BUDGET 2015

IFA BUDGET REPORT

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1. Budget Overview

The improved growth rate in the Irish economy in 2014 and a positive outlook for 2015 enabled the Government to bring in a budget within the required 3% deficit ceiling without any overall reduction in public spending or any further increase in the burden of taxation. The total budget package involved a transfer of €1.05b to the Irish people from Government; this is made up of €420m in net tax reductions and €630m 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 2015 by 2%, from €1,203m to €1,251m. This increase is due largely to a significant increase in EU funding through the Rural Development Programme. Overall the net exchequer contribution to agriculture for 2015 was reduced.

2.1.1 Current expenditure

Agri-environment measures: Total funding of €150m for the agri-environment schemes (REPS, AEOS, GLAS) in 2015. This is a reduction of €34m on the 2014 allocation.

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

Beef Genomics Scheme: Funding of €52m has been allocated 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.

Other Beef Programmes: Funding of €9m has been allocated for the Beef Data Programme, €6m for the Beef Quality Assurance Scheme, and €1m for the Beef Efficiency Programme.

Sheep Technology Adoption Programme: Funding of €4m has been allocated to the STAP.

Food Safety Animal Health & Welfare: Total funding allocated is €81.5m which is a reduction from €84m in 2014. Funding for Brucellosis and TB is retained at €35m.

2.1.2 Capital Expenditure

TAMS: There is a total funding allocation of €34m for TAMS in 2015, up from €17m in 2014.

Farm Safety Scheme: Funding of €12m has been allocated for a once-off Farm Safety Scheme (TAMS 1) to support farmers in upgrading safety arrangements on their farms.

Forestry: The funding allocation for forestry in 2015 is €110m, for a planned afforestation programme of 7,000 hectares.

Horticulture: Capital grant aid for horticulture of €4.2m has been provided.

Aquaculture: €6.3m has been allocated to investments in aquaculture and fish processing.

2.2 Other Expenditure & Social Welfare Changes

2.2.1 Social Protection

Child Benefit: To increase by €5 to €135/month for each child from January 2015.

Water Charges: €100 per year to be paid to pensioners, people with disabilities and carers receiving a Household Benefits package, to reduce the cost of water charges. This will also be paid to Fuel Allowance recipients.

Social Housing: A comprehensive package of measures were announced to increase the supply of social housing.

Farm Assist: No change in rates; recipients are eligible for the 25% Christmas bonus.

2.2.2 Education

Third level student contribution: final increase of €250 to bring the total contribution to €3,000 for the 2015/16 academic year.

3. Taxation Measures

The Government review of the agri-taxation system in 2013 has resulted in the announcement of a number of significant changes in the system. The agri-taxation changes to be implemented in this year's budget are outlined below. At a general taxation level, there have been some reductions in income taxes announced for the first time since the economic crisis.

3.1 Agricultural Taxation

Income Tax Exemption for Long Term Land Leasing:

- Increase of 50% in the amount of income exempt from tax for long term leases (e.g. from €20,000-€30,000 for lease of greater than 10 years).
- Introduction of fourth income tax free threshold of €40,000 for leases greater than 15 years.
- Extension to scheme to include incorporated farm companies as a lessee and removal of requirement for qualifying lessors to be aged over 40.

Income Averaging: Extended from 3 years to 5 years and to farmers with additional self-employed income from on-farm diversification.

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.

CGT Relief for Farm Restructuring: This measure is extended to end 2016, and rules will be amended to enable whole farm replacement to be eligible for the relief.

CGT Retirement Relief – disposals within family: Land that has been leased for up to 25 years (up from a current limit of 15 years) will qualify for CGT Retirement Relief upon disposal.

CGT Retirement Relief – disposals outside family: Land currently let under conacre that is disposed of outside of the family must either be disposed of by end 2016 to qualify for CGT Retirement relief. Alternatively, the land can be leased out long term (min. 5 years) to qualify for the relief.

Stamp Duty on Leases: Leases of 5 years duration or longer will now be exempt from Stamp Duty.

Stamp Duty Consanguinity Relief: This relief, which halves the rate of Stamp Duty (from 2% to 1% currently) between family members, is extended to end 2017, where transferor is 65 years or under.

