Budget 2017

IFA BUDGET REPORT

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1 Budget Overview

The continued strong growth rate in the Irish economy in 2016 of 4.2% and a positive outlook for 2017 enabled the Government to deliver a budget with an increased resource allocation of €1.3b. This comprised a net reduction in taxation of €300m and an increase in expenditure of €1b above existing commitments.

2 Main changes to Public Expenditure

2.1 Agriculture Budget

The Agricultural Budget has increased from €1.35b to €1.47b, an increase of 9%. Expenditure on farm schemes under the Rural Development Programme has increased from €494m in 2016 to €601m in 2017.

2.1.1 Current expenditure

Agri-environment measures: €242m has been allocated for the Agri-environment schemes (GLAS / AEOS/ Organic). This includes a funding allocation of €211m for GLAS for payment of up to 50,000 farmers.

Sheep Welfare Scheme: €25m has been allocated for a new animal welfare scheme at a rate of €10/ewe.

Areas of Natural Constraint: There is no change to payment levels for Areas of Natural Constraint. A funding allocation of €202m is provided for 2017.

Beef Data and Genomics programme: €52m has been allocated for 2017 and the scheme will be re-opened to new applicants.

Knowledge Transfer: Funding of €26m for Knowledge Transfer programmes for 2017.

Food Safety Animal Health & Welfare: Total funding allocated is €85.5m under this heading, which includes €34m for TB and Brucellosis eradication.

Agri cash flow support loan: A €150m loan fund, which will be offered of 2.95%, is being established. This will provide funds to farmers for cash-flow purposes and to reduce the cost of short term borrowing

2.1.2 Capital expenditure

TAMS: €50m has been allocated for this programme in 2017.

Forestry: €111.6m has been allocated for forestry.

Horticulture: €5m has been provided for capital investment in the horticulture sector.

2.2 Other expenditure and Social Welfare changes

2.2.1 Social Protection

Farm Assist:

- The cuts introduced in the 2012 and 2013 budgets have been fully reversed – i.e. child and income disregards have been reintroduced.
- The weekly payment will be increased by €5 a week and by €3.30 for dependent adults.

Rural Social Scheme: There is an increase of 500 in the number of places for this scheme, bringing the total number to 3,100.

State Pension: This will increase by €5 per week in March 2017.

PRSI – Invalidity Pension: Eligibility for the Invalidity Pension is being extended to the self-employed, including farmers.

Other allowances: All weekly social welfare payments will increase by €5 in March 2017 (Carers, Jobseekers, Disability Allowance, Farm Assist etc).

2.2.2 Office of Public Works – Flood Relief

€50m has been allocated for capital works for flood relief in 2017

2.2.3 Arts, Heritage, Regional, Rural and Gaeltacht Affairs

LEADER: €40m funding is being allocated for the delivery of the LEADER Rural Development programme in 2017.

Town and village regeneration scheme: €12m has been allocated for this scheme, with a €5m increase for the *CLAR* scheme.

2.2.4 Health

Prescription charges: The cap on prescription charges will be reduced to €20 for over 70 year olds from 1st March 2017.

Medical cards for children: Medical cards will be extended to all children in receipt of a Domiciliary Care Allowance.

2.2.5 Children and Youth Affairs

Affordable Childcare Scheme: A new scheme will be introduced from September 2017, this will provide a means tested subsidy for children between 6 months and 15 years (for households earning up to €47,500 net income), and a universal subsidy for all children aged between 6 months and 3 years (up to €900 per annum).

3 Taxation measures

3.1 Agricultural taxation

Income Averaging: Farmers on income averaging will now be allowed, in a very poor income year, to pay only the tax due on the current year. The deferred tax liability will be payable over subsequent years. This measure will be available immediately.

CGT Relief for Farm Restructuring: Extended to end 31st December 2019.

Accelerated Capital Allowances for Energy Efficient Investment: This measure has been extended to sole traders and provides full capital allowance in the first year.

VAT refund: Increased from 5.2% to 5.4% from 1st January 2017 and is worth €9m.

