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## IFA BUDGET REPORT 2010

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Rowena Dwyer  
Chief Economist

Con Lucey  
Farm Business Committee

Gerry Gunning  
Rural Development Committee

## Budget Overview

The purpose of the expenditure savings of €4 billion announced in Budget 2010 was to stabilise the Public Finances. These are broken down as follows:

- €1 billion reduction in **Public Sector Pay** and pensions;
- €760 million reduction in **Social Welfare payments**, through an average 4.1% reduction in Social Welfare payments and a 10% reduction in **Child Benefit** payments;
- €980 million reduction in **Programme Expenditure**; and
- €960 million reduction in **Capital Expenditure**;

A **Carbon Tax** was the only major tax change introduced, which will raise €330 million in a full year.

This is the first step in a 4 Year Programme of adjustment in the public finances, agreed with the EU, involving a further total adjustment of €8.5 billion.

## Funding for Key Farm Schemes in Department of Agriculture Budget

- **REPS** – Allocation of €330 m, of which €50 m is for new agri-environmental scheme
- **Disadvantaged Areas** – Funding maintained at €220 m
- **Suckler Cow Welfare Scheme** - Funding maintained at €34 m
- **Forestry** – Funding of €116 m for planting of 7,000 hectares
- **Farm Waste Management Scheme** – Allocation of €200 m
- **Farm Improvement Scheme** – Allocation of €19 m

## Key Taxation and Social Welfare Changes Relevant to Farmers

- **Income Levy – Deduction of Capital Allowances** - Expenditure incurred by farmers under FWMS will be allowed in calculation of Income Levy
- **Levies** - In 2011, the Income Levy, PRSI and Health Levy will be replaced by a single Social Contribution
- **Carbon Tax** – Rate of 4.2c/l for Petrol, 4.9c/l for Diesel and, from May 2010, 4.7c/l for Agricultural Diesel
- **VAT** – Reduction of Standard Rate from 21.5% to 21%;
- **Unemployment Benefit and Farm Assist** – Reduction of 4.1% or €8.30 per week; and
- **Child Benefit** – Reduction of €16 per child per month

## Economic Outlook

- **Economic Growth (GDP)** has contracted by 7.5% in 2009 and is to contract by 1.3% in 2010
- **Government Deficit** in 2009 is €19.3 billion, or 11.7% of GDP and is projected to be €18.7 billion, or 11.6% of GDP in 2010;
- **Government Debt: GDP ratio** is 64.5% in 2009 and will increase to 78% in 2010; and
- **Unemployment** rate at 11.8% for 2009 and 13.2% for 2010.

## TABLE OF CONTENTS

<b>1</b>	<b><i>Introduction - Background to Budget 2010</i></b> .....	<b>4</b>
<b>2</b>	<b><i>Expenditure on Agriculture – Revised Estimates For 2010</i></b> .....	<b>4</b>
2.1	<i>Summary of Expenditure by Department of Agriculture (DAFF)</i> .....	4
2.2	<i>Main Changes in Expenditure or Policy by DAFF</i> .....	5
<b>3</b>	<b><i>Taxation Measures</i></b> .....	<b>7</b>
3.1	<i>Income Tax/ Income Levy</i> .....	7
3.2	<i>Carbon Tax</i> .....	7
3.3	<i>Savings and Pensions</i> .....	8
3.4	<i>VAT and Excise</i> .....	8
3.5	<i>Property Tax</i> .....	8
3.6	<i>Water Charges</i> .....	8
<b>4</b>	<b><i>Other Public Expenditure and Social Welfare Changes</i></b> .....	<b>9</b>
4.1	<i>Public Sector Pay and Pensions</i> .....	9
4.2	<i>Social Welfare Changes</i> .....	9
4.3	<i>Other Rural Expenditure Programmes</i> .....	10
<b>5</b>	<b><i>The Public Finances and National Economy</i></b> .....	<b>11</b>
5.1	<i>Budget Balance (Budget surplus or deficit)</i> .....	11
5.2	<i>The National Economy</i> .....	12
5.3	<i>Other Relevant Government Decisions</i> .....	13

## 1 Introduction - Background to Budget 2010

2009 has seen a continued weakening of economic activity in the domestic economy. Output in the economy (GDP) has fallen by 7.5% and the unemployment rate has risen to 11.8%. A severe drop in consumer demand has led to falling prices, with deflation of 4.4%.

