Fantasy Budget 2019

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Limerick Institute of Technology
Chloe Wallace, Aoife Nolan, Danielle Markham & Nicola Glazer

Lecturer; Morna Canty

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Taoiseach Leo Varadkar has said Budget 2019 is "a responsible budget for a modern and caring Ireland that aims to be at the centre of a changing world"[1]. Claims have also been made that Budget 2019 is "Brexit-proof"[2], but is this the case? We will critically analyse how Budget 2019 will impact Ireland.

One measure that impacted the family/individual;

The Earned Income Credit is available since 1 January 2016. It is allowed in respect of the pay that you earn. It is a separate credit to the Employee Tax Credit (PAYE) in that it can be claimed by people who are self-employed[3].

The current Earned Income Credit for 2019 is €1,350, a €200 increase from 2018, which still shows a €300 disparity to the PAYE credit which sits at €1,650. This will save those who are self-employed €200 in tax a year, though it still lags the €1,650 PAYE credit. Combined with the other changes, it means that a self-employed single person, earning €55,000 a year, will save about €450 a year. The full-year cost of increasing the credit is €48 million[4].

This disparity, although minor, gives little incentive to persons to establish within the state, considering all risks associated with becoming a self-employed person.

The main legal obligation when becoming self-employed is that you must register as a self-employed person with Revenue. You pay tax on the profits from your business and on any other income that you have. If you make a late payment of any taxes due by you, you will be charged interest from the due date to the date when your payment is received[5]. It also poses the risk of no longer having a regular income.

It is important that the Government continues to demonstrate ongoing commitment to end this imbalance.

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[1] Daniel McConnell, 'Leo Varadkar backs 'responsible, caring' budget' (*The Irish Examiner, 11 October 2018*) < https://www.irishexaminer.com/breakingnews/ireland/leo-varadkar-backs-responsible-caring-budget-875013.html> accessed on 8 October 2018.

[2] Joe Mag Raollaigh, 'Budget 2019 in line with Govt strategy, says Taoiseach' (*RTE, 6 October 2018)* < https://www.rte.ie/news/budget-2019/2018/1006/1001419-varadkar-budget-comments/> accessed on 7 November 2018.

[3] Revenue, Earned Income Credit.

[4] Fiona Reddan, 'Budget 2019: Tax cuts to save 'squeezed middle' families €250 a year' (*The Irish Times, 9 October 2018*) https://www.irishtimes.com/business/economy/budget-2019-tax-cuts-to-save-squeezed-middle-families-250-a-year-1.3657276 accessed on 7 November 2018.

[5] Citizens Information, Tax for self-employed people.

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One key measure that impacted foreign investment into Ireland;

Budget 2019 saw the accelerated introduction of an exit tax at 12.5% for multinationals, in line with Ireland's corporation tax rate. The exit tax is a European Union regime and is set out in Article 5 of the EU Council Directive 2016/1164, and is also referred to as "the ATAD Directive"[6]. As an EU member state, Ireland is obliged to implement EU Directives, although the date of implementation of the ATAD Directive was not until 1 January 2020, the early implementation came as a surprise. The "ATAD Directive" was introduced to ensure that tax avoidance or abuse is circumvented[7].

Exit tax will be due by multinational companies where they move assets or move their tax residence out of a member state, allowing the member state to tax the capital gain, even if the gain has not been realised[8].

The introduction of the exit tax at 12.5% should be looked at positively by companies setting up or already set up in Ireland. As the special new 13.125% federal tax rate in the US is still higher then Irelands 12.5% rate, it is a disincentive to US multinational companies based in Ireland to transfer assets or residency to the US. Finance Minister Paschal Donohoe said that the early introduction of the exit tax by Ireland was not a "*tit-for-tat measure*" to deter US multinationals in Ireland from transferring assets and moving their operations to the US. Mr Donohoe also explained the reasoning behind the 12.5% rate, as other jurisdictions determine their exit tax based on their corporation tax rate[9].

However it could also be said, as Ireland is reliant on multinational companies, the early implementation of the ATAD rules mean that it is more difficult for multinationals to escape an Irish tax liability on the moving of assets or residency which may also be detrimental to foreign direct investment. The tighter rules may discourage foreign investment as the reduced flexibility may be regarded as an undesirable factor when considering Ireland as a place of establishment. The early introduction could also be seen as a risk due to the lack of clarity in relation to the effects which Brexit may have, considering it is not expected to yield any profit in its first year[10].

