3.2 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 issue of taxation is central to budget deliberations and to policy development at both macro and micro level. 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. Over the years CORI Justice has worked to increase the level of analysis and debate addressing this area.[31]

A review of the current state of Ireland's fiscal position reveals a set of government accounts which are among the healthiest in Europe. Indeed, throughout the history of the Irish State there have been few periods when the exchequer has been in such good shape. Budget 2008 projected overall budget deficits averaging €5.4 billion per year from 2008-2010. However, these deficits are only occurring due to the scale of capital expenditure necessary to allow Ireland to catch up with the rest of Europe. The exchequer's current account remains healthily in surplus, averaging €5.43 billion over each of the next three years (Department of Finance, 2007:D5). However, Ireland continues to be an economy with a limited taxation base; one that is skewed towards consumption and income. CORI Justice believes that now is an opportune time for the government to completely reassess the taxation system and we welcome the recent establishment of a Commission for Taxation. The Commission should provide the direction and details of this task, it should widen the tax base significantly and thereby introduce greater equity to Ireland's taxation system.

[31] See: Reynolds and Healy (1989, 2004); submission to the Department of Finance on the reform of tax expenditures (tax breaks and reliefs) in March 2005; *Policy Briefing* on Taxation (November 2005); and submissions to the Department of Finance and Department of Environment, Heritage and Local Government on motor taxes (March 2007).

The remainder of this section outlines Ireland's relative taxation position, the anticipated future taxation needs, further approaches to reforming and broadening the tax base and proposals for building a fairer tax system.

Ireland's total tax take

The most recent data on the size of the Irish tax burden has been produced by Eurostat (2007) and is detailed alongside that of 26 other EU states in table 3.2.1. The definition of taxation employed by Eurostat incorporates all compulsory payments to central government (direct and indirect) alongside social security contributions (employee and employer) and the tax receipts of local authorities.[32] 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). Table 3.2.1 also compares the tax burdens of all EU member states against the average tax burden of 37.4 per cent.

Table 3.2.1: Total tax revenue as a % of GDP, for EU-27 Countries

Country	% of GDP	+/- from average	Country	% of GDP	+/- from average
Sweden	51.3	+13.9	Czech Rep	36.3	-1.1
Denmark	50.3	+12.9	Bulgaria	35.9	-1.5
Belgium	45.5	+8.1	Spain	35.6	-1.8
France	44.0	+6.6	Cyprus	35.6	-1.8
Finland	43.9	+6.5	Malta	35.3	-2.1
Austria	42.0	+4.6	Portugal	35.3	-2.1
Italy	40.6	+3.2	Greece	34.4	-3.0
Slovenia	40.5	+3.1	Poland	34.2	-3.2
Germany	38.8	+1.4	Estonia	30.9	-6.5
Hungary	38.5	+1.1	**IRELAND GDP**	**30.8**	**-6.6**
Luxembourg	38.2	+0.8	Latvia	29.4	-8.0
Netherlands	38.2	+0.8	Slovakia	29.3	-8.1
United Kingdom	37.0	-0.4	Lithuania	28.9	-8.5
IRELAND GNP	**36.6**	**-0.8**	Romania	28.0	-9.4

Source: Eurostat (2007:237) and CSO National Income and Expenditure Accounts (2007:3)

Notes: All data is for 2005. EU average (unweighted) is 37.4 per cent.

[32] See Eurostat (2004:32-34) for a more comprehensive explanation of this classification.

Of the EU-27 states, the highest tax ratios can be found in Sweden, Denmark, Belgium and France while the lowest appear in Lithuania, Latvia, Ireland, Slovakia and Estonia. Overall, Ireland possesses the fifth lowest tax burden at 30.8 per cent, some 6.6 per cent below the EU average.

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 used. This argument is based on the fact that Ireland's large multinational sector is responsible for significant profit outflows which if counted (as they are in GDP but not in GNP) exaggerate the scale of Irish economic activity.[33] Commenting on this Collins stated that "while it is clear that multinational profit flows create a considerable gap between GNP and GDP, it remains questionable as to why a large chunk of economic activity occurring within the state should be overlooked when assessing its tax burden" and that "as GDP captures all of the economic activity happening domestically, it only seems logical, if not obvious, that a nations' taxation should be based on that activity" (2004:6).[34] He also noted that using GNP will overstate the scale of the tax base in Ireland because it excludes the value of multinational activities in the economy but does include the tax contribution of these companies. As such, the size of the tax burden carried by Irish people and firms is exaggerated.

CORI Justice believes that it would be more appropriate to calculate the tax burden by comparing GNP and an adjusted tax-take figure which excludes the tax paid by multi-national companies. As figures for their tax contribution are currently unavailable, we have simply used the unadjusted GNP figures and presented the results in table 3.2.1. In 2005 this stood at 36.6 per cent. This also suggests to international observers and internal policy makers that the Irish economy is not as tax-competitive as it truly is. This issue should be addressed by Government and appropriate adjustments made when calculating Ireland's tax-take as a percentage of GNP.

In the context of these figures, the question needs to be asked: if we expect our economic and social infrastructure to catch up to that in the rest of Europe, how can we do this while simultaneously gathering less taxation income than it takes to run the infrastructure already in place in most of those other European countries?

[33] Collins (2004:6) notes that this is a uniquely Irish debate and not one that features in other OECD states such as New Zealand where noticeable differences between GDP and GNP also occur.

[34] See also Bristow (2004:2) who makes a similar argument.

Simply, we will never bridge the social and economic infrastructure gaps unless we gather a larger share of our national income and invest it in building a fairer and more successful Ireland.

Small increases in taxation are certainly feasible and are unlikely to have any significant negative impact on the economy. An increase of just one per cent in the GDP to tax ratio (from 30.8 to 31.8) would produce an extra €1.61bn each year in taxation income for the government. Were Ireland to increase its total taxation levels to that of the UK (from 30.8 to 37.0), a country hardly regarded as being high tax, the exchequer would have an additional income each year of €10bn.[35]

For some time, CORI Justice has been to the fore in calling for Ireland to increase its tax take towards that of other European countries. In recent years, the Irish tax take has begun to increase. It has climbed from 28.5 per cent in 2002 to 30.8 per cent in 2005. We welcome this move and note that it has occurred, as we suggested it would, with virtually no macroeconomic or competitiveness implications. Ireland should remain a low-tax economy, but not one incapable of adequately supporting the economic, social and infrastructural requirements necessary to complete our convergence with the rest of Europe.