Exports are projected to fall slightly, by 2.7%, in 2009, with growth in exports concentrated in the foreign-owned multi-national sectors, such as Pharmaceuticals.

However, the continuing weakness of sterling against the euro has undermined the competitiveness of the Irish exporting sector throughout 2009. This is particularly true for the agri-food sector, which exports over 40% of its produce to the UK, and which has suffered a fall in exports of approximately 14%

The deterioration in the Public Finances has continued, with tax revenues down over €8.5 billion on 2008 to €32.6 billion, while Public Expenditure has continued to increase, up to €52.2 billion. This has led to a General Government deficit in 2009 of €19.3 billion. To stabilise the Budget Deficit, the 2010 Budget involves expenditure adjustments of a total of €4 billion and the introduction of a Carbon Tax.

This report is divided into the following sections:

- Section 2 outlines the changes in government expenditure for Agriculture for 2010;
- Section 3 identifies the main Taxation measures introduced;
- Section 4 outlines Other Changes to Public Expenditure and Social Welfare; and
- Section 5 provides a summary of the Public Finances and National Economy.

## 2 Expenditure on Agriculture – Revised Estimates For 2010

### 2.1 Summary of Expenditure by Department of Agriculture (DAFF)

The 2010 allocation for the Department of Agriculture is €1.7 billion, which is a reduction of 13% on 2009. This includes receipts of €384 million (EU co-funding for Rural Development programmes and Farmer Levy contributions). Therefore, the Net Government Allocation to Agriculture in 2010 is €1.35 billion.

The reduction of €248 million in the Agriculture Budget results from a reduction of €38 million in pay for DAFF and the State Agencies, in line with the general public sector pay reductions and a reduction of the funding requirement for programmes such as Pork Dioxin, Farm Waste Management and Fallen Animals, as identified by IFA in its pre-budget campaign.

**Table 2.1: Summary of Expenditure by Department of Agriculture (€m)**

DAFF (€m)	2009 estimate	2009 outturn	2010 estimate	% change from 09 outturn
<b>Gross expenditure</b>	1,985	2,003	1,735	-13%
<b>Receipts</b>	386	404	384	-5%
<b>Net expenditure</b>	1,599	1599	1,351	-16%

## **2.2 Main Changes in Expenditure or Policy by DAFF**

### ***2.2.1 REPS***

€330m is allocated to the REPS for 2010. This includes funding for the new REPS scheme. 10,000 farmers will leave REPS 3 next year and a new scheme will be available to them. Details of this scheme are not yet available as negotiations are still ongoing between the Department of Agriculture and the EU Commission. The Minister for Finance has indicated that in a full year this scheme will pay a maximum of €5,000 to the farmers who will leave REPS by the 15<sup>th</sup> May next.

IFA is concerned that the allocation provided only covers the 30,000 farmers who have joined REPS 4 (all of whom are due a full year payment in 2010) plus the 23,000 REPS 3 farmers who are due their final payment next year.

IFA will be continuing to press for a meaningful REPS scheme with payment levels up to the average of REPS 4. Also IFA will be ensuring that all farmers can join the new scheme.

The new REPS scheme will be introduced in early 2010 once negotiations have been finalised with the EU Commission with applications having to be made before the 15<sup>th</sup> May next.

The allocation to REPS next year includes modulation and European Economic Recovery Funds of around €30m.

### ***2.2.2 Farm Waste Management***

€200m is provided for the Farm Waste Management Scheme which will pay 14,400 farmers their second 40% tranche of grant aid. Already 3,000 will be paid their second 40% instalment before the end of December following the additional allocation of €45m under the Supplementary Estimate. IFA expects that the €200m will be paid out in early January 2010.

### ***2.2.3 Farm Improvement Scheme***

€19m is allocated to the Farm Improvement Scheme, which will be paid to 2,000 farmers who will complete work under the scheme. IFA is still pressing for the processing of the 5,000 farmers who were locked out of the scheme at the end of October 2007.

