Ibec
For Irish Business

Ibec Budget
2018 analysis

Building for the future

What Budget 2018 delivered for business

Ibec's key Recommendations	Delivered in Budget 2018
Increased investment	√
Increase the entry point to the marginal rate of tax	√
Improvement in tax treatment of share options	√
Retention of the 9% VAT rate	√
New measures to address housing shortages	√

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Economic Context

Economic Context and Fiscal Space

- The Department of Finance expects the economy to grow by an average of 3% annually over the coming 4 years, despite major external risks.

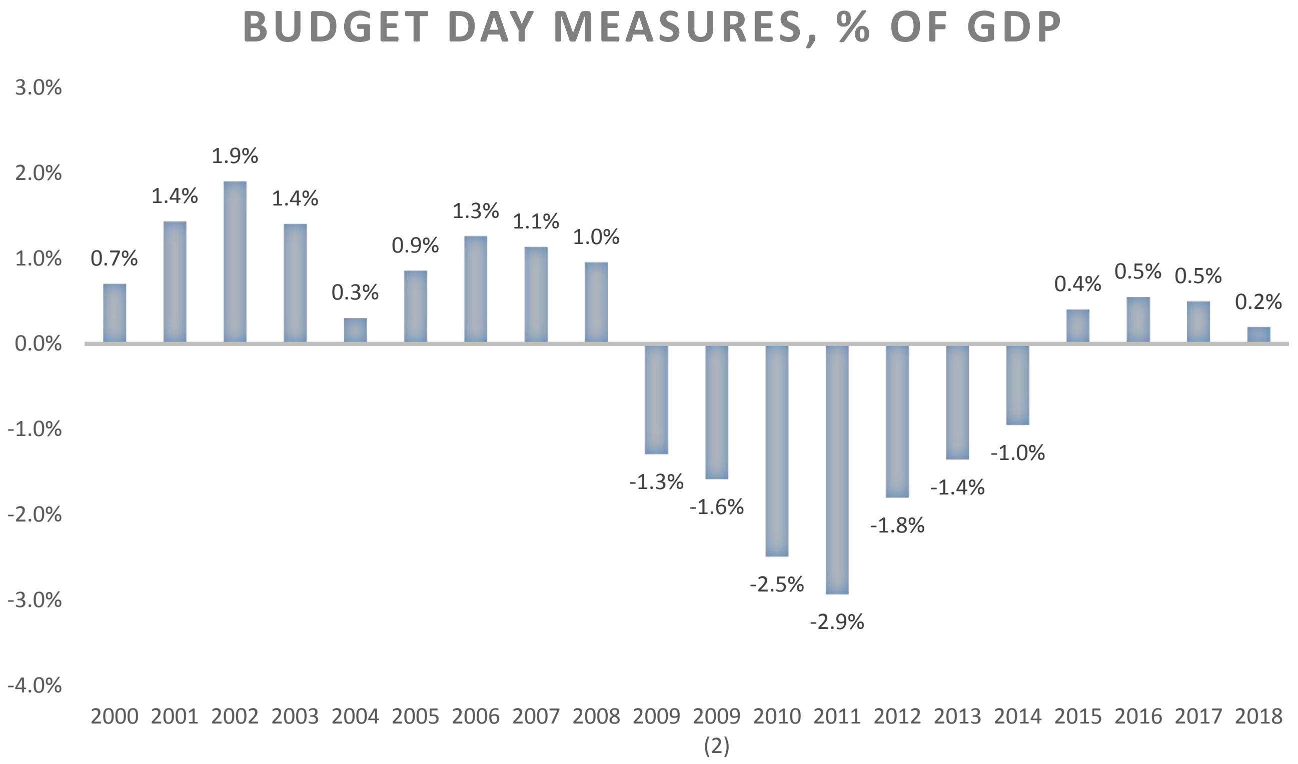
- Total unallocated fiscal space (after public sector pay, demographics and carryover) was €320 mn. Added to this was €820 mn in new tax measures (almost half of which related to stamp duty on commercial property) to bring the total available resources to €1.15 bn.

- The split of these resources resulted in €684 mn in current spending,€214 mn in capital spending and €335 mn in income tax reductions.

- A deficit of only 0.2% of GDP in 2018 means that in effect the government's books are balanced. Excluding capital expenditure, the State will run a current surplus of €22 bn over the next five years.

- Gross capital expenditure will increase strongly to €8.8 bn by 2021 (2.6% of GDP) reflecting key Ibec asks. A ten year capital plan to be laid out before end of 2017.

