BUDG€T 2018

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Budget 2018 Statement of the Minister for Finance and Public Expenditure and Reform

Mr. Paschal Donohoe T.D.

10 October 2017

INTRODUCTION – A BALANCED BUDGET

A Cheann Comhairle,

Budget day offers the opportunity to reflect on a journey made, to recognise both what our country has achieved and what we want to achieve.

On this Budget day we build on progress that would have looked impossible only a few short years ago.

But, today, we redouble our efforts to rise to the challenges that exist while mapping out our national response to the new risks but also to the new opportunities of tomorrow.

We should do so, and I do so, with optimism.

With confidence in what we can achieve, in where Ireland can still go.

Upon my appointment as Minister for Finance and Public Expenditure and Reform by our new Taoiseach, I articulated the economic pillars of this journey.

Budget 2018 sees their delivery.

This budget will:

- Safeguard our national finances and help to rebalance our economy;
- Promote fairness and provide for sustained improvements in people's lives; and
- Make sensible and long-term investments to benefit us now and into the future.

It has been framed to comply with the Confidence and Supply Agreement between this Government and the main opposition party, Fianna Fáil.

Their representatives are making their contribution to Ireland achieving more.

I want to acknowledge that now.

THE ECONOMIC AND BUDGETARY POSITION

Before moving on to the strategy and measures in relation to both revenue and expenditure, I will outline the economic and budgetary position of the Irish economy.

The economy continues to grow strongly with real growth projected to be 4.3 per cent in 2017 and 3.5 per cent in 2018.

The benefit of this economic growth is best illustrated in the employment figures that show 19 consecutive quarters of employment growth, with gains visible across most sectors and well balanced across the regions.

Unemployment is now at its lowest since 2008, at 6.1 per cent and is forecast to fall to 5.7 per cent on average in 2018.

This is close to the level considered to represent full employment in Ireland, just six years since we had an unemployment rate at over 15 per cent.

But there remains much to be done and our challenge is to maintain this progress and use the benefits of this growth for a better, fairer Ireland.

BALANCING OUR BOOKS

In this context, the Budget I am setting out to the House today will deliver this Government's long held objective of balancing our books in structural terms by achieving the Medium-term Budgetary Objective, or MTO as it is known.

Achieving the MTO is not an end in itself.

But sticking to careful budgeting, through adherence to the fiscal rules agreed by the Irish people in the referendum on the fiscal compact, will not protect us from every crisis.

However, it will help reduce the chances that future crises are home grown and will mean that our economy and public finances are in a better position to weather crises stemming from external factors beyond our control.

The list of potential external risks is lengthy.

It includes Brexit, potential changes in US trade policy and various geo-political threats that could have impacts on the global economy.

Crucially, balancing our books in 2018 will also mean that we can devote additional resources to tackling the needs of the Irish people and the economy in 2019 and subsequent years.

In headline terms, the projected deficit for this year is 0.3 per cent of GDP and taking account of the Budget package, the forecast deficit for 2018 is 0.2 per cent of GDP.

In structural terms, the metric by which our obligations under the Stability and Growth Pact are set and measured, we will deliver a structural deficit of 0.5 per cent of GDP, thus achieving Ireland's Medium Term Objective.

Reducing the debt burden we face is critical.

Ireland's debt to GDP ratio has come down impressively in recent years.

But it is still too high, and we must not ignore the level of debt we leave for our future generations.

Sticking to our budgetary plans, avoiding overruns and protecting our solid economic growth will continue to reduce the debt burden in the coming years and re-inforce the resilience of both our economy and our public finances.

It means that we will be doing the right thing at this point in our economic cycle, the right thing for those who want sustained investment in public services and the right thing by those who will bear the burden of our debt in the future.

THE RAINY DAY FUND

To further protect the economy and the national finances, I propose to establish the Rainy Day Fund in the coming year and transfer at least €1.5 billion to it from the Ireland Strategic Investment Fund to start it off.

As set out in the Summer Economic Statement, the annual contributions of €500 million will commence in 2019 after we have achieved the MTO in 2018.

This is another important step in strengthening the national finances in a changing and risky world, especially in light of Brexit.

To progress this initiative, I am publishing the consultation paper on the establishment of the Fund today and I look forward to hearing the views of the Oireachtas in due course.

SUSTAINABLY GROWING INVESTMENT

I wish to confirm that total voted expenditure in 2018 will amount to just over €60.9 billion.

This equates to €12,700 for every person living in our country.

