Budget 2016 Submission

Construction Industry Federation

CIF Priorities

1) Restore Residential Construction Activity to Sustainable Level to meet projected demand

1. Create a Help to Buy scheme to assist first time home purchasers.
2. Introduce a tax incentivised savings scheme for future purchasers of new homes.
3. Exempt new homes from a S48 development levy.
4. Replace current Part V provisions with a 1% levy on sales of all residential units.
5. Enable developers access funding from the Irish Strategic Investment Fund.

2) Support Infrastructure Investment under the Public Capital Programme

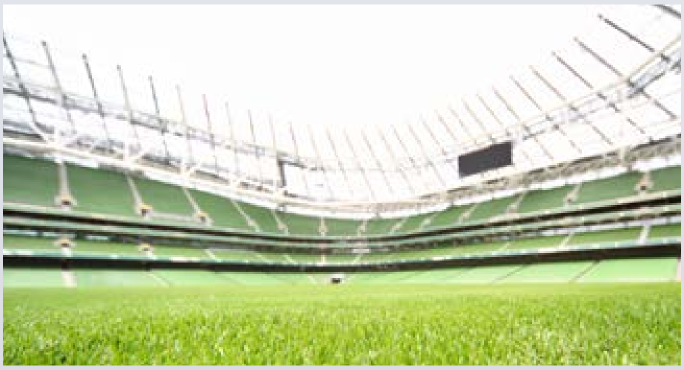
1. The Public Capital Programme should be increased for sustainable projects to address infrastructural deficits and support future economic growth.
2. Support for Long Term Planning of Infrastructure.
3. The State contribution to final bidders' costs for Public Private Partnership (PPP) projects should be applied for all PPP competitions.
4. A range of project sizes should be available so that they are accessible to small, medium and large sized contractors.

3) Facilitate Renewal of Sustainable Construction Jobs and Training

1. Rebate of Statutory Redundancy Payments to newly hired construction sector workers.
2. An opt in facility should be available to persons who pay Class S PRSI to include entitlement to Jobseeker's and Illness Benefit.
3. Reinstate Grant Aid for Training of Construction Employees.
4. Remove Current Student Levy on Apprentices – Phases 4 and 6.
5. Extend the JOBSPLUS Scheme to the "Wet Trade Apprenticeships".
6. Financially support the work of the Construction Safety Partnership (CSP).

4) Address Taxation Matters

1. Introduce a temporary VAT rate of 9% for the provision, construction, renovation and alteration of the housing for a two year period.
2. Introduce amendments to the 7 year capital gains tax exemption provisions for retention of certain assets.
3. Current capital gains tax rate should be reduced to 20% to encourage transactional activity and support Exchequer revenues.
4. The effective tax rate for rental income should be reduced by exempting rental income from PRSI and USC and by allowing a tax credit in respect of local property tax paid.
5. Restoration of 100% tax deduction of the interest expense incurred on loans to acquire/develop residential property.



"I don't accept there is a bubble now, but I do accept that prices are rising because of the law of supply and demand… You can't sort this out unless you build new houses, and to build new houses, you've got to have a strategy – a combination of issues that can help that forward."

An Taoiseach, Enda Kenny TD

A Construction Industry that works for the Economy

As both the economy and the construction sector recovers, there are a number of key challenges that must be addressed to maintain a sustainable recovery. The State's infrastructure including roads, water services, offices, housing and relates services must be developed and maintained at a level consistent with the requirements of the country, now the fastest growing economy in the euro zone. Buildings and infrastructure are required to address cost inefficiencies and deficits which can maintain and increase the economy's competitiveness to facilitate further growth.

The value of construction output in 2014 rose to €11bn from a low of €9.1bn in 2012. Construction activity accounted for 6.9% of GNP in 2014. At December 2014, 115,800 persons were employed in construction which reflects a 19% increase in levels employed in March 2013.

While the CIF does not support a return of a construction industry at the scale that existed pre 2008, the optimum size of the industry is in the order of 12% to 15% of GNP. Based on GNP figures for 2014, this implies an industry valued circa €19bn to €24bn. On this basis, the industry has a long way to recover to meet the requirements of the economy.

