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Ireland: First Step on a New Road

This is the “First Step on a new Road as part of the Partnership Government” according to Minister for Finance, Michael Noonan, as he delivered his first budget of the new Government.

Speaking at the Midlands Budget Briefing in Athlone, **Fiona Murphy**, Tax Director, Russell Brennan Keane said that "the Minister focussed on the domestic housing crisis and the external risks to Ireland’s economy, and in particular the risks associated with Brexit. In this regard, the property measures introduced, for first time buyers in particular, are very welcome but may not be enough to stimulate supply and the hoped for reduction in the VAT rate for construction services never materialised. In relation to protecting against future economic risks, the Minister has focused on putting in place “shock absorbers” to assist in eliminating such shocks with the intention of ending the “boom and bust cycles” that we have seen in the past.”

Our Corporation Tax System is always a focus and the Government has continued with its stated intention to ensure that Ireland’s Corporation Tax system is best in class by confirming the 12.5% Corporation Tax rate and by announcing a Consultation process to examine all aspects to it.

The main property relieving provisions were the introduction of the Help-to-Buy scheme providing a rebate of income tax paid by first time buyers over the previous four years to facilitate the purchase of a new home, along with the phased restoration of tax relief for interest on loans for residential properties. The extension of Home Renovation Incentive until 31 December 2018 and increasing the income ceiling for the Rent a Room scheme is also welcome.

Reducing USC rates and announcing the intention to continue this trend with the aim of ultimately eliminating USC is a relief to us all.

Finally, the Minister also enhanced the CGT entrepreneurs relief by further reducing the rate of CGT from 20% to 10% on certain disposals. It is hoped he would start increasing the €1m lifetime threshold to which the reduced rate applies this year, to bring it closer to the UK limit of £10m but he has committed to review in future budgets.

Overall according to Ms. Murphy, "This budget is quite unique given the number of parties “fingerprints” on it. The Minister in the first Budget of this Government has delivered a careful budget that is focused on prioritising the repair of public services. The Minister has stressed the importance of acting responsibly and implementing a prudent fiscal policy and have a contingency in place to deal with external shocks.

Commenting after this morning’s Budget Briefing, **Simon Barry**, Chief Economist Republic of Ireland at Ulster Banks said, “Ongoing healthy improvement in the economic environment continues to provide a very helpful backdrop to the Irish public finances with the latest projections anticipating that continued economic recovery will see Ireland’s overall budget deficit fully eliminated by 2019. After a very difficult period of major fiscal adjustment, that represents a remarkable and very welcome transformation from the dark days of the crisis during which Ireland's borrowing requirement had exploded to a peak of almost €20bn in 2009."

But some caution is warranted by the observation that the outlook is not as favourable as seemed likely earlier in the year prior to the UK referendum, with Brexit representing a very prominent source of downside risk to the outlook for the Irish economy and public finances alike. In the context of a desire to adopt a stance of prudence in the face of downside risks, the Minister confirmed the intention to set up a Rainy Day fund from 2019 and a newly-unveiled domestic debt target of 45% of GDP – some way lower than the 60% target specified under the fiscal rules. However, one disappointing aspect of Budget 2017 is that it falls short of full compliance with the rules.

In particular planned spending is ca. €200m (0.1% of GDP) above the permitted expenditure ceiling in 2017, meaning the Expenditure Benchmark (one of the two planks of the new rules) is set to be breached next year. While in substance this deviation is not likely to be deemed to represent a "significant deviation" from the rules, the optics of departing from the rules so soon after leaving the Troika programme are not good for fiscal credibility, especially as the Budget also revealed likely non-compliance with the other budget rule (that related to the required annual improvement in the Structural Budget Balance) for 2016.

In relation to capital spending, the increased allocations over the past couple of years are very welcome, with yesterday's Budget projections incorporating an annual spend of over €7bn by 2021 – a doubling of committed spend from the very depressed levels of the crisis low point. Less welcome is the Help to Buy scheme, however. The microeconomics of the housing market suggest that sustained policy effort on the supply side is what is required, not measures to further boost excess demand relative to the existing supply shortfall.