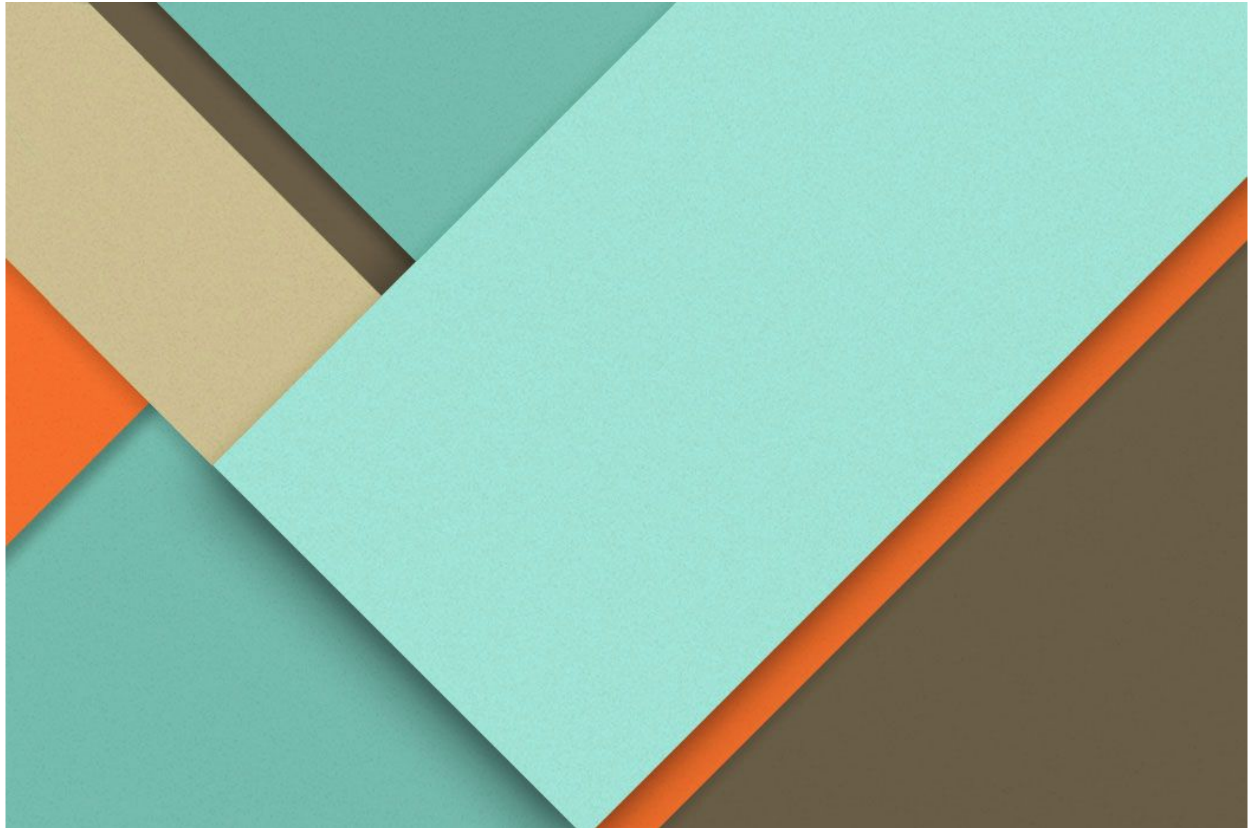


Fantasy Budget 2020

31.10.2019

Team 22
Elizabeth Aderogba
Rory Clarke
Eoin Leeson
Madeleine Long

Introduction

Despite the view that Budget 2020 was ‘‘All in all... – Much Ado About Nothing’’ (Lowe, 2019) we sought to analyse the impact the increase in carbon tax would have on individuals and families, how new anti-hybrid rules will affect FDI, how adjustments to the KEEP programme will impact indigenous Irish businesses and finally, how we think the Help-to-Buy scheme could have been improved.

