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For Irish Business

Budget 2019 Analysis

What it means for business

9th October 2018

What Budget 2019 delivered for business

Ibec's key recommendations	Delivered in Budget 2019
Increase investment	✓
Increase the entry point to the marginal rate of tax	✓
Improve the tax treatment of share options	✓
Increase funding for Brexit supports	✓
Introduce new measures to address the housing shortage	✓

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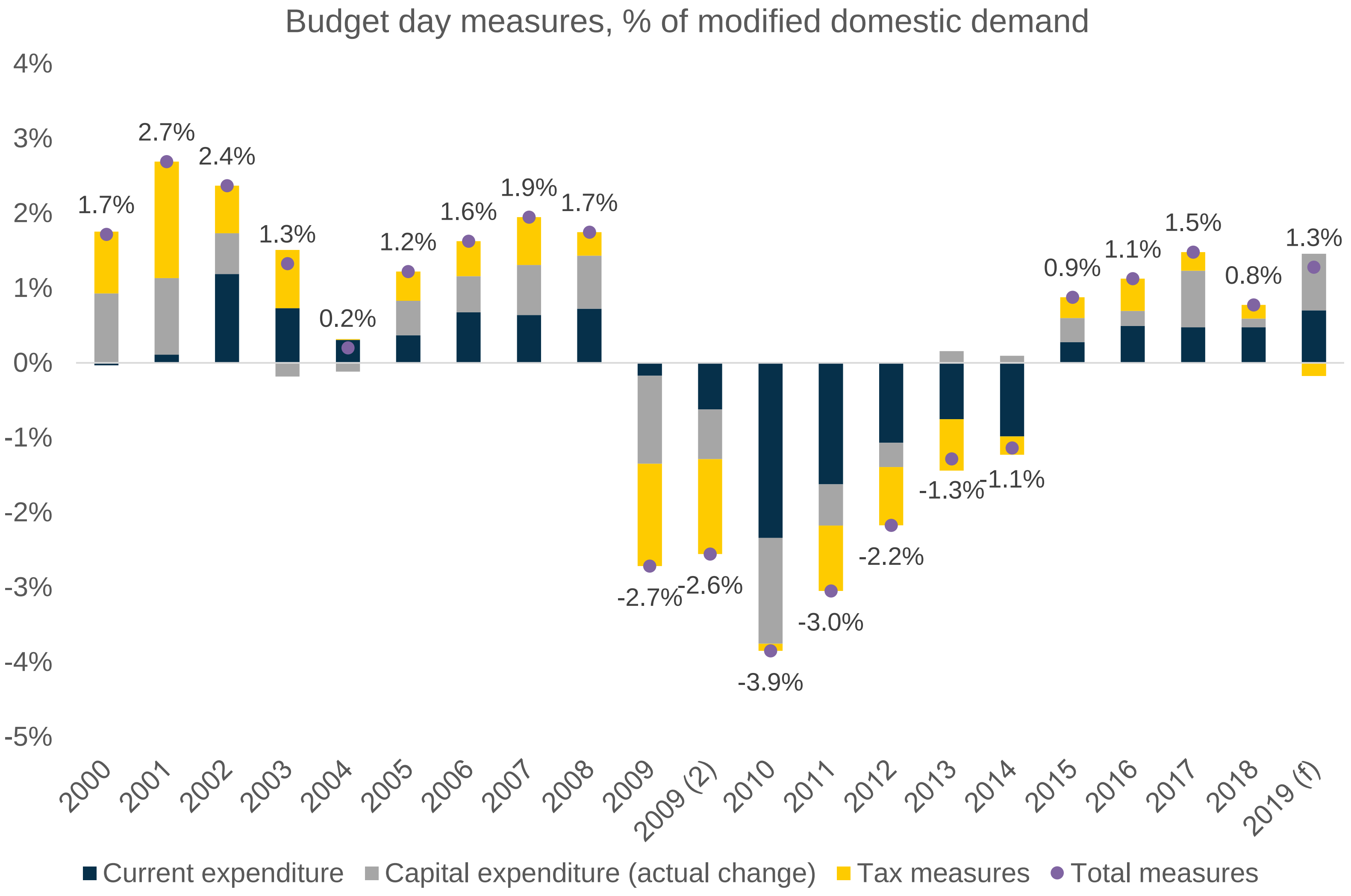
Fiscal Context