1. Restore Residential Construction Activity to Sustainable Level

Challenge

It is widely acknowledged that the house building industry must increase housing output. Current activity levels must be doubled to meet sustainable demand. House building is highly labour intensive. Building an additional 15,000 housing units has the potential to create an additional 37,500 direct and indirect construction jobs. Shortage of new housing supply is a key factor contributing to house price inflation and rental inflation due to the industry not being in a position to fund recovery of construction activity levels to the required levels.

Help To Buy Scheme: With new Central Bank rules on mortgage lending, home purchasers in the Greater Dublin area face challenges in securing an adequate level of mortgage finance to purchase their first home. The availability of equity loan schemes for housing could provide much assistance to home purchasers and also facilitate the industry ramp up increased building activity in key locations. The experience of the Help to Buy schemes operated in the UK has illustrated how successful a scheme of this nature can be in facilitating purchasers get a foothold on the property ladder. This could act in an equivalent manner to operation of a ‘shared ownership scheme’ in addressing housing needs of some applicants on the social housing waiting lists.

Tax Incentivised Savings Scheme for Purchasers of New Homes: A tax incentivised savings scheme for purchasers of new homes should be promoted by government to encourage savings for the deposit required to support the purchase. This could operate on a similar basis to the former Special Savings Incentivised Accounts with the proviso that the accumulated deposit must not be used for purposes other than purchase of a new home.

Local Property Tax to Replace S48 Development Levy: As local property tax has been introduced since the current development levy mechanism was provided for in the Planning and Development Act 2000, there is a strong argument that the market value of new residential development upon which the local property tax is based results in a double taxation of newly built homes. Property tax should replace the current development levy contributions for residential development payable under S48 of the Planning and Development Act 2000 as amended. This would reduce the overall up front construction costs of new residential buildings and initiate a real recovery in residential construction activity. Currently, owners of newly built houses and apartments are being asked to fund the provision of public services via the development levies paid, and at the same time, pay the local property tax which is assessed on the market value of their new home which is strongly influenced by the services paid for by the S48 development levy. Accordingly, Section 48 development levies pertaining to new residential properties that are subject to local property tax should be abolished.

Replace Part V Social Housing Obligations with 1% Levy on All Residential Transactions: The operation of Part V Social Housing provisions continues to restrict new residential building activity and put upward pressure on all inclusive costs for first time buyers. The industry has advocated the replacement of Part V with a 1% levy on sales of all residential units, both new and second hand. To illustrate the financial impact of this recommendation, a levy of this nature would have generated circa €93m in 2014. With the objective of achieving the required integration, local authorities should, at the same time, retain the right to acquire up to 10% of residential units in any new development at market value.

Irish Strategic Investment Fund to Support Funding of Infrastructure: The availability of finance continues to be a difficulty for commencement of new construction activity, particularly where large infrastructure investment is required which requires a longer funding period. The Irish Strategic Investment Fund should be a source of potential funding for developers who require longer term funding to support opening up of new development sites.

Possible Range of Solutions

1. Help to Buy Scheme: To assist first time home purchasers, government could provide an equity loan scheme to assist households purchase a home and to support the house building industry to restore activity levels to a sustainable level. A Scheme of this nature should not be used as a substitute for the home purchaser’s 10% deposit requirement in meeting Central Bank mortgage lending criteria rules. This could also relieve some social housing demand;
2. Tax Incentivised Savings Scheme: Introduce a tax incentivised savings scheme for future purchasers of new homes to assist them in assembling the required deposit to support the purchase;
3. Introduce greater equity for the payment of property tax by exempting new homes from a S48 development levy;
4. Replace current Part V provisions with a 1% levy on sales of all residential units, both new and second-hand. Local authorities should retain the right to acquire up to 10% of units in any new development to achieve the require integration; and
5. Enable developers access funding from the Irish Strategic Investment Fund for major infrastructural works to facilitate opening up of new development sites.

2. Support Infrastructure Investment under the Public Capital Programme

Challenge

Opportune time to Invest in Sustainable Infrastructure: A key requirement of an appropriately structured economy will be a construction sector that can deliver the required infrastructure and services to support continued economic growth. As the economy recovers, and interest rates remain at historically low levels, the time is opportune to support a recovery in the construction sector so that it can renew the optimum capacity at a sustainable level to meet the economy's requirements.

Increase in Public Capital Programme: Over the past seven years, the total Exchequer capital in the public capital programme has been decimated falling from €8.9bn in 2008 to €3.6bn in 2014. The construction related Exchequer capital expenditure in 2014 amounted to €2.3bn. Minimal investment in infrastructure has taken place over this time.

