

Post-Budget Briefing

Tax and welfare measures

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Overview

Minister announced Budgetary package of €2,945 million

- €2,577 million increase in current spending
 - (Including €171 million of new Social Protection measures)
- €794 million increase in capital spending
- And €426 million in net tax increases
- Prudent overall fiscal stance with extra spending if No Deal Brexit

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Presentation assesses these tax & welfare measures

1. Direct tax changes
2. Indirect tax changes
3. Welfare changes

Cash freeze to most tax credits & bands

Effective tax rise given inflation & earnings growth

- Inflation erodes real value of tax credits & bands
- ‘Fiscal drag’: more people paying tax on more of their earnings

Described in SES as discretionary revenue raising measure

Annex 1

Table A1: expenditure benchmark approach to fiscal space, € billions unless stated

	2020	2021	2022	2023	2024
a. Reference rate, ¹ per cent	4.7	4.6	4.5	4.2	3.7
b. Convergence margin, percentage points	2.9	0.0	0.0	0.0	0.0
c. Applicable benchmark, per cent [a-b]	1.8	4.6	4.5	4.2	3.7
d. GDP deflator, per cent	1.9	1.8	1.7	1.7	1.7
e. Permitted expenditure growth, per cent $[100 \cdot ((1+c/100)^d \cdot (1+d/100) - 1)]$	3.7	6.5	6.2	6.0	5.5
f. Corrected expenditure aggregate (year t-1)	78.8	81.9	84.8	87.8	90.8
g. Gross fiscal space under EB $[e \cdot f / 100]$	2.9	5.3	5.3	5.2	5.0
h. Discretionary revenue raising measures	0.6	0.6	0.6	0.6	0.6
i. Adjusted fiscal space [g+h]	3.5	5.9	5.9	5.8	5.6

Though home carers & self-employed will pay less

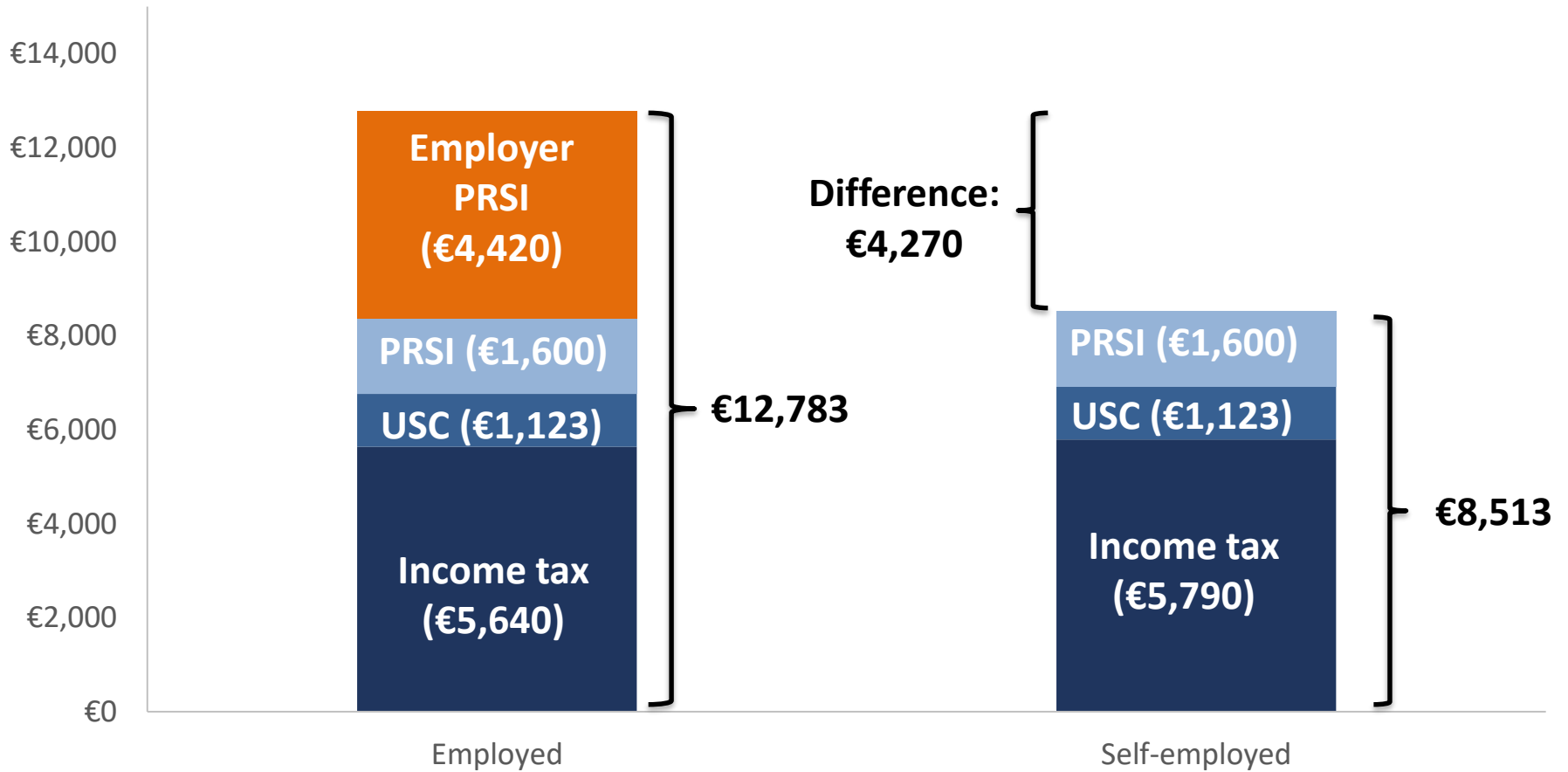
€100pa ↑ in the Home Carers Credit (costing €8m pa)

