Budget 2023 Analysis

Ibec
For Irish Business

Key messages

- The underlying strength of the Irish business model and its capacity to generate record tax revenue has put Government in a position whereby it can afford to deliver the correct scale of Budget amidst a challenging inflationary environment.

- The total Budget package provides the right mix of permanent and temporary supports to the economy (a 60/40 split) – whilst also managing fiscal risks by putting money away. This will also allow for ongoing flexibility should further support for higher costs be needed into 2022 and beyond.

- Whilst there are some disappointments for business, particularly in the Experience Economy, the overall package is one which will be welcomed as providing support, even though the Winter period will remain a difficult one for the economy as a whole.

- With inflation high and uncertainty rising, fiscal policy will need to continue to be flexible to volatile economic conditions throughout this year and next.

Ibec
For Irish Business

Key wins for business

- ✓ A €1.4 billion package of energy supports for businesses, covering all sectors domestic and internationally traded.
- ✓ A significant increase in the top rate entry point on income tax to €40,000, the second rate of USC and tax credits.
- ✓ €195 million increase in funding for further and higher education, skills and innovation in 2023.
- ✓ Major improvements in funding for childcare of €180 million to encourage labour market participation and reduce costs to households.
- ✓ Extension of important schemes such as the Special Assignee Relief (SARP), the Foreign Earnings Deduction (FED), Knowledge Development Box (KDB) with no unexpected changes.
- ✓ Extension of the Key Employee Engagement Programme (KEEP) with significant improvements aimed at take-up.
- ✓ Recognition of the importance of the R&D tax credit and changes to be made to protect it in the context of international tax changes.
- ✓ Support for housing costs through the renewal of HTB and a rental tax credit running to 2025.

