RENUA Ireland

BUDGET 2019 THE PRIORITIES

RENUA

THE SIX PILLARS OF RENUA

Renua has six key pillars that drive its ideology and policy approach. The party believes that these pillars should form the basis for Budget 2019.

PUTTING THE TAXPAYER FIRST – MAKING WORK PAY

Renua believes that Government should, in all things, aim to ensure that every euro of taxpayer money is spent in the best possible way, because it's not their money, it's your money, it's the public's money. The Party believes that income taxes are too high, and they punish people who work hard to support themselves and their families.

ENTREPRENEURSHIP – REWARDING JOB CREATORS

Renua believes that it is job creators, of all sizes in the private and social sector, who have held this country together. They provide work in every town and village in Ireland, and we need to do more to highlight and reward the positive contributions they have made to this country.

LAW AND ORDER – ENSURING CRIME DOESN'T PAY

Renua believes that it is the victims of crime who are the most important people in any crime, and that a sad story and a promise to change their ways should not be enough to get a hardened, repeat offender a suspended sentence.

PRO-LIFE - PROTECTING THE RIGHTS OF THE MOST VULNERABLE

Renua believes that protecting the rights of the unborn is one of the most pressing human rights issues of the modern age and the Party will fight, at both a local and national level, any attempt to remove the constitutional protections Ireland grants to the unborn.

LOCAL DEMOCRACY – BRINGING POWER BACK TO THE PEOPLE

Renua believes that power should rest as close to the people as possible and that no decision that could be made in Dublin should be made in Brussels, and no decision that could be made by a local community should be made in Dublin.

COHESIVE SOCIETY – A STRONGER, FAIRER SOCIETY

Renua believes that it is not enough for Ireland to be rich, or to be respected, we must have a shared sense of identity, and we must ensure that our actions are driven by a desire to create a better future for all Irish people.

It is essential in Budget 2019 that budgetary measures are focused on maintaining the overall competitiveness of the economy; improving the position of the pressurised SME sector; and helping the hard-pressed personal taxpayer.

ECONOMIC BACKGROUND TO BUDGET 2019

INFLATED ECONOMIC GROWTH

On the face of it, the economic and fiscal background against which Budget 2019 is being framed is quite positive. The Irish economy continues to perform strongly. Recent data from the Central Statistics Office (CSO) confirms that in 2017 real gross domestic Product (GDP) expanded by 7.2% and real gross national product (GNP) expanded by 4.4%.

It has been well documented that the measurement of Irish GDP is complicated by the activities of the multi-national sector, aircraft leasing and the treatment of intangible assets such as Intellectual Property (IP).

In recognition of these difficulties, the CSO has developed an alternative national economic indicator called modified Gross National Income (GNI) or GNI*. This is defined as GNI less the impact of re-domiciled companies and the depreciation attributable to relocated capital assets. In effect, the new indicator seeks to exclude the globalisation effects that disproportionately affect the measurement of the size of the Irish economy. This measure gives a more realistic assessment of what is really happening in the economy.

In 2017, GDP stood at €294 billion. However, modified GNI or GNI* stood at €181 billion or €113 billion less than GDP. These different measures of economic activity complicate interpretation of what is really going on in the economy and more importantly, the prudent and appropriate stance of fiscal policy.

A significant challenge is presented by the fact that the inflated nature of Irish GDP puts an artificially positive slant on the public finance parameters. At the end of 2017, Ireland's government debt was equivalent to 68.4% of GDP, which is just above the Maastricht Convergence debt target of 60%. However, if a more realistic assessment of Ireland's real level of economic activity is made, the debt to GNI* ratio stood at a high level of 111%.

The real level of debt is still dangerously high and prudent management of the public finances is essential in order to bring the real level of debt to levels that would reduce the very obvious vulnerability of the Irish economy.

THE ECONOMY IN 2018

The positive economic momentum has been maintained in 2018. The Quarterly National Accounts show that in the first six months of the year, GDP was 10.5% higher than a year earlier and GNP was 9.1% higher. Modified final domestic demand, which excludes the impact of trade in aircraft by aircraft leasing companies and trade in R&D and intellectual property, was 6.3% higher than a year earlier.