A Critique of 3 Budget Measures

Individual & Family

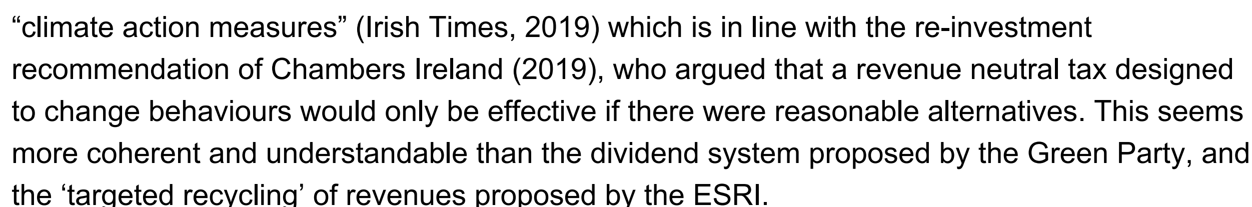
Under Budget 2020, there was an increase of €6 per tonne in carbon tax, bringing the charge to €26 per tonne. This change was applied to auto fuels from midnight on budget day and will be extended to solid fuels on 1st May 2020.

This increase differs from many stakeholders’ recommendations such as the Climate Advisory Committee (€15), the Green Party (€20) and Department of Finance (€10 increase with €5 annual increase until 2030) (Irish Times, 2019). Whilst these more drastic suggestions could possibly result in greater behavioural change, they would come at a high cost to many families in the state (Department of Finance, 2019). This is reasonable rationale for why the Government pitched their increase at a lower amount.

According to the ESRI (2019), those in the “lowest income quartile” will be most affected by the increase as they spend a higher portion of their income on fuel. In contrast, despite high income households paying five times more, they will have more disposable income to account for it (ICTU, 2019). This situation is effectively regressive and vertically inequitable - those with a higher ‘‘ability-to-pay’’ are bearing a lower proportionate burden.

Having implemented a lower increase than that pitched by several stakeholders, the Government has attempted to further mitigate this inequity by choosing to defer increases on home-heating fuels from May 2020 (Department of Finance, 2019). This gives further protection to those with no alternatives to solid fuels and is particularly important given that “less than half of those in the lowest income tenth of household[s] would receive fuel allowances” (Irish Times, 2019), which may otherwise act in mitigation of the increase.

The use of the additional revenue has been a controversial issue (Climate Action Group, 2019). Ibec (2019) suggested ring-fencing the revenue to ensure a portion to support households dependent on fossil fuels. In addition to this, the Government chose to ring-fence revenue for



“climate action measures” (Irish Times, 2019) which is in line with the re-investment recommendation of Chambers Ireland (2019), who argued that a revenue neutral tax designed to change behaviours would only be effective if there were reasonable alternatives. This seems more coherent and understandable than the dividend system proposed by the Green Party, and the ‘targeted recycling’ of revenues proposed by the ESRI.

This change is responding to the climate emergency by reducing emissions with only minor effects on economic efficiency. It has also been designed to minimise the disproportionate and inequitable affect fuel consumption taxes have on lower income groups (Irish Times, 2019), whilst promoting and funding a sustainable future.

Indigenous Irish business

Budget 2020 addresses some of the teething problems suffered by the Key Employee Engagement Programme (KEEP) - which, in effect, reduces employee tax liability for share-based remuneration.

Previously labelled ‘’not fit for purpose’’ - only 38 employees in 10 companies have availed of it (ITI, 2019) - the reform broadens the definition of a qualifying company to include group structures. This will mollify critics who have noted the scheme’s previously narrow scope (Philip Lee, 2018). This allows enterprises to make certain corporate business decisions without worrying that it disqualifies them from the programme, in line with Smith’s canon of efficiency insofar as it ensures business decisions are tax neutral.

The budget also alters the definition of a qualifying employee to allow for “part time/flexible working and movement within group structures” (Department of Finance, 2019). This is increasingly pertinent for start-ups without central offices and/or traditional working conditions. This addresses the indirect discouragement of these structures by their exclusion from programmes such as this

Finally, the reforms apply retrospectively to existing shares. This is perhaps the least efficient change insofar as it won’t undo KEEP’s poor start, but it does send a message of certainty as to the government’s intentions. In practical terms, it means no further complication will arise for businesses in the application process when differentiating between pre and post Budget 2020 shares. This adheres with the preference for simplicity in taxation systems (Commission on Taxation, 2009).

