Financial Statement

of the

Minister for Finance

Mr Brian Cowen, T.D.

7 December 2005

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STATEMENT OF THE MINISTER FOR FINANCE

MR BRIAN COWEN, T.D.

7 DECEMBER 2005

I am honoured to be with you again to present the 2006 Budget to the House. This Budget reflects the priorities of the Government; and I believe it reflects the needs and hopes of the Irish people as well.

INTRODUCTION

We are living in the midst of the longest and strongest era of sustained prosperity in all of Irish history. This didn't happen by chance. This involved careful planning. It involved investment in infrastructure development where we had considerable ground to make up. It involved a commitment to educate our children so that they could be a match for their peers across every discipline. It involved careful fiscal management and the creation of an economic environment that would attract investment. And, of course, it represents the hard work of the Irish people themselves.

As a nation, we now enjoy a much enhanced quality of life. We are a prosperous country. More of our citizens are in work than at any time in our history. More enjoy a decent quality of life than ever before. We are welcoming more and more new people to our shores – citizens of the new Europe – and we are providing for them too.

It is a new Ireland also. Prosperous but not without challenges. This Budget is largely about two key objectives:

- The facilitation of sustained economic growth
- Improved equality and opportunity for all in society.

We have made our choices in the light of a simple, but powerful principle: we cannot take prosperity for granted. We will not put at risk the prosperity the Irish people have achieved.

In last year's Budget I made one simple statement that is often taken for granted and perhaps fails to get the right resonance as a result. Let me restate it now. Economic prosperity is a means to an end and not an end in itself. We must strive for economic success and we must insist on prudent fiscal management in order to achieve the establishment of a better society for all.

SUPPORTING OUR ECONOMIC SUCCESS

We are right to focus on our economic success and to talk about it. It is correct, not in order to congratulate ourselves, but because the better we understand it, the more we are likely to know how we can sustain it. The deeper our economic success and the longer it is sustained the greater the challenge to keep the forward momentum. While we work to maintain it we need to carry out reforms that will introduce greater opportunity for even more people to become involved in our economy and to benefit from its success.

This Budget brings the Government closer to fulfilling the public promises we offered when the people gave us their mandate. We had first to build safeguards and act to sustain the economic growth and stability long into the future and we had to work to find ways of sharing more evenly the benefits of our economic success.

My aims for this Budget are straightforward. I want to improve equality and opportunity for all in our society. I want to help those on lower incomes and to support families at all levels. I want to develop our infrastructure so our firms can compete better while helping to secure our environment and our heritage. I am also determined to pursue value for money for consumers and for taxpayers.

This Budget is rooted in the belief that Irish people can continue to achieve extraordinary things provided Government creates the right environment for them to do so. It is rooted in the need to make that environment more inclusive so that fewer of our people feel excluded.

Education
Education is critical to this ambition. It is accepted that the quality of our educated young people has been at the heart of the economic success of the past 15 years. The world has not stood still in the meantime. We face new challenges in the education sphere. This is about access and about the strength of an offer to the young people coming through the system. I will be announcing a major new initiative in this Budget to address that challenge.

Infrastructure
Infrastructure continues to be a priority and while we have made considerable advances in recent years there is still much to be done. The Transport 21 initiative is a major plank of our budgetary policy and correctly so.

Supporting the Family
We are committed to supporting the family as the cornerstone of our society. The place of the child, mother and father within the family unit needs protection and support. The balance to be achieved between the need to work outside the home and the costs associated with care of the youngest of our citizens needs attention by Government. Budget measures alone cannot achieve this balance but I have taken steps to deal with the issue.

Reaching Full Equality
We are committed to reaching full equality and opening the doors of opportunity for every citizen in Ireland. We want as many of our citizens as possible within the workforce. This is about the minimum wage and about

taxation and for those on social welfare, it is about increased payments that can improve their quality of life too.

And we are deeply committed to ensuring value for the hard earned money that millions of our citizens pay in taxes. Taxpayers have a right to a Government that spends their money for the right reasons and in the right way – wisely and efficiently – and the choices we have made at every point in this Budget and the protocols we have put in place reflect the deep responsibility that I and my colleagues in Government feel when it comes to getting value for every Euro spent.

Budget Measures

I plan to achieve my aims by a series of measures that involve:

- Investing much more in our future through enhanced capital spending.
- A package of measures to help care for older people.
- Increasing Social Welfare rates well ahead of inflation.
- Developing a five year childcare package to support families with young children.
- Keeping those on the minimum wage out of the tax net.
- Keeping those on the average industrial wage out of the higher tax rate.
- Reforming tax reliefs so that tax payments more fairly reflect ability to pay.
- Freezing indirect taxes and reducing some others.
- Introducing special reliefs designed to improve our environment, and
- Relieving the tax and administrative burden on business and on small business in particular.

Budget and Economic Outlook

We have the resources to do all these things because our economy is healthy. We have to make sure it remains so by pursuing the right policies. This will be a challenge, given the major external threats of oil prices, higher interest rates and shifting exchange rates and trade patterns. We will be best placed to meet this challenge if we all work to secure the competitiveness of the economy.

We have additional resources available to us now because we have followed the correct tax path of lower rates yielding more revenue. It is the tax take that counts, not the tax rate, as this year's record Capital Gains Tax yield shows.

Economic growth in 2005 is projected by my Department at 4.6 per cent in GDP terms, that is the value of all goods and services produced in the State, and 4.8 per cent in GNP terms, that is the income we earn from producing these goods and services.

The success story of 2005 has clearly been the very strong growth in employment due to the correct policies followed by this Government. The latest labour force data show that employment grew by 96,200 or 5 per cent in the last twelve months. Nearly 71,000 of this increase represents additional full time jobs. The live register at 150,000 is 14,500 lower than two years ago.

