



IFA BUDGET REPORT 2014

15 October 2013

1. Budget Overview

Budget 2014 sets out the expenditure reductions and taxation changes for the next 12 months, in line with the Irish Stability Programme update and the programme of Financial Support, agreed with the EU/IMF. In total, an adjustment of €2.5b will be made, of which €1.5b is for current expenditure reductions, €100m capital expenditure and €900m in taxation increases (€300m when you allow for €600m worth of measures carried forward from Budget 2013).

The 2014 allocation for the Department of Agriculture is €1,203b, which is approximately a reduction of 3% on the 2013 allocation. The total budget allocation comprises of €1,019.2m in current expenditure and €183.7m in capital expenditure.

The main announcements and changes in public expenditure and taxation affecting farm businesses and families are set out below.

2. Main Changes to Public Expenditure

2.1 Agriculture Budget

2.1.1 Current Expenditure

New Suckler Cow Scheme: A new Suckler Cow payment will be introduced in 2014, worth €40/cow and combined with the existing Beef Data Programme of €20/cow, will bring payments to a total of €60/cow.

Funding of €23m per annum has been provided for the new suckler genomic scheme. In addition, the Beef Data Programme funding of €10m per annum remains, bringing total funding to the suckler sector of €33m. At a rate of €60/cow in total, this will enable payments on about 550,000 cows.

The requirements under the new Suckler Genomic Scheme are still to be clarified, but are understood to involve DNA and Genomic testing, about 15% of the herd, plus the stock bull. Testing is estimated to cost about €25/animal. The breeding objective is to establish a genetic profile on a number of the key animals in the herd, which in turn can be used for genomics, i.e. genetic prediction.

Disadvantaged Areas: No change in the allocation for the Disadvantaged Areas Scheme at €195m for 2014.

REPS / AEOS: The allocation for REPS/AEOS in 2014 is €184m. This is to fund the 37,000 farmers who are still in REPS4, AEOS1, 2&3 and carryover from payments which were due in 2013. There is no rollover of payments for 13,000 REPS 4 participants whose contracts end in 2013. No Reopening of AEOS for new entrants in 2014. A new agri environment scheme will be introduced in 2015 in the context of the RDP 2014 - 2020.

Discussion Groups: Funding allocation of €5m for beef discussion groups, €3m for sheep and €1m for dairy (new entrants only).

Sheep Grassland: The Sheep Grassland payment is rolled over to 2014 and funding is increased by €1m to €15m.

Funding of other bodies: There is little or no change from Teagasc, Bord Bia and BIM funding allocations.

Food safety animal and plant health: €84m is allocated of which €35m is for TB and Brucellosis Eradication.

Pay and administration: The pay and administration allocation in the Department of Agriculture will fall from €221.3m to €216.3m.

2.1.2 Capital Expenditure

Forestry: The funding allocation for the forestry programme is €110.8m for 2014, which will maintain current forestry premium, forest road grants and new afforestation of 7,000ha in 2014.

TAMs: Funding of €15m for all TAMs schemes when farmers complete their work towards the end of 2013 and 2014. The TAMs scheme closes at the end of the 2013.

Horticulture: Funding allocation for horticulture sector has increased to €4.2m for 2014.

2.2 Other Expenditure & Social Welfare Changes

2.2.1 Social Protection

Farm Assist: The allocation for Farm Assist is reduced from €99.45m to €91.6m. This reflects Budget 2012 and 2013 changes to the assessment process where the income and child disregards were abolished.

Child benefit: Rate maintained at €130 per month for 2014.

Household benefits package: Removal of support for telephone allowance scheme.

2.2.2 Health

Free GP care: Free GP care for children under five years has been introduced in Budget 2014 from July 2014.

Mental health services: An allocation of €20m has been ring fenced for mental health services in 2014.

Medical card: Reduction in income thresholds for the over 70s medical card holders from €1,200/week to €900/week for a couple and from €600/week to €500/week for a single person.

