FINANCIAL STATEMENT OF THE MINISTER FOR FINANCE CHARLIE McCREEVY, TD
1 DECEMBER 1999
CONTENTS

STATEMENT OF THE MINISTER FOR FINANCE

MR CHARLIE McCREEVY, TD

1 DECEMBER 1999

INTRODUCTION

It is my privilege today to present the third Budget of this administration. At the mid-point of our time in office - and with two Budgets remaining after today - it is timely to review the progress made and set a new vision and strategy for the future.

Our broad budgetary objectives are similar to previous years. We need:

- to sustain economic growth;
- to reward work and enterprise by reducing the tax burden;
- to promote a fairer society - with opportunities for all; and
- to prepare for the future.

While these broad objectives remain, as a society we need a new vision - a new set of goals. For two decades we grappled with the problems of emigration, unemployment and a crippling debt crisis. In short, the problems of economic failure.

All this has now changed. Rapid economic growth has transformed our society. This improvement is most evident in employment. Over the last two years, the numbers at work rose by 150,000. Unemployment has fallen and is now heading down towards 5 per cent compared to 10 per cent when this Government was formed. Living standards continue to improve. These are clear indicators that our policies are working.

Tribute is due to all who helped to bring about this transformation. In particular I would like to stress the role Social Partnership has played. The continuation of Social Partnership is a major element of our economic strategy and a key consideration in framing this Budget.

As a society we now face a new set of problems.

Instead of unemployment many sectors now face labour shortages. Unless addressed, these shortages will hinder future economic progress. We also need to raise the capabilities of our workforce. Progress is becoming more dependent on having a highly skilled workforce.

The cost of childcare has also risen dramatically. This places an enormous burden on people trying to raise a family and work outside the home.

Despite increased prosperity and greater opportunities, there is a growing sense that improvements in the **quality** of life are not keeping pace.

In our towns and cities congestion is increasing - undermining the quality of life for many of our citizens.

House prices have risen rapidly. This risks putting home ownership beyond the reach of many young people and generating a new set of social problems.

We must provide a first class infrastructure - better transport, roads and housing in order to improve the quality of life for all our citizens.

Today's Budget measures complement this longer-term goal. They must be seen in conjunction with last month's National Development Plan which targeted over £40 billion to develop the economy over the next seven years. This is a real indication of our commitment to tackle infrastructural problems.

And we must ensure that all our people share in the growing prosperity. I know that some people can get left behind amid increasing overall affluence. Sean Lemass reportedly said that "a rising tide lifts all boats". However we should not forget those with only small and vulnerable boats - or none at all. Despite the reduction in unemployment - and the improved social conditions that this brings - we must redouble our efforts to tackle disadvantage and promote social inclusion. We must also ensure that our elderly population share in our increased wealth. The *Estimates Volume* I published recently outlined our plans to tackle our most pressing social priorities. I will add further to these expenditure allocations today.

Our vision for the future must also include a modern and efficient public service. Here also, new thinking is required.

Preparing for the Future

Strong economic growth has greatly improved the public finances. With a substantial budgetary surplus, there is scope for both higher expenditure and greater tax relief.

But here again we must have a vision for the future. We must take care that what we are doing today does not create difficulties in a few years time. One does not have to be a practitioner of the "dismal science" of economics to appreciate that economic conditions will not always be as favourable as they are today. We must ensure that we can maintain a sound budgetary position even when conditions deteriorate. Looking further ahead, we must ensure that we can maintain satisfactory levels of public services and pensions as the population ages in the coming decades.

Public Service Pay

We need to get away from the old system of public service pay determination which is based on rigid analogues and internal relativities. Is it not ironic that the new dynamic, buzzing, technology-driven, "up and at them" Ireland of the nineties is handicapped with a public service pay determination system of rigidities more in tune with the Ireland of the forties and fifties?

We need a new approach which supports the modernisation of the public service, respects the unavoidable limits on public spending and meets the reasonable aspirations of public servants. The best way of doing this is to have a pay system which, instead of compensating people for agreeing to change, focuses on rewarding them for the outputs and outcomes delivered as a result of change. Only in that way can we expect to deliver good services efficiently to the public within an appropriate overall expenditure burden.

The post-Budget current expenditure projections I am publishing today do not include any provision in respect of further pay increases for public servants when the *Partnership 2000* Pay Agreement expires in the public service. Discussions on a possible successor agreement are currently underway between the social partners.

Public service pay will be a vital element in these discussions. The Government is very anxious to continue with the Social Partnership process, which has played such a major role in the transformation of our economy. However, I am not exaggerating when I say that the chances of negotiating a new programme **will be determined in very large measure by the progress made on public service pay.**

Even as things stand, the Exchequer Pay and Pensions Bill is projected to increase from £4,440 million in 1995 to £6,633 million in 2000, an increase of 50 per cent in only five years.

National Development Plan

As I have said, the National Development Plan is a key element in the Government's strategy for sustained economic and social development. The investment of £40.6 billion is designed to ensure that Ireland remains competitive and that economic growth is shared more equally at regional level and throughout society. The largest share of Plan investment is devoted to Economic and Social Infrastructure. This reflects the Government's determination to tackle infrastructural bottlenecks.

Accordingly, very significant additional capital resources are provided in 2000 in areas such as Roads, Sanitary Services, Public Transport, Housing and Health.

The Government is committed to the full implementation of the Plan over seven years. Implementation will be comprehensively monitored. Particular attention will be paid to the efficient and timely delivery of the major investment in infrastructure provided for in the Plan.

Public Private Partnerships

The Government is committed to using Public Private Partnerships in addressing infrastructural investment needs, with the aims of maximising value for money and improved delivery of infrastructure projects. In the National Development Plan, Public Private Partnerships are particularly focused on the Economic Infrastructure Programme. Provision is included for £1.85 billion of funding. Precise designation of projects or parts of projects for Public Private Partnerships purposes will be decided as the Plan is implemented. If the aims of Public Private Partnership are successfully met, the Plan figure of £1.85 billion will be increased.

