

ibec
For Irish Business

Budget 2016 Analysis

What it means for business

13th October 2015

What Budget 2016 delivered for business

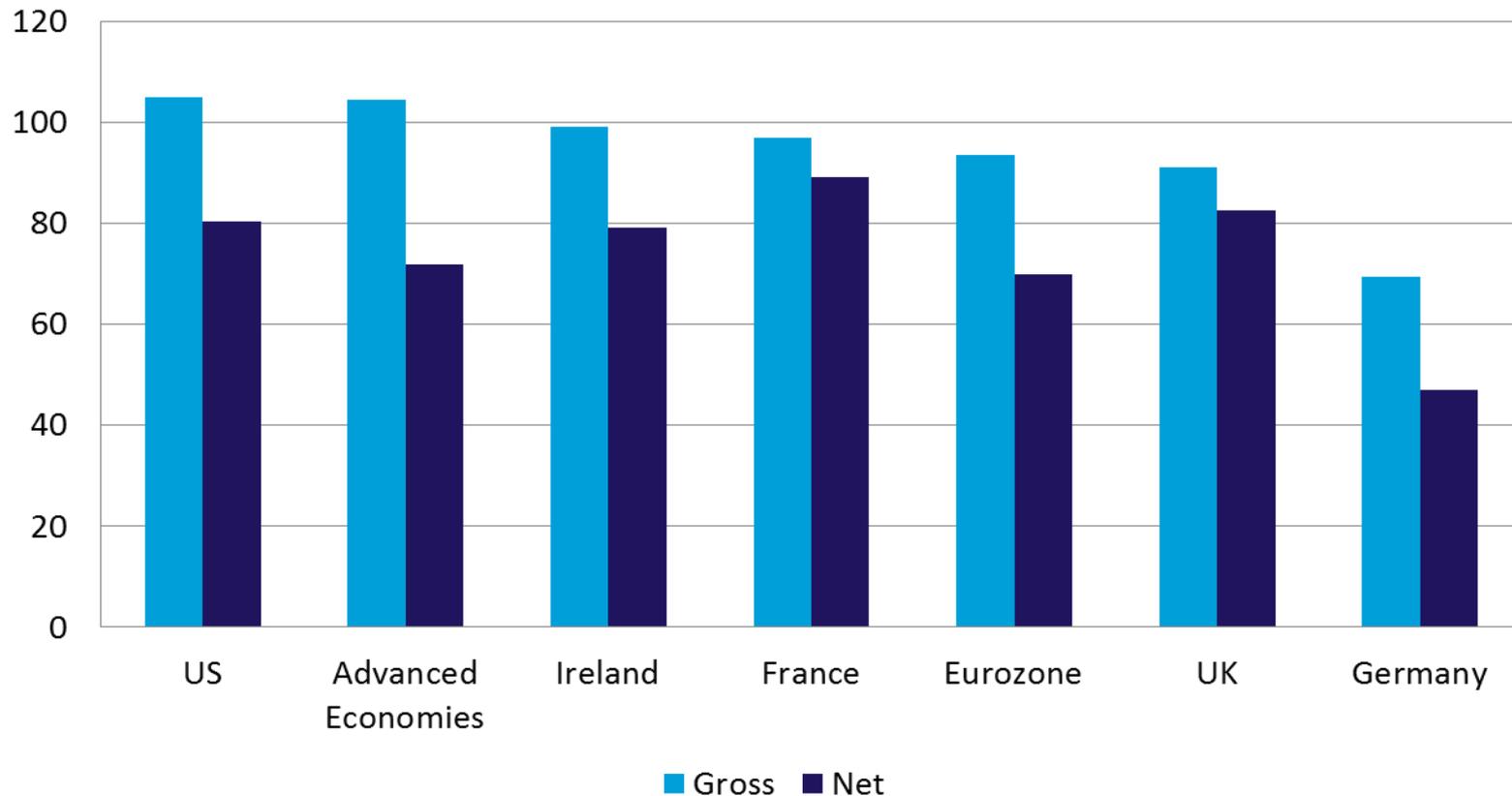
Ibec's key Recommendations	Delivered in Budget 2016?
Reduction in the marginal rate of tax below 50% for most earners	✓
Reform of Capital Gains Tax for entrepreneurs	✓
Steps toward equalising the tax treatment of self-employed	✓
The introduction of the Knowledge Development Box	✓
Measures to boost housing supply	✓