This employment record is far ahead of the rest of the EU and is a testimony to the enterprise and effort of our workforce.

My Department is forecasting that for 2006:

- The economy will grow by between 4½ and 5 per cent,
- Unemployment will remain very low at around 4.3 per cent,
- Employment will grow by a further 60,000, and
- Inflation will average 2.7 percent.

This is a continued strong performance especially on employment. In money terms, it means a GDP of over €172 billion in 2006 and a GNP of just under €145 billion. In order to maintain our levels of employment it is particularly important that we all play our part in securing the competitiveness of the economy.

As regards the Government's finances we have set a target for a General Government Deficit next year of 0.6 per cent, as measured by the EU, together with a debt ratio of 28 per cent of GDP. This debt ratio is one of the lowest in the EU. Next year total gross voted public spending will rise by over €5 billion or just over 11 per cent to €50.6 billion, of which €43.8 billion is current day-to-day spending. Day-to-day spending in 2006 is 9.9 per cent above the projected outturn for 2005, excluding the exceptional provision of €400 million to meet the cost of repaying nursing home charges. Spending on capital, to provide roads, public transport, housing, hospitals and other major projects, will come close to 5 per cent of GNP – the highest public investment rate in the EU.

Overall Gross Voted Current Public Spending

Of the €43.8 billion in gross voted current spending more than one in every four euro, or €12.2 billion is spent on Health. The spending on Health at this stage amounts to €3,000 for every citizen in the State or over €9,000 for every taxpayer.

The other major current spending Departments are Education and Science, Social and Family Affairs. Education day-to-day spending accounts for one in every six euros and spending on Social and Family Affairs accounts for one in every three spent. Taken together day-to-day spending on Health and Children, Education and Science and Social and Family Affairs accounts for three in every four euros required to fund total day-to-day voted spending.

It is not just a matter of the quantity of spending but the quality as well. Does it meet current needs and also provide for our future? Do we get full value for it? Could we achieve the same for less? These are issues which are rightly to the fore in the debate on public spending.

A vital element in addressing these issues are the actual processes we use to secure value for money at all levels. I am determined to pursue this issue of the quality of public spending. I have recently put in place a series of specific measures to do so. I intend to build on this. In particular, I plan to roll out new forms of construction contracts in 2006 aimed at providing greater cost certainty, better value in spending and more cost effective delivery of capital works projects.

BUILDING THE NATION'S CAPITAL STOCK

In seeking value for money, we must also build up our capital stock to improve our competitiveness and help the economy to develop and expand. This is vital if we want to lay the platform for future growth and good quality employment. I am today providing some €43.5 billion for capital investment over the period 2006 – 2010 of which €38 billion is Exchequer funded and €5.5 billion is PPP funded.

This will also support strategic improvement in our education sector to deepen and widen our store of human capital; major improvements in health facilities; a very significant programme of social and affordable housing; and important new initiatives in the arts, culture and leisure aspects reflecting our development as a mature economy and society.

Third Level Investment

I mentioned earlier that any budget represents a moment in time on where we stand economically and where our priorities should be in light of the prevailing fiscal conditions. I referenced too the particular focus I want to give to education.

Many of those – both in Ireland and more particularly externally – who have commented on our economic success tend to attribute a disproportionate amount of the cause to our taxation policy. Clearly this has been beneficial to attracting inward investment. However, it is my belief that the single biggest contributor to our economic success has been the exceptional wealth of intellectual capital available to both our indigenous and overseas investors. Ireland has become synonymous with the quality of our graduates.

The investment in and reform of primary and secondary education through the sixties and seventies with the support of 3rd level in its wake has been pivotal to what has been achieved in Ireland over the past 15 years. That job is continuing and we will continue to deal with very real needs across both the primary and secondary levels.

The basis for future growth and prosperity is investment in the knowledge, skills and innovation capacity that will drive economic and social development in an increasingly competitive global environment. The higher education system must deliver people who will expand knowledge-based business located in Ireland. This will require substantial change and quality improvement in universities and centres of higher learning and the promotion of system-wide collaboration that can draw on the collective strengths of these institutions.

A major initiative within this Budget is a commitment to the establishment of a new Ph.D. level of education, a fourth level. Earlier this year my colleague the Minister for Education and Science signalled the Government's intention to create a multi-annual Strategic Innovation Fund for higher education. To achieve what we have to achieve will require a commitment to substantial change in all our 3rd level institutions. We must strip out unnecessary duplication. There must be an appetite from within the sector itself for greater collaboration. This is a small country. It is not sensible to have our 3rd level institutions pitched against each other across all key disciplines. Instead what we need is the promotion of a system-wide collaboration that can draw on the collective strengths of all of our 3rd level institutions.

I am confident that such a commitment will be forthcoming. It must be if we are to deliver the required compliment of people with Ph.D. level qualifications or 4th level Ireland. We are competing in a global world and to compete and to retain the strength of our 'offer' demands an investment in the knowledge, skills and innovation capacity of this nation. Our edge in education is being challenged not just by the established sources of excellence but also by emerging nations across the globe. This Government believes such a programme is fundamental to our economic and social development.

This then is a major plank of this Government's policy. I am therefore announcing the allocation of €300 million to the Strategic Innovation Fund for higher education over the next five years. Competition for the new funds will stimulate excellence through collaboration and change. Details of the administration of the Fund will be announced by the Minister for Education and Science over the coming days.

In addition, it is essential that investment in modern facilities is maintained in university and institute of technology campuses around the country. As a result, we are committing €900 million to the 3rd level sector over the next five years as part of the Department of Education and Science capital envelope. Of this €630 million will be exchequer capital funding and €270 million PPP funding. The physical development will have to reflect the changed approach where there must be greater co-operation between the institutions involved.

