TUARASCÁIL ón gComhchoiste Fiosrúcháin i dtaobh na Géarchéime Baincéireachta

An tAcht um Thithe an Oireachtais
(Fiosrúcháin, Pribhléidí agus Nósanna Imeachta), 2013

REPORT of the Joint Committee of Inquiry into the Banking Crisis

Houses of the Oireachtas
(Inquiries, Privileges and Procedures) Act, 2013

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THEME: R5

Clarity and effectiveness of the Government and Oireachtas oversight and role

LINE OF INQUIRY: R5c

Analysis of the key drivers for budget policy

Programme for Government 2007-2012

This Programme for Government sets out in clear and ambitious terms our shared vision for Ireland's development over the coming five years.

The hard work of Irish people has helped to create a dynamic society and a strong economy. This Government will work with the Irish people to safeguard the gains made, and to build a strong and sustainable nation for future generations.

We believe that the contents of this Programme will act as a blueprint for the next five years. It addresses the major challenges which we face, and sets out how these challenges can be addressed and overcome. Working with energy and commitment, we believe that Ireland can now turn the challenges we face into opportunities.

Time and again the Irish people have shown their ability to succeed despite adversity, and to adapt to achieve their goals.

Areas of particular importance include:

- rolling out infrastructure nationwide,
- combating climate change, and
- delivering a fully modern, patient-centred health service.

These are areas upon which we will place particular focus, and areas where we have ambitious plans that will be delivered during the lifetime of this Government.

Along with addressing the major challenges that we now face, we are more mindful than ever, that all of our shared ambitions must be matched by a strong and growing economy. This Government will ensure that Ireland's economic success over recent years is continued and strengthened.

We believe that this Programme of Government is one which every Irish person can be proud of. It provides a clear direction for the country, and will deliver a stronger, more caring and environmentally sustainable Ireland for generations to come.

Bertie Ahern T.D.
Leader of Fianna Fáil

Trevor Sargent T.D.
Leader of the Green Party

Mary Harney T.D.
Leader of the Progressive Democrats

The Economy

Long-term responsibility is the foundation on which the new Government's economic policy is built. We must accept the reality that Ireland cannot and must not compete on the basis of low wages. If we are to compete effectively and in a sustainable way, we will have to do so through even greater competitiveness in knowledge-driven industries.

Our guiding economic principles for the next five years are:

- We will aim to achieve further significant, sustainable growth with our programme based on an aver age growth rate of 4.5%.
- We will operate a responsible fiscal policy characterised by broad budget balance and a declining debt burden.
- We will deliver the *National Development Plan* in full, on time and within budget to raise our productivity, to enhance our competitiveness and to secure our future prosperity.
- We will invest in increasing the productive capacity of the economy, particularly in terms of ensuring high-levels of high-quality employment.

Budgetary Policy

Our guiding principles for fiscal policy for the next five years are to:

- Keep the budget in broad balance and fully within our commitments under the Stability & Growth Pact.
- Retain the flexibility to deal with any future shocks.
- Set aside a minimum of 1% of GNP per annum to provide for the future pensions of today's workers.
- Implement a series of significant and sustainable increases in key public services such as pensions, health and schools.
- Keep the overall tax burden low and implement further changes to enhance the rewards of work while increasing the fairness of the tax system.

Building the Public Wealth

Once our current prosperity is safeguarded, policy must seek to build for the future by raising our productive capacity and in so doing improve our potential to enjoy a better quality of life. That is the context in which the new *National Development Plan* was framed. With a total cost of €184 billion over seven years, the Plan involves a major acceleration of Government capital investment.

We believe that the full implementation of the NDP must be the first priority of this administration. The NDP will make our economy and our society stronger and will substantially increase the probability that our good fortune will benefit future generations. It will protect and sustain our prosperity, not threaten it.

Ireland is now an income-rich country. However, we are still poor in terms of our public wealth due to decades of under-investment in infrastructure. To correct this imbalance, we have committed to investing 5.4% of GNP in public infrastructure through the NDP. This will be implemented through a coordinated, multi-annual programme which is subject to rigorous value for money and quality oversight.

Through sound management of the economy, we will ensure that this resource commitment is maintained over the lifetime of the Government. Closing the infrastructure gap as expeditiously as possible has significant benefits and will enhance quality of life and economic competitiveness for generations to come. We will deliver

the public infrastructure which this country needs if it is to sustain and consolidate the gains of the past decade.

Competitiveness and Innovation

Ireland's future prosperity is critically dependent on our ability to trade with the world. The Government will underpin Ireland's success as a highly-productive, trading nation by the following measures:

- Through the *National Development Plan*, we will invest over €8.2 billion in Science, Technology and Innovation. This investment will transform the type of R&D and innovation taking place across our enterprise sector.
- Our ongoing investment in education and training will ensure that our workforce is equipped with the necessary skills to enhance our productivity and competitiveness.
- Under *Transport 21*, our national infrastructure will be overhauled and upgraded with positive consequences for business costs and productivity.
- We will instigate a review of the entire economic regulatory environment. This review will be designed to ensure that the existing regulatory regime is operating efficiently, is balancing the needs of users with the requirements of producers and is not imposing excessive costs on the economy.
- Recognising the importance of small business to our economy, we will continue to support and enhance the Business Expansion and Seed Capital Schemes.
- We recognise the vital role played by low taxes in our economic success. We guarantee that the 12.5% rate of corporation tax will remain.
- We will resolutely oppose any attempt to introduce tax harmonisation within the European Union, either directly or through technical measures.

Ireland's dynamic and flexible economy will continue to be one of the most attractive locations in the world to invest, to employ and to do business in.

A Fair Tax System

Subject to the controlling economic and fiscal framework, the Government will implement the following specific approach to tax:

- Our first priority remains low and middle income earners – therefore our first task will be to use tax credits and bands to keep low income earners out of the standard rate band and average earners out of the higher band.
- PRSI, as currently devised, is not a fair tax as it is not levied on incomes above €48,800. Consequently, it is most lightly borne by those on the highest incomes. To eliminate this inequity, we will abolish the PRSI ceiling for full rate payers and reduce the rate at which this tax is levied from 4% to 2% over the lifetime of the Government. We will also reduce the rate of PRSI paid by the self employed to 2% from 3%. These moves will eliminate the remaining inequality in the income tax system and enhance its progressive nature. The Social Insurance Fund will be reimbursed by the Exchequer for the cost of this reform.
- Once these commitments are met, any additional resources will be targeted at further enhancing the rewards of work. Specifically, we are committed to reducing the standard rate of income tax to 18% and the higher rate of income tax to 40% over the lifetime of the Government if economic resources allow.
- We will introduce measures to further weight VRT and motor tax in favour of cars with lower emissions.
- Appropriate fiscal instruments, including a carbon levy, will be phased in on a revenue-neutral basis over the lifetime of this Government.

Commission on Taxation

In order to review the efficiency and appropriateness of the Irish taxation system, the Government will establish a new Commission on Taxation. While the Commission will have a wide remit to consider the structure of the taxation system, it will be specifically charged with considering and making recommendations on the following:

- Examine the balance achieved between taxes collected on income, capital and spending and report on it.
- Review all tax expenditures with a view to recommending the discontinuation of those that are unjustifiable on cost/benefit grounds;
- Consider options for the future financing of local government;
- In the context of maintaining a strong economy, investigate fiscal measures to protect and enhance the environment including the introduction of a carbon tax.

Value Added Tax

The current VAT classifications will be examined with a view to reducing the rate of VAT applied to certain environmental goods and services from 21% to 13.5%.

Supporting Home Ownership While Protecting House Values and Jobs

We are determined to help first-time buyers directly and substantially without disturbing market conditions, driving increases in house prices, and putting the more than 260,000 construction jobs at risk.

We will legislate immediately to abolish stamp duty for all first-time buyers and make this change retrospective for all deeds presented for stamping to the Revenue Commissioners on or after 30th April 2007. We will also implement major changes in mortgage interest relief for first-time buyers and those who bought a house in the past seven years. We will increase in Budget 2008 the ceiling on mortgage interest relief for first-time buyers and those who bought a house in the past seven years, from €8,000 to €10,000 for single people and from €16,000 to €20,000 for couples or widowed persons. As income tax rates are reduced, we will keep the rate of mortgage interest relief at 20% for all home owners.

Keeping Ireland Working

We are committing ourselves as a Government to a coordinated series of steps to support the creation of 250,000 jobs over the next five years.

Guiding Principles

Our policies to achieve this target will fit within a key set of principles:

- Keeping taxes on employment low.
- Investing in research and development.
- Significantly upskilling the Irish workforce at all levels.
- Developing a growing focus on the dynamic SME sector.
- Where possible reducing the regulatory burden faced by business.
- Ensuring that employment standards are met throughout the economy.

Tax and Regulation

This Government will:

- Ensure that our regulatory framework remains flexible, proportionate and up to date.
- Keep Ireland's Corporation Tax at its current level at most and veto any EU proposal which might undermine this.
- Continue to enhance the Business Expansion Scheme and the Seed Capital Scheme.
- Examine measures to limit the ability of local authorities to impose punitive charges on local businesses.
- Implement procedures to ensure direct feedback from business on regulatory burdens and publish annual reports on how these issues have been addressed.

Small & Medium Enterprises

There are over 250,000 small businesses operating across the country, which employ a total of over 800,000 people or 40% of the workforce. This number is growing – businesses up by 50% and employment by 79% in recent years. We are committed to helping SMEs grow, to become more knowledge-based and to be a key driver of future success.

This Government will:

- Encourage financial institutions to provide European Investment Fund guaranteed loan finance to small businesses.
- Continue to enhance the Business Expansion Scheme (BES) and the Seed Capital Scheme (SCS) following on from changes introduced in Budget 2007.
- Make Innovation Vouchers available to small businesses in every sector, to be exchanged for advice, expertise and information from accredited knowledge providers. This will build on the initiative taken this year when Ireland became only the second country in Europe to introduce this scheme to help small businesses.
- Actively encourage more "Competence Centres" which will bring together companies that have similar research problems and team them with highly qualified researchers to produce new technologies, bring their results to market and deliver a competitive advantage to Irish industry.

Executive Summary

During the Celtic Tiger boom Ireland experienced a phenomenal growth in property construction and house prices. Construction became a major component and driver of the Irish economy. Both development and its underlying finances were allowed to become massively over-extended, creating an enormous property bubble. Rather than the much hoped for 'soft landing', the bubble popped in spectacular fashion leading to a radical transformation of the property market, with tumbling house prices and widespread negative equity, and a collapse in construction activity.

Government has two principle levers through which it can seek to regulate property development. The first is through fiscal policy with respect to regulating access to credit and determining taxation rates. The second is through planning policy and the zoning of land and the granting of planning permissions. Explanations of the Irish property bubble have focused almost exclusively on the former, and the role of the banks, tax incentive schemes, and the failures of financial regulators. **To date, the role of the planning system in creating the property bubble has been little considered.** And yet, the banks could have lent all the money they desired, but if zonings and planning permissions were not forthcoming then development could not have occurred in the way that it did.

As well as a catastrophic failure in Ireland's banking and financial regulatory system, **there has been a catastrophic failure of the planning system**. In a housing boom planning should act as a counter-balance to the pressures of development in order to maintain a stable housing market and try to prevent boom and bust cycles. Planning should provide checks and balances to the excesses of development and act for the common good, even if that means taking unpopular decisions. However, during the Celtic Tiger period a laissez-faire approach to planning predominated at all levels of governance that was insufficiently evidence-informed with respect to long-term demographic demand, market conditions and issues of sustainability, and which marginalised and ignored more cautious voices. Both the fiscal and planning levers of development were overly pro-growth. As a result, not only was there an unsustainable growth in property prices, but this was accompanied by a property building frenzy that led to a significant oversupply of housing (as well as offices, retail units and hotels) in almost all parts of the country. The level of over-

development that has occurred will take years to correct and seriously hamper the recovery of the housing market and the operation of NAMA. Indeed, **there are legitimate questions as to whether NAMA can succeed** in its aims over its intended life-span.

It is our contention that an independent review of the operation of the planning system during the Celtic Tiger years be undertaken to consider fully the role of planning in the creation of the property bubble, similar to the Honohan (2010) and the Regling and Watson (2010) reports on banking and financial regulation. The review would examine planning policy formation and application, and the organisation, operation and regulation of planning within and across different agencies and at all scales in Ireland. It would investigate all aspects of the planning system and its operation, including charges of localism, cronyism and clientelism where appropriate. The inquiry should not take the form of a witch hunt or a blame game, but rather constitute a systemic review of how the planning system failed to counter and control the excesses of the boom and provide a more stable and sustainable pattern of development.

In this working paper, we examine the creation of 'a haunted landscape' – the recent boom and the bust of the Irish housing market, and the creation of a new phenomenon, 'ghost estates'. We draw on and analyze numerous different government and industry datasets to provide a rigorous evidence base for our conclusions. **What the data reveal is a pattern of development that ran counter to what one would have expected or hoped for - those local authorities that had the most vacant stock in 2006, subsequently built the most new housing, now have the highest surpluses of stock, and have the most land zoned for future use.** Essentially, a number of local authorities did not heed good planning guidelines and regional and national objectives; conduct sensible demographic profiling of potential demand; or take account of the fact that much of the land zoned lacks essential services such as water and sewerage treatment plants, energy supply, public transport or roads. Instead, permissions and zoning have been facilitated by the abandonment of basic planning principles by elected representatives on the local and national stage and driven by the demands of local people, developers and speculators, and ambitious, localised growth plans framed within a zero-sum game of potentially being left behind

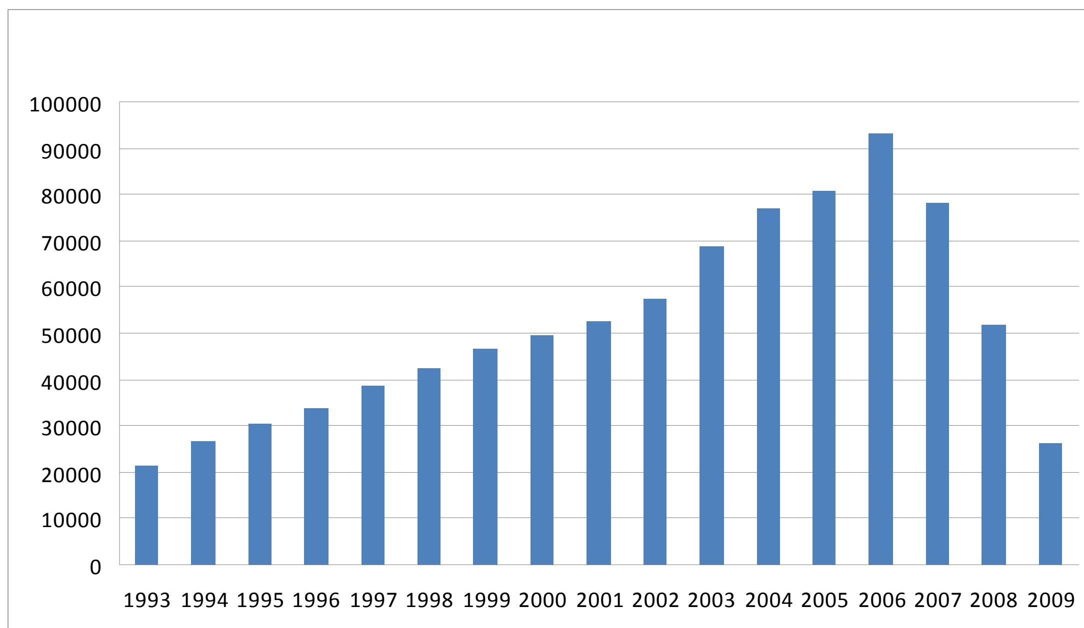
with respect to development. Further, central government not only failed to adequately oversee, regulate and direct local planning, but actively encouraged its excesses through tax incentive schemes and the flaunting of its own principles as set out in the National Spatial Strategy through policies such as decentralisation.

Rather than simply describe what has occurred with respect to housing development over the past twenty years, we seek to provide a detailed explanation of why the bubble was created and the effects of it bursting. We also provide a critique of the government's response to the crisis, and in particular the creation of NAMA. We suggest that seven key issues will need to be addressed before consumers regain confidence, property prices bottom out, and the housing market starts to function properly. First, supply and demand will need to be harmonized. Second, there has to be a sustained growth in the economy with an associated fall in unemployment. Third, house prices have to align more closely to average industrial earnings. Fourth, affordable credit has to be available for first time buyers and those trading up. Fifth, the uncertainties concerning NAMA and its operation have to dispelled, especially since it will be controlling a sizable share of property and land. This necessitates full transparency of the agency's workings and the assets it is managing. Sixth, consumers have to be satisfied that the banking crisis is truly over and that financial institutions are properly regulated. Seventh, substantive changes need to occur in the planning system to ensure that it works for the common good and produces sustainable development.

Our analysis suggests that there is little need for housing development in the state in the immediate future beyond selected social housing provision. This is not to say that this is no requirement for construction, however. Where construction could be fruitfully undertaken is with respect to public facilities such as schools and hospitals, public transport, roads, energy and broadband infrastructure. Such a targeted capital investment could, on the one hand, stimulate the economy in terms of employment and investment and provide multiplier effects across the private sector and, on the other, provide worldclass infrastructure to facilitate and encourage indigenous growth and inward investment. Any such investment should align with the National Spatial Strategy and National Development Plan and be delivered through a rigorous, responsible and sustainable planning system.

A key factor driving down house and land prices is not simply a lack of confidence or difficulties in accessing credit, but a marked oversupply of housing stock and zoned land. Ireland was in the middle of a building and land speculation frenzy when the crisis initiated. The DEHLG records that there were 88,419 housing completions in 2006 (recorded as 93,419, but 5,000 were delayed reporting from 2005; see Figure 9). This high level of production continued into 2007 (78,027 units), slowing dramatically in 2008 (51,724 units) and 2009 (26,420 units). All told, there were 244,590 units built between January 2006 and December 2009 (that were connected to the ESB electricity grid) (datasheet 3). This is despite the fact that in April 2006, the Census revealed that 266,322 housing units were unoccupied (216,533 vacant units and 49,789 holiday homes; 15% of stock; datasheet 11). The result was a significant volume of property coming onto an oversupplied market at a time when it was at first softening and then outright plummeting. According to irishpropertywatch.com in May 2010, 112,506 housing units were for sale in Ireland (both new and secondhand) and another 20,463 available for rent. Given the oversupply and the flat market, planning permissions granted were down 63.9% in 2009, housing registrations are down 95% since their peak in September 2006, and housing commencements are down 90% on their peak in 2005 (DKM 2010).

Figure 9: House completions in Ireland, 1993-2009



Source: DEHLG

(N.B. 5000 of the completions recorded in 2006 were completed in 2005)

What Figure 11 illustrates is that house building in Ireland was running counter to what one would expect given the vacancy rate. Those counties that had the highest rates of vacant stock in 2006 subsequently increased their housing stock by the greatest percentage in the following years, and those counties with low vacancy, increased their stock the least. For example, Longford with a vacancy rate in 2006 of 20.6% (excluding holiday homes) increased its housing stock by 22% between April 2006 and December 2009 from 15,868 units to 19,352 units, and Leitrim with a vacancy rate in 2006 of 21.5% (excluding holiday homes) increased its housing stock by 19.3% between 2006 and 2009 from 15,284 units to 18,229 units (datasheet 13, datasheet 14). To put that in context, in the ten years between 1996 and 2006, the number of households in Longford increased by 28.9% (from 8,410 to 12,134) and in Leitrim by 27.4% (from 8,374 to 10,672) (datasheet 14). The house building rate between April 2006 and December 2009, if continued for a ten year period, would have catered for a household increase of 59.9% in Longford and 52.6% in Leitrim. In other words, both counties were building approximately twice what would have been required assuming household numbers increased at the 1996-2006 rate, and that does not take into account vacancy rates.

What is revealed in Figure 11 are the effects of Upper Shannon Rural Renewal Scheme, inaugurated in June 1998, with Longford, Leitrim, Cavan, Sligo and Roscommon all being major beneficiaries of this tax incentive programme (see Figure 18). In total, these five counties increased their housing stock by 45,053 (49.8%) between 2002 and 2009, from 90,491 to 135,544 dwellings, with 1 in 3 houses built in this period (datasheet 23). Between the 1996 and 2006 censuses 30,695 houses were built in these counties and yet household numbers only grew by 18,896 – in other words, house building was progressing at a pace well in excess of household growth. Figure 12 illustrates the effect of the scheme on house building, with a dramatic rise in the number of units being completed, especially in period 2003-2007. In short, whilst the programme sought to 'encourage people to reside in the area and to promote new economic activity' (Dept of Finance 1999), it completely distorted the usual pattern of house building, and has led to a large oversupply of housing stock.

Collectively, the data we have presented in this section demonstrate that housing and land supply and household demand became uncoupled from early on in the Celtic Tiger era and progressively grew further apart. This is abundantly clear from comparing housing completions with household growth between 1996 and 2006. While 553,267 housing units were built between January 1996 and December 2005, the number of households grew by only 346,400 between April 1996 and April 2006. An additional 244,590 units were built between January 2006 and December 2009, and yet the number of households did not increase by anywhere near the same amount. The number of households in June 2008 was 1.58m (CSO 2009d), up 110,000 from 1.47m in April 2006, and growth is presently thought to be static or falling given rising emigration. All through the boom years the vacancy rate was rising - in 1996 the rate was 8.5%, in 2002 it was 9.8%, and in 2006 it was 15% (includes holiday homes). The 2006 rate is double the EU average rate of 7.3% (skewed upwards by Spain, Portugal and Ireland) and is way in excess of what one would expect as an acceptable base rate (3-4%). Even accounting for obsolescence and replacement, and holiday homes, it is obvious that there is presently a wide disparity between the total stock of housing and the number of households (in December 2009, Geodirectory reported that there were 1.98m residential units in the state).

5. Ghost Estates

One result of housing supply being out of sync with housing demand has been the creation of a new phenomenon, so-called 'ghost estates'. We have defined a ghost estate as a development of ten or more houses where 50% of the properties are either vacant or under-construction. Using that definition we have analyzed the Geodirectory database in order to identify all properties built post-2005 where 10 or more units share the same estate/street address and more than 50 percent are coded as either vacant or under-construction. We have then undertaken a ground-truthing exercise using two methods. First, we have cross-checked the results with house sale websites such as daft.ie and myhome.ie. Second, we have visited 60 of the estates in three locations (South Dublin/Kildare, South Leitrim/North Roscommon, Cork City and county) to verify their status. It is important to note that ghost estates vary markedly in their condition, from sites that are 100% under-construction through to completed estates that are finished and fully serviced (see Figure 15).

