

# Policy Briefing

Ireland needs a fairer tax system. There is something profoundly unfair about a situation where some millionaires pay no tax while those on low incomes must pay tax.

Some of the changes introduced in recent years have moved in the right direction. The introduction of tax credits is an example of such a positive change.

Now, however, the Government has the opportunity and the resources to make Ireland's tax system much fairer. The most important step that needs to be taken is to address the skewed nature of some parts of the tax system.

Tax reliefs, for example, cost the an estimated €8.4 billion a year but are skewed dramatically to benefit the better off. Tax reliefs on employee's occupational pensions, for example, are such that the bottom 20 per cent of households gain zero per cent of the relief while the top 40 per cent of households gain 89 per cent of the value of this scheme.

CORI Justice Commission estimates that at least €2 billion would be available to the Exchequer if all tax reliefs were standard rated (made available at 20% rather than at 42% which is the case for many of them at present).

While this would be only one step in the right direction it would produce a much fairer tax system while also making substantial resources available.

Other initiatives that Government should take to ensure a fairer tax system include:

- Use available resources to increase tax credits rather than widen tax bands.
- Take steps to avoid being caught in a 'race to the bottom' which could reduce corporation tax to zero because of competition from some EU countries.
- Address the issue of windfall gains from rezoning.
- Move towards introducing a carbon tax and a land-rent tax (proceeds could be used to reduce income tax).

Standard rating all tax reliefs would provide resources that could then be used by Government to, among other things:

- Make tax credits refundable.
- Introduce a refundable tax credit to address child poverty and childcare.
- Meet the National Anti Poverty Strategy commitment to raise the lowest social welfare rate for a single person to 30% of gross average industrial earnings.
- Make substantially more progress towards increasing the number of social housing units by 73,000 as recommended by the national Economic and Social Council.
- Fund the development of primary care in the health system as this is the key to both improving health and reducing the problems currently being faced by acute hospitals.

A fairer tax system is required. Making it fairer would provide the resources to make Ireland a fairer place for all.

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*Policy Briefing* is a regular publication issued by the CORI Justice Office. It addresses a wide range of current policy issues from the perspective of those who are poor and/or socially excluded. Comments, observations and suggestions on this briefing are welcome.

# Tax Expenditures / Tax Reliefs

The Irish tax system incorporates a sizeable number of tax expenditures, primarily in the form of tax reliefs. In November 2004 the Revenue Commissioners estimated that the annual cost of tax reliefs was €8.4 billion, a value that is equal to 22 per cent of the total taxation collected each year in Ireland. They also indicated that they were unable to provide complete information on 44 individual tax relief schemes. Of these, the Revenue has no figures for the number of claimants and the size of the claims made under 33 schemes. In the case of a further 11 schemes there is no information available on the number of taxpayers availing of the schemes.

Table 1 presents information on some of the major tax expenditures, the overall cost of providing them per annum and the average cost per recipient. The cost of these schemes is calculated in the amount of tax revenue foregone (i.e. not collected).

The distribution of these tax expenditures is primarily in the direction of the better off elements of Irish society. To take one example, the National Economic and Social Council (NESC) has examined which households in the income distribution gained as a result of tax relief on employee's occupa-

tional pensions during 1998. Their findings showed that the bottom 20 per cent of households received zero per cent while the top twenty per cent of households receive 56.8 per cent of the relief.

## *The Revenue Commissioners has estimated that the annual cost of tax reliefs is €8.4 billion*

Overall the distribution of the tax relief is heavily skewed towards the top forty per cent of households who receive almost 89 per cent of the value of this scheme.

CORI Justice Commission believes that many of these relief's serve minimal purpose. We have argued for some time that these reliefs should be reviewed via an assessment of the economic and social benefits that they provide. Only where these benefits surpass the costs should the reliefs be retained. Furthermore we believe that in the future any proposed reliefs should be subject to detailed assessment before they are introduced. It should

also be a requirement that the Revenue Commissioners collect data on the size and distribution of these reliefs. Such information is critical to any assessments of the role they play.