Brexit may have a negative effect on industries in Ireland such as the agri-business industry but Ireland may be set to strive in the financial services industry as many Financial Services companies are announcing setting up operations in Ireland[11]. The early introduction of the exit tax, was both tactical and clever as it gives multinationals an incentive to stay in and set up in Ireland, as our corporation tax rate and exit tax rate are

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[6] Andrew Gallagher, 'International Tax; Budget 2019' (KPMG Tax Alert) https://home.kpmg.com/ie/en/home/insights/2018/10/budget-2019-international-tax.html accessed on 7 November 2018.

[7] Council Directive (EU) 2016/1164 on laying down rules against tax avoidance practices that directly affect the functioning of the internal market.

[8] ibid

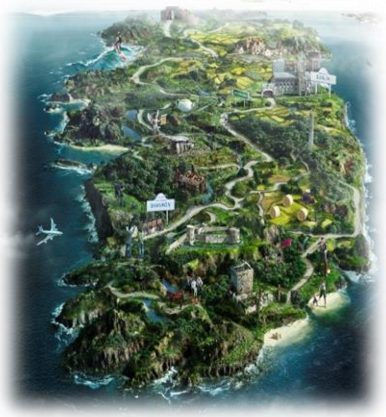
[9] Dearbhail McDonald, 'New multinational exit tax 'not tit-for-tat measure against US'' (*The Independent, 12 October 2018*) <https://www.independent.ie/business/irish/new-multinational-exit-tax-not-titfortat-measure-against-us-37411083.html> accessed on 8 November 2018.

[10] Ibid.

[11] Colin Farrell, 'What does Budget 2019 mean for Financial Services?' (*PWC Budget 2019, 9 October 2018*) < https://www.pwc.ie/budget-2019-ireland/financial-services-banking.html> accessed on 7 November 2018.

relatively low compared to other jurisdictions, including the US. Considering all EU Member States will soon be obliged to implement, Ireland still remains one of the most tax efficient state.

One key measure that impacted indigenous Irish business;



Budget 2019 did little in the way in introducing measures to support Irish businesses. The hospitality sector was by far the most unfortunate. With Finance Minister Paschal Donohoe increasing the sectors 9% VAT rate to 13.5% with effect from 1 January 2019. He stated that the 9% VAT rate which was introduced in 2011, with an aim to supporting the sector, had *"done its job"*[12]. In justifying the increase the Minister highlighted that the industry supported almost 240,000 jobs[13].

While this introduction is set to see an extra €446 million raised in 2019, it may have a detrimental knock-on effect to businesses within this sector. The Irish Hotels Federation (IHF) referred to this increase as *"another blow for rural Ireland"*[14]. Their President, Michael Lennon, expressed his concern that "*Regional businesses will bear the brunt"*[15] estimating that €300 million of the €446 million of additional taxes will be taken from the rural economy.

Padraig Cribben, Chief Executive, of the Vintners' Federation of Ireland, voiced his concerns about the potential of leaving our hospitality sector vulnerable and may undermine the confidence of many pubs selling food who are already worrying about their *"exposure to the effects of Brexit"*[16]. The impact of Brexit could potentially see a reduction of UK visitors and bring with it varying exchange rates, leading to yet more challenges within an already competitive market. Michael Lennon, President IHF, urged the Minister to defer the increase until there is clarity of the effects Brexit will have[17].

A press release given by the Irish Tourist Industry Confederation (ITIC) CEO Eoghan O'Mara Walsh, highlighted that with Brexit less than 6 months away, and the possible damaging effects the increase to the VAT rate may have on demand, it will make *"trading conditions much harder for business"*[18].He emphasised the fact that

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[12] Mairead Connolly, *'What does Budget 2019 mean for private business and the regions?'* https://www.pwc.ie/budget-2019-ireland/private-business-tax.html accessed 06 November 2018

[13] Stephen McDermott, *'Haircuts, meals out and Irish Hotel stays likely to get more expensive as VAT rate returns to 13.5%'* https://www.thejournal.ie/vat-rate-hospitality-sector-budget-2019-4276194-Oct2018/ accessed 07 November 2018

[14] Philip Ryan, Alan O'Keefe, *'Budget 2019: Minister Shane Ross expected to face calls to resign as Government confirms VAT increase'* https://www.independent.ie/business/budget/budget-2019-minister-shane-ross-expected-to-face-calls-to-resign-as-government-confirms-vat-increase-37400132.html accessed 07 November 2018

[15] ibid

[16] Ryan, O'Keefe, (n 3)

[17] Ger McCarthy, Seán Lawless, Weber Shandwick, *'Hoteliers slam VAT rate hike'* https://www.ihf.ie/content/press-release-hoteliers-slam-vat-rate-hike accessed 06 November 2018

[18] ITIC, *'Budget 2019 reaction'* https://www.itic.ie/wp-content/uploads/2018/10/Tourism-industry-press-release_Budget2019_09Oct2018.pdf accessed 08 November 2018

39% of Ireland's international tourists derive from Britain and that the Government's decision to increase the VAT rate *"only serves to undermine the competitiveness of the sector at a time when a hard Brexit looms"*[19].

