

Budget 2020

9 October

Grant Thornton



Welcome

Michael McAteer
Managing Partner
Grant Thornton

Economic Overview

Andrew Webb

Chief Economist, Grant Thornton

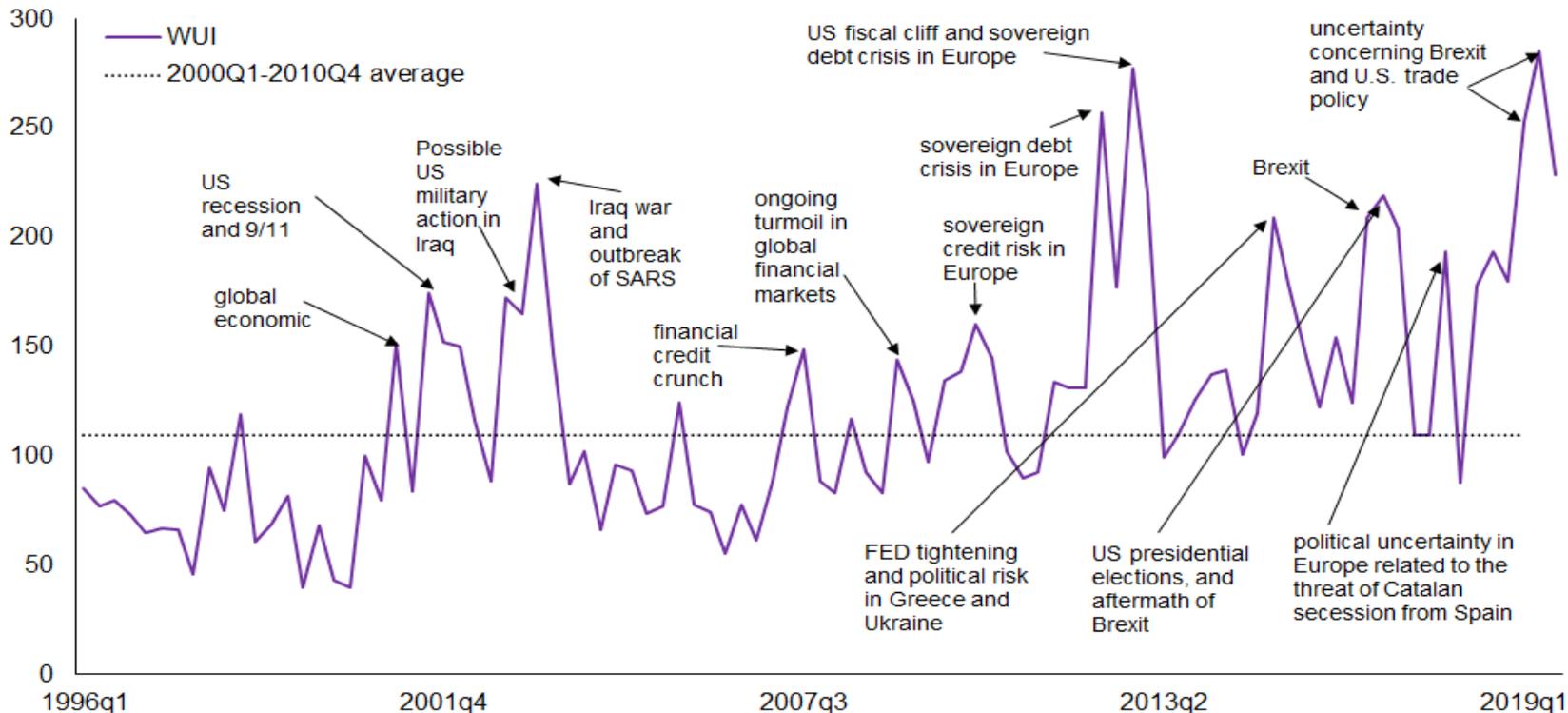


Discussion