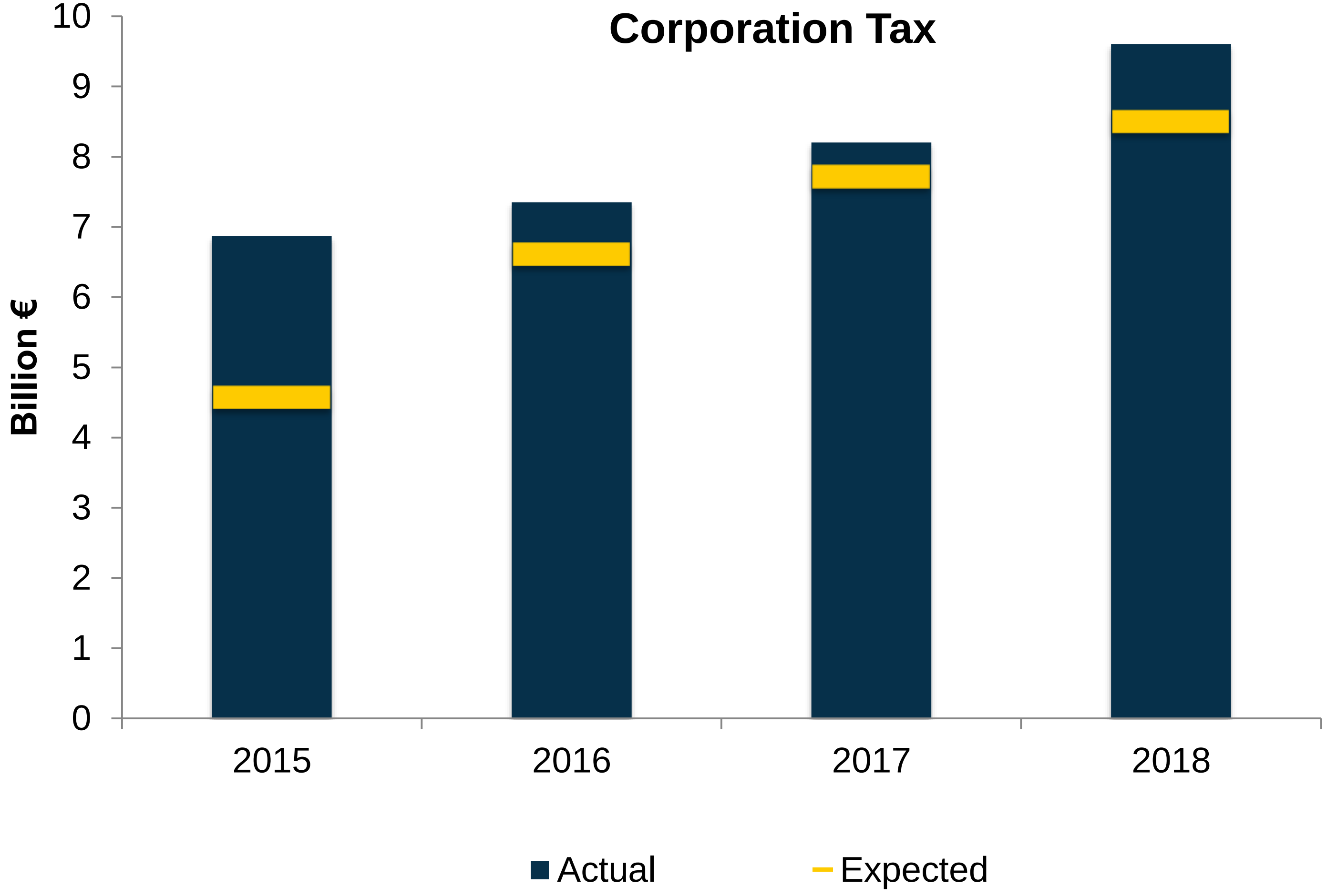


The overall package of measures announced on Budget day was just over €1bn. However, the overall fiscal expansion for 2019 will be much higher as many spending increases for 2019 had already been allocated.