Can Minister Donohoe honestly claim that Budget 2019 is Brexit proof? With no set Brexit agreement and the threat of a backstop now in place it would seem to us he cannot. Were he determined to increase the VAT rate to 13.5%, it would have been much more practical and beneficial to the exchequer, to wait until the full effects of Brexit, on the hospitality sector had been realised.

Measure to be implemented;

The number of third level graduates leaving Ireland is continuing to rise. Since 2016, the percentage of Irish emigrants with third level qualifications has risen by almost 8 percent to 53 percent. Of the 50,000 Irish people emigrating in 2018 over 26,500 had third level qualifications.[20]

If we are to entice Irish graduates to remain in the country given the current economic conditions, we recommend that a 'graduate credit' be introduced to counteract the low salaries and rising cost of living in Ireland. The 'graduate credit' would be made available to third level graduates when they successfully graduate and secure a course related employment. Similar to the Earned Income Credit, the credit would be introduced as a non-refundable tax credit. Therefore, the aim is to reduce the individual's tax liability, rather than create a tax refund. The credit would be given in conjunction with the PAYE credit as an added incentive for graduates to remain in Ireland as opposed to seeking employment elsewhere. We suggest that the credit is introduced at €1,650 and phased out in a similar fashion to the way the 'Earned Income Credit' was initiated;

Year 1	Year 2	Year 3	Year 4
€1,650	€1,350	€1,150	€950

Fianna Fail spokesperson on jobs, Niall Collins, said in April 2017 that "*graduates are prioritising quality of life and cost of living when deciding where to work*".[21] With the cost of living increasing and the current housing crisis, young skilled Irish graduates are finding little incentive to remain in the state.

In 2017, the Irish Nurses and Midwives Organisation (INMO) conducted a survey of the undergraduate nurses doing their 36-week internship. That survey revealed that 78 percent of students, the majority of whom were 23 or younger, were considering leaving Ireland upon qualification.[22] The average starting salary of a nurse in Ireland is around €23,000 compared to the starting salary in Australia, for example, which ranges from

[19] ibid
[20] Central Statistics Office, '*Population and Migration Estimates April 2018'* https://www.cso.ie/en/releasesandpublications/er/pme/populationandmigrationestimatesapril2018/ accessed November 08 2018
[21] Paul Hosford*, 'Brain drain': 25,000 graduates left Ireland to work abroad in 12 months'* https://www.thejournal.ie/graduates-emigrating-figures-3620617-Sep2017/
[22] Emma Louise Whelan, '*The Irresistible Lure Abroad for Irish Nurses'* http://www.universitytimes.ie/2018/02/the-irresistable-lure-abroad-for-irish-nurses/ accessed November 08 2018

somewhere between €40,000 to €42,000. Therefore, young Irish nursing graduates are being lured away from home in the hopes of a better lifestyle[23].

Considering Ireland's current housing crisis, and its severity, this extra discretionary income could take the strain from new graduates entering the workforce. Our aim is to enable graduates to form a stronger financial position earlier in their careers allowing them the opportunity to become strong, independent and financially stable members of society.

This, in our opinion is a measure that the government should aim to include in the Budget 2020 having missed the opportunity in the Budget 2019. We believe that as soon to be graduates, this would be a great incentive for graduates to remain in Ireland.

Workings;

We have given an example of year one with the 'GradCred', these calculations are based on a tax trainee undertaking a training contract in Dublin. We have compared the effects the graduate credit could have if applied versus if not.

Year 1 without Graduate Credit		
Schedule E		€23,000
Gross Income		**€23,000**
Less		
Charges		€ -
Taxable Income		**€23,000**
Less		
Deductions		€ -
Taxable		**€23,000**
Tax:		
23000 @ 20%		€ 4,600
Non-Refundable Tax Credits:		
PAYE	€ 1,650	
Single	€ 1,650	-€ 3,300
Tax Liabilty		**€ 1,300**

Year 1 with Graduate Credit		
Schedule E		€ 23,000
Gross Income		**€ 23,000**
Less		
Charges		€ -
Taxable Income		**€ 23,000**
Less		
Deductions		€ -
Taxable		**€ 23,000**
Tax:		
23000 @ 20%		€ 4,600
Non-Refundable Tax Credits:		
PAYE	€ 1,650	
Single	€ 1,650	
Graduate Credit	€ 1,650	€ 4,950
Tax Liabilty		**NIL**

[23] ibid

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