This brings planned investment in capital spend and the Strategic Innovation Fund for 3rd level to €1.2 billion over the period 2006 to 2010. These strands of planned investment in higher education form a core element of the Government's strategy for developing skills and competencies. This will be an important element of the investment strategy for the new National Development Plan.

National Development Plan 2000-2006

Under the current National Development Plan there have been unprecedented levels of investment in our economic and social infrastructure. This investment is delivering real outputs which are improving the quality of life for our citizens.

- Investment in roads will see the completion of over 70 major schemes by the end of the Plan with a major focus on new Motorway and Dual Carriageway Roads linking key population centres.

- We have significantly enhanced public transport in the Greater Dublin Area through investment in suburban Rail, Dart, Quality Bus Corridors and the LUAS, a totally new fixed line system with a capacity of 20 million passengers per year.
- We have reversed years of neglect of our National Rail System by investing €655 million in making our national network safe.
- Investment in social and affordable housing by the end of the Plan will have delivered some 56,000 new units.
- Our NDP investment in Childcare will have created about 30,000 new places by end 2006.

There have been other major enhancements in the quality of infrastructure in areas such as water services, broadband, education and health.

Transport 21 was launched a month ago with a ten year roll out horizon and a €34.4 billion investment cost. This is an unprecedented commitment on the part of the Government and recognises the importance of a world class public infrastructure in securing the competitiveness of the economy and enhancing the economic and social gains made in this country since 1997.

Today's Budget underpins that commitment and sets out the capital funds allocated to transport over each of the next five years. Next years allocation will get Transport 21 off to an excellent start. 2006 will see the continued roll out of the motorway programme and construction of more bypasses across the country. Work will begin on the building of a new Docklands railway station and the Kildare rail route upgrade. New rolling stock will be delivered and there will be further investment in regional airports. Work will also commence on the Cherrywood Luas extension. Planning and design work on the Western Rail Corridor will get underway as the start of the process leading to its reopening. Planning of other major transport infrastructure projects will also be advanced. In addition, the new transport authority will be established to implement Transport 21 in the Greater Dublin Area and critically to ensure joined up thinking and the delivery of projects on time and on budget.

National Development Plan 2007 - 2013

The next National Development Plan, which will cover the period 2007 to 2013, will set out a coherent and integrated strategy for investment in economic and social infrastructure. This will be done within a framework of budget sustainability and will be informed by key objectives of enhancing national competitiveness and promoting better balance in regional development. My Department will shortly commence a major consultation process on the next NDP.

Public Service Pay

To support this level of activity we need a professional and well motivated public service. The numbers employed reflect the fact that many of these services are labour intensive, particularly in areas such as Health, Education and the security forces. Consequently, a large part of public spending goes in the form of pay. We have an obligation to ensure that value for money is central to how we reward our public officials.

The provision for 2006 to fund public service pay and pensions is €16.4 billion, an increase of €1.1 billion or 7 per cent. It makes full provision for the final phase of Sustaining Progress and includes some €430 million for improvements in services and extra staff to deliver these. I do not intend to prejudge the outcome of negotiations on a further public service pay agreement so I am not making any special provisions in the estimates for public service pay in 2006 other than what is provided for in the current agreement.

Total employment in the public service in 2005 is just over 290,000. We will continue to control and regulate numbers in the public service within agreed ceilings. We are allowing limited increases in staff in some key non-administrative areas particularly in Health, Education and the Gardaí to improve the delivery of important frontline services to the public. This is the correct strategy to follow.

HELPING FAMILIES AND THOSE ON LOW INCOMES – SOCIAL WELFARE

I believe that a primary function of Government is to protect and support the weaker sections of our society. The sustained economic growth over recent years has led to a welcome increase in employment and general income levels. However, there are many people who are not in a position to fully avail of the increased employment potential that now exists. At present, there are 970,000 people in receipt of a weekly social welfare payment and many of these are on old age or related pensions. In addition, there are a further 490,000 people who also benefit from these weekly payments.

I believe that the opportunity now exists to make substantial further progress in this area. Last year, I provided for significant increases in social welfare rates and now, in this Budget, I will build on this progress.

I intend to target the following groups for particular improvement this year:-

- the elderly, in particular those in receipt of a social assistance old age pension;
- people on the lowest rate of social welfare;
- people affected by child and family poverty; and
- carers.

At the same time, recognising the value to individuals themselves of being employed, not only in terms of income but also self-worth, the Government wishes to enhance the employment opportunities open to social welfare recipients in general. These themes are the basis for the improvements in the social welfare system which I am announcing today, which will cost €1,120 million in a full year.

Old Age Pensions

This Government has a proud record of improving income support for pensioners. Today, I am increasing the full personal rate of old age and related pensions by €14 per week – an increase of almost 8 per cent. This will bring the Old Age Contributory pension to €193.30 per week, which means we will be well on the way to achieving the Programme for Government commitment to increase the State pension to €200 per week by 2007.

The Government is increasing non-contributory pensions by €16 per week, an increase of 9.6 per cent bringing the maximum rate to €182 per week. In addition, we recognise that many non-contributory pensioners want to work beyond retirement age but the means test system stops them doing so. We intend changing the non-contributory pension system so that earnings from employment up to €100 per week will be disregarded for means test purposes.

Other Weekly Welfare Payments

All other personal weekly social welfare rates will be increased by €17 per week. This will bring the lowest full personal social welfare rate to €165.80 per week – an increase of 11 per cent. The increase also represents substantial progress towards the implementation of our commitments in the Programme for Government and in Sustaining Progress.

