BUDGET 2014

Introduction

A Cheann Comhairle,

The story of insolvent Ireland is familiar to all our people and the sacrifices people have had to make in recent years are well known. Reckless policies were pursued by the Fianna Fáil led Government. This continued until Ireland was no longer able to borrow on the international markets and the Government had to turn to the lenders of last resort. The help from the IMF and the European authorities came at a high price. Hundreds of onerous conditions were attached to the loans. Ireland lost its sovereignty and the Troika came to Ireland. The Fianna Fáil led Government collapsed in a shambles and a Fine Gael/Labour Government took office with a mandate to sort out the disaster, to stabilise the economy, to get people back to work and to restore the sovereignty of this Republic.

The new Government immediately set about this task and renegotiated the bail-out programme. Among the more notable achievements were the extension of the maturities and the reduction in interest on the European loans, the Promissory Note changes, the liquidation of Anglo Irish Bank, the restoration of the minimum wage, and agreement that half of the proceeds from the sale of State assets will be used for capital investment.

This Government has reduced the deficit and controlled the national debt. We have reduced interest rates to levels below those that pertained during the so called boom, the economy is in its third successive year of growth and 3,000 net new jobs are being created each month.

The purpose of this Budget is to continue the progress we have made; to reinforce policies that grow the economy; to establish the conditions which will create jobs; and to prepare for exiting the bail-out programme.

To this end the Government has designed this Budget. We will bring in a deficit of 4.8% in 2014, we will bring in a small primary surplus, demonstrating that our national debt, which has been rising for so many years, is under control. We will achieve these targets by an adjustment of €3.1 billion, €2.5 billion of which will consist of expenditure cuts and tax increases.

As W.B. Yeats said in Easter 1916 “*too long a sacrifice can make a stone of the heart*”. I know that there is a view that the consolidation should go further, but people have already made many sacrifices.

One of the primary tasks of this Budget is to lay down the conditions for a successful exit from the bail-out programme at the end of this year or to put it another way to fund ourselves fully through the international markets in a sustainable way at competitive interest rates. We are well on course to do this and as the economy continues to grow and jobs continue to be created, we have a fair wind on our backs to achieve our objectives and restore our sovereignty.

<u>Focus on Employment</u>

While the Government was, over the last two and a half years, focused on implementing and ultimately exiting the EU/IMF programme, we have also been following another parallel programme. This parallel programme took the economy sector by sector and the Government built on the strong sectors of the economy and repaired those sectors which were damaged. The objective of this parallel programme is to support businesses to create jobs and get people back to work.

For example:

- In the tourism sector, I reduced VAT to 9% from 13.5% within the first 100 days of this Government; an initiative that boosted the tourist industry.
- I introduced a number of measures to support Irish farmers and to help those farmers who are preparing for the ending of milk quotas in 2015.
- Last year I introduced a 10 Point tax plan to support the SME sector.
- I introduced over 20 measures in Finance Act 2012 to support the financial services industry.
- A range of initiatives were introduced over the past 2 years to support the recovery in the property and housing market.
- I have also introduced measures to enhance the attractiveness of Ireland as a destination for Foreign Direct Investment and we have continually defended our 12.5% tax rate.

While many of these initiatives on their own may be small, taken together they have played a significant part in the recovery in the jobs market.

In this Budget I will follow the same approach. Creating jobs is the primary objective and today I am introducing 25 pro-business and pro-jobs measures. The total cost of the tax elements is in excess of €500 million in a full year. This very significant investment is designed to help businesses in key sectors achieve their full growth potential and create jobs.

<u>Pro-Jobs Tax Measures</u>

This Government is continuing to focus its policies on creating and maintaining jobs in all sectors of the economy. I will now set out the tax measures that will support job creation and then Minister Howlin will set out the public expenditure measures that will support job creation.

Tourism

In recognition of the importance of the tourism sector to the overall economy and as a major source of jobs, I reduced VAT in this sector to 9% in the Jobs Initiative in May 2011. As I outlined earlier, this initiative has proved to be a major success, helping create over 15,000 new jobs as well as protecting existing jobs. As Deputies will be aware, the rate of VAT for the tourism and hospitality sector and the other sectors to which it applies is due to revert to 13.5% at the end of this year. However, it is important that we reinforce success when possible, so I have decided to continue the 9% rate of VAT for these vital sectors. This will support the increased number of jobs already in place and accelerate the creation of new jobs.