Capital Acquisitions Tax – Agricultural Relief: Retained at 90%. The increase in the Group thresholds for exemption from CAT will increase the value of farm that can be transferred through Agricultural Relief.

Raised Bog CGT Relief: Payments under the Raised Bog Restoration Incentive scheme will be exempt from Capital Gains Tax

3.2 General Taxation Measures

Earned Income Tax credit: For self-employed tax payers, including farmers, who do not receive the PAYE Tax Credit, the Earned Income Tax Credit of €550 is being increased by a further €400 to €950.

Universal Social charge: The rates of USC are being reduced as follows:

- The lowest rate of 1% is to be reduced to 0.5%; this applies to the first €12,012 of income.
- The 3% rate is to be reduced to 2.5%; this applies on income from €12,013 to €18,772.
- The 5.5% rate is to fall to 5%; this applies to income between €18,773 up to €70,044.

Other Income Tax changes: The Home Carer tax credit is being increased by €100 to €1,100.

DIRT: The rate of DIRT tax is being reduced from 41% to 39%. The Government's intention is to reduce this further by 2% / year to reach 33% by 2020.

Capital Acquisitions Tax: The Group A (parent to child) CAT threshold is being increased from €280,000 to €310,000. The Group B threshold (brother, sister, niece, nephew, grandchild) is being increased from €30,150 to €32,500. The Group C threshold (all others) is being increased from €15,075 to €16,250.

CGT Entrepreneur Relief: The rate of CGT on the sale of business is reduced from 20% to 10%, for disposals of value up to €1m on qualifying chargeable gains.

Carbon Tax: Relief from Carbon Tax is provided for solid fuels that include a biomass element and for fuel inputs to combined heat and power plants (CHP).

Help to Buy: A new income tax rebate for first time buyers of new houses is being introduced, providing a maximum rebate of €20,000. It will also assist those looking to build once-off houses for their own occupation

4 Economic and budgetary outlook

Economic growth (GDP): GDP growth of 4.2% in 2016 with projected growth of 3.5% in 2017.

Government deficit: The projected deficit for 2016 is 0.9% of GDP, falling to 0.4% in 2017.

Government debt: GDP ratio: This is projected to reach 76% of GDP by end 2016. The Government has set a target of 45% of GDP by the middle of the next decade.

Unemployment rate: Continues to fall and is projected to be 7.7% by 2017.

Contents

1. Introduction – background to Budget 2017

Ireland has made significant progress in recent years in improving the balance in its public finances. As a result, it is no longer subject to the EU's rules applying to countries with large budget deficits ('Excessive Deficit Procedure'). However, it continues to operate under strict EU fiscal requirements, which are focused on achieving a balanced 'structural budget', that is, a balanced budget when one-off factors and the economic cycle are taken into account, and reducing the level of debt as a % of GDP.

In its Summer Economic Statement, the Government stated that its strategy is to 'balance the books; by 2018. The continued strong growth rate in the Irish economy in 2016, of 4.2%, with exchequer returns exceeding projections, have allowed the Government to introduce a budget comprising €1.3b in additional resources, comprising €1b of expenditure increases and €300m of net tax reductions.

Uncertainties in the international economy have, however, led to a revision downwards of projected economic growth for 2017 from that predicted in the Summer Economic Statement. It is expected that the economy will grow by 3.5% in 2017. The immediate impact of the decision by the UK to exit the EU in mid-2016 has been a significant and sustained depreciation of sterling, which has had a negative impact on export competitiveness, and which was reflected in a number of the support measures announced in the Budget. The Government has maintained relatively strong discipline in relation to the public finances. By end 2016, the budget deficit is projected to fall to 76% of GDP.

2. Public Expenditure changes

2.1. Agriculture budget

2.1.1. Summary of expenditure for Department of Agriculture (DAFM)

Expenditure in the Department of Agriculture is set to increase by €119m, or 9% in 2017, from €1.35b to €1.47m. Programme expenditure under the Rural Development Programme will increase by €107m, from €494m in 2016 to €601m in 2017 or 21%, between 2016 and 2017, funded through a combination of increased EU and national funding.