Fair deal Scheme: There are no changes to the Fair Deal Scheme in Budget 2014.

2.2.3 Education

There has been no mention of the asset test for maintenance grants in Budget 2014. The book loan scheme has been introduced for primary schools that currently do not have such a scheme.

3. Taxation Measures

3.1 Agricultural Taxation

VAT Refund: The flat-rate VAT refund is being increased from 4.8% to 5% from 1 January 2014.

CGT Retirement Relief: Extension of CGT Retirement Relief to allow farmers to avail of long term lease agreements who have no children willing to take up farming to subsequently transfer/dispose of assets, including land to individuals other than direct family members.

Taxation Review: A comprehensive review and Cost Benefit Analysis of taxation measures will be undertaken with a view to Budget 2015. The review is to be undertaken by the Departments of Finance and Agriculture.

3.2 General Taxation Measures

Property Tax: A tax on residential property was introduced from 1 July 2013. The agreed rate is 0.18% of market value up to €1m. For high value houses, the value over €1m will be taxed at 0.25%. The tax will be applied for the entire year in 2014 as opposed to half year as was the case in 2013.

DIRT: The rate of DIRT tax will be increased from 33% to 41%.

TABLE OF CONTENTS

1	<i>Introduction - Background to Budget 2014</i>	6
2	<i>Public Expenditure Changes</i>	7
2.1	<i>Agriculture Budget</i>	7
2.1.1	Summary of Expenditure for Department of Agriculture (DAFM)	7
2.1.2	Current Expenditure changes	7
2.1.3	Capital Expenditure	8
2.2	<i>Other Expenditure & Social Welfare Changes</i>	8
2.2.1	Social Protection	8
3	<i>Taxation Measures</i>	10
3.1	<i>Agricultural Taxation</i>	10
3.1.1	Capital Gains Tax Retirement Relief	10
3.1.2	Flat Rate VAT Refund	10
3.1.3	Review of Farmers Taxation	10
3.1.4	Measures to support the SME Sector	10
3.2	<i>General Taxation Measures</i>	10
3.2.1	Income Tax	10
3.2.2	<i>DIRT and other Taxes on Savings</i>	11
3.2.3	Property Tax	11
3.2.4	Pension Fund Levy	11
3.2.5	Levy on Financial Institutions	11
3.2.6	Excise	11
3.2.7	VAT Anti-Fraud Measures	11
4	<i>Economic and Budgetary Outlook</i>	12
4.1	<i>The National Economy</i>	12
4.2	<i>Public Finances</i>	12
4.2.1	Budget balance	12
4.2.2	Costs of Servicing the National Debt	13
4.2.3	Debt analysis and sustainability	13

1 Introduction - Background to Budget 2014

Ireland has been implementing the EU/ECB/IMF programme of funding agreed in late 2010, and has achieved the broad budgetary targets of the programme in 2011, 2012 and 2013. This has been achieved through the implementation of significant consolidation measures to reduce public spending and increase revenue. However, the resumption of economic growth has been at a lower level than anticipated, with a projected growth of 0.2% for 2013 and 2.0% for 2014, compared with projections of 1.5% and 2.5% respectively made in December 2012. The strong performance of the exporting sector over the past two years, notwithstanding the weak economic position of our main trading partners, has offset the effect of the contraction in public spending, consumer spending and in the construction sector.

However, a large gap remains between government expenditure and revenue, and, with lower than expected growth, there is a requirement for further significant expenditure and tax consolidation measures in Budget 2014. In 2013 Ireland has a gap of €12.14b, or 7.3% of GDP, between public expenditure and tax revenue. Also, Ireland's Government debt, at 124.1% of GDP, is one of the highest in the euro area, and the growing cost of servicing this debt is a significant constraint on recovery. In February 2013, the Government sought some relief from the debt burden, both on the "promissory notes" used to meet the losses in the failed banks and the cost of recapitalisation of the surviving banks. The promissory note transaction underpins longer term debt sustainability and will significantly reduce the State's funding requirement over the medium to long-term

A significant outcome of the consolidation achieved to-date has been the reduction in interest rates on Irish Government debt, which has also been facilitated by a more effective role by the European Central Bank in managing euro interest rates generally. The Irish state and main banks have made a limited return to the financial markets in the past year for the first time since the autumn of 2010. This indicates that the expected return to the financial markets for borrowing requirements scheduled for the end of 2013 will be achieved.

