Budget 2017 – Chambers Ireland's Perspective

This afternoon the Government published its much anticipated budget for the coming year. Budget 2017 is the second expansionary budget since the onset of the recession with Government indicating in advance that it would have €1.3bn to spend with €500m in cuts and an increased tax revenue of €195m.

In our pre-budget submission we recommended government focus on three key areas based on feedback received from the Chamber Network:

1. *Supporting growth*
2. *Where we need to invest*
3. *Securing our future*

Under each of the headings above, we outlined policy proposals for Government to consider. We have repeatedly called for the implementation of all of these proposals in our engagement with Government representatives throughout the year as well as in our lobbying activities.

We were pleased to see that many of our recommendations were included in the budget, in particular the reduction of Capital Gains Tax to 10%, the introduction of Childcare subsidies, the Budget Stabilisation fund and increased investment in education and skills. However we were disappointed at the lack of measures introduced to support businesses.

The table below provides an overview of our recommendations against the content of the budget.

Chambers Ireland's Pre-Budget Submission	Budget 2017
Ensure equity in tax credits by ending discrimination of the self-employed	✓ The Earned Income tax credit for the self employed will be brought closer in line with that of the PAYE worker, an increase by €400 will make the total €950 for the self employed
Bring equity to USC rates for owner-directors and the self-employed	Not delivered

Reduce the marginal tax rate to below 50%	✔ The reduction in USC brings the marginal tax rate below the current 49.5% for PAYE workers
Reduce the capital gains tax 10%	✔ Reduction of the 20% rate of Capital Gains Tax to 10% on disposals of qualifying assets up to a limit of €1 million in chargeable gains
Introduce social protection measures for owner-directors and the self-employed	Not delivered
Retain the 9% VAT rate for the hospitality and tourism sector	✔
Support employee share ownership by changing tax treatment and mandatory application to all employees	✔ SME focussed share-based ownership incentive scheme for 2018. In planning stages, discussion with European Commission on this
Maintain the 12.5% Corporate Tax rate	✔
• Establish a vacant land tax, calculated based on land value • Implement the recommendations of the Kenny Report on compulsory acquisition of land by LAs • Bring forward to implementation of the Vacant Site Levy and increase the 3% rate	Not delivered
Prioritise rollout of the National Broadband Plan	✔ An additional €5m for the National Broadband Plan is to be allocated, bringing the total allocation to €15m to expedite procurement process
Introduce a package of incentives to increase the uptake of low emission vehicles	✔ Tax relief on Electric Vehicles will be extended, as will VRT for hybrid vehicles and there will be relief from carbon tax for biomass fuels
Need to prioritise steady state maintenance of our road infrastructure	✔ €390m for roads funding and 3 new major PPP roads projects will commence
Invest in the electrification of Ireland's public transport and licenses taxi fleet	This has been identified as a "key priority in the Government's capital plan", but no specific measure mentioned yet

Increase the capital allocation to the Dept of Education and Skills	✓ €9.5bn makes for a 16% increase in total education expenditure. A total of €36.5m will go to higher and further education
• Refocus the National Training Fund to support SMEs and business productivity • Increase the provision of training to the long-term unemployed and early school leavers	Not delivered
• Provide direct subsidies to childcare providers in the form of means-tested capital grants • Introduce childcare subsidies conditional on educational quality standards being met	✓ A Single Affordable Childcare Scheme will be introduced: means-tested subsidies based on parental income for children aged six months to 15 years, and universal subsidies for all children aged six months to three years. Subsidies to be paid to Túsla registered childcare centres.
• Increase flexibility in regulations governing pensions to allow workers to gradually transition into full retirement • Develop a sustainable system for the funding of public sector pensions • Introduce incentives to encourage enrolment in private sector pensions in the form of a subsidy	Not delivered. €5 per week increase in national pension to be introduced in March 2017, along with 85% Christmas bonus. No mention of pension reform.
Establish a budget stabilisation fund from general Government revenue surpluses	✓ To be established

Points of Note

- Government intends to phase out USC in the long term
- Help to Buy Scheme outlined
- €1.2 billion in funding specifically for housing to the Department of Housing, Planning, Community and Local Government for 2017
- Budget Stabilisation Fund – up to €1bn annually
- Setting of a new domestic target of a debt to GDP ratio of 45% to be reached by the mid-2020s or thereafter depending on economic growth
- Employee Share Ownership being introduced – discussion with European Commission ongoing
- Childcare – means based subsidies direct to providers based on registration with Tusla
- Total Capital Expenditure package of €4.5bn for 2017
- A consultation of an exchequer-employer funded investment mechanism for funding tertiary education is being initiated

Help to Buy

The scheme will provide a rebate of income tax paid over the previous four tax years up to a maximum of 5% the purchase price of a new home up to a value of €400,000, to first-time buyers of new houses. Pro rata rates will apply to lower priced houses and a full rebate calculated on €400,000 will also apply to houses in excess of €400,000 and up to €600,000. No rebate will be paid on house purchases in excess of €600,000.

Childcare

Expenditure on Childcare to be increased by 35% in 2017 (€465m in total, up from €345m in 2016).

