



IFA BUDGET REPORT 2012

7 December 2011



Rowena Dwyer
Chief Economist

Gerry Gunning
Rural Development

Geraldine O'Sullivan
Farm Family & Forestry

1. Budget Overview

Budget 2012 sets out the expenditure reductions and taxation changes for the next 12 months, in line with the Government's *Medium-Term Fiscal Statement* and the programme of Financial Support, agreed with the EU/IMF. In total, an adjustment of €3.8b will be made, of which €1.45b is for current expenditure reductions, €0.75b capital expenditure and €1.7b in taxation increases.

The main changes in public expenditure affecting farm business and families are set out below.

2. Main Changes to Public Expenditure

2.1 Agriculture Expenditure

2.1.1 Current expenditure

- *Disadvantaged Areas* – No changes to rates or eligible areas, but reduction of €30m in funding through changes to stocking density, proportionate payments to farmers with lands partly in Disadvantaged Areas, distance from main farm and other criteria.
- *REPS* – REPS 4 payments cut by 10% in 2012 (€19m), affecting 30,000 farmers.
- *AEOS* – The reopening of AEOS on a limited scale for farmers leaving REPS 3 will be considered in the New Year.
- *Beef Discussion Groups* - €5m has been allocated towards Beef Discussion Groups.
- *Animal Health* – Reduction in Brucellosis testing rates, support for BVD roll-out and voluntary testing system for Johne's disease.
- *Levies* – A consultation process is to commence on the introduction of a levy for dairy product promotion through Bord Bia.

2.1.2 Capital Expenditure

- *Targeted Agricultural Measures* – TAMS will be reopened in 2012 for all schemes.
- *Forestry* – Funding of €112m for the forestry programme. Premiums will be maintained, with an afforestation programme of approximately 7,000ha.

2.2 Other Expenditure & Social Welfare Changes

2.2.1 Social Protection

- *Farm Assist* – Changes to means test, funding reduction of €5.2m.
- *Child Benefit* – Reduction in payment rates for third and subsequent children.
- *Fuel Allowance* – The fuel allowance season will be reduced by 6 weeks to 26 weeks.
- *Pension* – Increase in number of PRSI contributions required to qualify for the Widow(er)'s Contributory Pension from 156 to 520 contributions with effect from July 2013. Other changes to be introduced for new claimants of state pension and for backdating claims.

2.2.2 Education

- *Asset Test* - The means test for student maintenance grants is to be amended to take account of the value of certain capital assets as well as income. This is to apply in 2013/14 for new entrants.
- *Higher Education Student Contribution* – this is to be increased by €250 from €2,000 to €2,250.

3. Taxation Measures

3.1 Agricultural Taxation

- *Stamp Duty* – Existing rates of stamp duty for non-residential property, including farmland, are reduced to 2%. For transfers between family members, a rate of 1% will apply until end 2014.
- *Agricultural Relief* – No change to the rate of Agricultural Relief, which remains at 90%.
- *Capital Acquisitions Tax* – the rate of CAT is increased from 25% to 30%. The threshold for transfer between parent and child (Group A) is reduced from €332,084 to €250,000. This will reduce the maximum tax-free threshold for agricultural property transfer to €2.5m
- *Capital Gains Tax Retirement Relief* – full retirement relief remains for qualifying farmers aged 55-66. Where the person transferring is aged over 66 an upper limit of €3m on retirement relief will be introduced at end 2013.
- *Carbon Tax* – the rate of Carbon Tax is to be increased by €5/t to €20/t. Farmers will be allowed a double income tax deduction for increased costs arising from the change in carbon tax.
- *VAT Refund* – the existing refund for unregistered farmers will be amended to include wind turbines purchased from 1st January 2012
- *VAT rate – Open Farms* – Admissions to open farms will be liable to VAT from 1st January 2012; the 9% reduced rate applying to the tourism industry will apply.

3.2 Other Taxation Changes

- *Income Tax* – No change in tax rates, bands or tax credits
- *PRSI* – no change in PRSI for self-employed, including farmers.
- *Universal Social Charge* – the minimum income threshold for the USC is being increased to €10,016 (from the current income threshold of €4,004).
- *Property Tax* – A tax on residential property is being introduced at a flat rate of €100 in 2012.
- *VAT* – The standard rate of VAT is being increased from 21% to 23% from 1st January 2012.
- *Motor Tax* – Motor tax rates will increase across all categories of vehicles (private, goods, tractors etc) from 1st January 2012.
- *DIRT* – the rate will increase by 3% from 27% to 30% for annual payments.