**Table 1: The annual cost of some income tax allowances and reliefs.**

|                                  | No's availing | Cost in €m's |
|----------------------------------|---------------|--------------|
| Capital allowances               | 269,300       | 1,921        |
| Exemption of Pension Fund Income | n/a           | 1,268        |
| SSIA scheme                      | 1,113,880     | 540          |
| Employers Pension Contributions  | n/a           | 673          |
| Employees Pension Contributions  | 670,500       | 526          |
| Resort Relief                    | n/a           | 106          |
| Mortgage Interest Relief         | 622,500       | 221          |
| Self Employment Pension Contrib. | 109,600       | 170          |
| Medical Insurance Relief         | 533,800       | 191          |
| Employee Expenses                | 855,800       | 73           |
| Business Expansion Scheme (BES)  | 2,015         | 20           |
| Investments in Films             | 1,470         | 15           |
| Artists Relief                   | 1,300         | 37           |

## Review of Tax Relief Schemes

In Budget 2005 the Minister of Finance, Mr Brian Cowen T.D., announced that the government would undertake a review of certain tax incentive schemes and tax exemptions. CORI Justice Commission warmly welcomed this decision. For some time we have highlighted the inequity which these schemes produced in the tax system. We believe that reforming these tax breaks is long overdue and is a necessary part of building a fairer taxation system.

As part of the review process the Department of Finance invited interested parties to make a submission on future reforms. CORI Justice Commission submitted a detailed document to the Department in March 2005. A copy of this document is available on our website ([www.cori.ie/justice](http://www.cori.ie/justice)).

The Commission also appeared before the Oireachtas Committee on Finance and the Public Service in October 2005 to discuss the document and the policy reforms proposed in it.

Among the key proposals for reform made were the following:

- The Department of Finance should examine the costs and benefits of each new scheme before they are introduced.
- Each new or renewed tax expenditure should also be poverty proofed.
- New procedures should be adopted by the Revenue Commissioners such that they are able to collect and provide accurate data on all tax expenditures.
- All discretionary tax expenditures should be at the standard rate only.
- A cap on the maximum amount of money that any individual can have in their pension fund should be introduced. In Budget 2006 the Minister for Finance should introduce a new law limiting the value of tax reliefs any one individual may avail of in any tax year. An index linked limit of €250,000 per annum would seem more than generous.

# Ireland's Top Earners Pay Little Tax

One of the central tenets of any taxation system is that it should be progressive. This means that as a person's income increases they should pay more tax. To assess the success of a country's taxation system in achieving this we can examine effective tax rates. A person's effective tax rate is the percentage of their income which they pay in taxation.

The suggestion that it is the better-off who principally gain from the provision of tax exemption schemes is underscored by reports published by the Revenue Commissioners entitled *Effective Tax Rates for High Earning Individuals*. These reports provide details of the Revenue's assessment of the top 400 earners in Ireland and the rates of effective taxation they faced.

Table 2 presents their findings and shows that many of Ireland's highest earning individuals successfully use tax planning, schemes and loopholes to reduce their tax liability. These studies found that property tax reliefs, such as those provided for hotels and

car parks, were the most effective in reducing the tax rates of the highest earners.

Comparing the figures from 1999/00 and 2001 shows that over time the number of top earners benefiting from

More recent figures from the Revenue Commissioners indicate that in 2001 41 people earning over €500,000 used various tax relief schemes to reduce their income tax liability to zero. These included 11 individuals who earned more than €1 million in 2001. A further 242 individuals earning more than €100,000 also paid no tax.

Put simply, is this fair? Are these individuals paying their way in Irish society or are they exploiting loopholes in the tax system?

***in 2001 41 people earning over €500,000 used various tax relief schemes to reduce their income tax liability to zero...Put simply, is this fair?***

very low tax levels has reduced slightly from 18.25 per cent to 14.50 per cent.

