Chambers Ireland
Advancing business together

Budget 2019: Chambers Ireland's Perspective

Budget 2019: Measures to deliver infrastructure welcome, but little to improve short-term competitiveness

Government's chosen path for Budget 2019 will produce long term benefits for the Irish economy if measures announced are implemented appropriately and rapidly. Balancing the books, delivering promised investments, establishing the Rainy Day Fund and preparing the economy for Brexit are the best approach for Government to take at this time. We are pleased with the commitment to significantly ramp up capital expenditure to €7.3bn and delivery of the National Development Plan will be vital over the coming years.

Chambers Ireland has been calling for over-profile corporate tax receipts to go towards the Rainy Day Fund and this is a most welcome decision by Government, along with the Minister's commitment to avoid over-reliance on volatile taxes and the need to protect a broad tax base. We continue to call for this to be used as an equalisation fund to deliver consistent finance for capital expenditure into the future and would like to see clarity on access mechanisms for this fund.

While Government has committed to wide ranging investments across many departments, which is welcome, our members will be concerned at some of the more immediate changes.

Budget 2019 does nothing in the short term to enhance our competitiveness at this crucial time in the run-up to Brexit. No changes to the CGT regime in particular was a surprise, and we had asked Government to increase the earned-income tax credit by €500, but only a €200 increase was delivered. Increases to employers' PRSI and the National Minimum Wage will impact business costs negatively.

We are extremely disappointed with Government's decision to increase the 9% VAT rate for the hospitality sector and this will come as a blow to regional Ireland. We now hope that the effects of this on rural jobs might be offset by increased funding going towards tourism bodies, by expanding our market reach and delivering capital investment.

While increased funding towards housing is positive, if the policies already in place are not facilitating the level of output of affordable homes so desperately needed, we must ask ourselves if other policy changes beyond extra money will be required in delivering new homes.

Similarly, we welcome the increase of €90m towards childcare and the expansion of the Affordable Childcare scheme, however while sustained investment in childcare is crucial we must be sure that this investment translates into more affordable services for parents.

We look forward to seeing the detail on the new funds promised, particularly those that will be set up to support business in preparing for Brexit. How and when the variety of investments announced today will be spent remains unclear and businesses will likely see the short-term increases in costs as the key takeaways from today's budget, while the more positive elements will likely take longer to have impacts.

Businesses need to make a leap of faith with this budget. Some potentially positive initiatives will require rigorous implementation to have an impact. In the intervening period there is little in it to improve competitiveness.

Chambers Ireland Pre Budget vs Budget 2019 Outcome

In Chambers Ireland's Pre Budget 2019 Submission published earlier this year, we recommended that Government focus on four key areas based on our consultations with the Chamber Network:

1. *Planning for a Sustainable Future*
2. *Supporting our Workforce*
3. *Encouraging Entrepreneurs*
4. *Battling Brexit*

Under each of the headings above, we outlined policy proposals for Government to consider. We have repeatedly called for the implementation of all of these proposals in our engagement with Government representatives throughout the year, as well as in our lobbying activities.

We were pleased to see that many of our recommendations were included in the budget, in particular our recommendations around infrastructure spending, the Rainy Day Fund and investment in childcare. However, we were disappointed by the increase to the 9% VAT rate, which may have negative implications for regional tourism industries, particularly in light of Brexit next year.

The table below provides an overview of our recommendations against the content of the budget.

CI Recommendations	**Budget 2019 Outcomes**
'Planning for a Sustainable Future' Recommendations	**Budget 2019 Outcomes**
Project Ireland 2040 • The commitments made in the National Development Plan and the targets set for growth and planning in the National Planning Framework must be delivered upon	✓ €7.3 billion will go to capital expenditure in 2019. ✓ An additional €1.4 billion is being invested in infrastructure projects in 2010. ✓ This is a substantial increase of 24 per cent and means that investment next year will be 3.5 per cent of national income (GNI*) compared to an EU average in recent years of 2.7 per cent of GDP. This should place Ireland in the top ten European countries for the level of public investment in this area.