4. Economic and Budget Outlook

- *Economic Growth (GDP)* is projected to grow by 1.3% in 2012, rising to 3% by 2014.
- *Government Deficit* is projected to be €13.6b or 8.6% of GDP in 2012, reducing to 2.9% in 2015
- *Government Debt:GDP ratio* is projected to rise to 115% in 2012, increasing to 119% in 2013.
- *Unemployment rate* is projected to be 14.3% in 2012, falling to 11.6% by 2015.

TABLE OF CONTENTS

1	Introduction - Background to Budget 2012.....	5
1.1	EU/IMF/ECB Programme of Funding.....	5
1.2	Impact of slowdown in growth.....	5
2	Public Expenditure Changes.....	5
2.1	Agriculture Budget.....	5
2.2	Other Expenditure and Social Welfare Changes relevant to Farm Families.....	8
3	Taxation Measures.....	11
3.1	Agricultural Taxation.....	11
3.2	Other Taxation Measures.....	12
4	Economic and Budgetary Outlook.....	14
4.1	The National Economy.....	14
4.2	Public Finances.....	14

1 Introduction - Background to Budget 2012

1.1 EU/IMF/ECB Programme of Funding

In late 2010, due to continuing uncertainty on the further capitalisation costs of the Irish banks, the ability of Ireland to manage the costs of its rising National Debt and with lower revised projections for growth, the Government requested financial assistance from a joint EU/IMF/ECB fund.

Throughout 2011, Ireland has met its commitments, both in the public finances and for the banking recapitalisation programme, set out in the EU/IMF/ECB Memorandum of Understanding. The Government has negotiated some changes to the detail of the programme, e.g. commitments on income tax and social welfare for Budget 2012, but the overall targets have remained in place.

In July, changes to the interest rate being charged for the EU component of the funding programme will result in a reduction in the overall debt repayment figure of the order of €1b annually. Further changes to the funding programme may emerge during ongoing and future discussions on the restructuring of the eurozone.

1.2 Impact of slowdown in growth

Due to a slowdown in the international economy and continuing contraction of the domestic economy, the projections for economic growth have been significantly reduced from those set out in 2010.

As a result, with a lower overall GDP expected, the budget adjustment for 2012 has been increased to €3.8b from an initial estimate of €3.6b. The full adjustment between 2012 and 2015 is €12.4b. This is likely to have a negative impact on domestic economic growth as incomes continue to fall.

However, given that Ireland's budget deficit and bank recapitalisation costs are currently funded through a programme of support from the EU/IMF/ECB, there is a requirement to correct the imbalance in the public finances through budgetary adjustments. This is both to satisfy the terms of the EU/IMF/ECB programme of funding, and to restore international confidence in the Irish economy, thereby providing the potential for Ireland to return to borrowing on the international market at end 2013.

2 Public Expenditure Changes

2.1 Agriculture Budget

2.1.1 Summary of Expenditure by Department of Agriculture (DAFF)

The 2012 allocation for the Department of Agriculture is €1.3b, which is a reduction of 20% on the 2011 allocation. This includes receipts of €370m (EU co-funding for Rural Development programmes and Farmer Levy contributions). Therefore, the Net Government Allocation to Agriculture in 2012 is €942m.

In addition, funding of €27m has been carried from unspent capital funding into 2012, increasing the total funding allocation to €969m.

Table 2.1: Summary of Expenditure Department of Agriculture (€000s)

DAFF (€m)	2011 estimate	2011 outturn	2012 allocation	% change from 2011 outturn
Gross expenditure	1,647,507	1,501,893	1,311,934	-13%
Less Receipts	373,892		369,632	
Net expenditure	1,273,615	1,121,253	942,302	-16%
Plus capital carryover from 2011			26,900	
Total Net expenditure	1,273,615	1,121,253	969,202	-14%

Actual expenditure in the agriculture budget in 2011 was €1.5bn (as opposed to the original funding allocation). The 2012 total net funding allocation is 14% below this amount. This compares with a net funding reduction across all Government departments of – 4%.

Table 2.2 provides a more detailed breakdown of the DAFF budget for 2012.

