

Budget 2021 Analysis

Ibec Campaign



#IbecBudget2021

Key messages from Budget 2021

- Budget 2021 is commendable. The scale of the package and supports announced to help business deal with the uncertainties raised by both COVID and Brexit show a scale of ambition and a belief in the business model to deliver a strong recovery from COVID and Brexit.
- Today's Budget announcement is the largest in the history of the State. This is appropriate given the magnitude of challenges we face. Ultimately, it will also be affordable for the State. It will, however, mean more difficult conversations ahead about funding new current spending or responding to future crises.
- The three main takeaways for business from today's Budget announcement are:
 1. **The significant funding to protect vulnerable parts of our experience economy:** This represents a massive commitment in terms of cross sectoral solidarity. It also shows the benefits of our business model in terms of income generation, even during trying times.
 2. **The increase in capital expenditure and focus on re-imagining our economic model:** This is the first time in modern history that the Irish State has done the right thing and leaned into capital investment as the economy slowed. Ongoing political commitment will be needed to maintain the correct path in areas like housing, the low carbon transition, and transport in the years ahead.
 3. **The continued investment in skills and training:** Whilst headline measures of the economy have proven resilient in recent months, there is no doubt we are facing into an unemployment crisis of significant proportions. The measures announced today, focused on at-risk groups, are necessary and will help protect the country's most valuable asset – skills.

Budget 2021 Economic Forecasts

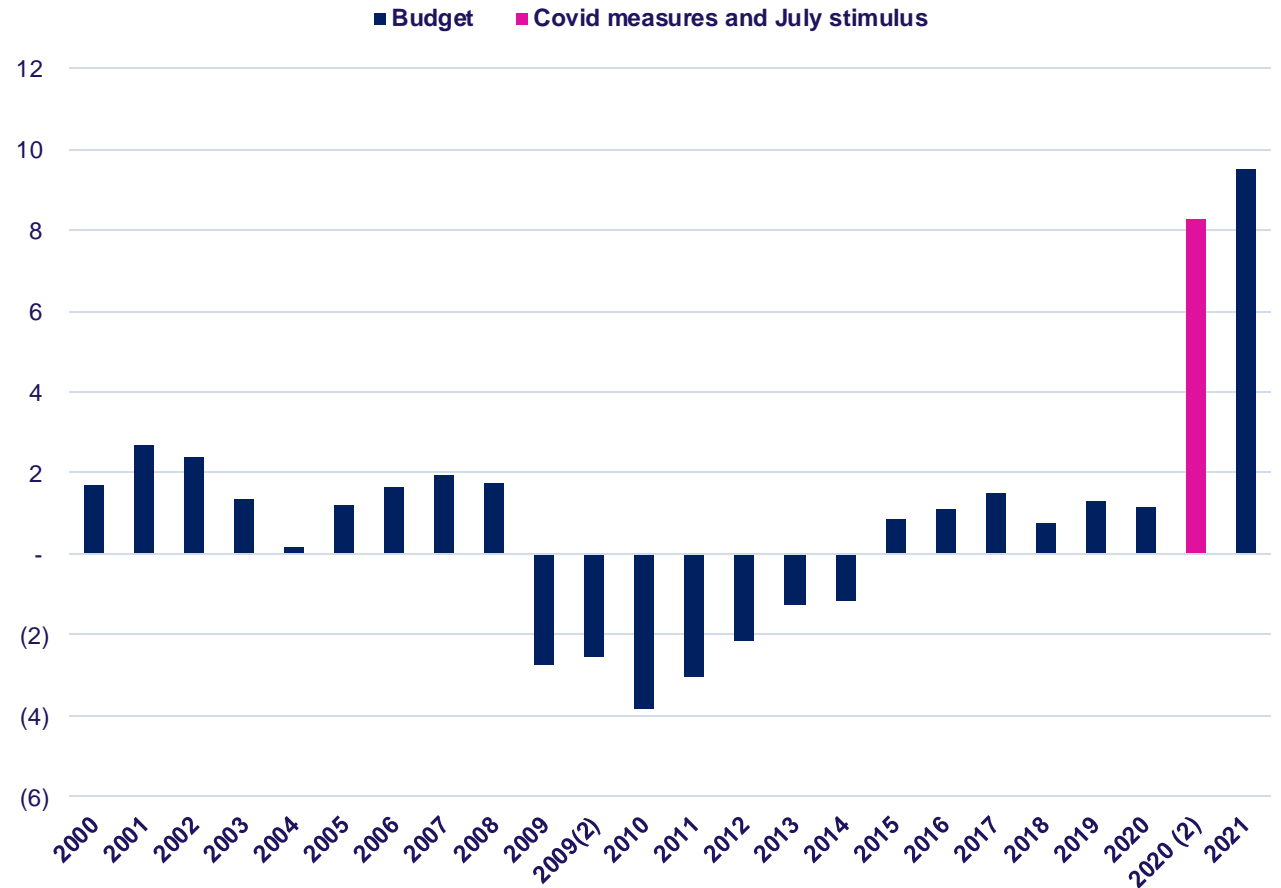
- Forecast from the Department of Finance suggest that the economy will shrink by 2.4% in 2020 and grow by 1.7% in 2021
- While exports will hold up, growing by 1.9% this year, consumer spending is expected to fall by 7.5%.
- This underlines recent Ibec analysis of the 'k-shaped' nature of the economic recovery.
- It is the case that the exporting and internationally traded sectors of the economy are generating the resources which underpin today's Budget package
- The immediate labour market outlook is one where there is high unemployment continuing into 2021 and prices are expected to fall by 0.3% in 2020 and grow by only 0.4% in 2021.

