BUDGET 2009 #2

CORI Justice

ANALYSIS AND CRITIQUE

Budget lacks vision as banks escape and children are targeted

This Budget lacks a guiding vision. This in turn gives rise to some very serious problems. The Budget allows many of those who created the present series of crises, particularly the banks, to escape. At the same time the vulnerable, particularly children, are targeted to pay for the misbehaviour and fraud of others.
Government made a sensible decision to change its borrowing parameters. However, it showed a profound lack of understanding of the social crisis that Ireland is currently facing.

Social Crisis
In its description of the social crisis Government identified only the issue of unemployment. While this is a critically important issue there are major problems also concerning children, older people, people with disabilities or those who are ill - all of whom have seen their services reduced over the past year. Failure to acknowledge this fact in the Budget statement when it outlined the social crisis is of serious concern. It suggests a Government that does not appreciate the serious nature of recent developments in these areas.

In defining the social crisis in terms of unemployment only it fails to appreciate the huge negative impact that cuts in services are having and the impact that the failure to address the social infrastructure deficits today will have in years to come.

The banks
The banks will see their toxic debt being removed and they will be free to continue as before. On the other hand the taxpayer will underpin a new National Asset Management Agency which will take on assets potentially as high as €90bn but which will be "transferred at an appropriate discount" which has not been decided.

The first principle of action to tackle toxic debt should be that the exposure of the taxpayer is minimised. Substantial changes would be required before this proposal could be accepted as a

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Pluses

- Initiatives to broaden the tax base and increase the tax-take
- Income distribution impact is progressive.

Minuses

- Lack of vision.
- Lack of understanding of the social crisis Ireland is currently facing.
- Allowing the banks to proceed unencumbered.
- Targeting children.
- Lack of transparency within the Budget documentation.
- Reduction of Official Development Aid (ODA)

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Good initiatives on tax and distribution marred by lack of transparency

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fair way of addressing Ireland's banking crisis. (cf. p 3)

Children

In stark contrast to the way banks are dealt with in the Budget children are targeted. The Early Childcare Supplement is being halved now and will be abolished at the end of the year. It is proposed that Child Benefit is to be taxed or means-tested in Budget 2010.

An Early Childhood Care and Education scheme is to be introduced but with a much lower expenditure level than what will be saved by ending the Early Childhood Supplement.

Ireland has high levels of child poverty and low levels of support for childcare. While the ECCE scheme is welcome the combined impact of these proposals will see supports for children reduced at the very time when families' incomes are under serious threat. (cf. p.3)

Taxation

Building a fairer tax system and increasing the tax-take are critically important if Ireland's public policy is to be able to address the challenges of the years ahead.

In this Budget Government has taken a number of positive steps to do both. It has also signalled that it will continue this process in the coming years. These are very welcome developments and we trust that Government will take advantage of the many potential reforms which need to be introduced in the coming years.

We welcome the fact that Government did not reduce the income levy exemption threshold to zero. However we note that more than 30% of households at risk of poverty are headed by a person with a job. Consequently, we urge Government that as resources become available it should restore the policy of keeping the minimum wage outside the tax net. (cf. p. 7)

Distribution impact of this Budget

In this *Analysis and Critique* we provide details of the distribution impact of this Budget and the cumulative impact of the series of initiatives Government has taken since last October (cf. pp 10-11).

The impact of the tax changes in this Budget are progressive. Those who have more will pay more while those who have less will pay less.

This is also the situation when we analyse the cumulative impact of all Government initiatives in this area for 2009.

In this analysis we also show the different impacts of Government initiatives on employees in the public and private sectors. The changes introduced in the public sector's Pension Related Deduction are progressive and welcome.

Lack of Transparency

The Government's lack of transparency in the Budget documentation is a serious cause for concern. Without the full details of expenditure on issues such as social housing it is not possible to fully evaluate the impact of a Budget.

Borrowing Parameter

The Government's decision to change its borrowing parameter for the Budget was welcome and its new borrowing requirement of 10.75% is about right.

It is crucial that Budgets in the years immediately ahead focus on achieving the common good in action as well as rhetorically.

ODA

The reduction in Overseas Development Aid to 0.48% of GNP is an attack on the world's poorest people. As such it is totally unacceptable and should be reversed.

Social Housing

We have noted the lack of transparency in the Budget documentation. In the social housing area it appears from the very limited data information provided that there will be a substantial reduction in capital expenditure. This would be a very retrograde step. The importance of the social housing budget cannot be over-estimated. The number of households on waiting lists has been growing. Investment in social housing at this time would be good for these households. It would also be good for the economy as it is employment-intensive. Finally, at this time it is also possible to get very good value for money in this area. We ask Government to ensure that information on this and similar issues is included in the Budget documentation in future.

Conclusion

Ireland is at a crossroads. It is facing a wide range of challenges. The roots of the current economic crisis lie in policy decisions taken in previous years. It is crucial that similar mistakes are not made again.

Budgets are not just about economics. They are also about values and vision - the values and the vision that Ireland's people wish to see guiding their future.

In his Budget speech the Minister for Finance, Brian Lenihan, TD, made several references to the common good. The Budget, however, does not measure up to the rhetoric.

It is crucial that Budgets in the years immediately ahead focus on achieving the common good in action as well as rhetorically. In this way it would be possible to build a country of which we could all be proud.

Banks Escape

There are serious questions that have not been answered in the proposals Government has made to tackle the toxic debt held by Ireland's banks. These proposals envisage the establishment of the National Asset Management Agency (NAMA) under the governance of the National Treasury Management Agency.

The Budget documentation states that this agency would potentially have €80bn to €90bn in assets based on the current book value of these toxic debts held by banks and financial institutions. However Government envisages that these debts would be transferred to NAMA at an appropriate discount.

Any profits made by NAMA will accrue to the State. If there is a shortfall "the Government intends that a levy will be applied to recoup it".

There are a number of problems with this proposal:

- The loans will be transferred at an 'appropriate discount'. But there is no clarity on how NAMA will ensure it is not paying more than the assets are worth.
- It does not say who will pay this levy – the banks or the taxpayer.
- It suggests that the banks that created this crisis will remain intact and have all their toxic debts removed. Yet the taxpayer may well end up paying for the disgraceful actions of bankers who walk away with their positions intact.

The first principle of action to tackle toxic debt should be that the exposure of the taxpayer is minimised . The second principle should be that those in the banking world who created this crisis should not be left in place under the illusion that they can rescue the situation or reform the system that they managed and which got us into this difficulty.

Substantial changes would be required before this proposal could be accepted as a fair way of addressing the banking crisis Ireland currently faces.

Children Pay

While banks are likely to escape as a result of the decisions contained in the second Budget for 2009, children have been targeted in a variety of ways.

- Budget 2009 halved the Early Childcare Supplement that was paid for children under five and a half years of age to €41.50 per child from May 1, 2009.
- This Supplement will be abolished completely from the end of 2009.
- Child Benefit will either be means-tested or taxed in Budget 2010.

On the positive side:

- The Early Childcare Supplement will be replaced in January 2010 with a pre-school Early Childhood and Education scheme (ECCE) for all children between the ages of 3 years and 3 months and 4 years and 6 months. A capitation grant will be payable to service provides who provide free pre-school services.

Serious Questions Arise

- While the provision of a free pre-school year in this new programme is welcome it has been done at the expense of a programme that provided support to a far larger number of children.
- The proposal to tax or means-test Child Benefit means this payment is fundamentally changed. It has never been seen as part of the tax system and it was paid to the mother or principal carer. Now policy that has served the country well for is to be reversed. It is not a positive development in a country that has 19% of all its children living in poverty.
- Ireland provides very low levels of support for childcare when compared with other EU countries.
- This series of proposals is moving policy in the wrong direction at the very time when many families' incomes are under serious threat.