**Table 2: The Distribution of Effective Tax Rates of the Top 400 Earners.**

| Effective Tax Rate | 1999/2000     | 2001          |
|--------------------|---------------|---------------|
|                    | % of Total    | % of Total    |
| Less than 15%      | 18.25         | 14.50         |
| 15%-29%            | 11.00         | 14.25         |
| 30%-44%            | 57.75         | 71.25         |
| 45% +              | 13.00         | 0.00          |
| <b>Total</b>       | <b>100.00</b> | <b>100.00</b> |

## €2billion Available Through Standard Rating Tax Reliefs

Ireland's tax system should be fair. For some time we have highlighted the inequities in the tax system. One crucial step towards achieving a fairer tax system is to standardise all discretionary tax reliefs/expenditures, making them available at the 20% rate only.

If there is a legitimate case for making a tax relief /expenditure available then it should be made available in the same way to all. It is unfair that some people can claim certain tax reliefs at a rate of 20% (the standard tax rate) and others with higher incomes can claim it at a higher rate. That unfairness is further exacerbated by the fact that it is those who are better off who can claim these reliefs at the upper rate.

In November 2004 the Revenue Commissioners estimated that the annual cost of tax reliefs was €3.4 billion. For

many of these schemes, high earners are receiving tax relief at the 42% level with few receiving it at the 20% rate.

***CORI Justice Commission has estimated that the exchequer could collect an additional €2 billion in revenue if all these tax relief schemes were standard rated***

Following an examination of the available data for these schemes, CORI Justice Commission has estimated that the exchequer could collect an additional €2 billion in revenue if all these tax relief schemes were made avail-

able only at the standard rate. While the available data is less than desirable, a feature which the Revenue Commissioners acknowledge, we suspect that this estimate understates the additional revenue which the exchequer would collect were all discretionary tax expenditures standard rated.

Many challenges lie ahead for Irish society over the next few years. Addressing the deficits in our social provision remains a central challenge. That challenge is further complicated by the need to fund these necessary developments in an already buoyant economy.

Standard rating tax expenditures offers the potential to simultaneously make the tax system fairer and fund these necessary development without any significant macroeconomic implications.

# Make Tax Credits Refundable

The move from tax allowances to tax credits was completed in Budget 2001. This was a very welcome change because it put in place a system that had been advocated for a long time by a range of groups including the CORI Justice

Commission.

One problem persists however, a problem that the old system of tax allowances also had. If a person does not earn enough to use up his or her full tax credit then he or she will not benefit from any tax reductions introduced by government in its annual budget. In effect this means that, under the present system, those with the lowest pay will not benefit in any way at budget time.

A simple solution exists to rectify this problem: make tax credits refundable. This would mean that the part of the tax credit that an employee did not benefit from would be "refunded" to him/her by the state. A Working

Group established under the *Programme for Prosperity and Fairness* examined the feasibility of making this happen but has not completed its report.

The major advantage of making tax credits refundable would lie in addressing the disincentives currently associated with low-paid employment. The main beneficiaries of refundable tax credits would be low-paid employees (full-time and part-time). A recent CORI Justice Commission publication

*Pathways to Inclusion* examined the impact of introducing this policy across the various gross income levels. It clearly showed that all of the benefits from introducing this policy would go directly to those on the lowest incomes.

Following the introduction of refundable tax credits, all subsequent increases in the level of the tax credit would be of equal value to all employees.

## Addressing administrative issues

The central idea recognises that most people with regular incomes and jobs would not receive a cash refund of their tax credit because their incomes are too high; they would simply benefit from the tax credit as a reduction in their tax bill. No change is proposed for these people and they would continue to pay tax via their employers, based on their net tax liability after their employers have deducted tax credits on behalf of Revenue.

For other people on low or irregular incomes, the refundable tax credit could be paid in either of two ways:

- The person entitled to the credit could apply for it to the Revenue Commissioners at the end of the year.

or

- They could be given the option of requesting that their tax credit be paid directly e.g. into their bank account, by the Department of Social and Fam-

ily Affairs (DSFA); in these cases employers would not subtract the tax credit from the gross tax liability of these people. Instead, the DSFA would supply them with a book of payments (as is done with Child Benefit payments at present).