Table 2.2: Main items of Expenditure by Department of Agriculture (€000s)

Gross Expenditure	2011 allocation	2012 allocation (IFA estimate)	% change from 2011 allocation
Pay and administration (DAFF)	247,434	235,371	-5%
Research and training	35,695	31,910	-11%
Food safety, animal health and welfare	175,730	118,973	-32%
Disadvantaged Areas	220,000	190,000	-14%
REPS/ AEOS	337,000	243,000	-28%
Land mobility	35,960	24,150	-33%
<i>o/w Early retirement</i>	<i>35,000</i>	<i>24,000</i>	<i>-31%</i>
<i>o/w Installation</i>	<i>960</i>	<i>150</i>	<i>-84%</i>
Development of Agriculture & Food (<i>farm level</i>)	73,340	27,760	-62%
<i>O/w TAMS</i>	<i>19,300</i>	<i>20,250</i>	<i>5%</i>
<i>O/w Farm Improvement Scheme</i>	<i>7,000</i>	<i>1,250</i>	<i>-82%</i>
<i>O/w Horticulture</i>	<i>4,000</i>	<i>3,250</i>	<i>-19%</i>
Development of Agriculture and Food (<i>marketing & processing</i>)	44,500	25,250	-43%
Forestry and Bioenergy	119,820	116,360	-3%
Teagasc	120,156	117,060	-3%
Bord Bia	28,392	27,120	-4%
Fisheries	69,751	64,000	-8%
Horse and Greyhound Fund	57,290	56,290	-2%
World Food Programme	9,960	9,960	0%
Income and Market Supports and Other	72,500	52,500	-28%

2.1.2 Current Expenditure changes

2.1.2.1 REPS/AEOS

The REPS 4 payments are being cut by 10% in 2012 resulting in a saving of €19m. This will affect 30,000 farmers. The cost of compliance of the scheme may reduce but this is subject to discussions with the EU Commission, in addition to the overall proposal to cut the payments.

The Minister of Agriculture has indicated that he will consider re-opening AEOS in 2012, in the context of the overall expenditure ceiling for 2013. Therefore, if AEOS were to open next year, there would be no cost arising until the following year.

2.1.2.2 Disadvantaged Areas

The allocation for the Disadvantaged Areas is reduced by €30m for 2012, bringing the total funding next year to €190m. There is no change in the rate of payment or the number of eligible hectares. The savings will arise through various technical changes:

- In the stocking, minimum level increases from 0.15 lu / ha to 0.30 lu / ha. The minimum retention period to achieve the minimum stocking level has been increased from 3 months to 6 months and will be calculated over the 12 months.
- Where farmers have part of their lands in the Disadvantaged Areas, they will be paid in proportion to their total farm, e.g. farmer with 60ha in total and 20ha Disadvantaged will get a third of the Disadvantaged Area payment in 2012 compared to what he got in 2011.
- Further changes involve the exclusion of horses from the stocking density calculation and the exclusion of land which is more than 80km from a farmer's main holding.

2.1.2.3 Suckler Cow Welfare Scheme

There is no change to the Suckler Cow Welfare Scheme at the current rate of payment.

2.1.2.4 Beef Discussion Groups

€5m is allocated for a Beef Technology Adoption programme which will provide support for beef discussion groups.

2.1.2.5 Milk Levy

It is proposed that a milk levy will be introduced in the New Year. The funding will be ring-fenced for dairy products promotion through Bord Bia, primarily for the identification of new markets and opportunities.

2.1.2.6 Animal Health

BVD - as part of the rollout of the voluntary phase of the BVD eradication programme, a scheme of assistance towards the disposal of the Persistently Infected (P.I.) calves will be introduced. Details of the financial assistance to apply will be announced at a later date.

Brucellosis - reduction in brucellosis testing for dairy herds from 50% to 20% in 2012, with 50% testing of beef herds.

Johne's disease - a voluntary, fee-based test for Johne's disease will be offered to farmers who are testing their animals for brucellosis.

2.1.3 Capital Expenditure

2.1.3.1 Forestry and Bioenergy

Forestry

€112m has been allocated to the 2012 forestry programme (this is a €500,000 reduction on the 2011 budget). The afforestation grant and premium rates remain unchanged, and the allocation will fund an afforestation programme of approximately 7,000ha. Funding for supports schemes is reduced from €8m to €5.5m, with the funding allocation to be mainly focussed on the Forest Road Scheme.

Bioenergy

There is a budget allocation of €1.6m in the Bioenergy Scheme, which will fund the establishment of up to 1,400ha of willow or miscanthus under the scheme.