Of that sum, nearly €55.6 billion has been allocated to current expenditure to ensure the continued delivery of sustainable and high quality public services.

This reflects the Government's continued commitment to rebuilding and investing in public services.

Total voted capital spending for 2018 will amount to over €5.3 billion, an increase of €790 million on the 2017 allocation.

However, unlike in previous Budgets, I am announcing additional an allocation of capital expenditure of €4.3 billion over the next four years, up to the end of our existing Capital Plan in 2021.

This is central to our response to Brexit and will allow our State and its agencies to properly plan major infrastructure projects over the medium term while also ensuring communities and businesses can plan ahead.

This will result in capital expenditure doubling between 2015 and 2021 - from €3.7 billion to €7.8 billion Gross Voted Capital.

This will bring Ireland's public investment levels to among the highest in the E.U. and ensure we can deliver key priority projects in areas such as social housing, roads and schools.

A number of key projects are already having a real impact on improving people's lives.

To give just a few examples;

- last month the new M17 was opened between Gort and Tuam ahead of schedule;
- a new Emergency Department was opened at Limerick University Hospital;
- as was the renovated Pairc Uí Chaoimh in Cork.

In Dublin, the Luas Cross City will soon begin to carry its first passengers.

This increased investment will deliver better public services, promote regional economic growth, and help address challenges such as Brexit and climate change.

But we cannot repeat old mistakes.

Ramping up capital expenditure by too high a level, for example, would be a dangerous and simplistic policy.

It would very clearly risk excessive inflation and the overheating of the construction sector.

Which in turn would result in poor value for money for the taxpayer.

BUDGETARY STANCE

The guiding principle in my macro-economic choices is choosing the right budgetary stance.

At the time of the Summer Economic Statement, I announced that the unallocated fiscal space for 2018 amounted to a little over €500 million in nominal terms and €180 million of this has since been committed to the Public Service Stability Agreement.

To augment the resources for distribution in the Budget, I am raising additional revenues of the order of €830 million, giving a total Budget day package of €1.2 billion.

Expenditure will receive an additional €898 million.

€684 million is being used to fund additional current expenditure and an additional €214 million is going to capital expenditure.

I will also be introducing tax reductions on income worth €335 million.

The Budget increases gross voted current expenditure by over €1.8 billion or 3.4 per cent compared to the expected outturn for 2017 excluding the water charges refund.

This growth in current spending is less than the forecast real growth in the economy of 3.5 per cent.

This is dramatically different to the levels of increases in current expenditure the last time this country was in a full-employment situation between 2000 and 2007 when the average annual increase in current spending was an unsustainable 12 per cent.

I am increasing voted capital expenditure by €790 million from €4.54 billion this year to just over €5.3 billion in 2018.

This is an increase of over 17 per cent.

All this means protecting our country’s economic future while investing in education, health, childcare and housing.

HOUSING

And housing remains a priority for this Government.

I am very aware of the corrosive impact on Irish society of homelessness.

I am also aware that many people living in the private rented sector wish to find more appropriate accommodation or move to their own home, but at the moment cannot do so.

Our actions to support the housing sector, though, are bearing fruit. Commencement notices for new housing are up 47 per cent. Planning Permissions are up 49 per cent.

And we are increasing our ambitions for what we will build directly.

I am allocating a total of €1.83 billion for housing in 2018.

Some 3,800 new social houses will be built next year by the local authorities and Approved Housing Bodies.

I am increasing the Housing Assistance Payment Scheme by €149 million in 2018, enabling an additional 17,000 households to be supported and accommodated in 2018.

This increased funding will also support the rollout of the HAP Place Finder Service across the country, thus helping households to move out of emergency accommodation and into rental properties.

Funding for Homeless Services will be increased by a further €18 million to over €116 million to ensure that emergency accommodation and other supports are available to those who need them.

An increase of €31 million has been allocated to the Social Housing Current Expenditure Programme bringing the total to €115 million. This will deliver an extra 4,000 social housing homes next year.

In addition to the substantial extra resources that I have provided for housing in 2018, I am today also announcing an additional commitment to further accelerate the delivery of social housing from 2019.

I am providing an extra €500 million for the direct building programme which will see an additional 3,000 new build social houses by 2021, increasing the existing Rebuilding Ireland target of social housing homes to 50,000, of which 33,500 will be delivered through construction.

The real way to tackle homelessness and to make housing more affordable for everyone is to increase housing supply.

