Budget 2015

Proposals arising from the Retail Consultation Forum to support the recovery of the Retail sector

Proposals arising from Retail Consultation Forum for consideration in Budget 2015 to support the Retail sector

Background

The Retail sector plays a significant role in the Irish economy. It accounts for approximately 10 per cent of GDP (approx. €16bn) and, together with the wholesale sector, employs approximately 270,000 people in Ireland (c.15% of the workforce). The sector provides employment in every community in the country and plays an important role in every local economy. Retail also indirectly supports jobs in other areas, such as logistics and distribution, and provides an important outlet for Irish products.

The Retail sector experienced a considerable number of job losses over the period 2008-2012 as a result of the economic crisis and the consequent loss in consumer confidence. The number of people employed in Wholesale and Retail fell from 314,800 in the middle of 2008, to 268,200 by the middle of 2012[1]. In spite of a general increase in employment in the economy over the last 18 months, the Retail sector has yet to see any significant uplift in the numbers employed; the latest CSO figures show that 269,500 people were employed in Wholesale and Retail in Quarter 2 2014, 181,000 of them in retail trade, excluding motor vehicles and motorcycles. <u>However, given the reach of the sector, Retail has the potential to create a significant number of jobs across all regions of the country and reduce the numbers on the Live Register with the support of appropriate policy measures from Government</u>.

Recognising the importance of the Retail sector to the economy, the Government has established a ***Retail Consultation Forum*** to provide a platform for a structured engagement between the Retail sector and relevant Government Departments/bodies. Its purpose is to allow key issues of relevance to the sector to be discussed, with a view to identifying practical actions which could be taken by government (national or local), or by industry itself, to support the sector. The Forum comprises representatives from the retail sector and from relevant public sector bodies. It is convened by the Department of Jobs, Enterprise and Innovation.

The first meeting of the Retail Consultation Forum took place on 9th June 2014. At that meeting, the Forum members considered potential items for inclusion in Budget 2015 which could help to support the recovery of the Retail sector. The membership of the Forum is at Appendix 1.

This paper outlines suggestions made by the retail members of the Consultative Forum to support the recovery of the Retail sector and is submitted to the Department of Finance for consideration in the context of the preparation of Budget 2015[2]. Some the suggestions contained in this paper may also be included in pre-Budget submissions to the Department of Finance from representative bodies in their own right.

The Retail Consultation Forum would welcome feedback on these proposals from the Department of Finance, through the Forum Secretariat in the Department of Jobs, Enterprise and Innovation.

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[1] Source: Central Statistics Office QNHS Time Series tables.
[2] The paper does not necessarily reflect the views of the public bodies represented on the Forum.

Summary of key proposals

The key proposals for Budget 2015 which arose through the Retail Consultation Forum are:

- PRSI: Reintroduce the lower rate of Employers' PRSI of 4.25% for those earning less than €356 per week.

- The importance of clarity of information from Government Ministers in relation to the Budget – speculation and "kite flying" damages consumer confidence and has a large negative impact on the retail sector as a result.

- There should be no increases in Excise Duties or Income Taxes.

- VAT Issues:

  - Retain the 9% VAT rate which currently applies to certain goods and services

  - Reduce the 23% top rate to improve Ireland's competitiveness, particularly given the increase in on-line trading which goes overseas

  - Address VAT Categorisation discrepancies, e.g. larger sized school uniforms paying 23% rate, smaller ones 0% (child exemption)

  - Reduce the VAT on building and hardware materials to support construction suppliers.

- Introduce a Scrappage Scheme for Water Efficient and Energy Efficient white goods such as dishwashers and washing machines. This could have a particular attraction with the impending introduction of water charges and could also support the reduction in energy consumption to reduce greenhouse gas emissions.

- Introduce Grants/Tax Relief to facilitate up-front investment in Energy Efficiency in retail stores.

- Double the visitor tax-back level from €2,000 to €4,000 to stimulate additional spending by overseas visitors.

- Reduce the level at which Low Consignment Tax Relief applies. This scheme allows small, inexpensive goods such as CDs to be purchased from abroad without payment of tax. It makes overseas on-line purchases more attractive than purchasing the same item in retail outlets here.

- Target more NTF funding at training people <u>in</u> employment.

- Extend the Home Renovation Scheme beyond 2015.

- Measures to tackle illicit trade

These proposals are outlined in further detail below.

Outline of proposed measures

1. Reduce the lower rate of Employers' PRSI back to 4.25% for those earning less than €356 per week

A temporary reduction of the 8.5% employers' PRSI rate to 4.25% for those earning less than €356 per week was announced in the Jobs Initiative in May 2011, and ran to December 2013.