Figure 15: Example ghost estates

The total number of ghost estates developed post-2005 identified by this method is 620, and includes 19,262 units, 11,670 of which are vacant and 3,823 are under-construction (with average vacant/under-construction rate of 80%). There are 86 estates with more than 50 properties (of which more than 50% are vacant/under-construction), 252 with between 21-50 properties, and 282 between 10-20 properties. Having driven round the towns we visited it is clear to us that our method under-counts ghost estates, most probably because the Geodirectory database under-records vacancy and under-construction as they have to maintain this status for quite a while to be coded as such and they are still engaged in a rolling process of identifying vacant properties. There is some noise in the data because they are only collected twice a year in urban areas and once a year in rural areas, meaning that units in some estates will have been sold, although in the vast majority of cases this does not move them under the 50% threshold. The number of estates would certainly increase if we were to change the parameters down to a 30% vacancy/under-construction rate, depending on how we want to define a ghost estate.

As Figure 16 reveals, there are multiples of ghost estates in every county in the state. Simply detailing the number of estates per county, however, can give a false impression because it takes no account of the size of the overall population (datasheet 24). Whilst Cork County (not including the Cork City area) has 90 ghost estates, it had a population of 361,788 in 2006. Leitrim has 21 estates, but a population of 28,950. We have therefore standardised the number of estates by per 1,000 head of population (see Figure 17). Leitrim (21 estates), Longford (19) and Roscommon (35) have a particularly high ratio of estates per head of population, indicating that these estates constitute an oversupply in the market. This is perhaps unsurprising given that it was these counties who built the most properties in relation to their overall stock and vacancy levels between 2006 and 2009 (see Figure 11). These are followed by Sligo (24), Cavan (21), Monaghan (18), Carlow (15), Cork County (90), Tipperary North (16), Kilkenny (21), Westmeath (18), and Laois (15). Whilst some estates are vacant holiday home developments, they nevertheless are presently surplus to demand and are unlikely to be purchased in the short term whilst the market is still trying to find its bottom.

Figure 16: Post-2005 ghost estates in Ireland

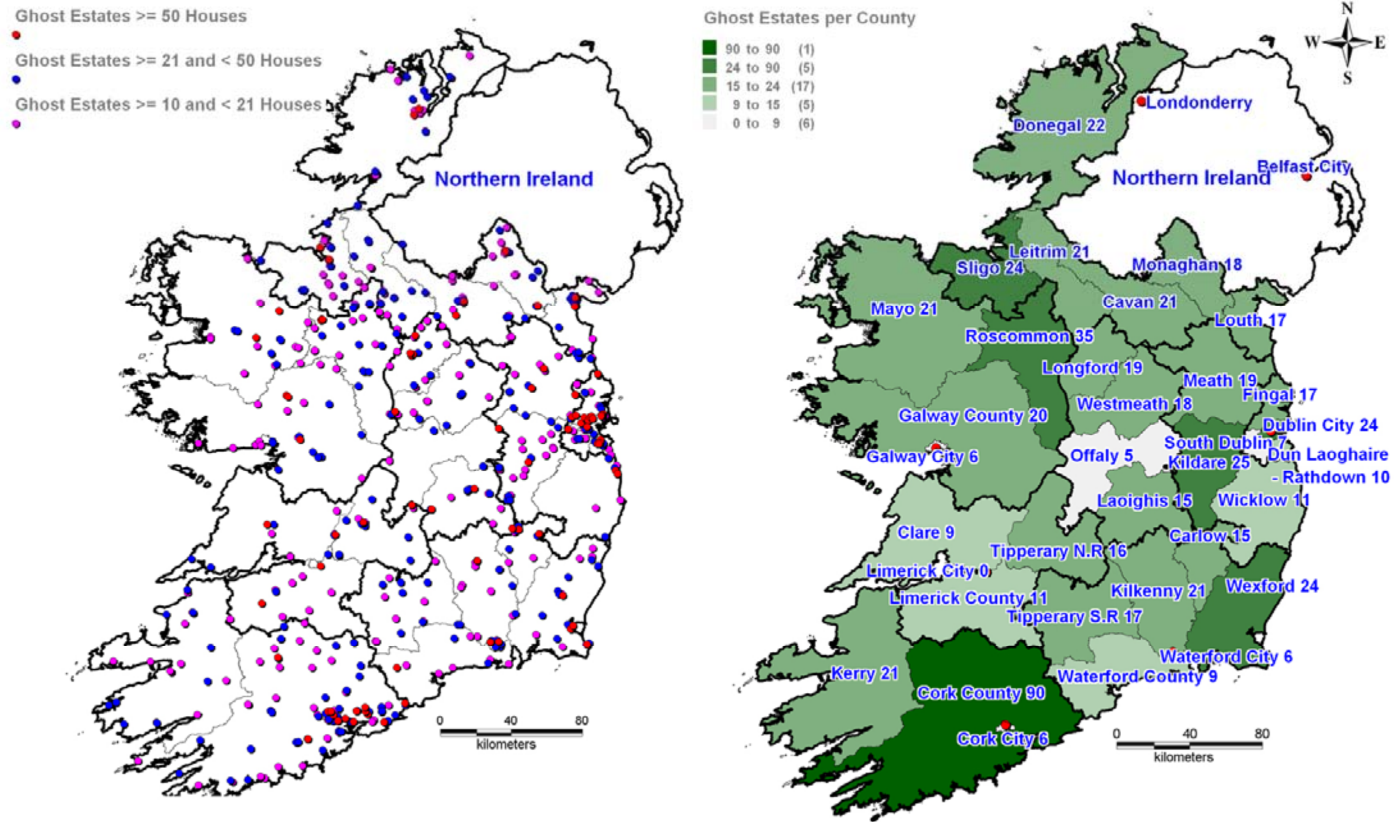


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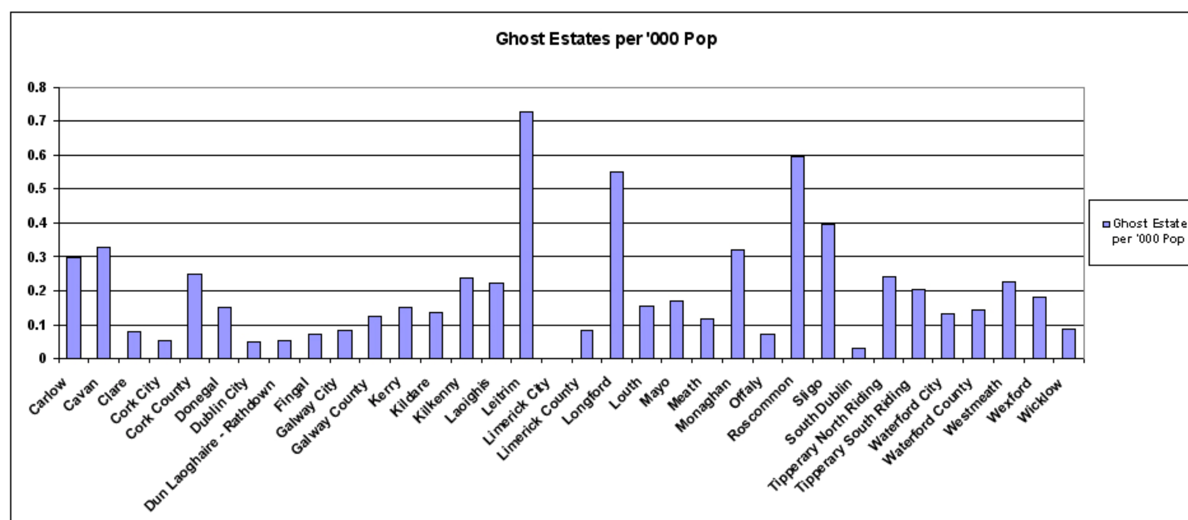
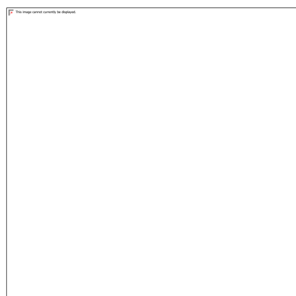
Figure 17: Ghost estates per county by head of population



The presence of these estates in the Irish landscape raises some difficult questions. Whilst demand for housing might return relatively quickly in urban areas when the economy picks up, and such estates might be used to deal with the social housing waiting list, it is likely that demand driven by demographic change will be weak in rural counties given that recessions generally lead to rural out-migration and slower recovery. It therefore seems likely that many properties in rural areas will remain empty for quite some time (as noted in our model, Table 2, this could be over 10 years in some locations). Demographic forecasts would suggest population growth will occur over the long term in Ireland, and one would anticipate population levels to rise in the future in both rural and urban areas. There are questions, however, as to whether the houses built in rural areas, in particular, will be fit for purpose by the time the market returns. In the meantime, for those residing on such estates there are clearly social and economic concerns about living with few neighbours and/or on estates that are abandoned construction sites, with no street-lighting, pavements, or finished green areas, often in locations that lack amenities, services and public transport, and owning houses that are massively in negative equity.



AN AGREED PROGRAMME FOR GOVERNMENT

BETWEEN

FIANNA FÁIL AND THE PROGRESSIVE DEMOCRATS

June 2002

Section 2

Sustaining a Strong Economy

BUDGETARY & ECONOMIC POLICY

Fianna Fail and the Progressive Democrats are committed to sustaining economic growth and maintaining full employment in the Irish economy. We see low inflation, responsible fiscal policies and effective investment policies as central to this.

- We will keep the public finances in a healthy condition and we will keep down personal and business taxes in order to strengthen and maintain the competitive position of the Irish economy.
- Within these constraints we will concentrate the resources available to us on improving the quality of public services and delivering further real improvements to pensioners and people on low incomes.

Public Expenditure

- The EU Stability and Growth Pact provides the overriding framework for our budgetary policy.
- Under the pact Ireland has given a sovereign commitment to keep the finances of general government close to balance or in surplus and to take corrective action when there is an actual or expected divergence from this objective. Fianna Fail and the Progressive Democrats will respect this commitment.

Taxation

- Fianna Fail and the Progressive Democrats have delivered dramatic reductions in taxation over the last five years.
- This policy has helped to generate unprecedented growth in the Irish economy, a spectacular increase in the number of people at work and the effective elimination of long-term unemployment.
- The parties remain committed to the achievement of the taxation objectives set out in Action Programme for the Millennium. Over the next five years our priorities with regard to personal taxation will be:
    - to achieve a position where all those on the national minimum wage are removed from the tax net, and
    - to ensure that 80% of all earners pay tax only at the standard rate.
    - to use the potential of the tax credit system to effectively target changes and to pursue further improvements in the income tax regime if economic resources permit.
- We will complete the reduction of the standard rate of corporation tax to 12.5% in 2003.
- We will increase Capital Gains Tax exemption limits.
- We will examine the tax treatment of share options.
- We will keep down taxes on work in order to ensure the competitiveness of the Irish economy and to maintain full employment.
- We will vigorously pursue actions to ensure that that everyone is tax compliant.

Delivering Major Capital Programmes

- Fianna Fail and the Progressive Democrats will address Ireland's infrastructural deficit in a coherent and determined way over the next five years.
- We believe that new methods of financing major capital programmes are required. These must take account of the need to maximise efficiency, delivery, value for money and appropriate risk transfer across complex multi-annual programmes.
- We will establish under the auspices of the NTMA a National Development Finance Agency (NDFA) to finance major public projects and to evaluate financing options for PPP projects. This vehicle may finance both commercial and non-commercial type projects.
- The NDFA will enable the government to apply commercial standards in evaluating financial risks, costs and options associated with projects thereby ensuring that the best financing package is availed of in each instance. The NDFA may compete with, but will not substitute for, private financing of PPP projects but will be an additional mechanism to be used in the context of achieving value for money and risk transfer in PPP projects.
- Where significant once-off revenues accrue to the state through, for example, the sale of assets or the restructuring of the Central Bank, we will use these revenues to create a National Transformation Fund. This fund, which will be managed by the NTMA, will be used to finance multi-annual infrastructural development programmes.

EMPLOYMENT AND ENTERPRISE

The huge increase in employment and fall in unemployment which has been achieved in recent years cannot be taken for granted. Work is still required to protect employment levels and to expand both the distribution and quality of opportunity throughout the country.

- We will encourage and support multinational and indigenous firms to develop higher productivity and knowledge-based activities which are likely to be retained during periods of global rationalisation.
- We will encourage a better spread of jobs throughout the country.
- We will carry out a fundamental review of training and employment supports to ensure that they focus on the needs of the most marginalized and disadvantaged groups to help them to progress to the open labour market.
- We support the positive role of the Community Employment Scheme to meet the needs of both the long-term unemployed and communities.
- We will seek to ensure that new social economy projects are effectively targeted at areas which have traditionally had a high dependence on Community Employment Scheme.
- We will introduce new supports for those experiencing or likely to experience severe employability barriers. This will involve a training fund of up to €2,500 per person.
- We will extend the Employment Action Plan preventative strategy to all persons on the Live Register for longer than 6 months.
- FÁS will engage with redundant workers and people facing the prospect of long-term unemployment to ensure that the period out of work for a substantial number of people is kept to a minimum.
- We will give a fresh impetus to the important role of small business in Ireland and ensure that the interests of small business are taken into account in formulating and implementing policies that impact on the enterprise sector.
- We will seek to resolve potential issues, difficulties and conflicts in the spirit of social partnership.

Financial Statement

of the

Minister for Finance

Mr Brian Cowen, T.D.

1 December 2004

STATEMENT OF THE MINISTER FOR FINANCE

MR BRIAN COWEN, T.D.

1 DECEMBER 2004

Opening Remarks

I am very honoured to introduce this my first Budget to the House. In doing so I pay tribute to my predecessor who made a major contribution to this country's sound budgetary position and who has left us a lasting legacy in this regard.

While this is my first Budget as Minister for Finance, it is not the first time I have been involved in the budgetary process. Any Budget should reflect Government policy and the economic realities of the time, as well as the economic and social demands of the future. The Budget is an initiative of Government as a whole and not simply the work of the Minister for Finance.

By another measure, this is my 21st Budget. I was first elected to this House in 1984 and I have observed the Budget from the backbenches, from the opposition benches and from my position in different Government Departments. In framing this Government's Budget, I have been influenced by what I have observed over that period.

I will spare this House any history lesson on the events since my first Budget experience sitting on the benches opposite me. Six Governments and six Ministers for Finance later, our economy has been completely transformed. With that transformation has come some dramatic improvements in society. We have made great strides towards becoming a vibrant, pluralist and modern European country. That has not all been achieved by our economic growth, but it is this economic progress that underpins much of what we now enjoy.

All of this progress is not without challenge. Government has a responsibility to ensure that the benefits of our economic performance permeate society as a whole. Proper budgetary policy involves careful evaluation and our task is to put together an economic model that builds a society of which we can all be proud.

This is the context in which the Budget is framed. Our economic strength must be protected as it gives us the leverage to create wider social reform. I will build on the progress we have already made in this and my next two Budgets in an effort to meet the needs of the people and to deliver on this Government's programme.

These changed times bring fresh challenges. Recent successes give us more opportunities and widen the scope for new policy approaches.

This, therefore, is a Budget for the Irish people as a whole. A Budget that will:

- protect and increase jobs in a more competitive business environment
- build up and modernise our economy through major capital programmes
- distribute the fruits of growth to all our people through better services and a fairer sharing of resources, and
- redouble our efforts to help those most in need, particularly those with disabilities.

Good Government and sound policies created these opportunities and good Government will ensure that we succeed in addressing the needs of all our people going forward.

Good Government does not mean responding blindly to headlines or being pressured into half-responses. It means sensible policies, soundly-based, with realistic, achievable and prioritised targets.

A single Budget cannot achieve all that we desire nor should it try to do so. There are always risks to the economic outlook, especially in a small and open economy such as ours. Therefore it is important to take into account the unpredictable nature of our economic environment. The ordinary taxpayer knows that this makes sense. I hope that they will recognise the firm resolve of this Government to secure their welfare now and for the future.

Budgetary targets

We are determined as a Government to meet the priorities we have set ourselves. To make progress in doing so we are setting the following budgetary targets for 2005:

- an allocation of almost €45 billion for gross spending on public services, or 9.1 per cent more than in 2004
- an Exchequer Borrowing Requirement of just under €3 billion or 2.3 per cent of GNP
- a General Government Deficit of 0.8 per cent of GDP, and
- a debt ratio of 30 per cent of GDP.

These targets seek to ensure that public spending growth is correlated with the growth in revenues, while keeping borrowing to a prudent level to fund priority investment needs. This approach will help contain inflationary pressures.

Economic Outlook

We are part of a single currency area where our partners will continue to keep inflation close to 2 per cent. We cannot determine the prices we can charge for our exports. International markets do that.

We must continue to compete, not just to sell our goods and services, but also to continue attracting foreign direct investment and creating high quality jobs. Economic competitiveness, therefore, remains critical to our future well-being.

The prospects for this economy are fairly positive for the next few years. If international growth holds up and if we do the right things, we have the potential to grow at around 5 per cent per year in real terms and to keep inflation in the 2 to 3 per cent range.

Of course, our economic situation also contains risks. The main question mark arises from the international economic situation, where answers to some questions are not so easy:

- how will oil prices fare? Last December few would have predicted that oil prices would reach $50 per barrel
- how will international exchange rates evolve?
- what will be the international policy response in terms of interest rates?

The answers to these questions and the response of the world economy will have a significant influence on our prospects going forward.

Assuming no major shocks arising from the risk factors to which I have just referred, we are forecasting for 2005 that:

- the Irish Economy will grow by 4.7 per cent in GNP terms and 5.1 per cent in GDP terms
- employment will grow by around 35,000
- unemployment will remain low at 4.4 per cent, and
- price inflation will come in at 2.5 per cent, close to the EU average.

Making factual comparisons with our EU counterparts, I think it is important to point out that:

- our rate of economic growth is more than twice the average in the Euro area
- our rate of spending increase in 2005 is three times the EU average
- our rate of public investment, at nearly 5 per cent of GNP, is almost twice the EU average
- our unemployment rate is half the EU average, and
- our debt burden is among the lowest in the EU.

Naturally, there are areas where we can do better and we will do so. But we should not be shy about our achievements either. I know from my time as Minister for Foreign Affairs that many of our colleagues in the EU would love to have our record. Many have beaten a path to our door to enquire how we did it. We did not achieve all this merely by chance. The actions of Government, in setting a sound economic and fiscal policy played a key role in achieving our current success.

In my view an Irish model for continuing growth should include the following elements:

- a coherent and equitable approach to public services and the economy, through social partnership

- better skills, training and education for those in a flexible labour force
- a low tax burden on activities that create and promote employment and on labour itself
- building competitiveness in all areas of the market, and
- an appropriate business environment that creates prosperity with the support of Government.

The reduction in the tax burden for all has formed part of this policy. But this did not mean a lessening of our commitment to spending on public services. Between 1997 and 2004, economic growth generated an extra €30 billion in annual resources for the State. Two thirds of this went to fund additional day-to-day spending. Some €4 billion has gone on additional public investment, and approximately €6 billion went towards tax reductions.

These are the facts. Lower tax rates and, in particular, the 12½ per cent corporation tax rate to which this Government is committed, have meant more revenue and economic growth. It is the revenues generated by economic activity which keep public services going, and not higher tax rates as some would have us believe.

Public spending

To demonstrate that point and to provide more public services and better infrastructure, this Budget means gross voted spending of almost €45 billion in 2005. This is over €3.7 billion more than in 2004. This increase reflects the sustainable growth in resources.

However, I wish to make it clear that we must maintain economic growth if we are to support our ambitions to make better provision for those in need in our society. Investing in a major capital programme increases our capacity to grow and is hugely important if we are to continue on this path.

Infrastructural investment/Capital envelopes

Last year we moved to a multi-annual programme for capital spending so as to plan more effectively for such large-scale spending. 2004 was its first year of operation. The multi-annual basis allows Departments to carry-over to the next year up to 10 per cent of the voted annual allocation to assist programme planning and delivery. The carryover from 2004 to 2005 is €237 million or 4 per cent of the 2004 voted capital allocation. I am providing €334 million in additional Exchequer capital for 2005. This will bring the total Exchequer cash available for capital spending next year to almost €6,300 million, or 20 per cent ahead of the 2004 cash outturn.

This means that for 2005-2009 we will maintain our high level of investment in infrastructure at nearly twice the European average. Total investment within the envelope over the next five years will be €36.3 billion, which is €2.7 billion more than last year's capital envelope. Further details are set out in the Budget Summary. I am making provision in these totals for the Government's decentralisation programme. This programme is moving forward. Considerable progress has been made and its implementation is well on track.

Developing capital envelopes further - Transport

The 2005-2009 capital envelope, as it is called, represents the total planned spend by all Departments. This includes almost €10.2 billion in respect of investment in transport infrastructure. The Government regards transport investment as particularly important for the promotion of competitiveness, sustainable economic growth and balanced regional development. We have seen many important projects coming on stream and starting to make a real difference. We know that more remains to be done.

Major capital projects in the transport sphere are multi-annual in nature involving long planning lead-times and substantial construction phases. Given this time consideration, and the scale of the projects and the investment involved, I have now agreed in principle with the Minister for Transport that an extended capital envelope of 10 years is more appropriate in the case of investment in transport. Proposals for such a 10 year investment will be submitted shortly for consideration by Government. I believe that this is a necessary development in forward-budgeting. It will afford the Government greater flexibility and clarity in planning and, most importantly, in delivering a 21st Century transport infrastructure for a 21st Century economy. It is my strong view that this is a new initiative which we must put in place if we are to position the economy to continue to grow and compete over the medium term.

Value for money for Capital Expenditure

I am extremely conscious of the need to optimise the value for money from the very significant levels of capital funding now in place and I am determined to take whatever action is required to bring this about. The multi-annual envelope system is designed to facilitate the objective of securing value for money through careful planning and implementation. My Department will also shortly be issuing to Departments revised guidelines on the appraisal and management of capital projects. Work is also continuing on changes in public sector capital project contracts to ensure that risk is transferred to those best able to manage and control it. These are practical and important steps in ensuring that the taxpayer gets better value for money in this area.

Public Private Partnerships

The Government is committed to developing the PPP process as a viable procurement option for appropriate projects. Progress has, however, been slow in some areas. The targets set last year for PPP projects funded by unitary payments from the Exchequer have been adjusted accordingly to reflect information currently available on the lead-in time required to bring projects to construction stage. This reflects the fact that, for various reasons, PPPs have been slower to get off the ground in some areas than was envisaged. We are actively examining how to resolve that issue going forward.