CAPITAL EXPENDITURE

Exchequer capital spending in 2000 will be at an all time high. The provision for capital spending next year is 26 per cent up on the projected 1999 outturn.

This is the third successive year in which the Government has increased substantially the resources for voted capital expenditure. Between 1996 and 2000, voted capital expenditure has increased by 125 per cent.

Housing has been a particular priority. Exchequer capital expenditure on local authority and social housing has increased by 160 per cent since 1996.

The Exchequer spending will be supplemented by expenditure from the Local Government Fund and other sources bringing total spending

- on roads next year to £622 million
- on water and sewerage projects, which are essential to the provision of land for housing to £413 million
- on local authority, social and affordable housing to £718 million.

Pensions pre-funding

Last July, I announced the Government's decision to begin to make provision for the increased social welfare and public service pension costs associated with the ageing of the population in the decades ahead. The Government decided to set aside 1 per cent of GNP annually for this purpose, together with a major tranche of the proceeds of the Telecom

Eireann flotation. This is a prudent measure - designed to secure the ability of future Governments to maintain and improve public services as our population ages.

While the 1999 surplus will be applied towards reducing our debt burden, the nominal debt level increased in 1999 due to a securities exchange programme carried out to ensure that Irish Government bonds remain competitive in the new Euro environment. This increase in the nominal debt level will be offset by reduced debt service payments for some years ahead due to the lower interest coupons on the new bonds. Even with this nominal increase in our debt level, our debt/GDP ratio continued to fall in 1999 and is forecast to be around 47 per cent at year end.

Economic Outlook 2000-2002

I am publishing today our updated Stability Programme which contains economic and budgetary projections out to 2002. Very briefly, we expect GNP growth over the next three years to average about 5¾ per cent, with inflation averaging below 2½ per cent a year. Average annual employment growth of 2½ per cent is expected with unemployment to fall to about 4½ per cent of the labour force by 2002. The Budget is projected to remain in substantial surplus throughout the period.

Budget Targets for 2000

Taking account of the measures I am announcing today, the Budget targets for the year 2000 are as follows.:-

- a General Government surplus of 1.2 per cent of GDP
- an Exchequer surplus of £1,608 million
- a current budget surplus of £4,558 million
- a capital budget deficit of £2,950 million.

These targets take account of the pension pre-funding provisions.

SOCIAL INCLUSION

Partnership 2000 indicated that social inclusion would be pursued as a strategic objective in its own right and that the National Anti-Poverty Strategy would be a central feature of the *Partnership*. The wide range of targeted initiatives taken and relevant programmes developed over the period of the *Partnership*, underpinned by an allocation of resources almost double what was promised, confirms this Government's commitment to tackling poverty and disadvantage.

Today's Budget will consolidate this progress and advance matters considerably in other respects. The policy is to ensure that the more vulnerable sections in our community share in the benefits of our successful economy. The needs of disadvantaged individuals and communities continue to pose a collective challenge for us and we will be rightly judged as a caring society by the adequacy of our response. In line with my previous Budgets, the needs of the elderly, disadvantaged families and children, the disabled, carers and those who need to be assisted on the path to greater economic and financial independence were of particular importance in formulating my financial proposals, as was the need to expand programmes targeted on disadvantaged areas.

SOCIAL WELFARE

The social welfare improvements I am about to announce will cost almost £400 million in a full year, compared to £215 million in the 1997 Budget. This is by far the largest social welfare package ever in our history, and many of the increases will be payable earlier than previously.

Next year, total spending by the Department of Social, Community and Family Affairs will now be almost £5.4 billion, or 20 per cent above the 1997 level.

I am also announcing other social inclusion measures which will bring total additional Social Inclusion current spending to £485 million in a full year.

Earlier Date of Payment

In my first Budget, I stated my intention, over the term of office of this Government, to bring forward the implementation date for budget welfare increases to coincide with the start of the tax year in early April. The weekly payment increases which I am about to announce will take effect **from the first week of May next, or 4 weeks earlier than this year, and I will complete the process in 2001.**

Pensioners

The priority which this Government accords to older people was illustrated by the increases given to pensioners in my first two Budgets. They remain a priority. On this occasion, I am increasing the full personal rate of old age and related pensions by a further £7 per week. When the increase in the qualified adult payment is taken into account, a contributory old age pensioner couple both aged over 66 will receive £160.60 per week from next May, compared with £133.40 in 1997.

Weekly Welfare Payments and Qualified Adult Allowance

In general, other personal social welfare rates will be increased by £4 per week. For some time now, the qualified adult allowance has been set at roughly 60 per cent of the personal rate. **I propose to move this to 70 per cent over 3 years, commencing next year**. As a result, qualified adult allowances will be increased next year by a minimum of £3.80 per week, with substantially higher increases for those currently below 60 per cent of the personal rate. These rises are well ahead of the corresponding increases in recent years.

Child Income Supports

This Government appreciates that Child Benefit is an important financial support for families with dependent children, and a key instrument in combating child poverty. The Child Benefit rate for first and second children **is being increased by £8 per month and by £10 per month for third and subsequent children**. These increases will raise monthly payments to £197 for four-children families. In addition, a £20 increase in the Back to School Clothing and Footwear Allowance is being granted.

Work Incentive Measures

I am taking a number of steps to improve work incentives further and to ease remaining unemployment traps. Firstly, to ensure that the financial incentive for work is maintained for low-income families, I am increasing the weekly income threshold for the Family Income Supplement by £13, which will increase by almost £8 per week the average FIS payment. Secondly, a tapered withdrawal arrangement of rent and mortgage supplement will be

introduced for those returning to work and improved conditions will apply to those attending training courses and to part-time workers. Thirdly, improvements and extensions are being made to the tapering arrangements for withdrawal of the Qualified Adult Allowance where that person has earnings from employment. Also, an additional 5,000 places are being provided on the Back to Work Allowance Scheme.

