Meeting our competitiveness challenge

Ibec Budget Day Analysis

Budget 2022

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The backdrop to Budget 2022

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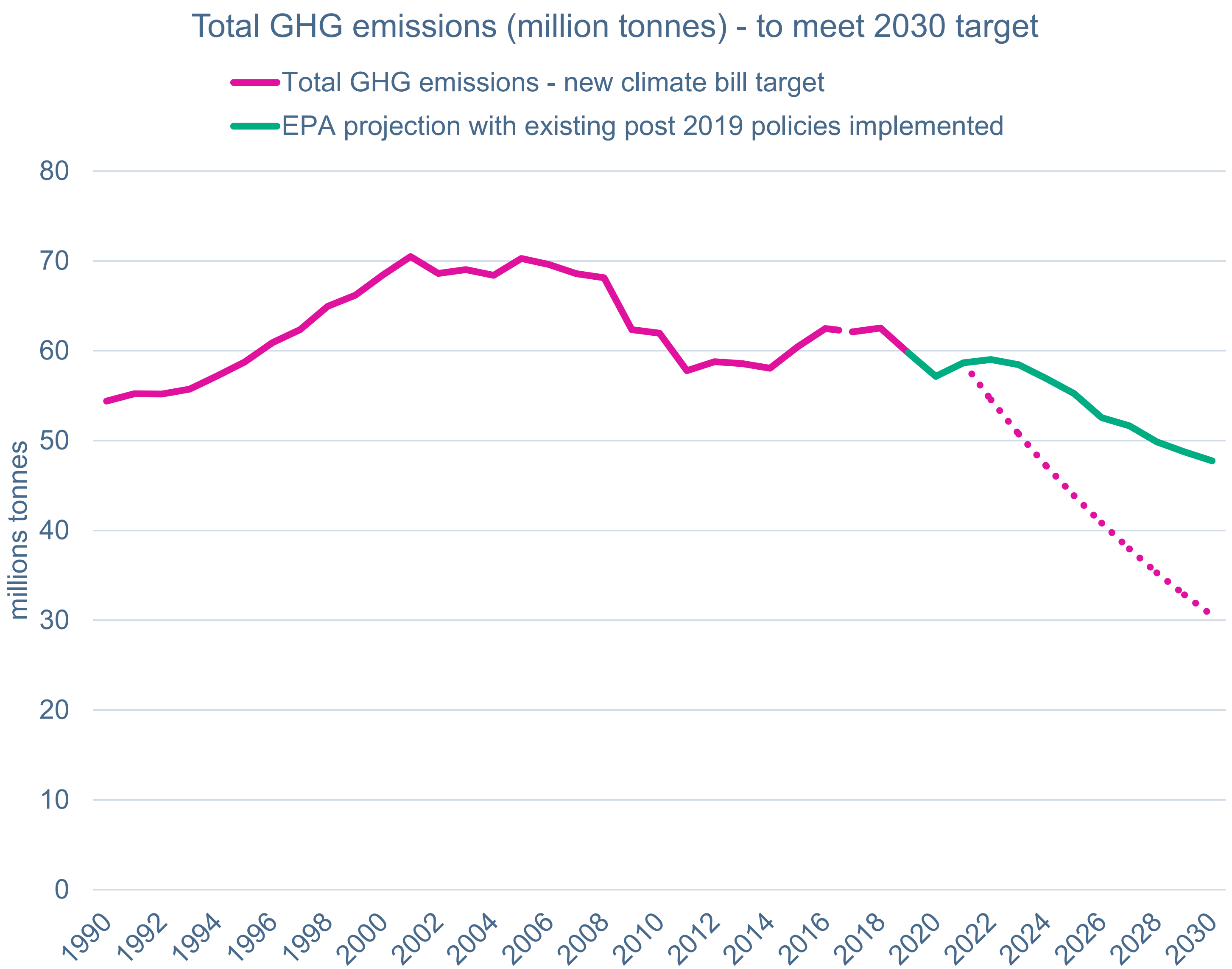
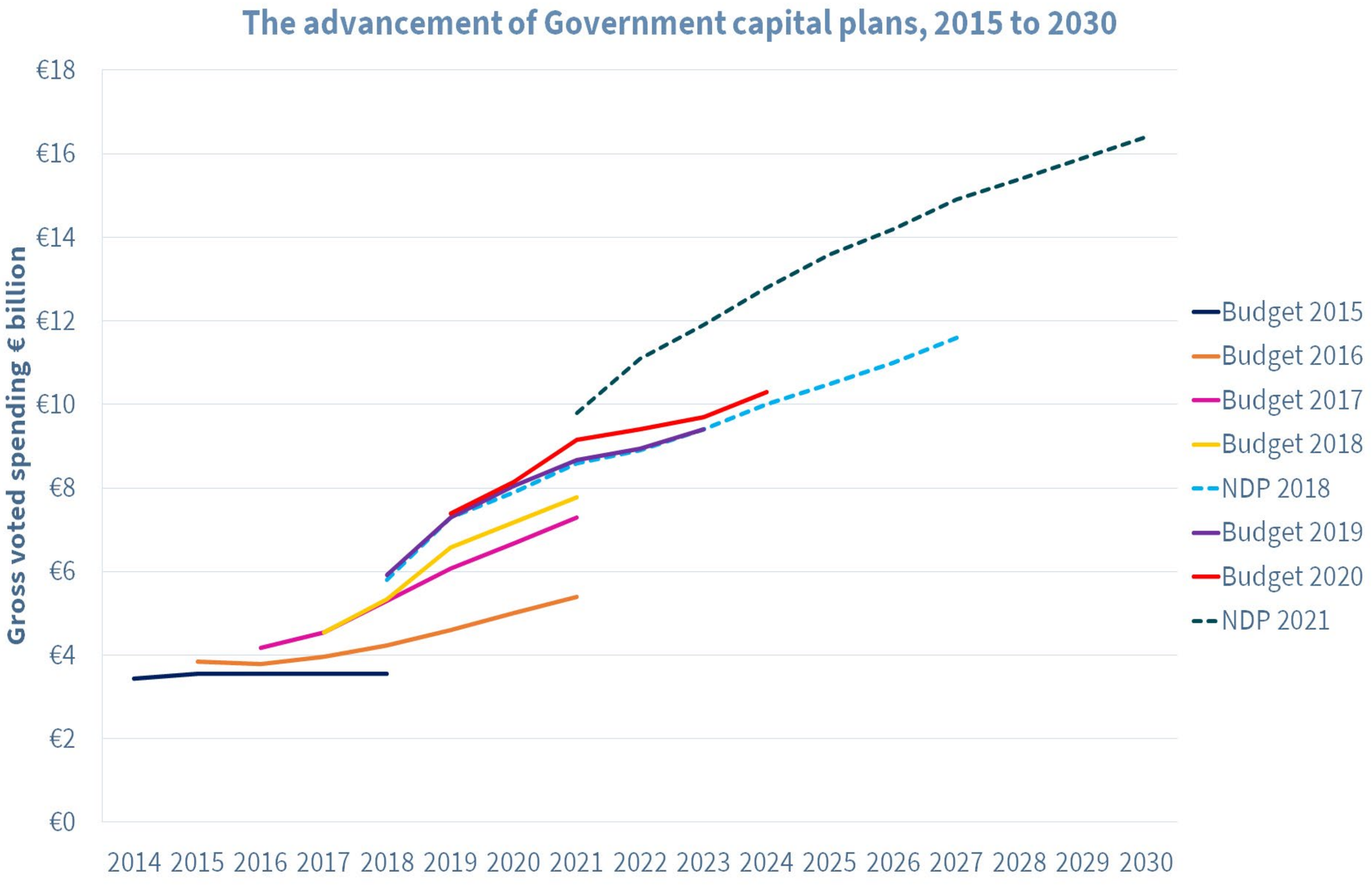
An important Autumn