- Up to €1,600 benefiting c.80k married couples with one spouse working mostly at home caring for a dependent child or adult

€150pa ↑ in self-employed tax credit (costing €35m pa)

- Reduces less favourable income tax treatment
- Will continue to face 3% USC surcharge on incomes >€100k
- ... but still benefit from very favourable PRSI treatment (despite elimination of substantive difference in welfare entitlements)

Total income tax, USC and PRSI associated with annual income of €40,000



Some changes to other personal & business taxes

€15k ↑ in CAT 'Group A' threshold (costing €11m pa)

- No tax now due on first €335k of inheritance/gifts from parents

Reduced USC rate for medical card holders extended

- Cost of €59m next year & €68m per year if repeated in future

Extension/expansion of various tax breaks for businesses

- Together cost €80m pa, most to be reviewed in coming years

Anti-avoidance & compliance measures raising c.€175m!

Two major property related tax changes

Help to Buy scheme extended until 2021 (costs €200m)

- Introduced mid-2016 to help First Time Buyers obtain a deposit
- Far more expensive than anticipated (€100m this year alone)
- Half of claims for homes worth more than €300k
- 40% of claims had LTV <85% (i.e. already had deposit)
- Poorly targeted policy that could add to house price growth

↑ stamp duty on commercial property (raises €141m pa)

- Transaction taxes a particularly inefficient form of taxation
- ... but coherent rationale for raising given potential overheating in the sector and limited construction resources available

Most of the action was on indirect taxes

Sensible change to Vehicle Registration Tax (raises €25m)

- New NOx/km levy replaces current 1% diesel surcharge
- Aimed at tackling external air pollution costs from motoring
- But largest external cost of motoring is congestion in urban areas, which remains entirely untaxed in Ireland
- And entire system of motor taxation needs radical reform given improving emissions standards are eroding revenue base

Cash freeze (real cut) to all excise duties bar tobacco

- 50c ↑ on pack of 20 which scorecard says will raise €57m pa
- ... but Revenue estimate could also cost €42m pa

