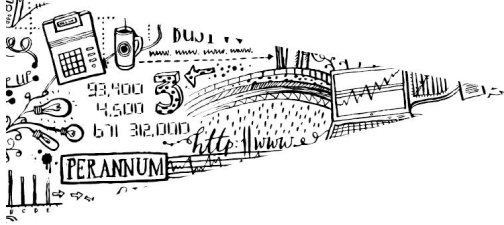


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# Tax alert

## Ireland

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## Government publishes Medium-Term Fiscal Statement

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On 4 November the Government published its Medium-Term Fiscal Statement ("the Statement") which provides an update and timetable for Budget 2012-related announcements. It confirms that a medium-term capital investment plan will issue on 10 November followed by the publication of a public service reform programme on 17 November. Budget 2012, which will be announced on 6 December, will set out in detail the tax measures that are to be implemented as part of a tax strategy over the next four years.

The Statement provides for total adjustments of €12.4bn in the 4-year period 2012-2015. This adjustment will involve expenditure reductions of €7.75bn and €4.65bn of additional taxes. The adjustment will be front-loaded with €3.8bn slated for 2012. Tax revenues are projected to increase €1.8bn in 2012.

The Statement assumes projected GDP growth of 1.6% in 2012 and 2.8% in the period 2013-2015. The validity of these assumptions is likely to attract a lot of focus. Clearly if growth is adversely impacted, e.g. due to sustained global recession, the plan will need adjustment mid-stream.

The Government is fully committed to adhering to a GDP deficit target of 8.6% for 2012. While tax raising details will not be announced until 6 December the Programme for Government commitment to maintain existing income tax rates, bands and credits will be honoured, at least in 2012. This will require revenue raising measures in other areas.

The Statement seeks to reduce the deficit while preserving Ireland's international competitiveness and fostering an environment in which domestic recovery can occur. The Government has stated that it "*will continue to develop and implement policies designed to improve the competitiveness of Ireland's internationally trading sectors and enhance Ireland's attractiveness as a place in which to set up and grow business*". The Government's commitment to the 12.5% corporation tax rate as a cornerstone of industrial policy is a key part of this strategy.

The Government, as expected, has confirmed that indirect taxes such as VAT, excise duties and carbon tax are being examined to determine how these can contribute to the deficit reduction. The question appears to be not if the standard rate of VAT will increase to 23%, but rather over what time scale it will occur. The previous Government in its 4-year plan had pencilled in almost €0.6bn increased tax revenues from a 1% increase in the rate in each of 2013 and 2014. It is also interesting to note that the previous Government had planned to raise €0.2bn from carbon taxation measures in 2012.

The Statement makes no reference to capital taxes. Given that the previous Government had planned to raise €0.15bn from capital tax measures such as reducing the level of reliefs and reforming rates, it is difficult to see this area remaining untouched in Budget 2012.

It remains to be seen how, with a projected GDP growth of 1.6% in 2012, the Government will raise the €1.8bn in additional taxes in 2012. The previous Government's 4-year plan had anticipated an additional tax yield adjustment of only €1.1bn in 2012. If the then projected income tax yield from band reductions etc. is removed this leaves a significant shortfall to be filled from new measures or the acceleration of other aspects of the plan, such as the aforementioned VAT rate increases. The details will be published in Budget 2012 on 6 December.

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