Child Benefit

In 2006, the monthly rate for the first and second child will increase to €150 and the rate for third and subsequent children will increase to €185. This completes the transition to a higher rate of child benefit as promised last year. The monthly rate for the first and second child in 1997 was €38. In 2006 it will be almost four times higher.

Other Social Welfare Measures

The Budget Summary contains a wide range of other social welfare improvements, the full details of which will be announced by the Minister for Social and Family Affairs. However, in the light of my opening remarks on the Social Welfare Package, I would like to highlight the following improvements planned:

- An increase in the rate of the National Fuel Scheme from €9 to €14 per week; I will also be announcing cuts in home heating oil taxes later in my statement to address fuel deficits on a broader basis;
- An increase in the rate of Respite Care Grant to €1,200;
- An enhanced Carer’s Allowance rate of €200 per week for people aged 66 or over and €180 for people under the age of 66;
- Improvements in the terms of the Disability Allowance, Back to Work Allowance and Back to Education Allowance Schemes to assist participation in the labour force;
- In addition, in line with commitments under Sustaining Progress, the rate of Maternity Benefit will be increased from 75 per cent to 80 per cent of reckonable earnings.

CARING FOR OLDER PEOPLE
This Government has always given high priority to supporting older people.

Respect for older people and the dignity of older people are at the heart of our policies.

Many older people have active and fulfilled lives. Others have increasing needs for health care and support.

Most older people and their families want to live and be cared for at home.

While previous Governments have aimed to support this desire, this Government has decided to make a step-change in the level of care and support service for older people in their home or community.

The Tanaiste has discussed with me the need to take an important initiative in this area. The Government has decided to fund an additional package of measures at the level of €150m in a full year to kick start this.

This will include new home care packages, substantially more home help, more day care support and additional palliative care. This will help people avoid unnecessary residential care and prolonged stays in acute hospitals. For people who need residential care in nursing homes, we are also improving nursing home subventions.

The Tanaiste and Minister for Health and Children will set out the full details of the new services tomorrow.

In passing, I might mention that I will also be examining issues in relation to certain limited circumstances where adult individuals may require to be cared for outside their own homes because of particular care needs.

A NEW FIVE YEAR CHILDCARE STRATEGY
The Government is very conscious of the difficulties faced by many parents and families in securing affordable childcare. Our task is to assist all parents in the early years of child-rearing by widening the options they have. Some parents like to use family care or informal arrangements while others prefer the formal childcare setting. In addressing this issue, I have tried to take account of the following considerations:

- Where are the biggest pressure points for parents?
- How can I be fair to everyone – to both lower and middle income groups and to working parents, as well as those who make their contribution to society through their work in the home?
- What is the most administratively simple and user-friendly system? and
- What is sustainable for the Exchequer?

Having carefully considered all the complex issues involved, the Government has developed a five year strategy to tackle the problem.

We can only do so much in one Budget. A complete solution will take time but the structured medium-term approach I am announcing will, I believe, increase the options for parents in a balanced way. I hope it will be recognised as a constructive step forward in this area.

In devising the strategy the Government was particularly anxious to develop further supply side measures to increase the number of childcare places. The Government is also very conscious of the importance of the first year in the life of a child and the strategy provides for a significant extension of maternity leave. The strategy also seeks to address the immediate cost pressures facing parents of young children by providing a new childcare supplement for all children under the age of six years.

I am making a significant start in implementing the programme to-day by providing €317 million in the 2006 Budget for this purpose. The cost will increase to over €600 million a year by 2008.

Supply Measures

I am providing for a number of measures which will increase the supply of childcare places.

As part of the overall Childcare Strategy I am today announcing a major new 5-year National Childcare Investment Programme, which will run from 2006-2010 and will support the creation of an extra 50,000 childcare places.

This will be achieved through enhanced capital grant aid to private providers, the limit for which will double to €100,000, and continued support to community providers of up to €1 million per facility subject to a maximum grant per place of €20,000.

This new Investment Programme will build on the success of the €500 million Equal Opportunities Childcare Programme which has already been provided under the National Development Plan 2000 to 2006. I would like to thank the Minister for Justice, Equality and Law Reform and the officials in the relevant areas for the roll out of these programmes. So far this funding has generated over 26,000 new places with a further 15,000 places due to come on stream before it ends in 2007. This means that, between now and 2010, some 65,000 additional places will be funded, including early childhood, pre-school and school-age places. Furthermore, we will continue to support the Department of Education and Science in targeting early childhood education in disadvantaged areas.

For the new Programme, I am now providing a total allocation of €575 million over the next five years. This comprises additional capital spending of €357 million as well as increased funding for the continuation of staffing grants to community settings with a social inclusion focus. Added to the funding already committed to the final two years of the existing Equal Opportunities Childcare Programme, this will bring total direct expenditure on supply creation to some €790 million for the period 2006 to 2010.

This planned roll-out of new places will be complemented by an intensification of training arrangements to support quality childcare delivery. It is expected that 17,000 childcare workers will be trained in the period.

In order to help further to improve the supply side, I propose to exempt from income tax, PRSI and levies all income up to €10,000 per year from childminding where an individual minds up to three children, who are not their own, in the minder's own home. This will recognise the contribution of this sector to supporting supply. Such individuals will be required to notify their local County Childcare Committee so that information on availability of childcare places can be more readily co-ordinated. The County Childcare Committees provide support, information and small grants to the sector.

Maternity Leave
The Government is particularly conscious of the importance of the first year of life to a child's development. This is also the time during which pressure on parents can be at its greatest, not least because the cost of caring for infants is higher than for older children. I have given careful consideration to the various calls for improved parental leave and I am now announcing significant extensions to the periods of paid and unpaid maternity leave over the next two years.

