

Financial Statement

of the

Minister for Finance

Mr Brian Lenihan, T.D.

14 October 2008

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STATEMENT OF THE MINISTER FOR FINANCE

MR BRIAN LENIHAN, T.D.

14 OCTOBER 2008

INTRODUCTION

A Cheann Comhairle,

We find ourselves in one of the most difficult and uncertain times in living memory. Turmoil in the financial markets and steep increases in commodity prices have put enormous pressures on economies throughout the world. Here at home, we face the most challenging fiscal and economic position in a generation.

This Budget sets out a plan to deal with this most unfavourable set of circumstances. The aim is to restore order and stability in the public finances, to increase productivity and competitiveness and to protect those who are most vulnerable in our country.

This Budget seeks to secure the gains we have made in the last fifteen years. Those gains have been substantial:

- two million at work;
- real improvements in living standards;
- a more generous welfare system and
- the biggest public investment programme in the history of the State.

All these advances were made in the context of sound public finances and record levels of economic growth.

The economic context has changed very dramatically and with great rapidity. We are confronted with severe budgetary pressures and negative economic growth. We face difficult choices. In making those choices we will be guided by the principles of fairness, sustainability and affordability. By the decision to bring the Budget forward by two months, the Government has seized the initiative and provided political leadership in this time of changed economic realities.

Today, I am setting out targets for the next three years. In that timeframe, we must take the necessary steps to bring order to the public finances. This will instil confidence in those at home and abroad, who want to invest in our economy.

Fifty years ago, Sean Lemass set his generation the task of consolidating the economic foundations of our political independence. Our economic achievements, particularly over the last twenty years, have fulfilled his vision.

The historical task facing us here today is to consolidate and build on that economic success. We will do this through sustainable, progressive and balanced policies that will create a fairer, more productive, and competitive Ireland.

CHANGED ECONOMIC REALITIES

In his Budget speech last December, my predecessor, now Taoiseach, referred to the significant uncertainty in the international economic environment as well as the slowdown in our construction industry.

But nobody foresaw the speed with which the global and the domestic downturn would gather pace. In the past few months, the world financial system has been turned upside down. Household names in global finance have been rescued by governments and blue chip companies have either failed or been subsumed into other institutions.

A fortnight ago, when the stability of our own banking sector came under threat, the Government took bold and decisive action. On the advice of the Central Bank and the Financial Regulator, we put in place a guarantee arrangement to safeguard the financial system in Ireland. We did so to protect our economy and all who work in it and we are grateful for the support of the House in that endeavour.

As a small open economy, we are especially vulnerable to economic shocks beyond our shores. The international credit crisis has compounded and deepened the downturn in the construction sector and led to a fall off in consumer confidence. The rapidity and severity of this downturn has taken even the most pessimistic of commentators by surprise. The result is a sharp rise in unemployment and a steep decline in revenue with businesses experiencing the kind of economic difficulties we have not seen in this country for over twenty years, although we are now in a better position to address those difficulties.

The most recent data show that economic activity contracted in the first two quarters of this year. My Department expects that GNP will decline by over 1½% this year: the first decline since the early eighties. Throughout the world, economic forecasts have been revised downwards. The prospects in our main trading partners remain poor.

In this context the forecast of my Department is that:

- GNP will contract next year by 1%, with GDP contracting by about ¾%;
- unemployment will continue to rise, averaging 7.3% for the year as a whole and
- inflation will ease to 2.5% on average for the year.

We must remind ourselves that, even in this global downturn, Ireland continues to attract a disproportionate amount of all foreign direct investment into the EU. Scarcely a week goes by without an announcement of new investment in cutting edge companies and new high value jobs for our graduates. The IDA is optimistic about the prospects in the year ahead. The Government is determined to retain and enhance Ireland's reputation as a pro-enterprise economy and as an attractive location for foreign direct investment. The most important action we can take in this regard is to stabilise our public finances.

ORDER AND STABILITY IN PUBLIC FINANCES

Fiscal responsibility has been the cornerstone of our economic success. Fiscal responsibility has ensured:

- a modest national debt burden;
- a strengthened ability to deal with the financial and economic crisis now shaking the global economy and
- a credible tax regime which incentivises work and investment.

While the strength of the economy in the past decade has given us some room for manoeuvre, we cannot put our reputation for fiscal responsibility in jeopardy. We must take the right decisions now to put the budgetary position on a path to stability in the interests of everybody who lives and works in this country. A soft option of ignoring the budgetary challenge might prove popular in the short term. The soft option would have grave consequences for the future of this country. The soft option would risk all the economic and social advances we have secured in recent years.