2.1.3.2 Farm Investment Grants – TAMS

TAMS will be re-opened in 2012 for all schemes - the Poultry & Pig Welfare scheme, Dairy Equipment, Sheep Handling and Fencing, Rainwater Harvesting as well as the Bio-Energy scheme. The allocation is €20.25m.

2.1.3.3 Farm Investment Grants – Farm Improvement Scheme

All outstanding grants due under the Farm Improvement Scheme will be paid. The funding allocation for this programme is €1.25m.

2.1.3.4 Horticulture

Funding of €3.25m has been allocated for the Scheme of Investment Aid for the Development of the Commercial Horticulture Sector. The scheme covers all horticultural sectors – protected crops, nursery crops, field vegetables, soft fruit, apples, beekeeping and mushrooms.

2.1.3.5 Aquaculture funding

Capital grant aid of €4.5m has been allocated to aquaculture for 2012. The government's licensing system for aquaculture sites must be accelerated to allow fish and shellfish farmers to access this funding in full to create more jobs and exports. This process will be improved through the licensing templates recently published by the Minister covering different species and production methods.

2.2 Other Expenditure and Social Welfare Changes relevant to Farm Families

2.2.1 Social Protection

2.2.1.1 Farm Assist

The means test for Farm Assist has been amended to achieve savings of €5.2m in 2012. This will involve a reduction in the income disregard from 30% to 15%. The budget for 2012 is €115m.

The deduction from income for children is halved to €127 per year for each of the first two dependent children and €190.50 per year for each subsequent child.

Table 2.3: Example of a married farmer (spouse not working off farm) with 2 children on an assessed farm income of €15,000

Before		After	
Farm Income	€15,000	Farm Income	€15,000
Less Child Disregard	€508	Less Child Disregard	€254
Less Income Disregard 30%	€4,347	Less Income Disregard 15%	€2,212
Total Income for Assessment (B)	€10,145	Total Income for Assessment (B)	€12,534
Social Welfare Rate (A)	€19,365	Social Welfare Rate (A)	€19,365
Farm Assist Payment (A – B)	€9,220 (177.30/week)	Farm Assist Payment (A – B)	€6,831 (€131.36/week)

The loss in this case is €2,388 per annum or €45.94/week

2.2.1.2 Rural Social Scheme

The allocation for the Rural Social Scheme in 2012 is €45.6m. This is only slightly down on the 2011 allocation of €46.1m. This should mean that all of the 2,600 places on this scheme will be retained.

2.2.1.3 Unemployment Payments and State Pensions

The State Pension rates (contributory and non-contributory) and Jobseekers Allowance remain unchanged.

Table 2.4: Main Social Welfare Payments €/week

Scheme	Rate	2011 and 2012
Pension – Contributory	Single (Under 80)	230.30
	With Qualified Adult (under 66)	383.80
	With Qualified Adult (over 66)	436.60
Pension – Non-Contributory	Single	219.00
	With Qualified Adult	363.70
Jobseeker's Allowance (adult over 25 years of age)¹	Single	188.00
	With Qualified Adult	312.80
Farm Assist	Single	188.00
	With Qualified Adult	312.80

¹ Note: Lower payment rates apply for adults aged 18-24

A number of changes are being introduced to the terms and conditions for the State Pensions. These include:

- The number of PRSI contributions required to qualify for the Widow(er)'s Contributory Pension will increase from 156 (3 years) to 520 (10 years) contributions, with effect from July 2013.
- Additional rates bands for State Pension (Transition) and State Pension (Contributory) will be introduced from September 2012 to more fairly reflect contributions made by the claimant.
- The maximum backdating on late claims for Contributory Pensions will be reduced from 5 years to 6 months. This applies to State Pension (Contributory & Transition) and Widow(er)'s Contributory Pension from March 2012.
- For persons claiming State Pension (Contributory/Transition), Invalidity Pension, Carers' Benefit or Incapacity Supplement, the payment of the half-rate increase in respect of a qualified child will be discontinued if they have a spouse/partner with income of over €400 a week.

2.2.1.4 Child Benefit

The current higher rate of Child Benefit for the third and subsequent child per family is being phased out over two years.

- The monthly child benefit for each of the first two children is maintained at €140.
- The rate for the third child is reduced to €148 and for fourth and subsequent children to €160 from January 2012. These rates will be standardised at €140 per child per month over the next two years.

2.2.1.5 Fuel Allowance

The fuel Allowance season will be reduced by 6 weeks to 26 weeks for all recipients.

