



The Royal Institute of the Architects of Ireland

Pre-Budget Submission: 2018

Background

The Royal Institute of the Architects of Ireland (the RIAI) supports and regulates the architectural profession. The RIAI engages with the Government, the related professions, industry clients, and the public, to promote quality in architecture; to deliver quality and sustainability in the built environment; to enrich our distinctive culture and heritage; to contribute to the competitiveness of our economy; and to improve quality of life for the people of Ireland today, and for generations to come. We also provide support services to architectural technologists.

The Recession and its Consequences

Currently the RIAI has approx. 3,200 Members. As you will appreciate, the almost total collapse of the construction industry in 2008 led to an unprecedented fall in incomes for registered architects. Those who were lucky enough to retain a source of income, suffered income reductions of up to 90%.

While there has been a strong uptake in demand for the services of registered architects in recent years, this is largely confined to the commercial sector of our economy. The residential sector is still very depressed. Construction of housing units peaked in 2007 at 90,000 units, and this compares with reported output of 13,000 units in 2016. Current levels of house completions represent approximately 50% of what should be completed on an annual basis so as to ensure that a sustainable housing market exists. As such, activities in our sector are still well below the level required to deliver a decent income to registered architects.

As a consequence of the recession, many registered architects who were previously employed in small, medium, and large practices, lost their jobs. Thereafter, those individuals commenced operating as sole traders, and continue to do so to this day. Such architects provide an invaluable service, on a cost-effective basis, to members of the public engaged in what might be seen as smaller construction jobs, including new houses, house extensions and renovations.

1. Registered Architects Operating as Sole Traders

It is fair to say that most registered architects operating as sole traders, tend to operate on a business-to-consumer (B2C) basis, rather than the small, medium and larger practices which have a more substantial business-to-business (B2B) client base.

In the context of VAT, the significance of primarily operating on a B2C basis, rather than a B2B basis, cannot be overstated. In the context of a B2B relationship, VAT charged by registered architect to their clients is, typically, fully recoverable. As such, VAT does not represent a cost of retaining a registered architect and, at worst, causes a short-term funding issue for the client.

However, in the context of B2C relationships, any VAT charged by registered architects to a client, represents an actual cost to that client and, effectively, increases the cost of the registered architect's services by 23%.

In the context of a typical householder engaging the services of a registered architect to carry out a home extension/renovation, the imposition of a 23% VAT cost represents a real issue between the registered architect and their clients. Clients are paying for services out of income which has already been subject to income tax and in almost all cases are not happy to bear the VAT cost hence the cost of the VAT is borne directly by the registered architect through reduced fees, with a consequent reduction in the income of the registered architect.

This is a recurring issue for registered architects. For a thriving Ireland small businesses need to flourish, to be encouraged to grow and develop.

Registered architects are providing vital services to the community particularly in rural Ireland, providing a necessary service and not a luxury but the current VAT threshold limits for services is impacting on their ability to survive and operate successfully. The minimum costs of operating a sole person architectural practice are significant (in the region of €20k per annum) and we believe the VAT situation is a substantial additional cost for a tax compliant self-employed person on a relatively modest income, and not in keeping with the Government philosophy of supporting small business.

Recommendations:

1. Currently the threshold at which architects are obliged to register their business for VAT is when turnover exceeds €37,500. The threshold compares unfavourably with our nearest neighbours in the UK, where a threshold of STG £85,000 applies. The threshold also compares unfavourably with many of our European neighbours, including Italy, Latvia, Lithuania, Slovakia, Slovenia, and Switzerland. The current threshold has been in place since 1 May 2008.

Given that over nine years have elapsed since the current threshold came into force, and given the large disparity with our nearest neighbour in the UK, it is our opinion that the threshold urgently needs to be increased.

2. Additionally, we feel there is an inequality in registered architects being obliged to charge VAT at 23% in the context of the provision of services related to the building industry. As you are aware, the rate of VAT applicable to builders/developers is 13.5%, and, in our view, the rate of VAT in the context of the provision of architectural services should mirror the rate applicable to builders/developers. We believe that the reduced rate should only apply in the context of the provision of architect services in connection with domestic residential development, re-development, etc. We believe that this is a sector of the economy where the tax regime needs to act as an incentive, rather than a disincentive to engaging essential professional advice. In this respect, we would point to the reduction in VAT afforded to the hospitality sector some years ago, and the immediate and positive impact this change had on that sector.

2. Reduction of VAT on Residential Construction

As noted previously, many different VAT rates apply within the construction process, and have an impact on the viability of businesses working in the sector, as well as the viability of development projects themselves.

In many parts of Ireland, notwithstanding the increase in rents and sale prices, new housing development is still not economically viable. It is simply not sustainable to pursue a policy of making new developments viable by allowing prices to rise even further. Instead, the Budget must focus on efforts to reduce the cost of new development and therefore increase the number of new housing and apartment developments where they are most needed – and not just in areas where the largest profit can be generated.

It is also important that those undertaking new housing developments are tax compliant. Recourse to the shadow economy undermines legitimate businesses working in a tax compliant manner. There is currently a significant mismatch between the zero VAT rate operating in Northern Ireland, and the 13.5% rate which applies in this jurisdiction. The RIAI recognises that the total zero-rating of the VAT rate for the construction of residential property may require the approval of the European Union, and therefore recommends that Government explore what powers to reduce the VAT rate to 9% remains the prerogative of the Irish Government without seeking EU approval.