Taxation Policy

Ensuring a fair and balanced tax system is a priority for this Government. Our record testifies to the many key measures we have taken. These actions have:

- greatly reduced tax on the lower paid who now pay less than 6 per cent of the total income tax bill compared to 14 per cent in 1997

- eliminated unfair tax structures through the introduction of tax credits
- closed down abusive tax loopholes, and
- made sure individual reliefs focussed more on their essential purpose – encouraging jobs and investment.

The primary aim of our tax policy has been the use of the tax system to expand our economy, reward work and alleviate the burden on taxpayers especially for those on lower pay.

To continue to reduce the tax burden for those on lower pay I am making the following changes.

I am increasing the Employee Tax Credit by €230 to bring it to €1,270 per year. I am also increasing the personal tax credits by €60 single and €120 married to bring those to €1,580 and €3,160 per year respectively. This will benefit all workers and will ensure that all those on the minimum wage are fully outside the tax net.

As a result of these increases, over 650,000 of the 1.9 million income-earners will be exempt from paying tax on their earnings. It also means that for standard rate tax-payers an additional €1,450 per year, or almost €28 per week, is exempt from tax in the case of a single person, and €1,750 or almost €34 per week for married one-earners.

Given that it was not possible to widen the standard rate band over the past two years, I am now increasing it by €1,400 per year for all earners. A single person on the average industrial wage next year will pay 14 per cent or €11.50 per week less tax as a result of the changes in this Budget. There are also increases in the band for single and widowed parents. Altogether, 52,100 taxpayers will be taken off the higher rate of tax.

There are a number of specific tax reliefs in the tax system for the aged, the disabled and for widows. The income tax exemption limits for those aged 65 or over are being raised by €1,000 single and €2,000 married to bring them to €16,500 and €33,000 per year respectively. The other income tax changes I am announcing today, combined with this, will remove over 66,000 income-earners from the tax net. This includes 4,700 elderly who will be removed from the tax net.

The tax credit for an incapacitated child is being doubled to €1,000 per year. The blind person's tax credit is being increased to €1,000 single per year. The tax credit for a widowed parent in the first five years after bereavement is being increased by €200 in each year and the widowed person's credit is being increased to €400 per year.

Health Levy Threshold

The 2 per cent health levy currently applies to those earning over €356 per week. I am providing for a substantial increase in this threshold to €400 per

week, an increase of almost 12½ per cent. This will be of particular benefit to the 95,200 persons concerned.

The total cost of these income tax and levy changes in a full year is €682 million, more than double last year's total.

Tax Reliefs

The debate on tax reliefs has attracted much comment in recent weeks. In any such debate we must be clear which reliefs we are talking about. Firstly, many tax reliefs are in fact inherent in the tax system and others lessen the burden on taxpayers with specific payments or expenses. This is the case for example with mortgage interest relief, medical expenses relief and pension contributions.

Secondly, other normal reliefs allow for the expenses of business, such as depreciation, interest and accumulated trade losses. If they did not, the real cost to business of capital investment would not be provided for, and business and employment would suffer. One can limit the potential for abuse of these reliefs, as this Government has done, but it is not appropriate to eliminate them.

The great bulk of the €8 billion or so cost of the major tax reliefs generally referred to in recent public discourse falls into those categories which are used by ordinary taxpayers and businesses.

Finally, there are those reliefs included in the €8 billion which were designed to incentivise economic and social development. The annual cost of these reliefs has been tentatively estimated by the Chairman of the Revenue Commissioners in recent evidence to a Dáil Committee as in the order of €200 million per year.

These include the series of property reliefs which were introduced, broadened and enhanced by Governments of all shades in the past. This was done for good reasons at the time, to regenerate the economy and the many parts of our cities and towns which were affected by recession and had poor economic prospects. Such schemes and initiatives were not the preserve of just one particular Government. We can see clear examples of where they have succeeded, particularly in regenerating town and city centres and areas in need of development.

Despite supporting many of these reliefs, there are those who seem unhappy when people with the capacity to use them have in fact done so, which is not a consistent stance to take.

My aim is to seek to improve the equity of the tax system taking into account the social and economic benefit of reliefs in delivering investment in housing, enterprise, urban and rural renewal, tourism, films and health facilities. Because of the complex nature of this issue, the interaction of such reliefs with economic activity and the unintended consequences that untimely action may have for investment, I want to ensure that I take the time necessary to strike a

careful and considered balance in what I do. For the successful operation of such schemes and to achieve the common good, we need to ensure the right balance is achieved between the benefit to the investor and the good of the community.

I believe the time is now right to conduct a full review of these incentive reliefs, in particular to evaluate in detail their impact and how they are operating in practice. My preference is for a complete and comprehensive reform of the system rather than a piecemeal approach. For this reason, I have directed my Department, together with the Revenue Commissioners, to undertake a thorough evaluation of the effect of all relevant incentive reliefs and exemptions and to bring forward proposals which would achieve the balance I have referred to. I am now making it clear that I intend to include appropriate follow-up measures in next year's Budget.

Those using this particular group of reliefs, therefore, should realise that the concept of unlimited or unrestricted reliefs is no longer viable or acceptable to the general tax-paying public in current-day economic circumstances. I want to make sure that everyone makes an appropriate contribution to the State.

I wish to confirm to the House that the termination dates for various schemes laid down previously in this year's Finance Act remain unchanged.

I have no problem in maintaining justifiable reliefs and extending them, where appropriate, including in the particular cases that I turn to now.

Stamp Duty Relief for First-Time House-Buyers

I am very aware of the difficulties that many first-time buyers face in their efforts to get onto the property ladder. To assist first-time buyers of second-hand houses, I am providing today for a significant reduction in stamp duty for them. Full details are set out in the Budget Summary.

As a result of this, there will be no stamp duty on first-time purchasers of second-hand houses up to €317,500 in value and reduced rates on such purchases up to €635,000. This new exemption threshold is above the national average price for second-hand houses and is above what the average first-time buyer pays for a second-hand house anywhere in the State. Examples of the savings involved are given in the Budget Summary.

Rent Relief

I am conscious that those living in private rented accommodation also face costs. A tax allowance is currently available at the standard rate for rent payments of up to €1,270 per year for a single person under 55, and €2,540 per year for those over 55, with double the amounts for widowed and married persons. I propose to increase these to €1,500 and €3,000 per year respectively for single persons and €3,000 and €6,000 for married and widowed persons. I know that this substantial increase in tax relief will be welcomed by those living in rented accommodation.

This package includes guaranteed additional current spending of almost €600 million. The Government has also agreed to allocate €300 million out of the revised capital envelopes to which I referred earlier to these high-priority disability services. Further details are provided in the Budget Summary.

The bulk of the new funding package will go to the health sector where it will be invested in services for persons with an intellectual disability and those with autism, services for persons with physical or sensory disabilities and mental health services. It will focus, in particular, on the provision of extra residential, respite and day places, extra home support and personal assistance, and extra places in community based mental health facilities.

Together with the 2005 funding, it is estimated that, by the end of 2009:

- over 4,500 extra residential, respite and day places will be provided for persons with an intellectual, physical or sensory disability or autism
- about 600 persons with intellectual disability or autism will be transferred out of psychiatric hospitals and other inappropriate placements
- about 1.2 million extra hours of home support and personal assistance will be provided for persons with physical or sensory disabilities and
- 400 new places will be provided in community based mental health facilities.

The balance of the 2006 – 2009 disability funding package is being allocated between four other Departments or Offices.

These resources will be used to:

- enhance education services for adults with disabilities and expand pre-school provision
- support projects which demonstrate an innovative and cost-effective approach to service provision and
- improve accessibility to public buildings and amenities.

Details on this are set out in the Budget Summary.

As far as the 2005 allocations for these four Departments or Offices are concerned:

- the allocation for the Department of Education & Science already includes an extra €5.5 million
- the capital envelopes for the Department of the Environment, Heritage & Local Government and the OPW include €10 million and €5 million, respectively and
- I am today providing an extra €3 million for the Department of Justice, Equality & Law Reform.

What I am dealing with today are certain high-priority services. However, I want to make it clear that other disability services will also continue to be dealt

with as a normal part of the annual estimates process and will receive extra funding going forward as overall budgetary circumstances permit.

My strong view, based on my experience as Minister for Health, is that the disability programme was for many years at the end of the queue for resources. It did not benefit from the type of professional lobbying and support which the acute hospital and primary care programmes traditionally got from strong, organised interests in the health services. Families of people with disabilities had their hands full simply trying to cope. Nor did it attract the same level of public attention as issues such as waiting lists, medical cards, etc. Instead, most of the running had to be made by voluntary organisations. The National Disability Strategy shows a clear political focus by this Government on addressing the needs of the disability sector in a very concrete and specific manner. We also need to build on the existing partnership between the statutory health service structure, the voluntary service providers, and people with a disability and the voluntary organisations representing them. It is absolutely essential now that all those concerned work together to ensure that those most in need get the improved services they require.

The funding package which I am announcing today and the services which will be provided as a result, represent a considerable and guaranteed advance in the support available to people with a disability. The extra service capacity will meet in a very substantial way the needs which are projected to arise over those years and will make a real difference to the lives of people with a disability and their families. Today's actions give the lie to those who claim that this Government is indifferent to the needs of some of the most vulnerable members of our society.

Conclusion

Before concluding, I would like to comment on the budgetary process itself. The policy decisions we take here today impact on ordinary people's lives. That much is very clear.

As I said at the outset, I have seen twenty Budgets in this House. There have, however, been important recent changes in how the process evolves.

We now publish three year economic and fiscal programmes in the EU Stability Programme Updates included in the Budget booklet. We have moved to multi-annual capital budgets which allow us to focus more clearly on the reasons why we are investing and what we expect from such investment. Every Department of Government now publishes regular Statements of Strategy setting out what it is they are seeking to do.

What is missing, in my view, is a constructive debate on, and examination of, all this material as part of the policy formation process. I am open to considering with the House how we can make improvements in the situation, while retaining the right and duty of the Government to direct and manage the budgetary process. I hope that I am taken up on this offer.

There is a general consensus that Ireland has a bright future. We can grow our economy to give us the resources we require to meet the needs and aspirations of our citizens.

This requires balanced, consistent policies, seeking fairness in the distribution of resources and efficiency in the delivery of public services.

This Budget:

- radically improves the funding for and delivery of services for the disabled
- increases social welfare rates by well above the rate of inflation
- frees those on the minimum wage from income tax
- seeks to reinforce the equity of the tax system through the plan of reform I outlined earlier
- keeps inflation low to help those on lower incomes, and
- enhances our capital spending to improve our public services.

This Budget shows the clear commitment of this Government to a fairer sharing of the resources for some of the most vulnerable of our citizens.

This Budget shows our commitment to improved public services which deliver value for money services to all our citizens.

It demonstrates our determination to invest in our community, our infrastructure and our future.

I strongly contend that the Budget, the country and its future are in safe hands with this Government.

There is more to come in the next two Budgets to be presented to this House. This Budget is my first instalment.

I commend the Budget to the House.

Business Planning Review
Meeting with MAC

19 November 2004

Budget and Economic Division (1)

- ISSUES NOTE –

The work of Budget and Economic Division (1) falls into two distinct areas – Budget and Economy.

Reporting to Dermot Mulligan

- Fiscal Policy and Budget Coordination
- Tax Forecasting and Analysis
- EU Budgetary Reporting
- Budgetary aspects of EFC
- Stability and Growth Pact
- Social Partnership

Reporting to Barra O'Murchadha

- Economic Forecasting and Analysis
- Prices and Competitiveness
- Labour Market and International Economy
- Domestic Sectoral Analysis
- Long-term, structural reform and modelling

1. Budget Sections - 5 AP units working to Dermot Mulligan.

Some of the main issues arising in the next 12 months are set out below.

Budget: In the short term Budget 2005 will have to be brought to a conclusion. It will then be steered through the EU budgetary surveillance process. Next spring the content of the Budget Strategy Memorandum for Government and Budget 2006 will fall to be considered. This will need to have regard to any developments in the basic fiscal framework that we have operated within over the last five years (the SGP) and changes in the prevailing policy environment, including the prospective outcome of the negotiation of a successor agreement to Sustaining Progress.

The possible broader development of multi-annual budgeting into the current budget (recommended by the IMF), unified budgeting (raised by the opposition) and the possible coordination of Budget processes under the SGP (EU budget semester) will remain topical in 2005.

EU Budgetary and Economic Policy: Participation in EU discussions in particular on EU Commission's SGP reform proposals, the mid-term Review of Lisbon Agenda and setting Broad Economic Policy Guidelines will continue. The Commission proposals for SGP reform contain many elements that may be of interest to us but it remains unclear whether agreement can be reached among all MS on a meaningful package of amendments to the SGP. There are potential implications for budgetary timetables, processes and the underlying fiscal stance permissible within the Pact. If agreement is reached the amending regulation would create significant additional work.

Tax Forecasting: There is an ongoing process of developing our knowledge of the drivers of tax revenue performance. This has been done in conjunction with Revenue and utilising the ESRI where possible. Adjustments have been made to how we forecast some tax heads. However, progress has been substantially constrained by the very limited resources that Revenue has been able to devote to assisting us in this. It is anticipated that this may improve somewhat with the recent recruitment of an Economist and a Statistician in Revenue.

Substantive tax revenue issues that will have a significant impact on forthcoming forecasting rounds include the 2006/7 ending of the SSIA scheme with the positive impact of the exit tax on savings, the ending of the

Exchequer contribution to SSIAs and the ending of the CT cash flow gain from the change to a current year basis.

EU Budgetary Reports and Accounting: Maastricht budget reporting will continue as will the monitoring of GGB/GGD treatment of various issues at EU level including e.g. assumption of public pension liabilities etc. We have no outstanding statistical issues or disputes with Eurostat on the public finances.

Local authority borrowing and the absence of reliable and timely data remains a concern – revisions to the budget balance in this sector remain unacceptably large. The DoELG are seeking a substantial upward revision in the limit. This is a complex issue but given the profound weaknesses in the financial data for the sector any easing of the limit would seem to be inappropriate at this juncture.

Social Partnership, NESC & ESRI*:* The forthcoming NESC strategy report may be more problematic in the context of recent views expressed by social partners on budgetary and taxation policy in particular. The ESRI is to be the subject of an Expenditure Review in Q1 of 2005. The Review will have to address the shortcomings observed of the previous review in 1997, the Exchequer contribution of €2.9m in 2004 and the public interest value delivered for that money.

2. Economic Sections - 5 AP units working to Barra O'Murchadha.

Some of the main issues arising in the next 12 months are set out below.

There are a number of items that will have implications for the prospects of the macro-economy over the next couple of years including an easing of new housing output, the impact of the maturing of SSIA, oil prices and €/$ exchange rate.

Housing Construction: The construction sector is of major significance to the economy, disproportionately so given the historic levels of output of recent years – an estimated 80,000 units in 2004. In 2003 it made up 10% of GNP and 11% of total employment.

The prospective reduction in housing output has significant implications for growth, employment, taxes and the estimation of the CABB. Roughly

speaking in 2005 each 1% drop in the volume of new house construction reduces economic growth by 0.1%. Going hand in hand with the issue of a prospective fall in output is the issue of the sustainability of price.

<u>Special Savings Investment Accounts</u>: The SSIAs will begin to mature in May 2006 with the bulk of the money being freed up in April 2007 (42.6% of the total). As the total value of the accounts is estimated to be some €15 billion the maturing SSIAs has the potential to have a major impact on the economy (and the financial system) in 2006, 2007 and perhaps 2008.

There is little research in this area and what there is could not be relied on as a good indicator of likely outcomes. The range of views assume that up to 76% (€11.4 billion) will be consumed (Goodbody) to the EU Commission who believe that the impact will be negligible. It will be an important part of our work to clarify our thinking on these issues and to refine the range of possible scenarios.

<u>Oil Prices</u>: 2004 has seen greater volatility in oil prices since the early 1990's. Our Budget 2004 economic projections assumed oil prices of $28 per barrel. For a significant period oil has traded well above this level exceeding $50 for a period (now eased back towards $40). Analysis of a sustained rise in oil prices of $10 per barrel estimates that growth would be lowered by around 0.5% in the next year. Our assumption is for an annual average cost of $45 dollars a barrel in 2005. The risk on oil may be easing particularly as the $ has weakened against the € but this presents its own difficulties.

<u>Exchange rates</u>: The early months of 2004 saw the € appreciate strongly against the $ before easing back towards the rates underpinning the 2004 forecasts. However, the € has begun to appreciate again, in particular in the aftermath of the US Presidential election, and this may continue on foot of continuing concerns over the US twin deficits. A current account deficit of 5.4% of GDP this year makes the prospect of depreciation a real possibility with consequences for global demand. Similarly the reduction or elimination of the fiscal deficit implies reduced expenditure or increased taxes – these would reduce US household consumption with negative effects on US and world growth. A sustained appreciation of 10% against the dollar could reduce growth by ¼%.

<u>International Surveillance of the Irish Economy</u>: The level of external surveillance of the Irish economy is considerable. It includes the EU (SGP,

Cardiff, BEPG, Lisbon etc), IMF Article IV, OECD and visits from four ratings agencies each year. The IMF delivered a substantially positive report on Ireland this month and we are in discussions with them on the possibility of moving to a 24 month cycle – progress is slow. The OECD review of Ireland has been put back to January 2006 – mission and preparations in Q3 of 2005.

Labour Market Developments*:* A particular issue that will need to be monitored is construction employment which is currently well above historical levels and this can be anticipated to fall back as new house output unwinds (see above). Some work has been done on the public service "pay gap" as set out in the O'Leary/Boyle paper that addresses Benchmarking. This is at an early stage and it is intended to develop it further next year.

Competitiveness**:** As the Department highlights the key economic challenge as the need maintain competitiveness this has been brought under one AP (with obvious overlaps with others). A coordinated view is necessary given the wide range of items that impact on national competitiveness ranging from macro-indicators (wages, prices, productivity, exchange rates) to micro indicators (price of telecoms etc.) As such it is not possible to construct an overall single measure of competitiveness. Nonetheless, we continue to monitor developments in macro and micro indicators and the various international league tables as they are published.

Other Issues**:** There is currently no modelling capability in the area – we are in the process of recruiting a new econometrician for this work.

3. Restructuring the Divisions Work

The area is being restructured to better fit business needs and to facilitate the addressing the issues set out above.

A revised organisation chart with associated responsibilities is attached and the business plan will be brought in line with the new structure in the 2005 round of planning.

The main changes involve separating the Economic and Budget functions, to bring greater clarity to work and responsibilities, and bringing all staff into one location for the first time since 1996, to facilitate closer team working on the economic side.

The budget area is largely unchanged. The main differences have been to enhance the staffing of the *"EFC"* area to address the increased

- budgetary surveillance requirements of the enlarged EU, and
- demands of SGP reform as being currently rolled out by the Commission.

The "*social partnership",* ESRI and NESC coordination functions have been moved into the budget area as they were a very poor fit on the economic side.

On the economic side, there has been a progressive and ongoing move to a structure that is more team than section orientated because of the interdependence of activity. The main areas or responsibility cover macro-forecasting, international, structural/medium/longer term and sectoral analysis.

A key business issue for the Division is the development of the appropriate skills mix consistent with broader business needs. Much of the work is specialist or technical in nature. The successful reorganisation of the area (one that delivers greater technical capacity to match business challenges) will importantly rely on initiatives such as

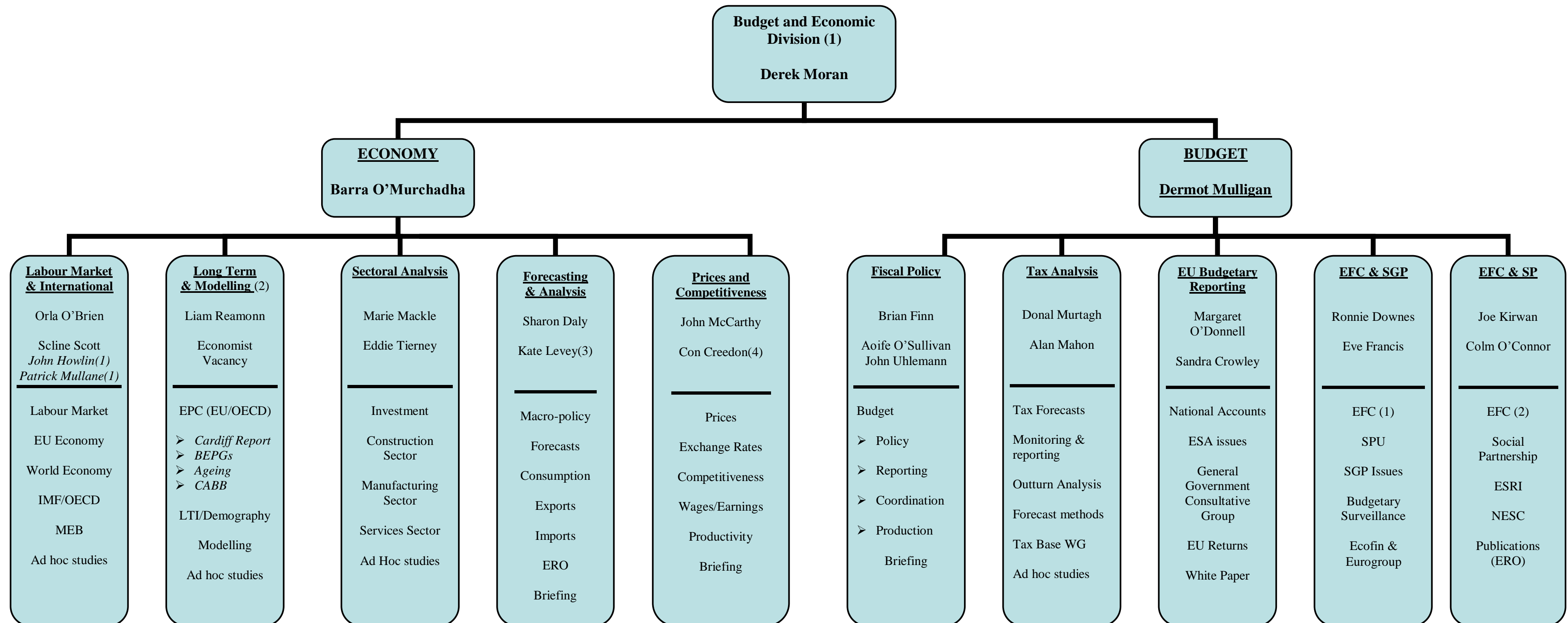
- Secondment of economists from elsewhere in the public service.

- Secondment of a CSO statistician to facilitate better understanding of national accounts and sampling techniques for tax forecasting.

- Pursuit of direct recruitment options where skill "gaps" arise.

- Use of opportunities to develop our own specialists through the piloting post-graduate education in lieu of the traditional AO year out.

- Development of applied training modules where specific technical expertise is absent.