This measure is particularly important to what Scale Ireland calls Innovation Driven Enterprises, which often face negative cash flows in their early stages due to the high investment requirements of innovation. These are the businesses that are essential for Ireland if it hopes to begin to address its overreliance on FDI (Earley, 2019). It is therefore appropriate to give them a helping hand in the global competition for key talent. The fact that KEEP remains unavailable for businesses with an annual turnover in excess of €50 million ensures it is smaller businesses that benefit from the programme, which is essential to direct the programme’s benefits at

indigenous Irish businesses rather than foreign MNCs with resources that can already sustain more attractive remuneration packages to attract key talent (ITI, 2019).

The UK's KEEP counterpart, the Enterprise Management Incentive Scheme (EMI), is currently seeing a comparatively higher uptake (Ipsos MORI, 2018), which may have partly prompted this reform. What this means for Irish businesses is a greater ability to compete in the attraction and retention of key talent, particularly with the UK, where remuneration plans are better supported by EMI.

The overall impact of this reform can be summarised as making KEEP fit for purpose and making the benefits more accessible to more Irish businesses.

FDI

Following recent Department of Finance publications (2018, 2019) many commentators expected new anti-hybrid rules to be introduced in Budget 2020 and they were right.

The Tax Strategy Group's report (Department of Finance, 2019) says the purpose of the anti-hybrid rules is to ensure equity by counteracting tax mismatches, where the same expenditure item is deductible in more than one jurisdiction, or where expenditure is deductible but the corresponding income is not fully taxable.

Deloitte (2019) developed this further saying that hybrid mismatches can result in ‘‘double deductions’’ where an expense is deducted twice from the amount to be taxed, or ‘‘deduction without inclusion’’ a scenario that arises ‘‘where a payment is deductible but the person who receives the payment did not see it as taxable’’. The new rules will correct this by denying the deduction or applying the tax charge.

Deloitte highlighted that the rules are quite complex and in our view this is where the first impact on FDI firms will be seen; understanding and applying the measure is likely to have an economic impact on businesses due to the administrative and legal work involved in preparing themselves for the changes. This raises doubts as to certainty and compliance efficiency.

PwC's (2019) analysis noted that FDI companies in Ireland must now be aware that ‘‘all inter company arrangements which involve tax deductions will need to be considered carefully’’ for the ‘‘targeted concepts’’ mentioned above. This highlights the second impact the rules could have: FDI firms face the possibility of paying more tax if they are denied deductions, or tax charges are applied that in previous years were not. The Government must ensure they are adequately informed to maintain the stability of the regime.

The ESRI (2019) has noted trends towards a potential recession in the US. Given our reliance on US economic activity, any slowdown would likely pass through to the domestic economy. In this regard, we believe the rules should have a positive impact for FDI. It's important we

maintain a consistent economy for FDI to operate in and the anti-hybrid rules will improve the transparency of business operating in Ireland. Foreign companies could see this as a major incentive to move their business here.

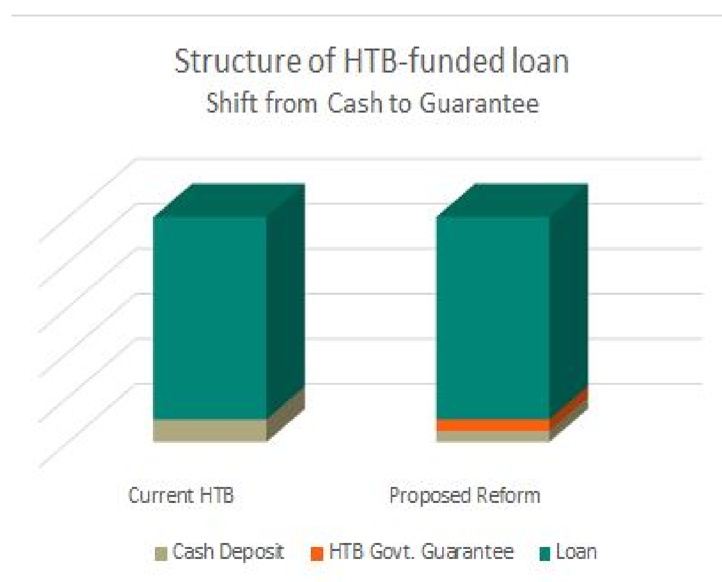
Paschal Donohue (Department of Finance, 2019) summed up the intention behind the introduction of the anti-hybrid rules saying ‘‘It is clear that this is a time of significant global change for business and my focus is on maintaining a competitive, outward-facing business environment while ensuring our tax regime is transparent, sustainable and legitimate.’’ In other words, not much has changed in this Budget to significantly impact FDI in either a positive or negative way, but it has allowed them to solidify their position while improving their transparency and reliability as businesses.