In framing this Budget, the Government faced a deficit of the order of about 8% of GDP on the General Government Balance unless decisive action was taken. As the White Paper on Receipts and Expenditure shows, we have reprioritised our spending focus as a Government. The opening position this afternoon is a reduction in the deficit to 7% of GDP. This is a significant adjustment. Our approach has been to reduce public expenditure as much as possible on the current side and as much as is sensible on the capital side.

The changes I am announcing in this Budget build on these decisions. This Budget will adjust the incidence and focus of taxation to those better able to contribute. This Budget will provide a social welfare package of €15 billion. As a result of these budgetary adjustments, the deficit will be about 6½% of GDP in 2009. I believe this is the maximum reduction that we can achieve in 2009. Our intention is to reduce it further.

Our spending will be concentrated on our schools, our health services and on the protection of the elderly and the most vulnerable. We will continue to invest in our public services but, in a time of scarcer resources, the value for money principle becomes all the more imperative.

A substantial increase in borrowing is unavoidable if we are to minimise the impact of the tighter fiscal position on the economy. Accordingly, the 2009 budgetary targets are as follows:

- an increase in gross voted spending of 1.8%;
- a current Budget deficit of just over €4.7 billion;
- a capital Budget deficit of just under €3.7 billion;
- a General Government Deficit of just over €12 billion or 6.5% of GDP and
- a debt to GDP ratio of 43%.

It is my intention to secure a progressive reduction in the deficit as a percentage of GDP in 2010 and 2011. The time for corrective action is now. By moving to restore stability, we will ensure that the Irish economy stands ready to benefit from the next global upturn. We are a small nation facing a major challenge in these uncertain times. We must all pull together if we are to return to more prosperous times.

In July, the Government announced that Ministers and other senior public servants would forego pending pay increases recommended by the Review Body on Higher Remuneration. Today, I wish to tell the House that members of the Government and Ministers of State will surrender 10% of their current total pay. Officers at Secretary General level in Government Departments have volunteered to make a corresponding surrender in respect of their pay. Other public servants in leadership and senior positions may wish to consider whether it is appropriate for them to make a similar move in current circumstances.

The Government has also decided to introduce an income levy at the rate of 1% on all incomes up to €1,925 per week or just over €100,000 per annum and at the rate of 2% on the balance of all income above that level. We realise the solidarity it demands of all taxpayers. But there is too much at stake: we all have too much to lose by not taking action now. This levy will allow all income earners to contribute in a proportionate manner to the restoration of order and stability to the public finances. This will enable Ireland to return as soon as possible to a natural level of economic growth. The levy will be kept under review in the light of economic conditions.

I am conducting a review of the National Pension Reserve Fund in the context of recent economic and fiscal developments. It is my intention to complete this review before the end of the year. Any changes requiring legislation will be brought forward in due course.

CURRENT GOVERNMENT SPENDING

General Policy

In the past ten years we have seen a huge increase in the public services financed by taxation. Day to day expenditure has risen by 200% between 1998 and 2008. Spending on Health has risen by 293%. Education has increased by 174% and Social Welfare by 200%. Successive Ministers ensured that the public received higher quality and more extensive public services. However, public spending can only increase in line with available resources.

We must continue on a path of bringing spending into line with resources. There is no option. But in so doing, the Government is determined to:

- safeguard key public services;
- protect the vulnerable;
- re-focus spending to enhance our productive capacity;
- regain export competitiveness;
- re-skill our labour force;
- retain the substantial gains already made and
- continue our work in building a fairer Ireland.

This means doing more with existing resources, paring down administration to focus squarely on delivery of services to the public and prioritising our spending goals.

That is why my predecessor as Minister for Finance, announced an Efficiency Review of all public service spending in last year's Budget. In July of this year, I implemented the findings of that initiative and other specific measures agreed by Government with the intention of achieving overall savings of €40 million this year and €1 billion in 2009 as a

first step towards addressing the emerging difficult fiscal position. These savings included a 3% cut in the public service payroll, a halving of expenditure on areas like advertising, public relations and consultancy, and major savings from procurement reform.

This initiative was just the beginning of the process but it did send a strong signal of our firm intention to tackle the emerging fiscal difficulties. I am pleased to report that those savings have been achieved and that the payroll reduction intended to deliver €190 million will in fact yield savings of €260 million. The savings achieved have already been used to relieve pressures in areas such as:

- health, where additional provision had to be set aside to meet the costs of a new consultants' contract and
- education, where the full year salary costs of about two thousand extra teachers and Special Needs Assistants taken on this year had to be provided.