Lack of Transparency

Government has not been transparent in its second Budget for 2009. On a number of fronts it has not provided the information required to provide a comprehensive and detailed analysis of what it proposes to do in the coming months.

A glaring example of this is in the area of social housing where almost no detail has been provided of what Government proposes to do. The documentation shows there will be a reduction of €200m in the allocation for social housing and water services infrastructure but provides no detail of how much comes from which Budget. .

This is a growing tendency in Government publications which is completely unacceptable. It is particularly lamentable where Budget documentation is concerned. Full details should be provided on Budget day.

Parameter Changes

The Government's decision to change the parameters of its second Budget for 2009 is most welcome. Last week's Exchequer Returns indicated that we were on path of a deficit of 12.75% this year without further corrective action.

Following the changes announced by the Minister for Finance the budget deficit target for this year is now set to be 10.75%. CORI Justice believes this is about right.

Having urged Government for some time to move away from the target it had set itself in January of this year we welcome this move.

Government's decision to have no increases in social expenditure other than dictated by demographic or unemployment changes is storing up problems that will have to be addressed in the future.

Budget 2009 - Summary of the Key Numbers

To accompany the Budget speech the Department of Finance has published a series of documents detailing the changes announced in the Budget. Through this *Analysis and Critique* document we examine various aspects of these changes. The table below brings together the key figures from the published Budget documents. It presents the Department of Finance's expectations of National Income (GDP and GNP) next year, and for the next three years. It outlines the projected exchequer budgetary position over that period. Expectations of future changes to employment, unemployment and inflation are detailed. The table also includes details on the taxation system following the implementation of the Budgetary changes. Finally, the table outlines the Department of Finance's calculations regarding the full year cost of the tax and social welfare changes announced in the Budget.

Table 4.1: The Budget in Numbers - Key Data from Budget 2009 #2

National Income		**Inflation and the Labour Market**	
GDP in 2009 (€m)	€171,500	Inflation in 2009	-3.9%
GNP in 2009 (€m)	€144,000	Inflation 2009-2011 (average)	-0.5% per annum
GDP growth in 2009	- 7.7%	Unemployment rate in 2009	12.5%
GNP growth in 2009	- 8.0%	Employment growth in 2009	- 7.8%
GDP growth 2009-2011 (average)	2.6% per annum	Unemployment rate 2009-2011 (average)	14.4%
GNP growth 2009-2011 (average)	2.8% per annum	Employment growth 2009-2011 (average)	-4.0%
Exchequer Budgetary Position		**Taxation**	
Current Budget Surplus, 2009 (€m)	- €11,113	Income Taxation - lower rate	20%
Net Capital Investment, 2009 (€m)	€10,735	Income Taxation - higher rate	41%
Capital Investment paid from current resources, 2009 (€m)	Zero	%Tax on €25,000 income (single / 2 earners)	10.3% / 5 %
Capital Investment paid from borrowing, 2009 (€m)	All	%Tax on €60,000 income (single / 2 earners)	31.7% / 17.4 %
Exchequer Balance, 2009 (€m)	- €20,350	%Tax on €100,000 income (single / 2 earners)	39.2% / 28 %
2009 General Government Balance (% GDP)	- 10.75%	Corporation Tax Rate	12.5%
Current Budget Surplus 2010 (€m)	- €14,596	Capital Gains Tax Rate	25%
Current Budget Surplus 2011 (€m)	- €12,191	**Cost of Budget 2009 #2 Changes**	
Net Capital Investment 2010 (€m)	€6,972	Cost of Income Tax changes (€m)	€754
Net Capital Investment 2011 (€m)	€7,286	Cost of PRSI/Health levy changes (€m)	€799
Exchequer Balance 2009-2011 (€m)	- €19,338 (average)	Total Tax changes (€m)	€1,806
National Debt as a % GDP, 2009	59%	Total cost of Budget package (€m)	€3,268

Source: Minister's speech and various tables throughout Budgetary publications.

Budget 2009 #2 in Context (part 1)

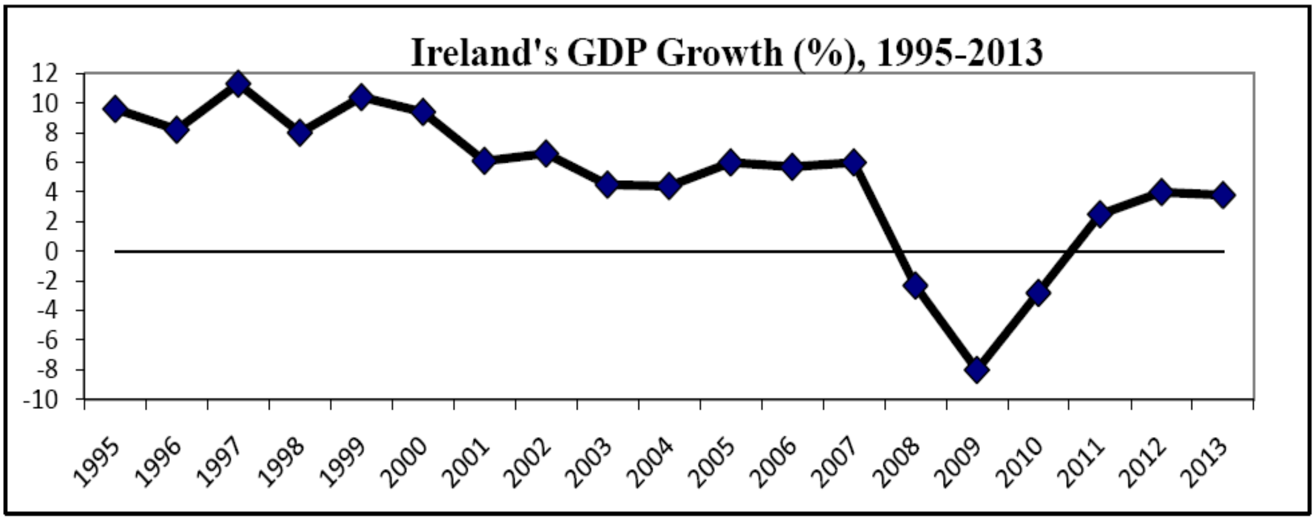
The tables and charts on page 5 offer an insight into the rapid decline in the national finances that set the context for Budget 2009 #2.

The GDP graph illustrates the speed at which the economic turn-around occurred. As the construction industry collapsed the size of the Irish economy began to decline in 2007 (see also the housing table). This speeded up as the international banking crisis hit and the economy moved into recession. The Budget projects growth will return from 2011.

The central table illustrates the rapid decrease in tax revenues between those projected in October 2008 and those in the supplementary Budget. In six months, expected revenues for 2009 have declined by over €8 billion.

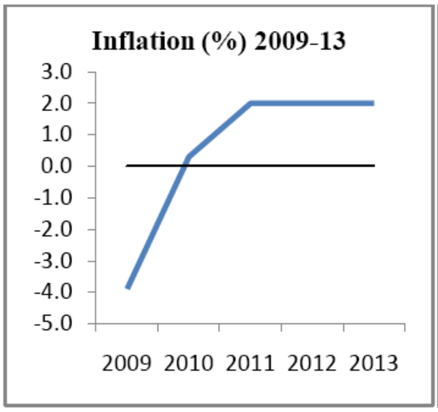
Finally, the outlook for inflation (CPI), unemployment, employment growth and the government borrowing requirement are illustrated. Unemployment is expected to peak in 2010 and a slow return to new employment creation will occur from 2012 onwards.