Bereavement Grant

We are all aware of the particular grief that families experience on the death of a spouse and parent. In special recognition of the difficulties arising for widows and widowers with children in the immediate aftermath of such loss, I am introducing, from today, **a special additional grant payment of £1,000**.

Carers and Carer's Benefit

This Government recognises the significant contribution which carers make in our society and I propose to develop the supports available in this area.

I am introducing a new insurance-based **Carer's Benefit** for people who leave employment to look after persons in need of full-time care and attention. This new benefit will be payable for a period of 12 months to those who meet the qualifying contribution conditions. Legislation will be introduced to protect fully the person's employment rights over the period.

Last year I introduced an annual payment of £200 towards the cost of respite care. This is being increased to £300 from next June.

Also, the free schemes relating to electricity and the television licence are being extended to recipients of the Carer's Allowance.

Older People/Centenarian's Bounty

As well as the substantial rate improvements which I have already referred to, other measures are being taken which will benefit older people. These are:

- a reform of the capital assessment arrangements applying to social assistance pensions
- an extension of the Free Schemes to all persons aged 75 years and over.

I have also decided to increase the Centenarian's Bounty for the year 2000 from £500 to £2,000.

Pre-1953 Social Insurance Contributions

Certain people fail to qualify for social welfare old age pensions as insurance contributions that they paid prior to 1953 are not taken fully into account in assessing title to pensions. It is intended that the Social Welfare Bill will contain measures to address this issue.

Other Social Welfare Improvements

A range of other social welfare improvements are set out in the *Summary*. My colleague, Mr Dermot Ahern T.D., Minister for Social, Community and Family Affairs, will announce the full details.

OTHER SOCIAL INCLUSION

Health Measures

This Government is particularly conscious of the need to put in place the modern health service that the public have a right to expect. The extent to which the Government has increased spending on the health services bears repeating. Having reached just £3 billion by 1998, the *Estimates Volume* published recently provided over £4 billion for the Health and Children Vote in the year 2000 and, after my Budget, this figure will be £4.2 billion. Thus, the level of health spending has increased by over one-third in two years.

The *Estimates Volume* already allows for substantial extra funds next year across a range of key areas, including £35 million more for services for Older People; £23 million to Child Welfare Services; over £10 million more each for Physical Disability, Mental Handicap and Dental Services and almost £8 million for Mental Health; and £25 million to commence a Group C Meningitis Vaccination Programme. We have also allocated over £23 million to deal with Hospital Waiting Lists and another £11.5 million to commission new Acute Hospital Units.

These existing allocations also allow for the **further increase in the income guidelines for medical card eligibility**, which, as I announced last year, are being doubled over three years for persons aged 70 years or over.

I propose today to add a further £64.9 million to these allocations, to support the development of the health service in the year 2000. The additions - which have a full-year cost of some £105 million - include £12 million for the initial phase of the Cardiovascular Strategy announced earlier this year; an extra £7 million for Physical Disability, plus £2.25 million to ensure that all carers of children in receipt of Domiciliary Care Allowance will receive a Respite Grant; and additional allocations for Palliative Care, Mental Health, Child Welfare and Dental Services.

Other measures are included in the *Summary*.

Mental Handicap

Since taking up office, this Government has clearly indicated its commitment to the ongoing development of services to persons with an intellectual disability and their families. The development of these services has been one of the priorities of the Minister for Health and Children. The overall level of additional funding, £53 million up to the end of 1999, which he has already allocated to these services, is concrete evidence of his commitment to this disadvantaged group.

However, more needs to be done if we are to meet the needs of this group and their carers. I share with the Minister a concern to be of practical assistance to both individuals with an intellectual disability and their families by further enhancing the overall level of residential, day and respite services throughout the country.

I am, therefore, very pleased to inform the House that an additional £28 million, with a full year cost of £35 million, is being allocated to the services for persons with an intellectual disability.

Local Development

Provision for Local Development has been increased substantially in 2000 to £33 million from just under £17 million in 1999. This has been provided to augment the valuable work currently undertaken by the Area-Based Partnership Companies and community groups throughout the country in implementing local action plans drawn up specifically to counter social exclusion and address the needs of people living in disadvantaged areas.

Environment and Local Government

I am providing an additional £5.7 million of capital next year to increase the maximum grant under the Disabled Persons Grant Scheme and under the Essential Repairs Grant Scheme. This brings the total provision for next year to £18.4 million.

In addition, I am providing an extra £1 million of capital for the Task Force for the Elderly, increasing the provision in 2000 to £8 million.

I am also providing an additional £5 million of capital over two years to fund hostel facilities in Dublin for homeless persons with drug and alcohol addiction problems. This brings the provision next year to £6.5 million.

Education and Science

This Government has shown an unmatched commitment to investment in our education system at all levels. We recognise the central role of education to both economic and social progress and have already provided for a major increase in education funding in the Estimates. Next year alone will see an increase of £385 million over the 1999 Estimates provision. The gross spend provided in the Estimates for Education in 1997 was £2,301 million. Next year, the equivalent sum will be £3,244 million, or 41 per cent higher.

On the current side, I am today providing an extra £17 million in programme spending on top of the allocation in the *Estimates Volume*.

Of the £17 million, £3.5 million in 2000 and £10 million in a full year is for a number of targeted initiatives which will enhance the quality of the education services and improve equality of access for those who are disadvantaged. This is on top of education measures to promote social inclusion which have already been included in the *Estimates Volume*. I am also providing for significant additional administrative support and caretaking services in schools.

An unprecedented increase of 75 per cent in capital funding is being made available for Education services next year. This will see the largest school building and renovation programme in our history getting underway. Details are given in the *Summary*.

