required to ensure that acceptable standards of care and diligence are taken in response of workplace safety. This is an area where there has been significant research and the studies show that the benefits far outweigh the costs. Of course, this type of legislation does impose a cost for business and the key challenge for policy-makers is to minimise the costs given the benefits.

This is particularly relevant in any Irish context given the recent enactment of the Health and Safety Act 2005. From a policy perspective, and considering the concerns of business, this suggests that enforcement is the key. We believe that increasingly enforcement should be risk-based. This is already happening with the work of the HSA, through more inspections of high risk sectors such as construction, and we believe that further moves are desirable.

We believe that this involves cost savings to the Exchequer.

### *Proposals for Consideration 6*

**We recommend that the timing and rate of increase in the minimum wage should be coordinated with national wage increases.**

There is a concern within the business community that minimum wage increases are not co-ordinated with increases agreed under the national pay talks. This is a very modest change that could assist businesses with planning cost increases. This was proposed by the Chambers of Commerce of Ireland.

## 7.3.2 Taxation/ Audit proposals for Consideration

In the research reviewed for Ireland and internationally, the burden of tax and audit requirements is identified as a significant issue. We believe that there are a number of changes that could be made which would have a modest impact on small business. These are briefly examined in this section.

### *Proposals for Consideration 7*

**We recommend that there should be a doubling of turnover threshold from €1.5m to €3m for audit requirements. The current EU maximum threshold is €7.3m.**

There are benefits to obliging companies to have statutory audits given their limited liability status and the benefits of this. However, as there is a compliance cost for business of a certain turnover, the benefits of statutory audit provision may not outweigh these costs. It is increasingly argued that the providers of capital, including banks and other creditors, will ensure that appropriate financial information is available to safeguard their interests. In other words, there is a market based approach to the provision of the required information for companies of a certain size and that regulation is unnecessary given the capacities of these investors.

As set out in this report, many countries reflect this view in having higher thresholds than those that apply in Ireland. We believe that this makes sense and that a more realistic assessment of costs and benefits would point to a higher exemption. Of course, setting the appropriate turnover level where the exemption should apply is a matter of judgement. We believe that reducing the audit requirements for businesses with a turnover of less than €3 million would represent a positive start and would have a positive effect on costs.

We have undertaken some analysis assessing the impact of this proposal. Work by DKM suggests that there are 250,000 small businesses, as defined by having fewer than 50 people and a turnover of less than 7.3 million. The evidence suggests that approximately 50,000 of these are incorporated and that perhaps 80% are already exempt. Accordingly, there are around 10,000 firms above the exemption threshold and we estimate that an upper bound estimate of the numbers affected by this proposal is circa 5,000. There is no significant Exchequer cost.

**Table 7.1: Audit Exemption in Europe**

Country	Upper turnover limit
Austria	7.3 million euro (small corporations)
Cyprus	6.97 million euro
Estonia	640,000 euro
Finland	No exemption limit
Greece	3 million euro net turnover
Ireland	1.5 million euro
Luxembourg	Net turnover 6.25 million euro
The Netherlands	7.3 million euro
Norway	2.5 million euro
Poland	5 million euro
Portugal	3 million euro
Spain	2.4 million euro

*Source: Representative Accountancy Bodies*

### *Proposals for Consideration 8*

**We recommend that the VAT requirements for small business be reviewed. There are a number of different options including a further increase in the exemption limits for all small business, an increase in the exemptions limit for start-up small business or VAT simplification for small business to include the option for one calculation and flat rate. The current VAT exemption levels are €27,500 for services and €55,000 for goods.**

The flat rate VAT proposal would allow small businesses an alternative to the normal transaction based method of VAT accounting. In the UK such a scheme allows businesses to make a VAT payment as a percentage of their turnover (as opposed to calculating the VAT of individual sales at the standard rate). Due to the nature of the scheme, some businesses will pay more and some will pay less using the flat rate scheme. This is because the flat rates are calculated as average rates. The net tax paid varies with different trade sectors and hence there are a variety of flat rate percentages.

VAT flat-rate-schemes are designed to save businesses time and possibly money compared to using the 'standard' VAT rate/procedure. The scheme is open to small businesses whose annual taxable turnover (not including VAT) does not exceed Stg£150,000 and whose total turnover (including the value of exempt and non-taxable income but not including VAT) does not exceed Stg£187,500 a year. Some exclusions do apply however. The main impact of these potential options would be to reduce VAT bills and compliance costs for small businesses.