The existing Local Infrastructure Housing Activation Fund is geared up to contribute to a significant expansion in housing delivery, with over 30 projects supporting the construction of over 20,000 houses by 2021.

I am now providing additional Exchequer funding of €75m for a second phase of the Fund, which will also support the local authority delivery of affordable housing.

When combined with the local authority matching contribution, this fund has the potential to provide approximately 5,000 homes at more affordable levels by 2021.

ADDRESSING THE FINANCING OF HOUSING DEVELOPMENT

We must make it easier to get funds, build homes and house families.

I am therefore announcing a significant intervention.

I am making up to €750 million of the Ireland Strategic Investment Fund available for commercial investment in housing finance.

The funds announced will be made available to a new vehicle to be known as Home Building Finance Ireland or H.B.F.I. for short.

HBFI will increase the availability of debt funding on market terms to commercially viable residential development projects whose land owners want to build homes.

To get up and running quickly, HBFI will draw on the extensive skill and expertise in residential development funding that currently resides in NAMA.

ISIF and NAMA are already supporting the commercial delivery of 30,000 houses and apartments over the period to 2021 and these additional funds have the potential to fund the construction of an additional 6,000 homes.

This initiative, which will have no impact on the on-going wind down of NAMA, will be designed to avoid distortion of the market and comply with State Aid rules.

I have asked officials to commence work on enabling legislation to effect these proposals and I look forward to the cooperation of the House on the legislation.

THE PROPERTY MARKET

Stamp duty on non-residential property was lowered to 2 per cent in 2011 to get the commercial property market moving again.

It worked and now that the market is performing strongly, the time is right to focus resources elsewhere.

Accordingly, I am increasing the level of stamp duty on commercial property transactions from 2 per cent to 6 per cent with effect from midnight tonight.

This new rate is still below the maximum rate of 9 per cent charged between 2002 and 2008.

However, in relation to commercial land purchased for the development of housing, I intend to introduce a stamp duty refund scheme because of the housing supply challenge.

The refund will be subject to certain conditions, including a requirement that developers will have to commence the relevant development within 30 months of the land purchase.

Details of my proposal on this and all the other tax measures I am announcing today will be set out in the Finance Bill.

I also wish to signal some proposed changes to the vacant site levy.

Taking account of:

- house price and rent inflation since the level of the levy was first set in 2015; and
- the urgency to see more strategic, serviced sites in and around our cities and towns brought forward for development to provide much-needed housing supply;

the Government, has decided to more than double the current 3 per cent levy rate that applies in the first year to 7 per cent in the second and subsequent years.

What this means in practical terms is that any owner of a vacant site on the register who does not develop their land in 2018 will pay the 3 per cent levy in 2019 and then become liable to the increased rate of 7 per cent from 1 January 2019.

If they continue to hoard their land in 2019, they will pay 7 per cent in 2020, resulting in an effective vacant site levy of 10 per cent over the two years.

The message to vacant site owners is clear – to have your levy lifted, you need to get on with developing your lands urgently.

I am reducing the 7 year period owners must retain qualifying assets to enjoy full relief from Capital Gains Tax to 4 years.

This will reduce any impact it may have on limiting the supply of development land available for sale.

In order to encourage owners of vacant residential property to bring that property into the rental market for a minimum of four years, I am introducing a new, time-limited deduction for pre-letting expenses.

Mortgage Interest Relief for homeowners ceased for new borrowings with effect from 2013.

The relief that remained in effect for property owners who took out qualifying loans between 2004 and 2012 is scheduled to cease at the end of this year.

However it was stated in the Programme for Government, and confirmed in last year's Budget, that it would be tapered out to 2020 for the remaining recipients.

In line with that commitment, I am confirming today that this tapered extension will take the form of the continuation of 75 per cent of the existing relief into 2018, 50 per cent in 2019 and 25 per cent in 2020.

BUILDING A BETTER HEALTH SERVICE

A good health service is vital to the success of any country.

Spending on our health services is already at record levels and Irish healthcare spend per capita is already over 30 per cent higher than the OECD average.

But I know our health service needs further improvement.

Today I am announcing an increase of €685m in the allocation to the Department of Health.

This brings total funding to almost €15.3bn for 2018, reflecting an almost 5 per cent increase.

Securing value for money is an absolute requirement that must be delivered to maximise the impact of these increases.

The allocation includes an additional 1,800 staff aimed at a range of frontline services across the acute, mental health, disability, primary and community care sectors.

