Introduction

We will analyse Budget 2018 with measures that impacted the individual and family, indigenous business and foreign direct investment. We will also propose a childcare subsidisation scheme and tax credit scheme

Individual/Family

Historically, lower to middle come earners have been impacted with increased income tax and repeated changes in Universal Social Charge (USC). Several issues need to be addressed in relation to income tax bands and USC for these earners. According to Reddan (2017) cuts to income tax and USC were set to save families only up to €9 a week.

Introduced in 2011 to replace both income levy and the health levy, USC aims to simplify the tax system while strengthening fiscal consolidation. USC generated nearly 4 billion in 2016, which represents approximately 22%of income tax revenue or 10% of total tax revenues. It is projected to reach around EUR 5.6 billion by 2021 under no-policy change assumptions. (European Commission 2017).

The changes that occurred in budget 2018 are as follows:

- The entry point to USC will remain at €13,000
- The 2.5% USC rate will reduce to 2%.
- €600 increase to €18,772 band ceiling
- 5% rate reduced to 4.75%
- The 8% rate remained unchanged as did the 11% rate

Standard Rates of USC - changes in bold.

USC Thresholds			
2017	**Rate**	**2018**	**Rate**
Income up to €12,012.00	0.5%	Income up to €12,012.00	0.5%
Income from €12,012.01 to €18,772.00	2.5%	Income from €12.012.01 to **€19,372.00**	**2%**
Income from €18,772.01 to €70,044.00	5%	Income from **€19,372.01** to €70,044.00	**4.75%**
Income above €70,044.00	8%	Income above €70,044.00	8%

Reduced Rates of USC

USC Thresholds			
Individuals aged 70 years or over whose aggregate income for the year is €60,000 or less. Individuals (aged under 70) who hold a full medical card whose aggregate income for the year is €60,000 or less.			
2017	**Rate**	**2018**	**Rate**
Income up to €12,012.00	0.5%	Income up to €12,012.00	0.5%
Income above €12,012.00	2.5%	Income above €12,012.00	**2%**

Minister Donohue announced that a working group will be established to plan over the next year this amalgamation of PRSI and USC over the medium term.

This will be difficult to implement for several reasons including:

- Individuals aged 66 and over are not liable to PRSI but they are liable to USC.
- PRSI operates on a weekly/monthly basis whereas the USC is a cumulative annual tax.

What the USC changes will mean to different categories

Example 1: A single person with no children earning in the region of €35,000 will earn an extra €5.00 per week or €241 over the course of a year with the new changes.

Example 2: A married couple with no children on one income taxed under PAYE of €45,000 will also see an extra €5.00 per week in their pockets, a yearly addition of €266.

Example 3: Meanwhile a married couple with two children on one income where the worker is a private sector employee earning €45,000 per year will see an extra €7.00 per week – including Family Income Supplement and child benefit – an increase of €366 per year.

Example 4: A single self employed person earning €35,000 will see an extra €8.00 per week or €441 per year.

Indigenous Business: The Areas of Natural Constraints Scheme (ANC)

With an annual turnover in the region of €26 billion, the agri-food sector is Ireland's largest indigenous industry, contributing 7.6% of GDP and generating 10.3% of all exports in 2016 (Department of Agriculture, Food and the Marine, 2017).

Budget 2018 has allocated an additional €64m in Exchequer funding to the Department of Agriculture, Food and the Marine bringing its overall budget to €1.5 billion (Agriland 2017). €25 million will be directed towards an increase in funding for the Areas of Natural Constraint (ANC) scheme increasing its overall funding from €195million to €220 million in line with promises made in Programme for Government "This is the first full restoration of ANC payments which were cut by €50m in Budget 2009" (Margaret Donnelly Irish Independent Business 2017).

The ANC Scheme provides for a scheme calculated per hectare in respect of land selected as disadvantaged. The scheme allocates more than €200m to 95,000 farmers compensating them for lower productivity and higher production costs (Irish Examiner 2017). Two areas of constraint include natural and specific, mainland and offshore respectively. When submitting an application for payment under the scheme, full co-operation for any inspection or request for documentation must be adhered to. (ANC Scheme 2017). To be eligible for payment under the 2017 ANC, an applicant must occupy and farm in their own right and at their own risk a minimum of 3 hectares of ANC forage land (with the exception of offshore land), situated within ANC State designated areas by the Minister and classified as:

- Less or more Severely Handicapped
- Lowland Handicapped
- Mountainous
- Or areas of Specific Constraints

(Department of Agriculture, Food and the Marine, 2017).