## Eligibility

In order to qualify for a refundable tax credit a person would have to satisfy the following criteria:

- Must be 21-64 years of age (or simply 21 or over 65+ depending on what funding Government made available)

and

- Must be currently working for at least 12 months for the equivalent of at least 8 hours per week, as evidenced by tax/PRSI returns.

Employees and self-employed, including farmers, are encompassed within the proposal. Spouses could opt to receive the 'married' part of the personal tax credit and the Home Working Spouse tax credit directly from DSFA.

## Merits

- Every beneficiary of tax credits can receive the full value of the tax credit
- It would improve the net income of the workers whose incomes are lowest, at modest cost.
- No additional administrative burden is placed on employers.

# Corporation Tax: the dangers of a race to the bottom

As the European Union expands corporation tax competition is likely to intensify. Already Estonia has a zero per cent corporation tax rate, Cyprus has a 10 per cent and Hungary continues to reduce its rate; others are likely to follow. Over the next few years Ireland will be forced to either ignore tax rates as a significant attraction/retention policy for foreign investors (this would be a major change in industrial policy) or to follow suit and compete by further cutting corporation tax.

Consequently, there is a serious danger that Irish corporation taxes will be forced down to zero per cent during the next few years.

An alternative direction for corporation tax is to set a minimum rate for all EU countries. Given the international nature of company investment these taxes are fundamentally different from internal taxes, and the benefit of a European agreement which sets a minimum rate is clear. These would include protecting Ireland's already low rate from being driven down even

lower, protecting the jobs in industries which might move to lower taxing countries and protecting the revenue generated for the exchequer by corporate taxes.

CORI Justice Commission believes that an EU wide agreement on a minimum rate of corporation tax should be negotiated. We believe that the minimum rate should be set well below the current EU average rate of 31.32 per cent but above the existing low Irish level. A rate of 17.5 per cent seems appropriate.

# Addressing Childcare and Child Poverty

Two issues regarding children have begun to receive a lot of attention in the run up to the new social partnership talks. These issues are childcare and child poverty.

CORI Justice Commission believes that both these issues can be simultaneously addressed through the taxation system.

Furthermore, we believe that the policy proposals outlined below adhere to a key belief that the child must be at the centre of any policies adopted to address these issues.

Our proposal is that Government should introduce a refundable tax credit payable for every child in the country.

Introducing a refundable tax credit for all children offers government an effective way of addressing both the child poverty issue and the childcare issue in an integrated, efficient and effective manner.

The credit would be available for all children, irrespective of whether or not their parents have a taxable income. For those with a taxable income the credit would be added to their existing tax credits (or could be paid directly to the parents if they so wished), for those who have no taxable income the credit would be refundable and available upon request.

Parents would be free to decide how to use this payment. It could be used to assist in paying for childcare or to assist a parent who chooses to remain the fulltime carer of the child.

The policy can also assist in addressing the problem of child poverty. As detailed in the box opposite, child poverty is now a major problem in Ireland. The long-term implications for Ireland of so many children growing up in households with low income is serious.

CORI Justice Commission has highlighted this issue for some time and we welcome the growing realisation at government level that it now needs to be addressed.

Consequently, we believe that a refundable tax credit payable for all children will ensure that poorer families receive higher income, money they are free to spend on essential necessities for children. While the policy may not eliminate child poverty, it would play an important role in reducing the scale of the problem and in minimising the depth of poverty experienced by children.

## *The child must be at the centre of any policies adopted to address these issues*

Introducing a refundable tax credit for children offers a number of advantages including the following:

- The value of the payment is the same for every child
- It respects the right of parents to

choose between external childcare or caring for the child themselves

- The system would be easy to implement.
- It would be easy to administer.
- It is both technically and allocatively efficient
- The distribution of the payment to all children would assist in addressing child poverty by raising the income of poor families with children.
- It would also ensure a fair distribution of the benefits of childcare funding.

