Irish Economic Update October 2014
AIB Treasury Economic Research Unit

Budget 2015 - Highlights

Macroeconomic

- Today's neutral Budget represents a major shift in the fiscal stance, marking the end of austerity following a severe policy tightening (€30bn adjustment) over the past 6 years.
- Budget Deficit remains on a firm downward path, forecast to fall to 2.7% of GDP in 2015, 1.8% in 2016 and 0.9% in 2017, with small surplus in 2018.
- General Government Debt ratios now in marked decline.
- Budget arithmetic based on a 2015 GDP forecast of 3.9% and 3.4% in 2016 and 2017
- Unemployment rate forecast to decline to 10.2% next year and 9.4% in 2016. Employment growth of 2.4% and 1.9% envisaged for 2015 and 2016 respectively.

Expenditure

- Total Gross Voted Expenditure of €53,625m in 2015, compared to €53,540m in 2014, an increase of €85m.
- Gross Voted Current Spending of €50.1bn in 2015, virtually unchanged from 2014.
- Gross Voted Capital Expenditure of €3,549 in 2015, an increase of €115m on 2014 spending levels.
- 36% of total current expenditure for 2015 allocated to Social Protection, 24% to Health and 16% to Education.
- Additional current spending for Justice and Education.
- Child Benefit to increase by €5 per month.
- Water subsidy of €100 per year to all recipients of Household Benefits Package and Fuel Allowance Scheme.
- A €2.2bn programme for social housing over the next three years providing up to 6,700 units by 2017.

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Revenue/Taxation

- Standard rate income tax band increased by €1,000 to €33,800 for single individuals and to €42,800 for married one earner couple.
- Top rate of income tax cut from 41% to 40%.
- 2% USC rate reduced to 1.5%, 4% USC rate to 3.5%. USC bands also widened to give relief to low and middle income earners, removing 80,000 low income earners from the USC.
- New USC of 8% for incomes in excess of €70,000 and an 11% rate of USC for self employed incomes in excess of €100,000.
- Tax credit at the standard rate (worth 20% of total water bill, with relief capped at €100) introduced for water charges.
- Top 1% of income earners pay 21% of all income tax/USC, top 24% pay 80% and bottom 76% pay 20% of all income tax/USC.
- Only tax/excise increase is on cigarettes and other tobacco products.
- Corporate tax residency rules altered to eliminate "Double Irish" practice used by some multi-nationals.
- Proposal for low corporate tax rate for earnings coming from intellectual property rights in effort to ensure Ireland remains attractive for FDI.
- Measures aimed at boosting activity in the construction sector, incl. the extension of Home Renovation Incentive scheme to rental properties, removal of 80% windfall tax on gains attributed to planning decisions and replacing it with 33% rate of CGT.
- Refund of DIRT on savings used by first time buyers used towards the deposit on a home.
- Lower 9% VAT rate retained for hospitality sector.
- Measures targeted at increasing long term farm land leasing to maximise available agri-land. Farm income tax exemption thresholds increased by 50%.
- Seed Capital, Employment and Investment Incentive Schemes to support SME sector. Improvements to Foreign Earnings Deduction and roll out of an Export Strategy aimed at encouraging exports.
- Pension fund levy lowered from 0.75% to 0.15% and will be scrapped in 2016 as planned.

Source: Department of Finance