In July 2013, the Department of Social Welfare[3] estimated that the planned return to the 8.5% rate would yield an additional €195 million in a full year for the Social Insurance Fund (SIF) in relation to circa 557,000 employments. However, the ending of this measure impacted heavily on the Retail sector in particular, given the nature of many jobs and the shorter hours work patterns that often exist in the sector.

The increase in the PRSI rate at a time when the Retail sector is still vulnerable has impacted heavily on overheads (and margins) for retailers. There are anecdotal examples of retailers having to reduce working hours or let staff go as a result of the 4.25% PRSI rate coming to an end, while other retailers have postponed hiring new staff.

The retail members of the Consultation Forum call on the Minister for Finance to reintroduce the 4.25% PRSI rate to support employment in the Retail sector and reduce spending on social welfare supports through job creation/retention. Assuming that retailers will recruit at least a proportion of additional staff from the Live Register, the net cost of the initiative will be reduced through savings on social welfare payments.

2. Clarity of information from Government

Speculation in the lead-up to the annual Budget has the potential to damage consumer confidence and can lead to consumers deferring purchases until after Budget Day, or declining to make intended purchases at all. The retail members of the Consultation Forum call on all Government Minister to exercise caution in the messages they deliver regarding potential Budget measures and to be conscious of the negative impact which speculation can have on demand for the Retail sector. However, where decisions are made by Government at an early stage which might provide assurances to households (e.g. level of Property Tax, Water charges, etc.), these should be articulated as soon as possible to enable people to plan their financial obligations.

3. Excise Duties and Income Taxes

Any increases in excise duties and/or income tax will further depress consumer sentiment and purchasing power and will have a negative impact on the ability of the Retail sector to support existing jobs and create new ones. The retail members of the Consultation Forum call on the Minister for Finance not to introduce income tax increases in Budget 2015 and not to introduce further increases in excise duties on fuel, alcohol or tobacco.

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[3] Tax Strategy Group Paper "TSG 13/09 Pay Related Social Insurance Changes", p.2; http://www.finance.gov.ie/sites/default/files/TSG%201309.pdf

4. Retention of 9% VAT rate

The reduced VAT rate of 9% on certain goods and labour-intensive services was introduced by the Government in the Jobs Initiative of May 2011, initially to the end of December 2013. The application of the 9% VAT rate was extended in Budget 2014.

The Irish Hotels Federation[4] (IHF) has pointed out that over 23,300 new tourism jobs were created since 2011, and noted that much of this is down to the Government's introduction of the 9% VAT rate. The Restaurants Association of Ireland (RAI) also published a report in August 2014[5] which found that, between Q2 2011 and Q1 2014, direct employment in the Accommodation & Food Services sector increased by 21,633 and an additional 9,951 indirect jobs were created elsewhere in the economy, giving a total employment impact of 31,584 extra jobs.

The RAI's report also demonstrates the considerable social welfare savings made by the Exchequer, using the Irish Congress of Trades Unions benchmark that "for every 10,000 people off the live register, and back in employment, it results in a net gain to the Exchequer of some €200 million". Applying this benchmark to the job creation figures outlined above, this would suggest that over €500 million in social welfare savings alone were supported by the introduction of the 9% VAT rate.

Although primarily targeted at the Accommodation & Food Services sector, the impact of the 9% VAT rate in improving consumer sentiment and increasing activity in tourism has had a positive effect on activity in the retail sector and has helped to support jobs in that sector. The retail members of the Consultation Forum therefore call on the Minister for Finance to retain the 9% VAT rate in Budget 2015.

5. Reduction of the 23% top rate of VAT

The standard rate of VAT was increased from 21% to 23% from 1st January 2012. In view of already supressed consumer demand, many retailers absorbed this increase themselves and reduced their own margins due to the difficult commercial environment at that time.

The Tax Strategy Group reported in 2013[6] that, as of 1st July 2013, the average standard rate of VAT in the EU is 21.5% and that Ireland had the joint 7th highest standard VAT rate at 23% along with Portugal, Greece and Poland. This impacts on the competitiveness of Ireland's retail sector, particularly when faced with increased competition from abroad through on-line purchases.