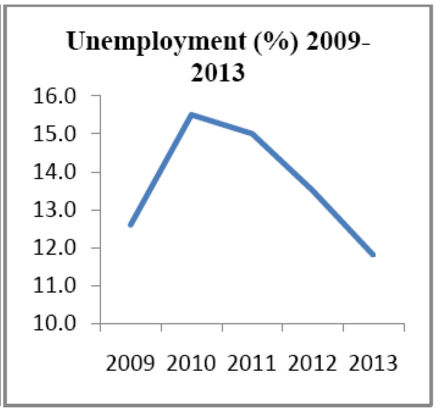
Budget 2009 #2 in Context (part 2)

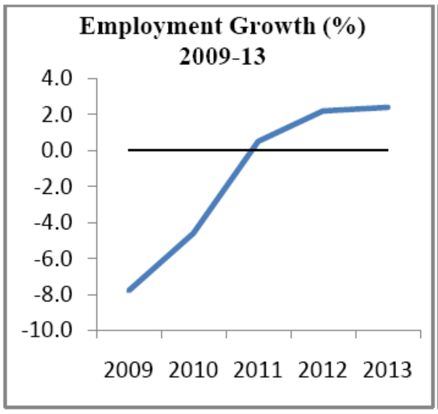


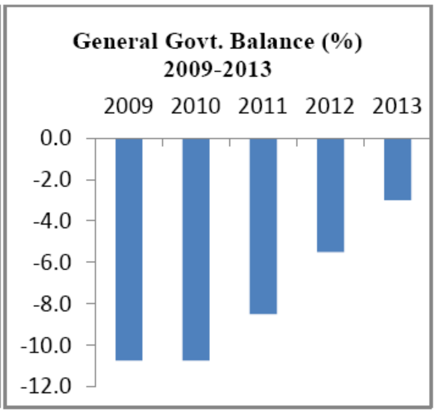
Source: OECD Factbook 2008, CSO and Department of Finance Budgetary Document; figures for 2009 onwards are projections

Comparison of projections from Budget 09 #1 and #2 (€m)			
	Budget 09 #1	Budget 09 #2	Difference
Customs	255	230	-25
Excise Duties	5,739	4,634	-1,105
Capital Gains Tax	1,700	625	-1,075
Capital Acquisitions Tax	310	295	-15
Stamp Duties	1,380	980	-400
Income Tax and Levy	14,035	12,475	-1,560
Corporation Tax	5,950	3,740	-2,210
Value Added Tax	13,410	11,420	-1,990
Levies	1	1	0
Tax Receipts	**42,780**	**34,400**	**-8,380**









Ireland's Housing Bubble, 1995-2009

Year	Units Completed
1995	30,575
1996	33,725
1997	38,842
1998	42,349
1999	46,512
2000	49,812
2001	52,602
2002	57,695
2003	68,819
2004	76,954
2005	80,957
2006	93,419
2007	78,027
2008	51,724
2009*	30,000
2010*	12,500

Taxation Changes - *Summary*

CHANGES TO INCOME LEVY, HEALTH LEVY AND PRSI

Income Levy – from 1 May
The income levy rates will be doubled to 2%, 4% and 6%. The exemption threshold will be €15,028. The 4% rate will apply to income in excess of €75,036 and the 6% rate to income in excess of €174,980.

Health Levy – from 1 May
The health levy rates will double to 4% and 5%. The entry point to the higher rate will be €75,036.

PRSI – from 1 May
The PRSI ceiling will be increased from €52,000 to €75,036.

INCOME TAX

Mortgage Interest Relief
Mortgage interest relief will be discontinued for any mortgage over 7 years from 1 May.

Restriction in Interest Relief Rented Residential Property
The level at which interest repayments can be claimed against tax for residential rental properties is being reduced from the existing 100% to 75%. This measure will apply to both new and existing mortgages. Commercial properties are not affected.

TAXATION ON SAVINGS

Deposit Interest Retention Tax and Taxes on Life Assurance Policies and Investment Funds
The rates of retention tax that apply to deposit interest, together with the rates of tax that apply to life assurance policies and investment funds, are being increased by 2% in each case and will now be 25% and 28% respectively. The increased rates will apply to payments, including deemed payments, made from midnight on 7 April 2009.

STAMP DUTY

Life Assurance Policies
A new levy on life assurance is being introduced at the rate of 1% on premiums. This new levy will apply to premiums received by an insurer on or after 1 June 2009.

Non-Life Insurance Policies - Change in Rate of Tax
The non-life insurance levy of 2% is being increased by 1%. The new rate of 3% will apply to renewals and offers of insurance issued by an insurer on and from midnight on 7 April 2009

Stamp Duty "Trade-in" scheme
Establishment of a Stamp Duty "trade-in" scheme, under which no stamp duty is payable by a person who accepts a traded-in property in exchange or part exchange for a new house/ apartment. Stamp Duty will apply when the person subsequently sells on the 'swapped'/traded-in house. Full details will appear in the Finance Bill.

CAPITAL GAINS TAX

Rate
The capital gains tax rate is being increased from 22% to 25% in respect of disposals made from midnight on 7 April 2009.

CAPITAL ACQUISITIONS TAX

Rate
The capital acquisitions tax rate is being increased from 22% to 25% in respect of gifts or inheritances made from midnight on 7 April 2009.

Threshold
The current thresholds of €542,544 (Group A: parents to child), €54,254 (Group B: between related persons), and €27,127 (Group C: between non-related persons) are being reduced by 20% to €434,000, €43,400 and €21,700 respectively. This reduction applies in respect of gifts or inheritances taken from midnight on 7 April 2009.

CAPITAL GAINS TAX, INCOME TAX AND CORPORATION TAX

Income and losses from dealing in residential development land
The special 20% rate applied to the trading profits from dealing in or developing residential development land is being abolished. The income will be charged at the person's relevant marginal rates of income tax or the 25% rate of corporation tax. This change will apply as regards Income Tax for the year of assessment 2009 and subsequent years and as regards Corporation Tax for accounting periods ending on or after 1 January 2009 (with accounting periods straddling that date being deemed for this purpose to be separate accounting periods).
Where trading losses have been incurred from dealing in or developing residential development land in circumstances where, if trading profits had been made, they would have been eligible to be taxed at 20%, and a claim to use those losses has not been made to and received by the Revenue Commissioners before 7 April 2009, the losses from today will generally only be relievable (on a value basis) up to a maximum of 20%. Where any such loss is a terminal loss, the restriction will be implemented by "ring-fencing" the loss.

CAPITAL ALLOWANCES

A new tax relief on capital expenditure incurred in the acquisition of Intellectual Property.

Termination of Capital Allowances Scheme for Private Hospitals and Nursing homes. Transitional arrangements will be put in place for projects that are at an advanced stage of development. The Finance Bill will contain further details on this measure.

EXCISES

Increase in Mineral Oil Tax on Auto-diesel

The mineral oil tax on auto-diesel will be increased by 5 cent per litre (including VAT) with effect from midnight on 7 April 2009.

Tobacco Excise

The Excise Duty on a packet of 20 cigarettes will be increased by 25 cent (including VAT) with a pro-rata increase on other tobacco products, with effect from midnight on 7 April 2009.

Introduction of VAT Margin Scheme for second-hand cars
A Margin Scheme is being introduced whereby, with effect from 1 July 2009, dealers will be taxed on their margin in regard to second-hand cars they acquire and resell after that date.

Income Tax Changes

CORI Justice welcomes the fact that Government did not reduce the income levy exemption threshold to zero. This would be to have repeated the mistake of Budget 2009 #1 and would have involved collecting taxes off those living below the poverty line.

While there are likely to be some difficulties on the margins of the new threshold (and for some low income families) the fact that it is approximately €3,000 above the poverty line for a single adult recognises a need to protect the most vulnerable in society. In the years to come, as resources return, we expect the Government to restore the policy of keeping the minimum wage outside the tax net.

Overall, we also acknowledge the fact that the new tax levies are progressive.