(1) Attending Masters Degree course in economics at UCD. John McCarthy acts as post-graduate study coordinator.
(2) Work currently split between J. Kirwan (Cardiff & BEPGs), Ronnie Downes (EPC & Ageing), John McCarthy (CABB)
(3) Works to John McCarthy on prices/inflation
(4) Works to Sharon Daly on Forecasting

Business Planning Review - 6 May 2005
Budget and Economic Division (1)

- ISSUES NOTE –

1. Economic Sections working to Barra O'Murchadha.

Economic Forecasting & Analysis *(Sharon Daly [AP]; Kate Levey)*
At this stage work has commenced on the first round of forecasting for the BSM. The issues highlighted in November 2004 still stands and are ongoing, in particular the impact of reduced private residential output on our economic growth prospects, the release of SSIA funds into the economy and the uncertainties in the international environment.

A number of new issues also arise. It has become increasingly evident over the last two years that there is a need to simplify the forecasting rounds. The number of forecasts produced annually is being rationalised to 4 per annum (BSM, ERO, BSM 2 and Budget Day). This is in an effort to bring more clarity for Central Budget Section and Central Section in particular. We are frequently asked for updates to different parts of the forecasts and this can create confusion.

Changing the ERO to a multi-annual basis will provide a challenge for the section. The Department currently only publishes multi annual forecasts once a year at Budget time. Consequently we are out of step with other commentators, the ESRI and Central Bank publish quarterly forecasts and the Commission and OECD publish bi-annually. Moving to a multi-annual basis will increase the workload associated with the ERO as both the format and content must change to become an update of the SPU.

However, as we are frequently comparing Budget forecasts which are months out of date with updated forecasts from domestic and international commentators a multi-annual ERO would be most useful from a briefing point of view. There may be some difficulty when dealing with "Government" in the forecast as the estimates process will not have been finalised when the ERO is published. An explicit assumption regarding Government consumption would need to be agreed.

International Economy & Labour Market *(Orla O'Brien [AP], Scline Scott, Patrick Mullane[1])*
As indicated at the last review the level of external surveillance of the Irish economy is considerable (as is our commitments to EU and OECD committees – see Annex 1). The section is actively engaged in trying to build and manage relations on an on going basis. The IMF Article IV Mission spans the period 5-16 May. The key issues from our point of view are (a) a good report and (b) to make substantive progress on moving to 24 month cycle

As regards the OECD, the EDRC review process starts in September with a formal examination in Paris 24 January 2006 and a report March 2006. Ireland is the EDRC examiner for Greece currently – next examination is on 24 May. We are favourably disposed to a request from the UK to swap for the Netherlands from 2007.

The Monthly Economic Bulletin was redesigned and relaunched in April with an extensive "mail-shot" – the revised version has been well received.

[1] Completing Masters in Economics

As regards Labour Market Issues, migration is becoming much more important as we go forward. We have participated in workshops in relations to a NESC commissioned report. Increased focus will be necessary on the down-stream congestion effects of large scale migration. Childcare is likely to be a Budget / Pay talks issue as usual and we will be inputting to the Group established by MAC. A particular issue is construction employment which is currently well above historical levels and this can be anticipated to fall back as new house output unwinds.

On the Global economy, the position remains favourable but risks have heightened (oil prices & imbalances) since Autumn 2004. Some evidence of slowing consumer spending in the US but forecast is for a still strong 3.5%. The performance of the EU remains disappointing with indications of easing consumer spending in UK and France so far in Q1 but Germany sees a fall in unemployment.

Investment, Construction and Sectoral Analysis *(Marie Mackle [AP]; Eddie Tierney)*
As indicated elsewhere the construction sector remains the major issue for this section. It is of major significance to the economy, disproportionately so given the historic levels of output of recent years – an estimated 77,000 units in 2004. The prospective reduction in housing output has significant implications for growth, employment, taxes and the estimation of the CABB.

Roughly speaking in 2005 each 1% drop in the volume of new house construction reduces economic growth by 0.1%. Going hand in hand with the issue of a prospective fall in output is the issue of the sustainability of price. There appears to be evidence that prices are easing and that credit growth for the purpose of housing has at least levelled off.

The section has identified the need to explore data sources and development of analysis of non-residential construction as a priority. Data is more limited in this area and up to now. Non-residential construction accounts for about half of construction output so it is worth devoting time to. The recent memo for Government concerning NESC recommendations on housing may require further study of housing policy on foot of decisions taken will take place during the year. On other areas, the prospects for manufacturing employment and output compared with those in the services sector will be examined

Prices and Competitiveness *(John McCarthy [economist]; Con Creedon)*
The issues identified in the last review remain important. 2004/5 has seen greater volatility in oil prices since the early 1990's. Our Budget 2005 economic projections assumed oil prices of $45 per barrel. For most of this year oil has traded well above this. Analysis of a sustained rise in oil prices of $10 per barrel estimates that growth would be lowered by around 0.5% in the next year. The risk on oil may partly mitigated by the $ weakening against the €.

The early months of 2005 saw the € appreciate strongly against the $ before easing back recently towards (but still well above) the rates underpinning the 2005 forecasts. A sustained appreciation of 10% against the dollar could reduce growth by ¼%.

In the context of the imminent maturing of SSIAs from May 2006, the section is providing the secretariat to the Long Term Savings Group (LTSG). This is a departmental group charged with preparing a report for end May 2005 for the MAC on long term savings policy in Ireland. The LTSG is covering issues such as; long term savings rates and patterns in Ireland and other developed economies, savings via pensions, savings by teenagers and younger earners including mechanisms to encourage savings amongst these groups, and the impact of SSIA's on savings

behaviour and the economy. The IMF will present a paper next during their visit on saving in Ireland which may provide an interesting external perspective on the issues

Structural Reform, Long-term & Modelling *(Loretta O'Sullivan (economist), John Howlin[2])*
This unit has just been established. Role profile and issues need to be fleshed out.

2. Budget Sections working to [vacancy].

Fiscal Policy and Budget Coordination *(Brian Finn [AP], Aoife O' Sullivan, John Uhlemann)*
The timetable for the BSM/Budget has been developed jointly with PED. The structure and content of the BSM 2006-2008 is being considered. This will need to have regard to the changes to the SGP, the impact of the costs of the nursing home charges, the prospective outcome of the negotiation of a successor agreement to Sustaining Progress and a new NDP

Budget reform will remain a priority concern. While current proposals, circulated in the draft memorandum, do not envisage change until 2006 significant preparatory work will be needed. In this regard as part of the proposed enhancement of parliamentary involvement steps will be necessary to ensure the quality of the published budget material to be used in the scrutiny of the SPU in early 2006 and inclusion of quality data on budgetary aggregates in the revised SPU/ERO in September.

Ongoing work is necessary to ensure the requirements of the Official Languages Act are complied with. Data development aimed at upgrading existing holdings and developing new sources.

SGP, EFC, EU Budgetary/Economic Policy *(Ronnie Downes [AP]; Eve Francis)*
Agreement on reforming the Stability and Growth Pact was endorsed by the Spring European Council, in March 2005 to improve budgetary flexibility to enable the struggling Eurozone economies more time to correct their high deficits; to improve the focus on consolidating budgets in good economic times and to enable Member States with low debt and high potential growth (such as Ireland) more budgetary freedom of movement over the economic cycle. This change of orientation will be integrated into BSM

This is not without risk. If the reforms are interpreted as a weakening of the Pact there is a danger that the pressure for responsible budgetary policies will diminish with the attendant risk of higher interest rates. On the domestic front, there is a risk that the budgetary freedom of movement could be misinterpreted as creating a new, looser target for fiscal policy, without regard to prevailing economic circumstances. The challenge will be to manage expectations in this area in a realistic and responsible manner - a draft Memorandum on these issues is with the Minister.

In terms of Budgetary Surveillance under the Stability and Growth Pact, at present, ten Member States are subject to the Excessive Deficit Procedure: four Eurozone MSs (Germany, France, Greece, the Netherlands); six of the new Member States (Czech, Cyprus, Hungary, Malta, Poland, Slovakia); and in addition, Portugal, Italy and the United Kingdom are close to (or in some cases above) the 3% Treaty limit, and EDP procedures are expected to be initiated soon in at least the first two cases.

[2] Completing Masters in Economics

2005 will be busy year for the budgetary surveillance and correction procedures under the Pact.

Tax Forecasting *(Donal Murtagh [AP]; Alan Mahon)*
There is an ongoing process of developing our knowledge of the drivers of tax revenue and the monitoring and analysis of ongoing performance. This is being done in conjunction with Revenue. In the last 6 months we have engaged successfully with the new Revenue Strategic Research Branch to progress work.

A characteristic of the last two years has been the fact that the majority of tax revenue surpluses have come from minor taxes rather than the big four. This gives rise to issue of sustainability going forward. This is leading to a shift of emphasis in our developmental work away from the big four. In addition to an ongoing sampling exercise on Income tax and a review of corporation tax, we are encouraging Revenue to look at CGT and Stamps, initially regarding the quality of the data.

As regards the forthcoming forecasting rounds, the ending of the SSIA scheme with the positive impact of the exit tax on savings, the ending of the Exchequer contribution to SSIAs and the ending of the CT cash flow gain from the change to a current year basis.

Maastricht and GG Issues: *(Margaret O'Donnell [AP]; Ciaran Judge [Stat]; Sandra Crowley)*
Maastricht budget reporting will continue as will the monitoring of GGB/GGD treatment of various issues at EU level including. We have no outstanding statistical issues or disputes with Eurostat on the public finances.

Analysis of the GGB implications of major expenditure/revenue proposals is ongoing, e.g. the nursing home charges repayment issue. Four possible accounting options are being examined with the CSO at this point. We are committed to give a view in the September Maastricht return on our proposed accounting treatment.

Local authority borrowing and the absence of reliable and timely data remains a concern – revisions to the budget balance in this sector remain unacceptably large. The DoELG continue to seek a substantial upward revision in the limit despite running a balanced or surplus in each of the last two years. This is a complex issue but given the profound weaknesses in the financial data for the sector any easing of the limit would seem to be inappropriate at this juncture.

Along with the CSO, we are contributing to a package of EU statistical reforms, including a new Council regulation giving Eurostat greater powers to examine the quality of data underpinning the EDP (Maastricht) reporting tables – fallout from the Greek experience. We have taken a strong line on this issue. The package is due to be finalised by June 2005. Consideration is being given to the treatment of "Government" in the context of a proposed 3 year ERO.

BEPG's Lisbon and Social Partnership*:* *(Joe Kirwan [AP]; Colm O'Connor)*
The section has a co-ordination function in relation to issues arising for the Department on the NESC Strategy process, and, as may arise and is also contributing to the PO Group on the NESC Strategy and issues likely to arise for the forthcoming partnership talks.

The ESRI expenditure review of the grant-in-aid is currently under way and is targeted for completion by 30 June 2005. The report will focus on the objectives and the outputs of the grant in aid; the scope for alternative policy, organisational or funding approaches; public interest and value for money aspects; and the question of

performance indicators, monitoring and control arrangements for future Exchequer funding of the Institute. The question of a service level agreement with the ESRI, underpinned by performance criteria, is being examined.

On foot of the recent Lisbon review, the Commission has adopted Integrated Guidelines designed to achieve greater policy consistency in the BEPGs and Employment Guidelines. In line with the new governance arrangements, member states will be required to submit three-year national reform programmes in autumn 2005 indicating how they propose to implement the Integrated Guidelines. These are intended to bring together within a single summary document all the existing national reports which are relevant to the Lisbon strategy. This includes the national reports on employment (ET&E), the Cardiff Report on economic reforms (Finance), sectoral reports covered by the open method of co-ordination (ET&E), and national strategic plans in relation to Structural and Cohesion Fund expenditure (Finance).

Preparation of the annual Stability Programme Update will continue unchanged under the new arrangements and will be undertaken in the pre-Budget period. The section also provides briefing on the Convergence Programme Updates of 13 countries. The section will have a continuing involvement in servicing the Regulation issue at Committee and Council level. As things stand, there is no Irish involvement in the pilot projects on Administrative Burden. The main role on Regulatory Reform rests with the Competitiveness Council.

Annex 1

EU COMMITTEES AND WORKING GROUPS

Economic Policy Committee

Council Working Party on Statistics

EFC Sub-committee on Statistics

Quality of Public Finances

Short Term Economic Forecasting

Ageing and Sustainability

Output Gap

Labour Market } *recently merged*
Wage Developments }

Country Review Group (Cardiff)

Breugal (European Economics Institute)

OECD COMMITTEES AND WORKING GROUPS

Economic Policy Committee

Senior Budget Officials Group

Macro-economic and Structural Policy Group

Short Term Economic Prospects Group

EDRC (Country examiner for Greece)

Country Review Examination

FORMAL COUNTRY REVIEW/MISSIONS TO IRELAND

International Monetary Fund (annual – two week duration)

OECD (bi-annual review with annual missions)

EU Commission (2 per annum; new "Lisbon" mission being introduced)

Credit Rating Agencies (annual x 4)

3. Banking and Debt Distress

Banking is built on trust. But reckless lending by – and to – Irish banks during the property boom, encouraged by an irresponsible Government that put its election prospects over the stability of the Irish economy, means that Irish banks have lost the trust of depositors, investors and society at large.

And the response of the banks and the Government to the crisis has made matters worse. Committing €100 billion of taxpayers' money to the banks so that they can repay their foreign debts while starving the Irish economy of credit has made the recession far deeper than it needed to be.

The current IMF-EU bail-out plan signed has not – and will not – restore confidence in Ireland, because at its heart is a commitment to continue the failed banking policies of the present Government.

A Fine Gael Government will make our banking system an engine of economic recovery by restoring public and market confidence in its financial health, management competence and ethical integrity.

3.1 A Fairer Sharing of the Cost of Restructuring and Funding Irish Banks

Re-negotiating the EU-IMF Programme of Support: Borrowing up to €25 billion in additional funds from the EU / IMF at 5.8% to cover additional bank losses from fire-sales of loans and other bank assets at rock-bottom prices, as this Government has agreed, will push Irish Government debt towards unsustainable levels and hinder economic recovery, threatening the stability of the entire euro area.

A Fine Gael Government will seek a mandate from the Irish people to renegotiate a more credible, fairer package that is better for Ireland and Europe.

A Transparent Assessment of the Capital Needs of Irish Banks: We will defer further recapitalisations of Irish banks until the completion of the Prudential Capital Assessment Review, which is expected to be available within weeks of the formation of a new Government. It makes sense to know the size of the hole in the banks before committing further taxpayer resources. This might also make it possible for the stronger banks to reduce the taxpayers' exposure by raising private capital.

European Support for Bank Recapitalisation: We will seek to re-negotiate the terms of reference of the European Financial Stability Fund (EFSF) and / or European Financial Stability Mechanism (EFSM) to allow them to take equity stakes in systemically important European banks, such as AIB and Bank of Ireland. A similar option is that Ireland could buy "insurance" from the EU against the risk that losses in Irish banks will be significantly greater than projected under the PCAR exercise.

Agreed Procedures for Restructuring the Debts of Troubled Banks: Fine Gael in Government will force certain classes of bond-holders to share in the cost of recapitalising troubled financial institutions. This will be done unilaterally for the most junior bondholders (owners of preference shares, sub-ordinated debt and similar instruments), but could be extended – as part of a European-wide framework – for senior debt, focusing on insolvent institutions like Anglo Irish and Irish Nationwide that have no systemic importance.

A More Sustainable Funding Solution for Irish Banks: Irish banks need to shrink their balance sheets to reduce their dependence on volatile non-deposit funding sources. We will seek to collaborate with U.S. regulatory authorities to collate the dollar assets of Irish banks (up to $50 billion) that could be used as security to secure funding from the U.S. Federal Reserve.

Long-Term EU Funding for Irish Banks: Rather than selling assets at fire-sale prices with the losses covered by already over-stretched Irish taxpayers, we will negotiate with the EU/ECB to fund – on a

longer-term basis – the transfer at par value of relatively-secure Irish bank loan books – such as tracker mortgages – into a "warehouse" or Special Purpose Vehicle. This might involve the EU funds buying long-term bonds to fund such entities. This would shrink the Irish banks to a size where they can fund most of their remaining loan books through deposits, helping to address market concerns about their long-term liquidity position.

3.2 Re-Building a Competitive, Well-Managed, Privately-Owned Banking System

Putting the Government Back in Charge of Restructuring the Banking Sector: We will establish and staff with the necessary expertise a new banking policy division in the Department of Finance to manage, from one central point, the efforts of the Central Bank, the NTMA and the banks' management themselves to repair the Irish banking system.

Promoting New Leadership and Management in the Banks: A Fine Gael Government will accelerate the replacement of directors and senior managers in the Irish banks. To expedite this change-over we will openly construct a pool of globally experienced, turn-around managers and directors to be inserted into key executive and non-executive positions in banks receiving taxpayer support.

Banks Should Squeeze Their Costs before Their Customers: The cost-income ratios of AIB and Bank of Ireland are still out of line with comparable European banks. A Fine Gael Government will direct any mortgage provider in receipt of State support to present it with a plan within 100 days of coming into Office of how it intends to cut its wage bill and other costs – over and above existing plans – in a fair manner by a sufficient amount to forego a 25 basis point increase on their variable rate mortgages. This plan should include a new, lower pay cap for senior staff and a verifiable commitment to suspend all bonus payments until the banks are no longer in receipt of State support.

Returning Viable Banks to Private Ownership: Fine Gael will complete the sale of EBS to a new, private owner, and will support the new institution as a lynchpin for building a third force in Irish banking to compete against AIB and Bank of Ireland in the business and personal banking markets. We will consider selling AIB to a large, foreign bank in order to bring access to new funding and capital for Irish enterprises, and to address market concerns about the threat to the national finances from the banking system. We will seek to retain Bank of Ireland under domestic ownership and control, and will give individual Irish citizens an option to buy the State's shares at a strike price that, at the very least, recovers the investment made by taxpayers.

Shutting Down Dead Banks: Anglo Irish Bank and Irish Nationwide have no further role to play in the Irish economy. A Fine Gael Government will wind up both institutions by the end of 2011, by transferring their remaining assets and deposits to other financial institutions or other asset recovery vehicles as appropriate. Further losses incurred in this process will be shared with remaining bondholders.

A Healthy Credit Union Movement: Fine Gael recognises the important role of credit unions as a volunteer co-operative movement and the distinction between them and other types of financial institutions. In Government, we will establish a Commission to review the future of the credit union movement and make recommendations in relation to the most effective regulatory structure for Credit Unions, taking into account their not-for-profit mandate, their volunteer ethos and community focus, while paying due regard to the need to fully protect depositors savings and financial stability.

3.3 Supporting New Lending to Firms and Households

Mortgage Lending to First Time Buyers: The housing market will not be recover unless First Time Buyers have access to mortgage credit to enter the market. Working with the regulatory authorities and the industry, a Fine Gael Government will encourage new funding for Irish mortgage lending again by drawing

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a line under past practices and creating a new brand or status around the Irish mortgage market that puts the quality of Irish mortgages beyond any question in international markets. With this aim in mind, and drawing from best international practice, we will introduce new universal Mortgage Indemnity Insurance ('negative equity insurance') that provides security for prudent lenders and borrowers against future risks of negative equity.

Making Sure Banks Deliver on their Lending Promises: We will direct the new Credit Review Office to publish a delivery audit of the commitments by AIB and Bank of Ireland to make available a total of €12 billion in additional lending to small and medium enterprises in 2010 and 2011.

A Partial Business Loan Guarantee to Support Job Creation: To get banks lending again to industry and entrepreneurs, a Fine Gael Government will implement a temporary, partial credit guarantee scheme that will provide a level of insurance to the banks against losses on qualifying loans to job-creating firms.

Micro Finance Start-Up Fund: Drawing from funding from the NPRF and private institutional funds, we will construct a €100 million Microfinance Start-Up Fund which will provide start-up loans and equity to new businesses. Private not-for-profit organisations like First Step, Chambers of Commerce or Local Business Units in the City and County Councils could apply for capital from the Fund for investment in local start-ups, as part of a necessary move away from non-repayable grants.

Financing for High-Tech, High-Potential Firms: We also support the development of a more dynamic, venture capital industry in Ireland by attracting top-tier venture financing and investment companies to Ireland, as recommended by the Report of the Innovation Taskforce. To begin, we will seek negotiations with Silicon Valley Bank to entice it to establish offices in Ireland. We will also fix the regulatory problems to allow private pension funds to invest more in Irish business.

3.4 Supporting Families and Businesses in Debt Distress

Debt Responsibility: A Fine Gael Government will expect every family and every business to do everything possible to service their debts, and will not ask others to pay the debts of the reckless and dishonest. A mass Government-imposed mortgage debt forgiveness scheme would close down new lending for First Time Buyers and further raise interest rates for families on variable rate mortgages. Where, however, families and businesses have made best efforts and find themselves unable to service their debts, we will support them through the recession and help re-integrate them back into the economy.

Helping Families in Mortgage Arrears: We will ensure that funding for the means-tested Mortgage Interest Supplement scheme can adequately cover families in need by capping the interest charged by lenders benefitting from this scheme at the ECB base rate plus 1%, or the contracted mortgage rate, whichever is lower. To improve uniformity of access and speed of processing applications, we will centralise its administration under our proposed single Payments and Entitlements Service.

Banning Penalty Interest on Re-Structured Mortgages: We will legislate, if necessary, to stop mortgage lenders charging penalty interest rates (or forcing families to give up their low-cost tracker mortgage rates) on mortgages that have been rescheduled (i.e. the payment term lengthened) where the borrower has co-operated with the lender in agreeing a new, sustainable re-payment plan.

Mortgage Interest Relief: We will increase mortgage interest relief to 30% for First Time Buyers in 2004-08 (from the current sliding scale of 20% to 25% depending on the year the mortgage was taken out), financed in part by bringing forward the abolition of relief for new buyers from June 2011.

Deferred Interest: We will require banks in receipt of State support to give homeowners every chance to renegotiate the terms of their mortgage to avoid repossession during difficult times. For example, as recommended by the Mortgage Arrears and Personal Debt Group (November 2010), we will require

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all mortgage lenders to offer distressed home-owners a Deferred Interest Scheme (DIS) that enables borrowers who can pay at least 66% of their mortgage interest (but less than the full interest) to defer payment of the unpaid interest for up to five years.

Trading Down: For some mortgage holders that are in negative equity, trading down would produce a reduction in mortgage debt and more affordable monthly payments. We will work with the Financial Regulator and the industry to facilitate trading down and "negative equity mortgages" by borrowers in this situation. Such options would have to be in the customers' best interest.

