

BACKING BUSINESS

A Budget Blueprint for SMEs



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Backing Business:

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Executive Summary

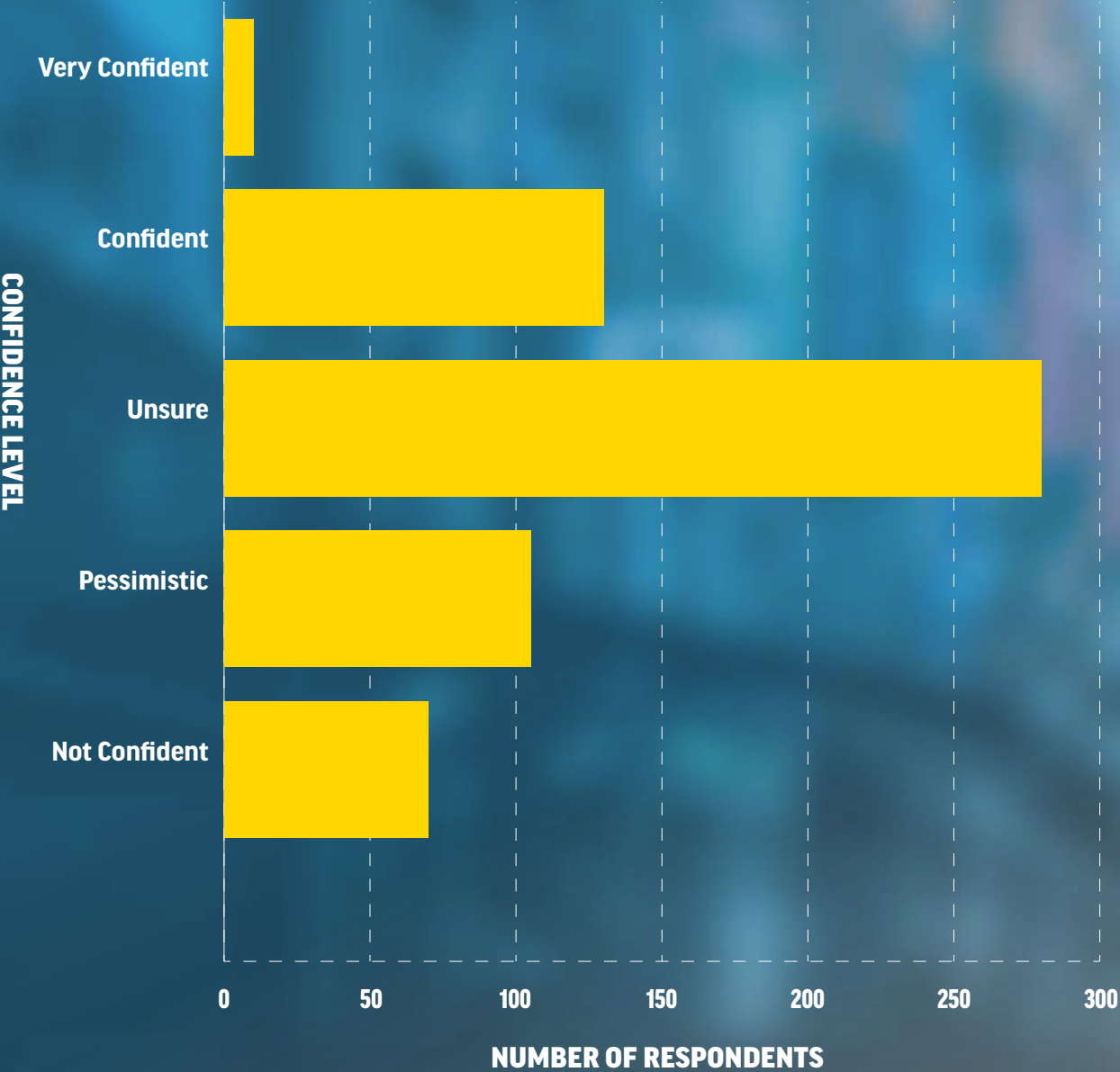
Ireland's small business sector is an important cornerstone of the economy, community life and societal wellbeing. Over 95% of companies in Ireland are small and medium sized enterprises, employing two thirds of the workforce on a balanced regional basis, and acting as a major driver for both domestic and international trade.

However, some parts of the Small Medium Enterprise (SME) sector claim to be under severe strain from a combination of factors and the research bears that out: rising operational costs, high energy bills and insurance premiums, workforce labour pressures, and uncertainty in global trade and tariffs.

Fine Gael has remained continuously engaged with the sector and is committed to SMEs, with open dialogue on the challenges and opportunities currently presented whilst building on the initiatives introduced in recent times and fulfilling the government's commitments in the Programme For Government.

Fine Gael conducted a Business Sentiment Survey in August 2025, led by John Clendennen TD, which had a broad level of engagement across the SME sector including pubs, restaurants, hotels, tourism & leisure attractions, retail, hairdressers and manufacturing. This report outlines Fine Gael's vision for a set of targeted policy interventions for inclusion in Budget 2026 and beyond. **One of the standout findings from the research is that two thirds of the respondents are unsure or not confident regarding their outlook for the future of their business.** It is essential that measures are introduced in Budget 2026 to address these concerns.