2.2.1.6 Back to School Clothing and Footwear Allowance

The eligibility age for the allowance is to rise from 2 to 4 years old. The rate is to reduce from €200 to €150 for children aged 4-11 years old and from €305 to €250 per child aged 12 or more.

2.2.1.7 Carers

The weekly Carers' Allowance and Carers' Benefit rate for carers will not be changed. New applicants for Carers' Allowance who are not living with the person for whom they are providing care, will not be entitled to the Household Benefit package. The person receiving care may be entitled to the Household Benefit package in his or her own right. Non-resident carers in receipt of package prior to 1st April 2012 will continue to retain the benefit.

2.2.2 Health

2.2.2.1 Private Beds in Public Hospitals

Savings of €143m in 2012 and €268m in a full year is to be achieved. This will be through:

- Further increases in charges for private beds in public hospitals.
- Legislation is to be introduced to abolish the existing system of designated private / public beds.

This clearly has implications for the cost of Health Insurance.

2.2.2.2 Drug Payment Scheme

The monthly threshold (paid by the participant) is being increased from €120 to €132.

2.2.2.3 Long-term Illness Scheme

€15m has been allocated for free General Practitioner (GP) care for people on the Long-Term Illness Scheme. Almost 56,000 people will benefit from this initiative.

2.2.2.4 Fair Deal Nursing Home Support

Additional funding of €55m has been allocated for the Fair Deal - Nursing Home Support Scheme.

2.2.3 Education

2.2.3.1 Capital Assets Test

The means test for student maintenance grants is to be amended to take account of the value of certain capital assets as well as income. This is to apply in 2013/14 for new entrants.

2.2.3.2 Third Level Fees and Maintenance Grants

Registration fees in Third Level Colleges are to increase by €250 to €2,250 in 2012, and student maintenance grants are to be reduced by 3% next year.

2.2.3.3 Post-Graduate Students

For post-graduate students entering in 2012, no maintenance grant will be provided. Fees will continue to be paid for students who would previously have qualified for a special rate of grant (currently 2,000 qualify). In addition, a further 4,000 post-graduate students will qualify for a €2,000 grant towards fees, based on a means test.

2.2.3.4 School Transport

The charge for primary school transport will increase from €50 to €100. The family maximum at primary level will increase to €220 from €110. These measures will be offset by a reduction in concessionary charges at primary level with the charge reducing from €200 to €100.

The overall family maximum charge of €650 remains unchanged, as does the second level charge of €350.

2.2.4 Environment

2.2.4.1 Leader

Leader funding in 2012 involves a carryover of €34m from this year's allocation and will be used to accelerate progress on expenditure, which has been lagging behind. The total allocation for Leader in 2012 and 2013 is €96m.

2.2.4.2 Rural Recreation

€2.6m is allocated to the Walks Scheme and the employment of Rural Recreation officers. This level of funding is the same as 2011 and will be sufficient to pay all 2,000 farmers who are in the Walks Scheme at the current payment levels.

2.2.5 Arts, Heritage & the Gaeltacht

2.2.5.1 National Parks and Wildlife Service

The allocation for the National Parks and Wildlife scheme is retained at €5m. While this allocation may not be enough to meet all commitments of farmers in the Farm Plan Scheme, however the likelihood that all payments due will be made as funding is identified within the Department of Arts, Heritage and Gaeltacht. The compensation payments relate to destocking, turf compensation and other restricted habitat areas.

3 Taxation Measures

The Financial Statement of the Minister for Finance on 6 December set out a revised commitment to an increased tax yield of €1,700m in 2012. The following are the main taxation changes announced in the 2012 budget.

3.1 Agricultural Taxation

3.1.1 Capital Acquisitions Tax - Agricultural Relief

There is no change on CAT Agricultural relief / Business relief, which remains at 90%.

The rate of CAT is increased from 25% to 30%; this applies to gifts or inheritances taken after 6/12/2011. The reductions changes in the tax-free thresholds for CAT are set out in Table 3.1 below:

Table 3.1: Changes to CAT Thresholds

	2011 (€)	2012 (€)
A. Son, daughter	332,084	250,000
B. Parent, nephew, niece, brother, sister, grandchild	33,208	33,208
C. Other	16,604	16,604

An example of the impact on farm asset transfer valued at €3m is set out in Table 3.2 below:

Table 3.2: Impact on Farm Asset Transfer

	2011	2012
Value of farm asset	€3,000,000	€3,000,000
Taxable value (90% Agricultural Relief applied)	€300,000	€300,000
Tax exempt threshold	€322,084	€250,000
Taxable amount	€0	€50,000
CAT Tax Rate	25%	30%
Tax due	€0	€15,000

3.1.2 Capital Gains Tax Retirement Relief

The rate of CGT is increased from 25% to 30%; this applies to disposals made after 6/12/2011.

