Budget 2017 Submission

Construction Industry Federation

CONSTRUCTION INDUSTRY FEDERATION

BUDGET 2017 SUBMISSION SUMMARY RECOMMENDATIONS

1 **Support infrastructure investment under the Public Capital Programme**

2 **Facilitate the restoration of residential construction activity to meet projected demand**

3 **Address current social housing crisis**

4 **Facilitate renewal of sustainable construction jobs and training**

5 **Address taxation matters**

1

Support infrastructure investment under the Public Capital Programme

Possible Range of Solutions

1 **Opportune Time to Invest in Infrastructure**
Increase Public Capital Programme provisions to address infrastructural deficits and support future economic growth. Renewed investment in water and waste water services to fund Irish Water's investment programme must be facilitated;

2 **Project sizes**
Project sizes should be of appropriate scale to enable local domestic contractors compete for the contracts.

3 **PPP Process**
Projects should not be oversized which make it uncompetitive for domestic bidders to compete.

2

Restore Residential Construction Activity to Sustainable Level

Possible Range of Solutions

1 **Help to Buy Scheme**
Government could provide equity loans to assist qualifying first time home purchasers purchase a home. Under a targeted Help To Buy Scheme, up to 4 to 5 families could be supported in purchasing their new starter home for the equivalent cost of every additional social housing unit built by Exchequer funds;

2 **Tax Incentivised Savings Scheme**
Introduce a tax incentivised savings scheme for purchasers of new homes to assist them assemble the required purchase deposit;

3 **S48 Development Levies**
Introduce greater equity for the payment of property tax by exempting new homes from a S48 development levy;

4 **Central Bank Macro Prudential Residential Lending Policy**
Support an immediate review of the Central Bank Macro Prudential Residential Lending Policy; and

5 **Ireland Strategic Investment Fund**
Enable developers, possibly in conjunction with Local Authorities, access funding at reasonable interest rates from the Irish Strategic Investment Fund for major infrastructural works to new development sites.

3

Social Housing Crisis

Possible Range of Solutions

1 **Land Banks**
Review land bank retained by the Housing Agency and local authorities and assess its immediate suitability for general housing construction;

2 **Part 8 Planning Process**
Where feasible, undertake Part 8 planning processes in relation to the overall lands for both social and private housing mix;

3 **Public Procurement:**
Review public procurement processes to sell a number of the housing sites under a joint venture arrangement for building social housing units and sale of private houses on the open market;

4 **Part V**
Replace Part V Social Housing Obligations with 1% Levy on All Residential Transactions.
A levy of this nature would have generated circa €106.85m for the Exchequer in 2015. In a normal functioning housing market, a levy of this nature could generate up to €300m annually. Local authorities should retain the right to acquire up to 10% of residential units in any new development at market value;

5 **Social Housing Crisis**
Elements of the social housing crisis can also be addressed by the Help To Buy Scheme together with the availability of local authority housing loans; and

6 **Tenant Purchase Scheme**
Any sales scheme for social houses to tenants should be on the basis of recovery of full replacement cost.

4

Facilitate Renewal of Sustainable Construction Jobs and Training

Possible Range of Solutions

1 **Rebate of Statutory Redundancy Payments**
Restore eligibility to partial rebate for statutory redundancy payments as a minimum for all newly hired construction sector workers on a phased basis;

2 **Benefits for Self-Employed**
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.

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 **JOBSPLUS**
Extend the JOBSPLUS Scheme to the "Wet Trade Apprenticeships";

6 **Retrofitting Commercial Buildings**
Renew grant assistance for retrofitting of commercial buildings; and

7 **Greenway Projects**
Support for the development of Greenway Projects can significantly boost regional economic and construction activity and should be facilitated.

5

Taxation Matters

Possible Range of Solutions

1 **Temporary VAT rate for Residential Construction**
Introduce a temporary VAT rate of 9% for the provision, construction, renovation and alteration of housing for a two year period;

2 **7 year Capital Gains Tax Exemption**
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 **Town and Village Centre Sites**
A range of initiatives should be considered to restore viability to vacant / underutilised town and village centre sites including commercial rates relief and enhanced capital allowances for a specific quantum of specific development on a town / village and regional basis;

4 **Tax Rate for Rental Income**
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 **Interest on Buy To Lets**
Restoration of 100% tax deduction of the interest expense incurred on loans to acquire/develop residential property;

6 **PRTB Timeframes**
Timeframes for PRTB Adjudication and Determination Order processes should be accelerated, binding and enforceable, until overturned through the Courts; and

7 **Rent Supplement Tenancies**
Tenancy agreements which include rent supplement should be between the landlord, the tenant and the State where the tenant and the State are jointly and severally liable for the tenant's obligations under the contract.