DISTRIBUTION OF BUSINESS CONFIDENCE



Background

Since March 2020, Ireland's SME sector, particularly in retail, services and hospitality have endured several shocks that have essentially impacted on viability and bottom-line profitability. The onset of the COVID-19 pandemic caused widespread devastation in the sectors, resulting in temporary but indefinite unemployment and grave uncertainty. During the COVID - 19 pandemic alone a package worth €48 billion was dedicated to workers and businesses.

As the pandemic dissipated and society slowly returned to normal, the hospitality sector in particular had been the first sector impacted by Covid19 and suffered both the hardest and the longest impact. However, the sector then faced the mounting challenge of escalating operational costs. The cost of inflation on everyday expenses severely eroded profit margins.

Energy costs elevated and failed to return to pre-Ukraine war levels, mainly due to geopolitical volatility keeping prices elevated, posing a persistent threat to margins and posing a challenge in the cost of doing business, particularly for smaller businesses that didn't have the resilience of economies of scale.

Public and employer liability insurance premiums have been another significant cost factor for SMEs, remaining stubbornly high at one of the highest rates in the European Union.

Workforce and labour related costs have also risen, minimum wage increases exceeding 28% between 2022 and 2025, along with new statutory sick pay, pension auto-enrolment, and heightened employer PRSI obligations. For employers, a higher minimum wage raises the baseline for pay, but its impact is relative, as upward adjustments often follow across wage tiers. Some small firms are reporting payroll costs at up to 45% of overall turnover.

Since Brexit was formally introduced in 2020, SMEs have grappled with trade and tariff uncertainty which has led to logistics costs and complexities. This is now compounded by the uncertainty surrounding the Trump Administration and their approach to trade and tariffs.

In September 2023, the VAT rate on certain goods and services was reinstated to the 13.5% rate from the reduced rate of 9% which was introduced in 2020 as an emergency measure in support of restaurant supplies, tourist accommodation, cinemas, theatres, museums, historic houses, open farms, amusement parks, and hairdressing, as well as certain printed matter such as brochures, leaflets, programmes, and catalogues.

In recent years, in addition to the VAT rate reduction, there have been several support interventions by the government in the form of wage subsidy schemes and support grants providing critical relief in an effort to mitigate vulnerabilities through uncertain periods.

Overall, SMEs accounting for 95% of businesses and employing two thirds of the private-sector workforce, now face a precarious balancing act amid structural headwinds, unintended cost escalations and a fragile recovery landscape.

Key Considerations in Formulating Policy

There were over 600 respondents to the Business Sentiment Survey conducted in August 2025, and the feedback consistently highlights the following priorities, reflecting the challenges and opportunities businesses are currently facing:

- **Targeted Support:** Respondents stressed the need for assistance to be focused where it will have the greatest impact, particularly for SMEs that are under increasing pressure due to the financial demands associated with the cost of running a business with diminishing reward due to reduced margins.
- **Competitiveness:** Businesses highlighted the importance of ensuring Ireland remains a competitive destination for tourism and investment in the face of rising costs and perceived complex regulations.
- **Sustainability and digitalisation:** Respondents emphasised the need for initiatives that balance long-term sustainability with the reality of short-term financial constraints.
- **Stability and Predictability:** A recurring theme in the feedback was the need for a stable and predictable policy environment to give SMEs confidence to plan and invest.