Full retirement relief from CGT on intra-family transfers of farms is retained for individuals aged 55 to 66. An upper limit of €3m on retirement relief for farm and business assets is being introduced where the person transferring is over 66 years. The current unlimited amount will apply for a transitional period of 2 years for people currently aged 66 or who reach that age before 31/12/2013. The Minister's statement said that this is to incentivise earlier transfers of farms.

In the case of assets transferred outside the family, the current upper limit for retirement relief of €750,000 on assets transferred is retained only for individuals aged 55 to 66 years. The upper limit for retirement relief for business and farming assets is being reduced for persons aged over 66 from €750,000 to €500,000. (A similar two-year transitional period will apply as outlined above).

A new incentive relief from CGT is introduced for the first seven years of ownership for property bought between 6/12/2012 and 31/12/2013, where the property is held for more than seven years. If the property is held for more than seven years the gains accrued in that period will not be liable to CGT.

3.1.3 Stamp Duty

The existing multiple rates of stamp duty for non-residential property, including farmland, will be replaced by a single rate of 2% from 6/12/2011.

Consanguinity relief (i.e. between blood relations) on transfer of non-residential property is to be retained for intra-family transfers to end-2014, but abolished after 1/1/2015, i.e. rate of 1% will apply on intra-family transfers for that period.

3.1.4 Stock Relief for Registered Farm Partnerships

An enhanced 50% stock relief (100% for certain trained young farmers) for registered farm partnerships is being introduced and will run until 31/12/2015, subject to clearance by the European Commission.

3.1.5 Carbon Tax

The carbon tax, currently at €15/t of carbon, is to be increased by €5/t. The increase will apply to petrol and auto-diesel from 6/12/2011, and from 1/5/2012 to farm diesel, kerosene, LPG, fuel oil and natural gas. The increased costs from the Carbon Tax are outlined in Table 3.3 below.

Table 3.3: Price effect of Carbon Tax increase

Fuel Type	Unit	Current price (€)	Carbon Tax increase (incl. VAT)	% Price increase
Petrol	Litre	1.499	1.4 c	0.93%
Auto diesel	Litre	1.479	1.6 c	1.09%
Farm diesel	1,000 litres	893.30	€15.58	1.74%
Fuel oil	1,000 litres	900.00	€17.52	1.95%

Farmers are to be allowed a double income tax deduction for increased costs arising from the change in the carbon tax.

3.1.6 VAT Refund to Flat-Rate Farmers for Wind Turbines

The existing direct VAT refund which applies to un-registered farmers on the construction of farm buildings etc. will be amended to include wind turbines purchased from 1/1/2012.

3.1.6 3.1.7 VAT – Extension of 9% rate to Open Farms

Admissions to open farms will be liable to VAT from 1/1/2012; the 9% reduced rate applying to the tourism industry will apply.

3.2 Other Taxation Measures

3.2.1 Income Tax

3.2.1.1 Income Tax Rates, Bands and Personal Tax Credits

There is no change in the income tax rates (20% and 41%) or tax bands. The personal tax credits (€1,650 single and €3,300 married) remain unchanged, as also is the PAYE tax credit of the same amount.

3.2.1.2 Mortgage Interest

Mortgage interest relief for purchasers who bought houses between 2004 and 2008 is to be increased to 30% for first time purchasers who took out their first mortgage in that period.

Mortgages taken out during 2012 will be entitled to relief of 25% for first-time buyers and 15% for non-first-time buyers. Mortgages taken out after 13/12/2012 will not qualify for interest relief.

3.2.2 PRSI

There is no change in PRSI for self-employed, including farmers.

PAYE taxpayers will pay PRSI on unearned income such as rent and dividends from 2013; this already applies to the self-employed.

The current relief of 50% of employer contributions to occupational pension schemes and other pension arrangements is being removed from 1/1/2012.

3.2.3 Universal Social Charge

The Universal Social Charge (USC) introduced in the 2011 budget applied from a very low-income level of €4,004, at a rate of 2%, up to €10,016. The minimum income threshold for the USC is being increased to €10,016, and the 4% rate will apply up to €16,016 as at present. The cost of this measure is offset by moving the USC to a cumulative system.

