# Budget 2015

## Some Perspectives

**UCD Economics Society, Budget Breakfast**
**15th October 2014**

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NERI Nevin Economic Research Institute

*Research for new economic policies*

# Outline

1. **Fiscal Policy & Key Parameters**
2. **Taxation**
3. **Spending**
4. **A Formal Turing Point…**
5. **Regrets**

# 1. Fiscal Policy

- Ireland:
  - Budget process is unusual and cumbersome
  - Post-colonial legacy
  - One-day, one-shot
  - Better if a process….
  - Have a look at the document…


**Table 1: Key Macroeconomic Forecasts 2013-2018[1]**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| *per cent change, unless otherwise stated* | | | | | | |
| Real GDP | 0.2 | 4.7 | 3.9 | 3.4 | 3.4 | 3.4 |
| Inflation (HICP) | 0.5 | 0.5 | 1.1 | 1.4 | 1.4 | 1.4 |
| Employment | 2.4 | 1.8 | 2.4 | 1.9 | 1.9 | 1.9 |
| Unemployment (% of labour force) | 13.1 | 11.4 | 10.2 | 9.4 | 8.9 | 8.1 |
| Nominal GDP (rounded to nearest €25m) | 174,800 | 183,800 | 193,475 | 203,400 | 213,925 | 224,950 |

*Source: 2013 CSO; 2014-2018 Department of Finance forecasts.*

**Table 3: Macroeconomic prospects and external balance, 2013 – 2018**

| | 2013 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|
| | *€m* | *year-on-year percentage change* | | | | | |
| Real GNP | 145,929* | 3.3 | 4.1 | 3.6 | 3.1 | 3.1 | 3.1 |
| Real GDP | 173,054* | 0.2 | 4.7 | 3.9 | 3.4 | 3.4 | 3.4 |
| Nominal GNP | 147,506 | 4.4 | 4.6 | 5.0 | 4.8 | 4.8 | 4.8 |
| Nominal GDP | 174,792 | 1.2 | 5.2 | 5.3 | 5.1 | 5.2 | 5.2 |
| ***Components of GDP*** | *current 2012 prices* | *year-on-year percentage change unless otherwise stated* | | | | | |
| Personal consumption | 83,334 | -0.8 | 1.7 | 2.7 | 1.4 | 1.3 | 1.3 |
| Government consumption | 25,956 | 1.4 | 4.8 | 2.3 | 0.0 | 0.0 | 0.0 |
| Investment | 26,541 | -2.4 | 14.6 | 12.7 | 7.6 | 7.5 | 5.1 |
| Changes in inventories and net acquisition of valuables *(% of GDP)* | 837 | 0.5 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 |
| Exports | 184,056 | 1.1 | 8.3 | 4.8 | 4.3 | 4.3 | 4.7 |
| Imports | 147,694 | 0.6 | 8.8 | 5.3 | 3.6 | 3.6 | 3.6 |

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# 2. Taxation

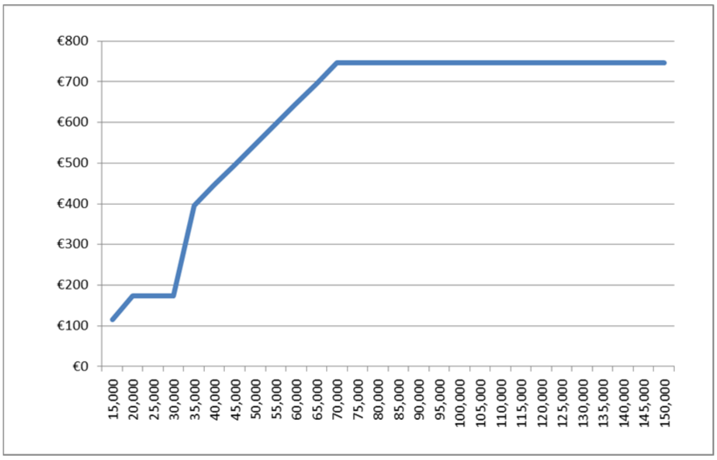
**Table 10: Exchequer Tax Revenues 2014-2015**

