



ICSA Pre-Budget Submission (Budget 2012)

Further Details

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SECTION 1

OVERVIEW

The framing of the budget for 2012 is constrained by agreements with the IMF, ECB and EU and the overall need to get the deficit in line with the agreed targets. The reduction in the interest rate under the national bailout package has been helpful. The objective set out for this budget foresees an adjustment in the range €3.6-4billion. The target for 2012 of a General Government Deficit of 8.6% of GDP is difficult to disagree with.

While it is clear that government deficits in excess of €20 billion cannot be sustained, and moreover, that there is a need to work towards balanced budgets, there is also a need to inject confidence and to support sectors that can aid job creation, particularly through increased exports.

The end of September exchequer returns were welcomed on the basis that targets were met under the joint EU/IMF programme. The exchequer deficit was €3 billion lower than for the same period in 2010.

However, much of the improvement is related to an 8.7% increase in tax receipts. Within this heading, the improvement is linked to a significant increase due to the introduction of the USC and receipts from the levy on pension funds. The levy on pension funds is expected to be temporary and it is difficult yet to quantify what damage is being done to the long-term funding of pensions by the private sector.

On the expenditure side, the picture is not overly encouraging. Allowing for the reclassification of Health Levy receipts to form part of the USC, total net voted expenditure fell 3% in the period to end of September 2011. However, the major improvement was seen in a 26.7% decrease in net voted capital expenditure whereas net voted current expenditure was only down 0.8%.

This reality again calls into question the sustainability of the Croke Park agreement. The commitment to maintain pay rates in the public sector means that a disproportionately high part of all expenditure reductions is focused on cutting schemes, services and capital investment.

In addition, as the private sector becomes more competitive with nominal unit labour costs falling by over 4%, the pay costs in the public sector are leading to a two-tier employment model. The OECD report refers to the need for further falls in unit labour costs.

Government strategy to cut payroll costs is more focused on a reduction of numbers employed in the public sector rather than the rate of pay with a target of 30,000 less jobs. However, in most cases, this results in a parallel increase in pension and/or social protection costs as well as having a detrimental impact on consumption taxes such as VAT.

The Croke Park agreement now seems to preclude a very big area of expenditure from further cuts, which in our view, makes it impossible to achieve the targeted adjustment. There is also an issue of fairness, which cannot be avoided in the context of decisions that will impact on farming schemes. Cuts to schemes such as the Suckler Welfare Scheme, Disadvantaged Area Scheme etc are effectively pay cuts for farmers.

Why should there be further pay cuts for farmers when the public sector now has a pay agreement of no further cuts?

Moreover, the government cannot lose sight of the fact that an export oriented sector such as farming needs to be nurtured rather than hindered.

We submit that all budgetary decisions, whether on cuts or increased taxes, must be evaluated on two criteria:

- (1) Impact on job creation and retention;
- (2) Impact on export and foreign earnings growth.

From a farming perspective, the strategy outlined in the Food Harvest 2020 report points the way with ambitious targets for growing agricultural output and exports. The target for increased exports of €12 billion represents a 42% increase on the 2007-2009 average. With gross output of €24 billion, the agri-food sector is obviously important to Ireland's economic well-being. More significantly, its low import content (domestically sources 71% of raw materials) means that if it grows, then the benefits are substantially captured by the Irish economy.

This is an important point when considering the pros and cons of a fiscal stimulus. One of the criticisms is that, in a small open economy, any stimulus is frittered away by the propensity to import. This manifestly is not a problem with the agri-food sector because it is based primarily on the utilisation of native resources and is massively export oriented.

The reality of course, is that a fiscal stimulus is only possible if the government can access the funds to fund it. At present that possibility is not there. On the other hand, the government can, as a first remedy, opt to "do no harm". By this we mean government avoiding undermining the ability of the agri-food sector to fulfil the potential identified in the Food Harvest 2020 report. If a fiscal stimulus to agriculture is not possible, let's not impose a fiscal contraction.