From March next, mothers of new-born children will have an additional four weeks paid maternity leave, extending the duration of such leave to 22 weeks. This will cost a total of €35 million in 2006. I will be following this up with a further four weeks of paid maternity leave in 2007. Thus, by 2007, mothers of new-born children will be entitled to a full six months of paid maternity leave.

Furthermore, unpaid maternity leave will be increased by 4 weeks in 2006 and a further 4 weeks in 2007, bringing total unpaid maternity leave to 16 weeks by 2007. This is in addition to the existing 14 weeks unpaid parental leave. In total, parents will be entitled to 56 weeks between paid and unpaid leave by 2007.

Early Childcare Supplement
The increase in maternity leave and the additional measures I have just announced to improve supply will take time to have their full impact. In the meantime working parents continue to need additional support to meet the cost of childcare.

It is only fair, at this point, to recall the huge investment which this Government has made over recent years in terms of direct financial support for families. This year, we will spend almost €2 billion on Child Benefit alone. This compares to just €500 million as little as 5 years ago.

During that time child benefit rates have increased substantially to the point where, as I mentioned earlier, over 1 million children in more than half a million families will next year receive monthly payments of €150 or €185.

There has also been a radical change in the personal tax system which has seen the tax burden on families significantly reduced across the board. To take just one example, a married two earner couple with a combined income of €60,000 per annum will pay, on average, just 11% of their gross income in tax in 2005, down from 28% in 1999. This is an annual saving of over €10,000.

However, notwithstanding these very significant improvements in income, this Government acknowledges the continuing cost pressures on parents, particularly those with young children, for whom I am today providing some additional financial support. I have had the benefit of examining a wide range of different views and proposals but it is clear that a broad consensus is hard to find.

Having looked in depth at all of the issues I have decided that the most effective response lies in introducing a new Early Childcare Supplement. This will be a direct payment of €1,000 per year available equally to all parents regardless of their labour force status, for each child up to his or her sixth birthday.

These payments, which will be exempt from income tax and levies, will be made on a quarterly basis in respect of more than 350,000 children who are less than six years of age. The first payment will be made in mid-2006 and will cover the second quarter of 2006. This scheme will cost €265 million in 2006 and €353 million in a full year.

This will be an additional new payment separate from the existing Child Benefit scheme. This new Early Childcare Supplement and the existing Child Benefit will bring the amount a family will receive next year, for each of the first two children under six years, to €2,800 per year, equivalent to over €50 per week in direct financial support. This will be even higher where a family has more than two children under six. By any standards, this is a significant contribution from the taxpayer towards the cost of childcare in such circumstances.

New Childcare Arrangements

Funding for the National Childcare Strategy will be allocated in the Revised Estimates Volume. In that context, the Government will be introducing new administrative arrangements to streamline the functions relating to childcare.

HELPING THOSE ON THE MINIMUM WAGE AND ON AVERAGE PAY - TAXATION

Tax revenue provides us with the resources to develop a fairer and more productive society. Additional revenue affords us the opportunity to return some of this to those who earn it. This Government has radically restructured the tax system in the past eight years to ensure that much more income tax relief goes to the lower paid. As a result, over one third of the work force is now outside the tax net completely in 2005. That represents 720,000 earners compared to 380,000 in 1997.

Basic Tax Package

I intend to take more earners out of the tax net today. I am increasing the Employee Tax Credit by €220 per year and the basic personal tax credit by €50 per year single and €100 per year for married couples. This will ensure that all those on the current minimum wage will remain outside the tax net completely in 2006. This will remove from the tax net, nearly 52,000 low-income taxpayers who would otherwise be in the tax net next year.

I am also increasing the annual income tax exemption limit for persons aged 65 and over by €500 single and €1,000 married. This will remove a further 1,700 taxpayers from the tax net. These age exemption limits have been nearly trebled since this Government came into office.

I am increasing the standard rate income tax band by €2,600 per year, that is, by just under 9 per cent, removing over 90,000 taxpayers from the higher tax rate. This increase is aimed at ensuring that all those taxpayers earning around the projected average industrial wage in 2006 will pay tax at the lower rate of income tax. This is worth €11 per week in increased take - home pay for those on average incomes.

Finally, I am increasing the threshold for the payment of the 2 per cent Health Levy from €400 per week to €440 per week. This will benefit 72,300 lower paid workers by an extra €8 per week on top of the other reliefs I have mentioned.

All these increases mean that a single person on €22,000 per year will benefit by €13.65 per week in net income in 2006 and a married one earner couple on €40,000 per year will see their net income rise by €12.92 per week.

Other Personal Tax Reliefs

- I am happy to tell the House that the tax credits for widowed persons, blind persons, incapacitated children, dependent relatives and those aged 65 or over are being further increased this year, by amounts ranging from over 20 per cent to 50 per cent.
- The tax relief for persons living in private rented accommodation is being increased by ten per cent to assist those faced with increased rental costs.
- The tax allowance for those paying Trade Union subscriptions, which was introduced by this Government, is being increased from €200 per year to €300 per year. This allowance is available at the standard rate of income tax.

The total cost of all these increases in income tax credits, bands and reliefs is around €900 million in a full year.

A FAIRER TAX SYSTEM

Last year I announced a major review of tax reliefs in order to achieve a greater degree of equity in our tax system.

This involved both internal reviews and the employment of outside consultants. It also included an extensive public consultation in which nearly ninety submissions were received from a wide range of persons. These submissions were reviewed by the Joint Oireachtas Committee on Finance and the Public Service and I have had the benefit of that Committee's discussions. At the end of the day, the decision on what to do rests with the Government, for which we can be held accountable by this House.

