Budget speech - Statement of the Minister for Finance
Mr. Michael Noonan T.D.
11 October 2016

Introduction
A Cheann Comhairle,

This is the sixth budget I have introduced since 2011. Since then the country has overcome huge challenges, challenges that many thought were insurmountable.

The lessons learned over this period must not be forgotten. We must budget prudently while we prioritise the repair of our public services after a period of underinvestment.

We will be true to the commitments we made in the Programme for Partnership Government. We will divide the resources available between increased investment in public services and tax cuts in proportions of at least two to one in favour of public services.

The economy is in good shape, it is growing strongly and sustainable growth is forecast for the coming years. My Department, with the endorsement of the Irish Fiscal Advisory Council, is forecasting that GDP will grow by 4.2 per cent in 2016 and 3.5 per cent in 2017. The strength of our economy is even better understood when you look at employment. There are over 2 million people at work this year and my Department is forecasting that there will be a further 43,000 at work by the end of 2017. Employment is still short of what it reached in 2007, but it is far more solidly based with jobs being created across all sectors of the economy rather than being dependent on one overblown sector. As the numbers at work continue to grow to well beyond two million, it is salutary to remember that as recently as 1989 less than 1.1 million people were at work in Ireland.

The growth of the economy has been mirrored in the public finances. We have moved from a completely unsustainable position depending on the Troika and the Bail-Out Programme to our current sustainable position. We have rebuilt our tax revenues and have been able to invest more in public services. We will continue on this path.

Today, I am announcing changes to the tax system that will reduce the burden on taxpayers by just under €300 million. These changes consist of about €500m of tax cuts that are offset by measures increasing tax revenue worth €195 million. My colleague, Minister Donohoe, will shortly outline the allocation of gross Voted expenditure for 2017 of €58 billion, this includes €1 billion of additional allocations above the amounts pre-committed in line with the Mid-Year Expenditure Report.

Overall, the Budget package of €1.3 billion favours expenditure increases over revenue reductions by over three to one. This reflects the Government's commitment to rebuilding and investing in public services.

In headline terms, the projected deficit for this year is 0.9 per cent of GDP and taking account of the Budget package, the forecast for 2017 is 0.4 per cent of GDP. In structural terms, the metric by which our obligations under the Stability and Growth Pact are set and measured, the forecast is that there will be an improvement in the structural balance of 0.8 per cent of GDP, in excess of the 0.6 per cent of GDP requirement set for us. This will leave us with a structural balance of 1.1 per cent of GDP at the end of 2017, well set to reach our structural deficit target of minus 0.5 per cent in 2018 and better placed to deal with external shocks and challenges.

The UK's decision to exit the European Union represents a real risk to our economy given the close links and the high level of trade between us. Around 16 per cent of Irish exports go to the UK, but 40 per cent of indigenous company exports go there. In turn, Ireland is the UK's fifth biggest export market. Over €1.2 billion of goods and services are exchanged between us on a weekly basis. This trade supports 400,000 jobs, split evenly between the two islands, with many more jobs in the supply chain.

The uncertainty introduced to the economic outlook by the UK's decision has prompted my Department to reduce its forecast for GDP growth for next year to 3½ per cent. What the effect will ultimately be will depend on the settlement between the UK and the EU. It is not possible to forecast the impact of this at present.

The best outcome for Ireland is a UK that is still closely linked to the European Union. We want to avoid any moves towards a hard border with Northern Ireland or indeed any changes that reverse what is a common economy on this island. We also want to see the preservation of the Common Travel Area, which also means the preservation of a common labour market.

Whatever the final settlement, what we know with certainty is that Brexit has increased risk to the Irish economy, and as well as introducing specific measures to assist particular sectors of the economy, we must also put in place safety nets to protect us against future economic shocks.

The best and most immediate policy under our own control to mitigate this risk is to control the public finances through budgetary policy. We need to keep faith with the prudent fiscal policy we have followed for the five previous budgets. Through this budget and beyond, we must reduce and eliminate the current budget deficit, balance the budget in 2018 and run budgetary surpluses after that date.

Secondly, we must put in place economic shock absorbers to enable us to deploy resources to reduce or eliminate the impact of future economic shocks.

