Think Ahead ACCA

ACCA president's forum
27 June, 2017

Report

President's forum

On 27 June 2017, ACCA organised its president's forum on opportunities for a small open economy – examining challenges to free trade, immigration and tax sovereignty in the context of the Brexit negotiations. The event took place in Dublin, Ireland.

Taoiseach, Leo Varadkar T.D. opened the event. The panel hosted by ACCA president Brian McEnery included Dr Loretta O'Sullivan, group chief economist at Bank of Ireland, Richard Moat FCCA and CEO of Eir, Sue O'Neill, chair of the SFA, and Brendan Foster, FCCA, partner, Grant Thornton and president Dublin Chamber of Commerce.

Outlining polices to support economic development in a Brexit environment, Taoiseach Leo Varadkar highlighted the importance of attracting investment, the role of the IDA, access to government, the need to further build a skilled workforce and most importantly, Ireland's role in a modern Europe.

The Taoiseach stated that Ireland's corporation tax sovereignty remains an integral policy in the Government's drive to attract FDI in a post Brexit arena with the Fine Gael leader claiming that Ireland's consistency and certainty of approach is a core strength.

The debate revealed that the economy is growing and creating jobs. Brexit, however, is a big structural shift that poses downside risks to the economy. The nature of Brexit arrangements, in particularly the trade agreement, is going to be crucial. It is yet unknown how the final UK-EU deal is going to look like. Uncertainty may cause reluctance investing. Policy measures can help reduce uncertainty. Ireland should explore potential opportunities of Brexit.

Businesses want as little change as possible from Brexit. They prioritise a transition that is as gentle as possible. It will be essential to avoid the 'no deal' scenario and to maintain the free movement between the UK and Ireland.

Brexit will unavoidably affect SMEs and some priority actions needed from the Government. If Ireland wants to be attractive and competitive, it needs to have an entrepreneurial tax regime. Incentivising talent attraction should be Ireland's priority. It is necessary to think small first, especially when it comes to regulation.

Dublin's success is critical to Ireland's success. The position of Dublin should be reinforced as a city of international importance and scale, acting as a magnet for investment and talent. Ireland must embrace urbanisation, address its infrastructure deficit, and upgrade the tax offering.

Main highlights

TAOISEACH, LEO VARADKAR T.D.
Accountants play an essential role in the modern economy as they have a unique insight into businesses' needs and struggles and that perspective is really valuable. It is also a profession that comes with great responsibility. President Higgins has noted years ago that accountants are critical to the fabric of the Republic. Accountants are relied upon to ensure that high standards of Irish business life are met and maintained.

On 26 June the *National Plan on Ireland's Corporate Social Responsibility* was published. Businesses should be encouraged to support this agenda.

Stakeholders will get together at the National Economic and Social Dialogue in Dublin Castle to discuss Ireland's social and economic priorities and choices. Despite any external risks, such as Brexit, Ireland is preparing next budgetary cycle from the position of reasonable strength and stability. Ireland's growth rate is expected to be 4.3% this year and 3.7% in 2018.

Notably, the domestic sector and demand is now driving growth in the Irish economy. Unemployment is back to pre-2008 levels and the creation of 45,000 additional jobs is planned for this year with the vast majority of those outside Dublin. 20,000 people will be moved from long-term welfare payments to work. There are around 2,000 social houses under construction in different parts of the country.

These are great signs now that all regions are experiencing economic and employment growth. Ireland can make plans with some ambition for the future.

The Government has discussed and approved the Climate Change National Mitigation Plan that will set out the first steps of Ireland's transition to the low carbon economy. That will require profound changes in the way the economy works and looks over the next 30 years.

All these opportunities and challenges exist in the shadow of Brexit and the uncertainty created by it. One year on after the decision by British people to leave the EU, it is still not very clear what exactly Brexit means. It is important to make sure that the negotiations take place in a constructive, positive and ambitious frame of mind.