The main changes in expenditure for the Agriculture budget are summarised in Table 2.1.1.1 below.

Table 2.1.1.1 Summary of Expenditure for the Department of Agriculture (€000s) (est.)

DAFM (€000s)	2017 estimate	2016 allocation	Change from 2016 (€000s)	% change from 2016
Gross expenditure	1,469,600	1,351,101	118,499	9%
Less Receipts	331,388	306,442	24,947	8%
Net expenditure	1,138,212	1,044,660	93,552	9%

There were significant changes in funding for certain agriculture programmes, these are outlined in Table 2.1.1.2.

Table 2.1.1.2. Main changes to programme expenditure

Programme	2016 (€m) allocation	2017 (€m) allocation
Agri-Environment Schemes	196	242
Beef Data and Genomic	52	52
ANCs	202	202
Sheep Welfare Scheme	-	25
TAMS	35.8	50
Knowledge Transfer	1	26
Forestry	113.8	111.6
Horticulture Grant Aid	4.3	5
TB and Brucellosis eradication	31.9	34

2.1.2. Current expenditure changes

2.1.2.1. Agri cash flow support loan

A fund of €150m for low cost, flexible loans for farmers is being introduced. This is being developed in conjunction with the SBCI. Underpinning the fund is €25m from the Department of Agriculture, which is supported by the €11 m made available under the EU's exceptional adjustment aid for milk and other livestock farmers.

Loans of up to six years for amounts up to €150,000, at an interest rate of 2.95% will be provided and will be available to livestock, tillage and horticulture farmers.

2.1.2.2. Agri-environment programmes

Funding for agri-environment programmes has been increased to €242m in 2017. €211m of this is allocated to the GLAS scheme, €10m allocated to the Organics scheme with the remaining allocation to farmers still in AEOS and in the Locally Led Agri-environment scheme. The GLAS scheme will cater for 50,000 participants in 2017.

2.1.2.3. Sheep Welfare Scheme

Funding of €25m has been allocated, which will be delivered as a payment of €10/ewe, subject to meeting certain animal welfare measures.

2.1.2.4. Areas of Natural Constraint (formerly Disadvantaged Areas)

There is no change to the funding for the ANCs programme, with a funding allocation of €202m for 2017.

2.1.2.5. Beef Data and Genomics

The Beef Data and Genomics programme will be reopened to new entrants, with a funding allocation of €52m for 2017.

2.1.2.6. Food, safety, animal health and welfare

Total funding allocated is €85.5m under this heading, which includes €34m for TB and Brucellosis eradication.

2.1.2.7. *State Agencies (Bord Bia/ Teagasc/ BIM/ Marine Institute /SFPA)*

Funding for the state agencies has been increased from €230m in 2016 to €241m for 2017. This mainly reflects an increase in funding for Bord Bia and BIM to provide additional resources and support to the agri-food sector in the wake of the UK vote to leave the EU.

2.1.3. Capital expenditure

2.1.3.1. *Forestry*

The funding for Forestry is €111.6 million down from €113.8m in 2016, this will fund a planting programme for over 7,100 ha and 110 km of forest roads in 2017. Forest premium levels are maintained for those in the current programme.

2.1.3.2. *Farm investment grants – TAMS*

A funding allocation of €50m has been announced for the TAMS on-farm investment programme. This is an increase of over €14m on the 2015 allocation of €35.8m. The scheme will be reopened in 2017 to new applicants.

2.1.3.3. *Horticulture*

Funding for capital investment has been increased from €4.3 to €5 million.