Key Impact Drivers Recognised by SMEs

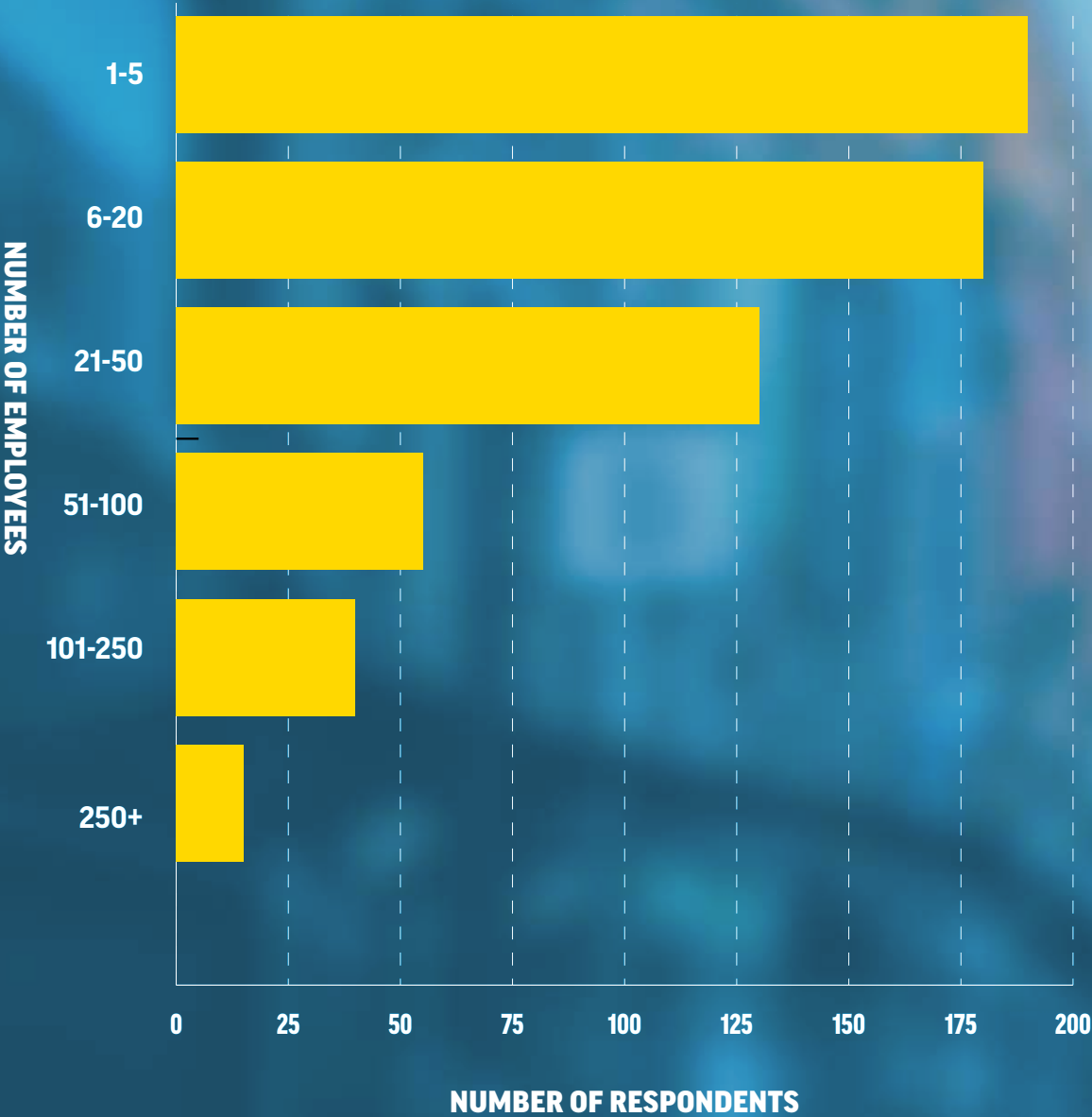
The Business Sentiment Survey, with over 600 respondents from across Ireland's SME landscape, provides a clear imperative for Budget 2026. The feedback highlights the real pressures facing businesses and the policy areas where targeted action can deliver meaningful impact.

Over two thirds of respondents reported to be unsure or not confident regarding the outlook for SMEs and whether their business can survive the current challenges. There were almost equal response levels across urban and rural based businesses and 62% of respondents employed between 1 and 20 employees (32% reported having between 1 - 5 employees and 30% between 6 - 20 employees). It is worth noting that in reference to the cost of doing business, 43% of respondents reported that their cost of doing business has increased by 21% - 40% over the past three years.



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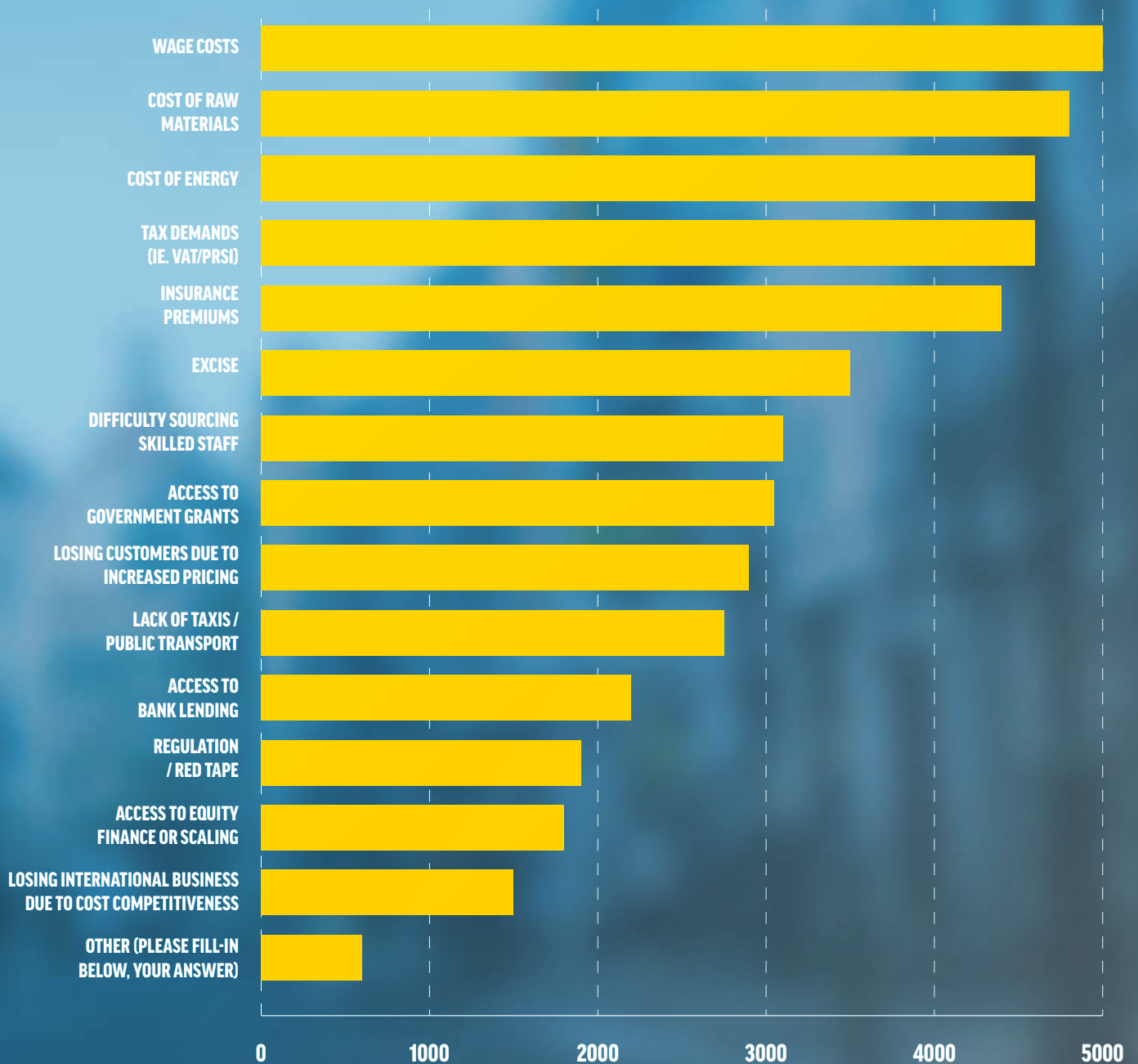
DISTRIBUTION OF NUMBER OF EMPLOYEES