Effective tax rates

Central to the ongoing debate on taxation in Ireland are effective tax rates. These rates are calculated by comparing the total amount of income tax a person pays with their pre-tax income. For example, a person earning €50,000 who pays €10,000 in taxation will have an effective tax rate of 20 per cent. Calculating the scale of income taxation in this way provides a more accurate reflection of the burden of income taxation faced by earners.

Following Budget 2008 we have calculated effective tax rates for a single person, a single income couple and a couple both earners. Table 3.2.2 presents the results of this analysis.

For a single person with an income of €15,000 the effective tax rate will be 0 per cent, rising to 8.3 per cent of an income of €25,000 and 35.4 per cent of an income of €120,000. A single income couple will have an effective tax rate of 0 per cent at an income of €15,000, rising to 2.9 per cent at an income of €25,000, 19.8 per cent at an income of €60,000 and 31.6 per cent at an income of €120,000.

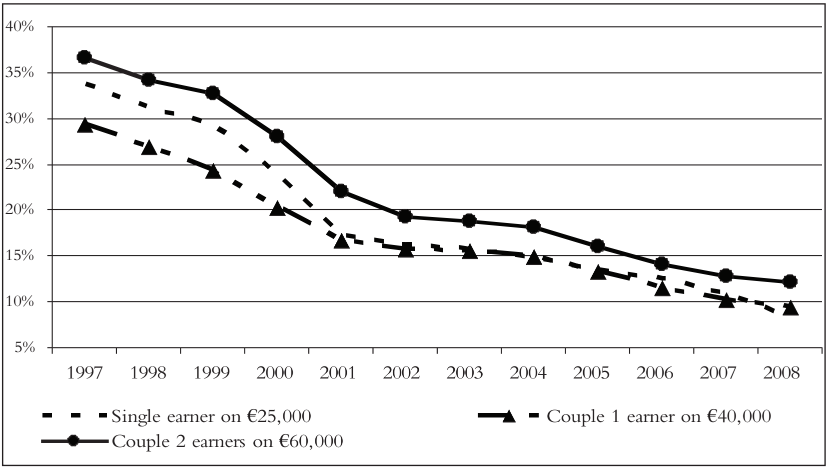
[35] An increase of this nature is not currently necessary given the strength of the Irish economy.

In the case of a couple where both are earning where their combined income is €40,000 their effective tax rate is 3.6 per cent, rising to 27.2 per cent for combined earnings of €120,000.

Table 3.2.2: Effective Tax Rates following Budget 2008			
Income Levels	**Single Person**	**Couple 1 earner**	**Couple 2 Earners**
€15,000	0%	0%	0%
€25,000	8.3%	2.9%	0%
€30,000	12.9%	5.1%	1.7%
€40,000	18.6%	9.4%	3.6%
€60,000	27.5%	19.8%	12.2%
€80,000	31.5%	20.7%	14.9%
€100,000	33.8%	29.2%	23.8%
€120,000	35.4%	31.6%	27.2%

Source: CORI Justice (2007:4).

Chart 3.2.1: Effective tax rates in Ireland, 1997-2008



Source: Department of Finance, Budget 2008 (Annex A(iii)).

In all cases, these effective tax rates are low when compared with the situation internationally and that which prevailed in Ireland over most of the last decade. Chart 3.2.1 illustrates the downward trend in effective tax rates for three selected household types since 1997. These are a single earner on €25,000; a couple with 1 earner on €40,000; and a couple with 2 earners on €60,000. Their experiences are similar to those on other income levels and are similar to the effective tax rates of the self-employed over that period (see Budget 2008, annex A iii).

Reviewing the figures in chart 3.2.1 and table 3.2.2 one has to question what potential remains for future reductions in income taxation levels. As the situation stands the burden carried by those on different income levels is small but fair given that those earning more, pay more. Of course, income taxation is not the only form of taxation and, as the review below will suggest, there are many in Ireland not paying their fair share and there may be ways of substituting tax revenue from income for that raised through other taxation mechanisms.

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. A valuable review of Ireland's future taxation needs was presented in a paper to our 2004 social policy conference (Collins, 2004:9-14). In that paper Collins 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 (see section 2 earlier). However in the medium-term he indicated that the government faced a series of demands which will necessitate increases in the amount of taxation its collects. These demands include: contributions to the European Union from 2008 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 in accordance with the NAPS; and increases in spending on education, healthcare and pensions as a result of an increase in the numbers of children and older people in the population over the next 20 years.

A further item that can be added to this list is the additional funding required to finance local government up to and after 2010. An indication of the size of this commitment was provided by a report from Indecon Economic Consultants (2005) commissioned by the Department of Environment, Heritage and Local Government. Among its conclusions the report pointed out the likelihood of an annual 'funding gap' of between €415m and €1,500m up to 2010. Thus the report recommended that central government provide 'a significant increase in the level of resources available to local authorities over the period to 2010' (2005:193, 194).

Research by Bennett et al (2003) also provides some insight into future exchequer demands. Table 3.2.3 presents estimates as a percentage of GDP for the costs of healthcare and pensions in Ireland in the years 2025 and 2050. 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. Dealing purely with the pension issue, an ESRI study reached similar conclusions and projected that 'social welfare spending that is focused on older people' will rise from 3.1 per cent in 2004 to 5.5 per cent in 2030 and to 9.3 per cent in 2050.

Table 3.2.3: Projected Costs of Healthcare and Pensions in Ireland, as % GDP

	2002	**2025**	**2050**
Healthcare	6.0	6.3	8.8
Pensions	2.9	4.5	7.9
Healthcare + Pensions	**8.9**	**10.9**	**16.7**

Source: Bennett et al (2003)

The implication 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 (Collins, 2004:14).

Is a higher tax-take problematic?

Suggesting that any country's tax take should increase normally 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 by suggestions that they would undermine economic growth. However, a review of the performance of the British and US economies over recent years is interesting in light of this issue.

Over the last number of years Britain has achieved low unemployment and higher levels of growth compared to other EU countries (OECD, 2004). These have been achieved simultaneously with increases in its tax/GDP ratio. In 1994 this stood at 33.7 per cent and by 2004 it had increased 2.3 percentage points to 36.0 per cent of GDP. Furthermore, in his March 2004 Budget the then British Chancellor Gordon Brown indicated that this ratio would increase again to reach 38.3 per cent of GDP in 2008-09 (2004:262). His announcement of these increases was not met with predictions of economic ruin or doom for Britain and projections of economic growth suggest that it will remain high compared to other EU countries (IMF, 2004).

Table 3.2.4: Differences in taxation levels between the world's 15 most competitive economies and Ireland.