More up to date data pertaining to 2018 show the following trends:

Consumer spending continues to steadily improve. However, there are two caveats. There continues to be a significant gap between the volume and value of growth in retail sales, and weaker new car sales are impacting on the overall retail sales numbers. These trends have been a feature of the retail market over the past couple of years.

In the first seven months of 2018, the volume of retail sales expanded by 3.5% and the value of sales expanded by 2.3%. When new car sales are excluded, the volume of retail sales expanded by 3.7% and the value of sales expanded by 2.1%. The gap between the value and volume metrics is continuing to suggest price resistance from the stretched personal sector. Retailers are achieving strong business volumes but turning that volume growth into monetary value is still proving quite challenging. This implies continued pressure to control costs to preserve viable business margins. Consumer confidence has recovered strongly over the past three years but has plateaued over the past 18 months and is proving quite volatile from month to month. For example, in June, confidence dipped to a 13-month low. Issues such as Brexit, rapidly escalating house prices, higher fuel costs, the high personal tax burden, and subdued wage growth are combining to have a somewhat sobering influence on the personal sector. It has subsequently rebounded.

In the first eight months of the year, 119,937 new cars were registered, which is 3.8% lower than the first half of 2017. The decline in new car registrations is occurring despite the very positive, and in theory, supportive economic backdrop for new car sales. In the first eight months of the year 68,784 used cars were imported, which was 10.7% ahead of the first half of 2017. Used imports accounted for 36.3% of the car market in the first six months. Sterling weakness is the key driver of this trend, with 96.3% coming from the UK. Imported used cars are displacing new car sales and creating a challenging environment for the new car industry.

In the year to June, the number of people in employment increased by 74,100 or 3.4% to reach 2.255 million. This is the highest level of employment on record. The level of unemployment declined by 20,800 in the 12-month period to August and the unemployment rate has fallen to 5.6% of the labour force. Since the weakest point of the labour market in January 2012, the number of people unemployed has declined by 222,200 from 356,000 to 133,800.

The tourism performance continues to be very strong. In 2017, 9.93 million overseas visitors came to Ireland, which is the highest level ever recorded. The strong tourism performance has continued in 2018. In the first eight months of the year, 7.2 million overseas visitors came into the country, which is 7.8% ahead of the same period in 2017. Visitor numbers from Great Britain increased by 2.5% and accounted for 35.2% of total overseas visitor numbers. This is down from 40.9% in 2016. Sterling weakness has impacted on this market segment. The North American market expanded by 13.2%, and visitor numbers from the Rest of Europe increased by 10.5%.

2017 was a strong year for the farming sector. The operating surplus in agriculture increased by 30.9%. The output of milk increased by 44.7%, with the price of milk increasing by 32.6% and volume of milk output increasing by 9%. Livestock output increased by 4.4%. The prospects for 2018 do not look as promising. Adverse weather conditions in the spring created a serious fodder shortage, and record heat levels in the summer will damage grass production and create risks for fodder supply in the winter and spring. These factors will combine to increase input costs and undermine profitability over the remainder of 2018 and into 2019. The immediate future looks extremely challenging for the farming sector.

Ireland continues to generate a strong surplus in merchandise trade, but there are some concerns. In the first seven months of the year, total merchandise exports were 11% ahead of the same period last year, with exports to the US increasing by 12.7% and to the Euro Zone by 16.7%. However, exports to the UK are down by 4.3%. Overall, the Irish trade story is strong, but the threat posed by Brexit is becoming more real.

While interpretation of Irish economic growth is very complicated and difficult due to the structure of the economy, it is clear that the real level of economic activity is quite healthy.

THE KEY ECONOMIC CHALLENGES FOR BUDGET 2019

While the overall level of economic activity is strong, there are a number international threats and domestic challenges that should strongly inform the framing of Budget 2019.

THE INTERNATIONAL THREATS

- The possibility of higher official European Central Bank (ECB) interest rates later in 2019. The stock of outstanding domestic credit is still high at 101% of GNI* and this creates a significant vulnerability to a sharper than expected tightening of international monetary conditions;
- The ending of Quantitative Easing by the ECB in December 2018. This could result in higher government bond yields, which would gradually feed through to the cost of Government borrowing and the cost of servicing the outstanding level of Government debt. At the end of 2017, outstanding public debt was equivalent to 111% of GNI*;
- The growth of protectionism could damage global trade and economic activity. As a small open economy with a heavy dependence on external trade, Ireland would be very vulnerable to any slowdown in global trade and economic activity;
- Global corporation tax developments have the potential to undermine Ireland's foreign direct investment (FDI) model; and
- A hard Brexit. The Irish economy would be seriously undermined by a 'hard Brexit', but the indigenous sectors who have a strong trading relationship with the UK, would be particularly vulnerable. A 'hard Brexit' poses a particular challenge and creates a particular vulnerability for the rural and regional economies.