2.2. Other Expenditure and Social Welfare changes relevant to farm families

2.2.1. Social Protection

2.2.1.1. *Farm Assist*

- The full restoration of the income and child disregards will have a significant impact on recipients of Farm Assist. It will also allow more farmers into the scheme.
- Income disregard - 30% of the assessed income of the farmer is not taken into account.
- Child income disregard - this will be €253.95 for each of the first two children and €380.92 for each subsequent child.
- Farmers on Farm Assist also qualify for the 85% Christmas bonus in December.
- The impact of the Budget changes is outlined in table 2.2.1.1:

Table 2.2.1.1. Main changes to programme expenditure

	Farm Income assessed:	***Farm Assist pre-2017 Budget***		***Farm Assist post-Budget Changes****		***Increase per week***
		Per Annum	*Per Week*	*Per Annum*	*Per Week*	*Per Week*
Single Farmer	€8,000	€1,776	€34.15	€4,436	€85.30	+ €51.15
Married - no Children	€15,000	€1,265	€24	€6,181	€118.86	+ €94.86
Married - 2 Children	€15,000	€4,364	€83.93	€9,788.10	€188.24	+ €104.31

*(including social welfare increase from March 2017)

2.2.1.2. *Self-employed PRSI supports*
A number of additional PRSI-related supports will be introduced for self-employed workers, which were previously available to employees only. These include:

- The PRSI invalidity pension will be extended to self-employed workers from December 2017
- Dental and Optical Benefits and the Medical Appliances scheme (hearing aids) will be extended to self-employed workers from March 2017
- Dental Benefit will be expanded in October 2017 for all insured employees and the self-employed.
- Optical Benefit will be expanded to self-employed and employees in October 2017 to contribute towards the costs of glasses
- The 4% rate of Class S PRSI will remain unchanged in 2017

2.2.1.3. *State Pension – Contributory and Non-Contributory*
There will be a €5 increase in all maximum weekly pension payments (contributory and non-contributory) with proportionate increases for those on reduced rates of payments. The weekly increase for a qualified adult is €3.30.

2.2.1.4. *Other social welfare allowances*
A €5 increase in the maximum rate of **all** weekly payments for pensioners, carers, people with disabilities, widows, lone parents, jobseekers etc. will be introduced in March 2017

2.2.2. Office of Public Works – Flood relief
€50m has been allocated for capital works for flood relief in 2017. This is part of the €430m budget up to 2020, and it is expected that the annual allocation will increase further in 2018.

2.2.3. Arts, Heritage, Regional, Rural and Gaeltacht Affairs
LEADER: €40m funding is being allocated for the delivery of the LEADER Rural Development programme in 2017.

Town and village regeneration scheme: €12m has been allocated for this scheme, with a €5m increase for the *CLAR* scheme.

2.2.4. Health
€14.6 billion has been allocated to health, the highest ever health budget.

2.2.4.1. *Prescription charges*
Legislation to be enacted to reduce the monthly cap on prescription charges for those over 70 years old from €25 to €20.

2.2.4.2. *Medical cards for children*
Funding of €10 million has been allocate to enable all children who qualify for the Domiciliary Care Allowance to be provided with a medical card.

2.2.4.3. *Mental Health Services*
€35 million is being provided for new mental health services in 2017, in addition to the €35m provided in 2016, which remains in the base funding of the Mental Health Services.

2.2.4.4. Older People Services
The funding for services for older people has increased to €765 million in 2017.

2.2.5. Children and Youth Affairs
The Affordable Childcare Scheme will replace existing childcare subsidisation schemes (excluding the free pre-school scheme) from September 2017. This will provide a means tested subsidy for children between 6 months and 15 years. Subsidies will be payable for those with net incomes up to €47,500 per annum; and a universal subsidy for all children aged between 6 months and 3 years (up to €900 per annum) will be introduced.

3. Taxation measures

The Budget contained a number of changes to existing taxation and the introduction of a number of new taxation measures. Overall, however, the scope for major taxation change was limited by the total value of taxation reductions introduced, of €300m.

The following are the main agri-taxation and general taxation changes announced in the 2017 budget.

3.1. Agriculture taxation
3.1.1. Income averaging
Based on IFA's proposal for a measure to tackle income volatility utilising an existing taxation measures, farmers on income averaging will now be allowed, in a poor income year, to pay only the tax due on the current year. The deferred tax liability will be payable over subsequent years. This measure will be available immediately.

Farmers will be entitled to 'step-out' of income averaging once in a five year period, and will pay the deferred liability over the following four years.

