Budget 2016

IFA BUDGET REPORT

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1. Budget overview

The Irish economy has been the fastest growing economy in the EU in 2015 with GDP growth of 6.2% expected for 2015 and 4.2% projected for 2016. This strong economic growth rate and a positive outlook for 2016 has enabled the Government to deliver a budget within the fiscal policy parameters laid out under the economic and stability growth pact, whilst increasing public spending and reducing the tax burden. As tax revenue is estimated to exceed the budget target by over €2b, the Government is in a position to increase public expenditure this year to exceed the original target (Budget 2015) by about €1.5b. This additional expenditure will be in the form of "supplementary estimates" allocated before year-end, which set the base for 2016 before any new commitments under Budget 2016. The total Budget 2016 package involves a transfer of €1.5b back into the economy next year; this is made up of €750m net tax reductions and €750m net increase in Government expenditure.

2. Main changes to Public Expenditure

2.1 Agriculture budget

Expenditure by the Department of Agriculture is set to increase in 2016 by 9%, from €1,242m to €1,351m. This increase is due largely to a significant increase in national exchequer funding relative to last year's budget.

2.1.1 Current expenditure

Agri-environment measures: Total funding of €203m for the agri-environment schemes will be provided for 40,000 farmers in GLAS, 8,000 farmers in AEOS and remaining payments under REPs in 2016. This is an increase of €53m on the 2015 allocation of €150m.

Locally led Agri-environment Scheme: This measure, which will operate by tender in various parts of the country, has an allocation of €1.7m for 2016. This will include the Burren Scheme which is moving from a Pillar I to a Pillar II Scheme. Payments for successful areas will apply in the early part of 2017 when it is expected to the allocation will increase significantly.

Areas of Natural Constraint: Funding for the ANCs (formerly DAS) has been maintained at €195m.

Beef Genomics scheme: Funding of €52m has been maintained for the Beef Genomics Scheme, with a payment of €100/animal for the first 10 animals, with remaining animals to receive a payment of €80/animal.

Knowledge Transfer: Funding of €1.7m has been allocated to the Knowledge Transfer programme. Payments under this scheme are not due until early 2017 when verification of tasks can be confirmed.

Food Safety Animal Health & Welfare: Total funding allocated is €83.2m, which is an increase from €81.5m in 2015. Funding for Brucellosis and TB has been reduced from €35m to €34m. The IFA has looked for an increased funding allocation for the TB Eradication Programme to include increased consequential loss payments for farmers. This is a priority area and is required to align the level of support with actual income foregone, payments for all animals removed, and an increase in live valuation ceilings.

2.1.2 Capital expenditure

TAMS: There is a total funding allocation of €35.8m for TAMS in 2016, up from €34m in 2015.

Forestry: The funding for Forestry is €113.8m which will maintain a planting programme for 7,000 ha and 120 km of forest roads in 2016. Forest premium levels are maintained for those in the current programme.

Horticulture: Capital grant aid for horticulture of €4.3m has been provided.

2.2 Other expenditure & social welfare changes

2.2.1. Social Protection

Social Welfare: All state pension payments will increase by €3/week in 2016. The Christmas bonus for weekly social welfare schemes will increase from (25-75)% of the weekly rate; this includes Farm Assist.

Child Benefit and childcare: The rate of Child Benefit will be increased by €5 bringing it to €140/month for all children. Free preschool education will be provided for children aged between 3 and 5½years or until they start primary school. There will also be an expansion of the community childcare subvention.

Respite Care: The previous cut of €325 in the grant is being reversed. The annual respite grant for carers is restored to €1,700 in 2016.

Rural Social scheme: Increase in the top-up payment for community employment type schemes, such as the Rural Social scheme, of €2.50/week; this will benefit 2,600 farmers.

2.2.2. Education

An increased funding allocation will employ an additional 2,260 teachers in primary and post-primary schools.

2.2.3. Health

Significant increase in the Health Budget of €300m, which when combined with the additional €600m supplementary estimate will see the funding allocation for the health service increase by €900m. The Fair Deal scheme is to be fully funded in a demand-led basis. The free GP scheme is to be extended to children under 12.

2.2.4. Environment

€40m is allocated to the operation of the Leader programme in 2016.

2.2.5. Justice

There is an increase in funding for the Justice budget which will enable the recruitment of 600 new Gardaí as well as investment in specialist operations to stem the number of burglaries.

3. Taxation measures

In Budget 2016 the government presented a number of taxation measures, which address the outstanding recommendations arising from last year's Agri-taxation review. These are outlined below.