By this, we mean that no further cuts should be imposed on agriculture as such cuts can only further depress the sector and invariably will counteract the strategy of expansion outlined in the Food Harvest 2020 report.

It must be emphasised again that farming has already taken a severe hit in previous budgets and the level of cuts already imposed is far more severe than for any other sector.

Good commodity prices have been a welcome feature of 2011 for farmers. However, input costs have also risen substantially and the overall picture for farm incomes in 2011 is likely to be marginally better. For some farms that participated in REPS, the loss of REPS income will more than offset increases in beef, lamb, milk or cereal prices.

It is important to emphasise that agriculture has already made more than a fair contribution. While much of the Bord Snip report lies untouched, agriculture implemented some of its decisions even before it was printed.

ICSA believes that even in the context of a necessary adjustment as high as €4 billion for this budget, all decisions must be informed by two key imperatives- do what helps to increase employment and do what helps exports.

Accordingly, every single cutback in expenditure, reduction in capital projects or increases in taxation must be examined to see what are the effects on increasing employment and helping exports.

We do emphasise that competitiveness is still a critical problem. Wages costs remain high, and there is considerable anecdotal evidence of a poverty trap whereby social welfare recipients are not incentivised to take work due to the loss of social welfare and various benefits. Low paid workers are being brought into the tax net to a greater extent particularly with the introduction of the USC and the cutting of tax credits. Any further adjustment to tax on lower paid workers does necessitate equivalent reductions in social welfare benefits. Otherwise, the incentive to work is further weakened and the cost of employing people is increased.

Again, we need to drive down costs. Electricity costs are simply too high and the Energy Regulator should insist on a 10% reduction on ESB charges. Unless, Ireland does more to be more competitive, ambitious targets for increased exports and increased tourism will not be met. The carbon tax was a mistake which simply increased transport costs.

SECTION 2

EXPENDITURE SAVINGS IN THE DEPARTMENT OF AGRICULTURE, FOOD & THE MARINE

The Department of Agriculture has made significant savings in its overall voted expenditure in recent years.

€000s	2008	2009	2010 (D/A annual review)	2011 (est)
Gross Voted Expenditure	2,104,573	1,973,843	1,763,777	1,644,697
Appropriations	451,814	408,140	400,981	373,892
Net Expenditure	1,699,923	1,529,702	1,362,796	1,270,805
Administration	303,864	276,823	243,839	244,625

Farmers have carried a significant part of the adjustment. The Farm Waste Management Scheme cost €413 million in 2008 and there will be no cost in 2012. Fallen animals has gone from a cost of €26 million in 2008 to €8 million in 2010. The Disadvantaged Area scheme is costing €220 million compared with €257 million before it was cut and this scheme is co-funded by the EU.

It is not possible to achieve further savings of some €200 million in the Department spend without seriously compromising the viability of government support to farming, and in turn undermining the plans set out in Food Harvest 2020.

An example of the difficulties facing the government within the framework of the policy to cut public sector numbers but not pay is seen in the fact that the 2011 estimates for agriculture put exchequer pay at 7% less (€251.738 mn compared with €269.672) but exchequer pensions are 29% higher. This is based on associated public sector employees reducing from 5,681 to 5,232. (Estimates- Vote 31 Department of Agriculture, Fisheries & Food)

SECTION 3

FUNDING FOR FARM SCHEMES

ICSA submits that, even in the context of a severe budgetary adjustment, there must be room for some element of targeted stimulus, especially to productive, export oriented sectors. The agri-food sector has been the star performer in terms of export growth over the past two years. The Irish Exporters Association estimates that agri-food exports are up 14.2% for the first 6 months of 2011, which comes on top of 8% growth in 2010. This sector accounts for about half of all exports from indigenous owned firms.¹

The government has enthusiastically backed the expansion targets set out in the Food Harvest 2020 report which include a 50% increase in dairy exports and a 40% increase in beef exports (Implementation Group target).