THE DOMESTIC THREATS AND CHALLENGES

Labour Shortages & Wage Pressures

As the economy approaches full employment, wage pressures will inevitably build and labour shortages will become an issue across the broader economy. This will undermine the competitiveness of the economy and act as a constraint on its growth potential.

Pressure to Increase Spending on Public services

There is growing pressure to improve the quality and quantity of public services. This will inevitably increase the pressure on public expenditure. Given the still dangerously high level of public debt, tight control of public expenditure is vital to move towards a more sustainable fiscal situation.

The Housing Market

The housing market represents the biggest and the most immediate challenge facing policy makers. There is a shortage of housing for owner-occupier purposes and for rental purposes. This is manifesting itself in unacceptably high house price inflation and private rents. These trends will damage the competitiveness of the economy and act as a constraint on future growth potential.

The most up to date data on house prices show:

- National average house prices declined by 55.2% between the peak of the market in April 2007 and the low point of the market in March 2013. Between March 2013 and July 2018, prices have increased by 81.3%. Prices in July 2018 were 10.4% higher than a year earlier;

- In the Rest of Ireland (excluding Dublin), average house prices declined by 56.5% between the peak of the market in May 2007 and the low point of the market in May 2013. Between May 2013 and July 2018, prices have increased by 76.9%. Prices in July 2018 were 13.7% higher than a year earlier; and

- In Dublin, average house prices declined by 59.6% between the peak of the market in February 2007 and the low point of the market in February 2012. Between February 2012 and July 2018, prices have increased by 93.8%. Prices in July 2018 were 7.2% higher than a year earlier.

The moderation in the annual growth rate is Dublin reflects affordability issues rather than an adequate increase in housing supply.

In the year to August 2018, private rents increased by 6.2% and have increased by 66.3% since the end of 2010.

The problem of escalating house prices and private rents reflects a lack of housing supply and strong natural demand for housing. Changes to the manner in which housing completions are calculated were recently announced by the Central Statistics Office (CSO) and they show that between 2011 and 2017, 53,578 new houses were completed compared to a previous estimate of 85,154. This demonstrates which the market is under so much pressure.

Pressures on Competitiveness

Competitiveness is not a straightforward concept to define neatly as it encompasses a wide range of factors including all costs of doing business; the quality of public services such as health and law and order; the cost, quality and availability of housing; the physical and IT infrastructure; the tax environment; the quality of the labour force; regulation; the legal system and all of the other factors that impact on the ability of an economy and every business in that economy to expand.

The National Competitiveness Council (NCC) recently published two important reports about trends in Irish competitiveness, namely *Costs of Doing Business in Ireland 2018* and *Ireland's Competitiveness Scorecard 2018*.

The NCC begins its analysis by emphasising that as a small open economy, Ireland is very vulnerable to negative price and cost shocks that are outside the influence of domestic policymakers. These shocks could include negative exchange rate developments, higher international energy prices, imported inflation or an interest rate shock. This means that it is imperative that Irish policymakers manage those factors within our control in an assiduous manner. The NCC is particularly concerned about the inordinate dependence on a small number of firms who are responsible for driving productivity in the economy and who make a strong contribution to corporate tax revenues.

The NCC warns that at the moment Ireland's competitiveness is being eroded by rapid house-price inflation, transport congestion, failure to meet climate change obligations, failure to invest sufficiently in Research & Development, and the funding crisis in the higher education system. The costs of residential property, labour, credit, energy and services such as insurance and legal are given special mention.

Ireland is described as an '*expensive location in which to do business with a price profile which could be described as high cost and rising*'. The advice given is that policymakers should not pursue domestic policies that would contribute to overheating and that competitiveness should be placed at the head of Ireland's Brexit response.