... with long-anticipated increase in the carbon tax

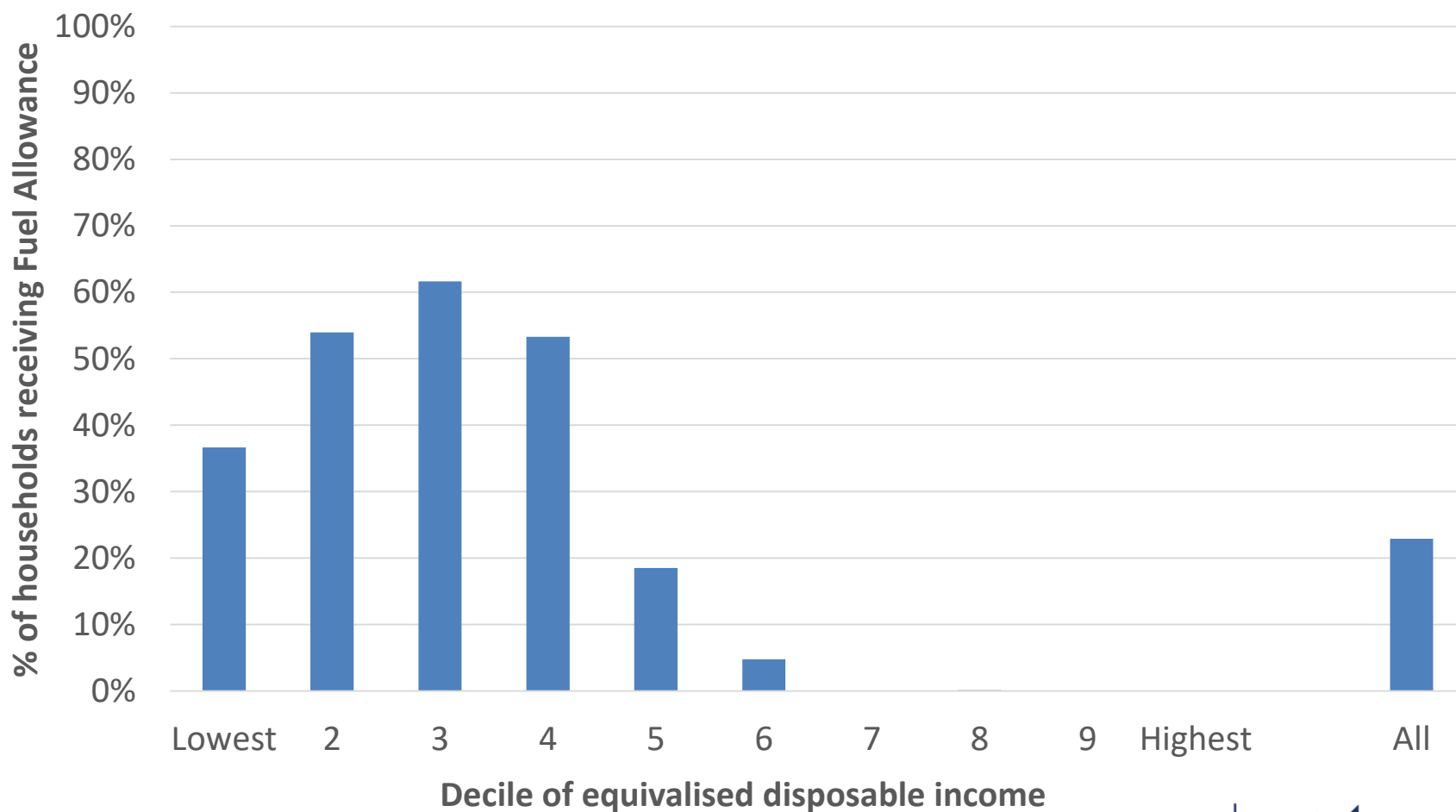
Increased from €20 to €26/tonne (raising €130m pa)

- Overnight increase on petrol & diesel = <2c/litre
- Implemented on solid fuels in May 2020
- ESRI research shows will reduce emissions with limited impact on the wider economy & that regressive impacts can be mitigated

Extra revenue 'ring-fenced' for climate measures, but...

- €2pw ↑ in Fuel Allowance won't compensate lowest-income HHs

... but €2 increase in the Fuel Allowance won't compensate the lowest-income households



Little change to most other welfare payments

Cash freeze to main welfare payment rates & thresholds

- Real terms cut in living standards given 1.4% forecast inflation

Larger rise in IQCs for children aged 12+

- unclear this the most effective use of resources given body of evidence showing early childhood is a formative stage of life

As expected, 100% Xmas Bonus in 2019 (costing €279m)

- Announcing this late in the year creates needless uncertainty for lower-income households & the public finances

Conclusions

Extra spending in 2020 focused on public services & pay

- Partly funded by effective tax rise on most workers, indirect tax increases and raft of compliance/anti-avoidance measures
- Some welfare payments increased, but most frozen in cash terms
- Scope found to extend tax breaks, cut gift/inheritance tax along with income tax for home carers and the self-employed

Budget process itself has some positives and negatives

- + Publication of TSG papers in Autumn improves public debate
- Limited documentation of costings making them hard to assess