TRAINING FUND

I turn now to the issue of training.

The labour market in Ireland is changing dramatically. Unemployment is heading below 5 per cent and is predicted to fall further. Competitive pressures are increasing and Irish companies have to respond, domestically and in the global marketplace.

In this new environment, employers have to redouble their effort to raise the skills of their existing workforce and to attract qualified staff. Similarly, for those currently in employment, the concept of a job for life is becoming obsolete.

The State and employers need to work together to meet this challenge **and to share the cost of so doing** if Ireland's current prosperity is to continue.

We need a new funding structure to achieve the goal of improving skills and facilitating lifelong learning. I am therefore initiating a significant reform of the way training is funded.

Central to these reform proposals is the establishment of a new National Training Fund. The fund will be resourced through a National Training Levy payable by all Class A and H employers. The levy will be charged at a rate of 0.7 per cent on the same income base as Employers' PRSI. This will yield about £120 million in a full year.

There will be no additional financial imposition on employers. The introduction of the levy will be balanced by a corresponding reduction of 0.7 per cent in Employers Class A and H PRSI contribution rates. Existing sectoral and apprenticeship levies paid to FAS will be abolished.

The levy will be collected by the Revenue Commissioners and the Department of Social, Community and Family Affairs and will be paid into the National Training Fund which will be under the control of the Minister for Enterprise, Trade and Employment. The Fund will be dedicated to a range of training measures to upskill staff and give prospective employees relevant skills in response to the needs of business.

Structure of PRSI and Levies System

I am very conscious of the need to keep tax and levy systems as simple as possible. The PRSI regime has become complex over time, adding to overall administration costs in the economy. I intend to review the structure of the system with a view to its simplification.

DECENTRALISATION

Since 1987, 4,000 civil service jobs have been transferred from Dublin to provincial locations. The Government considers that the time has now come to start a further round of decentralisations, which will involve, for the first time, the semi-state sector.

The Government intends that the next round of decentralisations will be more radical than those to date. We intend to transfer the maximum possible number of public service jobs from Dublin. In pursuit of this policy, we will transfer almost complete Departments of State and other public bodies to provincial centres.

CHILDCARE

Earlier this year, the Government set up an interdepartmental committee to examine the important question of childcare. The Government has considered the report of the Committee and has accepted their recommendation that the most urgent task is to increase the number of childcare places. I have decided to implement a major package of measures recommended by the Committee to increase the supply of childcare places significantly. **These measures will cost over £46 million in a full year**. The measures are:

- £23 million to expand the small Equal Opportunities Childcare Programme;
- £10 million for a grant scheme for childcare service providers, caring for up to 20 children, towards the capital upgrading of premises.
- £2 million per annum for local childcare network initiatives;

- £5 million to provide grants to schools that set up and run after-school childcare services;
- £5 million for community based groups to develop community out-of-school hours services;
- £1.4 million for the establishment of an advisory service by Health Boards.

In last year's Budget, I introduced a number of tax reliefs to encourage the provision of crèche facilities. As I will announce later, I am enhancing some of these provisions again this year.

TAXATION

I will now deal with taxation matters.

PERSONAL TAXATION

Total cost of personal tax changes

The total full year cost of the changes to the personal income tax rate structure that I am about to announce is £942 million, and a breakdown of the cost of the individual components is set out in the *Summary*.

Introduction

Last year I announced the new tax credits system. That initiative was generally regarded as the most radical innovation ever in Irish personal taxation.

This year I am proposing what can be regarded as an even more radical and fundamental change to the system.

The net effect of this further initiative will be - over this and the next two Budgets - to reduce the percentage of taxpayers on the top rate of income tax to 17 per cent, or to 12 per cent if the exempt cases on the tax file are also included. In simple language, the full effect of this initiative, if implemented in one move, would be to leave only 17 per cent paying tax at the top rate.

To appreciate the magnitude of this move, it is well to note that 46 per cent of taxpayers would be paying tax at the top rate from 6 April next before today's Budget changes. This will be reduced to 37 per cent for the next tax year as a result of this Budget. I am setting out in the *Summary* the relevant numbers of taxpayers involved.

Last year's radical income tax reform was designed to improve equity, to reduce the burden of tax on employment and to enable the removal of a substantial number of income taxpayers from the tax net altogether.

This year I intend to build on this reform - to assist earners, reduce the level of tax for all taxpayers, exclude more on low income from the tax net and **remove a large number of middle-income earners** on the average industrial wage from the top rate of tax.

Individualisation of Standard Rate Band

One of the main problems we have is the low level of income at which single people become liable at the top tax rate. At present, single persons pay the top rate of tax on earnings less

than the average industrial wage. One of the main difficulties with the present band structure is that the single person's tax band is doubled for all married couples.

I am, therefore, proposing the radical change of moving to individualisation of the standard rate band over this and the next two Budgets. This will ultimately involve each individual having his or her own standard rate band. As I have stated earlier, the effect of this change on completion will be to reduce the percentage of taxpayers on the top rate of income tax to 17 per cent.

This year, I am proposing to widen the standard rate tax band for a single person by £3,000 from £14,000 to £17,000 per annum. The tax band for two income married couples will be set at double this individual band, that is £34,000 per annum with transferability of the individual bands between spouses up to a maximum band of £28,000 per annum for either spouse. I propose to leave the married band for one income couples unchanged at £28,000 per annum.

It should be noted that as the distribution of income earners is in the shape of a pyramid, the Exchequer cost for each thousand pound widening of the band lessens as one goes up the income scales. To illustrate this point, today's announcement of the standard rate band widening costs £310 million; whereas, the full move would have cost £839 million.

Changes in Allowances

I am also making the following changes to the personal allowances.

