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Coláiste na Tríonóide, Baile Átha Cliath
The University of Dublin

Fantasy Budget 2020

Trinity Business School- Group 7

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Table of Contents

Introduction

The aim of this report is to investigate the impact of three key measures brought in by the Minister for Finance in Budget 2020; the increase in Healthcare expenditure, the enhancements to the Research and Development tax credit, and the extension of the Special Assignee Relief Programme. Our report concludes with a proposal outlining why we feel amendments to the Fair Deal scheme are necessary.

The Individual/ Family

An adjustment in Budget 2020 that will significantly impact individuals/families is the 6.3% increase in healthcare expenditure, which will raise expenditure to €17.4bn for 2020. Free GP care provided to children under six will be extended to children under eight, while free dental treatment for children under six will be implemented. Prescription charges will be reduced by 50cent (Dwyer, 2019). According to The Irish Pharmacy Union, "*the reduction in prescription chargers is a recognition that the charge is an unfair tax targeting the most vulnerable in our society*" (Kelly, 2019). The Drug Payment Scheme will decrease its monthly limit by €10, meaning no individual will spend more than €114 monthly on medication (Cullen, 2019). Ireland's poorest families spend almost 10% of their income on private healthcare, because of the poor conditions of public health-treatment such as long, aggravating waiting lists (Kelleher, 2019). Budget 2020 has attempted to reduce these waiting lists with an additional €25m to be funded to the National Treatment Purchase Fund (Cullen, 2019).

Another key advancement is the plan to increase the weekly income thresholds for medical cards by €50 for single people and €150 for couples over seventy. It is estimated an additional 56,000 elderly people will be eligible for medical cards (Coyle, 2019). The Minister for Health believes Budget 2020 has brought Sláintecare, the long-term project to revolutionise Ireland's healthcare system, *"to life by delivering investment in key strategic supports"*. Donohoe has set €32m aside for Sláintecare, which will employ a further 1,000 therapists, nurses and other healthcare professionals (Cullen, 2019). A further 1,000,000 hours will be allocated for home-help under Budget 2020, with the intention to help patients leave hospitals quicker and shrink home-help waiting lists after the HSE announced that there were a shocking 7,300 people on the waiting list for home-help. Almost 25% of these hours will be used to test the home-support scheme, which is to be implemented in 2021. This new scheme, which is part of Sláintecare, will "*support people living at home with care needs, build on the existing service-provision and regard good practice internationally in relation to health and social care delivery*" (Wall, 2019).

From the changes mentioned, it is clear that Donohoe aimed to focus Budget 2020 on "*supporting the elderly, children and families at risk of poverty*" (Holland, 2019). The Irish Pharmaceutical Healthcare Association note that the increased healthcare funding in Budget 2020 will put an end to the decline in Government financing for new medication, which caused Irish citizens to wait substantially longer than other Western European countries for the newest medication (RTE, 2019). Healthcare is an important investment as it helps to prevent poverty from seeking health assistance and advocates a healthy and equal society (The Irish Times, 2019).

Indigenous Irish Businesses

A key measure impacting indigenous Irish businesses was the enhancement in the Research and Development (R&D) tax credit. The tax credit, which increased from 25% to 30%, was concentrated on small and micro companies. An improved method of calculation of the limit on refundable R&D tax credit was introduced. The credit was extended to expenditure incurred prior to trade commencement. Finally, the outsourcing limit in relation to third-level education institutions was raised from 5% to 15% for all R&D credit claimants (KPMG, 2019).

In the context of R&D provisions, a company is considered to be small or micro as per the following table:

	Micro	Small
Number of employees	< 10	< 50
Annual turnover and/or balance sheet total not exceeding	€2 million	€10 million

Under Brexit uncertainty (Donohoe, 2019), SME's must be innovative to develop and expand into international markets. Enhancements to R&D tax credit are welcome as Irish businesses will not have the capacity to be as reliant on British export markets. The amendments to R&D tax credits support indigenous Irish businesses by allowing innovation to prosper (Connolly, 2019).