• The policy maintains choice and fairness and reflects the fact that it is the child is at the centre of the policy

It is important to note that refundable tax credits are already in place for mortgage relief and health insurance payments.

## Child Poverty in Ireland

One of the most vulnerable groups in any society are children and consequently the issue of child poverty is one that deserves particular attention.

Child poverty is measured as the proportion of all children aged less than 16 years who live in households that have an income below the 60 per cent of median income poverty line. The age category of 0-15 years is chosen to measure child poverty as it corresponds to the international definition of children used by the International Labour Office (ILO).

In 2003 there were approximately 895,022 children aged between 0 and 15 years living in Ireland. Of these the CSO EU-SILC poverty data has shown that one in four were living in

poverty. This amounts to 223,756 children.

The scale of this statistic is shocking. Given that our children are our future, this finding is not acceptable. Furthermore, the fact that such a large proportion of our children are living in poverty has obvious implications for the education system and the success of these children within it.

CORI Justice Commission believes that this issue needs to be addressed. The policy proposal outlined above offers the opportunity to address the issues of child poverty and childcare simultaneously.

Government should introduce a refundable tax credit for all children to achieve this.

**Table 3: Child Poverty in Ireland, 2003 (%)**

|                           | Males | Females | Total |
|---------------------------|-------|---------|-------|
| Children (under 16 years) | 25.5  | 24.4    | 25.0  |

# Tax Take Increases, but still Among the Lowest in EU-25

The most recent data on the size of the Irish tax burden has been produced by the OECD (2005) and Eurostat (2004) and is detailed alongside that of the 24 other EU states in table 4. The tax burden of each country is established by calculating the ratio of total taxation revenue to national income as measured by gross domestic product (GDP).

Of the 25 member states, the highest tax ratios can be found in Sweden, Denmark, Belgium and Finland while the lowest appear in Lithuania, Ireland, Slovakia, Latvia and Malta. Overall, Ireland possesses the second lowest tax burden at 30.2 per cent, some 7.7 per cent below the EU average of 37.9% of GDP.

GDP is accepted as the benchmark against which tax levels are measured in international publications. However, in Ireland some suggestions have been made to the effect that gross national product (GNP) should be the used. Therefore, table 4 also presents the tax

take as a % of GNP for Ireland. In 2004 this stood at 36.1%.

In recent years, the Irish tax take has begun to increase. It has climbed from

28% in 2002. We welcome this move. If Ireland is to realistically address the deficiencies in this country's social provision, government must collect sufficient tax to fund that catch-up.

**Table 4: Total Tax Revenue as a % of GDP, for EU-25 Countries in 2004**

|             | % of GDP |                    | % of GDP    |
|-------------|----------|--------------------|-------------|
| Sweden      | 50.7     | United Kingdom     | 36.1        |
| Denmark     | 49.6     | <b>Ireland GNP</b> | <b>36.1</b> |
| Belgium     | 45.6     | Greece             | 35.7        |
| Finland     | 44.3     | Estonia            | 35.2        |
| France      | 43.7     | Spain              | 35.1        |
| Austria     | 42.9     | Germany            | 34.6        |
| Italy       | 42.2     | Poland             | 34.2        |
| Luxembourg  | 40.6     | Cyprus             | 32.5        |
| Slovenia    | 39.8     | Malta              | 31.3        |
| Netherlands | 39.3     | Latvia             | 31.3        |
| Hungary     | 37.7     | Slovakia           | 30.8        |
| Czech Rep   | 37.6     | <b>Ireland GDP</b> | <b>30.2</b> |
| Portugal    | 37.1     | Lithuania          | 28.8        |

## Tax Credits or Tax Bands?

During 2005, both the Taoiseach and the Minister for Finance indicated that there would be no more cuts in income tax rates. CORI Justice Commission welcomes this commitment. Any future income tax changes will now be concerned with changes to either tax credits or tax bands. In the context of achieving fairness in the taxation system, changes to tax credits rather than tax bands are more desirable.