In the Summer Economic Statement, I announced that when the budget is in surplus after 2018, it is the Government's intention to establish a contingency fund or 'rainy day' fund and I confirm this today. The Government will set aside an amount of up to €1 billion annually to this fund to be deployed by the Government of the day, in a counter cyclical manner.

Our high level of national debt is also a risk to our future wellbeing. The national debt peaked at over 120 per cent of GDP during the crisis. It will be down to 76 per cent of GDP at the end of this year and we will continue to reduce it to achieve the target of 60 per cent of GDP in accordance with the European Stability and Growth Pact. At this level of debt, however, I believe there is still risk. Ireland is a small open economy. We depend on international trade. An economic shock in any region of the world impacts on us. Therefore, I am announcing today a new debt to GDP target beyond the requirements of the Stability and Growth Pact. The Government has decided to set a new domestic target of a debt to GDP ratio of 45 per cent to be reached by the mid-2020s or thereafter depending on economic growth. This will allow future Governments to not only apply the rainy day fund but to borrow to mitigate the impact of future shock on the lives of our people.

We must get away from, forever, the boom and bust cycles that have caused so much grief in the past. If we do so we can build a great economy, a fair and just society and the kind of country we all aspire to.

In addition to the macroeconomic policies I have outlined, I now want to announce a series of measures to assist sectors of the economy which may be adversely effected by Brexit.

I am extending the Special Assignee Relief Programme and the Foreign Earnings Deduction until the end of 2020 and, in relation to the Foreign Earning Deduction, I am also reducing the minimum number of days required to be spent abroad from 40 to 30, to help smaller businesses to identify and trade in such markets.

The tourism and hospitality industry has recovered well and is now performing strongly - due in no small way to the reduced VAT rate I introduced during our last term in office. Though the economic rationale for maintaining this reduced rate may not be as strong today, I consider it would be prudent to retain the reduced rate in this year's Budget. This will act as a buffer for the sector against the weakness in sterling which increases the cost of holidaying in Ireland for British tourists.

I am extending the Start Your Own Business scheme for a further two years. Its continuation will be of real benefit in providing support to long term unemployed persons who wish to create new businesses.

I am improving the revised entrepreneur relief I introduced in Budget 2016 by reducing the 20 per cent rate of Capital Gains Tax to 10 percent on disposals of qualifying assets up to a limit of €1 million in chargeable gains. I will review the €1 million lifetime limit in future budgets. All other aspect of the relief remain unchanged.

Farming and the agri-food sector has been going through a tough time recently due to lower world prices and weather. Brexit and the subsequent weakness in sterling strongly impacts the agri-food sector. This poses a competitive challenge for farmers and agri-food companies that sell a great deal of their output into the UK market. Today I am announcing a package of measures to assist the sector.

I introduced a range of measures in past budgets to assist the development of the sector and to help with the transfer of farms from one generation to the next. To assist in the current difficult circumstances, I am allowing a farmer facing an exceptionally poor year to "step out" of income averaging and, instead, pay only the tax due on a current year basis with any deferred tax liability becoming payable over subsequent years.

This facility will be available immediately and should provide cash-flow assistance this year.

The flat-rate addition for farmers not registered for VAT is being increased from 5.2 per cent to 5.4 per cent with effect from 1 January 2017. The scheme, which is reviewed annually in accordance with the EU VAT Directive, compensates unregistered farmers for VAT incurred on their farming inputs.

In Budget 2013, I introduced farm restructuring relief to run to the end of 2015. In Budget 2015, I extended the relevant period to the end of this year and today I am extending it to the end of 2019. The terms of the relief are unchanged.

To further support farmers, my colleague, the Minister for Agriculture, Food and the Marine, will be utilising EU exceptional adjustment aid to develop, in conjunction with the Strategic Banking Corporation of Ireland, a loan fund that will be low cost, below 3 per cent per annum and highly flexible. These loans will enable farmers to improve the management of their cash flow and reduce the cost of their short term borrowings. Minister Creed will announce the details.

I am extending the scheme of accelerated capital allowances for investment in energy-efficient equipment to sole traders. This implements the final recommendation of the agri-tax review and will help businesses in the farming and marine sectors, to invest in energy efficient equipment and receive the full allowances in the first year. This will help to contribute to the achievement of our climate change targets.