The shift in the budget date to October 15 this year from its usual date in December reflects changes to the regulation of fiscal policy for Eurozone countries introduced through a strengthening of the "Stability and Growth Pact" (the EU's agreement on fiscal policy which dates back to the late 1980's). Accordingly the 17 countries Eurozone countries must now submit their budgets to the European Commission by October 15th for examination. These new rules, known as the "two pack" regulations cover the economic governance of member states with the aim of creating a more robust regulatory framework and greater integration of fiscal policy in the wake of the deficiencies exposed in the financial and economic in Europe.

The Government strategy of fiscal consolidation for the 2014 budget is €600m below that of the figures proposed in the initial EU/IMF rescue programme, involving a further €2.5b total cuts. €1.6b of this comes from expenditure cuts, of which €1.5b is current spending and €100m is capital. €900m is to be achieved from increased tax revenue, with €300m of this coming from new measures and the remaining €600 from a carry forward of existing measures.

2 Public Expenditure Changes

2.1 Agriculture Budget

2.1.1 Summary of Expenditure for Department of Agriculture (DAFM)

The 2014 allocation for the Department of Agriculture is €1,203b, which is a reduction of 3% on the 2013 allocation. The total budget allocation comprises of €1,019.2m in current expenditure and €183.7m in capital expenditure.

A detailed breakdown of the Agriculture budget has not been provided in this year's budget; however, the following is a summary of some of the main changes to expenditure announced for Agricultural in Budget 2014.

Summary of main changes to funding allocation in Budget 2014 for Agriculture

Measure	Savings in 2014
Reductions from 2013 allocation	€ million
Scheme closures – REPS, Early Retirement, Suckler Cow carryover.	37.6
Reduction in animal health and market support areas.	12.4
Pay savings under the Haddington Road Agreement.	2.9
Sub-total	52.9
Increased funding for new measures in Budget 2014.	(23.4)
Total	29.5

2.1.2 Current Expenditure changes

2.1.2.1 Suckler Cow Scheme

A new Suckler Cow payment will be introduced, in 2014 worth €40/cow and combined with the existing Beef Data Programme of €20/cow, will bring payments to a total of €60/cow.

Funding of €23m per annum has been provided for the new suckler genomic scheme. In addition the BDP funding of €10m per annum remains, bringing total funding to the suckler sector of €33m. At a rate of €60/cow in total, this will enable payments on about 550,000 cows.

The requirements under the new Suckler Genomic Scheme are still to be clarified but are understood to involve DNA and Genomic testing about 15% of the herd, plus the stock bull. Testing is estimated to cost about €25/animal. The breeding objective is to establish a genetic profile on a number of the key animals in the herd, which in turn can be used for genomics, i.e. genetic prediction.

2.1.2.2 Disadvantaged Areas

No change in the allocation for the Disadvantaged Areas Scheme at €195m for 2014.

2.1.2.3 REPS / AEOS

The allocation for REPS/AEOS in 2014 is €184m. This is to fund the 37,000 farmers who are still in REPS4, AEOS1, 2&3 and carryover from payments which were due in 2013.

There is no rollover of payments for 13,000 REPS 4 participants whose contracts end in 2013. No re-opening of AEOS for new entrants in 2014. A new agri environment scheme will be introduced in 2015 in the context of the RDP 2014 - 2020.

2.1.2.4 Discussion Groups

Funding allocation of €5m for beef discussion groups, €3m for sheep and €1m for dairy (new entrants only).

2.1.2.5 Sheep Grassland

The Sheep Grassland payment is rolled over to 2014 and funding is increased by €1m to €15m.