To further support the tourism sector, I have also decided to reduce the Air Travel Tax to zero with effect from the 1st of April 2014. I expect the airlines to utilise this initiative to develop new routes and build traffic volumes thereby helping tourism and I have reason to believe they will do so.

Agri-food and fisheries

The agri-food and fisheries sector is Ireland’s largest indigenous industry employing some 150,000 people, producing an annual output of €24 billion and exporting €9 billion worth of goods to over 160 countries. It is entirely appropriate that the sector has been the recipient of significant tax relief and incentives over the years, but these have grown over time and there is now a significant information gap about their cost and effectiveness. Therefore, I am announcing, in conjunction with my colleague, the Minister for Agriculture, Food and the Marine, that an independent cost benefit analysis will be undertaken in this area. The objective of the review is to identify what works and what doesn’t, and redirect the existing level of tax expenditure towards activities of maximum benefit to this sector of the economy. This review follows recent reviews of property, film and R&D tax expenditures. Any recommendations will be considered in the context of Budget 2015.

However, I do wish to announce that the farmers’ flat rate addition is being increased to 5% from 4.8% with effect from the 1st of January 2014. This scheme compensates farmers for VAT incurred on their farming inputs.

In addition, I am also extending Capital Gains Tax retirement relief to disposals of long-term leased farmland in certain circumstances. The purpose of the change I am introducing in this area is to encourage older farmers to lease out their farmland on long term leases to younger farmers, in circumstances where the older farmers have no children who are willing to take up farming.

The eligibility for Young Trained Farmers relief is also being extended by adding three more qualifying courses to the list of relevant qualifications required for the 100% rate of stock relief and for the Stamp Duty relief for the purchase of agricultural properties, which I am maintaining.

Property/Construction Sector

In my previous Budgets, I have included important measures that have begun to return growth to the construction sector. I introduced these, as I have continually stated, with the objective of helping the construction and development sector return to sustainable levels in line with most economies. No sector has been hit harder since 2008 and a return to a normalised construction and development sector is needed to provide jobs for the thousands of unemployed construction workers. Furthermore, in light of increases in property prices due to the supply limitations in some areas, it is important that we increase the supply of suitable residential housing stock to prevent a new property bubble emerging. This includes the building of new homes and the renovation of the existing housing stock in Dublin and our main urban centres.

Home Renovation Incentive (HRI)
I am introducing a home renovation tax incentive scheme. The Home Renovation Incentive will provide an income tax credit to homeowners who carry out renovation and improvement works on their principal private residences in 2014 and 2015. The incentive is payable over the two years following the year in which the work is carried out. The credit will be calculated at a rate of 13.5% on all qualifying expenditure over €5,000 up to a maximum of €30,000. Qualifying works include extensions and renovations to the home, window-fitting, plumbing, tiling and plastering. This incentive will support fully tax compliant builders and will move activity out of the shadow economy into the legitimate economy as all expenditure and relief claims will have to be registered electronically with the Revenue Commissioners.

Living City Initiative
Last year I announced the Living City Initiative for Limerick and Waterford. Following further consideration including a cost benefit analysis that I am publishing today, I have decided to extend the initiative to Cork, Galway, Kilkenny and Dublin and broaden the eligibility criteria to include all buildings built prior to 1915. The initiative should assist the regeneration of retail and commercial districts and encourage families to live in the historic buildings in our city centres. It will be commenced after EU state-aid approval is secured.

Capital Gains Tax Relief
In Budget 2012, I announced an incentive that exempted property purchased by the end of 2013 from Capital Gains Tax if held for at least seven years. I am extending the purchase period to the end of 2014.

Real Estate Investment Trusts
Following the successful launch of the Real Estate Investment Trusts in Ireland, as provided for in the Finance Act 2013, I have agreed with my cabinet colleague, Minister Shatter, to propose the addition of REIT investments to the 5 investment options already in place under the Immigrant Investor Programme launched last year by the Department of Justice. This would be subject to conditions placed on the minimum level of the investment and withdrawal of funds, to ensure alignment with the overall purpose of the programme.

