IFA

Budget 2019

IFA BUDGET REPORT

October 2018

Table of contents

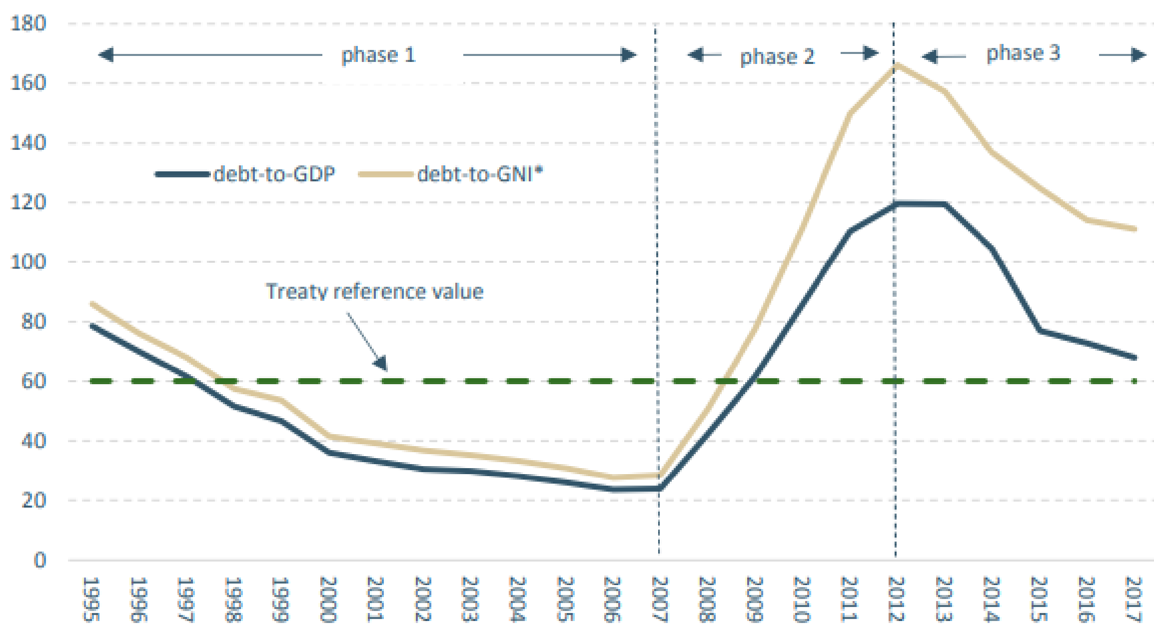
1. INTRODUCTION – BACKGROUND TO BUDGET 2019 4
2. AGRICULTURE BUDGET 5
2.1. OVERVIEW OF AGRICULTURE BUDGET FOR 2019 5
2.2. FARM SCHEMES & OTHER EXPENDITURE 5
2.2.1. Agri-environment programmes 6
2.2.2. Suckler Scheme: Beef Environmental Efficiency (BEEPS) 6
2.2.3. Beef Data and Genomics (BDGP) 6
2.2.4. Sheep Welfare Scheme 6
2.2.5. Areas of Natural Constraint (formerly Disadvantaged Areas) 6
2.2.6. Forestry 6
2.2.7. Farm investment grants – TAMS 6
2.2.8. Horticulture 6
2.2.9. Food, safety, animal and plant health and animal welfare 6
2.2.10. Brexit Response Supports 7
2.2.11. State Agencies 7
3. OTHER SPENDING MEASURES RELEVANT TO FARM FAMILIES 8
3.1. SOCIAL PROTECTION, EMPLOYMENT AND HEALTH 8
3.1.1. Social welfare payments 8
3.1.2. Minimum Wage 8
3.1.3. Job Seekers Benefit for self employed 8
3.1.4. Social Insurance Parental Benefit Payment 8
3.1.5. Health 8
3.1.6. Mental Health 9
3.2. RURAL AND COMMUNITY DEVELOPMENT 9
3.2.1. Walks Scheme 9
4. AGRICULTURAL TAXATION 10
4.1. INCOME AVERAGING 10
4.2. STOCK RELIEF 10
4.3. STAMP DUTY RELIEF 10
4.4. CAPITAL ACQUISITION TAX - AGRICULTURAL RELIEF 10
5. GENERAL TAXATION 11
5.1. INCOME TAX 11
5.1.1. Earned Income Tax Credit 11
5.1.2. Home Carer Tax Credit 11
5.1.3. Income Tax Bands 11
5.1.4. Universal Social Charge Other Income Tax changes 11
5.1.5. Interest relief on rented residential property 11
5.2. STAMP DUTY FOR COMMERCIAL PROPERTY 11
5.3. CAPITAL GAINS TAX 11
5.4. KEY EMPLOYEE ENGAGEMENT PROGRAMME (KEEP) 12
5.5. EMPLOYER PRSI 12