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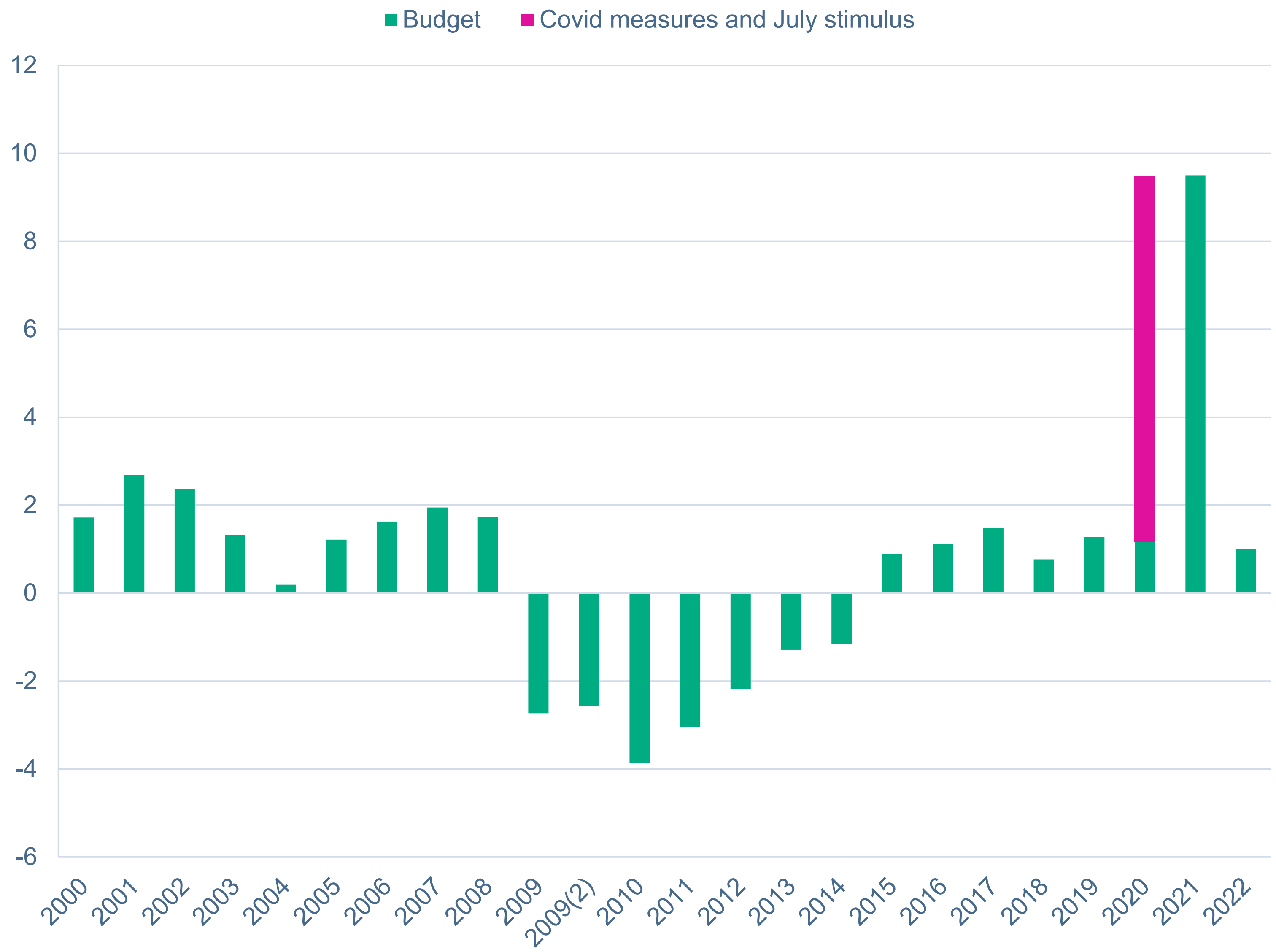
Boring budgets