Ireland wants to see the closest possible future relationship between the EU and the UK, minimised impact on citizens' rights and the economy. Europe has been very good for Ireland. Some international issues, such as climate change, international crime, terrorism, migration, are beyond the capacity of a single member state to deal with. It is the European Union that represents the best chance to find the solutions in these cases.

Ireland has gone from being a poor and largely agrarian country to one that is quite wealthy, modern and high-tech. Two core policies made that possible. First, Ireland ensured that it remains attractive to investors through low corporation taxes, good administration in the IDA, accessible Government and a skilled workforce. Second, Ireland placed itself at the heart of the European Union – the common European home that it helped to build. Ireland has never been ambiguous about its commitments to European integration. There is an opportunity to build on this relationship in the century where the driving force of the economy will be the people.

The discussions with European leaders at the European Council reaffirmed that Ireland can be confident about the willingness of the European neighbours and the EU institutions to minimise the negative consequences of Brexit for Ireland. There is a strong acknowledgement and sympathy towards Ireland's concerns and priorities, including maintaining the Good Friday Agreement, an invisible border and all the associated reciprocal rights. The EU recognises Ireland's unique position, history and geography; however, turning this good will into systems and laws that actually work is going to be an enormous challenge.

It is clear that Brexit is a fundamental economic risk for Ireland, particularly the absence of a trade agreement that permanently changes the rules of trade.

Now that negotiations are under way and the governments are intensifying the focus on the economic implications of Brexit, it is important to set out Ireland's priorities in this regard.

First, we need sustainable fiscal policies to ensure the capacity to absorb and respond to economic shocks. Second, we need to strengthen competitiveness and strive to make Irish enterprises more resilient. Third, we must prioritise policy measures and dedicate resources to protect jobs and business. Fourth, we need to realise economic opportunities that may arise from Brexit and help businesses to adjust to any logistical or trade barriers arising. Many companies will face the necessity to have access to the EU and Ireland is well placed given its location and jurisdiction.

Tax sovereignty is an important topic in the Brexit debate. The guiding principle of Ireland's 2018 budget priorities is to reduce income taxes in a sustainable and affordable way.

In relation to corporation tax, Ireland has a long-standing policy – the 12,5% rate provides certainty, consistency and clarity for enterprise decision making in good and challenging times. The fact that the rate hasn't changed through different situations in economy or government is important in itself. Other countries are reducing their corporate tax rate but only few can offer the consistency and simplicity that Ireland has.

Ireland will take an active part in implementing the OECD BEPS project. The country is also engaging in the Common Consolidated Corporate Tax Base proposal and is trying to establish whether it is in line with Ireland's long-term interests. Some other countries may share concerns of its potential impact.

The Irish Government has a very ambitious economic agenda for the years ahead and is looking forward to working with businesses and professions to realise and develop those ambitions. The debate on Brexit is important because it helps clarifying the challenges as well as exploring the opportunities that we face.

Main highlights

BRIAN MCENERY, FCCA
ACCA PRESIDENT

The topic of opportunities for a small open economy is one that is as interesting as it is endless. While Ireland may, technically, be a 'small economy', it is also one which has been resilient through hard times and which has unique opportunities amidst the global tectonic shifts.

The European Union first took shape at the end of World War II, as the founding countries of Belgium, France, Germany, Italy, Luxembourg and the Netherlands united in the aim of securing lasting peace. Ireland and the United Kingdom joined the European Union on 1 January 1973 and 20 years ago our mutual membership of the EU was an important part of achieving peace in Northern Ireland.

Less than 50 years on, the UK has decided to detach itself from this bloc. UK policymakers face some tough months and years as they re-engage with allies and partners to try to renegotiate its trade deals.

Ireland also faces challenges and opportunities. While the country is not leaving the European Union and is heavily committed to its future within the EU, it will certainly feel the impact of Brexit and will face some crucial decisions in the coming years.

