



## Confederation of Irish Industry

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# PRESS RELEASE

Speech by Liam Connellan, Director General, Confederation of Irish Industry, at CII Dublin West Regional Meeting at the Hermitage Golf Club on Tuesday, 10th December 1985 at 1.00p.m.

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### WHY MORE FUNDS ARE NOT INVESTED IN PRODUCTIVE ENTERPRISE

Many comments are made about the low level of innovation and investment in indigenous Irish industry. A recent study has pointed also to the very low level of profitability of indigenous firms. The decline in manufacturing investment in recent years is a matter of serious concern.

The level of innovation depends crucially on the willingness of people to take risks and their ability to raise and remunerate capital. The annual level of new equity investment in Irish industry is very low. Irish individuals and institutional investors have given a very clear signal that they regard investment in risk-free Government stocks to be far more attractive than investment in productive risk-taking industry. It is estimated that about thirty times more capital is invested annually in Government gilts than in new industrial equity.

Why should this be so? The following are six of the principal reasons:

1. Low Profitability

The level of profitability in indigenous industry is very low as a result of years of recession; high relative inflation; the excessive cost of essential services such as electricity, telecommunications, transport and insurance; and exceptional interest charges due in part to the voracious appetite of the State for funds.

In 1986 Inflation must be contained in line with the 3% to 4% rate forecast in that of our trading partners, and the cost of essential services made competitive.

2. Capital Gains Tax

When people invest in Government stocks they are not liable for any Capital Gains Tax. When they invest in manufacturing industry they are liable for a Capital Gains Tax of 40%. Investment in gilts bears no risk, and offers a considerable prospect of capital gain in a period of declining interest rates.

It is extraordinary that an economy which requires a massive injection of risk investment in manufacturing industry should tax any gains arising so severely.

I support the recent report of the OECD Examiners recommending that long-term Capital Gains Tax should be reduced to 20%-25% and that investment in new ventures should be exempted in order to stimulate the formation of a large number of new businesses and the expansion of others.

3. Dividend Income

When individuals invest in Post Office savings they can obtain a 10% gross tax income. When they invest in manufacturing industry dividends are taxed at 64%. It is impossible for manufacturing industry to match the tax-free income available from Post Office savings.

I would recommend adoption of the Canadian approach of allowing the first \$1,000 of dividend income to be tax free.

4. Business Development Scheme

On first sight this Scheme appeared to offer considerable attractions for individuals to invest in private manufacturing companies. However, although the Scheme was introduced almost two years ago, less than £5 million has so far been

invested in qualifying companies. The major difficulty lies in the fact that individuals have no easy mechanism of disposing of their shares since Irish law, at present, does not allow companies to purchase their own shares.

Furthermore, if individuals invest in a designated investment fund in order to spread the risk there can be a long delay in obtaining tax relief, and the problem of disposal of shares remains.

At present the Scheme is simply not attractive to investors. People are investing up to £50 million per annum in individual funds which guarantee income and are based on Government gilts which benefit from favourable tax treatment.

The Business Development Scheme cannot be judged a success until it attracts at least £50 million per annum. I would like to see a situation where individuals in organisations would contribute monthly to a "save-as-you-earn" scheme, the proceeds of which would be eligible for tax relief provided they were invested in manufacturing industry.

5. Difficulty in Rewarding Key Executives

Manufacturing firms are experiencing increasing

difficulty in recruiting and/or retaining the key executive staff necessary for innovative marketing and product development. Firms should be enabled to remunerate these key executives by a combination of approved profit-sharing schemes, and providing the opportunity to purchase shares in the companies in which they work. To do this requires changes in company legislation.

6. Advance Corporation Tax

Finally, indigenous manufacturing companies are subject to Advance Corporation Tax. This means that a company paying a dividend must pay tax on the dividend although the company may have no immediate Corporation Tax liability due to investment allowances. Thus while capital allowances are designed to encourage investment the imposition of Advance Corporation Tax reduces considerably the value of the allowance. Ironically, this penalty applies only to firms which have invested heavily or have been loss-making.

Conclusion

There are, many reasons why there is not more risk- investment in manufacturing industry. The primary reason is that

individuals and institutions are treated far more favourably if they invest their funds in risk free Government gilts. This situation must be changed. I have outlined a number of actions which would create a much better balance between equity investment in manufacturing and investment in Government gilts used primarily to fund the deficit on day-to-day Government spending. It will only be clear that successful adjustments have been made when at least as much of the discretionary savings of the economy are placed in productive job creating investments as are placed in risk-free Government stocks.

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