Overview

- In historical terms, the €1.5 billion budget expansion is modest and is only one third of the size of the largest giveaway budgets.
- The economy is set to expand by €20 billion (11%) in 2015 and existing growth has already meant that in September tax receipts were €1.7 billion higher than predicted.
- This growth has also had a dramatic effect on reducing Ireland's Debt to GDP ratio which was 125% in 2013, but will fall below 100% by the end of this year.
- While this growth does suggest that there was no need for fiscal stimulus in Budget 2016, an expansionary budget was needed to relieve supply side pressures in the economy through investment in infrastructure, housing and income tax reform.

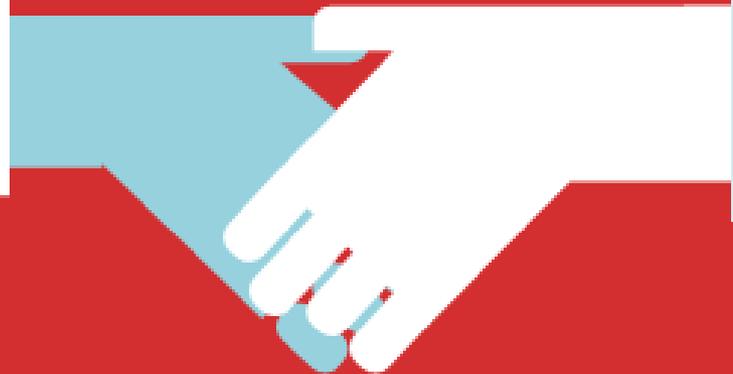
Ireland's debt levels are now in line with other advanced economies

Ireland's net national debt 2015, % of GDP



Change

Marginal rate of tax under 50% for most earners



Changes in Budget 2016

- **€561 million of Budget 2016 was allocated to reductions in the USC which were as follows:**

- **The entry point to USC was increased from €12,012 to €13,000.**

For all PAYE workers earning more than €13,000:

- **The 3.5% and 1.5% USC rates were reduced by 0.5%**
- **The 7% rate will fall to 5.5%**
- **The threshold for the 5.5% rate was increased from €17,756 to €18,669**
- **In addition to offset the new minimum wage of €9.15 p/h the Government introduced a new tapered employee PRSI relief and increased the threshold for the top rate of employers' PRSI from €356 to €376 per week.**