As the country's finances recover, borrowing costs are low and the population continues to grow, renewal and investment in strategic infrastructure that contribute to further economic growth including water and waste water services, social housing, schools, roads/ transport, energy and communications should be promoted. An increase of €1bn in construction spending yields 10,000 new construction jobs. Local construction activity on a regional basis should be supported by ensuring that public sector contracts are broken down into appropriately sized contracts to facilitate local / domestic competitors.

Support for Long Term Planning of Infrastructure: A renewal of investment in long term planning for major infrastructural projects should be undertaken. Many projects require years of planning which cannot be overlooked as the economy embarks on its recovery phase.

PPP Process: While the PPP model for funding major capital projects including social housing programmes is promoted by government, the appropriate size/ scale of projects available should be of such a scale to suit all sizes of contractor including small, medium and large contractors. The participation costs bidding for PPP projects are exorbitant. While PPPs can be very suitable for major engineering projects, the process generally is not suitable for buildings unless an exemplar design is provided by the procuring entities so that all bidders can tender against this design. In order to encourage participation in the PPP bidding process, the State contribution to final bidders' costs should be applied for all PPP competitions.

Possible Range of Solutions

1. Opportune Time to Invest Sustainable Construction Sector and in Public Capital Programme: As finances recover and borrowing costs remain low, the Public Capital Programme should be increased for sustainable projects to address infrastructural deficits and support future economic growth;
2. Support for Long Term Planning of Infrastructure: Investment in long term planning for major infrastructural projects should be renewed.
3. PPP Process: To encourage participation, an exemplar design for all new buildings should be provided. Projects should not be oversized which make it uncompetitive for domestic bidders to compete. The State contribution to final bidders costs for PPP projects should be applied for all PPP competitions; and
4. A range of project sizes should be available so that they are accessible to small, medium and large sized contractors.

3. Facilitate Renewal of Sustainable Construction Jobs and Training

Challenge

Redundancy Costs in Construction: The construction sector, by its nature, is subject to cyclical processes where contracts are short term in nature. This leads to construction operatives being hired for specific construction contracts where employment contracts are terminated as contract work is concluded. Construction employers' liability for all redundancy costs acts as a deterrent to direct employment and to providing quality longer term jobs in the construction industry. The construction sector is an entirely different sector compared to other employment sectors where the employment base for employees can be of fixed location whereas the employment base of a construction worker is where the actual construction project is at any one time. The current requirement that employers are 100% responsible for redundancy payments to employees means that construction employers are reluctant to directly hire new employees. This in turn will have an adverse effect on quality, training and standards. Disincentives for recruitment of new employees which were introduced during the recession should now be reversed. Construction sector employers' entitlement to redundancy rebate should be restored for all new employees engaged after a specified date.

Social Insurance Benefits for Self-Employed: Self-employed people can become unemployed if their business has to close down. It is also the case that some may people continue to be self-employed but the amount of work they undertake has reduced so much that it no longer provides them with a sufficient income. Self-employed people pay Class S PRSI. Class S PRSI only covers self-employed for certain social welfare payments. It does not cover them for Jobseeker's Benefit.

In order to support self-employed and offer them some protection against loss of income, CIF recommends that the benefits payable for persons who pay Class S PRSI should be extended to include Jobseeker's Benefit and Illness Benefit on the same basis as it applies to their own direct employees.

Reinstate Grant Aid for Training of Construction Employees: For the construction sector to ensure compliance with quality and safety requirements, employers must invest heavily in training and upskilling. Since 2008 all support for training those in employment was removed in favour of funding training the unemployed. In order to ensure the demands of the economy are met, employers need assistance with the cost of this training as was the case prior to the recession, by means of grant aid or a percentage reimbursement. This assistance could be made via the National Training Fund into which all employers pay a substantial contribution.

Remove Current Student Levy on Apprentices –Phases 4 and 6: In Budget 2014, the funding of Apprentices student fees, payable to Institutes of Technology (Phases 4 & 6), amounting to €1832 per Apprentice, was removed. This means that an Apprentice must fund this segment of their training. This is an impediment to registering of Apprentices whose skills will be in demand to deliver on Construction 2020. CIF propose that this funding be reinstated in Budget 2016 in line with the Governments stated aim of increasing the number of apprentices.