Economic Context and Fiscal Space



Net Budget measures of only 0.2% of GDP reflecting much smaller allocations than in pre-crisis years

Personal Taxes and Labour Costs

Personal Tax

- There were a number of welcome initiatives when it comes to personal taxation. While the scale of resources for new measures was limited this year, the income tax package is a welcome change of direction towards reducing the burden on average income earners.

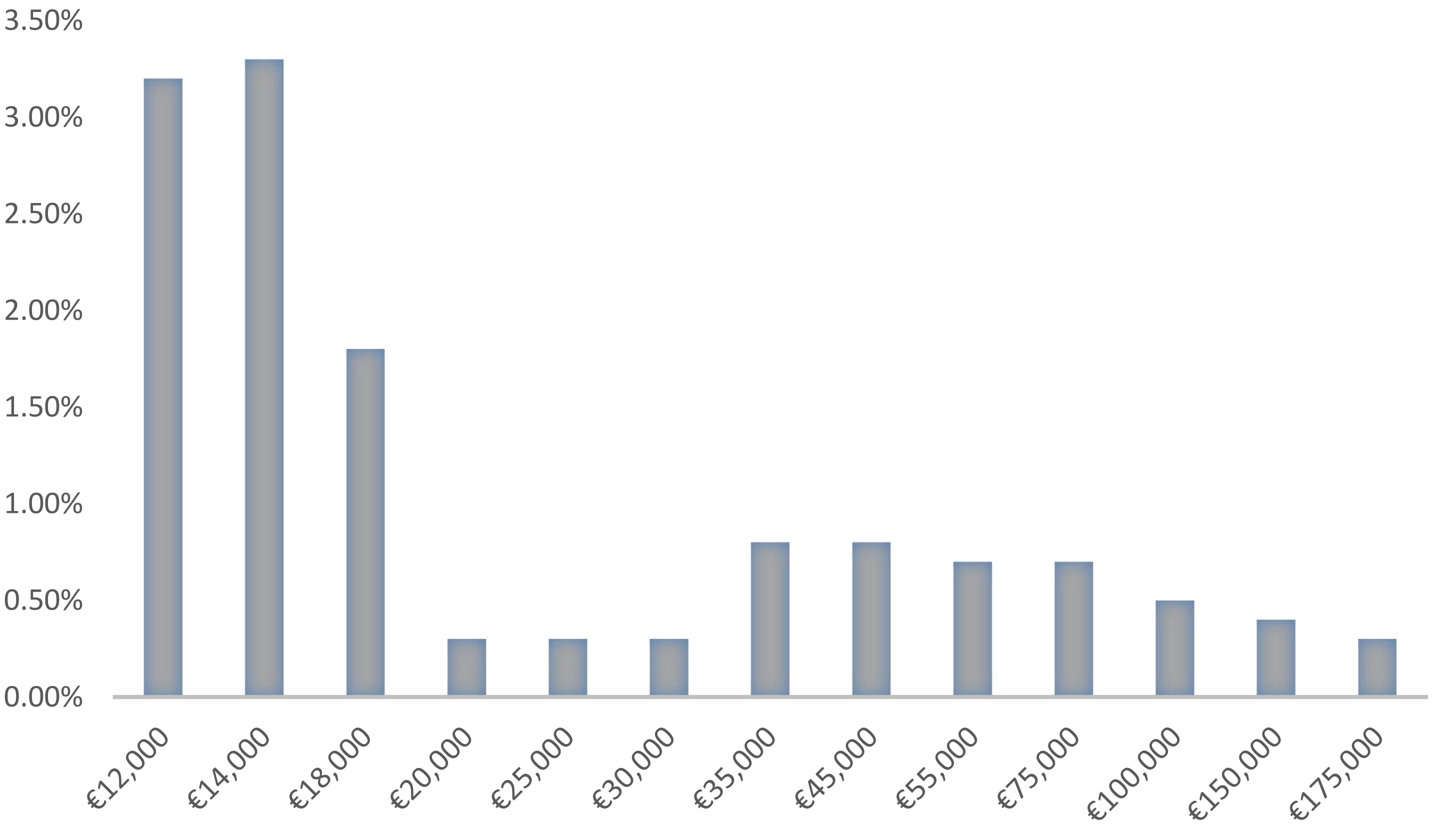
- Specifically the Government introduced:
  1. An increase of €750 in the entry point to the higher rate of tax for all earners
  2. An increase in the Earned Income Credit for the self-employed from €950 to €1,150
  3. A reduction in the 2.5% USC rate to 2%, the 5% rate to 4.75%
  4. A 30 cent increase in the minimum wage with a €600 increase to the €18,772 USC band ceiling
  5. 0% BIK on electric vehicles for 2018 with a commitment to review before Budget 2019

Labour costs

- On the downside the Government introduced a 30 cent increase in the hourly minimum wage. This is unwelcome at a time when many exporting companies in low margin sectors are struggling significantly in terms of margin erosion

- An increase of €60mn in the National Training Fund levy could damage the competitiveness of Irish business if the resources are not ring-fenced for targeted in-work training programmes to help companies upskill their workforce.