Under the normal VAT rules a firm has to identify the VAT on each sale made, record the value and VAT separately and pay the VAT to the relevant authority. Similarly a firm has to identify the VAT included in the items that it purchases, record the value and the VAT separately and to claim the VAT back. Under the flat rate scheme a firm no longer has to identify, or separately record, the VAT on sales and purchases in order to calculate the VAT owed. Instead, a business records all the supplies made, including exempt supplies, and applies the appropriate flat rate percentage for the sector to the total in each period. The result is the VAT owed. The main impact of these potential options would be to reduce VAT bills and compliance costs for small businesses.

Companies with turnovers below €25,500 for services and €51,000 for goods are currently exempt from VAT. This is of considerable benefit to these companies given the problem the VAT system can pose for small business and in particular for start-up business. The issue is the appropriate level of this exemption and striking a balance between the benefits to the Exchequer of VAT receipts and the cost for small companies of operating the system. There would seem to be some case for increasing the exemption limit given Ireland's position compared to other countries and the fact that a relatively small number of companies are exempted from VAT. An alternative approach would be to increase the exemption limit for start-up firms only.

The impact of any measure would, of course, depend on the number of firms affected. The Small Business Forum in its pre-Budget submission proposed an increase in the goods threshold from €51,000 to €70,000 and the services threshold from €25,500 to €35,000. It was estimated that this would cost €66 million in a full year and would remove over 10,000 businesses from the VAT net.

In the budget, the thresholds were increased to €55,000 and €27,500 respectively. This was estimated to cost €12 million in a full year and remove 2,200 businesses from the VAT net. Hence, increasing the thresholds to the levels recommended in the Forum submission would cost approximately €55 million and affect about 8,000 businesses.

The alternative options are difficult to assess in terms of impact because it depends on the nature of the proposal to be introduced. With the flat rate concept, there is flexibility regarding the rate that may be levied by sector. The experience from the UK suggests that there is an Exchequer cost but there are compliance costs savings for businesses and administration costs savings for the Exchequer.

**Table 7.2: Comparable Thresholds for VAT exemption of EU states**

	<b>Goods</b>	<b>Services</b>
United Kingdom	£Stg60,000 (€87,000 approx)	£Stg60,000 (€87,000 approx)
France	€76,300	€27,000
Germany	€50,000	€50,000
Belgium	€5,580	€5,580
Denmark	DKK 50,000 (€6,500 approx)	DKK 50,000

Source:

### *Proposals for Consideration 9*

#### **We recommend simplification of revenue regulations for Employee Financial Participation for SMEs**

We recommend a range of measures that could assist with simplification of tax-based EFPs for firms. This could reduce compliance costs and encourage more employee financial participation. This could include a simplified set of conditions for approval for small firms. The current procedures are very onerous and we believe that they should be simplified for small business. We would also recommend specific changes to the requirements for Revenue Approved Profit Sharing Schemes. This could include changes to the requirements:

- that in contributory schemes the maximum amount of shares purchased out of employees' own resources cannot exceed 7½% of basic salary;
- that each participant must receive at least 1 free share for each share purchased;
- that participation in schemes must be open to all employees.

A detailed review of EFP for Forfás is being finalised by Indecon. This includes a review of EFP and potential changes to the existing regulations. In addition to regulatory changes, encouraging EFP requires greater information and awareness about its benefits.



We believe that the proposed measures could increase awareness of EFP and make the revenue approved schemes more attractive in particular for small business. This could have a positive effect on extending EFP and providing the benefits to companies and employees. These measures could have a positive effect on extending EFP and, in turn, provide benefits to companies and employees. Over the longer term we believe that EFP would be enhanced with some additional Exchequer cost given the tax costs of these initiatives.

### *Proposals for Consideration 10*

**We recommend the doubling of the corporate tax threshold from €50,000 to €100,000 in order to permit preliminary tax payment to be based on previous the year's assessment**

Preliminary tax for companies becomes due 31 days before the end of the accounting period and the tax paid must be no less than 90% of the final liability. This is based on an estimation of the final tax liability in advance of the year end. Income tax payers make a tax payment based on the liability for the preceding years of assessment. This option is not available for companies where Corporation Tax for the previous period exceeds €50,000; in these cases preliminary tax is based on projected liability.

There are number of issues with this practice. First, in the event of mistakes, the amount due to be paid on the preliminary tax payment date results in the full amount of the liability falling due on that payment date. This is seen as very onerous and represents a major issue for companies. Second, there is an additional compliance cost in collecting the information to make an assessment.