VAT refund: The refund for unregistered farmers is increased from 5% to 5.2%.

3.2 General Taxation Measures

Income Tax:

- Reduction in the top rate of tax from 41% to 40%.
- The income threshold for the higher rate is increased from €32,800 to €33,800 for single tax payers and from €41,800 to €42,800 for married one-earner couples.

Universal Social Charge:

- The lowest rate of 2% is to be reduced to 1.5% and the 4% rate is to be reduced to 3.5%.
- The threshold for the lowest rate is to increase from €10,036 to €12,013 and the threshold for the 3.5% rate is to increase from €16,016 to €17,576.
- The current rate of 7% is to increase to 8% for incomes over €70,044.
- Currently an extra 3% (i.e. 10%) is paid by self-employed earning over €100,000; this rate is to go to 11%.

Water charges: Introduction of a tax relief at 20% on water charges up to a maximum payment of €500, i.e. maximum tax credit of €100 per household.

Pension levy: The levy on pension funds at a rate of 0.75% in 2014 is to be cut to 0.15% in 2015 and abolished at the end of 2015.

Windfall tax: The 80% Windfall tax introduced in 2009, which applies on profits from sale or development of land which arise from planning decisions, is being abolished. The 33% CGT rate will apply.

4. Economic and Budgetary Outlook

Economic Growth (GDP:) Projected to be 4.7% in 2014, with growth of 3.9% in 2015, and continuing at a steady growth rate of 3.4% in the following three years

Government Deficit: Projected to be €5.2b or 2.7% of GDP in 2015, falling to 1.8% of GDP by 2016 and leading to a slight surplus (0.3%) by 2018.

Government Debt: GDP ratio: Falling from 110.5% of GDP in 2014 to below 100% by 2018.

Unemployment rate: Projected to be 11.4% for 2014, falling to 8.1% by 2018.

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1. Introduction - Background to Budget 2015

Due to the severe economic downturn and collapse of the public finances, since 2008 there have been a succession of budgets which combined major expenditure cuts with significant tax increases.

The improved growth rate in the Irish economy in 2014 and a positive outlook for 2015 enabled the Government to bring in a budget within the required 3% deficit ceiling without any overall reduction in public spending or any further increase in the burden of taxation. The total budget package involved a transfer of €1.05b to the Irish people from Government; this is made up of €420m in net tax reductions and €630m net increase in Government expenditure.

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 2015 by 2%, from €1,203m to €1,251m. This increase is due largely to a significant increase in EU funding through the Rural Development Programme. Overall the net exchequer contribution to agriculture for 2015 was reduced.

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

DAFF (€000s)	2015 estimate	2014 allocation	Change from 2014 (€000s)	% change from 2014
Gross expenditure	1,251,000	1,219,000	32,000	2.5%
Less Receipts	459,761	244,797	214,964	88%
Net expenditure	791,239	974,203	182,964	-19%

2.1.2 Current Expenditure changes

2.1.2.1 Agri-environment programmes

The allocation for the agri-environment schemes REPS, AEOS and GLAS is €150m in 2015. €122m of this will be paid to AEOS 1, 2 & 3 farmers, as well as payments due under the REPS 4 scheme from the end of 2014 and the small number of farmers whose contracts do not end until the end of 2015. Also, around €7m is due in 2015 to organic farmers and €1m in the Burren Life Scheme.

The allocation for GLAS is €20m. IFA has called for the early opening of this scheme, which is currently awaiting EU approval as part of the RDP 2014-2020. The Minister has indicated that 30,000 places will be available next year but that payment will only apply for approximately 3 - 4 months of 2015, with 5 full year payments thereafter. IFA is seeking a substantially increased payment period in 2015 with an early contract start to ensure that meaningful payments can be made next year. This could include a carryover of GLAS payments due in 2015 into 2016.

2.1.2.2 Areas of Natural Constraint (formerly Disadvantaged Areas)

There is no change in the allocation for Areas of Natural Constraint, which is set at €195m. There is no change in the rates of payment except for offshore islands. This payment rate increases to

€250/ha on the first 34 ha where the farmer resides and farms on the island, and €170/ha on up to 34 ha where the farmer farms on the island and resides off it.