The basic single and married personal allowances, which apply since last year at the standard rate of income tax, are being increased by £500 single and £1,000 married per annum bringing them to £4,700 single and £9,400 married. When the PAYE allowance of £1,000 per annum is included, these changes will result in standard-rated personal allowances for single persons on PAYE of £5,700 per annum. This will remove nearly 40,000 taxpayers from the net.

Tax Rates

I have always made it clear, both in and out of Government, that I regard high marginal tax rates on income as an unacceptable feature of the tax system which, in the end, not only reduces the incentive to work but also adds to the attraction to some persons of not paying their due taxes at all.

Furthermore, there can be no doubt where this Government stands on the issue of tax rates. We draw our mandate from the will of the people who clearly favoured the Fianna Fáil/Progressive Democrat prescription on taxation at the last General Election. As I have stated in my previous Budgets, I will fulfil the taxation commitments set out in our Programme for Government over the lifetime of this administration.

This year I am proposing a further cut in the standard rate of 2 per cent from 24 per cent to 22 per cent and a 2 per cent cut in the top rate from 46 per cent to 44 per cent. These rate cuts benefit practically all 1.2 million taxpayers in the State.

These tax reductions mean that single persons on PAYE on the average industrial wage will see their income tax cut next year by nearly £20 per week; and a married couple with both spouses on the average industrial wage will gain almost £40 per week.

Tax Credits

My last Budget announced the move to a tax credit system, beginning by standard rating the basic single and married personal allowances and the PAYE allowances. This year I am happy to announce that the **full tax credit system** will be put in place for the income tax year commencing 6 April 2001.

Changes to certain personal allowances are necessary to accommodate the transition to tax credits. These changes affect the age allowance, widowed persons allowances, the blind persons allowance, the dependent relatives allowance and the incapacitated child's allowance. In order to standard rate these allowances - while ensuring no loss to those on the higher tax rate - it is proposed to double them in all cases from their current levels. These changes are set out in the *Summary*.

Last year, it was not possible to standard-rate in full the lone-parent's additional allowance of £4,200 per annum. As a result, £3,150 per annum of this remained at the taxpayer's marginal rate of tax. In order to facilitate the completion of the move to tax credits, it is proposed to standard-rate this remaining element of the lone-parent's allowance and, so as to ensure no loss to those lone parent taxpayers on the higher rate of tax, to increase the current single income tax band which applies to lone-parents by £3,150.

As a consequence, the standard rate tax band which applies in the case of lone parents, including widows with children, will be £20,150 per annum for the next income tax year.

Deduction at Source

The move to tax credits will make the system more transparent and ultimately easier to follow. To simplify matters further, I am proposing that medical insurance relief and mortgage interest relief should no longer appear on the taxpayer's tax free allowances form but instead should be deducted at source and netted off against the premium or interest paid by the taxpayer concerned. I have asked the Revenue Commissioners to move to this deduction at source from 6 April 2001 and to make the necessary arrangements with mortgage lenders and health insurers.

Changes to Mortgage Interest Relief

In view of these new arrangements for deduction of tax relief at source from 2001 and to simplify the existing system, I propose to amend the current provisions relating to mortgage interest tax relief.

At present the maximum level of interest which can be taken into account for this relief is £2,500 single, £3,600 widowed and £5,000 married per annum.

First-time mortgage holders are allowed to claim 100 per cent relief at the standard rate of income tax on interest paid up to these limits. I do not propose to change these rules, except to increase the widowed limit to the married limit of £5,000.

Non-first-time buyers are entitled to claim relief on only 80 per cent of the interest but, even then, this is subject to a further deduction of £100 for single and widowed and £200 for married persons. Thus, the maximum amount of interest on which a single non-first-time buyer can claim tax relief is £1,900 per annum while the maximum for a married couple is £3,800 per annum.

I propose to abolish the 80 per cent rule and the de minimis deduction for non-first-time buyers. They will be replaced by a simple ceiling on interest of £2,000 single and £4,000 married, with widowed at the married rate of £4,000, all of which will continue at the standard rate of income tax.

There will be no losers from these changes and indeed there will be a considerable number of gainers. The total cost in a full year is £33 million.

Tax Relief for the Elderly

I have just announced an effective doubling of the age allowance for those aged 65 and over on the standard rate of income tax. I also propose to increase the threshold at which any person aged 65 or over enters the tax net from £6,500 per annum for single and widowed persons to £7,500 per annum and from £13,000 per annum to £15,000 per annum for married couples. This means that in my three Budgets I have increased the income tax exemption limits for the elderly by up to two-thirds. The increases I have just announced will remove almost 10,000 elderly persons from the income tax net.

Rent Relief

Under 55s

The second Bacon report on housing last March recommended that the rent relief for **under 55s** be increased to take account of the recent trends in rents across the country. Accordingly, the rent relief allowance for those under 55 will be increased by 50 per cent from 6 April next from £500 single, £750 widowed and £1,000 married to £750 single, £1,125 widowed and £1,500 married per annum. The cost of this increase is estimated at £7 million in a full year.

Over 55s

In addition, I propose to standard-rate the rent relief for those aged 55 and over, which is currently available at the taxpayer's marginal rate, while ensuring, at the same time, that no person claiming the relief at the higher rate of income tax will lose out. Consequently, the rental relief for those aged 55 and over will be doubled from 6 April next to £2,000 single, £3,000 widowed and £4,000 married per annum, and will be applied at the standard rate of income tax. Since 80 per cent of those on the relief are standard rate taxpayers, this amounts in effect to a doubling of the relief for four out of five claimants. The cost of this measure is just under £1 million in a full year.

Health Levy

As in previous years, the threshold for the payment of the health levy will be increased by £500 from £11,250 to £11,750 per annum, or from £217 per week to £226 per week.