3.1 Agricultural taxation

Taxation measure to encourage family farm transfer:
In Budget 2016 a 'Family Transfer Partnership' tax mechanism has been introduced which aims to promote farm family succession. This is an innovative new mechanism devised in line with IFA proposals in which family members enter into a partnership. This partnership arrangement agrees an appropriate profit-sharing arrangement and provides for the provision of family farm transfer to the younger farmer at the end of a specified period (not exceeding ten years). To support this transfer, a tax credit up to a maximum of €5,000 per annum for five years, can be allocated to the partnership, thereby incentivising the transfer and mitigating some of the financial concerns. The partnership model enables a gradual transfer of control and also facilitates knowledge transfer from one generation to another.

Tax treatment of Forestry Income: Forestry income has been removed from the 'High Earners Restriction' for forest owners who manage their plantations on a commercial basis.

Capital Acquisitions Tax - Agricultural Relief: Retained at 90% for active farmers and for individuals who are not active farmers, but who lease out the property on a long-term basis to an active farmer in line with changes made in last year's Budget.

Capital Acquisitions Tax - Thresholds: The threshold applying to Group A "parent to child" transfers, in the case of commercial business assets including farming assets, is being increased from €225,000 to €280,000.

Capital Gains Tax - Retirement Relief: Retention of relief for both disposals within family and disposals outside the family in line with changes made in last year's Budget.

Stamp Duty and Stock Relief measures: Young Trained Farmers Stamp Duty exemption and Stock Relief (both general and Young Trained Farmers) measures have been extended past their current expiry dates of 31st December 2015 for another 3 years.

Marine taxation: As part of Budget 2016 the Government has published the Marine taxation review. The IFA welcomes the report, especially the proposal for the extension of Agricultural Relief from CAT to the Aquaculture industry.

VAT refund: The refund for unregistered farmers is maintained at 5.2%.

3.2 General taxation measures

Income Tax: The income tax rates and bands are unchanged.

For self-employed tax payers, including farmers who do not currently receive the PAYE Tax credit, a new Earned Income Tax Credit of €550 is being introduced from 1st January 2016. The Minister indicated that, if the Government was returned, it would complete the tax equalisation for the self-employed. This reform has been sought by IFA for many years.

The Home Carer tax credit, which applies to single income married couples caring for children or elderly relatives, is being increased by €190 to €1,000/year.

Universal Social Charge:
The entry threshold is being increased from €12,012 to €13,000.

The rates of USC are being reduced as follows:
- The lowest rate of 1.5% is to be reduced to 1%; this applies to the first €12,012 of income.
- The 3.5% rate is to be reduced to 3%; this applies on income from €12,012 to the increased threshold of €18,668.
- The 7% rate is to fall to 5.5%; this applies to income between €18,668 and €70,044.

People earning over €70,000 per year will not get any benefit on the portion of their income above €70,000, but will benefit on the portion of their income below that figure.

Local Property tax:
The Minister announced the intention of the Government to postpone the revaluation date for the Local Property tax from 2016 to 2019.

Capital Gains tax:
A reduced Capital Gains tax rate of 20% to the owners of a trade or business and will apply to the disposal in whole or in part of a business up to an overall limit of €1m in chargeable gains.

Motor Tax on Commercial Vehicles
The Minister announced significant reductions in motor tax on commercial vehicles. The maximum rate will be reduced from €5,195 to €900.

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1. Introduction – Background to Budget 2016

Budget 2015 presented a year ago involved transfers of just over €1b from Government through a combination of public expenditure increases and tax cuts, while also reducing the budget deficit to under the 3% of the GDP target set by the EU. However, as the economic growth rate this year is now expected to be 6.2%, rather than the budget projection of under 4%, and as tax revenue is likely to exceed the budget target by over €2b, the Government is in a position to allow public expenditure this year to exceed the original target by about €1.5b. This additional expenditure, which will be in the form of "supplementary estimates" before year-end, is mainly for Health (€600m), Social Protection (over €400m) and Transport (€100m), Education (€50m). Also, the 2015 budget deficit is coming in ahead of target at 2.1% of GDP.

As the increased expenditure in 2015 sets the base for 2016, the Government is in a favourable situation. The Government announced earlier in the year in the Spring Economic Statement that the maximum adjustment in the 2016 budget would be up to €1.5b, to be split evenly between tax cuts and spending increases. The budget for 2016 remains within these figures relative to the 2015 outturn, including the 2015 "supplementary estimates". The projected 2016 budget deficit is 1.2% of GDP.