Ibec
For Irish Business

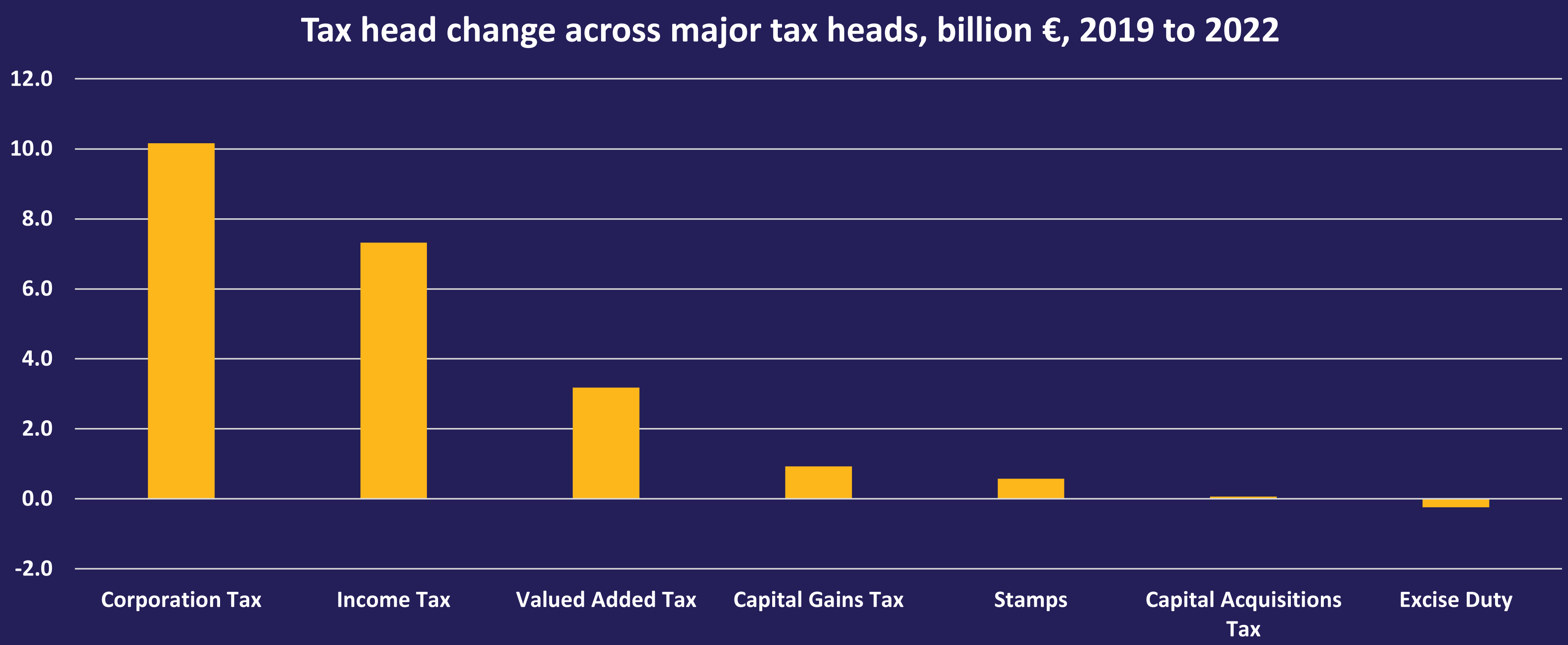
Fiscal backdrop to Budget 2022

- The total package of measures announced on Budget Day will total €11 billion.
- This includes €6.9 billion in permanent measures (split €5.8 billion in spending to €1.1 billion in taxation) and a €4.1 billion package of temporary measures aimed at exceptional cost of living challenges this Winter beginning immediately.
- The State expects to run a surplus of €1 billion in 2022 and €6.2 billion in 2023. This is after accounting for the €6 billion which is due to be added to the National Reserve Fund by the end of 2023. This fund will allow for additional fiscal flexibility should circumstances demand it.
- This surplus is driven by tax receipts which have risen from €59 billion in 2019 to €82 billion in 2022 and an expected return of €87 billion in 2023.
- Of the €23 billion increase in tax revenue to the end of 2022, relative to 2019, over €10 billion has been driven by rising corporate tax receipts and just over €7 billion has been from income tax.

Ibec comment: "Overall the package of measures strike the right balance between doing enough to support households and businesses whilst also providing room for further support flexibility should energy price challenges continue into the longer run. This balancing act will avoid some of the market confidence challenges we have seen in the UK in recent days."

Ibec
For Irish Business

Tax head increases since 2019



Ibec
For Irish Business

Emergency energy supports for business

- Three significant emergency schemes for business were announced. Crucially they will support both internationally traded and domestic facing businesses.

- The Business Energy Support Scheme (BESS) will be aimed at SMEs and Midcaps providing funding of up to €10,000 per month (or 40% of total energy bill increases) through to February 2023 – at a total cost of €1.2 billion. It will be administered by the Revenue Commissioners similarly to some of the Covid support schemes.

- For large companies, the Government have received State Aid clearance for two schemes worth up to €200 million in total. A total of €60 million for Scheme 1 and €140 million for Scheme 2. Both will be administered by Enterprise Ireland, IDA Ireland, and Údarás na Gaeltachta.

- Scheme 1 will support any manufacturing or internationally traded services business with direct grants, repayable advances, equity, and/or loans between €20,000 and €500,000. Firms must be vulnerable from a liquidity perspective but viable in the long-term and submit a Business Sustainment Project Plan.

- Scheme 2 will support 'Energy intensive businesses' (energy costs must equal at least 3% of turnover), who experience declines in EBITDA due to the energy costs of more than 15%. This measure will cover 30% of additional costs up to a total value of €2 million per enterprise.

Ibec comment: "The scale of emergency energy supports at €1.2 billion over the coming months is material. Getting schemes up and running quickly will be key. Beyond Winter and into 2023 further support may be needed if energy prices dictate and Government must show ongoing flexibility."