	2020	2021
Consumer spending	-7.5%	7%
Investment	-39.9%	-25.7%
GDP	-2.4%	1.7%
Inflation	-0.3%	0.4%
Employment	-13.7%	7.6%

Fiscal overview

- The total Budget package is €17.75 billion. Over €17 billion in spending and a net tax package of €270 million.
- This constitutes the biggest Budget package in the history of the State. In Ibec's view, this is appropriate given the challenges faced by the economy
- The government deficit will amount to €21.6 billion in 2020 and over €20.5 billion in 2021. This is affordable in the current conditions but will mean more difficult conversations about funding current expenditure post-crisis.
- In a baseline scenario, the Government expects to spend €105 billion in 2020 and take in €84.2 billion in revenue. This will change to €109 billion and €88.7 billion respectively in 2021. For context, Government expenditure in 2019 was €87 billion and revenues were €89 billion.

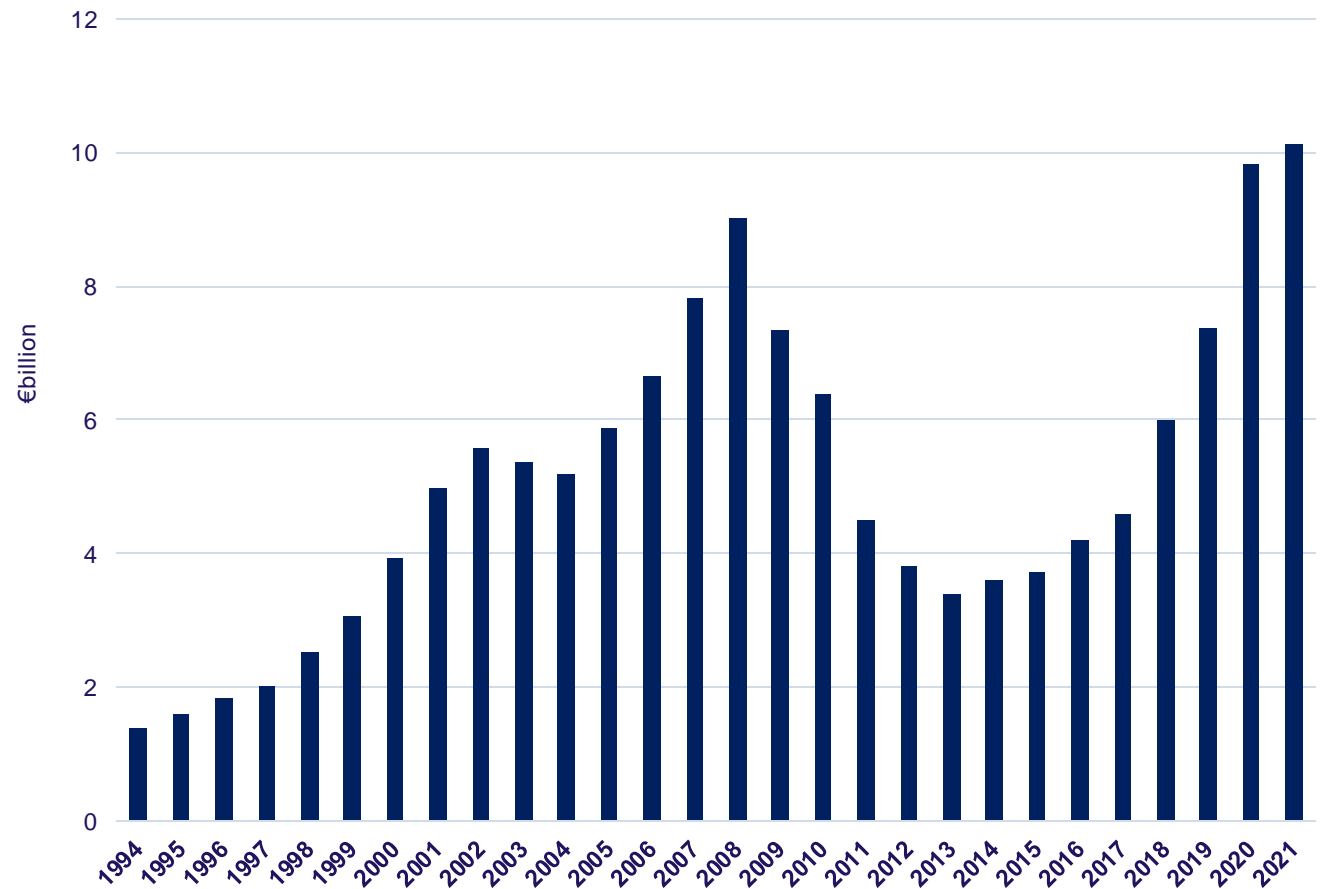
Budget measures 2000 to 2020 and the July Stimulus, % of modified domestic demand