Competitiveness Rank	Country	Taxation level versus Ireland
1	United States	-3.5
2	Switzerland	-1.6
3	Denmark	+17.3
4	Sweden	+18.4
5	Germany	+4.0
6	Finland	+12.3
7	Singapore	*not available*
8	Japan	-4.3
9	United Kingdom	+5.7
10	Netherlands	+7.8
11	Korea	-4.9
12	Hong Kong SAR	*not available*
13	Canada	+1.7
14	Taiwan, China	*not available*
15	Austria	+10.2
22	**IRELAND**	-

Source: World Economic Forum (2007:10)

Notes:
a) Taxation data from OECD (2007:table A).
b) For some countries comparable data is *not available*.
c) Taxation data for Japan is only available for 2005
d) The OECD's provisional estimate for Ireland in 2006 = 31.7 per cent of GDP

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. Table 3.2.4 outlines the top fifteen economies in this index as well as the ranking for Ireland (which comes 22nd). It also presents the difference between the size of the tax burden in these, the most competitive, economies in the world and Ireland for 2006.[36]

Four countries, the US, Switzerland, Korea and Japan have noticeable lower taxation levels compared with Ireland. Of the other leading competitive economies all collect a greater proportion of national income in taxation. Over time Ireland's position on this index has varied, moving from 23rd to 26th and most recently to 22nd. When Ireland has slipped back the reasons stated for Ireland's loss of competitiveness included decreases in economic growth, poor performances by public institutions and a decline in the technological competitiveness of the economy (WEF, 2003: xv). Interestingly, a major factor in that decline would seem to be 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.[37] As such, lower taxes do not feature as a significant priority; rather it is increased and targeted 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 shortsighted" and that "far more important in terms of attracting good businesses is the quality of education, infrastructure and services." Professor Stiglitz, who chaired President Clinton's Council of Economic Advisors, added that "low tax was not the critical factor in the Republic's economic development and it is now becoming an impediment".[38]

Reforming and broadening the tax base

The methods by which the tax base should be reformed and broadened are an issue worth considering. CORI Justice believes that there is merit in developing a

[36] This analysis updates that first produced by Collins (2004:15-18).
[37] A similar conclusion was reached in another international competitiveness study by the International Institute for Management Development (2007).
[38] In an interview with John McManus, Irish Times, June 2nd 2004.

tax package which places less of an 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 core policy objective already stated.

There are a number of approaches available to Government in reforming the tax base. Our 2004 Social Policy Conference and accompanying publication entitled *A Fairer Tax System for a Fairer Ireland* outlined in detail many of these options (Reynolds and Healy, 2004). A shorter review is presented below.

Corporation Tax

Following Budget 2003, the standard rate of corporation tax was reduced from 16 per cent to 12.5 per cent at a full year cost of €305m. This reduction followed another reduction in 2002 which brought the rate down from 20 per cent to 16 per cent. The total cost in lost revenue to the exchequer of these two reductions is estimated at over €650m per annum.

Serious questions remain concerning the advisability of pursuing this policy approach. Ireland's corporation tax rate is now considerably below the corresponding rates in most of Europe. Windfall profits are flowing to a sector that is already extremely profitable. In particular, the Irish Banking sector is now recognised as the most profitable in Europe, a factor significantly related to the low levels of taxation these institutions pay.[39]

Across the relevant academic literature no evidence of substance exists to support the contention that corporations would leave if the corporate tax rate were higher – at 17.5 per cent for example. Furthermore, the logic of having a uniform rate of corporation tax for all sectors is questionable. At a CORI social policy conference which examined this issue David Begg (ICTU) stated, "there is no advantage in having a uniform rate of 12.5 per cent corporation tax applicable to hotels and banks as well as to manufacturing industry" (2003:12). In the last year there has been some improvement in this situation with special, and higher, tax rates being charged on natural resource industries. CORI Justice welcomes this as an overdue step in the right direction.

[39] The annual reports of the major banking institutions also highlight further reductions in their tax liabilities via write-offs, investments etc. which result in the banks paying an effective tax rate considerably less than 12.5 per cent.

As the European Union expands corporation tax competition is likely to intensify. Already Estonia and the Isle of Man have put in place a zero per cent corporation tax rate, Cyprus has set its rate at 10 per cent and Hungary continues to reduce its rate; others are likely to follow.[40] 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. Sweeney has warned of a dangerous situation where Ireland ends up "leading the race to the bottom" (2004:59). The costs of such a move, in lost exchequer income, would be enormous and CORI Justice believes that the government must now make a decision on whether this is the path they wish to follow.

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 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 2007 EU-27 average rate of 24.5 per cent but above the existing low Irish level.[41] A rate of 17.5 per cent seems appropriate.

Tax Expenditures/ Tax Reliefs

One of the most welcome public policy developments over the past few years has been the action taken by Government to address the provision of the 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.[42] Over the years these schemes allowed many to avoid contributing their fair share in taxes and consequently CORI Justice has called for some time for their reform.

[40] It is worth noting that the Isle of Man has retained a 10 per cent rate on the profits of banking institutions.
[41] Data from Eurostat (2007:32).
[42] The Revenue Commissioners Statistical Report (2004:8) indicates that the total taxation collected in 2003 equalled €37.7b.

As part of that process the Department of Finance commissioned a number of reports on the scale, extent, merit and distribution of these schemes. The findings of these reports span some 1,000 pages and are of some interest (see Department of Finance 2006 Vols I, II, III). While it is impossible to summarise these findings over a few paragraphs, three examples give a good indication of what the reports found.

Table 3.2.5: The % distribution of investors utilising two tax relief schemes according to the views of Accountancy and Tax Professionals – by likely annual gross income

Gross Annual Income of Investors	Hotels and Holiday Camps	Multi-storey Car Parks
€200,000 +	66.7%	83.3%
€100,000 to €200,000	33.3%	16.7%
€50,000 to €100,000	0.0%	0.0%
Less than €50,000	0.0%	0.0%
Total	**100.0%**	**100.0%**
Net tax forgone up to 2006	**€120.5m**	**€15.9m**

Source: Department of Finance (2006, Vol I: 73-76, 297-298).