A CONSTRUCTION INDUSTRY THAT WORKS FOR THE ECONOMY

2017 Budget Submission
Construction Industry Federation

A Construction Industry that works for the Economy

The Irish economy has experienced strong economic growth for 2015, 7.8% GDP and is expected to grow by approximately 5% in 2016. Ireland is now the fastest growing economy in the euro zone. As the economy comes out of recession, Ireland needs a construction industry which can support the ongoing recovery. The construction industry currently represents circa 7% GNP. A construction sector measuring circa 12% GNP is considered a sustainable level by European standards. The sector currently employs 130,000 people and has added new jobs at the rate of 1,000 per month in 2015. In addition, the OECD acknowledges that the level of infrastructural deficit in Ireland is greater than that of other comparable developed economies.

Infrastructure is critical to the continued recovery of the economy, whether it be to provide the transport, including roads, water services, housing both social and private, schools and telecommunications facilities. Government must ensure that policies considered in Budget 2017 support a renewal of construction activity so that the country can continue to support employment generation, foreign direct investment, increased manufacturing services and at the same time, ensure that schools and affordable housing accommodation is available and accessible for a growing population.

Many recommendations contained in this Submission have already been included in the Programme for a Partnership Government which has political support.

An Taoiseach, Enda Kenny

Ireland needs a strong and sustainable construction sector. We need good quality homes to live in. High-quality commercial developments to underpin economic recovery and grow. Infrastructure fit for the future, whether in telecommunications, water or energy networks.

1

Support infrastructure investment under the Public Capital Programme

Challenge

Opportune time to Invest in Sustainable Infrastructure:
Ireland requires an infrastructure that can support continued economic growth. Renewed investment in infrastructure is critical to the continued recovery and job creation in the economy.

Increase in Public Capital Programme

Exchequer capital in the public capital programme has been decimated since 2008. Minimal investment in infrastructure has taken place since that time.

Economic growth enabling continued foreign direct investment, growth in manufacturing, office development and housing are all dependent on adequate and up to date infrastructure. A firm government commitment is required that the extensive water and waste water investment programmes including renewal programmes prepared by Irish Water will be implemented within the timeframes envisaged by Irish Water. Further investment is required in renewal and investment in strategic infrastructure including housing, schools, roads / transport, energy and communications. Government must renew extensive investment in infrastructure so that Ireland can continue to compete for job creation in an international context and maintain any prospect of continued foreign direct investment and domestic growth.

An exercise undertaken by the CIF in relation to six zoned parcels of land in the Dublin area revealed that it is not possible to develop these lands due to infrastructural requirements including roads, water and waste water services. These lands have the capacity to deliver up to 13,000 housing units when infrastructure is ultimately provided.

An increase of €1bn in construction spending yields 10,000 new construction jobs. At the same time, 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.

The following illustrative projects have been identified by the CIF as major projects which demonstrate an economic return for the State:

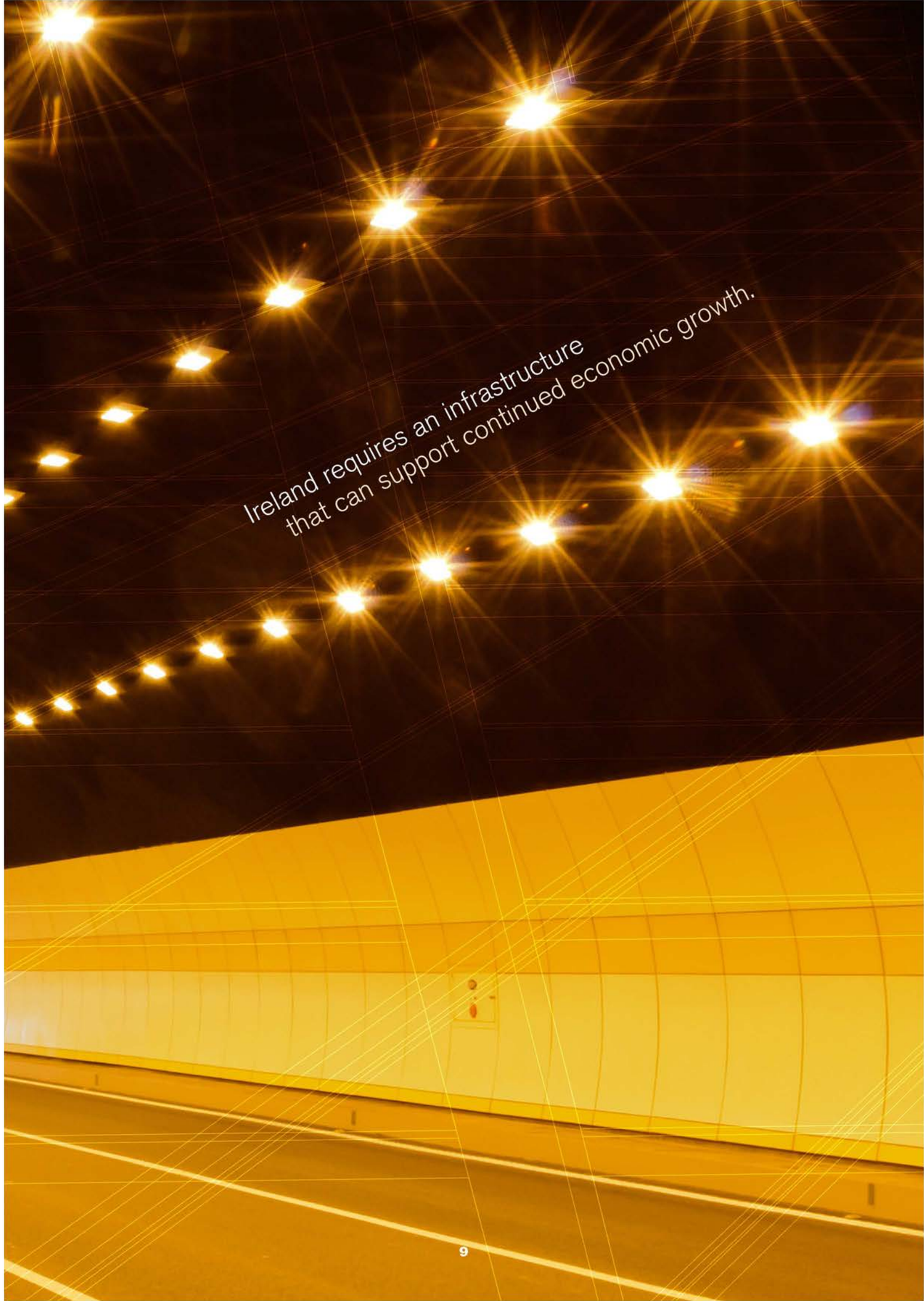
- The Galway City Outer Bypass
- The Shannon Water Supply Project serving Dublin and the Midland region
- The N4 Sligo (Collooney to Castlebaldwin) & The N5 Mayo (Westport to Turlough) road network projects
- The N14/N15 to A5 Western Transport Corridor Link
- The N8/N25 Dunkettle Interchange
- The N28 Cork to Ringaskiddy
- The M20 Limerick to Cork
- Additional details in relation to these projects is included as Appendix 2 to this Submission.

Bundling of Construction Projects and PPP Process

While bundling of construction projects and 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.

Possible Range of Solutions

1. **Opportune Time to Invest in Infrastructure**
   Exchequer provisions in the Public Capital Programme should be increased to address infrastructural deficits and support future economic growth. Renewed investment in water and waste water services to fund Irish Water's investment programme must be facilitated.
2. **Project sizes** should be of appropriate scale to enable local domestic contractors compete for the contracts.
3. **PPP Process:** Projects should not be oversized which make it uncompetitive for domestic bidders to compete.



2

Restore Residential Construction Activity to Sustainable Level

Challenge

Current housebuilding activity levels at circa 12,000 per annum must be doubled to meet sustainable demand. Infrastructure is a critical requirement in delivering on the required increased output level. House building is highly labour intensive. Building an additional 12,000 housing units has the potential to create an additional 30,000 direct and indirect construction jobs.

The considerable all-in cost of developing sites, the new regulatory environment for building compliant homes together with the inability of many first time purchasers securing the necessary mortgage finance results in the building industry not being able to supply the number of new homes required to meet the sustainable demand.