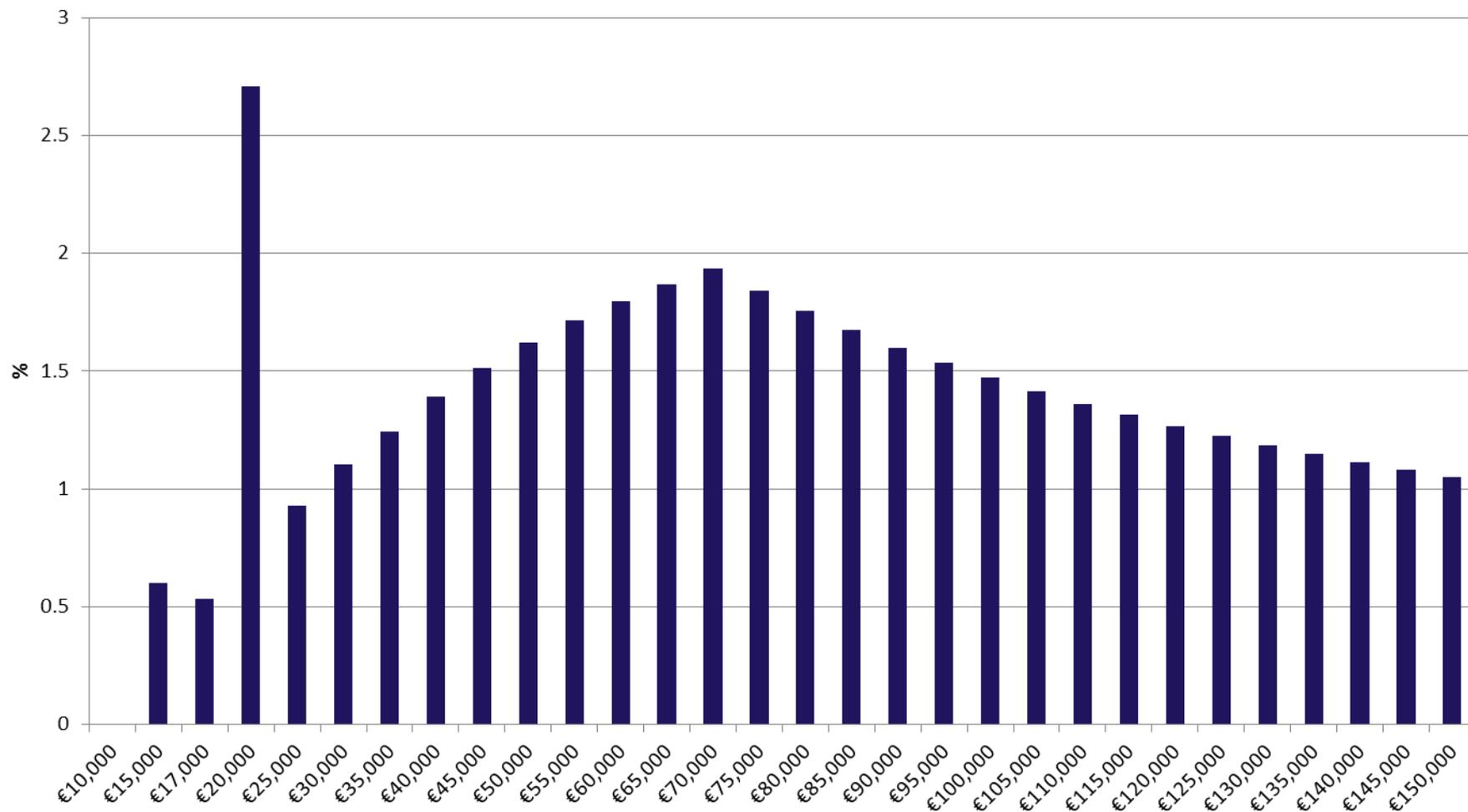
What this means for business

- The tax changes introduced in the Budget will mean the marginal rate of tax will fall to 49.5% for the first time since 2008. This is an important psychological barrier for taking on hours, extra duties and rewarding key skills and is one Ibec has long lobbied for. Unfortunately the 3rd higher rate of tax (52%) has been reinforced for incomes over €70,044.
- In addition, the Budget changes will mean the average earner will gain around 1.5% in their net pay annually taking some pressure off wages across the economy (see page 9).
- On the downside, increases in the USC entry point will put further pressure on an already exceedingly narrow tax base. As a result an increasingly smaller group of workers will pay a disproportionate share of taxation. The Department of Finance estimate that almost half of all income tax and USC (46%) will be paid by 6% of income earners in 2016.