- Today saw a return to ‘normal’ Budgets following some major pandemic spending.
- The deficit remains high so whilst the tax take is significantly outperforming expectations there was no additional unplanned spending.
- The final Budget day package of €1.5 billion is spread thinly across many areas and included €230 million in Revenue raising, An additional €4 billion in contingency funding is available.
- The increment of spending and tax on Budget days will continue to be dwarfed by the €165 billion National Development Plan.

Budget day measures 2000 to 2022 and the July Stimulus, % of modified domestic demand



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Returning to a focus on competitiveness and encouraging indigenous business

Key measures:

- Recovery package for the **experience economy**, focused on sustainable **tourism recovery, culture and events** received €260 million in funding:

- **Employment Wage Subsidy Scheme (EWSS)** to be extended to 30th April 2022, with the subsidy tapering from December onwards:
  - For December through February, two new rates of the subsidy, €151.50 and €203, will apply. For March and April, a flat rate subsidy of €100 will apply to all workers.
  - There is no change to the eligibility criteria but entrance to the scheme will close from January 1st 2022.

- Increase **of income tax credits and bands worth €635 million** including PRSI/USC changes for the minimum wage:
  - Increase of €1,500 in the income tax standard rate band for all earners, from €35,300 to €36,800 for single individuals and from €44,300 to €45,800 for married couples.
  - Increase of €50 each in the Personal Tax Credit, Employee Tax Credit, and Earned Income Credit.
  - USC 2nd rate band (2%) ceiling increased to from €20,687 to €21,295 the weekly income threshold for the higher rate of employer's PRSI will increase from €398 to €410.