Proposed Measure

Reform of Help-to-Buy

Substantively unchanged by Budget 2020, the successful Help-to-Buy (HTB) scheme provides a tax rebate in cash - to facilitate and encourage prospective first-time buyers (FTBs) - at the lower of €20,000 or 5% of the purchase value of a house of maximum value of €500,000. We aim to improve this by reducing the maximum value threshold and changing the point of support.

We propose reducing the threshold to approximately €400,000. This is to balance the threats of economic deadwood (IIP, 2019) and economic distortion (PBO, 2019) whilst stimulating housing in Dublin (Reddan, 2019).



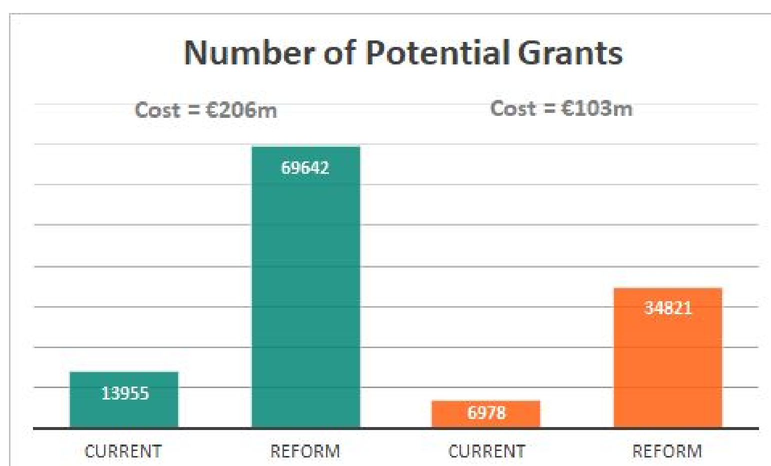
The nub of our proposal however lies in inverting the scheme’s perspective, to reposition the government as a guarantor of deposits not unlike the successful Credit Guarantee Scheme (SBCI, 2019.) This would provide certainty (IIP, 2019) and stability (CIF, 2019) and fulfil HTB’s objective whilst efficiently using sovereign credit and funds. PII has commented that HTB should be altered to ensure “a form of return to the Exchequer… compared to a simple grant” (2019). DNG has

also repeatedly argued for a shift to a more equitable scheme.

The Government would provide a guarantee to the bank that, in case of default during the ‘‘deposit-paying period’’ (*infra*), they will step in and provide compensation for the balance. Applicants will continue to provide 5% of their deposit. However, instead of directly providing the remaining 5% in cash, this reform will see the Government provide the cash to the bank directly, for the fraction of the borrowers that default.

The scheme will be limited by time. The guarantee is only operable during the ‘‘deposit paying period’’. Once the initial 5% - has been paid off, the government’s liability will be severed. This limits the liability of the government to the threshold of the payment they would otherwise have paid anyway.

In reality, only a fraction (10.3% (Central Bank, 2015)) of first-time buyers’ loans default. Thus, the Government will have to pay out only a portion of deposit-balancing monies, rather than cash upfront to every successful applicant. The payments that are required shall be drawn from a ring fenced fund - to provide *certainty*.



The scheme to date has approved 13,955 payments, averaging €14,790 at a total cost of €206 million, (Revenue,2019). Assuming a cautious default rate of 20%, the reform would see the capacity of the scheme increase fivefold.

However, in reality, as 44% of FTBs already use HTB (DNG, 2019) this will see a greater number of people supported at a lower overall cost. The Government could afford more flexibility in their application criteria in the future - as advocated by several groups e.g IIP (Irish Times, 2019).