Capital Allowances for Childcare Facilities

Last year I introduced a number of tax measures aimed at encouraging the increased supply of childcare facilities. I propose this year to allow full 100 per cent capital allowances in year 1 for capital expenditure incurred on the construction or refurbishment or conversion of premises for the provision of childcare. This effectively accelerates the capital allowances I brought in for childcare premises last year which were claimable over a seven year period. The accelerated allowance will be available for qualifying expenditure incurred on or after

today. The relief applies to all childcare facilities whether provided by employers or commercial childcare operators and the reliefs can be used by owners of the facilities or by investors who wish to invest by way of leasing arrangements, subject to the normal tax rules which apply to such investors.

Profit Sharing/Gain-Sharing

A significant number of new and enhanced tax incentives were introduced in the recent past to help promote profit sharing schemes in the private sector. Various calls are being made in the context of the P2000 successor negotiations for the Government to introduce further profit and gain-sharing tax incentives to assist new initiatives in this area which would apply across the public and private sectors.

No clear picture has so far emerged of what form these initiatives might take or how they would operate in terms of proposed incentives. I can say, however, that the Government is prepared to look at this issue provided that any such incentives are properly focused and justified, offer benefits to as wide a range of employees as possible, do not open the door for what may be costly tax planning schemes and do not result in substantial tax resources being taken up in relieving the remuneration of the few at the expense of the tax burden on the many.

Effect of Changes

This year's tax changes will **remove 125,000 taxpayers from the top rate of tax and reduce the percentage of taxpayers who would otherwise have been on the top rate of tax in the 2000/2001 income tax year from 46 per cent to 37 per cent**. The changes mean that all taxpayers up to and at average industrial earnings will pay tax at the standard rate. Examples of how the new system will work are set out in the *Summary*.

This new band structure is a fundamental change to the system. It will improve considerably the position of single taxpayers on middle incomes. **For certain two income families, the doubling of the band will increase the reward for both spouses working.**

Real Tax Reform

For many years, the phrase **tax reform** has been bandied about. But, for most of that time, all we really did was to tinker at the edges of the existing system.

However, the fundamental changes initiated by this administration can be described as **real tax reform.** Last year's move to tax credits; this year's launch of a three year strategy on individualisation of the standard rate band; and our continuation of reductions in both tax rates will finally give us tax reform.

These strategic taxation changes are a conscious attempt to remove taxpayers on average earnings from very high tax rates, which is very costly to achieve with the current structure. This **real tax reform package** is Exchequer costly. Neither is it possible to uniformly benefit all tax payers during the transition reform period. But, once completed and when the new overall structure is put in place, it will be relatively easy and less costly to focus and target.

BUSINESS AND OTHER TAXES

Corporation Tax

The 1999 Finance Act set out the schedule of corporation tax reductions designed to achieve a single rate of 12½ per cent on trading income by 1 January 2003. The standard rate of corporation tax which will apply from 1 January 2000 will be 24 per cent on trading income as provided for in that Act. In order to assist small and medium-sized firms, I have now decided that the 12½ per cent rate will apply from 1 January 2000 to the trading income of a company where that trading income does not exceed £50,000 per annum.

Film Relief

Last year I extended the current tax incentives for investment in film-making in the State for one year pending the examination of detailed reports dealing with the operation of the incentives and the future development of the film industry here. The short span of that extension caused some disappointment and misplaced concern. I have decided to extend the current tax relief for a period of 5 years to April 2005, subject to one modification which is necessary to meet the terms of the EU Commission's approval of this relief as a State aid. The changes are detailed in the *Summary*.

Life Assurance Companies and Collective Funds

At present, there are two different systems in operation for taxing the investment returns accruing to policyholders of life assurance companies and investors in collective funds. In the case of the domestic sector, the tax is levied at the standard income tax rate on an annual basis on the investment returns at the level of the company or fund and the policyholder or unit holder subsequently receives the net proceeds tax free when the investment is terminated. In the case of life assurance companies and collective funds in the IFSC, there is no such annual tax.

In the light of changing circumstances I have now decided to apply a common system across the board on the lines of the present arrangements now applying in the case of the IFSC.

The new system, which will include an exit tax on the investment returns received by the resident investor, will apply from 1 January 2001. The details are set out in the *Summary*.

Mining Tax

Earlier this year I indicated that I would consider the case for taxing profits from the mining sector at the standard rate of corporation tax rather than at the 25 per cent rate which applies to non-trading income. The Government has undertaken to conduct a consultancy study on comparative tax and royalty regimes with a view to encouraging further exploration and mining. Consequently, I have deferred a final decision on this issue until the findings of this study are available.

Capital Gains Tax

In my first Budget, I reduced the rate of capital gains tax from 40 per cent to 20 per cent in the case of disposals of most categories of assets. The rate change affected four months of the 1997-1998 tax year yield, and the entire yield for 1998-1999. Instead of reducing the yield the figures are as follows:

1997 **:** £132 million

1998 **:** £193 million

1999 **:** £343 million estimated

Need I say more!

The one category of asset that was left after my first Budget at the 40 per cent capital gains tax rate was development land. But in order to encourage landowners to sell land for housing, as recommended in the Bacon Report, this rate was since reduced to 20 per cent for the disposal of land zoned for residential use or with residential planning permission. This now leaves only one type of asset still liable at the 40 per cent rate, that is disposals of development land for non-residential purposes such as for example road-building, or the construction of factories or offices. I have decided therefore for simplification reasons to apply the 20 per cent rate to this remaining type of asset in the case of disposals occurring after today.

In addition, where the holders of development land are taxed under the corporation tax or income tax codes instead of the capital gains tax code, the rate of tax that will apply in their case on the sale of land for residential purposes will be reduced to 20 per cent. I am introducing this incentive rate for such situations in order to increase the supply of land for housing. Further details are contained in the *Summary*.

Finally, I am increasing the limit for the capital gains tax retirement relief for businesses sold outside the immediate family from £250,000 to £375,000 so as to encourage the transfer of business assets to younger entrepreneurs.