- €1.1bn in **Brexit Adjustment Reserve (BAR)** funding of which €500m expected to be drawn down in 2022. The BAR is subject to EU funding requirements meaning its allocation is expected to be determined when eligibility requirements have been assessed.

- Start-ups will see the introduction of a **digital gaming sector tax credit** (similar to S481) and the **extension of EII** with some small technical changes.

Ibec view: "The increase in income tax and USC bands is a timely and sensible decision to offset inflationary pressures on wages and incomes in the new price growth environment. Extension of the EWSS with gradual tapering is welcome and necessary, as the subsidy currently acts as a major support for both businesses and recovering employment. To support sectors facing the dual challenges of Brexit and Covid, the future BAR allocation must contain significant measures to support business dealing with ongoing Brexit uncertainties to innovate and diversify and must be available as soon as possible to give companies certainty. The Budget may well again be a disappointing one for start-ups, with no radical change in key schemes."

Building back better

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Key measures:

- €78m in additional core funding for **childcare and National Childcare Scheme**:
    - €69m in 2022 for new funding stream for early years and childcare providers from September 2022 onwards – this will extend places
    - €5m to extend National Childcare Scheme universal subsidy to children under 15 from September 2022, which is expected to benefit up to 40,000 children.
    - €4m to no longer deduct hours spent in pre-school or school from National Childcare Scheme subsidised hours.
- €800 million in additional capital funding for **housing** – including €148 million for Irish Water, €60 million for retrofitting of social homes and €500 million for social housing and cost rental building and acquiring homes.
- Extension of **Help to Buy** until end 2022 at the enhanced rate - €84 million
- A 3% Zoned Land Tax serviced land will be introduced in Finance Bill 2021 but will have a two grandfather period for land zoned before January 2022, and a three-year lead in for land zoned after January 2022.
- €95 million in **skills funding** – including 6,000 Skillnet places, 9,000 skills to complete places, 1,500 Springboard places and 35,000 green/retrofit and NZEB expansion places. €34 million in **Apprenticeship fund** including grants for employers
- Increased **Work from Home** tax incentive to 30% of costs – but does not deal with the fundamental issues of complexity.
- Increase in **Carbon tax** of €7.50 a tonne
- **Capital Allowances for Gas Vehicles and Refuelling equipment** extended to end 2024 but **ACA for Energy Efficient Equipment** in business now prohibits any fossil fuels. The €5,000 relief for **Battery Electric Vehicles** is extended to end of 2023 and benefit in kind exemption will be extended out to 2025 at reduced vehicle value.
- Introduction of a **Youth Travel Card** which will allow any person between the age of 19 and 23 to avail of a 50% discount on fares across the transport network.

Ibec view: "Broadly the Budget addressed three core issues, with major investments in housing, in the low carbon transition and in childcare. These will all help remove some cost and availability pressures for families and are welcome from an employer point of view. For many of these areas, the journey to improvement in quality and affordability will be a multiannual one – which Budget 2022 makes some initial steps toward. More will need to be done in a number of areas over the coming years to ensure sustainability of business models."

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Preparing our business model for change