In 2000 the government introduced a tax relief scheme for capital investments in Hotels and Holiday Camps. An assessment by Indecon Consultants for the Department of Finance found that up to 2006 these schemes resulted in a net loss in tax revenue (revenue forgone) of €120.5m (Department of Finance, 2006 Vol. I:73). The report recommended that the scheme now be abolished; a decision that Budget 2006 subsequently took. As part of this review Indecon also considered the distribution of these tax reliefs. Table 3.2.5 presents the results of a confidential survey of Ireland's Accountancy and Tax professionals carried out by the consultants. In the survey these professionals were asked to indicate where in the income distribution were the recipients of these schemes located. The figures therefore represent indicative views based on the judgement and expertise of these professionals.[43] They indicate that all these benefits flowed to investors with a gross income of over €100,000 per annum and that two-thirds of those who benefited had annual gross incomes in excess of €200,000. Table 3.2.5 also reports a similar distribution analysis of those investors who availed of tax reliefs for multi-storey car parks. It presents an

[43] Accurate income distribution figures are unavailable as the Revenue Commissioners did not collect detailed information on these schemes.

even more skewed allocation to those with incomes in excess of €200,000. In terms of tax revenue forgone this scheme cost the exchequer €15.9m.

An assessment of the tax reliefs associated with the Urban renewal scheme by Goodbody Economic Consultants identified that between 1999 and mid-2006 the total cost of this scheme in terms of tax revenue forgone was €1,423m. When considering the equity implication of this scheme they concluded that "the tax benefits of the scheme have accrued to relatively few high income individuals" and that "it is difficult to escape the conclusion that the scheme has had very negative equity impacts" (Department of Finance, 2006 Vol. II p84-86). Budget 2006 also abolished this scheme.

In seriously addressing these tax expenditures CORI Justice believes that Budget 2006 took an important step towards achieving a fairer taxation system in Ireland. In responding to the budget we welcomed the Minister's moves to address the problems arising from the provision of various tax reliefs and in particular addressing the way in which these schemes were being exploited to minimise the tax bills of very high earners. Consequently, we welcomed the Minister's Budget statement that "my basic aim is to see that everybody pays an appropriate amount of income tax relative to their ability to do so. This is the cornerstone of tax equity". There is something profoundly unfair about a system where millionaires pay little or no tax and those on very low incomes pay a much higher proportion of their income in tax.

Many of our proposals were implemented as part of the Budget 2006 reforms. In particular we welcomed reforms to tax reliefs in the pension system which cap the size of these reliefs and minimise the opportunities for using pensions to avoid paying a fair share of tax. Similarly, we welcome the cap on the maximum value of the pension (though the pension fund limit of €5m still seems excessively generous and is twice that available in the UK) and the limits placed on the size of contributions. We called for the removal of many other schemes including those for urban renewal, multi-storey car parks and stallion and greyhound fees among others. The decision to abolish these reliefs is very welcome.

The suggestion in table 3.2.5 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* (2002, 2005, 2006 and 2007).

These reports provide details of the Revenue's assessment of the top 400 earners in Ireland and the rates of effective taxation they faced.[44] Table 3.2.6 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. The data does not include the approximate 3,050 Irish tax exiles who the Revenue Commissioners require to live outside Ireland for 182 days of the year.

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 2003 shows that over time the number of top earners benefiting from very low tax levels (less than 15 per cent) has increased from 18.25 per cent to 20 per cent. Figures from the Revenue Commissioners further indicate that in 2003 three of the top 400 earners (0.75 per cent) reduced their income tax liability to zero while a total of 48 high earners kept there tax liability below 5 per cent.

Table 3.2.6: The Distribution of Effective Tax Rates of the Top 400 Earners, 1999/00, 2001, 2002 and 2003 (% of total)

Effective Tax Rate	**1999/00**	**2001**	**2002**	**2003**
0%	0.00	1.25	1.50	0.75
Less than 15%	18.25	12.5	18.25	19.25
15%-29%	11.00	15.00	17.75	17.50
30%-44%	57.75	71.25	62.50	62.50
45% +	13.00	0.00	0.00	0.00
Total	100.00	100.00	100.00	100.00

Source: Revenue Commissioners (2002, 2005, 2006 and 2007).

Looking to the future, we welcome the Budget 2006 announcement by the Minister for Finance that the Revenue Commissioners will now collect full information on the costs of all tax reliefs. Given the vast scale of these schemes, it is important that the full costs of their implementation are known so that these can be compared to the benefits. CORI Justice believes that the costs and benefits of all tax relief schemes must be assessed to justify their establishment and retention. Only where these benefits surpass the costs should the reliefs be introduced/ retained.

[44] The effective taxation rate is calculated as the percentage of an individual's total pre-tax income that they pay in taxation.

Land value taxes

Taxes on wealth are minimal in Ireland. We are the exception to the rule among developed countries in having no residential property tax. Revenue is negligible from capital acquisitions tax because it has a very high threshold where bequests and gifts within families are concerned and it treats family farms and firms very generously.

Within this area the issue of land rent taxation is one that has received added attention in the recent past. Two papers at our 2004 Social Policy Conference directly addressed this issue (see O'Siochru, 2004:23-57; and Dunne, 2004:93-122) and the Chambers of Commerce of Ireland published a report entitled *Local Authority Funding – Government in Denial* (2004) which called for an annual site tax. Where residential property tax is concerned CORI Justice believes the introduction of an annual land rent tax would have a very positive impact on Ireland's tax situation. It would lead to a substantial broadening of the base at a single stroke and would also lead to a reduction of the tax-take required from other sources, thus providing an opportunity for Government to produce a just and fair tax system.

A 'land value' or 'land rent' tax is based on the annual rental value of land. The annual rental site value is the rental value that a particular piece of land would have if there were no buildings or improvements on it. It is the value of a site, as provided by nature and as affected for better or worse by the activities of the community at large. The tax falls on the annual value of land at the point where it enters into economic activity, before the application of capital and labour to it.

The arguments for a land-rent tax are to do with fairness and economic efficiency. Most of the reward of rising land values goes to those who own land, while most of the cost of the activities that create rising land values does not. This is because rising land values - for example, in prosperous city centres or prime agricultural areas - are largely created by the activities of the community as a whole and by government regulations and subsidies, while the higher value of each particular site is enjoyed by its owner.

This means that it often pays land owners to keep sites unused in order to sell them later when (they hope) land values will have risen. Speculation on rising land values distorts land prices, generally making them significantly higher than they would otherwise be. NESC (2002:96) points out that the introduction of a tax on development land would have minimal economic effects given the immobility of land.

A land value tax is positive on both efficiency and equity grounds. From an efficiency perspective a site value tax would be a major step toward securing the tax base as it could not move to any location providing greater tax reductions. In doing this it would move the tax away from a transaction (such as stamp duty) which can make the tax base vulnerable as it is dependent on maintaining and increasing the scale of the transactions and move it instead to an immovable physical asset which is a much securer base. It would have other efficiency impacts such as ensuring that derelict sites were developed and that land would not be held over, as appears to be the situation at present, in an attempt to increase its value by creating artificial scarcity of land for development.