### ***2.2.4 Disadvantaged Areas Scheme***

The funding for the Disadvantaged Areas Scheme in 2010 is €220m, which is equivalent to the funding for 2009. No change in payment levels meaning that the cut of €34m introduced in the October 2008 Budget still applies. IFA is continuing to press for the reversal of this cut of up to €1,000, which hit the incomes of 34,000 farmers in 2009.

### ***2.2.5 Other Grant Schemes***

€35m is allocated for investment in the Dairy, Beef and Sheep meat sectors through the marketing and processing schemes as well as funding for a range of other Capital Investment Schemes including Pig Welfare and Poultry.

### ***2.2.6 Forestry***

€121 million has been provided for Forestry and Bioenergy in 2010. This includes a capital provision of €116 m to plant a further 7,000 hectares next year.

### 2.2.7 *Bord Iascaigh Mhara*

Funding for BIM has been cut by €19 million, or 49%, of which €15 m is a reduction in Capital Expenditure. Key services to industry must remain in 2010. There is a commitment in the Budget to implement measures to develop value added in fish processing and aquaculture.

The table below provides the detailed breakdown of the DAFF budget for 2010.

**Table 2.2: Main items of Expenditure by Department of Agriculture (€m)**

Gross Expenditure	2009 estimate	2009 provisional outturn	2010 estimate	% change from 09 outturn
Pay and administration (DAFF)	301.5	284.4	280	-1%
Pay reduction (DAFF and State Agencies)	-	-	-38	-
Research and training	34.5	35.6	35	-2%
Food safety, animal health and welfare	335.1	253	186	-26%
<i>o/w TB &amp; Brucellosis</i>	<i>57.8</i>	<i>47</i>	<i>56</i>	<i>19%</i>
<i>o/w Fallen Animal Scheme</i>	<i>16.6</i>	<i>16.6</i>	<i>9.5</i>	<i>-43%</i>
<i>o/w Suckler herd welfare/quality</i>	<i>34</i>	<i>34</i>	<i>34</i>	<i>0%</i>
Market supports	21	21	27.4	30%
Disadvantaged Areas	220	220	220	0%
REPS	330	369	330	-11%
Land mobility	54.4	50.4	44.5	-12%
<i>o/w Early retirement</i>	<i>44.9</i>	<i>42</i>	<i>40</i>	<i>-5%</i>
<i>o/w Installation</i>	<i>9.5</i>	<i>8.5</i>	<i>4.5</i>	<i>-47%</i>
Development of Agriculture & Food	287	372	271	-27%
<i>o/w Farm Waste Management</i>	<i>220</i>	<i>290</i>	<i>200</i>	<i>-31%</i>
<i>o/w Farm Improvement Scheme</i>	<i>15</i>	<i>30</i>	<i>19</i>	<i>-37%</i>
Forestry and Bioenergy	119.6	119.6	121.8	2%
Teagasc	119.9	119.9	117.6	-2%
Bord Bia	28.2	28.2	27.2	-4%
Fisheries	80.9	91	76.4	-16%
Other Services + Food Aid	27.5	26.7	35	31%

### 3 Taxation Measures

#### Overview

#### 3.1 Income Tax/ Income Levy

There is no change to Income Tax rates, bands, and tax credits.

The Minister announced that in 2011 a new system would be introduced involving just two charges on income:

- A new universal social contribution replacing PRSI, the Health Levy and the Income Levy. It will be paid by everyone at a low rate on a wide base.
- Income Tax will apply on a progressive basis on those with higher incomes.

The Minister also referred to a closer integration of the tax and social welfare system.

#### *3.1.1 Income Levy and Farm Waste Management*

As regards the calculation of the Income Levy, the Minister announced that relief from the Income Levy will be allowed in respect of certain expenditure incurred by farmers to comply with the requirements of the EU Nitrates Directive.

#### *3.1.2 High Earners*

The minimum effective income tax rate of 20%, which currently applies to persons with incomes over €500,000 (e.g. for taxpayers who invest in tax incentive schemes), is to be applied at a rate of 30% in 2010, on top of which they must pay PRSI and levies. Also, the entry level to this restriction will now apply at income levels of €125,000 and the full restriction will apply at €400,000 income.