Using Pension Savings to Ease Debt Distress: Many middle-aged home-owners and / or owners of small businesses have generally-funded personal pension schemes, but are facing difficulties in servicing mortgages or other current financial obligations. A Fine Gael Government will amend pensions legislation to allowing defined contribution pension savers to access funds early, subject to reasonable limits, to meet their current business and personal responsibilities (while taxing the draw-downs).

A New Insolvency Regime for the Financially Responsible: Bar the most extreme cases, bankruptcy reflects the failure of the system. Where common sense is applied to most debtors' circumstances, there is no need or point to making someone a bankrupt. The sale of non-essential assets should be a part of any arrangement made between a debtor and their creditors. Once the ability to provide for creditors from the income of the debtor through a Debt Settlement Agreement is taken into account and the proceeds from the sale non-essential assets are distributed there should be no need to go any further in most cases.

But where this is not possible, Irish bankruptcy laws must be updated. They currently are unpractical, unused, excessively costly and overly penal. A Fine Gael Government will fast-track the reforms needed to bring us into line with best international standards, focusing on the following elements:

- Reducing the time to discharge from bankruptcy from six years to one for **"honest bankrupts"**, defined as one that has materially complied with the Tax, NAMA and Companies Acts among others;
- **A Non-Judicial Debt Settlement System** that will change bankruptcy from a judicial to an administrative process, with filings being made with a new Debt Settlement Office within the Courts Service without the need for legal representation;
- **New Commercial Voluntary Arrangements** (CVAs), which are legally binding arrangements between the directors of a company and their creditors (at least 75%) that would protect the debtor from interest charges and the threat of enforcement during the period of the life of the CVA;
- **A Limited Residence and Personal Assets Safe Harbour** that will permit a bankrupt to ring fence from the bankruptcy process ownership of a principal private residence (within limits based on size, value and family numbers) and specified personal assets not to exceed €40,000 in value; and
- **A Prohibition against Discrimination against Discharged Bankrupts** to ensure that former bankrupts are treated fairly in their applications for credit or other services.

3.5 Making NAMA a Credible Vehicle for Recovery

A new Fine Gael Government will make a number of changes to the way NAMA works to help reduce taxpayer exposures and to kick-start the economy.

Stopping Further Asset Transfers to NAMA: We do not believe that transferring the land and development loans of Irish banks of less than €20 million to NAMA is in the best interests of the Irish economy, and will seek a mandate from the Irish people to renegotiate this element of the Programme of Support from the IMF and EU. As an alternative, we will force Irish banks to take loss provisions against these loans similar to the haircuts that would have been applied by NAMA. This offers the advantage of forcing the banks to recognise their potential losses, as well as significant upside potential for new investors in Irish banks. It also provides a more manageable administrative system for loans of this relatively small scale.

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Kick-Starting the Property Market: Getting the property market functioning properly again is a condition of strong economic recovery. This will require NAMA to dispose of property assets secured from developers in default of their loans into the private sector as quickly as possible. We are open to considering new types of investment vehicles – such as U.S. style Real Estate Investment Trusts – that can help create a new, liquid investment market in commercial property for Irish pension funds and smaller investors.

Reintroducing Diversity and Competition into the Property Market: We will force NAMA to outsource management of at least 70% of its assets to 3-4 competing private asset management companies.

Exposing NAMA to Public Scrutiny: A Fine Gael Government will strengthen the transparency of NAMA's operations and its management of the assets paid for by the taxpayer. The details of all non-performing loans acquired by NAMA will be available for scrutiny on a Public Register, including the names of the creditors, the price paid by the taxpayer for the loans and the actions taken by NAMA to recover the loans. Persons that have defaulted on loans acquired by NAMA will be banned from ever purchasing any asset from NAMA.

3.6 Never Again Will Banks Be Allowed to Ransom the Irish State

Punishment for Financial crimes: Fine Gael will ensure that rogue bankers are pursued for their crimes and that the full rigours of the law will apply to them, and the courts will have the powers necessary to impose appropriate fines and jail sentences. We will enact a new consolidated and reformed anti-corruption law to punish white collar crime and end the impunity from consequences for corporate behaviour that has threatened the economy. We will ensure that the Office of the Director of Corporate Enforcement has sufficient resources to tackle White Collar Crime

Stronger Regulation of Financial Institutions: We will strengthen the financial regulatory regime by funding the planned increase in staffing levels. We will, before the end of 2011, commission an independent benchmarking of the quality of Ireland's reformed banking supervision regime as against best global practice.

Higher, Loss Absorbing Bank Capital to Protect Taxpayers and Depositors: We will raise core equity capital requirements for systemically important banks on a permanent basis. This will provide a greater buffer against banking losses before external intervention is required. To be counted as capital, "hybrid" debt instruments issued by Irish banks, such as sub-ordinated bonds, must include clear mechanisms for taking losses, either through write-downs or conversions into equity, without winding down the entire bank.

Structural Reforms to Make Banking Safer: We will legislate, consistent with emerging EU frameworks in this area, to give the Financial Regulator additional "bank resolution powers" to take over and wind down banks that threaten financial stability, with losses being absorbed by investors and bond-holders before the taxpayer. Fine Gael will consider new legislation to separate more risky, speculative financial activities from the traditional banking activities of taking deposits and lending to enterprise. Fine Gael will also intervene directly to stop banks from encouraging risky lending in the way they pay senior executives.

Bank Levy / Dividends: As banks return to profitability and private ownership, we will target additional contributions from the sector to repay the Irish taxpayer for the cost of the bank bail-outs. Initially, these contributions will be in the form of dividends, but will over time be restructured into an additional bank levy on the types of transient funding sources of the Irish banks that have caused so much instability.

PUB01B01-P

PUB00151-021

3.7 Strengthening Confidence in Independent Audit of Banks

Public Scrutiny of Audit Firms: To give the Oireachtas and the public confidence that auditors are doing their job properly, a Fine Gael Government will mandate the Irish Auditing and Accounting Supervisory Authority (the independent regulator of the audit profession in Ireland) to publish their conclusions from their annual inspections of individual audit firms in respect of public interest entities.

Shareholder Approval of Auditors: To emphasise the primacy of shareholders, in particular over management, in the appointment of auditors to financial institutions in receipts of State support, that audit committee chairpersons be required to propose at each AGM the appointment of the auditor and to set out their reasons for doing so. We will also make it a standard practice that auditors should answer questions to shareholders at the Annual General Meeting of public companies. We will also require the audit committee of banks and other Public Interest Entities to evaluate the effectiveness and competence of the auditor every three years and set out for shareholders how they have done so.

Regulator Veto over Audit Appointments: For systemically important institutions (e.g. the banks) we will legislate to give the Financial Regulator a right of veto over the banks' choice as auditor. We also commit to implementing other proposals that are finalised at EU level on strengthening the future role of auditors.

PUB01B01-P

PUB00151-022

Our Ref: 02/0388/MF

25 November 2002

Mr Liam O'Donnell
Chief Executive
Institute of Professional Auctioneers & Valuers
129 Lower Baggot Street
Dublin 2

Dear Mr O'Donnell

The Minister for Finance, Mr Charlie McCreevy TD, has asked me to acknowledge receipt of your recent letter and pre-budget submission and to say that the contents will be considered in the context of the forthcoming Budget.

Yours sincerely

Rosemary Kearney

Hannah O'Riordan
Private Secretary

INSTITUTE OF PROFESSIONAL AUCTIONEERS AND VALUERS
129 LOWER BAGGOT STREET, DUBLIN 2. TELEPHONE: 678 5685 FAX: 676 2890
E-Mail: lodonnell@ipav.ie

02/0388/MF
Mr. J. Burke
Referred pl.
R Kearney
22-11-02

Mr Charlie McCreevy TD
Minister for Finance

C.C.
An Taoiseach
Bertie Ahern TD

An Tanaiste
Mary Harney TD

Mr Martin Cullen TD
Minister for the Environment & Local Government

22 November 2002

Re: Budget 2003 Submission

Dear Minister

On behalf of the Institute of Professional Auctioneers & Valuers (IPAV), I wish to make a short submission for your consideration for Budget 2003, due to be announced on Wednesday, 4 December.

IPAV greatly regrets the decision by you and the Government in the recent Estimates to abolish the first-time house buyer's grant in its entirety. We feel this is an undue blow to the thousands of people who have either booking deposits paid or hope to purchase their first home in the near future.

Many such buyers often use the €3,800 grant as part of their downpayment and consequently are now in severe financial difficulty as, in many cases, it could take years for them to save this amount of money. Many use the grant to purchase minimal furnishings for their new home until they get on their feet while others use it to cover their early mortgage repayments.

As a result of this recent measure, many people may have to cancel their proposed purchases and have their deposits returned. We feel this move is most unfair and discriminatory to a very vulnerable section of the population.

IPAV feels there is now a grave imbalance in the amount of money taken in by the Exchequer in VAT on new houses and Stamp Duty and the abolition of the first-time buyer's grant altogether. The most recent figures available to us for 2001 confirm that the Exchequer received €912m. in VAT alone on new houses last year. This is compared to a total payout of just €38.7m. in first-time buyers' grants for the same period.

Our Institute strongly urges you to consider the introduction of a system of tax credits for the purchasers of new and second-hand homes under similar qualifying conditions to those laid down for the first-time buyer's grant. By adopting such an approach, the Government is not running the risk of increasing the price of new or second-hand houses which might happen by, for example, increasing the amount of first-time buyers' grant. The tax credit could be spread over a period of three to five years.

We urge you to seriously consider such a measure at this stage which we feel would be prudent and of major benefit to hard-pressed first-time buyers.

We are available to meet you or your officials at any time to discuss the proposal further.

Yours sincerely

LIAM O'DONNELL
Chief Executive

IRISH AUCTIONEERS & VALUERS INSTITUTE

"THE VOICE OF IRISH PROPERTY"

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email: info@iavi.ie Internet: www.iavi.ie

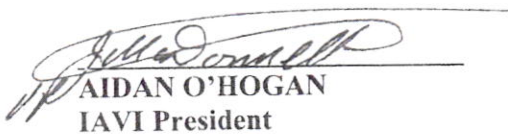
3rd June 2003
AO'H/JO

Mr Charlie McCreevyTD
Minister for Finance
Department of Finance
Government Buildings
Upper Merrion Street
Dublin 2

Dear Minister,

I enclose for your information copy of the response of the Irish Auctioneers & Valuers Institute to the All-Party Oireachtas Committee on the Constitution 2002 – Private Property.

Yours sincerely,



AIDAN O'HOGAN
IAVI President

for private secretary reply.

03/0535/MF
Mr Ivan Grimes
For attention
B Rafter 4/6/03

Mr Craig
please acknowledge.

Principal Member of: ICREA • FIABCI • EPAG • TEGoVA • IVSC
Chief Executive: Alan Cooke FIAVI FRICS FSCS. Incorporated as a Company Limited by Guarantee at Dublin in 1922 - Number 7135

Response by The Irish Auctioneers and Valuers Institute

to

The All-Party Oireachtas Committee on the Constitution 2002

Private Property

The Irish Auctioneers and Valuers Institute
38 Merrion Square
Dublin 2

30 May 2003

EXECUTIVE SUMMARY

1. The IAVI recognises and is fully supportive of the need to balance the rights to private property with the common good.

2. The IAVI is opposed to constitutional amendments that would reduce the rights of property owners – other than an amendment by way of a removal of Section 44.2.6 which affords special treatment to religious denominations and educational institutions – which special treatment we see no reason for in today's climate.

3. The IAVI would advocate an amendment which would extend the rights to private property under Articles 40.3.2 and 43 of the Constitution to bodies corporate, trusts, partnerships, limited companies, etc., as the scale of many property transactions today requires these type of ownership structures.

4. The IAVI recommends consolidation of the legislation surrounding compulsory purchase rights, but is strenuously opposed to any amendment to the fundamental principle of compensation being open market value.

5. The IAVI recommends several procedural changes to the CPO code, which would accelerate the timeline for implementation, make the process less adversarial and provide a better balance between the rights of the Acquiring Authority and those of the Claimant.

6. The IAVI is absolutely satisfied that the price of building land is a residual function of the price which potential purchasers will pay for the housing developed on it, less the costs of development and profit. Cost is incidental to, rather than a function of, value.

7. The IAVI is satisfied that the only fundamental solution to the generation of a stable environment in house prices is a supply based one.

8. It is clearly evident that the measures taken by National and Local Government in recent years to accelerate the supply of suitable building land through the provision of services, rezoning, greater densities, a modest capital gains tax regime and added resources in the town planning system, are now beginning to bear fruit and will result in continued growth in the annual supply of new homes over the next three to five years.

9. With the slowdown in the World and Irish economies and the imminent peaking of our demographic profile, the supply of and demand for homes will come into equilibrium, without Government intervention, within the next two years and generate stability in house prices well into the future.

10. Previous Government interventions in the housing market, such as the removal of interest relief for investors, the withering of planning permissions after two years and the introduction of the Social and Affordable Housing Provisions, have all generated impediments to supply and thereby unintentionally increased rather than stabilised house prices.

11. The imposition of any drastic measures designed to significantly and suddenly

depress house prices (as distinct from measures designed to slow down or neutralise the rate of capital appreciation) would not be in the common good and would generate a loss in value and, in some instances possibly, negative equity for those who had acquired homes within the last three to four years – a situation that could only serve to undermine confidence in the Irish economy generally and penalise the most vulnerable.

12 The IAVI sees no concrete evidence of the hoarding of development land by developers, builders or speculators for the primary purpose of benefiting from increased house prices. The experience of IAVI members, on the contrary, is that most zoned and serviced land held by builders and developers is in the process of being progressively brought into productive development use as quickly as possible, having regard to the servicing and planning processes and the essential time, personnel and financial resources of the existing owners.

13 In the event that such hoarding did occur, the IAVI is conscious that State and Local Authorities already have more than adequate Compulsory Purchase powers to bring forward, to the market a supply of suitably zoned and serviced lands, by compulsorily acquiring it at open market value and simultaneously passing the land on to developers, able and willing to develop it thereby also minimising the States financial exposure.

14. The IAVI does not subscribe to the principle that the rezoning of land (in isolation from the provision of infrastructural improvements or the provision of services) should give rise to any entitlement by the State or by a Public Authority to betterment levies. It is the view of the Institute that rezoning takes place primarily for locational reasons, the physical suitability of the lands for a particular use, the natural progression of development and because of optimum land use strategies. This is also consistent with the view of the Kenny Report Committee.

15. The IAVI is, in principle, sympathetic to the view that the value of development land is significantly enhanced by the availability of infrastructure and services usually provided by National or Local Authorities.

16. It is equally sympathetic to the view that it would be equitable for those Authorities to recoup part of the added value which is attributable to the enhancement which those infrastructural improvements or services have generated.

17. However, the IAVI calculates that already, some 75% of this betterment is recouped by the State and Local Authorities through taxation and services levies and also notes that there is a significant distinction as between properties developed for commercial purposes and those for residential purposes.

    This distinction is that with commercial development, the ongoing provision of services by the Local Authority is funded to a significant degree through rates, whereas with Residential development, there is minimal ongoing contribution to the cost other than, in some Authorities, payment for services such as water and waste disposals, which charges represent, in the main, only a fraction of their real cost.

18. The IAVI is also conscious of the fact that already major commercial development

schemes usually attract very significant development levies.

19. Further recoupment of commercial enhancement is evident through other quasi PPP initiatives such as the proposal at Carrickmines/ Cherrywood, for the funding of the extension of the Luas by the landowner developers adjacent to it. This provides a suitable model for future betterment recovery for commercial developments.

20. The IAVI proposes as a supplement the imposition on a National scale of larger development levies on residentially zoned and serviced land, payable when planning permissions are implimented. These levies would be moderated for five years but would increase on a progressive basis the longer the land remained undeveloped. This would enable existing landowners and developers not to be penalised in the short term, would incentivise them provided they brought their development land into production promptly while it would simultaneously arm the developers with firm knowledge, in advance of the acquisition of additional land, of the magnitude of future levies and enable them to reflect that extra cost by discounting the initial land purchase price.

21. The IAVI believe that the implementation of any measures on landowners which further directly taxes them on the realisation of their land asset, will have the effect of reducing the supply of land into the market. However measures that serve to depress the value indirectly (e.g. by the pre-known imposition of levies payable by developers) will not necessarily have the same negative effect.

22. The IAVI believes that the price of new homes is very heavily influenced by the balance or imbalance in the supply/demand equation, the level of mortgage and deposit interest rates prevailing in the market and the availability of mortgage finance.

23. The IAVI recommends the introduction of a Voluntary Code of Practice amongst mortgage lenders towards the abandonment of the practice of "soft interest rate" first year lending and advocates that mortgage providers be encouraged to provide incentives, by way of marginally more lenient stress testing for those taking out mortgages with 5 to 10 year fixed rate of interest.

24. The IAVI recommends the development of a statutory Code of Practice in regard to public rights of access to private land in the countryside. Such a Code of Practice would include clarification of the obligations of both the landowners and public users. A funding package for landowners to facilitate the installation and maintenance of appropriate and purpose designed gateway access points should be available and onerous penalties for those users breaching the Code of Conduct should be incorporated.

25. The IAVI recognises that the right of Shelter for every citizen and the fact that not all citizens will be capable of achieving this through the private sector.

26. **Conclusions**

(a) The IAVI believes that the market for housing and housing lands is heading towards equilibrium and will, if not interfered with, find that level of equilibrium within the next 24 to 36 months and is best left alone to achieve that.

(b) The IAVI sees just cause for the recoupment by local authorities of some of the land's value enhancement deriving from the provision of public infrastructure and services and recommends the introduction of a graduated system of more meaningful levies designed to incentivise and accelerate development within the next three years. The recoupment of these levies for betterment, can, the IAVI believes, be achieved under existing legislative procedures.

(c) The IAVI is totally opposed to any system in which individual landowners are deprived of the open market value of their land in the interests of favouring other more disadvantaged members of the community. It is the view of the IAVI that any subsidy of housing costs should be borne by the tax payers at large rather than penalising individual landowners.

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Mr Charlie McCreevy T.D.
Minister for Finance
Department of Finance
Government Buildings
Upper Merrion Street
Dublin 2

3 November 2003

Dear Minister,

Over the last 12 months this Institute has considered, very carefully, many of the issues related to the taxation of property and of property transactions.

Our attached pre-budget submission has confined its focus to those matters, because we believe our greatest expertise lies in the matters with which we are most familiar. Our principle concerns relate to stamp duty, both in the commercial and residential areas, to roll-over relief on CGT, for farming land compulsorily acquired and to the taxation of development land and the need for further investment in infrastructure.

Our very clear belief is that adjustments in stamp duty, for owner occupiers in the residential market and right across the commercial market, will result in a greater volume of transactions, which will adequately compensate for any loss in revenue through lower rates. Furthermore, we believe that the increase in supply which will follow adjustments, in the duty rates and the thresholds in the residential market, will help to contain the still strong growth in values in the second-hand housing market.

I hope that you will give consideration to these points prior to your Budget in December. We would welcome the opportunity to meet with your officials to clarify our messages.

Meeting held 18/11/03 by D. McNally (See Budget 2004 file.)

Yours sincerely,

Aidan O'Hogan
President

BUDGET SUBMISSION TO DEPARTMENT OF FINANCE ON THE MATTER OF STAMP DUTIES ON COMMERCIAL & RESIDENTIAL PROPERTY TRANSACTIONS

EXECUTIVE SUMMARY

The IAVI is concerned at the current levels of Stamp Duty in both the Commercial and Residential markets and their negative impact on those markets and on the economy generally.

The Institute therefore recommends that in the forthcoming budget, the following changes be made

A. Residential

The Institute is satisfied that the existing stamp duty regime in respect of the "new homes" and "buy to let" markets works adequately.

Within the owner occupied second-hand residential market it is apparent to members that the Stamp Duty regime for owner occupiers is a deterrent to mobility within the market, discriminates against city dwellers and is reducing supply, factors which are disadvantageous especially to first time buyers.

The Institute has therefore recommended changes in the thresholds at which the various rates of duty would apply for owner occupiers.

The Institute recommends the following revised rates and thresholds to apply only to owner occupiers, buying second-hand homes;

	Threshold	First Time Buyer	Full Rate
1.	Up to €250,000	Exempt	Exempt
2.	€250,001 - €350,000	1%	3%
3.	€350,001 - €500,000	3%	5%
4.	€500,001 to €1.25m	6%	6%
5.	Excess €1.25m	9%	9%

The Institute's members believe that, if these changes are implemented, they will significantly increase the volume of property coming to the market, and thus the loss of revenue through a reduction in the rates, and increase in the thresholds, will be more than compensated for by the additional volume. Furthermore, the Institute believes that the overall impact of increased volumes, will be to slow down the rate of growth in house prices - an impact which is consistent with the Governments well enunciated agenda.

B. Commercial

The Institute recognises that the introduction of the 9% rate is a deterrent to inward investment, is damaging the values of pension funds, is an incentive to potential investors to invest outside the country and to create special purpose vehicles (SPV) which minimise the impact of the tax.

The Institute is therefore advocating a return to a single rate of duty of 6% on all commercial property transactions and also recommend that the Government make a commitment that the rate of duty will remain the same for the next 5 years, in the interests of signalling a stable taxation policy

C. CGT – Roll Over Relief

The Institute's members are also conscious of the impact which the abolition of roll-over relief on CGT is having for farmers, especially in the case of non voluntary sales i.e. CPO cases. The Institute strongly advocates the restoration of roll-over relief, ideally for all bona fide farming reinvestment, but at an absolute minimum in the case of taxes paid following a CPO.

D. **Building Land**

The Institute opposes the introduction of any new national taxation on building land. Any such measure is likely to reduce supply which will put further upward pressure on new house prices

Nevertheless, the Institute recognises that additional revenues from this source are potentially recoverable but urges that this be done by Local Authorities through enhanced levies for infrastructural connections – such levies to be phased in over a five year period so as to create an incentive for existing landowners to develop at the earliest possible date.

The Institute does urge the Minister to continue and to increase investment in the major transport infrastructure projects.

The Institute urges the Minister to make these changes in the forthcoming budget.

October 2003

are recognised as reliable International standards by the Central Bank of Ireland, the European Central Bank, and the European Parliament.

To achieve REV status, IPAV educates its qualified valuers through its specially tailored courses, held in the Institute of Technology in Tallaght. This ensures that IPAV members who complete this course meet with the expected minimum educational standards, MER, of TEGoVA, a copy of which has been supplied to the committee. IPAV's qualified valuers are those who are professionally qualified, experienced valuers, with a minimum of ten years practical experience, and who have at their fingertips vast knowledge, comparable instructions, and details of sales in their own area. Since the REV qualification was first introduced in Ireland in 2013, all IPAV REV valuers must agree and sign up to a contract that demonstrates their commitment to IPAV and also confirms the level of self-regulation it imposes. Compliance and standards are the cornerstone of the EVS valuation reports, and IPAV compliance officers monitors and examines valuers' written valuation reports on an *ad hoc* basis. IPAV, as the administrator of the REV scheme in Ireland, is subject itself to five years reviews.