2. Public expenditure changes

2.1 Agriculture budget

2.1.1 Summary of expenditure for Department of Agriculture (DAFM)

Expenditure by the Department of Agriculture is set to increase in 2016 by 9%, from €1,242,068m to €1,351,101m. This increase is due largely to a significant increase in national exchequer funding relative to last year's budget. Overall the net exchequer contribution to agriculture for 2016 increased by €311,081.

The increase in the EAFRD receipt allocation for 2015 under last year's budget was due to the fact that the Rural Development Plan was not approved in 2014. This meant that some €180m which had been scheduled to be drawn down under the Plan in 2014 could not be drawn down until 2015. This resulted in an increase in 2015 receipts and a decrease in 2016 EAFRD receipts.

Table 2.1: Summary of Expenditure for the Department of Agriculture (€000s) (est.)

DAFF (€000s)	2016 estimate	2015 allocation	Change from 2015 (€000s)	% change from 2015
Gross expenditure	1,351,101	1,242,068	109,033	9%
Less Receipts	267,441	469,489	-202,048	-43%
Net expenditure	1,083,660	772,579	311,081	40%

2.1.2 Current expenditure changes

2.1.2.1 Agri environment programmes

The allocation for the agri-environment schemes GLAS, AEOS and the few remaining REPS payments is €203 in 2016. This will be paid to AEOS 1, 2 & 3 farmers, as well as payments due under the REPS 4 scheme from the end of 2015 and the small number of farmers whose contracts expire in 2016.

The increased allocation for GLAS will allow 13,000 farmers to join the scheme when it opens shortly with 5 year contracts beginning from 1st January 2016. This will bring the total farmers due a full payment in GLAS in 2016 to 40,000 farmers (the 27,000 who joined in the first phase plus the 13,000 who will shortly join).

2.1.2.2 Areas of Natural Constraint (formerly Disadvantaged Areas)
The allocation for Areas of Natural Constraint (ANC) is €195m, which is no change on the 2015 allocation.

2.1.2.3 Beef Data and Genomics
The allocation is €52m under Beef Data Genomics Programme and will be paid at a rate of €100 per animal for the first 10 animals and €80 for the remaining animals.

2.1.2.4 Knowledge Transfer
The KT groups will commence shortly for a wide range of sectors. In 2016 there is an allocation of €1.7m, payments for KT groups will normally not commence until the early part of 2016 when all of the various tasks of the farmers and planners have been completed.

2.1.2.5 Food, Safety, Animal Health & Welfare
Total funding allocated is €83.2m, which is an increase from €81.5m in 2015. Funding for Brucellosis and TB has been reduced from €35m to €34m. The IFA has looked for an increased funding allocation for the TB Eradication Programme to include increased consequential loss payments for farmers. This is a priority area and is required to align the level of support with actual income foregone, payments for all animals removed, and an increase in live valuation ceilings.

2.1.3 Capital Expenditure

2.1.3.1 Forestry
The funding for Forestry is €113.8m which will maintain a planting programme for 7,000ha and 120km of forest roads in 2016. Forest premium levels are maintained for those in the current programme.

2.1.3.2 Farm Investment Grants – TAMS
All TAMs schemes are now open these include: Young Farmers; Dairy Equipment; Animal Welfare, Safety and Nutrient Storage; Low Emission Slurry Spreading; Pig and Poultry; and Organics.

An allocation of €34m is available to cover the various tranches of the scheme, which will be open throughout the year and will pay farmers for works completed on this scheme. In addition sheep fencing has been added to the second tranche of the scheme. Grain storage will also be included once it is approved as an amendment to RDP.

2.1.3.3 Horticulture
A provision of some €4.3m has been provided to fund capital investments in the horticulture sector.

2.1.3.4 Aquaculture
€36m has been allocated to the Seafood Development Programme.

2.2 Other Expenditure and Social Welfare changes relevant to Farm Families

2.2.1 Social Welfare
All state pension payments will increase by €3/week in 2016. Also the Christmas bonus for weekly social welfare schemes will increase from 25% to 75% of the weekly rates; this includes Farm Assist.

2.2.1.1 Child Benefit and childcare
The rate of Child Benefit will be increased by €5 bringing it to €140/month for all children.
Free preschool education will be provided for children aged between 3 to 5½ or until they start primary school. There will also be an expansion of the community childcare subvention.

2.2.1.2 Respite Care
The previous cut of €325 in the grant is being reversed. The annual respite grant for carers is restored to €1,700 in 2016.