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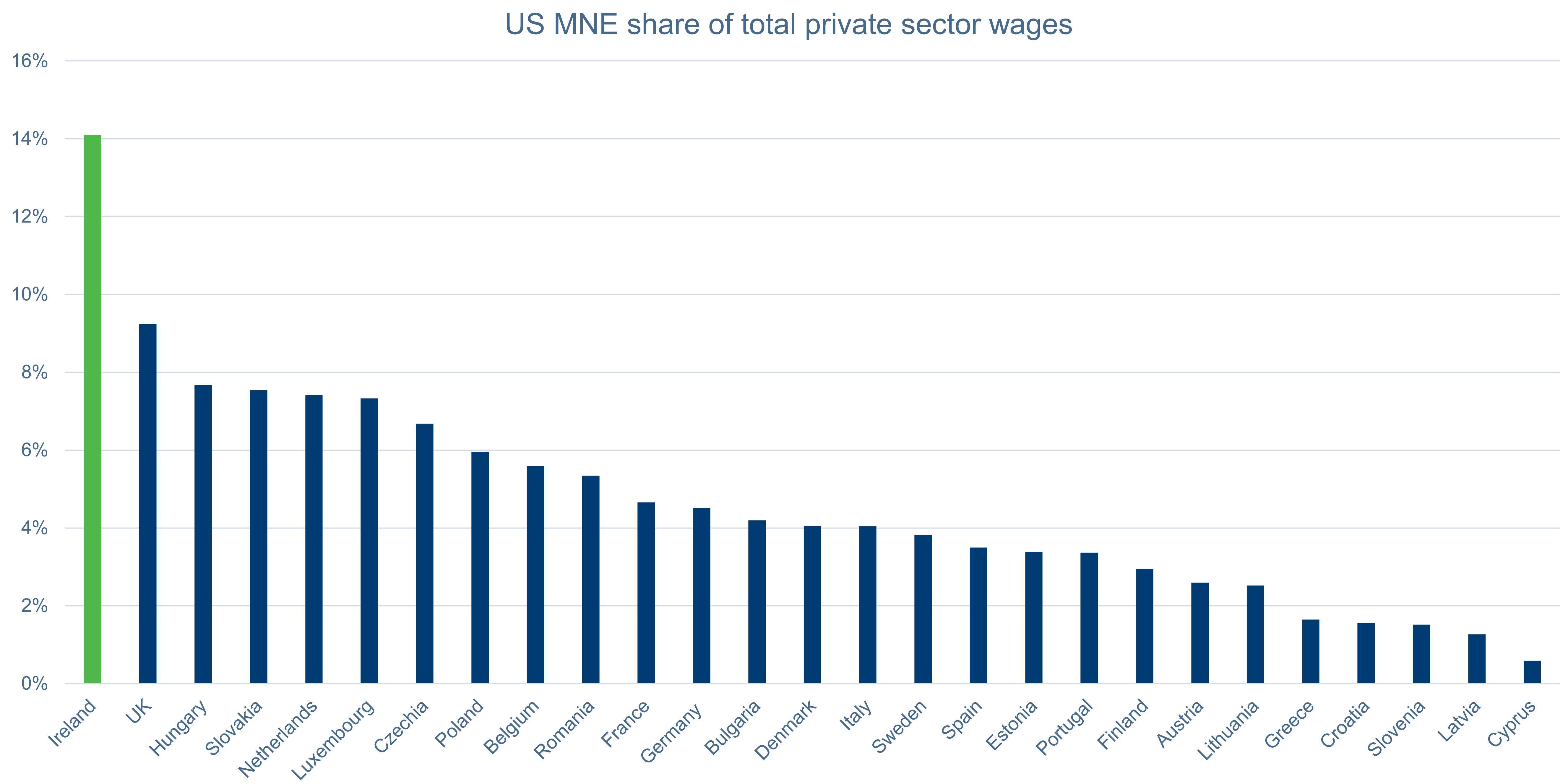

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Key measures in Budget 2022:

- Key messaging – "We will remain an attractive location for investment and we will continue to play to our strengths, centred on a highly educated and dynamic workforce that has consistently delivered innovation and profitability over many decades to businesses that have made Ireland their home."

- Some measures, but Budget 2023 the big one:
    - €68 million in **higher education funding** which will accommodate additional places in 2022 along with €19 million in funding for education and training reform for new Technological universities.
    - New **Disruptive Technologies Innovation Fund** call - €17 million
    - Increase funding to the IDA property programme and investment in **Advanced Manufacturing** and the National Institute for Bioprocessing Research and Training (NIBRT) - €21 million
    - Changes on **anti reverse hybrid rules and interest deductibility** which were expected will be detailed in the Finance Bill.

Ibec view: "No major changes were expected in Budget 2022 in advance of any changes in Corporate tax being implemented. Messaging was broadly similar to last weeks announcement focusing on competitiveness of 15% and the other elements of the regime. Changes in higher ed funding and some DBEI programmes are welcome but there will need to be much clearer commitments made in advance of any changes in Budget 2023."

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Next steps

- Almost 140 countries have now agreed detailed texts at the OECD but there is still some distance to travel to final implementation.