These measures include €1.5bn for infrastructure projects, €400mn for public sector pay, €400mn for demographics and €300mn for carry-over costs from last year.

As a proportion of domestic demand, the new spending measures announced on the current side along with existing capital commitments were roughly on a comparable scale to the Budgets during the mid-2000s. However, there was little similarity on the tax side with €350mn taken out of the economy.

Unexpected windfalls



2019 will be the first time in a decade that the Government will run a budget surplus. Two factors have provided an unexpected boost to Government finances. The first is interest payments on Government debt, that are now €2.2bn lower than they were in 2014.

The other more significant development in the public finances has been the continued unexpected surge in corporation tax receipts. Corporation tax revenues have more than doubled over the past five years with particularly large outperformances in 2015 and again in 2018.

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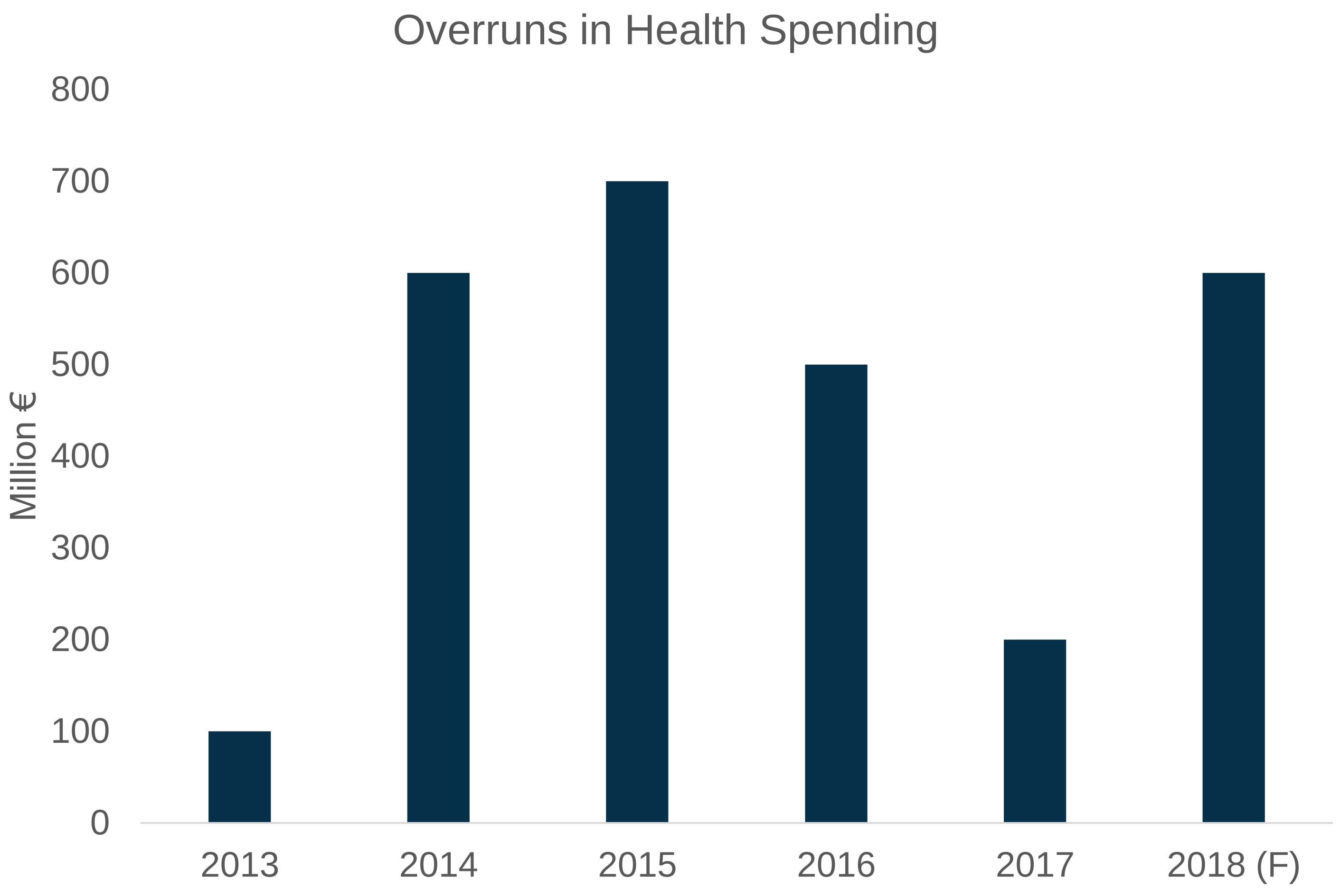
Spending sustainability