Capital investment

- Ibec has been calling for Government to learn from the mistakes of the past and to not decrease our capital expenditure commitments.
- Today's announcement of a planned increase in capital spending by €1.6bn in 2021, including over €500m for housing, is a positive move given the scale of the deficit in both social and physical infrastructure.
- This investment will be central to our collective efforts in enabling the economy to resurge stronger, more sustainable and more competitive.

Government capital expenditure, 1994 to 2021





A dynamic approach to the National Economic Plan

What's been announced?

- A new National Economic Plan will be announced late in November. This will be underpinned by a social progress indicator which considers a broader range of indicators than just economic output.
- An independent Commission on Taxation and Social Welfare to plan out the medium and long-term tax and spending planning.
- The Commission will have a particular role in reviewing the post-COVID environment, low carbon transition, digitalisation, ageing demographics and other factors.
- Further details will be announced in the coming weeks.

Ibec reaction

- Commitments to a new National Economic Plan, a Social Progress Indicator, and an independent Commission on Taxation and Social Welfare were all key Ibec asks in our Reboot and Reimagine campaign.
- It is positive to see these asks committed to by Government. The difficult work of ensuring positive engagement with business and other stakeholders through these mechanisms of social dialogue will now begin.

Recovering from Cvid

What's been announced?

- An extension of the commercial rates waiver for businesses to the end of the year. And an extension of the wage subsidy scheme (in some form) and tax warehousing schemes until the end of 2021.
- VAT to be cut from its current rate of 13.5% down to 9% for the tourism and hospitality sectors until December 2021 to support businesses heavily impacted by Covid-19
- A Covid Restrictions Support Scheme (CRSS) for businesses which are closed or trade at significantly reduced levels due to Covid-19 restrictions of level 3 or higher. This will see cash payments made to businesses, calculated on the basis of 10% of the first €1m and 5% thereafter of average 2019 turnover up to a maximum €5,000 weekly.
- €4bn in additional health spending including the provision of an additional 1,146 acute beds, 66 critical care beds, 5 million home care hours and funding of all Covid-19 action plan measures.
- €55m for a tourism support scheme intended to also support the wider experience economy.

Ibec reaction

- Ibec has highlighted in recent months the devastating impact that Covid has, and continues, to play on the domestic experience economy, encompassing the tourism and hospitality sector and its diverse supply chain.
- Today's announcement of a reduction in VAT and introduction of the Covid Restrictions Support Scheme are important first steps in getting the experience economy back on its own feet and will undoubtedly provide a lifeline to many businesses in the sector struggling to stay afloat.



**Getting ready
for Brexit –
Deal or no deal**

What's been announced?

A fund of up to €3.4bn is expected to help businesses large and small who are in financial difficulty as a result of the Covid-19 pandemic and a possible no-trade deal Brexit.