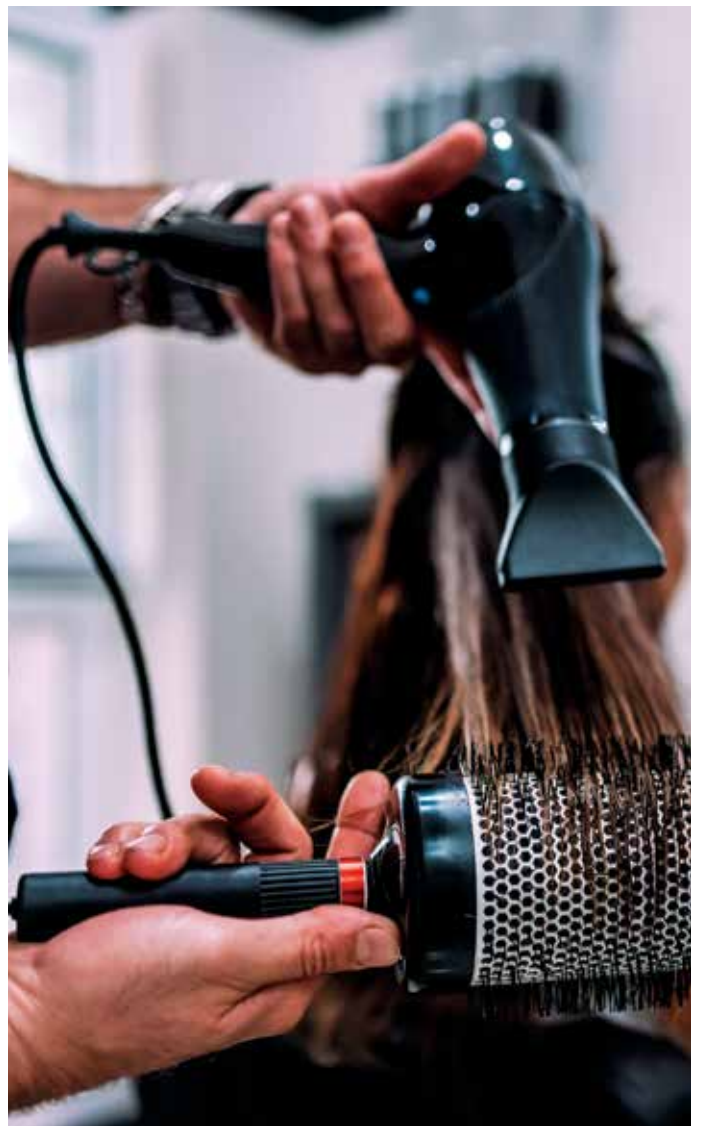


IMPACT DRIVERS

Respondents were asked to identify the factors with the greatest negative impact on their business. The top 10 factors cited by the businesses that responded to this question include:

- Wage Costs
- Cost of Raw Materials
- Cost of Energy
- Tax Demands (i.e.. VAT / PRSI)
- Insurance Premiums
- Excise Duty
- Difficulty sourcing skilled staff
- Access to government grants
- Losing customers due to increased pricing
- Lack of Taxis / Public Transport





Supporting Ireland's SMEs: Budget 2026 Focus Areas

The purpose of this report is to highlight the findings and reinforce the need for Budget 2026 to deliver targeted, practical, and timely interventions that reflect the lived reality of Ireland's SME sector. A broad range of impact drivers and potential initiatives have been referenced to assist SMEs but for the purpose of brevity and focus in this report, the five key impact drivers as recognised in the Business Sentiment Survey have been identified for consideration in Budget 2026

1. Labour Costs and Wage Policy
2. SME Competitiveness
3. Energy Costs and Sustainability
4. Altering Tax Demands
5. Tackling Insurance Premiums



up to 45% of turnover is being absorbed by wages and labour-related costs, a level that is unsustainable for many small enterprises.