Recent trends in sterling give further cause for concern in relation to Ireland's competitiveness. The sterling/euro exchange rate averaged 72.63 pence in 2015; 81.92 pence in 2016; 87.64 pence in 2017; and 88.1 pence so far in 2018. For Irish companies exporting to the UK, this represents a significant deterioration in the terms of trade over the past four years. It says something about the resilience and flexibility of such companies that they continue to trade successfully with the UK, but the challenge is a very real one and could become much more intense over the next couple of years.

BUDGET 2019 – THE PRIORITIES

The scope for an expansionary fiscal policy is seriously restricted in Budget 2019. The *Summer Economic Statement* released by the Department of Finance in June sets out the economic and fiscal parameters that will guide budgetary policy in 2019.

The Government plans to reduce the budget deficit to just 0.1 per cent of GDP in 2019, which will be consistent with a budget day package of a not insignificant €3.4 billion. However, of this total, €2.6 billion is already pre-committed in the shape of €1.5 billion in extra capital spending through the National Development Plan; €300 million will be used up by the carryover effects of the measures introduced in Budget 2018; €400 million will be absorbed by public sector pay increases already committed to; and €400 million will be absorbed by extra spending on the back of demographic developments. This will leave around €800 million to be given away on budget day through a combination of tax changes and expenditure increases. It is clear that if any significant tax alleviation measures are introduced, they will most likely have to be largely made up through tax increases elsewhere or cuts in public expenditure.

PERSONAL TAX REFORM

In relation to tax reform, the overarching philosophy of Renua is that the taxation base should be as broad as possible and the marginal rate should be as low as is prudently possible. It is economically and socially desirable to reduce the unacceptably high tax burden on workers who pay tax.

In 2017, personal income taxes of €20 billion were collected, with income taxes comprising €16.3 billion and the USC €3.7 billion. Income tax and USC are the largest source of tax revenue to the Exchequer.

The personal tax burden has increased significantly since the recession. Table 1 tracks the evolution of the key categories of taxation between 2006 and 2017. Just over 2 million people were at work in the economy in 2006, which is very close to employment levels in 2017 and 2018.

In 2017, income tax payers paid €20 billion in income tax and USC, which accounted for 39.4% of the total tax take. This is up from €12.4 billion and 27.2% in 2006. Clearly, the burden of fiscal adjustment has fallen very heavily on the shoulders of income tax payers over the past decade.

It is time to give money back to middle income workers in particular. This segment of the population is still under significant financial pressure and this needs to be relieved.

Table 1: Trends in Irish Taxation

TAX HEADING	2006	2017	2018f
Expenditure Taxes	€19.3 bln	€19.6 bln	€20.3 bln
% Tax Take	42.4%	38.7%	38.2%
Income Tax	€12.4 bln	€20.0 bln	€21.4 bln
% Tax Take	27.2%	39.4%	40.0%
Corporation Tax	€6.7 bln	€8.2 bln	€8.5 bln
% Tax Take	14.7%	16.2%	15.8%
Capital Taxes	€3.5 bln	€1.3 bln	€1.3 bln
% Tax Take	7.6%	2.6%	2.4%
Total Tax Take	€45.5 bln	€50.7 bln	€53.6 bln

Source: Department of Finance

One of the biggest problems with the income tax system is that fact that once a single worker earns over €34,550 per annum and a married couple with one earner earns €43,550, they pay the marginal tax rate of 48.75% on all earnings up to €70,044. This includes the PAYE rate, the USC and PRSI.

The medium-term objective should be to lift the point at which a worker enters the 40% tax band from €34,550 to €43,800 within 5 years. If circumstances allow, this could happen more quickly.

Budget 2019 should lift the threshold by €1,500.

This would have a full-year cost of €289 million.

THE USC

The USC was initially introduced to broaden the tax base and ensure that as many people as possible contribute to the Exchequer. This was a sound idea at its inception. However, in recent years there has been a concerted effort to take some workers out of the tax net altogether through the USC. In 2018, 956,200 taxpayer units are exempt from Income Tax, and 769,800 income earners pay neither Income Tax or USC, accounting for 29% of total taxpayer units.

USC rates should be left unchanged and no more workers should be removed from the USC net.