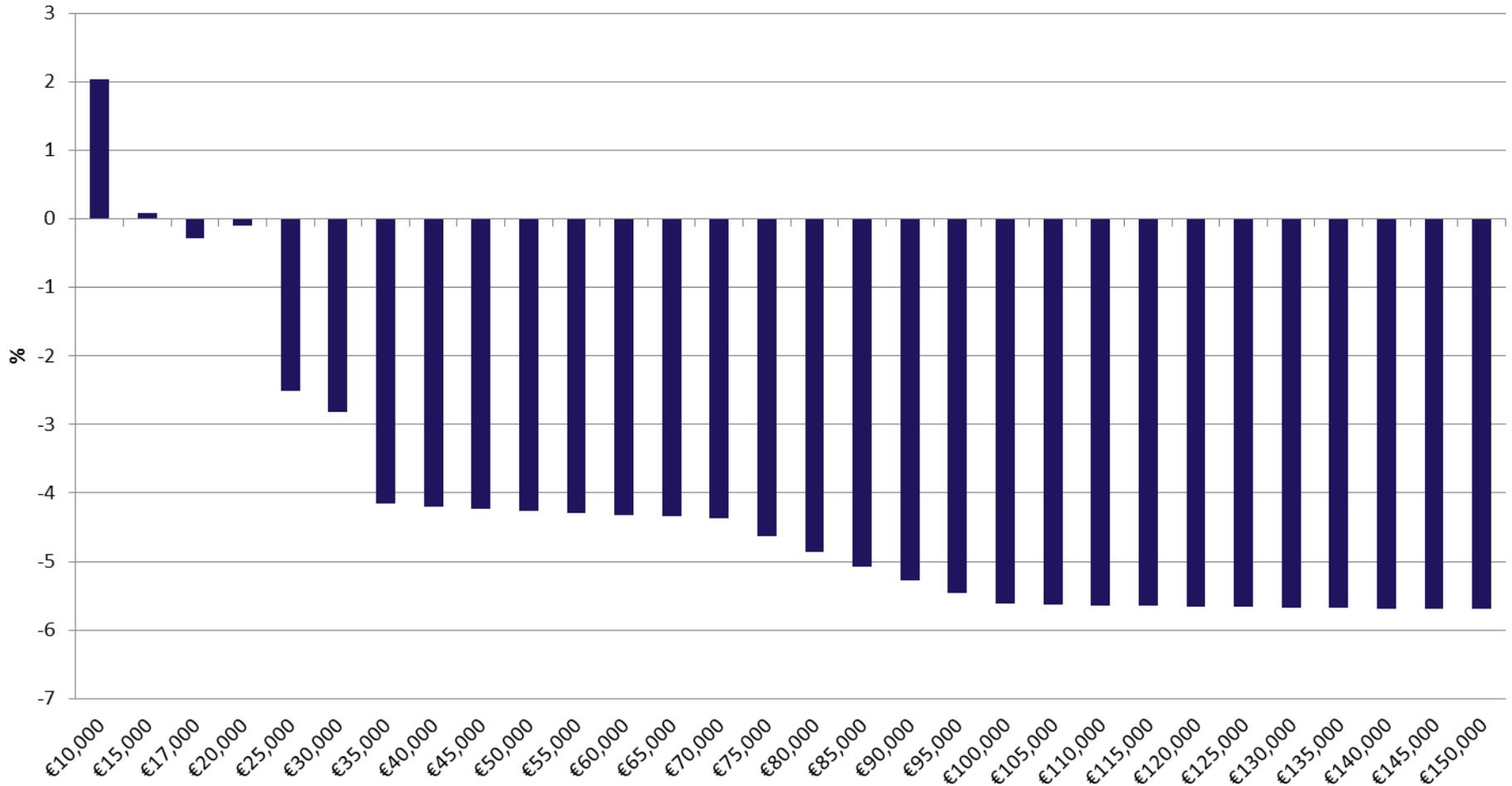
What this means for business

- While the end of the PRSI step effect is welcome, the changes to employers' PRSI will offset less than 10% of the increased labour costs as a result of the minimum wage increase. The minimal level of the offset will result in even greater pressure on labour intensive, low margin companies.
- We estimate the total cost to business of the minimum wage increase will be in the region of €78 million. The employer PSRI offset will only give €7 million of a rebate in the full year.