I will now move on to R5d. R5d - appropriateness of relationship between Government, the Oireachtas, the banking sector, and the property sector. Again, Chairman, I wish to begin by starting ... I can only comment on the role of IPAV and its members' relationship with the Government, the Oireachtas, the banking sector, and the property industry generally. I will summarise briefly as follows.

The Government: IPAV has always engaged with members of Government in regard to lobbying on various items of legislation and issues of interest as they arise. For example, IPAV makes an annual pre-budget submission to the Minister for Finance and Minister for Public Expenditure and Reform, and, in recent years, has also made presentations to the Joint Oireachtas Committees on Finance and the Public Service, and Department of Agriculture. IPAV has engaged, as necessary, with the Minister, Minister of State, and senior officials in the Department of Environment, Community and Local Government in relation to housing and related matters. Ministers and Ministers of State have attended and addressed IPAV's annual conferences and regional seminars over the years. IPAV has always kept lines of communication open with Members of the Dáil and Seanad, both Government and Opposition, in briefing them on relevant issues as they arise both individually and in committee. IPAV makes regular submissions to joint Oireachtas committees where useful exchanges of views regularly take place. IPAV has nominating rights to Seanad Éireann and members are from time to time elected to either House.

The property industry itself: IPAV has engaged with parallel professions and professional bodies in the property business and industry. IPAV representatives have regularly attended conferences organised by related professionals and institutions and have made, and continue to make, a determined effort to engage with all stakeholders in the industry. Representatives of such professional bodies are invited to attend IPAV's annual conference.

And the banking sector: IPAV has engaged as much as possible with the Central Bank of Ireland and individual financial institutions. IPAV lobbied for the inclusion of the blue book as one of the preferred standards in the CBI final report issued in December 2012.

And my conclusion, Mr. Chairman: Overall, it is IPAV's view that the relationship between the four sectors, Government, Oireachtas, banks and property stakeholders, should be one of being independent of each other, yet communicating through the correct and transparent channels for the betterment of all, and the common good of Irish society. While the priorities of the

Financial Statement

of the

Minister for Finance

Mr Brian Cowen, T.D.

7 December 2005

STATEMENT OF THE MINISTER FOR FINANCE

MR BRIAN COWEN, T.D.

7 DECEMBER 2005

I am honoured to be with you again to present the 2006 Budget to the House. This Budget reflects the priorities of the Government; and I believe it reflects the needs and hopes of the Irish people as well.

INTRODUCTION

We are living in the midst of the longest and strongest era of sustained prosperity in all of Irish history. This didn't happen by chance. This involved careful planning. It involved investment in infrastructure development where we had considerable ground to make up. It involved a commitment to educate our children so that they could be a match for their peers across every discipline. It involved careful fiscal management and the creation of an economic environment that would attract investment. And, of course, it represents the hard work of the Irish people themselves.

As a nation, we now enjoy a much enhanced quality of life. We are a prosperous country. More of our citizens are in work than at any time in our history. More enjoy a decent quality of life than ever before. We are welcoming more and more new people to our shores – citizens of the new Europe – and we are providing for them too.

It is a new Ireland also. Prosperous but not without challenges. This Budget is largely about two key objectives:

- The facilitation of sustained economic growth
- Improved equality and opportunity for all in society.

We have made our choices in the light of a simple, but powerful principle: we cannot take prosperity for granted. We will not put at risk the prosperity the Irish people have achieved.

In last year's Budget I made one simple statement that is often taken for granted and perhaps fails to get the right resonance as a result. Let me restate it now. Economic prosperity is a means to an end and not an end in itself. We must strive for economic success and we must insist on prudent fiscal management in order to achieve the establishment of a better society for all.

SUPPORTING OUR ECONOMIC SUCCESS

We are right to focus on our economic success and to talk about it. It is correct, not in order to congratulate ourselves, but because the better we

understand it, the more we are likely to know how we can sustain it. The deeper our economic success and the longer it is sustained the greater the challenge to keep the forward momentum. While we work to maintain it we need to carry out reforms that will introduce greater opportunity for even more people to become involved in our economy and to benefit from its success.

This Budget brings the Government closer to fulfilling the public promises we offered when the people gave us their mandate. We had first to build safeguards and act to sustain the economic growth and stability long into the future and we had to work to find ways of sharing more evenly the benefits of our economic success.

My aims for this Budget are straightforward. I want to improve equality and opportunity for all in our society. I want to help those on lower incomes and to support families at all levels. I want to develop our infrastructure so our firms can compete better while helping to secure our environment and our heritage. I am also determined to pursue value for money for consumers and for taxpayers.

This Budget is rooted in the belief that Irish people can continue to achieve extraordinary things provided Government creates the right environment for them to do so. It is rooted in the need to make that environment more inclusive so that fewer of our people feel excluded.

Education
Education is critical to this ambition. It is accepted that the quality of our educated young people has been at the heart of the economic success of the past 15 years. The world has not stood still in the meantime. We face new challenges in the education sphere. This is about access and about the strength of an offer to the young people coming through the system. I will be announcing a major new initiative in this Budget to address that challenge.

Infrastructure
Infrastructure continues to be a priority and while we have made considerable advances in recent years there is still much to be done. The Transport 21 initiative is a major plank of our budgetary policy and correctly so.

Supporting the Family
We are committed to supporting the family as the cornerstone of our society. The place of the child, mother and father within the family unit needs protection and support. The balance to be achieved between the need to work outside the home and the costs associated with care of the youngest of our citizens needs attention by Government. Budget measures alone cannot achieve this balance but I have taken steps to deal with the issue.

Reaching Full Equality
We are committed to reaching full equality and opening the doors of opportunity for every citizen in Ireland. We want as many of our citizens as possible within the workforce. This is about the minimum wage and about

taxation and for those on social welfare, it is about increased payments that can improve their quality of life too.

And we are deeply committed to ensuring value for the hard earned money that millions of our citizens pay in taxes. Taxpayers have a right to a Government that spends their money for the right reasons and in the right way – wisely and efficiently – and the choices we have made at every point in this Budget and the protocols we have put in place reflect the deep responsibility that I and my colleagues in Government feel when it comes to getting value for every Euro spent.

Budget Measures

I plan to achieve my aims by a series of measures that involve:

- Investing much more in our future through enhanced capital spending.
- A package of measures to help care for older people.
- Increasing Social Welfare rates well ahead of inflation.
- Developing a five year childcare package to support families with young children.
- Keeping those on the minimum wage out of the tax net.
- Keeping those on the average industrial wage out of the higher tax rate.
- Reforming tax reliefs so that tax payments more fairly reflect ability to pay.
- Freezing indirect taxes and reducing some others.
- Introducing special reliefs designed to improve our environment, and
- Relieving the tax and administrative burden on business and on small business in particular.

Budget and Economic Outlook

We have the resources to do all these things because our economy is healthy. We have to make sure it remains so by pursuing the right policies. This will be a challenge, given the major external threats of oil prices, higher interest rates and shifting exchange rates and trade patterns. We will be best placed to meet this challenge if we all work to secure the competitiveness of the economy.

We have additional resources available to us now because we have followed the correct tax path of lower rates yielding more revenue. It is the tax take that counts, not the tax rate, as this year's record Capital Gains Tax yield shows.

Economic growth in 2005 is projected by my Department at 4.6 per cent in GDP terms, that is the value of all goods and services produced in the State, and 4.8 per cent in GNP terms, that is the income we earn from producing these goods and services.

The success story of 2005 has clearly been the very strong growth in employment due to the correct policies followed by this Government. The latest labour force data show that employment grew by 96,200 or 5 per cent in the last twelve months. Nearly 71,000 of this increase represents additional full time jobs. The live register at 150,000 is 14,500 lower than two years ago.

This employment record is far ahead of the rest of the EU and is a testimony to the enterprise and effort of our workforce.

My Department is forecasting that for 2006:

- The economy will grow by between 4½ and 5 per cent,
- Unemployment will remain very low at around 4.3 per cent,
- Employment will grow by a further 60,000, and
- Inflation will average 2.7 percent.

This is a continued strong performance especially on employment. In money terms, it means a GDP of over €172 billion in 2006 and a GNP of just under €145 billion. In order to maintain our levels of employment it is particularly important that we all play our part in securing the competitiveness of the economy.

As regards the Government's finances we have set a target for a General Government Deficit next year of 0.6 per cent, as measured by the EU, together with a debt ratio of 28 per cent of GDP. This debt ratio is one of the lowest in the EU. Next year total gross voted public spending will rise by over €5 billion or just over 11 per cent to €50.6 billion, of which €43.8 billion is current day-to-day spending. Day-to-day spending in 2006 is 9.9 per cent above the projected outturn for 2005, excluding the exceptional provision of €400 million to meet the cost of repaying nursing home charges. Spending on capital, to provide roads, public transport, housing, hospitals and other major projects, will come close to 5 per cent of GNP – the highest public investment rate in the EU.

Overall Gross Voted Current Public Spending

Of the €43.8 billion in gross voted current spending more than one in every four euro, or €12.2 billion is spent on Health. The spending on Health at this stage amounts to €3,000 for every citizen in the State or over €9,000 for every taxpayer.

The other major current spending Departments are Education and Science, Social and Family Affairs. Education day-to-day spending accounts for one in every six euros and spending on Social and Family Affairs accounts for one in every three spent. Taken together day-to-day spending on Health and Children, Education and Science and Social and Family Affairs accounts for three in every four euros required to fund total day-to-day voted spending.

It is not just a matter of the quantity of spending but the quality as well. Does it meet current needs and also provide for our future? Do we get full value for it? Could we achieve the same for less? These are issues which are rightly to the fore in the debate on public spending.

A vital element in addressing these issues are the actual processes we use to secure value for money at all levels. I am determined to pursue this issue of the quality of public spending. I have recently put in place a series of specific measures to do so. I intend to build on this. In particular, I plan to roll out new forms of construction contracts in 2006 aimed at providing greater cost

A FAIRER TAX SYSTEM

Last year I announced a major review of tax reliefs in order to achieve a greater degree of equity in our tax system.

This involved both internal reviews and the employment of outside consultants. It also included an extensive public consultation in which nearly ninety submissions were received from a wide range of persons. These submissions were reviewed by the Joint Oireachtas Committee on Finance and the Public Service and I have had the benefit of that Committee's discussions. At the end of the day, the decision on what to do rests with the Government, for which we can be held accountable by this House.

What we are Seeking to Achieve

My basic aim is to see that everybody pays an appropriate amount of income tax relative to their ability to do so. This is a cornerstone of tax equity. We must balance this with the need for effective tax reliefs to incentivise work, effort and enterprise so as to stimulate economic and social development. To achieve this balance I am announcing a range of specific measures. These reflect the recommendations of the reviews, a synopsis of which is set out in the Summary of Budget Measures. I propose to publish all the relevant reports reviewing these various tax reliefs in time for the Finance Bill.

Firstly, the following reliefs either have achieved the objectives set for them or are no longer considered to be cost effective in terms of the objectives set for them and are therefore being terminated subject to certain transitional provisions: the urban renewal, town renewal and rural renewal schemes, and the special reliefs for hotels, holiday cottages, student accommodation, multi-storey car parks, third-level educational buildings, sports injuries clinics, developments associated with park and ride facilities and the general rental refurbishment scheme.

The transitional measures take cognisance of the fact that there are currently over 250,000 jobs in the construction sector and the building industry accounts for around 20 per cent of the economy. We should not do anything that disrupts unnecessarily an industry that is such an important driver of jobs.

For this reason, for projects that are already in the pipeline, I am extending the date for which 100% relief for expenditure will apply by five months from end July 2006 to 31 December 2006. Thereafter, where 15 per cent of the relevant expenditure on the project has been incurred by that date, the relief will apply to only 75% of the expenditure incurred in 2007 and to 50% for expenditure incurred up to end-July 2008. The relief will then reduce to zero, and thus end, after 31 July 2008. Full details of these transitional arrangements are set out in the Summary of Budget Measures.

Both sets of external consultants dealt with the transitional issue and both recommended an extension of relief for such pipeline cases. One recommended a simple extension of 100% relief for seventeen months beyond 31 July 2006. The other recommended an extension of 5 years but at only 50% relief. I have chosen a middle course.

This winding down of property based tax reliefs is consistent with the greater capacity of particular economic sectors nowadays to fund such investment from their own resources, and the sizable capital investment which the Government itself is making through the major new investments I referred to earlier.

In line with the recommendations of the consultants, I propose to continue the tax reliefs for nursing homes, childcare facilities, and private hospitals. Special arrangements will apply for park and ride facilities and the living-over-the-shop scheme as indicated in the Summary of Budget Measures.

The reviews also proposed that any new reliefs should be time-limited and should, where relevant, be subject to an assessment of costs and benefits prior to their introduction. They also proposed that recipients of these kinds of tax reliefs be required to supply full data to Revenue to assist in the costing and assessment of reliefs. I will be following this advice as far as appropriate.

A Minimum and Fair Tax

It is necessary not only to eliminate some incentive reliefs but also to regulate the use that can be made of those that remain. We cannot stand over a situation in which some high-earning tax residents, through the use of incentive reliefs, can reduce their taxable income to nil. This is simply not a fair situation, although I should point out that high-earning non-payers are in a very small minority. Accordingly, I propose now to place an annual overall cap on the extent to which specific incentive reliefs can be availed of.

The cap will apply to those with income over €250,000 per year. It will operate by reducing by half the amount of income that can be relieved from tax by certain specified tax reliefs. This measure will help eliminate the phenomenon of tax free millionaires and increase the effective rate of tax on those with high income towards a minimum of 20 per cent. Further details of how this will work are set out in the Summary of Budget Measures. This will require some complex new legislative provisions and I propose accordingly that the new system will apply for all tax years from 1 January 2007.

This annual cap system will also apply to Artist's relief from the same date. There is no change in the tax treatment of income now exempt under the Artist's relief scheme, where that income is less than €250,000 per year.

Pensions

Tax equity applies not only to taxpayers' current income but also to how taxpayers provide for their income needs in retirement. Recent Budgets and Finance Acts have made significant and innovative improvements in the nature and scope of tax reliefs for pension provision. This was done so as to encourage earlier and more substantive saving by the generality of individuals to meet the cost of providing themselves with a reasonable and affordable pension.

The Government itself is putting aside one per cent of GNP each year to help fund future pensions. The National Pensions Reserve Fund is expected to

Financial Statement

of the

Minister for Finance

Mr Brian Cowen, T.D

6 December 2006

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STATEMENT OF THE MINISTER FOR FINANCE

MR BRIAN COWEN, T.D.

6 DECEMBER 2006

INTRODUCTION

As I present my third Budget to this House, I am delighted to report that Ireland's economy is strong.

Growth is running at 5 per cent, its ideal, sustainable level.

More than two million people are at work.

We are making unprecedented investment in our infrastructure: investment that will enhance our competitiveness and improve our quality of life for years to come.

Our public services are being expanded, improved and reformed.

More doctors, teachers, nurses and gardaí are employed than ever before.

At the same time, the public finances have never been in better shape.

The success we enjoy now has been brought about by the hard work of our people, responding to the policies of this Government. The purpose of this Budget is to use that success as a platform on which we will continue to build a fairer, stronger Ireland.

ECONOMIC CONTEXT

In 2007, our country will extend its record of outstanding economic progress:

- The economy will grow by 5¼ per cent;
- We estimate that 72,000 new jobs will be created next year, representing a 3.5 per cent increase in the numbers at work;
- Unemployment will remain low at 4.4 per cent, among the lowest in the EU; and
- Inflation, as measured on the harmonised EU basis, will moderate from 2.7 per cent on average in 2006, to 2.6 per cent in 2007.

Of course these projections are subject to some degree of risk from international factors, such as:

- A possible, sharper than expected, downturn in the US economy;
- A slower growth rate than is currently forecast in Europe;
- Further ECB interest rate increases; and
- The ever present unpredictability of oil prices and exchange rates.

There are also domestic risks of losing competitiveness and from unbalanced economic growth. This Budget addresses those risks by taking a long-term, sustainable approach to our economic management.

The Government's primary economic aim has been to create more jobs and facilitate more business being done. The additional revenues generated by such a strong economy enable us to sustain ongoing improvements in our public services year in, year out. The success of our policies is best highlighted by the hundreds of thousands of new jobs created, and the changes to our tax policies which have rewarded work and allowed people take home a greater share of their pay. We have also been able to provide for the less well-off in ways which no Government has ever achieved before. We have built up the productive capacity of the country by investing in capital spending, thereby helping us to compete better in the long term also.

At the same time that we have been doing all this, we have more than halved the National Debt burden. That's responsible government at work. Our strategy has been remarkably successful by any measure. I believe that this is the firm foundation on which we can build in the future.

2006 has been an exceptional year for the public finances. It is true that, while tax revenues are well ahead, some of the buoyancy is due to one-off, windfall gains. Against this backdrop, we must firstly make sure that any increase in spending is used efficiently and effectively. We must continue to insist on value for money in public spending. Secondly, we must be careful not to inject so much spending that we create additional inflationary pressures and in so doing reduce the impact of additional expenditure.

I am not proposing that because we have extra resources we should spend it all now. That would be irresponsible and short-sighted. Responsible government involves finding the balance between meeting immediate priorities and making provision for future uncertainties. Of the additional resources at my disposal this year, I am returning some to the taxpayer, I am committing some to additional support in the social welfare and in the health areas, in care of the elderly and in improving services for the disabled. I am also using some of the additional revenue to run a very substantial budget surplus. In the event of a global slowdown, we will be able to use some of this flexibility generated during the good times to protect jobs and public services at home.

For these reasons, I am providing for the following fiscal targets in 2007:

- A projected general Government surplus of 1.2 per cent;
- An increase in gross current spending of 11.5 per cent;
- An increase in gross capital spending of 13 per cent; and
- A gross debt to GDP ratio of under 25 per cent, one of the lowest in Europe.

Balancing responsibility with ambition has brought us to our present position of economic strength and this Government is determined to maintain that approach. It is the only means of prolonging and extending the best period of sustained economic growth in our country's history.

REWARDING WORK

Income Tax

As I have said, Ireland's economic success is driven by the hard work and the collective efforts of the people. There is no doubt in my mind that our national economic potential has been boosted through a transformation of our tax system generally and our income tax system in particular which has dramatically increased the rewards of work.

During our ten years in office so far:

- We have made our income tax system fundamentally fairer by introducing tax credits, widening tax bands and cutting tax rates;
- We have lifted hundreds of thousands of people out of the tax net;
- We introduced and increased the minimum wage and we have ensured that people on the minimum wage do not pay income tax;
- We have cut the income tax burden on average earners by more than half;
- We have removed the average wage from the higher tax rate;
- We have reached our target of 80 per cent paying an effective tax rate of no more than 20 per cent; and
- We have abolished many property-based and other tax relief schemes and introduced restrictions on the reliefs available to high earners as part of our continuing tax reform measures. We will continue to assess the role that time-limited tax relief schemes can play in supporting public policy objectives.

In short, this Government has achieved a fairer, more progressive and more rewarding income tax system. Thanks to the strength of our economic performance we can now go further.

I wish to announce the following Income Tax changes to the House. Today I am increasing the personal tax credit by €130 to €1,760 each year for single people and by €260 to €3,520 for married couples. I am increasing the Employee Tax Credit by €270 to €1,760 per year. The entry point at which people will start paying income tax is being increased to €17,600 per year, equivalent to over €8.65 per hour. The Employee PRSI entry point is also being increased to that level. These measures will remove around 88,000 from the tax net. Once again in 2007 we will meet our commitment to keep those on the minimum wage completely out of the tax net.

This means that nearly two out of every five earners (or 846,000 persons) will be outside the tax net in 2007 compared to one third (or 677,000 persons) in 2004 and one quarter (or 380,000 persons) in 1997. This is a highly significant development.

The cost of these measures is €501 million in 2007 and €657 million in a full year.

The 20 per cent standard income tax band will be widened by €2,000 per year to €34,000 single and €43,000 married one earner couples. The projected average industrial wage for 2007 is just over €33,000. Again, we have ensured that workers on such earnings will not be liable to pay tax at the higher tax rate.

This measure will cost €268 million in 2007 and €365 million in a full year.

These increases in credits and bands mean that 80 per cent of income earners will continue to pay an effective tax rate of no more than 20 per cent.

I am also increasing the threshold for the payments of the health levy from €440 per week to €480 per week, or just under €25,000 per year. This means that all workers earning €480 or less per week will be exempt from the health levy.

The income tax exemption limits for senior citizens aged 65 and over are being raised from €17,000 and €34,000 to €19,000 and €38,000 per year respectively for single and married persons, removing a further 9,000 from the tax net. This means that our senior citizens will be exempt from income tax if they earn less than €19,000 single or €38,000 married per year.

There are a number of other tax credits affecting certain people because of their particular circumstances which I propose to increase.

Widowed persons currently receive an additional tax credit of €500 per year. I am increasing it by 10 per cent to €550 in 2007.

There is also a special tax credit given to widowed parents in each of the five years following the year of bereavement. I believe that widowed parents deserve greater support during these difficult years and I am increasing the credit by €650 in each of the five years after the year of bereavement. The increased tax credit will range from €1,750 in year five to €3,750 in year one.

There is also a special tax credit for people who care for an incapacitated child. In 2007, I am doubling this tax credit from €1,500 to €3,000 each year.

Regarding the blind person's tax credit, it will go up by €260 single and €520 married to €1,760 single and €3,520 married per year, respectively.

Finally alongside the income tax age exemption limits there is an extra tax credit for those aged 65 and over. This extra tax credit will increase by 10 per cent to €275 single and €550 married per year.

These measures relating to exemptions and special credits will cost over €88 million in a full year.

In relation to tax rates, when we came to office, we made a commitment to the Irish people to reduce the marginal rate of income tax from the then 48 per cent to 42 per cent. We delivered on that. We also said we would reduce the top rate further to 40 per cent if economic circumstances permitted. We believe that the economic circumstances are sufficiently buoyant now to enable me to reduce the top rate of tax from 42 per cent to 41 per cent today.

This rate cut will cost a net €125 million in 2007 and a net €186 million in a full year.

If this Government is returned to office, then on the basis of our current economic strength being maintained, it is our shared intention to complete the commitment to cut the top income tax rate to 40 per cent in next year's Budget.

I propose to increase the Health Levy from 2 per cent to 2½ per cent on income exceeding €1,925 per week or just over €100,000 per year. This extra money will help fund services such as long-term care initiatives for the elderly. We need to act now to secure such funds and I believe it is only right that those best able to afford it make an increased contribution.