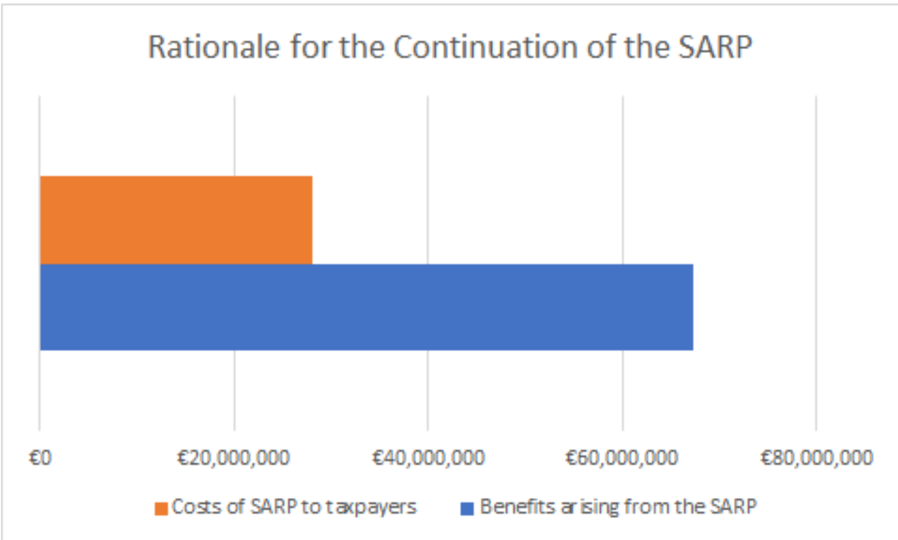
Increases in the outsourcing limit will benefit start-ups and small businesses without facilities to execute scientific technical research. Collaborations between universities and businesses facilitate innovation and ensure straightforward transition of knowledge and technology between scientists, engineers and entrepreneurs (The Innovation Policy Platform, 2019). Collaboration with academia is in line with international best-practice (Irish Tax Institute, 2019) . The Department of Business, Enterprise and Innovation stress the value of business utilisation of research by higher education institutes, arguing that the most impactful technological science towards Ireland becoming a global innovation leader should come from academia-industry collaborations (DBEI, 2019).

Govindarajan et al., (2019) stress the importance of R&D in the digital age. With software, algorithms and innovation as the foundations of economic activity, R&D shouldn't be considered a discretionary expense. For indigenous businesses to sustain long-term growth, R&D must be at the forefront of tax decisions. R&D expenses have skyrocketed for digital companies due to the cost of employees scientific talent (Govindarajan et al., 2019). Ireland has the third highest proportion of maths, science and computer-science graduates aged 20-29 in the EU (IDA Ireland, 2019) . These graduates have the capacity to fuel growth of Ireland's technology industry. The increase is imperative to retain and utilise this talent to drive economic growth.

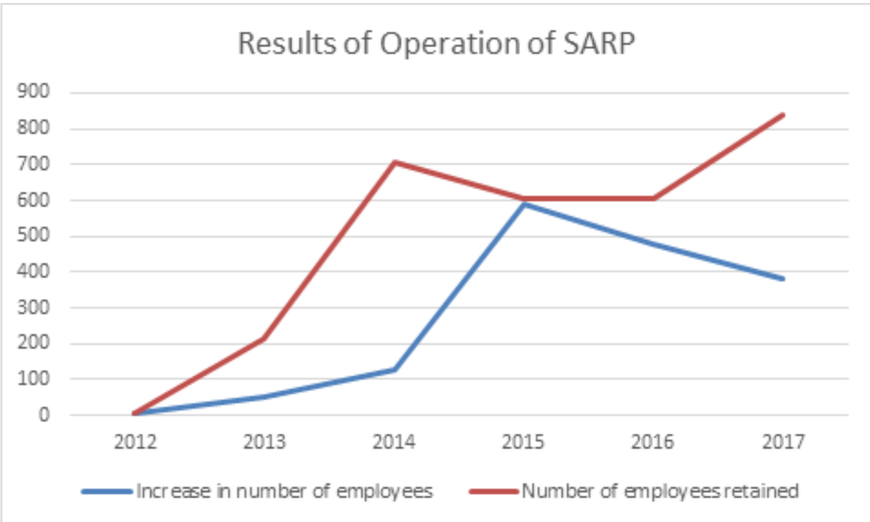
Despite the merits of the hike in the R&D credit, Irish firms are still at a disadvantage to UK firms, where there is a 33.35 % R&D tax credit for loss making SMEs (PWC UK, 2019). To offer distinct competitive advantage post-Brexit, the credit should be raised to a higher level in line with or above UK standards to allow Ireland to become a global innovation leader.

Foreign Direct Investment

In the context of attracting FDI, a key measure introduced was the extension of the Special Assignee Relief Programme (SARP), which was due to expire after 31/12/2020, until the end of 2022 (Walsh, 2019). The SARP provides relief from income tax on 30% of salary between €75,000 and €1m for highly skilled employees assigned to Ireland. This reduces the cost to employers of bringing experienced decision-makers in their companies from abroad to take up positions here (Department of Finance, 2019). These highly sought-after individuals, who make significant contributions to the Irish Exchequer through taxes, would not be in Ireland without this relief (Walsh, 2019). The decision to extend the SARP followed an independent review of the programme which confirmed the rationale for its continuation (Donohue, 2019). Indecon found that the economic benefits arising from the programme (€67.2m) far outweigh the cost to taxpayers (€28.1m) (Chance, 2019).