Despite the challenging fiscal context, the Government will make significant allocations to Social Welfare, Education and Health. The Government has agreed that Gross Current Spending in 2009 will grow by no more than 3.6%. Within this overall figure,

- spending on Social Welfare will grow by 8.4% to €19.6 billion;
- Education will see an increase of 2.7% to €8.7 billion and
- spending on Health will increase by 2.1% to €5.8 billion.

To accommodate these increases, gross current spending in other areas will require substantial reductions. The individual allocations for each vote for current spending are set out in the Budget documentation published today together with the main policy changes they require.

Welfare/Protecting the Vulnerable

Social Welfare Rate Increases

We are determined to protect the most vulnerable in our society and we will redirect resources to that end.

Pensions

I am happy to announce that the full personal rate of the State Pension will be increased by €7 per week for all pensioners. This will bring the State (Contributory) Pension to €230.30 per week and the State (Non-Contributory) Pension to €219 per week. The qualified adult allowance rate for those of pension age will increase by €6.30 to €206.30 per week.

Energy Costs

We recognise the difficulties caused by fuel price increases to those on low fixed incomes. Accordingly, the duration of the Fuel Allowance is being increased by two weeks from next April, while the rate of payment is being increased by €2 per week, to €20 per week, with effect from 1 January. The aggregate period for the payment of fuel allowance will be increased from 30 to 32 weeks from April 2009.

People of Working Age

The personal rates of all working age payments, including both the Carer's Benefit and the Carer's Allowance, are being increased by €6.50 per week from 1 January. This will bring

the lowest full adult social welfare rate to €204.30 per week. The minimum rate of Maternity and Adoptive Benefit is being increased by €8.50, to €230.30 per week.

Children

We are also increasing the Qualified Child rate by €2, to €6 per week, and increasing the Family Income Supplement thresholds by €10 per week per child.

The full year cost of all these measures is €15 million.

Targeting Resources

Government policy is to target resources at those in greatest need. Universal entitlements irrespective of means do not target those in greatest need. I believe in some cases there is a need to differentiate between those who have and those who have not. I am proposing in the Budget this year to initiate action in this direction in some areas and to promote a wider debate in others.

The Government has decided to abolish the automatic entitlement to a medical card for those over seventy who are above the eligibility criteria. Support will be available to this group to help them meet their healthcare costs. An annual cash grant of €400 per person will be paid to those over seventy who do not qualify for a medical card or a GP visit card subject to an income threshold. The Minister for Health will give full details of this new arrangement which will come into force on 1 January, 2009.

I fully expect that the Commission on Taxation will examine options relating to the tax treatment of universal child benefit payments. I look forward to giving careful consideration to any progressive proposals that they may make in this area.

At this stage, the Government has decided to limit the entitlement to Child Benefit and to Early Childcare Supplement. Child Benefit payment will cease for 18 year olds from January 2010 and will be halved for that group to €33 per month from the 1st of January next. However, welfare recipients – including those on Family Income Supplement – will be compensated through appropriate adjustments to their support payments. Early Childcare Supplement will cease at 5 and a half years of age. The full details of these saving measures and the off-setting factors to assist welfare recipients are set out in the Summary of Budget Measures.

The Minister for Education and Science has announced that he is undertaking a review on the appropriate student contribution to the substantial cost of third level education.

Health Services

The OECD estimates that spending in Ireland on pension and healthcare may rise from about 8% of GDP at present to about 18% by 2030. We cannot sustain such a huge increase without basic changes in how we achieve our common goals.

I am determined to secure savings on health sector payroll and staffing numbers to provide for a greater concentration of available resources on the actual delivery of key primary and acute health care services. I want to see improvements in the operation of frontline services and an appropriate rebalancing of costs to provide a more sustainable basis for funding into the future. I will be working with my colleague the Minister for Health and Children to this end.

The Government has agreed that the HSE will begin an innovative proposal to fast-track the rollout of new GP practice units in collaboration with the private sector, while retaining full HSE control of the units. The Minister will give further details of this initiative.

Education

Investment in Education is essential for our future prosperity. I have provided for an increase of €308 million in the total expenditure provision for Education in 2009. €30 million of this increase is for current expenditure, to provide for the additional costs across the system as a result of increasing student numbers due to demographic factors.

The challenges facing the education system will be demanding in the years ahead. I have done the utmost to protect this sector in the prevailing circumstances. We have provided the maximum possible additional funds to this important area. Further details of the necessary changes are set out in the Budget documentation and full details will be provided by my colleague, the Minister for Education and Science.

PUBLIC SERVICE REFORM

Public Service Pay and Staff Numbers

The Task Force on the Public Service established by the Taoiseach has been preparing an action plan for the Public Service and its recommendations will be considered by the Government in November.