Capital Acquisitions Tax

I have made it clear for some time that I intended to make substantial changes to the capital acquisitions tax system. This tax has increasingly shifted its focus from real wealth to becoming a tax on gifts and inheritances taken by persons of more modest circumstances who would not normally be regarded as wealthy or well off.

Recent Budgets have made major changes in the amount of capital acquisitions tax applying to business and agricultural assets - giving up to 90 per cent relief in both situations.

It is hardly equitable that no capital acquisitions tax may be due on the transfer of a farm or business with a valuation of up to £1.9 million - yet, a significant tax liability can arise on the inheritance of a modest three bedroomed house in our capital city.

The burden of the tax on the inheritance of the family home on those beneficiaries who are subject to the low thresholds has become an issue of considerable concern and worry to persons who may have limited resources to pay a significant tax demand on inheriting what is in effect their family residence. This situation applies in the case of brothers and sisters sharing the family home, aunts and nieces in similar circumstances and those in family and personal relationships who, under the tax law, are treated as strangers. I propose to address these difficulties.

The Irish capital acquisitions tax code is based on the domicile of the disponer as well as on the location of the assets comprised in a gift or inheritance. Many other countries base similar taxes on the rules of tax residence which is a much more common concept. One result of this present Irish tax arrangement is that it is possible for an Irish resident who has lived here all his or her life to avoid any liability on any gift or inheritance irrespective of its magnitude, provided the disponer is non-Irish domiciled and the assets given are foreign, for example, property located abroad or foreign currency assets.

I propose to change the basis for determining liability to gift and inheritance tax from domicile to residence in order to bring it into line with the income tax and capital gains tax codes which have always been based on the concept of residence. Accordingly, as and from today, a liability to capital acquisitions tax will arise where either the disponer or the beneficiary of a gift or inheritance is resident or ordinarily resident in the State. A liability will also arise, as before, where the assets in the gift or inheritance are situated in the State - regardless of the residence status of the disponer or the beneficiary. Further details are set out in the *Summary*.

I have also decided to radically restructure the rates and the thresholds for all three classes of beneficiaries and to increase the threshold for probate tax.

On or after today the following rules will apply.

CAT on the Family Home

The family home will be exempt from capital acquisitions tax where it is either the disponer's principal private residence and/or the principal private residence of the beneficiary and the beneficiary has continuously resided in the house for at least the previous three years and does not have an interest in any other residential property. It will be a condition of the relief that the beneficiary does not dispose of the residence within the subsequent six years.

New Thresholds

I am increasing the particular thresholds as follows:

- Class I - applicable to gifts and inheritances from parents - from £192,900 to £300,000
- Class II - applicable to gifts and inheritances from brothers, sisters, aunts and uncles - from £25,720 to £30,000
- Class III - applicable to all other situations - from £12,860 to £15,000 and the
- Probate Tax exemption threshold from £11,250 to £40,000.

There will be a new single capital acquisitions tax rate of 20 per cent instead of the current rates of 20 per cent, 30 per cent and 40 per cent and it will apply uniformly to both gifts and inheritances, instead of the present situation where gift tax is three quarters of the rate applicable to inheritances.

The total cost of these changes is estimated at £46 million in a full year.

Farmer Tax Issues

Turning to farmer taxation, I am increasing the current expenditure limit for capital allowances under the Farm Pollution Control Allowance scheme from £30,000 to £40,000 per annum and extending the operation of the scheme until 5 April 2003. I am also continuing for a further three years the two-thirds stamp duty relief on the transfer of land to young trained farmers which is due to run out on 31 December next.

The flat rate of VAT which may be charged by unregistered farmers on their sales to registered traders will be increased from 4 per cent to 4.2 per cent from 1 March 2000 at a cost to the Exchequer of £3.6 million in 2000 and just over £5 million in a full year. The associated VAT rate for livestock will also be increased to 4.2 per cent from the same date.

Capital Allowances for Multi-Storey Car Parks

In order to encourage the construction of multi-storey car parks outside the Dublin and Cork Corporation areas, I am proposing the continuation of the present scheme of capital allowances for such projects for another two years to end-December 2002 where 15 per cent of the total cost of the project has been incurred by 30 September 2000.

Capital Allowances for Business Cars

In line with the policy followed over several years, the car value threshold for business cars is being increased from £16,000 to £16,500 for the capital allowances for new cars and for the allowable expenses for all cars arising in the course of a business.

New Pension arrangements for the Self-employed and others

I would like to take this opportunity to record the great interest that has been generated in response to the new pension arrangements for the self-employed and proprietary directors, which I introduced in the last Finance Act. These changes have fundamentally altered the situation facing the self-employed person and proprietary directors at retirement. These consumers now have a choice at retirement as regards their pension product, thereby eliminating the forced purchase of an annuity. As I have previously indicated, I am not finished with this area yet and I intend to address some other anomalies in the pensions area for the next Finance Bill.

MISCELLANEOUS TAX ITEMS

Revenue Powers

The faith of the taxpayer in the effectiveness of the tax system in identifying, pursuing and dealing with tax evasion has been tested by recent events. The Government is only too aware of the need to maintain confidence in the efficacy of the tax system in dealing with those who seek to evade their tax responsibilities.

The Government has already acted decisively in this regard. The 1999 Finance Act contained major and extensive powers to allow access by Revenue to records in financial institutions and to third party information on taxpayers generally, and gave Revenue greater powers in requiring the provision of information directly by the taxpayer. The scope of these new powers is perhaps not generally appreciated. These powers are already being used by Revenue.

The Government has also acted in pursuing vigorously the various enquiries into certain companies' affairs using the powers under the Companies Acts. The relevant reports have been provided to Revenue who are actively following these up. Revenue are also following up matters arising from the McCracken Tribunal report. We established the inquiry by the Public Accounts Committee into the DIRT affair. We have made it clear that the corporate governance provisions of company law will be strictly enforced to achieve much greater compliance levels with regard to meeting the filing and return requirements laid down by law.