The Minister stated also that he will examine the curtailment and removal of further reliefs in the Finance Bill

#### *3.1.3 Non-resident Individuals*

All Irish nationals and domiciled individuals whose worldwide income exceeds €1m and whose Irish capital exceeds €5m will be required to pay an Irish domicile levy of €200,000 / year.

#### 3.2 Carbon Tax

A carbon tax at a rate equivalent to €15/t of carbon is introduced. It will apply at the following rates.

**Table 3.1: Implications of Carbon Tax on fuel types**

Fuel Type	Current Unit Price (€)	Carbon Tax (Inca Vat)	% Price Change
Petrol	1.19 / litre	4.2c	3.5%
Auto Diesel	1.10 / litre	4.9c	4.4%
Kerosene	516 / 1,000 litre	€43.14	8.4%
Farm Diesel	539 / 1,000 litre	€46.87	8.7%
LPG	720 / 1,000 litre	€27.97	3.9%
Coal	16.20 / 40kg	€0.39	10.1%

The Carbon Tax also applies to fuel oil, natural gas and peat briquettes.

It is to apply from 10<sup>th</sup> December for transport fuels, 1<sup>st</sup> May 2010 for other fuels (Including farm diesel) and gas, and for solid fuels it is subject to a commencement order.

Some further relevant details are:

- A vouched fuel allowance scheme to offset increases on low income families.
- The yield from the carbon tax (according to the budget statement) will be used to boost energy efficiency, to support rural transport and to alleviate fuel poverty.
- Measures to improve energy efficiency in low-income households particularly those dependent on solid fuels are to be announced.

The carbon tax is estimated by Government to yield €330m in a full year and €250m in 2010; it will add 0.35% to inflation.

IFA estimates that this will increase farm production costs by €13.2 m / year.

### **3.4 Savings and Pensions**

The Minister stated that he accepted the Commission on Taxation recommendation to restrict the pension tax-free lump sum to €200,000. He said that the tax treatment of sums above that, and the tax relief on pension contributions, including the consolidated 33% rate of relief will be considered in the Governments National Pensions Framework, shortly to be published by the Minister for Social and Family Affairs.

### **3.5 VAT and Excise**

The standard VAT rate, which was increased by 0.5% in October 2008 to 21.5%, is being restored to 21%.

Taxes on alcohol products are being reduced, e.g. by 12c per pint of beer.

### **3.6 Property Tax**

The Minister said that he accepted the recommendations of the Commission on Taxation on the need for a property tax. He then stated: "Considerable ground work will need to be done before a Site Valuation Tax can be introduced".

*(Note: The Commission on Taxation recommendation is for a Residential Property Tax; the Commission examined the option of a Site Valuation Tax and recommended that it should not be introduced at this time. Note also that the recent Programme for Government included a commitment to introduce a Site Value tax for non-agricultural land. IFA will need to investigate with Government implications for farm buildings, planning, rezoning etc).*

### **3.7 Domestic Water Charges**

The Minister stated that the recent Programme for Government contains a commitment to introduce a system of water metering for homes. He said that water charges, when introduced will be based on consumption above a certain allocation, the details to be announced by the Minister for the Environment. It is expected that domestic water charges will apply in 2011.

## **4 Other Public Expenditure and Social Welfare Changes**

### **4.1 Public Sector Pay and Pensions**

#### ***4.1.1 Public Sector Pay***

Savings of €1 billion in the public sector pay bill for 2010 were announced, through reductions in pay rates for all staff levels.

In the case of Higher Public Servants (these rates also apply to Government Ministers), reductions in the rates of pay as follows will apply:

- 8% for salaries between €125,000-€165,000
- 12% for salaries between €165,00-€200,000
- 15% for salaries above €200,000

These are permanent reductions, which will be reflected in future pension entitlements.

For all other public servants, the following reductions will apply:

- 5% on first €30,000 of salary
- 7.5% on next €40,000
- 10% on next €55,000

Pay of members of the Oireachtas will be reduced in line with these rates.

#### ***4.1.2 Pensions***

Reform of the Public Service Pension system for new entrants was also announced. Public Servants retiring in 2010 will retain their existing pension conditions.

#### ***4.1.3 Review of Local Authorities***

The Government has decided to undertake an efficiency review of the Local Authorities in 2010.