The ties between the UK and Ireland, both historical and geographical, place Ireland in a unique position. Ireland has a special relationship with the UK and the European Union. The land border between the UK and the rest of the EU has 251 land crossing points, 250 of those in Ireland and one in Gibraltar. 20 years ago, there were 20 approved crossing points in Ireland – as with many other elements of the Brexit discussion, careful planning and consideration will be necessary here to ensure that we do not return to that situation.

Hopefully the pundits who saw Brexit as the first step in a momentum-gathering wave of overt patriotism and economic nationalism were wrong.

ACCA was founded on five principles, opportunity and diversity among them. ACCA works to provide opportunity free from artificial barriers, and to embrace the diversity, geographic or otherwise, of its members and students.

The flow of students and professionals facilitates the global experience that tomorrow's accountants and businesses need, and whatever the implications of Brexit ACCA will continue to champion the merits of a qualification without borders.

There are a great number of conversations ahead as Ireland confronts a very uncertain period. We have to ensure that we have a strategic vision and take a little bit of risk.

There is a global demand from business for the skills and strategic insights of professional accountants as they confront the changing landscape of the 21st century. From the immediate questions posed by Brexit through to the rise of emerging markets in the global economy, ACCA is a strong advocate for policies that enable business and talent to operate across borders and create prosperity.

Similarly, as we confront the impact of new technology and the changing nature of work, ACCA will always be committed to upholding the strongest technical and ethical standards in the accountancy profession.

ACCA's motto is 'Think Ahead' and whatever the future holds ACCA will be leading the profession in providing accountants the world needs.

LORETTA O'SULLIVAN
GROUP CHIEF ECONOMIST,
BANK OF IRELAND

It is important to remember that the economy is growing and creating jobs. Brexit, however, is a big structural shift that poses downside risks to the economy. It might have significant implications in terms of Ireland's economic, political, social and cultural relationship with the UK. The nature of Brexit arrangements, in particular the trade agreement, is going to be crucial.

It is yet unknown how the final deal is going to look and there might not be clarity on this for some time. As a result of that, there is a huge amount of uncertainty which will have an impact on two main areas: financial markets and consumer and business confidence/decisions. Due to lack of clarity, many businesses are adopting the 'wait and see' approach.

Bank of Ireland Economic Pulse gathered the results of consumer and business surveys. As regards to financial markets and the exchange rate, the pound has weakened substantially. This has an impact on Irish firms selling into the UK market.

In terms of investment decisions in times of uncertainty, businesses tend to step back and think twice before investing. Multiple businesses across sectors have put their plans to invest on hold.

Agriculture and farming community is highly affected by Brexit. Many believe that the impact will be significantly negative.

Main highlights

There is no magic bullet to fix the situation. Policy measures can help reduce uncertainty. The Irish Government has set out a strategy and is going to look to minimise the negative impact on the Irish economy and trade.

Ireland should also explore potential opportunities of Brexit. Some UK firms are looking to relocate and Ireland can position itself as a potential location for these companies and European agencies.

Overall, Brexit is a downside for the Irish economy. Long-term trading relationship will be important. FDI is one of the areas where Ireland could see some opportunities and there are many reasons for FDI to come to Ireland; however, it might not be an offset for export losses.

Things in European politics can swiftly change and it can provide opportunities. It is important that the growth of Irish economy is broad-based. At the very start of the recovery it was all about exports and now consumers are the key drivers and will continue to be moving forward. Ireland is much better positioned that it was several years ago.

RICHARD MOAT, FCCA
CEO, EIR

One year after the Brexit referendum, there is still a lot of uncertainty. The result of the UK election was quite remarkable: Theresa May sought a mandate for her form of Brexit which included leaving the single market, ending freedom of movement, leaving the Customs Union, ceasing vast payments to the EU and ending the jurisdiction of the European Court of Justice (ECJ). This weakened her position and strengthened the position of those looking for a more pragmatic approach.

