

EDELMAN IRELAND

BUDGET PLUS:

Ireland's €11 Billion Cost of Living Budget

BUDGET 2023 ROUNDUP

SUMMARY

Budget 2023, **The €11 billion Cost-of-Living Budget**, published today by the Government has seen them fire pretty much all the arrows available to them in their financial quiver. **It would have been politically untenable not to do so and is almost certainly the right thing to do.** The excess corporation tax revenue that landed into government coffers has been exceeding forecasts for consecutive quarters and has given them the necessary room for manoeuvre to attempt to insulate the citizens of the State from the worst effects of the cost-of-living crisis. **From rental credits to free schoolbooks, energy reliefs to increased social protection allowances, altered tax bands to double child benefit payments, Ministers Donohoe and McGrath will believe they have delivered for a nation in need.** Budgets are the financial expression of a government's political vision for its citizens. The profound exogenous shocks visited upon Ireland's economy, from the pandemic to the invasion of Ukraine and the energy crisis that has precipitated means, **we have been (brief respite aside) in some form of economic crisis mode for three years now.**

These crises have made life difficult for many and unbearable for many more. They have also given the government **license to take radical financial steps to mitigate the worst effects of those crises. Putting money directly into people's pockets as quickly as possible is the central objective of Budget 23.** It is hard to argue that this objective hasn't been achieved. **The measures introduced apply to real people in their real lives and the government has bent over backwards to expedite their introduction.**

But who decides if this is enough or if it will work? **Enough is an entirely subjective concept and the social welfare payment briefed ahead of the budget (along with everything else) was already deemed too low before it was formally announced.** Sinn Féin are a formidable opposition and they have their criticisms lined up in their alternative Budget proposal, cleverly if not subtly branded "Budget for change" outlining in laypersons' language, the budget they would introduce if in government. Their idea of putting a full month's rent back into people's pockets was very neat and well presented, (as their messaging usually is) and was countered it seems by the announcement by the Minister for Finance of a new rent tax credit of €500 which applies from next year but can also be claimed on rent paid in 2022. This measure was an insight into the governments understanding that **people need relief now and whatever political relief may be available to Ministers, there would be none if measures were delayed.**

Budget 2013 involved a correction of €3.5bn to the nation's finances, by correction 1 mean tax rises and cuts to allowances and payments. The following year's Budget saw a further correction of €2.5bn. **That meant a lot of sacrifices and pain for a lot of people and an arduous journey back to financial solvency for Ireland. Nobody wants to go back there.**

Budget 23 seeks to deal with a cost-of-living crisis now, while also securing our financial future. Given the pace of change and the volatile nature of global financial affairs, we are probably not going to have to wait too long to find out if they have managed to thread that narrowest of needles.



INFLATION

The Department of Finance is updating its forecasts to headline inflation of 8.5% cent for 2022, and just over 7% for 2023.

The forecasts for 'core' inflation have been revised up to 5.25% for this year and 4.5% for 2024. "These developments reflect the increasingly broad-based nature of the inflationary challenge," according to Minister Donohoe.



TAXATION

Minister Donohoe has claimed Ireland's tax regime is a "core element" of the economic policy mix of this country and a "long-standing anchor" for attracting foreign direct investment.

A General Government surplus of €1 billion has been announced this year, and €6.2 billion has been announced for next year. In Budget 2022, the Government recorded a General Government deficit of €7 billion.



THREEFOLD IMMEDIATE RESPONSE

The pillars underpinning public expenditure budgetary measures are: Immediate assistance for individual households and businesses, support for public services and community organisations, and a comprehensive range of new measures for 2023.

Minister McGrath claimed that the "strong and swift rebound" of the Irish economy and public finances post Covid-19 have facilitated the 2023 budgetary measures.



BUSINESS TAX CREDITS

Temporary Business Energy Support Scheme - once eligibility criteria are met, 40% of an organisation's energy increases will be covered, subject to a monthly cap of €10,000.

Non-cash benefits or rewards to workers (without the payment of income tax, PRSI and USC) increased by €500 to €1,000 and can be used in the current tax year.



