

## **Application of the SME Test to the preparation of SI 563 of 2024 giving effect to the Low Pay Commission’s recommendation for the 2025 National Minimum Wage**

The Low Pay Commission has a statutory obligation, pursuant to the National Minimum Wage Act, as amended, to make an annual recommendation to the Minister for Enterprise, Trade and Employment on the national minimum hourly rate of pay.

The Low Pay Commission’s recommendation for the 2025 National Minimum Wage was submitted to the Minister for Enterprise, Trade and Employment in July and considered by Government as part of Budget 2025.

The Commission’s recommendation that the National Minimum Wage should increase by 80 cent to €13.50 an hour with effect from 1<sup>st</sup> January 2025 was accepted by Government.

S.I. No. 563 of 2024, the National Minimum Wage Order 2024, gives effect to this change in the National Minimum Wage.

The principles of the SME test were applied to the drafting of this S.I. and to the change in the National Minimum Wage as set out below:

**1. Consultation** – It is important to note that three of the nine members of the Low Pay Commission are members who have an understanding of the interests of employers, particularly small to medium-sized employers and those operating in traditionally low pay sectors, and who possess a good knowledge and understanding of the specific issues faced by Irish businesses, particularly in relation to labour costs and competitiveness<sup>1</sup>. The views of SMEs are represented during the Commission’s discussions on the appropriate rate of the National Minimum Wage.

In addition, the Low Pay Commission consulted with representatives of SMEs as part of their consideration of the appropriate rate of the 2025 National Minimum Wage. Written submissions were received from Ibec, ISME, the Local Jobs Alliance, the Small Firms Association, the Hair and Beauty Industry Confederation, Home and Community Care Ireland, Nursing Homes Ireland, the Restaurants Association of Ireland, and the Retail Grocery Dairy & Allied Trades Association (RGDTA).

**2. Identification** – In Ireland, the sectors which are dominated by ‘domestic and other’<sup>2</sup> firms – which are typically made up of small and medium-sized enterprises (SMEs) – employ a much larger proportion of people but pay relatively lower wages on average compared with the sectors dominated by foreign firms.

The Low Pay Commission’s annual report for 2024 provides detailed analysis on the prevalence of minimum wage employment across sectors and notes that “since 2016, the Accommodation

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<sup>1</sup> Schedule 2 1(2) of the National Minimum Wage Act, as amended, reads “Of the ordinary members- ... (b) 3 shall be appointed from among persons who, in the opinion of the Minister, have an understanding of the interests of employers, particularly small to medium-sized employers and those operating in traditionally low pay sectors, and who possess a good knowledge and understanding of the particular issues faced by Irish businesses, particularly in relation to labour costs and competitiveness..”

<sup>2</sup> The CSO splits the Irish economy into two sectors: ‘Foreign’ and ‘Domestic and other’. Foreign-owned Multinational Enterprise (MNE) dominated sectors are sectors where MNE turnover on average exceeds 85% of the sector total. All other sectors are categorised as ‘Domestic and other’ sectors.

and Food and the Wholesale and Retail sectors combined have consistently accounted for more than 50% of NMW workers. In 2023, they accounted for 56.5% of all employees earning the NMW or less”.

**3. Impact Measurement** – the role of the Low Pay Commission is to ensure that any recommendation it makes to Government is evidence-based, ensuring that any suggested changes to the National Minimum Wage have minimum adverse impact on employment and competitiveness.

The key message from the Low Pay Commission’s review of research in this area is that the effect of moderate incremental adjustment in the National Minimum Wage on employment levels is unlikely to be significantly adverse.

**4. Alternatives & Mitigation** – as the National Minimum Wage applies equally to all workers<sup>3</sup>, it is not possible to consider alternative minimum wage regimes for SMEs.

As part of the annual budgetary process, a Pre-Budget Submission was made by the Minister for Enterprise, Trade and Employment to the Minister for Finance. Specific proposals contained within that submission directly relate to supporting SMEs, in particular focusing on supports that help reduce operating costs and attract and retain staff.

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<sup>3</sup> Exemptions and sub-minimum rates exist for, inter alia, apprentices and younger workers.