Budget 2020 Ibec Analysis

Ibec
For Irish Business

BUDGET
2020

An Ibec campaign

Context

- The backdrop to Budget 2020 is spectacular: windfall corporation tax receipts, surging household incomes, 5th consecutive year of strong economic growth and private sector capital investment of 2 billion euro per week
- External challenges are exceptional: mounting trade tensions, global tax reform, rolling and costly uncertainty for business around Brexit
- Stability is the priority: dramatic public investment critical to sustain Ireland's prosperity

Measures

- The good news is that for business, the Minister for Finance responded to our asks. The focus has been on measures which can help the economy from external shocks by investing in critical infrastructure, preparing for Brexit, and improving supports for SMEs
- Focus on additional funding for critical infrastructure investment of almost €1 billion today builds on Government commitment to increasing public capital spending. Addressing escalating shortages in public infrastructure and services is critical.
- Announcement of supports for business preparing for Brexit is welcome. Ibec has set out over the past number of years the need for comprehensive and meaningful supports for the companies, workers, and communities which will be the most impacted by Brexit.
- Package of additional tax supports for SMEs through improvements to schemes such as the EIIS and the KEEP scheme for share options, while containing some welcome elements, is limited in scale. Changes to the R&D tax credit will have a more significant impact on SME take-up. Over the coming weeks Ibec will continue to work on your behalf to ensure that the Finance Bill delivers on today's announcements with workable legislation.