This will be in addition to funding for Brexit preparations amongst Departments and State Agencies of €350 million.



The government has outlined a need to judge the allocation of the Brexit elements of the Recovery Fund based on the nature of the end of the transition period.

The lack of detail on Brexit funding is a trade-off against flexibility as trade talks develop. They may become clearer over the coming weeks as the full allocation of resources from the European Brexit Adjustment Reserve become clear.

Ibec reaction

- As businesses continue to engage in contingency planning for the growing possibility of a 'Hard' Brexit. Government has made welcome pledges today towards Brexit funding through the Recovery Fund.
- At this stage, the commitment to the scale of resources is welcome but it is imperative that business can see how these financial supports will be laid out and put to work in the areas of the economy most exposed to the economic fallout of a hard Brexit.
- More detail should be provided as soon as possible.



 **Getting people
back to  work
and promoting
SME investment**

What's been announced?

- The Apprentice Incentivisation Scheme, a €3,000 payment to employers taking on apprentices first introduced in the July jobs stimulus, has been extended, with 4,000 new apprenticeships to be provided under the scheme.
- Over 10,000 upskilling and reskilling places to be provided through SOLAS and Skillnet Ireland. Of these, 1,500 places are for retrofitting courses to encourage employment in the green economy.
- Establishment of an equity fund for domestic high innovation enterprises working with European capital funds, EIB and others. Government will provide an initial €30m for early and seed capital through the Ireland Strategic Investment Fund.
- Department of Finance to assess how the Employment and Investment Incentive scheme (EIIS) can be enhanced later in the year.
- Change in CGT Entrepreneur Relief to allow relief for anyone who has owned at least 5% of shares for any 3 continuous years – changed from a requirement of 3 out of the previous 5 years. But this has not been extended to passive investors.

Ibec reaction

- The costs of high levels of unemployment, both in social terms and to the Exchequer, is unsustainable and can leave damaging scars on our labour market and society. A further €100 million has been committed to skills and higher education funding to deal with demand pressures arising.
- It is welcome to see policymakers building on the lessons of the last crisis and deliver commitments of increased supports and new labour market activation programmes to support jobseekers.
- Moves on SME taxation must be weighed against funding for equity support but are disappointing overall. The review of the EIIS in the context of the Finance Bill will be important.

**Ensuring our
inward and
📍outward FDI
model remains
competitive**

What's been announced?

- Longstanding commitment reaffirmed to the 12.5% rate along with an update on Ireland's corporate tax roadmap.
- Knowledge Development Box will be extended to the end of 2022
- Amending all intangible assets acquired after today will be in the scope of balancing charge rules.
- An additional, €40 million in funding for the IDA Regional Property Programme & Covid Life Sciences Products Scheme
- Tax credit for digital gaming sectors from Jan 2022 onwards – along the lines of existing film tax credits
- Interest limitation and anti reverse-hybrid rules will be introduced next year as planned.

Ibec reaction

- As has been customary, a renewed commitment to the 12.5% regime was a welcome part of the Budget speech.
- Other changes are more limited with funding increases for the IDA, extension of the KDP and a tax credit for the games sector are welcome.

**Improving
quality  of life
and the low

carbon transition**

What's been announced?

- Carbon tax to increase by €7.50, to €33.50 per tonne. This increase applies to auto fuels with immediate effect, while the increase on other fuels, including home heating oils is deferred to next year.
- €500m in additional spending on building social and affordable housing including delivery of 9,500 new social housing units in 2021. €100m is allocated towards the deep retrofitting of existing housing stock.
- A more stringent standard for evaluating car CO2 emissions, on which Vehicle registration tax is calculated, is being adopted from January 2021. This is likely to increase the emissions ratings and so VRT of many cars.
- Extension of additional Help-to-Buy measures introduced in July out to the end of 2021
- Minimal changes have been made to income tax rates and bands, only to reflect changes in the National Minimum Wage.
- The Accelerated Capital Allowances scheme for energy efficient equipment has been extended for a further 3 years.

Ibec reaction

- While the twin challenges of Covid-19 and Brexit may take centre stage at the moment, if left unaddressed, climate change and difficulties in the housing market will remain long after the current crisis has passed.
- Ibec therefore welcomes the commitment to significantly increase the stock of social and affordable housing.
- The implementation of the carbon tax increase and extension of supports for energy efficient equipment are positive developments to ensure that Ireland can meet its commitments under emissions targets and move towards a sustainable, low carbon future.

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