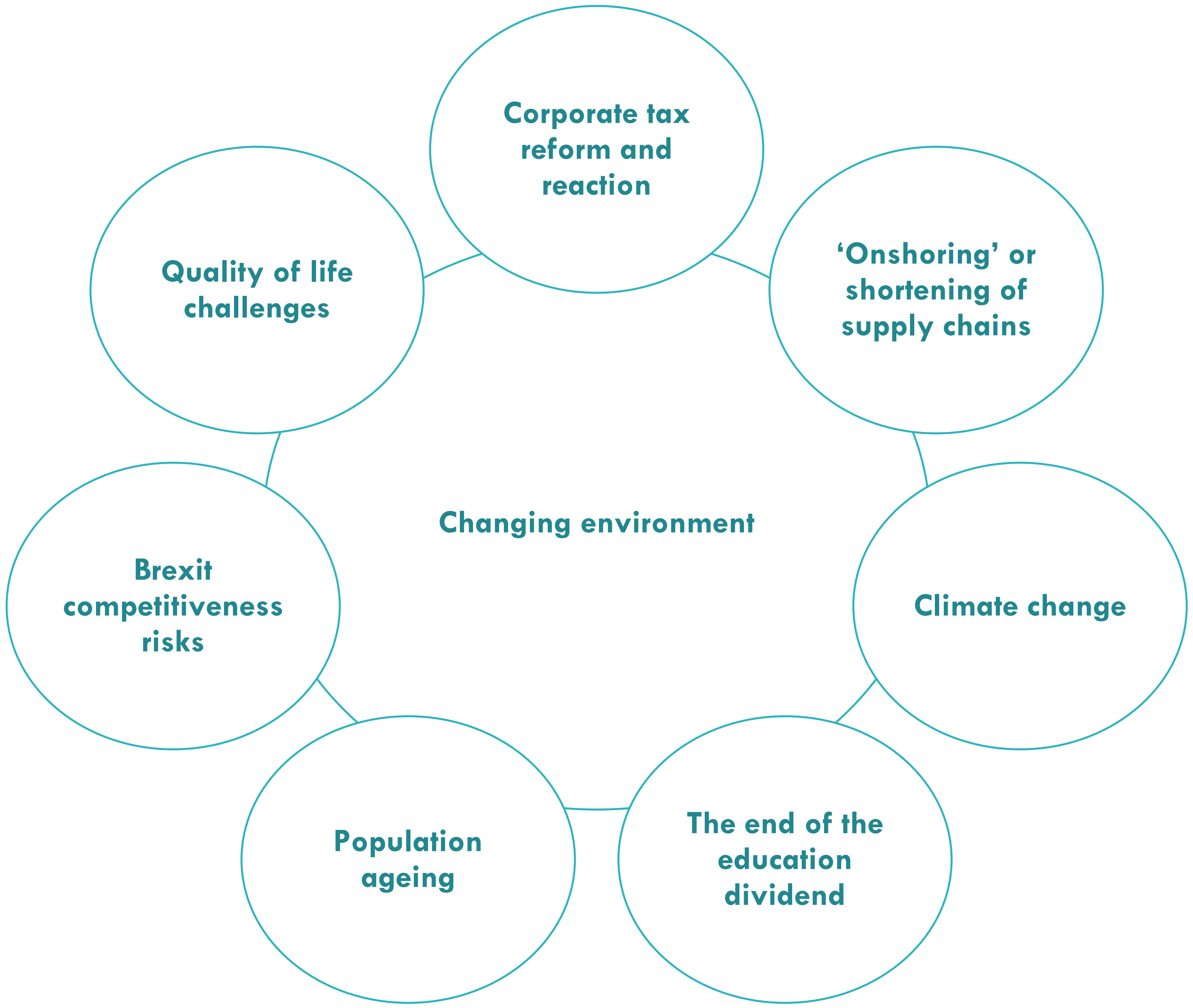
- In the first instance, the US Congress will need to make significant changes to the US tax code – starting in the coming weeks and continuing into Q1 2022.

- Secondly, ratification will be needed across all countries. At EU level this may mean the passing of two Directives in 2022.

- There is also some technical detail to be agreed at the OECD which could take until late 2021 or early 2022. This includes important questions like the status of various unilateral measures, the treatment of IP and treatment of losses.

- This is a significant political step for Ireland but the process has some distance to run – with implementation not slated until 2023. An EU Directive on Pillar 2 is expected in late 2021 or early 2022.

Future budgets and the durability of our business model. Is our place in the world changing?



- Ireland is a small, VERY OPEN, regional economy in a global context.
- Global trends – demand for our exports, capital flows – tend to have an outsized impact on us.
- Paul Krugman wrote about this is the 1990s – regional economies like Ireland can experience really strong growth or rapid reversals (see the 2000s).

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