	Pre-Budget 2009 #2	Post-Budget 2009 #2
Income Levy		
Exemption Threshold (under 65)	€18,304	€15,028
Middle Rate Threshold	€100,100	€75,036
Higher Rate Threshold	€250,120	€174,980
Lower Rate	1%	2%
Middle Rate	2%	4%
Higher Rate	3%	6%
Health levy		
Lower Rate (entry threshold €26,000 per annum/ €500 per week)	2.0%	4.0%
Higher Rate	2.5%	5.0%
Higher Rate Threshold	€100,100	€75,036
PRSI		
PRSI Ceiling	€52,000	€75,036

In the years to come, as resources return, we expect the Government to restore the policy of keeping the minimum wage outside the tax net.

Some Tax Breaks Reformed

For some time CORI Justice has highlighted the necessity to address the area of tax expenditures/tax breaks. These schemes, covering areas from property to farming to health, are often unrecorded by the Revenue Commissioners or the Department of Finance. Few details on the costs and benefits of the schemes are available and in most cases the reliefs exist due to lobbying rather than legitimate economic or social reasons. Our submission to the Commission on Taxation has suggested a set of detailed reforms to the system of tax expenditures and we hope it recommends these when it reports in July 2009.

There were many better uses for this money than funding tax breaks

Budget 2009 #2 marks a welcome commencement to the reform of these schemes. The restriction or removal of Mortgage Interest Relief, interest relief on rented properties and capital allowances for private hospitals and nursing homes is welcome. The latter have, like the hotel investment scheme of a few years ago, proved to be an unacceptable waste of public funds.

It is unfortunate that these obvious and necessary reforms were not carried out a few years ago. There were many better uses for this money than funding tax breaks. We have called on the Commission on Taxation to recommend further reforms when they report and we hope that Budget 2010 (to be delivered in December 2009) will present a more significant reform of the number and structure of these tax reliefs.

Future Tax Reform

Building a fairer taxation system is an important part of building a fairer Ireland. The Budget documentation signals further needs for tax increases in 2010 and 2011 (see story on page 16) and CORI Justice believes that these future Budgets offer Government the potential to implement a number of changes to the taxation system which will make it fairer.

A year ago, in our submission to the Commission on Taxation, we outlined in detail a set of proposals to broaden the tax base.

The areas highlighted included:

- Standard rate discretionary tax expenditures
- Introduce a speculative tax on windfall gains from land rezoning
- Introduce the promised carbon and environmental taxes
- Increase the tax on wealth (e.g. through increasing DIRT tax)
- Introduce a land rent tax
- Continue to reform the sizeable number of tax breaks (i.e. tax expenditures), many of which serve minimal social or economic purpose.
- Increase capital gains tax

Budget 2009 #2 has made some welcome moves to address these issues. However, there is plenty of potential reforms remaining. CORI Justice believes that these reforms should be introduced in Budget 2010.

CORI Justice Submission to Commission on Taxation

CORI Justice made a detailed, 81-page, submission to the Commission on Taxation. The document can be downloaded from our website: www.cori.ie/justice

Effective Tax Rates after Budget 2009 #2

Central to the ongoing debate on taxation in Ireland are effective tax rates. These rates as calculated by comparing the total amount of income tax a person pays with their pre-tax income. For example, a person earning €50,000 who pays €10,000 in taxation will have an effective tax rate of 20 per cent. Calculating the scale of income taxation in this way provides a more accurate reflection of the burden of income taxation faced by earners.

Following Budget 2009 and the supplementary Budget we have calculated effective tax rates for a single person, a single income couple and a couple both earners. Table 8.1 below presents the results of this analysis.

In most cases the supplementary budget increased the effective tax rate. For a single person with an income of €15,000 the effective tax rate will be 0%, rising to 10.3% of an income of €25,000 and 41.1% of an income of €120,000. A single income couple will have an effective tax rate of 0% at an income of €15,000, rising to 5.0% at an income of €25,000, 25.5% at an income of €60,000 and 38.0% at an income of €120,000.

Effective tax rates provide a more accurate reflection of the burden of income taxation faced by earners.

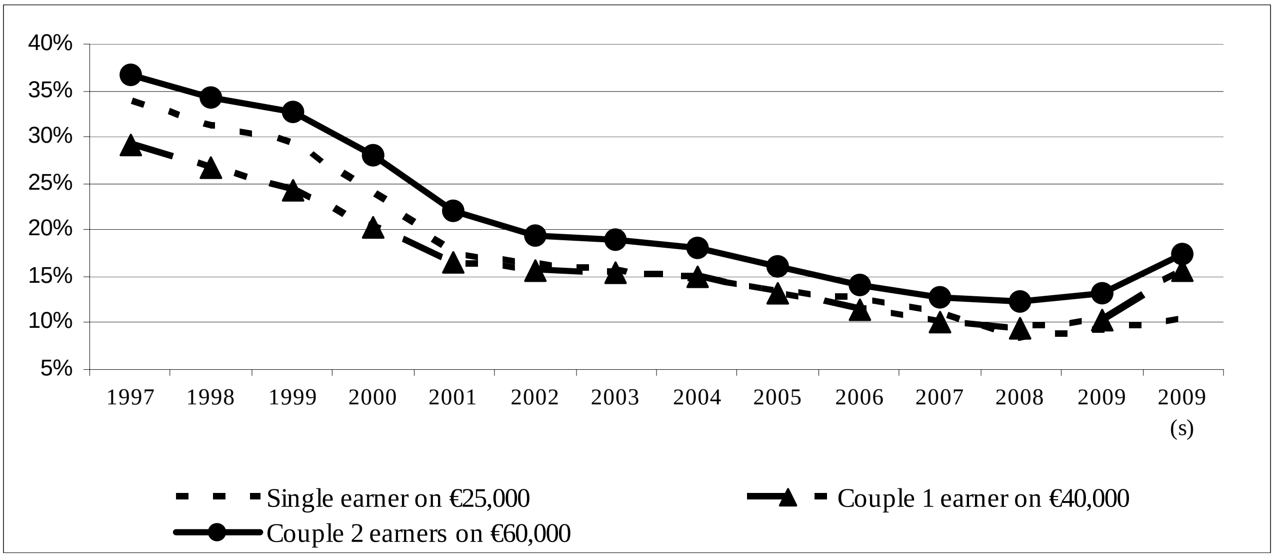
In the case of a couple where both are earning and where their combined income is €40,000 their effective tax rate is 11.0%, rising to 22.4% at a combined income of €80,000 and 31.7 % for combined earnings of €120,000.

As chart 8.1 below shows these effective tax rates have decreased considerably over the 12 years for all earners. For example, in 1997 a couple with two earners on an income of €60,000 had an effective tax rate of 36.6%. This fell to 19.3% in 2002 and despite increasing after each of the 2009 budgets will be still lower at 17.4% after this budget.

Table 8.1 : Effective Tax Rates Pre Budget 2009 #2 / Post Budget 2009 #2

Income Level	Single Person	Couple 1 Earner	Couple 2 Earners
€15,000	0% / 0 %	0% / 0 %	0% / 0 %
€25,000	9.3% / 10.3 %	3.9% / 5.0 %	3.9% / 5.0 %
€30,000	13.9% / 16.9%	7.8% / 10.8%	6.1% / 9.1%
€40,000	19.1% / 22.1%	12.6% / 15.6%	8.0% / 11.0%
€60,000	28.2% / 31.7%	22.0% / 25.5%	13.9% / 17.4%
€80,000	32.3% / 36.5 %	27.6% / 31.9%	18.1% / 22.4%
€100,000	34.6% / 39.2%	30.9% / 35.5%	23.3% / 28.0%
€120,000	36.5% / 41.1%	33.4% / 38.0%	27.0% / 31.7%

Chart 8.1 : Effective Tax Rates in Ireland, 1997-2009 #2



Unacceptable attack on the world's poorest

One of the major cuts in Budget 2009 #2 is that delivered to the Overseas Development Aid budget. It has been cut by €100 million, adding to a cut in January 2009 of €95 million.