3.2.4 Property Tax

A tax on residential property is being introduced at a flat rate of €100 in 2012. The charge is introduced as an interim measure, with the planned design and implementation of a full property tax in 2014.

For Section 23-type reliefs and Accelerated Capital Allowances, a surcharge will be introduced on individuals with gross incomes over €100,000. This will apply at a rate of 5% on the amount of income sheltered by property reliefs in a given year. This will apply from 1 January 2012.

3.2.5 VAT

The standard rate of VAT is being increased from 21% to 23% from 1st January 2012.

3.2.6 Other Taxation Changes

3.2.6.1 Excise

There is no increase in excise duty for fuels or alcohol.

3.2.6.2 Motor Tax

Motor tax rates across all categories will increase with effect from 1st January 2012.

- Rate increases will vary from €13 for private vehicles of engine size under 1,000cc to €117 for a vehicle of >3,001 cc.
- For private vehicles taxed according to CO₂ band, the rate increase ranges from a €56 for a Band A vehicle to €158 for vehicles of Band G.
- For goods vehicles the rate increases will vary from €22 for vehicles of engine size <3,000 to €337 for vehicles of engine size >20,001.
- For Agricultural Tractors, the rate will increase by €7, from €88 to €95.

A review of the current CO₂ band and rates for VRT and Motor Tax will be undertaken in early 2012. There will be a public consultation, with the intention of adjusting the bands from 1 January 2013.

3.2.6.3 DIRT

The DIRT rate for payments made annually will be increased by 3% to 30%, while the DIRT rate for payments made less frequently than annually will also increase by 3% to 33%. These rates will apply from 1 January 2012.

4 Economic and Budgetary Outlook

4.1 The National Economy

The outlook for the national economy is moderately positive for the period 2012-2015. The economy (measured by GDP) stabilised in 2011, with a projected increase of 1%.

While it is projected that there will be consistent economic growth from 2012, this is expected to be at a low rate, of 1.3% in 2012, rising to 3% in 2014. The projected low growth rates result from the slowdown in the world economy, which will impact negatively on exports, and the continued decline in real disposable incomes, which will impact negatively on domestic consumption.

The unemployment rate is expected to peak in 2011 and 2012 at around 14%, falling slowly to below 12% by 2015. Inflation is projected to be less than 2% annually, which should contribute positively to the retention of competitiveness.

Table 4.1: Economic Outlook (% Volume Changes)

	2011	2012	2013	2014	2015
Gross Domestic Product (GDP):	1.0	1.3	2.4	3.0	3.0
Gross National Product (GNP):	0.4	0.7	1.7	2.3	2.3
Expenditure on GNP:					
Personal consumption:	-2.5	-1	0	1	1.2
Public consumption:	-3	-2.2	-2.2	-2.3	-2.1
Fixed investment:	-11	-1.0	3.2	4.6	4.8
Exports:	4.6	3.6	4.5	4.8	4.8
Imports:	1.6	1.7	2.8	3.4	3.5
Inflation (HICP)	1.2	1.9	1.4	1.5	1.9
Employment growth (%)	-1.9	-0.2	0.8	1.2	1.6
Unemployment rate (%)	14.3	14.1	13.5	12.9	11.6

4.2 Public Finances

In the Memorandum of Understanding with the EU/IMF/ECB, Ireland has committed to restoring balance to its Public Finances by 2015, with a projected budget deficit in that year of 2.9%.

There has been an adjustment of €3.8b in public expenditure in the 2012 Budget, of which €1.4b is for current expenditure reductions, €0.7b capital expenditure and €1.7b in taxation increases. Total expenditure (current and capital) in 2012 is projected to be almost €58b.

The servicing of the National Debt, which is part of non-voted Current Expenditure, will increase by over €2.5b between 2011 and 2012, from €4.9b to €7.5b.

Under Capital Expenditure, the costs of the promissory notes to Anglo Irish Bank/Irish Nationwide and EBS are €3b annually, while banking recapitalisation costs for the remaining Irish banks are scheduled to fall from €7.6b in 2011 to €1.3b in 2012.

The predicted effect of increased taxes and reduced public expenditure is a General Government Deficit in 2012 of €13.6b, or 8.6 % of GDP, down from 10.1% in 2011.

A summary of projected Expenditure, Revenues and Government Balance for 2011-2015 is outlined in Table 4.2.