Accordingly, it would make sense that preliminary corporation tax payments should in all cases be based on the prior year's outcome, as is the case for Income Tax payers, for companies with a higher profit threshold. This would have a positive impact on cash-flow for companies. Once again, the number of firms affected by this would be quite limited. Based on the revenue data, not more than 2,000 firms would benefit from this proposed change, and accordingly the Exchequer cost of this proposal is modest.

---

## 7.4 Other Proposals for Consideration

### *Proposals for Consideration 11*

**We recommend that targets should be set for further small business online interaction with the State within 3 years.**

The evidence suggests a potential area for improvement in the provision of online government services through an extension of the services that are offered online.

A recent study<sup>16</sup> considered the online availability of public services in Europe and is the fifth benchmarking exercise on the progress of online public services in Europe to date. The report presents the percentage of online sophistication of basic public services available on the Internet by country, as well as measurements of the percentage of public services fully available online. It considers the situation in the EU Member States, as well as Iceland, Norway and Switzerland and was undertaken in October 2004.

For these countries a list of twenty basic public services were considered. For twelve of these services, the citizens are the target group while for eight of the services, businesses are the target group – see Table 7.3.

---

<sup>16</sup> Online Availability Of Public Services: How Is Europe Progressing? Web Based Survey On Electronic Public Services, Report Of The Fifth Measurement, October 2004. Prepared by Capgemini for the European Commission, Directorate General for Information Society and Media.

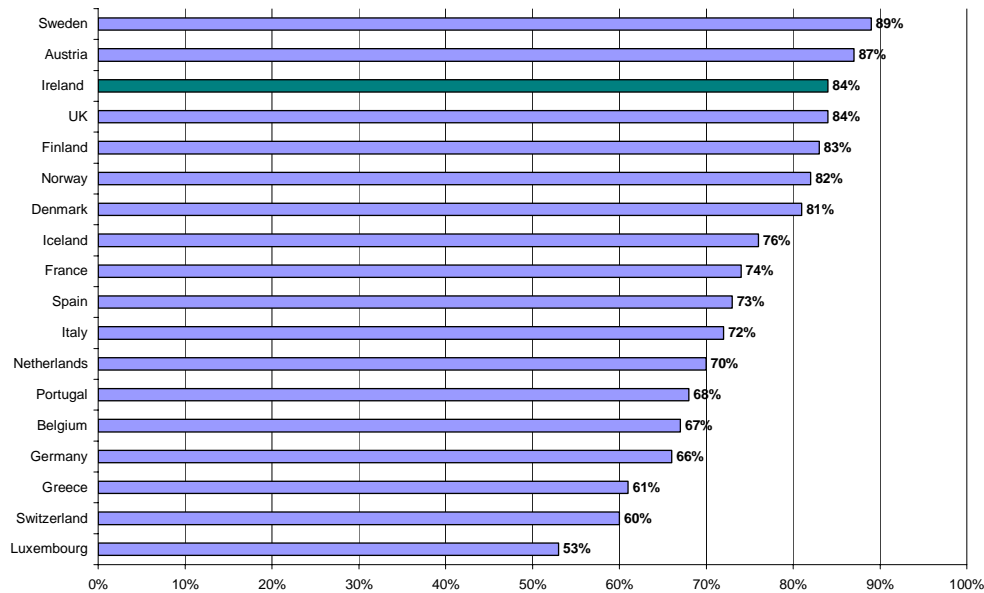
**Table 7.3: Public Services Considered**

<b>Citizens</b>	<b>Businesses</b>
Income Taxes	Social Contribution for Employees
Job Search	Corporate Tax
Social Security Benefits	VAT
Personal Documents	Registration of a New Company
Car Registration	Submission of Data to the Statistical Office
Application for Building Permission	Custom Declaration
Declaration to the Police	Environment-related Permits
Public Libraries	Public Procurement
Birth and Marriage Certificates	
Enrolment in Higher Education	
Announcement of Moving	
Health-related Services	

*Source: Capgemini (2005)*

In terms of Ireland's relative performance in introducing online availability of public services, this can be gauged by considering cross-country data in relation to two variables: online sophistication and full online availability. According to the study, the online sophistication of public services is most advanced in Sweden which achieves a rating of 89%. Seven countries reach a score higher than 80%, including Ireland. (The other countries attaining this level are Austria, U.K., Finland, Norway and Denmark). This data is presented in Figure 7.2 and suggests Ireland performs relatively well on the basis of this indicator.