In 2009, Ireland will give €696 million in overseas aid; an amount equivalent to 0.48% of GNP.

This is a shameful cut; one so embarrassing to the Government that the Minister did not mention it in his speech…

This is a shameful cut; one so embarrassing to the Government that the Minister did not mention it in his Budget speech. Indeed, the Budget documentation, while mentioning the cut, failed to address it implications for the committed government target as published in the White Paper on ODA. The impact of this cut will be felt among the poorest people on this planet; those struggling to survive on less than $1 a day in the over 100 countries that Ireland assists. CORI Justice considers this cut a national shame, it should be reversed immediately.

Table 9.1: ODA as % GNP

Year	% of GNP
1993	0.18%
2000	0.29%
2003	0.40%
2008	0.54%
2009 Budget #1	0.56%
2009 Budget #2	0.48%
2010	0.60%
2012	0.70%

Education budget - small changes

Capital expenditure in education has been reduced by €54m while capital expenditure has been reduced by €27m.

Additional places

An additional 6,910 places will be created for unemployed people in the further and higher education sectors.

These places consist of:

- 1500 in PLC courses;
- 3,500 full and part-time third level places;
- 930 places on third level transition courses;
- 280 places on accelerated certificate programmes; and
- 700 places in a new education programme for redundant apprentices.

Capital spending

Of the €54m reduction in capital spending:

- €30m is taken from school building plan leaving the school building and modernization programme now at €613.5m.
- €24m reduction in the capital budget is taken from higher education.

Current Spending

Of the €27m reduction in current spending:

- The School Transport Programme and the National Educational Psychological Service both lose €2m each.
- Higher education loses €16m
- €2m is taken from the research budget (down from €86.6m which had, in fact increased by 14% earlier in 2009.

Assessment

These changes are relatively minor and the additional places for unemployed people in further and higher education are welcome. However they are only a small proportion of what is required if Ireland's projected rise in unemployment to 15% is to be addressed effectively.

Social spending

The Budget stated that there is no provision for extra social spending, other than dictated by demography and unemployment. This fails to acknowledge that there are major problems concerning children, older people, people with disabilities and those who are ill - all of whom have seen their services reduced over the past year. It also fails to recognise the importance of addressing the social infrastructure deficit that Ireland has been experiencing for many years.

In a time of recession the experience of countries that effectively dealt with serious recessions in the past e.g. Finland, is that increases in social expenditure are required to ensure that vulnerable people are well placed to benefit from economic recovery when it arrives.

Unemployment

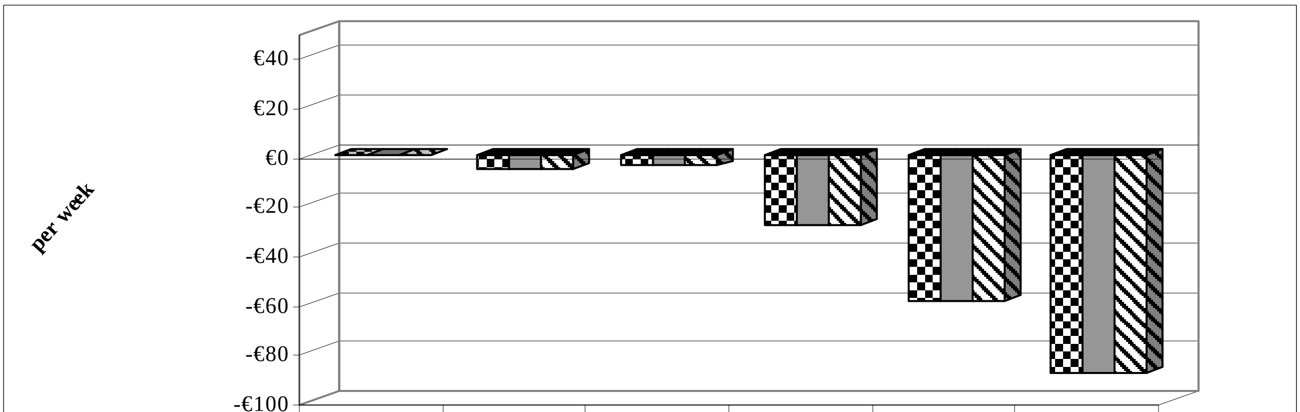
A series of initiatives to address the rise in unemployment were included in the Budget. These include reform of the Back to Work Enterprise Allowance (BTWEA) and back to Education allowance (BTEA). They also include a range of activation initiatives.

These are spread across among a number of different Departments.

While these are welcome they are not on the scale required to address the dramatic rise in the numbers on the live register or the rise in the numbers of people who are unemployed.

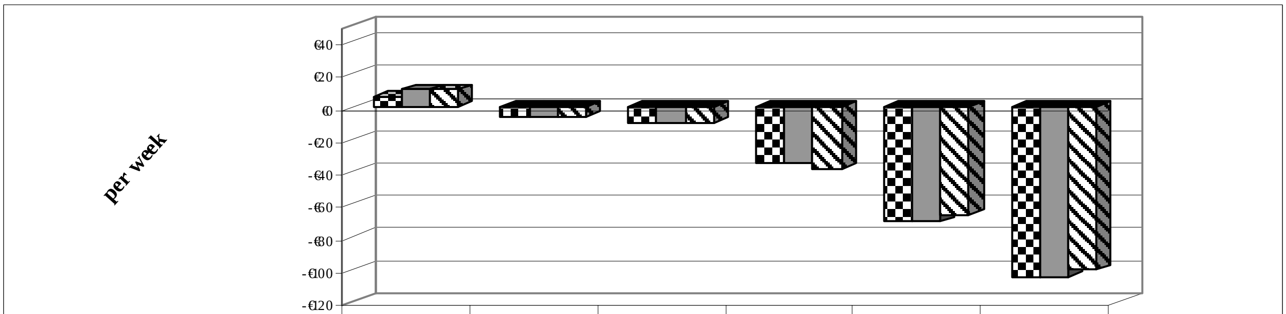
CORI Justice urges Government to act immediately on the proposal from the National Economic and Social Council to convene a Jobs and Skills Summit.

Chart 10.1 : Income Distribution and Budget 2009 # 2



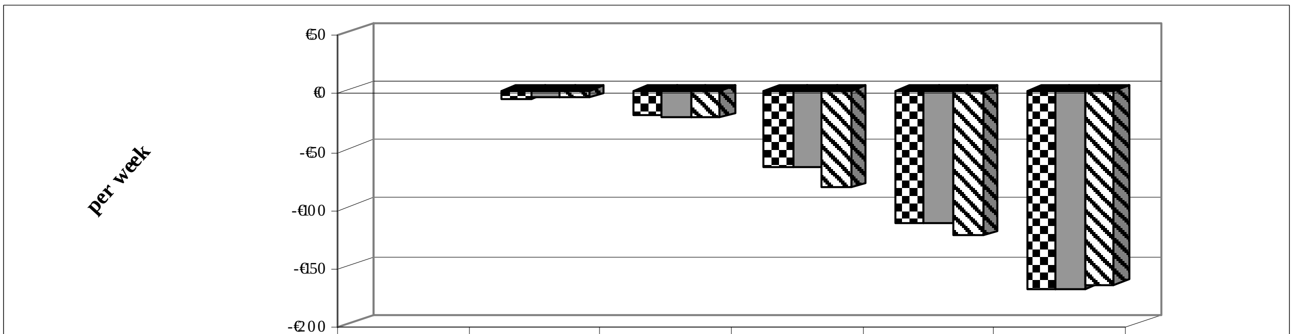
	Unemp	€15,500	€25,000	€50,000	€75,000	€100,000
Single	0.00	-5.94	-4.79	-28.75	-59.19	-88.34
Couple 1 Earner*	0.00	-5.94	-4.79	-28.75	-59.19	-88.34
Couple 2 Earners*	0.00	-5.94	-4.79	-28.75	-59.19	-88.34