A Single Affordable Childcare Scheme from September 2017 was announced. This will included means-tested subsidies based on parental income for children aged six months to 15 years, and universal subsidies for all children aged six months to three years. Subsidies to be paid to Túsla registered childcare centres (can include childminders).

A further €86m will also be allocated to the Early Childhood Care and Education Scheme (free pre-school scheme).

Universal Social Charge

Each of the lower three USC rates will be reduced by half a per cent. The 3% will go down to 2.5% and the 5.5% will go down to 5%. Increase to the ceiling of the band on which the reduced 2.5% rate of USC will be payable, from €18,668 to €18,772. This means that the salary of a full-time worker on the minimum wage will remain outside the top rates of USC.

Minister Noonan remarked that the Government hopes to ultimately phase out the USC.

Sugar Tax

It was announced that the Government aims to align the Irish sugar-sweetened drinks tax with the UK's tax proposal in terms of time-frame and structure. The intention is to introduce this tax to coincide with the introduction of its UK counterpart, in April 2018. In advance, the Minister announced a public consultation process, which will run until the 3rd of January next year. The consultation paper is published on Department's website today and interested stakeholders are invited to make submissions in relation to the form and practical implementation issues of the tax.

Budget 2017 Small Gains for Businesses While Big Challenges Remain

Overall, Chambers Ireland believes that this Budget did not go far enough to support the Irish business community, particularly as we enter a very challenging trading period facing into impending Brexit negotiations. Commitments to increase capital expenditure in areas of key importance to Irish business such as Education, Broadband, Housing and Infrastructure were announced, however higher levels of investment in these areas would be welcome and the commitments announced do not go far enough following years of underinvestment. Improvements in these areas stand to increase Ireland's competitiveness and benefit Irish businesses. There we some disappointing omissions in the budget such as the failure to equalise the USC rate of the self-employed with the PAYE worker and the lack of any indication that Government will begin planning sustainable pension model reform.

Among the positive measures introduced many of had been called for by Chambers Ireland in our Pre-Budget submission.

- We are pleased with the proposals on Childcare subsidies, which we believe will benefit female labour market participation and will reduce the cost of living for many. We have been vocal in calling for increased support for Childcare by Government and we are encouraged by the fact that this will be linked to the quality of childcare provision.
- The self-employed stand to benefit from the announcement that the Earned Income tax credit for the self employed will be brought closer in line with that of the PAYE worker, an increase by €400 will make the total €950 for the self employed.
- We welcome the reduction of the 20% rate of Capital Gains Tax to 10% on disposals of qualifying assets up to a limit of €1 million in chargeable gains.
- Chambers Ireland has called for an increase in expenditure on education and skills and this was included in the budget with an announcement that expenditure will total €9.5bn in 2017. We are encouraged by this 16% increase; however we would like to see some of this put aside for the provision of training for SMEs and to address youth unemployment.
- The announcement that an SME focussed share-based incentive scheme is under development for 2018 is a positive measure and we look forward to more details on what this will look like.
- The Budget Stabilisation Fund ('Rainy Day Fund') is a measure which Chambers Ireland has called for and was included in our pre-Budget Submission. This measure will act to protect our economy from external volatility and we are pleased that this Fund will be established.

Despite some welcome steps, we believe there are a number of areas where the budget did not go far enough.

- On Housing, we were disappointed not to see our recommendations considered and we are concerned that the implementation of the 'Help to Buy' scheme is premature given the lack of adequate supply of new housing. While Minister Noonan outlined that he believes encouraging demand will increase the supply of housing, we have in previous submissions warned against this policy based on evidence from abroad of the effects these schemes have on driving up house prices.
- There were many remarks on prudency and caution on not repeating the mistakes of the past in today's speeches, however the expression by Minister Noonan of the Government's intent to phase out the USC would be to erode the tax base in a manner reminiscent of Ireland's previous mistakes. We cannot afford to forget that we are hugely exposed to external shocks and that great uncertainty looms ahead for many businesses in the face of Brexit negotiations, set to begin in March 2017. We must not excessively erode the tax base now or in future budgets.
- We were surprised and disappointed by the failure of Government to address the sustainability of Ireland's pension model in this Budget. We had called for a number of measures related to pensions such as incentives to encourage enrolment in private sector pensions and increasing the cost effectiveness of pension schemes for SMEs. We have also highlighted that the current public sector pension model is unsustainable and called for a

review of this. Action is required on pensions in the immediate term or we will be unable to fund our future pension requirements.

Chambers Ireland in the media

Irish Examiner, Budget 2017 reaction: SFA criticises Budget for lack of Brexit safeguarding: http://www.irishexaminer.com/breakingnews/ireland/budget-2017-reactionchambers-ireland-wanted-to-see-more-business-help-for-post-brexit-758802.html

Newstalk, Mixed reaction to Budget 2017, but Fianna Fáil pledge support: http://www.newstalk.com/Mixed-reaction-to-Budget-2017-but-Fianna-Fil-pledge-support

The Business Post, Property sector doubts first-time buyer plan will work: https://www.businesspost.ie/news/property-sector-doubts-first-time-buyer-plan-will-work-366235

Business World, Small gains for business while big challenges remain says Chambers Ireland: https://www.businessworld.ie/news/Small-gains-for-businesses-while-big-challenges-remain-says-Chambers-Ireland-566135.html