1. Labour Costs and Wage Policy

Wage costs have emerged in the business sentiment survey as the key impact driver for the rising cost of doing business in recent years. SMEs across Ireland acknowledge and support the Government's long-term objective of improving employee conditions. Ireland now has one of the highest minimum wages in the EU which while welcome, we must acknowledge the burden of cost that places on businesses. SMEs in particular would benefit from a recalibration of those costs to the employer.

Many SMEs reported anecdotal examples that these additional obligations are leading to difficult decisions, including reductions in headcount and scaled-back operations. The results of the Business Sentiment Survey indicates that in some cases, up to 45% of turnover is being absorbed by wages and labour-related costs, a level that is unsustainable for many small enterprises.

It is also observed by employers that when the minimum wage rises, it not only increases costs for employees at the bottom of the pay scale but also creates relative pressures across the organisation. Workers earning just above the new minimum wage may expect their wages to rise as well as to maintain perceived fairness and pay differentials, and this ripple effect can push overall labour costs higher than the initial increase alone. For SMEs, this compounds the challenge of absorbing higher payroll expenses, as maintaining internal equity often means raising wages across multiple tiers, not just at the minimum level. Over time, these adjustments can alter the entire wage structure, tightening margins and forcing businesses to reassess pricing, staffing, productivity strategies and even viability.

The National Training Fund has the potential to play a pivotal role in addressing current labour shortages by equipping jobseekers with the practical skills required to enter sectors where demand for workers is particularly high. By channelling resources into tailored training programmes, the fund can ensure that individuals are job-ready with the necessary competencies, enabling businesses to fill vacancies more effectively. However, many SME owners claim the fund is not being fully leveraged to meet these challenges, especially in industries such as hospitality and retail, where skill availability directly influences service quality and business performance.

Additionally, building on the steady and positive progress Ireland has made in recent years, greater emphasis is needed on expanding apprenticeships and structured training pathways to bring workforce development in line with leading European standards. Without such efforts, there is a real risk of falling behind in developing and enhancing the workforce and ensuring it is both skilled and adaptable to evolving labour market demands.

To ensure the viability of SMEs and protect employment, it is essential that Budget 2026 provides certainty and predictability in wage policy.

- An evaluation of how The National Training Fund can be better utilised to assist SMEs in addressing labour shortages and challenges.
- A transition to the Living Wage must be achieved by striking a balance between employee pay and conditions and the viability of SMEs.
- A commitment that future minimum wage increases will be indexed to inflation, ensuring the adjustments are fair and manageable.
- No further statutory cost increases until a full impact assessment on proposals is completed.

These measures would provide SMEs with the breathing space needed to plan, invest, and retain staff, while still progressing toward the Government's broader social and economic goals.

2. SME Competitiveness

The rising cost of raw materials has become a critical concern for SMEs, particularly those operating in sectors with tight margins and high input dependency. Many businesses report that the cost of materials has increased significantly over the past two years, placing pressure on pricing strategies and overall competitiveness. SMEs face a difficult dilemma, either absorb the cost increases and risk eroding profitability, or pass them on to consumers and risk losing market share.

This challenge is especially acute for smaller enterprises that lack the purchasing power or supply chain flexibility of larger firms. Several respondents to the Business Sentiment Survey expressed concern that price increases, while necessary to protect margins, could undermine their ability to compete domestically and internationally.

The Government's establishment of a Taskforce on the Cost of Doing Business and Competitiveness is a welcome step in addressing these pressures. However, there is a clear call from the SME sector for deeper analysis and more targeted support. Businesses are seeking not just recognition of the issue, but practical interventions that can help them manage input costs and remain viable.

Fine Gael proposes a strengthened role for Local Enterprise Offices (LEOs), modelled on the success of the IDA in supporting foreign direct investment. LEOs should be empowered to:

- Further enhance the recently introduced online National Enterprise Hub, including analysis of and sharing of regular insights on market trends for the benefit of users.
- Provide tailored advice and financial support for SMEs facing material cost pressures.
- Facilitate group purchasing schemes or supplier negotiations to improve cost efficiency.
- Offer training and consultancy on supply chain resilience and cost management.
- Act as a localised hub for accessing national support and funding streams, whilst also assisting in the necessary innovation in digitalisation.

By extending the strategic capacity of LEOs with greater alignment to the National Enterprise Hub, we can ensure that SMEs, especially those in rural and regional areas, receive the same level of structured support that has helped attract and retain multinational investment. A comprehensive study should be undertaken to assess how LEOs and other key stakeholders can be restructured to better serve the needs of businesses in a changing economic environment. This review should evaluate the range of supports currently available, identify gaps, or overlaps, and consider how programmes can be streamlined to ensure maximum impact. Particular attention should be given to how supports are administered, with a focus on reducing bureaucracy, improving accessibility for small and emerging businesses, and aligning assistance with the practical challenges firms face across different sectors. By examining both the effectiveness of existing structures and the potential for new approaches, the study would provide a roadmap for delivering more responsive, efficient, and impactful business support systems.