The scheme assists disadvantaged farmers to raise sufficient funds to reinvest the improvement of land and to also achieve a reasonable standard of living. ANC payments represents a significant support for the 95 000 farmers who farm in some of the difficult conditions (Agriland 2017).

The allocation of increased funding to the ANC must be seen against the backdrop of the increase in the stamp duty payable by purchasers in commercial property transactions from 2% to 6% (Mark Paul Irish times 2017). There is growing concern that this 4% rise may negatively affect those purchasing in ANC area (Irish Independent Business 2017). One option would be to exempt ANC areas from any future increases in stamp duty.

A further area of concern relates to the allocation of ANC payments. According to the ICMSA farming poll, one third of farmers who receive ANC disadvantage payments believe that payments amongst farmers has been unfairly distributed. One in five such farmers suggest that payments under this scheme be reduced in respect of disadvantaged lands which have already been improved (Irish Examiner.com 2017). According to Louise Hogan, "INHFA president Colm O'Donnell said the monies must be targeted towards the lands with the highest level of natural constraint to address the current imbalance in the rates of payment" (Irish Independent 2017).

Foreign Direct Investment

We welcome the retention of the Knowledge Development Box (KDB), in compliance with EU and OECD requirements, and it's significance developing Ireland as a hub for innovation. While introduced in 2016, it is the first OECD compliant regime in the world(OECD 2016). The Coffey report excluded any recommendations to change Ireland's KDB, which is encouraging. (KPMG 2016)

KDB adopts a modified nexus approach, linking the benefits of KDB to the proportion of R&D carried out by a company domestically in expenditure and generated profits (KDB Guidelines Revenue 2016/7). It further strengthens Ireland's offering of innovation, performance and its leading position as a location for intangible asset ownership, development and commercialisation. (EY 2017)

The "best in class regime" provides a relief rate of 50% deduction from qualifying profits resulting in an effective 6.25% rate(KPMG 2016). Research shows it encourages the commercialisation of innovation, allowing for robust job creation (Atkinson, Andes 2011). In order to qualify, companies must retain records of overall income, qualifying income and overall expenditure of the qualifying asset, displaying its' links throughout. KDB relief applies to the qualifying profits including:

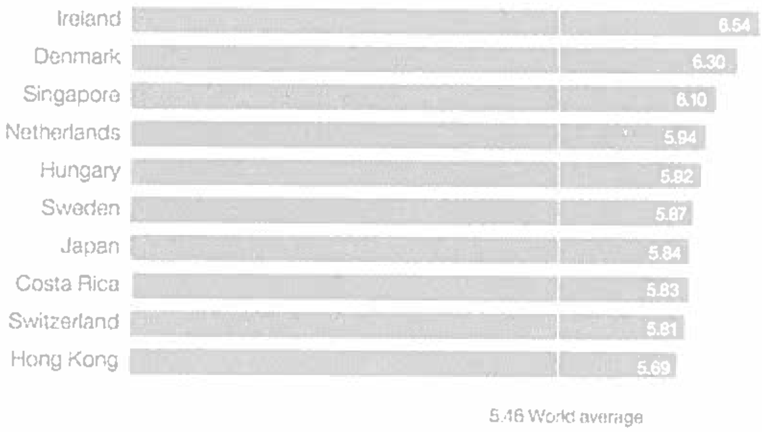
1. managing, developing, maintaining, protecting, enhancing or exploiting of intellectual property;
2. researching, planning, processing, experimenting, testing, devising, developing or other similar activity leading to an invention or creation of intellectual property; or
3. sale of goods or the supply of services that derive part of their value from activities described in (i) and (ii), where those activities were carried on by the relevant company.

KDB is criticised to limit multinationals who undertake R&D activities globally (KPMG 2016). However, requirements to undertake activities domestically is to 'kill two birds with one stone', potentially increasing revenue (Atkinson, Andes 2011). With the significant contribution to creation of qualifying assets which generate profits, KDB can be a useful mechanism to reduce the tax rate, an incentive for foreign direct investment.

A recent study has shown Ireland to be the most attractive location for digital business models, evidenced below (PWC 2017). It is clear Ireland has combined incentives to offer a cogent, effective and innovative FDI strategy in existing and endorsement of long term investment opportunities.

Figure 4

Top-ranking destination countries by average job value of investment projects – 2016



Source: IBM

Some recommendations for reform include enhancing revenue by extending capital gains arising on the disposal of qualifying assets, defining a balanced position and strong hub for innovation. (KPMG 2016) Furthermore, the reduction of UK corporation tax 18% by 2020 and patent box system established in 2013 at 10%, it is argued Ireland extend its' commercialisation limitation beyond 2020, enhancing its' innovation 2020 plan for FDI (Finance Dublin 2017, IDA 2017). This modified approach is arguably arduous with a tracking and tracing requirement. (Deloitte 2016). Requiring separate profitability streams for each qualifying asset, it may create a limited timeframe for companies to collate data accurately. Serialisation of patented products may be a potential option (Deloitte 2016).