It is therefore essential that government decisions on the budget do not undermine this potential. ICSA argues therefore that there is no more room for further cuts to schemes that are vital supports to farmers in vulnerable enterprises. Without viability, there can be no expansion. Additionally, previous budgets have seen substantial cuts to important schemes such as the Disadvantaged Area Scheme and the closing off of schemes such as REPS, Installation Aid and Early Retirement.

The Suckler Welfare Scheme rate was cut in half. Finally, the reality is that the ending of investment schemes such as the Farm Waste Management has played a central role in reducing voted expenditure for the Department of Agriculture.

Suckler Welfare Scheme

This scheme is very efficient in delivering benefits to animal welfare and to cattle breeding. Applicants have to undertake a regime of feeding and managing suckler calves before weaning that ensures optimum health. In turn, this is essential to securing vital export markets such as Italy and Spain for weaned calves.

In addition, applicants are contributing vital information to the Irish Cattle Breeding Federation, which uses the information to build up a data bank of information which will form the basis of a much more scientific approach to breeding with a view to much more efficient and economically viable cattle breeding.

The payment also offers some financial support to the suckler-farming sector, which is barely viable.

ICSA Recommendation: Keep the scheme in place and make the necessary financial provision for it.

¹ Irish Exporters Association 2010 Review

Agri-Environment Options Scheme

The Agri-Environment Options Scheme (AEOS) was introduced in 2010 as a replacement for REPS.

However, 2010 applicants were limited to a maximum payment of €5,000 and have had to wait over 18 months without payment. 2011 applicants have been restricted to a maximum payment of €4,000, and are still awaiting payment.

As farmers leave REPS 3, there are substantial savings been made by the exchequer and for many farmers, the loss of REPS money will be extremely difficult to cope with as the AEOS payment is likely to be less than half the REPS payment for most farmers.

Nonetheless, it is a scheme worth supporting as it delivers real environmental benefits and it has a high labour content, which benefits the rural economy. Entry to the scheme is only possible for most farmers when they exit the REPS 3 contract. Therefore it is vital that funding is in place for those who have finished REPS after the 2011 closing date.

ICSA Recommendation: Provision needs to be made for farmers to enter AEOS in 2012.

Installation Aid

Installation aid is a vital support for young farmers, which was suspended in a previous budget. The potential identified in the Food Harvest 2020 report to increase exports by a possible €4 billion cannot be achieved without an influx of trained, motivated young farmers. An investment of €10 million in Installation aid would provide an excellent return and create foundations for substantial increases in exports in the next decade.

ICSA Recommendation: Funding of some €10 million should be provided to establish trained, young farmers.

Disadvantaged Area Scheme

The Disadvantaged Area Scheme costs €220 million but it is co-funded. It is a vitally important scheme to for some 85,000 farmers and there has already been a budget cut of up to 25% for some farmers. It is particularly important to low income cattle and sheep farmers and there is a strong dependency on it in Western Counties.

ICSA Recommendation: There should be no further cuts to this vital scheme

SECTION 4

TAXATION

4.1 General Comments on Taxation

The introduction of the Universal Social Charge in place of the Health and Income levies and the reduction in tax credits (personal and employee) from €1830 to €1650 were the main headlines in last year's budget.

However, there was also a significant change in tax bands with the standard rate reduced to €32,800 rather than €36,400. The PRSI rate for self-employed increased from 3% to 4%.

The overall effect is that, in most cases, all income earned above €32,800 is now subject to a marginal rate of 52%. ICSA submits that taxes and PRSI on income are now at a rate likely to disincentivise work and also to impact severely on consumer spending. It is clear that there is no scope for any further increases in income tax.

It is very striking that there is such a clear consensus that any increase in the corporation tax rate of 12.5% would be disastrous yet there is little focus on the impact of a marginal rate of 52% on small-scale self-employed individuals.

ICSA welcomes the Budget 2011 extension of stock relief for two years from January 2011. However, this relief should be in place on a permanent basis.