Rainy Day Fund • Establish the Rainy Day Fund and transfer an initial €500 million to the Fund • Gradually increase State contributions and transfer revenue raised from over profile corporate tax receipts into the Rainy Day Fund • Restrict use of the Rainy Day Fund for delivery of investment in infrastructure and the delivery of the NDP should growth dip below 2% GNI*	✓ The Rainy Day Fund is being established to increase the State's resilience to larger economic shocks. ✓ The Fund will be capitalised with €1.5 billion from the Ireland Strategic Investment Fund and supplemented with an annual contribution of €500 million from the Exchequer starting from 2019. ✓ Some of the historically high levels of corporation tax will be set aside for the purpose of capitalising the Fund. Not outlined in the Budget was the mechanism that will be put in place to access this Fund and exactly what expenditure it will be restricted to.
Corporate Tax • Maintain and defend Ireland's 12.5% Corporate Tax Rate • Work with international partners and the process of OECD BEPSs on international tax proposals • Exercise caution in over-reliance on corporate tax receipts and transfer revenue raised from over profile corporate tax receipts into the Rainy Day Fund	✓ Minister Donohoe highlighted that Ireland's longstanding 12.5 per cent rate will not be changing. ✓ The process of global tax reform is ongoing, and in addition to this year's Budget measures, the Corporation Tax Roadmap also sets out a comprehensive plan of future actions on corporate tax reform
Housing • Implement the recommendations of the Kenny Report on CPOs • Evaluate the effectiveness of the Vacant Site Levy and amend the Urban Regeneration and Housing Act 2015 as required to effectively disincentivise land hoarding • The Living City Initiative should be rolled out to all strategic growth cities named in Project Ireland 2040 subject to a review of and improvements to the existing scheme • A Construction Standards Regulator should be established to operate alongside the new Planning Regulator • Deliver a "Cost Rental" model of housing • Double the Local Property Tax on properties vacant for 2 years or more	Not delivered A total of €2.3 billion will be allocated to the housing programme for 2019 No changes to housing policy announced, only increased funding and a change to the tax treatment of landlords.

Decarbonisation • Invest in the phasing out of inefficient heating systems in homes and premises through the retrofitting scheme • Residential and commercial new builds must be built with integrated renewable low carbon technologies • Increase the utilisation of the existing gas network for renewable biogas • Explore Carbon Capture and Storage options for Ireland • Invest more in energy efficiency auditing for businesses • Support businesses to engage in the circular economy and waste prevention at source	Not delivered
Transport • The transport projects announced under Project Ireland 2040 must be delivered upon • Invest in rapid transport corridors and rail routes for Ireland's growth driver cities • Expedite the introduction of a commercial charging regime for Electric Vehicle charging points and introduce initiatives and incentives to support the uptake of EVs • Support CNG infrastructure and invest in CNG buses for inter-city or long-distance public transport services • For intra-city public transport increase use of hybrid & electric vehicles in fleets • Produce a motor policy and taxation roadmap	✓ The Dublin Airport Authority will invest €320 million to enhance capacity at Dublin Airport and €587 million will be invested in the ports of Dublin, Cork and Shannon Foynes to enhance national and international connectivity. ✓ A new accelerated capital allowances scheme for gas-propelled vehicles and refuelling equipment will be introduced. This is designed to encourage the uptake of gas-propelled commercial vehicles (CNG). ✓ The Green Public Transport Fund was established to support the uptake of low carbon, energy efficient technologies within the public transport sector. ✓ Ireland will no longer purchase diesel-only buses for the urban public service obligation (PSO) bus fleets after July 2019. Not delivered: No clear roadmap on motor policy. A 1 per cent surcharge for diesel vehicles to apply across all VRT bands was announced, along with an extension to the VRT relief for hybrid vehicles until end 2019. Beyond this no clarity was offered on motor tax policy for the future.
Education & Skills • Continue to increase apprenticeship and traineeship offerings in a wider range of fields • Make the National Training Fund more responsive to the needs of employers • Introduce a voucher model for funding skills courses for SMEs	A further increase of 0.1 per cent in employers' PRSI in both 2019 and 2020 will go ahead. This increase will go towards the National Training Fund. ✓ Part of the surplus in the NTF will be used to establish a multi-annual, ring-fenced Human Capital Initiative of €300 million over the period 2020 to 2024.

• Support the re-skilling and up-skilling for those in employment and increase life-long learning levels in Ireland • Increase targeted, responsive training in sectors with skills shortages • Increase investment in entrepreneurship and innovation education for students	This Initiative will increase investment in higher education courses across the country. ✓ More targeted investment to meet the skills needs of the labour market will be introduced. Over 15,000 new places in the higher education and further education and training sectors including: • over 1,200 craft and earn as you learn places; • 1,100 Traineeships; • over 8,000 places through Skillnet Ireland and Springboard; • and 5,000 new lifelong and flexible learning opportunities Not delivered: A voucher model for SME funding opportunities.
‘Supporting Our Workforce’ Recommendations	**Budget 2019 Outcomes**
Income Tax • Make incremental increases to the entry point to the higher rate of tax on a multi-annual basis	✓ Delivered The entry point to the higher rate of income tax was increased by €750, raising it from €34,550 to €35,300 in the case of a single worker.
Childcare & Narrowing the Gender Pay Gap • Maintain investment in Early Childhood Education • Deliver prompt roll out of the Affordable Childcare Scheme • Deliver a value-for-money cost analysis of childcare provision • Maximise the use of schools and existing community facilities for childcare provision	✓ Delivered Funding for early learning and childcare will increase by just under €90 million to a total of €574 million. The income thresholds for the Affordable Childcare Scheme will increase next year. In net terms; • the base income threshold is being raised from €22,700 to €26,000; • the maximum income threshold will go from €47,500 to €60,000; • the multiple child deduction will increase from €3,800 to €4,300 Value for money cost analysis of childcare provision was not delivered
Pensions • Introduce an auto-enrolment pension model with a realistic • Retain existing tax relief on pensions contributions	✓ Delivered Auto-enrolment progressing under the Department of Employment Affairs & Social Protection – currently at consultation stage, scheduled to be introduced in 2022.