5.5.1. PRSI 12
5.5.2. Employer contribution to National Training Fund levy 12
5.6. HOSPITALITY VAT RATE 12
5.7. VEHICLE REGISTRATION TAX (VRT) 12
6. ECONOMIC OUTLOOK AND THE PUBLIC FINANCES 13
6.1. THE NATIONAL ECONOMY 13
6.2. PUBLIC FINANCES 14
6.2.1. Budget balance and debt sustainability 14

1. Introduction – background to Budget 2019

The macroeconomic outlook for 2019 is generally positive, Ireland is expected to achieve GDP growth of 4%, down slightly on previous years. Levels of employment are increasing and Government debt as a % of GDP is falling, it is expected to reach 63.5% in 2019, down from highs of 120% in 2012/2013[1]. Debt levels are more accurately reflected as a percentage of Gross National Income (GNI), which also reflect a downward trend (see Figure 1).

Figure 1. Ratio of Debt to GDP/GNI



Source: Annual Report on Public Debt in Ireland, Department of Finance

Notwithstanding this, significant challenges are expected over the coming years. The planned exit of UK, our biggest trading partner from the EU in the spring of 2019 is fast approaching. This will significantly affect rural areas in Ireland due to their dependence on the agri-food sector in terms of economic activity and employment. Wider geopolitical uncertainty and possible disruptions to global trade negotiations, particularly in the US, could also present a threat to current economic growth. For the agri-food sector, 2018 was an extremely challenging year with extreme weather events impacting farming costs.

Such uncertainty and our position in the current economic growth cycle has prompted the Government to work towards building resilience in the economy and the achievement of a balanced Budget. As such the priority is to continue to reduce the Government debt without increasing borrowing.

[1] Department of Finance: https://www.finance.gov.ie/wp-content/uploads/2018/04/180417-SPU-Presentation.pdf

The Stability Programme targeted a deficit of 0.1% of GDP in 2019, with a budgetary package of €3.43bn. The Government delivered total expenditure of €66.5bn for 2019, comprising of €59.2bn current expenditure, an increase of 4% and €7.3bn in capital expenditure. A tax package worth €291m was also announced. In order to deliver this package, and to reach the target of balancing the government finances in 2019, €700m in revenue raising measures were also announced. In line with fiscal requirements based on expenditure benchmark and the achievement of the medium-term budgetary objectives (MTO), a structural deficit of 0.7% of GDP is forecast for 2019. This is slightly outside the target of 0.5% of GDP, this target will be revised in 2019.

2. Agriculture Budget

2.1. Overview of Agriculture Budget for 2019

Expenditure in the Department of Agriculture is set to increase by €57m, or 4% in 2019, from €1.53b to €1.59bn. Of this, €1.34bn is allocated to current expenditure for 2019 and €255m for capital expenditure. The Rural Development Programme (RDP) was allocated €638m, an increase of €12m from 2018 and €50m was allocated to the Seafood Development Programme. A summary of expenditure estimates for the Agriculture budget is provided in Table 1 below.

Table 1: Summary of Expenditure for the Department of Agriculture (€m) (est.)

DAFM (€m)	2019	2018	Change from 2018	Change from 2018 (%)
Gross expenditure	1,596	1,532	64	4.17
Less Receipts	389	282	107	27
Net expenditure	1,207	1,250	-43	-3.4

2.2. Farm Schemes & other expenditure

The main changes to programme expenditure are outlined in Table 2 below.

Table 2: Main changes to programme expenditure

Programme	2017 (€m) allocation	2018 (€m) allocation	2019 (€m) allocation	2019 vs 2018
Agri-Environment Schemes (GLAS)	245	233.8	239	+5.2
Beef Data and Genomic	52	50	44*	-6
BEEP	-	-	20	+20
ANCs	202	227	250	+23
Sheep Welfare Scheme	25	20	19	-1
TAMS	50	70	70	0
Knowledge Transfer	26	23	23*	0
Forestry & Bioenergy	111.7	106	103.5	-2.5
Horticulture Grant Aid	5	5	6	1
TB and Brucellosis eradication	34	34	34*	0

*estimate

2.2.1. Agri-environment programmes

The allocation for GLAS 2019 is €203m. This will also include some residual cases of farmers who are still in AEOS. The Organics scheme was allocated €11m with additional €1.2m for the development of the Organics sector. It is estimated that €15m was allocated to locally led schemes, which include Burren, Hen Harrier, Pearl Mussel and other schemes. Overall, environmental schemes represented an increase of around €5.2m.