% change in take-home pay due to tax changes 2015- 2016

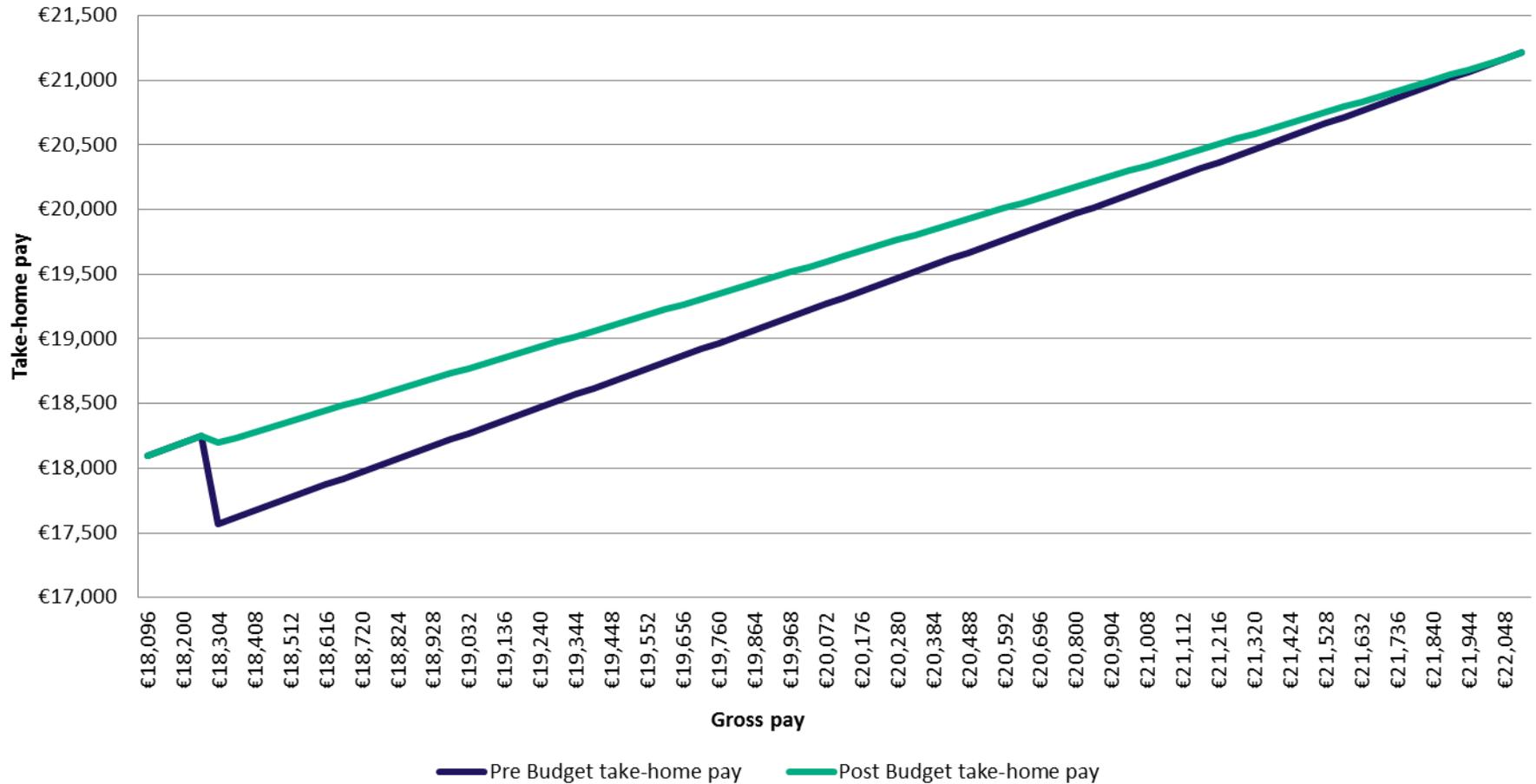


% change in take-home pay due to tax changes 2008- 2016



The PRSI step effect

Take-home pay and the PRSI step effect



Support

**Best Budget for
Entrepreneurs in a decade**



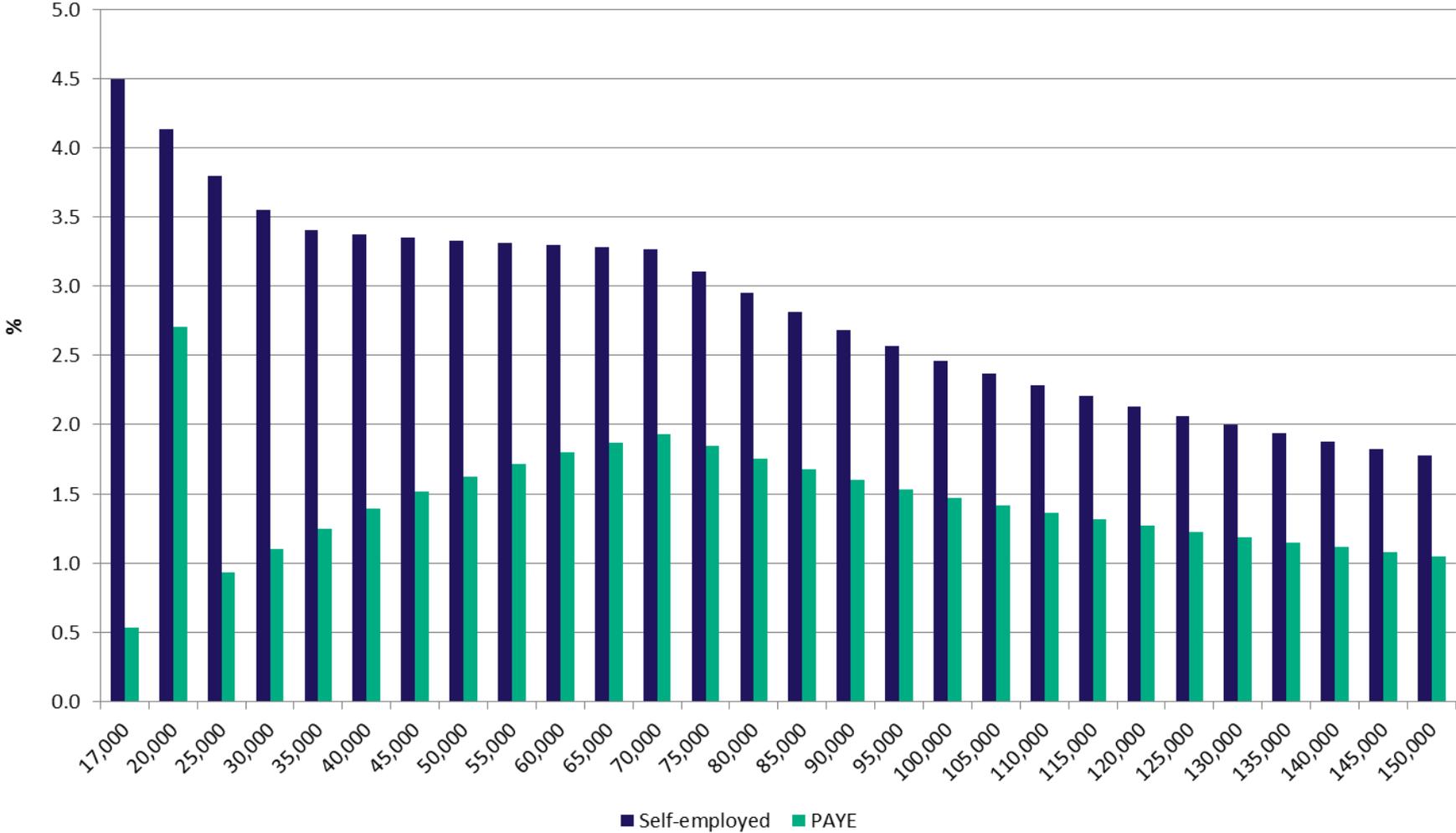
Changes in Budget 2016

- **The entrepreneurs relief from Capital Gains tax has been reformed and simplified. Under the new regime a reduced capital gains tax rate of 20% (up to an overall limit of €1 million) will apply when selling all or part of a business.**
- **A new PAYE tax credit for the self-employed of €550 was introduced to partly replicate the PAYE tax credit along with the changes to the USC.**
- **There was no changes on the removal of the USC surcharge on self-employed income over €100,000.**
- **The corporation tax relief for start-ups was extended until 2018.**