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

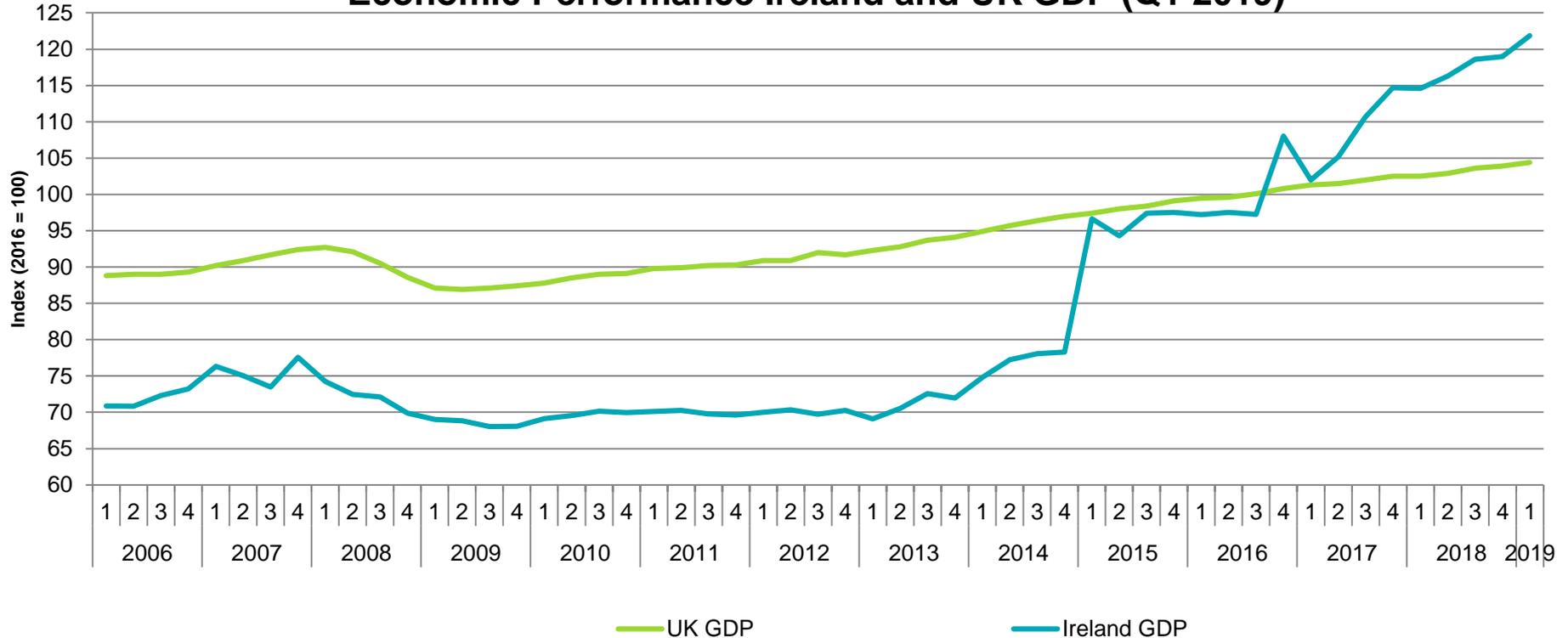
Global context

Relative calm turns to chaos – the world uncertainty index



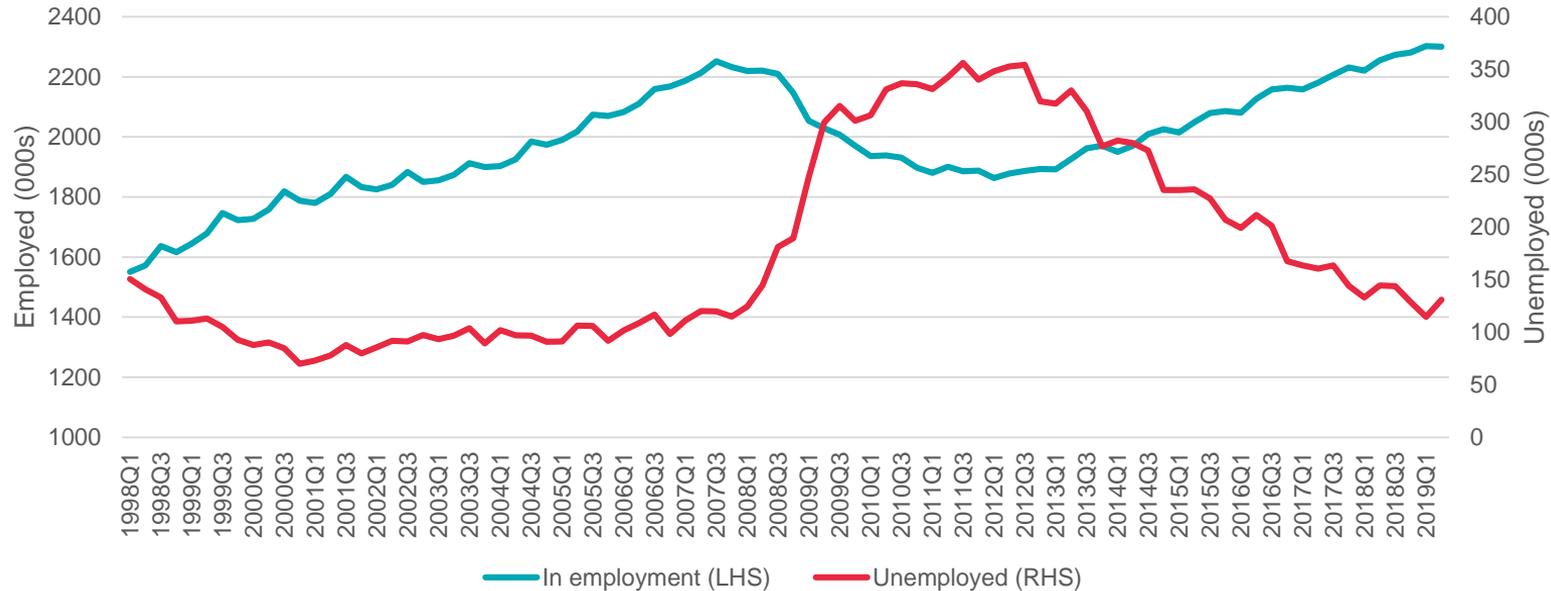
Resilience in the face of uncertainty...