A combination of some or all of the following initiatives can support renewal of house building activity. Many of these initiatives have already been referenced in the agreed Programme for Government and have political support. Costings under each of these initiatives are included under Appendix 1:

Help To Buy Scheme:

With new Central Bank rules on mortgage lending, home purchasers 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. Participation in the Scheme could be restricted to a maximum income threshold for joint incomes and/or starter home size. With the introduction of a targeted Help To Buy Scheme, up to 4 to 5 families could be supported in purchasing their new starter home for the equivalent cost of every additional social housing unit built by Exchequer funds.

Tax Incentivised Savings Scheme for Purchasers of New First Homes

A tax incentivised savings scheme for future purchasers of new homes could 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 be used to purchase of a new first 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, improve affordability and initiate a real recovery in residential construction activity. Currently, purchasers of newly built residential units 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.

Central Bank Review of Macro Prudential Policy

The construction industry fully supports an appropriate central bank macro prudential policy for residential mortgage lending. While influencing this policy is not specifically within the remit of Government, an urgent review of the current Central Bank macro prudential policy for residential mortgage lending is required. A review of the loan to income ratios, the deposit requirements including the threshold of €220k for first time buyers must be undertaken.

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, possibly in conjunction with Local Authorities to support opening up of new development sites. The interest rate chargeable for funding such services should be reasonable in light of current Exchequer borrowing rates applying.

Possible Range of Solutions

1. **Help to Buy Scheme**
   Government could provide an equity loan scheme to assist qualifying first time home purchasers purchase a home. With the introduction of a targeted Help To Buy Scheme, up to 4 to 5 families could be supported in purchasing their new starter home for the equivalent cost of every additional social housing unit built by Exchequer funds. A Scheme of this nature should also be designed in association with revised Central Bank mortgage lending criteria rules. This will 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. **S 48 Development Levies**
   Introduce greater equity for the payment of property tax by exempting new homes from a S48 development levy;
4. **Central Bank Macro Prudential Residential Lending Policy:** Support an immediate review of the Central Bank Macro Prudential Residential Lending Policy; and
5. **Ireland Strategic Investment Fund:** Enable developers, possibly in conjunction with Local Authorities, access funding at reasonable interest rates from the Irish Strategic Investment Fund for major infrastructural works to new development sites.

3
Social Housing Crisis

Challenge

A number of parallel initiatives are required to address the current social housing crisis. The social housing crisis is considerably impacted while the private house building sector is dysfunctional and not building to the required activity levels. It is imperative that the supply of private house building be restored to match demand, and at the same time, initiatives are taken to accommodate those unfortunate not to be able to accommodate their own needs.

Possible Range of Solutions

1 Land Bank

Review land bank retained by the Housing Agency and local authorities and assess its immediate suitability for general housing construction;

2 Part 8 Planning

Where feasible, undertake Part 8 planning processes in relation to the overall lands for both social and private housing mix;

3 Public Procurement:

Review public procurement processes with objective to sell a number of the housing sites under a joint venture arrangement that supports building of social housing units for leasing to the voluntary housing bodies and sale of private houses on the open market;

4 Part V

Replace Part V Social Housing Obligations with 1% Levy on All Residential Transactions. The operation of Part V Social Housing provisions contributes to restricting 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 €106.85m for the Exchequer in 2015. With restoration of a normal functioning housing market with three times the current level of transactions, a levy of this nature could generate up to €300m annually to fund construction of social housing units. 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;

5 Social Housing

Elements of the social housing crisis can also be addressed by the Help To Buy Scheme together with the availability of local authority housing loans; and

6 Tenant Purchase Scheme

Any sales scheme for social houses to tenants should be on the basis of recovery of full replacement cost.

Martin Shanahan, CEO of IDA Ireland:

1 in 5 jobs in the private sector are now FDI-related and for every one such job, seven others are supported in the wider economy. The Irish construction industry is a major enabler for the attraction and expansion of critical foreign direct investment in Ireland. The skills and capacity of the industry are recognised globally and Irish companies now play a critical role in building world-class specialist facilities in sectors such as technology, pharma, medical devices and data.

4

Facilitate Renewal of Sustainable Construction Jobs and Training

Challenge

Redundancy Costs in Construction
The construction sector, by its nature, is influenced by the rate of growth in the economy which operates in cycles. This results in sustained periods of growth in the industry followed by periods of retrenchment which can result in job losses.