One of the harshest lessons of the Celtic Tiger and recession is the need for any tax reform to be purposeful, and limited in both scope and duration. In this context, the RIAI recommends that the reduced VAT rate should apply only to construction of residential property (both new build and upgrade of existing property) for the period where supply of homes lies significantly below demand.

Recommendations:

1. For a period of 2 years or until such point as the mismatch between housing demand and supply is largely eroded, VAT on the construction element of new housing development is reduced to the minimum permitted by relevant European laws and regulations.
2. Undertake a full review of the cost-base of construction of residential property in Ireland compared to other EU and comparative countries, with an aim of eliminating costs which are an unnecessary limit to the development of new, high quality, well-designed and energy efficient buildings. This review should include an analysis of the tax-take from the development process as well as the contribution to the exchequer of housing throughout its life-cycle.

3. Increase Public Infrastructure Investment

During the recession, capital funding was cut faster and deeper than current expenditure. As a result investment in Ireland's physical social and economic infrastructure has fallen. As the exchequer position improves, it is important that investment increases. In that regard, the recent review of capital investment over the medium-term is particularly welcome.

The RIAI recommends that in each annual capital envelope, projects are selected for investment on a regional and sectoral spread, to ensure that as many companies as possible can partake in opportunities which this presents. Careful selection of projects will also prevent against increasing construction price inflation at a time when construction businesses are only now repairing their supply-chain. It is important for the architectural profession that there is a good line of sight in terms of future investment plans so that businesses can prepare to submit tender documentation.

4. Public Procurement of Architectural Services

The RIAI is concerned at the increased administrative requirements in public procurement. While the RIAI shares government's concern that public monies are invested where they can create the greatest public benefit, the sheer number of documents which must be submitted puts increasing burdens on SMEs which may want to tender for public works. It is important that the practicalities of tendering for public works do not serve to prevent the entrance of new practices into the profession. The RIAI therefore recommends that a review of the impact of public procurement rules on the capacity of small companies be undertaken to ensure there is clarity and consistency across public procurement agencies and that regulation is not a burden.

In addition to increasing capital investment in infrastructure, the RIAI recommends that greater effort be made to secure off-balance sheet development through new funding agencies and private investment. This need is especially acute in the provision of social housing which will be owned by the State where local authority-constructed housing has almost vanished.

Recommendations:

1. Increase capital investment in Ireland's physical infrastructure ensuring the widest possible range of sectoral and regional spread of projects.
2. Review the administration, consistency and clarity of the process for tendering for public works, to ensure that unnecessary regulations do not exclude the ability of small practices from tendering for public contracts.

5. Improving Ireland's Housing Stock

Latest forecasts from the Housing Agency suggests that Ireland needs an annual supply of some 30,000 new homes and apartments each year to meet anticipated demand and prevent further unsustainable house price and rental inflation. This needs to be a mix of houses and apartments of all sizes, designed in such a way to meet the varying needs of an ageing and increasingly urbanised population.

It is important to note that not all of this increased supply will come from the construction of new homes; as the Census and other reports have shown, there is a stock of under-used, empty or derelict buildings which could – and should – be brought back into habitable use. The RIAI therefore recommends that a whole of government review be undertaken to examine and remove conflicts between building regulations and technical guidance which currently prevents derelict buildings being brought into full usage in compliance with all regulations.

The demands on local authorities to ensure that our built environment is of the highest quality, delivers for our citizens and delivers on the capital investment needs vision, co-ordination and oversight.

The last 15 years has seen the decimation of Architects departments in many of the local authorities. Those that have retained well-resourced Architects departments with input into all aspects of forward planning and development are reaping the benefits: Westport and Castlebar

in Co Mayo; Clonakilty and Mallow in Co Cork; and Wexford County Council and Fingal County Council. The RIAI calls on Government to resource the local authorities and to plan and coordinate the delivery of quality urban and village development.

6. Home Improvement Scheme

The RIAI recommends that the successful and popular home improvement scheme be extended in duration so that further home improvement projects can move to completion. The City Living Initiative, while admirable and potentially important is being undermined by its narrow scope and the conflicts between technical guidance documents and divisions within planning authorities about how to modernise old buildings sensitively yet in conformity with modern requirements. The RIAI recommends that a centralised State agency be created to resolve conflicts of detail and interpretation of technical guidance documents.

7. Establish a New Referrals Body

This new referrals body should be part of a wider resourced construction and design research establishment, to provide both policy-makers and professionals with exemplars of good design, to assist in the harnessing of new technology in the construction sector and the adoption of international best practice in the regulation of housing construction and design.

8. An Bord Pleanála Strategic Housing Development

The RIAI supports the passing of legislation to allow large-scale housing development to be treated as strategic infrastructure and therefore receive planning consent by the strategic housing division within *An Bord Pleanála* rather than through the current planning authority. Nonetheless, for this initiative to work, it is important that the strategic housing division is resourced so that it can process applications and receive submissions within the prescribed period.

Recommendations:

1. Review and remove barriers to bringing existing under-used buildings into habitable use.
2. Increase State investment in educating and training the planning division of local authorities and resources local authorities so that there is a meaningful architectural presence in every planning authority in Ireland.
3. Extend the City Living Initiative and the home improvement scheme, and resource a central referrals body to streamline and make consistent building regulations and technical guidance documentation.
4. Resource the strategic housing division within *An Bord Pleanála* to ensure it can process housing applications within the time prescribed by legislation.