3.1.2. Capital Acquisitions Tax – Agricultural Relief
Agricultural Relief continues to apply at a rate of 90% on agricultural property. The increase in the Group A (parent to child) CAT threshold from €280,000 to €310,000 means that the value of a farm that can be transferred from parent to child has been increased (up to a maximum lifetime amount of €3.1m).

3.1.3. CGT relief for Farm Restructuring
CGT restructuring relief is a key measure which provides farmers with the opportunity to consolidate their farm holding through land swap, disposal and re-purchase. It has been extended to end 31st December 2019.

3.1.4. Accelerated Capital Allowances for Energy Efficient Investment
A key target for the agri-food sector is to improve the emission efficiency of production. The SEAI Accelerated Capital Allowances Scheme for investment in energy efficient equipment has been extended to sole traders. It will provide farmers who invest in energy efficient equipment with the full capital allowance in the first year. The measure should be of particular benefit to the intensive sectors, such as pigmeat, poultry and horticulture, which make significant investments in heating, insulation and refrigeration systems.

3.1.5. VAT refund

The flat-rate addition for farmers who are not registered for VAT is being increased from 5.2% to 5.4% from 1st January 2017. Overall, this is worth €9m.

3.1.6. Raised Bog CGT Relief

Payments under the Raised Bog Restoration Incentive scheme will be exempt from Capital Gains Tax.

3.2. General taxation measures

3.2.1. Income tax – Earned Income Tax Credit

For self-employed tax payers, including farmers, who do not receive the PAYE Tax Credit, the Earned Income Tax Credit of €550 introduced last year is being increased by a further €400 to €950. This change also means that the income threshold for self-employed people entering the tax net is increased from €11,000 to €13,000.

The income tax rates and bands are unchanged.

3.2.2. Universal Social Charge

The rates of USC are being reduced as follows:

- The lowest rate of 1% is to be reduced to 0.5%; this applies to the first €12,012 of income.
- The 3% rate is to be reduced to 2.5%; this applies on income from €12,013 to the increased threshold of €18,772.
- The 5.5% rate is to fall to 5%; this applies to income between €18,773 up to €70,044.

People earning over €70,044 per year will not get any benefit on the portion of their income above €70,044, but will benefit on the portion of their income below that figure.

3.2.3. Other Income Tax changes

The Home Carer tax credit is being increased by €100 to €1,100. This applied to single income married couples with children or who care for an elderly or incapacitated relative.

A new income tax refund for first time house buyers is being introduced (*Help to Buy)*. It will also assist those looking to build once-off houses for their own occupation. In the case of a self-build, applicants who drew down the first tranche of their mortgage on or after 19 July 2016, will be eligible.

The scheme will provide a rebate of income tax paid over the previous 4 years up to a maximum of 5% of the purchase price of a new house up to a value of €400,000. Pro rata rebates will apply to lower priced houses. The scheme will not apply to houses valued over €600,000.

3.2.4. DIRT

The rate of DIRT tax is being reduced from 41% to 39%. The Government's intention is to reduce this further by 2% / year to reach 33% by 2020.

3.2.5. Capital Acquisitions Tax

The Group A (parent to child) CAT threshold is being increased from €280,000 to €310,000. The Group B threshold (brother, sister, niece, nephew, grandchild) is being increased from €30,150 to €32,500. The Group C threshold (all others) is being increased from €15,075 to €16,250.

3.2.6. Capital Gains Tax – Entrepreneur Relief

The rate of CGT on the sale of business is being cut from 20% to 10%, up to €1m in qualifying chargeable gains.

3.2.7. Excise rates

There is no increase in excise rates on petrol and diesel.

3.2.8. Carbon Tax

Relief from Carbon Tax is provided for solid fuels that include a biomass element and for fuel inputs to combined heat and power plants (CHP).

3.2.9. Sugar tax

The Minister announced his intention to introduce a tax on sugar-sweetened drinks in 2018, following a consultation process.

4. Economic and budgetary outlook

4.1. The national economy

The outlook for the economy for the next three years, 2017-2019, remains positive; however future growth projections have been revised downwards, driven largely by the uncertainties of the international economy, in particular the impact of Brexit on the UK, EU and Irish economies. With over 40% of exports currently going to the UK market, the Irish agri-food sector will be particularly affected by the outcome of the Brexit vote, both the short term economic impact of currency fluctuations and unpredictable consumer sentiment, and the longer-term trade and EU budgetary positions.