The Redundancy Payments Act 2003 more than doubled the redundancy benefit.
Prior to 2003 the redundancy benefit was:

(a) One-half of the employee's normal weekly remuneration and the number of years of continuous employment with the employer up to the date on which he attained the age of 41 years;
(b) The employee's normal weekly remuneration on the date of his dismissal and the number of years of continuous employment, with the employer, after the employee had attained the age of 41.

The 2003 Act increased the benefit to two weeks' for every year of service plus an additional week.

The Government abolished the 60% employers' redundancy rebate of the statutory employee redundancy entitlement, with a 45% reduction effective from 1 January 2012 and the remaining 15% with effect from 1 January 2013.

Construction employers' liability for all redundancy costs acts as a deterrent to direct employment periods of greater than two years 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 on a phased basis as a minimum 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 people may 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. The facility for 'opting in' to secure these benefits should be available to self-employed persons.

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.

Commercial Buildings

With the advent of new green and energy efficient technology, many commercial buildings are becoming tired and require renewal. A restoration of grant assistance towards retrofitting / usage of green technology and energy efficiency in commercial buildings would renew these buildings, reduce the carbon footprint and provide significant construction related employment in the process.

Greenway Projects

Support in the Budget for the development of Greenway Projects can significantly boost economic and construction activity in regional Ireland. This has already been included in the Programme for Government.

Possible Range of Solutions

1 **Rebate of Statutory Redundancy Payments**
Restore eligibility to partial rebate for statutory redundancy payments as a minimum for all newly hired construction sector workers on a phased basis;

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.

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";

6 **Renew grant assistance** for retrofitting of commercial buildings; and

7 **Support for the development of Greenway Projects** can significantly boost regional economic and construction activity and should be facilitated.

5

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 2015 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 and will provide many much required direct and indirect jobs in the construction industry. 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.

Urban Regeneration

Rural towns and villages have seen little improvement in economic activity as recovery takes hold in the greater city areas of the country. Such town centre areas are neglected with the result that there is little to no incentive for private investment to secure renewal of the heart of these town centre areas. Many town centre sites are falling into dereliction resulting in a further depressing impact on the overall lifeblood of these towns and their hinterland. A similar incentive Scheme to that pertaining to the 'Living City Initiative', introduced by the last government and approved by the EU, has the capacity to restore town centre sites throughout the entire country and restore sustainable economic activity to these areas. These incentives could also assist in providing a solution to elements of the social housing crisis facing the country. Initiatives could include targeting of specific areas in towns and villages for specific urban regeneration initiatives. These areas can include derelict sites.

Initiatives can include:

- A cap on the proposed development mix for the area.
- Enhanced capital allowances related to the specific uses permissible under the renewal incentives applicable;
- Areas over ground floor retail uses, where underutilised and vacant, could be classified as vacant sites and incentivised for reuse / redevelopment;
- The current building regulations should be reviewed so that renewal of residential accommodation on upper floors of retail and office uses could be accommodated and deemed financially viable within the applicable regulatory environment;
- Title issues restraining development or renewal of derelict sites could be addressed via the CPO legislation available to local authorities and the service of a 'Notice to Treat' for these areas.

Encourage Investment in Residential Rental Property

Currently, there is an exodus of residential accommodation investors from the market. There are twice as many investors exiting the market than those entering the market. Large investment institutions will not fill the void created by the exodus of the smaller investors. 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.

The Private Residential Tenancies Board (PRTB) procedures for dispute resolution are slow and can take in excess of two years to get an adjudication hearing while a defaulting tenant remains in situ. Court action is then required following issue by the PRTB of its Determination Order which can take several years to complete. Existing dispute resolution procedures in the residential property market are not effective causing a significant disincentive to investment in residential property.
Investors in residential rented property fear the risk commonly associated with some tenants on rent supplement which include anti-social behaviour, property damage and defaults in rental payments. The government has a role to play in sharing the risk associated with social housing provided by private investors.

To encourage increased supply of residential accommodation for letting, the following should be addressed:

Possible Range of Solutions

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. **A range of initiatives** should be considered to restore viability to vacant / underutilised town and village centre sites including commercial rates relief an enhanced capital allowances for a specific quantum of specific development on a town / village and regional basis;
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;
6. **Timeframes for PRTB Adjudication and Determination Order** processes should be accelerated, binding and enforceable, until overturned through the Courts; and
7. **Tenancy agreements** which include rent supplement should be between the landlord, the tenant and the State where the tenant and the State are jointly and severally liable for the tenant's obligations under the contract.