The retail members of the Consultation Forum call on the Minister for Finance to revisit the level of the standard VAT rate, preferably to reduce it back to 21%, to stimulate and support consumer

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[4] Irish Hotels Federation press releases on 26th February 2014: http://www.ihf.ie/content/additional-74000-tourism-jobs-possible-2020 and http://www.ihf.ie/content/hoteliers-welcome-continued-growth-overseas-visitors

[5] "9% VAT: Food, Tourism & Jobs Rebuilding Ireland's Economy"; Restaurants Association of Ireland; http://keepvat9.ie/wp-content/uploads/2014/08/FINAL-RAI-National-Economic-Report.pdf

[6] Tax Strategy Group Paper "TSG 13/04 Selected VAT Issues", p.1; http://www.finance.gov.ie/sites/default/files/TSG%201304.pdf

demand as the economy begins to recover. A decrease in the VAT rate is likely to increase the volume of consumer spending, thereby offsetting the impact to the Exchequer of the VAT reduction.

6. VAT Categorisation e.g. larger sized school uniforms paying 23% rate, smaller ones 0% (child exemption)

Retail members of the Consultation Forum have concerns about the categorisation of VAT on certain items. For example, small sizes of school uniforms are charged 0% VAT (as children's clothing) but larger sizes of school uniforms are charged at the standard rate of 23%, even though all school uniforms are worn by children of school-going age. The retail members request that such categorisation issues be re-considered to reduce confusion and to ensure fairness where clothing is clearly aimed at children (under 18 years of age).

7. Reduce VAT on building and hardware materials to support construction suppliers.

Construction 2020 is the Government's strategy to support the recovery of the construction sector and increase the supply of housing to meet demand. However, as some modest improvement begins to take hold in the construction sector, there is evidence that input costs are increasing[7]. To further support the construction sector and retail suppliers, retail members of the Consultation Forum call on the Minister for Finance to reduce the VAT rate on building and hardware materials to support construction suppliers.

8. Scrappage Scheme for Energy Efficient and Water Efficient white goods

In order to reduce water and energy usage in dishwashers and washing machines, and to provide an incentive to consumers and simulate demand, retail members of the Consultation Forum propose that a scrappage scheme be introduced for a 12 month period for customers buying more efficient A+++ rated dishwashers or washing machines and disposing in a responsible way (through recycling) of inefficient machines.

The newest models of appliances are both more energy efficient and water efficient and, with the forthcoming introduction of domestic water charges and the pressures on water supply in certain parts of the country, there are benefits to both the consumer and the State from such a scheme. It would also assist in reducing the threat to the Government of potential fines in the future for not meeting energy reduction targets. The proposal would also support the attainment of WEEE collection targets for Ireland[8] and support the commitment of energy producers to effect behavioural change amongst consumers.

[7] Ulster Bank Construction PMI Report, 11th August 2014

[8] In this regard, all participating retailers will need to be registered under the European Union (Waste Electrical and Electronic Equipment) Regulations 2014 (S.I. 149 of 2014) and be in full compliance with the applicable provisions of this legislation. Retailers will need to develop waste management and communications plans to ensure that e-waste is not prematurely generated and that additional tonnes of WEEE collected are managed in an environmentally sound manner through the appropriate channels.

Just over 131,000 washing machines were sold in the year from July 2013 to June 2014. The best category is labelled A+++, which accounted for 24% of the market in that period. Categories B, C and below accounted for just under 20% of that market.

It is estimated that there are over 200,000 washing machines in use at present which use 150+ gallons of water per wash. A new model would use an average of 55 gallons per wash. Energy industry experts have provided information that moving consumers from A to A+++ washing machines also results in energy savings of approximately 0.18 kWh per wash (based on 6kg loads with a mix of temperature cycles). Typically, figures of 220 washes per year are used, so this results in a saving of approximately 40 kWh per annum to the consumer.

It follows that, by managing to get the approximately 53% of consumers who currently buy an A rated washing machine (roughly 69,430 machines) to buy an A+++ rated machine instead, approximate savings of 2,773,600 kWh are obtainable (6,934,000 kWh primary energy equivalent).

One potential approach to such a scheme would be to provide a rebate or grant (with a suggested value of 23%) for the purchase of such appliances for a 12-month period. Data provided by Retail Excellence Ireland show that the entire market size for dishwashers was €22.2 million in the 12 months July 2013-June 2014, and €51 million for washing machines in the same period. However, the proposed scheme would target the removal from use of older models. It is estimated that the upfront cost of the proposed scrappage scheme would be in the order of €10-€15 million. However, much of that cost would be likely to be recovered through VAT on the additional purchases of other electrical goods, as retail chains have indicated that the average customer who purchases a washing machine, also buys two other items with an average value of €250. The VAT on these additional purchases would generate an additional €57.50 in taxes to the Exchequer.