In regard to public service pay and numbers, we must do more with less. Pay rates are a function of agreed negotiations. Our public servants - teachers, doctors and nurses often of the highest calibre – enjoy very favourable pay and working conditions by international standards. As economic conditions worsen, those enjoying protected status need to contribute in a broader sense to the greater good of the wider economy. Payroll costs are a function of staff numbers. One of the most limiting factors I have found in my short time as a Minister is the lack of flexibility in re-allocating staff resources to the areas of greatest need. This has to change. We can no longer afford the increases in numbers we have seen in the past decade. Where there are clear staff surpluses in certain areas, or where policy priorities change, staff numbers must be correspondingly reduced or re-assigned.

Since the establishment of the HSE the number of whole time equivalent staff has increased by 12%. The number of administrative staff alone has increased by some 1,900. The Government has therefore decided that a targeted voluntary early retirement scheme will be introduced for the HSE. Discussions are underway on the development of such a scheme. This will initially be targeted at surplus middle management and administrative staff, but may be extended to other surplus staff.

Indeed, I believe it is essential to extend such schemes, in a targeted manner, to other areas of the public service where surplus staff are identified. In this context, the Government has decided to conduct a focused review of public sector numbers in all branches of Government to assess whether the resources are being fully deployed in an efficient and effective manner and what economies can be made. This decision will be implemented in November when the report of the Task Force on the Public Service is received.

Our approach to public spending requires a systematic change in the way we do business. It is not just a one year phenomenon. It will have to be pursued and consolidated each year. We need to look at public spending on the basis of priorities set by Government. There can be no separate agendas or public bodies seeking to protect their turf. All state organs must work collectively to secure the public good.

State Agency Rationalisation

The Government has decided to reduce the number of State bodies and agencies by forty-one, and to streamline certain other functions. It has also been decided to reduce the number of army barracks to bring it more into line with operational requirements of the defence forces and to permit economies of scale. The details of this first round of rationalisation are set out in the Summary of Budget measures. My colleagues will provide additional information and details about each of the proposals in the days ahead. These proposals are only a first step. I will, in consultation with my colleagues, be examining the scope for further rationalisation of agencies.

Decentralisation

The Government has reviewed the decentralisation programme in the light of the changed economic circumstances. The timeframe in which the programme can be implemented has to be revised. The Government has identified priority elements which will proceed as planned. In excess of two and a half thousand public service posts have already moved to new locations outside of Dublin. The priority elements, coupled with the progress already made, will bring a total of 6,000 public service jobs to 40 locations around the country.

We are deferring decisions on the timing of the implementation of the balance of the programme pending a review in 2011 in the light of budgetary developments. Full details of the projects which will continue to be progressed at this time and those which are being deferred are outlined in the Summary Budget material.

PUBLIC INVESTMENT

General

Over the last decade, our rate of investment in public capital projects has been over 5% of GNP - double the rate of most other EU Member States. In our new financial position, we have to be much more targeted in our investments. We need to concentrate on capital projects that add significantly to our productive capacity and promote employment. We have to secure maximum value for money and to consider less costly spending alternatives where possible. Our plans remain ambitious but we will have to be more patient in achieving them.

Gross Capital spending next year will amount to over 5% of projected GNP in 2009, or €8.2 billion in absolute terms. We will seek to maintain this rate of investment in 2010 and 2011. If the quantity of investment is less than planned, we are determined that its quality will more than compensate in value to the wider economy.

The Government capital investment programme in 2009 will support core capital investment priorities such as:

- the improvements in public transport, including work on extending LUAS services to the Point and to Cherrywood, completion of the Cork to Middleton commuter line and general capacity improvements;
- the continuing work on the Major Inter-Urban Roads, which are all on schedule for completion in 2010;
- the ongoing work on the Convention Centre in Dublin, which is scheduled for completion in 2010 and
- the continuing substantial investment in water services, which will receive an additional €90 million, or 19% in 2009.

These projects will help provide the foundations for future economic expansion and sustainable job creation. Direct Government capital investment will be complemented by the extensive capital investment programmes of the commercial state bodies such as the highly visible progress being made by Dublin Airport Authority on Terminal Two in Dublin Airport and the investment by the State energy companies in energy infrastructure.

Support for Enterprise and Jobs

I am also maintaining our very significant investment in promoting the knowledge economy and enterprise development with a total of almost €500 million in Exchequer capital expenditure in 2009.