Additionally, as rising tariffs and global uncertainty are creating new challenges, it is essential that more SMEs are presented with the opportunity for international trade to achieve SME growth. To remain competitive, Ireland must diversify its export markets and reduce reliance on traditional partners.

Fine Gael proposes a more expansive trade mission programme, targeting high-potential markets such as the UAE, India, and Japan. This should be supported by accelerated trade agreements and enhanced export advisory services for SMEs, helping them navigate new opportunities and build resilience in a shifting global landscape.

3. Energy Costs and Sustainability

Since the onset of the war in Ukraine, energy costs for SMEs have surged and remain stubbornly high. Many businesses report that despite market fluctuations, charges have not returned to pre-war levels. Concerns have also been raised about substantial increases in energy pass-through charges imposed by regulators, further straining operating margins.

Ireland must invest in energy independence and strengthen the resilience, reliability, and security of our national grid infrastructure. While SMEs support the transition to a sustainable economy, they are also grappling with short-term financial constraints. A balanced approach is needed, one that promotes green innovation without compromising business viability.

In response to ongoing volatility in energy costs, consideration must be given to both immediate and long-lasting solutions. A short-term solution in Budget 2026 is to enhance and expand energy schemes for SMEs. Additionally, an energy action roadmap should be developed to address cost pressures, alongside targeted taxation measures, including adjustments to VAT, to help contain rising energy expenses for businesses.

Alongside short-term financial assistance, the roadmap should also outline measures to encourage energy efficiency and investment in sustainable technologies, helping SMEs to reduce long-term dependency on volatile energy markets. By combining immediate support with forward-looking initiatives, the scheme would not only ease current pressures but also strengthen the resilience and competitiveness of SMEs in the years ahead.

Monitor and review energy pass-through charges and regulatory levies, ensuring no excessive or disproportionate costs, whilst considering the introduction of transparency measures.

Reduce dependency on international energy markets through accelerated investment in renewable energy infrastructure, microgeneration, and domestic grid upgrades.

Increase take-up of grants to support small businesses in adopting energy efficient technologies, cutting costs, and reducing their environmental footprint. Facilitate the Sustainable Energy Authority of Ireland and Local Enterprise Offices to support planning and implementation on transitioning to low emission processes and equipment.

Expand the role of respective stakeholders such as the LEOs and Enterprise Ireland in delivering energy management advice and training, sustainability planning, and access to green finance through Strategic Banking Corporation of Ireland (SBCI). Develop sector-specific toolkits to help SMEs navigate the transition without compromising viability.

4. Altering Tax Demands

SMEs continue to face mounting pressure from rising labour and energy costs. The emergency introduction of the 9% VAT rate during the COVID-19 pandemic provided essential relief to sectors such as hospitality, food services, entertainment, and personal care. While this measure came at a significant cost to the Exchequer, it was a critical support for thousands of businesses during a time of crisis.

Recent estimates suggest that a full return to the 9% VAT rate across all previously covered sectors would cost over €1 billion. However, a targeted reintroduction which excludes hotel accommodations, would substantially reduce the fiscal impact while still delivering meaningful support to the most vulnerable sectors.

To further ease the burden on SMEs, Fine Gael proposes two key tax related measures:

Reduce the current VAT rate of 13.5% to 9% on food and food services, admissions to entertainment venues and hairdressing.

Introduce a Pay Related Social Insurance (PRSI) rebate scheme up to an agreed ceiling specifically targeted at high labour-intensive sectors to directly reduce the cost of employment and support job retention.

Specific to on-trade licensed vintners, as Ireland has one of the highest rates of excise duty on alcohol in the EU, consideration should be given for the implementation of an excise rebate scheme up to 40% on draught products including beer and cider served in the on-trade establishments up to a maximum annual limit of €20,000 per pub. This would have an environmental benefit as less packaging associated with kegs, health benefits as pubs are a controlled environment for the consumption of alcohol and social benefit bringing people together in communities across the country.

These measures would help SMEs remain competitive, protect margins, and sustain employment, particularly in sectors where discretionary consumer spending is highly sensitive to price changes. It is also important to recognise the regional significance of SME employment, which plays a vital role in balanced economic development and community wellbeing across the country.

5. Tackling Insurance Premiums

While progress has been made in recent years, particularly in reducing fraudulent claims and improving transparency, insurance premiums remain stubbornly high, despite a decline in overall claims volumes. This continues to place a disproportionate burden on SMEs, especially those in sectors with high public liability exposure.

The Government has recently launched a revised Action Plan for Insurance Reform, with a roadmap extending to 2029. This plan aims to drive further progress by enhancing competition, improving market transparency, and ensuring affordability across all insurance types with some key measures proposed.

To address the persistent burden of high insurance premiums on SMEs, Fine Gael proposes the following targeted actions under the revised Action Plan for Insurance Reform:

Encourage Further Market Competition: Expand and support the Office for the Promotion of Competition in the Insurance Market, including a dedicated subgroup to help existing insurers broaden their offerings and attract new entrants.

Strengthen Oversight of Brokers and Underwriters: Ensure fair market practices and adequate competition among intermediaries to prevent anti-competitive behaviour and price distortion.