Ibec
For Irish Business

Business taxation

- The R&D tax credit will introduce changes in the finance bill to reflect long expected changes in international tax rules to favour 'refundable' regimes. Companies now may opt for payment of their eligible R&D tax credit or to request for it to be offset against other tax liabilities, and existing caps on the payable element of the credit are being removed.
- To aid cashflow in SMEs the first €25,000 of a refundable claim will now be payable in the first year.
- The FED and SARP schemes were both extended to 2025, albeit with a higher minimum income for SARP of €100,000. The KDB was extended to 2027, albeit with a higher effective rate of 10%. This higher rate is subject to commencement order and its introduction will be aligned with changes in the global minimum tax – specifically the STTR.
- On SME taxation the KEEP scheme was extended to 2025 with key changes allowing companies share buybacks and doubling the company limit to €6 million. Changes announced in Finance Act 2019 on group structures and qualifying employees will also be enacted in the Finance Bill.
- Reviews were announced of many institutional funding vehicles including S110, REITs and IREFs.

Ibec comment: "Whilst there weren't major changes on corporate tax, this was expected given international negotiations ongoing. Changes to the R&D tax credit will hopefully help future proof the scheme against these changes. On the SME side there are some small but welcome measures when it comes to the R&D tax credit and KEEP which will need to be expanded on in future budgets."