Of this total, I have provided over €300 million for the continued implementation of the Strategy for Science, Technology and Innovation to drive world class research and in-company Research and Development with a view to commercialising new ideas and know-how for the longer term benefit of the economy. We have allocated €179 million to Science Foundation Ireland in 2009, up from €172 million this year, while Enterprise Science Technology Innovation will receive a 2.5% year on year increase, bringing it to €127 million in 2009.

Ireland must continue to compete aggressively for overseas investment while supporting the indigenous sector. Enterprise Ireland and the IDA will be well placed in the coming year to ensure that export-led growth continues to underpin economic renewal. The Government will continue to promote research and development, innovation and commercialisation by private enterprise.

School Building

This year we are investing €810 million in capital projects for Education. Next year I am providing €889 million – an increase of €79 million.

Continued strong investment in our primary and post-primary school infrastructure remains a key priority for the Government. This year, we have delivered 12,000 new primary school places, a record number in any one year. Next year, €81 million, or two-thirds of the total education capital budget, will be devoted to the school building programme. This substantial investment will provide additional school places, in response to the increased population. It will allow for the modernisation of the existing school infrastructure.

Higher education plays a critical role in fostering economic development and promoting social cohesion. Capital investment in the sector is being increased to €265 million in 2009, an increase of over €80 million on last year.

The Minister for Education and Science will be providing further details in due course.

Housing

The Government has invested significantly in housing in recent years. For 2009, the Government is allocating over €1.65 billion in Exchequer funding for a range of housing programmes.

In view of the changed conditions in the housing market we have decided to reform some schemes.

First, we will extend the existing local authority mortgage scheme by increasing the maximum loan available to borrowers. This extension will assist purchasers who wish to become homeowners but who are, at this time, unable to obtain loan finance. This will be a targeted and temporary initiative. Funding will be provided by the Housing Finance Agency and it will be operated by a small number of local authorities acting on a regional basis.

Second, we have decided to introduce a single Government Equity Initiative to replace a range of existing schemes which have developed in recent years. Under this Initiative the Government will assist those seeking affordable housing by taking an equity share. This proposal will simplify the delivery of affordable homes.

The full details of these changes will be announced by my Ministerial colleagues with responsibility for housing.

Climate Change Policy

Climate Change is a critical issue for this Government.

Based on the latest available data our Greenhouse Gas emissions were an estimated 70 million tonnes. We are committed to reducing our emissions to an annual average of 63 million tonnes over the period 2008-2012. The EPA has projected that, based on measures already taken and those already planned, the annual average emissions will now be higher than previously estimated.

In the Budget last year we introduced significant changes to begin the process of moving to a lower carbon intensive economy. This year we intend to build on these steps.

We must learn to use energy more efficiently. The Government can play a role in improving energy efficiency in our homes. To that end we are providing additional funding for a number of measures.

We are allocating €20 million for the Home Energy Saving Scheme in 2009, an increase of €15 million on 2008. This will provide grants of up to 30% of the cost of retro-fitting homes. This scheme will increase energy efficiency and lead to CO₂ savings.

This scheme complements the Warmer Homes Scheme which provides insulation and energy advice to households in receipt of various social welfare benefits. The Exchequer will provide €5 million for this scheme in 2009 and this will be supplemented by funds from industry.

We are also introducing a new scheme to examine the potential for energy savings in local authority housing stock through the retrofitting of older heating systems with new green energies.

There are a number of taxation measures in this area which I will deal with shortly.

The Minister for the Environment, Heritage and Local Government will deal with Climate Change policy in more detail in his Carbon Budget which he will present to the House tomorrow.

TAXATION IN GENERAL

We have been successful in building and maintaining strong economic growth for more than a decade. While a range of factors have contributed to this success, the ability of the tax system to adapt and respond to the changing needs and pressures of a globalised economy has played a significant part.

As we go forward, our tax system will need to evolve and change in order to align with ever more changing political, economic, environmental and fiscal conditions. For example, globalisation and ageing are challenges that require us to think about the way we raise tax in the future. Ageing increases pensions and health-related expenditures while globalisation means tax bases are more mobile – an unhealthy combination of increasing costs and revenue risk. The Commission on Taxation will inform our strategic thinking about the nature, incidence and burden of taxation for the next ten to twenty years.

We have a low tax burden by European standards. As a country, we have made a choice to reward work and enterprise. But it must be recognised that we demand ever more ambitious public services. We have an ageing population and at the same time more modest rates of economic growth in the future are anticipated. This means that less money will be available to meet public expenditure demands. This has implications for our tax system in the long run.

In the next year, close to €2 billion in tax revenue must be raised to keep within the fiscal targets set out earlier. If the current economic circumstances deteriorate, it may be necessary to make some equally difficult tax choices next year.