What we are Seeking to Achieve

My basic aim is to see that everybody pays an appropriate amount of income tax relative to their ability to do so. This is a cornerstone of tax equity. We must balance this with the need for effective tax reliefs to incentivise work, effort and enterprise so as to stimulate economic and social development. To achieve this balance I am announcing a range of specific measures. These reflect the recommendations of the reviews, a synopsis of which is set out in the Summary of Budget Measures. I propose to publish all the relevant reports reviewing these various tax reliefs in time for the Finance Bill.

Firstly, the following reliefs either have achieved the objectives set for them or are no longer considered to be cost effective in terms of the objectives set for them and are therefore being terminated subject to certain transitional provisions: the urban renewal, town renewal and rural renewal schemes, and the special reliefs for hotels, holiday cottages, student accommodation, multi-storey car parks, third-level educational buildings, sports injuries clinics, developments associated with park and ride facilities and the general rental refurbishment scheme.

The transitional measures take cognisance of the fact that there are currently over 250,000 jobs in the construction sector and the building industry accounts for around 20 per cent of the economy. We should not do anything that disrupts unnecessarily an industry that is such an important driver of jobs.

For this reason, for projects that are already in the pipeline, I am extending the date for which 100% relief for expenditure will apply by five months from end July 2006 to 31 December 2006. Thereafter, where 15 per cent of the relevant expenditure on the project has been incurred by that date, the relief will apply to only 75% of the expenditure incurred in 2007 and to 50% for expenditure incurred up to end-July 2008. The relief will then reduce to zero, and thus end, after 31 July 2008. Full details of these transitional arrangements are set out in the Summary of Budget Measures.

Both sets of external consultants dealt with the transitional issue and both recommended an extension of relief for such pipeline cases. One recommended a simple extension of 100% relief for seventeen months beyond 31 July 2006. The other recommended an extension of 5 years but at only 50% relief. I have chosen a middle course.

This winding down of property based tax reliefs is consistent with the greater capacity of particular economic sectors nowadays to fund such investment from their own resources, and the sizable capital investment which the Government itself is making through the major new investments I referred to earlier.

In line with the recommendations of the consultants, I propose to continue the tax reliefs for nursing homes, childcare facilities, and private hospitals. Special arrangements will apply for park and ride facilities and the living-over-the-shop scheme as indicated in the Summary of Budget Measures.

The reviews also proposed that any new reliefs should be time-limited and should, where relevant, be subject to an assessment of costs and benefits prior to their introduction. They also proposed that recipients of these kinds of tax reliefs be required to supply full data to Revenue to assist in the costing and assessment of reliefs. I will be following this advice as far as appropriate.

A Minimum and Fair Tax

It is necessary not only to eliminate some incentive reliefs but also to regulate the use that can be made of those that remain. We cannot stand over a situation in which some high-earning tax residents, through the use of incentive reliefs, can reduce their taxable income to nil. This is simply not a fair situation, although I should point out that high-earning non-payers are in a very small minority. Accordingly, I propose now to place an annual overall cap on the extent to which specific incentive reliefs can be availed of.

The cap will apply to those with income over €250,000 per year. It will operate by reducing by half the amount of income that can be relieved from tax by certain specified tax reliefs. This measure will help eliminate the phenomenon of tax free millionaires and increase the effective rate of tax on those with high income towards a minimum of 20 per cent. Further details of how this will work are set out in the Summary of Budget Measures. This will require some complex new legislative provisions and I propose accordingly that the new system will apply for all tax years from 1 January 2007.

This annual cap system will also apply to Artist's relief from the same date. There is no change in the tax treatment of income now exempt under the Artist's relief scheme, where that income is less than €250,000 per year.

Pensions

Tax equity applies not only to taxpayers' current income but also to how taxpayers provide for their income needs in retirement. Recent Budgets and Finance Acts have made significant and innovative improvements in the nature and scope of tax reliefs for pension provision. This was done so as to encourage earlier and more substantive saving by the generality of individuals to meet the cost of providing themselves with a reasonable and affordable pension.

The Government itself is putting aside one per cent of GNP each year to help fund future pensions. The National Pensions Reserve Fund is expected to amount to some €15 billion or 11 per cent of national output at end 2005. In addition, substantial tax costs of the order of €3 billion or more are incurred to incentivise pension saving through tax reliefs each year.

The cost of providing such reliefs is that high because the funds which a pension scheme must build up have to be a multiple of the annual pension to be provided. Thus, a fund of about €1 million is required to generate even a relatively moderate annual pension.

We must continue to incentivise pension contributions if we are to meet the challenge of supporting an ageing population. To achieve this objective, I will be considering measures in the Finance Bill to assist those towards the lower end of the income scale, and those who are not using their current full entitlements, to provide themselves with reasonable retirement arrangements. The policy objective is to provide reasonable tax relief subject to limiting the amount the general taxpayer is required to finance. People will, of course, continue to be free to provide higher amounts for their retirement but without a subsidy from the general taxpayer.

To help contain this subsidy, the current maximum amount of an individual's pension contributions that can be tax-relieved each year is already limited to a specified percentage of income, subject to an earnings limit of €254,000. This earnings limit affects less than 1 per cent of income earners. It broadly translates into an accumulated pension fund of the order of €5 million, depending on a number of factors. There is currently no overall maximum limit, however, on the amount of the pension fund that can be tax-relieved. I believe that it is reasonable to set such a cap at €5 million, or the existing value of a person's pension fund as of today, if that is greater.

Under current rules the maximum tax free lump sum that can be taken by a person is one-quarter of the fund. Therefore, a fund cap at €5 million means a €1¼ million cap on all tax-free lump sums. This cap will apply on and from today.

I am also proposing that for those with funds in an approved retirement fund, these funds will be subject to income tax as if not less than 3 per cent of the fund were distributed each year. This should ensure that such funds are used to provide a retirement income and not as a device for tax deferral. As a transitional arrangement one-third of this rate will apply in 2007, two-thirds in 2008 and the full 3 percent in 2009 and following years.