Table 4.2: Budgetary Projections 2012-2015 (€m)

Heading	2011	2012	2013	2014	2015
Expenditure					
Current – Services	53,070	51,880	50,590	48,715	47,355
Current – Central Fund ²	6,550	8,985	9,720	10,565	10,945
less Expenditure Receipts & Balances	11,475	11,365	11,445	11,600	11,910
Total Net Current Expenditure	48,145	49,500	48,865	47,680	46,390
Total Net Capital Expenditure	16,280	9,495	7,205	7,095	7,110
Total Expenditure	64,425	58,995	56,070	54,775	53,500
Revenue					
Tax Revenue	34,175	35,825	38,350	41,020	43,175
Non-Tax Revenue	2,560	2,495	1,855	1,660	1,535
Capital Resources	2,485	1,815	1,780	1,870	1,770
Total Revenue	39,220	40,135	41,985	44,550	46,480
Exchequer Balance	-25,205	-18,860	-14,085	-10,225	-7,020
Technical Adjustment ³	-9,590	-5,210	-1,700	-1,720	-1,805
General Government Balance	-15,615	-13,650	-12,385	-8,505	-5,215
As a % of GDP	-10.1%	-8.6%	-7.5%	-5.0%	-2.9%

4.2.1 Government Debt

In 2007, General Government Debt was €47b. It increased by almost €120b by 2011 and is expected to continue to increase for a number of years, as the annual Exchequer balance will be negative (a deficit).

In addition, with low projected GDP growth over the coming years, the ratio of General Government Debt to GDP will continue to rise. The general government debt: GDP ratio rose to 107% of GDP in 2011, and is projected to peak at 119% in 2013.

Table 4.3: Government Debt

Year	2011	2012	2013	2014	2015
Government Debt €b	166	183	196	203	206
Government Debt as a % of GDP	107	115	119	118	115

4.2.2 Further Fiscal Consolidation

Ireland's stability programme requires further adjustments in public expenditure and taxation over the next three budgets. Approximately 65% of this will be through further expenditure cuts and 35% through taxation.

As outlined in the Government's Medium-term Fiscal Statement, published in November, an overall adjustment of €12.4b in the public finances will be made between 2012 and 2015. Of this, €7.8b will be in the form of expenditure reductions, with €4.7bn in taxation increases. This is outlined in Table 4.4.

² Includes Service of the National Debt

³ Adjustments to conform with EU accounting rules

Table 4.4: Estimate of Consolidation required to achieve exchequer targets (€b)

Year	2012	2013	2014	2015
Expenditure	2.2	2.25	2.0	1.3
<i>O/w current Expenditure</i>	<i>1.4</i>	<i>1.7</i>	<i>1.9</i>	<i>1.3</i>
<i>O/w capital expenditure</i>	<i>0.7</i>	<i>0.55</i>	<i>0.1</i>	<i>0.0</i>
Taxation Measures	1.7	1.25	1.1	0.7
<i>O/w New Measures</i>	<i>1.0</i>	<i>0.95</i>	<i>0.9</i>	<i>0.4</i>
<i>O/w Carry Forward of existing measures</i>	<i>0.7</i>	<i>0.3</i>	<i>0.2</i>	<i>0.3</i>
Total Consolidation Amount	3.8	3.5	3.1	2.0

4.2.3 Analysis of Future Outlook

As a small open economy, Ireland's economic recovery will continue to be export led. The ongoing uncertainty in the Eurozone, along with a slowdown in the UK and US economies, will have a dampening effect on export demand. It is vital therefore that Government action over the coming budgets does not undermine the competitiveness and growth potential of the exporting sectors, either through increased costs, or significant reductions in vital supports.

In this context, the Government must revisit its decision to ring-fence certain major expenditure items from expenditure cuts. By excluding a large portion of public expenditure, the result is far deeper cuts on the remaining expenditure items. This is not a sustainable policy, and a more equitable balance of expenditure adjustment must be achieved in future budgets.

The level of Government debt as a % of GDP is a very worrying figure, particularly in the context of the low growth outlook over the next few years. While the Government is taking corrective steps to address the imbalance in the public finances, this may not be sufficient to ensure a sustainable recovery for Ireland.

An additional contributing factor to Ireland's overall debt burden has been the cost of funding a number of Ireland's now-defunct financial institutions (Anglo Irish Bank, INBS, EBS). In 2010 alone, the issuance of promissory notes to these banking institutions boosted the level of General Government debt by €31b. Action by the EU/IMF/ECB to reduce Ireland's debt burden must be given serious consideration in future discussions on the programme of support.