### **4.2 Social Welfare Changes**

#### ***4.2.1 Jobseekers Allowance/Farm Assist***

There is a cut of 4.1% in the rate of Jobseekers Allowance. This will impact on the rate of Farm Assist and will reduce the payment to 9,000 farmers who are currently in the scheme.

The Jobseekers Allowance has reduced for persons between the ages of 20 and 21 years who have no dependant children to €100 per week and they are aged between 22 and 24 to €150/week. For all other cases the rate will be reduced to €150 per week. IFA will be insisting that this change does not affect farmers on Farm Assist as they are fully occupied in farming and are generally not available for work off the farm.

#### ***4.2.2 Child Benefit***

The lower and the higher rate of child benefit is being reduced by €16/month bringing the rate to €150 and €187 per month respectively. Welfare dependant families including Farm Assist will be fully compensated by increasing the qualified child allowance by €3.80 so they will not be affected by this decrease.

### **4.3 Other Rural Expenditure Programmes**

#### ***4.3.1 Rural Social Scheme***

The allocation to the Rural Social Scheme has been reduced by 15% for 2010 to €46.4m. It is unclear how this will impact on farmers but it could result in a reduction of the number of places from the current level of 2,600.

#### ***4.3.2 Leader***

The allocation for Leader has increased from €27m to €40m. This mainly reflects that the Leader Programme did not get started in many areas until well into 2009. In 2010 the funding reflects the greater level of activity and projects that will be supported.

#### ***4.3.3 Rural Recreation/Walks Scheme***

While the allocation has been reduced by 15% to €4.79m nevertheless IFA has received assurance that the 1,000 farmers who currently avail of the Walks Scheme will have their 5-year contracts honoured. However it is unlikely that new walks will be added in 2010.

#### ***4.3.4 Clar***

The allocation of the Clar Projects has been reduced by 50% to €8m. This mainly relates to reduced infrastructural support in the Disadvantaged Areas.

#### ***4.3.5 Flooding***

The Minister announced funding of €70 million to be provided over the remainder of 2009 and into 2010 to help those affected by recent flooding and to fund work to reduce the risk of future incidents.

## 5 The Public Finances and National Economy

### 5.1 Budget Balance (Budget surplus or deficit)

Ireland has committed to restoring order to its Public Finances by 2014, with a projected budget deficit in that year of 2.9%. In 2009 and 2010, the projected Government Deficit will be 11.7% and 11.6% respectively.

There has been an adjustment of €4 billion in public expenditure in the 2010 Budget with a reduction of €1 billion in public sector pay, €760 million in Social Welfare, €980 million in Programme Expenditure and €960 million in Capital Expenditure.

An additional annual adjustment is required of €3 billion in 2011 and €3 billion in 2012. Of this amount €1 billion will be achieved through a reduction in capital expenditure annually, with the €2 billion balance through a combination of taxation and current expenditure measures. For 2013 and 2014, the adjustment required will be €1.5 billion and €1 billion respectively.

A summary of projected Expenditure, Revenue and Government Balance for 2009 and 2010 is outlined in Table 5.1 below.

**Table 5.1: Budgetary Projections 2009-2010**

Heading	2009	2010
<b>Expenditure</b>		
Current – Services	40,368	40,192
Current – Central Fund* <sup>1</sup>	5,152	6,932
<b>Total Current</b>	<b>45,520</b>	<b>47,124</b>
Capital (Voted)* <sup>2</sup>	6,773	5,909
<b>Total Expenditure</b>	<b>52,293</b>	<b>53,033</b>
<b>Revenue</b>		
Tax Revenue	32,570	31,050
Non-Tax Revenue	834	2,355
Capital Resources	1,464	1,672
<b>Total Revenue</b>	<b>34,868</b>	<b>35,077</b>
Technical Adjustment* <sup>2</sup>	- 1,835	-764
<b>General Government Balance</b>	<b>- 19,260</b>	<b>-18,720</b>
<b>As a % of GDP</b>	<b>-11.7%</b>	<b>-11.6%</b>

(\*<sup>1</sup> Includes Service of the National Debt, \*<sup>2</sup> Does not include payments to National Pension Reserve Fund or Recapitalisation expenditure \*<sup>3</sup> Adjustments necessary to conform with EU accounting rules)

#### 5.1.1 Public Expenditure

The changes introduced in the budget are expected to result in an increase of €2 billion in Net Current expenditure in 2010. This is mainly due to the increasing interest costs associated with the National Debt.