To illustrate this point, say the Government has €700m available for distribution in a Budget. With that money it could either:

- (i) increase the 20% tax band by €5,500
- (ii) increase tax credits by €12 a year

Option (i) would be of no benefit to anyone with incomes at or below the top current band but would provide a benefit of €1,210 a year for a single person earning more than €34,900. Option (ii) would mean that every earner paying tax in excess of €12 a year would benefit by that amount.

One problem with the tax credit changes outlined above is that a person who does not earn enough to use up their full tax credit will not benefit from any tax reductions introduced in a Budget. A simple solution to rectify this problem is to make tax credits refundable. The main beneficiaries of this move would be low-paid employees.

## Making Taxation Simpler

Our tax system is not simple. In a recent book reviewing Ireland's taxation system Professor John Bristow argues that "some features of it, notably VAT, are among the most complex in the world". The reasons given to support this complexity vary but they are focused principally around the need to reward particular kinds of behaviour which is seen as desirable by legislators. This, in effect, is discrimination in favour of one kind of activity or against another. There are many arguments against the present complexity and in favour of a simpler system.

Discriminatory tax concessions in favour of particular positions are often very inequitable. On many occasions they fail to produce the economic or social outcomes which were being sought. Sometimes they generate very undesirable effects. At other times they may be a complete waste of money since the outcomes they seek would have occurred without the introduction of a tax incentive. Having a complex system also has other down-sides. It can, for example, have high compliance costs both for taxpayers and for the Revenue Commissioners who are responsible for collecting tax. Complexity makes taxes easier to evade, invites consultants to devise avoidance schemes and greatly increases the cost of collection. A simpler taxation system would serve Irish society and all individuals within it better, irrespective of their means.

# Main Policy Recommendations on Taxation

## CORE POLICY OBJECTIVE

**To collect sufficient taxes to ensure full participation in society for all, through a fair tax system in which those who have more, pay more, while those who have less, pay less.**

- Commit to increasing Ireland's total tax take towards the EU average.
- Make tax credits refundable.
- Continue to adjust tax credits so that the minimum wage remains out of the tax net.
- Integrate Family Income Supplement (FIS) with the tax system.
- Proceed with individualisation in the income tax system in a fair and equitable manner.
- Ensure that changes in the income-tax system benefit those on low to middle incomes as much as they benefit the better off in cash terms.
- Conduct a poverty-impact assessment of all budget tax packages to ensure that tax changes do not further widen the gap between those with low income and the better off.
- Standard rate all discretionary tax expenditures.
- Introduce a new refundable tax credit payable for children.
- Increase the corporate tax rate and move to negotiate an EU wide agreement on minimum corporate tax rates.
- Put in place procedures within the Department of Finance and the Revenue Commissioners to monitor on an ongoing basis all current and new tax expenditures.
- Ensure that the distribution of all changes in indirect taxes discriminate positively in favour of those with lower incomes.
- Move decisively to shift the burden of taxation from income tax to eco-taxes on the consumption of water, fuel and fertilisers, as well as on the disposal of waste. In doing this, government should ensure that the impact of this on people with low incomes should not be negative.
- Introduce carbon and environmental taxes.
- Develop policies which allow taxation on wealth to be increased.
- Investigate the possibility of introducing a tax on currency transactions such as the Tobin Tax.
- Investigate the possibility of introducing a site value tax. This, and the preceding proposal, could lead to substantial reductions in income tax.
- Introduce a cap of €1.5m as the maximum amount of money that any individual can have in their pension fund.
- Increase the rate of capital gains tax from 20 to 25 per cent.
- Introduce a windfall tax on the profits generated from all land rezoning.

## Windfall Gains & Rezoning

**T**he vast profits being made by property speculators on the rezoning of land by local authorities raises questions. In response CORI Justice Commission has suggested two approaches. In the short-term we believe that a substantial windfall tax should be imposed on the profits earned from such decisions. As rezonings are made by elected representatives in the interest of society generally, it seems appropriate that a sizeable proportion of the windfall gains they generate should be made available to local authorities and used to address the ongoing social housing problems they face.