It is expected that the Irish economy will continue to grow next year, with a predicted growth of 3.5% of GDP in 2017. The unemployment rate continued to fall in 2016, and is now below 8%. It is expected to fall further, with 7.7% unemployment projected for 2017. Table 4.1 outlines the projected changes in the main economic indicators over the next three years

Table 4.1: Economic Outlook (% Volume Changes)

	2016	2017	2018	2019
Real Gross Domestic Product (GDP):	4.2	3.5	3.4	3.2
Real Gross National Product (GNP):	7.5	3.3	3.2	3.0
Personal consumption:	3.3	2.9	2.2	1.8
Public consumption:	5.9	2.4	1.3	1.0
Fixed investment:	15.8	6.0	4.7	4.3
Exports:	4.5	4.8	4.7	4.2
Imports:	5.9	5.1	4.8	4.5
Inflation (HICP)	-0.1	1.3	1.8	1.9
Employment growth (%)	2.6	2.1	2.1	1.8
Unemployment rate (%)	8.3	7.7	7.3	6.9

It should be noted that the exceptional economic growth rate recorded by CSO for 2015, due mainly to financial activities of multi-national companies, have had an impact on data expressed as a ratio of GDP from 2015 onwards. The impact is particularly positive as regards budget deficit and Government debt.

4.2. Public finances

Under the terms of the Fiscal Treaty, Ireland is required to keep its budget deficit to below 3% of GDP, with its Debt: GDP ratio moving towards 60%. Table 4.2 outlines the expected changes in Government expenditure and revenue over the next three years and the impact of these changes on the budget deficit. As can be seen, the Government intend to have a balanced budget by 2018.

Table 4.2.: Budgetary Projections 2016-2019 (€m)

Heading	2016	2017	2018	2019
Expenditure				
Net Current Expenditure	50,185	51,210	52,475	53,650
Net Capital Expenditure	4,890	5,360	6,125	6,890
Total Expenditure	55,075	56,570	58,600	60,540
Revenue				
Tax Revenue	48,135	50,620	53,590	56,535
Non-Tax Revenue	2,740	2,615	1,820	1,985
Capital Resources	2,760	1,185	950	1,985
Total Revenue	53,625	54,420	56,340	59,755
Contingency Reserve	0	0	0	1,000
General Government Balance	-2,400	-1,235	-820	540
As a % of GDP	-0.9%	-0.4%	-0.3%	0.2%
Structural balance % of GDP	-1.9%	-1.1%	-0.5%	0.0%

4.2.1. Budget balance and debt sustainability

The General Government Deficit for 2016 is 0.9% of GDP and is estimated at 0.4% of GNP in 2017. The Minster stated that when the budget is in surplus after 2018 it is the Government's intention to establish a contingency or 'rainy day' fund. The Government will set aside up to €1b annually for this.

As a key measure of the sustainability of the public finances, the debt: GDP ratio of 76% of GNP indicates a positive movement towards the target of 60%, to be achieved over a 20 year period. It should be noted that this figure peaked at 120% of GDP during the recent crisis. During the downturn, both the stock of Government Debt and its size relative to the size of the economy increased hugely, leading to, among other things, a significant increase in annual interest payments required to service the national debt.

Debt servicing costs have continued to reduce in the last number of years, mainly through a reduced borrowing requirement (reduced budget deficit) and the ability to issue Government debt at a significantly lower cost (lower interest rates). The reduction in the debt:GDP ratio reflects (i) the reduced deficits (ii) the significant growth of the overall economy, and (iii) the exceptional upward adjustment to the GDP growth in 2015 and subsequent years.

Table 4.2.2: Budgetary Projections 2016-2019 (€m)

Year	2016	2017	2018	2019
Govt Debt €b	200.0	204.5	209.8	212.8
Govt Debt as a % of GDP	76.0	74.3	72.7	70.2