Appendix 1: Costings for Housing related Initiatives

1. Help To Buy Scheme

Estimated Cost: Say in 2017, 5,000 applicants apply for and are granted a Help To Buy Scheme facility. The sale price of the house could be €300,000. A 20% equity stake by Government could value the Help To Buy initiative at €60,000 per unit, equating to an Exchequer cost of €300m. The contribution to the Exchequer arising out of this initiative could be 5,000 additional houses @ €300,000 each @36% direct and indirect taxes equating to €540m. There are additional indirect benefits to the Exchequer arising from purchase of furniture and fittings, equipment, and direct and indirect jobs arising and removal of unemployed persons who are engaged in the construction process from the live register. The cost of introducing a Help To Buy Scheme can be more than offset by the direct and indirect taxation provisions applicable to the new housing units to be built and the exclusion of possible beneficiaries from social housing waiting lists.

2. Tax Incentivised Savings Scheme for Purchasers of New First Homes

Estimated Cost: Say in 2017, potential 4,000 first time buyers join the scheme. The maximum benefit under the Scheme could be a 25% contribution by the Exchequer for every euro saved in a special savings account as a first time buyer. Exchequer contribution could be capped at €10,000 over 4 years, i.e. €2,500 pa. Cost for 2017 could be 4,000 @ €2,500 equating to €10m.

3. Local Property Tax to Replace S48 Development Levy

Estimated Cost: Local property tax should be appropriately structured so that adequate revenues are raised to support local government in funding the necessary local infrastructure and services rather than solely collecting this funding from new home purchasers under S48 development contributions. The gross cost of absorbing the S48 development Levies for 15,000 new homes calculated at €7,000 per housing unit could be €105m.

Taxation Matters

1. VAT

Estimated Cost: Say from 2017, a discounted VAT rate of 9% applies for residential construction. If 15,000 new houses qualify under the scheme, and the sales price of a new house is €300,000, the discount in VAT per house amounts to €11,891. The gross cost of this reduction for 15,000 new houses would be €178.365m. However, see Note 1 below wherein, on the basis of an average sales price of €230k, 36% of the cost of each new home built is contributed by direct and indirect taxes to the Exchequer. Increasing the level of housebuilding by 15,000 units at a sales price of €300,000 and at current taxation rates could generate an additional €1.620bn for the Exchequer at current VAT rates. Factoring in the reduced VAT rate of 9% would achieve an additional €1.441bn in total for the Exchequer.

2. Changes to 7 Year Capital Gains Tax Exemption

Estimated Cost: No cost as this measure simply brings forward transactions that otherwise would not take place until the full exemption from capital gains tax would be available. The contribution to the Exchequer would be positive arising from the taxation payable from the additional new homes to be constructed on these sites at an earlier date than would otherwise be the case.

3. Urban Regeneration

Estimated Cost: All development to be undertaken in such designated areas will contribute to renewed economic activity and increased employment in these towns, and is development that would not otherwise have taken place. Rather than attaching a financial cost to this type of initiative, the initiative should be measured by what it can contribute to increased economic activity over and above that which might have evolved without the introduction of such initiatives.

Note 1. The contribution to the Exchequer per new house built equates to circa 36% (based on average house price of €230,000, Grant Thornton 2015)

Simon Coveney
Minister for Housing, Planning and Local Government

Put simply, the housing situation is affecting every sector of Irish society and putting at risk our hard-won gains in terms of employment, recovery of competitiveness and the attractiveness of Ireland as a place to live and work.

Appendix 2

Galway City Outer Bypass

The Galway City Outer Bypass would significantly alleviate the chronic traffic congestion problems in the city. It would also open up development opportunities for both the city and county which in turn would attract additional investment and employment opportunities.

Shannon Water Supply Project

The Shannon Water Supply Project to serve Dublin and the Midland region would alleviate the water shortages in Dublin, while at the same time creating development and employment opportunities in the Midland towns along its route.

N4 Sligo (Collooney to Castlebaldwin) & the N5 Mayo (Westport to Turlough)

The N4 Sligo (Collooney to Castlebaldwin) & the N5 Mayo (Westport to Turlough) road networks would greatly improve access to the North Western region, which in turn would attract much needed investment and employment opportunities.

N14 / N15 to A5 Western Transport Corridor Link

The N14 / N15 to A5 Western Transport Corridor Link is a key transport corridor that will create greater access between Northern Ireland and North Donegal.