| | Estimated Outturn 2014 | Budget Forecast 2015 | Forecast Y-on-Y Change |
|---|---|---|---|
| | €m | €m | % |
| Customs | 260 | 285 | +9.8 |
| Excise Duty* | 5,080 | 5,245 | +3.2 |
| Capital Gains Tax (CGT) | 400 | 415 | +4.3 |
| Capital Acquisitions Tax (CAT) | 330 | 400 | +20.9 |
| Stamp Duty | 1,675 | 1,185 | -29.2 |
| Income Tax | 17,180 | 17,980 | +4.7 |
| Corporation Tax | 4,525 | 4,575 | +1.1 |
| VAT | 11,070 | 11,775 | +6.4 |
| Local Property Tax | 520 | 440 | -15.8 |
| **Total** | **41,040** | **42,300** | **+3.1** |

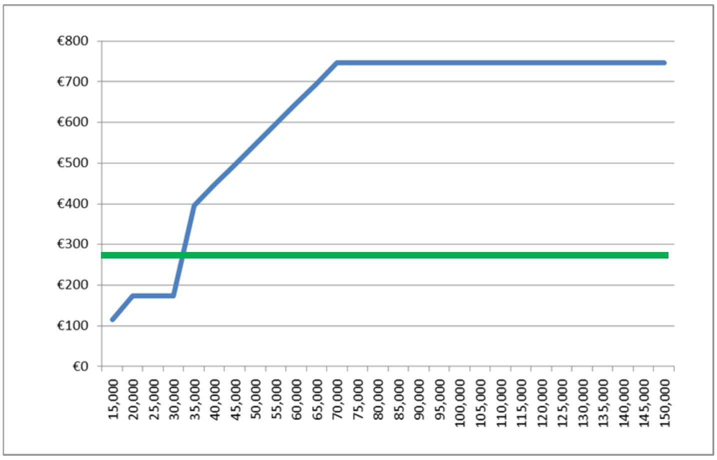
*Source: Department of Finance.*
*Figures are rounded to the nearest €5 million. Year-on-year changes reflect actual figures.*
**Excise duties no longer include receipts from Motor Tax which are reflected in non-tax revenues*

- **Taxation:**
  - Exchequer = €43.3bn
  - Social Insurance = €11bn
  - Tax Expenditures = €17bn
  - Total = circa €70bn
- Income tax reductions
- Cigarettes
- Corporate changes signalled
- Farming, Pensions & Developers
- VAT 9%
- Tax Expenditures