2.1.2.3 Beef Data and Genomics

In 2015, the Beef Data Programme and the Beef Genomics scheme will be incorporated into one new scheme called the Beef Data Genomics Programme. Payments will be increased to €100 per animal for the first 10 animals and €80 for the remaining animals. The total cost for this scheme will be €52m, funded through the RDP. It is anticipated that a total of 570,000 animals will qualify under this Programme and an estimated 285,000 animals will qualify for the higher payment of €100.

In addition, there is a €9m Budget allocation to fund the 2014 Beef Data Programme which will be paid in June 2015. This Programme had payments of €20 per cow on the first 30 cows and €10 on the next 20 cows. The Beef Genomics Programme in 2014 had a payment of €40 per cow costing €23m funded by the National Exchequer.

2.1.2.4 Discussion Groups

In 2015, under the RDP, €4m has been allocated to the Sheep Technology Adoption Programme (STAP).

€1m has been provided for a residual payment on the 2014 Beef Technology Adoption Programme (BTAP) in 2015. There is no Budget provision for a 2015 BTAP Programme payment.

2.1.2.5 Food, Safety, Animal Health & Welfare

Total funding allocation is €81.5m which is a reduction from €84m in 2014. Funding for Brucellosis and TB is retained at €35m. IFA believes that increased funding can be provided for programmes including BVD and Johnes within the existing budget due to reduced incidences of animal disease.

2.1.3 Capital Expenditure

2.1.3.1 Forestry

The funding for Forestry is €110m for a planned afforestation programme of 7,000 ha and 120 km of forest roads in 2015. Forest premium levels are maintained.

2.1.3.2 Farm Investment Grants – TAMS

€12m is allocated to a new farm safety scheme which is funded from unused TAMS 1 funding. The measures covered include safety fences, mobile cattle crushers, outdoor slurry aeration systems, solid covers for external slurry and effluent stores, replacement of damaged slats (single/twin/gang). The grant rate is 40% with an investment limit of €20,000. This scheme will be open shortly and money must be spent by end of August 2015 as 85% of the funding comes from the 2007-2014 Rural Development Budget.

The overall allocation for TAMS in 2015 is €34m, which will involve the payment of outstanding TAMS I claims as well as the new TAMS II scheme. This will cover a broad range of sectors, including Dairy Equipment, Pigs & Poultry, Young Farmer Investment, and other broader investments which will open under the RDP in early 2015.

2.1.3.3 Horticulture

A provision of some €4.2m has been provided to fund capital investments in the Horticulture sector as well as €3m funding toward the Food and Horticulture Promotion Fund.

2.1.3.4 Aquaculture

€6.3m has been allocated for grant aid for aquaculture and fish processing. It is critical that licenses are granted to producers in order that this funding is accessed.

The taxation review announced for the marine sector is a welcome initiative and IFA intends to participate fully in this process.

2.2 Other Expenditure and Social Welfare Changes relevant to Farm Families

2.2.1 Social Protection

There is no change in the Social Welfare payment rates. However farmers on Farm Assist will qualify for the 25% Christmas bonus top-up in line with other social welfare recipients.

2.2.1.1 Child Benefit

This will increase by €5 to €135/month for each child from January 2015.

2.2.1.2 Water Charges

€100 per year to be paid to pensioners, people with disabilities and carers receiving a Household Benefits package, to reduce the cost of water charges. This will also be paid to Fuel Allowance recipients.

2.2.1.3 Social Housing

A comprehensive package of measures was announced to increase the supply of social housing.

2.2.2 Education

Third level student contribution: final increase of €250 to bring the total contribution to €3,000 for the 2015/16 academic year.

2.2.3 Office of Public Works

An allocation of €45m is being provided to the OPW for flood relief work throughout the country. This is at the same level as it was in 2014.

3. Taxation Measures

A full review of agri-taxation measures has been undertaken by the Departments of Finance and Agriculture during 2014. IFA's submission to the review highlighted the structural challenges and growth potential of the agriculture sector, proposing a range of supportive taxation measures that would address issues such as income volatility, farm transfer, land mobility and farm investment.

