

# **Budget 2014: The Good, the Bad and the Ugly**

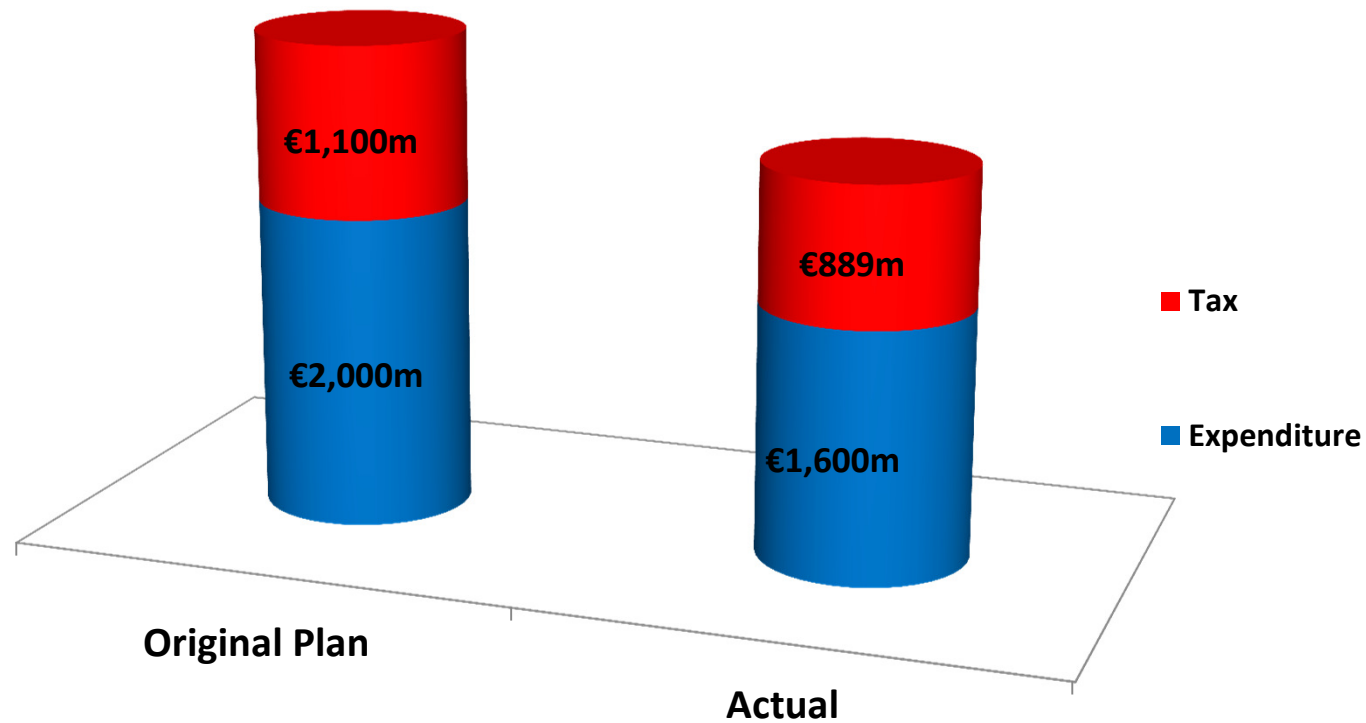


Organising for Fairness at  
Work and Justice in Society

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**NERI Post Budget Analysis 2014**

It could have been a lot worse.....

### Budget Adjustment 2014



# Planned vs actual expenditure reductions

Social welfare was the main beneficiary- (€150m (34%) less than originally planned.

But Justice (€78.5m less), Environment (€18m less) and Arts (€21m) did proportionately better!

Health (c. €366 more) and Transport (€19m more) the main losers.