Chart 10.2 : Cumulative Impact on the Disposable Income of Private Sector Workers, Budget 2009 #1 & Budget 2009 #2



	Unemp	€15,500	€25,000	€50,000	€75,000	€100,000
Single	6.50	-5.94	-9.58	-34.30	-70.54	-104.47
Couple 1 Earner*	10.80	-5.94	-9.58	-34.30	-70.54	-104.47
Couple 2 Earners*	10.80	-5.94	-9.58	-38.33	-66.51	-100.45

Chart 10.3 : Cumulative Impact on the Disposable Income of Public Sector Workers, Budget 2009 #1, Public sector pension levy and Budget 2009 #2



		€15,500	€25,000	€50,000	€75,000	€100,000
Single		-7.37	-20.66	-66.75	-114.26	-170.60
Couple 1 Earner*		-6.41	-23.54	-66.75	-114.26	-170.60
Couple 2 Earners*		-6.41	-23.54	-83.86	-124.83	-166.57

Notes for all tables: * Except in the case of the unemployed where there is no earner; Unemp = Unemployed; Couple with 2 earners are assumed to have equal shares of income.

Distribution and Budget 2009 #2

When assessing how much better or worse off people are going to be after any budget it is important that wage increases and tax changes be included as well as social welfare increases. Unemployed people, for example, gain nothing from wage increases or tax reductions while those with jobs may gain from both. In our calculations on this occasion we have not included any general wage increases under the T2016 national agreements as many employees will not benefit from these. We have included the impact of the Budget changes on social welfare and taxation. Chart 10.1 (page 10) sets out the impact of Budget 2009 #2 on the take home income of people.

Single people who are long-term unemployed will not be directly affected after this budget. Those on €25,000 a year will see a reduction of €4.79 a week (€250 a year) in their take home pay while those on €50,000 will be €28.75 a week (€1,500 a year) worse off in the coming year and those on €75,000 a year will be €59.19 a week (€3,089 a year) worse off in the coming year.

Couples with one income on €25,000 a year will be €4.79 a week (€250 a year) better off while those on €50,000 will be €28.75 a week (€1,500 a year) better off in the coming year.

Couples with two incomes on €25,000 a year will be €4.79 a week (€250 a year) worse off while those on €50,000 will be €28.75 a week (€1,500 a year) worse off in the coming year.

The impact of Budget 2009 on the distribution of income in Ireland can be further assessed by examining the rich-poor gap. This measures the gap between the disposable income of a single person on long-term unemployment and a single person on €50,000 per annum. Budget 2009 #2 has reduced the rich-poor gap by €28.75 per week.

Cumulative Impact on Private Sector Take-home Income

The take-home income of people in the private sector has been affected by the taxation and social welfare changes in both the original 2009 budget and in this supplementary Budget.

Chart 10.2 (page 10) sets out this cumulative impact of both budgets on private sector take-home income.

No account has been taken of possible pay increases under the national agreements as many employess will not benefit from them.

Single people who are long-term unemployed are €6.50 a week (€339 a year) better off in 2009. Those on €25,000 a year will see a reduction of €9.58 a week (€500 a year) in their take home pay while those on €50,000 will be €38.33 a week (€1,790 a year) worse off in the coming year and those on €75,000 a year will be €70.54 a week (€3,681 a year) worse off in the coming year.

An assessment of the cumulative impact of the October and April Budget offers a more rounded insight into the distributive impacts

Couples who are long-term unemployed are €10.80 a week (€564 a year) better off in 2009. Couples with one income on €25,000 a year will be €9.58 a week (€500 a year) worse off while those on €50,000 will be €34.30 a week (€1,790 a year) worse off in the coming year.

Couples with two incomes on €25,000 a year will be €9.58 a week (€500 a year) worse off while those on €50,000 will be €38.33 a week (€2,000 a year) worse off in the coming year.

Cumulative Impact on Public Sector Take-home Income

Workers in the public sector have had three factors impacting their take-home income in the current year: Budget 2009 #1, Budget 2009 #2 and the impact of the Public Service Pension Levy.

Chart 10.3 (page 10) sets out the cumulative impact of these including the adjustments to the Pension Related Deduction in respect of the lower paid included in Budget 2009 #2.

Single people on €25,000 a year will see a reduction of €20.66 a week (€1,078 a year) in their take home pay while those on €50,000 will be €66.75 a week (€3,483 a year) worse off in the coming year and those on €75,000 a year will be €114.26 a week (€5,962 a year) worse off in the coming year.

Three factors have impacted on the take home pay of public sector workers; this analysis examines the impact of all three

Couples with one income on €25,000 a year will be €23.54 a week (€1,228 a year) worse off while those on €50,000 will be €66.75 a week (€3,483 a year) worse off and those on €75,000 a year will be €114.26 a week (€5,962 a year) worse off in the coming year.

Couples with two incomes on €25,000 a year will be €23.54 a week (€1,228 a year) worse off while those on €50,000 will be €83.86 a week (€4,376 a year) worse off and those on €75,000 a year will be €124.83 a week (€6,513 a year worse off in the coming year.

Expenditure Changes - *Summary*

Budget 2009 #2 made expenditure cuts of €886 million in Gross Current expenditure (€1,215 million in a full year) and €576 million in Gross Capital expenditure relative to the pre-Budget position. We summarise the key expenditure cuts here:

SOCIAL WELFARE

The personal rate of Jobseeker's Allowance and basic Supplementary Allowance will be reduced for new claimants under 20 years of age to €100 per week from the first week of May 2009. The Qualified Adult rate payable to a Jobseeker's Allowance/ basic Supplementary Welfare Allowance claimant aged under 20 years will also be €100 per week. These reduced personal and Qualified Adult rates of payment will not apply where a claimant is entitled to an increase for a Qualified Child.

Removal of provision for a Christmas bonus payment in 2009.

Changes to rent supplement eligibility and payment regime.

FOREIGN AFFAIRS

Reduction in Overseas Development Aid of €100 million.

HEALTH & CHILDREN

Early Childcare Supplement monthly payment to be halved to €41.50 per child with effect from 1 May 2009 and abolished at end-2009. It will be replaced in January 2010 with a pre-school Early Childcare and Education Scheme (ECCE) for all children between the ages of 3 years 3 months and 4 years 6 months. A capitation grant will be payable to service providers who provide free pre-school services. A total reduction of €61m in the provision for:

- the cost of pay awards;
- new developments provided for in the HSE Service Plan to address demographic pressures; and
- the costs in 2009 of the Constitutional Referendum on Children's Rights to take account of the later than expected timetable.

PAYROLL SAVINGS (€150m)

These estimated savings arise from the range of initiatives relating to public service numbers management announced recently and in the Supplementary Budget. They include early retirement schemes, leaves of absence and career breaks.

OTHER DEPARTMENTAL SAVINGS

Environment, Heritage & Local Government (€20m)

Principally savings on the Exchequer contribution to the Local Government Fund.

Limited detail on social housing spending.

Education & Science (€27m)

Savings include reductions in funding for the third-level sector; general efficiencies in the administration and operation of the school transport scheme from non-payment of a compensatory allowance to private contractors who were previously availing of the fuel rebate scheme; and savings on teachers' pay from the suspension of awarding allowances for Posts of Responsibility in schools as vacancies arise, as part of the general moratorium applying in the public sector.