% increase in net take-home pay by wage level (inclusive of minimum wage increase)



Consumer Taxes

Consumer Tax

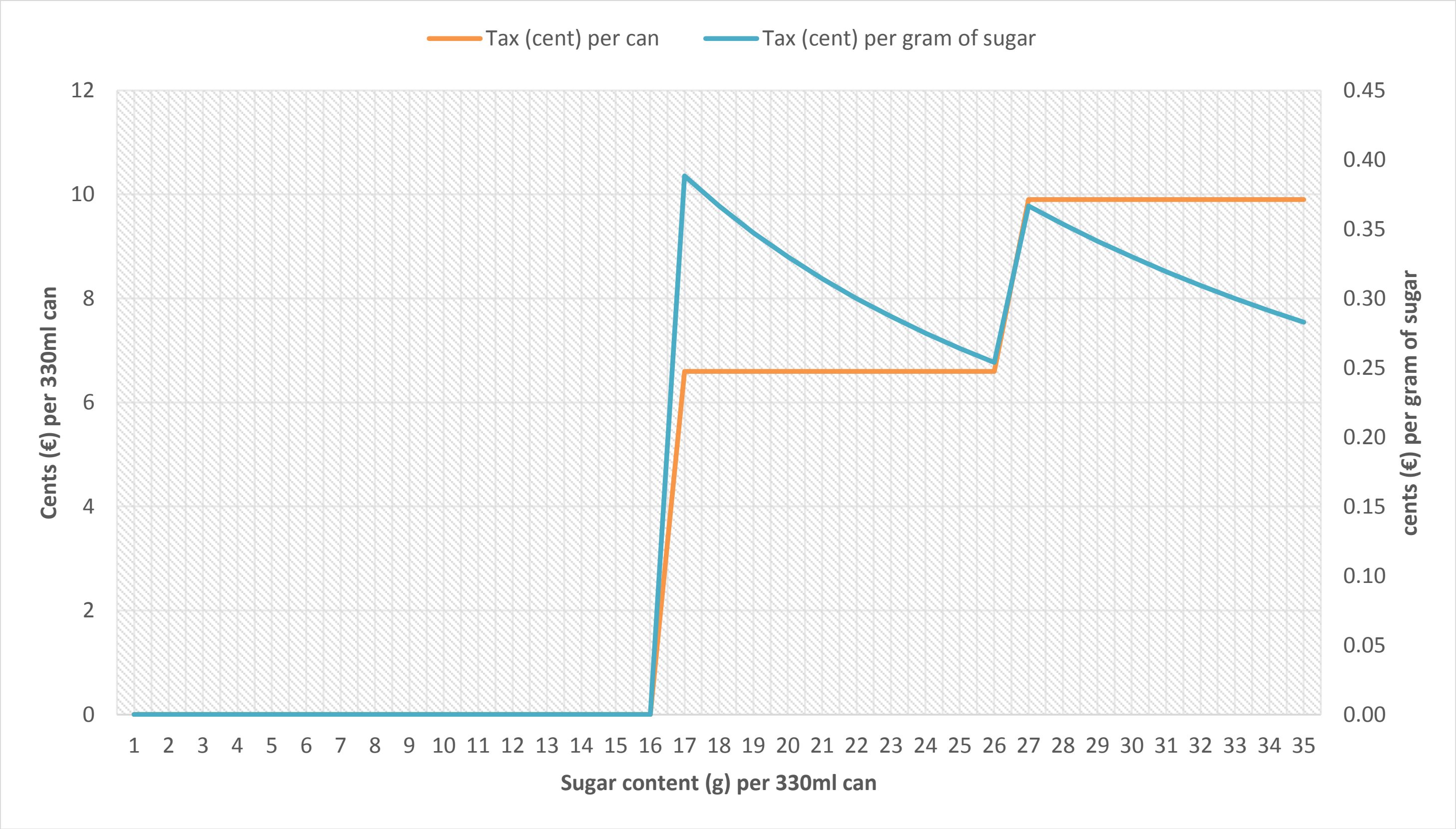
- Due to the limited fiscal space, consumer taxes were expected to be the main target in this years Budget as a way to increase revenue.

- Despite increased duties on other goods there was no increase in excise on alcohol, diesel or petrol.