There will be reduction of €960 m in Voted Capital Expenditure. This measure does not include the capital expenditure in 2009 on the National Pension Reserve Fund (€3 billion) or for the recapitalisation of Anglo Irish Bank (€4 billion).

Total expenditure (current and capital) in 2010 is projected to be €53 billion.

### 5.1.2 Tax Revenue

Tax Revenue for 2010 is projected to be €31 billion, rising to €32.8 billion in 2011 and to €39.5 billion by 2014.

### 5.1.3 Budget Deficit and Government Debt

The predicted effect of the increased taxes and reduced public expenditure is a General Government Deficit in 2010 of €18.7 billion, or 11.6% of GDP. By 2011, this will start to fall, to 10% of GDP, reducing to 2.9% by 2014. 3% is the agreed limit on the budget deficit under the terms of the EU Stability and Growth Pact.

It should be noted that the Government deficit does not take into account the cost of NAMA, or the recapitalisation expenditures for the Irish banks. The Government have reached an agreement with the EU to leave these expenditures outside of the General Government Accounts.

The key measure of government debt is the General Government Debt: GDP ratio. Under the terms of the Stability and Growth Pact, the Debt: GDP ratio is not meant to exceed 60%. The general government debt: GDP ratio rose to 65% of GDP in 2009, and is projected to increase to 81% by 2014.

**Table 5.2: Government Deficit and Debt**

Year	2009	2010	2011	2012	2013	2014
Budget Adjustment (€ billion)	-	4	3	3	1.5	1
General Government Deficit as a % of GDP	-11.7	-11.6	-10	-7.2	-4.9	-2.9
Government Debt as a % of GDP	64.5	77.9	82.9	83.9	83.3	80.8

## 5.2 The National Economy

In addition to providing information on the public finances, Government has provided details on the economic projections for Ireland over the next 5 years. The economy contracted by 7.5% in 2009 and is expected to contract in 2010 by approximately 1.3%, Growth is projected to resume in 2011, with a projected growth rate of 3.3%.

For this year as a whole, total employment is projected to fall by 7.8%, to an unemployment rate of 11.8%. The unemployment rate is expected to average about 13.2% for 2010, falling to 9.5% by 2014.

**Table 5.3: Economic Outlook (Percentage Volume Changes)**

Economic Outlook (% Change)						
	2009	2010	2011	2012	2013	2014
Gross Domestic Product (GDP):	-7.5	-1.3	3.3	4.5	4.3	4
Gross National Product (GNP):	-10.4	-1.7	3	4.1	3.9	3.6
Expenditure on GNP:						
Personal consumption:	-7.2	-3	2.6	3.4	3.3	3.2
Public consumption:	-0.6	-3	-0.5	-0.5	-0.5	-0.5
Fixed investment:	-33.9	-19.2	4.5	7.8	8.5	7.8
Exports:	-2.7	0.4	3.4	4	3.8	3.5
Imports:	-9	-2.8	2.6	2.9	3	2.8
Inflation (CPI)	-4.4	-0.8	1.8	2	2	2
Employment growth (%)	-7.8	-3.4	1	2.3	2.5	2.3
Unemployment rate (%)	11.8	13.2	12.6	11.8	10.8	9.5

### **5.3 Other Relevant Government Decisions**

#### ***5.3.1 Credit***

A credit review system is being established. The Minister will use the NAMA legislation to issue guidelines to banks to ensure that SMEs, farm enterprises and sole traders will have recourse to an independent, external review of decisions of credit refusal by the banks. The banks must comply with the recommendations or explain satisfactorily why they cannot do so.

#### ***5.3.2 Investment in Food Industry***

Included in a number of stimulus measures is an allocation of €9.5 million to support the food industry to enhance the competitiveness of this key indigenous industry.

#### ***5.3.3 Scrappage Scheme***

A car scrappage scheme will run during 2010 involving VRT relief of up to €1,500 per new car purchased, where a car 10 years or older is scrapped, under certain conditions. The new car must have low CO2 emissions.