A land value tax is also positive on equity grounds. High land values in urban areas of Ireland are mainly a product of the economic and social activity in those areas. Consequently, it can be argued that a substantial portion of the benefits of these land values should be enjoyed by all the members of the community and not just the site owners. As well as this the increasing site values are closely linked to the level of investment in infrastructure those areas have received. Much of that investment has been paid for by taxpayers. It can be argued that a substantial portion of the benefits of the increasing site value should go to the whole community through the taxation system and not just remain with the site owner who may well have made no contribution to the investment that produced the increased value.

In short, land-rent taxation would lead to more efficient land use within the structure of social, environmental and economic goals embodied in planning and other legislation.

Sustainability/eco/carbon taxes

Sustainable development is now a major issue. As the world has come to recognise that the supply of land, clean water and air is not infinite, new questions emerge concerning sustainability. For example, as pressure mounts on the availability, not to mention the quality, of water on our planet, it is not simply environmentalists who warn us of impending disasters. Even institutions such as the World Bank are changing their approach to policy development to reflect this concern.

The finite nature of our environment demands that we take account of environmental costs along with other factor costs. Measures to protect the environment have necessarily involved intervention in the market, because market forces do not themselves provide for environmental protection. Up to now this "intervention" has been by legislated regulatory measures.

In the long run, however, a more comprehensive approach is required. 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 – and thereby internalise – the environmental costs occasioned by economic activity. It is difficult to devise any methodology capable of tracing and attributing with any 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 taxes/charges based on broad national assessment. The success of the plastic bag tax in reducing consumption of bags by 95 per cent in its first year, while simultaneously raising €11m for environmental projects, highlights the benefits of these types of taxes.

During the last year and a half some progress has been made on this issue. CORI Justice welcomed the decision by the Minister for Finance to undertake a review of the nature and structure of vehicle registration tax (VRT) and motor taxes as announced in Budget 2007. Reforming these taxes was appropriate in the context of government commitments to address environmental emissions contained within *The Kyoto Protocol*, the *National Climate Change Strategy* and *Towards 2016*. CORI Justice also believes that these reforms are appropriate in the context of the need to develop a fairer taxation system. As part of a consultation process during the last year CORI Justice submitted two detailed documents to the Departments of Finance and Environment outlining the possibility and nature of potential reforms.[45] We also met with the Departments to discuss these proposals. The general thrust of the reforms we proposed suggested that both VRT and motor taxes should be increased on the most heavily polluting cars and reduced on those with the lowest engine sizes and the smallest carbon dioxide emissions levels. In particular, there would be significant increases in the taxes levied on the highest polluting and largest engine cars. In that context we welcomed the reform introduced by the Minister for Finance in Budget 2008. Although we regret that the start date of these new taxes was delayed until July 2008 - long after the vast majority of car sales for 2008 will have occurred. However, these new taxes are a welcome step in the right direction.

CORI Justice also welcomed the Budget 2003 commitment by government to impose a carbon tax/levy. Given the support for this measure from leading government ministers, the all-party Oireachtas Committee on the Environment and the 2004 Enterprise Strategy Report we were disappointed that the

[45] These documents are available on our website www.cori.ie/justice

Government subsequently chose to renege on its promise to introduce this scheme. The excuse used by the Department of Finance against the scheme's introduction was that the revenue collected would be small and not worthwhile collecting. This conclusion is ironic given the advise by the Department itself, the ESRI and the Enterprise Strategy group among others that the appropriate approach was to introduce this tax at a small level initially and to increase it over time. Given Ireland's pollution record (see section 3.10b) there can be little doubt that over the next few years more environmental taxes will be necessary. This may involve reversing the 2004 carbon tax decision. The new Commission on Taxation has been asked to consider this issue and we look forward to a carbon tax being introduced as committed to in the current FF/Green/PD *Programme for Government* (2007:6).

An interesting alternative approach was outlined by Douthwaite at our 2004 Social Policy Conference (2004: 125-137). He suggested that a tradable quota system could be introduced by the Government. To achieve this, Ireland would divide the total tonnage of carbon dioxide it is allowed to emit under the agreement it reached with its EU partners under the Kyoto arrangements – its 1990 emissions plus 13 per cent - by its current population and issue permits for that amount - roughly 15.5 tonnes of CO2 per head - to the population, perhaps at the rate of 1.3 tonnes each month. Citizens could then sell on these permits, through the financial institutions, and polluters such as large firms and oil distribution companies would have to purchase them. The price received for these permits would vary according to the demand for fossil energy and just how well Ireland and the rest of the EU was doing in getting emission levels down. If the EU economy was booming and a lot of energy was being used, the price of the permits would be high but, equally, so would be the price of petrol, electricity and home-heating oil. If the economy was depressed, these prices, and the amount we got for our permits, would fall. This builds an automatic cushion against higher energy prices into the system, which protects, in particular, the least well-off who, although they spend a greater proportion of their incomes on energy, spend less on it in absolute terms. The provision of this cushion is very important since, as energy is used in the production of everything we use and consume, all prices will go up as a result of any restrictions on energy use. The proceeds from the permit sales would also provide the average person with enough extra purchasing power to cover the higher costs of the fuels and (because of the higher energy prices) the other goods and services they buy, provided that their purchases are not excessively energy-intensive. However, if some individuals were able to cut their direct and indirect fuel use below their entitlement, they would make themselves better off. On the other hand, if they continued to drive around in their SUVs, they would have to pay more frugal people for the privilege. The fact that fossil fuels themselves and goods made with significant amounts of fossil energy would cost more would encourage people to find lower-fossil-energy alternatives and enable the transition to renewable energy sources to gather pace. In short, a quota system would give people the price signals to move in the right direction.[46]

A further possible environmental measure would be to levy a small tax on Kerosene, the high-powered fuel used by airplanes. This fuel is currently untaxed and the idea of such a tax has been gaining increasing support at a European level. In particular this tax is seen as offering potential to collectively raise a large amount of money across all EU countries, money that would be ring-fenced for use in anti-poverty projects in the developing world. CORI Justice believes that such a tax would have limited, if any, effect on the aviation industry and offers a way for EU countries to raise badly needed funds for addressing development issues.[47]

Another approach in this area is called 'Cap and Share'. This is a personal carbon trading scheme aimed at supporting the transition to a lower carbon intensity economy. Cap and Share (C&S) envisages the establishment of an overall cap on greenhouse gas emissions and, subsequently, the allocation of 'entitlements' to every resident based on an equal division of the overall cap. Upstream companies (fuel importers, refineries, etc.) would be required to purchase sufficient entitlements to match the emissions from their operations. C&S is founded on the philosophy of equal rights for all to emit to the atmosphere. At the downstream end, C&S rewards individuals who consume electricity and fuel at below average levels, whilst those with greater than average carbon intensity would be penalised. Design of the scheme needs to ensure that it does not result in disadvantaged sectors of society being made worse off. CORI Justice has previously urged government to investigate the potential of this approach.