2.2.2. Suckler Scheme: Beef Environmental Efficiency (BEEPS)

An allocation of €20m of funding was granted to the Sucker sector under the new BEEPS scheme. This is based on €40 targeted payment with a focus on improving environmental efficiencies in the sector. This is separate to the existing Beef Data Genomics Scheme. The scheme will involve the weighing of cows and calves.

2.2.3. Beef Data and Genomics (BDGP)

Under the existing BDGP scheme, in which approximately 24,000 farmers participate, funding of €44m was allocated.

2.2.4. Sheep Welfare Scheme

There was a €1m cut to the Sheep Welfare scheme budget with an allocation of €19m for 2019.

2.2.5. Areas of Natural Constraint (formerly Disadvantaged Areas)

There is an increased allocation of €23m for the ANC areas to reverse the cuts made in 2009, bringing the total allocation to €250m. This is estimated to benefit 96,000 farmers. Details of distribution under the scheme will be finalised in advance of the 2019 scheme. However, in the meantime, the review of ANCs will commence of the latter part of 2018 for implementation in 2019. This could result in some changes to areas and the payment rates.

2.2.6. Forestry

€103.5m has been allocated to the forestry budget for existing forestry premiums, as well as supporting an additional 8,000 ha of new planting and the construction of 125km of forest roads.

2.2.7. Farm investment grants – TAMS

There is no change to the budget allocation for the TAMS scheme, with €70m allocated for on-farm capital investment in 2019. The allocation for next year is the same as 2018, but there is likely to be an underspend of €10m this year. The utilisation of TAMs funds is of course dependent upon farmers completing work. With two years of the Rural Development Programme to go, it is most likely that the total allocation in the 7-year period of €395m will be significantly underspent. IFA will be arguing for changes to the scheme, so that all funds are utilised.

2.2.8. Horticulture

The allocation of €6m funding for Investment Aid in the horticulture sector is to meet reinvestment needs, heightened by storm damage and industry restructuring.

2.2.9. Food, safety, animal and plant health and animal welfare

Total funding allocated amounted to €246m, €242.6m current and €3.4m capital expenditure this is an increase of 9% on last year. Within this a €34m allocation for TB and Brucellosis eradication and €4.2m for animal welfare is estimated for 2019.

2.2.10. Brexit Response Supports

€27m allocated in Brexit related supports for the food industry as follows:

- €13m in supports for food industry competitiveness and innovation;
- €3m for Artisan and Micro food and beverage programmes through the Leader Programme and LEAN;
- €5m for Bord Bia for food marketing and promotions;
- €6m in funding to progress an €8 million Food Innovation Hub in Teagasc Moorepark, of which €2m was provided in 2018.

In addition to these measures €7m was allocated for DAFM staff and IT costs arising from Brexit preparedness measures.

In 2018 a €300m Brexit loan scheme was announced, this year an additional loan scheme called the Future Growth Loan Scheme has been announced providing up to €300m of loans available. This is open to SMEs and the primary agriculture and seafood sector, with an established branch in Ireland. The application is two stage process, first approved through SBCI website and then apply through participating finance providers. Loans are for terms of an 8-10-year period. Minimum loan for primary agriculture is €50,000 maximum €3m. Loans under €500,000 are unsecured.

2.2.11. State Agencies

- €46.6m has been allocated to Bord Bia for food and marketing promotion.
- €67.2m Horse and Greyhound Fund, of which €16.8m has been allocated to Bord na gCon.

3. Other spending measures relevant to farm families

3.1. Social Protection, Employment and Health

A broad range of new measures were introduced to support low-income families.

3.1.1. Social welfare payments

All social welfare payments are to increase by €5 per week this will come into effect from week beginning 25th March 2019. Payments include: Farm Assist, Rural Social Scheme, Job-Seekers Allowance and Benefit, State Contributory and Non-Contributory Pension, Disability Allowance, and Carers Allowance.