2.2.1.3 Rural Social scheme
An increase has been announced to the top-up payment for community employment type schemes, such as the Rural Social scheme, of €2.50/week; this will benefit 2,600 farmers.

2.2.2 Education
An increased funding allocation has been secured for the Education budget to create 2,260 additional teaching posts.

2.2.3 Health
There has been a significant increase in the Health Budget of €300m, which when combined with the additional €600m supplementary estimate will see the funding allocation for the health service increase by €900m. The Fair Deal scheme is to be fully funded in a demand-led basis. The free GP scheme is to be extended to children under 12.

2.2.4 Environment
€40m is allocated to the operation of the Leader programme in 2016.

2.2.5 Justice
Increased funding for the Justice budget has been announced to enable the recruitment of 600 new gardai, as well as investment in specialist operations to stem the number of burglaries.

2.2.6 Minimum Wage
The statutory minimum wage rate for workers is being increased from €8.65/hr to €9.15/hr in 2016.

3. Taxation measures

The outcome of the full review of agri-taxation measures undertaken by the Departments of Finance and Agriculture was announced in last year's Budget. A number of outstanding recommendations arising from the review have been announced in Budget 2016, including new measures to address land mobility.

The agri tax measures and wider general taxation measures impacting farm families announced in Budget 2016 are outlined below.

3.1 Agricultural taxation

3.1.1 Measure to encourage Farm Family Transfer/ Succession

In last year's Agri-taxaton review the IFA proposed a farm succession mechanism through the income taxation system, which would encourage the lifetime transfer of family farms, while allowing both parties to work together for a defined time period.

In Budget 2016 a 'Family Transfer Partnership' tax mechanism has been introduced which aims to promote farm family succession. This is an innovative new mechanism devised in line with IFA proposals in which family members enter into a partnership. This partnership arrangement agrees an appropriate profit-sharing arrangement and provides for the provision of a family farm transfer to the younger farmer at the end of a specified period (not exceeding ten years). To support this transfer, a tax credit up to a maximum of €5,000 per annum for five years, can be allocated to the partnership, thereby incentivising the transfer and mitigating some of the financial concerns. The partnership model enables a gradual transfer of control and also facilitates knowledge transfer from one generation to another. The measure will directly impact on and provide support for young farmers as they start their business.

The details of the mechanism are yet to be finalised and are subject to State Aid approval.

3.1.2 Tax Treatment of Forestry income

Forestry income has been removed from the 'High Earners Restriction' for forest owners who manage their plantations on a commercial basis.

3.1.3 Capital Acquisitions Tax – Agricultural Relief

Agricultural Relief is retained at 90% for active farmers and for individuals who are not active farmers but who lease out the property on a long-term basis to an active farmer.

3.1.4 Capital Gains Tax - Retirement Relief

Retention of relief for both disposals within family and disposals outside the family in line with changes made in last year's Budget.

3.1.5 Marine taxation

As part of Budget 2016 the Government has published the Marine taxation review. The IFA welcomes the report, especially the proposal for the extension of Agricultural Relief from CAT to the Aquaculture industry.

3.1.6 VAT refund

The refund for unregistered farmers is maintained at 5.2%.

3.2 General taxation measures

3.2.1 Income tax
The income tax rates and bands are unchanged.

For self-employed tax payers, including farmers who do not currently receive the PAYE Tax Credit, a new Earned Income Tax Credit of €550 is being introduced from 1st January 2016 and is signalled to rise gradually over the next three budgets, to eventually come in line with the PAYE tax credit of €1,650. This reform has been sought by IFA for many years.

Currently the PAYE tax credit of €1,650 results in employees entering the income tax net at twice the income level of self-employed, including farmers (€16,500 vs €8,250). From 2016 the introduction if the self-employed tax credit will see a single self-employed farmers entering the tax net at €11,000.

The Home Carer tax credit is being increased by €190 to €1,000/year. This is intended to assist single income married couples with children or who care for an elderly or incapacitated relative. The income threshold that a home earner can earn is being increased by €2,120 to €7,200.

3.2.2 Universal Social Charge
The entry threshold is being increased from €12,012 to €13,000.

The rates of USC are being reduced as follows:
- The lowest rate of 1.5% is to be reduced to 1%; this applies to the first €12,012 of income.
- The 3.5% rate is to be reduced to 3%; this applies on income from €12,012 to the increased threshold of €18,668.
- The 7% rate is to fall to 5.5%; this applies to income between €18,668 up to €70,044.

