4.

TAXATION

CORE POLICY OBJECTIVE: TAXATION

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.

The fiscal adjustments of recent years highlight the centrality of taxation in budget deliberations and to policy development at both macro and micro level. Taxation plays a key role in shaping Irish society through funding public services, supporting economic activity and redistributing resources to enhance the fairness of society. Consequently, it is crucial that clarity exist with regard to both the objectives and instruments aimed at achieving these goals. To ensure the creation of a fairer and more equitable tax system, policy development in this area should adhere to our core policy objective outlined above. In that regard, *Social Justice Ireland* is committed to increasing the level of detailed analysis and debate addressing this area.[43]

Social Justice Ireland believes that Government's key policy priorities in this area should be to:

- increase the overall tax-take
- adopt policies to broaden the tax base
- develop a fairer taxation system[44]

This chapter first considers Ireland's present taxation position and outlines the anticipated future taxation needs of the country. Given this, we outline approaches to reforming and broadening the tax base and proposals for building a fairer tax system. The issues addressed in this chapter include a number of the elements of *Social Justice Ireland's* proposed Social Contract (see Chapter 2) including: 'Vibrant Economy', 'Just Taxation' and 'Decent Services and Infrastructure'.

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[43] We present our analysis in this chapter and in the accompanying Annex 4.

[44] Much greater detail on each of these and related areas is provided later in this chapter.

Ireland’s total tax-take: current and future needs

The need for a wider tax base is a lesson painfully learnt by Ireland during the recent economic crisis. A disastrous combination of a naïve housing policy, a failed regulatory system, and foolish fiscal policy and economic planning caused a collapse in exchequer revenues. It is only through a strategic and determined effort to reform Ireland’s taxation system that these mistakes can be addressed and avoided in the future. The narrowness of the Irish tax base resulted in almost 25 per cent of tax revenues disappearing, plunging the exchequer and the country into a series of fiscal policy crises. As shown in Table 4.1, tax revenues collapsed from over €63bn in 2007 to a low of €47.3bn in 2010; it has since increased to just over €62bn in 2014.

Table 4.1 – The changing nature of Ireland’s tax revenue (€m)

	2007	2008	2010	2014	2015
Direct Taxes	26,087	22,964	19,583	24,894	27,881
Indirect Taxes	25,854	22,535	18,063	21,195	22,453
Capital Taxes	432	368	245	359	401
Social Contributions	10,697	10,984	9,485	10,983	11,388
Total Taxation	**63,071**	**56,851**	**47,377**	**57,431**	**62,123**
% GDP	32.0%	30.3%	28.3%	29.7%	24.3%
% GNP	37.3%	35.3%	34.2%	35.1%	30.7%
% GNI	37.0%	35.0%	33.9%	34.9%	30.5%

Source: CSO online database tables GFA03 and N1503.
Note: Total taxation expressed as a percentage of published CSO national income figures at current prices.

As detailed in Chapter 2, *Social Justice Ireland* believes that, over the next few years, policy should focus on increasing Ireland’s tax-take. In the absence of a robust measure of national income, it is difficult to propose a measure fixed as a percentage of GDP.[45] However, given the historically low levels of taxation reported in Table 4.1 we believe an increase in the overall tax-take is more than feasible. For example, raising the overall tax-take by three percentage points would represent a small overall increase and one which is unlikely to have any significant negative impact on the economy in the long term. As a policy objective, Ireland should remain a low-tax economy, but not one incapable of adequately supporting the economic, social and infrastructural requirements necessary to support our society and complete our convergence with the rest of Europe.

[45] We note this will change when the CSO publish the new GNI* measure (adjusted Gross National Income) during 2017. Following its publication *Social Justice Ireland* will revise its proposed benchmark for overall taxation levels tying it to a percentage of this measure.

The documentation accompanying Budget 2017 set out projections for the overall scale of the national tax-take (as a proportion of GDP) out to 2021. These figures are reproduced in Table 4.2 and are the basis for an estimate of the additional revenue which would be yielded from a three percentage point increase in the overall tax-take. The average yield from such an increase would average €9bn per annum in additional taxation revenue between now and 2021.

Table 4.2 – Ireland's projected and proposed total tax-take, 2015-2021

Year	Tax % GDP	Tax % GDP proposed	Additional Revenue
2015	24.5%	27.5%	7,674
2016	25.0%	28.0%	7,893
2017	24.9%	27.9%	8,252
2018	24.9%	27.9%	8,661
2019	24.8%	27.8%	9,087
2020	24.8%	27.8%	9,498
2021	24.8%	27.8%	9,925

Source: Calculated from Department of Finance (2016: C50-51).
Note: The 2015 Department of Finance estimate for the total tax-take (24.5 per cent GDP) differs from the corresponding CSO figure (24.3 per cent GDP) reported in Table 4.1.

Future taxation needs
Government decisions to raise or reduce overall taxation revenue needs to be linked to the demands on its resources. These demands depend on what Government is required to address or decides to pursue. The effects of the recent economic crisis, and the way it was handled, carry significant implications for our future taxation needs. The rapid increase in our national debt, driven by the need to borrow both to replace disappearing taxation revenues and to fund emergency 'investments' in the failing commercial banks, has increased the on-going annual costs associated with servicing the national debt.

National debt increased from a level of 24 per cent of GDP in 2007 - low by international standards - to peak at 119.5 per cent of GDP in 2013. Documents from the Department of Finance, to accompany Budget 2017, project that the national debt will decrease to 74.3 per cent of GDP in 2017 and to 63 per cent by 2021. The large revision in GDP for 2015 has had a significant effect on this indicator (Department of Finance, 2016: C33). Despite favourable lending rates and payback terms, there remains a recurring cost to service this debt – costs which have to be financed by current taxation revenues. The estimated debt servicing cost for 2017 is €6.1bn (Department of Finance, 2016: C55). Furthermore, the erosion of the National Pension Reserve Fund (NPRF) through using it to fund various bank rescues has transferred the liability for future public sector pensions onto future exchequer expenditure. Although there will be some return from a number of the

rescued banks, it is likely to be small relative to the total of funds committed and therefore will require additional taxation resources.

These new future taxation needs are in addition to those that already exist for funding local government, repairing and modernising our water infrastructure, paying for the health and pension needs of an ageing population, paying EU contributions and funding any pollution reducing environmental initiatives that are required by European and International agreements. Collectively, they mean that Ireland's overall level of taxation will have to rise significantly in the years to come – a reality Irish society and the political system need to begin to seriously address.

As an organisation that has highlighted the obvious implications of these long-terms trends for some time, *Social Justice Ireland* welcomes the development over the past few years where the Government has published a section of the April Stability Programme Update (SPU) focused on the long-term sustainability of public finances.