Successful adoption of this approach would require the Central Bank’s endorsement of the government’s 5% equity guarantee, to fulfill their 10% deposit requirement.

We have proposed converting the existing HTB structure from a cash-based scheme to a time-limited contingent support-based scheme, at the same value to FTBs and financial institutions but at lower marginal cost to the Exchequer.

Conclusion

“Don't tell me what you value, show me your budget, and I'll tell you what you value.” (Biden, 2012).

Having seen the Irish Government’s budget, it is clearer than ever what they value. This government has prioritised protecting vulnerable families whilst balancing the threat of the climate emergency and sought to encourage both FDI and indigenous Irish business. We have also suggested stimulating the struggling housing market by reforming Help-to-Buy, rather than simply renewing it.

Bibliography

Central Bank of Ireland (2015) *Designing Macro-prudential Policy in Mortgage Lending: Do First Time Buyers Default Less?* Research Technical Papers. Available at: https://centralbank.ie/docs/default-source/publications/research-technical-papers/research-technical-paper-02rt15.pdf?sfvrsn=8 (Accessed 5 October 2019).

Chambers Ireland (2019) *Pre Budget Submission 2020.* Available at: https://www.chambers.ie/wp-content/uploads/2019/08/Chambers-Ireland-Submission_Budget-2020.pdf (Accessed 19 October 2019).

Chartered Accountant Ireland (2019) *Corporation Tax Measurements Budget 2020.* Available at: https://www.charteredaccountants.ie/News/corporation-tax-measures-(budget-2020) (Accessed 13 October 2019).

Commission on Taxation (2009) *Commission on Taxation Report 2009.* Available at: https://researchrepository.ucd.ie/bitstream/10197/1447/1/Commission_on_Taxation_Report_2009.pdf (Accessed 17 October 2019).

Construction Industry Federation (2019) *CIF Pre-Budget Submission 2020.* Available at: https://cif.ie/wp-content/uploads/pdfs/CIF%20Pre%20Budget%202020%20Submission%20(High%20Resolution).pdf (Accessed 6 October 2019).

Damgaard, J., Elkjaer, T. and Johannesen, N. (2019) *The Rise of Phantom Investments.* Available at:

https://www.imf.org/external/pubs/ft/fandd/2019/09/the-rise-of-phantom-FDI-in-tax-havens-damgaard.htm (Accessed 09 October 2019).

Deloitte (2019) *Feedback Statement on the Implementation of Ireland's Anti-Hybrid Rules.* Available at: https://www2.deloitte.com/ie/en/pages/tax/articles/implementation-irelands-anti-hybrid-rules.html# (Accessed 11 October 2019).

Deloitte (2019) *Ireland Inc. and Foreign Direct Investment Budget 2020.* Available at: https://www2.deloitte.com/ie/en/pages/tax/articles/budget-fdi-ireland-inc.html (Accessed 11 October 2019).

Deloitte (2019) *Transfer Pricing Budget 2020.* Available at: https://www2.deloitte.com/ie/en/pages/tax/articles/budget-transfer-pricing.html (Accessed 11 October 2019).

Department of Finance (2019) *Budget 2020 Tax Policy Changes.* Dublin 2: Government Publications. Available at: http://budget.gov.ie/Budgets/2020/Documents/Budget/Budget%202020_Tax%20Policy%20Changes_a.pdf [Accessed 18 October 2019].

Department of Finance (2019) *Budget 2020 Tax Policy Changes*. Government Publications, Dublin. Available at: http://budget.gov.ie/Budgets/2020/Documents/Budget/Budget%202020%20Tax%20Policy%20Changes.pdf (Accessed 13 October 2019).

Department of Finance (2019) *Financial Statement.* Dublin 2: Government Publications. Available at: http://www.budget.gov.ie/Budgets/2020/Documents/Budget/Financial%20Statement.pdf (Accessed 09 October 2019).

Department of Finance (2019) *Fiscal Vulnerabilities Scoping Paper Budget 2020.* Dublin 2: Government Publications. Available at: http://www.budget.gov.ie/Budgets/2020/Documents/Budget/Fiscal%20Vulnerabilities.pdf (Accessed 13 October 2019).

Department of Finance (2019) *Tax Strategy Group Papers - Climate Action and Tax.* Available at:https://assets.gov.ie/19116/c447474fea5e422080a6384b7a84fbed.pdf (Accessed 11 October 2019).