4.2 Income Tax

Tax Credits:

ICSA believes that the Employee Tax Credit discriminates against the self-employed, including full-time farmers. There is no longer any justification for this discrimination which potentially costs an individual full-time farmer €1650 in extra tax, assuming a tax liability. ICSA believes that the employee tax credit should be replaced with an earned tax credit, in line with the Commission on Taxation (page 104) although it should be phased in quickly rather than over time.

4.4 Income Tax Reliefs

Land Leasing Relief

ICSA supports the Commission on Taxation proposal that Income Tax Relief for Land Leasing continues in the interest of getting land more productively used.

4.5 Capital Taxes

Capital Gains Tax Rollover Relief

ICSA wishes to see Rollover Relief restored in line with the Commission on Taxation Recommendation 5.26- Capital Gains Tax rollover relief should apply to the gains on disposal of land pursuant to a compulsory purchase order where the proceeds are re-invested in land. However, ICSA believes that this should also apply to re-investment in productive farm assets (e.g farm buildings) in view of the fact that replacement land is rarely readily available and in recognition of the fact that a CPO often severely compromises the viability of a farm, particularly where a road splits a farm in two halves.

Agricultural Relief for CAT

The Commission on Taxation, Recommendation 8.71, proposed restricting the reduction of the value of the property to 75% rather than the 90% which currently applies, and that the maximum amount by which a property is reduced should be €3 million. ICSA is opposed to this recommendation. The relief is withdrawn if the farm is sold anyway, so that this proposed change will only affect the next generation taking over the family farm.

The value of a farm can fluctuate wildly, as seen in recent years, but for reasons, which have no relationship to the ability of a farm to generate income. Therefore, it is unjust, in our view, to drastically reduce the relief, as the transferee, typically a young farmer, is not likely to be able to pay substantial tax bills without selling off some of the land. Such a move would undermine the viability of the farm.

CGT Retirement Relief

ICSA opposes any proposal to introduce a ceiling on this relief as it applies to farmers over 55 who wish to transfer the farm to the next generation during their lifetime. There is normally no financial gain for the transferor and to impose any capital tax would therefore be illogical. Moreover, the relief is designed to encourage the transfer of land to younger farmers, which is desirable if the targets of Food Harvest 2020 are to be met.

4.6 Stamp Duty Reliefs

ICSA favours the retention of Stamp Duty Relief for transfers of land to young, trained farmers (Recommendation 8.73 Commission on Taxation)

ICSA favours the continuation of Stamp Duty Exemption relating to the sale or transfer of Single Farm Payment Entitlement (Recommendation 8.74 Commission on Taxation)

4.7 Other Taxes- Septic Tank Charges

ICSA is opposed to septic tank registration charges and is very concerned at the potential cost of remedial work. ICSA submits that no work should be imposed on any rural householder unless there is a provision for a grant to assist with such remedial works and full tax relief against the net cost at the marginal rate.

SECTION 5

PENSIONS

5.1 General Comments

ICSA believes that the government needs to be careful that it does not destroy the environment for private pensions. For self-employed people such as farmers who have no access to a public sector or occupational pension, the task of providing for retirement is a challenging one.

The collapse of shareholder value in global markets has exacerbated the difficulty as most pension funds have declined in value over the last few years.

ICSA is opposed to the matching exchequer contribution proposal in the Commission on Taxation report which suggests replacing tax/PRSI relief at the marginal rate of tax with a contribution of €1 for each €1.60 contributed by an employee or self-employed person.

However, while that is still at the proposal stage, there are two retrograde steps that have already been taken- restricting pension relief to income tax (but not allowing Universal Social Charge and PRSI) and the pension levy of 0.6% on the value of the fund.

ICSA submits that this is sending a very negative message to those who fund their own pension. In practice, many self-employed people make an annual contribution to their pension and this decision is reviewed each year.

ICSA submits that the pension levy decision should be reversed and that tax relief for pension contributions should continue at the marginal rate and take into account USC as well.