Figure 7.2: Online Sophistication

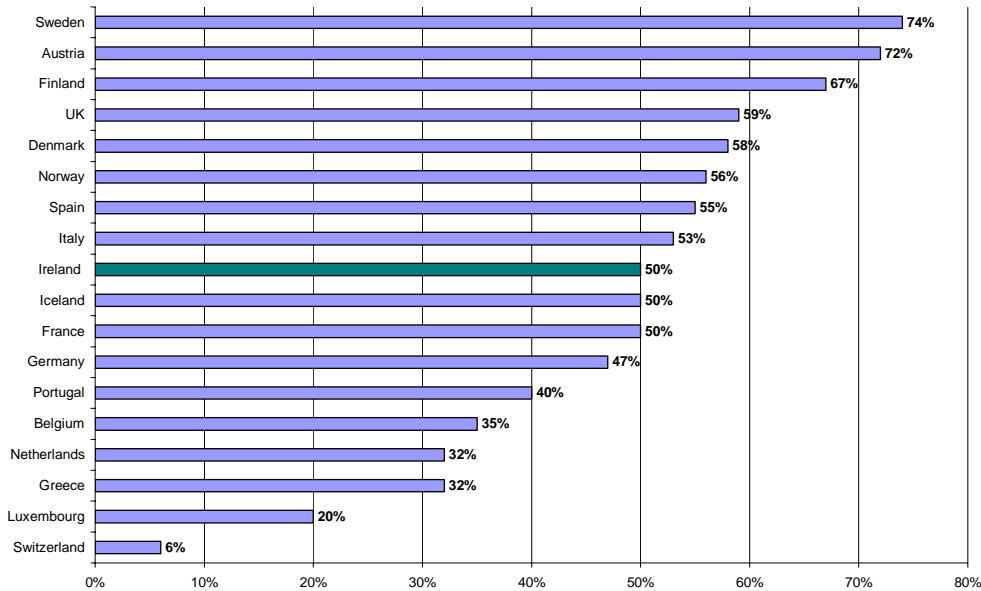


Source: Adapted from Capgemini (2005).

In terms of the percentage of services that offer complete electronic case handling, the best performing countries are Sweden (74%), Austria (72%) and Finland (67%). Ireland is ranked in 11<sup>th</sup> place of 18 countries presented in Figure 7.3 below at only 50%. So while Ireland scores relatively well in terms of online sophistication, it performs relatively poorly in terms of the number of services fully offered online. This suggests a potential area for improvement in the provision of online government services to extend the range of services offered online.

Accordingly, we believe that there is a need to encourage the State to move more rapidly to extend e-commerce. This would include areas such as data collection and taxation compliance where there is scope to maximise the benefits of e-commerce. There may be other areas and this is an issue that could be explored further by the Better Regulation Group. This could lead to both business and Exchequer cost savings.

Figure 7.3: Full Availability Online



Source: Adapted from Capgemini (2005).

### Proposals for Consideration 12

**We recommend improvements in the co-ordination, use and overall customer friendliness of CSO and wider State data collection exercise.**

The available evidence suggest that the time spend on form filling by small business is a distraction from the key task of business development. This arises from the data requirements of the CSO and the information requirements of other Government Departments and agencies. However, there are trade-offs given the essential role of data collection in policy development.

There is a need to improve the co-ordination of this data collecting to ensure the reduction of the burden on small business where possible. This would involve improved co-ordination between agencies and greater sharing of available data. This may raise issues for the Statistics Act and the potential need for a unique business identifier.

We understand that these issues have been addressed in the report prepared by the National Statistics Board. We believe that there is merit in improvements in this area and in particular through improved co-ordination. This could reduce the administrative burden for small businesses, which is an issue identified in the various research reported, and help to reduce costs and the time allocated to such tasks.

### ***Proposals for Consideration 13***

**We recommend further implementation of proposals to improve functioning of the markets for professional services.**

An efficiency cost arising from regulation reflects the value of the resources foregone in direct response to restrictions on firm entry, output and pricing decisions, or cost-minimizing production techniques. This can arise in sectors where restrictions reduce market entry and/or demarcation rules that can unnecessarily add to business costs. A number of such restrictions in the professional sector are of interest to the small business sector given that they are a consumer of services.