The Agri-taxation review report, published today, provides a comprehensive set of recommendations for adjustments to the existing agri-taxation system, including retention of existing measures, restriction of others and the introduction of new measures. The measures contained in the report, which are relevant to this year's budget, are outlined below. A full analysis of the report findings along with IFA's assessment of the proposals is provided in IFA's separate *Analysis of the Agri-taxation review*[1].

The following are the main agri-taxation and general taxation changes announced in the 2015 budget.

3.1 Agricultural Taxation

3.1.1 Income Tax Exemption for Long Term Land Leasing

To increase the uptake of long-term land leasing over short-term conacre rental, the following measures have been introduced:

- Increase of 50% in the amount of income exempt from tax for long term leases (e.g. from €20,000-€30,000 for lease of greater than 10 years).
- Introduction of fourth income tax free threshold of €40,000 for leases greater than 15 years.
- Extension to scheme to include incorporated farm companies as a lessee and removal of requirement for qualifying lessors to be aged over 40.

3.1.2 Income Averaging

Income averaging is a mechanism that allows farmers to smooth their tax returns from year to year. This has been extended from 3 years to 5 years and to farmers and/or their spouse with additional self-employed income from on-farm diversification.

IFA believes that further measures will be required to assist farmers to tackle increasing income volatility.

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 CGT Relief for Farm Restructuring

This measure is extended to end 2016, and the rules will be amended to enable whole farm replacement to be eligible for the relief.

3.1.5 CGT Retirement Relief – disposals within family

Land that has been leased for up to 25 years (up from a current limit of 15 years) will qualify for CGT Retirement Relief upon disposal to a child.

[1] Available at www.ifa.ie

3.1.6 CGT Retirement Relief – disposals outside family

Land currently let under conacre that is disposed of outside of the family must either be disposed of by end 2016 to qualify for CGT Retirement relief. Alternatively, the land can be leased out long term (min. 5 years) to qualify for the relief.

3.1.7 Stamp Duty on Leases

Leases of 5 years duration or longer will now be exempt from Stamp Duty.

3.1.8 Stamp Duty Consanguinity Relief

This relief, which halves the rate of Stamp Duty (from 2% to 1% currently) between family members, is extended to end 2017, where transferor is 65 years or under and the transferee is an active farmer.

3.1.9 VAT refund

The refund for unregistered farmers is increased from 5% to 5.2%.

3.2 General Taxation Measures

3.2.1 Income Tax

The top rate of income tax is reduced from 41% to 40%.

The income threshold for the higher rate is increased from €32,800 to €33,800 for single tax payers and from €41,800 to €42,800 for married one-earner couples.

3.2.2 Universal Social Charge

The lowest rate of 2% is to be reduced to 1.5% and the 4% rate is to be reduced to 3.5%.

The threshold for the lowest rate is to increase from €10,036 to €12,013 and the threshold for the 3.5% rate is to increase from €16,016 to €17,576.

The current rate of 7% is to increase to 8% for incomes over €70,044. Currently an extra 3% (i.e. 10%) is paid by self-employed earning over €100,000; this rate is to go to 11%.

There is an extension of the reduced USC rate for medical card holders on incomes under €60,000; they will now pay a maximum rate of 3.5%.

Individuals aged 70 and over on incomes under €60,000 will also pay a maximum of 3.5%.

3.2.3 Water Charges

Introduction of a tax relief at 20% on water charges up to a maximum payment of €500, i.e. maximum tax credit of €100 per household.

3.2.4 Pension Levy

The levy on pension funds at a rate of 0.75% in 2014 is to be cut to 0.15% in 2015 and abolished at the end of 2015.

3.2.8 Windfall tax

The 80% Windfall tax introduced in 2009, which applies on profits from sale or development of land which arise from planning decisions, is being abolished. The 33% CGT rate will apply.

3.2.9 First time buyers DIRT relief

A relief from DIRT on savings used by first time house buyers towards the deposit for a home.

3.2.10 Corporation Tax

The Minister announced a major reform in relation to foreign direct investment in Ireland, whereby companies registered in Ireland in the future must also be tax resident here. The 12.5% rate is unchanged.