Introduce Tougher Penalties for Insurance Fraud: Enforce stricter legal consequences for fraudulent claims to protect honest businesses and reduce systemic costs.

Maintain High-Level Government Focus: Continue the work of the Cabinet Sub-Committee on Insurance Reform to ensure sustained cross-government coordination and attention.

Improve Legal Cost Transparency: Develop new guidelines to standardise rates and scales of fees for civil litigation and promote alternative dispute resolution to reduce legal overheads.

Proactively Pursue International Markets: Engage with global insurers through trade missions to attract new players and diversify Ireland's insurance landscape.

Accelerate Data Transparency: Facilitate faster release of data from the National Claims Information Database to support evidence-based policy and improve market transparency.



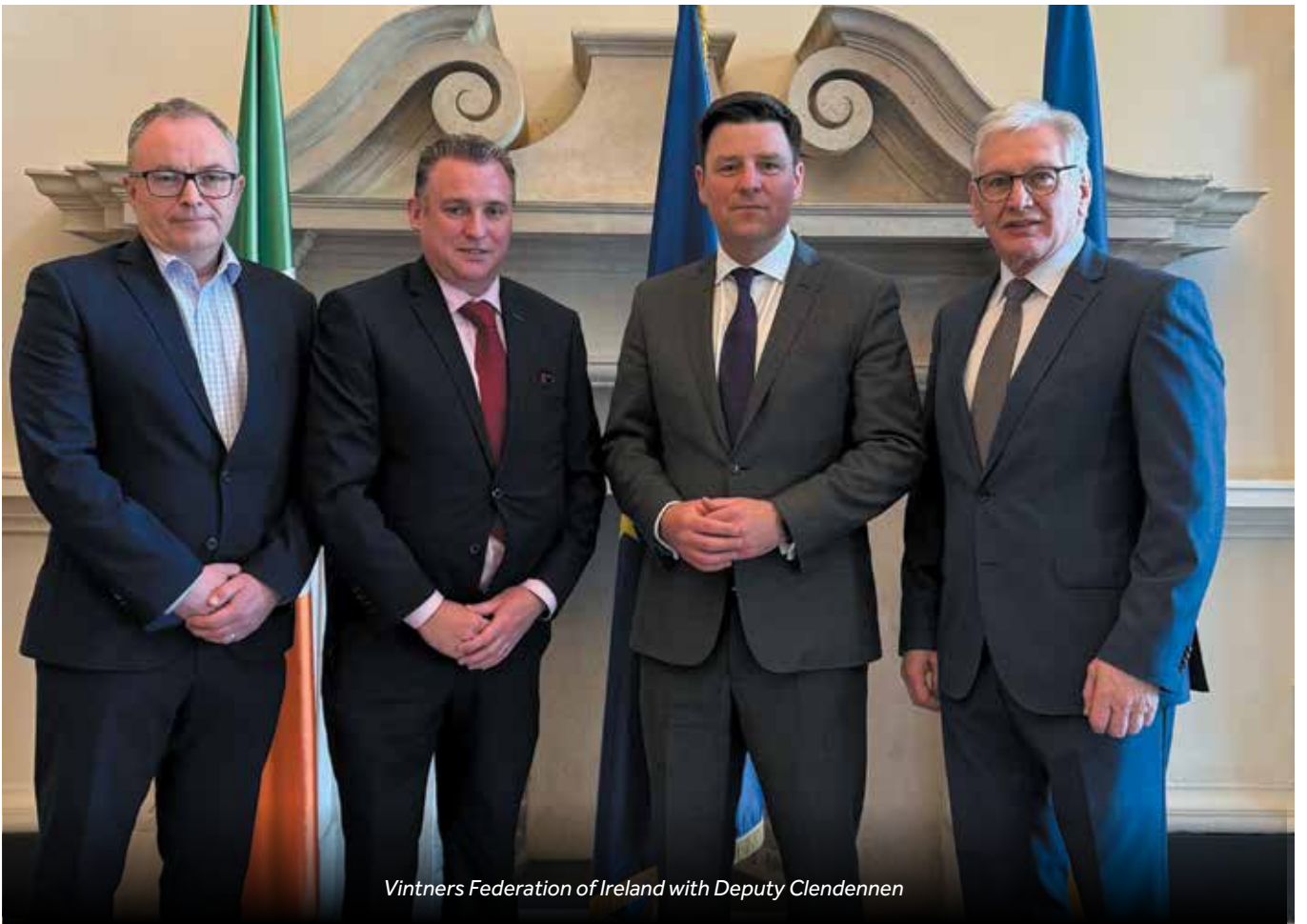
Irish Hairdressers Federation representatives with Deputy John Clendennen



Restaurants Association of Ireland with Deputy Clendennen



Deputy John Clendennen meeting with representatives from the Agri Merchants group



Vintners Federation of Ireland with Deputy Clendennen



Fáilte Ireland Irelands Hidden Heartlands



Deputy Clendennen with An Tánaiste Simon Harris



Deputy John Clendennen with Minister for Enterprise Trade and Employment Peter Burke



Minister of State Alan Dillon with Deputy John Clendennen



Minister for Finance Paschal Donohoe with Deputy John Clendennen

Uncertainty & Government Action to Date

Given the rapidly changing international economic environment, it is important to recognise the urgency and focus applied by the government in recent months, led by Minister for Enterprise, Tourism and Employment, Peter Burke. A raft of initiatives have already been introduced and the government has agreed a new Action Plan on Competitiveness and Productivity under an expedited timeline. It is expected the Action Plan will be reflected in the Budgetary process, allowing for integrated decisions on spending and taxation.