# Every little bit helps.....

## Stability Programme Update vs Budget: Fiscal Position end 2013:

- Nominal GDP is 1.1% ↓ than expected, tax revenues ↓1.2% below target, total expenditure ↓0.9%.
- *But* debt servicing bill ↓ €595m.
- So general government deficit end 2013 at 7.3% of GDP (instead of 7.5%)

## SPU vs Budget: Projected Fiscal Position end 2014

- Nominal GDP has been revised ↓ 2.1% and tax revenues were revised ↓ 2.2%.
- *But* planned total expenditure remains effectively unchanged. €290m savings in debt servicing bill, €490m cutback in voted capital investment will help offset €665m increase in public service paybill.
- So general government deficit is expected at end 2014 to be 4.8% of GDP (instead of 4.3%).

# When is €2.5bn not €2.5bn!

<b>Tax</b>			<b>€889m</b>
	New measures	349m	
	Carry over from 2013	540m	
<b>Expenditure</b>			<b>€1600m</b>
	Current expenditure: New measures	1400	
	Current expenditure: Carry over from 2013	100	
	Capital expenditure	100	
<b>Other</b>			<b>€600m</b>
	Debt servicing savings	200m	
	Increase in Central Bank Profits	100m	
	Savings from improvement in Live register	150m	
	Sale of State assets	150m+/-	
<b>TOTAL</b>			<b>€3.089bn</b>

# Budget adjustment is probably somewhere closer to €2.25bn

## SFT Pension changes:

- announced in Budget 2013 but due to be implemented in 2014.
- Due to save €250m but that saving have been reduced to €120m.
- Programme for Government commits to not subsidising pension income over €60k.

But actual pension changes are likely to deliver far less than €250m.

SFT reduced to €2m and not below that as expected. Depending on factor used, still possible to target pension income of €90k to benefit from pension contribution tax relief.

# The Distributional Impact- Winners

## 1) Hospitality, Construction, Airline and Agricultural Sectors

- **58% of €500m tax package for building business and creating jobs went to retaining the 9% Vat rate.**
- **Recall that in original Jobs Initiative in 2011, the cut in Vat was to reduce consumer prices and the halving of the reduced rate of PRSI was to increase employment!**

**Crucial test of industry's claims on the impact of the Vat reduction will come at the end of 2013 when the PRSI reduction expires.**

