Budget 2019 Summary Assessment

The new Finance Bill is due to be published next Thursday 18th October, following the announcement of Budget 2019 by Minister Paschal Donohoe on Tuesday. Dublin Chamber has welcomed many of the features of Budget 2019 as being consistent with our recommendations, but also expressed concern that the Government has not shown more ambition for indigenous enterprise and the Irish SME sector.

In our pre-Budget submission, Dublin Chamber advised Government to take a targeted and cautious fiscal approach, with Brexit and other risks to the economy foremost in mind. We recommended using the fiscal space to prepare Ireland for the challenges ahead by investing in the fundamentals of the Irish economy and improving Ireland's position vis-à-vis its competitors. Our three priorities were:

- ✓ Invest in Ireland's Infrastructure
- ✓ Grow Ireland's Businesses
- ✓ Invest in Ireland's Human Capital

We are pleased that several of our key recommendations have been included in the budget, while progress has been made on others. In particular, we welcome the Government's adherence to NDP funding requirements, its commitment of over-profile corporation tax receipts to the Rainy Day Fund, increases in support for affordable childcare and housing construction, and improvements to the Key Employee Engagement Programme. The Government has also made incremental steps towards improving Ireland's income tax competitiveness relative to the UK, and towards greater tax fairness for the self-employed.

Overall, however, the Government has taken little substantive action to improve Ireland's business tax environment ahead of Brexit in March 2019. Our pre-Budget submission clearly demonstrated that Ireland's competitive position versus the UK has slipped in recent years and that Ireland now compares negatively in all but a handful of categories. Creating an entrepreneurial environment to support Irish SME growth will be critical to broadening Ireland's commercial base and strengthening its economic resilience in the coming years, yet no reform of CGT was announced. Meanwhile, increases in employers' PRSI and the National Minimum Wage will impact SME costs. The 4.5% rise in VAT for the hospitality sector was not helpful, but neither was it unexpected.

A brief assessment of the budget is outlined below, comparing our key recommendations with Government actions. The Chamber will continue to engage with Government in the coming weeks and months to ensure that the voice of Dublin business is heard.

Invest in Ireland's Infrastructure	
Dublin Chamber Recommended:	***Budget 2019:***
✓ Meet the fiscal commitments outlined in the National Development Plan, requiring €7.3 billion in exchequer funding for public capital expenditure. Allow an informed debate on investment choices by publishing a regional breakdown of capital spending and ranking infrastructure projects according to their cost-benefit ratio.	✓ Gross voted public capital expenditure will increase by €1.4 billion to a total of €7.3 billion in 2019. This is a rise of 24% and means that investment next year will be 3.5% of national income (GNI*) compared to a recent EU average of 2.7% of GDP. This should place Ireland in the top ten European countries for the level of public investment.
✓ Projects to relieve the growing pressure in the capital city must be prioritised for progress and investment in 2019. Dublin Chamber's key infrastructure priorities are: MetroLink; the DART Expansion Programme; BusConnects; the Eastern & Midland Water Supply Project; and construction of new social and affordable housing in Dublin.	✓ Transport will receive an additional €1.26 billion in capital expenditure over 2018 to 2021, including €286 million in 2019. Government has committed to progressing Dublin projects like BusConnects, MetroLink, and DART Expansion Programme in 2019, as well as regional projects, though details are limited. A €310 million fund has been set up for subvention of affordable housing construction.
✓ Permit drawdown from the Rainy Day Fund if economic growth dips below the level required to fund delivery of the NDP (minimum 2% growth) to ensure steady and stable infrastructure delivery.	- The Government has not given a clear indication of the rules that will govern the drawdown of finance from the Rainy Day Fund, whether consistent NDP delivery will be one of its aims, or exactly what expenditures Rainy Day Fund financing will be restricted to.
✓ Ring-fence unexpected tax receipts to accelerate delivery of priority infrastructure projects under the NDP, or where this is not practicable in a given year, to increase the size of the Rainy Day Fund.	✓ Minister Donohoe announced that over-profile corporation tax receipts will be set aside for the purpose of capitalising the Rainy Day Fund.