In particular, we have in mind the legal profession where there exist a number of restrictions that ought to be removed. These were outlined in proposals made by Indecon for the Competition Authority<sup>17</sup> to improve the functioning of these markets. We believe that these should be implemented as a priority. Over time, their implementation would have the effect of improving service and value for money for service users. An example would be the reforms that could improve the market for conveyancing services. Reforms in the UK have led to a fall in prices for consumers. The Indecon report for the Competition Authority recommended opening this aspect of the market to licensed conveyancing. This could have a positive effect on the cost of such services in Ireland and is an example of the types of reforms that could be introduced in this area.

---

<sup>17</sup> 'Indecon's Assessment of Restrictions in the Supply of Professional Services', prepared for the Competition Authority, March 2003

***Proposals for Consideration 14***

**We recommend removal of IFSRA restrictions on financial institutions offering unsolicited funding to business sector.**

IFSRA, the financial service regulator, has in place restrictions on the unsolicited funding offering to the business sector. This affects competition in this market and, while it is not a significant, we believe that it should be re-examined by the relevant authority.

***Proposals for Consideration 15***

**We recommend a 3-week extension for small businesses that file tax returns online.**

Individual taxpayers that file their returns online receive a three week extension. This provides an incentive for taxpayers to file online with benefits for both taxpayer and the Revenue Commissioners. We recommend that a similar incentive should be offered to companies. This would incentivise additional online filing consistent with government's overall policy towards e-commerce, and help with the administrative cost of filing tax returns.

There would be a cash flow cost to the Exchequer but this would be offset by the administrative cost savings.

---

### Summary of Proposals for Consideration

---

1. We recommend that each Government Department should undertake an assessment of the cost burden for business of its most burdensome regulations and sets out a programme to reduce the regulatory burden on small business with annual targets. This would involve reviewing the most significant regulations from a business perspective. There is also merit in a review of the transposition of EU Directives and the scope for improving the regulatory impact of these.
2. We recommend that there be a formal assessment of the merits of exemptions or modifications for small business to be undertaken for all new regulations as part of Regulatory Impact Assessments (RIAs).
3. We recommend greater use of a risk based approach to the enforcement of regulations. We also recommend the commencement of new regulations on a maximum of two dates only in any year.
4. We recommend that any additions to employment regulation faced by small business should only be considered on clear evidence of the costs and benefits and that our relative competitive position with the OECD countries in terms of labour market flexibility is maintained.
5. We recommend that there is more of a risk based approach to health and safety regulations.
6. We recommend that the timing and rate of increase in the minimum wage should be coordinated with national wage increases.
7. We recommend that there should be a doubling of the turnover threshold from €1.5m to €3m for audit requirements. The current EU maximum threshold is €7.3m.
8. We recommend that the VAT requirements for small business be reviewed. There are number of different options including a further increase in the exemption limits for all small business; an increase in the exemptions limit for start-up small business; or VAT simplification for small business to include the option for one calculation and flat rate. The current VAT exemption levels are €27,500 for services and €55,000 for goods.
9. We recommend simplification of revenue regulations for Employee Financial Participation for SMEs.
10. We recommend a doubling of the corporate tax threshold from €50,000 to €100,000 in order to permit preliminary tax payment to be based on the previous year's assessment.
11. We recommend that targets should be set for further small business interaction with the State online within 3 years.
12. We recommend improvements in the co-ordination, use and overall customer friendliness of the CSO and wider State data collection exercise.
13. We recommend further implementation of proposals to improve the functioning of markets for professional services.
14. We recommend removal of IFSRA restrictions on financial institutions offering unsolicited funding to business sector.
15. We recommend a 3-week extension for small businesses that file tax returns online.

---

Source: Indecon



---

## Annex 1 References

Department of the Taoiseach, 2004, *Regulating Better*, White Paper, January.

Department of the Taoiseach, 2005, *RIA Guidelines: How to conduct a Regulatory Impact Analysis*, October.

ENSR, 1995, *The European Observatory for SMEs: Third Annual Report*, August.

ENSR, 2001, Enterprise Survey, Administrative burden, URL:

[http://www.eim.nl/Observatory\\_7\\_and\\_8/en/ensr.html](http://www.eim.nl/Observatory_7_and_8/en/ensr.html)

ENSR, 2003, Enterprise Survey, General characteristics (Part A), URL:

[http://www.europa.eu.int/comm/enterprise/enterprise\\_policy/analysis/doc/ensr\\_2003\\_tables/tables\\_survey\\_2003\\_general\\_parta.pdf](http://www.europa.eu.int/comm/enterprise/enterprise_policy/analysis/doc/ensr_2003_tables/tables_survey_2003_general_parta.pdf)