CLIMATE CHANGE

Minister Donohoe stated that "protecting our environment is the responsibility of us all and Government is acting to reduce emissions and support newer cleaner technologies, particularly in energy and transport."

Measures announced today represent an increase of just over two cent VAT inclusive per litre of petrol and diesel.

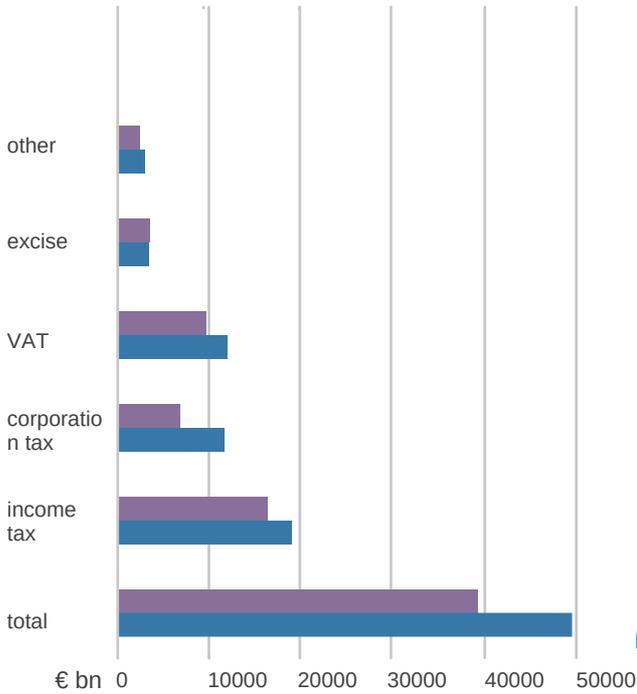


ONCE-OFF MEASURES

A raft of once-off measures designed to address the unique circumstances in which this Budget has been published were announced. The total value of once off packages is €2.2 billion.

These include excise reductions on petrol, marked gas oil and diesel and temporary funding of €90 million for tourism and the arts to help support the recovery from the Covid pandemic.

BUDGET PLUS: THE €11 BILLION COST-OF-LIVING BUDGET



Sources of Taxation

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FEARGAL PURCELL, MANAGING DIRECTOR, STRATEGIC ADVISORY, GLOBAL ADVISORY IRELAND & VICE-CHAIR EMEA

2021
2022



THROUGH THE LENS OF BUSINESS

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Prior to Budget Day, business were forthright in highlighting the damaging impacts from rising energy costs. Government, for its part, sought to reassure business groups that it understood the challenges faced and emphasised that it did not want to let good businesses fail, especially after supporting them throughout the Covid-19 pandemic.

So, did the Government get it right? Will the energy measures introduced in the Budget be enough to help businesses ease the pain as we face into a winter of economic discontent? Upon first glance, it seems as though, despite this being a major Budget for workers, as the Government seeks to assist families with the rising cost of living, there might be some in business circles wondering today if this will be enough to keep the lights on.

It has been explained that 'The Temporary Business Energy Support Scheme' (TBESS), will pay for 40% of the increase in gas and electricity that businesses are facing. It is understood, this will be capped at a maximum of €10,000 per month per business. There will also be a €200m scheme which will be administered by Enterprise Ireland targeting larger energy intensive firms that are involved in exporting and manufacturing. However, considering that one of Ireland's leading national fast-food businesses outlined last week how its energy costs have soared from €330,000 a month to over €800,000 a month, it remains to be seen how these new schemes will offset energy prices that are only forecasted to continue to rise.

Significantly for SME's, there was no major announcement of additional financial supports or schemes to assist with reduced turnover caused by the impact of inflation, similar to what had occurred during the Covid-19 pandemic. Equally, an opportunity may have been missed to re-introduce Revenue's debt warehousing scheme, a policy which worked so well during Covid-19, to allow businesses space during this period of flux, if the measures announced today prove insufficient.