In addition, there is an increase of €2.20 per week to €34 for children under 12 years old and a €5.20 per week increase to €37 for children over 12 years old, this applies to qualifying dependent children.

The Back to School Clothing Allowance and Footwear Allowance will both increase by €25.

The Christmas Bonus is an extra payment for those in receipt of long-term social welfare payments, previously this was a payment of 85% of normal weekly payment, this will now be increased to 100%.

Weekly fuel allowance of €22.50 will be paid for 28 weeks in 2019 extended from 27 weeks.

3.1.2. Minimum Wage

The National Minimum Wage will increase from €9.55 to €9.80 from 1st January 2019.

3.1.3. Job Seekers Benefit for self employed

Self-employed will become eligible for Jobseeker's Benefit, this is to be introduced toward end of 2019. This is a further extension of social welfare benefits to the self-employed based on their Class S PRSI contributions. The details of the scheme are yet to be finalised.

3.1.4. Social Insurance Parental Benefit Payment

This is a new payment for employees and the self-employed, two weeks paid for each parent. The scheme will commence in November 2019 and applies to every parent of a child in their first year.

3.1.5. Health

Significant multi-annual investment in General Practice to support delivering more care in the community.

In expanding access to free GP care a 10% (€25) increase in the weekly income thresholds for GP visit cards was announced.

Prescription charges for all medical card holders under 70 will reduce by 50c from €2.00 per item to €1.50 per item for over-70s and phasing out of prescription charges for those in emergency accommodation

The threshold for the Drugs Payment Scheme will reduce by €10 from €134 to €124 per month.

3.1.6. Mental Health

€55 million additional funding was allocated to continue development of mental health services, in particular community mental health services, in line with Vision for Change.

The funding is aimed at new initiatives such as a dedicated mental health telephone number and crisis text service, e-mental health and digital technologies and community led youth mental health initiatives by sporting, community or other youth groups.

3.2. Rural and Community Development

An additional €53m in capital is allocated next year to fund the first round of projects under the new Rural Regeneration and Development Fund.

Supports include: Leader, Rural Recreation and Community Development.

3.2.1. Walks Scheme

An extra €2m for the expansion of the Walks Scheme and €1.2m for the Peace Programme.

4. Agricultural Taxation

The Budget contained a number of changes to existing agricultural taxation measures and the introduction of a new measure under income averaging. The following outlines these changes announced in the 2019 budget.

4.1. Income Averaging

The restriction relating to farmers with off-farm self-employed income is being removed. Income averaging allows eligible farmers to calculate their taxable income as the average of their income in the current year and the previous four years, on a rolling basis, thus smoothing their tax liability over a 5-year cycle, at an estimated cost of €2.5m. This means that farmers with another self-employed income in the household for example a farmer who has a contracting business separate to the farm business can now avail of income averaging. In the past this was not possible.

4.2. Stock Relief

Stock relief is a long-standing farming tax relief that encourages investment in improving stock quality and thus output. This was due to expire at the end of 2018.

The existing stock relief measures have been rolled over for a further three years to 2021:

-25% General Stock Relief on Income Tax
-50% Stock Relief on Income Tax for Registered Farm Partnerships
-100% Stock Relief on Income Tax for Certain Young Trained Farmers (YTF).

4.3. Stamp Duty Relief

Stamp duty relief for Young Trained Farmers, which was due to expire year end 2018 is to be extended to year end 2021. This is estimated to cost €15m in 2019.

4.4. Capital Acquisition Tax - Agricultural Relief

The current Group A tax free threshold which applies primarily to gifts and inheritances from parents to their children is being increased from €310,000 to €320,000. This increase applies in respect of gifts or inheritances received on or after the 10th of October.

Agricultural Relief continues to apply at a rate of 90% on agricultural assets. This means an overall increase of €10,000 in the total value of agricultural assets is allowable before applying agricultural relief. A farm that can be transferred from parent to child, before Capital Acquisitions Tax is due, is up to a maximum lifetime amount of €3.2m.

5. General taxation

5.1. Income tax

The 2019 Budget contains a number of relevant changes affecting tax for farmers.

5.1.1. Earned Income Tax Credit

The reduction in the earned income tax credit for the self-employed, which includes farmers, was increased by €200 from €1,150 to €1,350. This falls short of the commitment in the Programme for Government to eliminate this discrimination in the tax system to €1,650.

5.1.2. Home Carer Tax Credit

An increase in the Home Carer Tax Credit from €1,200 to €1,500 effective from 1st January 2019. In total this has been increased from €1,000 in 2016 to €1,500 in 2019. The full credit will be available where income is less than €7,200 (excluding Carer's Benefit and Carer's Allowance).