THE SELF EMPLOYED

The self-employed in Ireland pay more tax, they pay it sooner and they receive less social supports if their business fails. Priority must be given to bring the taxes paid by a self-employed individual into line with those paid by an employee. In Budget 2018, the earned income credit was increased to €1,150. This needs to be lifted to €1,650.

This would send a very clear message about the value of the SME sector. This would be very important in the context of the challenges posed to the SME sector by Brexit; the growing strains on Ireland's FDI model; and the strong regional contribution that the SME sector makes. The SME sector is a vital part of Ireland's economy, and looks set to play a more important role in the future.

This would have a full-year cost of around €76 million.

HOME CARERS' TAX CREDIT

The current tax system discriminates against single-income families. Those who stay in the home caring for children perform a very important role in society. This role is generally not recognised or appreciated. Some workers are working out of economic necessity and would prefer to remain at home looking after family. This would help alleviate some of the chronic shortage of child-minding resources. The home carers' tax credit should be increased by €450, which would bring it up to the single person's tax credit. This would represent an important step towards achieving 'Family Fair Taxation'.

This would have a full-year cost of €36 million.

INHERITANCE TAX

The standard rate of Capital Acquisitions Tax is 33% in respect of gifts and inheritances taken on or after 6th December 2012. There are three tax-free thresholds depending on the relationship between the individual giving the gift or inheritance and the beneficiary.

The Group A threshold is €310,000 and applies where the beneficiary is a child or minor child of a deceased child of the donor.

In principle this tax is immoral. Parents who want to grant a gift to their children have typically bought and paid for their house over a long period of time from after-tax income. The notion that their children would be forced to pay another significant chunk of tax is wrong.

As a starting point, the threshold is too low. The average price of a 3-bed semi-detached house in Dublin is around €440,000. As a starting point the threshold should be lifted by 20%, taking it up to €372,000.

This would have a full-year cost of €69.6 million.

ENTREPRENEUR RELIEF AND CAPITAL GAINS TAX

In other to promote entrepreneurship, the CGT entrepreneurs' relief would be improved through the introduction of a 12.5% CGT rate with no lifetime cap on gains.

This would have a full-year cost of €60 million.

SMALL BUSINESS STOCK OPTIONS

Abolish tax on stock options at companies that are less that 10-years old, have fewer than 50 employees and a balance sheet of less than €8 million.

This would have a full-year cost of €5 million.

CHILD BENEFIT PAYMENT

The early months of a child's life are incredibly expensive for the parents. In order to alleviate the financial pressures on parents of new-born children and in order to support the family, it is proposed that nine months child benefit should be paid to the parent in the first month of the child's life. In month 1, the child benefit payment should be €1,400 and then revert back to the standard rate of €140 per month from month 2 and thereafter.

This would have a full-year cost of an estimated €79.4 million.

THE SPECIAL 9% VAT RATE

The lower VAT rate of 9% rate was introduced in July 2011 at a time of crisis in the economy. Its main objective was to help the competitiveness of Ireland's tourism sector in particular, to ensure that firstly, as many ailing businesses as possible survived and secondly to boost employment. Between the second quarter of 2011 and the first quarter of 2018, the number of people working in the Accommodation & Food Services Sector increased by 54,400, taking total employment from 117,300 to 171,700 on a seasonally adjusted basis. The sector accounted for 7.7 per cent of total employment in the economy. On the back of this direct employment growth it is estimated that another 25,000 indirect jobs were supported. Many of these jobs are located in rural Ireland and hence the 9% VAT rate has been an important support for regional employment and economic activity.

The direct jobs created would have resulted in payroll taxes of an estimated €280 million accruing to the Exchequer and possible savings of over €1 billion in social welfare expenditure if it is assumed that the bulk of the jobs created took people off the live register. In estimating the total cost of the 9 per cent VAT rate it would be appropriate to include payroll tax revenues collected and social welfare expenditure saved. In addition, those extra workers employed would have spent their earnings in the economy and made a further contribution to the Exchequer.

In the context of the challenges posed by Brexit; the ongoing weakness of sterling; the inordinate dependence of the Irish economy on a small number of large companies; Renua believes that it is essential that the 9% VAT rate should be preserved.