The focus of the plan will be on matters within our national control by way of policy changes which can make the Irish economy more competitive and resilient to economic shocks in controlling the controllables, whilst focusing on enhanced predictability and stability to the domestic economy. Emphasis will be placed on concrete, actionable recommendations that Government Departments and agencies can implement in the short term.

Fine Gael have always protected jobs and protected the economy through economic turbulence. It is important to note that we are approaching these risks from a strong base of budget surpluses and rainy-day capital, which we have achieved through sound economic management over the last decade.

There are several priority areas already identified by Minister Peter Burke to take action and deliver quick wins when it comes to supporting businesses and the economy through potential economic shocks which may lay ahead.

A targeted set of short-term measures, from within the Department of Enterprise Tourism and Employment and with input from other relevant Government Departments, have been identified. These proposals have been actioned and/or will be brought to Government for decision.



Emphasis will be placed on concrete, actionable recommendations that Government Departments and agencies can implement in the short-term.

International Trade Promotion

- Implement a package of advisory and other supports for enterprises impacted by global trade disruption to protect jobs, upskill and build resilience.
- Progress Common Economic Trade Agreement (CETA) as soon as possible and prioritise work on other international Free Trade Agreements.
- Support trade diversification, develop a Government Action on market diversification to include engagement and Joint Economic Commission's with United Arab Emirates, India, Japan, and other new markets and implement an expansive trade mission programme.

- Prioritise and accelerate the introduction of security clearance arrangements for exporting companies. It is important to note jobs, business growth and security priorities could all be at risk if the system is slowed or barriers to its establishment are put in place.
- Implement National Semiconductor Strategy.

Cost Levels

- Extend the timeframe for the implementation of the Living Wage from 2026 out to 2029, while still ensuring there are increases in the minimum wage every year in line with inflation and wage inflation.
- Examine the feasibility of the Statutory Sick Leave Scheme.
- In line with the Programme for Government, a Cost of Business Advisory Forum has been established as a sub-group of the Enterprise Forum and will comprise of officials from the key regulatory agencies and business representatives from the enterprise sector. This group convened for the first time in Summer 2025.
- Proceed with omnibus changes to simplify the Corporate Sustainability Reporting Directive (CSRD) Regulations.
- Implement the Action Plan on Insurance Reform with a range of priorities aimed at lowering insurance premiums, covering 2025 to 2029 and building on the progress of the 2020 Action Plan. This plan will focus on a range of specific actions to deliver better outcomes for consumers and businesses, under six specific themes: transparency & affordability, competitiveness & availability, fraud, innovation & skills, climate protection gap and legal reform.
- Resource the Small Business Unit in Department Enterprise, Tourism & Employment.
- Take steps to strengthen the consumer protection and competition functions of the Competition and Consumer Protection Commission. This will include the development of a Miscellaneous Provisions Bill with measures related to Bid Rigging Screening and increased administrative fines for consumer protection breaches.

Energy

- Publish the Commission for Regulation of Utilities (CRU) decision on Data Centres as soon as possible in order to give greater certainty to industry.
- Agree and publish as soon as possible a medium-term Action Plan to connect new Large Energy Users to the power grid.
- Host a Joint Government Industry Forum on Offshore Renewable Energy to review progress on delivery of Ireland's offshore renewable energy, get an update on the work underway through the Offshore Renewable Energy Taskforce and identify how best public and private sectors can work together over the coming years on the energy transition and scope out the role of the proposed Climate Investment Clearing House.
- Accelerate deployment of electricity grid infrastructure by early identification of suitable sites in public ownership (ESBN, Local Authorities, LDA).
- Explore options for development routes to market for zones B, C and D in South Coast Designated Maritime Area Plan (DMAP) to provide pathways for future offshore wind energy to meet growing electricity demand.



Conclusion

Ireland's SME sector is not only the backbone of our economy, but also the beating heart and social fabric of our communities and a vital contributor to national resilience. As Budget 2026 approaches, the urgency to act has never been clearer. The findings of Fine Gael's Business Sentiment Survey underscore a sector grappling with rising costs, regulatory burdens, and economic uncertainty, which ultimately impacts job protection and creation. Yet, within this challenge lies an opportunity to reaffirm our commitment to small businesses and to deliver targeted, impactful support.

The policy proposals outlined in this report addressing wage pressures, energy costs, raw material inflation, tax demands, and insurance premiums are not just fiscal adjustments. They are strategic investments in the future of Irish enterprise, particularly the SME sector. By implementing these measures, we can restore confidence, protect jobs and develop a strong foundation for the creation of further jobs, and ensure that SMEs continue to thrive as engines of innovation, employment, and regional development.

Fine Gael stands ready to champion these reforms, working in partnership with business owners, industry leaders, and communities. Backing business is not a slogan, it is a blueprint for a more inclusive, dynamic, and prosperous Ireland.



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