It is worrying, however, that a large proportion of these corporation tax funds have been baked into the country's day-to-day spending commitments.

In recent years the Department of Health has consistently exceeded its budget and this has meant supplementary estimates were needed to fill the gap.

Capital investment

Changes in Budget 2019

The amount allocated of €7.3 billion is broadly in line with the overall allocation set out in the National Development Plan.

The €1.5 billion additional amount is the largest ever one year increase in Government capital spending.

The big winners from this increase were - Housing (€421mn), Transport (€281mn), Education (€196mn) and Health (€154mn).

Other measures for housing focused on rental supports through HAP, the extension of full mortgage interest relief for landlords and modest increases in 2019 to schemes aimed at releasing infrastructure for affordable housing.

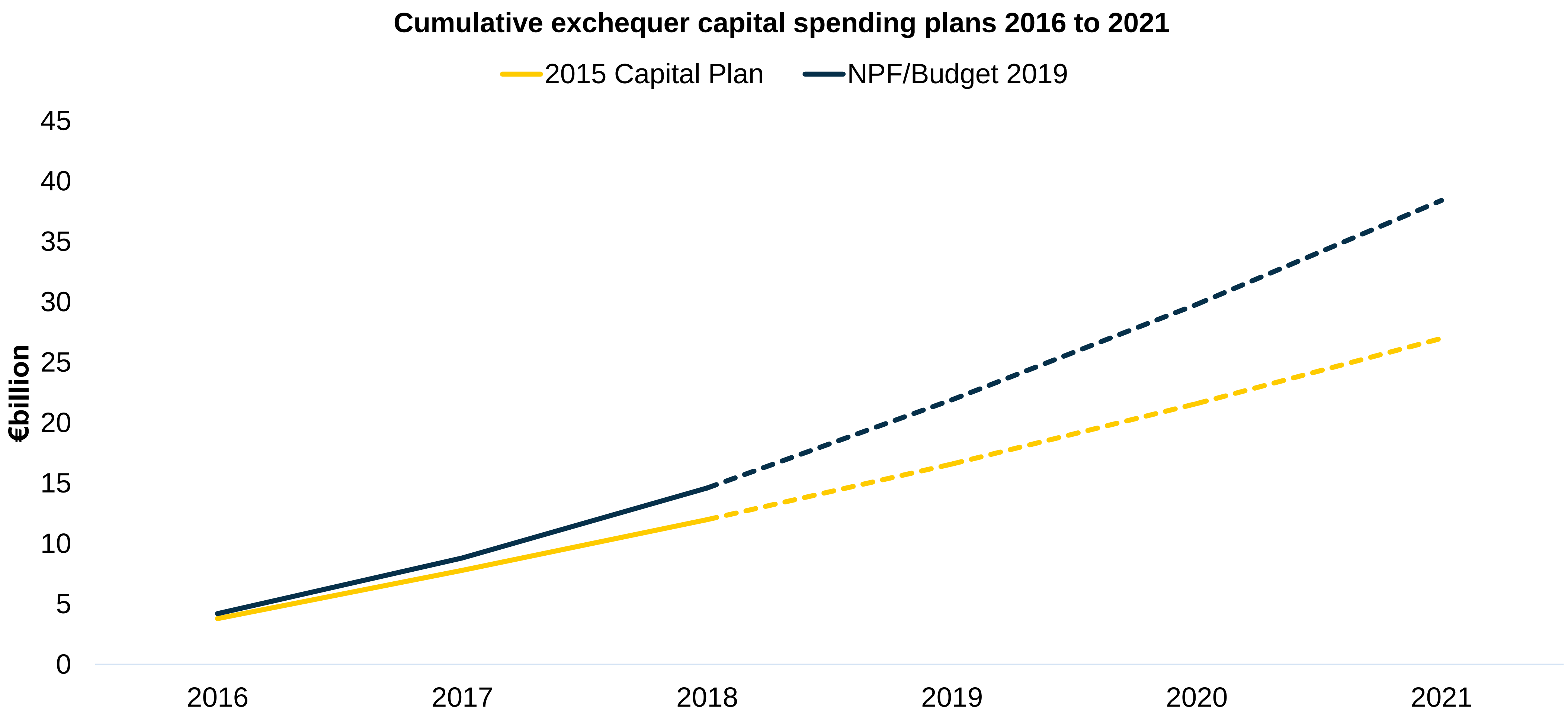
What this means for Business

Ibec welcomed the significant focus on capital investment in Budget 2019. Lack of quality public infrastructure and housing is central to our overall competitiveness and is an increasing issue faced by employers in the recruitment and retention of staff.

Budget 2019 follows through on ambitious investment allocations in the National Development Plan. The increase in capital investment in housing is particularly welcome and will help deliver much needed social housing. Too much of this spend, however, is still focused on the acquisition of homes rather than on building new social and affordable housing on State lands.

The key requirement of Government now is to follow these Budget allocations with strong delivery of much needed public infrastructure.

The capital investment expansion



Labour Market and Talent

Changes in Budget 2019

The entry point to the marginal rate of tax increased by €750 to €35,300 and to the third rate of USC increased from €19,372 to €19,874.

The third rate of USC fell from 4.75% to 4.5% bringing the marginal rate of tax for those earning less than €70,044 to 48.5%.

Budget 2019 will see additional current spend of €57.4 million on higher and further education. This includes an Exchequer commitment towards demographics (€16.3mn).

A new mechanism is to be introduced to draw down €300mn of the existing surplus in the National Training Fund between 2020 and 2024 to support the higher education sector. This is to be welcomed but will fall well short of funding needs for the sector.