2.1.2.6 Funding of other bodies

There is little or no change from Teagasc, Bord Bia and BIM.

2.1.2.7 Food safety animal and plant health

A funding allocation of €84m is allocated will be made available for food safety animal and plant health, of which €35m is for TB and Brucellosis Eradication Programmes.

2.1.2.8 Pay and administration

The pay and administration allocation in the Department of Agriculture will fall from €221.3m to €216.3m.

2.1.3 Capital Expenditure

2.1.3.1 Forestry

The funding allocation for the forestry programme is €110.8m for 2014 which maintains current forestry premium, forest road grants and new afforestation of 7,000ha in 2014.

2.1.3.2 TAMS

Funding of €15m for all TAMS schemes when farmers complete their work towards the end of 2013 and 2014. The TAMS scheme closes at the end of the 2013.

2.1.3.3 Horticulture

Funding allocation for the Horticulture sector has increased to €4.2m for 2013.

2.2 Other Expenditure & Social Welfare Changes

2.2.1 Social Protection

2.2.1.1 Unemployment Payments and State Pensions

There has been no change to the State Pension rates (contributory and non-contributory). Changes to jobseekers Allowance in Budget 2014 are as follows:

- New Claimants without children aged 18 – 24 will receive €100/week from January 2014 (i.e. payments for 22 – 24 year olds will fall from €144/week to €100/week)
- New Claimants aged 25 without children will receive €144/week and this rate will increase to €188/week when they reach 26 years of age (i.e. payments for 25 year olds will fall from €188/week to €144week)
- All jobseekers aged 18 – 25 who participate in back to education allowance scheme will receive €160/week from January.

2.2.1.2 Farm Assist

The allocation for Farm Assist is reduced from €99.45m to €91.6m. This changes made to the assessment process in previous Budgets where the income and child disregards were abolished.

There is no change to assessment process in Budget 2014.

2.2.1.3 Child Benefit

Child benefit: Rate maintained at €130 per month for 2014.

2.2.1.4 Household package

The Household Benefits Package has seen the removal of the Telephone Allowance of €9.50 per month.

2.2.1.5 Carers Respite Grant

The Respite Care Grant to Carers has been retained at €1,375.

2.2.1.6 Health

Changes to the health budget include:

- The Medical Card prescription charge has been increased from €1.50 to €2.50
- Free GP care for children under five years has been introduced in Budget 2014 from July 2014
- Reduction in income thresholds for the over 70s medical card holders from €1,200/week to €900/week for a couple and from €600/week to €500/week for a single person
- An allocation of €20m has been ring-fenced for mental health services in 2014
- There are no changes to the Fair Deal Scheme in Budget 2014.

2.2.1.7 Education

- There has been no mention of asset test for maintenance grants in Budget 2014.
- The book loan scheme has been introduced for primary schools who currently do not have such a scheme.

3 Taxation Measures

The following are the main taxation changes announced in the 2014 budget.

3.1 Agricultural Taxation

3.1.1 *Capital Gains Tax Retirement Relief*

CGT retirement relief is being extended to disposals of leased farmland where (i) the land is leased for 5 years or more and (ii) the subsequent disposal is to a person other than a child of the person disposing of the farmland. This enables older farmers to lease out their land where the farmer has no children willing to take up farming.

3.1.2 *Flat Rate VAT Refund*

The flat-rate VAT refund is to be increased from 4.8% to 5% from 1 January 2014. This compensates farmers for VAT paid on their inputs and is reviewed annually. The change is estimated to be worth €10m in a full year.

3.1.3 *Review of Farmers Taxation*

The Minister announced that the Departments of Finance and Agriculture will conduct an independent review of farm taxation in 2014 to ensure that tax reliefs are focused on those areas where needed most and also to ensure value for money.