People earning over €70,000 per year will not get any benefit on the portion of their income above €70,000, but will benefit on the portion of their income below that figure.

3.2.3 Capital Acquisitions tax
The threshold applying to Group A “parent to child” transfers is being increased from €225,000 to €280,000 in recognition of increased property prices.

3.2.4 Pension levy
The levy on pension funds at a rate of 0.15% in 2016 is being abolished at the end of 2015.

3.2.5 Local Property tax
The Minister announced the intention of the Government to postpone the revaluation date for the Local Property tax from 2016 to 2019.

3.2.6 Stamp Duty and Stock Relief measures
Young Trained Farmers Stamp Duty exemption and Stock Relief (both general and Young Trained Farmers) measures have been extended past their current expiry dates of 31st December 2015 for another 3 years.

3.2.7 Bank Levy
The Bank Levy that was introduced for 2014-2016, is to be extended to 2021.

3.2.8 Motor Tax rates on Commercial Vehicles

The Minister announced significant reductions in motor tax on commercial vehicles, in order to keep Ireland competitive and help business. The maximum rate will be reduced from €5,195 to €900. Also the number of rates is being cut from 20 to 5.

4. Economic and budgetary outlook

4.1 The National Economy

The projected outlook for the national economy is positive for the period 2016-2018. The economy (measured by GDP) is growing rapidly in 2015 at over 6%.

It is expected economic growth will be sustained, with growth projected to be at a rate of 4.3% in 2016 and 3.5% for 2017. These growth rates are supported by continued strong exports, a recovery in consumer spending and strong business investment.

The unemployment rate has fallen from a high of 14% in 2012 to 9.5% in 2015 and the downward trend is projected to continue.

Table 4.1: Economic Outlook (% Volume Changes)

	2015	**2016**	**2017**	**2018**
Real Gross Domestic Product (GDP):	6.2	4.3	3.5	3.2
Real Gross National Product (GNP):	5.5	3.9	3.2	2.7
Personal consumption:	3.5	3.5	2.0	1.8
Public consumption:	1.9	1.1	1.0	0.9
Fixed investment:	13.0	12.5	8.9	4.8
Exports:	11.9	6.9	4.9	4.7
Imports:	12.1	8.2	5.4	4.5
Inflation (HICP)	0.1	1.2	1.5	1.7
Employment growth (%)	2.8	2.4	2.0	1.9
Unemployment rate (%)	9.5	8.3	7.7	7.2

4.2 Public Finances

4.2.1 Budget balance

Last year's budget marked the end of the austerity period, as it involved a net transfer from the Government of just over €1b. The supplementary budgets by the end of 2015 will add a further €1.5b of public expenditure to this.

Table 4.2: Budgetary Projections 2015-2018 (€m)

Heading	**2015**	**2016**	**2017**	**2018**
Expenditure				
Total Net Current Expenditure	49,190	49,910	50,405	51,205
Total Net Capital Expenditure	5,230	4,575	4,785	5,055
Total Expenditure	54,420	54,485	55,190	56,260
Revenue				
Tax Revenue	44,635	47,225	48,440	52,880
Non-Tax Revenue	3,390	3,160	1,845	1,805
Capital Resources	3,565	2,435	950	960
Total Revenue	51,590	52,820	51,235	55,645
Exchequer Balance (Deficit)	-2,825	-1,670	-3,955	-615
Technical Adjustment	1,565	1,085	2,690	1,135
General Government Balance	-4,390	-2,755	-1,265	520
As a % of GDP	-2.1%	-1.2%	-0.5%	-0.2%

4.2.2 Debt analysis and sustainability

The debt:GDP ratio which is a key measure of the sustainability of the public finances, peaked at 120% of GDP in 2012.

Under the terms of the EU Fiscal Treaty, a euro member state with a debt:GDP ratio above 60% must move towards that target in the longer term. On an annual basis, Ireland has to adhere to "medium-term budgetary objective". This involves a formula based on two elements: (i) a minimum annual improvement in the structural deficit of 0.5% of GDP, and (ii) a limit to growth in public expenditure in line with the potential growth rate of the economy. These constraints will set limits on the scope for expenditure increases and / or tax cuts from 2016.

Table 4.2: Budgetary Projections 2015-2018 (€m)

Year	**2015**	**2016**	**2017**	**2018**
Govt Debt €b	203.8	207.1	210.9	211.6
Govt Debt as a % of GDP	97	92.8	90.3	86.7

The Government is projecting that the debt:GDP ratio will fall below 100% this year and decline to under 90% in 2018.