In the longer term, we believe that a number of changes should be made to the way in which zoning decisions occur. The principal change we propose is the introduction of a law confining the rezoning of land to those lands in the ownership of local authorities. The rezoning would then occur while the land was in local authority ownership and so the windfall gain on the land's value would be internalised to the local authority. We believe that the profit from this process should then be targeted on addressing Ireland's social housing problems.

## Carbon Taxes

**C**ORI Justice Commission believes that the decision by government to abandon their commitment to introducing carbon taxes in Budget 2005 was a mistake and a missed opportunity. Its rejection was based on a weak argument that the tax would have minimal impact. However the policy for its introduction, as outlined by the ESRI and others, suggested that the tax be introduced at a small level and subsequently increased over time.

In recent years the sheer increase in the volume of economic activities has often negated regulatory gains. A key step would be to include in prices the environmental costs occasioned by economic activity. It is difficult to devise any methodology capable of tracing and attributing with accuracy all the costs/damage wrought upon the environment by a particular activity. Thus in many cases the internalisation can be achieved only in an arbitrary way, i.e. by carbon taxes/charges based on broad national assessment.

CORI Justice Commission believes the decision to abandon these taxes should be reversed. It is in all our benefit to see these taxes introduced.

# Taxation needs in the Medium-Term

**G**overnment decisions to raise or reduce overall taxation revenue needs to be linked to the demands on its resources.

A valuable review of Ireland's future taxation needs was presented in a paper to our 2004 social policy conference by economist Micheal Collins. In that paper he points out that in the immediate term tax increases are not essential if the government avails of the funds available to it in the current account surplus.

However in the medium-term he indicated that the government faced a series of demands which will necessitate increases in the amount of taxation it collects. These demands include:

- contributions to the European Union from 2007 onwards when Ireland becomes a net contributor;

- payments for fines imposed under the Kyoto protocol;
- increases in Overseas Development Assistance (ODA) contributions;
- increases in social welfare payments to meet the NAPS commitments;
- increases in spending on education, healthcare and pensions as a result of an increase in the numbers of children and the elderly in the population over the next 20 years.

Research by Bennett et al provides some additional insight on the last of the above points. They have estimated the costs of healthcare and pensions in Ireland in the years 2025 and 2050 as a percentage of GDP. As the population ages these figures will increase substantially, almost doubling between 2002 and 2050 from 8.9 to 16.7 per

cent of GDP.

The implications of these findings is that in the years to come Ireland will have to raise additional taxation revenue to meet these demands. Collins points out that this is particularly the case for the decade post-2007 when Ireland begins to meet some of these new demands while simultaneously continuing to invest heavily in developing its infrastructure. In the longer term he suggested that spending on capital projects will reduce to average European levels (it is currently twice the average) and that at that stage options will be open to Government to consider reductions in taxation levels once again.

Fortunately, Ireland is well placed to carry these tax increases. As our analysis on page 5 of this briefing shows, Ireland collects the second lowest level of taxation in the EU -25.

## Other Justice Commission Publications

The following documents are available for purchase from the Justice Commission Office:

- **Securing Fairness and Wellbeing in a Land of Plenty**
- **Policy Briefing on Budget Choices**
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[www.cori.ie/justice](http://www.cori.ie/justice)

## A Fairer Tax System for a Fairer Ireland

This CORI Justice Commission publication provides an overview of taxation in Ireland and identifies how the tax system could be made fairer through expanding the tax base and promoting inclusion through the tax system. It also provides a range of policy options.

Contributors include Tim Callan, Micheal Collins, Richard Douthwaite, Tom Dunne, Sean Healy, Emer O'Siochru, Colm Rapple, Brigid Reynolds and Paul Sweeney.

The full book may be downloaded from our website at [www.cori.ie/justice](http://www.cori.ie/justice).

Printed copies are available from CORI Justice Office. Cost: €15.