Further details are set out in the Summary of Budget Measures.

Other Reliefs

I have examined a number of other tax reliefs such as the reliefs for expenditure on significant heritage houses and gardens, woodlands and donations and the tonnage tax and I have decided to make no significant changes in their operations for the present. In the case of horse and greyhound stud fee income this exemption will end on 31 July 2008. A new regime appropriate to the industry will be discussed with the European Commission.

I also propose to disallow interest on personal loans taken out to acquire shares in, or provide loans to, rental income companies.

KEEPING CONSUMER PRICES DOWN

Turning now to indirect taxation, I am proposing, like last year, to leave the main excises and VAT rates as they are. This is a significant Government contribution to keeping inflation down and securing further value for money for the consumer. On top of this the consumer can look forward to lower retail prices for basic grocery items due to the forthcoming removal of the grocery prices order already announced by the Government. Our efforts to increase competition generally also help keep price increases to a minimum.

Home Heating Fuel

There is a sizable gap in the cost of certain heating oils between here and Northern Ireland. I plan to eliminate the excise difference between the two jurisdictions in the next two years, starting today. I am beginning by halving the excise rate on Kerosene and LPG used for home heating from midnight tonight. This measure will cost €46 million in a full year.

Betting Tax

Earlier this year I initiated a review of betting duty. One of my prime concerns is how to protect the revenue base on a fair basis in view of the prevalence of effective tax-free betting on the internet.

With this in view, I am announcing today a reduction of betting duty from 2 per cent to 1 per cent from 1 July next with the intention that this duty will be borne by the industry and not the customer. This should ensure that tax-free betting is available in all betting offices and prevent betting offices competing on the basis of tax, sometimes to the detriment of small, locally-owned concerns. This reduction will cost up to €25 million in a full year but it is my intention to examine the potential for widening the tax base on which this 1 per cent applies in the future.

In making this reduction, I am seeking to protect the betting tax base in the State and to secure at least some revenue by levying the duty on the bookmaker and not on the customer.

SECURING OUR ENVIRONMENT AND OUR HERITAGE

Farming Tax

Farming is an integral part of this country's heritage. However it faces a significant challenge over the next few years for a variety of reasons. On the world scene, in the context of the ongoing WTO talks, there are pressures to reduce certain supports for agriculture and to throw open markets for agricultural produce to a greater extent, particularly those of the EU and the US.

On the other hand, there are opportunities too, particularly where land can be used in a sustainable and environmentally-friendly way.

I will be giving details in a moment of new incentives for the promotion of Biofuels which offer not only a new opportunity for farmers, but environmental and economic benefits for the whole community.

Farming will continue to be one of the lynch-pins of the economic, social and cultural life of this country, and I will ensure that policies that support farmer enterprise and good business practice will be maintained. The five year investment framework I am announcing today includes over €1 billion to support on-farm investment, including forestry.

The Minister for Agriculture and Food and I are agreed that there is a clear need for us to provide additional assistance to farmers, and particularly younger farmers, to help them adjust to the major changes which will take place. With this in view, I am proposing a package of significant tax reliefs for the farming community. These include the continuation of the stamp duty exemption for young trained farmers for a further 3 years, a significant increase in the tax exemption limits for income from farm leasing for over 5 years, an improvement in the farm pollution control relief and an extension of certain existing Capital Acquisitions Tax, Capital Gains Tax and stamp duty reliefs to cover the EU Single Farm Payment Entitlement in appropriate circumstances. Full details are set out in the Summary of Budget Measures.

Alternative Energy Sources

Government concerns about the environment, our obligations under the Kyoto Protocol, the present level of oil prices and concerns about security of energy supplies over the medium to long term all suggest that Ireland should take further measures to support the provision of environmentally friendly energy alternatives and put in place structures to support this policy.

My Budget today builds on the measures already in place to support the provision of alternative sources of energy, through the establishment of a Carbon Fund, further support for biofuels, flexible-fuel cars and renewable energy.

Carbon Emissions

I want to make it clear that the Government is conscious that Climate Change is one of the most challenging environmental issues facing this and future generations.

To meet this challenge further, I am announcing today the establishment of a Carbon Fund to enable the State to purchase Carbon Credits. This Fund will be financed on a multi-annual basis and I am providing €20 million in respect of 2006. The National Treasury Management Agency will be the Carbon Credit Purchasing Agency for the State.

More details on this initiative will be provided by the Minister for the Environment, Heritage and Local Government.

Biofuels

I have agreed with my colleague, the Minister for Communications, Marine and Natural Resources, that Ireland should set an initial target of 2 per cent of the fuel market to be taken up by biofuels by 2008 and that we should achieve this through targeted excise relief measures. The level of excise relief will start at €20 million in 2006 and will be increased to €35 million in 2007 and to €50 million in each of the following three years. This relief, when fully operational, is expected to support the use and production in Ireland of some 163 million litres of biofuels per year. This is 20 times the current level of biofuels that is excise-relieved.

There are clear benefits to all from this initiative. The environment will benefit in terms of a reduction in CO_2 emissions. It will enhance security of supply of fuels, and create jobs and outlets for agriculture production. It is estimated that the programme I am announcing could ultimately give rise to hundreds of extra full-time jobs in the State.

This new relief will require EU approval as a State Aid.

I am also extending the VRT relief for hybrid fuel cars to flexible fuel vehicles for a trial period of two years.

Renewable Energy Grants

To help develop a better focus on renewable energy my colleague, the Minister for Communications, Marine and Natural Resources intends to launch several innovative grant schemes relating to biofuels, combined heat and power, biomass commercial heaters and domestic renewable heat grants. I am allocating up to €65 million to provide support for the implementation of these initiatives in the Capital Envelope for his Department for the period 2006 to 2010.