This will raise €34 million in a full year.

Taken together, these changes will reward work and increase disposable income. They will help workers, most obviously those on low and middle incomes and will, I believe, be welcomed by all.

The full year cost of all these income tax measures is estimated at just over €1.25 billion.

Helping Taxpayers Claim

Of course, it is not just a matter of providing additional tax reliefs for the ordinary taxpayer. The taxpayer must also be helped by making it as easy as possible to get access to tax reliefs.

We have already made strides in this regard by giving mortgage interest relief and medical insurance relief at source via the banks, building societies and health insurers.

However, there are other areas where getting access to reliefs can be improved, especially in the area of various expenses reliefs.

Accordingly, the Revenue Commissioners will be putting in place measures specifically to help the taxpayer, in addition to the major publicity campaigns already undertaken to make taxpayers more aware of their entitlements.

In 2007, all age-related tax credits will, where possible, be credited automatically to the taxpayer, where a verified date of birth can be established through Revenue and Social Welfare records. Credit institutions will be enabled to operate DIRT-free accounts for those aged 65 and over and for those who are permanently incapacitated, where their income falls below the relevant income tax limits. At the moment, both categories of depositor have to reclaim the DIRT paid in such cases.

In 2007, Revenue will also implement a system to credit tax relief on trade union subscriptions automatically, based on trade union membership lists, and will be engaging with the Unions to make the necessary arrangements in respect of their members.

For 2008, Revenue plan to move, where possible, to automatic repayments in respect of certain hospital and other expenses that qualify for tax relief. Tax relief due on medical insurance paid by employers that has been subject to benefit-in-kind taxation will be automatically included in the employee tax credit. I have asked Revenue to progress work on applying similar procedures in due course to nursing home and other medical expenses that qualify for tax relief.

Revenue will explain the details of these simplification measures later this week. The Government is determined to make it easier for ordinary taxpayers to claim and receive their rightful entitlements.

PROMOTING ENTERPRISE AND INNOVATION

Ireland has become one of the world's most enterprising economies to the benefit of all. More jobs, better opportunities, improving prospects and greater tax resources have been the results so far. I want to see that development continuing so that the people of this country can face with confidence an increasingly competitive global marketplace. I want to see the State encouraging Irish businesses to work smarter, to pursue excellence and to invest in innovation and creativity for the future.

The Budget measures I am announcing today will encourage enterprise, incentivise innovation and promote competitiveness in Irish industry. They will help position our businesses for long-term success.

Supporting Growing Businesses

Over the past ten years we have refocused the Business Expansion and Seed Capital schemes to ensure that they channel funds to help transform and modernise our small business sector and improve our national competitiveness. These schemes are due to expire on 31 December and have been specifically reviewed at my request. Hundreds of small businesses using these schemes were consulted and asked for data and for their views on the schemes. Many of these firms using BES are ordinary small to medium-sized manufacturing companies in various parts of the country. They make a vital contribution to job creation and to maintaining our competitiveness.

On foot of this review, and the suggestions of groups such as the Small Business Forum, I am announcing an extension of these schemes for a further seven years and I am raising the ceiling per company on total BES investment from €1 million to €2 million. The annual limit on BES investment per investor, which has not been increased since 1984, is being raised from €31,750 to €150,000. In the case of the Seed Capital Scheme, the annual investor limit is being increased to €100,000. I am increasing these limits in order to bring vital risk capital to the small business sector. As these schemes are approved State aids, their continuation and the changes proposed will require the approval of the European Commission. The full year cost of these measures is estimated at just over €25 million.

With a view to fostering new companies and entrepreneurs, during the course of this year, I approved a proposal for a new round of seed and venture capital funding, announced by my colleague Micheal Martin. This will involve a €175 million State investment through Enterprise Ireland over a period of ten years.

It is often pointed out that much of the dynamism of an economy comes from small firms and there is a real need for small companies to make use of innovation and modern technology to maintain competitiveness. To help bring that about, the Minister for Enterprise, Trade and Employment has announced a provision of €5 million in 2007 for Innovation Vouchers, Knowledge Acquisition Grants, and ICT audits, all of which were recommended by the Small Business Forum.

Helping Small Businesses

Small businesses are a major source of employment and growth in this country. There are approximately 250,000 small businesses in Ireland today, employing almost 800,000 people, or forty per cent of the workforce.

Recognising their important contribution and their development potential, I am pleased to announce the following package of measures aimed at reducing the administrative burden on this important sector.

- Small companies whose corporation tax liability is currently less than €50,000 can pay preliminary tax based on their previous year's final tax liability. This removes the need for small businesses to forecast their projected full year performance prior to the end of their accounting year. To alleviate further the burden on small business, I am increasing the small company liability threshold from €50,000 to €150,000. Over 97 per cent of Irish companies will have the benefit of the simpler and more straightforward system. It will help them to get on with their business without putting the State's own cash flow at risk;
- I am also introducing measures proposed by Revenue whereby new start-up companies will not have to pay preliminary tax in respect of their first accounting period. In addition, I have asked the Revenue Commissioners to explore further opportunities to reduce the tax compliance burden on all firms, large or small;
- The annual VAT cash accounting threshold for small firms is being raised from €635,000 to €1 million from 1 March 2007, so as to simplify administration and reduce working capital requirements. This allows smaller firms to pay VAT on receipt of payment rather than at the time a sale is made;
- The small business VAT registration turnover thresholds are being increased from €27,500 per year for services and €55,000 per year for goods to €35,000 and €70,000 respectively from 1 March 2007. This measure could take up to 8,000 businesses out of the VAT system and will considerably reduce their administrative burden;
- The frequency of VAT payments for smaller firms is being reduced from six VAT returns to three each year in some cases, and to two each year in other cases. This will provide a cash flow boost to firms and significantly reduce compliance costs; and
- The transaction threshold which triggers the requirement for a tax clearance certificate is being increased from the current €6,500 to €10,000.

The details of all these measures are contained in the Summary of Budget Measures.

The full year cost of these measures is €53 million, with an additional once-off cash flow cost in 2007 of €124 million. This will reduce the regulatory burden and enhance the competitiveness of companies whose well-being is critical to our continued success.

R& D Tax Credit

I am also enhancing the existing R& D tax credit for firms so as to promote R& D spending in our manufacturing sector. Details are in the Summary of Budget Measures. We must act now to promote as many jobs as possible in the productive sector throughout the State. Investment in R& D is a key factor in retaining our manufacturing base. The special R& D tax credit seeks to encourage this and the changes I am making will further incentivise firms to engage in R& D.

These improvements will cost €70 million in a full year and complement Government spending on Science Technology and Innovation which will increase from €800 million in 2006 to €900 million in 2007.

Conferences

In recent years, hotel and tourism bodies have made a strong case to introduce a VAT measure specifically for conferences, which will allow deductibility of accommodation expenses on a ring-fenced basis. I am now bringing in such a measure which should greatly help that sector promote growth in the important conference business and benefit the entire country. This is in recognition of the importance of tourism, one of Ireland's largest indigenous industries. The details of the scheme will be set out in the Finance Bill.

Sporting Bodies

Sport plays a major role in all aspects of Irish life, both commercial and social. In recognition of this, there are specific income tax and capital gains tax exemptions already in the tax code for sporting bodies. I propose to include in the 2007 Finance Bill a similar exemption from stamp duty where such sporting bodies purchase land for the purpose of promoting sports.

PROTECTING THE ENVIRONMENT

Environmental Measures

The environment is a concern for us all. But this concern is not addressed merely by announcing policies. It is a matter of practical measures, targets, and actions that have a real effect. It is also a matter of achieving a balanced impact on society.

Ireland's economic success of recent years has brought with it environmental pressures through increased consumption levels, waste and energy demands. However, we have been working to minimise the impact of these pressures and enhance the quality of our environment.

The recent Stern Review in the UK highlighted that climate change is one of the most pressing global economic and environmental challenges we face.

Ireland supports the international effort to address this challenge and is playing its part in the coordinated global response. We will meet our Kyoto target, mainly through reductions in greenhouse gas emissions in our own economy, but also through contributing to the cost of projects to reduce emissions elsewhere in the world.

The Government has indicated its intention to purchase up to 18 million tonnes of carbon allowances in respect of the Kyoto commitment period 2008 to 2012. I provided an initial €20 million in last year's Budget and just recently the Dáil approved the investment of this money in emission-reduction projects in the emerging economies in Eastern Europe.

I am now indicating that a further €270 million will be provided to fund a programme of purchases up to 2013 and this will be reflected in the Government's medium-term investment programme to be set out in the forthcoming National Development Plan. This provision will be kept under review. The purchase of carbon allowances is just one part of the overall strategy. We will shortly complete an updated version of the National Climate Change Strategy.

In more general terms, on the environment we have made progress on many fronts including:

- Enhancing public transport facilities under Transport 21;
- Setting an ambitious target of 30 per cent electricity generation from renewable sources;
- Making rapid improvements in drinking water quality;
- Significantly increasing high-quality waste water treatment capacity resulting in 90 per cent compliance with EU standards this year from 25 per cent in 2000. As a result, pollutant loads to our waters have been reduced by 45,000 metric tonnes per year;
- Increasing municipal waste recycling rates from 9 per cent in 1998 to over 34 per cent and rising;
- Introducing a major excise relief scheme for bio-fuels, costing in excess of €200 million over 5 years; and

Ireland has led the world by successfully introducing the workplace ban on smoking, and it is important to build on this. The Minister for Health and Children will be announcing in the near future measures to restrict the sale of cigarette pack sizes of less than 20.

HELPING YOUNG FAMILIES

I am acutely aware of the pressures that are on families today. Families are the very core of our society. Our policies must offer them firm support as they build homes and bring up children. In 2007, I want to see additional support going to those who have bought or are trying to buy a home for the first time.

Assisting first-time Home Buyers

In the current market situation, any stamp duty cuts would more likely than not be incorporated into the sale price and so end up in the pocket of the seller. This will not help first-time buyers purchasing new homes.

Our firm aim is to help the first-time buyer directly and substantially, not only those who are in the market now, but also those who are already paying their first mortgages. The best way to do this is by way of mortgage interest relief. The Government therefore proposes to double the ceiling on mortgage interest relief for first-time buyers from €4,000 single and €8,000 married or widowed per year to €8,000 and €16,000 respectively. This increased support will be available to all those currently in receipt of first-time buyers relief who are in the first seven years of their mortgage. About 125,000 first-time buyers will benefit directly as a result of this measure, at a cost of €60 million in a full year.

As a result of this initiative for first-time buyers, a couple with a joint mortgage of up to €379,000 over 33 years, at an interest rate of 4¼ per cent, will be able to claim interest relief on the full amount of the interest on their loan. Such a couple will now gain up to €1,600 extra per year, or €133 per month, in mortgage interest relief directly credited against their mortgage bill. Single people will gain up to €800 per year, or over €66 each month. This helps existing first-time buyers who are already in their first home, as well as potential first-time buyers, without acting to inflate house prices further.

I am also raising the ceiling on interest relief for non-first time buyers from €2,540 single and €5,080 married to €3,000 and €6,000 respectively.

In addition, I propose to increase the rent relief for those living in private rented accommodation by more than the rate of inflation to assist those facing increased rental costs.

The total cost of all these measures together is €74 million in a full year.

Childcare and Child Income Support

Over recent years, the Government has channelled considerable resources into child income support and childcare generally.

This is highlighted by the fact that the monthly rate of Child Benefit for the first two children, which in 1997 was €38 per child, now stands at €150, or nearly four times higher. Today, I am announcing a further increase in Child Benefit of €10 per month for all children.

While this increase will benefit all children, I want to see additional support being given to those most in need. That is why I have agreed with the Minister for Social and Family Affairs to increase the Back to School Clothing and Footwear Allowance Payments and to replace the existing three rates of Child Dependant Allowance by a new standard rate of €22 per child per week. This is targeted at all families with children who depend on Social Welfare for support. The total cost of the child related increases will be almost €244 million in a full year.

In last year's Budget, I announced a major new Government Childcare Strategy. Since then, investment in childcare facilities has intensified. The EU co-funded Equal Opportunities Childcare Programme has exceeded all targets and has generated over 56,500 childcare places so far. More than 32,000 new places have been created and a further 24,500 places have been supported with grant-aid allocations amounting to almost €500 million over the last six years.

There has also been a strong response to the new five-year National Childcare Investment Programme which I announced as part of the Strategy last year, and which is funded exclusively by the Exchequer. To date, over 900 capital grant applications, amounting to more than €170 million, have been received.

As part of the Government's strategy to increase the supply of childcare, I introduced an income tax exemption last year for income of up to €10,000 per year from childminding where individuals mind up to three children, who are not their own, in the minder's own home. In response to recent representations received from the childminding sector and indications from the Office of the Minister for Children that the uptake of the scheme may be slow, I have now decided to increase the exemption limit in 2007 from €10,000 to €15,000 per year.

In line with the Strategy I announced last year, I am increasing the length of paid maternity leave by a further 4 weeks. This brings the total amount of paid maternity leave to 26 weeks. Unpaid leave is also being increased by 4 weeks, to 16 weeks. Along with the changes in maternity benefit I announced earlier, these changes will help to ease the burden on working families.

Another key element of the Childcare Strategy was the introduction of the Early Childcare Supplement of €250 per quarter for all children under 6 years. This benefits over 280,000 families. This year, I have provided an additional €100 million to cover the full year cost of the payment, bringing the funding for this payment to almost €400 million in 2007.

I am also allocating €1 million per annum on an ongoing basis to support young parents through the Teen Parent Support Programme.

The Early Childcare Supplement, together with increased Child Benefit payments, means that families with two children under 6 will receive direct, tax-free payments of €5,780 in 2007. These payments are designed to assist parents in the choices they make for the care of their children in the early years.

When we came to office, a family in similar circumstances received direct payments from the Exchequer of €914 in a full year. This increase is clear evidence of the Government's support for young families.

PUBLIC SERVICES

Spending on Services

When account is taken of expenditure additions I am providing for today, gross current expenditure in 2007 will be €48.5 billion or 11.5 per cent over the projected 2006 outturn. The composition of this amount reflects the priority attached by the Government to Social Welfare, Health and Education. These three areas comprise 77 per cent of the 2007 current expenditure provision. The allocation for Social Welfare is €15.3 billion, for Health it is €14.3 billion and for Education it is €7.9 billion.

Business Planning Review - 3 March 2006
Budget and Economic Division

ISSUES NOTE

The work of Budget falls into two distinct areas – Budget and Economy.

The Economy - reporting to David Hegarty

Unit	Staff
Economic Forecasting and Analysis	Sharon Daly, Patrick Mullane
Prices and Competitiveness	John McCarthy, Michael Haugh
Labour Market and International Economy	Orla O'Brien, Scline Scott, Michelle Dalton
Construction Sector Analysis	Marie Mackle
Longer-term Analysis, Lisbon and Modelling	Loretta O'Sullivan, John Howlin, Denise O'Connell

The Budget - reporting to Barra O'Murchadha

Unit	Staff
Fiscal Policy and Budget Coordination	Brian Finn, Aoife O'Sullivan, John Uhlemann
Tax Forecasting and Analysis	Donal Murtagh, Alan Mahon
EU Fiscal Reporting and Statistical Analysis	Ciaran Judge, Margaret O'Donnell, Eddie Tierney
Budgetary Surveillance & SGP	Joe Kirwan, Laura Casey
Budgetary Surveillance & Social Partnership	Anne Donegan, Colm O'Connor, Colm Forde

Economic Analysis and Forecasting & Prices and Competitiveness
(Sharon Daly, John McCarthy, Patrick Mullane and Michael Haugh)

First round of forecasting for the BSM will start shortly. The issues that have to be addressed include private residential housing output, SSIA, commodity prices, interest and exchange rates and uncertainties in the international environment.

Impact of SSIA maturity remains an imponderable; we have assumed a low propensity to spend the proceeds

Growth has been largely, indeed almost exclusively, driven by domestic demand over last couple of years. Forecasts assume a recovery in export performance but we cannot be sure that this will materialise. We need to get a better handle on factors driving the manufacturing (and export) sectors

The economy is very exposed to the fortunes of the construction sector. While medium-term underlying demand for housing is probably now higher that the previously oft-quoted 50,000 units figure, the biggest risk is the possibility that some external shock negatively interacts with and affects the sector.

Preparation of new SPU update in late September or early October will pose challenges as it should carry more relevance to policy making than its predecessor the ERO.

Construction and Sectoral Analysis

(Marie Mackle)

We are very reliant on construction for both employment and economic growth. As a result it is the biggest domestic risk to economic development especially where some external shock negatively interacts with and affects the construction sector.

Ongoing need to monitor very carefully trends and developments in the construction sector and within individual sub-sectors

The development and analysis of non-residential construction remains important. Data is more limited in this area. Non-residential construction accounts for about half of construction output so it is worth devoting time to.

We need to develop a better understanding of the shift from manufacturing to services, the driving forces and possible policy implications

International and Labour Market

(Orla O'Brien, Scline Scott, Michelle Dalton)

Social Partnership talks are leading to a number of demands in terms of analysing pertinent issues such as immigration, developments in wages etc.

With the arrival of new staff, analysis/forecasting of earnings has moved to this section from the forecasting section

In response to criticisms from OECD as to our lack of participation in the EDRC, we are planning to participate in some 11 EDRC reviews over the 2006/2007 period

Given current emphasis on the all-island economy, we intend to monitor developments in the Northern Ireland economy so that we can react to requests for input to ministerial speeches etc.

IMF Article 4 mission scheduled for May

Longer term Analysis, Lisbon and Modelling

(Loretta O'Sullivan, John Howlin, Denise O'Connell)

This section has a wide-ranging portfolio, some of which is essentially new work.

On ageing, age-related expenditure projections were published in SPU which substantially updated, for policy changes and demographics, the estimates contained in the unpublished long-term issue group report.

The section participated in the EPC AWG process which led to the publication of EU wide projections recently. Further work is envisaged under the AWG process and we need to think about whether we wish to expand the partial SPU exercise

Section co-ordinates Lisbon process; an implementation report has to be submitted to the Commission (by D/Taoiseach) in the autumn

We want to develop an in-house macroeconomic modelling capacity so that we can do budget etc. simulations rather than relying on ESRI

BUDGET/EU SECTIONS

Most of the work areas on this side are linked and there is a need for a high degree of integration. The Budget/SPU/Maastricht/Tax Forecasting areas which are spread across 4 sections are all closely inter-linked.

BUDGET REFORM

(Brian Finn, Anne Donegan, Aoife O'Sullivan, Colm O'Connor)

The Minister announced a number of changes to the budgetary process in December. Preparations are being made to accommodate within the normal cycle:

- A spring meeting with the Finance and Public Service Committee to discuss the economic and fiscal background to the current and following two Budgets, and,
- An autumn (late September/early October)publication of an update of the three year economic and fiscal forecasts in the SPU, in place of the existing Economic Review and Outlook.

It is now unlikely that the first meeting with the FPSC will take place before 2007.

E-BUDGET PROJECT

(Brian Finn, Ciaran Judge, Donal Murtagh, Aoife O'Sullivan, Eddie Tierney, Alan Mahon)

Work has commenced with CMOD to develop an e-budget system which uses technology to link the core outputs involved in Budget preparation across sections and thereby minimise the potential for inconsistencies or errors.

The first elements of the project have been completed (i.e. a narrative description of process, procedures and outputs).

The overall objective is to develop an integrated relational database system (similar to e-estimates) that will facilitate the full range of analytical, reporting and publishing requirements of the Budget, tax forecasting, Maastricht and SPU sections.

TAX FORECASTING

(Donal Murtagh, Alan Mahon)

Through a combination of own research, cooperation with the Revenue Commissioners and through the Direct Tax Base Working Group work is ongoing to improve methodology and produce more robust tax revenue forecasts.

Specific priorities for 2006 are

- identify factors driving high yields in Stamp duty and CGT – this includes participation with Revenue in the analytical outputs from the computerisation of Stamp Duty returns ,and

- Statistical sampling of Revenue's data base to improve Income Tax forecasting with the participation of the ESRI in an advisory capacity.

E.S.R.I. EXPENDITURE REVIEW
(Barra O'Murchadha, Joe Kirwan)

The group's report will be submitted to the March meeting of the Assistant Secretary Group.

COUNTRY SURVEILLANCE
(Joe Kirwan, Anne Donegan, Colm O'Connor, Laura Casey)

Ongoing development on the knowledge necessary to the critical analysis of convergence/stability programmes of all 25 Member States

The section also provides detailed analysis and briefing on the Excess Deficit Procedure which, at present, applied to 5 Euro area and 7 other MS.

In order to develop our knowledge base on strategic economies it has been decided that AP's will participate in a number of relevant OECD EDRC Review meetings in Paris each year.

RISK MANAGEMENT & BUDGET PRODUCTION
(Brian Finn, Aoife O'Sullivan, John Uhlemann)

A review of procedure has been undertaken and steps are being put in place to reduce the possibility of errors in the 2006 Budget documentation recurring in future.

implementing high-technology projects on time and on budget. In housing and planning, that department addresses a wide range of issues affecting members, including technical, planning, economic and environmental matters.

Representation and lobbying - representation and lobbying has always been a key element of CIF's activity. As the members' representative body for the construction sector, it was our responsibility to represent members and the issues of the industry and to convey those to the media, Government and public bodies, national and local. The CIF's policy position was clearly set out, after my time in August 2012, which formalised what had always been the federation's approach in this area. We have always carried out our engagement with Government in an open manner. We believe transparency should be a requirement for political and public service ... Civil Service engagement, when it comes to public policy issues. We have always published our reports and policy papers and we have provided information about meetings and conversation ... and conversations concerning political and policy issues to our members. It's part of a two-way process that encourages a better understanding of the issues involved on both sides.

A variety of the Departments, in keeping with the subject matter of the inquiry, the variety of the Government Departments that we would have met included the Department of the Environment, which had responsibility for construction policy ... for publishing the review and outlook for the construction industry and for many of the issues with which the industry dealt. Our main contact with the Department of Finance would have been through the budgetary process where we made an annual pre-budgetary ... pre-budget submission, and usually met the Minister for Finance during that process or as part of that process. Our submission would normally focus on taxation policy, both industry-specific and general, and the public capital programme. Our interactions with the Department of the Taoiseach were generally around the macroeconomic position of the construction sector in Ireland and its place in the wider Irish economy. During the years of social partnership, CIF was involved in more extensive discussions with the Department on issues relating to the implementation of successive national development plans and on pay-related issues in specific national agreements. Striving to increase supply to meet demand across all subsectors of the industry was a recurrent theme of discussion. Other Departments are listed in my submission: the Departments of Education, Jobs, Enterprise, Transport, Communications, Health, all of which we had communications with in relation to various aspects either of policy or the implementation of specific public expenditure programmes.

