

## **Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach**

### **Opening Statement, Timmy Hennessy, Department of Finance**

On behalf of the Department of Finance and the Revenue Commissioners, I would like to thank the Committee for your invitation to discuss the Defective Concrete Products Levy.

My name is Timmy Hennessy, I am a Principal Officer in the Department of Finance with responsibility for Capital Taxes, Savings Taxes and the tax treatment of Pensions. The Defective Concrete Products Levy also falls under my remit.

I am joined by my colleagues Pat McColgan and Leona Cantillon from the Department of Finance. My colleague Jackie O'Callaghan is also in attendance on behalf of the Revenue Commissioners and she will be able to respond to questions regarding the legislation underpinning the Levy.

We are also joined today by my colleague from the Department of Housing, Local Government and Heritage, Seán Armstrong, who is Head of the Residential Construction Cost and Innovation Unit in that Department. He will be able to respond to questions on the impact on costs of the Defective Concrete Products Levy.

The starting point for the development of the levy was a Government Decision in November 2021. At that time, it was decided that a levy on the construction industry would be put in place to raise in the region of €80 million a year, to go some way to offset the costs of the Defective Concrete Blocks Redress Scheme. Government decided that it was to be developed throughout 2022 and introduced in Finance Bill 2022 to apply from 2023.

The Department of Finance engaged with the Department of Housing, Local Government and Heritage, the Department of Environment, Climate and Communications and the Department of Enterprise, Trade and Employment when considering how to design a levy, which would deliver on the Government decision.

The National Standards Authority of Ireland and Enterprise Ireland were also engaged with during the development of the levy.

As the Members of the Joint Committee will be aware the levy was announced by the Minister for Finance in his Budget speech on the 27th September this year. At that time it was announced that the levy would apply at a rate of 10% and come into effect from 03 April 2023. On Budget day the Department also published the "Budget 2023: Tax Policy Changes" document, which, amongst other things, set out the 17 EU standards to which the levy was intended to apply at that time.

Subsequently, in light of feedback received from the concrete and broader construction industry and others, the Minister for Finance decided to make several changes to the levy, these are set out in the Finance Bill that was published on Thursday the 20<sup>th</sup> of October, and which sets out how the levy will operate and the much reduced range of products it will apply to.

The levy will now apply at a rate of 5% from the 1<sup>st</sup> of September 2023. It will apply only to concrete that is ready to pour and to concrete blocks manufactured in accordance with two EU standards.

All pre cast concrete standards are now excluded from the scope of the levy.

I should clarify at this point that the levy applies to certain construction products within the scope of the Construction Products Regulation (CPR). The CPR lays down harmonised rules for the marketing of construction products in the EU. The CPR provides a common technical language to assess the performance of construction products via harmonised European standards.

Concrete that is ready to pour (ready-mix concrete) does not fall within the scope of the CPR. However, it is defined in Part 4 of Schedule 3 to the Value-Added Tax Consolidation Act 2010, and a reduced VAT rate of 13.5% applies, therefore the product is well understood by Irish industry, and is readily identifiable for the purpose of the new levy.

The Department of Housing, Local Government and Heritage commissioned a Cost Assessment Analysis Report to help identify the likely impact of the levy on construction costs. This is a bottom up scientific analysis carried out by an independent Construction Economics Cost Consultant, the report also includes analysis undertaken by Quantity Surveyors in the DHLGH Housing Advisory Unit. This report is a cost assessment based on the 10% levy on concrete products for typical dwellings. Both analysis reported that the percentage increase in construction and development costs was estimated to be approximately 0.4% to 0.9% for a typical semi-detached dwelling and 0.3% to 0.4% for a typical apartment.

As this analysis was based on the levy as announced on Budget Day and the rate of the levy as published in the Finance Bill 2022 has been reduced, the costings can be reduced by approximately 50% to determine the impact of the new design of the Defective Concrete Products Levy on the cost of concrete products.

Therefore, the levy will now result in an increase in construction costs, taking account of variables, of between €400 to €800 for a typical 3 bed semi-detached house and between €375 to €550 per apartment in a typical 6 floor apartment block with basement carpark. The percentage increase in construction and development costs of the levy currently is estimated to be approximately 0.2% to 0.45% for a typical semi-detached dwelling and 0.15% to 0.2% for a typical apartment.

In order to determine the revenue raised by the levy the Department of Finance used statistics provided by the Central Statistics Office. The CSO series "Irish Industrial Production by Sector" was utilised to estimate the revenue that would be raised by this levy. This series is based on an annual survey of the value and volume of products manufactured by industrial enterprises in Ireland and sold during the reference year. The survey covers all industrial enterprises comprised of three or more persons, which are wholly or primarily engaged in industrial production and industrial services in the Mining, Quarrying and Manufacturing industries, and contains returns for the production of pouring concrete, concrete blocks, and prefabricated concrete.

The levy as set out in Finance Bill 2022, at a rate of 5% and encompassing pouring concrete and concrete blocks, will result in an additional €32 million in revenue accruing to the State in a full year of operation.

I, and my colleagues, can answer any technical questions on the development of the levy. As you are aware the Minister will be able to speak about the policy dimensions of the levy at Committee stage of the Finance Bill which is due to take place shortly.

I hope that this overview of the Defective Concrete Products Levy is of assistance in framing the discussion at this meeting, and I am happy to engage with any questions from members.