HOUSING POLICY

Ireland is currently experiencing a serious housing problem and it has undoubtedly become the biggest economic and social issue confronting Irish policy makers. Against a background of very strong demand and limited supply, house prices and rents are rising strongly. Owner occupiers, or those who want to buy a house to live in, are finding it very difficult to do so and are being forced into an already pressurised rental market or are being forced to commute long distances to work.

Against a background of rapidly rising house prices and escalating rents, affordability is becoming a significant issue for many people, particularly those on lower incomes. Much of the focus of attention to date in this country has been on social housing and very little on affordable housing.

There does need to be a strong focus on affordable housing, aimed at low to middle-income workers who are not eligible for social housing. Solving the owner-occupier, the rental, the social, and the affordable housing problems should be seen as part of the same issue rather than as individual stand-alone components.

Budget 2019 - Housing

IT'S TIME TO STOP TALKING AND START BUILDING

Renua Ireland today calls on Minister Eoghan Murphy to commit to delivering a minimum of **150,000 affordable public homes within the next 5 years.**

We believe that the current housing crisis is largely due to failed public policy but we also believe that the crisis is not insurmountable and can be overcome through the deployment of innovative solutions.

The Government's 'Rebuilding Ireland' Programme is an unambitious plan which will see c€3bn spent on housing assistance payments between now and 2022. That is €3bn that could be used to help deliver high-quality, sustainable and affordable public housing but will instead be used to help low-income families compete with middle income families for a dwindling number of rental properties.

There is a better way.

It is long past time that the FG-leadership stopped turning their noses up at the very idea of public housing. The only sure way to resolve the housing crisis is to build more houses.

Affordable Public Housing

The Irish state owns or controls enough zoned land to build 114,000 dwellings. In Dublin alone there is enough publically controlled zoned land to build 71,353 dwellings. The State controls 3,008 hectares of land zoned for housing across the country – some 1,691 hectares controlled by NAMA and 1,317 hectares owned by local authorities. The state currently owns or controls 17.2% of all undeveloped zoned land.

In February 2015 it was reported that Local Authorities had zoned enough land to build 414,000 homes. However, the ESB connections data from the Central Statistics Office suggests that only a small proportion of homes have been brought on-stream. The data suggests that a significant amount of land-hoarding is occurring in the Irish market.

Under the Government's 'Rebuilding Ireland' Plan it is intended to deliver 137,563 social houses by 2021. However, just 33,437 (24%) will be new builds while 83,760 (61%) will be provided through the Housing Assistance Payment (HAP) – a payment to private landlords to subsidise the rental cost of a property for low income tenants.

Renua Ireland will take a different approach. We will use zoned State land to develop affordable public housing modelled on the Austrian public housing system. We will aim to deliver 150,000 affordable public homes within 5-years.

- State land will be developed by **local authorities, provided to approved-housing bodies** or **provided to public-private partnerships** to develop **affordable, sustainable neighbourhoods.**
- The neighbourhood schemes will be made up of a mixture of homes for working families, homes for retirees and homes for low-income families.
- **Priority will be given to young working couples and young working families**. These groups have been largely ignored in public discourse on the housing crisis as government and media focus on the homeless. However, Renua Ireland believes it is vital for the future development of our communities and our country that we provide more support to working families that are trying to start their independent adult lives.
- **Rent on the public housing schemes will be set at 20% of household income** – reviewable every 3 years.
- The homes will be offered on a 99-year lease basis. Each scheme will be allowed to set its own 'right-to-buy' rules but in order to secure the financial viability of the schemes no public housing unit will be sold at below market value.
- According to Census data from 2011 there are **240,011 people aged over 65 living alone in Ireland**. Renua Ireland believes that reserving a portion of high-quality public housing for retirees will not only free up housing stock for growing families but will also go some way to alleviating loneliness amongst the elderly and provide them with greater security.
- Affordable public housing schemes will be required to use renewable heat and energy where possible, include services such as a co-operative run shop and crèche facilities, community centre, play-grounds and public transport.

Funding Options For Affordable Public Housing

Ireland is not a poor country. There is significant wealth in Ireland but we are missing the means of using that wealth to help those in need, for the mutual benefit of all citizens.

At end June 2018 Irish households held €96.2bn in deposits with Irish financial institutions. At end March 2018 Irish resident businesses (excluding financial services companies) held €53.3bn in deposits with Irish financial institutions.