It would be wrong to suggest that the election was a clear statement that UK voters want to stay in the EU or that there was revenge vote by remainers.

Philip Hammond as Chancellor has become a key figure in Government and is advocating for a softer and a more pragmatic form of Brexit. He has famously said that people that voted to leave the EU, have willingly voted to become poorer.

Damian Green is now First Secretary of State, de facto Deputy Prime Minister. He is an ardent remainer and has been committed to the European cause for his entire career. Another figure that will be influential is Ruth Davidson. The Scottish Tories kept May in Downing Street. Without the 12 new seats they won, giving the Tories 13 seats in total in Scotland, May would not have been able to form a minority administration with the DUP.

One of the main questions for Ireland is the border situation. The nightmare scenario that has worried so many is that Brussels would focus on the direct negotiations with London while Ireland's position in the EU negotiations would be compromised at the expense of the views of larger members in Bonn and Paris.

The views of business communities are becoming more important and most CEOs are remainers. A survey done by the FT showed that businesses want as little change as possible; as gentle a transition as possible; to avoid the 'no deal' scenario – it would be a disaster. Everyone wants to avoid 'falling off the cliff'; and a fudge on migration, for the retail industry in particular. In short, the sentiment from senior British business people is that it is all about the outcomes, not the mechanism.

The heads of the British Chambers of Commerce, the Confederation of British Industry), manufacturing trade group the EEF, the Federation of Small Businesses, and the Institute of Directors have signed an open letter calling for the Government to maintain access to the single market and Customs Union until a Brexit deal is reached and to prioritise the rights of EU citizens in the UK.

Irish businesses are looking for very similar things: a smooth transition; Ireland will require close and easy access to it nearest neighbour and trading partner; having a close relationship between the UK and EU post Brexit.

One scenario that may re-emerge is the possibility that the UK could opt for the European Economic Area (EEA) option like Norway as a transition step. This had previously been dismissed, but following the political outcome of the general election and the Chancellor's recent soundings, this should not be dismissed.

Main highlights

The UK has outlined its position on the EU citizen's status. Around three million EU citizens living in the UK would receive settled status. It seems that Theresa May is keen to get the citizens issue off the table in order to progress with negotiations on other issues.

There are opportunities for Ireland in areas of talent and migration. The UK will fight tooth and nail to prevent the fragmentation of the financial services sector and retain the City of London. Dublin is also going to compete with other European cities, such as Frankfurt, Amsterdam and Paris.

Ireland sees the opportunity for inward investment but there are some key practical constraints around infrastructure. Government needs to play a key role here.

The Irish Financial Regulator needs to become less risk averse in deciding whether to allow banks to move their operations to Ireland.

It will be essential to maintain the free movement between the UK and Ireland. It is essential to the integrity of the peace process. Free movement will also be important to around six million people of Irish descent who are living in the UK. The UK Government won't want to upset a constituency this large. Out of all the uncertainties of Brexit, this one will be the easiest to overcome.

As regards to attracting talent and businesses to Ireland, there needs to be flexibility in the tax regime. When it comes to Brexit, we should plan but not be obsessed with it.

SUE O'NEILL
CHAIR, SMALL FIRMS ASSOCIATION (SFA)

The definition of small firms in Ireland covers companies that employ less than 50 employees. This is more than 90% of all Irish firms – a very vital part of the Irish economy. Small companies employ around 50% of private sector workforce.

Most small businesses have confidence in the growing economy. At the beginning of May the SFA conducted a survey with it members. 61% of businesses said that there is an improvement in the business environment; 50% said that business is growing; and 60% of businesses believe that they will create additional jobs.

As regards to future investment, 72% intend to invest in their business. The areas they want to invest are brand development, staff, IT, market diversification. An area of concern is the fact that only 7.9% are looking into using new borrowing. This shows a lack of ambition in growth and fear around accessing finance.