Taxes on financial speculation: the Tobin tax

Global currency trading has been increasing dramatically throughout the last few decades. It is estimated that a very high proportion of all financial transactions traded are speculative currency transactions. During the early 1990s this speculation resulted in a series of currency crises which had major implications for many

[46] A more comprehensive outline of this proposal is presented in Douthwaite (2004) and in Feasta/NEF (2006).

[47] Development issues are discussed in more detail in section 3.12.

developing countries where there was a decline in economic activity and a consequent increase in the levels of poverty. These speculative transactions are completely free of taxation.

There is growing support worldwide for the introduction of a tax on such speculative exchange transactions. The Tobin tax, proposed by the Nobel Prize winner James Tobin, provides a potential solution. It is a progressive tax, designed to target only those profiting from currency speculation. Therefore, it is neither a tax on citizens, nor on business.

The majority of foreign exchange dealings are done by one hundred of the world's largest commercial and investment banks. The scale of their dealings is estimated at US$1.5 trillion worth of currency every day; all this in essentially unregulated financial markets. In 1998 the financial institution with the largest share of this market, Citibank, engaged in foreign exchange transactions worth US$8.5 trillion, a value in excess of the corresponding US GDP for that same year.

The scope of the Tobin tax varies. Initially, James Tobin suggested a tax on all purchases of financial instruments denominated in another currency. More recently, Canadian economist Rodney Schmidt has broadened the tax to include all foreign exchange transactions. These would include simple exchanges of one currency for another (spot transactions) as well as complex derivative financial instruments including forwards, swaps, futures and options if they involve two currencies.

The rate would be determined by each country enacting the tax, but the tax range recommended to produce moderate market calming and revenue-raising outcomes is between 0.1 and 0.25 per cent. While this may seem very small to consumers, relative to VAT rates and income taxes, the impact on the margins of currency speculators would be enough to curb their activities.

The revenue from the tax would be considerable - somewhere in the region of €50 -100 billion per year. Though the effect of the tax over time would be to reduce the volume of currency speculation and thus the potential revenue from the tax, nevertheless the intake will remain high. It is proposed that the revenue generated by this tax be used for national social development and international development co-operation purposes. According to the United Nations, the amount of annual income raised from the 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.

When James Tobin first put forward his idea he envisaged the tax being adopted by every country in the world simultaneously. Otherwise, he argued, speculators would "flock" to those countries without Tobin tax laws. Since such international agreement seemed improbable, the tax was seen by many as a worthy but impracticable proposal. However, over recent years the work of economists and financial experts has demonstrated that universal simultaneous adoption is not vital for a successful implementation. Essentially, foreign currency markets are concentrated on a global scale and if the principal countries implement the tax, this would suffice to cover the planet as a whole. Eight major countries account for more than 80 per cent of world exchange transactions, the foremost four for 65 per cent. In the City of London, the largest financial centre with 33 per cent of the world total, the 10 biggest banks account for 50 per cent of transactions. What is needed is for one major region of the world to implement the tax. Consequently, CORI Justice believes the EU region should adopt policies towards the introduction of this financial speculation/trading tax.

Windfall taxes on rezoned land

The vast profits being made by property speculators on the rezoning of land by local authorities raises questions. In response CORI Justice has suggested two approaches. In the short-term we believe that a substantial 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 housing problems they face (see section 3.5).

In the longer term, CORI Justice believes 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. Operationally, this legislative change would require local authorities to first purchase land (either voluntarily or compulsorily) before then proceeding to rezone it. Taking the example of land being rezoned from agricultural use to development/housing use the process would involve a local authority purchasing the land at agricultural prices plus a small margin for the owner. 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. The land would then be sold on to the developing agent. Simply, this change would eliminate speculation and ensure that all windfall gains resulting from rezoning would be retained by the local authority. CORI Justice believes that the profit from this process should then be targeted on addressing the ongoing social housing problems being experienced in Ireland.

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 more than twenty-five years ago. In that volume 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 very obvious today and CORI Justice believes that this should be a central objective of the recently established Commission on Taxation. All the issues raised above have a fairness dimension. Here we address some further issues that arise particularly in the present income tax system.[48]

Standard rating discretionary tax expenditures

One crucial step towards achieving a fairer tax system is to standard rate all discretionary tax reliefs/expenditures, making them available at the 20 per cent 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 per cent (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.

As part of preparing our November 2005 *Policy Briefing* on Taxation, CORI Justice engaged in an examination of the available data for these schemes. Based on this we estimated that the exchequer could collect an additional €2 billion in revenue if all tax relief schemes were made available only at the standard rate. While the available data is less than desirable, a feature which the Revenue Commissioners

[48] A more detailed discussion of the issues contained in this section can be found in Healy and Reynolds (2004:151-188).

acknowledge, we suspect that this estimate understates the additional revenue which the exchequer would collect were all discretionary tax expenditures standard rated. Standard rating tax expenditures offers the potential to simultaneously make the tax system fairer and fund these necessary developments without any significant macroeconomic implications.

Keeping the minimum wage out of the tax net

A major achievement of Budget 2005 was the decision by the Minister of Finance to remove those on the minimum wage from the tax net. This decision, which was updated in subsequent Budgets, has an important impact on the growing numbers of working-poor and addresses an issue CORI Justice has highlighted for some time. In delivering this policy the government's decision to increase tax credits is also welcome. As we show below, the system of tax credits offers greater potential for making the tax system fairer. As the minimum wage increases it is important that the tax credits are adjusted to retain this welcome situation.