I wish to inform the House that payments under the new raised bog restoration incentive scheme to relevant owners and rights holders will be exempt from Capital Gains Tax.

In recognition of the difficult nature of work in the fishing sector, I am introducing an income tax credit for fishermen. This follows on from a recommendation made in the marine tax review completed last year. This measure is aimed at assisting the viability of the sector and at attracting and retaining staff. The €1,270 annual credit will shelter income of up to €6,350, which is the equivalent value of the seafarers exemption.

There is an acute shortage of new houses being built in Ireland and I am introducing a Help to Buy Scheme to address this problem. In all markets, supply increases to meet demand and the Help to Buy Scheme will increase the demand for newly built houses by assisting first time buyers to put a deposit together. I expect the building industry to meet this additional demand by increasing the supply of new affordable homes.

The Help-to-Buy Scheme is designed as follows: The scheme will provide a rebate of income tax paid over the previous four tax years up to a maximum of 5 per cent of 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.

I have discussed the proposed scheme with the Governor of the Central Bank and he has agreed that any rebate received under the scheme will be reckoned in full in the calculation of the deposit required to be eligible for a mortgage under the Central Bank's macro-prudential rules. The Scheme will apply to the purchase of newly built primary residences by first time buyers from the 19th of July this year until the end of 2019.

Second hand properties are not included in the Help-to-Buy measure but I am extending the Home Renovation Incentive Scheme by two years to the end of 2018. This measure provides tax relief to home owners who undertake renovations. This improves the quality and often expands the size of their dwelling.

The lack of supply of new houses also impacts on the rental sector and I am announcing a number of new measures to help to increase the supply of rental accommodation.

Interest deductibility for residential property landlords was restricted to 75 per cent in 2009 as part of the measures introduced to rescue the public finances. It is an appropriate time to revisit this measure in the context of the housing crisis. In light of the incentive I introduced last year to support landlords who let their property to social housing tenants for a minimum period of three years, I am going to restore full interest deductibility for other landlords on a phased basis and my first step is to increase the level from 75 per cent to 80 per cent in 2017. I will increase it by instalments of 5 per cent until the full 100 per cent, deductibility, is restored.

In 2015, I increased the income ceiling that applies under the Rent-a-Room scheme by €2,000. I am increasing it by a further

€2,000 this year to bring it to €14,000 per annum. This will allow homeowners to rent out additional rooms at current average prices while remaining within the scope of the scheme. Increased availability of rooms should be particularly helpful to third level students.

The Living City Initiative I introduced to encourage urban renewal and promote the renovation of city centre properties for residential and commercial use has been reviewed as promised in the Programme for Partnership Government. In light of the review being published today, I am expanding the scope of the Initiative by including landlords and removing the cap on maximum floor size.

High marginal tax rates act as a brake on employment. They discourage people from taking jobs and discourage emigrants from returning home. As you all know, I have limited resources to change the situation in this Budget but it is important to continue the process I started in Budget 2015. Accordingly, I am allocating €335 million to improve the take home pay of low and middle income earners by reducing each of the lower three USC rates by half a per cent. Therefore, the 1 per cent rate will go down to ½ a per cent, the 3 per cent rate will go down to 2½ per cent and the 5½ per cent rate will go down to 5 per cent. I am also making a small but important increase to the ceiling of the band on which the reduced 2½ per cent rate of USC will be payable, from €18,668 to €18,772. This increase will ensure that the salary of a full-time worker on the minimum wage will remain outside the top rates of USC.

Though relatively small these changes will have a material impact on the disposable income of lower and middle income earners - more importantly it signals this Government's intent to phase out the USC over time as resources permit. The impact on different levels of income is reflected in the distributional tables published in the Budget book.

Building on last year, I am increasing the Home Carers' Credit by €100 to bring it up to €1,100. This will further assist one income families who care for children or the elderly in the home.

In a measure that will benefit savers, I am reducing DIRT by 2 per cent each year for the next four years. This will reduce DIRT from 41 per cent this year to 33 per cent in 2020.

I am also announcing today my intention to extend mortgage interest relief beyond December 2017 out to 2020. The details of the extension will be set out in Budget 2018 this time next year.