Department of Finance (2019) *Tax Strategy Group Papers - Corporation Tax.* Dublin 2: Government Publications. Available at:

https://www.gov.ie/en/collection/dc3850-budget-2020-tax-strategy-group-papers/ (Accessed 02 October 2019).

DNG (2019) *DNG HALF-YEAR RESIDENTIAL PROPERTY MARKET REVIEW Q2 2019.* Available at: http://pdf.dng.ie/pdf/DNGHalfYearResidentialMarketReview2019.pdf (Accessed 6 October 2019).

Earley, K (2019) 'Scale Ireland Launches with Budget 2020 plan to empower Irish start-ups' Silicon Republic, 25 September. Available at: https://www.siliconrepublic.com/start-ups/scale-ireland-launch-budget-2020 (Accessed 17 October 2019).

Economic and Social Research Institute (2019) *Post-Budget Briefing.* Available at: https://www.esri.ie/events/esri-post-budget-analysis (Accessed 10 October 2019).

Economic and Social Research Institute (2019) *Quarterly Economic Commentary, Autumn 2019.* Available at: https://www.esri.ie/publications/quarterly-economic-commentary-autumn-2019 (Accessed 02 October 2019).

Economic and Social Research Institute (2019) *The Economic and Environmental Impacts of Increasing the Increasing the Irish Carbon Tax.* Available at: https://www.esri.ie/system/files/media/file-uploads/2018-10/RS79.pdf (Accessed 27 October 2019).

Hamilton, P. (2019) 'Households to pay more tax under Budget 2020, ESRI says', *Irish Times,* 11 October. Available at: https://www.irishtimes.com/business/economy/households-to-pay-more-tax-under-budget-2020-esri-says-1.4047571 (Accessed 25 October 2019).

Hancock, C. (2019) Property groups want Help To Buy tax break expanded beyond first-time buyers. *The Irish Times.* 1st October. Available at: https://www.irishtimes.com/business/commercial-property/property-groups-want-help-to-buy-tax-break-expanded-beyond-first-time-buyers-1.4035397 (Accessed 6 October 2019).

Hancock, C. (2019) Was the Government right to extend Help to Buy housing scheme? *The Irish Times.* 16th October. Available at: https://www.irishtimes.com/business/budget/was-the-government-right-to-extend-help-to-buy-housing-scheme-1.4051653 (Accessed 19 October 2019).

Ipsos MORI Social Research Institute (2018) *Evaluation of Enterprise Management Incentive scheme.* London: HM Revenue and Customs. Available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/716544/EMI_report_Final.pdf [Accessed 18 October 2019].

Irish Business & Employers Confederation (2019) *IBEC Budget 2020 Submission.* Available at: https://www.ibec.ie/-/media/documents/media-press-release/ibec-budget-2020-submission.pdf (Accessed 11 October 2019).

Irish Congress of Trade Unions (2019) *Budget 2020 - Building a Shared and Sustainable Future.* Available at: https://www.ictu.ie/download/pdf/2020_congress_pre_budget_submisson_final.pdf (Accessed 4 October 2019).

Irish Institutional Property (2019) *Pre Budget-Submission from Irish Institutional Property (IIP).* Available at: https://iipdotie.files.wordpress.com/2019/09/iip-pre-budget-submission-5-july.pdf (Accessed 6 October 2019).

Irish Tax Institute (2019) *ITI Pre-Budget 2020 Briefing Papers.* Available at: https://taxinstitute.ie/wp-content/uploads/2019/09/Pre-Budget-Briefing-Papers_Budget-2020_ITI.pdf (Accessed 02 October 2019).

Irish Tax Institute (2019) *ITI Pre-Budget 2020 Submission.* Available at: https://taxinstitute.ie/wp-content/uploads/2019/08/ITI-Pre-Budget-2020-Submission-30Jul19-FINAL.pdf (Accessed 02 October 2019).