Our Proposal

- Tax credits for early childcare.
- subsidization of childcare staffing.

The costs of childcare in Ireland has become untenable in recent years with upwards to 50% of average income paid out (OECD 2015). Furthermore, childcare costs are preventing a high proportionate of women from returning to the workforce. In 2015, 38,900 and in 2016 27.4% of 20-64-year-olds were unable to return to work due to childcare/carer issues, (Holland, 2016) (EU commission). This forces parents to leave employment, and survive on one income. One income families are not as beneficial to the economy, and leave many just above the median poverty line of 60%. Studies in Sweden in the 1980's show working mothers returning to the workforce created a positive effect on the economy, which was enabled by Sweden's strong childcare policy. (Early Childhood Education and Care Policy in Sweden, 1999). Currently in Ireland, a one income family struggle to receive limited benefits with schemes such as TEC, targeting mainly CE scheme parents, low income earners or those in deprived socio-economic areas (CCS).

There have been steps in the last 3 years to reduce the burden, by the introduction of the free pre-school years and subsides for expansions to facilities. However, ECI, who represents more than 3,800 childcare providers, say the increased investment fell "considerably short of the level sought" by the sector. (Mahon 2016b).

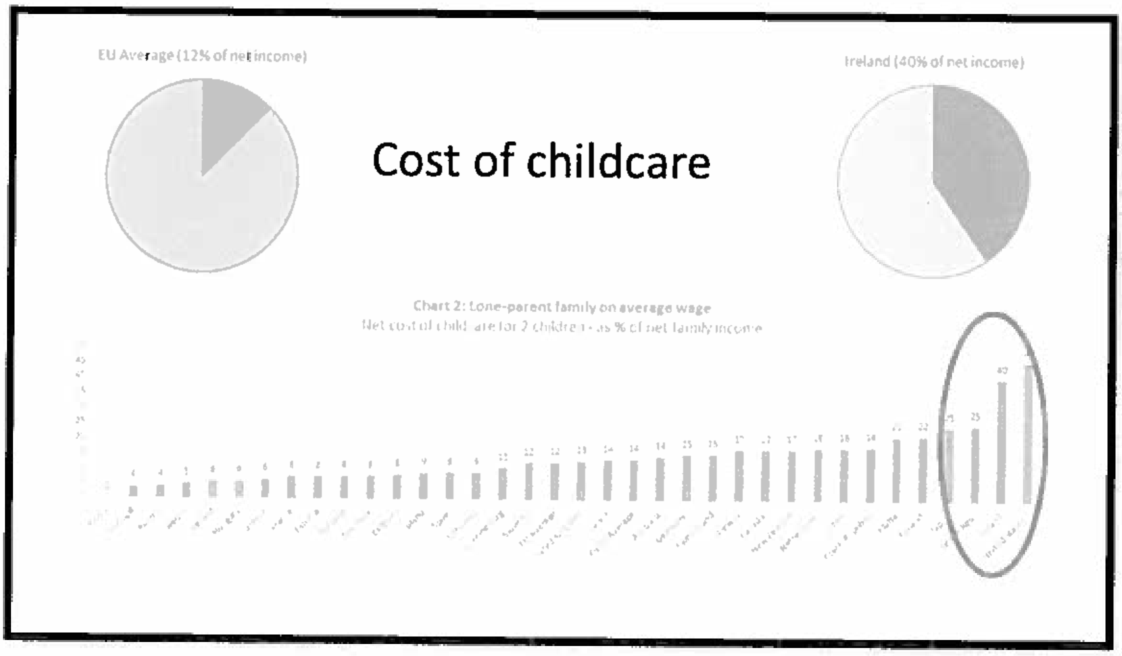


fig 1.

The Cost versus the spend on early childcare, as seen in the charts above and below is drastically disproportionate compared to other international nations cost to spend ratio.