Last year I narrowed the tax differential between the self-employed and those in the PAYE system by introducing the Earned Income Tax Credit. I want to continue to make progress in this area again this year by increasing it by €400, bringing it to €950. This will benefit over 147,000 self-employed individuals generating business activity across the country.

Employee participation in their company's ownership and profits has been shown to increase competitiveness and support employment and growth. My Department carried out a public consultation and review of share-based remuneration earlier this year. In light of the review, I am announcing today my intention to develop a new, SME-focussed, share-based incentive scheme, to be introduced in Budget 2018. Such an incentive will require the approval of the European Commission and my officials will commence engagement with the Commission to ensure that the incentive will comply with State Aid rules in advance of the next Budget.

During the crisis, it proved necessary to reduce the thresholds at which Capital Acquisitions Tax applied to preserve the level of revenue as far as possible. Our improving economy means that increasing asset prices are resulting in higher tax demands when family homes are being passed from one generation to the next. To help address this, the Category A threshold that applies to inheritances/gifts from parents to their children is being increased by €30,000 to €310,000. I am increasing the Category B and C thresholds by 8 per cent and I will revisit these thresholds in the coming years with a view to increasing them further.

I want to now state that Ireland's 12.5 per cent corporation tax rate will not be changed and nobody is asking for it to be changed.

It is an important part of the reason why we are an attractive destination for Foreign Direct Investment and the UK's exit from the EU may present opportunities to attract businesses that may move out of the UK or are considering locating there in the coming years. In addition, we have a highly educated workforce and a business friendly environment. Other major advantages include being an English speaking economy in the Eurozone and the fact that there is already a critical mass in the financial services and other key sectors.

Today I am publishing an update on our International Tax Strategy that shows the progress that we have made over the past twelve months and highlights how our corporate tax regime meets the highest standards in tax transparency. It restates our commitment to meeting new international tax principles and demonstrates how we will ensure our corporate tax regime remains fair but competitive in the future.

In 2014, my Department published a review of corporation tax policy. Since then, there have been many developments in international taxation, including the OECD's Base Erosion and Profit Shifting initiative and legislative proposals from the European Union. In this context, Ireland needs to ensure that our corporation tax code continues to meet international standards whilst also delivering tax certainty for business and maintaining our competiveness.

In line with our established practice of carrying out periodic reviews of key areas of tax policy, the Government announced in September that a review of our corporation tax code would be carried out. I am appointing Mr Seamus Coffey, as an independent expert, to undertake the review and its terms of reference will be published today.

A number of concerns have been raised about Section 110 of the Taxes Consolidation Act 1997. When this section was introduced the intention was that it would benefit the Financial Services industry, and it has done so. It is now being used in relation to property in a way that was never intended. I have published draft amendments to Section 110, to address these unintended uses. I am aware that further amendments are necessary to address other issues arising in relation to Funds and property. I will publish these in the Finance Bill after appropriate consultation has taken place.

Charities are exempt from VAT under the EU VAT Directive and as a result cannot recover VAT incurred on goods and services that they purchase. My Department and the Irish Charities Tax Reform Group produced a report on the issue last year to examine how charities might be compensated in this regard. I have asked my officials to engage again with the Group with a view to reviewing the options.

Climate change is the global challenge of our generation. Work has been ongoing across Government Departments to create Ireland's first National Mitigation Plan to transition Ireland to a low carbon economy by 2050. To assist the transition to a low carbon economy:

I am extending the relief from vehicle registration tax on electric vehicles for a period of 5 years giving the motor industry and motorists the confidence to invest in this cleaner technology:

I am extending the VRT relief for hybrid vehicles for 2 years;

I am commencing a measure, to help reduce the dependence of larger vehicles on diesel, to provide that natural gas used as a vehicle fuel will be taxed at the EU minimum rate of excise for a period of 8 years;

I am commencing a relief from carbon tax for solid fuels that include a biomass element to incentivise the development of these greener fuels; and

I am fully relieving fuel inputs to combined heat and power plants from carbon tax as these plants demonstrate, by far, the most efficient use of energy in electricity generation. It is expected that this relief will benefit a significant number of heat and power plants in different parts of the country that provided over 7 per cent of the nation's electricity in 2014.