Extend the JOBSPLUS Scheme to the "Wet Trade Apprenticeships": Registrations to the wet trades (plastering, bricklaying, tiling, painting and decorating) have all suffered greatly in the recession due to the nature of the small businesses / lack of work and confidence in the industry. These skills will be vital to deliver the required residential developments set out by Government. CIF have proposed that the JOBSPLUS initiative be extended to include apprenticeships in these trades in order to encourage employers to register apprentices in these specific trades.

Support the work of the Construction Safety Partnership (CSP) financially: The CSP (www.csponline.ie) is a stakeholder group that has promoted improved safety performance in the construction sector. This group has been instrumental in implementing many safety initiatives since its inception. The work of the CSP is no longer supported financially by Government and to manage the demands of a recovering industry, the CSP needs this support in order to complete much needed projects. CIF propose that funding could be generated to support the CSP by ensuring that a small contribution from the cost of the Safe Pass and Construction Skills Cards is allocated to supporting the invaluable work of the Partnership.

Possible Range of Solutions

1. Rebate of Statutory Redundancy Payments: Restore eligibility to partial rebate for statutory redundancy payments to newly hired construction sector workers;
2. The social welfare benefits allowable to persons who pay Class S PRSI should be extended to include Jobseeker's and Illness Benefit. [An opt in facility should be available to all self-employed who wish to secure this benefit.];
3. Reinstate Grant Aid for Training of Construction Employees: Rebates towards training costs incurred for construction related programmes should be restored.

(cont'd) 3. Facilitate Renewal of Sustainable Construction Jobs and Training

4. Remove Current Student Levy on Apprentices – Phases 4 and 6: To encourage participation in apprenticeship programmes, the apprenticeship levies for construction related training programmes should be abolished;
5. Extend the JOBSPLUS Scheme to the "Wet Trade Apprenticeships" and
6. Financially support the work of the Construction Safety Partnership (CSP): This can be achieved by ensuring that a small contribution from Safe Pass Cards and Construction Skills Cards is allocated to supporting the work of the Partnership.

4. Taxation Matters

Challenge

Any increase in private sector building activity creates additional jobs. Private sector construction activity is dependent on infrastructure services and a functioning banking sector. An increase in construction spend of €2bn will yield an additional 20,000 new jobs.

VAT: Annex III of the EU VAT Directive outlines the range of services that can qualify for a reduced VAT rate. Article 10 and 10a specifies provision, construction, renovation and alteration of housing, and renovation and repairing of private dwellings as service to qualify for the reduced VAT rate. CIF analysis concluded that a reduction in the rate of construction VAT for construction, renovation and alteration of housing from 13.5% to 9% can be self-financing when an increase in the level of residential construction activity of 14% is achieved over the 2014 levels. Other indirect benefits will also accrue to the Exchequer as a consequence of increased residential construction activity including conveyancing of residential units, houses / apartments, fit outs and other related benefits. The all-in construction cost inclusive of VAT and other costs of any newly built home is still high compared to current market value levels. Measures by which this anomaly can be addressed is by introducing the temporary VAT rate of 9% for a limited timeframe specifically for residential construction services as currently operates in the tourism and leisure sector. This is on the basis that the existing VAT treatment of other construction services remains subject to VAT at the 'Parking Rate' which is currently 13.5%.

This measure will stimulate additional residential building which in turn will address the deficit in current housing supply. It will also assist in determining the economic viability of residential development. A measure of this nature will also reduce the overall cost of constructing social housing.

Changes to 7 Year Capital Gains Tax Exemption: An unintended consequence of the 7 year capital gains tax exemption is that it encourages the holding of property – there is no requirement to develop the land purchased during the relevant period. This is not compatible with the desire to develop the sites and restore construction activity.

To address this anomaly and to encourage disposal of these lands for early development, provision could be made for a tiered relief of the capital gains tax liability that would arise for each year early that a relevant asset which benefited from these reliefs is disposed of. Under these circumstances, a capital gains tax bill would be reduced by one seventh for each of the unexpired years of the seven year holding period.

Capital Gains Tax Rate: The current 33% capital gains tax rate acts as a disincentive to disposal of assets, transactions and investment decisions. In the past, it has been demonstrated that a lower rate of capital gains tax increases transactions and increases taxation revenue. A restoration of the 20% capital gains tax rate will stimulate transactional activity and Exchequer revenues.