9. Grants/Tax Relief for investment in Energy Efficiency in retail stores.

The recession and reduced access to credit have combined in recent years to see very little ongoing investment and refurbishment in retail stores in general. At the same time, advances in technology have resulted in greater potential for improving energy efficiency, reducing water usage/wastage, and reducing operating costs and greenhouse gas emissions. Many retailers now want to invest in systems to improve their stores, but there continues to be constraints on accessing funding.

Retail members of the Consultation Forum therefore call for a tax relief or grant scheme to help support up-front investment in energy efficiency improvements in retail stores as part of Budget 2015.

10. Double the visitor tax-back level from €2,000 to €4,000 to stimulate additional spending by overseas visitors.

Currently, there is a cumulative limit of €2,000 on VAT on purchases which can be claimed back in a single trip by overseas visitors to Ireland. The retail members of the Consultation Forum propose that the limit on tax-back be increased to €4,000 per trip.

Ireland is currently a very competitive market for high-end retail compared to centres such as London and Paris. Doubling the VAT which can be reclaimed would further enhance the competitiveness of Ireland's retail offering to visitors. The retail sector considers that the potential increase in high-net-worth tourists and their increased spending in Ireland would have an overall beneficial impact on the Exchequer and the wider economy, particularly in the retail and tourism sectors.

11. Reduce the level at which Low Value Consignment Relief applies.

The Low Value Consignment Relief (LVCR) scheme is an administrative measure that provides a VAT-free threshold for persons from certain areas outside the EU supplying goods into the EU. The purpose of this measure is to avoid the burden of VAT compliance on the suppliers of low value goods. The EU Council Directive establishing the scheme (Directive 2009/132/EC) allows Member States to set the value of individual items which can benefit from the VAT relief at between €10 and €22. Ireland currently applies the VAT relief at the maximum of the range - €22.

In practise, the scheme allows small, inexpensive goods such as CDs to be purchased from abroad - in particular from smaller territories such as Gibraltar, the Channel Islands and Canary Islands - without payment of tax. Overseas suppliers, including retail multiples, ship certain products from the qualifying countries to the EU, making on-line purchases more attractive than purchasing the same item in retail outlets here, where retailers must apply VAT at the standard rate of 23% on similar purchases.

The retail members of the Consultation Forum call on the Minister for Finance to reduce the LVCR rate to €10 in Budget 2015, as provided for under the EU Directive, to reduce the market distortion that is occurring. This will narrow the cost differential between purchasing the goods in Ireland compared to overseas, encourage consumers to purchase their goods domestically and result in a gain to the Exchequer through VAT receipts.

12. More NTF funding to be targeted at training people in employment

The National Training Fund (NTF) was established to provide training for both those who are employed as well as those who are unemployed. The training provided under the NTF over the course of the recession has, necessarily, been focussed on those who were unemployed and ensuring that they were upskilled and reskilled to take advantage of job opportunities that were available. However, the retail members of the Consultation Forum consider that there needs to be a rebalancing of the training provided under the NTF to include more courses for those still in employment, to ensure that the necessary upskilling can continue to happen across the economy.

A number of members also called for increased subsidies for training for the retail sector, and particularly for SMEs, including through relevant Skillsnets courses and apprenticeships.

13. Extend the Home Renovation Incentive Scheme beyond 2015.

While acknowledging that the Home Renovation Incentive (HRI) Scheme was only introduced in Budget 2014 and is due to run until 31st December 2015, there are indications that it is already resulting in increased activity in the construction sector and having a positive knock-on impact on the retail sector. However, statistics are showing that this activity is focussed on the Dublin/Leinster region with 77% of works being carried out there. More time and promotion is required to expand the reach of this incentive.

The retail members of the Consultation Forum call on the Minister for Finance to consider extending the scheme beyond the end of 2015 to continue to support the construction sector and, indirectly, the retail sector and the wider domestic economy. It is also suggested that the scope of the scheme be widened so that it can benefit those who are currently outside the tax net, such as pensioners, as these may also be likely to avail of the scheme if targeted to their circumstances.

The retail members also suggest that there should be a publicity campaign targeted at consumers, to outline the benefits of the scheme, rather than focusing on scheme's design to tackle shadow economy activity in the construction sector. There is also a need to make information on the scheme more accessible to homeowners. Take-up of the scheme may also be increased if the benefits were accelerated (perhaps by allowing the full tax credit over 1 year rather than the current 2 years), or frontloaded in some way.