Heritage Reliefs

I will be providing in the Finance Bill for a new scheme of tax relief for heritage property donated to the proposed Heritage Trust subject to a cap of €6 million per year on the level of overall relief. This will be modelled on the scheme already applying to gifts of heritage items to certain museums and galleries.

HELPING BUSINESS TO DEVELOP

I am personally conscious of the enormous contribution made to our economy by the many small businesses in the State. To help develop business generally, and small business in particular, I am proposing the following measures:

VAT Registration Thresholds

The VAT registration thresholds for small businesses will be raised in the forthcoming Finance Bill from €25,500 to €27,500 in the case of services and from €51,000 to €55,000 in the case of goods. This will cost €12 million in a full year and remove almost 2,200 businesses from the VAT net.

PAYE/PRSI Payment Arrangements

The annual tax payment limit below which PAYE and PRSI can be paid on a quarterly, instead of the normal monthly basis, is being raised to €30,000 per year. This will assist 74,000 small firms at a cash flow cost of €102 million to the Exchequer in 2006.

Companies Capital Duty

I propose to abolish the half per cent companies capital duty from today at a cost of €16 million in a full year to help firms operating in particular in the financial services sector. I will also be making changes in the Finance Bill to assist the leasing sector.

Closure of Various Tax Loopholes

I am closing off two particular loopholes in the tax system relating to Capital Gains Tax and interest relief in groups of companies. Details of these anti-avoidance measures are set out in the Summary of Budget Measures.

Remittance Basis of Taxation

I propose to end the current arrangements whereby certain non-domiciled employees of non-resident firms can escape a large element of income tax by arranging their affairs so that much of their income from working here is paid outside the State. The ending of this scheme should save the State up to €100 million per year in lost income tax revenue. More importantly, it will place all employees and firms, irrespective of nationality or employer, on the same tax footing when working in the State. Further details are set out in the Summary of Budgetary Measures.

SOCIAL FINANCE INITIATIVE

Deputies will be aware of this Government's commitment to ensuring that our economic success continues to be mirrored in social and community development. I am encouraged by the initial reaction of the banking community to my invitation to participate in a social finance initiative to enhance the availability of loan finance for social and developmental projects in local communities. I am looking to the banks to contribute both seed funding and their expertise to support the practical delivery of this initiative. I intend to keep the door open also for other sectors, and indeed private individuals to participate. The banks have indicated that they are willing to discuss with me how this initiative can be successfully advanced. I will be asking other interested parties to also assist in developing an effective model.

REFORMING THE BUDGETARY PROCESS

Last year I indicated that the Government was open to reviewing the budgetary process to encourage a more constructive and relevant examination of how the nation's finances are run.

I also made it plain that any changes would have to allow for the clear right and duty of the Government to direct and manage the budgetary process itself.

This Government has no problem in giving an account of its stewardship to this House and to the electorate in due course.

Such accountability can only reasonably take place on the basis of action that has been taken, and not on the basis of proposals involving spending yet to happen. It is for the Government to decide and to act and for the Dail to hold us to account, as provided for in the Constitution.

Having reviewed the matter, and studied various relevant contributions from inside the House, the Government has decided that certain proposals should be made to the House.

These proposals would mean that from January 2006, I would meet the Finance and Public Services Committee to discuss the economic and fiscal background to this and the next two Budgets. In the following autumn, my Department would update these three year economic and fiscal projections and publish them in place of the existing Economic Review and Outlook which deals only with the current year.

From 2007, individual Ministers would publish an annual statement on the outputs and objectives of their Departments and from 2008, the actual outturns. These statements would be presented to the relevant Oireachtas Committee along with the Department's annual estimates. After these individual examinations, the Finance and Public Service Committee would co-ordinate the preparation of a report to the Dáil on the deliberations.

I believe that these proposals go a long way to meet the desire on all sides of the House for better debate, better scrutiny and better results from the raising of tax and spending of public money in the State. I intend to write to the Opposition spokespersons on Finance and the Party Whips inviting them to a more detailed briefing on the principles and issues involved in implementing these reform proposals. These proposals, once bedded down, can lay the ground work for a more unified Budget approach in the future.

CONCLUSION

The Budget I have outlined today will sustain our economic growth and generate the resources we need to drive on with our key infrastructural programmes and look after the more vulnerable groups in our society. It is a progressive Budget. It will help Ireland build a fairer, more enterprising and more innovative society. We are reducing the tax burden, expanding services broadly, and following a prudent budgetary policy all at the same time. Many countries would be happy to achieve just one of those goals in any one year.

I believe this Budget embodies the active determination of this Government not to rest on Ireland's success, but to push ahead – so that prosperity too can be a great gift that this generation gives to the next. We are continuing to push ahead in the strategically important area of infrastructure, so that Ireland can compete in the new economy of a globalised world.

We are pushing ahead with investment in education which has been the oxygen of our economic success. We have taken stock of where we stand within the education environment today. Fourth level Ireland is a robust response on the part of the Government to protect our reputation for graduates of the highest calibre. We intend pursuing excellence, not preserving privilege.

We are pushing ahead with innovative proposals to finance high priorities like healthcare and social welfare – because prosperity is not a collection of statistics, or just a level of GDP; it must be a condition of life, a better life, for all Irish people. We are building a new environment for the care of our children in a modern and changing society.

We are driving forward in all the major policy areas because innovation is a test we must meet if we are to be faithful to the mandate we have been given – and the future we envision.

And we are pushing ahead because we believe in Ireland, today and tomorrow. This Budget advances our belief that the Irish people can continue to achieve extraordinary things if Government works with them and for them.

I commend the Budget to the House.