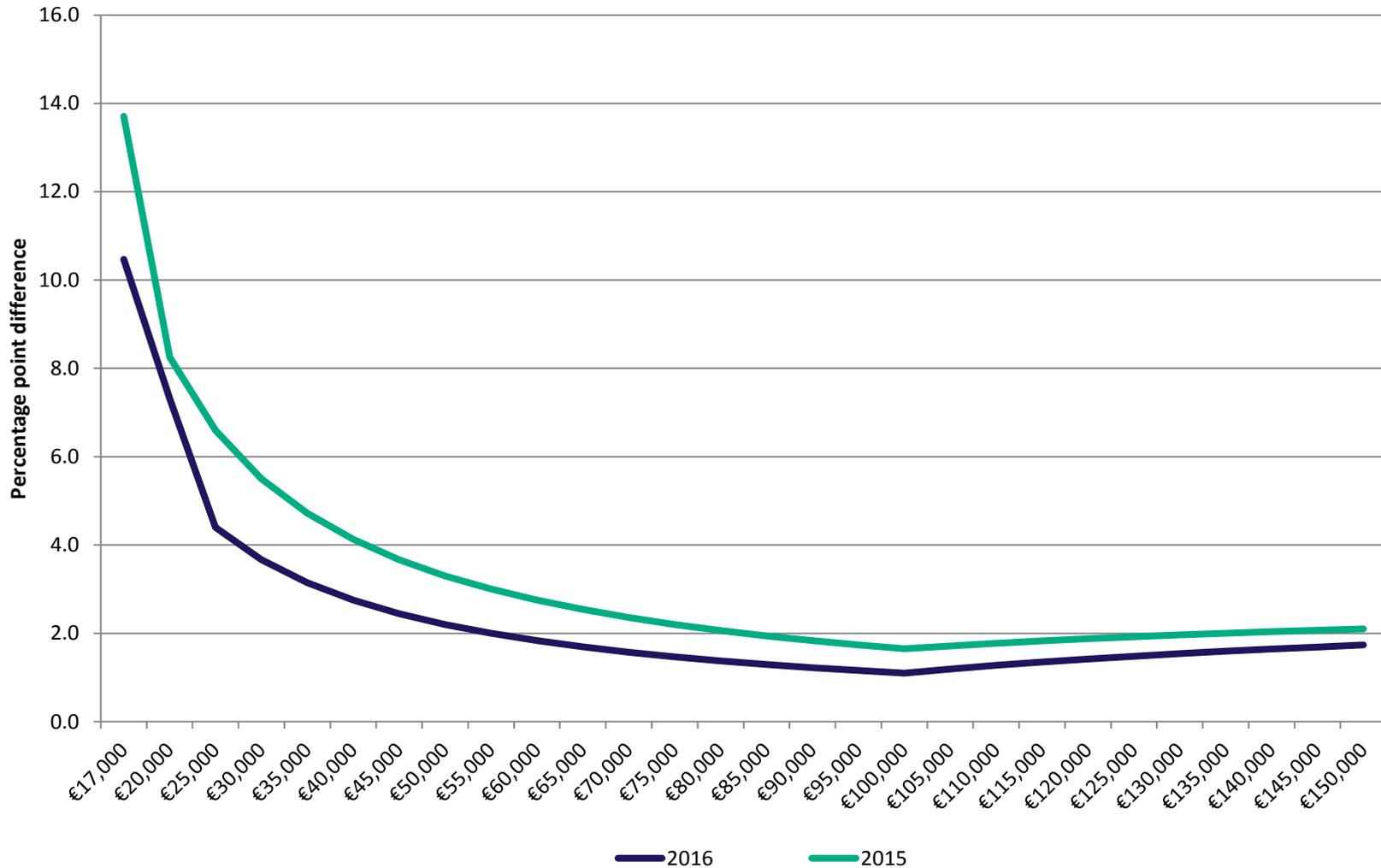
What this means for business

- Tax changes to support entrepreneurship were welcome and constitute the best budget for entrepreneurs in a decade. While much more can be done, Budget 2016 was a good start in what realistically (given tight resources) will need to be a multi-year programme of tax reform.
- The reduction in the rate of CGT brings us closer in line with the UK, which have a CGT rate of 10% and makes Ireland a more attractive place to grow and expand a business. There remains a large gap, however, with the lower UK rate applying on the first £10 million of gains.
- The introduction of the Tax Credit for the self-employed is a first step towards equalising the tax paid by PAYE and self-employed workers on the same level of income. The net effect, along with changes to the USC, will mean entrepreneurs' take-home pay at average incomes will increase by around 3.4%.

% increase in take-home pay post-Budget 2016 as a result of tax changes



Differential in effective tax rate for self-employed over PAYE workers pre and post budget





Key changes to Ireland's innovation and business tax offering

Changes in Budget 2016

- **Introduction of the Knowledge Development Box (KDB)**
 - Confirmation that full details of the KDB will be outlined in the upcoming Finance Bill
 - Will follow model which is compliant with BEPS modified nexus approach
 - Rate set at 6.25%
- **BEPS changes**
 - Provisions to be made in Finance Bill for country-by-country reporting requirements from 2016

Changes in Budget 2016

- **Commercial vehicles tax**
 - Very significant reductions in motor tax rates for good vehicles
 - Saving of over €4,000 p.a. for largest goods vehicles
- **Employment and Investment Incentive Scheme**
 - Changes announced last year have been approved for state aid compliance and come into effect from October 14th
 - Some additional changes to include investment in nursing home extensions