NAMA Investment
NAMA is delivering and is committed to delivering additional significant investment in the Irish economy right now. NAMA expects to have approved €2 billion in funding for Irish projects between 2011 and 2015. This level of investment could be increased depending on the pace of economic recovery. The investment will include the construction of 4,500 new houses and apartments in Dublin, in addition to much-

needed office accommodation in the city centre and investment in commercially viable retail projects.

NAMA is also willing to make €2 billion in vendor capital available to purchasers of commercial properties in Ireland. It has already lent €375 million of this across six major transactions.

Foreign Direct Investment

Ireland's corporate tax strategy has three key elements: rate, reputation and regime.

The tax rate is settled policy. We are 100% committed to the 12.5% corporation tax rate. This will not change.

But increasingly tax reputation is also a key factor in winning mobile foreign direct investment. Over the last 12 months, the international rules for taxing multi-national companies have been a focus for much debate across the globe. Global challenges require global action. This is now happening through the OECD Base Erosion and Profit Shifting project in which Ireland is playing an active part.

Let me be crystal clear. Ireland wants to be part of the solution to this global tax challenge, not part of the problem. That is why today I am publishing a new international tax strategy statement which sets out Ireland's objectives and commitments in relation to these issues. I will also be bringing forward a change in the Finance Bill to ensure that Irish registered companies cannot be 'stateless' in terms of their place of tax residency.

Countries are increasingly competing more and more aggressively for mobile foreign direct investment. I want Ireland to play fair - as we have always done - and I want Ireland to play to win. That is why I will continue to examine ways in which Ireland can ensure that our corporate tax regime remains competitive.

Entrepreneurship, innovation and investment

All economic sectors have a vital role to play in our economic recovery. However, to create additional jobs, we need to support the creation of new businesses, which are effective job generators. At present in Ireland the aspiration to set up a new business is lower than the EU and OECD averages. Too many people in Ireland see themselves as employees for life. We must encourage people to start their own businesses.

To do this we need three things: entrepreneurship; innovation; and investment. Today I am announcing a series of measures under the "Build Your Business Initiative" which focus on these factors:

- To promote entrepreneurship, from next year, I am giving a Capital Gains Tax relief to entrepreneurs who reinvest the proceeds from the disposal of assets, on which CGT has previously been paid, into a new investment in productive trading activities. The relief will be a tax credit equal to the lower of the CGT paid on the previous asset disposal or 50% of the CGT due on any gain from the future disposal of the new investment. EU state-aid approval is required for this measure.

- To encourage innovation, I am implementing the key recommendations of a review of the Research and Development tax credit that I am publishing today. These improvements relate to the outsourcing of R&D, qualifying expenditure in relation to the base year and the key employee provision.
- I am introducing a new Start Your Own Business scheme to assist individuals who have been unemployed for at least 15 months start their own unincorporated businesses by giving them a two year exemption from income tax. This scheme, in combination with the Home Renovation Initiative, will assist construction workers to return to work.
- To stimulate investment, inspire entrepreneurship and support and protect jobs, I am removing the Employment and Investment Incentive from the high earners restriction for a period of 3 years. This will encourage investors to invest up to the annual limit of €150,000 under the scheme. Additional equity will enable SMEs to expand and enhance the credibility of their credit applications.
- Furthermore, I propose to exempt share transfers on the Enterprise Securities Market of the Irish Stock Exchange from the 1% Stamp Duty that would otherwise apply.
- I am bringing forward the start date of the new Film Relief scheme to 2015 from 2016 and extending it to include non-EU talent in order to help attract additional major film productions to these shores. These productions are job rich and can often give a knock-on boost to the tourism sector. This extension will be subject to EU state-aid approval and it will be coupled with the introduction of a withholding tax;
- Building on a measure in last year's 10 point plan to help SMEs, I am increasing the cash receipts basis threshold for VAT from €1.25 million to €2 million with effect from the 1st of May 2014. This overall increase in the threshold of €1 million since 2012 will assist cash-flow and reduce administration in a larger number of SMEs.

