Economic Research Unit

Economics Weekly

Bank of Ireland

Budget 2025 delivers €10bn package

Today's Budget for 2025 largely stuck to the script. The Government still plans the €8.3bn of spending rises and tax cuts it flagged in the Summer Economic Statement, but also implemented a fresh €2bn 'cost-of-living' package that will hit households in Q4 2024. Income tax cuts worth €1.6bn will also boost disposable incomes at the average wage level by 2% in early 2025. Attention will inevitably focus on the Minister for Finance's decision to put off deciding how to utilise the estimated €13bn of unexpected windfall receipts from the Apple tax case. Perhaps more striking is that the Department of Finance now expect underlying corporate taxes to grow to €29.5bn in 2024, from €23.8bn in 2023. Hence, despite today's Budget package the Department of Finance is still forecasting a Government surplus of €10bn (3% of GNI*) in 2025.

Government announces €10bn Budget package: The Government had flagged in the Summer Economic Statement (SES) that it planned an €8.3bn Budget package for 2025, split between €1.4bn of tax cuts and €6.9bn of spending measures. Those plans remain essentially intact. Rather, the key changes today relate to 2024. Together a fresh €2.2bn '*cost of living*' package and incorporating Departmental expenditure overruns (particularly in Health) mean total spending this year is now expected to equal €102bn, revised up from the €98bn expected in the SES just a couple of months ago. With respect to circa €13bn of revenues related to the Apple tax case the Minister for Finance said the Departments of Finance and Expenditure will work on a framework, due in early 2025, to decide how to utilise the unexpected windfall.

Departmental spending to rise significantly in 2025: As set out in the SES, the vast bulk (€5.1bn) of the €6.9bn of additional Departmental spending measures for 2025 is to maintain '*existing levels of service*' and implement the National Development Plan (NDP). For example, the public services pay agreement, expected to cost €1.2bn in 2025. Hence, there were only €1.9bn of new Departmental spending measures announced today. Key elements of the €2bn '*cost of living package*' include €250 energy price credits for every household (€500m), double child-benefit payments (€370m) and extra social protection payments (€350m). Most of these payments will hit households in Q4 2024, the €2bn package equivalent to 1.2% of aggregate annual household disposable incomes.

Significant personal income tax cuts: The vast bulk of the €1.8bn worth of tax cuts was focused on personal income taxes. The key changes were a €2000 increase in the standard rate band to €44,000 and the cut in the 4% universal social charge rate to 3%. Together with other changes to credits and bands a single person on the average wage of €50,000 will see their disposable income boosted by circa €900, or by 2%. The Help-to-Buy scheme was also extended at a cost of €185m. Carbon taxes will rise from €56 per tonne to €63.50. A slight surprise was a new stamp duty rate of 6% on residential transactions above €1.5m, expected to raise €80m. The rent tax credit will also rise from its current rate of €750 to €1,000 for 2024 and 2025.

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Corporate tax revenues still beating expectations: A striking feature of Budget 2025 is that the Department of Finance has revised up sharply its projection for corporate tax revenues to €37.5bn and €34.3bn in 2024 and 2025 respectively (from €24.5bn and €25.6bn respectively in April's Stability Programme Update). This upward revision only partially reflects revenues related to the Apple Tax case, €8bn this year and €4.7bn next year. The message is that the Department of Finance believes the 28% growth in corporate tax receipts in the first eight months of 2024 is permanent, not due to temporary timing effects. Hence, underlying corporate tax revenues are forecast to grow from €23.8bn in 2023, to €29.5bn in both 2024 and 2025.

Public finances in rude health: The Department of Finance's macroeconomic projections are for 3.9% growth in GDP in 2025, accompanied by a 2.9% rise in modified domestic demand and 1.8% rise in employment to 2.8 million. In this context, the assumption underlying tax revenues grow by just 3% looks conservative. Nonetheless, the Department of Finance is still forecasting a general Government surplus of €23.7bn (7.5% of GNI*) in 2024, falling to €9.7bn (2.9% of GNI*) in 2025, as the Apple tax revenues recede. This surplus is broadly unchanged from the forecast in April's Stability Programme Update, despite the package of tax cuts and spending measures announced today. General Government debt is forecast to fall from €217bn (69% of GNI*) to €211bn (64% of GNI*) in 2025.

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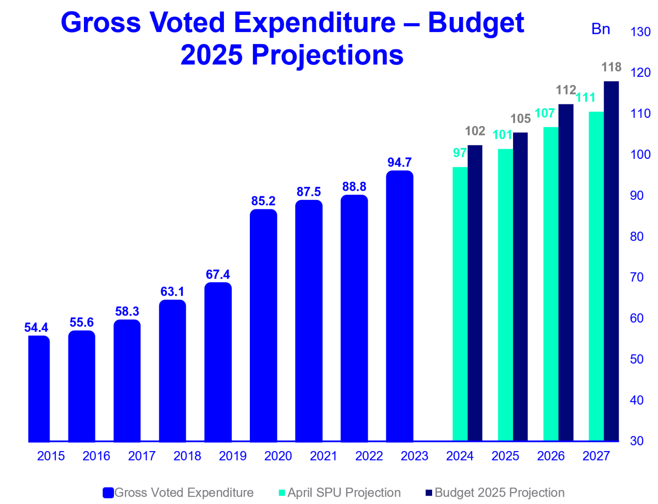
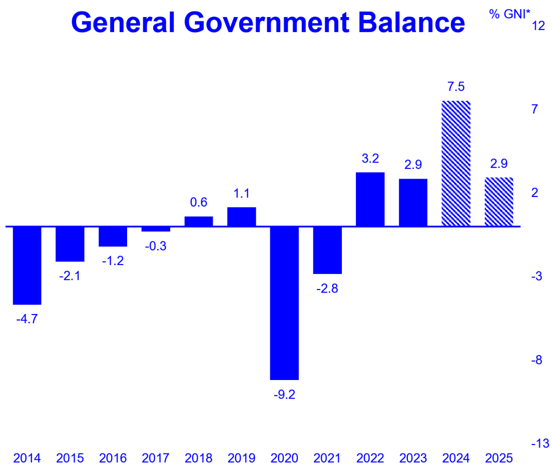


Source: CSO, Department of Finance



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