Relief from Corporation Tax for start-up companies in the first three years of trading is being extended.

4. Economic and Budgetary Outlook

4.1 The National Economy

The projected outlook for the national economy is positive for the period 2015-2017. The economy (measured by GDP) recovered significantly in 2014, with a projected growth of 4.7% for the year.

It is expected economic growth will be sustained, with growth projected to be at a rate of 3.9% in 2015 and 3.4% for 2016. These growth rates are influenced by growth in two of Ireland's main trading partners, the US and UK, in addition to an increase in business investment and a recovery in consumer spending at home.

The unemployment rate has fallen from a high of 14% in 2012 to 11.4% in 2014 and the downward trend is projected to continue.

Table 4.1: Economic Outlook (% Volume Changes)

	2014	2015	2016	2017
Gross Domestic Product (GDP):	4.7	3.9	3.4	3.4
Gross National Product (GNP):	4.1	3.6	3.1	3.1
Expenditure on GNP:				
Personal consumption:	1.7	2.7	1.4	1.3
Public consumption:	4.8	2.3	0	0
Fixed investment:	14.6	12.7	7.6	7.5
Exports:	8.3	4.8	4.3	4.3
Imports:	8.8	5.3	3.6	3.6
Inflation (HICP)	0.5	1.1	1.4	1.4
Employment growth (%)	1.8	2.4	1.9	1.9
Unemployment rate (%)	11.4	10.2	9.4	8.9

4.2 Public Finances

4.2.1 Budget balance

Unlike recent budgets which took substantial amounts of money out of the economy (e.g. €3.5b in the 2013 budget and €2.5b in the 2014 budget), the budget for 2015 is mildly expansionary.

The total budget package involves a transfer of €1,050m from Government to the people. This consists of a net reduction in total taxation of €420m and a net increase in Government expenditure of €630m.

The General Government Deficit for 2015 is €5,195m or 2.7% of GDP, down from 3.7% in 2014 and comfortably within the 3% ceiling contained in the EU / IMF programme.

A summary of projected expenditure, revenues and government balance for 2014-2017 is outlined in Table 4.2.

Table 4.2: Budgetary Projections 2014-2017 (€m)

Heading	2014	2015	2016	2017
Expenditure				
Total Net Current Expenditure	49,700	48,985	49,125	48,910
Total Net Capital Expenditure	4,475	4,390	4,475	4,345
Total Expenditure	54,175	53,375	53,600	53,255
Revenue				
Tax Revenue	41,040	42,300	44,430	45,490
Non-Tax Revenue	3,050	2,955	2,500	2,265
Capital Resources	2,155	1,635	3,525	1,595
Total Revenue	46,245	46,890	50,455	49,350

Exchequer Balance (Deficit)	7,930	6,485	3,145	3,905
Technical Adjustment[2]	1,040	1,290	- 615	1,975
General Government Balance	6,890	5,195	3,760	1,930
As a % of GDP	3.7%	2.7%	1.8%	0.9%

4.2.2 Debt analysis and sustainability

The growth of Ireland's National Debt over the past number of years has impacted negatively on the overall budget balance, with a large increase in the annual interest payment required to service the national debt. Recent successful negotiations by the Government with the EU and the IMF will result in the substitution of higher-interest IMF funds with less expensive market funds and al lowering of projected interest payments.

Both the level (stock) of Government Debt and its size relative to the size of the economy (debt:GDP ratio) have increased hugely over the past 7 years, from €45b in 2007 to €203.2b, or 110.5% of GDP, in 2014. The Debt: GDP ratio is a key measure of the sustainability of the public finances. Under the terms of the EU 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 period.

Ireland is now achieving a primary budget surplus (that is a positive balance between expenditure and revenue, excluding debt servicing costs). This is a necessary requirement to reduce the debt: GDP ratio. Sustained economic growth would further reduce this ratio.

Table 4.3: Government Debt

Year	2014	2015	2016	2017
Government Debt €b	203.2	209.9	211.6	215.0
Government Debt as a % of GDP	110.5	108.5	104.0	100.5

[2] Adjustments to conform with EU budgeting rules