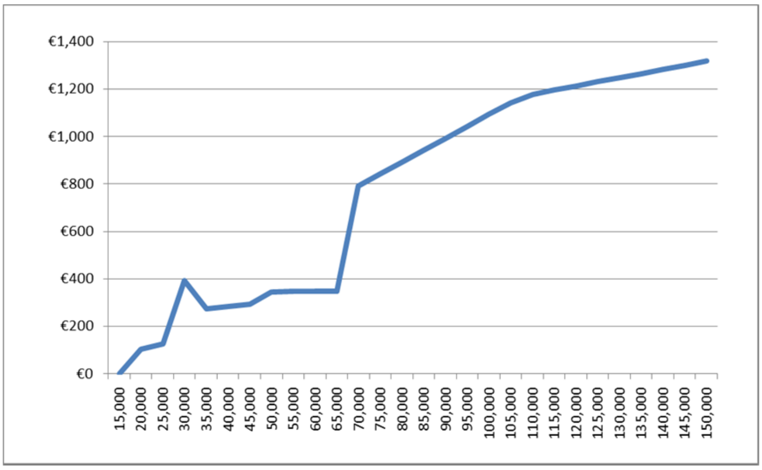
**Single Adult, gains per annum**



Single Adult, gains per annum + water charges




Couple 2 earners, gains per annum



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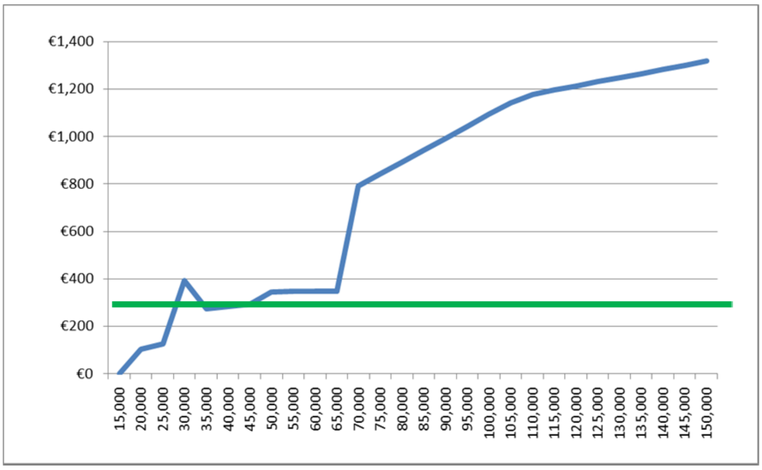


NERI Working Paper Series

**Modelling the Distributive Impact of Indirect Taxation Changes in the Republic of Ireland**

Micheál L. Collins

September 2014

NERI WP 2014/No 20

For more information on the NERI working paper series see: www.NERInstitute.net

**Chart 9: The Distributive Impact of a 10c (VAT inclusive) increase in the retail price of a packet of 20 cigarettes, % Gross Income by income decile**

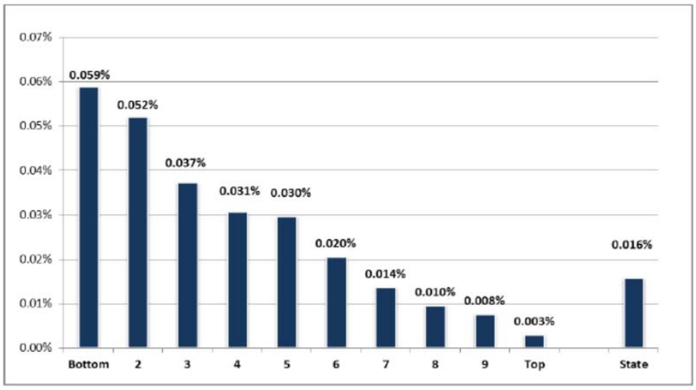


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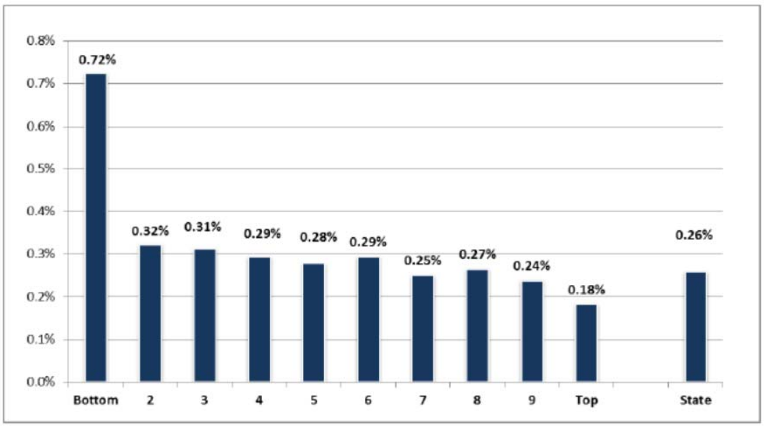
Chart 2a: The Distributive Impact of the reduction of items to the second reduced rate of VAT (from 13.5% to 9%), % Gross Income by income decile




# 3. Spending

- Still tight
- Tiny recovery in public capital investment
  - Fell from €9 billion to €3 billion
  - Beginning to increase
  - Missed opportunity…

# 4. A Formal Turning Point

- After €30 billion of adjustments
- 17% of GDP
- Stopping austerity
- But, challenges remain:
  - Debt: 110% GDP (gross)
  - LT Unemp: 58% of unemployed
  - Consumption is weak
  - Emigration: 80,000 Irish since 2008
  - Retain competitiveness
  - Public Services depleted

# 5. Regrets

- Regressive tax cuts
- Missed opportunities on Investment
- Mistake on the 80% windfall gain tax
- Some gaps in the ‘water help’ measures
  - working poor below €17,500
  - short-term unemployed

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