The Revenue Commissioners have a difficult but necessary job in securing the resources needed to fund the public expenditure that underpins our public services. It is a role that they perform very well but from time-to-time, as tax evasion evolves and tax issues become evident, the Revenue Commissioners seek additional powers and resources.

The release of the so called "Panama Papers" earlier this year showed how defaulters use offshore structures and accounts to avoid paying tax. International developments and agreements are leading to the better sharing of information.

In the Finance Bill, I will act to restrict the opportunity for offshore defaulters to use the voluntary disclosure regime with effect from May next year, and I will introduce a new strict liability criminal offence to facilitate the prosecution of serious cases of offshore tax evasion.

I am pleased to announce the allocation of an additional €5 million to the Revenue Commissioners for the recruitment of 50 additional staff and additional investment in systems and equipment.

The Revenue Commissioners are launching a consultation process today that is intended to lead to a fundamental redesign and modernisation of the PAYE system. The aim is:

- to help employees manage their tax affairs better;
- reduce contact between employers and Revenue;
- reduce administration costs for both employers and Revenue;
- improve compliance; and
- provide up to date information for policy makers.

I want to inform the House that I intend to introduce a tax on sugar-sweetened drinks. It is of utmost importance to me that such a tax is as effective as possible, as fair as possible, and minimises the administrative burden on business. Given the highly integrated production and supply chains which exist in the soft drinks industry between Ireland and the United Kingdom, I believe it would be prudent to align the Irish sugar-sweetened drinks tax with the UK's tax proposal, in terms of time-frame and structure. Therefore, I intend to introduce this tax to coincide with the introduction of its UK counterpart, in April 2018.

However, much analysis needs to be undertaken between now and then. Therefore, I am announcing today a public consultation process, which will run until the 3rd of January next year. The consultation paper is published on my Department's website today and I am inviting interested stakeholders to make submissions in relation to the form and practical implementation issues of the tax.

In line with the recognition that pricing is a key means to reducing tobacco consumption, I am increasing excise duty on a pack of 20 cigarettes by 50 cents, with a pro-rata increase on other tobacco products. This will bring the price of cigarettes in the most popular price category to €11.

Conclusion

Shortly after I took up office in March 2011, the CSO announced that the headline deficit for 2010 was 32 per cent of GDP and even on an underlying basis that excluded banking related transactions, it was still over 12 per cent of GDP. Today we are forecasting a deficit of just 0.4 per cent of GDP in 2017.

In March 2011, Ireland was no longer able to borrow on the open market, we were dependent on EU/IMF Programme loans to keep going. Ten-year bond yields peaked at 14 per cent in July 2011 whereas, only last month, the NTMA was able to issue 10 year bonds at a yield of 0.33 per cent and it is issuing treasury notes at negative yields.

In March 2011, unemployment was already at 14.3 per cent on its way to peaking at over 15 per cent in January 2012. Now it is 7.9 per cent and the new jobs I mentioned earlier will help reduce it further next year.

So we have come a long way and the objective set in our medium-term fiscal policy is within our reach provided we continue to act responsibly and implement prudent fiscal policy. Separate from the fiscal rules and our obligations under the Stability and Growth Pact and the Fiscal Compact, the fiscal policy we are following makes sense. We are a small and very open economy in a world that has more risks than usual. It makes sense to complete the task we set ourselves and get to a balanced budget. It makes sense to continue reducing our debt to much lower levels and to build our capacity to withstand shocks. It makes sense to avoid the mistakes of the past that could lead to overheating our economy. It is an uncertain world full of risk and now is not the time to move away from the prudent and sensible fiscal policy we have been following.

My Department's forecasts and those of all other bodies' project continued steady and sustainable economic growth. It is our collective duty to protect that growth because it is the best way to continue repairing the damage done to our economy in the past and to ensure that we can look forward to a new Ireland with an equitable tax system that provides sustainable funding for efficient and effective world class public services.

Today's announcements are the first steps on a new road by a new government. Subsequent budgets will travel further down that road in accordance with the Programme for Partnership Government and the support of the Oireachtas.

I commend the budget to the House.

Ends.