- **Film relief**
 - Cap on expenditure will be increased to €70 mn
- **Corporation tax relief for start-ups extended for further 3 years**

What this means for business

- **No surprises in broad shape of Knowledge Development Box – rate and model largely as expected – we wait to see full detail in Finance Bill**
- **Country-by-country reporting obligations from 2016 likely to impact on all international businesses irrespective of ownership structures**
- **Reductions in goods vehicle motor tax rates are very significant and will address a large competitiveness disadvantage. Will help provide more level playing field for firms competing with Northern Ireland and GB based businesses**

Reform

**Measures to improve the
labour market**



Changes in Budget 2016

- **The Early Childhood Care and Education Scheme (ECCE) was extended so that now, all children between 3 and 5½ years of age can avail of the scheme.**
- **An additional €10.5 million will be available for funding apprenticeships.**
- **The following housing measures are to be implemented:**
 - **€10 million for an affordable housing pilot scheme.**
 - **Increased funding for social housing**
 - **NAMA will provide 20,000 new houses over the next 5 years, of which 18,000 will be in Dublin.**

What this means for business

- **Childcare costs in Ireland are the highest in the OECD and can act as a barrier for people re-entering the workforce. The extension of the ECCE scheme will lower the burden faced by working parents and should help improve female participation in the workforce.**
- **The additional funding will broaden the range of existing apprenticeships and will help meet the skills needs of industry.**
- **Recent housing shortages have created difficulties for firms in attracting staff and are leading to wage pressures for existing staff. The measures announced today will go some way towards alleviating these pressures.**



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