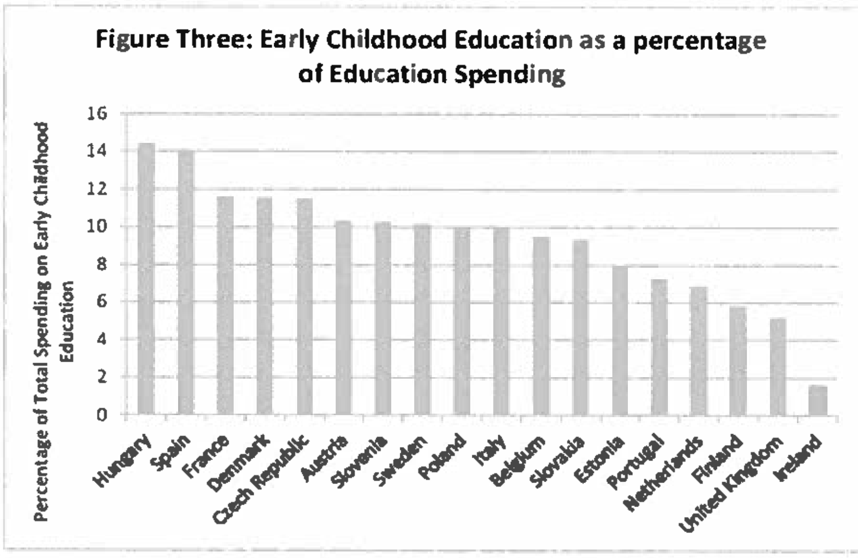


fig 2

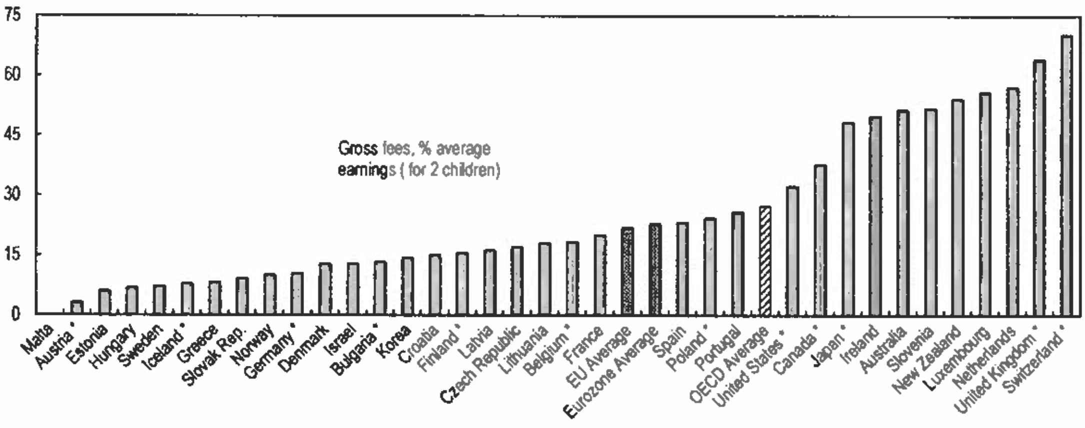


fig 3.

The proposal for a tax credit, would allow tax relief for parents based on a set amount for each child up to the age of 18 to relief the cost burdens. Furthermore, childcare facilities would be state subsidised covering part of all wage costs. There would be a scaled percentage dependent on compliance to state requirements, with a set a minimum of 10% payment upwards to 50% of costs. The scheme would free parents to work and contribute to the economy by establishing a strong employment and early education policy. (Early Childhood

Education and Care Policy in Sweden, 1999). Studies also suggest that early education in Nordic countries, see social and economic benefits from children who have had early childcare education, through increased workforce and Lessing of the 'Parental Attainment' prophecy. (Melhuish).

Fig 4

The biggest expenditure that early childcare centres have is staffing. If childcare centres were subsidised, the state could impose set fees, pay scales and teaching standards making centres affordable and viable. The Department of Children and Youth Affairs hosted two separate online consultations –public and parents/guardians; the results in 2015 suggests that Tax credits, with respect of childcare fees and the implementation of better training/wages for childcare workers were key priorities. (Working Group: Future Investment in Childcare in Ireland, 2015).

Conclusion

We propose that a new tax credit be created to give relief on the cost of early childcare, because currently Ireland is one of the most expensive nations for childcare costs. This would allow a return to work option for many parents. In a further measure we also suggest subsidising childcare centres staffing costs, to maintain set fees/standards nationwide. To do this the state spend per year of early childcare needs to exceed the current 2% of the annual education budget and a sustainable long term social policy plan implemented, imitating the Swedish model.

Conclusion

In conclusion, Budget 2018 has analysed combinations for continued growth of foreign direct investment with the knowledge development box and encouraging the agricultural sector post Brexit. With the expansion of the economy, USC rates have been minimally reduced, and no mention of childcare supplementation was addressed, allowing for our proposal.

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