Ninety million euro is allocated to roll-out of the new Access Plan which will ensure that patients can avail of the medical care they need in the most appropriate setting for them.

This will be particularly beneficial to the most vulnerable patient groups as we enter the coming winter months.

As part of the Access Plan a total allocation of €55m has been provided for the National Treatment Purchase Fund, almost trebling the amount allocated in last year's Budget.

This Budget will also provide for a reduction in prescription charges for all medical card holders under 70 from €2.50 per item to €2 per item with a subsequent reduction in the monthly cap from €25 to €20.

It also allows for a reduction in the threshold for the Drugs Payment Scheme from €144 to €134.

Forty million euro is being provided for primary care developments, which will allow a number of initiatives to be progressed.

In particular, the Government looks forward to further progress in relation to the GP contracts and is hopeful that agreement can be reached on the introduction of additional services during 2018.

I acknowledge that continued investment in primary care, including further GP contractual developments, will require a multi-annual approach.

With regard to the capital envelope, an additional €471 million has been made available to cover the period 2018-2021.

This represents, on average, an additional €120 million each year.

This funding will allow for investment in critical infrastructure including the delivery of the National Children's Hospital project and a range of other investments in primary and community care schemes.

Further details will be provided by the Minister for Health later today.

Improved health services are only one of the ways in which we can make a healthier Ireland, however.

With this in mind, I am increasing excise duty on a pack of 20 cigarettes by 50 cents, with a pro-rata increase on other tobacco products.

This will bring the price of cigarettes in the most popular price category to €12.

Furthermore, in line with the commitment made in the Programme for Government, my predecessor announced his intention to introduce a tax on sugar-sweetened drinks following the completion of an extensive public consultation process.

Accordingly, I am introducing a tax at a rate of 30 cent per litre on drinks with over 8 grams of sugar per 100 millilitres and a reduced rate of 20 cent per litre on drinks with between 5 and 8 grams of sugar per 100 millilitres.

These levels of tax are consistent with the rates being introduced in the UK in April 2018 and our sugar tax will commence at the same time subject to State Aid approval.

In line with the Government's National Cancer Strategy, I also propose to increase the VAT rate on sunbed services from the reduced rate of 13.5 per cent to the standard rate of 23 per cent.

This is in recognition of the clear evidence of a link between sunbeds and skin cancer, the most common form of cancer in Ireland.

IMPROVING EDUCATION FOR ALL

Education, at all levels, is the bedrock of Irish society - delivering benefits for the individual and for society.

It is also vital to keeping our economy competitive and attracting investment in a post-Brexit world.

Continued investment in education remains a priority of this Government – from supporting junior infants on their first day of school right through to providing them with skills they need to fulfil their ambitions.

Today, I announce education spending for 2018 of over €10 billion, a new peak for the sector and 16.6 per cent of total expenditure.

This Budget delivers almost 1,300 additional teaching posts in schools in 2018, and as part of this the Pupil Teacher Ratio at primary level will be reduced to 26 to 1.

This is the lowest level it has ever been.

An estimated €46m is being provided to meet demographic and demand-driven growth, the reduction in primary pupil teacher ratio and enhanced career guidance counsellor provision.

This Government is also committed to ensuring that children with special educational needs are given the opportunity to live independent lives and reach their full potential.

That is why the Government is investing over €1.7bn for special education needs in the coming year.

This means that over 1,000 additional Special Needs Assistants can be recruited in time for September 2018, bringing the total number of SNAs to over 15,000.

The quality of the Irish education system, our students, research and graduates has been a cornerstone of our economic success - attracting foreign business, nurturing indigenous businesses and fostering innovation.

But we cannot live on past glories.

So, I am increasing the National Training Fund levy in 2018 from 0.7 per cent to 0.8 per cent to provide €47.5m of additional investment in the Higher and Further Education Sectors next year.

To provide clarity, I am also announcing that the levy will rise to 0.9 per cent in 2019 and to 1.0 per cent in 2020.

The measures stemming from the independent review of the NTF announced by the Minister for Education and Skills and the Minister of State for Higher Education in July will ensure that employers have a central role in determining priorities for these sectors in 2018 and beyond.

Therefore, the final two increases will be subject to the implementation of these necessary reforms.

Continued State investment in reforming higher and further education sectors in the years to come will help to further develop our human capital and safeguard our economic growth.

The Exchequer is also playing its role and this year, on foot of the midterm capital review, is investing an additional €310 million out to 2021 to address the infrastructure needs of the higher and further education sectors.