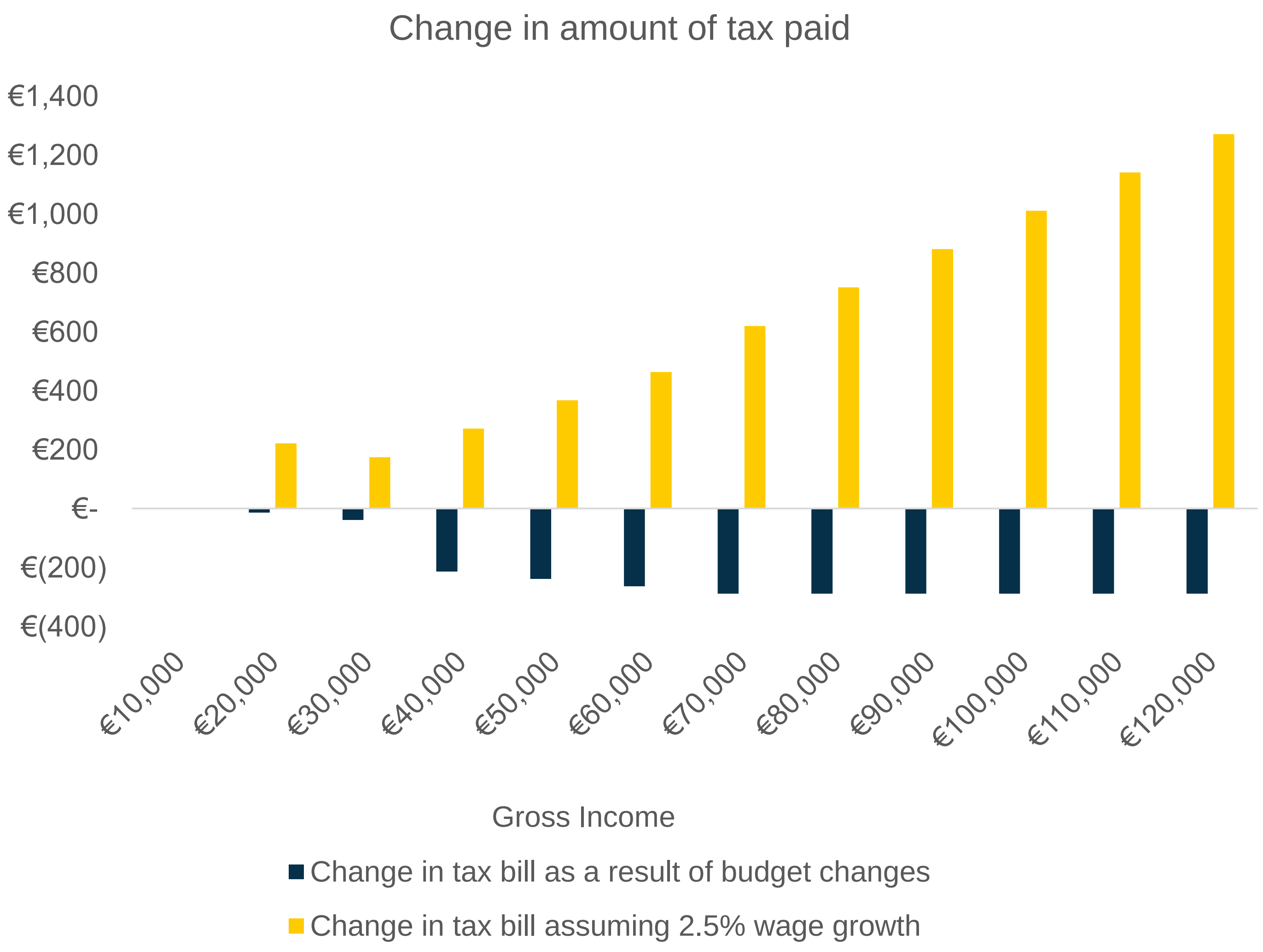
What this means for Business

There was a modest reduction in income taxes in this year's Budget. The increase of €750 in the income tax standard rate band and the modest reduction in the marginal rate by 0.25% will help take some pressure off the labour market.

The new 'Human Capital Initiative Fund' is welcome in that it allows productive use of money collected from employers which has been idle in the national training fund but the total allocation will only amount to €60mn per year (for four years) in the period after 2020. It is an inadequate solution to the major funding crisis.

Additional funding for current spending on higher and further education is welcome but it remains short of the additional €69mn which will be collected through the National Training Fund Levy increase.

What do the tax changes mean for you?



Hourly wages in Ireland are currently growing by 2.5%. For net take-home pay to grow by this amount, tax bands and credits would need to increase by the same amount. Otherwise, more taxpayers may be pushed into higher tax brackets and would start paying a larger proportion of their income at the higher rate of tax.

The changes in Budget 2019 will reduce the amount of tax paid but will vary depending on incomes. The maximum saving will be €290 a year (for incomes above €70,000).

However, when wage growth for 2019 is considered, effective tax rates for most workers are expected to increase and the amount of tax paid by workers will increase.