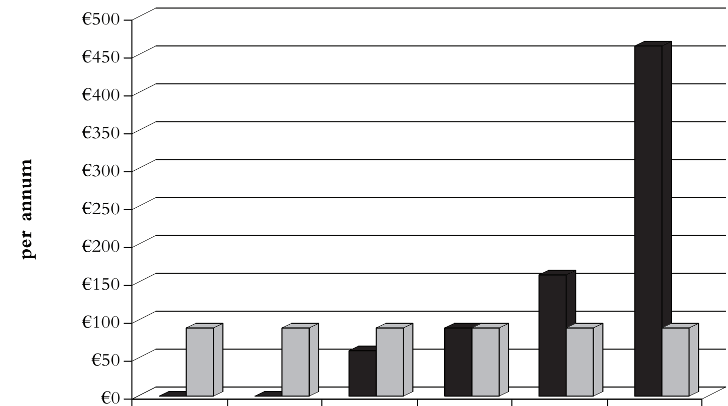
Increasing tax credits rather than decreasing tax rates

CORI Justice believes that any future income tax changes should be concerned with changes to either tax credits or tax bands rather than tax rates. In the context of achieving fairness in the taxation system, changes to tax credits rather than tax bands are more desirable.

To explain this point further, we start by comparing a change in tax credits against a change in tax rates (the next section makes a comparison with tax bands). One of the initiatives announced in Budget 2007 was a cut in the top tax rate of one per cent (from 42 to 41 per cent). In his Budget speech the Minister indicated that the full year cost of this change was €186m. The Budget documentation also indicated that the full-year cost of a €90 increase in the tax credits of every tax payer equaled €185m. Therefore, both policy changes have roughly the same exchequer cost. Chart 3.2.2 compares these two changes and the increased income they delivered to earners across the income distribution.

An increase in tax credits would provide the same value to all taxpayers across the income distribution; provided they are earning sufficient to pay more than €90 in income taxes. Therefore, the increased income received by an earner on €25,000 and on €80,000 is the same – an extra €90. However, a decrease in the top tax rate only benefits those paying tax at that rate. Therefore, the earner on €25,000 gains nothing from this change while those on €50,000 gain €160 per annum and those on €80,000 gain €460 per annum. The higher your income the greater the gain.

Chart 3.2.2: Budget 2007 comparison of a 1% cut in the top tax rate and an increase in tax credits of €90 for each taxpayer.



	€25,000	€33,000	€40,000	€43,000	€50,000	€80,000
■ 1% Top tax rate cut	0.00	0.00	60.00	90.00	160.00	460.00
□ €90 increase Tax credits	90.00	90.00	90.00	90.00	90.00	90.00

As chart 3.2.2 shows, in Budget 2007 all single people earning less than €43,000 would have gained more from an increase in tax credits rather than a decrease in the top tax rate. For a couple (not shown in the diagram), all those earning less than €86,000 would have been better off had the government used the same money to deliver an increase in tax credits rather than a decrease in the top tax rate.

In terms of fairness, increasing tax credits is a fairer option than decreasing the top tax rate. Government should always take this option when it has money available to reduce income taxes.

Increasing tax credits rather than widening tax bands

If €535 million were available for distribution in a Budget it could be used to either (i) increase the 20 per cent tax band by €5,000 (full year cost €536.1m) or (ii) increase personal tax credits by €250 a year (full-year cost €533.75m).[49] While the exchequer cost of these two alternatives is roughly the same, their impact is notably different:

[49] Figures from Department pre-Budget 2008 income tax ready reckoner.

(i) Increasing the tax band by €5,000 would be of no benefit to anyone with incomes at or below the top of the current band (i.e. €35,400 for a single person) but would provide a benefit of €1,000 a year to a single person earning more than €40,400. Single people with incomes in the €35,400-40,400 range would benefit by a proportion of the €1,000. (The thresholds for married people with one or two incomes are different but the impacts are along the same trajectory as identified for single people here).

(ii) Increasing the tax credit by €250 a year would mean that every earner with a tax bill in excess of €250 a year would benefit by that amount.

In terms of fairness, increasing tax credits is a fairer option than widening the standard rate tax band. Government should always take this option when it has money available to reduce income taxes. It has the additional advantage of helping to address the 'working poor' issue which, as we have highlighted earlier, is emerging as a growing problem that requires a policy response.

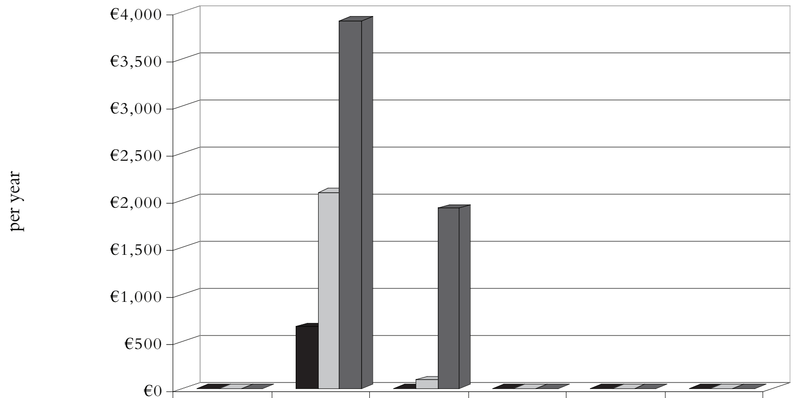
Introducing refundable tax credits

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 including CORI Justice. 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. As we showed earlier (in section 3.1's assessment of recent income distribution changes) the two most recent Budgets have delivered nothing to these low-paid people/households.

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 did not complete 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). Chart 3.2.3 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 3.2.3: How much better off would people be if tax credits were made refundable?



	LTU**	€15,000	€30,000	€50,000	€75,000	€100,000
Single	0	660	0	0	0	0
Couple 1 Earner*	0	2090	90	0	0	0
Couple 2 Earners*	0	3920	1920	0	0	0

Notes: * Except in LTU case where there is no earner
** LTU: Long Term Unemployed

As regards 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 3.2.3 shows 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 the Revenue Commissioners. 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 Family 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). [In this situation it is important to point out that nobody on social welfare would see their income increase through receipt of a refundable tax credit. In a situation where they were receiving such a credit their social welfare payment would be reduced by the value of the tax credit].

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

- They should be 21-64 years of age. (The refundable tax credit could also be made available for people over 65+ depending on what funding Government made available)

and

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

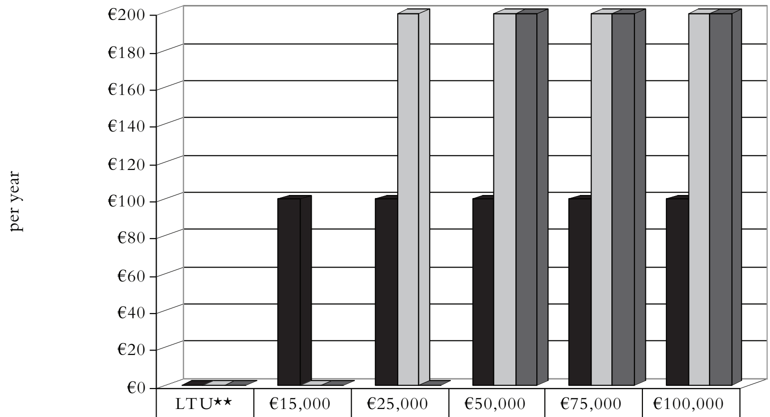
Employees and self-employed, including farmers, are encompassed within the proposal. Spouses could opt to receive the 'married' part of the personal tax credit and the Home Working Spouse tax credit directly from DSFA.