Irish Times (2019) Budget 2020: Main climate action measures. *The Irish Times.* 8th October 2019. Available at: https://www.irishtimes.com/news/ireland/irish-news/budget-2020-main-climate-action-measures-1.4044153 (Accessed 22 October 2019)

McCauliffe, N. (2019) ‘Budget 2020 main points’ *The Irish Times,* 8 October. Available at: https://www.irishtimes.com/business/budget-2020/budget-2020-main-points-free-gp-care-for-under-8s-extra-garda%C3%AD-to-be-recruited-1.4043175 (Accessed 08 October 2019).

McGuire, G (2018) *‘KEEP’ - Key Employee Engagement Programme.* Available at: https://www.philiplee.ie/keep-key-employee-engagement-programme/ (Accessed 17 October 2019).

Organisation for Economic Cooperation and Development (2019) *Ireland Economic Snapshot.* Available at: http://www.oecd.org/economy/ireland-economic-snapshot/ (Accessed 03 October 2019).

Parliamentary Budget Office (2019) *An overview and analysis of the Help to Buy Scheme.* Government Publications, Dublin. Available at:

https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2019/2019-09-25_an-overview-of-the-help-to-buy-scheme-which-is-set-to-expire-at-the-end-of-2019_en.pdf (Accessed 6 October 2019).

Pope, C. (2019) Help to Buy sees first-time buyers drive growth in prices. *The Irish Times.* 26th June. Available at: https://www.irishtimes.com/business/help-to-buy-sees-first-time-buyers-drive-growth-in-prices-1.3937381 (Accessed 28 September 2019).

Property Institution Ireland (2019) *PII Pre-Budget 2020 Submission.* Available at: https://www.propertyindustry.ie/Sectors/PII/PII.nsf/vPages/Publications~pii-pre-budget-2020-submission-15-07-2019/$file/PII+Pre-Budget+2020+Submission+Final.pdf (Accessed 13 October 2019).

PwC (2019) *What does Budget 2020 mean for FDI?* Available at: https://www.pwc.ie/budget-2020-ireland/fdi.html (Accessed 10 October 2019).

Reddan, F. (2019) No change to Help to Buy incentive for first-time buyers. *The Irish Times.* 8th October 2019. Available at: https://www.irishtimes.com/business/economy/no-change-to-help-to-buy-incentive-for-first-time-buyers-1.4043892 (Accessed 13 October 2019).

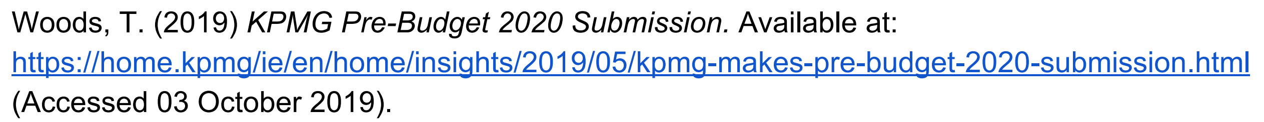
Reddan, F. (2019) Time to demolish Help to Buy scheme. *The Irish Times.* 21st August. Available at: https://www.irishtimes.com/business/personal-finance/time-to-demolish-help-to-buy-scheme-1.3992226 (Accessed 28 September 2019).

Reddan. F (2019) Budget 2020: Little to write home about a very likely scenario. *The Irish Times.* 17th September. Available at: https://www.irishtimes.com/business/economy/budget-2020-little-to-write-home-about-a-very-likely-scenario-1.4020847 (Accessed 28 September 2019).

RTE (2019) *Budget 2020: The Key Points.* Available at: https://www.rte.ie/news/budget-2020/2019/1008/1081895-budget-2020-key-points/ (Accessed 08 October 2019).

Strategic Banking Corporation of Ireland (2019) *SME Credit Guarantee Scheme (CGS).* Available at: https://sbci.gov.ie/schemes/sme-credit-guarantee-scheme-cgs (Accessed 6 October 2019).

Walsh, C. (2019) *Irish Tax Institute Press Release.* Available at: https://taxinstitute.ie/institute-news/press-release-business-supportive-budget-broadly-welcomed-by-the-irish-tax-institute/ (Accessed 10 October 2019).



Woods, T. (2019) *KPMG Pre-Budget 2020 Submission.* Available at:
https://home.kpmg/ie/en/home/insights/2019/05/kpmg-makes-pre-budget-2020-submission.html
(Accessed 03 October 2019).