The retail members also sought the lowering of the entry threshold, to perhaps €2,000 rather than the current minimum of €4,405 (before VAT), and to increase the maximum amount of tax credit available to include works carried out up to €60,000 (before VAT) in value (currently, it is capped at works up to €30,000 (before VAT)). The lowering of the entry threshold would facilitate smaller works, particularly those in apartments and smaller dwellings where the capacity for larger projects exceeding the current entry threshold may not be reached. Projects up to €60,000 are likely to still be carried out by smaller building contractors in the main, but would facilitate those undertaking larger projects on their homes and also continue to support job creation in the construction sector as well as the intended aim of reducing activity in the shadow economy in construction.

In addition, at present consumers can purchase electrical appliances from a kitchen manufacturer, as part of a new kitchen, and benefit from both a "blended" 13.5% VAT rate (subject to the cost of the appliances as a proportion of the overall spend) and also the HRI scheme. If a consumer buys electrical appliances directly from an electrical retailer, they pay 23% VAT but this purchase does not qualify for the HRI scheme. It would be more equitable if consumers were allowed to include, in their HRI applications, purchases from electrical retailers where those purchases are still within the permitted proportion of the overall spend.

14. Measures to tackle illicit trade

The enormous scale of the black market continues to have a devastating impact on the legitimate retail trade and State revenues. Estimated annual losses to the Exchequer of at least €500m are matched by an estimated annual loss of some €547m to retailers and intellectual property holders such as goods manufacturers and record companies.

Retail members of the Forum acknowledge the positive measures taken to tackle the black market under last year's Budget and warmly welcome the recent increase in high profile seizures of illicit tobacco, smuggled pharmaceuticals, laundered fuels and other goods by Revenue officials, but suggest that much more can and must be done to support the retail industry, safeguard employment and significantly boost State income.

Front-line services engaged in detection and enforcement should be prioritised and allocated additional resources. Stronger legislation with harsher penalties and enhanced enforcement mechanisms should be introduced as an effective deterrent. The State is encouraged to invest in comprehensive public awareness strategies highlighting the fact that illicit trade is far from a victimless crime and to underline the significant damage caused to the economy and society as a whole. Financial rewards should be available to whistle-blowers and they in turn should be afforded protection under legislation.

Budget 2015 provides a valuable opportunity to establish a special committee, led by the Department of Finance and comprising State interests and industry representatives, charged with implementing a new strategic approach to finally combatting the scourge of illicit trade in Ireland.

Retail Consultation Forum
September 2014

Appendix 1
Retail Consultation Forum Membership (Sept. 2014)

Retail Sector Representatives

Stephen Lynam	Director	Retail Ireland
Sean Murphy	Deputy CEO	Retail Excellence Ireland
Tara Buckley	Director General	RGDATA
Ian Talbot	Chief Executive	Chambers Ireland
Alan Sherlock	SFA Executive	Small Firms Association
Mark Fielding	Chief Executive	Irish Small & Medium Enterprises
Vincent Jennings	Chief Executive	CSNA
Jim Curran	Director of Communication & Strategy	Irish Pharmacy Union
Anne Marie Harte	Chief Executive	Hardware Association of Ireland
Rebecca Birchall	Director	Fishers of Newtownmountkennedy
Keith Rogers	Head of Retail	Ecco Ireland
Conor Whelan	CEO	Easons
Eoin Fitzpatrick	Managing Director	Fitzpatricks Wholesale
Helen O'Donnell	Owner	Dolmen Catering
John Foy	Managing Director	Supervalu, Coothill
Ray Hernan	Chief Executive	Arnotts
Aidan Candon	CEO	Euronics Ireland

Public Bodies

Clare Dunne	Assistant Secretary	D/Jobs, Enterprise & Innovation
William Parnell	Competitiveness Unit	D/Jobs, Enterprise & Innovation
Helen Blake	Economic Policy	D/Taoiseach
Denise Tully	Economics Division	D/Finance
Sean O'Suilleabhain	Local Government Policy	D/Environment, Community & Local Government
John Kelly	Further Education & Training Section	D/Education & Skills
Ray O'Leary	Assistant Secretary	D/Transport, Tourism & Sport
Joan Gordon	Principal Officer	D/Social Protection
Dr. Stephen Brennan	Chief Digital Advisor	D/Communications, Energy & Natural Resources
Daniel McLoughlin	Chair CCMA, Chief Executive South Dublin County Council	County & City Management Association

Secretariat

Gráinne O'Carroll	Secretary to Forum	D/Jobs, Enterprise & Innovation
Katrina Flynn	Secretariat	D/JEI