Magdalene Laundries

The Government has decided to give effect to one of the main recommendations of Mr. Justice Quirke, in relation to his report on the individuals who worked in Magdalene Laundries. To this effect, I am announcing that all lump sum payments to claimants will be tax exempt.

Shadow economy

The shadow economy causes distortions in the real economy because it puts legitimate and compliant business at a competitive disadvantage. I am introducing seven measures designed to further support the Revenue Commissioners' work targeting VAT fraud, illegal tobacco selling, unlicensed trading in alcohol products, and fuel laundering.

I believe that compliant taxpayers should have an independent, fair and efficient appeals process open to them, and that is why I am announcing a reform of the Appeal Commissioners in 2014.

Presentations and more detailed information on the measures I am announcing today are available on the Budget website.

Banking and credit

The banking sector has a very important role to play in supplying credit at competitive rates to support economic growth. As shareholders in the main banks, our objective is to manage them commercially to create and protect value for the taxpayer as the shareholder, but they must also supply the credit lines necessary to sustain and grow the economy.

Credit unions also have a key role to play in providing access to credit and other important services in local communities throughout the country. The Government is a supporter of credit unions. We have provided significant funding and we will continue to work closely with the movement so that credit unions can continue to play a full part in Ireland's recovery.

We must continue to ensure that businesses, particularly SMEs, have access to credit from a diverse range of sources. Sources of alternative funding continue to rise. These include the National Pension Reserve Fund, the European Investment Bank and private providers such as Silicon Valley Bank. At European level, we are leading the debate on non-bank funding models for business as we promote the jobs and growth agenda both home and abroad.
Given the importance of the export sector to sustainable economic growth and employment, we are in discussions with the European Investment Bank on the feasibility of an EIB-supported trade finance initiative which would proactively support Irish exporters in growing their businesses abroad.

The Credit Review Office fulfils an important role in assisting borrowers who have been refused credit by the banks. I am announcing an increase in the limit for loan applications that can be appealed to the Credit Review Office from €0.5 million to €3 million to facilitate requests from a broader range of SMEs.

The level of awareness amongst SMEs and entrepreneurs of the full suite of developmental business supports remains low. In order to address this, a comprehensive communication strategy will be rolled out in the coming months.

To improve the framework of credit supports available to SMEs, I am also announcing a subsidised financial training programme for small businesses consisting of two days dedicated offsite training together with expert mentoring support. This programme will be carried out in conjunction with the Skillnets Management Works Programme and is designed to improve the financial capability of SMEs.

The banking sector also has a key role to play in supporting customers who are in mortgage arrears. We have put in place a comprehensive suite of measures to help mortgage holders, the personal insolvency regime has been overhauled and the insolvency service is now up and running. The banks have been set targets by the Central Bank. Within the next twelve months I expect that the vast majority of customers who are currently in arrears will have been offered and accepted a sustainable solution. Homeowners in mortgage arrears must be given the opportunity to address their problems, to move on with their lives and to fully re-engage with the real economy. This is important not just for the homeowners involved but for the entire economy.

Public finances and economic forecasts

I will deal now in more detail with the financial targets I referred to earlier in my Statement.

The forecast deficit for 2013 is 7.3%, for 2014 4.8% and for 2015 2.9%. We have beaten our deficit target during each year of our programme, and a deficit at 4.8% will beat the target again next year.

I am pleased to announce that this is the first Budget speech since 2007 which is taking place against the background of an increase in employment. Data for the second quarter of this year suggest that employment grew by 1.8% over the year, a rise of 34,000 jobs, with full-time employment up as well as part-time. I would also like Deputies to note that employment is now expected to grow by about 1½% both this year and next year.

My Department is forecasting GDP growth of 0.2% this year, strengthening to 2% next year. This forecast is better than the 1.8% growth forecast endorsed by the Irish Fiscal Advisory Council because it takes account of the budgetary measures that I and Minister Howlin are announcing today.

Total voted and non-voted expenditure will be €64.9 billion in 2014. Voted expenditure along with expenditure funded by the Social Insurance Fund and the National Training Fund, defined in the Ministers and Secretaries (Amendment) Act 2013 as the Government Expenditure Ceiling, will be €52.9 billion in 2014. Government has decided that the Government Expenditure Ceilings for 2015 and 2016 will be €51.5 billion and €51.9 billion respectively.