On what could be Minister Donohoe's last Budget as Finance Minister in this Government, he has delivered one of the biggest fiscal packages in the history of the State. The strength of the economy, historic levels of people in work, 4.3% unemployment and a budget surplus allowed him the fiscal space to do this. Throughout his Budget speech he was keen to impress that the Government understands the concerns of business owners. It was mentioned on 26 occasions separate occasions in his speech. Notwithstanding this, the question remains; if an allocation of just €1 Billion for business energy costs, out of a total Budget package of €11 Billion will be enough, considering businesses are facing into one of the biggest energy crises in a century.”

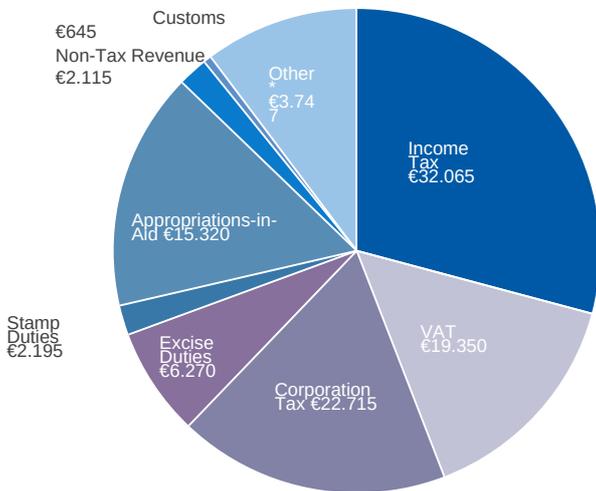
BLAINE GAFFNEY, ASSOCIATE VICE PRESIDENT, EGA IRELAND



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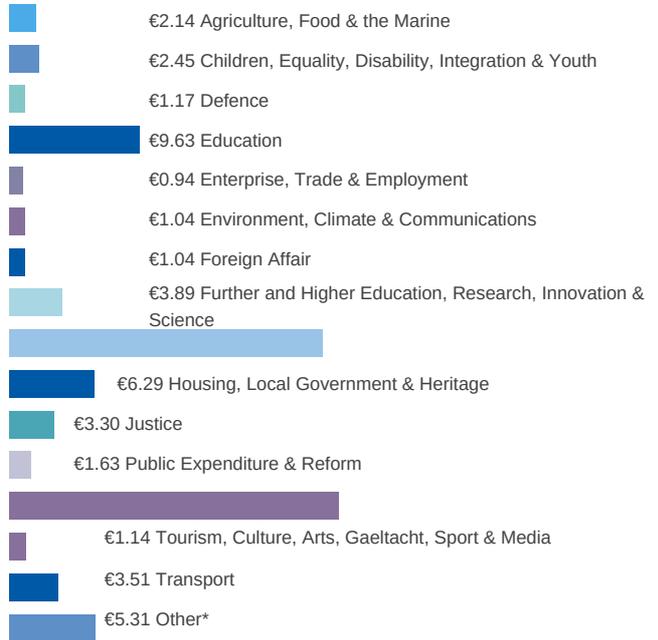


This chart shows the amount of revenue expected to be raised in 2023 (in €million) through tax revenue, non-tax revenue and appropriations-in-aid. The total revenue is **€106.3 billion**



*Other includes: Capital Gains Tax €2.165. Motor Tax €905. Capital Acquisitions Tax €675 and Capital Receipts €1.09. Rounding may affect total figures.

This figure illustrates how Voted Expenditure will be distributed across different policy areas in 2023 (in €billion).



Note: *Other includes Rural & Community Development (€0.39 billion), Taoiseach (€0.25 billion) and Finance (€0.57 billion). It also includes all unallocated funding (€2.7 billion), Public Sector Pay Deal (€1.4 billion), Shared Island Fund & ERDF (€0.18). Rounding may affect totals.

MINISTERIAL SPEECHES



Rialtas na hÉireann
Government of Ireland

Budget 2023 helps with the challenges of today, but will also ensure that we have sufficient reserves for what the future may yet bring. We must also be aware of the danger of making inflation worse by decisions that we could take.

— Paschal Donohoe, Minister for Finance

Today, we are responding. This is a Budget for its time, a Budget that seeks to respond with unprecedented resources, with a breadth of measures, and a speed of execution we have not seen before.

— Michael McGrath, Minister for Public Expenditure and Reform



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