The sterling devaluation has particularly impacted businesses that are working in no margins. Potential impacts to date of Brexit on small firms are postponed investment decisions, loss of business and movement of business.

Some of the challenges that small businesses will be facing are the exchange rate volatility and investment confidence. The potential of a hard border might deter clients from coming to their business. Small businesses also see cost and tax competitiveness versus UK as a big challenge.

There are some priority actions needed from the Government: financial supports for exporters; low cost finance options; supports for diversification and businesses that are trying to get in new markets; public awareness campaign.

Competitiveness is going to be absolutely crucial for all businesses but especially the small ones. The Government should focus on cost and tax competitiveness first.

If Ireland wants to be attractive and competitive, it needs to have an entrepreneurial tax regime that really supports entrepreneurship.

Incentivising talent attraction should be Ireland's priority. If we want to attract investment, we need to look at the capital gains tax and the entrepreneurial tax relief. The lack of investment in Ireland also needs to be addressed.

Small businesses find it very hard navigating Brexit and understanding new rules and options. The accountancy profession can help with that. It is necessary to think small first, especially when it comes to regulation.

We do need FDI in Ireland – for every job that it creates, seven more are created for SMEs that are servicing the FDI.

With regard to government support for businesses, SMEs need to reinforce that they are the ones that actually create jobs.

Main highlights

BRENDAN FOSTER, FCCA PARTNER, GRANT THORNTON AND PRESIDENT, DUBLIN CHAMBER OF COMMERCE

To rise to the challenges that lie ahead, and to take advantage of the opportunities, Dublin Chamber advocates a three-pronged policy response: we must embrace urbanisation, address our infrastructure deficit, and upgrade our tax offering.

Ireland is geographically peripheral and demographically insignificant. There are steps that need to be taken in order to avoid becoming isolated and irrelevant post-Brexit.

The Greater Dublin area accounts for 53%+ of Irish GDP, 62% of Irish tax revenues and 40% of the state's population, rising to 2.2 million by 2031. It is a fact that the Greater Dublin area will remain the most important demographic, economic, industrial, and cultural hub in Ireland over the coming decades. In terms of FDI, what is lost to Dublin is often lost to Ireland. Dublin's success is critical to Ireland's success.

We should reinforce the position of Dublin as a city of international importance and scale, acting as a magnet for investment and talent.

Urbanisation is a positive and overwhelming global trend. For the first time in human history, the majority of the world's population now lives in cities. The UN estimates that by 2050 Ireland's population will be 75% urban. Rather than fighting this, Government should focus on getting urbanisation right, to optimise social and economic outcomes.

Dublin does not receive a proportionate share of capital investment, despite the whole country relying on its success. Moreover, the Government withholds data that favours investment in the GDA. Investment should be focused on urban areas, which offer the greatest return in terms of cost-benefit. In particular, public transport funding is more efficient in high-density zones where greater use will be made of projects.

Ireland has the lowest proportional capital spend in the EU. It now has major deficits in public infrastructure due to underfunding and a lack of vision over many years.

The Department of Transport recently estimated that traffic congestion in the GDA costs the Irish economy €350 million each year, rising to €2 billion annually by 2033. This is a conservative estimate. Back in 1997 the Dublin Transportation Office estimated the cost at £500 million, or c.€1.2 billion today adjusted for inflation.

Ireland's infrastructure needs: Metro North; DART underground; Eastern and Midlands water supply project; improved urban public transport; improved inter-city public transport; outer orbital route; Eastern bypass.

Ireland needs to make share-based remuneration tax-efficient for SMEs and remove the 3% USC surcharge on self-employed people earning over €100,000.

It is important to improve entrepreneurs' relief by increasing the lifetime cap to €10 million and encourage investment in indigenous business by applying a lower rate of CGT (20%) to investment in unquoted companies where shares have been held for over three years.

Student flows are important to the Dublin Chamber of Commerce, and universities are competing for international students. However, there are some issues that need to be addressed, such as student housing.

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