Major Infrastructural Projects that deliver further Construction Activity and increase general economic activity

Currently there are significant infrastructural projects commencing in the South East region, namely the New Ross and Enniscorthy By-Pass. The Mid West region will also benefit significantly from the Gort to Tuam Motorway which is the final link in the motorway between Limerick and Galway.

Other parts of the Region currently have no major transportation infrastructural projects.

The concentration in the document has been on transportation projects due to the existing capacity constraints in the road network that are inhibiting development and leading to observations, conditions and refusals for significant construction projects.

N8/N25 Dunkettle Interchange.

This project has received all the necessary approvals, is included in the Public Capital Programme (PCP) and is awaiting funding to commence. It will have an obvious impact on traffic congestion at the existing interchange, which is currently the busiest signalised road junction in Ireland. The interchange connects key strategic economic corridors including Dublin-Cork, Cork to Waterford and Ringaskiddy – Nationwide.

The projects facilitates the construction of several thousand residential units in Dunkettle and Glanmire, a Railway station at Dunkettle as well as other commercial and industrial construction projects. The current capacity of the Interchange has resulted in several large scale planning applications being refused.

Along with the N28 project it is one of the most important projects that delivers further work for the construction industry in the region.

Of course the project delivers extensive economic benefits to the wider economy and an economic impact assessment of the project is assessed here;

http://n8n25dunkettle.jacobs.com/docs/32102066_Dunkettle_EIS_VOL_2_Main_Body_MASTER.PDF

N28 Cork to Ringaskiddy

Capacity constraints on the existing N28 have resulted in many large scale projects to the South of Cork City and in Ringaskiddy being subject to conditions, observations and refusals.

Construction of the N28 will result in further construction work for the industry including residential projects on existing zoned lands, facilitate the relocation of Port of Cork activities from the City Centre to Ringaskiddy and allow for residential and commercial construction in the Docklands and Tivoli.

Importantly the N28 will also allow greater access to the existing IDA land bank in Ringaskiddy and facilitate construction related activity in the FDI sector in the Lower Harbour.

Several large scale projects are dependent on the N28 project. Of course the project delivers extensive economic benefits to the wider economy and an economic assessment of one of the most important strategic infrastructural projects in the state can be found here;

https://www.corkchamber.ie/UserFiles/file/Publications/Cork%20to%20World%20-%20An%20Economic%20Assessment%20of%20the%20N28%20Cork%20to%20Ringaskiddy.pdf

Planning will be sought for the project shortly and it has been included in the PCP.

M20 Limerick to Cork

The M20 is probably the most glaring omission from the current Public Capital Programme. The road links Cork to Limerick and is the most important project in the context of the Atlantic Economic Corridor, an alternative economic corridor that could provide the much needed counter balance to the congested East Coast.

Many industries in this economic corridor have operations in at least two of the cities. Examples include *Johnson & Johnson, Boston Scientific, Apple, Stryker, Dell, Intel* and *IBM*. Greater connectivity between economic clusters is well recognised internationally as a significant economic driver of further growth.

The project allows a significant proportion of our national population to have a physical connection that has not existed up to now. This project could link two major centres, both Cork City & County with a population of 520,000 and Limerick City & County with a population of 190,000. Currently there is no proper functioning transport link between these two urban centres.

The Irish Academy of Engineers report *"Atlantic City Regions, Development and Connectivity"* report published in 2016 states that

"In the consultations for the preparation of this paper, the upgrading of the N20 has been by far the single biggest issue. The Academy spoke to a number of multinational companies with facilities in both Cork and Limerick and their comments included:

The M20 would improve synergies between both locations.

It would also result in better communications between the third level institutions and joint research involving the Institutions and industry.

The lack of an M20 prevents the companies leveraging resources between the facilities, whether it is for mobility of staff, or facilities management and other services. Staff regularly commute from one location to the other.

Limerick and Cork currently have two primary travel options by road, neither of which offer a sufficient level of service."

Internal TII analysis of the project is referenced here;

http://www.irishexaminer.com/business/proposed-cork-limerick-m20-motorwaywould-pay-off-for-state-376560.html

The CIF are calling for planning to be commenced immediately for this project.

Paschal Donohoe,
Minister for Public Expenditure and Reform

To secure our future, we have to make the right choices with the funds that are available to us. Investing in our infrastructure future with the aim of creating an additional 45,000 jobs by 2021 puts us on the right path.

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