Table 4.3 – Projected Age Related Expenditure, as % GDP 2013-2060

Expenditure areas	**2013**	**2020**	**2030**	**2040**	**2050**	**2060**
Gross Public Pensions	7.4	8.0	9.1	10.0	10.0	8.4
of which:						
Social protection pensions	5.5	5.5	6.4	7.4	8.0	7.0
Public service pensions	1.8	2.5	2.7	2.6	2.0	1.4
Health care	6.0	6.3	6.9	7.3	7.3	7.2
Long-term care	0.7	0.7	0.9	1.1	1.3	1.4
Education	6.0	6.4	5.8	5.2	6.0	5.9
Other age-related (JA etc.)	2.1	1.5	1.2	1.0	1.0	1.0
Total age-related spending	**22.1**	**22.9**	**23.9**	**24.6**	**25.6**	**23.9**

Source: Department of Finance (2016: 35) and European Commission (2015: 316-318)

Research by Bennett et al (2003), the OECD (2008) and the ESRI (2010) have all provided some insight into future exchequer demands associated with healthcare and pensions in Ireland in the decades to come. The Department of Finance has used the European Commission publication entitled '*The 2015 Ageing Report: Economic and budgetary projections for the EU28 Member States (2013-2060)*'. Table 4.3 summarises some of its baseline projections for Ireland. Over the period the report anticipates an increase in the elderly population (65 years +) from 12.4 per cent of the population in 2013 to 21.4 per cent in 2060 while the 'very elderly population', those aged more than 80 years, will more than triple from 2.9 per cent in 2013 to 10.2 per cent in 2060. Over the same period, the proportion of those of working

age will decline as a percentage of the population and the old-age dependency ratio will increase from approximately five people of working age for every elderly person today to less than three for every elderly person in 2060 (EU Commission, 2015:316). While these increases imply a range of necessary policy initiatives in the decades to come, there is an inevitability that an overall higher level of taxation will have to be collected.

Is a higher tax-take problematic?

Suggesting that any country's tax-take should increase often produces negative responses. People think first of their incomes and increases in income tax, rather than more broadly of reforms to the tax base. Furthermore, proposals that taxation should increase are often rejected with suggestions that they would undermine economic growth. However, a review of the performance of a number of economies over recent years sheds a different light on this issue and shows limited or no relationship between overall taxation levels and economic growth.

Taxation and competitiveness

Another argument made against increases in Ireland's overall taxation levels is that it will undermine competitiveness. However, the suggestion that higher levels of taxation would damage our position relative to other countries is not supported by international studies of competitiveness.

Annually the World Economic Forum publishes a *Global Competitiveness Report* ranking the most competitive economies across the world.[46] Table 4.4 outlines the top fifteen economies in this index for 2016-17 as well as the ranking for Ireland (which comes 23rd). It also presents the difference between the size of the tax-take in these, the most competitive economies in the world, and Ireland, for 2014.[47]

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[46] Competitiveness is measured across 12 pillars including: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods markets efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication and innovation. See WEF (2016) for further details on how these are measured.

[47] This analysis updates that first produced by Collins (2004: 15-18). We use Ireland's 2014 taxation figure as this is less distorted by the multi-national balance sheet effects compared to the 2015 GDP figure.

Table 4.4 – Differences in taxation levels between the world's 15 most competitive economies and Ireland.

Competitiveness Rank	Country	Taxation level versus Ireland
1	Switzerland	-0.8
2	Singapore	*not available*
3	United States	-2.3
4	Netherlands	+9.1
5	Germany	+8.2
6	Sweden	+14.6
7	United Kingdom	+3.8
8	Japan	+3.3
9	Hong Kong SAR	*not available*
10	Finland	+15.3
11	Norway	+9.4
12	Denmark	+17.9
13	New Zealand	+4.1
14	Taiwan, China	*not available*
15	Canada	+3.2
23	**IRELAND**	-

Source: World Economic Forum (2016)
Notes: a) Taxation data from OECD (2016) for the year 2015 except for Japan and Ireland where the taxation data is for 2014.
b) For some non OECD countries comparable data is *not available*.
c) The OECD's estimate for Ireland in 2014 = 28.7 per cent of GDP

Only two of the top fifteen countries, for which there is data available, report a lower taxation level than Ireland: Switzerland and the United States. All the other leading competitive economies collect a greater proportion of national income in taxation. Over time Ireland's position on this index has varied, most recently rising from 31st to 23rd, although in previous years Ireland had been in 22nd position. When Ireland has slipped back the reasons stated for Ireland's loss of competitiveness included decreases in economic growth and fiscal stability, poor performances by public institutions and a decline in the technological competitiveness of the economy (WEF, 2003: xv; 2008:193; 2011: 25-26; 210-211). Interestingly, a major factor in that decline is related to underinvestment in state funded areas: education; research; infrastructure; and broadband connectivity. Each of these areas is dependent on taxation revenue and they have been highlighted by the report as necessary areas of investment to achieve enhanced competitiveness. As such, lower taxes do not feature as a significant priority; rather the focus is on increased and targeted efficient government spending.

A similar point was expressed by the Nobel Prize winning economist Professor Joseph Stiglitz while visiting Ireland in June 2004. Commenting on Ireland's long-term development prospects, he stated that "all the evidence is that the low tax, low service strategy for attracting investment is short-sighted" and that "far more important in terms of attracting good businesses is the quality of education, infrastructure and services." Professor Stiglitz added that "low tax was not the critical factor in the Republic's economic development and it is now becoming an impediment".[48]

Reforming and broadening the tax base

Social Justice Ireland believes that there is merit in developing a tax package which places less emphasis on taxing people and organisations on what they earn by their own useful work and enterprise, or on the value they add or on what they contribute to the common good. Rather, the tax that people and organisations should be required to pay should be based more on the value they subtract by their use of common resources. Whatever changes are made should also be guided by the need to build a fairer taxation system; one which adheres to our already stated core policy objective.

There are a number of approaches available to Government in reforming the tax base. Recent Budgets have made some progress in addressing some of these issues while the 2009 Commission on Taxation Report highlighted many areas that require further reform. A short review of the areas we consider a priority are presented below across the following subsections:

- Tax Expenditures / Tax Reliefs
- Minimum Effective Tax Rates for Higher Earners
- Corporation Taxes
- Site Value Tax
- Second Homes
- Empty Houses and Underdeveloped Land
- Taxing Windfall Gains
- Financial Transactions Tax
- Carbon Taxes

[48] In an interview with John McManus, Irish Times, June 2nd 2004.

Tax Expenditures / Tax Reliefs

A significant outcome from the Commission on Taxation is contained in part eight of its Report which details all the tax breaks (or "tax expenditures" as they are referred to officially). Subsequently, two members of the Commission produced a detailed report for the Trinity College Policy Institute which offered further insight into this issue (Collins and Walsh, 2010). Since then, the annual reporting of the costs of tax expenditures has improved considerably with much more detail than in the past being published annually by the Revenue Commissioners.[49]

The most recent comprehensive tax expenditure data published by the Revenue Commissioners covers the tax year 2014. In total it provides data for 114 tax breaks ranging from those associated with tax credits for earners (Personal, PAYE, Couple, Lone Parent etc.) to reliefs on capital investment and films. Twenty per cent of tax breaks did not report any data either on account of delays, non-collection or discontinuation. These include the tax breaks for some pension reliefs which are only available for earlier years. Overall, the tax breaks with available data involve revenue forgone of €23bn.