# Winners...

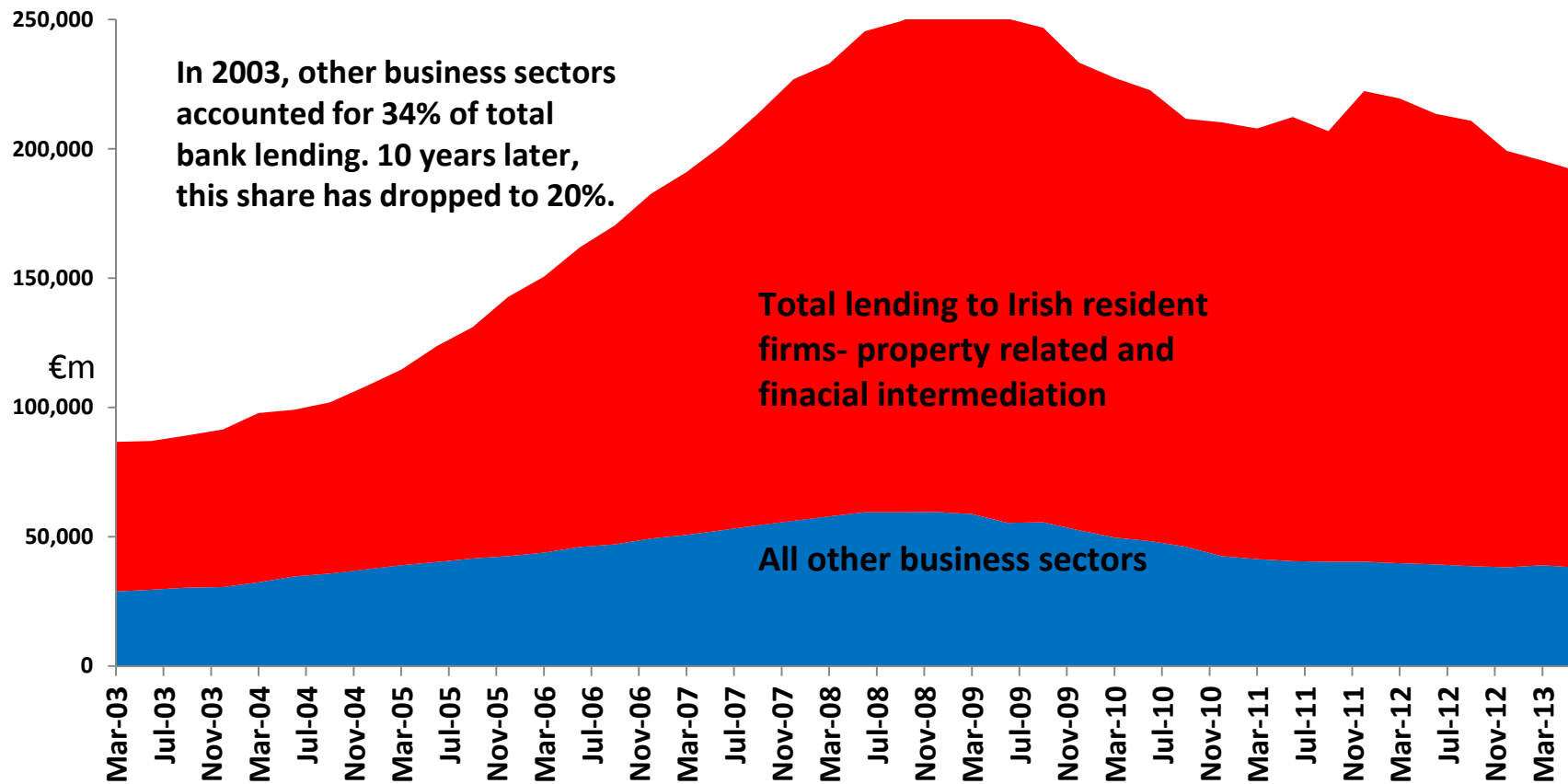
- 2) Expansionary budget for existing business owners and potential investors
  - Shift from Passive to Productive investment
  - Tax advantage of passive savings vs active investment effectively wiped out by **DIRT increase** to 41%.
  - Savers will lose out in real terms if inflation rises above 1% next year, as margin is squeezed.

The pro entrepreneurship measures are largely targeted at those with substantial own resources.

- **CGT exemption on productive investment** depends on gain being made. Might induce movement in property and other asset markets.
- Minimum effective income tax rate restriction is lifted for **EIS**.



# It will be a creditless recovery



Source: Central Bank Credit and Banking statistics

## Start your own Business

- Overcomes issue of double income tax liability for self employed in first two years
- Lucrative for those that do take it up -entitlement to BTWEA remains- €9,776 plus 50% public liability in year 1.

## Home Renovation Incentive

- Decision on the payment of Vat- state defiance or a cashflow problem?
- If cashflow is the issue: then new scheme will not change purchaser behaviour.
- Scheme rewards those who already are willing to pay VAT but doesn't incentivise those who say they can't pay.

# Budget is neutral for....

Workers (.....who don't happen to fall sick or give birth)

- With exception of 2010, this is the first budget where there has been no reduction in take home pay.
- Average private sector post tax real wages is expected to have fallen by 6.6% between 2008 and end 2013.

Pre tax private sector wage growth has been marginally negative since 2010 and is likely to continue as such if inflation rises above 1% next year.

# Losers

## 1) Young unemployed persons

- Deeply regressive step, will affect circa 14,000 new entrants to Live register. Real impact will be to further drive down wages for new entrants.
- DSP ambition to leverage matching funding to bring youth initiatives from €46m close €100m- but how long will that take.

## 2) Some ill and most pregnant workers

- Approx. 66% of larger companies have top up sick pay schemes and 50% of SME's.
- Ireland's statutory sick pay system is particularly generous in that it kicks in very early and lasts for a year. Employer's pay up to 3 weeks in Belgium, Germany, Luxembourg, Netherlands and Poland.
- Approx. 10% of pregnant workers will benefit from standardising of maternity benefit.