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 Business Activity Index

sa, >50 = growth since previous month



Services

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

Manufacturing PMI

sa, >50 = improvement since previous month

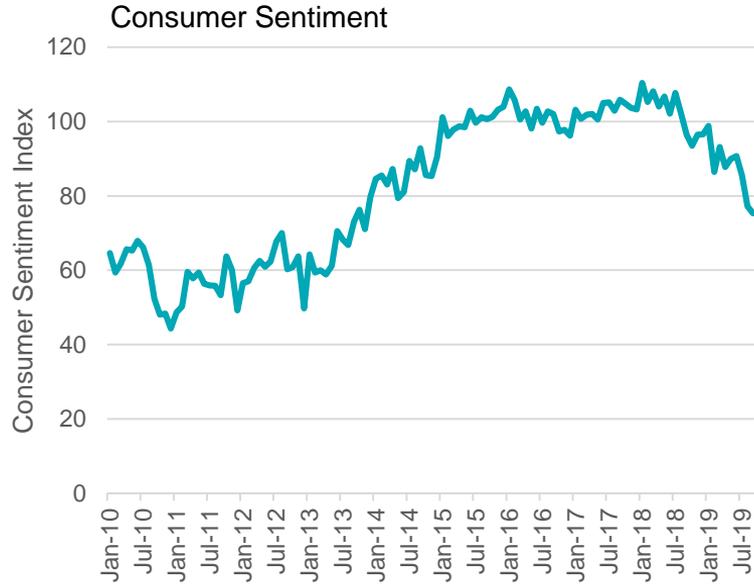


Manufacturing

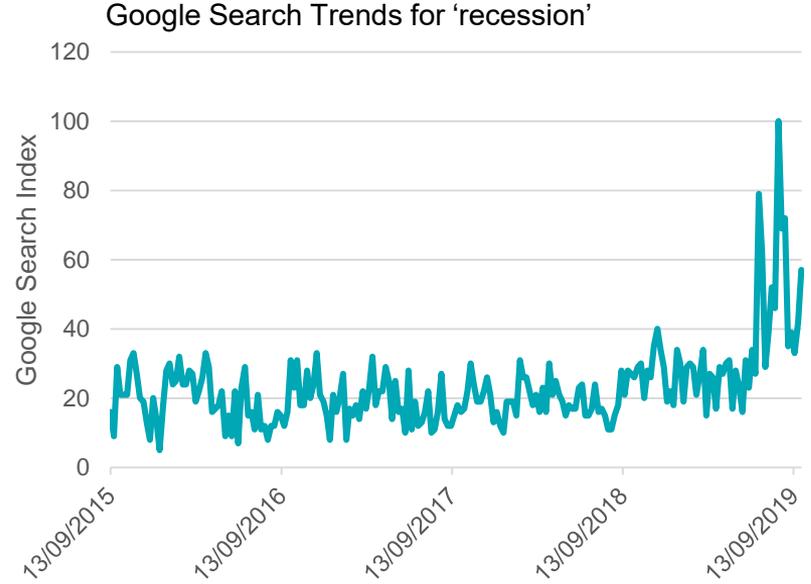
- Output and new orders have contracted sharply
- Fourth successive slowdown in activity

Is this as good as it gets?