Principles of Taxation

€2 billion is a very substantial amount of money to seek in any one year, but circumstances are such that there is no option. In raising this sum, the Government has been guided by three essential principles:

- first, the imposition must be fair and equitable and at a higher rate for those on higher incomes;
- second, the levies involved must be straightforward and readily collectible and
- third, we must seek to protect sustainable production, employment and the economy in order to keep Ireland competitive in the global marketplace.

The Government is concerned that some of the more expensive tax reliefs, especially for the better off, should be scaled back and the resources used, as appropriate, to protect those

taxpayers who are most vulnerable in these times. It is fair and reasonable that those who profited most from the recent good economic times should shoulder a commensurate burden as conditions worsen.

Main Tax Measures

Earlier I indicated that the Government has decided to introduce an income levy at the rate of 1% on all incomes up to just over €100,000 per annum and at the rate of 2% on the balance of all income above that level. Apart from this the main tax measures are as follows.

VAT/Excise

I am increasing the Standard Rate of VAT by ½% to 21½% from 1 December. There will be no change in the zero rate which applies to food, children's clothes and footwear, oral medicines and several other products. The 13½% rate which applies to new houses, labour intensive services, gas, electricity and home heating fuel will also remain unchanged.

Excises on cigarettes will go up by 50 cent per packet of 20. I am increasing the excise on a standard bottle of wine by 50 cent with pro rata increases on other wine products and an increase of 8 cent on a litre of petrol. There will be no excise increase on beer, cider, spirits or on diesel. The excise changes are VAT inclusive and will take effect from midnight tonight.

Low Alcohol Beverages

I also propose to reduce excise on low alcohol beer and cider to encourage the safer use of alcohol and to make a contribution over time to reducing death and injury on our roads.

Betting Tax

Betting tax is being increased from 1% to 2% yielding €40 million in a full year. I am also making a reduction in the allocation for the Horse and Greyhound Racing Fund, the details of which can be found in the Summary of Budget measures.

Restructuring Certain Tax Reliefs

I propose to standardise the tax relief for unreimbursed medical expenses, which are currently available at the full marginal rate of tax. I also plan to reduce the annual earnings limit for tax relieved pension contributions from €275,000 to €150,000 per annum. These measures will promote greater equity in tax relief.

Travel Tax

Consistent with moves by other EU Member States such as the UK and the Netherlands, I intend to introduce an air travel tax from 30 March 2009; the tax will apply to all departures from Irish airports. A rate of €10 per passenger will apply, with a lower rate of €2 on shorter air journeys. This new tax is estimated to yield €5 million in 2009 and €150 million in a full year. Further details are contained in the Summary of Budget Measures.

DIRT

There will be a new rate of DIRT of 23% on ordinary deposit accounts and 26% on certain other savings products which will raise €85 million in 2009.

Income Tax

I will be increasing the standard rate tax band by €1,000 for a single person and €2,000 for a married two earner couple to help maintain its real value and to ensure the maximum possible number of taxpayers continue to pay tax at the standard rate of 20%. This will cost €200 million in a full year.

Mortgage Interest Relief

In relation to mortgage interest relief, from 1 January 2009, the rate of tax relief for first time buyers will be increased from 20% to 25% in years 1 and 2 of the mortgage and to 22.5% in years 3, 4 and 5. This change will benefit first-time buyers who purchased since 1 January 2005. The rate for years 6 and 7 will remain at 20%. First time buyers relief ends after year 7. To fund this change, the relief for non-first time buyers will be reduced from 20% to 15%. This rebalancing makes for a fairer system and helps those buyers with the biggest financial exposure and those facing falling property values. Circumstances can change of course and this rating structure is not set in stone. It is very much tailored to current market conditions.

TAXATION MEASURES TO PROMOTE ECONOMIC CONFIDENCE

Business Taxation - Keeping Ireland Competitive in a Global Economy

Successive Governments since the nineteen fifties have recognised the importance of a corporation tax regime which incentivises investment and employment in key economic sectors. The last twenty years have seen Ireland become a major centre in the areas of technology, pharmaceuticals and financial services to name but three.

The Twenty-first Century economy is now mobile, globalised and increasingly knowledge based. As a nation, we have to ensure that we are a location of choice for foreign direct investment and one in which indigenous industry is able to prosper. We became a global player in manufacturing in the nineteen eighties and nineteen nineties and this decade has shown that we can adapt and attract global players to Ireland and build local competencies alongside them. We have managed to build indigenous global players as well.