Some progress has been made in addressing and reforming these tax breaks since 2009, and we welcome this progress. However, despite this, recent Budgets and Finance Bills have introduced new tax breaks targeted at high earning multinational executives and research and development schemes, and extended tax breaks for film production and the refurbishment of older buildings in urban areas. For the most part, there has been no, or limited, accompanying documentation evaluating the cost, distributive impacts or appropriateness of these proposals.

Both the Commission on Taxation (2009:230) and Collins and Walsh (2010:20-21) have highlighted and detailed the need for new methods for evaluation/ introducing tax reliefs. We strongly welcomed these proposals, which were similar to those made by the directors of *Social Justice Ireland* to the Commission in written and oral submissions. The proposals focused on prior evaluation of the costs and benefits of any proposed expenditure, the need to collect detailed information on each expenditure, the introduction of time limits for expenditures, the creation of an annual tax expenditures report as part of the Budget process and the regular scrutiny of this area by an Oireachtas committee. Recently there has been some progress in this direction with a report for the Department of Finance, accompanying Budget 2015, proposing a new process for considering and evaluating tax breaks. Documentation accompanying Budgets 2016 and 2017 also included an annual tax expenditure report. We welcome this development and believe it is important to further develop this work, to deepen the proposed analysis and to further improve the ability of the Oireachtas to regularly review all of the tax expenditures in the Irish taxation system.

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[49] See http://www.revenue.ie/en/about/statistics/index.html

Social Justice Ireland believes that reforming the tax break system would make the tax system fairer. It would also provide substantial additional resources which would contribute to raising the overall tax-take towards the modest and realistic target we outlined earlier.[50]

Minimum Effective Tax Rates for Higher Earners

The suggestion that it is the better-off who principally gain from the provision of tax exemption schemes is reflected in a series of reports published by the Revenue Commissioners entitled *Effective Tax Rates for High Earning Individuals* and *Analysis of High Income Individuals' Restriction*. These reports provided details of the Revenue's assessment of top earners in Ireland and the rates of effective taxation they incur.[51] The reports led to the introduction of a minimum 20 per cent effective tax rate as part of the 2006 and 2007 Finance Acts for all those with incomes in excess of €500,000. Subsequently, Budgets have revised up the minimum effective rate and revised down the income threshold from where it applies – reforms we have welcomed as necessary and long-overdue. Most recently, the 2010 Finance Bill introduced a requirement that all earners above €400,000 pay a minimum effective rate of tax of 30 per cent. It also reduced from €250,000 to €125,000 the income threshold where restrictions on the use of tax expenditures to decrease income tax liabilities commence.

Table 4.5 – The Distribution of Effective Income Tax Rates among those earning in excess of €125,000 in 2014 (% of total)

Effective Tax Rate	Individuals with incomes of €400,000+	Individuals with incomes of €125,000 - €400,000
< 15%	-	1.85%
15% < 20%	-	9.73%
20% < 25%	-	18.12%
25% < 30%	1.09%	19.80%
30% < 35%	2.19%	25.67%
35%< 40%	42.08%	20.13%
40%< 45%	46.45%	3.36%
45%< 50%	6.56%	0.84%
> 50%	1.64%	0.50%
Total Cases	**183**	**596**

Source: Revenue Commissioners (2016).
Notes: Effective rates are for income taxation and USC only. They do not include PRSI.

[50] See section later in this chapter on the standard rating of tax expenditures.
[51] The effective taxation rate is calculated as the percentage of the individual's total pre-tax income that is liable to income tax and that is paid in taxation.

The latest Revenue Commissioners analysis of the operation of these new rules is for the tax year 2014 (Revenue Commissioners, 2016). Table 4.5 gives the findings of that analysis for the 183 individuals subject to the restriction with income in excess of €400,000. The report also includes information on the distribution of effective income tax rates among the 596 earners subject to the restriction and with incomes between €125,000 and €400,000.

Social Justice Ireland welcomed the introduction of this scheme which marked a major improvement in the fairness of the tax system. The published data indicate that is seems to be working well; however, there are still surprisingly low effective income taxation rates being reported.

The report states that the average effective tax rate faced by earners above €400,000 in 2014 was 40.6 per cent, equivalent to the amount of income tax and USC paid by a single PAYE worker with a gross income of €147,000 in that year. Similarly, the average income tax and USC effective tax rate faced by people earning between €125,000 - €400,000 in 2014 (29.8 per cent) was equivalent to the amount of income tax paid by a single PAYE worker with a gross income of approximately €59,000 in that year. The contrast in these income levels for the same overall rate of income taxation brings into question the fairness of the taxation system as a whole. Such an outcome may be better than in the past, but it still has some way to go to reflect a situation where a fair contribution is being paid.

Social Justice Ireland believes that it is important that Government continues to raise the minimum effective tax rate so that it is in line with that faced by PAYE earners on equivalent high-income levels. Following Budget 2017 a single individual on an income of €125,000 gross will pay an income tax and USC effective tax rate of 37.7 per cent (down from 39.3 per cent in 2014); a figure which suggests that the minimum threshold for high earners has potential to adjust upwards over the next few years. We also believe that Government should reform the High Income Individuals' Restriction so that all tax expenditures are included within it. The restriction currently does not apply to all tax breaks individuals avail of, including pension contributions. This should change in Budget 2018.

Corporation Taxes

Over the past few years there has been a growing international focus on the way multi-national corporations (MNCs) manage their tax affairs. The OECD's Base Erosion and Profits Shifting (BEPS) examination has established the manner and methods by which MNCs exploit international tax structures to minimise the tax they pay.[52] Similarly, the European Commission has undertaken a series of investigations into the tax management and tax minimisation practices of a number of large MNCs operating within the EU, including Ireland. The European

[52] See www.oecd.org/ctp/beps.htm

Parliament's Special Committee on Tax Rulings has also completed a review of the EU tax system and highlighted its problems and failures (TAXE, 2015).[53]

Given the timeliness and comprehensiveness of this work, it is important that it leads to the emergence of a transparent international corporate finance and corporate taxation system where multinational firms pay a reasonable and credible effective corporate tax rate.

Despite a low headline rate (12.5%), there is limited data on the effective rate of corporate taxation in Ireland. A report from the Department of Finance in 2014 pointed towards four methods of calculating that rate. Although each were valid methods, it favoured one which reported an effective rate of 11.9 per cent on 'taxable income'. As 'taxable income' excludes income removed or offset from taxation through various tax breaks, it is unsurprising that the measure is close to the headline rate. However, in practical terms, the provision of tax breaks and exemptions is likely to imply corporations enjoy a substantial reduction in their tax liability.