Diversity • Consolidate all current supports for disabled persons entering the workforce into one overall grant • Funding for specialised equipment or supports should be received by the prospective employee with a disability rather than linked to the place of work • Maintain funding for the Employer Disability Information service	€150 million more will be allocated to disability services next year to bring total funding in this area to almost €2 billion.
‘Encouraging Entrepreneurship’ Recommendations	**Budget 2019 Outcomes**
Tax Equity & Supporting Microbusinesses • In this Budget cycle, bring Earned Income Tax Credit for the self-employed in line with the Employee Tax Credit • Introduce full equity in taxation between the self-employed and PAYE workers • Introduce a short-term tax credit on employer PRSI to enable small businesses to grow	Not Delivered The Earned Income Credit will be increased by a further €200 to €1,350 .
Supporting Women in Business • Expand funds that offer targeted support for female entrepreneurs • Introduce additional supports in management training for female-led companies • Support state agencies to provide training to female entrepreneurs on international trade and increase female participation in overseas trade missions	Not delivered The Department of Business, Enterprise and Innovation was allocated funding of €950 million in 2019. This is an increase of 9 per cent on last year. However much of this increase will likely be focussed on Brexit preparation.
Capital Gains Tax • Reduce the Capital Gains Tax rate of 33% • Increase the lifetime limit of €1 million in qualifying capital gains under Entrepreneur’s Relief to €10 million	Not delivered

Capital Gains Tax Rollover Relief • Introduce CGT rollover for investment in small businesses, where an entrepreneur can apply for relief on the capital gain when reinvesting in an SME or new business	Not delivered
Key Employee Engagement Scheme • Revise the limits on the total market value of share options • Remove the salary cap and replace with a maximum amount of share options per employee • Ensure Fin Tech companies are eligible for the KEEP scheme • Facilitate the disposal of shares beyond the stock exchange by KEEP companies	✓ Delivered ✓ The ceiling on the maximum annual market value of share options that may be granted will be increased to 100 per cent 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 increased from €250,000 to €300,000.
'Battling Brexit' Recommendations	**Budget 2019 Outcomes**
Trade Supports • Work with and support the Chamber Network to communicate resources that will help businesses to prepare for Brexit • Support the Chamber Network in providing training to exporters on the issuance of trade documentation and customs training • Make funding available through the Brexit Loan Scheme to support more businesses who may wish to innovate in response to Brexit • Introduce additional supports for businesses in e-commerce • Support collaborations between the Irish Chamber Network and Chambers in the UK on B2B engagement to prepare for Brexit	Funding of €950 million will be allocated to the Department of Business, Enterprise and Innovation in 2019.This is an increase of 9 per cent on last year. A 'Future Growth Loan Scheme for SMEs' was announced for the SME and agriculture and food sectors. Government will bring new legislation to implement this scheme which will provide up to €300 million. This builds on the €300 million invested through the Brexit Loan Scheme last year and forms an important part of the Government's Brexit response. I am also providing over €110 million for Brexit measures across a number of Departments, including funding for essential customs requirements and a range of other targeted measures.
Tourism • Maintain the 9% VAT rate for the hospitality sector • Increase the budget of state agencies to invest in market diversification	Not delivered An increase in the 9% VAT rate to 13.5% for the hospitality industry was announced, effective January 2019.

• Enable Fáilte Ireland to provide additional programme supports for tourism businesses to face the challenges Brexit presents • Resource State agencies to increase levels of investment in niche areas that distinguish Ireland as a destination • Increase the fund of €1 million provided for co-operative marketing and promotion of regional ports and airports to €3 million per year • Ensure that tourism initiatives and strategies are coordinated with transport provision • Reconsider and revise operating conditions attached to the development of a third runway at Dublin Airport	✓ €35 million was allocated to the Department of Transport, Tourism and Sport in order to provide more targeted supports for the sector, including €4.5 million for regional initiatives such as Ireland's Hidden Heartlands and the Wild Atlantic Way, and nearly €10 million for the further development of our greenways.

If you have any questions on Budget 2019 and what it will mean for members, please contact Elisha Collier O'Brien in Chambers Ireland via email: Elisha.collierobrien@chambers.ie