Welcome

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Managing Partner
Grant Thornton
Economic Overview

Andrew Webb
Chief Economist, Grant Thornton
Discussion

• Global context and recent performance
• Key issues for our future prospects
• Where next?
Global context

Relative calm turns to chaos – the world uncertainty index

- US recession and 9/11
- Global economic
- US military action in Iraq
- Possible US military action in Iraq
- Iraq war and outbreak of SARS
- Financial credit crunch
- Ongoing turmoil in global financial markets
- US fiscal cliff and sovereign debt crisis in Europe
- Sovereign debt crisis in Europe
- Sovereign credit risk in Europe
- Brexit
- Political uncertainty in Europe related to the threat of Catalan secession from Spain
- FED tightening and political risk in Greece and Ukraine
- US presidential elections, and aftermath of Brexit
- Uncertainty concerning Brexit and U.S. trade policy
Resilience in the face of uncertainty…

Economic Performance Ireland and UK GDP (Q1 2019)
Resilience in the face of uncertainty

Labour market soaring

- Employment has recovered to record highs, surpassing previous 2007 peak
- Close to half a million jobs added since 2012 low point
- Quarter of a million people off live register since 2012

Source: CSO
Is this as good as it gets?

Services
- New business growth is at a 76 month low in services
- Fourth successive slowdown in activity

Manufacturing
- Output and new orders have contracted sharply
- Fourth successive slowdown in activity
Is this as good as it gets?

Consumer Confidence tumbles, Google ‘recession’ searches are trending upwards

Source: KBC Bank

Source: Google
## Where next?

### A different path for GDP growth

<table>
<thead>
<tr>
<th>Source</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Bank of Ireland</td>
<td>8.2%</td>
<td>4.9%</td>
<td>4.1%</td>
</tr>
<tr>
<td>IBEC</td>
<td>8.2%</td>
<td>4.0%</td>
<td>2.7%</td>
</tr>
<tr>
<td>ESRI</td>
<td>8.2%</td>
<td>4.9%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Department of Finance</td>
<td>8.2%</td>
<td>5.5%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Source: Department of Finance

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**Graph Note:**

- No deal = 3.8 per cent below no Brexit
- Counterfactual deal = 2 per cent lower
Exchequer finances in decent shape

<table>
<thead>
<tr>
<th>€million</th>
<th>Q3 2019</th>
<th>Vs Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax</td>
<td>15,752</td>
<td>42</td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>12,313</td>
<td>-47</td>
</tr>
<tr>
<td>Excise Duty</td>
<td>4,365</td>
<td>89</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>5,839</td>
<td>558</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>2,513</td>
<td>-27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40,781</strong></td>
<td><strong>615</strong></td>
</tr>
</tbody>
</table>

Source: Department of Finance
‘A Budget without precedent’

• The budget sought to manage risk and aiming to make progress on the health of national finances, the quality of public services and climate change

• A two strand budget:
  – Managing the risk from a no deal Brexit
  – Improve public services and help the most vulnerable citizens
‘A Budget without precedent’

• Expenditure is increasing for a 7th consecutive year
• Gross voted expenditure now comfortably surpassing the previous 2007 peak
• Growth in expenditure is more modest than in the lead up to the crisis
‘A Budget without precedent’

- Current expenditure up by 4.3% - Health, employment affairs, education, housing and justice were big cash winners - €2.2bn up on 2019

- €1.2bn for Brexit response

- €8.1 billion for capital expenditure to fund delivery of Project Ireland 2040
Sum up

- Global uncertainty has spiked
- Remarkable labour market resilience, until now
- Significant issues are chipping away at confidence
- The coming decade is set to be much tougher than the current one
- Exchequer finances are in decent shape
- Was budget riding two horses – Brexit and an election?
- Brexit noise aside – infrastructure spending was welcome and key to economic prospects
Thank you
Panel 1

- Oliver O'Connor, Partner, Grant Thornton
- Jarlath O'Keefe, Partner, Grant Thornton
- Jim Kelly, Director, Grant Thornton
- Moderator: Vincent Wall, Newstalk
Panel 2

- Peter Vale, Partner, Grant Thornton
- Peter Legge, Partner, Grant Thornton
- Úna Ryan, Director, Grant Thornton
- Brian Murphy, Director, Grant Thornton
- Moderator: Vincent Wall, Newstalk
Questions?
Thank you
Personal Tax

Income Tax

• €150 increase in Earned Income Credit to €1,500;
• €100 increase in the home carer credit to €1,600;
• The Special Assignee Relief Programme (“SARP”) has been extended to 2022;
• Employment and Investment Incentive Scheme (“EIIS”) – increase in the annual limit on investments to €250,000; and
• The full 40% income tax relief will now be available in the year of investment.
Personal Tax

- KEEP scheme improved
- Foreign Earnings Deduction extended to 2022
Capital Acquisitions Tax

- Group A tax free threshold increase from €320,000 to €335,000;
- This increase applies in respect of gifts or inheritances received on or after 9 October; and
- CAT applies at a rate of 33%.
Stamp Duty

- The rate of stamp duty applicable to non-residential property transactions will increase by 1.5 per cent to 7.5 per cent (from 9 October 2019);
- Introduction of a 1% stamp duty charge aimed at certain company acquisitions. This involves the company being acquired cancelling their existing shares and the re-issuing of new shares to acquiring company.
Indirect Taxes

Carbon Tax
• €6 increase in the price of carbon with the price rising from €20 per tonne to €26 per tonne;
• This increase will apply to auto fuels from 9 October and other fuels from May 2020.

Excise Duty on Tobacco
• Increase of 50 cent on a packet of cigarettes. Cost of average pack of 20 cigarettes now €13.50. A pro rata increase on all other tobacco products
Indirect Taxes

- New Nitrogen Oxide Tax introduced from 1/1/20 to replace the 1% diesel surcharge introduced in last year’s budget
- VRT relief for hybrid cars has been extended to 2020 (and will be subject to CO2 emission levels);
- A reduction in the qualifying CO2 threshold for VAT reclaims on company cars
- A Diesel rebate scheme has been introduced/tweaked for hauliers; and
Indirect Taxes

Missed Opportunities

• Should have increased the VAT refund threshold from €5 million to €10 million
• Potential to have a short term reduction in the VAT rate applicable to construction costs to assist with the construction of affordable houses for the rental market
Corporation Tax

R&D

• There has been an increase in the value of R&D tax credit from 25% to 30% for small and micro companies;
• Furthermore a claim for pre-trading expenditure is now available for small and micro companies;
• The limit on spending outsourced to Third Level institutes has increased from 5% to 15%
Corporation Tax

- Anti-hybrid rules to be introduced in 2020
- Transfer pricing rules to be updated in line with OECD guidelines and extended to SMEs and non trading transactions
Corporation Tax

DWT

• There will be an increase in the rate of Dividend Withholding Tax from 20% to 25% from 1 January 2020;

• From 1 January 2021, Revenue will be introducing a modified Dividend Withholding Tax regime. This will utilise real-time data collected under the newly modernised PAYE system and allow a personalised rate of Dividend Withholding Tax to be applied to each individual taxpayer, based on the actual rates of tax that they pay.