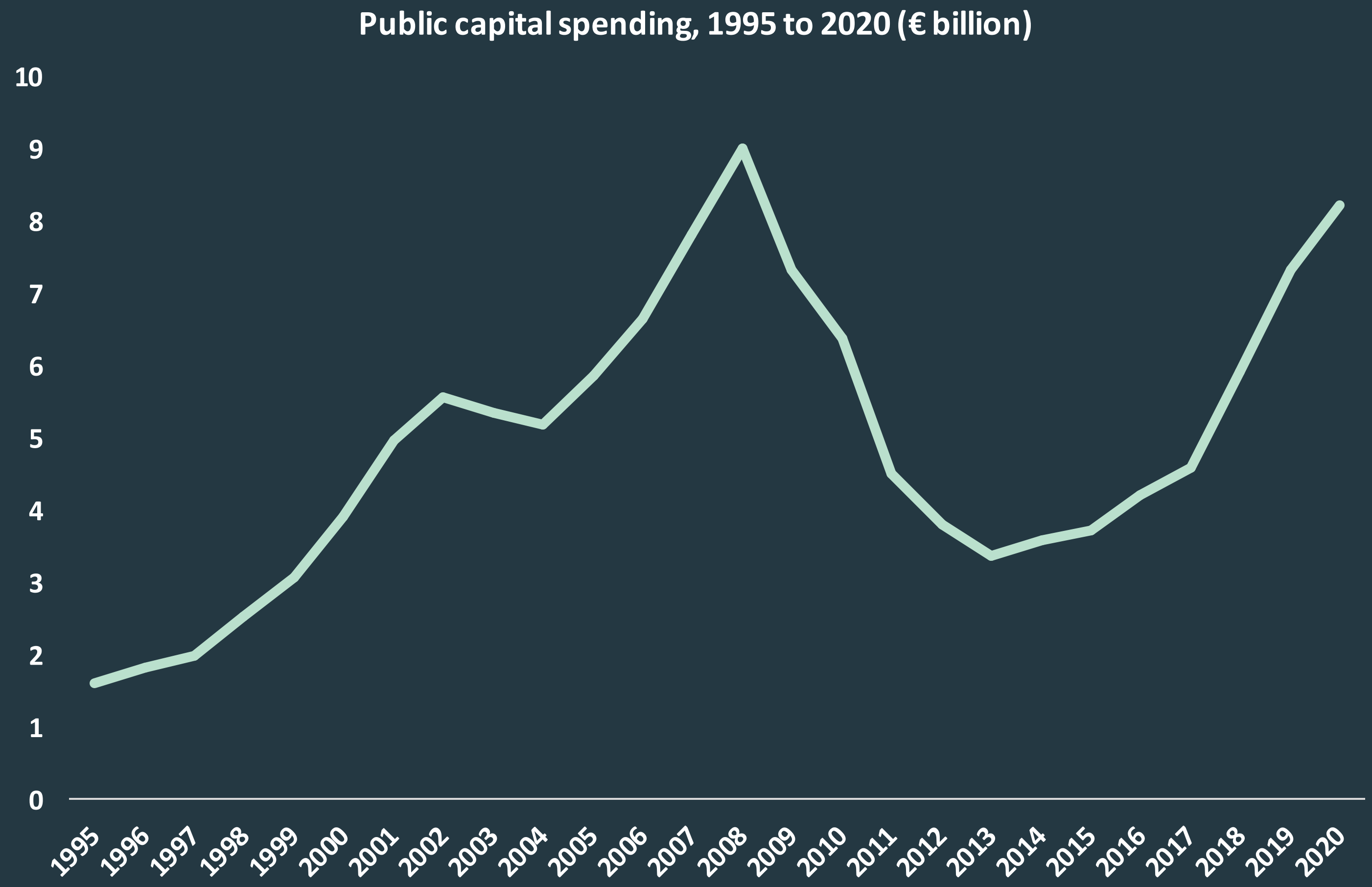
Next steps

- Accessible and workable Brexit supports. Work with Government to ensure these supports are designed and rolled-out to help the country and Irish business prepare for Brexit.

- Shape schemes directed at indigenous business and continue to press for more support to scale

- Scarcity is a business issue as well as an issue for society – lack of housing, underinvestment in education and innovation, unavailability of childcare, poor connectivity – neglect prevents business from attracting and retaining talent and may lead into a period of instability. NDP must happen on time and if cliff edge Brexit does not happen then all focus must be on public investment

The fiscal backdrop



- Falling debt levels, rising investment, and a current budget surplus of 0.2% all point to a healthy exchequer position despite the threat of no-deal Brexit.
- In 2020 the Government is expected to run a deficit of 0.6% of GDP overall in the event of a no-deal Brexit. This is sensible given the need to support companies and maintain investment levels in the economy.
- The most significant change in fiscal policy over the last number of years for business has been a welcome increase in infrastructure spending.
- A further €900 million in spending on public infrastructure in 2020 will see a €5 billion increase in annual public capital spending in just five years.

1

We need to build on our progress by nurturing indigenous business

- The KEEP scheme has been improved to allow companies with group structures to operate it and allow workers who are part-time to avail of the scheme. More substantially the scheme will be amended to allow existing shares to qualify.
- There were some welcome changes in the EIIS by ending the practice of split relief (the full 40% relief is now upfront) increasing the annual investment limit to €250,000.
- Changes to the R&D tax credit will increase the value of the credit for small and micro firms from 25% to 30%.
- Although mentioned in the speech, there were no changes to the CGT entrepreneur's relief.
- Transfer pricing rules are due to be extended to SMEs, subject to a ministerial order.

Ibec view:

A package of additional tax supports for SMEs, while containing some very welcome elements, is limited in scale and will likely cost less than €10 million in a full year.

Extending the KEEP scheme to group structures and existing shares will improve take-up. Further improvements around company valuation and share buybacks will be needed to fully realise the potential of the scheme.

The ending of split relief under the EIIS is a very welcome development. The increase in investment limits while welcome is much less than had been expected. On the other hand, changes to the R&D tax credit will have a more significant impact on SME investment in R&D.

Over the coming weeks many businesses will be watching closely to see if the Finance Bill delivers on today's announcements with workable legislation.

Finally, the potential extension of transfer pricing rules to SMEs is disproportionate and should not be enacted.

2

Reinvent our offering to multinational firms

- The limit on outsourcing to third level institutes under the R&D tax credit will be increased from 5% to 15%.
- The SARP scheme and Foreign Earnings Deduction which had both been due to expire at the end of 2020 has been extended to 2022.
- In line with BEPS and the ATAD, Ireland will introduce new anti-hybrid legislation from January 2020.
- Transfer pricing regulations will be extended to cover cross-border non-trading, and material capital transactions.