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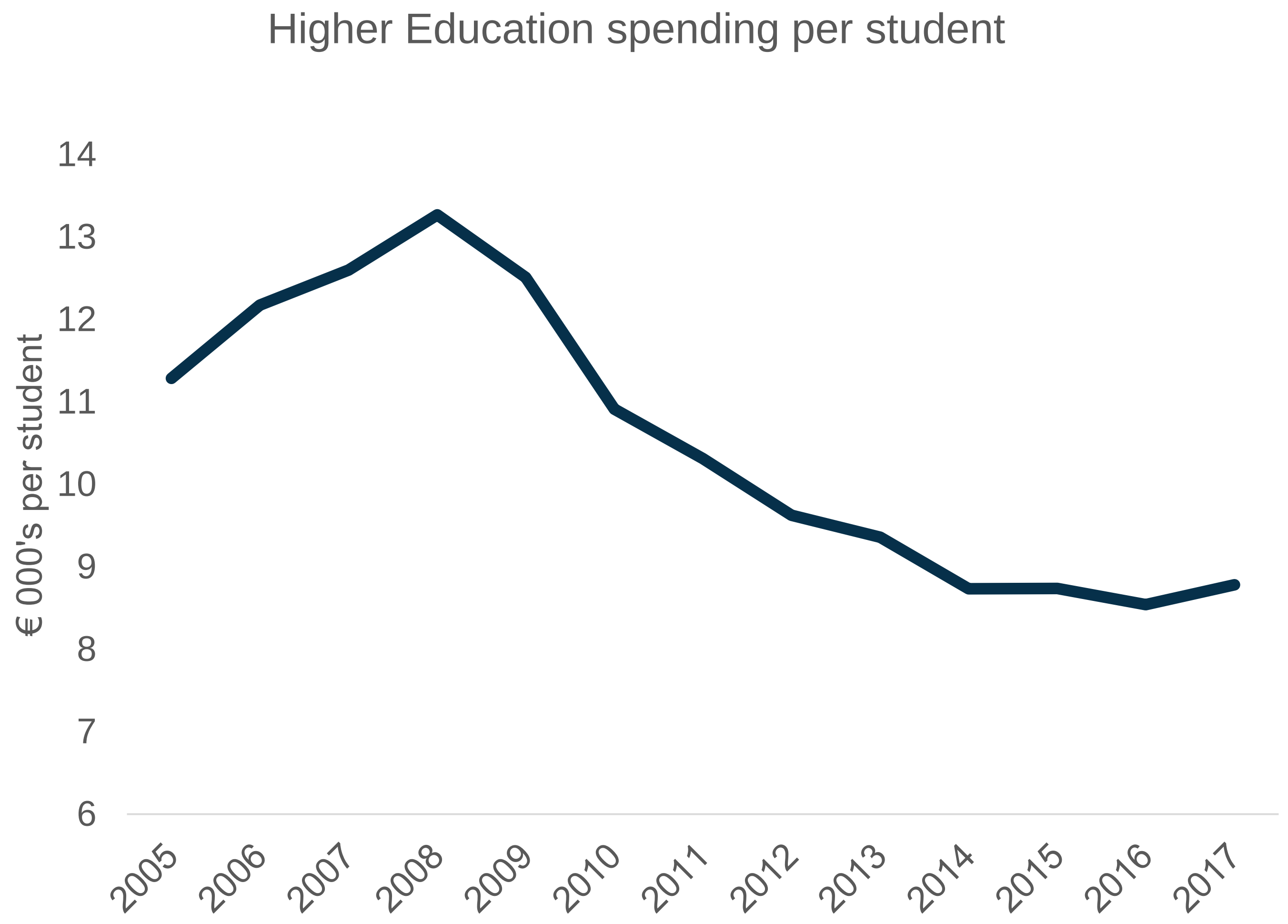
The higher education funding gap



Failure to address the funding crisis in higher education is a major concern to business. On a pro rata national income basis, the university sectors in the UK and the Netherlands are performing four to five times stronger than in Ireland, according to the latest global university rankings. Unless we deliver increased investment for the higher education sector, we risk long-term damage to Ireland's reputation as a place to do business.