3.1.4 *Measures to support the SME Sector*

Some of the measures announced may be relevant to farmers and agri-business firms. The measures announced include:

- A scheme of tax relief for home renovation work
- An exemption from income tax up to €40,000 per annum for two years for individuals who set-up an incorporated business, having been unemployed for a period of at least 15 months previously.
- The annual VAT cash receipts basic threshold for small to medium businesses in being increased from €1.25m to €2m from 1 May 2014.

3.2 General Taxation Measures

3.2.1 *Income Tax*

3.2.1.1 *Income Tax Rates, Bands and Personal Tax Credits*

Income tax rates, bands and personal tax credits remain unchanged.

3.2.1.2 *Pension Contributions*

As announced in last year's budget, tax relief on pension contributions will be further reduced at higher income levels. The standard fund threshold is being reduced from €2.3m to €2m and other changes are being introduced to limit the benefits of the relief. Tax relief will continue at the marginal tax rate.

3.2.1.3 *Tax Relief on Medical Insurance*

Tax relief for medical insurance premiums will be restricted to the first €1,000 per adult and the first €500 per child.

3.2.2 DIRT and other Taxes on Savings

The rate of deposit interest retention tax and also exit taxes on Life Assurance policies and investment funds is being increased from 33% to 41%. This applies on payments on or after 1 January 2014.

3.2.3 Property Tax

The value-based property tax on residential property which applied from 1 July 2013 will apply for the full year 2014. It is payable in March at a rate of 0.18% of the market value of the house up to €1m. A rate of 0.25% applies to any excess over €1m.

Table 3.1 Example of property tax (annual rate)

House value band	Property tax
€0-€100,000	€90
€100,000-€150,000	€225
150,000 - €200,000	€315
€200,000 - €250,000	€405
€250,000 - €300,000	€495
€300,000 - €350,000	€585
€350,000 - €400,000	€675
€400,000 - €450,000	€765

The 0.18% rate is fixed for the lifetime of the Government but a “local decision factor” allowing local authorities to vary the rate by up to +/- 15% will apply from 2015.

The Non-Principal Private Residence (NPPR) Charge will cease from effect from 1 January 2014. However, unpaid arrears will be treated as outstanding property tax.

3.2.4 Pension Fund Levy

The 0.6% stamp duty on pension fund assets is to increase to 0.75% for 2014. The levy will be reduced to 0.15% for 2015.

3.2.5 Levy on Financial Institutions

A specific levy on financial institutions is to apply for the period 2014 to 2016 yielding €150m/year.

3.2.6 Excise

Alcohol: Excise duty (including VAT) on pints of beer or a standard measure of spirits will increase by 10c from midnight on 15 October 2014.

Tobacco Products: Excise duty is increased by 10c/pack of 20, with pro-rata increases for other products.

3.2.7 VAT Anti-Fraud Measures

Businesses, including VAT registered farmers, who have not paid for supplies (in full or in part) within a six month period will be required to repay the VAT claimed on those supplies.

4 Economic and Budgetary Outlook

4.1 The National Economy

The outlook for the national economy is moderately positive for the period 2014-2016 according to Government projections. The economy (measured by GDP) recovered slightly in 2013, with a projected growth of 0.2%, and in GNP terms (which excludes repatriated profits for multinational companies) is projected to grow by 2% this year.

It is expected that there will be more rapid economic growth in the next three years; this is projected to be at a rate of 2.0% in 2014, rising to 2.8% in 2016. The projected growth rates are influenced by the modest rate of recovery in the euro economy and reasonable growth rates in the US and the UK. Unemployment has declined and employment increased in 2013 and that trend is expected to continue next year.

Table 4.1: Economic Outlook (% Volume Changes)

	2013	2014	2015	2016
Gross Domestic Product (GDP):	0.2	2.0	2.3	2.8
Gross National Product (GNP):	1.0	1.7	1.7	2.1
Components of GDP:				
Personal consumption:	-0.2	1.8	1.2	1.1
Govt consumption:	-0.9	-1.9	-1.5	0.2
Fixed investment:	4.9	6.8	5.9	5.1
Exports:	-0.6	1.9	2.7	4.2
Imports:	-0.4	1.5	2.1	3.5
Inflation (HICP)	0.7	1.2	2.0	2.0
Employment growth (%)	1.6	1.5	1.3	1.3
Unemployment rate (%)	13.5	12.4	11.8	11.4

4.2 Public Finances

4.2.1 Budget balance

In its 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 reduced to 2.9%.