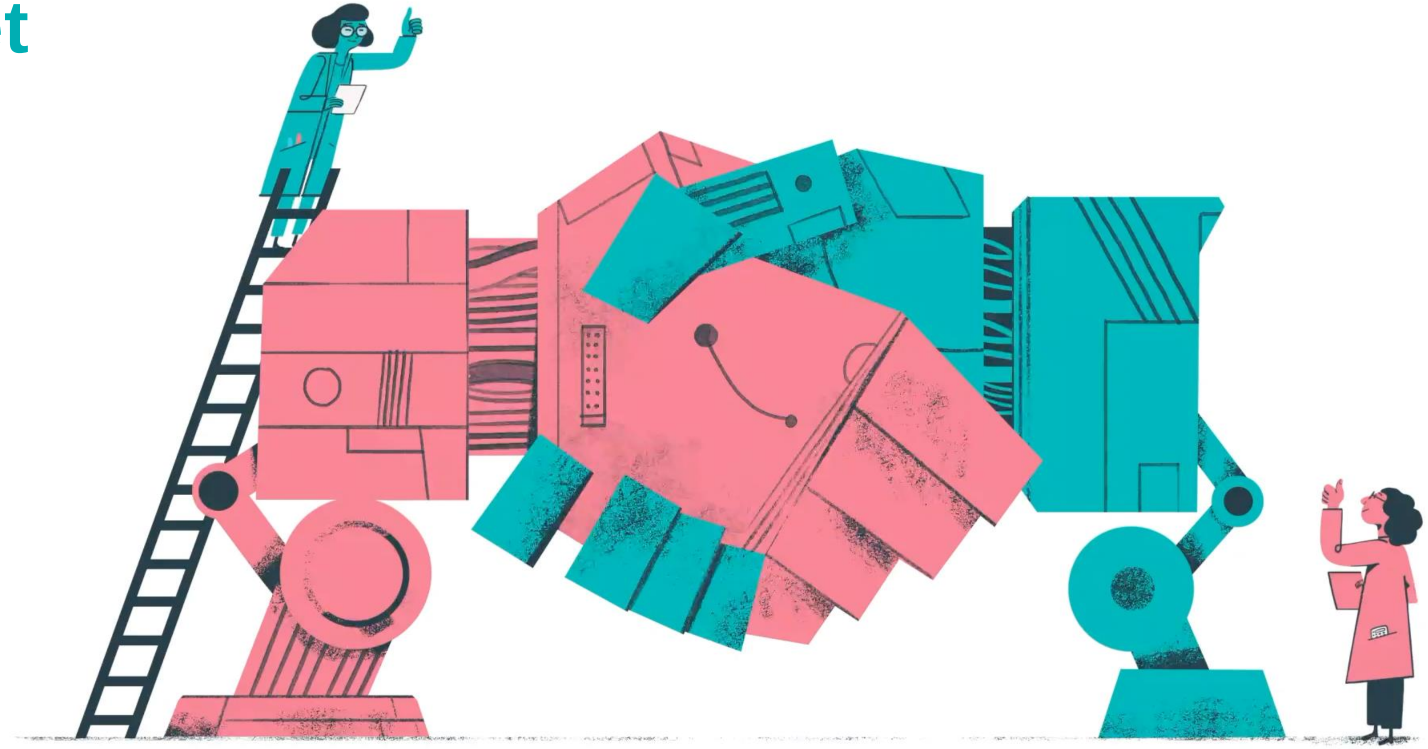
Ibec view:

There were limited new initiatives for multinational companies in Budget 2020, but a firm commitment to the existing 12.5% regime, an increase in outsourcing limits under the R&D tax credit and the extension of SARP are all welcome moves by Government.

We will continue to follow the development of new anti-hybrid rules through the Finance Bill. While we recognise the case for extending transfer pricing legislation to non-trading transactions, the extension of legislation to capital transactions will require careful thought in the Finance Bill. Poorly drafted legislation could increase cost, complexity, and duplication for business.

3

Address the demands of a rapidly changing labour market



A total of €134 million has been provided for new measures addressing education and skills:

- €74 million allocated to reskilling and lifelong learning schemes, funded by a 0.1% increase in the national training fund levy. This includes €8 million of funding for the Skillnet SME upskilling scheme and the launch of the digital skills initiative.
- €60 million in funding from the human capital initiative allocated to provide 3,000 additional third level places on courses for high-demand skills, and fund continued innovation and development within higher education.

- The Earned Income Credit for the self-employed increased from €1,350 to €1,500, while the Home Carer Tax credit increased from €1,500 to €1,600. The reduced rate of USC for medical card holders was also extended to the end of 2020.
- There was a €54m increase in the allocation to childcare services. This will go in part towards introducing the National Childcare Scheme (NCS) this month, providing income-related childcare subsidies, and meeting the ongoing cost of the two-year early childhood care and education (ECCE) program.
- An additional €10 million for the Disruptive Technologies Innovation Fund.

Ibec view:

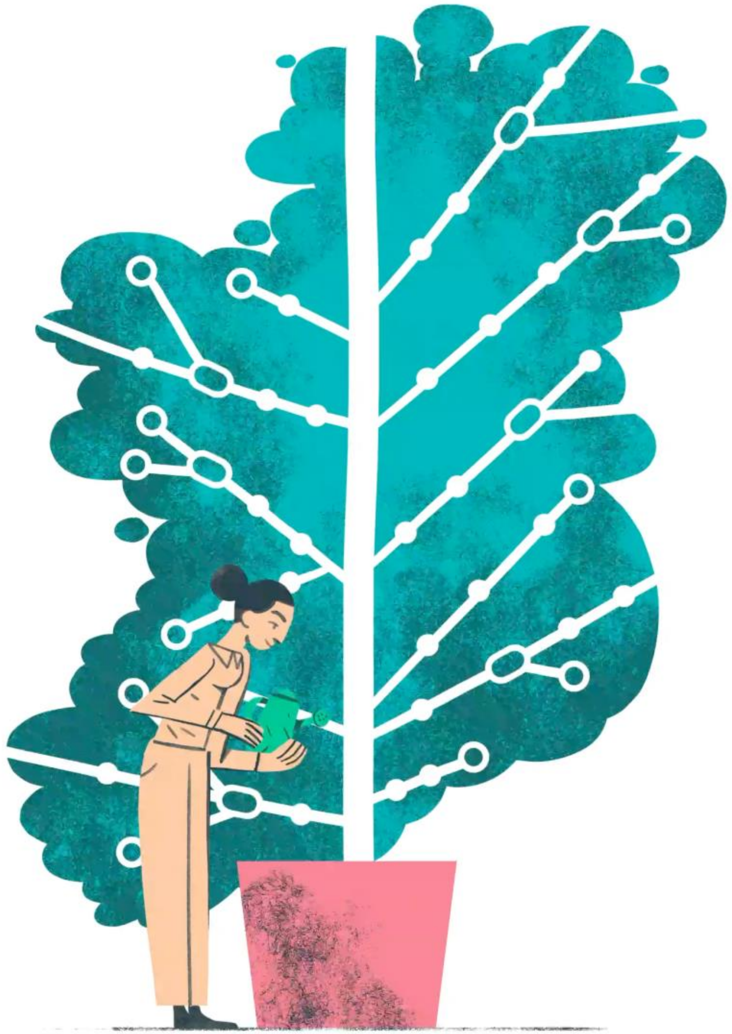
Ibec welcomes the package of measures aimed at providing education and retraining for in demand skills. However, more must be done when it comes to the funding of higher education, which has not seen the level of ambition needed in new core funding to address the demands of a rapidly changing labour market. Investing in education now is key to ensuring we have a higher education system that can compete internationally and prepares graduates with the necessary skills for the future.

There was little change to income taxes in this year's' Budget. This is not unexpected, given the uncertainty surrounding Brexit and the backdrop of a global slowdown. The primary change was seen in the earned income tax credit, which increased by €150.

Access to affordable and quality childcare is essential to promoting labour market participation. A lack of available childcare has the potential to force parents with caring responsibilities out of the workforce in the midst of an increasingly tight labour market. The launch of the National Childcare Scheme is a welcome move towards combating Ireland's high childcare costs but will require ongoing funding over future years.

4

Attract and retain the best talent by improving quality of life



- 2020 will see a significant increase in public capital spending, with €900 million further spending on public infrastructure.
- Carbon tax increased by €6 to €26 per tonne. This increase applies to auto fuels with immediate effect. All other fuels will be subject to the increase from May 2020. Additional revenue raised by the measure has been ringfenced for 'green' policies targeting climate change, 'just transition' supports for regions affected by the move to a low carbon economy, and schemes for households facing fuel poverty.
- Rates of electricity tax are to be equalized between business and non-business users.
- The help-to-buy scheme has been extended by two years to the end of 2021, with no other changes to the conditions of the scheme. The housing assistance payment (HAP) also saw an increase of €80 million.

Ibec view:

Ibec welcomed the renewed commitment to capital investment in Budget 2020. In a period of rapid growth, investment in public infrastructure is vital to meet increasing demand and is key to both our overall competitiveness, and attracting and retaining the best talent for business."

The carbon tax increase is a necessary step to address climate change and meet Ireland's emissions reduction commitments. The ringfencing of revenue for policies to mitigate climate change and to ensure a fair implementation will allow for sustainable progress towards a low carbon economy.

Addressing the shortage of affordable housing is crucial to improving quality of life and attracting more skilled workers into the labour force. Ibec welcomes the extension of the help-to-buy scheme for a further two years, along with additional measures targeted at the high cost of housing.

5

Deal or no deal, we must get ready for Brexit

- A total of €1.2 billion will be made available in 2020 if a no-deal Brexit takes place. This is comprised of:
    - €160m for staffing, facilities and infrastructure in 2020.
    - €650 million to support the sectors identified as most affected by Brexit; agriculture, enterprise and tourism.
    - €365 million in Social Protection expenditure for those who are unemployed and €45 million for labour market activation supports.
- Of the €650 million sectoral allocation, around €220 million has already been earmarked with €110 million going to agriculture and €110 million in direct supports to business.

Ibec view:

Today's announcement of further supports for business faced by Brexit is welcome. We have set out, over the past number of years, the need for comprehensive and meaningful supports for the companies, workers, and communities which will be worst impacted by Brexit.

The current split in supports between earmarked and unearmarked suggests that the Government is open to working with business and other partners in ensuring schemes are fit for purpose. Ibec will work with Government over the coming months to make sure that these supports are designed and rolled-out to help the country and Irish business prepare for Brexit

In addition, it is welcome that the Government has recognised that further funding may be necessary in the event of a further deterioration in the economy. No-deal is not an end point, in the event that disruption goes on longer than expected it is important that the State stands ready to act.

So make Budget day your business

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