Minister Howlin will provide information on expenditure in his Statement immediately after my Statement. Full details on 2014 expenditure will be set out in the Expenditure Report he is publishing today.

Ireland's debt is forecast to peak at 124% of GDP at the end of this year. This debt ratio is very high and reducing it must be a key priority. The first step is to reduce the amount being borrowed and ultimately to cease borrowing particularly for day to day spending. The effectiveness of the steps we have taken since entering office, including in this Budget, are visible from the small primary surplus that is forecast for next year; in other words, excluding the interest burden, we are paying our own way again.

I would stress that one reason for the current high debt ratio is the policy decision to ensure that the State is well funded as we leave the EU/IMF Programme – we have built up a large stockpile of cash to ensure that the State has sufficient funding at the end of the year to meet its financial commitments into early 2015. In the coming years, the NTMA will manage down the level of the State's cash reserves to significantly lower but still prudent levels.

All-in-all, the debt ratio will move onto a downward path from next year onwards – to 120% at end-2014, 118.4% at end-2015 and 114.6% at the end of 2016. This downward momentum will further enhance market confidence in Ireland.

Tax Measures

The deficit target and the initiatives to support jobs that I announced have to be paid for. In total, some €1.2 billion of additional revenue is required in 2014. Measures introduced or announced in Budget 2013 have resulted in an estimated carry-over of over €500 million and I am announcing close to €700 million of new measures today. Equity and transparency were taken into account in devising these measures, the full details of which will be contained in the Finance Bill to be published shortly.

Income Tax

In the last Budget I abolished Top Slicing Relief on all ex-gratia lump sum payments made in respect of retirements, or terminations of employment, where they were €200,000 or over. I have decided to go further this year and abolish this relief entirely, given that it operates to provide additional relief to those who may be in receipt of very significant ex gratia lump sum payments.

In relation to medical insurance relief, I have decided to cap the amount of premium on which tax relief will be available to €1,000 per adult and €500 per child. This will restrict the exposure of the Exchequer in relation to premiums paid for 'gold plated' medical insurance policies, while not affecting the majority of individuals who avail of more standard levels of medical cover. For example, a family of two adults and four children will still receive tax relief on premiums of up to €4,000 per annum. Only the portion of any premium that exceeds the new thresholds will not qualify for tax relief.

There is no specific tax credit for children in the Irish tax code; rather credits are applicable in respect of children in different circumstances. There is however, a one parent tax credit which may be drawn in full by both parents. From next year, I am replacing the "One-Parent Family Tax Credit" with a new "Single Person Child Carer Tax Credit" of equal value. This new tax credit will be available only to the principal carer of the child. This is in line with the payment mechanism for child benefit. This policy change was recommended by the Commission on Taxation in 2009.

Partnerships

For reasons of equity, I have decided to abolish the tax relief that was available for acquiring an interest in a partnership.

Tobacco Products Tax

With effect from midnight tonight, excise duty on a packet of 20 cigarettes is being increased by 10 cent with a pro-rata increase on the other tobacco products.

Alcohol Products Tax

Also with effect from midnight tonight, excise duty on a pint of beer or cider, and a standard measure of spirits is being increased by 10 cent, the duty on a 75cl bottle of wine is being increased by 50 cent. I understand that this increase will impact on vintners but it must be considered in the context of the retention of the 9% VAT rate on food and hospitality services, which are an ever increasing proportion of vintners' revenue.

Tax on Savings
With effect from 2014, I am introducing a new higher single unified rate of 41% for DIRT and the exit tax that applies to life assurance policies and investment funds. The previous differential rates based on payment frequency will no longer apply. This measure will incentivise investment and spending in the economy, which is vital for the creation of jobs.

Levy on Domestic Banks
The Government has decided that the banking sector should make an annual contribution of €150 million to the Exchequer for the period from 2014 to 2016. We will introduce the levy on the same basis as the one that yielded over €100 million each year from 2003 to 2005. The contribution from each institution will be broadly based on the amount of tax paid on deposit interest in 2011 and reflects the significant role played by the banking sector in the crisis. Similar levies are in place in other EU Member States including France, the Netherlands and the UK and full details on the measure will be set out in the Finance Bill. In addition, and to level the tax position of all banks, I am removing the restriction on the use of deferred tax assets for NAMA losses.