Separately, the Minister for Education will also announce in the coming weeks details of an additional €200m PPP investment in the sector that will support regional development.

Building on the significant funding in Higher Education provided last year, the increased investment announced today will help improve our competitive advantage, provide for our ongoing economic success and mitigate the risks and uncertainty of Brexit.

TACKLING CRIME

Upon coming into office, this Government signalled increased investment in An Garda Siochána.

And today I will provide for resources to allow for the recruitment of an additional 800 Gardaí during 2018.

Another 500 civilians will also be hired.

The additional allocation for the Justice sector in 2018 is €63 million.

The rationale for this investment is to develop a modern Police Force that delivers an exemplary level of service to the community.

The Minister for Justice and Equality and I are in agreement that increased spending on Gardaí and police staffing must go hand in hand with a commitment to drive reform throughout the organisation.

We all have a shared interest in getting to a better place.

PREPARING FOR BREXIT

As the impact of Brexit unfolds over the coming years, it is clear that there are likely to be permanent changes in our trade patterns.

Small and medium businesses will need to innovate and increasingly look to new European and international markets other than the UK.

In order to assist SMEs with this, I am announcing a Brexit Loan Scheme.

Together with my colleagues, the Tánaiste and Minister for Business, Enterprise and Innovation, and the Minister for Agriculture, Food and the Marine, I am making a loan scheme of up to €300m available at a competitive rate to SMEs, including food businesses given their unique exposure to the UK market, to help them with their short-term working capital needs.

This scheme is supported by the European Investment Bank Group, the European Commission and the Strategic Banking Corporation of Ireland.

It will give SMEs time to put in place the necessary changes to help their businesses grow into the future.

The Tánaiste and Minister for Business, Enterprise and Innovation, and the Minister for Agriculture, Food and the Marine will be providing details of this scheme.

Furthermore, the Department of Business, Enterprise and Innovation will have a total budget next year of almost €871 million.

This will, amongst much else, enable the recruitment of over 40 staff across the Department and enterprise agencies to bolster our ability to proactively respond to the challenges and opportunities arising from Brexit.

SUPPORTING TOURISM AND ENHANCING OUR TRANSPORT NETWORK

While there is still a great deal of uncertainty about the outcome of the Brexit process, tourism continues to be a national success story.

That said, one clear impact of the UK's decision has been a continuing weakness in the value of sterling.

While I note that prices in Dublin continue to rise, I have said before that VAT policy cannot be decided on the basis of one location only but in the context of the national interest.

Accordingly, I have decided not to change the VAT rate on the tourism and services sector in Budget 2018.

I am announcing a total allocation of over €2 billion in total funding for the Department of Transport, Tourism and Sport for 2018.

This includes €112m for funding to enhance further our tourism offering and market our country abroad.

In addition to tourism, there will be an increase of €9.6m in transport funding that will support increased public transport services and improvements to our road network that will see total current funding in this area rise to €414m.

The capital allocation for the Department will total €7.5bn over the four year period to 2021 and will allow continued progress on a number of projects, such as:

- Phase 2 of the National Indoor Arena;
- the Sallins Bypass;
- the Osberstown interchange project

and a number of other roadbuilding projects will begin construction, assisting commuters, enhancing balanced regional development and improving our national competitiveness.

BusConnects is also a programme of priority investment for public transport, which plans to fundamentally transform Dublin's bus system so that journeys by bus will be fast, reliable, punctual, convenient and affordable.

ENCOURAGING PARTICIPATION IN SPORT AND CULTURE

Investments in our cultural and sporting life are vital to supporting the vibrancy of our country.

As part of that total package to the Department of Transport, Tourism and Sport, Budget 2018 will also see a total allocation of €111 million in current and capital spending for sport next year.

I am pleased on behalf of the Government to signal our strong commitment to Creative Ireland, the five-year legacy programme for Ireland 2016 which places creativity at the centre of public policy.

Additional funding to the Department of Culture, Heritage and the Gaeltacht of €9 million in current funding and €4 million in capital will allow for key measures to be progressed in 2018.

There will be additional funding provided next year for the Arts Council, the Irish Film Board, Culture Ireland, the National Cultural Institutions and the Creative Children initiative, which has captured the public imagination.

There will also be additional allocations for our built and natural heritage and for Waterways Ireland.

This Government is committed to the implementation of the Twenty Year Strategy for Irish.