The 12.5% rate of Corporation Tax is an important element in our taxation system. It has been a cornerstone of our industrial development in the last decade. I want to emphasise that this rate of tax is not for changing upwards and it will continue to be a central part of Ireland's economic brand. Ireland's economic prospects are dependent on a vibrant and modern business base and I know that virtually all sides of this house will agree with me that our rate of Corporation Tax is essential to this.

The Government is convinced it is important, despite the need to secure a substantial increase in tax, to maintain and enhance pro-employment business tax reliefs. As an economy we are open to new business and new investment. I am bringing forward a number of measures to support jobs, encourage enterprise and enhance our productive capacity.

R&D Tax Credit

The R&D tax credit available to companies will increase from 20% to 25% putting it to the forefront of R&D regimes globally. This will increase Ireland's attractiveness as a location

for R&D activity and it will provide a well-targeted stimulus for such value-added activities. I will consider making further enhancements in the forthcoming Finance Bill.

Intellectual Property

Intellectual Property has become important globally in recent years and we need to ensure that our tax regime fully reflects the changes which have taken place in this area. If this sector can provide jobs and revenue to the State, I am willing to listen. Indeed, I have asked the Commission on Taxation to investigate options in this area and I plan to return to it in the future.

New Ventures

In recognition of the particular challenges faced by new and start-up companies in these challenging economic times, I am proposing a remission in Corporation Tax and Capital Gains Tax in their first three years of operation with certain limits.

Corporation Tax Dates

It is important that all sections of the economy and community play their part in addressing the fiscal challenges. Recognising the positive changes made in the corporate area, I am proposing to bring-forward the payment dates for companies paying more than €200,000 Corporation Tax on their profits. This will yield €350 million in 2009 on a once-off basis. Details are in the Summary of Budget measures.

Filing of Tax Returns

Earlier this year I signed the order for mandatory electronic filing and payment of tax. This is a modern, secure and easy method for the payment of taxes for business. As a further pro-business measure, I propose to encourage take-up of Revenue's online services by providing a general extension to existing deadlines where returns and payments are made via the online systems.

Stamp Duty on ATMs and Cheques

In order to encourage greater use of electronic means of payment for commercial, financial and retail transactions, I propose to build on the initiative introduced in last year's Budget by halving the Stamp Duty on combined ATM cards from €10 to €5. To fund this measure, the Stamp Duty on cheques will be increased from 30 cent to 50 cent per cheque. This important step will further encourage the use of electronic payment methods. In order to promote the development of e-payments in the economy, which has the potential to yield significant competitive benefits, the Government will establish shortly a high-level group comprising representatives of the main stakeholders to direct the preparation and implementation of a national payments implementation plan over the next two years.

Rebalancing Capital Taxes

I believe the related areas of Stamp Duty on commercial properties and Capital Gains Tax on such transactions are imbalanced and I propose to rectify this. This imbalance does not apply to residential property because the Principal Private Residence exemption means there is no Capital Gains Liability in such cases.

First, I am cutting the top rate of Stamp Duty on commercial property from 9% to 6%. Full details are in the Summary of Budget Measures. We need commercial development and investment if we are to create jobs and stimulate economic activity. We must also give an

impetus to the commercial property market. This cut is my contribution. The rate will stay at 6% and it will not go lower in the lifetime of this Government.

Second, I am financing this measure through an increase of 2% in the CGT rate. This increase also mirrors the level of Income Levy being imposed on higher earners and I believe that it is equitable to match this levy increase effectively with an equivalent rise in the rate of Capital Gains Tax. I will continue to review the rate of capital gains tax on an ongoing basis.

Third, I am bringing forward the payment date in 2009 for individuals paying Capital Gains Tax. This will generate €200 million in 2009 on a once off basis.

Farming Taxation

For the farming sector, I propose to extend for a further two years the Farmers Stock Relief, Farm Pollution Control Relief and Farm Consolidation Relief.

The stamp duty relief for Young Trained Farmers will be extended for a further four years to 2013. The farmers' flat rate addition for VAT is being retained at 5.2 per cent for 2009.

TAXATION MEASURES TO SECURE SUSTAINABILITY

Carbon Levy

In the Programme for Government we committed ourselves to the introduction of a carbon levy, on a revenue neutral basis, during the lifetime of this Government. The Commission on Taxation has been asked to examine the matter and I expect to receive its report by the end of September 2009. The report will assist the Government in assessing how such a levy might best be structured and implemented in a fair and consistent manner in the Budget next year. We must ensure that Ireland's economic prospects are protected and enhanced and that the most vulnerable do not lose out. I look forward to making a firm announcement on the issue in my Budget 2010 speech.