Ibec
For Irish Business

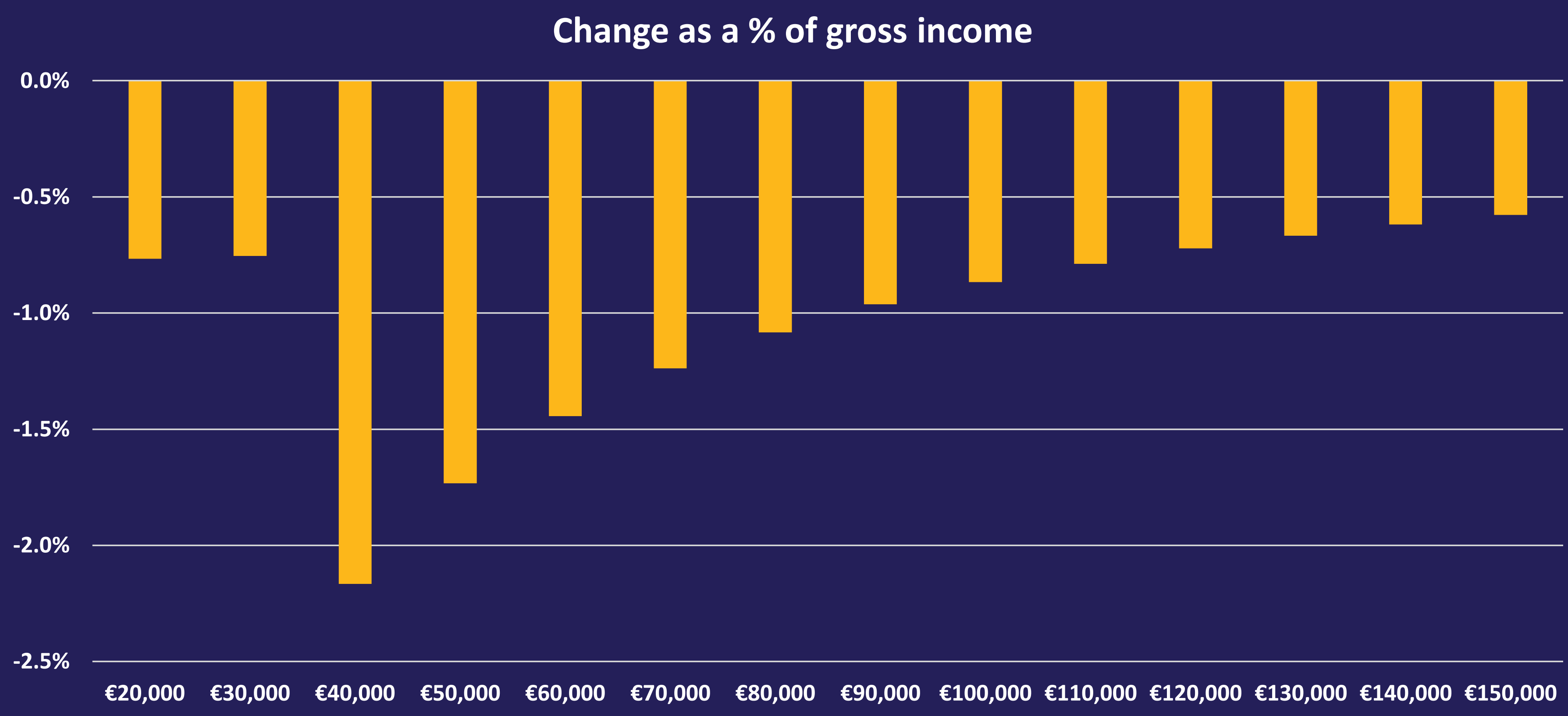
Labour market and competitiveness

- The 40% rate of income tax which previously kicked in at earnings above €36,800 will now increase to €40,000 – in line with Ibec's pre-budget recommendations.
- Personal, employee and earning income tax credits have been increase by €75 each and the USC 2% rate band has been increased to accommodate increases in the minimum wage from €21,295 to €22,920.
- The Small Benefit Exemption is to be raised from €500 annually to €1,000 – allowable over two benefits. Renters will also see changes in tax credits with a €500 tax credit introduced for renters in each of 2022 and 2023.
- The universal subsidy under the National Childcare Scheme will increase from 50c per hour to €1.40 per hour. This will reduce childcare cost for a 45-hour week by €2,106 for any child under 15. This total increase will cost €121 million. In addition, follow through on core funding commitments in childcare will come to €59 million.
- Core expenditure on Further and Higher Education is due to increase by €160 million including €72 million for additional funding including demographic demand and a sustainable funding model in Higher Education, €48 million in skills and apprenticeships, €38 million in student income supports. There will also be an increase of €35 million in innovation and digital related funding across the Departments of Business and Higher Education.

Ibec comment: "The mix of tax cuts will ensure workers do not get dragged into stealth tax increases in the current inflationary environment. Ibec has long called for increases in the entry point to the top rate of tax and it is encouraging to see this followed through by Government. Supports to the childcare and education sector show an eye to the future in improving labour market participation and skills and will help future proof our business model. More will need to be done in future years."

Ibec
For Irish Business

Income tax changes



Consumer measures

- The Help to Buy scheme has been extended by two years, out to end 2024. Ibec had called for the continuance of the scheme, which contributes to keeping new build housing viable and within reach of first-time buyers.
- The 9% VAT rate for hospitality and tourism will not be extended beyond February 2023. Facing rising costs and dampened consumer demand over the Winter, the loss of the 9% rate will place additional pressure on the experience economy.
- €2.2bn in one-off household cost of living supports: Households will receive €600 in electricity credits across three instalments between now and next Spring. There will be a double child allowance payment in November and double welfare and pension payments in October, along with several lump sum payments, including €500 for working family payment, carers and persons with a disability.
- The 20% reduction in public transport fares and 50% youth travel card fares, introduced earlier this year, will be extended to end 2023. Excise cuts on petrol (21c) and diesel (16c) implemented last March have been extended to end 2023 along with the 9% VAT rate on gas and electricity. No increase in excise on Alcohol. Excise on a packet of 20 cigarettes will increase by 50c.
- Carbon tax increase of €7.50/tonne of C02 will apply to petrol and diesel from 12th of October. While this would add around a 2c/l increase to the cost of petrol and diesel at the pump, a reduction in the national oil reserve levy and earlier reduction of excise on petrol and diesel more than offset the increase. Carbon tax increase on other fuels including home-heating is deferred to May 2023.

Ibec comment: "The significant consumer measures in the budget will go some way towards softening the impact of the energy crisis on households, in turn supporting demand. While the budget struck a good balance overall , the end of the 9% VAT rate is a disappointment for businesses in the experience economy facing challenged viability, which will require ongoing supports."

Ibec
For Irish Business

Ibec
For Irish Business