Data from Eurostat estimate an implicit corporate tax rate on business income of between 6 per cent and 6.6 per cent although it is likely to be as low as 3 per cent for many large corporations while Small and Medium Enterprises (SMEs) pay close to 12.5 per cent for the most part.[54] A report from Collins (2015) found that the profits of US companies in Ireland were equivalent to 41.9 per cent of GDP in 2010; multiples of the figure recorded for similar companies in (higher tax) G7 countries, where the average figure was 0.7 per cent of GDP.

Social Justice Ireland believes that an EU-wide agreement on a minimum effective rate of corporation tax should be negotiated and this could evolve from the ongoing discussions around a Common Consolidated Corporate Tax Base (CCCTB). We believe that the minimum rate should be set well below the 2014 EU-28 average headline rate of 22.9 per cent but above the existing low Irish level.[55] A headline rate of 17.5 per cent and a minimum effective rate of 10 per cent seem appropriate. This reform would simultaneously maintain Ireland's low corporate tax position and provide additional revenues to the exchequer. Were such a rate in place in Ireland in 2015, corporate tax income would have been between €1bn and €2bn higher – a significant sum given the socio-economic challenges outlined throughout this publication. Rather than introducing this change overnight, agreement may need to be reached at EU level to phase it in over three to five years. Reflecting this, we proposed prior to Budget 2016 and Budget 2017 that the effective rate be adjusted to a minimum of 6 per cent – an opportunity regrettably missed.

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[53] See www.europarl.europa.eu/committees/en/taxe/home.html

[54] See Eurostat online database, code: gov_a_tax_itr, latest data for 2010-2012.

[55] Data from Eurostat (2014:36-37).

Social Justice Ireland believes that the issue of corporate tax contributions is principally one of fairness. Through the recent recession, the contrast between a static corporate tax rate and the increases to almost all other areas of taxation was stark. From a societal perspective, it is important that corporations contribute in a reasonable and credible way to the costs of running the state in which they operate and from which they benefit.

Site Value Tax

Taxes on wealth are minimal in Ireland. Revenue is negligible from capital acquisitions tax (CAT) because it has a very high threshold in respect of bequests and gifts within families and the rates of tax on transfers of family farms and firms are very generous (see tax revenue tables at the start of this chapter). Budget 2017 further extended the Group A (parent to child) CAT threshold and the likely future revenue from this area remains limited given the tax's current structure.[56] The requirement, as part of the EU/IMF/ECB bailout agreement, to introduce a recurring property tax led Government in Budget 2012 to introduce an unfairly structured flat €100 per annum household charge and a value-based Local Property Tax in Budget 2013. While we welcome the overdue need to extend the tax base to include a recurring revenue source from property, we believe that a Site Value Tax, also known as a Land Rent Tax, would be a more appropriate and fairer approach.

In previous editions of this publication we have reviewed this proposal in greater detail.[57] There has also been a number of research papers published on this issue over the past decade.[58] Overall they point towards a recurring site value tax that is fairer and more efficient than other alternatives. *Social Justice Ireland* believes that the introduction of a site value tax would be a better alternative than the current value based local property tax. A site value tax would lead to more efficient land use within the structure of social, environmental and economic goals embodied in planning and other legislation.

Second Homes, Empty Houses and Underdeveloped Land

A feature of the housing boom of the last decade was the rapid increase in ownership of holiday homes and second homes. For the most part these homes remain empty for at least nine months of the year. It is a paradox that many were built at the same time as the rapid increases in housing waiting lists (see chapter 6).

Results from Census 2016 identified that the number of vacant houses on Census night was 259,562 (April 2016) implying that 12.8 per cent of the national housing stock was vacant. 61,204 of these units were classified as holiday homes meaning

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[56] Budget 2017 also extended the Group B and C thresholds further reducing the revenue yield of this tax source.

[57] See for example the 2013 edition of the Socio-Economic Review pages 132-134.

[58] These include O'Siochru (2004:23-57), Dunne (2004:93-122), Chambers of Commerce of Ireland (2004), Collins and Larragy (2011), and O'Siochru (2012).

that almost 200,000 were empty homes that could act as the main accommodation for an individual or family. Given that there is always some 'natural' turnover in the housing market, the true 'empty' figure is somewhat lower but still very significant.

What is often overlooked when the second home issue is being discussed is that the infrastructure to support these houses is substantially subsidised by the taxpayer. Roads, water, sewage and electricity infrastructure are just part of this subsidy which goes, by definition, to those who are already better off as they can afford these second homes in the first place. *Social Justice Ireland* supports the views of the ESRI (2003) and the Indecon report (2005:183-186; 189-190) on this issue. We believe that people purchasing second houses should have to pay these full infrastructural costs, much of which is currently borne by society through the Exchequer and local authorities. There is something perverse in the fact that the taxpayer subsidies the owners of these unoccupied houses while many people do not have basic adequate accommodation.

The introduction of the Non Principal Private Residence (NPPR) charge in 2009 was a welcome step forward. However, notwithstanding subsequent increases, the charge was very low relative to the previous and on-going benefits that are derived from these properties. It stood at €200 in 2013 and was abolished under the 2014 Local Government Reform Act. While second homes are liable for the local property tax, as are all homes, *Social Justice Ireland* believes that second homes should be required to make a further annual contribution in respect of the additional benefits these investment properties receive. We believe that Government should re-introduce this charge and that it should be further increased and retained as a separate substantial second homes payment. An annual charge of €500 would seem reasonable and would provide additional revenue to local government of approximately €170m per annum.

In the context of a shortage of housing stock (see chapter 6), building new units is not the entire solution. There remains a large number of empty units across the country, something reflected in the aforementioned 2016 Census data. *Social Justice Ireland* believes that policy should be designed to reduce the number of these units and penalise those who own units and leave them vacant for more than a six month period. We propose that Government should introduce a levy on empty houses of €200 per month with the revenue from this charge collected and retained by local authorities.

Local authorities should also be charged with collecting a new site value tax on underdeveloped land, such as abandoned urban centre sites and land-banks of zoned land on the edges of urban areas. This tax should be levied at a rate of €2,000 per hectare (or part thereof) per annum. Income from both measures should reduce the central fund allocation to local authorities by €75m per annum.

Taxing Windfall Gains

The vast profits made by property speculators on the rezoning of land by local authorities was a particularly undesirable feature of the recent economic boom. For some time, *Social Justice Ireland* has called for a substantial tax to be imposed on the profits earned from such decisions. Re-zonings are made by elected representatives supposedly in the interest of society generally. It therefore 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 housing problems they face (see chapter 6). In this regard, *Social Justice Ireland* welcomed the decision to put such a tax in place in 2010 and strongly condemned its removal as part of Budget 2015. Its removal has been one of the most retrograde policy initiatives in recent years.

A windfall tax level of 80 per cent is appropriate and, as Table 4.6 illustrates, this still leaves speculators and land owners with substantial profits from these rezoning decisions. The profit from this process should be used to fund local authorities. In announcing his Budget 2016 decision, the Minister for Finance noted that the tax was not currently raising any revenue and so justified its abolition on this basis. However, as the property market recovers and as the population continues to grow in years to come, there will be many beneficiaries of vast unearned speculative windfalls.