Pensions
In line with the commitment I made in Budget 2013 to restrict the subsidisation by taxpayers to pensions that deliver income up to €60,000 per annum, I am reducing the Standard Fund Threshold from €2.3 million to €2 million from the 1st of January 2014. I am also changing the current single valuation factor of 20 used to value Defined Benefit pension entitlements to a range of higher factors which vary with the age at which the pension is drawn down. This will improve the equity of the Standard Fund Threshold regime as between Defined Benefit and Defined Contribution pension arrangements, and between those who retire at an early age and those who retire at older ages.

Further details of the changes to the Standard Fund Threshold regime are included in Annex B to the Summary of Budget Measures.

Pension Levy
I wish to confirm that contributions to pension schemes will continue to attract income tax relief at the marginal rate of tax. I wish to confirm that the 0.6% Pension Levy introduced to fund the Jobs Initiative in 2011 will be abolished from the 31st of December 2014. I will however, introduce an additional levy on pension funds at 0.15%. I am doing this to continue to help fund the Jobs Initiative and to make provision for potential State liabilities which may emerge from pre-existing or future pension fund difficulties. The levy within the existing legal framework will apply to pension fund assets in 2014 and 2015.

High Earners Report
Today, I am publishing the Report of the Revenue Commissioners on their analysis of the High Earners Restriction in 2011, which covers the latest figures available and relates to measures to limit the use of certain tax reliefs and exemptions by high-income individuals. The yield is down when compared to the report for the tax year 2010 due to the income of these individuals falling and to the closure of tax reliefs, such as the abolition of the patent and stallion fees exemptions and the capping of

the artist's exemptions. This has resulted in many of these individuals moving into the regular income tax system. The report shows that the effective tax rates for different categories of high earners are around 30-40%. This confirms the restriction is working to improve the balance between promoting tax equity in relation to those on high incomes, whilst maintaining the incentive effect of the various tax reliefs introduced to achieve a particular public good.

Apart from the measures that I have just announced Deputies will be pleased to hear that:

- there will be no increases in income tax or the Universal Social Charge in 2014;
- there will be no increases in the 9%, 13.5% or 23% VAT rates in 2014; and
- there will be no increases in excise duty on petrol, diesel or on home heating oil and gas.

EU/IMF Programme exit strategy

As I outlined earlier, one of the primary tasks of this Budget is to secure Ireland's exit from the Bailout Programme; an ever present element in our political and economic decision making over the past three years.

This Budget will bring the deficit to 4.8%, again ahead of the required target. It will move us to a small primary surplus. This will give the financial markets the confidence to continue lending to us. This is essential for a state to be able to provide the vital public services demanded by its population. The reality, as this country is now all too familiar with, is that if a state cannot borrow funds at sustainable rates then it cannot provide a definitive level of public services.

Ireland will be the first euro area country to exit an EU-IMF programme of this type. Countries who have exited IMF Programmes have had follow up programmes or backstop arrangements to ensure a return to the markets at very little risk.

Ireland is fortunate that the NTMA has almost €25 billion in cash balances; in effect we have a credible backstop already in place. When the Budget is concluded I plan to have consultations on our exit strategy with the IMF, the European Commission and the European Central Bank. Having heard their views, I will advise the Government on the best course of action.

Conclusion

By the time the majority of the measures that I have announced today become law on the first of January next, I am confident that Ireland will have left the EU/IMF programme. We will have closed this chapter of Ireland's history that began for most of us with the Governor of the Central Bank announcing to the Irish public that the country would be forced to turn to the lenders of last resort.

There will be no promissory notes, there will be no Anglo Irish Bank and there will be no bank guarantee. We will have exited the programme and Ireland will have been handed back her purse.

We will still have difficult choices to make and further actions will be required to meet our targets in the years ahead. The recovery is well underway but there are still risks. However, there are also many opportunities that must be embraced.

This Budget has been carefully calibrated to support the growth in jobs that we have seen in the past 18 months, and to keep Ireland on the path to sustainable public finances and economic growth.

We are well along the recovery path and it is time now, as a nation, to begin to look forward.

I commend this Budget to the House.