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Brexit Supports

Changes in Budget 2019

A total of €110mn has been allocated across all of Government for Brexit with a total of €37mn in total for business supports.

The remainder of that €110mn funding is for farming community, customs staffing and diplomacy.

Business supports include:

- Funding for the enterprise agencies
- A ‘future growth loan scheme’
- Direct supports for Agri-Food companies.

What this means for Business

The additional supports announced on Budget day for Brexit-exposed companies are a positive start but will not be enough in the context of a hard Brexit.

While progress has been made on many elements of an exit agreement, there is still significant uncertainty surrounding the outcome. In this context, there must be a stronger delivery on Brexit preparation and mitigation domestically.

The new ‘Future Growth’ loan scheme will be important. This will provide additional funding to companies worth up to €300mn. However, take-up of the existing Brexit loan scheme has been slow due to onerous terms and conditions. It is important Government works with business to get this right.

Business Taxes

Changes in Budget 2019

Full implementation of Controlled Foreign Company (CFC) rules as agreed under the Anti Tax-Avoidance Directive (ATAD) from January 1st.

A new ATAD compliant exit tax on any unrealised gains where a company migrates or transfers assets offshore with a reduced rate of 12.5%, effective from midnight on Budget day.

Improvements to the Key Employee Engagement Programme (KEEP) including changes to limits on awards, both annually and cumulatively, which will help small firms attract and retain key employees.

The Minister announced that there will be Finance Bill measures to solve ongoing issues with the Employment and Investment Incentive Scheme.

What this means for Business

Although most of the tax changes in Budget 2019 are revenue raising there are some which will help support companies. In particular, there are a number of changes to the Key Employee Engagement Programme (KEEP) which will allow smaller firms more effectively recompense their key staff. This will subsequently help firms attract and retain those workers.

Many of the announcements on the Corporate tax side reflect existing commitments in the Government's recent 'corporate tax roadmap'. The announcement of a new 12.5% Exit Tax from midnight on Budget day and new CFC rules from January will be something firms will have to consider over the coming months. The fact that the exit tax regime aligns with the 12.5% brand is welcome.

Finally, the Government introduced a welcome new support which will help companies seeking to undertake a low carbon transition by investing in compressed natural gas fleet to do so in a more cost efficient way. This along with the extension of existing film relief and start-up relief schemes are more than welcome.

Competitiveness Challenge

Changes in Budget 2019

The 9% VAT rate for tourism sector increased to 13.5%. The national minimum wage increased by €0.20 to €9.80.

There was no increase in the Carbon Tax on Budget day. Introduction of accelerated Capital Allowances for Gas-Propelled Vehicles and Refuelling Equipment which will help the goods fleet undertake a low-carbon transition.

There was a 50c increase in the price of a packet of cigarettes . The excise on other tobacco products increased on a pro-rata basis with an additional 25c on roll your own tobacco.

Betting duty increased from 1% to 2% for all bookmakers. For betting intermediaries, the rate applied on commissions will increase from 15% to 25%.

What this means for Business

A number of measures introduced in the Budget will increase costs for business. The removal of the 9% rate of VAT for tourism was a mistake which will erode competitiveness and increase cost pressures. This will have a negative impact on the regions for a sector that is heavily exposed to Brexit.

While there was no increase in the Carbon Tax, the Budget stated that a long-term trajectory for the tax will be put forward out to 2030. This will increase transport costs and the Accelerated Capital Allowances for Gas-Propelled Vehicles and Refuelling Equipment was a positive step to offer companies alternative options.

Given the burden of the majority of increased tax revenues fell on business there will be increasing pressure for Government to deliver on the many other areas of the competitiveness agenda over the coming months. Government must now be relentless in dealing with other rising cost areas.

Further information:

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