In a submission from IDA Ireland to Indecon, it was noted that SARP has been a key tool for their engagement with FDI target companies. In the face of Brexit, it was welcomed that the Minister recognised that the protection of the incentives we offer is crucial to maintain Ireland's competitiveness, as other countries with similar schemes are competing for the best talent (Brennan, 2019). Since its introduction at the height of the financial crisis, SARP has been operating effectively in a range of sectors such as IT and pharmaceutical (Revenue, 2017). From 2012-2017, the number of claimants increased 100-fold, demonstrating that the programme has been seen as an effective method of boosting FDI (Chance, 2019; Bradley, 2019). The provision of income tax relief to senior executives has facilitated job creation and business development in our economy (Department of Finance, 2019). The latest statistics show that SARP has directly created 793 jobs, leading to notable tax contribution to the Exchequer (Bradley, 2019). The following graph illustrates the popularity and effectiveness of the programme by showing the increase in the number of employees and the number of employees retained by employers per year as a result of the operation of the SARP (Revenue, 2019).



Therefore, the decision to extend the SARP will further enhance FDI and boost the economy by continuing to attract talented, internationally mobile executives from MNCS to work in Irish-based operations. This will subsequently lead to better research and innovation and the transfer of key skills to our economy (Bradley, 2019). The SARP extension was an important move to ensure we remain an attractive, credible location for UK business that is expected to seek new EU locations following Brexit (Walsh, 2019). The continuation of the programme will also contribute towards maintaining the high level of corporation tax receipts being generated from profitability of the FDI sector (Bradley, 2019).

Proposal

The Fair Deal scheme provides financial support to people who need long-term nursing home care. Individuals contribute 80% of their income and 7.5% of the value of any assets each year towards the cost of their care and the HSE pays the balance. Regardless of the time spent in care, the individual only pays the 7.5% contribution based on their principal residence for a maximum of 3 years. All other assets are considered for as long as they stay in care (Citizensinformation.ie, 2019). These current rules incentivise leaving homes vacant while the country is in critical need of additional housing stock. Individuals who sell their home are penalised as they lose 7.5% of the proceeds to Fair Deal each year they stay in care. It is more sensible to leave the property vacant than rent it out as four-fifths of rental income earned is paid to the government (McBride, 2018). This has resulted in thousands of properties in good repair in areas of high demand for rented homes unoccupied and unavailable (Naughten, 2019). To help alleviate the housing crisis, we propose changes to the legislation to encourage older people to sell or rent out their homes. These measures would improve the supply of houses while increasing government revenue from the scheme.

We propose that the scheme should treat the proceeds from the sale of the house the same as the house value is treated. This would involve applying the "three-year cap" to the 7.5% contribution from cash assets acquired from the sale. This would encourage more individuals to sell their homes as it would leave them in the same financial position as if homes were left vacant. This is demonstrated by the following calculations based on an individual who owns a house valued at €400,000 and stays in a nursing home for 10 years:

		Current Situation	Proposed Situation
Contribution	If house is kept (vacant)	If house is sold	If "three-year cap" applies to proceeds
Year 1	30000	30000	30,000
Year 2	30000	30000	30,000
Year 3	30000	30000	30,000
Year 4	0	30000	0
Year 5	0	30000	0
Year 6	0	30000	0
Year 7	0	30000	0
Year 8	0	30000	0
Year 9	0	30000	0
Year 10	0	30000	0
Total Contribution	**€ 90,000**	**€ 300,000**	**€ 90,000**

We also propose that the scheme treats rental income more favourably by requiring individuals to contribute 40%, rather than 80%, of any rental income earned. Currently, only 600 of the 14,000 homes owned by people in the scheme are being rented (Naughten, 2019). We believe that 25% (3,500) of homeowners in the scheme would rent out their homes if the contribution was lowered to 40%. The below calculations, which assume an average yearly rental income of €16,692 (Goodbody, 2019), show that this would result in an increased €15,356,640 tax revenue for the government:

Current Situation	
Number of people contributing rental income	600
Aveage yearly rental income in Ireland	16,692
Percentage of rental income contributed	80%
Contribution from individuals based on rental income	8,012,160
Proposed Situation	
Number of people contributing rental income	3,500
Aveage yearly rental income in Ireland	16,692
Percentage of rental income contributed	40%
Contribution from individuals based on rental income	23,368,800
Increased Government Tax Revenue	**15,356,640**

In light of the current housing shortage and the need to bring new families into communities with infrastructure (Naughten, 2019), we believe that the government should introduce these amendments to the Fair Deal scheme. By freeing up housing stock, young families would be able to move up the housing ladder into family homes, which would have a knock-on effect in the housing market. Subsequently, rent would decrease as more houses come on the market and the government would spend less towards housing people in emergency accommodation.

Conclusion

This report outlined why the increase in healthcare expenditure, the enhancements of the R&D tax credits, and the extension of the SARP have been welcomed by the Irish public, indigenous businesses, and the FDI sector respectively. It also discussed how we believe the government should reform the Fair Deal scheme in order to tackle the housing crisis while increasing tax revenue.

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