Members of the Oireachtas - the CIF engages on a broad level with Members of the Oireachtas, nationally and regionally. This is done in an open manner, includes distribution of our annual pre-budget submission and other relevant information materials. We interact with local authorities where there are programmes of local road investment, implementation of water and waste treatment programmes, social housing investment and a variety of other issues. We would meet with An Bord Pleanála to discuss policy matters - generally once a year - planning policy, including timescales for decision making.

In relation to the banks, banking regulators and banking representatives, we had very few ... we had very few interactions with banking authorities such as the Central Bank prior to the economic downturn and that, of course, was in the period that I was there. Banking was just not a feature of CIF's activities pre-2008. Access to finance was not an issue for CIF members with the federation in that period. And I should also point out that the CIF, as an organisation, had no knowledge of the banking arrangements of any of its individual members or of how they financed their businesses or of their cash reserves or their borrowings.

Now, construction in Ireland has always been an important part of the Irish economy. It

industry by way of tax reliefs or incentives?

Mr. Liam Kelleher: No way, we would make our budget submission each year, we would put forward what we felt were ... having listened to members, and the members would have been involved in drawing up a budget submission, we would have made that submission, it would have covered taxation areas and taxation issues important to the members and we would have sought to fit in the submission with what we knew to be Government priorities of the day, be it the national spatial strategy or the investment in gateways or whatever it might be. And that would be the nature of it.

Deputy Eoghan Murphy: Let's look at your budget submission, then, from 2001, which is in the documentation as well. Where's the reference ... CIF, page 183. Mr. Bacon was before the committee, Mr. Kelleher, and in 2001 we saw that a number of measures designed by Mr. Bacon to calm the rising house prices were reversed by the Government. Stamp duty for investors was cut and the tax on second homes was eliminated and Mr. Bacon said this reversal of policy was too early. And an article in *The Irish Times* from 6 December 2001 by Colm Keena suggested that the decision on stamp duty was made by the then finance Minister, Charlie McCreevy, against official advice and after intensive lobbying by interested parties. And your budget documentation, on page 183, shows the CIF lobbying for these changes. You said earlier that you were under pressure to ... under pressure to increase output at the time, but is this not an example of the CIF lobbying to change what the Government intended to do in relation to the property sector?

Mr. Liam Kelleher: But, you know, at budget time there are 200 or 300 submissions from representative bodies, from interest groups, from trade unions ... that go into the Department of Finance, that go to the Minister for Finance. Every one of them is looking for some sort of, something extra in the budget, for their particular group, that's the nature of the democracy. The Department, the Minister, the officials, they weigh up the submissions, they have a view on policy. They develop policy and they implement budgetary policy.

Deputy Eoghan Murphy: And the evidence for the submission, where does it come from?

Mr. Liam Kelleher: The evidence of?

Deputy Eoghan Murphy: For the submission that you made in 2001 or any budget submission, where does the evidence come from for proposing those changes?

Mr. Liam Kelleher: Where we were seeking changes? I think you've got to think back to what the environment was like in the 2001-2002 period. I think I said earlier, and there's a piece of correspondence in the core documents, that I had with Minister McCreevy at the time, that we were concerned that, post-2000, there would be a squeezing of capital investment relative to current expenditure, after Structural and Cohesion Funds started to taper down. Then you had 9/11, I think you had foot and mouth disease around the same time, you certainly had a very sharp deterioration in global and Irish economic conditions for a period. It wasn't all a rollercoaster ride upwards. There were periods of softness, and drop. And inward investment, post 9/11, had dried up pretty significantly. So I would say the policy environment of that time was very different from when Peter Bacon had made his recommendations and that, you know, hopefully, and that's what we would have wished for, that the Government of the day, the Minister of the day, would have adjusted policy in this area to help the construction industry, yes.

Deputy Eoghan Murphy: Thank you. My time is limited so I've got to move on to an-

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Leinster House
Tel: 01-618 3629
Fax: 01-618 4783
email: tony.dempsey@oireachtas.ie

Tony Dempsey T.D.

12 August 2005.

Minister Brian Cowen,
Minister for Finance,
Government Buildings,
Upper Merrion Street,
Dublin 2.

Re: Taxation Incentives for Property Development.

Dear Brian,

I have been contacted by a constituent, Mr. Seán Doyle (please see a copy of his letter attached). As you will see from same Mr. Doyle is extremely concerned in relation to the 31st July 2006 deadline imposed on various taxation incentive schemes relating to the construction of a broad range of property developments.

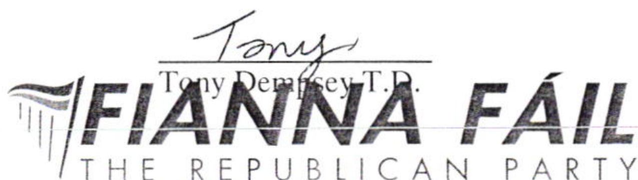
In relation to this issue I have a number of questions I would like to pose. Firstly is the deadline of 31st July 2006 an absolute deadline and if so does your department intend to put alternative arrangements in place to facilitate developers who wish to proceed with projects currently included under the present schemes?

Given the complex nature of the planning process Mr. Doyle asserts that many projects will not be deliverable within the timeframe as set out is it the intention of your department to take into consideration delays that may occur as a result of the planning process? I am certain that any information you have in relation to this issue would be greatly appreciated by Mr. Doyle and others who find themselves in a similar situation.

Wexford County as a whole is experiencing unprecedented levels of growth in terms of residential and tourism, in order to ensure this continues into the future we must facilitate those willing to invest in development of various projects. It is with this concern in mind that I am writing to you.

Thanking you in anticipation of your help in this matter and to date,

Tony Dempsey T.D.



Dáil Éireann
Leinster House
Kildare Street
Dublin 2

Dáil Éireann
Teach Laighean
Sráid Chill Dara
Baile Átha Cliath 2

Seán Doyle Group (Wexford) Limited

Kilmuckridge, Gorey, Co. Wexford.

Telephone: 053 30666 – Fax : 053 30980 – E-mail : sdcs@iol.ie

August 9, 2005.

Mr. Tony Dempsey, T.D.,
Ardbracan House,
Barntown,
Co. Wexford.

Re: Tax Incentives for Property Development

Dear Tony,

As you know I am a member of the C.I.F. and they have suggested we contact you in connection with tax incentives for property development, as follows:

Tax incentives have benefited Ireland greatly over the last 15 years and can continue to do so in the future. The economy has moved on but it has not benefited everybody equally (economically, socially or geographically). Area based and community focused tax incentives can help address emerging regional, economic and social imbalances.

However, taxation incentives for property development (including those available under the Urban, Town and Rural Renewal Schemes) are set to end on 31st July 2006. This wil have major implications for investment in your area.

50% of designated sites nationwide have yet to be development because servicing, planning and other statutory problems have held up projects. This means that areas in our own county/constituency that are urgently in need of investment could be losing out.

Over 40% of all projects under the Urban, Town and Rural Renewal Schemes, which were instigated to address issues of dereliction, under-utilisation and economic decline in designated areas, are tied up in the planning system and have no chance of satisfying the July 2006 deadline for the completion of projects. These projects will not in all likelihood be built out.

/Continued……. ………..

Continued............

This scenario raises questions as to the essential infrastructure from housing to playgrounds and parks that will be lost by your local authority. It also raises questions as to the essential funds that will be lost by local authorities in the form of development levies and other charges as a result of the decision to abolish tax incentive schemes.

The local implications of the 31st. July deadline are such that the Government should:

Extend tax incentives to ensure that all existing designated areas are developed.

Abolish the July 2006 deadline for the completion of projects currently in planning. These projects should be built out in within the timeframe laid down in their planning permissions.

Extend tax incentives to other parts of the country that have not benefited equally from the transformation of the Irish economy over the past decade, particularly as a mechanism for achieving more balanced regional development in line with the National Spatial Strategy.

Target tax incentives at those areas of the economy experiencing bottlenecks such as health, education and childcare facilities; leisure and sports facilities, arts and cultural facilities.

I am attaching a Summary of the CIF Submission to the Department of Finance which outlines the real benefits of these schemes to local communities and the real benefits that can flow from them in the future.

I appreciate your consideration of the above and any feedback you can provide.

Yours sincerely,

Seán Doyle.

CONSTRUCTION INDUSTRY FEDERATION

Submission to Department of Finance/ Revenue Commissioners on Tax Exemptions and Tax Reliefs

June 2005

SUMMARY AND RECOMMENDATIONS

1. When properly focused, taxation incentives have an important economic role to play as an instrument in the state's ability to encourage investment in areas and sectors of the economy where such investment is needed. This is particularly important in terms of the current review of tax exemptions and reliefs. Having established a strong economic performance as a nation, public policy processes are now increasingly focused on how that performance is maintained and geographically distributed within the country in a balanced and sustainable manner.

2. The ESRI, OECD, National Competitiveness Council and IMF in recent reports highlight Ireland's low capital stock, the need for accelerated public and private infrastructure provision and for social as well economic infrastructure. These reports reflect the findings and recommendations of, *inter alia*, the National Spatial Strategy (NSS). A key element in attaining sustainable and more evenly distributed economic development is, therefore, the eradication of Ireland's accumulated capital deficit and the achievement of more balanced regional development.

3. The evolution of taxation incentives in Ireland, from their introduction in the mid-1980s, indicates that in order to be effective, tax exemptions and tax reliefs must be implemented in a very targeted fashion, with the focus on those sectors of the economy and geographical areas in need of investment that can neither be met within a sufficient timescale or through public sector or market-driven investment alone.

4. Whilst encouraging the continuation of taxation incentives for property development, the CIF argues, therefore, that the implementation of future tax exemptions and tax reliefs should be guided by a national audit of new and emerging 'sectoral' pressure points in the economy and the NSS.

5. Taxation incentives may already exist in respect of certain 'sectoral' pressure points, such as capital allowances for Multi-Storey Car Parking and Park and Ride Facilities, Childcare Facilities, Third Level Educational Buildings and Sports Injury Clinics. Where this is the case, these allowances should be retained and, where required, enhanced.

Where sectoral pressure points have been identified that are not covered by existing taxation incentives - in areas for example such as health provision, recreation and leisure, cultural and art facilities - appropriate taxation and other fiscal incentives should be introduced as a matter of priority.

7. Tax incentive schemes also have an important role to play in terms of achieving social inclusion, particularly in terms of housing. The existence of urban renewal reliefs has contributed to increasing the stock of both rental and owner-occupied housing. There continues to be strong merit in increasing the stock of rental housing. Indeed, with the assistance of capital allowances, there is scope for delivering alternative forms of social/rental assistance schemes going forward.

8 The use of the NSS as a framework for area-based taxation incentives should be augmented by (1) a system of master planning for the existing and new Gateways and Hubs and (2) an enhanced Integrated Area Plan system for other parts of the country that allows indicative needs to be identified.

9. A number of avoidable pressure points have emerged in respect of the operation of current tax incentive schemes. By June 2004 over 40% of the investment in urban renewal schemes from their introduction in 1999 was in the planning system, while a large number of applications were lodged during the second half of 2004 in advance of the December 2004 deadline for the receipt of valid applications.

   A key issue, therefore, is the July 2006 deadline for the completion of qualifying projects. The July 2006 deadline provides an insufficient timescale for projects to be built out, particularly in light of the ongoing planning and other statutory delays experienced by many project promoters. Furthermore, the July 2006 deadline will encourage an irrational glut of projects onto the market at the same time. The deadline should be removed, therefore, so as provide for the orderly delivery of projects. A more rational approach would be to allow project proposals to be completed in compliance with their planning permission, which sets out a five-year timeframe after the receipt of planning permission for the completion of projects.

10. A large number of projects have not yet reached planning because of a combination of factors, including delays in the servicing of lands, other planning and statutory delays and the fact that certain areas have thus far remained unattractive from an investment standpoint even with taxation incentives. These areas should be prioritised for inclusion under the new modified Integrated Area Plan system recommended above.

CONSTRUCTION INDUSTRY FEDERATION

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Mr Brian Cowen TD
Minister for Finance
Department of Finance
Upper Merrion Street
Dublin 2

06/0609/MF
Mr K. Cardiff
Refused pl.
R Kearney
27/10/06

27th October 2006

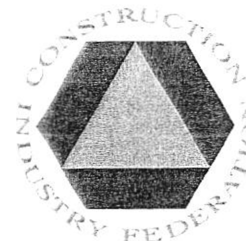
Dear Minister,

I would like to thank you and your Officials for meeting with the CIF delegation on Monday, 16th October last to discuss our pre-Budget Submission.

As an investment industry, the construction sector performs best in a stable, fiscal and regulatory environment which supports private sector investment confidence. Exchequer revenues and employment have benefited from the strong performance of the sector. The current supply response to housing demand and the anticipated (already evident) moderation in new house price growth (now and into 2007) are welcome.

Media speculation about possible Budget 2007 changes to stamp duty has had a significant negative impact on the volume of property transactions (including transactions not affected by stamp duty). The likely impact of public statements indicating policy change or review of property transactions taxes need to carefully consider the likely impact on the market and the implications for Exchequer revenues and market confidence.

Ireland's economic and social infrastructure remains low relative to our main trading partners and many economic commentators have pointed to the need for accelerated public and private infrastructure provision to address this deficit. The National Development Plan 2007-2013 provides a medium term investment platform to give effect to the National Spatial Strategy and make Balanced Regional Development a reality. Continuing major investment programmes are required in education, health, transport, water services, housing and energy. Against the background of a 14% return on capital investment to the end of 2003, the Exchequer should increase its level of infrastructural investment to at least 5% of GNP. This has been achieved only once in the last ten years despite the commitment in the current programme for Government.



President: N. O'Reilly. Director General: L. Kelleher. Secretary: E. O'Neill.
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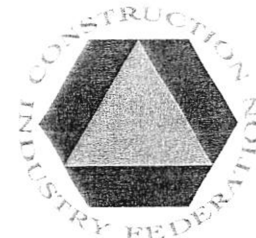

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Executive Summary : Overview of Key Budgetary Issues

While the general outlook of the Irish economy is favourable, a number of risks to economic growth have been identified in 2006. Ireland's competitive advantage is slipping, the cost of doing business in Ireland is increasing and cumulative burden of regulation continues to increase costs to businesses. Those risks cannot be ignored, and action is needed to tackle them now. The new social partnership document, *Towards 2016*, has an objective of "mitigating these [economic] risks and strengthening the competitiveness and productive capacity of the economy." Fiscal policy to enact that objective must be at the heart of Budget 2007.

The continuing increase in oil prices threatens stable economic growth. While the exposure of the economy to energy price inflation is more muted than previous oil price shocks, the impact is adding to inflationary pressures in the economy. The 2007 Budget strategy must address the impact of oil price inflation in the Irish economy, and the promotion of renewable, domestically produced sources of energy.

Budgetary policy in 2007 must prioritise the management of inflation emphasising business competitiveness and investment in infrastructure by:

- Pursuing a counter inflationary fiscal policy as a response to energy price inflationary pressure in the economy.
- Continuing to prioritise public investment, maximising value for money, and efficient and timely delivery.
- Planning funding provisions for the new National Development Plan, to remedy infrastructural deficits and undertake planned capital investment in the future.
- Maintaining a disciplined approach to current expenditure given the more muted economic outlook.
- Continuing to pursue a low tax rate strategy to underpin competitiveness and economic growth.
- Maintaining the value of take home pay for workers.

In July 2006, Government figures showed that revenue from stamp duty was up 43% from the previous twelve months, while capital gains revenue was 15% higher than 2005. These figures reflect the strong relationship between the continued success of house building, general construction activity, property and the buoyant Exchequer receipts. Receipts from stamp duty and capital taxes have increased from less than €2bn in 2002 to an estimated €7.5bn this year. Receipts from VAT, a significant proportion of which comes from housing, have increased by 47% over the same period.

This economic situation should set the stage for significant and efficient capital expenditure programmes. In line with government regional and sectoral development policy, the healthy financial position should facilitate the creation of balanced regional and sectoral growth. Goodbody Consulting (*Ireland's Strategic Infrastructure Investment 2020*), and others, has repeatedly highlighted the economic case for infrastructural investment ahead of demand to maximise return on investments. The ESRI Mid-Term Review of the National Development Plan 2000 – 2006 noted the 14% return on capital investment to end 2003. Attention must be made to the public sector ability to achieve value for money; timely, effective delivery; and efficient spending of allocated resources.

The construction industry is an investment industry performing best in a stable fiscal and regulatory environment which supports private sector investment confidence. Instability undermines private investment which will directly impact on economic growth, Exchequer revenues and construction activity and employment. Given the reality of the current supply response to housing demand and the projected levelling of growth of new house prices for 2007, it is vital that the 2007 Budget does nothing to interrupt the continued strong supply of new housing output for the years ahead.

Unnecessary delays being experienced by the industry with regulatory agencies including utility companies must be minimised. These unnecessary delays put upward pressure on, for example,

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Key Recommendations

Sustaining Economic Growth

- The development of a bold new National Development Plan to improve national competititveness through balanced regional investment, improvements to the state's planning system and efficient use of multi-annual capital envelopes to secure efficient delivery.
- Address bottlenecks in the public sector's capacity to deliver Government infrastructure investment targets.
- Compliance with new contract procedures puts additional managerial and administrative costs on business and erodes competitiveness. Government must ensure that implementation of new contracts does not increase regulatory or cost burden on Small and Medium Enterprises.
- New public sector contracts, when introduced following a full, published Regulatory and Economic Impact Assessment, to be used unamended in all public finance procurement with a formal vigourous review process, involving the industry, within two years.

Taxation

- Government should continue to pursue a low-taxation strategy to underpin economic competitiveness and economic activity with no inflationary impact.
- The current Revenue review of procedures for the application of VAT on land and property transactions is welcome, but must not lead to the broadening of the base of this tax. VAT on property transactions should be simplified so that general tax advisors can advise clients comprehensively. The definition of building land for VAT purposes must not be altered as this could affect supply of developed land being brought to the market.
- Department of Finance should undertake a full-scale review of capital transactions taxes and their economic impact in Ireland, with a view to a comprehensive tax reform in this neglected area and the removal of the 9% stamp duty level. Government should reintroduce indexation of Capital Gains Tax.
- To achieve balanced regional development, Government must use all levers at its disposal, including the use of targeted taxation incentive schemes on a regional and sectoral basis.
- The 35% withholding tax rate under the C45 scheme should be modified to include a 6% pension contribution for self-employed construction industry sub-contractors.
- Government must widen the standard rate of income tax bands to reduce the number of workers paying at the higher level, and to maintain the value of take-home pay at a time when it is under pressure from emerging price inflation.
- The cost of statutory redundancy should be met wholly from employers' contribution to the Social Insurance Fund.

Housing

- Given the reality of the current supply response to housing demand and stability in the growth of new house prices, it is vital that the 2007 Budget does nothing to jeopardise the contribution of the house building sector.
- Aggressive zoning and servicing of suitable land during the lifetime of relevant Development Plans should be pursued by all responsible bodies in areas of high housing demand for residential development so as to maintain housing output at a high level. Government must commit funding to the reintroduction of a major serviced land initiative. Deficits in infrastructural servicing should be reduced through partnership arrangements between local authorities and developers. Detailed arrangements for elimination of these deficits would be best served through partnership discussion with the construction industry.
- VAT should be rebated directly to first time buyers as an incentive to facilitate home ownership for those in need. The definition of building land for VAT purposes must not be altered as this could affect supply of developed land being brought to the market.
- Joint Ventures for delivery of public housing programmes should be encouraged using design build approaches between local authorities and housing developers.

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Capital Gains Tax

There has been a remarkable increase in Capital Gains Tax in recent years. In the first six months of 2006, Capital Gains Tax was 53% higher than the same period of 2005, contributing some €923m. CIF believes that the 20% rate has been good for the economy, the Exchequer and the construction industry and that maintaining the 20% rate should be central to CGT policy in the future.

In the 2003 Budget, the indexation of the cost base for the computation of capital gains was abolished. The argument advanced was that the substantial reduction in the rate of Capital Gains Tax meant that indexation was no longer warranted. The implication of this decision is that the effective tax rate of Capital Gains Tax on assets held from 2003 will increase significantly. For example, an asset bought at the beginning of 2003 and sold ten years later having doubled in value where the underlying rate of inflation averaged 5% over the period would result in an effective Capital Gains Tax rate of 54%. If the inflation averaged 3% over the period, the effective rate would be 30%.

The abolition of indexation has had the effect of substantially increasing the effective rate of Capital Gains Tax on disposals in future. CIF believes that indexation should be reintroduced.

Stamp Duty

CIF has drawn attention in its budget submissions over the years to the impact of stamp duty in the housing and property markets. The markets in land, commercial and industrial buildings and in residential accommodation need to work as efficiently and smoothly as possible. This does not just apply to the markets for newly-constructed assets. The resale market is vital in all sectors, re-allocating the stock of built assets continuously to the most appropriate users, i.e. the users who value these assets most highly. It is in the national economic interest to promote, so far as is possible, a frictionless market in second-hand constructed assets, and the completion of transaction chains which this facilitates is an important support to the demand for new assets, which constitutes the output of the construction industry.

But it is also a worthwhile objective in itself. No useful purpose is served by inhibiting residential mobility. Particularly in a tight labour market of the kind experienced in recent years, workers should face as few impediments as possible in re-locating around the country or even within the larger urban areas. Stamp duty inhibits residential mobility, and becomes a greater burden, given the progressivity in rates of tax, as asset prices rise.

In the non-residential market, the combination of stamp duty and, in some cases, the crystallisation of capital gains tax liabilities, constitute a powerful disincentive to the rational re-allocation of asset portfolios and to the completion of socially desirable projects. Taxes on capital transactions, as distinct from taxes on income, expenditure or property, always have the effect of inhibiting transaction volume for no evident economic purpose, other than the raising of revenue. Stamp duties are not, it must be stressed, taxes on property; they are rather taxes on *transactions* in property. They have quite different economic effects, and in CIF's view these effects are undesirable.

Furthermore investment in property is mobile and the higher property transaction costs announced in the 2003 Budget are providing an incentive to invest abroad. Foreign property investment is currently valued at €10bn p.a. which at current stamp duty rates if invested in Ireland would amount to €900m in tax revenue to the exchequer. The 2003 increases in stamp duty should, CIF believes, never have been imposed in the first instance, and should be reversed at the earliest opportunity. By discouraging transactions in the property market the proceeds for capital gains tax on commercial property transactions are also diminished. The value of pension fund property holdings was also reduced. More generally, CIF continues to believe that the Department of Finance should undertake a full-scale review of capital transactions taxes and their economic impact in Ireland, with a view to a comprehensive tax reform in this neglected area.