There has been an adjustment of €2.5b in the public finances in the 2014 Budget, of which €1.5b is for current expenditure reductions, €100m capital expenditure and €900m in taxation increases.

The EU/IMF/ECB programme required an adjustment of €3.1b in 2014, but the government has made the case that economic and financial conditions warranted a somewhat lesser adjustment of €2.5billion, but the final year (2015) target must still be achieved.

Total public expenditure (current and capital) in 2014 will be €53.3b, while Government revenue will be €43.7b. The predicted effect of increased taxes and reduced public expenditure is a General Government Deficit in 2014 of €8.165b or 4.8% of GDP, down from 7.3% in 2013.

A summary of projected expenditure, revenues and government balance for 2013-2016 is outlined in Table 4.2.

Table 4.2: Budgetary Projections 2013-2016 (€m)

Heading	2013	2014	2015	2016
Expenditure				
Gross Current – Voted	51,145	49,605	48,250	48,600
Gross Current – Non-voted ¹	10,995	10,775	11,390	11,810
less Expenditure Receipts & Balances	10,945	11,220	11,580	11,875
Total Net Current Expenditure	51,195	49,140	48,060	48,535
Total Net Capital Expenditure	4,595	4,160	3,770	3,755
Total Expenditure	55,790	53,300	51,830	
Revenue				
Tax Revenue	37,825	40,040	42,285	43,985
Non-Tax Revenue	2,555	1,980	1,930	1,820
Capital Resources	4,120	1,690	1,590	3,575
Total Revenue	44,500	43,710	45,805	49,380
Exchequer Balance	-11,300	-9,595	-6,020	-2,915
General Government Balance	-12,140	-8,165	-5,205	-4,385
As a % of GDP	-7.3%	-4.8%	-2.9%	-2.4%

4.2.2 Costs of Servicing the National Debt

The growth of Ireland's national debt is impacting negatively on the overall budget balance, as a result of the annual interest payment required to service the increasing national debt. This is the case despite the successful negotiations by the Government with the EU on the "promissory notes" and other elements of the bank bailout related debt. Overall, in 2014, interest payments on the national debt will cost €8.155b.

Table 4.3. Shows debt interest as a ratio of government expenditure and of GDP.

Table 4.3: Projected General Government Interest Expenditure 2012-2015

€ millions	2013	2014	2015	2016
Total Debt Interest	7,160	8,155	8,760	9,075
Interest as a % of Tax Revenue	19	20	21	21
Interest as a % of GDP	4.3	4.8	4.9	4.9

4.2.3 Debt analysis and sustainability

The level (stock) of Government Debt has increased hugely over the past 6 years, from €45b in 2007 to €192.5b in 2013 in actual terms. With budget deficits projected over the coming two years, it will continue to increase.

¹ Includes national debt servicing

The debt:GDP ratio is a key measure of the sustainability of the public finances. Under the terms of the Stability and Growth Pact (and enhanced through the Fiscal Treaty ratification in 2012), a euro member state with a debt:GDP ratio above 60% must move towards the 60% debt:GDP level over a 20 year period². Ireland's debt level rose to 124% of GDP in 2013 and is projected to peak at this level. The aim of the Government is to achieve a primary budget surplus in 2014 (that is a positive balance between expenditure and revenue, excluding debt servicing costs), leading to a reduction in the debt: GDP ratio from that point.

Table 4.4: Government Debt

Year	2013	2014	2015	2016
Government Debt €b	192.5	205.9	204.7	209.4
Government Debt as a % of GDP	124.1	120.0	118.4	114.6

² For Ireland, this requirement commences in 2018, three years after exit from the current Excessive Deficit Procedure