5.1.3. Income Tax Bands

The level of income at which people enter the higher rate (40%) tax band is increased. An increase of €750 in the income tax standard rate band for all earners, from €34,550 to €35,300 for single individuals and from €43,550 to €44,300 for married one earner couples.

5.1.4. Universal Social Charge Other Income Tax changes

Incomes of up to €13,000 are exempt. For persons with incomes over €13,000 the rates of USC for 2019 are as follows:

Table 3: Universal Social Charge

USC Income band	USC Rate
€0 – €12,012	0.5%
€12,012 – €19,874	2%
€19,874 – €70,044	4.5%
€70,044+	8%

Self-employed income over €100,000: 3% surcharge. The self-employed earning over €100,000 are subject to a total of 11% USC.

The third band of USC fell from 4.75% to 4.5%; this applies to income between €19,874 increased from €19,372 up to €70,044.

5.1.5. Interest relief on rented residential property

The increase in the amount of interest paid in respect of loans used to purchase, improve or repair a residential property that may be deducted by landlords will be accelerated to 100% from 1 January 2019.

5.2. Stamp Duty for Commercial Property

No change in stamp duty rates of 6% and consanguinity relief remains at 1%.

5.3. Capital Gains Tax

There is no change to Capital Gains Tax which remains at 33%.

5.4. Key Employee Engagement Programme (KEEP)

This scheme is a tax incentive designed for unquoted SMEs to attract and retain employees through the exercise of share options. These share options are liable for CGT on disposal, they are not subject to income tax, USC or PRSI under this scheme. This will be available for share options granted between 1 January 2018 and 31 December 2023.

Three changes include:

- increase the ceiling on maximum annual market value of shares that may be awarded to equal the amount of the salary (up from 50%)
- replace the three-year limit with a lifetime limit
- increase the quantum of share options that can be granted from €250,000 to €300,000.

5.5. Employer PRSI

5.5.1. PRSI

From 1 January 2019 the weekly income threshold for the higher rate of employer's PRSI will increase from €376 to €386. This follows a recommendation of the Low Pay Commission to ensure that the increase in the hourly minimum wage does not lead to work disincentives for workers, in particular those seeking to work full-time. This will ensure that an employer will pay the reduced rate of employer PRSI of 8.7% in respect of an employee working a 39-hour week who is paid the national minimum wage.

5.5.2. Employer contribution to National Training Fund levy

From 1 January 2019 there will be a 0.1% increase (from 0.8% to 0.9%) in the National Training Levy payable by employers as part of Employer PRSI contributions in respect of reckonable earnings of employees in Class A. Currently PRSI is 10.85%, this would bring PRSI to 10.95% in 2019 and to 11.05% in 2020. This is expected to raise approximately €77m.

Table 4: PRSI Rates

	2018	2019	2020
Employer PRSI Class A Reduced Rate	8.6%	8.7%	8.8%
Employer PRSI Class A Higher Rate	10.85%	10.95%	11.05%

5.6. Hospitality VAT rate

The 9% VAT rate is to be increased to 13.5% in this year's budget effective from 1st January 2019. It was introduced in July 2011 for categories of business in the hospitality sector, including guesthouses and camp sites. Open farms, previously exempt, were brought into the band in January 2012 under ECJ ruling. Since its introduction a strong recovery has been experienced in some of these categories reflecting changing economic environment. This is expected to raise an additional €560m in revenue. Note: If you sell a thoroughbred horse for breeding and are not VAT registered 5.4% applies if registered 4.8%. If it is a racehorse then 9% applies and from 1 Jan 13.5% if registered.

5.7. Vehicle Registration Tax (VRT)

A 1% VRT surcharge is being brought in for diesel engine passenger vehicles registering in the State from 1 January 2019.

6. Economic outlook and the public finances

6.1. The national economy

Government national economic forecasts for the period 2019-2022, remains generally positive. Ten years after the financial crash of 2008 the economy has recovered well, Ireland is one of the fastest growing economies in the EU. While this is positive, the impact of Brexit must be considered. At regional and sectoral level, the high level of exposure is evident, 2017 exports figures indicate 38% of our agri-food exports destined for the UK market. The effect will be more noticeable for indigenous sectors primarily the agri-food sector, with much greater impact in rural areas. The outcomes of negotiations will have a significant impact on economic exchanges between Ireland and the UK. Short term exchange rate volatility is a concern but the longer-term political positions on trade will have the most significant impact. The risk of a no deal Brexit will mean such impacts could have an immediate effect, which would lead to negative impacts overnight for Irelands largest indigenous sector.