Agriculture, Food & Forestry (€45m)

Savings include reductions in the rate of payment under the REPS Scheme; abolition of the Fallen Animals Scheme; and estimating adjustments across a range of areas.

Community, Rural & Gaeltacht Affairs (€15m)

Savings across various areas, including supports for the Community and Voluntary sector and local and community development programmes.

Transport (€15m)

Reduction in national roads maintenance grants to the National Roads Authority; and reduction in Exchequer subvention payments to CIÉ for provision of public transport services.

Defence (€11m)

Savings include reduced costs of the Chad mission consequent on its change-over to a UN mission from March 2009, together with reduced fuel and other costs and other economies.

Communications, Energy & Natural Resources (€10m)

Savings include a €5m reduction in the allocation for RTÉ, An Post and the Broadcasting Fund, reflecting lower receipts from the broadcasting licence fee, and general reductions on other programmes.

CAPITAL EXPENDITURE

The cuts include:

- **Transport** – €300 million savings, including a reduction of €150 million or 8% in investment in roads. In 2009, this reduction is applied mainly to regional and local roads. Expenditure on national roads is substantially contractually committed to allow for the on-time and on-budget completion of the inter-urban motorway network by end 2010 as promised. There will also be some deferrals and rescheduling of public transport projects.
- **Environment, Heritage & Local Government –** €200 million savings, principally arising in the areas of Social Housing and Water Services Infrastructure as well as other programmes.
- **Education & Science** – €54 million savings, mainly in the Primary and Post-Primary School Building Programmes (€30 million) and the Third Level Capital Programme (€24 million).
- **Agriculture** – a reallocation of €23 million from Current to Capital towards provision for the Farm Waste Management Scheme; a cut in the provision for afforestation requiring a reduction in the rate of forestry premium;
- **Communications, Energy & Natural Resources –** €15 million savings, including a reduction of €13 million in the allocation for Sustainable Energy and Energy research programmes.
- O**ther areas –** capital savings of €55 million in other areas.

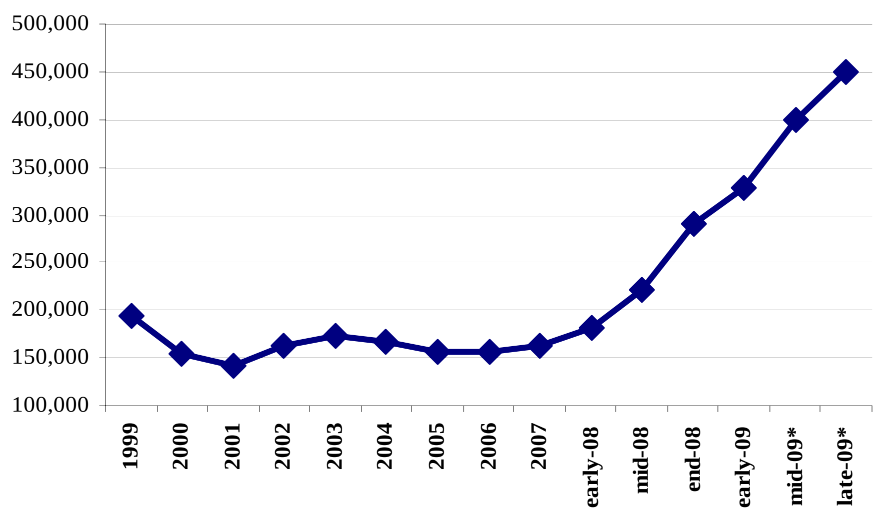
Unemployment increase - long-term implications

The Budget highlights the rapid turnaround of the Irish economy in recent months. It has lead to a sudden return to the phenomenon of wide-spread unemployment. Using data from the Live Register, Chart 1 shows how unemployment began to climb throughout 2008 and is projected to increase to a figure of 450,000 people by mid to late 2009. While the increase has, and will be, spread across people of all ages and sectors, table 13.1 highlights the very rapid increase on the Live Register of those aged less than 25 years. Previous experiences, in Ireland and elsewhere, has found that many of those under 25 and over 55 find it challenging to return to employment after a period of unemployment. This highlights the danger of major increases in long-term unemployment in the coming years and suggests a major commitment to retraining and re-skilling will be required. In the long-run Irish society can ill afford a return to the long-term unemployment problems of the 1980s. In the short-run the new-unemployed will add to the numbers living on low-income in Ireland and will impact on future poverty figures.

Table 13.1: Persons under 25 yrs on Live Register, Jan 2008 - Jan 2009

2008	January	36,900
	February	39,500
	March	40,800
	April	41,000
	May	42,700
	June	48,200
	July	52,300
	August	55,000
	September	53,700
	October	54,500
	November	57,900
	December	62,300
2009	January	70,600

Chart 1: No. of Persons on the Live Register, 1999-2009*



* Data for mid and late 2009 are projections

National Debt to Climb

An implication of Ireland's budgetary position is that the country has been forced to borrow large sums of money to cover fiscal deficits in 2008, this year and for the next number of years. Table 13.2 reflects the scale of this increase and shows how the national debt will rise as a proportion of national income from 2009-2013.

The need to so rapidly increase our debt level is driven by two factors. The decline in the international economy, on which Ireland as a trading nation is highly dependent, and the realisation of a series of national policy failures mainly associated with the recent housing boom and the economically illogical trend of persistent and excessive tax cutting. While the former is likely to resolve itself as the international economy improves, the latter, referred to as Ireland's structural deficit, requires a more coherent response. As CORI Justice has pointed out on many previous occasions a key element of this reform is the long overdue need to reform and refocus our tax base so that all contribute their fair share to Irish society. Elsewhere in this document (see page 7) we highlight the opportunities to broaden the tax base and build a fairer taxation system. As we continue our fiscal reforms these policies will become central to any credible attempt to solve the problem.

it is driven by two factors...the decline in the international economy and the realisation of a series of national policy failures...

Table 13.2 General Government Debt as % GDP, 2009-2013

	2009	2010	2011	2012	2013
GG Debt % of GDP	59%	73%	78%	79%	77%

Judging the Budget - 8 Key Thrusts

In our *Policy Briefing* on 'Budget Choices', published in March 2009 CORI Justice argued that Government urgently needed to produce a clear, coherent, credible, integrated plan to address the range of crises Ireland is currently facing. We also urged Government to ensure that such a plan was fair and seen to be fair. We believed such a plan would be effective at addressing the problems Ireland faced both at home and abroad.

At home there has been an ongoing fury at what people perceive as unfair targeting of particular groups - a perception that has been strengthened when people could not see how the various parts of Government's response are connected.

Abroad there has been an ongoing problem with financial institutions who charge Ireland more for the money borrowed - caused, in part at least, on their perception that Ireland lacks a coherent, integrated plan to address the range of crises it faces in a credible manner. We argued that the Government's plan should respect and follow eight key thrusts in developing its detailed initiatives. We now analyse this Budget and assess how Government has performed.

Don't try to 'cut' our way out of the crises

The Importance of this Issue

CORI Justice argued that this crisis is so severe that we cannot 'cut' our way out. We acknowledged that cuts would be necessary but argued that the core of any effective strategy has to be investment.

Budget 2009 #2 Analysis

- Government allocated €7.3bn for capital expenditure in 2009 - which is in excess of 5% of GNP. Their overall capital investment for the next four years is €6.6bn (2010), €5.5 (2011), and €6bn in 2012 and 2013.
- The balance between tax increases and expenditure reductions is about right in 2009 but may be far more problematic in 2010 and beyond.

Change Government parameters on borrowing

The Importance of this Issue

CORI Justice argued that the borrowing parameter of 9.5% Government had set itself was seriously problematic and should be changed. In particular we expressed concern that if followed it would be likely to have a very negative impact on Ireland's economy.