I have acted already to provide the Revenue Commissioners with more resources in the specialised areas and skills involved in pursuing complex tax investigations. I understand that the Revenue Commissioners are at present reviewing the staffing of their Office and I will be prepared to consider requests which the Commissioners, based on their experience and estimate of needs, may put to me in this regard.

There is an ongoing determination on the Government's part to tackle this issue and to see those culpable dealt with to the fullest extent. The new powers given to Revenue applied forcefully and targeted on serious tax evasion will produce results and ensure that public confidence in the professional organisation which Revenue has developed into over the past ten years can be justifiably reinforced and sustained.

Tax Consolidation Acts

In recent years, substantial consolidation of various taxes has been effected. I aim, however, to build on this significant record and I have asked Revenue to turn their attention to the remaining areas of tax law not yet consolidated, that is, Capital Acquisitions Tax and VAT and to prepare a programme of work to consolidate tax law in these areas.

Travel Tax

Ireland applies a travel tax on passenger tickets of £5 per ticket on travel by air or sea to locations outside of the island of Ireland. There are some limited exemptions from the tax. It does not apply to journeys within the State. The EU Commission has challenged the tax before the European Court of Justice on the grounds that its non-application to domestic journeys or to Northern Ireland is discriminatory under the EU Treaty in that it favours domestic journeys compared with overseas cross-frontier trips.

Rather than extend this tax, I propose to abolish it with effect from 1 January 2000, at a cost of approximately £20 million to the Exchequer. I would expect that the operators will use this development to keep access transport costs low, to benefit both business and tourist traffic to Ireland. This measure will also assist the elderly in visiting friends and family.

Excises

Concerns about the effects on health of smoking intensify day by day. I feel that it is necessary to send out a clear message about the concern of the Government at the substantial health damage caused by tobacco consumption and to help persuade consumers of the serious health risks they run.

I propose accordingly to increase the excise duty on cigarettes from midnight by 50p per packet of 20 inclusive of VAT with corresponding increases in other tobacco products. This will raise £132 million in a full year and add 0.75 per cent to the CPI.

In line with the announcement earlier this year by my colleague, Mr Brian Cowen, TD, Minister for Health and Children, that the tobacco industry should be seen to pay for the health effects of tobacco usage, I am proposing that the revenue equivalent to this tax increase will be paid by the Revenue Commissioners by way of Appropriation-in-Aid to the Department of Health and Children to help fund the increasing cost of health provision in this State - a cost to which cigarette smoking adds significantly.

I do not propose to seek additional revenue from any other excises.

I have, however, decided to cut the excise duty on kerosene which is mainly used as home-heating oil from £37.30 to £25 per thousand litres in view of the large price gap for this product with Northern Ireland and the trade distortion which that gap has given rise to in border areas.

Environmental Taxes

Last year, I indicated that it was intended to take up the issue of green tax policy with the Social Partners in the context of the successor to *Partnership 2000* with a view to putting in place an agreed policy in this area in view of the impact of tax increases on inflation and those on low incomes. My Department will be raising this issue in the course of the negotiations which have just recently begun.

For many years, the Government has given a tax concession for diesel fuel used in buses and trains. I propose to modify the existing excise duty rebate on diesel fuel, which is available to CIE and certain other bus operators, by stipulating that this concession will only be available where low-sulphur diesel is used.

Car Parking - Benefit in Kind

Last year, I indicated that I proposed to introduce a benefit-in-kind charge for car parking spaces and I asked the Department of Finance and the Revenue Commissioners to undertake a review and come up with a fair and workable system. Surprisingly, the working group has not been successful so far in resolving the issues involved.

To ensure that the initiative in this area is not lost, I have directed that my Department consult with the Dublin Transportation Office and other relevant Agencies on the practical measures required to impose a straightforward tax on persons using any employer-provided car parking spaces in the inner city area of Dublin.

CURRENT EXPENDITURE

The Action Programme for the Millennium published last month by the Government parties reaffirmed the 4 per cent ceiling on the average annual increase in net current spending. In 2000, the annual average increase in net current spending over the 1997 outturn will be marginally over 4 per cent.

This **does not include a provision for a new pay round or for other spending measures which might arise from a new National Agreement**. Adhering to the 4 per cent target in 2000 and in subsequent years will represent a considerable challenge which the Government is determined to meet.

MEDIUM-TERM BUDGET PROJECTIONS

In keeping with the practice of previous years, I am including a contingency against all budgetary costs of £769 million in 2001 and £1508 million in 2002. In addition, provision for pensions pre-funding will reduce the General Government surplus by about 0.3 per cent of GDP in each of the two years. The General Government surplus is projected at 2.5 per cent of GDP in 2001 and 2.6 per cent of GDP in 2002. In my view, it is entirely appropriate that we continue to run substantial budgetary surpluses while economic conditions are favourable.

CONCLUSION

Budget 2000 is the third in a series of five for this Fianna Fáil/Progressive Democrat Government.

It sets new goals and a vision for our future.

It is innovative and radical.

It consolidates our economic and social progress and it presents a strong economic and budgetary position and ensures that it will be maintained.

It aims at improving not just income levels but also the quality of life for everyone.

It provides for progressive improvement in living standards and social services.

It aims to sustain our capacity to grow - through massive investment and by increasing incentives to work.

It addresses the problem of skill shortages in a fast growing economy.

It addresses the problems of childcare in a balanced and equitable manner.

This Government will, over its lifetime, have brought about fundamental change to our taxation system - thereby, ensuring fairness and equity between all taxpayers.

This Government has prepared the ground for our continued ability to maintain services and pensions in the face of fundamental demographic change.

I commend this Budget to the House.