Social Justice Ireland believes that this tax should be re-introduced. Taxes are not just about revenue, they are also about fairness.

Table 4.6 – Illustrative examples of the Operation of an 80% Windfall Gain Tax on Rezoned Land

Agricultural Land Value	Rezoned Value	Profit	Tax @ 80%	Post-Tax Profit	Profit as % Original Value
€50,000	€400,000	€350,000	€280,000	€70,000	140%
€100,000	€800,000	€700,000	€560,000	€140,000	140%
€200,000	€1,600,000	€1,400,000	€1,120,000	€280,000	140%
€500,000	€4,000,000	€3,500,000	€2,800,000	€700,000	140%
€1,000,000	€8,000,000	€7,000,000	€5,600,000	€1,400,000	140%

Note: Calculations assume an eight-fold increase on the agricultural land value upon rezoning.

Financial Transactions Tax

As the international economic chaos of the past few years has shown, the world is now increasingly linked via millions of legitimate, speculative and opportunistic financial transactions. Similarly, global currency trading increased sharply throughout recent decades. It is estimated that a very high proportion of all financial transactions traded are speculative currency transactions which are completely free of taxation.

An insight into the scale of these transactions is provided by the Bank for International Settlements (BIS) *Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity* (December 2013). The key findings from that report were:

- In April 2013 the average daily turnover in global foreign exchange markets was US$5.3 trillion; an increase of almost 35 per cent since 2010 and 331 per cent since 2001.
- The major components of these activities were: $2.046 trillion in spot transactions, $680bn in outright forwards, $2.228tn in foreign exchange swaps, $54bn currency swaps, and $337bn in foreign exchange options and other products.
- 58 per cent of trades were cross-border and 42 per cent local.
- The vast majority of trades involved four currencies: US Dollar, Euro, Japanese Yen and Pound Sterling.
- Most of this activity (60 per cent) occurred in the US and UK.
- The estimated daily foreign exchange turnover for Ireland was US$11bn.

Social Justice Ireland regrets that to date Government has not committed to supporting recent European moves to introduce a Financial Transactions Tax (FTT) or Tobin Tax. The Tobin tax, first proposed by the Nobel Prize winner James Tobin, is a progressive tax, designed to target only those profiting from speculation. It is levied at a very small rate on all transactions but given the scale of these transactions globally, it has the ability to raise significant funds. In September 2011 the EU Commission proposed an FTT and its proposal has evolved since then through a series of revisions and updates. Current plans are for the tax to commence under the EU's enhanced co-operation procedure in at least 10 EU members states in 2017/2018. It suggested that an FTT would be levied on transactions between financial institutions when at least one party to the transaction is located in the EU. Although the final structure of rates has yet to be agreed, the initial rates reflect the concept's focus on charging small rates on financial flows. These included the taxing of the exchange of shares and bonds at a rate of 0.1 per cent, and derivative contracts at an even lower rate of 0.01 per cent. The rates are minimums as countries within the EU retain the right to set individual tax rates and could choose higher levels if desired.

To date, 10 of the 28 EU member states have signed up to this tax and *Social Justice Ireland* believes that Ireland should also join this group. Over the past year a group has emerged in Ireland to support the adoption of the FTT.[59] In our opinion, the tax offers the dual benefit of dampening needless and often reckless financial speculation and generating significant funds. A report from the Nevin Economic Research Institute estimated the likely revenue yield from the FTT's adoption by Ireland. Taking account of the need for Government to abolish stamp duty on

[59] *Social Justice Ireland* is a member of this group, see www.robinhoodtax.ie

shares, the report estimated a net revenue yield of between €320m and €350m per annum (Collins, 2016).

We believe that the revenue generated by this tax should be used for national economic and social development and international development co-operation purposes, in particular assisting Ireland and other developed countries to fund overseas aid and reach the UN ODA target (see chapter 13). According to the United Nations, the amount of annual income raised from a Tobin tax would be enough to guarantee to every citizen of the world basic access to water, food, shelter, health and education. Therefore, this tax has the potential to wipe out the worst forms of material poverty throughout the world.

Social Justice Ireland believes that the time has come for Ireland to support the introduction of a Financial Transactions Tax.

Carbon Taxes

Budget 2010 announced the long-overdue introduction of a carbon tax. This had been promised in Budget 2003 and committed to in the *National Climate Change Strategy* (2007). The tax has been structured along the lines of the proposal from the Commission on Taxation (2009: 325-372) and is linked to the price of carbon credits which was set at an initial rate of €15 per tonne of CO_2 and subsequently increased in Budget 2012 to €20 per tonne. Budget 2013 extended the tax to cover solid fuels on a phased basis from May 2013 with the full tax applying from May 2014. Products are taxed based on the level of the emissions they create.

While *Social Justice Ireland* welcomed the introduction of this tax, we regret the lack of accompanying measures to protect those most affected by it, in particular low income households and rural dwellers. *Social Justice Ireland* believes that as the tax increases the Government should be more specific in defining how it will assist these households. Furthermore, we are concerned that the effectiveness of the tax is being undermined as there is limited focus on the original intention of encouraging behavioural change and greater emphasis on simply raising revenue.

Building a fairer taxation system

The need for fairness in the tax system was clearly recognised in the first report of the Commission on Taxation 35 years ago. It stated:

> "...in our recommendations the spirit of equity is the first and most important consideration. Departures from equity must be clearly justified by reference to the needs of economic development or to avoid imposing unreasonable compliance costs on individuals or high administrative costs on the Revenue Commissioners." (1982:29)

The need for fairness is just as obvious today and *Social Justice Ireland* believes that this should be a central objective of the current reform of the taxation system. Below we outline a series of necessary reforms that would greatly enhance the fairness of Ireland's taxation system. This section is structured in six parts:

- Standard rating discretionary tax expenditures
- Favouring fair changes to income taxes
- Keeping the minimum wage out of the tax net
- Introducing Refundable Tax Credits
- Reforming individualisation
- Making the taxation system simpler

Standard rating discretionary tax expenditures
Making all discretionary tax reliefs/expenditures only available at the standard 20 per cent rate would represent a crucial step towards achieving a fairer tax system. 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 inequitable that people on higher incomes should be able to claim certain tax reliefs at their top marginal tax rates while people with less income are restricted to claim benefit for the same relief at the lower standard rate of 20 per cent. The standard rating of tax expenditures, otherwise known as reliefs, offers the potential to simultaneously make the tax system fairer and fund the necessary developments they are designed to stimulate without any significant macroeconomic implications.[60]

Recent Budgets have made substantial progress towards achieving this objective and we welcome these developments. However, there remains considerable potential to introduce further reform. Notably, Collins (2013:17) reported that in 2009 (the latest Revenue data available) there were €2.3bn of tax breaks made available at the marginal rate and that if these were standardised the estimated saving was just over €1bn.