Encourage Investment in Residential Rental Property: There is a lack of suitable housing available for rent in certain areas. The taxation of income from letting residential property is now a major obstacle to continued investment in residential accommodation. An effective tax rate of 55% inclusive of income tax, USC and PRSI plus a liability for local property tax does not encourage investment in this sector. To encourage increased supply of residential accommodation for letting, the following should be addressed:

The effective tax rate for rental income should be reduced by exempting rental income from PRSI and USC and by allowing a tax credit in respect of local property tax paid;

A restoration of 100% tax deduction of the interest expense incurred on loans to acquire/develop residential property.

Targeted taxation adjustments can facilitate renewal of employment in the selected areas. Measures outlined below can act as a catalyst to initiate activity which in turn facilitates generation of employment opportunities in other sectors.

Possible Solution

1. Temporary VAT rate for Residential Construction: Introduce a temporary VAT rate of 9% for the provision, construction, renovation and alteration of the housing for a two year period;
2. To encourage transactions in development land, introduce amendments to the 7 year capital gains tax exemption provisions by providing a tiered capital gains tax relief for each unexpired year of the seven year holding period when a relevant asset is disposed of;
3. The current 33% capital gains tax rate should be reduced to 20% to encourage transactional activity and support Exchequer revenues;
4. The effective tax rate for rental income should be reduced by exempting rental income from PRSI and USC and by allowing a tax credit in respect of local property tax paid;
5. Restoration of 100% tax deduction of the interest expense incurred on loans to acquire/develop residential property.

In Quotes: Construction

"I don't accept there is a bubble now, but I do accept that prices are rising because of the law of supply and demand…You can't sort this out unless you build new houses, and to build new houses, you've got to have a strategy – a combination of issues that can help that forward."
An Taoiseach, Enda Kenny

"No sector saw the stark realities of the crash more clearly than construction. Restoring the sector to health will create a virtuous circle, whereby construction companies get the finance they need to build, construction workers are reemployed, and they build the homes that families need. Both my Department and the Government at large are working hard with the Construction Industry Federation to make that a reality. A key step in this process is ensuring industry employers are fully aware of the supports available from the Department. We can connect employers with skilled workers. But we can also do much more than that. Through JobsPlus, for example, we can help with wage costs, an invaluable support for companies."
Joan Burton, Tainaiste and Minister for Social Protection

"Ireland is in recovery mode and it's vital that the construction sector recovers to sustainable levels as part of that. Your sector was very badly affected by the economic collapse and we must return it to sustainable levels…..One thing is for sure we are not going back to the boom bust cycle that beset the construction sector particularly. The decline in the sector took a huge toll on people through job and financial losses. We cannot go back to the days of an artificial and unsustainable property bubble"
Paudie Coffey, Minister of State at the Department of the Environment with Special Responsibility for Housing, Planning and Coordination of the Construction 2020 Strategy

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"Despite the encouraging signs of recovery in construction sector activity, I am sure we are all in agreement that the sector must overcome many challenges before it is at a point where it can fully support the needs of our economy and society. Nowhere is the challenge more evident than in the rising prices and rental costs of commercial and residential properties which have been particularly pronounced in Dublin and are a consequence of the inadequate supply response to growing demand. A significant concern with rising rents and prices is the negative impact they have on families' ability to access good quality, affordable housing. Such rises also compromise the economy's competitiveness and ability to attract foreign direct investment

and skilled immigrants. With this in mind, tackling the impediments to the proper functioning of the construction sector has been and will continue to be an important priority for this Government."
Michael Noonan, Minister for Finance

"For many years during the celtic tiger, house building was something many local authorities got out of. It has taken time, but with approximately 300 additional housing staff in local authorities, including planners and architects, the funding that is coming on stream, aggressive investment and action is being taken to tackle the housing crisis."
Alan Kelly, Minister for the Environment

"The level of prices comes down to supply and demand and one of the unfortunate things is that because so few new homes are being built in Dublin at the moment, it's becoming a high-income enclave and the rest have to live further out. That is something the Government can control by making it easier to build. Rapidly rising prices should cause lots of building to satisfy the demand."
Trinity academic Ronan Lyons

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