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 3.2.4 and 3.2.5 compare the benefits of a €100 increase in tax credits before and after the introduction of refundable tax credits. Chart 3.2.4 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 these workers whose earnings are not in the tax net.

Chart 3.2.5 shows how the benefits of a €100 a year increase in tax credits would be distributed under a system of refundable tax credits. This simulation displays 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, two-earners) is the same. Consequently, in relative terms, those earners at the bottom of the distribution do best.

Chart 3.2.4: How much better off would people be if tax credits were increased by €100 per person?

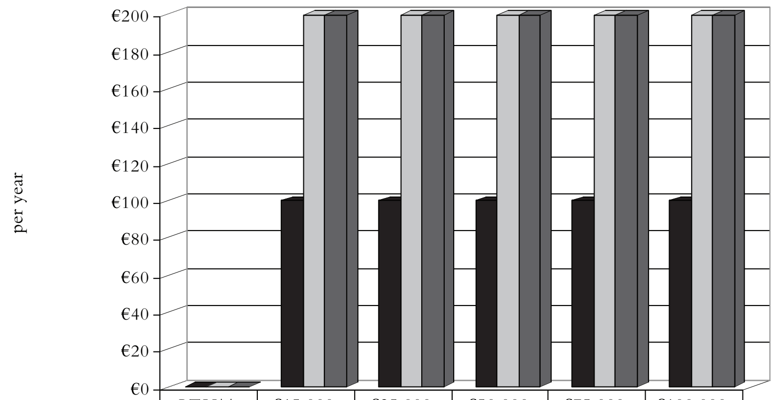


	LTU**	€15,000	€25,000	€50,000	€75,000	€100,000
Single	0	100	100	100	100	100
Couple 1 Earner*	0	0	200	200	200	200
Couple 2 Earners*	0	0	0	200	200	200

Notes: * Except in LTU case where there is no earner
** LTU: Long Term Unemployed

Overall the merits of adopting this approach are: that every beneficiary of tax credits could 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. Outside Ireland, the refundable tax credits approach has gathered more and more attention over recent years including a detailed Brooking Policy Briefing on the issue published in the United States in late 2006 (see Batchelder et al, 2006). In reviewing this issue in the Irish context Rapple stated that "the change is long overdue" (2004:140). CORI Justice believe that if the tax system is to be fair then tax credits should be made refundable.

Chart 3.2.5: How much better off would people be if tax credits were increased by €100 per person and this was refundable?



	LTU**	€15,000	€25,000	€50,000	€75,000	€100,000
Single	0	100	100	100	100	100
Couple 1 Earner*	0	200	200	200	200	200
Couple 2 Earners*	0	200	200	200	200	200

Notes: * Except in LTU case where there is no earner
** LTU: Long Term Unemployed

Introducing a refundable tax credit for children

As we have seen earlier there are major problems in Ireland with child poverty and childcare. There are constant claims that not enough is being done by Government on either front. To address this issue in an integrated manner CORI Justice has proposed that Government introduce a refundable tax credit available for every child irrespective of the employment status of their parents.

The vast majority of people would add the tax credit to their already-existing tax credits thus reducing their tax payment by the amount of the child credit. Only those on social welfare or in very low-paid employment would claim the payment directly.

The level at which the payment could be set would depend on the resources available. If, for example, Government had decided in Budget 2007 to turn the early childcare supplement of €1,000 a year introduced in last year's Budget into a refundable tax credit then every child under 6 would have become eligible for a payment in the region of €5,000 without increasing Government expenditure (based on the expectation that the payment would be collected directly for only 1 out of every 5 children—the other four receiving it through the tax system).

This payment would be effective in targeting child poverty among those on low incomes and would improve support for childcare significantly. Government's tax-take would be reduced while Government expenditure would not increase - both developments seen as positive by many commentators. CORI Justice urges Government to introduce a refundable tax credit for all children along these lines.

Reforming individualisation

CORI Justice has long supported the individualisation of the tax system. However, the process of individualisation followed by government is deeply flawed and unfair. The cost to the exchequer of this transition has been in excess of €0.75 billion, 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 section 3.1).

All the predictions currently indicate that there will be a future increase in the level of unemployment. Given the current form of individualisation, couples who see one partner lose his/her job will 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. After that they would start paying the higher rate of tax. Now, the standard-rate income-tax band for single-income couples is €44,400, while the band for dual-income couples is €70,800. 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

Our tax system is not simple. In a book reviewing Ireland's taxation system Bristow (2004) 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. They often contribute far less to equity than might appear to be the case. 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 tax-payers and for the Revenue Commissioners who are responsible for collecting tax.

For the most part society at large gains little or nothing from the discrimination contained in the tax system. In some cases this discrimination causes very negative effects. Mortgage interest relief, for example, and the absence of any residential or land-rent tax have contributed to the rise in house prices. 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 afford to do this. A simpler taxation system would serve Irish society and all individuals within it, irrespective of their means, better.

In conclusion, we outline our key policy proposals with regard to taxation.

Policy Proposals on Taxation

- **Integrate the tax and welfare systems.**
- **Make tax credits refundable.**
- **Continue to adjust tax credits so that the minimum wage remains out of the tax net.**
- **Convert the childcare supplement into a refundable tax credit payable for all children irrespective of the labour force status of their parents.**

- **Ensure that individualisation in the income tax system is done 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.**

- **Begin to monitor and report income tax levels in terms of effective tax rates.**

- **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.**

- **Standard rate all discretionary tax expenditures.**

- **Increase the rate of capital gains tax from 20 to 25 per cent.**

- **Introduce a windfall tax on the profits generated from all land rezonings.**

- **Move to negotiate an EU wide agreement on minimum corporate taxation rates (a rate of 17.5% would seem fair in this situation).**

- **Put in place procedures within the Department of Finance and the Revenue Commissioners to monitor on an ongoing basis the cost and benefits of 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 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 and investigate the Cap and Share approach.**

- **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.**

- **Adopt policies to simplify the taxation system.**