Budget 2009 #2 Analysis

- Government changed the borrowing parameter to 10.75% for 2009.
- CORI Justice welcomes this decision by Government and believes the new parameter is about right.

Recognise that economic and social development are two sides of the one coin

The Importance of this Issue

CORI Justice recognises that economic development is crucial if the required social development is to be put in place. At the same time, however, it should also be recognized that the economy requires good social services and infrastructure if it is to develop to its full potential. Education is a good example of this requirement.

Budget 2009 #2 Analysis

- The required balance is not evident in this Budget.
- The understanding of the social crisis contained in the Minister for Finance's Budget speech shows a huge lack of understanding of the social crisis (in services and social infrastructure) that Ireland is facing.

Revise and re-prioritise the NDP

The Importance of this Issue

CORI Justice urged Government to resource initiatives such as the social housing programme that are good for the vulnerable and good for the economy. We also urged that priority be given to key initiatives that would secure other societal goals e.g. providing 500 primary care teams in the healthcare system.

Budget 2009 #2 Analysis

- While capital investment has been held at a high level it is not clear on what the expenditure will be made.
- The totally unacceptable lack of transparency in the Budget documents leaves us unable to assess Government's performance on this issue.

Judging the Budget - 8 Key Thrusts

NESC identify that Ireland is facing 5 interconnected crises

- **A banking crisis** - in which the taxpayer is taking responsibility for rescuing the banks and financial institutions from the consequences of the dishonesty and incompetence of individuals and institutions who were in charge of running and regulating our financial system;
- **A fiscal crisis** - because we are borrowing far more than we are collecting in taxes;
- **An economic crisis** - because we have lost competitiveness & jobs;
- **A social crisis** - because our social services and social infrastructure are being eroded, unemployment is rising, incomes are falling and debt levels are rising; and
- **A reputational crisis** - our reputation around the world has been damaged by, among other things, a perception that Ireland has a lax and ineffective system of regulation of the financial sector.

Increase the tax-take and make the tax system fairer

The Importance of this Issue

CORI Justice urged Government to put greater emphasis on increasing the tax-take and making the tax system fairer. Ireland is a low-tax country by EU standards. A substantial increase in taxation is required if Ireland's current crises are to be addressed effectively.

Budget 2009 #2 Analysis

- Tax changes were introduced and their impact is dramatic but these changes have been progressive.
- We trust that the Budgets of 2010 and beyond will see the appropriate widening of the tax base which is essential if Ireland's tax system is to be fair.

Protect and enhance social welfare rates as a key to tackling poverty

The Importance of this Issue

More than half of all those at risk of poverty (55.9%) live in households headed by a person who is outside the labour force (i.e. people who are older or ill, or have a serious disability or are in caring roles). These are Ireland's most vulnerable people and they depend completely on social welfare payments. Protecting welfare rates is crucial for these people's survival.

Budget 2009 #2 Analysis

- Welfare rates were maintained with the exception of job-seekers allowance for 18 and 19-year olds.
- Comments by the Minister concerning the future give serious cause for concern.

Protect social services and social infrastructure

The Importance of this Issue

Social services and social infrastructure have come under systematic pressure since the middle of 2008. Large amounts of resources that were previously committed to these areas have been withdraw. Services are suffering and the infrastructure that underpins these social services is in danger of being eroded.

Budget 2009 #2 Analysis

- The reduction in services and social infrastructure is set to continue
- The Minister for Finance's statement that there would be no provision for extra social spending other than dictated by demography and unemployment will produce huge and growing social problems in the period ahead.

Give primacy to the common good over the market

The Importance of this Issue

There are deeper values issues to be considered as Ireland reviews the series of crises it is currently facing. The dominant world view that produced the current global crisis is highly problematic. We need to move from a world that is built on individualism, anxiety and greed to a world that is built on the reality of abundance, the need for generosity, the dignity of the person and the centrality of the common good.

Budget 2009 #2 Analysis

- We welcome the Minister's several references to the common good.
- The Budget shows some movement in this direction.

‘Not a Mini Budget’: The Scale of Budget 2009 #2

Budget 2009 #2 may have been labelled a ‘mini budget’ but its scale suggests that it was far from being ‘mini’. In total the Minister for Finance announced changes totalling €3.3 billion during his speech.

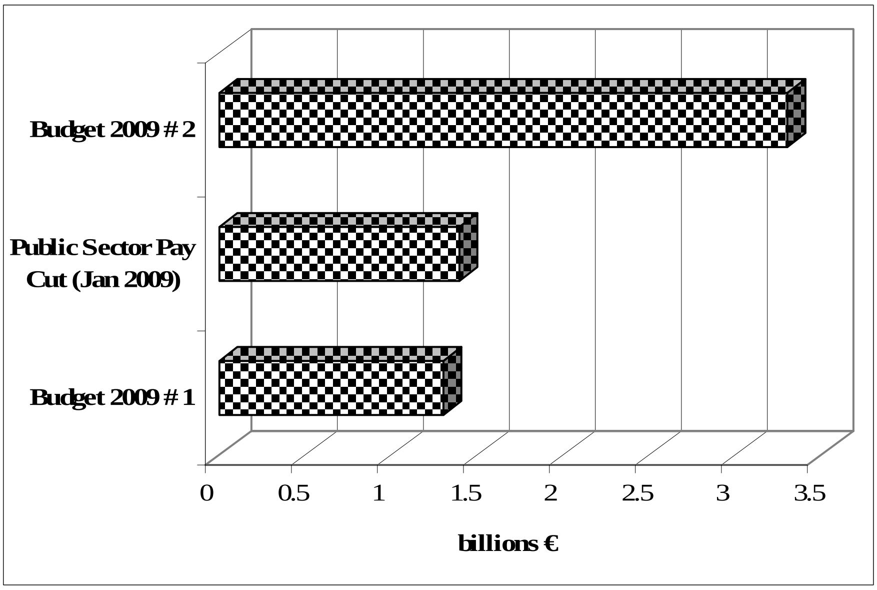
The chart opposite attempts to put the mini budgets’ scale in some perspective. It compares to the €1.4 billion ‘adjustment’ announced in January via the public sector pension levy and the October 2008 budget which took €1.3 billion out of the economy.

The ‘mini’ budget’s €3.3 billion of adjustments divides as follows: 45% on expenditure cuts (€1.5 billion) and 55% on taxation increases (€1.8 billion). Collectively, the announcements contained in the ’mini’ budget reflect some of the largest fiscal policy changes ever announced for Ireland.

The Minister has also signalled the scale of future Budget changes. Both Budget 2010 and 2011 will each aim to make an additional €4 billion in adjustments.

The Budget documentation suggests that the 2010 adjustments will be spread across taxation (an additional €1.75 billion), current or day-to-day spending (minus €1.5 billion) and capital expenditure (minus €750 million). These figures suggest that to meet the Budgets’ economic projections, in particular those agreed with the EU, that future Budgets will continue to be very large.

CORI Justice asks Government to ensure that any changes proposed are fair and protect the vulnerable.



Other CORI Justice Publications

The following publications (and many more) may be downloaded for free from our website and are available for purchase from the CORI Justice Office:

- ***Policy Briefing* on Budget Choices** (March 2009)
- ***Policy Briefing* on Poverty** (February 2009)
- **Analysis and Critique of Budget 2009** (October 2008)
- ***Policy Briefing* on Taxation** (November 2008)
- **Planning For Progress and Fairness** (2008)
- **Making Choices - Choosing Future: Ireland at a Crossroads** (2008)

We’re on the web

www.cori.ie/justice

CORI Justice publishes books and regular briefings on a wide range of public policy issues. Our core areas of work are: public policy; spirituality; enabling and empowering; advocacy and communication. CORI Justice has been a recognised social partner within the Community and Voluntary Pillar of social partnership since 1996.

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