Grow Ireland’s Businesses	
Dublin Chamber Recommended:	***Budget 2019:***
✓ Upgrade Entrepreneur Relief from Capital Gains Tax to surpass the UK by raising the lifetime cap on qualifying gains from €1 million to €15 million, sending a strong signal that Ireland intends to compete ahead of Brexit. The Programme for Government had committed to increasing the limit to €10 million in the lifetime of the Government. Dublin Chamber also recommended consideration of a 30% income tax rate on share dividends for entrepreneurs.	✘ No change was announced to Entrepreneur Relief, despite this having been considered by the Department of Finance. Ireland’s offering to entrepreneurs is uncompetitive in relation to that of the UK, which has a lifetime limit on Entrepreneur Relief from CGT that is equivalent to €11 million. Ireland’s effective total tax rate on entrepreneurs’ share dividends also remains considerably higher than the UK’s, which stands at just 32.5%.
✓ Prudently improve Ireland’s income tax competitiveness vis-à-vis the UK to position the economy to face the challenges and opportunities arising from Brexit. Specifically, raise the Earned Income Tax Credit for the self-employed to the PAYE of €1,650, and gradually increase the entry point for the higher 40% income tax rate in order to ease pressure on average wage earners and ensure equity for people who generate economic activity.	✓ The Earned Income Tax Credit for the self-employed will rise by €200 to €1,350, benefitting 150,000 people. The entry point for the higher rate of income tax will rise by €750, from a salary of €34,550 to 35,300 (for a single earner), while the 4.75% USC rate will fall to 4.5%. This means the top marginal rate on incomes up to €70,000 will fall to 48.5% and fewer people on average wages will be subject to the 40% rate of income tax.
✓ Introduce an Investor Relief along the UK model, offering a lower 20% CGT rate on investment in unquoted trading companies to encourage investment in higher-risk indigenous SMEs as opposed to passive investment in large blue-chip firms.	✘ Ireland’s CGT rate will remain a flat 33% regardless of the nature of the investment, the level of risk taken, or the contribution of the investment to the Irish economy. This compares with a 10% rate offered in as part of the UK’s Investor Relief programme.
✓ Raise the R&D tax credit rate from 25% to 30% for SMEs and allow an upfront claim of the cash refund instead of the three-year deferred mechanism that currently exists.	✘ There were no specific improvements to the R&D tax credit announced in Budget 2019. Dublin Chamber will continue to highlight the need to boost investment and productivity in Irish SMEs through greater R&D.

Invest in Ireland’s Human Capital	
Dublin Chamber Recommended:	***Budget 2019:***
✓ Increase female labour market participation by improving childcare affordability through a significant expansion of the new Affordable Childcare Scheme. Dublin Chamber suggested for consideration a doubling of the maximum universal childcare subsidy from €80 per month to €160 per month, with a commitment to further improvements in both the universal and targeted elements of the scheme.	✓ A €90m package was announced to improve childcare affordability. The income thresholds for the Affordable Childcare Scheme will increase next year. The base threshold will increase from €22,700 to €26,000; the maximum income threshold will go from €47,500 to €60,000; and the multiple child deduction will increase from €3,800 to €4,300.
✓ Improve the Key Employee Engagement Programme (KEEP) to help SMEs to retain talent and compete with larger firms. Following a Chamber lobbying campaign, KEEP came into effect on 1st January last, and allows SME staff members in receipt of share-based remuneration to defer the tax due from the date of receiving share options to the date of exercise. Dublin Chamber called for an easing of the restrictions on the value of share options granted to an individual, and various other measures.	✓ Three improvements to KEEP were announced. The ceiling on the maximum annual market value of share options that may be granted to a staff member will be increased to 100% of salary. The three year limit will be replaced with a lifetime limit. The overall value of options that may be awarded per employee will be lifted from €250,000 to €300,000.
✓ Extend the Special Assignee Relief Programme benefits to new recruits for firms that are SMEs by the European Commission definition.	✘ There has been no indication of change in this regard.
✓ Prevent taxation of employer-funded professional subscription fees as Benefit in Kind. Amend Revenue guidance to make clear provision for exemption from BIK of professional memberships that are commercially necessary but not legally required.	✘ There has been no indication of change in this regard. The new Revenue approach remains a concern in the professional services sector and beyond.