Consumer Confidence tumbles, Google 'recession' searches are trending upwards



Source: KBC Bank



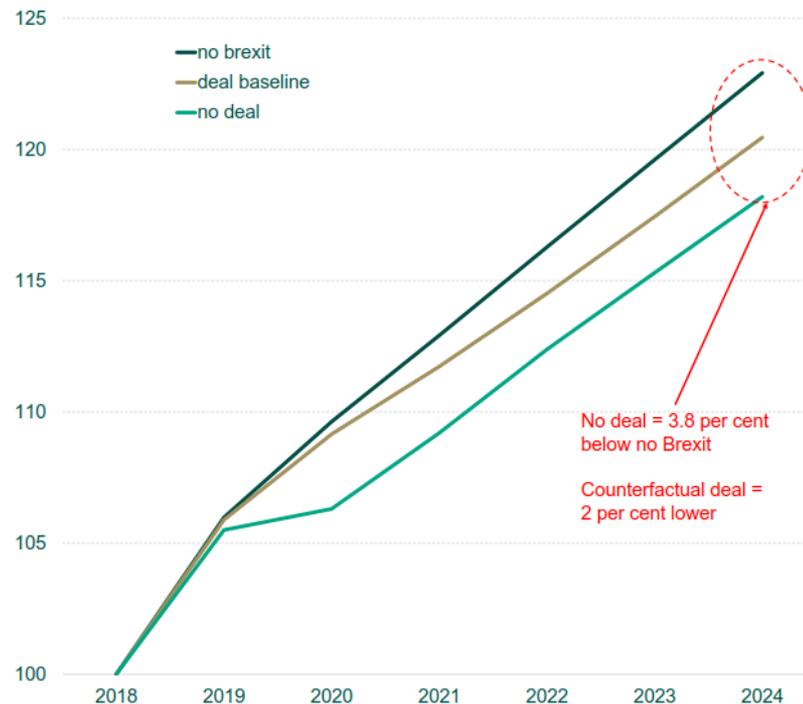
Source: Google

Where next?

A different path for GDP growth

	2018	2019	2020
Central Bank of Ireland	8.2%	4.9%	4.1%
IBEC	8.2%	4.0%	2.7%
ESRI	8.2%	4.9%	3.1%
Department of Finance	8.2%	5.5%	0.7%

Level of GDP, 2018=100



Source: Department of Finance

Exchequer finances in decent shape

€million	Q3 2019	Vs Profile
Income Tax	15,752	42
Value Added Tax	12,313	-47
Excise Duty	4,365	89
Corporation Tax	5,839	558
Other Taxes	2,513	-27
Total	40,781	615

Source: Department of Finance

€609m

General Government
Account in Surplus in
2019

€160m

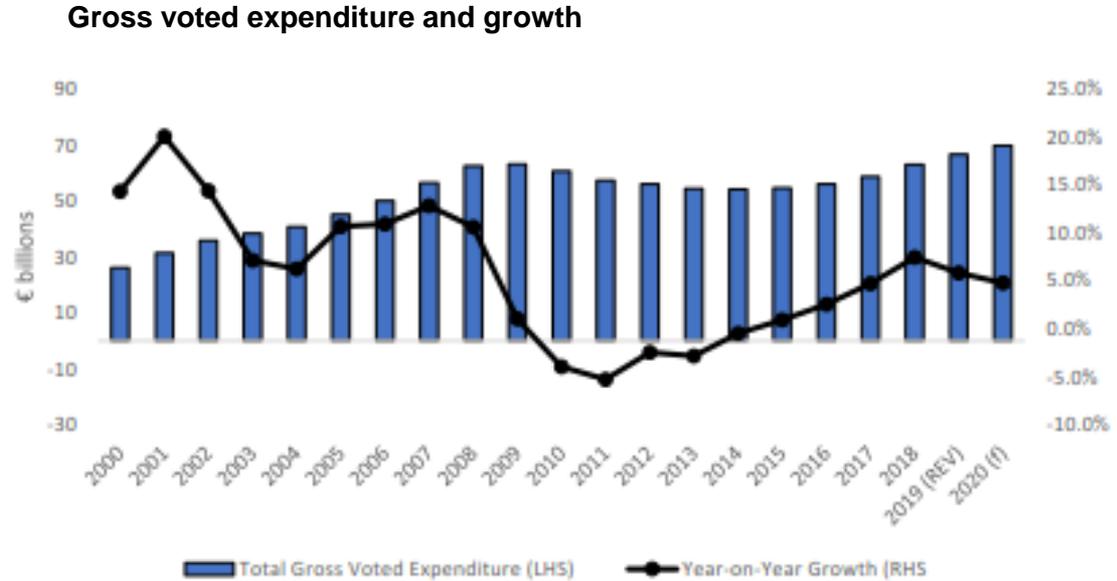
General Government
Account projected
surplus for 2020

'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

	2019	2020	Change	
	€ million	€ million	€ million	%
Gross Current Expenditure (Core)	59,291	61,868	2,577	4.3%
Gross Capital Expenditure (Core)	7,342	8,136	794	10.8%
Total Gross Expenditure (Core)	66,633	70,004	3,371	5.1%
<i>Contingency for Temporary Targeted Measures</i>		650		
<i>Necessary Compliance Checks</i>		160		
<i>Additional Employment Supports</i>		410		
Sub Total – Brexit Response		1,220		
<i>Timing-related Cash Costs</i>		169		
Additional Total		1,389		
Total Gross Voted Expenditure		71,393		

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 (“EIIIS”) – 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

Personal Tax

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 years 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.