Environmental Taxation Measures

As part of the Government's overall programme to support a sustainable environment, I propose to introduce a flat rate levy in the major urban areas of €200 where an employer provides car parking facilities for employees. In addition, I am proposing a tax incentive to promote cycling to work. These initiatives seek to encourage greater use of public transport and ease congestion in our major cities. I will also bring forward measures in the Finance Bill to relate BIK on cars and mileage to CO₂. These measures, together with expenditure decisions and enhancements to capital allowances for energy efficient products for businesses will make a positive contribution to reducing Ireland's carbon emissions.

I am also introducing a new tax incentive scheme to facilitate the relocation of Seveso-listed industrial facilities which hinder the residential and commercial regeneration of Docklands in urban areas. The EU Seveso Directive seeks to protect public safety by placing land-use restrictions on new residential and commercial development near locations where potentially dangerous activities are undertaken. This scheme will be subject to clearance by the European Commission from a State Aids perspective.

Energy Efficiency in Business

Building on the measures introduced this year, I will be extending the range of energy efficient equipment purchased by companies that can qualify for accelerated capital allowances. These will include energy efficient data server systems and, vital in these times of high energy costs, electricity provision equipment and control systems.

Local Authority Charge on Non-Principal Private Residences

Demand for Local Government services is increasing all the time. It is important that local authorities can operate on a sustainable financial basis. The Government has, therefore, decided to broaden the revenue base of local authorities by introducing a charge on all non-principal private residences. The charge will be levied and collected by local authorities, and will be used to support the provision of local services.

The new charge will be set at €200 per dwelling, and will come into effect in 2009. It will be payable by the owners of private rented accommodation, holiday homes and other non-principal residences but will not be applied to new dwellings as yet unsold. The Minister for the Environment, Heritage & Local Government will bring forward legislation at an early date to give effect to these arrangements.

Motor Tax

Motor tax is an essential contributor to Local Government funding. It is proposed to increase motor tax rates by 4% for cars below 2.5 litres and CO₂ bands A to D. A 5% increase will apply to cars above the 2.5 litre threshold and CO₂ bands E, F and G. Goods and all other vehicles will also increase by 4% with no increase for electric vehicles.

The new rates will apply to motor tax discs taken out for periods beginning on or after 1 January 2009. Details are contained in the Summary of Budget Measures.

Overall Revenue Yield

Full details of all these tax measures are set out in the Summary of Budget Measures. The revenue package announced today raises an additional amount close to €2 billion in 2009.

CONCLUSION

A Cheann Comhairle,

Iarraim oraibh tacú agus cabhrú linn na moltaí go léir uilig atá leagtha os comhair na Dála inniu a chur i gcrích.

Sa mhórobair atá romhainn tá sé ar intinn againn beart de réir ár mbriathar a dhéanamh.

Cludaíonn na bearta a leagaim os bhur gcomhair ár bplean gníomhaíochta le haghaidh téarnamh eacnamaíochta.

- Cuirfidh siad smacht ar airgeadas poiblí.
- Treiseoidh siad ár gcumas táirgiúlachta.

- Tabharfaidh siad tús áite do thionscadail infheistíochta a mhéadaíonn ár gcumas iomaíochta.
- San am céanna cabhróidh siad leis na daoine is inleonta.

Anois, iarraim oraibh arís teacht linn ar an mbóthar atá romhainn.

Mar a deir an seánfhocal is ar scáth a chéile a mhaireann na daoine.

This Government has dealt decisively with the rapid and sharp downturn in our economy.

- In July, we brought forward a package of savings which will net the Exchequer €1 billion next year.
- As the fiscal position deteriorated over the summer, we took further action at the beginning of September by deciding to bring forward Budget Day by two months to address the downturn in an integrated manner across all Government.
- Two weeks ago, when the stability of our banking system was in jeopardy, this Government took immediate and decisive action to protect not just our banks but our entire economy.

The Budget I put before you today is our plan of action for economic renewal.

- It will bring order and stability to our public finances.
- It will enhance our productive capacity.
- It prioritises public investment projects that add to our competitiveness.
- And while doing all this, it will protect and support those most in need.

A Cheann Comhairle, global crisis is an overused phrase in political debate. But it is appropriate, in the current circumstances. Crisis presents danger and today, we have taken action to meet that danger. But crisis also brings with it opportunity:

- opportunity to reform the way we do our business;
- opportunity to move on to the next stage in our development as a sophisticated, high value economy;
- and above all, opportunity to work together in the best interests of our citizens.

This Budget serves no vested interest. Rather, it provides an opportunity for us all to pull together and play our part according to our means so that we can secure the gains which have been the achievement of the men and women of this country. It is, a Cheann Comhairle, no less than a call to patriotic action.

It is my great honour to commend this Budget to the House.