- Excise on a packet of cigarettes increased by €0.50. This is unlikely, however, to raise additional revenues as indicated due to cross-border trade.

- A new Sugar Tax was introduced and will come into effect in April 2019. It will take a similar form to the equivalent tax that will be introduced in the UK. Depending on the sugar content, the price of a can of a sugary soft drink will increase by 7 cent or 10 cent as a result of the new tax

Sugar tax schedule per can and per gram of sugar



Business Taxes and Brexit proofing

Business Tax

- Overall the offering for this budget was limited by the available resources but was a positive in terms of direction of travel.

- In line with the recommendations of the Coffey the Government reduced IP capital allowance deductions to 80% of the relevant income arising. It will have no effective tax rate impact for business but will smooth corporation tax revenues and complement the overall suite of changes in Ireland's international tax offering.

- A 'KEEP' share options incentive will be introduced from January 2018 to facilitate the use of share-based remuneration by unquoted SME companies. The new incentive will see CGT apply to gains on the exercise of shares on their disposal. This is a significant improvement on the current application of income tax on exercise of share options and will allow SMEs to retain key employees by reducing the effective rate by up to 25%.

- Accelerated capital allowances for energy efficient investment were extended to 2020 that were previously due to expire.

- Additional investment in Revenues capacity to act as a competent authority in complex international tax cases.

Brexit proofing

- One of the more disappointing elements of the Budget was a lack of clear Brexit proofing initiatives. Further resources will be needed over the coming years to support innovation and equipment investment in companies most affected by Brexit

- There were, however, two larger scale initiatives. Firstly, the Government announced €300mn will be made available at a competitive rate to SMEs in Brexit impacted sectors in order to assist with short-term working capital needs. This scheme will be supported by the European Investment Bank Group, the European Commission and the Strategic Banking Corporation of Ireland.

- Secondly, the retention of the 9% VAT rate on tourism was welcome at a time when a weakened sterling has caused a significant fall off in UK tourists to regional destinations.

- At a more micro level, funding will be made available for the Enterprise Agencies and the Department of Business Education and Innovation to hire an additional 40 staff in 2018 to deal with Brexit related issues. This will cost €3mn.

- In addition, €25mn will be made available for the further development of loan schemes for the agri-food sector along with €5mn funding for Bord Bia work in the context of Brexit and €5mn for capital investment grant-aid for food companies.

Investment and Housing

Investment

- Since 2014 Ibec has called on Government to increase spending on infrastructure which is still at one of the lowest rates in Europe

- Gross capital expenditure will increase strongly to €8.8 bn by 2021 (2.6% of GDP)

- This will mean that by 2021 the level of capital spending will be double what was spent in 2015

- Details of the new projects will be announced later this year

Housing

- Stamp Duty on non residential property will increase from 2% to 6%. This will raise €376 mn and is largest revenue raising measure of the whole budget. This measure may have unintended consequences.

- Vacant Site Levy: In 2018 any vacant site on the register will pay a 3% levy (as is already the case). In 2019 any site that is still vacant will pay a higher rate of 7% and this rate will apply each additional year if the land still hasn’t been put to use.

- Any land or buildings bought between December 2011 and 2014 are exempt from CGT so long as they are held for 7 years. This has been reduced to 4 years and will mean that more sites and properties will become available in 2018. Without this change it would have been 2019-2021 before these assets became available.

- Help to Buy Scheme will remain in place

Housing

- An extra €149 million will be allocated for Housing Assistance Payment. This will mean that 17,000 more households will be covered under the scheme.

- An additional €326 million will be made available for local authorities to either acquire or build new houses for social housing. The preferred approach to date was to acquire existing properties which does little to increase the supply of housing. Hopefully a larger proportion of these funds will go towards new builds.

- A new Agency *Home Building Finance Ireland (HBFI)* will be allocated €750 million to provide funding for new residential developments

Education and Childcare

Education and childcare

- Many proposals for education which Ibec called for were implemented in this years' budget . These include:

  1. An additional €300 million over the next 4 years for capital spending in higher education
  2. Funding for 10 new apprenticeship schemes, 1000 new places in Springboard courses, €3.5 mn for Skillnets
  3. Pilot programme aimed at upskilling and reskilling for those already in employment.
  4. Reduction in student teacher ratios to 26:1
  5. Increased funding for 100 additional career guidance counsellors
  6. €5 million in funding for Foreign Languages, STEM School Policy and Digital Learning Programme for Schools

- Eligible children will now qualify for 76 weeks (up from 61) under the Early Childhood Care and Education Scheme (ECCE)effective from September 2018. This will help reduce Childcare costs

Further information:

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