Interest rates on deposits are extremely low – currently ranging from 0.15% to 0.5% (before the imposition of DIRT Tax of 39%).

In August 2018 the Central Bank reported that Credit Union assets reached an historic high of €17.2bn. However, there are significant restrictions imposed in what Credit Unions can invest in and who they can lend to. In February 2018 the Central Bank announced its intention to allow Credit Unions invest in two additional asset classes and lend to one additional customer-class. Credit Unions are now allowed to invest in Supranational Bonds and Corporate Bonds and can now lend to Tier-3 Approved Housing Bodies. Tier-3 Approved Housing Bodies are those non-profit Housing Associations with at least 300 units under management or plans to increase their housing stock above 300 units and are provided to those in need.

Provisional estimates from the OECD placed the total value of Irish Pension Funds at €101.7bn at year-end 2017. Bonds remain the dominant asset class for Irish pension schemes despite prevailing ultra-low yields – 48% of average allocation. Current low yields on bonds will mean that future returns on bonds will be very low or even negative. Pension Authority regulations favour low-risk but low-return bonds and this contributes to the conservative investment strategy of Pension Scheme Trustees.

Our Proposals

- Authorise the Housing Finance Agency to design and issue **'Sustainable Neighbourhood Bonds'** and market them at individuals and corporations. These bonds should be modelled on the New York Housing Development Corporation's (NYHDC) 'Sustainable Neighbourhood Bond' which raised $590m in its first issue in 2015.
- Investors in 'Sustainable Neighbourhood Bonds' will be taxed at 20% of income and 20% of capital gain. Under the existing tax code income from bonds is taxed at the investor's marginal rate and PRSI and USC is also imposed. Capital Gains Tax of 33% is imposed on the capital gain.
- We will allow Credit Unions to expand the range of housing schemes they can lend to.
- We will require the Pensions Authority to review its current regulations which act as a disincentive to pension funds investing in vital national infrastructure.

Reducing The Cost of Housing

Costs must be stripped out of house-building to provide a scenario where working people can afford housing.

RENUA Ireland believes that unless the cost of house building for local authorities is reduced by 40% affordable housing across the country and the city will be unreachable.

Unless this is done under the wing of Local Authority house-building schemes affordable housing will continue to be beyond the reach of those who need it most. The costs which must be stripped out include:-

- **Elimination of Site Cost.**
- **Elimination of Developer's Margin.**
- **Elimination of Local Authority portion of development contributions.**
- **Elimination of Finance Costs.**
- **Elimination of 50% of advertising and selling fees.**

We estimate that stripping out these costs would reduce the price of a house by 24.2%. Builders currently say they cannot construct homes at a price working people can afford. Eliminating these costs would lead to a saving of approximately **€54,000 per house in rural Ireland**.

This would not be enough to secure affordability for working people.

Eliminating VAT

RENUA Ireland believes VAT is a depressant on enterprise and employment. In the case of housing, as an emergency measure VAT or the cost of VAT must be stripped away from housing.

This follows on from the precedent set by the VAT on tourism reform as a proven source of enterprise which has paid for itself.

RENUA Ireland says it is time to get the VAT-man's hand out from the trouser pocket of Ireland's aspirant house purchasers.

A Success Fee

RENUA Ireland believes that Local Authorities should receive a €20,000 approximate success fee for each affordable house completed which should go towards reducing the cost of a house.

Rationale for VAT and a success fee

Without the VAT elimination and additional contribution of a €20,000 success fee there will be a large cohort of people who will simply not be able to afford to purchase a home – those couples with dependants that are earning between €30,000 and €43,457.

Finally, in order to ensure those who buy reduced-cost housing do not profiteer by selling on their homes at market value we will impose a lien on the sale of the home to ensure the state can claim part of the profits made. The lien will only expire after 15 years after the reduced-cost home is first purchased.

CONCLUSION

The proposed tax changes would cost a total of €615 million. The proposed changes would improve the incentive to work hard; would help the competitiveness of Irish businesses and the overall economy in the face of immense challenges, not least from Brexit; would recognise the importance of the self-employed and SMEs to the Irish economy; would introduce greater fairness in to the tax system; and would recognise the importance of a solid and stable family unit in Irish society.

This tax package is fundable within the existing 'fiscal space', provided the Government maintains tight control over all aspects of current expenditure.