Favouring fair changes to income taxes
Reducing taxes is not a priority for *Social Justice Ireland* either in the forthcoming Budget 2018 or any future plans for taxation policy reform. We believe that any available money should be used to improve Ireland's social services and infrastructure, reduce poverty and social exclusion and increase the number of jobs – policy priorities detailed throughout this publication. However, discussion and policy considerations often focuses on income taxation reductions, and as a consequence, we have published a series of documents over the past few years that have examined, from the perspectives of fairness, various reform choices. The

[60] See O'Toole and Cahill (2006:215) who also reach this conclusion.

most recent document is entitled *Fairness in Changing Income Taxes* (Social Justice Ireland, 2017).[61] As a minimum, the analysis highlights the distributive impact taxation policy choices can have and the potential policy has to pursue both fair and unfair outcomes.

Table 4.7 presents a comparison of the reforms to tax rates, tax credits, tax bands and the USC as examined in the document. In all cases the policy examined would carry a full year cost of between 1 per cent and 1.4 per cent of the total income taxation yield (€184m-€288m).[62] The reforms examined are for the 2017 income taxation system and are:

- a decrease in the top tax rate from 40% to 39% (full year cost €283m);
- a decrease in the standard rate of tax from 20% to 19.5% (full year cost €288m);
- an increase in the personal tax credit of €100 with commensurate increases in couple, widowed parents and the single person child carer credit (full year cost €227m);
- an increase in the standard rate band (20% tax band) of €1,500 (full year cost €264m);
- the abolition of the 0.5% USC rate - that applies to income below €12,012 **and** a 1 per centage point decrease in the 2.5% USC rate – that applies to income between €12,012 and €18,772 (full year cost €283m);
- a 0.5 per centage point decrease in the 5% USC rate that applies to income between €18,772 and €70,044 (full year cost €184m);
- a 1.5 per cent point decrease in the 8% USC rate that applies to income above €70,044 (full year cost €221m).

[61] The document is available on our website.

[62] The cost estimates are based on the most recent taxation ready reckoner available from the Revenue Commissioners (post-Budget 2017).

Table 4.7 – Comparing gains under eight possible income tax reforms (€ per annum)

Gross Income	€15,000	€25,000	€50,000	€75,000	€100,000	€125,000
Decrease in the top tax rate from 40% to 39% (full year cost €283m)						
Single earner	0	0	162	412	662	912
Couple 1 earner	0	0	72	322	572	822
Couple 2 earners	0	0	0	74	324	574
Decrease in the standard tax rate from 20% to 19.5% (full year cost €288m)						
Single earner	0	125	169	169	169	169
Couple 1 earner	0	50	214	214	214	214
Couple 2 earners	0	0	250	338	338	338
Increase in the personal tax credit of €100 (full year cost €227 million)						
Single earner	0	100	100	100	100	100
Couple 1 earner	0	50	200	200	200	200
Couple 2 earners	0	0	200	200	200	200
Increase in the standard rate band of €1,500 (full year cost €264 million)						
Single earner	0	0	300	300	300	300
Couple 1 earner	0	0	300	300	300	300
Couple 2 earners	0	0	0	600	600	600
Abolish 0.5% USC rate and a 1% point decrease in the 2.5% rate (full year cost €283m)						
Single earner	89.94	127.66	127.66	127.66	127.66	127.66
Couple 1 earner	89.94	127.66	127.66	127.66	127.66	127.66
Couple 2 earners	0.00	102.44	242.60	255.32	255.32	255.32
A 0.5% point decrease in the 5% USC rate (full year cost €184m)						
Single earner	0.00	31.14	156.14	256.36	256.36	256.36
Couple 1 earner	0.00	31.14	156.14	256.36	256.36	256.36
Couple 2 earners	0.00	0.00	68.64	187.28	312.28	381.25
A 1.5% point decrease in the 8% USC rate (full year cost €221m)						
Single earner	0.00	0.00	0.00	74.34	449.34	824.34
Couple 1 earner	0.00	0.00	0.00	74.34	449.34	824.34
Couple 2 earners	0.00	0.00	0.00	0.00	0.00	168.09

Notes: All workers are assumed to be PAYE workers. For couples with two earners the income is assumed to be split 65%/35%. Cost estimates are based on the latest available Revenue Commissioners taxation ready reckoner and are applied to the structure of the 2017 income taxation system. The increase in the personal tax credit assumes a commensurate increase in the couple, widowed parents and the single person child carer credit. USC calculations assume earners pay the standard rate of USC.

Although all of the income taxation options have similar costs (1 per cent-1.4 per cent of the income taxation yield), they each carry different effects on the income distribution. Overall, two of the changes would produce a fair outcome:

- increasing the personal tax credit; and
- reducing the 0.5% and 2.5% USC rates.

Five of the changes would produce an unfair outcome:

- reducing the top tax rate to 39%;
- reducing the standard tax rate to 19%;
- increasing the standard rate band;
- reducing the 5% USC rate; and
- reducing the 8% USC rate.

Each of the two fair options would provide beneficiaries with an improvement in their annual income of around €100-120. Each of the five unfair options would skew benefits towards those with higher incomes.

Keeping the minimum wage out of the tax net

The decision by the Minister for Finance to remove those on the minimum wage from the tax net was a major achievement of Budget 2005. This had an important impact on the growing numbers of working-poor and addressed an issue about which *Social Justice Ireland* is highly concerned.

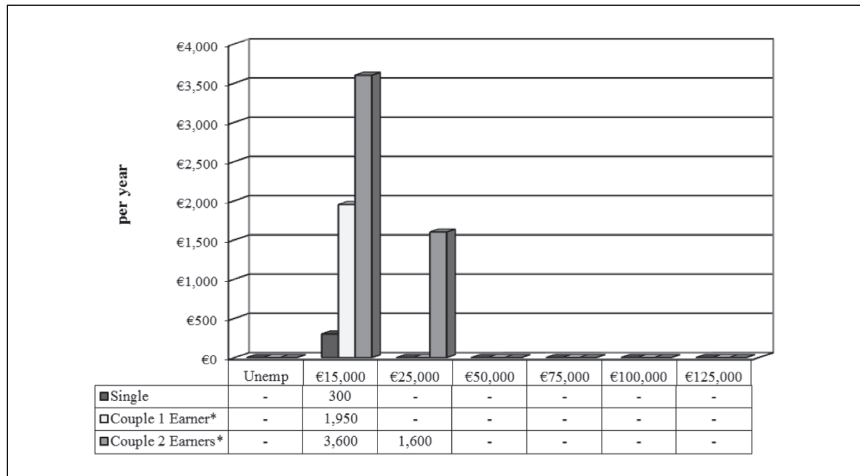
The fiscal and economic crisis of 2008-13 led to Government reversing this policy, first via the income levy in the emergency Budget 2009, then via the Universal Social Charge (USC) in Budget 2011 and via a PRSI increase in Budget 2013. Following Budget 2016 the USC is charged on all the income of those who earn more than €13,000 per annum. Using the unadjusted minimum wage of €9.25 per hour, the threshold implies that a low-income worker on the minimum wage and working more than 27.5 hours per week (earning €254 per week) is subject to the tax. *Social Justice Ireland* believes that this threshold remains too low and unnecessarily depresses the income and living standards of the working poor. The imposition of the USC at such low income levels raises a very small amount of funds for the exchequer. Forthcoming Budgets should continue to raise the point at which the USC commences and in the years to come, as more resources become available to the Exchequer, *Social Justice Ireland* will urge Government to restore the policy of keeping the minimum wage fully outside the tax net.