Expectations for growth from 2019-2022 is positive with average annual growth in GDP of 3.2% over the period. The level of unemployment is declining and we are expected to reach full employment in 2020, the unemployment rate is expected to fall to 5.2% in 2019. Table 5 outlines the changes in the main economic indicators.

Table 5: Economic Outlook (annual % change real terms)

	2018	**2019**	**2020**	**2021**	**2022**
Gross Domestic Product (GDP):	7.5	4.2	3.6	2.5	2.6
Gross National Product (GNP):	5.9	3.9	3.3	2.3	2.4
Personal consumption:	3.5	3.0	2.6	2.1	2.2
Public consumption:	3.5	2.9	1.9	1.8	1.8
Fixed investment:	-8.9	7.1	5.7	4.4	4.3
Exports:	7.0	5.6	4.8	3.8	3.7
Imports:	0.9	6.2	5.3	4.5	4.3
Inflation (HICP)	0.4	1.4	1.8	3.0	2.4
Employment growth (%)	3.0	2.8	2.2	1.5	1.6
Unemployment rate (%)	5.8	5.2	5.0	5.0	5.0

These figures are largely in line with OECD estimates[2], the OECD forecast a slightly more modest estimate of GDP growth in 2019 at 2.4%. Overall our economy is recovering well with public finances improving as we approach full employment, seasonally adjusted unemployment rates from CSO indicate 1.2% fall since last year to 5.4% for September 2018.

[2] OECD http://www.oecd.org/ireland/economic-survey-ireland.htm

6.2. Public finances

In 2014 Ireland recorded positive general government primary balance for the first time in seven years, meaning revenues were sufficient to meet expenditure excluding the cost of servicing debt. This has continued to increase annually as we move toward reducing the debt levels. In 2017 our general government debt-to-GDP ratio was 68% and is expected to fall to 66% this year. The expected changes in Government expenditure and revenue over the next three years and the impact of these changes on the budget deficit are outlined in Table 6 below.

Table 6: Budgetary Projections 2018-2022 (€m)

	2018	2019	2020	2021	2022
Expenditure					
Net Current Expenditure	53,455	54,960	56,295	57,130	58,910
Net Capital Expenditure	6,935	8,410	9,175	9,770	10,075
Total Expenditure	**60,390**	**63,370**	**65,470**	**66,900**	**68,985**
Revenue					
Tax Revenue	55,070	57,945	60,950	63,795	66,800
Non-Tax Revenue	2,835	2,550	1,430	1,280	1,265
Capital Resources	1,855	1,125	2,920	3,140	1,140
Total Revenue	**59,760**	**61,620**	**65,300**	**68,215**	**69,205**
Contingency Reserve	0	500	500	500	500
General Government Balance	-315	-75	1,065	1,615	4,165
As a % of GDP	-0.1	0	0.3	0.4	1.1
Structural balance as % of GDP	-1.0	-0.7	0.0	0.2	1.0

6.2.1. Budget balance and debt sustainability

In 2018 the General Government Deficit is 0.1% of GDP and forecast to reach 0.0% of GNP in 2019. With small surpluses expected annually up to 2022. Under the EU Stability and Growth Pact the medium-term targets are in place to assist in stabilising our finances. The two key targets relate to our structural deficit and debt-to-GDP ratio.

The debt-to-GDP ratio, currently at 64% of GNP, reflects a positive trend towards the target of 60% as outlined in Figure 1. Using the more realistic measure of domestic economic activity Gross National Income (GNI) Ireland has the 6th highest level of national debt in the OECD.

The sustainability of public debt relates to the stock of debt and the cost of servicing the debt. This has reduced in recent years, namely due to favourable interest rates secured. The Government commitment of €500m to contingency reserve will also be an important fund in face of international uncertainty.

Table 7: Government Debt Projections 2018-2022

Year	2018	2019	2020	2021	2022
Govt Debt (€b)	205.9	209.6	203.3	207.7	208.4
Govt Debt as a % of GDP	64.0	61.4	56.5	55.3	53.1

Sovereign credit rating also improved over 2107 based on improvements in the debt-to-GDP ratio, falling debt servicing costs, improvement in health of the banking sector and improvement in fiscal balance.