There will be an increase of €2.5 million in the allocation for the Irish language and the Gaeltacht in 2018, with additional funding for the language planning process, including Údarás na Gaeltachta and various training programs in Irish.

Our national language is a vital part our country.

SUPPORTING AGRICULTURE AND RURAL IRELAND

So too is our agriculture industry and the wider rural economy.

I am pleased to announce an increase in funding of €64 million for the Department of Agriculture, Food and the Marine.

This will bring the total investment in this sector to over €1.5 billion in Exchequer funding in 2018, which will support Ireland’s largest indigenous industry and strengthen the sector’s ability to meet the challenges of Brexit.

The Minister will bring forward a comprehensive package of Brexit response measures for 2018 amounting to over €50 million.

The Department will also provide supports for capital investment in the food industry to increase competitiveness and innovation, and additional supports for Bord Bia marketing and promotion activities.

In addition to the Brexit loan scheme I announced earlier, I have also provided a further €25 million to the Minister for Agriculture, Food and the Marine to provide for the development of further Brexit response loan schemes for the agrifood sector.

These schemes will be developed in 2018 in cooperation with the Strategic Banking Corporation of Ireland and others.

To facilitate the intergenerational shift in farm ownership and management, I am maintaining consanguinity stamp duty relief at 1 per cent for inter-family farm transfers for a further three years.

The exemption for young trained farmers from stamp duty on agricultural land transactions continues.

I propose to provide for the leasing of agricultural land for solar panels to be classified as qualifying agricultural activity for the purposes of specific Capital Acquisitions Tax and Capital Gains Tax reliefs.

This initiative, which is subject to the panels covering no more than 50 per cent of the total farm holding, should support diversification, expand the generation of renewable energy and help tackle climate change.

Providing opportunities for people and communities in all parts of the county to share in economic recovery is a priority of this Government.

To support this objective, the Taoiseach this year established a new Department of Rural and Community Development.

I am increasing the budget for that Department by €19 million on existing programmes.

This amounts to a 12 per cent increase year on year.

Funding will help create the conditions for sustainable rural development and provide local level supports to support vibrant and sustainable communities.

PROTECTING CHILDREN

Next year will see a substantial increase in funding for the Department of Children and Youth Affairs.

This is to ensure we adequately resource those who are charged with the protection of our children, while also helping parents with the cost of childcare.

To ensure we have the ability to help our most vulnerable children and families, the allocation to Tusla, the Child and Family Agency will be increased by over €40 million, bringing its total allocation to just under €754 million.

This increased funding will support a number of key developments including;

- the introduction of mandatory reporting under the Children First Act;
- addressing any gaps in existing Out of Hours Services; and
- providing for further investment and development of the Family Resource Centres network.

This Government continues its commitment to the development of affordable, quality childcare with a focus on children, parents and providers.

An additional €20 million allocation in 2018 will support a range of childcare measures including, from September 2018, further development of the extended free Pre-School programme, ensuring entitlement to a full two year service.

In addition to other measures to progress quality and sustainability in the early years sector, the capitation rate for providers of the ECCE Pre-School Programme will increase by 7 per cent from September 2018.

The measures introduced in September 2017, for a universal childcare payment for the under 3s and increased rates in targeted childcare subvention schemes, will continue to be supported in 2018 in advance of the introduction of the Single Affordable Childcare Scheme.

ADDRESSING CLIMATE CHANGE

Climate change is the global challenge of our generation and it must be met – for the sake of our children and future generations.

This is recognised in the Programme for Partnership Government and also in the recently published National Mitigation Plan.

We will continue to invest in renewable energy and energy efficiency and I have allocated €36 million to facilitate the expansion of the energy efficiency programmes across the public commercial and residential sectors.

I am also pleased to announce the allocation of €17 million to fund the rollout of the Renewable Heat Incentive and to incentivise the uptake of electric vehicles.

In addition to the VRT relief to a maximum of €5,000 and the SEAI grant of up to €5,000 already in place, to further incentivise the take up of electric vehicles, I propose to introduce a 0 per cent rate of Benefit in Kind (BIK) in 2018.

This will be introduced for a period of one year to allow time for a comprehensive review of BIK on motor vehicles which will inform decisions for the next Budget.

I will also be bringing forward proposals for discussion in the New Year in relation to VRT on leased vehicles to meet the requirements of the recent ECJ judgement.

Today, in line with the recommendations of a review of the accelerated capital allowances scheme for energy efficient equipment being published, I propose to extend the scheme for a further three years, to the end of 2020.