Introducing refundable tax credits
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. One problem persists however. If a low income worker does not earn enough to use up his or her full tax credit then he or she will not benefit from any income tax reductions introduced by Government in its annual budget.

Making tax credits refundable would be a simple solution to this problem. It 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.

The major advantage of making tax credits refundable lies 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). Chart 4.1 displays the impacts of the introduction of this policy across various gross income levels. It clearly shows that all of the benefits from introducing this policy would go directly to those on the lowest incomes.

Chart 4.1 – How much better off would people be if tax credits were made refundable?



	Unemp	€15,000	€25,000	€50,000	€75,000	€100,000	€125,000
Single	-	300	-	-	-	-	-
Couple 1 Earner*	-	1,950	-	-	-	-	-
Couple 2 Earners*	-	3,600	1,600	-	-	-	-

Note: * Except where unemployed as there is no earner

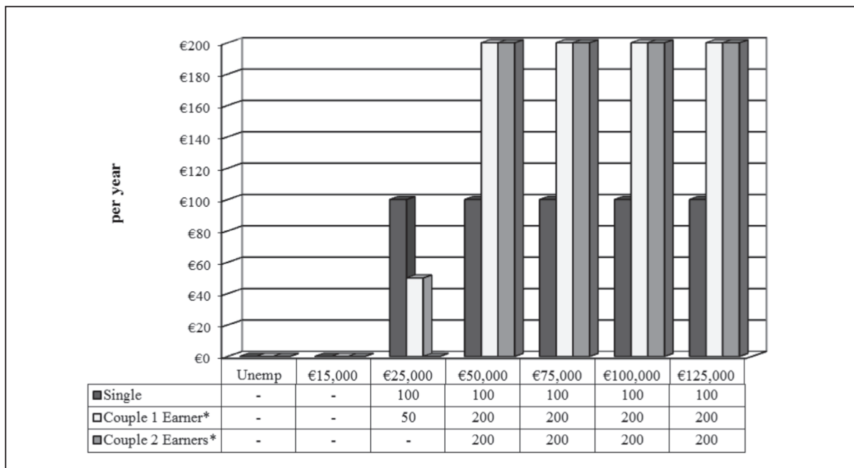
With regard to administering this reform, the central idea recognises that most people with regular incomes and jobs would not receive a cash refund of their tax credit because their incomes are too high. They would simply benefit from the tax credit as a reduction in their tax bill. Therefore, as chart 4.1 shows, no change is proposed for these people and they would continue to pay tax via their employers, based on their net liability after deduction of tax credits by their employers on behalf

of the Revenue Commissioners. For other people on low or irregular incomes, the refundable tax credit could be paid via a refund by the Revenue Commissioners at the end of the tax year. 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.

To illustrate the benefits of this approach, charts 4.2 and 4.3 compare the effects of a €100 increase in the personal tax credit before and after the introduction of refundable tax credits. Chart 4.2 shows the effect as the system is currently structured – an increase of €100 in credits, but these are not refundable. It shows that the gains are allocated equally to all categories of earners above €50,000. However, there is no benefit for those workers whose earnings are not in the tax net.

Chart 4.3 shows how the benefits of a €100 a year increase in personal tax credits would be distributed under a system of refundable tax credits. This simulation demonstrates the equity attached to using the tax-credit instrument to distribute budgetary taxation changes. The benefit to all categories of income earners (single/couple, one-earner/couple, dual-earners) is the same. Consequently, in relative terms, those earners at the bottom of the distribution do best.

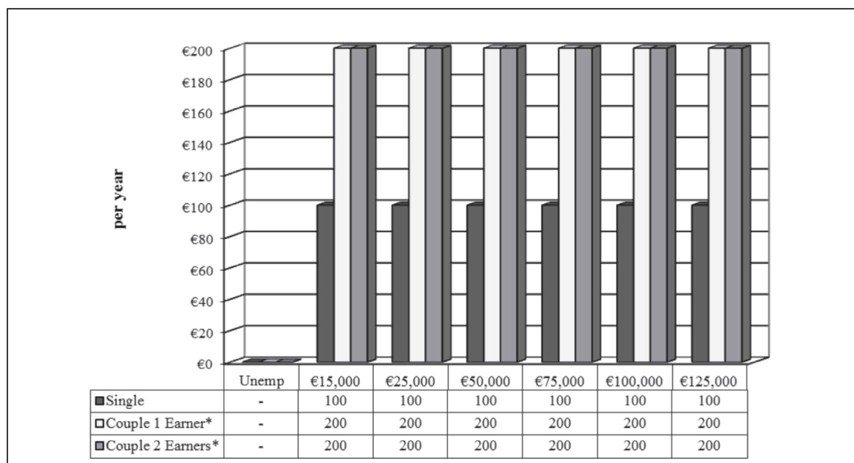
Chart 4.2 – How much better off would people be if tax credits were increased by €100 per person?



	Unemp	€15,000	€25,000	€50,000	€75,000	€100,000	€125,000
Single	-	-	100	100	100	100	100
Couple 1 Earner*	-	-	50	200	200	200	200
Couple 2 Earners*	-	-	-	200	200	200	200

Note: * Except where unemployed, as there is no earner

Chart 4.3 – How much better off would people be if tax credits were increased by €100 per person and this was refundable?



	Unemp	€15,000	€25,000	€50,000	€75,000	€100,000	€125,000
Single	-	100	100	100	100	100	100
Couple 1 Earner*	-	200	200	200	200	200	200
Couple 2 Earners*	-	200	200	200	200	200	200

Note: * Except where unemployed, as there is no earner

Overall the merits of adopting this approach are: that every beneficiary of tax credits would receive the full value of the tax credit; that the system would improve the net income of the workers whose incomes are lowest, at modest cost; and that there would be no additional administrative burden placed on employers.

During 2010 *Social Justice Ireland* published a detailed study on the subject of refundable tax credits. Entitled '*Building a Fairer Tax System: The Working Poor and the Cost of Refundable Tax Credits*', the study identified that the proposed system would benefit 113,000 low-income individuals in an efficient and cost-effective manner.[63] When children and other adults in the household are taken into account the total number of beneficiaries would be 240,000. The cost of making this change would be €140m. The *Social Justice Ireland* proposal to make tax credits refundable would make Ireland's tax system fairer, address part of the working poor problem, and improve the living standards of a substantial number of people in Ireland. The following is a summary of that proposal:

Making tax credits refundable: the benefits

- Would address the problem identified already in a straightforward and cost-effective manner;
- No administrative cost to the employer;

[63] The study is available from our website: www.socialjustice.ie

- Would incentivise employment over welfare as it would widen the gap between pay and welfare rates;
- Would be more appropriate for a 21st century system of tax and welfare.