In line with the National Mitigation Plan, I have also asked my officials and the ESRI to carry out a review of carbon tax with a view to bringing forward proposals in Budget 2019 around the role of the tax in driving changes to behaviour in households and business.

IRELAND AT THE CENTRE OF THE WORLD

I share the Taoiseach's view that Ireland is not a country at the edge of Europe, but at the centre of the world.

That is why I am announcing increased allocations for the Department of Foreign Affairs and Trade and the Department of Defence.

Included in the increased funding of €23 million for the Department of Foreign Affairs and Trade is an allocation to grow our global footprint for overseas staff.

Crucially, after many years, we will begin to increase our Overseas Development Aid budget, in recognition of our responsibility to help those in the global community in need.

While the increase of over €13 million for 2018 is modest, it is at least a step in the right direction and with a more favourable budgetary position on the horizon in 2019 and beyond, we will make further progress in the coming years.

HELPING OUR MOST VULNERABLE CITIZENS

Our system of social welfare seeks to provide an effective social safety net for the more vulnerable members of society.

Those living with a disability, carers, the unemployed and older people on fixed incomes must continue to be supported in meeting the challenges they face on a day to day basis.

As the economy recovers, working families and lone parents must be encouraged to partake fully in the labour market and benefit from higher incomes from employment over time.

We were conscious in particular that everyone should have the opportunity to share in the benefits of an economy emerging from recession.

Last year we were in a position to increase all weekly social welfare payments and I'm announcing today;

- A €5 per week increase in all weekly social welfare payments, including disability allowance, carer's allowance and both Jobseekers' Allowance and benefit, as well as
- A further €5 increase in the State Pension.

These measures will take effect in the last week of March.

And I am pleased to announce that a Christmas Bonus payment of 85 per cent will again be paid to all social welfare recipients in 2017.

I am conscious of the need to facilitate working families and ensure that being at work pays.

Accordingly from the last week in March I am:

- increasing the earnings disregard for the One Parent Family Payment and the Jobseekers' Transitional scheme by €20 per week;
- increasing the threshold for receipt of the Family Income Supplement by €10 per week for families with up to three children; and
- increasing the weekly rate of the qualified child payment by €2 per week.

The increases in social welfare payments and more targeted measures for working families announced today will have a positive effect on redistributing income and in reducing the risk of poverty and inequality.

I believe these changes are an essential contribution to a fairer and more decent society.

There will also be improvements in other areas including an additional 250 places for the Rural Social Scheme along with an increase in the Free Travel Scheme and the Fuel Allowance.

In addition we are introducing a new Telephone Support Allowance of €2.50 per week for those in receipt of both the Living Alone Allowance and the Fuel Allowance.

Further details will be announced by my colleague the Minister for Employment Affairs and Social Protection.

Separately, and in recognition of the work undertaken by the charities, I propose to introduce a scheme to compensate them for the VAT they incur on their inputs.

The scheme will be introduced in 2019 in respect of VAT expenses incurred in 2018.

Charities will be entitled to a proportion of VAT based on the level of non-public funding they receive.

A fund of €5 million will be available to the scheme in 2019.

I am also pleased to say that work on equality and gender proofing of the Budget continues.

The Government is working with partners such as the Irish Human Rights and Equality Commission to achieve the goal set out in the Programme for Government relating to equality and gender proofing of Budget measures.

Concrete steps include cross-departmental workshops with the Commission, examination of international best practice and the development of a policy document which will be published today.

This afternoon, I want to reconfirm that the Government will continue to provide leadership in this area.

We will work with the Commission and others active in this field to ensure that equality and gender proofing is delivered.

REWARDING WORK

We cannot protect our most vulnerable citizens and create a fairer society unless we reward work and ensure our system of taxation is also fair.

A system where those earning an average wage are charged the higher rate of tax is unfair.

We cannot hope to remain competitive if someone on a relatively low income and who decides to work a few hours overtime has nearly half that extra money taken in tax.

I am announcing to the House that the point at which an income earner attracts the higher rate of income tax will rise next year by €750 per annum.

The entry point for single earners increases from €33,800 to €34,550, thus making progress towards the goal of ensuring that people on average wages do not pay income tax at the higher rate.

I am also introducing targeted changes to USC that reduce the rates but that do not narrow the USC tax base.

The entry point to USC will remain at €13,000.

I am reducing the 2½ per cent USC rate to 2 per cent and increasing the ceiling for this new rate from €18,772 to €19,372 to ensure that full-time workers on the increased national minimum wage of €9.55 per hour do not pay the upper rates of USC.

I am also reducing the 5 per cent rate of USC to 4.75 per cent, thereby reducing the top marginal rate of tax on income up to €70,044 to 48.75 per cent.

This is the fourth Budget in succession in which this marginal rate has been reduced.

To help small and growing businesses around the country address the challenges arising from the changing international environment, and building on the progress made in the last two Budgets, I am providing for a €200 increase in the Earned Income Credit, bringing it to €1,150 per year from 2018.

This increase will be of benefit to over 147,000 self-employed individuals generating economic activity across the country.

Furthermore, research has shown that Employee Financial Participation can be effective in increasing competitiveness and helping companies to attract and retain staff in a competitive labour market.

Therefore, I am announcing a new Key Employee Engagement Programme, or KEEP for short, to support small and medium enterprises in their efforts to attract and retain key employees in a competitive International labour market, by providing for an advantageous tax treatment on share options.

KEEP will allow small to medium enterprises to provide key employees with a financial incentive linked to the success of the company.

Following last year's increase in the home carer credit and a commitment in the Programme for Government, I am providing for a further increase of €100 this year, bringing the value of the credit up to €1,200 per year.
This credit is of assistance to over 80,000 families where one spouse works primarily in the home to care for children or other dependants.

As a next step, I am establishing a working group to plan, over the coming year, the process of amalgamating USC and PRSI over the medium term.

A key objective of this group and, of mine as Minister for Finance, is that this process does not narrow the tax base but ensures that our personal taxation system is both competitive and resilient in the future.

CORPORATION TAX CERTAINTY

In the area of corporation tax, we have seen unprecedented change and reform in recent years.

Ireland has played its full part in this.

We have a stable and competitive corporation tax system, which is internationally recognised as one of the most transparent in the world.

Our position is clear.

The 12.5 per cent tax rate is, and will remain, a core part of our offering.

I also recognise the importance of stability.

With so much change ahead, Ireland must compete, not only on the rate, but on the ability to offer certainty.

Last month I published the Seamus Coffey report, which sets out a roadmap for Ireland to implement a range of reforms over the coming years up to the end of 2020.

The report recognises the importance of certainty and identifies the need for consultation.

In response to these important recommendations, I am now launching a public consultation process as part of the Update on the International Tax Strategy.

Mr Coffey carefully examined the sustainability of our corporation tax receipts. His advice is that the level-shift in corporation tax receipts seen in 2015 can be expected to be sustainable up to 2020.

In order to ensure some smoothing of corporation tax revenues over time, the report recommended that the limitation on the quantum of relevant income against which capital allowances for intangible assets and any related interest expense may be deducted in a tax year be reduced to 80 per cent.

I intend to make this change in respect of expenditure incurred by a company on intangible assets from midnight tonight.

THE NEXT STEP- THE TEN YEAR CAPITAL PLAN

This Budget is important, but we cannot rest there.

As we take the next step on our national journey in the face of growing external risks, especially Brexit, we must think bigger and plan for the longer term.

While today I am announcing capital spending not just for next year but for the next four years, this is just the first step.

Later this year, as has already been announced, the Government will publish the National Investment Plan and the National Planning Framework.

Both these initiatives, which will work in harmony, will outline where we believe, as a country, we should target resources and build capacity so that we grow sustainably.

The consultation process is already under way and I am confident that upon publication, we will have a blueprint for economic and social progress covering the length and breadth of this country.

CONCLUSION- BUILDING THE REPUBLIC OF OPPORTUNITY

This Government of Fine Gael, the Independent Alliance and Independent Deputies looks to renew opportunity in our Republic and create new opportunities for our Republic.

This Budget achieves sustainable and affordable tax reform, delivers improvements in services and ensures increased investment in our national infrastructure.

We are broadening our tax base to make it more resilient and secure in the future.

As a country, we normally make these decisions at times of national difficulty.

Let us resolve to do this differently now.

We are increasing our current spending in line with how we expect the economy to grow so, that we can continue, step by step, to deliver sustainable improvements for all.

And where we are spending more, on our schools, hospitals, homes and public transport we do so to bring a secure, productive and fairer future that bit closer.

Our national horizons are now different.

Yes, there are risks.

Yes, there are challenges.

But we have achieved so much and we can, and will, achieve more.

That is why I commend Budget 2018 to the House.

ENDS