Details of Social Justice Ireland proposal

- Unused portion of the Personal and PAYE tax credit (and only these) would be refunded;
- Eligibility criteria in the relevant year;
- Individuals must have unused personal and/or PAYE tax credits (by definition);
- Individuals must have been in paid employment;
- Individuals must be at least 23 years of age;
- Individuals must have earned a minimum annual income from employment of €4,000;
- Individuals must have accrued a minimum of 40 PRSI weeks;
- Individuals must not have earned an annual total income greater than €15,600;
- Married couples must not have earned a combined annual total income greater than €31,200;
- Payments would be made at the end of the tax year.

Cost of implementing the proposal

- The total cost of refunding unused tax credits to individuals satisfying all of the criteria mentioned in this proposal is estimated at €140.1m.

Major findings

- Almost 113,300 low income individuals would receive a refund and would see their disposable income increase as a result of the proposal.
- The majority of the refunds are valued at under €2,400 per annum, or €46 per week, with the most common value being individuals receiving a refund of between €800 to €1,000 per annum, or €15 to €19 per week.
- Considering that the individuals receiving these payments have incomes of less than €15,600 (or €299 per week), such payments are significant to them.
- Almost 40 per cent of refunds flow to people in low-income working poor households who live below the poverty line.

- A total of 91,056 men, women and children below the poverty threshold benefit either directly through a payment to themselves or indirectly through a payment to their household from a refundable tax credit.
- Of the 91,056 individuals living below the poverty line that benefit from refunds, most (over 71 per cent) receive refunds of more than €10 per week with 32 per cent receiving in excess of €20 per week.
- A total of 148,863 men, women and children above the poverty line benefit from refundable tax credits either directly through a payment to themselves or indirectly (through a payment to their household. Most of these beneficiaries have income less than €120 per week above the poverty line.
- Overall, some 240,000 individuals (91,056 + 148,863) living in low-income households would experience an increase in income as a result of the introduction of refundable tax credits, either directly through a refund to themselves or indirectly through a payment to their household.

Once adopted, a system of refundable tax credits as proposed in our study would result in all future changes in tax credits being experienced equally by all employees in Irish society. Such a reform would mark a significant step in the direction of building a fairer taxation system and represent a fairer way for Irish society to allocate its resources.

Reforming individualisation

Social Justice Ireland supports individualisation of the tax system. However, the process of individualisation followed to date has been deeply flawed and unfair. The cost to the exchequer of this transition has been in excess of €0.75bn, and almost all of this money has gone to the richest 30 per cent of the population. A significantly fairer process would have been to introduce a basic income system that would have treated all people fairly and ensured that a windfall of this nature did not accrue to the best off in this society (see Chapter 3).

Given the current form of individualisation, couples with one partner losing his/ her job end up even worse off than they would have been had the current form of individualisation not been introduced. Before individualisation was introduced, the standard-rate income-tax band was €35,553 for all couples. Above that, they would start paying the higher rate of tax. Now, the standard-rate income-tax band for single-income couples is €42,800 while the band for dual-income couples covers a maximum of a further €24,800 (up to €67,600). If one spouse (of a couple previously earning two salaries) leaves a job voluntarily or through redundancy, the couple loses the value of the second tax band.

Making the taxation system simpler

Ireland's tax system is not simple. Bristow (2004) argued that "some features of it, notably VAT, are among the most complex in the world". The reasons given

to justify this complexity vary but they are focused principally around the need to reward particular kinds of behaviour which are seen as desirable by legislators. This, in effect, is discrimination either 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, contributing far less to equity than might appear to be the case. In many circumstances they also fail to produce the economic or social outcomes which were being sought and sometimes they even 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 has other down-sides. It can, for example, have high compliance costs both for taxpayers and for the Revenue Commissioners.

For the most part, society at large gains little or nothing from the discrimination contained in the tax system. Mortgage interest relief, for example, and the absence of any residential or land-rent tax contributed to the rise in house prices up to 2007. Complexity makes taxes easier to evade, invites consultants to devise avoidance schemes and greatly increases the cost of collection. It is also inequitable because those who can afford professional advice are in a far better position to take advantage of that complexity than those who cannot. A simpler taxation system would better serve Irish society and all individuals within it, irrespective of means.

Key Policy Priorities on Taxation

Social Justice Ireland believes that Government should:

- increase the overall tax-take;
- adopt policies to broaden the tax base;
- develop a fairer taxation system.

Policy priorities under each of these headings are listed below.

Increase the overall tax-take

- Move towards increasing the total tax-take so that sufficient revenue is collected to provide redistribution and public services at European-average levels.

Broaden the tax base

- Continue to reform the area of tax expenditures and put in place procedures within the Department of Finance and the Revenue Commissioners to monitor on an on-going basis the cost and benefits of all current and new tax expenditures;

- Continue to increase the minimum effective tax rates on very high earners (those with incomes in excess of €125,000) so that these rates are consistent with the levels faced by PAYE workers;
- Move to negotiate an EU wide agreement on minimum corporate taxation rates (a rate of 17.5 per cent would seem fair in this situation);
- Adopt policies to ensure that corporations based in Ireland pay a minimum effective corporate tax rate of 10 per cent. As an interim measure introduce a 6 per cent rate in the next Budget;
- Impose charges so that those who construct or purchase second homes pay the full infrastructural costs of these dwellings;
- Restore the 80 per cent windfall tax on the profits generated from all land re-zonings;
- Join with other EU member states to adopt a financial transactions tax (FTT);
- Adopt policies which further shift the burden of taxation from income tax to eco-taxes on the consumption of fuel and fertilisers, waste taxes and a land rent tax. In doing this, government should avoid any negative impact on people with low incomes.

Develop a fairer taxation system

- Apply only the standard rate of tax to all discretionary tax expenditures;
- Adjust tax credits and the USC so that the minimum wage returns to falling outside the tax net;
- Make tax credits refundable;
- Accept that where reductions in income taxes are being implemented, they should favour fair options which do not skew the benefits towards higher earners;
- Ensure that individualisation in the income tax system is done in a fair and equitable manner;
- Integrate the taxation and social welfare systems;
- Begin to monitor and report tax levels (personal and corporate) in terms of effective tax rates;
- Develop policies which allow taxation on wealth to be increased;
- Ensure that the distribution of all changes in indirect taxes discriminate positively in favour of those with lower incomes;
- Adopt policies to simplify the taxation system;
- Poverty-proof all budget tax packages to ensure that tax changes do not further widen the gap between those with low income and the better off.

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